

SPECIAL
COMMITTEE OF THE WHOLE
MINUTES
September 12, 2023

Mayor Sanoica called the Committee of the Whole meeting to order at 6:00 p.m.

ROLL CALL:

Present: Mayor Sanoica, Alderpersons McHale, Budmats, O'Brien, Vinezeano, Boucher, Reyez, Koehler
Absent: 0

STAFF IN ATTENDANCE: City Manager Rob Sabo, Finance Director Molly Talkington, Deputy City Clerk Judy Brose, Police Chief John Nowacki, Fire Chief Pete Sutter, Deputy Fire Chief Scott Mohr, Director Public Works Aaron Grosskopf, Assistant Director Public Works JoEllen Charlton, Chief Information Officer Waseem Khan, Business Development Manager Martha Corner and City Attorney Melissa Wolf

Mayor Sanoica announced that the floor will be open to the audience for 20 minutes to address the City Council on matters that are on the agenda after the City Council discusses with Staff. Persons wishing to address the City Council keep their comments to 5 minutes in length. Comments must be addressed to the Council as a whole through the Mayor, and profanity may not be used in any form.

1) Presentation of 5-Year Financial Forecast

Molly Talkington, Finance Director stated that the Five-Year Financial Forecast (FYF) provides a framework for fiscal decisions. Its primary use is guiding the development of the annual budget and related matters, including the property tax levy. In addition, the FYF projects trends that may indicate future opportunities or threats to the City's fiscal condition. A FYF differs from an annual budget in that it assumes no changes to current services, only the high impact revenues and expenditures are reviewed and forecasted individually while the other revenue and expenditures are given a set percentage going forward. In this forecast, most of the non-major revenues remained flat or show very little growth. The non-major expenditures were either increased by the area's Consumer Price Index at 3.7% (average of last five years) or the Construction Cost Index at 3.26% growth (average of the last five years).

Staff completed FYF's for the General, Motor Fuel Tax, Refuse, Utilities, Local Roads, Building & Land, and Vehicle & Equipment Funds. Here is the high-level overview for each fund:

General Fund:

1. Revenues are forecasted to grow at a slower pace than expenditures.
 - a. Most of the General Fund's major revenues are growing around 2% per year. The City operations portion of the levy has been increased by 1% annually following the 1% that was adopted with the 2022 levy. The Police and Fire Pension levies are flat for 2024, then 4% increase in 2025, and then 6% increase for the remainder of the forecast. This is also shown in the expenditures for these pensions. Personal Property Replacement Tax (PPRT) and Telecommunications Tax are trending downward. PPRT is due to the State misallocating funds to PPRT and correcting that going forward. Telecommunications continues to decline as more and more people and business do not rely on traditional phone services.

2. Expenditure growth is forecast closer to 5% annually.
 - a. The largest growth in expenditures is salaries and benefits with existing personnel. For example, the FYF assumes more traditional increases in health insurance at 5% annually.
 - b. For example, the FYF does not include creating the Human Services Department with additional staffing.
3. The General Fund is forecasted to fall below policy limits in FY2027.
 - a. What If Scenarios – Provide potential ways to address the forecasted budget shortfall or to show the impact of a service change.
 - i. Creating a Human Services Department – Increases the expenditures annually with a one-time \$500K grant in FY2024; Causes the forecasted fund balance to fall below policy in FY2026.
 1. Increasing the Home Rule Sales Tax Levy OR Shifting the 2022 Debt Service Levy amount to the Corporate Services Levy – Each one adds roughly \$750K annually; Brings the fund balance back to forecasted prior to creating the Human Services Department
 2. Increasing the Home Rule Sales Tax Levy AND Shifting the 2022 Debt Service Levy amount to the Corporate Services Levy – Together add an additional \$1.5M annually; Increases the fund balance by \$750K per year over the initial forecasted balance and allows funding to address the forecasted imbalance

Motor Fuel Tax & Local Roads Funds:

1. Motor Fuel Tax (MFT) and the Transportation Renewal Fund Allotment revenues are projected to come in better than budget for FY2023. For FY2024, the MFT and Renewal are projected to stay strong at \$23.77 and \$20.50 per capita, respectively. Both are forecasted at 2% annually for the remainder of the forecast. With the end to the Rebuild Illinois revenue in FY2022, the capital expenses have been reduced to \$600K for Resurfacing and \$385K for Reconstruction.
2. Local Roads Fund is funded by the Home Rule Motor Fuel Tax, Natural Gas Tax, and Property Taxes. Property Taxes were held level throughout the forecast. The Home Rule MFT is trending below budget for FY2023 and about 5% below FY2022. This revenue was reduced for FY2023 projection then increased 2% annually. Natural Gas Tax is dependent on use which is trending down in FY2023. This revenue was reduced for FY2023 and the increased by 1% annually.
3. Capital projects in these funds are transportation specific. MFT Fund has a healthier fund balance especially compared to Local Roads which falls into a deficit position in FY2024.
4. After reviewing the FYF for these two funds, staff is reviewing the projects in the two funds and will have some recommendations to shift some projects from Local Roads to MFT where legally allowable.
5. The Local Roads Fund FYF also includes a What If Scenario that shows what impact a \$500K increase to the Property Tax Levy would have on the forecasted fund balance.

Vehicle & Equipment and Building & Land Funds:

1. These are Internal Service Funds so other City funds support this fund. For the V&E Fund, FY2024 also includes the Generator BRIC Grant of \$264K. FY2025 is the last year of the General Fund's payback of \$1M. The sale of vehicles and equipment can increase the revenue should the sales be higher than the \$10K forecasted annually.
2. Expenditures are based on the replacement schedules for V&E Fund. The upcoming replacements were reviewed by the Vehicle and Equipment Review Committee. The FY2024 Fire vehicles include a down payment of \$1.5M (at least 50% needed per vendor) for the replacement of an Engine with a Ladder Truck. The estimated delivery is in FY2028 and includes the remaining \$1M for this vehicle due upon delivery.
3. Expenditures for the B&L Fund are based on facility needs for the City. The capital projects are reviewed by the Capital Projects Committee.
4. The fund balances fluctuate based on the replacements and/or improvements each year. With the large payment for FY2024 for Fire in the V&E Fund, the balance drops to (\$54,562) but in FY2025, the balance is expected to increase and continue increases throughout the forecast. This fluctuation is also appearing in the B&L Fund. In FY2026, the B&L fund balance drops to \$39,793 then starts increasing again in FY2027.

Refuse & Utilities Funds:

1. These funds both underwent a rate study as part of the Fiscal Stability Plan. In the April Council of the Whole (COW), Council was receptive to rate increases in these funds. Unlike the other FYF funds, these two funds incorporate rate increases starting with the FY2024 year.
 - a. Refuse Fund – Rate increased by \$2.50 per month with a 10% Senior discount and an increase in penalties to 11% from 10%
 - b. Utilities Fund – Rates were changed for Water & Sewer to add levels to the access fee and additional tiers to the volumetric rate. Stormwater rates were increased from FY2024 to FY2027 only.
 - c. Details on the rate changes: https://www.cityrm.org/AgendaCenter/ViewFile/Agenda/_04182023-1021
2. Expenditures were modeled similar to the General Fund except Refuse & Utilities specific expenses. Lake Michigan Water is at 5% increase annually.
3. The capital projects are forecasted based on the Capital Projects Committee review and approved projects. The Utilities Rate Study had capital projects are \$3M per year only. Staff recommends continuing with the capital projects in FY2024 budget but will continue to fine-tune the capital projects in the outyears as part of the 2025 Capital Projects planning.
4. With the rate increase for Refuse, this fund is close to or within fund balance policy over the forecast. This would not have been possible without the rate increase for the fund.

The Five-Year Financial Forecast is one portion of the overall Fiscal Stability Plan. The Fiscal Stability Plan was identified as a key goal of the FY2023 Adopted Budget. City Council is asked for input on the information provided but is not expected to make any formal decisions. Any input received will be incorporated into the next steps of the Plan and the annual budget presentation.

Council discussed Human Services Department and the need to increase their staff, phasing in additional social workers and future bond issues. Additionally, Council discussed the State's October 1st deadline for the adoption of an ordinance approving the potential home rule sales tax increase and waiving 1st reading so the ordinance would be approved prior to the deadline.

Mayor Sanoica took the following straw votes:

All those in favor of implementing rate increases for refuse and water/sewer/stormwater. 7 in favor; 0 opposed.

All those in favor of increasing the home rule sales tax by .25%. 7 in favor; 0 opposed.

All those in favor of reallocating the 2023 property tax levies. 7 in favor; 0 opposed.

ADJOURNMENT

Mayor Sanoica asked for a motion to adjourn. Alderperson McHale has made the motion and it has been seconded by Alderperson O'Brien. A voice vote approved adjournment.

There being no further business, by unanimous consent the Committee of the Whole meeting was adjourned at 6:52 p.m.

Respectfully submitted: Judy Brose, Deputy City Clerk

September 12, 2023 Special Committee of the Whole Minutes Approved by Council on September 26, 2023.

Judy Brose

Judy Brose, Deputy City Clerk