



City Council
City Council Chambers ♦ 314 West Stephenson Street ♦ Freeport, IL 61032

MINUTES
FINANCE COMMITTEE OF THE WHOLE MEETING
MONDAY, MARCH 5, 2017 AT 5:00 P.M.

CALL TO ORDER

The Finance Committee of the Whole meeting of the Freeport, Illinois, City Council was called to order in council chambers by Chairperson Peter McClanathan with a quorum being present at 5:00 p.m. on Monday, March 5, 2018.

ROLL CALL

Present on roll call: Mayor Jodi Miller and Council Members Alderpersons Peter McClanathan, Art Ross, Bob Smith, Sally Brashaw, Mike Koester, and Andrew Chesney (6)

Council Members Absent: Alderpersons Tom Klemm and Peter Busker (2)

Staff members present: City Manager Lowell Crow, Finance Director Randy Bukas, Director of Community & Economic Development Nancy McDonald, Director of Public Works Dennis Carr, Director of Utility Operations Tom Kopanski, Director of Information Technology Curt Suttman, and City Clerk Dovie Anderson.

PLEDGE OF ALLEGIANCE

The Pledge of Allegiance was led by Chairperson McClanathan.

APPROVAL OF AGENDA

Chairperson McClanathan stated that Item #5 will be stricken from the agenda as the minutes for the June 5, 2017, Finance Committee of the Whole were approved at a regular Council meeting on August 7, 2017. Alderperson Brashaw moved to approve the agenda as amended and Alderperson Ross seconded; motion prevailed by voice vote without dissent.

PUBLIC COMMENTS

There were no public comments.

APPROVAL OF MINUTES

[Clerk's Note: Approval of the Minutes was stricken from the agenda. See above.]

The following individuals arrived at the meeting: Alderperson Klemm-5:03 pm, Alderperson Busker-5:04 pm, FBO Airport Darrell Janssen-5:04 pm, Fire Chief Todd Allen and Police Chief Todd Barkalow-5:06 pm.

ITEM #7 - Presentation of Pressure Points for Budget

Manager Crow gave a PowerPoint presentation entitled "Pressure Points for Budget". He stated that Finance Director Bukas and Department Heads have been working on the budget since December 2017. Manager Crow first outlined the pressures on Revenue. The State is continuing its 28% reduction in Personal Property Replacement Tax (PPRT) from last year to this year. Currently our PPRT is in a tiered system wherein the Fire and

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Police Pensions are funded first, Library second, and General Fund third. We originally had \$128,000 in PPRT and it will be difficult to fund the second tier, Library, in FY2019.

State income tax has been cut by 10%. This year there were 14 payments. The Governor is continuing the 10% cut and there will be only 10 payments in FY2019.

The State is currently taking 2% of revenue as a processing fee and the Governor is proposing to keep this at 2% for FY2019.

There has been a delay in receiving grant funds for Downstate Operating Assistance Program (DOAP) and demolitions. The demolition grants are taking about a year to receive reimbursement. Attempting to balance the City's budget using grants is causing some issues.

There has been a reduction in revenue from EAV, Income Tax, and food and beverage Tax. There has been a slight increase in sales tax but it provides a minimal offset to the reductions. All of the work and savings we have experienced in health care and PPRT have been eaten up by State reductions.

There are expenditure pressures on the General Fund including:

We have received the street assessment which will cost \$60.3 million to repair all identified streets. There are 12.5 miles of road in poor condition which will cost \$21.6 million for a complete rebuild including replacement of storm sewer. There are 49.5 miles in fair condition which will cost \$26.1 million for mill and overlay with base repair. There are only 53 miles of the total 115 miles of streets that do not need work.

This year we spent \$1.2 million for demolitions and are waiting for \$750,000 in grant funds for reimbursements.

A decision still needs to be made on the new access road to the Airport with a match of \$110,000.

The demolition of old City Hall will be rebid. The costs include \$265,000 for demolition; \$316,000 for asbestos removal; and \$100,000 for wall repair with a total estimated cost of nearly \$700,000.

The Department of Natural Resources (DNR) has contacted us about flood mitigation particularly east of the Pecatonica River. They will be meeting us in Freeport in the near future. There is currently \$85,000 in demolition funds for nine abandoned properties in that area. The DNR could direct us to move forward with the demolitions.

The anticipated cost of NEWCo, which is the consolidation of our Economic Development partners, is \$450,000 and will come mostly from TIF and Hotel/Motel Tax which is already being used to fund those partners individually.

An overview of our funding sources includes:

The Surface Transportation Plan (STP) can only be used on Federal Aid Urban (FAU) routes. These require a 20% local or MFT match and take three years to obtain. These must be programmed through IDOT each January and require extensive review by IDOT.

Motor Fuel Tax (MFT) funds can be used. However, if rebuilding streets, IDOT requires that there is full restoration of sidewalk, storm sewer and ADA compliancy. The City must maintain paperwork for IDOT. Local

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funds can be used on anything street related. Some of the pros include no need for IDOT authorization and less paperwork. If we get a good unit price, we can expand the scope of the project.

There is still some grant funding available. The Illinois Housing Development Authority (IDHA) Blight Reduction Program - Round 1 has \$192,290 remaining. Round 2 had \$468,000 remaining. The Illinois Environmental Protection Agency (IEPA) Hazard Mitigation Grant was awarded in 2016 but not available until 2017 due to State budget issues. There is \$85,000 in that fund with which we can demolish 8 to 10 abandoned, blighted properties. This funding is only available to address east side floodplain residential housing. We have requested \$250,000 from IDHA Abandoned Properties Round 3 but have not received an award notification yet.

The average residential demolition cost for Fast-Trak is \$12,400. Fast-Trak means that there is no asbestos removal required. If there is asbestos, each residential demolition costs \$16,124. The anticipated cost of 80 demolitions is over \$1.2 million and the anticipated grants total \$745,290 for a shortfall of \$544,630. The commercial demolition at 416-422 Iroquois is estimated to cost \$59,200. The 3rd Ward is a high visibility area with many people inquiring about it.

Some options to offset cost include:

Reduce staff to include Police, Fire, Streets, or Community Development; only do 40 demolitions so General Fund is not impacted; only do overlays versus replacement of streets to save money; delay demolition of old City Hall; reduce new purchases that affect Capital Fund for Street Department and Police and use funding from streets to purchase Police vehicle; and seek other sources of funding. Director of Streets Tom Dole and Director of Public Works Dennis Carr have postponed the leasing of new snow plows until after winter. There are two police cars in the Capital Budget that can possibly be delayed. We are currently "robbing Peter to pay Paul". For reducing staff, there is one opening not filled in Police, three openings in Fire, one mechanic position in Streets for which we are advertising, and Community Development could be reduced but feel we are currently at minimum manning. Additional funding options include seeking grants to fund some projects. We will be meeting with DNR on flood mitigation which could produce \$25 million per year over three years.

Manager Crow gave recommendations but is looking to Council for guidance. He suggested we only do demolitions that are covered by grants; only do overlay on streets that are in fair condition; do not demolish old City Hall at this time; and review Capital expenditures to free up money for additional street work.

There is currently a \$6 million deficit in the Sewer Fund but a \$7.5 million excess in the Water Fund. When the Water and Sewer Commission was disestablished, it was discovered that funds were comingled. These funds should be kept separate. The new wells and water plant will cost \$9 million but 30% can be offset with a 20-year IEPA loan. Also required is \$75 million in water main replacement over the next 30 years which will be done in conjunction with street replacement at three to five miles per year. This can also be offset by 30% with an IEPA loan. We are currently experiencing 28% loss in water from infiltration and inflow (I/I). The national standard is 12% to 15%. The total cost for the upgrade to the Hancock Street sewer plant to meet National Pollutant Discharge Elimination System (NPDES) requirements is \$56 million. Manager Crow checked with Tom Glendenning, former Water and Sewer Director, and previously only the first phase cost for the sewer plant upgrade was given, which is \$12.9 million. This can be covered by an IEPA loan. We are meeting with IEPA this week to review our NPDES permit. The recent storms were a good indicator of infiltration issues. We processed 137% more sewage than water being produced. We will begin televising in the 3rd Ward. There are at least seven locations that already have been identified that require storm sewer work.

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The 30-year plan for water and sewer (excluding a new water plant and a new sewer treatment plant) include:

Replace 87 Miles of Water Main	\$ 75,000,000
Line 25 Miles of Sanitary Sewer	\$ 25,500,000
Replace 3000 Lead Services	\$ 4,000,000
Replace 4.5 Miles of Force Main	\$ 3,000,000
Carroll Tank Rehabilitation	\$1,000,000
Equipment/Tech Replacements	\$ 14,000,000
Engineering	\$ 11,750,000
Total CIP Cost	\$ 134,250,000* * Does Not Consider Inflation

ITEM #8 - Presentation of Capital Plan

Manager Crow stated that the current Capital Plan will meet the \$134,250,000 requirement with the next increase of \$8 and then another \$8 increase the following year.

The Water portion of the Capital Plan includes Clinton and Adams Streets in FY2020. Adams Street has a developer considering a new facility at the property adjacent to the Stephenson County Jail. The Capital Plan is a 5-year plan. The first three years are harder because it is what we “need to do”. The next years are what we would “like to do”. The new test wells are a carryover from this year

The Streets portion of the Capital Plan includes \$615,000 of MFT funds for the Pecatonica Bicycle Path. The City will give their approval of a \$1.9 million grant, along with the Park District, after Stephenson County approves their third of the costs. This work is scheduled to be bid in August 2018. There is \$350,000 budgeted for mill and overlay with Clinton being the focus. The \$133,000 budgeted in FY2020 for the Pecatonica Bicycle Path is for the next phase of the bike trail. This last phase will complete a network of bike trails from Chicago to Galena with Freeport as the central stopping point. This is a great tourism driver. There is estimated income of \$15 to \$30 million to this area mostly from Hotel/Motel Tax and Food and Beverage Tax.

The Sewer portion of the Capital Plan includes digester cleaning in the amount of \$35,000 which can be moved within a 2-year timespan. The Sanitary Plant and Conveyance Subtotal of \$700,000 has already begun some of the work. Some expenditures for Water and Sewer will come from the Operating Fund. If staff performs work considered as Water and Sewer, a portion of their salary will be charged to this Fund. Going forward, City Manager, Finance, and Engineering will all have a portion of their salaries charged to Water and Sewer.

The Capital Plan for all other departments is as follows:

	2019	2020	2021	2022	2023	
Fire	\$416,000	\$624,220	\$340,000	\$890,000	\$1,640,000	\$4,081,220
Police	\$165,000	\$185,795	\$170,000	\$183,000	\$165,000	\$868,795
Streets	\$272,560	\$374,890	\$425,560	\$305,960	\$89,060	\$1,468,030
IT	\$221,700	\$82,500	\$49,000	\$19,000	\$29,000	
Old City Hall	\$800,000					

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In FY2019, the amount of \$416,000 for Fire allows for if we receive a large grant for a new fire truck. If we do not get the grant, that amount will be cut by two-thirds. The amount of \$165,000 for Police includes two new police cars and cameras to address crime issues. The Street Department amount of \$272,560 includes the street sweeper lease. This amount may decrease if we do not get the two additional snow plows.

The IT amount of \$221,700 includes some rollover from this year. The new financial software vendors have been narrowed down and we plan to purchase in 2019. We have implemented a hardware replacement plan to keep our IT system up to date. There were five computers running Windows XP and Windows '98 that made us vulnerable to ransomware when we stood up the IT Department. Old City Hall is included as an option in case we can afford to address this during FY2019.

ITEM #9 - Presentation of Water and Sewer Budget

Manager Crow covered projected Revenue next.

WATER

METERED SALES - ALL CLASSES *	
RESIDENTIAL SERVICE *	1,200,000.00
INDUSTRIAL SERVICE *	170,000.00
COMMERCIAL SERVICE *	300,000.00
LATE CHARGES *	25,000.00
PUBLIC *	32,000.00
BULK WATER SALES *	2,000.00
PRIVATE FIRE PROTECTION FEE *	100,000.00
SERVICE CONNECTION FEES *	6,000.00
SERVICE ORDER FEES *	20,000.00
MISCELLANEOUS FEES *	35,000.00
CAPITAL IMPROVEMENT SURCHARGE *	4,185,600.00
LAB FEE REVENUE *	
CITY REIMBURSEMENT FEES *	5,000.00
INTEREST INCOME - MONEY MARKET *	500.00
OTHER REVENUE *	5,000.00
ENGINEERING REIMBURSEMENT *	
	6,086,100.00

The good news is the Water Capital Fund is right on track. A change in future budgets will be reflected in expenses. Previously, equipment depreciation was rolled into the budget. Those should be outside of the budget. Municipal government does not handle depreciation in the same manner as general business.

SEWER

METERED SALES - ALL CLASSES *	
RESIDENTIAL SERVICE *	2,300,000.00
INDUSTRIAL SERVICE *	325,000.00
COMMERCIAL SERVICE *	800,000.00

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LATE CHARGES *	25,000.00
PUBLIC *	65,000.00
CITY BUILDINGS SEWER FEES *	
SEPTIC WASTE HAULERS *	
BLANK *	
SERVICE CONNECTION FEES *	4,000.00
OUTSIDE CITY FEES *	
SERVICE ORDER FEES *	2,500.00
MISCELLANEOUS FEES *	50,000.00
CAPITAL IMPROVEMENT SURCHARGE *	
LAB FEE REVENUE *	
Transfer From Fund 80 (CIP Surcharge)	1,057,065.00
CITY REIMBURSEMENT FEES *	50,000.00
INTEREST INCOME/MONEY MARKET *	7,500.00
OTHER REVENUE *	2,000.00
ENGINEERING REIMBURSEMENT *	
PREMIUMS ON BOND SALES *	
Bond Proceeds *	
PREMIUM ON BOND ISSUANCE *	
	4,688,065.00

Sewer is also in line with what we expected. The Consumer Price Index (CPI) increase for this year is currently estimated at 2.9%. CPI is currently rolled into Sewer but not Water. That addition will be coming soon.

STORM SEWER

RESIDENTIAL SERVICE *	480,000.00
INDUSTRIAL SERVICE *	20,000.00
COMMERCIAL SERVICE *	175,000.00
PUBLIC STORM WATER FEES *	-
PUBLIC *	21,000.00
MISCELLANEOUS FEES *	
CAPITAL IMPROVEMENT SURCHARGE *	
INTEREST INCOME-2003 BOND ISSUE *	
OTHER REVENUE *	
PREMIUM ON BOND ISSUANCE *	
TRANS FROM FUND 80 *	611,700.00
	1,307,700.00

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Water/Sewer Storm Sewer expenses were addressed.

Water Expense: \$6,515,897.00 – \$433,500.00(Depreciation) = \$6,082,397
CIP Reserve \$1,151,832

Sewer Expense: \$4,146,225.00 – \$471,140.00(Depreciation) = \$3,675,085
Pay Towards Debt \$541,840

Storm Water Expense: \$958,140.00 – \$231,600.00 (Depreciation) = \$726,540
Pay Towards Debt \$349,560

Manager Crow pointed out that revenue equals expenditures and we developed a Capital Reserve. Sewer Expenses minus depreciation totals just over \$3.6 million and we are beginning to pay down that debt in the amount of \$541,840 as requested by Council. There is a small Storm Water debt that is on track to be paid off next year.

ITEM #10 – Discussion on Budget

Aldersperson Koester asked if the expenditures under the General Fund regarding 12.5 miles of street repair for \$21.6 million included sewer reconstruction. Director Carr stated that sewer is included in the \$21.6 million.

Aldersperson Koester asked if a reduction in staff would be a temporary solution. Manager Crow stated that it would be our goal to reduce staff temporarily. However, unless the State returns PPRT and income tax revenue, the City does not have a revenue stream to offset those reductions. If we choose to repair streets and conduct a high number of demolitions, we may need to reduce staff to cover those expenses. The concern is the State said we should get the reduction in income tax back but they did not do that. They extended the reduction. The proposal to reduce manning is based upon last year's commitment to increase police officers. Last year we proposed having 49 police officers and we are currently at 47. If we bring that back to 48, we may need to stop there and not hire the 49th person.

Aldersperson Koester asked if we are looking at any other income sources. Manager Crow stated that currently the only other income stream the Council has directed him to consider is grant funding. Currently, he has been instructed to work within our budget without increasing taxes. He is willing to look for other revenue streams if directed to do so by Council.

Aldersperson Chesney stated that the PPRT has been reduced by 28% and asked what that would be in a dollar amount. Director Bukas stated that originally we had anticipated \$488,000 and it appears that we will receive \$410,000 for a reduction of \$78,000. These are projected figures as we have not received exact figures from the Illinois Department of Revenue or Illinois Municipal League (IML). It is based upon the Governor's plan to keep the 28% for another year and not restore it as promised the first year. Aldersperson Chesney asked and Director Bukas confirmed that our overall reduction in state income tax is approximately \$400,000.

Aldersperson Chesney asked how the figure of \$2 million reduction in revenue over three years was arrived at. After some discussion, Manager Crow stated that he would do more research and get back to Council.

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Aldersperson Brashaw asked if the 2% processing fee applied to all municipalities and on which funds did it apply. Manager Crow stated that the 2% fee will be charged to all municipalities and that it will be applied to all funds processed by the State. This fee was implemented last year and has been extended for another year. IML has proposed a bill to have this reduced to 1% but the bill is still in committee.

Aldersperson Brashaw asked if Manager Crow has spoken with other communities to see how they handle their shortfalls. Manager Crow stated that O'Fallon, Illinois, has raised their hotel/motel tax from 5% to 9% and used it to redevelop their downtown. Galesburg and Moline have raised their gas tax. He had Attorney Steve Cox do a comparison of our current gas tax rate of 2%. He found that many Home Rule communities are at 6.5% on average. Other communities are reducing staff. Five years ago, the City had a staff of 236 and we are currently at 192.

Aldersperson Smith asked and Manager Crow confirmed that the taxes just mentioned are available to only Home Rule communities.

Aldersperson Smith asked about the possibility of putting old City Hall into private hands as an alternative to demolition. Manager Crow stated that five developers have toured the building. Once they have seen the building, they feel it is only good for three possible uses: office space, City Hall, or a hotel. They feel the average return is \$120 to \$170 per square foot. The mezzanine deck is literally pulling the building inward and needs to be removed. We are rebidding because of asbestos removal. The mezzanine will need to be removed before the asbestos work can be completed. We are hoping to get a single bidder to do both. One person was interested in turning it into a home with a workshop in the basement. We approached an Indiana contractor who does demolitions for reclamation. He has not yet visited. He does the demo for free and salvages the stone and steel.

Aldersperson McClanathan asked if the rest of budget will be balanced and tonight are we dealing with just the issues with the Capital Plan. Manager Crow stated that we will present a balanced budget across the board to Council. However, a balanced budget requires addressing some of the issues outlined tonight such as the number of demolitions and how we spend our budget for roads.

Aldersperson McClanathan asked what other unfunded costs exist (excluding old City Hall). Manager Crow stated that we only have enough money to resurface approximately one mile of road with current MFT funding which would either need to go into streets or a new access road to the airport. We need to look at the fleet leasing program and weigh which vehicles are necessary to replace against the large vehicles that are needed. Aldersperson McClanathan clarified that if the Council were to pass the budget as is, there would be no funds spent on old City Hall, no airport road, and limited street reconstruction. Manager Crow confirmed that he is asking Council to set those priorities keeping in mind that we cannot take Water and Sewer funds, which is an enterprise fund, to build roads or demo old City Hall.

Aldersperson Chesney asked why we are basing our budget on projections from Springfield rather than basing them on historic norms. He feels we should pass a balanced budget based on those historic norms and use reserves if there should be a shortfall this coming year. Then make the required adjustments the following year. Manager Crow stated that there are no reserves because we have not received grant reimbursements. Aldersperson Chesney stated that he was under the impression there were \$4 to \$5 million in reserves. Manager Crow stated that there is misconception regarding those figures, which is really how much operating money we have on hand. We have never really had a reserve. It is difficult for him and Director Bukas to see the day-to-day bank account balances to determine how much money is in the operating account. Where any "reserves" exist is

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on the Water and Sewer side. Alderperson Chesney reiterated that he thought there was \$4 to \$5 million available in case of emergencies. Director Bukas stated that he does not believe that is the case. Alderperson McClanathan referred to the Treasurer's reports with account balances totaling \$4.5 to \$6 million and asked how Council is to interpret those reports. Director Bukas stated that some of the accounts are restricted to specific uses. Currently, if there is not enough money in the General Fund to pay all the bills, they have to move money to do so. Alderperson Klemm stated that he believes that there is not \$4 million in missing funds. Historically, they were told there were funds available from one of the large water projects. He recalls Manager Crow and Director Bukas explaining last year that we changed over the budgeting and that there are really no reserves. Manager Crow stated that some funds are restricted towards paying our \$2.5 bonds and loan annually. The bond payments come from the General Fund. The current reserve is in the Capital Fund. Alderperson Klemm agreed that a reserve had been viewed differently in the past. He recalls paperwork being presented to Council members about 6 months ago beginning the process to establish a reserve. He has been around long enough to see staffing cut from 200 to 100+ people. He believes there is a perception that cuts can still be made. He feels that we need to take a serious look at what our options are. The deteriorating roads did not happen overnight and he feels it is time to establish a revenue source to do something about the roads and other priorities. He realizes bad roads are a hot topic and we need to do something to move Freeport forward in some of these areas. Alderperson Koester summarized much of the work that has been done recently including rewriting Ordinances and moving Freeport forward. He feels we need to look at other potential revenue sources. He asked and Manager Crow confirmed that under current MFT funding, it will take 92 years to repair all of the streets.

Alderperson McClanathan asked and Manager Crow confirmed that there is an estimated \$300,000 reduction in revenue from FY2018 to FY2019 based on the calculations they have presented tonight. Manager Crow also addressed Alderperson Chesney's question regarding using proposed figures from the State to create our budget. He explained that he is being fiscally conservative in using the State's proposed cuts as a worst case scenario. He does not want to pass a budget that could be immediately out of balance if the legislature implements all of the proposed cuts. He stated that IML usually has the State's estimates from the Comptroller by now, but that has not happened this year. So, we are working off our best information. Alderperson McClanathan asked and Manager Crow confirmed that the 2% processing fee and the 28% reduction in PPRT have already been approved. The only unconfirmed cut is the 10% reduction in income tax but reducing the payments from 14 to 10 over the course of a year has been confirmed.

Manager Crow stated that he will do a deep dive in the reduction in revenue and get back to Alderperson Chesney on that.

Alderperson McClanathan read the proposed budget schedule as follows:

- Finance COW - 5:00 pm on March 12, 2018
- Finance COW - 5:00 pm on March 19, 2018
- Finance COW - 5:00 pm on March 26, 2018
- Public Hearing - 5:00 pm April 2, 2018
- Approval - 5:00 pm April 16, 2018

Alderperson Brashaw made a motion to approve the schedule of meetings; seconded by Alderperson Koester; and the motion carried by voice vote without dissent.

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PUBLIC COMMENTS – AGENDA OR NON-AGENDA ITEMS

Aldersperson Klemm stated that the last two budgets were approved within two weeks. He feels it is important that the Council remember that the figures are maybe not what we want to see, but he believes there is a happy medium to be found. He appreciates the efficiency and expediency in preparing this year's budget.

Upon a motion duly made and seconded, the meeting adjourned at 6:01 pm.

s/ Dovie L. Anderson

Dovie L. Anderson
City Clerk