

## **CITY COUNCIL WORKSHOP MINUTES**

### **CITY COUNCIL WORKSHOP: CY2018 Proposed Budget**

**Date: November 27, 2017**

**Place: Municipal Center – Council Chambers**

**Council Present:** Mayor Steve Chirico, Councilwoman Becky Anderson, Councilwoman Judith Brodhead, Councilman Kevin Coyne, Councilwoman Patty Gustin, Councilman Paul Hinterlong, Councilman John Krummen, Councilwoman Rebecca Boyd-Obarski, Councilman Dr. Benjamin White

**Staff Present:** Doug Krieger (City Manager), Marcie Schatz (Deputy City Manager), Mark Curran (Director of Electric), Dick Dublinski (Director of Public Works), Erik Hallgren (Financial Services Supervisor), Jim Holzapfel (Director of Water/Wastewater), Pam Gallahue (Director of City Clerk), Jeff Anderson (Director of IT), Robert Marshall (Police Chief), Bill Novack (Director of TED), Mark Puknaitis (Fire Chief), Mike DiSanto (Director of Legal)

The workshop began at 6:00 p.m.

Mayor Steve Chirico opened the meeting and the floor for public forum. No one in attendance volunteered to speak and the public forum was closed at 6:01 p.m.

#### **Workshop Overview**

City Manager, Doug Krieger, followed by opening workshop number 3.

Councilman Hinterlong asked for a timeline on the budget. Mr. Krieger stated that the City Council needs to have the budget approved by the end of the year, and the property tax established and sent to both counties by the end of the year. The budget needs to be approved, but can be changed once approved.

Mr. Krieger stated for the beginning of today's workshop Erik Hallgren, Financial Services Supervisor, will discuss the administrative services groups' proposed budgets. The administrative services group consists of CMO's office, Finance, HR, Legal, BFOP, and Mayor and City Council. Mr. Hallgren will then move on to a review of revenue estimates and a review of non-operating funds. After Mr. Hallgren has completed his presentation, Mr. Holzapfel will discuss water rate options.

Mr. Krieger stated that he hopes to reach a consensus in terms of the water rates, property tax levy, the shift from the closed to open funded pension methodology, and the \$1.2 million in service reductions.

## **Administrative Services Group**

Mr. Hallgren gave a brief overview of the administrative services group's proposed \$144,000 increase for CY2018. That is a 1.5% growth from CY2017 to CY2018.

Mr. Hallgren stated that Legal had a reorganization for CY2018. They are proposing to shift its safety group to the CMO's office. The second significant change for the CY2018 budget is Finance's special census to be conducted. This special census will add approximately 4,600 new residents, and generate an additional \$1.7 million in state-shared revenues through 2021. Those revenues include the Income Tax, State Motor Fuel Tax, and the Use Tax.

Councilwoman Gustin inquired on the special census timeline. Mr. Hallgren stated the census is projected to be conducted next summer, and certified by the State in early 2019. At that time the City expects to receive the revenues in March through 2021 when the decennial census will be conducted.

Mr. Hallgren transitioned to the miscellaneous services. First change was the increase in the vacancy factor. The second change is related to the MIP contribution. Historically there has been a transfer from the City's General Fund to the Road and Bridge Fund. Mr. Hallgren stated that this year the money will go straight to the Capital program so it could be funded through Home Rule Sales Tax, State MFT, as well as the Local Gas Tax dollars.

Mayor Chirico inquired how the MFT revenue fits into the MIP. Mr. Hallgren stated the MFT is a component of the MIP, which is budgeted for \$10.5 million in CY2018.

Mr. Hallgren provided a recap of expenditures across the departments. He stated personnel is about 36% of expenditures, with the purchase of water and electricity making up a large portion as well.

Mr. Hallgren stated the operating expenditures have a 2.7% increase driven by purchased power, technology investments, and public safety pensions. The Capital and Debt expenditures decreased by 7% from CY2017 to CY2018. This is a function of the City working toward its 25% debt reduction goal.

Mr. Hallgren transitioned to City revenues. Mr. Hallgren stated that the revenues presented are the major revenues of each fund.

Mr. Hallgren stated the City utilizes a conservative approach when projecting revenues. The City looks at historical spending and any expectations that would impact the market or the City.

Councilman Krummen inquired on why IT is decreasing 14.9%, because he believes in order to modernize, the utilization of technology is important in becoming more efficient. Mr. Krieger stated the CY2018 numbers are more consistent with historical spending, and a reduction results from a one-time purchase by IT.

Mr. Hallgren stated the operating and capital funds for CY2018 reflects a positive margin, and a negative margin in the special funds. Generally, this indicates the City is issuing cash balances toward that fund.

### **Maintenance and Operating Funds**

Mr. Hallgren stated there is a positive margin across all funds with the exception of the Water & Wastewater Funds. The revenues total \$381.65 million and the expenditures total \$372.12 million. That results in a \$9.53 million positive margin.

Mr. Hallgren stated the General Fund revenues are projected to grow at less than 1%. This is due to modest growth projections in retail sales tax, declining revenues from the State, and slight increase in charges for service.

Councilman Hinterlong inquired on fees and permits and asked why the projection is lowered. Mr. Hallgren stated staff is using conservative estimates for CY2018.

Mr. Hallgren stated that the local government distributive revenue from the State is decreasing 10% through 2018. That is a \$750K reduction in CY2018.

Mr. Hallgren stated the retail sales tax is projected for \$33.3 million in CY2017 and the City has budgeted \$34.1 million for CY2018. That is 3% over CY2017 year-end projection.

Mr. Hallgren stated the average home price in the City is near \$395,000 and has budgeted \$5.4 million for CY2018. The City budgeted less because the City excluded the large-ticket purchases in CY2017 that would show an inaccurate trend. Mr. Hallgren stated we sit average in rate amount with other comparable communities. A discussion ensued on real estate tax rates.

Mr. Hallgren stated the City is seeing positive trends in the City's Hotel & Motel tax. Hotel Indigo has been a recent contributor. Mr. Hallgren stated we are at a 4.4% rate. A discussion ensued on Hotel & Motel tax rates, as well as incentive agreements.

Mr. Hallgren stated that receipts are lower than our projections. Natural gas prices as well as mild winters are contributors. He stated we are seeing reductions in our Telecom Taxes due to landline reductions. A discussion ensued on the competitiveness on the City's Hotel & Motel Tax rates.

Mr. Hallgren described the Refuse & Recycling Collection fee which is lower than comparable communities. Current amount is \$12.71 per household per month. Worth reviewing collection methodology such as looking at either current method or a volume-based approach. Total tonnage and percentage that is diverted through recycling will be considered. There is a continued reduction in overall tonnage collected. Part of this is due to the education in recycling efforts and reuse efforts. A discussion ensued on collection.

Mr. Hallgren noted that the Ambulance Billing fees were budgeted for \$3.8 million in CY2018, but projected at \$4.4 million for CY2017. The City budgeted \$4.5 million for CY2018, which is an increase of \$700,000, or 18.4%.

Mr. Hallgren stated there is a consistent revenue with inspections, licenses and permits. The City budgeted \$2.3 million for CY2017 and is projected to be at \$2.7 million. The City budgeted \$2.4 million for CY2018. Mr. Hallgren stated that permit figures reach near 1990-levels and inspections are pre-recession figures, while TED keeps its FTE count down.

Councilman Hinterlong inquired when the last time the City had an increase in permit fees. TED Director Mr. Bill Novack stated TED checks what the costs are versus revenue received. TED is typically running in the black by a couple hundred thousand dollars.

Councilman White inquired what may be contributed to the increase amount of EMS calls. Fire Chief Mark Puknaitis stated they are receiving more vehicle accident calls than normal; two vehicle accidents per day average. Chief Puknaitis stated the City has an aging population that is also contributing to that increase.

Councilman Krummen asked how much more revenue is the ambulance billing fees generating. Mr. Hallgren stated the City is receiving an approximate \$1.6 million in additional revenue.

Mr. Hallgren stated there are reductions in traffic fines. Projected to receive \$1.2 million in CY2018. The City is aligning CY2018 budget with what is projected in CY2017. Mr. Hallgren stated the increase in administrative tow fees and animal control fees is projected to generate \$110,000 in incremental revenues in CY2018. A discussion ensued on administrative hearings and fines.

Mayor Chirico confirmed with City Attorney Michael DiSanto that the fines review process will be completed by the first quarter of CY2018, and that it has not been taken into consideration for the proposed CY2018 budget.

Mr. Hallgren stated charges for services make up 90% of the Water and Wastewater Fund revenue. Based on the currently approved rate model CY2018 is proposed at \$63.68 million in revenue.

Councilman Krummen commented that a major portion of these rates are not controlled by Naperville. Mr. Krieger stated that there is a small portion that is controlled by the City of Naperville, but the largest piece is purchased water.

Mr. Hallgren stated that the purchases are approximately 5 billion in water on annual basis. He stated the Phosphorus Surcharge was implemented in May. The rate was \$0.50 in CY2017 and is expected to \$1.00 in CY2018. This is set aside for improvements scheduled to start in 2026 which is mandated by the EPA.

Councilwoman Gustin inquired on the status of the permit from the EPA. Mr. Hallgren stated at this point the permit has not been received by the City and extends the timeframe for the City to complete the improvements at the plant.

The electric utility will have a base rate increase to of 2.4% overall. Mr. Hallgren discussed the Purchased Power Adjustment. It has been in place for 21 months. The average customer paid an incremental \$11.21 total, which is \$0.50 on a monthly basis.

The Self-Insurance Fund is growing at a moderate rate in medical insurance which is close to the national trend. There is a projected 8% overall increase in medical insurance.

Mr. Hallgren stated the Burlington Fund is in balance for CY2018. Revenues are primarily through daily fees and permit revenues. Mr. Hallgren reviewed parking space usage in different lots.

Mr. Hallgren concluded the presentation on operating and maintenance funds.

Mayor Chirico inquired what the annual revenue increase is in the Burlington Fund. Mr. Hallgren stated \$2.25 million on an annual basis. In CY2017, \$370,000 is the positive margin.

### **Capital and Debt Service Funds**

Mr. Hallgren stated in total there is a \$0.87 million positive margin for CY2018. Mr. Hallgren then went over the capital fund. A discussion ensued regarding borrowing policy.

Mr. Hallgren stated home rule sales tax (HRST) is a primary funder of the capital program. In 2015 a 0.50% HRST was implemented. The City budgeted \$8.50 million in CY2017 and projects \$9.13 million for CY2017. For CY2018, the City budgeted \$9.1 million; however, starting on July 1<sup>st</sup> the State will impose a 2% administrative fee. This will result in a \$175,000 cost to the City in CY2018. Mr. Hallgren stated the City is near the bottom in HRST compared to surrounding communities.

Mr. Hallgren stated the State's Motor Fuel Tax is distributed on a per capita basis and the Road and Bridge Fund is funded primarily by the City's \$0.04 per gallon tax. These primarily fund the City's MIP. Mr. Hallgren stated the City is proposed a 1.1% increase over CY2017, which is a proposed \$3.83 million for CY2018. Staff is projecting a 2.5% increase in the Local Gas Tax from CY2017. That is \$2.71 million for CY2018. Mr. Hallgren stated in 2015 the City sold approximately 65 million gallons, in 2016 67 million gallons, and on pace for a slightly better performance for 2017.

Mr. Hallgren discussed the funds related to downtown investment which include the Water Street TIF and the Downtown Parking fund.

Councilman Coyne inquired if using the State MFT to fund cultural amenities is an option. TED Director Mr. Novack stated that the State specifies on what you can purchase using MFT revenue, and cultural amenities is not one of them.

Mayor Chirico asked for staff to explain the status of the Water Street TIF. Mr. Hallgren stated the properties in the area have not reached their full valuation. A discussion ensued on the agreement regarding the TIF.

Mr. Hallgren stated the primary revenue source for the Downtown Parking fund is the Downtown Food & Beverage Tax. It is projected to be at \$889,000 for CY2017, and staff has budgeted \$900,000 for CY2018.

Mr. Hallgren stated that the Special Funds have an overall negative margin of \$1.50 million due to draw down of fund balance. The Library fund will utilize \$800,000 in fund balance to fund capital projects. The Naper Settlement will utilize \$180,000 in fund balance as well to offset operational expenses in CY2018.

Mr. Hallgren stated that 25% of Food & Beverage is used for public safety pensions, and the remaining 75% is used towards SECA, social service grants, and contributions toward debt service payments. The Food & Beverage fund is budgeted at \$4.19 million for CY2018. Mr. Hallgren stated the Food & Beverage tax is overall growing and staff projects a 5.1% increase from CY2017 to CY2018; that is a \$4.19 million budget for CY2018. Mr. Hallgren states the City sits slightly below comparing communities.

Mr. Hallgren briefly reviewed the remaining funds that make up the Special funds.

Councilman Coyne asked if the county wide emergency system, there would be costs to be saved. Mr. Krieger stated that the City's current plan is to partner up with larger communities such as Aurora because they serve as a primary backup.

Mayor Chirico commented that the City's PSAP response times are superior to those of Du-Comm.

Mr. Hallgren stated that the City's revenues are \$454 million which is a 2.7% increase in overall revenue.

Councilman Krummen asked what the budget is for the General Fund without electric and water departments. Mr. Hallgren stated that the revenues are \$122.5 million for General Fund.

Councilman Coyne inquired what does the proposed levy request compare like to the current levy for a typical homeowner. Mr. Hallgren stated the current homeowner's property tax bill is approximately \$810, with the increase it will be near \$873. Councilman Coyne commented that he would like a better feel for operating expenses in the General Fund rather than including expense that are out of Council's control, particularly the enterprise funds.

A discussion ensued on various past actions the Council had taken regarding revenue generation and lowering costs.

### **Water Department Water Rates**

Jim Holzapfel, Director of Water Department, began by providing Council with reviewing the water rate study goals. Mr. Holzapfel stated that there were errors in the current rate study. He proposed three options for Council. He stated Option #1 is least aggressive, and option #3 is the most aggressive taking the shortest amount of time.

Mayor Chirico suggested starting out the fund in the black instead of in the red. Mr. Holzapfel stated it would take a dramatic rate increase in the first year and the customers and community members may not be receptive to that.

Councilwoman Boyd-Obarksi inquired on the phosphorus surcharge. Mr. Holzapfel stated that the phosphorus surcharge will collect \$22.5 million by 2025 and a \$14.5 million repayment to electric by water department. Councilwoman suggested having a possible slower onramp to achieve goal. Mr. Holzapfel stated Staff recommends option #2 as a middle ground. Mayor Chirico commented that it doesn't meet the criteria that relate to the financial principles.

A discussion ensued on payment options and scenarios.

Mayor Chirico stated the City shouldn't be operating at a loss and that the City's water rates are still one of the lowest of comparable. If the City chooses any one of the three options, the City will still remain one of the lowest rates of the comparable communities.

Mr. Holzapfel stated between the increase of options #2 and #3 it is approximately \$3.80 per month, year over year. That is a 5.9% increase.

A discussion ensued on cash balance and reserves regarding all three options.

Councilman Coyne stated he believes saving for phosphorus shouldn't take priority over making the water operate in the black. Phosphorus can be bonded for if needed in the future.

Councilman Hinterlong asked for a better blending between the options to smooth out the jumps over the years.

Mr. Krieger stated there are no external timeframes for Council to decide on the water rates; however, if Council approves the rates in December, staff can begin implementing the new rates in February.

Council agreed to choose the original corrected water rate schedule in order to break even on operations.

At 8:02 p.m. Council took a five minute break.

Mayor Chirico called the meeting back to order.

### **Property Tax**

Mr. Krieger provided a background on the property tax levy. He stated the portion supporting operations declines annually. He stated Naperville is the lowest in the property tax comparison. Mr. Krieger stated the 2017 average homeowner bill is \$810 and is projected to be \$873 on average for 2018.

### **Pension Funding**

Mr. Krieger transitioned to the pension funding methodology. He recommended moving from a closed amortization period to an open 15-year amortization period. Mr. Krieger stated Naperville is the highest in comparable communities with regards to public safety pension funding levels.

Mr. Krieger stated the City's actuaries, Foster & Foster, do not recommend utilizing the statutory minimum payments. By doing so, that may result in a significant credit rating downgrade by the credit rating agencies. A discussion ensued.

Council agreed to have staff utilize the open methodology in pension funding.

### **\$1.2 Million Service Reductions Exercise**

Mr. Krieger briefly went over the City's financial principles and the review process the City has taken in formulating the proposed CY2018 budget.

Mr. Krieger stated the Citizen Service Satisfaction Data to gauge on what matters to residents.

Mr. Krieger provided a breakdown of what the \$1.2 million in reductions look like.

A discussion ensued on possibly reducing the lobbyist budget.

Councilman Krummen inquired on dark fiber consulting and partnering with other communities. Mr. Krieger stated it would be difficult to partner with others due to Naperville having underground electric already.

Councilwoman Boyd-Obarski stated she would consider not eliminating the vacant telecom supervisor and vacant part-time 911 dispatcher because they are public-facing positions and in a high-stress environment. Councilwoman Boyd-Obarski commented on the value of having a community service officer in the police department.

Councilwoman Gustin inquired on possible tags for Christmas tree disposal. Dick stated he would have to consult with our refuse collector contractor.

Mr. Krieger clarified that Category 2 options are not staff recommendations and not part of the \$1.2 million.

Councilwoman Anderson inquired on the outside agencies section for the Library's three positions. Julie explained what the impact of the three items would mean.

Councilwoman Brodhead recommended keeping the EAB item.

Councilman Hinterlong inquired on the plowing of cul-de-sacs. Dick stated this item proposes to budget this service at \$200,000, instead of \$387,000 to \$400,000, as the City has in the past. This would cover four storms. Dick clarified that the plowing should be at 2 inches instead of what is displayed on the slide. Councilman White asked what if the City increases it to 3 or 4 inches. And Dick stated he does not recommend that.

Councilman Coyne stated that he trusts the Department Heads' discretion and would choose all Category 1 reductions to be eliminated.

Councilwoman Boyd-Obarski stated she disagrees with Councilman Coyne. Mr. Krieger confirmed that a prioritization took place and all directors were told to prioritize their offers.

Mr. Krieger stated it was high-impact to our residents v. low-impact and on the x-axis was low- to high-visibility.

Councilwoman Anderson expressed her satisfaction with the Library. She also noted that the Council has yet to discuss revenue increases.

Councilwoman Gustin stated she will agree to accept staff's recommendation on the reductions, concurring with Councilman Coyne.

Councilwoman Broadhead states that she agrees to retain #17 and #18 (vacant Telecom Supervisor and vacant part-time 911 Dispatcher in the Police Department), and Library expenditures.

A discussion ensued on #17 and #18 being vacant for two years and how that has impacted staff and service delivery.

The Council voted to approve all of Category 1 recommendations as presented by staff.

A discussion ensued on leaf bag collection cost.

Councilman Coyne moved to ask a consensus from Council to have staff eliminate items #31, #35, and #35, which are: Police Department's vacant Community Service Officer, DPW pavement marking, and DPW Restructure of Custodial Services.

Council agreed to include the three items in additional cuts.

With regards to the outside agencies, Council agreed to eliminate #42, the Programming and Maintenance item for the Naper Settlement and to not reduce the Library's services due to their prior reductions already made.

Mr. Krieger stated the changes made at this workshop would be reflected on the December 5<sup>th</sup> City Council Agenda for approval with a property tax levy following on December 19<sup>th</sup>.

Councilman White inquired on the Hotel & Motel Tax as well as other revenue sources that we need to explore. Mr. Krieger stated the City looks at its competitiveness with respect to other communities. Mr. Krieger stated he would not want to structure revenue structure in a manner to place the City at a disadvantage.

Councilwoman Gustin commented on tree size removal and fines associated with it. Mr. Novack stated the City is in line with best practices in its policies.

Mr. Krieger said a review of ordinance violations and fines and fees is forthcoming and that is not factored in to this budget cycle.

Councilman Hinterlong asked Mr. Novack to review fines and fees in TED, as well as reviewing the Hotel & Motel tax rate.

Councilman Coyne stated he would prioritize keeping the tax rate and levy as flat as possible and reviewing other revenues would be preferred.

Councilwoman Gustin states she doesn't support raising permit fees.

Workshop adjourned at 9:28 p.m.

Minutes taken by Franco Bottalico.