



Budget Report to Mayor Bearrows & City Council

Date: November 15, 2019

From: Jeffrey A. Fiegenschuh, MPA, ICMA-CM, City Manager

RE: FY 2020 City Budget

It is my pleasure to submit to you the operating and capital improvement budgets for the City of Rochelle and Rochelle Municipal Utilities for the calendar year beginning January 1, 2020. The numbers reflected in this document are part of the PowerPoint presentations on November 18th. The entire City of Rochelle proposed FY 20 budget is \$91,944,101.

Proposed General Fund revenues for FY 2020 are estimated to be \$11,210,836 with expenditures for the new fiscal year totaling approximately \$11,158,089 with General Fund capital outlays at approximately \$645,743. Projects funded by the 2018 Alternate Revenue Bonds are included in the Capital Improvement Fund. The utilities (electric, water, water reclamation, advanced communications/technology park, golf course, rail road, landfill & airport) proposed budgeted expenses are \$57,764,785, of which \$18,033,536 is for capital outlays. All other funds, including special, capital improvement, downstate police and fire pensions and internal service total \$23,021,228.

In preparing this budget document, our team worked to ensure it is informative and easy to understand. This executive summary along with an electronic version of the budget presentation is available on the City's website and Facebook page.

Staff feels this year's budget represents the City of Rochelle's ongoing mission to provide a safe, connected and innovative community with professional, personalized and impartial services. The spending, specifically all capital expenditures, fall in line with the 2018 strategic planning document that has been adopted by the full City Council. Our team worked to ensure that all spending can be tied back to the 5 core areas approved by the City Council.

Strategic Plan Goals

- Economic & Business Development
- Financial & Management Stability
- Community Inclusiveness & Engagement
- Infrastructure Effectiveness & Improvement
- Core Service Delivery

As in previous years, it is the intention of Staff that this budget reflects the priorities of our elected officials. The key priorities that have guided the Staff's efforts in developing the budget include the following:

- Revenues have been estimated at realistic and conservative levels
- Basic services are financed at appropriate levels
- The City is considering an additional early retirement incentive in 2020 that may lead to additional staff savings. The previous early retirements saved the City and RMU close to \$1,000,000.
- Investment in infrastructure continues to be a priority and is funded with Alternate Revenue Bonds, Non-home rule sales tax, utility taxes and utility fees.
- Total full-time Staff has increased by three full-time equivalent employees. This includes one additional police officer and two additional street department employees. These hires represent backfilling open positions from 2016 to the present day. They are not new positions being created. The general fund has a slight surplus even with the filling of these vacant positions.
- New growth is pursued with the continuation of incentives to expand the local tax base, specifically the City's industrial and commercial parks along with new housing. The incentives include the implementation of the Northern Gateway TIF, promotion of the City's Enterprise Zone, continued expansion of the City's rail system and new transloading facility, the expansion of the statewide opportunity zones, locally approved incentives for small business and new home construction and the continued expansion of the utility customer base and reinvestment in the Downtown corridor.
- A continuation of the City's overall appearance is being supported through renewed investments in our Downtown area. This includes promotion of the Downtown TIF and the completion of the new Downtown Historical District. The City is pushing a renewed interest in investment on and near Highway 251 South of the overpass.
- Continued investments in the City's utility infrastructure including funding for phase 1 of the new electric substation south of Interstate 88, a public/private partnership with the sale of the City's electric transmission assets and the continued investments and upgrades in all above ground water and water reclamation treatment facilities.
- Since 2018 the City has hosted numerous meetings with other units of local government to promote more cooperation between the various taxing bodies that serve Rochelle. These meetings have led to more open dialogue on ways to improve and share services whenever possible.
- In 2018 the City formed a partnership with the IL Institute for Rural Affairs at Western Illinois University to move forward with a community mapping exercise. From this privately funded venture, several new initiatives emerged including a more focus on retail and commercial projects, more housing options, community recreation, arts and

culture and new business development. Our team hopes the new volunteers who attended these meetings will help move our community forward.

- In 2017, the Mayor and City Council approved entrance into QCHIP Benefits Cooperative as an option to control health care costs long-term. This decision helped ensure deeper cuts were not needed in the General Fund budget. The QCHIP sub pool renewal rate for the past year saw our health insurance rates decrease by 8%.
- The budget includes funding for the continued implementation of the employee pay and compensation plan. This plan has aided in establishing new pay ranges for positions based on key competencies.

The City needs to continue to address the fiscal pressures presented by the following issues:

- Escalating Police and Fire pension costs (possibly consider a referendum to increase the non-home rule sales tax .25% for pension costs and property tax relief).
- Current electric rates, specifically for our commercial customers
- Increasing gaming requests
- The approval of adult use cannabis and the possibility of both cultivation centers and a dispensary.
- Continued regulations forcing further upgrades to water and water reclamation treatment facilities and the implementation of a three-year water rate increase
- Pending executive level retirements and the loss of institutional knowledge.
- Airport revenues continue to lag operational and capital expenses
- State of Illinois business climate and budget deficits
- Possible funding cuts in Local Government Distributive Fund (LGDF)

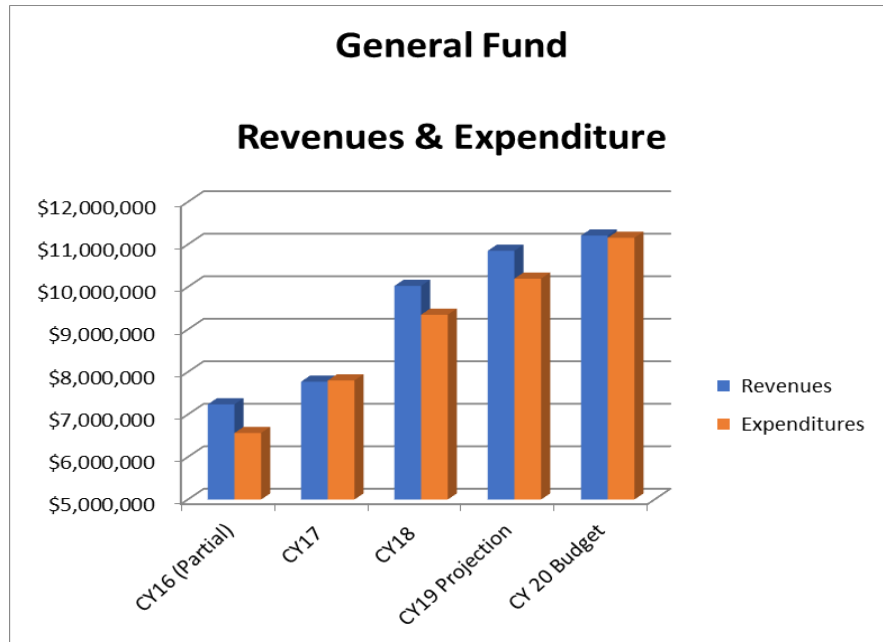
City of Rochelle – Significant Funds

The General Fund

The General Fund budget supports many of the day-to-day activities of the City. The departments housed within this fund include Street, Cemetery, Engineering, Police, Fire, City Hall, Administration, Economic Development, and Community Development.

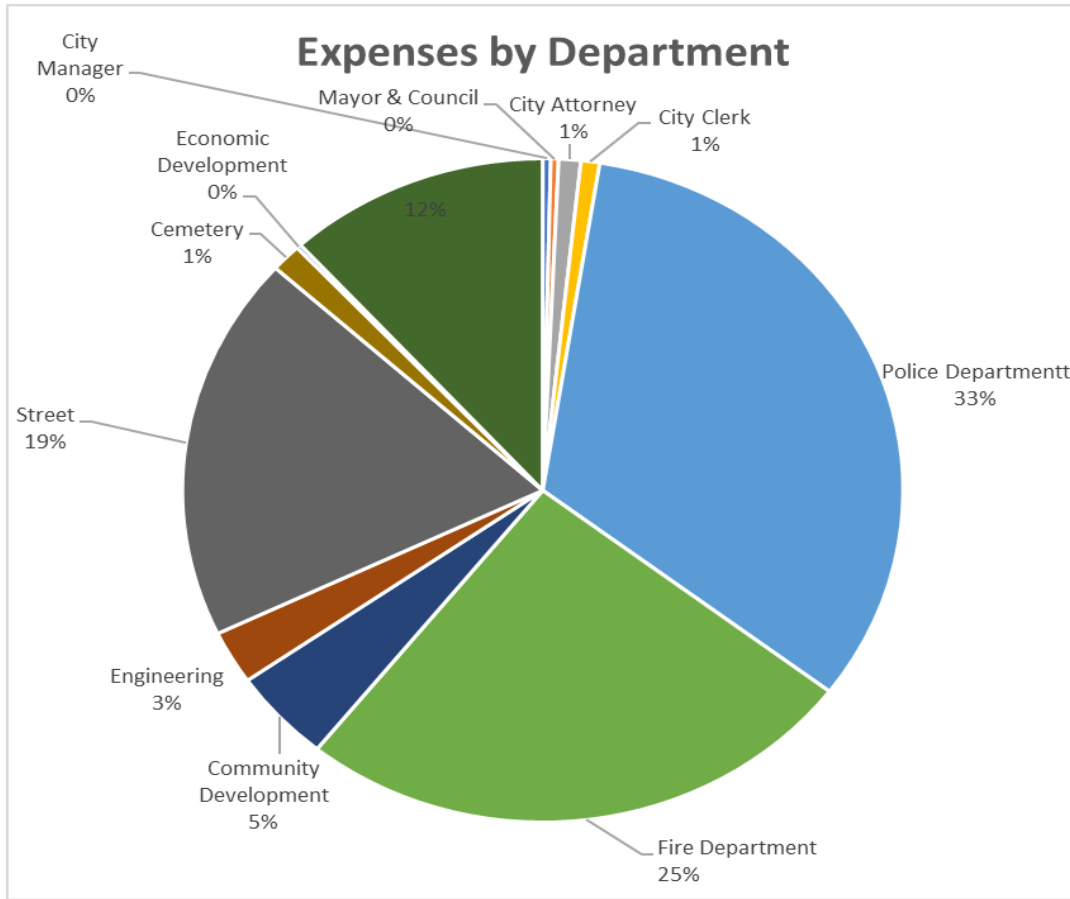
The total General Fund budget for the new FY contains \$11,158,089 in expenditures. These allocations reflect our commitment to providing core services to our community and as stated before, were developed using the best available information and most current revenue projections. The budget for the new calendar year however, includes an overall increase in expenditures from the previous fiscal year approved budget. These increases in spending relate directly to an increase in capital improvement investments and filling three vacant positions in the police and street departments. The City is still working with Rochelle Community Hospital to implement a patient transfer program. Under the new program, the Rochelle Fire Department will contract to take all out of town transfers for Rochelle Community Hospital. Our team estimates an increase in net billing of \$488,978, with a net increase in revenue after expenses of \$126,930. All additional funds generated above expenses will go back to the ambulance improvement fund to fund future public safety vehicle purchases.

The major revenue sources of the General Fund include sales tax, property taxes, LGDF income tax sharing, video gaming taxes, charges for services, licenses and transfers in from other funds (enterprise funds). Other revenues generated that are allocated for capital improvement costs include the three quarters of a cent non-home rule sales tax, motor fuel tax, and the utility tax. Finally, with the sale of the transmission assets, the City could receive an up-front franchise fee along with a smaller annual payment and a 10-year \$200,000 community development investment. Staff will propose several options on how to budget for the influx in funds if the transaction is approved.



	Revenues	Expenditures
CY16 (Partial)	\$ 7,238,887	\$ 6,565,547
CY17	\$ 7,773,194	\$ 7,801,220
CY18	\$ 10,025,772	\$ 9,347,804
CY19 Projection	\$ 10,852,221	\$ 10,196,708
CY 20 Budget	\$ 11,210,836	\$ 11,158,089

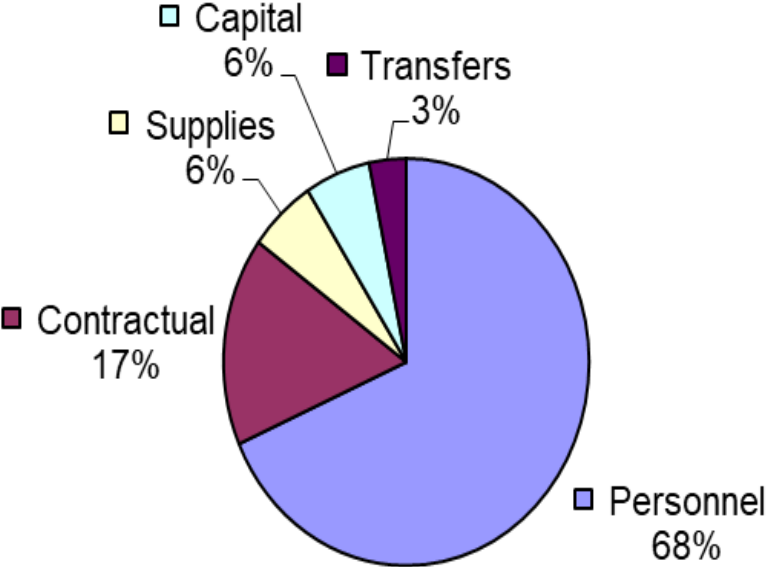
The major expenses for the General Fund include Public Safety, Administration, Streets & Cemetery, Community Development, and Engineering. Within each department the major expenses include personnel services (salaries and benefits), contractual services, supplies and capital outlay.



	2017	2018	2019	2019	2020
AUTHORIZED POSITIONS	ACTUAL	ACTUAL	BUDGET	Projection	BUDGET
Positions:					
Full-Time	68	64	64	64	67
Part-Time	44	48	48	48	48
TOTAL	112	112	112	112	115*

**Includes filling one vacant position in the Police Department and two vacant positions in the Street Department*

The major expenses categories for the General Fund include Personnel, Transfers to other Funds, Capital, Supplies and Contractual Services. Typically, in local government most of the expenses are related to personnel costs. Staff is pleased that our community is within the industry norm of personnel costs as it relates to the entire budget and our goal is to stay at or below 70%.

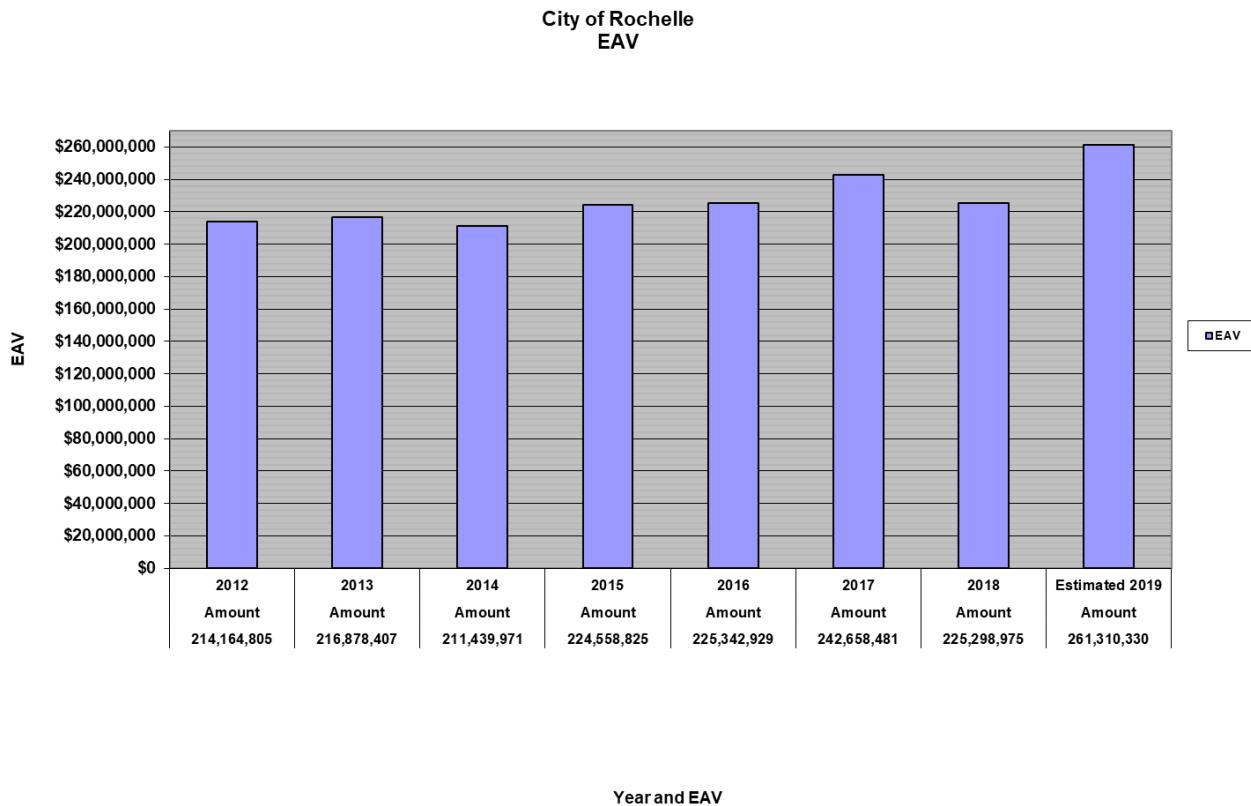


Staff is projecting a general fund balance of approximately \$3,196,537 at the end of the current fiscal year. Under the proposed budget, the general fund cash balance will increase to \$3,249,285 by the end of FY 2020. The cash reserve policy approved by the City Council requires 15% of the general fund budget be available in cash at any time. The City's total cash on hand continues to exceed the minimum cash policy required amounts by approximately \$1,575,572. Lastly, a majority of the outstanding long-term debt held by the City is obligated to the TIF and enterprise funds. The only general fund debt is alternate revenue bonds that will fund capital projects for the next two years. These bonds will be fully retired in 8 years.

Major Revenue Sources of the General Fund

City Property Tax Rate

The final budget is based on a property tax request of \$2,626,926, which equates to a rate of \$1.005290 per \$100 of assessed valuation. This is an increase of \$122,909 over the previous calendar year. The increase is attributed almost entirely to increased public safety pension costs. The overall amount allocated to the general fund decreased by approximately \$15,000 over the previous fiscal year. Combined with the 2018 levy the amount budgeted for the general fund decreased approximately \$86,000 over the past two fiscal years. The City Council and Staff have done a good job controlling the growth of the City's overall property tax rate. Since 2013 the rate has remained between \$1.00 and \$1.05 with the exception of 2018 which saw a levy increase due to actual valuations being less than those estimated by Ogle County. Below are several charts highlighting the City's Equalized Assessed Value and tax levy request.



CITY OF ROCHELLE							November 4, 2019
REAL ESTATE TAX RATE EXTENSION FOR TAX YEAR 2019							
4.95% INCREASE							
		2018	2018	OGLE COUNTY		EXTENDED	
	MAX. RATE	ACTUAL	ACTUAL	EAV	2019	2019	
DESCRIPTION	ALLOWED	LAST YRS	TAXES	ESTIMATED 2019	RATE	LEVY	
		RATE	LEVIED				
			225,298,975				
GENERAL CORPORATE	0.2500	0.202510	456,252.95	261,310,330	0.169339	442,500.00	
BOND (AIRPORT)	NO LIMIT	0.027140	61,146.14	261,310,330	0.024134	63,065.00	
IMRF	NO LIMIT	0.072440	163,206.58	261,310,330	0.073093	191,000.00	
FIRE PROTECTION	0.0750	0.075000	168,974.23	261,310,330	0.075000	195,982.75	
FIRE PENSION	NO LIMIT	0.175360	395,084.28	261,310,330	0.149642	391,029.00	
POLICE PROTECTION	0.0750	0.075000	168,974.23	261,310,330	0.075000	195,982.75	
POLICE PENSION	NO LIMIT	0.223420	503,362.97	261,310,330	0.224295	586,105.00	
AUDIT	NO LIMIT	0.011980	26,990.82	261,310,330	0.011098	29,000.00	
INSURANCE	NO LIMIT	0.156060	351,601.58	261,310,330	0.114806	300,000.00	
SOCIAL SECURITY	NO LIMIT	0.072510	163,364.29	261,310,330	0.068884	180,000.00	
CROSSING GUARD	0.0200	0.020000	45,059.80	261,310,330	0.020000	52,262.07	
STREET LIGHTING	0.0500	0.000000	-	261,310,330	0.000000	-	
TOTAL LEVY:		1.111420	\$ 2,504,017.87		1.005290	\$ 2,626,926.56	
FUND	% CHANGE	\$ CHANGE	LESS EXCLUSION:			\$ 63,065.00	
FIRE PENSION FUND	-1.03%	(\$4,055)	2019 TAXES LEVIED:			\$ 2,563,861.56	
POLICE PENSION FUND	16.44%	\$82,742	2018 TAXES LEVIED LESS EXCLUSION:			\$ 2,442,871.73	
GENERAL FUND	6%	\$47,466					
OTHER FUNDS	-0.73%	-\$5,163					
NET \$ INCREASE-PREV. YR						4.95%	

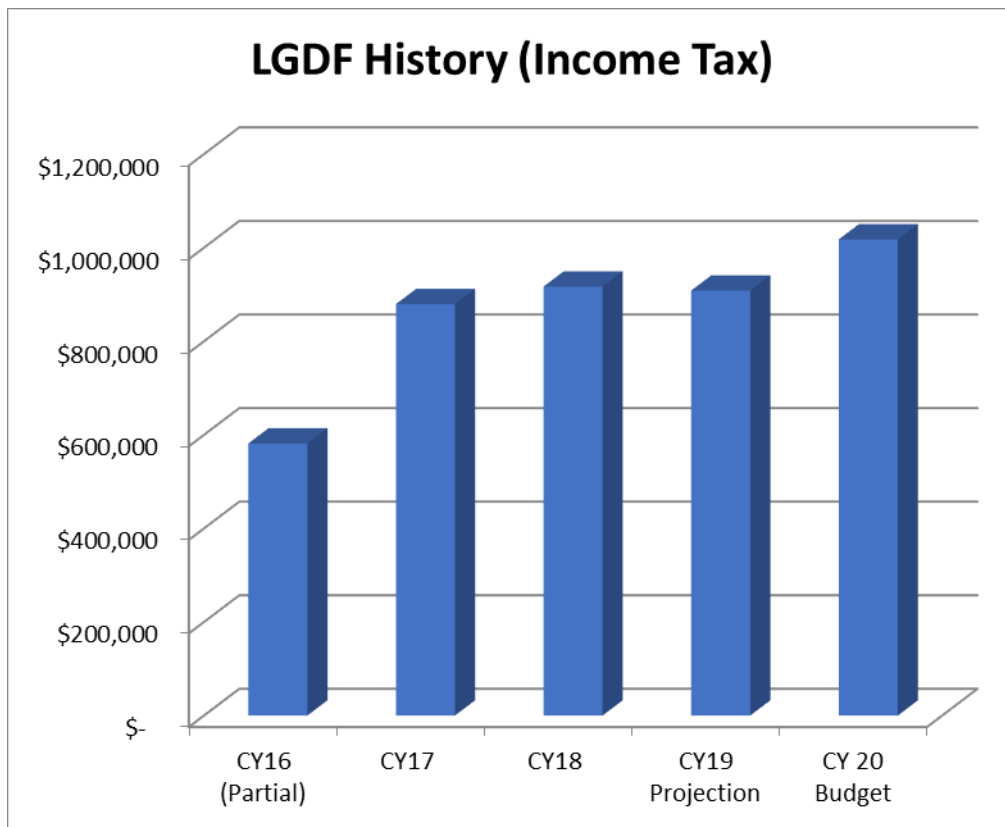
For homeowners in the City of Rochelle, the City's total property tax requests accounts for less than 13% of their overall consolidated county wide property tax bill. Below are three examples of what a typical homeowner will pay in City property tax in FY 2020 based on the estimated EAV and levy amount approved by the City Council. As you can see at a 4.95% increase in the City's property tax request equates to the average homeowner's bill decreasing by approximately \$35 in the new year. Our overall rate is able to remain relatively flat due to the amount of industrial and commercial growth taking place in the community.

		2% incr	3% incr	4.95% incr	
	2018 Rate	2019 Rate	2019 Rate	2019 Rate	
Market Value	EAV	1.111420	0.977698	0.987036	1.005290
\$100,000	\$33,333	\$370.47	\$325.90	\$329.01	\$335.10
\$150,000	\$50,000	\$555.71	\$488.85	\$493.52	\$502.65
\$200,000	\$66,667	\$740.95	\$651.80	\$658.02	\$670.19

Local Government Distributive Fund

The national economy continues to show annual signs of improvement that staff believes will eventually lead to increased revenues. The Local Government Distributive Fund (LGDF) is one of the major revenue sources the City relies on for General Fund expenditures and is typically a good indicator of the State and national economy. In 2016, the state decreased LGDF funds by 10% to local governments. In the most recent budget however, half of that cut was restored. This year staff anticipates collecting \$1,017,716 in LGDF funds. This constitutes an increase of \$109,000 over the previous fiscal year.

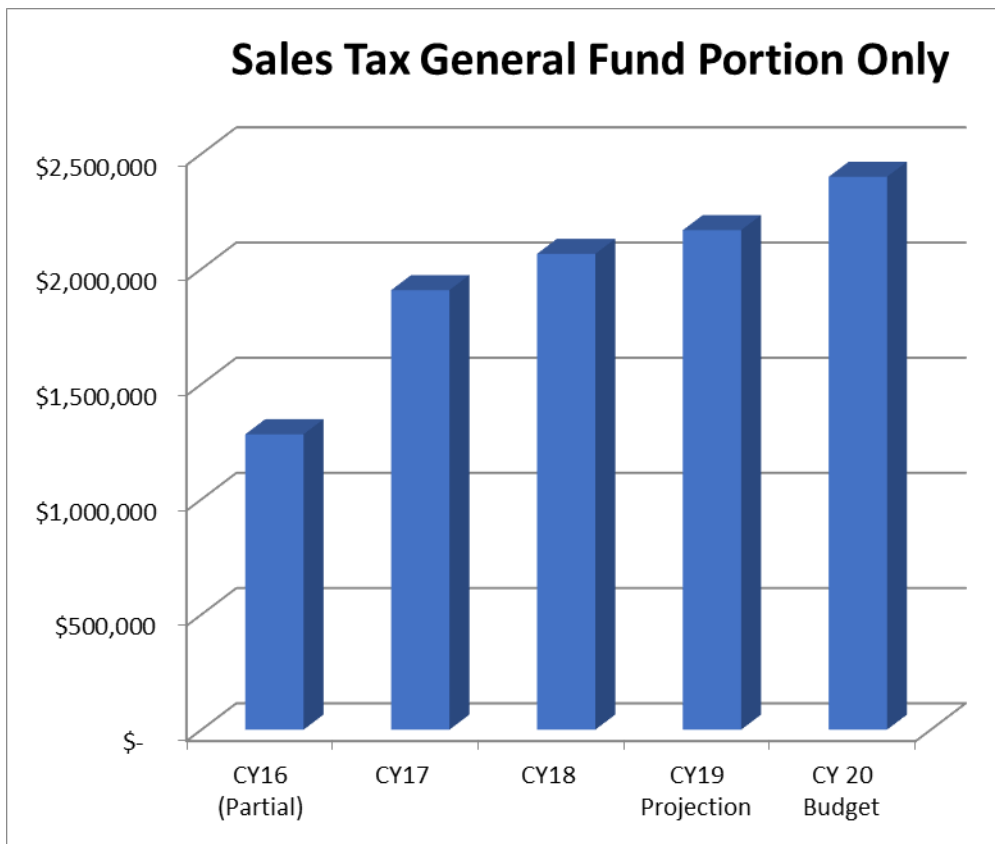
As our team moves forward, it is important to remind our State legislators how important LGDF funds are to our local community and toward meeting their numerous unfunded mandates. The funds are not State aid, but dollars collected by the State on behalf of cities.



CY16 (Partial)	\$ 581,502
CY17	\$ 879,364
CY18	\$ 916,864
CY19 Projection	\$ 908,285
CY 20 Budget	\$ 1,017,716

State Collected Sales Tax

Since 2016 the City’s 1% state shared sales tax has been increasing. These sales tax receipts constitute approximately 20% of the general fund revenue and continued increases are crucial to future initiatives the City hopes to fund. The state shared 1% sales tax continues to be one of the best indicators of actual sales within the community. Projected sales tax collections for the current fiscal year are projected to increase over the amount budgeted during the same time frame in the current fiscal year. Staff is anticipating another increase in sales tax collections in the new fiscal year as well, due primarily to new businesses opening that include a full year of Love’s Travel Plaza and the opening of Pilot/Flying Jay. This increase does include some inflationary pressures, which typically push sales tax collections up 1%-2% year over year. Another major issue for future growth in collections continues to be the State of Illinois business climate and lack of a long-term sustainable budget.

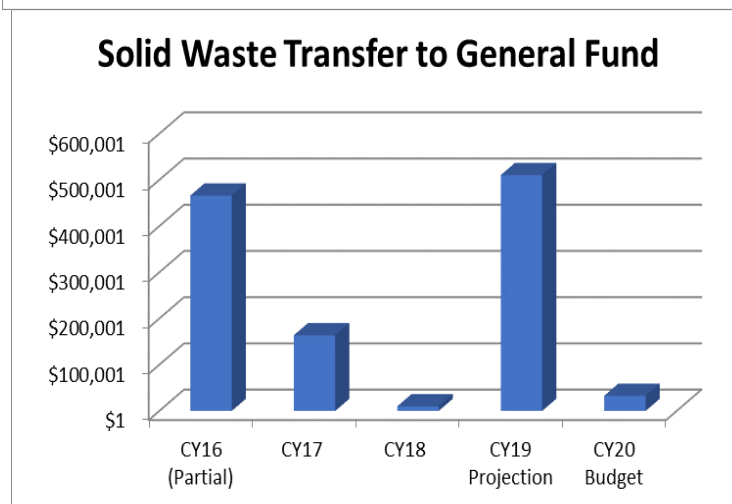
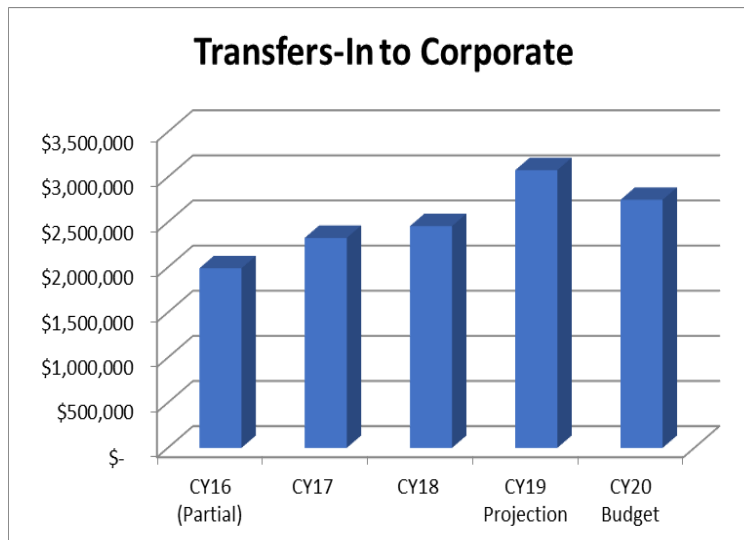


CY16 (Partial)	\$ 1,282,170
CY17	\$ 1,907,819
CY18	\$ 2,065,411
CY19 Projection	\$ 2,168,419
CY 20 Budget	\$ 2,400,000

Transfers in From Other Funds

Like many other communities across the country, the City transfers in revenue from other funds as payments in lieu of taxes. Payments in lieu of taxes are tax payments that would be made to the City if the utilities were privately owned such as sales taxes collections and property taxes. These payments are predominant within communities that have their own utility enterprise funds. These transfers account for approximately 24% of overall corporate fund revenues.

Due to changes in budget practices last year all enterprise funds, with the exception of water/water reclamation, contribute 5% of the previous year's audited revenues to the general fund. This year water/water reclamation will contribute 5.5% of the previous year's gross revenues to the general fund. The enterprise funds include, electric, water, water reclamation, landfill/sanitation and the City owned railroad. Once again transfers in from the landfill fund will only be 5% and will not cover any capital costs at City Hall.



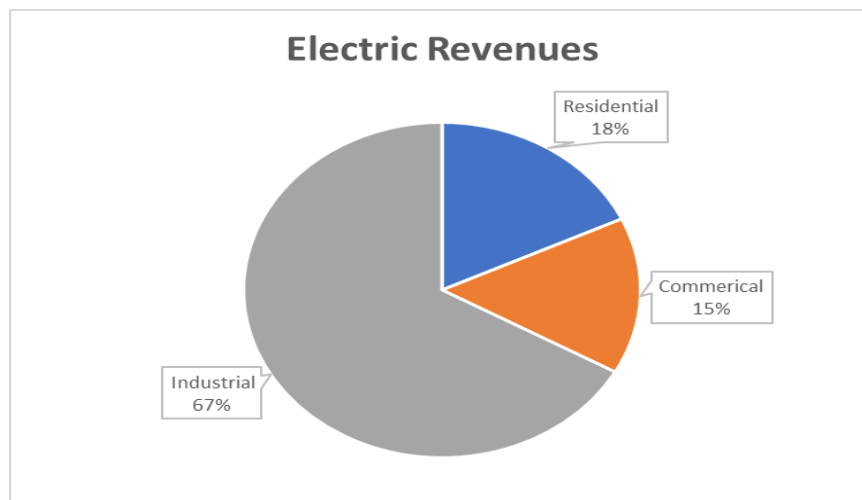
Enterprise Funds

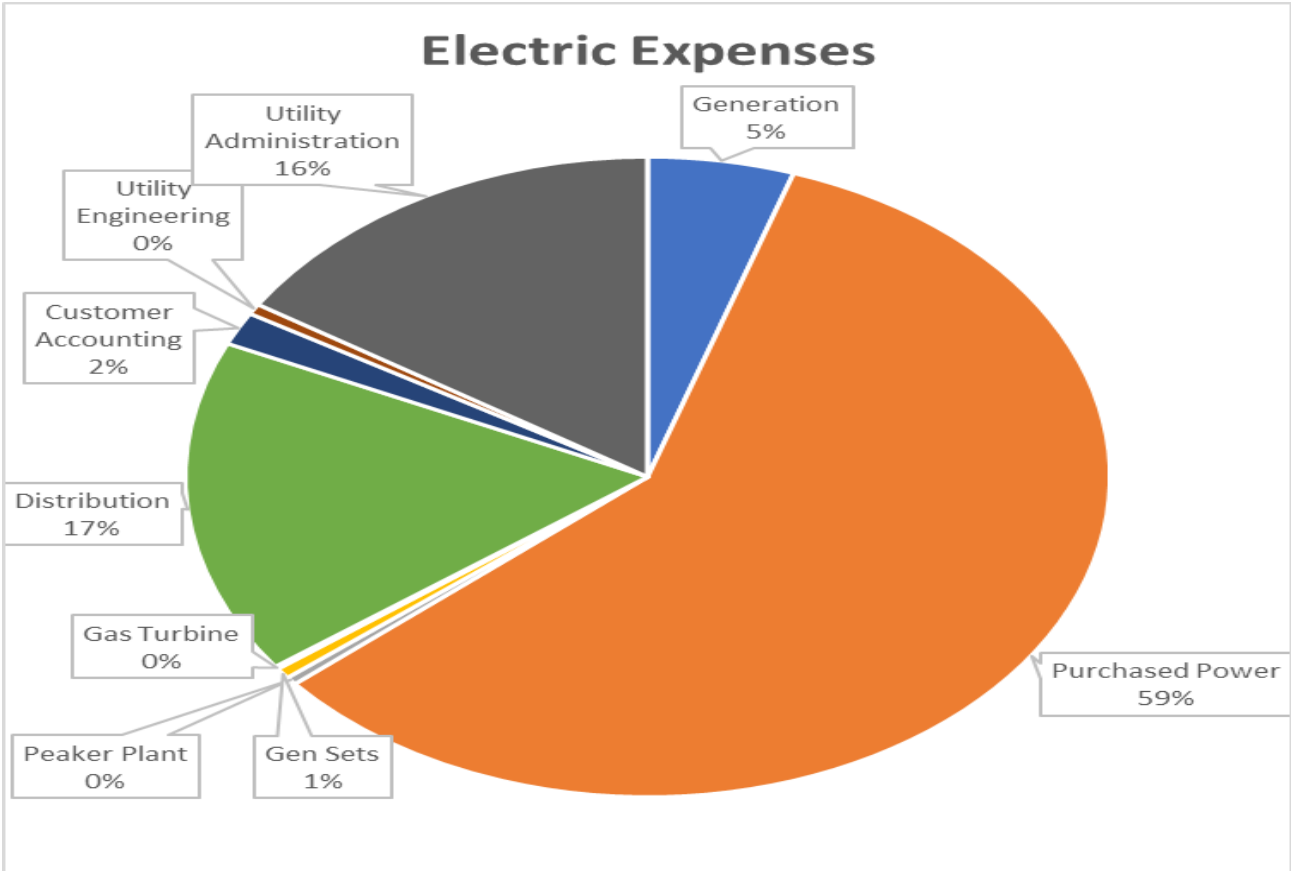
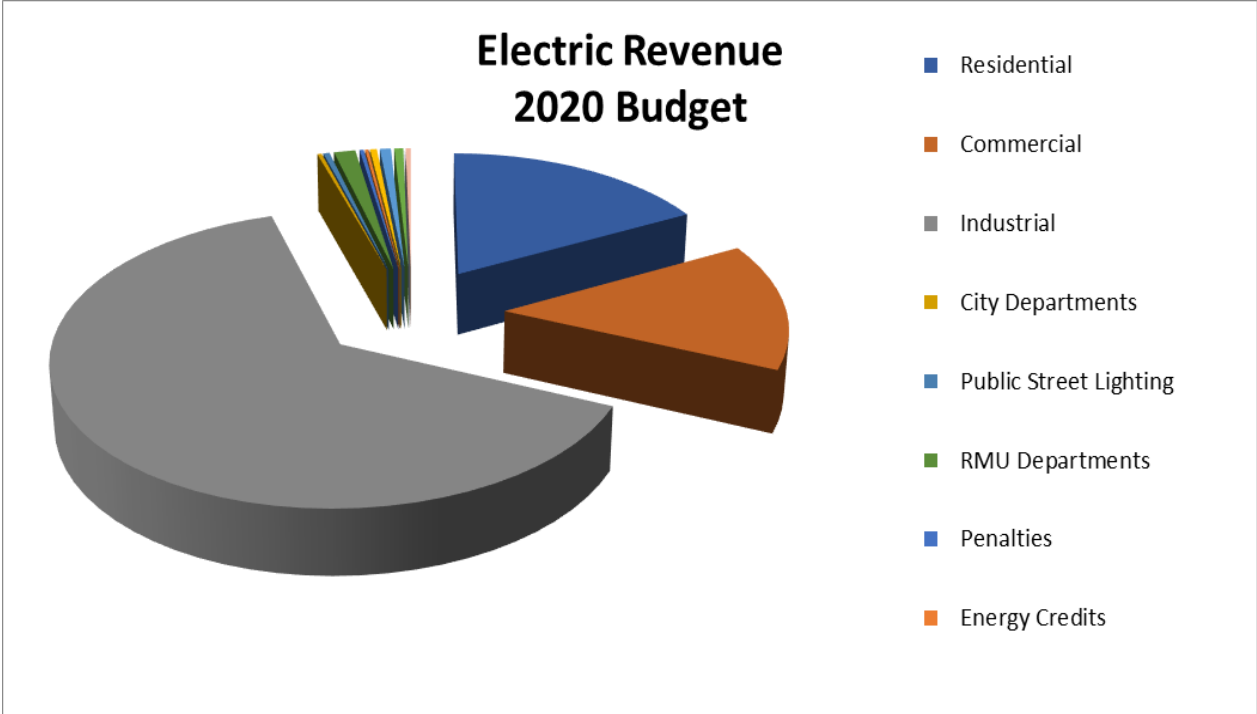
The City of Rochelle Enterprise Funds, also commonly known as proprietary funds, consists of the Electric, Water, Water Reclamation, Technology Center, Airport, Solid Waste, and Railroad. Within these funds, each fiscal period has shown consistent revenue increases.

Electric Generation & Distribution

The single largest Utility fund and overall City Fund is the Electric Fund. This fund covers all the costs associated with the purchase and distribution to all properties within the RMU service territory. The City is currently the owner of numerous transmission assets, however since the sale of those assets is expected to occur in FY 19 there is a minimal amount budgeted for transmission related activities in the FY 20 budget. The combined budget for the Electric Department FY 20 is approximately \$36,067,313. This constitutes a decrease of 7% from the previous fiscal year and is attributed to the City no longer being an electric transmission owner. The single largest expense in the electric department is the cost to purchase power. It is estimated that RMU will spend \$21,500,500 on the purchase of power in FY 2020. This accounts for roughly 58% of the Electric Department budget. In the past year however, the city council approved new purchase power contracts that will help ensure long term power costs remain flat. Overall, the department continues to see marginal increases in sales and a healthy reserve fund balance.

Aside from the sale of the transmission assets the other significant changes in the electric department budget include the purchase of property for the construction of a new substation along with a continued focus on increasing the utility's renewable energy portfolio. Beginning in FY 20, when the current electric superintendent retires, it is anticipated that the water/water reclamation superintendent will be promoted to the Utility Superintendent. This will constitute a savings of over \$100,000 annually. Other minor staffing changes will be made to accommodate this move.





Based on the priorities of the City Council to implement a 20-year capital improvement plan and the council's desire to continuously update infrastructure staff is recommending a larger than normal CIP for the electric department. Many of the FY 19-23 projects should have been completed in the past and were not. Each of these recommendations constitutes and major investment in RMU's infrastructure and service ability.

Electric Capital Outlay Projects

Generation

Nordberg units upgrades/rod bearings	\$540,000
Diesel Plant fuel tank removal	\$100,000
Peaker Plant Siemens controllers	\$200,000

Distribution

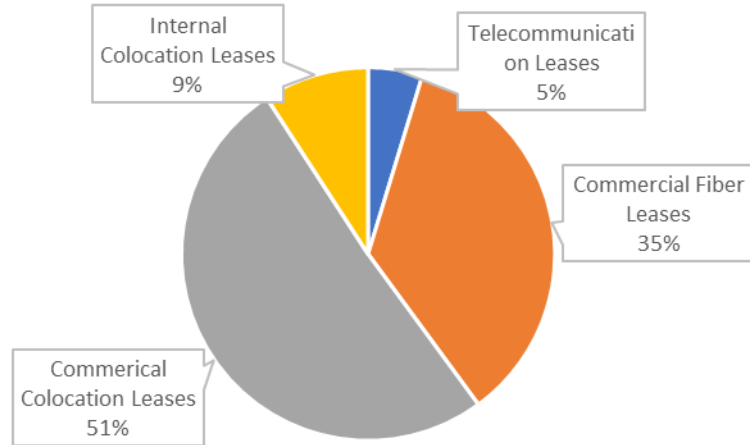
Electric Meters	\$10,000
Street Lighting	\$100,000
Security Lighting	\$10,000
Overhead Distribution	\$125,000
Underground Distribution	\$125,000
New substation phase 1	\$3,500,000
Downtown Streetlighting	\$100,000

Total	\$4,772,500
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Technology Center & Advanced Communications

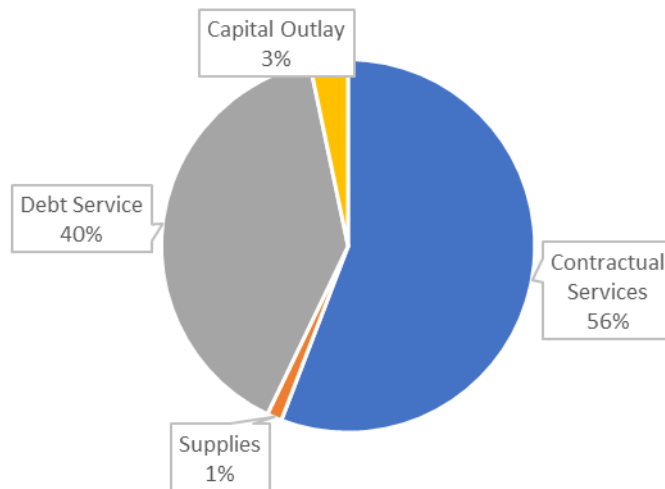
In 2017 the Technology Center and Advanced Communications funds were combined into one distinct fund. This fund serves all fiber and internet customers, along with all colocation and remote server clients. Since 2019, the Superintendent of Electric has overseen this department and focused additional attention to outdate contracts, an inefficient billing system and major updates to the City's cybersecurity protocols. Because of these efforts, overall revenues have increased. Projected revenues for 2020 are \$1,515,100 while expenditures are estimated to be \$1,142,770. Staff within the department is showing a renewed focus on seeking new customers to increase revenues and updating equipment that is over 20 years old. These efforts are leading to a more efficient system that provides faster and more reliable services to our customers.

Tech Center Revenues



Telecommunication Leases	5%
Commercial Fiber Leases	35%
Commerical Colocation Leases	51%
Internal Colocation Leases	9%

Tech Center Expenses

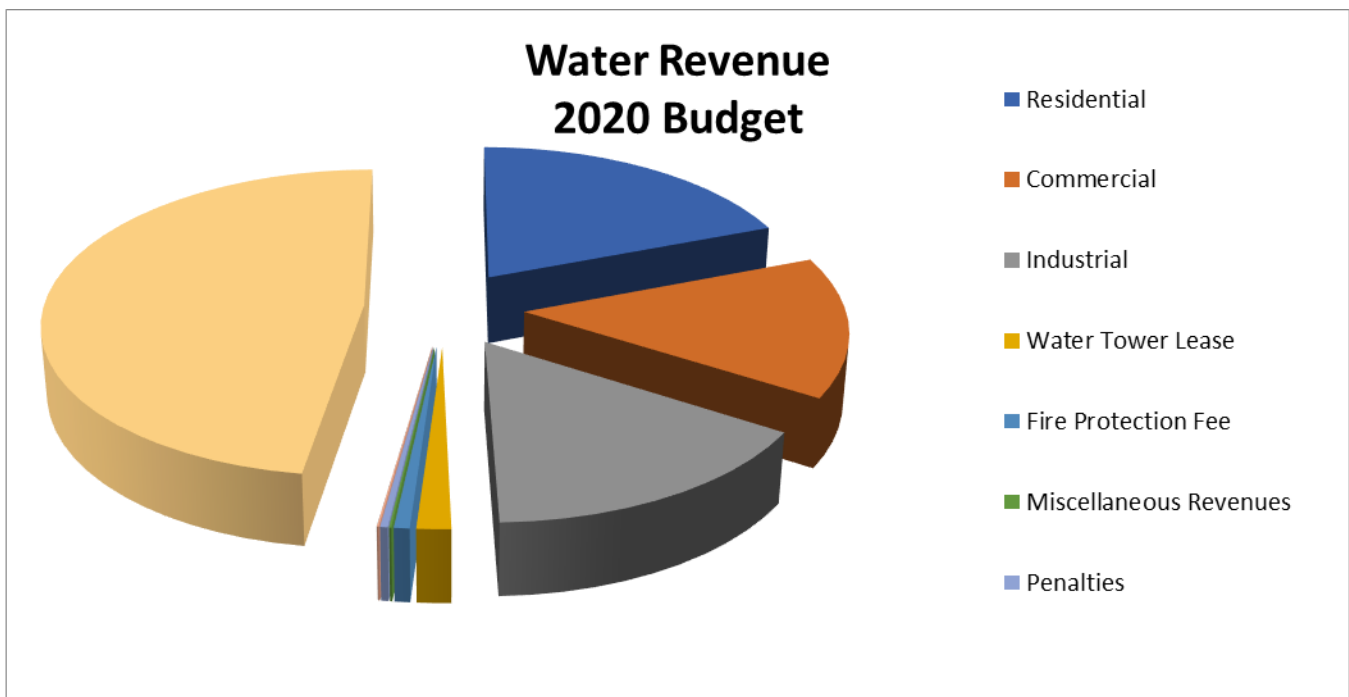


Contractual Services	56%
Supplies	1%
Debt Service	40%
Capital Outlay	3%

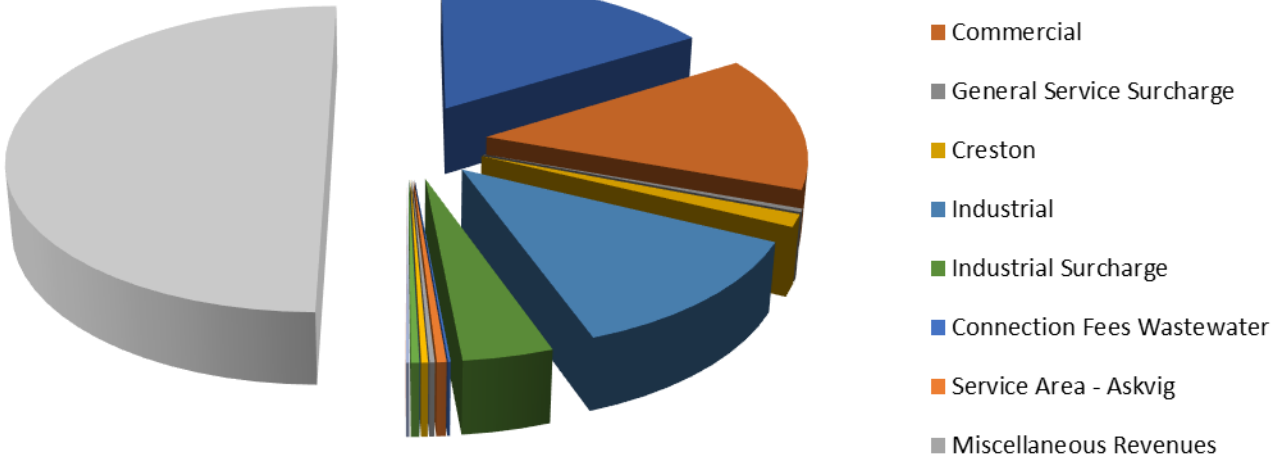
Water/Water Reclamation

The combined Water and Water Reclamation Funds revenues continue to see slight increases. Most of the increase is attributed to a proposed water rate increase that will be phased in over the next three fiscal years. The total revenue for the combined fund in FY 19 was \$7,194,277. Staff anticipates a revenue increase in FY 20 to \$12,891,166. Most of this increase is attributed to a new State of IL SRF loan to fund updates to the City's wells and water reclamation plant, along with the above mentioned water rate increase.

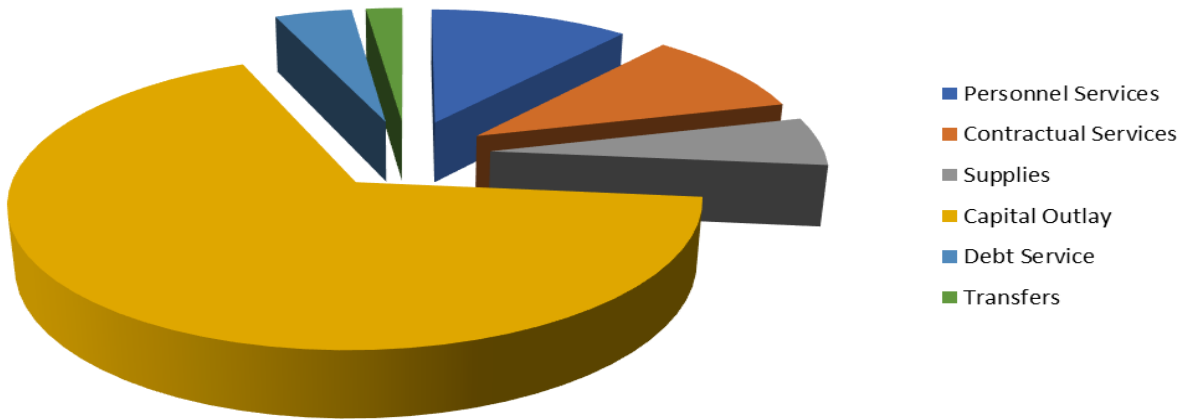
During the coming calendar year there are several capital projects included in the budget for both departments. All projects will be funded with established revenues including a grant and loans from the State of Illinois. Currently there is a large cash reserve in the water/water reclamation fund. This reserve was established to help fund future projects without relying on loans and rate increases. As with the FY 19 budget, staff is recommending to council that the City continue spending down reserves for capital projects budgeted in FY 20. A list of the major capital projects contained in both departments is listed below.



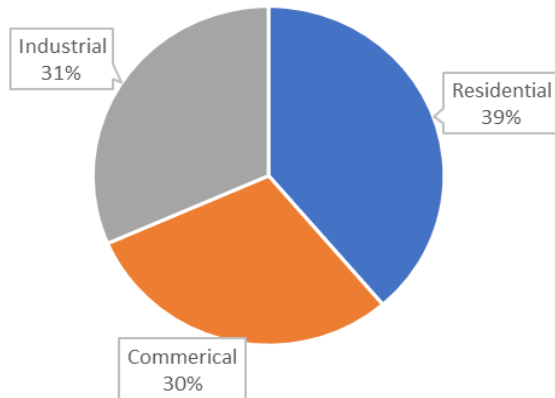
Water Reclamation Revenue 2020 Budget



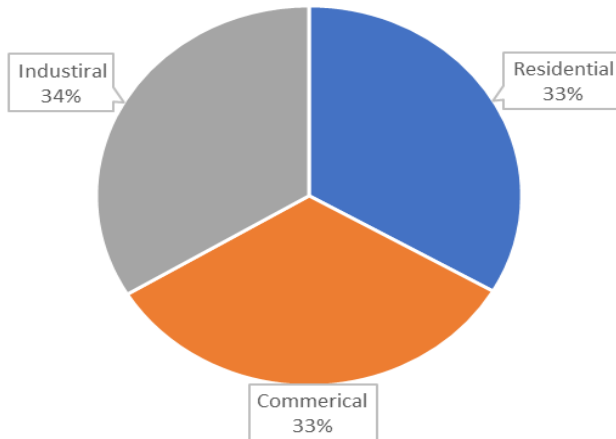
Water Expenditures



Water Revenues



Water Reclamation Revenues



As dictated by the strategic plan approved by the City Council, a major emphasis for the organization is reinvestments in infrastructure. For the past three years, the superintendent of the water/water reclamation department has worked with the staff and council to begin a plan to upgrade all treatment facilities

WATER		
Distribution Meters	\$118,000	
Maintenance of System	\$155,000	
Well 4 Rehab Design and Construction	\$1,416,000	
Water Main Replacement	\$10,000	
Skid Loader	\$50,000	
Pilot Travelstop Contribution	\$85,000	
Well 8 Rehab	\$165,000	
		RMU Cash Funded \$1,999,000
Well 12 Radium Plant Construction (2/3 of total cost)	\$2,650,000	
Well 12 Construction Engineering and Observation	\$200,000	
		Grants/IEPA Loan Funded \$2,850,000
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Water Sub-Total	\$4,849,000	
WATER RECLAMATION		
WRP share of water meter cost	\$118,000	
Manhole Lining and Repair	\$61,800	
Arc Flash Study	\$25,000	
Maintenance of System	\$133,462	
Pilot Travelstop Contribution	\$85,000	
Rehab Sand Filters	\$500,000	
Skid Loader	\$50,000	
NPDES Compliance Plans	\$100,000	
7th Avenue Sewer Relocate	\$100,000	
		RMU Cash Funded \$1,173,262
WWTP Design and Contingency	\$453,262	
WWTP Ugrades Construction	\$3,000,000	
		Grants/IEPA Loan Funded \$ 3,453,262
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Wastewater Sub-Total	\$4,626,524	
TOTAL CAPITAL OUTLAY	<u>\$9,475,524</u>	

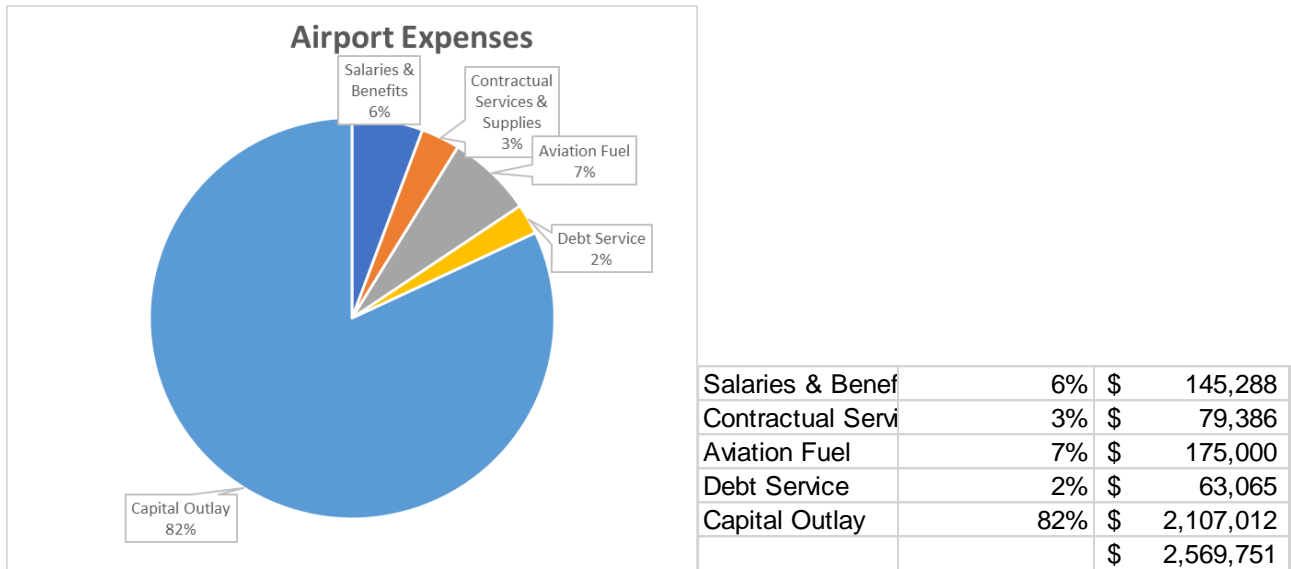
Minor Enterprise Funds (Airport, Rail Road, Golf Course, Technology Center)

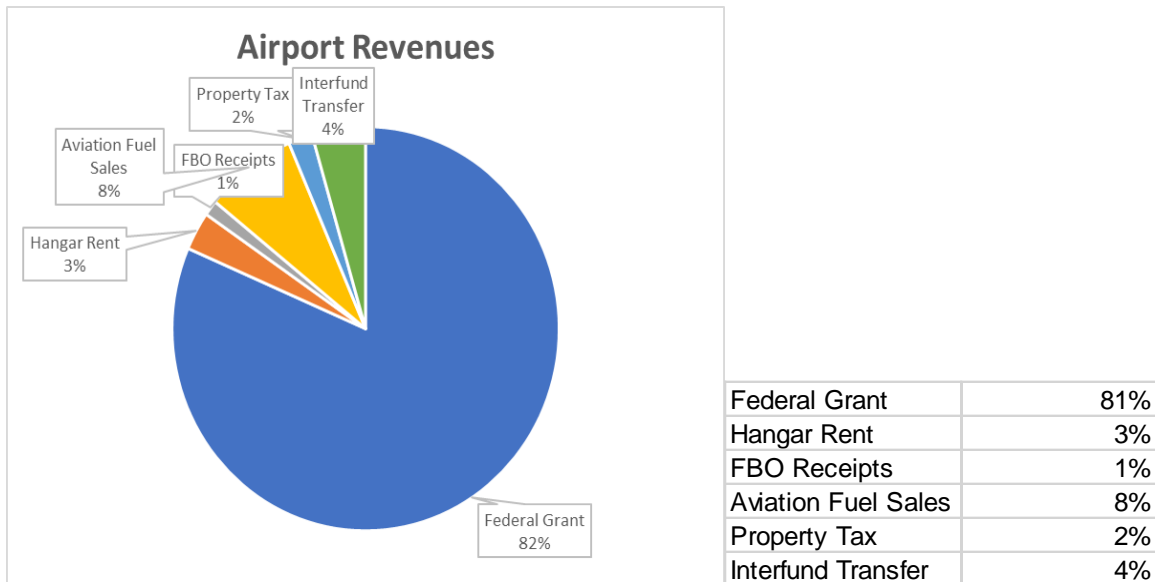
Rochelle Municipal Airport

The Rochelle Municipal Airport is a valuable asset to the community. Over the past five years the airport has expanded its infrastructure through numerous capital & maintenance projects. To date, over \$10,000,000 has been expended on these projects, which have been funded through the FAA, IDOT and the Rochelle Railroad. Air traffic at the facility continues to see significant growth. In 2015, staff counted 4,650 landings/takeoffs and in 2018 that number grew to 11,490, which constitutes a 200% increase. This date only represents 6 ½ months out of the year due to weather.

Recent improvements at the airport include the purchase of land for a runway expansion, extension of the runway from 4,200' to 5,001' allowing for larger aircraft to operate, construction of a parallel taxiway and turnaround, reconstruction of 1/3 of the ramp and conversion of the lighting system to LED.

The growth of the Chicagoland Skydiving Center and the Flight Deck Bar & Grill is cause for drawing thoughts of people from across the country every year. This past year the airport was host to the national skydiving competition, which benefitted our entire community. Hotels, restaurants, gas stations and grocery stores all derive traffic through their establishments because of the airport operations.





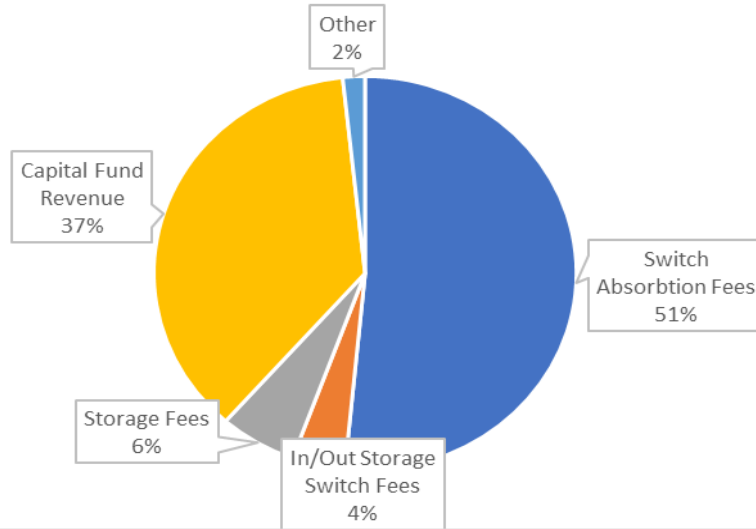
The Rochelle Industrial Rail

Over the past 5 years the CIR has increased the number railcars it switches and stores per year (on average) from 3,200 to 14,000. Annual rail switching/storage revenue generated for the City has gone from \$280,000 to \$2,000,000. Additionally, the rail infrastructure expansion plan has allowed us to add new industries to the system, improve safety, create new streams of revenue i.e. storage fees and transloading, and create more than \$1,000,000 of matching funds for grants that have allowed us to build a significant amount of rail infrastructure which is included in the following list:

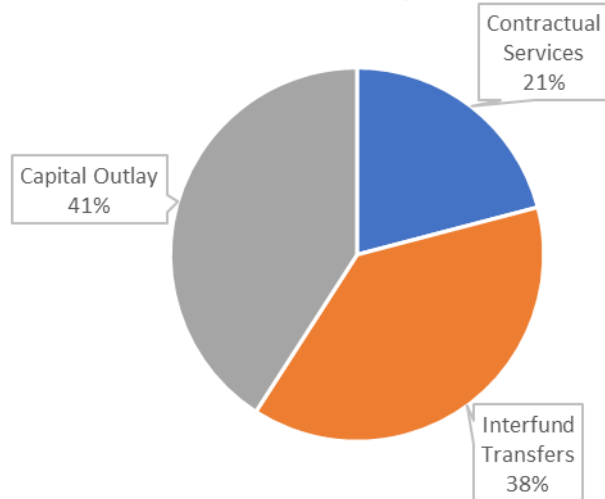
- 4 Track expansion to the UP/CIR interchange yard
- Four at-grade crossings re-built
- Installation of Railroad crossing gates and signals on Stewart road
- Construction of a 4-track Rail Bridge
- Construction of the Rochelle Transloading Center (RTC)
- 9 acres of land was donated to the City by GREDCO for the development of the RTC
- Extension of the Unit Train Switching Yard (which increased the CIR capacity 4 fold)
- More than 7 miles of new track has been laid on the CIR over this period of time more than doubling its capacity
- Over \$20,000,000 has been invested in the CIR with grants providing, on average, 90% of the funding

The CIR now generates enough revenue to pay for the bond that funded the railroad quiet zone over 11 crossings, covers the annual fee to belong to the Lee-Ogle Enterprise Zone, covers ½ of the Economic Development Budget, subsidizes the 5% capital fund for the airport and contributes over \$100,000 to the City’s General Fund. Additionally, the CIR sets aside 40% of its revenue for matching future federal and state grants which cover 50%-80% of capital projects.

Railroad Revenues

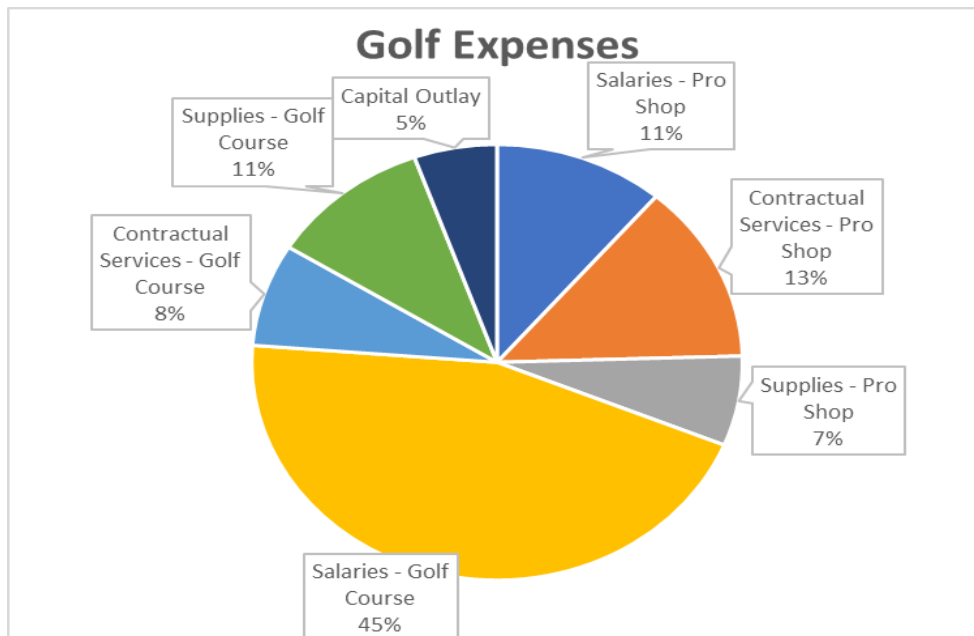
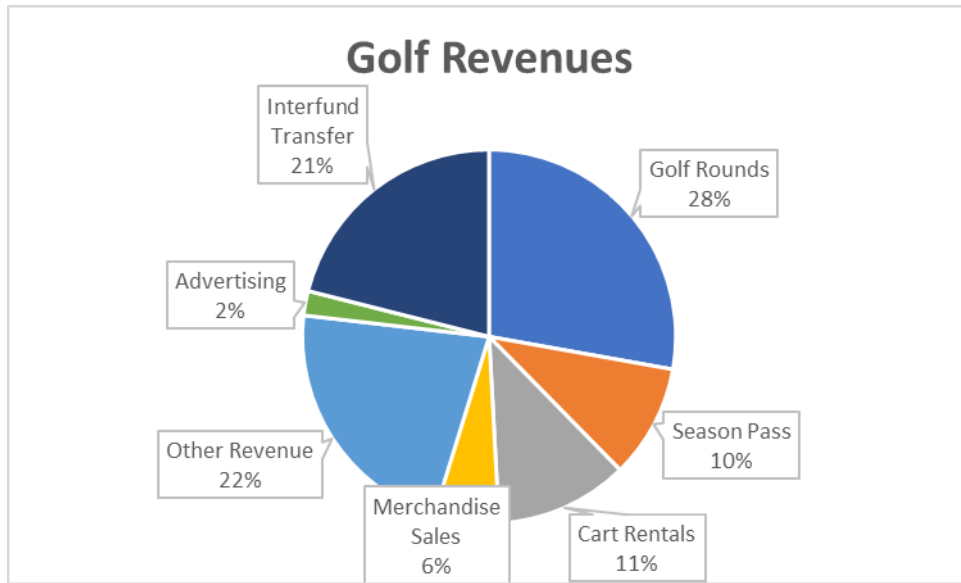


Railroad Expenses



The Rochelle Municipal Golf Course

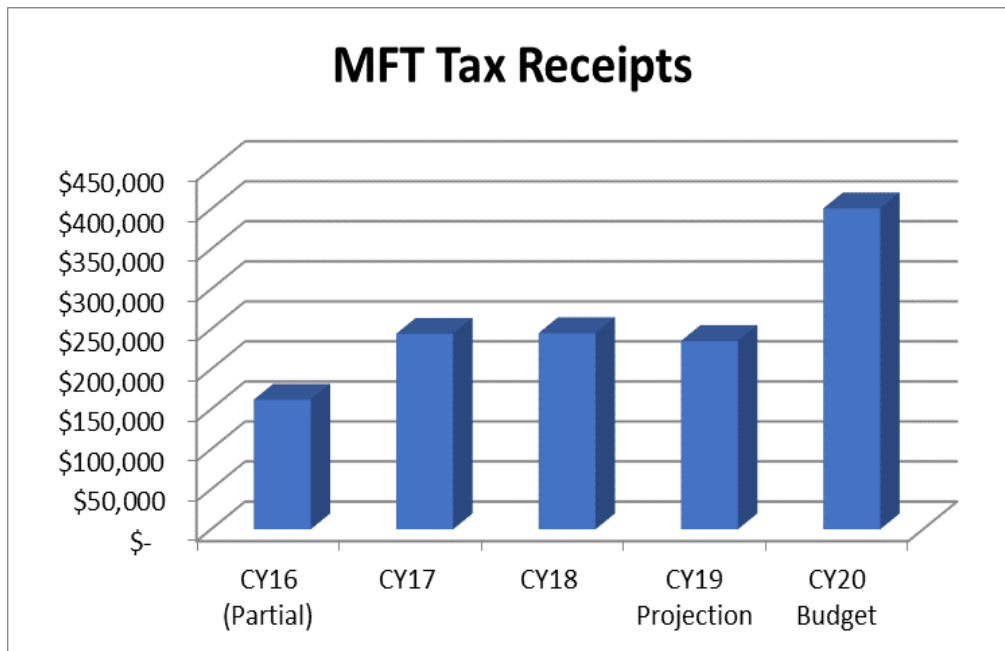
The Rochelle Municipal Golf course continues to provide a valuable recreational service to our community. Over the past three years the average number of rounds played is 10,500. The facility has averaged 54 season passes and over 12 group outings during the same time period. Major updates Mitch and his team have made since 2016 include all new LED lighting in the pro shop and cart barn, new stamped patio between pro shop and Salt 251, replacement of irrigation pump and drive, storm water improvements on the south end of the course and replacement of two mowers.



Other Funds (TIF, MFT, Utility Tax, Non-home Rule Sales Tax, Hotel/Motel Tax),

Motor Fuel Tax Fund

Motor Fuel Tax funds are used for infrastructure and transportation related projects. The Motor Fuel Tax is levied and collected by the State and redistributed back to localities based on a per capita basis. For FY19 Staff is estimating collections of approximately \$258,000 (based on Illinois Municipal League data). However, with the recent gas tax increase the City's share of MFT funds is set to increase with the total collected in FY 20 estimated to be \$400,000. These funds will be used to fund a portion of the numerous street and storm sewer projects planned in FY 20 including the South Main Street, West 2nd Avenue improvements, 14th street pavement reconstruction and the 6th street pavement reconstruction.

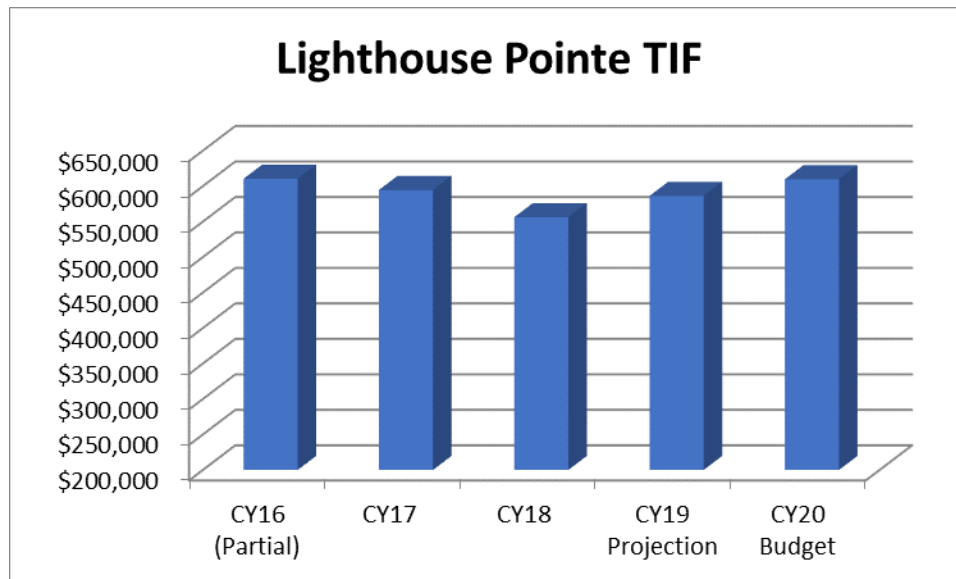


Tax Increment Financing Funds

The City of Rochelle now has three TIF funds. The Lighthouse Pointe TIF was established in 2010 for public improvements near the Walmart and retail outlots on Route 38. The funds generated by this TIF can only be utilized in the TIF area and are used to fund debt service and other redevelopment projects. The single largest expense in this TIF is the reimbursement to both school districts. The total amount the City reimburses the schools is dependent upon the increment generated annually along with each district's annual tax rate.

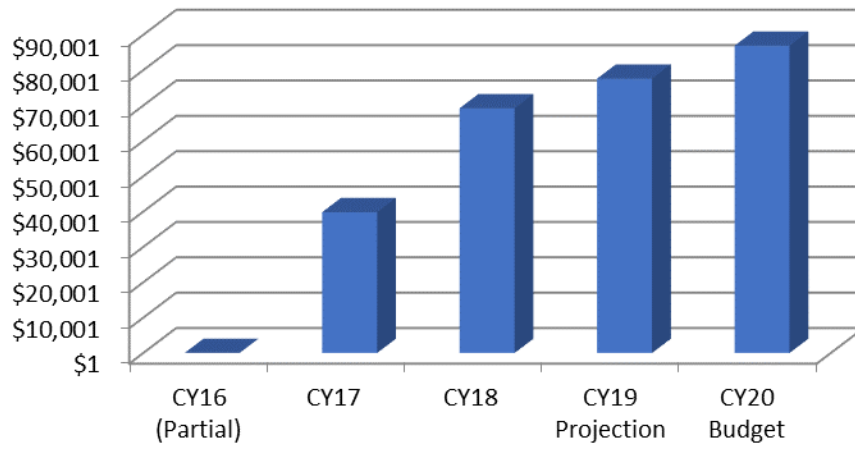
Established in 2016, the Downtown and Southern Gateway TIF received its first increment in 2017. The increment City receives continues to increase yearly. Staff anticipates collecting approximately \$85,021 in revenue for FY 20, which is relatively flat compared to the previous fiscal year. The good news is this revenue does not include any increment from the Kennay Farms Distillery and new Rick House. Staff estimates a portion of that increment will be available in the next fiscal year.

The third TIF, commonly known as the Northern Gateway TIF was established in August 2018. At this point, the TIF has not generated any additional increment, however there are several projects completed or in the works in this new TIF. These projects include Benny's Corner Market, the Rabbit's Foot Bar and Grill and potential updates to the Hickory Grove facility. Staff continues working aggressively to fund future projects in this area.



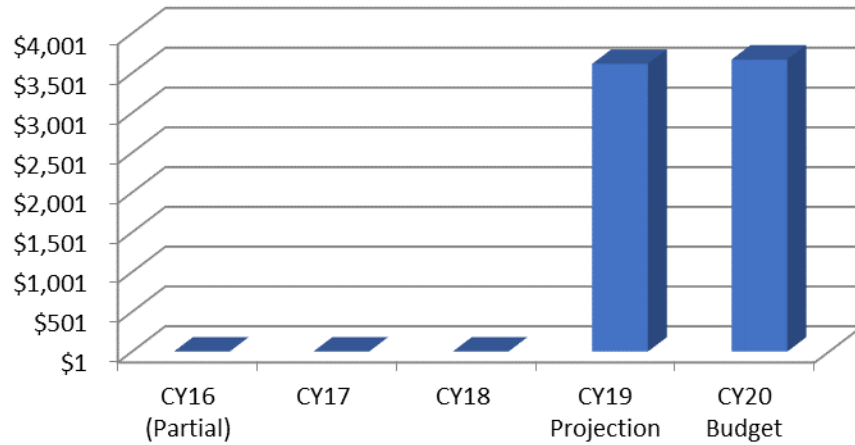
CY16 (Partial)	\$	610,304
CY17	\$	594,507
CY18	\$	556,099
CY19 Projection	\$	586,145
CY20 Budget	\$	609,591

Downtown TIF



CY16 (Partial)	\$	-
CY17	\$	39,814
CY18	\$	69,212
CY19 Projection	\$	77,586
CY20 Budget	\$	86,896

Northern Gateway TIF



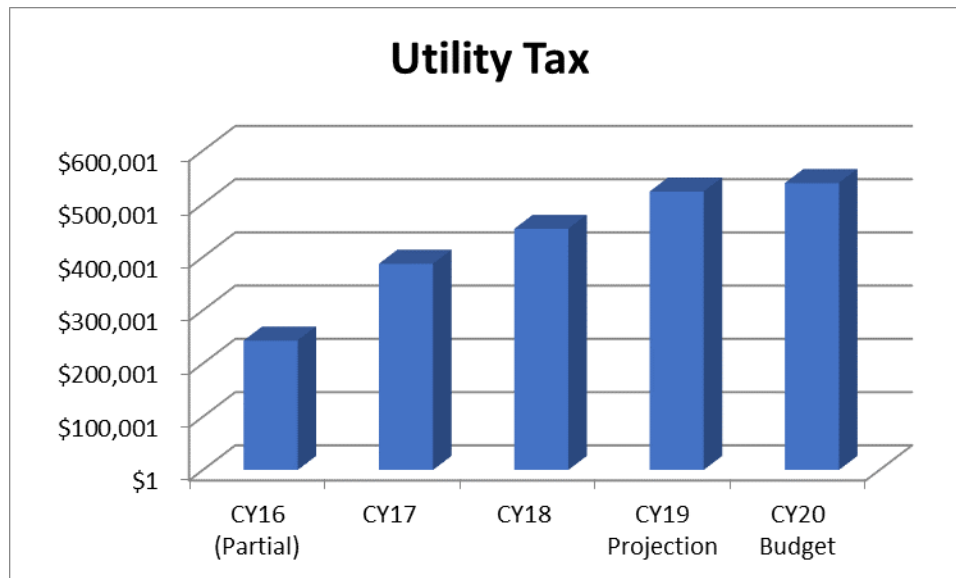
CY16 (Partial)	\$	-
CY17	\$	-
CY18	\$	-
CY19 Projection	\$	3,617
CY20 Budget	\$	3,671

Utility Tax & Non-Home Rule Sales Tax

The two other revenue sources the City utilizes to fund capital improvements include the ¾ % non-home rule sales tax and the utility tax. Both revenue sources, as set by code are to be used for infrastructure improvements and property tax relief. As a reminder, the utility tax must be reapproved by council every 5-years. This tax was reauthorized in May 2018, with a slight increase (the first time in 15 years).

Utility Tax

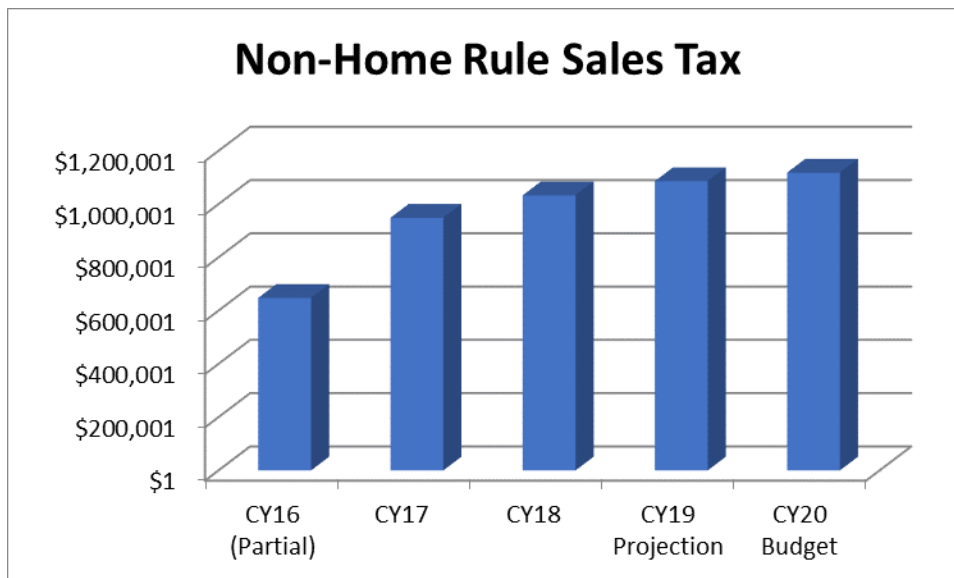
In FY 19, it is projected that the utility tax will generate \$523,000. This increase is based on the tax increase and additional growth, specifically with electric usages. Staff anticipates revenues will be \$539,000 in the next budget year. Projects being funded in the coming year include the sidewalk replacement program along with street and storm water improvements throughout the community.



CY16 (Partial)	\$	243,024
CY17	\$	387,462
CY18	\$	452,974
CY19 Projection	\$	523,000
CY20 Budget	\$	539,000

Non Home-Rule Sales Tax

The City’s non-home sales tax has been a stable and consistent way to fund capital projects. The revenue received by the City is approximately \$1,000,000 annually. However, with the additional growth in the City’s commercial/retail base staff is budgeting for an increase in the new fiscal year. Some of the projects being funded with this revenue source include the Steward Road upgrades, various drainage projects, 7th Avenue bridge construction and many more. This year is the first year of the annual debt service payment for the 2018 Alternate Revenue bonds. Staff also budgeted \$140,000 to transfer to the general fund to help fill the two vacant street department positions. The remaining \$60,000 will come from regular sales tax revenues. **The Council should consider a referendum to increase the non-home rule sales tax to the maximum 1% allowed by the state. These additional funds can further be utilized for pension obligations and property tax relief.**

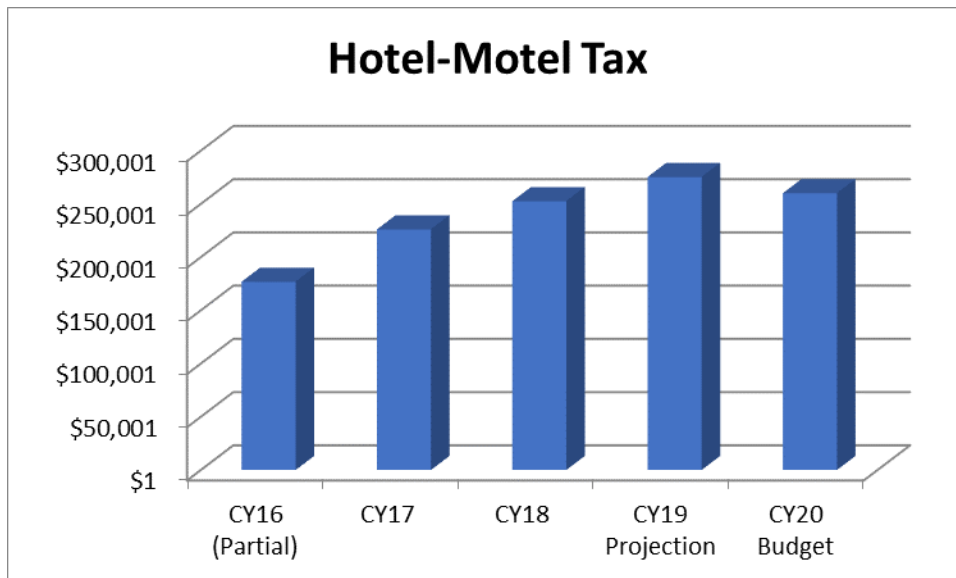


CY16 (Partial)	\$ 647,808
CY17	\$ 948,510
CY18	\$1,032,858
CY19 Projection	\$1,086,000
CY20 Budget	\$1,118,000

Hotel/Motel Tax Fund

The City's other minor fund that contributes greatly to the overall economic viability of the community is the hotel/motel tax fund. The revenues generate by the hotel/motel tax can only be spent on items related to the promotion of tourism in the community. For the past three fiscal years, the tax has generated approximately \$256,000 annually. The new tourism director has done a good job soliciting statewide tourism grants. Staff is expecting several small grants to be awarded to the City totaling close to \$35,000 that will be utilized for tourism related projects.

In the new budget year, less funds will be utilized to cover the tourism director's salary, with more of the salary being paid by the Admin Services Fund. Projects planned for funding in FY 20 include building improvements at Railfan Park, funding the Spark It Up retail project sponsored by the Retail Advisory Board and other marketing projects. The other major expense in the hotel/motel tax fund is the \$75,000 contribution to the golf course. This is the 4th year of the seven-year agreement with the part district. Another possible use of future funds will be to restore and preserve the Hickory Grove facility.



CY16 (Partial)	\$ 176,766
CY17	\$ 225,959
CY18	\$ 252,426
CY19 Projection	\$ 275,188
CY20 Budget	\$ 260,000

Hotel/Motel Tax Community Growth Events & Projects

Community Events:

Irish Hooley	\$5,000
Cinco de Mayo	\$4,000
Ale on Lincoln	\$4,000
Railfan Appreciation	\$2,000
Heritage Festival	\$8,000
Wine on Lincoln	\$4,000
Hay Day	\$4,000
Fireworks	\$12,000 (split \$6,000 GF & \$6,000 RMU)
Christmas Walk	\$2,000
Municipal Band Concerts	\$14,000
Misc. Events	\$12,000

(Outdoor Markets, Hispanic Heritage Festival, Easter Egg Hunt, Movie in the Park etc.)

Community Contributions:

Rochelle Chamber	\$8,500
Senior Center	\$20,000 (split \$10,000 GF & \$10,000 RMU)
Flagg Rochelle Museum	\$8,000
Rochelle Emergency Shelter	\$5,000 (split \$2,500 GF & \$2,500 RMU)

Downtown Revitalization:

Flower Pots, Benches and Banners	\$25,000
North Main Parking Updates	\$20,000
Street Lights (Electric Fund)	\$100,000
Potential Purchase of properties	\$30,000

Staff Levels and Costs

To find more cost reductions and look for greater efficiencies, the City Council authorized two separate separation incentives for qualified employees. To date 12 employees have chosen to participate, with only two employees being replaced. Over the two years of the program this will save the City and RMU over \$1,000,000 annually. Staff plans to bring another early separation proposal to the City Council this spring that will be similar to the previous two programs. Although the savings will not be as significant as the previous programs, some new cost savings will be attained.

Another goal of this budget to ensure all staffing is being funded by the appropriate departments. Due to this, our team moved nine positions to the Administrative Services Department. They include the City Manager, City Clerk/Assistant to the CM, the ED Director and Assistant to the Economic Development Director, Public Relations and Marketing/Tourism Director, the entire finance team along with the HR Director and the Risk Management Coordinator. The administrative services fund is an internal service fund that pays the costs associated with HR and Finance. All funds, both general and utilities contribute based on a

predetermined formula. Moving these salaries to this department ensures that all funds, including the general fund, are being adequately charged for that position's salary and benefits. This will ensure a more equitable funding level for these positions going forward.

Finally, because of increased overtime, the need to contract out numerous projects due to a lack of available staff and a slowdown in service levers, staff budgeted funds to fill a vacant police position and two vacant street department positions. Even with the replacement plan the overall general fund is balanced due to increased sales tax revenues, higher than anticipated EAV and cost savings measures found in other areas. The police have had two open positions since 2016. The street department has three open vacant positions that have been unfilled for over 7 years. I feel now is the time to fill these critical positions so we can fulfill our mission and key core values (core service delivery, infrastructure effectiveness and improvement).

Another looming cost, but extremely important benefit to offer, is the City's healthcare plan. The organization continues to provide a competitive benefit package to our employees. As a result, in 2017 the City opted to move forward with joining the QCHIP (Quad Cities Health Insurance Pool, which is a subgroup of the IPBC (Intergovernmental Cooperative Benefits Cooperative). This group has over 37,000 employees and dependents from across Central and Northern Illinois. This cooperative allows the City to pool its buying power with other municipal organizations to stabilize rates long-term. The five-year rate increases for the QCHIP members has averaged less than 5%, compared to the City's 7% proposed rate increase last year. In fact, the City's renewal rate for 2019/2020 was an 8% reduction over the previous fiscal year.

Full Time Employees

General Fund	60 Full-Time Employees
Internal Service	11 Full-Time Employees
Enterprise Funds	<u>40 Full-Time Employees</u>
Total	111 Full-Time Employees

Non-union labor costs have been budgeted for up 3% , with the average wage increase set for 2.75%. All union labor costs are set by recently approved collective bargaining agreements.

Fund Balances Summary

	2019 Budget	2020 Budget	% Change
<u>General Fund</u>			
Revenues	\$10,992,833	\$11,210,836	2%
Expenditures	\$10,992,296	\$11,158,089	2%
<u>Special Revenue Funds</u>			
Revenues	\$5,350,799	\$13,233,874	247%
Expenditures	\$7,440,216	\$ 9,003,522	21%
<u>Water Fund</u>			
Operating Revenues	\$2,584,048	\$2,963,904	15%
Operating Expenditures	\$1,680,227	\$1,923,795	14%
<u>Water Reclamation Fund</u>			
Operating Revenues	\$3,610,687	\$3,355,000	-7%
Operating Expenditures	\$2,128,671	\$2,205,474	4%
<u>Solid Waste</u>			
Revenues	\$606,100	\$665,600	10%
Expenditures	\$1,776,469	\$1,390,928	-22%
<u>Electric Fund</u>			
Operating Revenues	\$37,235,000	\$36,067,313	-3%
Operating Expenditures	\$28,901,553	\$28,171,813	-3%
<u>Airport</u>			
Revenues	\$4,577,863	\$2,570,065	-44%
Expenditures	\$4,687,899	\$2,569,751	-45%
<u>Railroad</u>			
Operating Revenues	\$4,713,083	\$1,358,062	-71%
Operating Expenditures	\$4,808,199	\$1,320,949	-72%
<u>Golf Course</u>			
Operating Revenues	\$363,200	\$356,750	-2%
Operating Expenditures	\$363,200	\$356,324	-2%
<u>Technology Center</u>			
Operating Revenues	\$1,507,500	\$1,517,100	1%
Operating Expenditures	\$1,355,387	\$1,142,770	-16%

Outstanding Debt	As of 1/1/20	Principal Payments	As of 12/31/20
Electric	\$ 13,265,000	\$ 650,000	\$ 12,615,000
Technology Center	\$ 2,765,000	\$ 275,000	\$ 2,490,000
Water Reclamation	\$ 265,648	\$ 32,626	\$ 233,022
Water	\$ 5,354,765	\$ 235,666	\$ 5,119,099
Airport	\$ 480,000	\$ 40,000	\$ 440,000
Lighthouse Pointe TIF	\$ 2,625,000	\$ 145,000	\$ 2,480,000
General Fund (Quiet Zone)	\$ 1,320,000	\$ 165,000	\$ 1,155,000
General Fund (Cap Impr)	\$ 4,500,000	\$ 485,000	\$ 4,015,000
General Fund (Fire Dept)	\$ 350,000	\$ 24,115	\$ 325,885
General Fund (Street Dept)	\$ 248,973	\$ 86,802	\$ 162,171
TOTAL	\$ 31,174,386	\$ 2,139,209	\$ 29,035,177

Recent Positive Steps

To balance the challenges addressed above, the City of Rochelle has taken the following positive steps:

- Review of utility rates periodically. Included in the current FY 20 budget was funding for a cost-of-service study to determine if the Fiber/Telecommunications rates being charged are adequate. Staff is preparing to recommend a multi-year water rate increase to help continue the well improvement upgrades.
- This past year the City extended its purchase power agreement with NextEra energy that will provide low and stable wholesale power rates for the next 11 years. This again will help to lead to savings for our rate payers. This City/RMU are also looking into low cost renewable energy options such as solar.
- The City will continue to work positively with the landfill operator to stabilize the revenue reductions due to decreased usage at the landfill. The City continues to have open dialogue with the operator about the future road improvements that are slated to be completed during the summer 2020.
- To continue promoting the Airport for corporate and recreational usage, the City budgeted funds in the coming FY for taxiway and runway improvements. The City will be creating a revenue enhancement plan for the airport to ensure its long-term solvency. This includes possible upgrades to older hangars and installing an RV campsite.
- The budget includes funds for the expansion of the façade and building improvement program to include the entire community.
- The budget includes funds to update the city's outdated zoning codes. These codes were last updated over 23 years ago.
- Staff budgeted funds to begin phase 1 of the constructing a new substation south of I-88.
- Numerous staffing changes will be made and are included in the proposed budget. This includes funding for one vacant patrol officer positions and two vacant street department positions. Savings will also be realized when the electric superintendent retires.
- Staff continues conservation measures, where possible, to minimize the impact of rising energy costs. City/RMU facilities continue to install LED lighting in buildings and streetlights.
- With the sale of the City's electric utility transmission assets additional funds will be available in the future for capital projects. The funds should be deposited into a one-

year CD. All interest earned should be used to fund electric department infrastructure upgrades including the continuation of new street lights in the downtown area.

- Thanks to a forward-thinking water/water reclamation superintendent, the City continues to budget for Water and Water Reclamation improvements. Included in this year's budget is over \$5 million in funding for water well and WWTP upgrades. The projects are being funded by reserves and grants/low interest loans through the ILEPA.
- Last year the City issued \$4.50 million in alternate revenue bonds to fund street and storm water upgrades through the community. The debt service payment will be funded by non-home rule sales tax and all debt will be retired in 8-years. The City has budgeted over \$2 million of these funds in FY 20 for continued infrastructure improvements.
- The Economic Development department is working on multiple prospects that are considering Rochelle due to access to transportation outlets and City owned Rail system. The City is also renewing its efforts to open more channels of communication with our existing business.
- This past year the staff implemented several new measures to increase transparency to and communication with our residents. These initiatives include the bi-monthly consolidated report that contains information from every department, the Ask Us Anything Facebook segment, an all-resident mailer and presence at community events. Watch carefully for some new initiatives in the coming fiscal year.
- Staff will continue working with the Mayor and City Council to find new grant opportunities for expanding programs for our residents.

Conclusion

Rochelle has numerous priorities for the coming calendar year. This budget is balanced and adequately funds the needs of the City and sets the appropriate spending policies of the elected officials. Yet, future year budgets may present the community with challenges. This year the City Council approved a new list of performance measures that will help lead the way to a performance/program-based budget. This budget system allows the City to better prioritize spending based on policies and programs deemed most important along with a priority-based budget plan. One other important step taken by the City Council and staff is diverting all gaming revenues to help fund future pension obligations. This program coupled with directed a portion of any new general revenues to the unfunded liabilities to both the police and fire pension systems will aid in stabilizing the city budget and future tax rates on a long-term basis.

The Leadership Team will continue to monitor the economy and State budget issues carefully as both could have a direct impact on the City's ability to provide quality services. Other changes that are coming include better asset management techniques to assist the City with its efforts to continue to reduce its vehicle footprint. A continuing assessment of our current utility rate structures is strongly recommended. However, based on the previous year increases, Staff will not be recommending any additional utility rate increases in the coming calendar year.

Finally, every department played an important and valuable role in the development of this budget blueprint. Staff members have been very helpful and forthright in providing information and suggestions. The City of Rochelle should be proud of its dedicated employees who understand today's economic environment.