Monday, April 12, 2021
5:30 PM
Civic Center Theater

CITY COUNCIL STUDY SESSION AGENDA

Pursuant to Phase 4 of Governor Pritzker's Executive Order, a maximum of 50 people will be allowed in the Civic Center Theater unless said number is otherwise directed by Order of the Governor. If the number is altered as a result of an Order of the Governor, the City of Decatur will follow and enforce that number. An in-person meeting of all members of the City Council of the City of Decatur as well as in-person meetings of all members of other Boards and Commissions of the City of Decatur is not practical or prudent because of the COVID-19 pandemic.

I. Call to Order

1. Roll Call
2. Pledge of Allegiance

II. Study Session: Study Sessions are less formal meetings of the City Council called to discuss broad policy themes and obtain input from the governing body about proposals and initiatives that are still being developed. No formal votes are taken at Study Sessions, and no informal directions expressed at Study Sessions bind the City Council, or its individual members, to vote in a certain manner at a future City Council meeting. Members of the public should limit their remarks to three (3) minutes after Council discussion.

Quarterly Financial Review

III. Appearance of Citizens

Policy relative to Appearance of Citizens:
A 30-minute time period is provided for citizens to appear and express their views before the City Council. Each citizen speaking will be limited to one appearance of up to 3 minutes. No immediate response will be given by City Council or City staff members. Citizens are to give their documents (if any) to the Police Officer for distribution to the Council. When the Mayor determines that all persons wishing to speak in accordance with this policy have done so, members of the City Council and key staff may make comments.

IV. Adjournment

DATE: 4/9/2021

MEMO:

TO: Mayor Julie Moore Wolfe and City Council Members

FROM: City Manager, Scot Wrighton

SUBJECT: Study Session on City Financial Issues

ATTACHMENTS:

Description	Type
Study Session on City Financial Issues	Cover Memo

April 9, 2021

TO: Mayor Julie Moore Wolfe & Members of the Decatur City Council

FROM: Scot Wrighton, City Manager

RE: April 12 Study Session on City Financial Issues

The governing body has committed to having quarterly study sessions in 2021 to evaluate whether the economic impacts of the pandemic and other changing current events require budget amendments during the fiscal year, and to make other adjustments to the city's financial plans as circumstances require. Based on aggregated First Quarter financial trends, I do not believe that major revisions to the budget are required at this time. This assessment could change in future quarters, and during the run-up to council's work on the 2022 budget. Council members already have a copy of the last monthly Treasurer's Report (from the March 15 council agenda), but I have appended an updated summary of General Fund revenues as of April 8 to this memo. I would like to focus on three specific financial planning topics at the April 12 study session:

1. The status of First Quarter Revenues/Expenditures & Trends is generally on track with earlier staff projections for 2021; but there are some early warning signals relative to General Fund revenues that warrant discussion with the council, as they may signal financial planning steps or revenue replacements that could be included in the 2022 budget.

2. Increased recycling costs are not included in the 2021 budget and they will likely need to be passed on to customers in the form of a modest rate adjustment. These anticipated revenues are not in the 2021 budget either.

3. Proposed uses of CURE reimbursements, and strategies for allocating ARP funds, will eventually need to be incorporated into the 2021 budget; but to do so, the City Council will need to make some decisions about which legislatively prescribed options they favor (see attached options, estimates and recommendations).

1

In the aggregate, revenues (especially General Fund revenues) are coming in about as staff projected in preparing the recommended 2021 budget, not counting unplanned one-time CUREs reimbursements from the State of Illinois and other unanticipated one-time revenues. General Fund revenues have not returned to pre-pandemic levels, but revenues are mostly tracking with the reduced projections that were incorporated into the budget. Some revenue reductions are the direct result of council actions to reduce or waive fees and these can be expected to rebound when council reinstates the fees.

We expected motor fuel tax (MFT) revenues to remain in decline as the pandemic has meant less travel, and the slow transition to more hybrid and electric cars will also have an impact on MFT revenues. In the short-term, this has been offset by MFT bond payments to local governments (so no action is required at this time); but the City Council should expect a slow year-over-year decline in State and Local MFT funds.

However, some General Fund revenue categories that we expected to under-perform during the pandemic have continued to under-perform longer than expected, even as Central Illinois slowly recovers from the economic impacts of COVID, and as other General Fund revenue streams are on a slow path to reaching pre-pandemic levels some time in 2022. The lagging revenue categories include:

1. Food & Beverage Taxes. Although eating and drinking establishments have been allowed to re-open, some have permanently closed operations, and many people are still reluctant to dine out. It is difficult to project how much longer this trend will continue, and whether new restaurants will take the place of ones that closed.

2. Video Gaming Taxes. There is more competition in gambling options--especially online, since more people are reluctant to go out. Video gaming revenues may never return to pre-pandemic levels.

3. Hotel/Motel Taxes. Decatur has fared better in this revenue category than cities with popular tourist destinations, but business travel is still down, and the leisure/hospitality industry has not yet been able to accurately predict the future demand for hotel rooms in many markets.

4. State & Local Sales Taxes. As internet sales continue to increase, people drive less, and go out less. The aggregate impact from these trends has taken a toll on state and local retail sales taxes. It is difficult to project how much longer this trend will continue.

5. Utility Taxes. Although the city's utility taxes are up six percent (6%) in the first quarter, the long-term trends for utility taxes indicate slow declines due to greater energy efficiency and some migration to alternative energy, wheeled power, and "behind the meter" solutions which can erode municipal utility tax receipts over time.

Under-performance in the above revenue categories has been largely offset in the First Quarter by better-than-expected revenue performance in PPRT, internet-sales driven use taxes, higher cable revenues (more people were home, plus Azavar conducted cable TV audits and found that cable companies owed one-time back charges of $116,000), 2020 property taxes paid in 2021 and other one-time revenues—chief among them the one-time CURE remittances from the State of Illinois, but also an overpayment by IDOR for telephone utility taxes that will be deducted from future payments later in 2021.

Although income taxes and some other recurring State remittances to the General Fund are healthy now, some of these positive State remittances will be ones that are most vulnerable to downturns resulting from a negative change in Decatur's official 2020 census number because they are distributed based on a per capita formula. To buffer against these and other future shocks, and to maintain fund balances despite the negative performance of revenue categories above, city staff has reduced spending in the First Quarter by about four percent (4%) under authorized budget levels.

In summary, by continuing to hold the line on spending, and as the result of one-time revenue infusions, the General Fund is "okay" today; but negative trends that have been mentioned in the past will erode the city's General Fund condition in the future, and they are ones that the staff and City Council will still need to find a strategy to reconcile.

2

The 2021 approved budget does not anticipate an increase in the cost of providing recycling services; nor does it anticipate additional revenues from recycling fees in the event the City Council elects (as staff recommends), to pass on the higher costs of recycling to consumers.

The City of Decatur has provided recycling services under the terms of a 5-year contract with Midwest Recycling that expires this month. For most of this contract's term, Midwest Recycling has lost money because the value of recyclable materials has plummeted, driven primarily by China's decision to stop importing recycled plastics from the rest of the world. Effective next month, the city's cost to handle the recyclables collected from residents jumps significantly. Fortunately, the city has a large number of households benefiting from this service and this increase can likely be absorbed through a modest residential monthly fee increase of between $0.25 and $0.75.

A major revision of the city's garbage and refuse removal ordinance (City Code Chapter 56) is warranted later this year, or in early 2022, as sections of the last council-approved amendments will expire, and other provisions require updating. There is a growing number of complaints and service disparities across the city due to different interpretations of the current garbage and refuse ordinances; greater clarity and consistency is needed. Depending on what the City Council decides to do, these revisions could result in efficiencies and savings, or added services at a higher cost. This will be addressed in a later study session; but the recycling sections of the budget need to be revised now, and the added cost of recycling passed on.

3

Under the terms of the 2020 CARES Act, the city of Decatur was authorized to receive up to $3,140,263 in eligible reimbursements for COVID expenses. These monies came from the Federal government, but they were passed through the State of Illinois. DCEO outsourced the review of reimbursement submittals from local governments and added their own rules for use of the funds to those already embedded in the Federal CARES Act. Decatur was able to submit eligible reimbursement requests for the entire $3.14 million authorization. Although most of this amount has been received by the city, some reimbursements to the city remain outstanding, with final remittances expected soon. All of these CARES funds have been, or will be, receipted to the city's General Fund, because the original expenditures (subsequently reimbursed) were made from the General Fund. The CARES reimbursement of city expenses falls into the following three categories:

A. Direct COVID related expenses ranging from mask purchases, enhanced cleanings, COVID testing expenses, Zoom subscriptions and online permitting software. Although nearly half of this category of expenses was immediately necessary at the time and provided time sensitive benefits, the other half was spent on long term investments in city facilities or operations that were COVID eligible, such as improved online capabilities and enhanced computer equipment to support remote working, video conferencing equipment, modern touchless plumbing fixtures, and other enhancements that will outlive the virus and provide budget benefits in future years. The remaining expenses were used for tent rentals for COVID testing, advertising and public information to encourage compliance with COVID protocols, and other expenses directly related to improving public health and reducing the spread of the virus. These expenditures were for goods and services that were NOT included in the approved 2020 budget. (Approx. $725,000)

B. Public safety overtime costs above and beyond budgeted costs for overtime due to extra hours worked, an increase in call-ins to cover shifts due to employees in quarantine, to cover for employees who contracted the virus, and other pandemic-related, unanticipated overtime costs. As with costs in paragraph "A" above, these were NOT included in the approved 2020 budget. (Approx. $225,000)

C. Regular public safety salary and benefits that were already included in the approved 2020 budget. (Approx. $2,190,000)

The amount reimbursed for regular public safety salaries and benefits allowed the General Fund to end 2020 and the First Quarter of 2021 in a better condition than first expected (though still below pre-pandemic levels). The $2.2 million in reimbursement of BUDGETED expenses was still less than the $3.3 million in lost revenue the city's General Fund sustained in 2020; but the reimbursements certainly cushion the city's General Fund losses. Nonetheless, these reimbursements are one-time-only revenues. Consequently, it is recommended that they not be used to fund expenditures that will create an ongoing year-over-year obligation (i.e., personnel costs and new program expenditures). One-time uses of these reimbursed revenues could include:

1. Apply the funds to the city's General Fund restricted reserve and thereby make progress toward the council's goal of a 60-day General Fund reserve.

2. Apply the funds to the costs of demolition, property acquisition and property clearing to support the ongoing neighborhood revitalization program. The current year's budget does not currently have sufficient funds authorized to deal with all of the demolition, property acquisition and property clearing needs we face in carrying forward the neighborhood revitalization program.

3. Apply the funds to other special capital projects such as: purchase of vehicles and large equipment deferred during recent austerity periods, the amounts needed to cover the shortfall between the cost of a new Fire Station #7 and available funds in the fire station bond fund, augment the annual street program with a transfer from the General Fund, etc.

I believe it is possible to do all three to some degree:

1. Replenish General Fund reserves: $600,000
2. Demolition, acquisition & clearing in support of revitalization: $1,200,000
3. Other capital expenses: $600,000

Under the terms of the 2021 ARP Act, the city of Decatur will receive approximately $17 million in Federal funds in calendar year 2021. These funds are also one-time revenues; they may not be used to pay pension debt/obligations; they must be fully expended by December 31, 2024; and they are restricted to just four (4) categories of use:

A. Direct COVID costs, such as: external small business assistance to continue providing aid for COVID-related losses, purchase of PPE, COVID testing and vaccination programs, and related public health costs.
B. Documented revenue losses stemming directly from COVID impacts
C. Premium pay for employees engaged in COVID relief
D. Infrastructure costs for water, sewer and broadband projects only

Again, these are all one-time revenues, so it is recommended that they be applied to one-time expenses that do not create ongoing year-over-year obligations (i.e., personnel costs and new program expenditures). It would be possible to spend the city's entire ARP allocation just on water and sewer projects (see attached list of projects), and that would not be inappropriate given that the city's key economic development strategies involve publicizing Decatur's available water and sewer capacity to support job creation and investment in more industrial, commercial and manufacturing firms. For this reason, and the fact that water and sewer needs are substantial, it is recommended that the bulk of

Decatur's ARP funds be allocated to water, sewer and broadband infrastructure projects that can be completed by December 31, 2024.

The Federal Government continues to make funds available to public health agencies, small businesses and selected charities for COVID relief via other funding vehicles. Furthermore, there is likely to be surplus funds in the city's direct CDBG CARES allocations that can be used for these purposes and for social service reserves. For these reasons, it is probably not necessary to allocate additional sums to category "A" above.

The city suffered revenue losses of $3.3 million in 2020. It is anticipated that General Fund revenue losses will be approximately $2 million in 2021, and at least $1 million in 2022. Indirectly, through CURES, more than $2 million of the $6 million multi-year total revenue shortfall will be reimbursed through CURES—meaning that about $4 million can be claimed as revenue placement under category "B" above from ARP transfers.

This means that approximately $13 million could be directed to water, sewer and broadband infrastructure. The city's water and sewer projects list tops $70 million (see attached project list); and the more that these capital needs can be offset from outside sources, the greater the likelihood that the City Council can achieve its long-term water and sewer improvement objectives without the need for rate hikes (beyond the annual inflationary increases already authorized by ordinance).

Based on City Council feedback, staff will prepare budget amendments and other related ordinances for enactment at future City Council meetings.

General Fund Revenue Summary and Commentary

Revenue to date through March is $17.7 million versus budget to date revenue of $14.9 million. This surplus is due almost entirely to First Quarter overpayments and one-time re-imbursements from State of Illinois CURES transfers (which were not anticipated in the 2021 budget).

Year to date position of revenue vs. budget (all numbers 000's)

$ (000)	Actual	Budget	vs Budget	% vs Budget
Local taxes				
Cable TV tax	364	236	128	54%
Food & beverage	748	782	(34)	(4)%
Hotel use tax	131	142	(11)	(8)%
Mobile home privilege tax	15	-	15	-
Property tax	159	-	159	-
Telephone utility tax	788	371	417	++
Utility tax – electric & natural gas	1,352	1,271	81	6%
Total local tax	**3,557**	**2,802**	**755**	**27%**
State remitted taxes				
Auto rental tax	8	10	(2)	(20)%
State cannabis tax	22	21	1	5%
Local sales tax	2,573	2,656	(83)	(3)%
Aviation fuel tax	1	-	1	-
State local use tax	1,075	862	213	25%
State income tax	2,248	1,948	300	15%
State replacement tax	260	176	84	48%
State sales tax	2,899	3,017	(118)	(4)%
Video gaming tax	171	330	(159)	(48)%
Total state remitted tax	**9,257**	**9,020**	**237**	**3%**
Other revenue				
Road & bridge tax	4	-	4	-
Charge for service (internal city)	2,052	2,110	(58)	(3)%
Third party revenue	297	270	27	10%
Grants	33	59	(26)	(44)%
Fees for service	2,467	589	1,878	++
Interest income	3	12	(9)	(75)%
Other revenue	**4,856**	**3,040**	**1,816**	**60%**
General fund revenue	**17,670**	**14,862**	**2,808**	**19%**

Revenue numbers may not add due to rounding

Revenue Comments (of significant revenue matters)

- Cable TV tax favorable due to $116,000 Azavar Audit past tax due revenue receipt, otherwise, Cable TV tax is on par with budget expectation
- Food & Beverage to date tracking 4% below the to-date expectation
- Hotel Use Tax to date tracking 8% below the to-date expectation
- Mobile Home and Property Tax revenue to date is carryover from 2020 revenue and is not distributed by Macon County Treasurer until January 2021. Was expected to be received in 2020. Revenue is non budgeted revenue in 2021

- Telephone Utility Tax revenue received from the State to date is an over distribution of tax revenue due to the City. Over distribution has been confirmed by IL DOR. Undetermined amount, but likely in the range of $475,000—which will be deducted from future payments to the city.
- Utility Tax (gas & electric) tracking above budget to date. Ameren failed to distribute tax due to City in February due to short month with February distribution received in March.
- Local sales tax continues to track below our expectations. March revenue was above our budget expectation with the March distribution being the December sales tax transactions. The March tax receipt is good news, but we remain concerned, as to-date sales tax revenues are below our expectations.
- State Use tax continues to overperform. Good news for us, as the new formula for charging local taxes on online and Internet shopping is fully implemented.
- State Income tax to-date above our expectation; this tax is distributed solely on a basis of the certified census population.
- State Replacement tax to-date above our expectation
- State sales tax continues to track below our expectations. March revenue was above our budget expectation with the March distribution being the December sales tax transactions. The March tax receipt is good news, but we remain concerned, as to-date sales tax revenues are below our expectation.
- Video Gaming tax. Video gaming was shut down with reopening occurring in February 2021. Expectation is for video gaming revenues to rebound, now that it has fully re-opened. But there are fewer establishments, and there are other competing options for citizens to engage in betting and wagering from which the city receives no tax revenues. These changes may result in long-term declines in this revenue category.

"(1) USE OF FUNDS.—Subject to paragraph (2), and except as provided in paragraphs (3) and (4), a metropolitan city, nonentitlement unit of local government, or county shall only use the funds provided under a payment made under this section to cover costs incurred by the metropolitan city, nonentitlement unit of local government, or county, by December 31, 2024—

"(A) to respond to the public health emergency with respect to the Coronavirus Disease 2019 (COVID–19) or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;

"(B) to respond to workers performing essential work during the COVID–19 public health emergency by providing premium pay to eligible workers of the metropolitan city, nonentitlement unit of local government, or county that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work;

"(C) for the provision of government services to the extent of the reduction in revenue of such metropolitan city, nonentitlement unit of local government, or county due to the COVID–19 public health emergency relative to revenues collected in the most recent full fiscal year of the metropolitan city, nonentitlement unit of local government, or county prior to the emergency; or

"(D) to make necessary investments in water, sewer, or broadband infrastructure.

"(2) PENSION FUNDS.—No metropolitan city, nonentitlement unit of local government, or county may use funds made available under this section for deposit into any pension fund.

"(3) TRANSFER AUTHORITY.—A metropolitan city, nonentitlement unit of local government, or county receiving a payment from funds made available under this section may transfer funds to a private nonprofit organization (as that term is defined in paragraph (17) of section 401 of the McKinney-Vento Homeless Assistance Act (42 U.S.C. 11360(17)), a public benefit corporation involved in the transportation of passengers or cargo, or a special-purpose unit of State or local government.

"(4) TRANSFERS TO STATES.—Notwithstanding paragraph (1), a metropolitan city, nonentitlement

COVID Relief Project Options

Number	Project Name	Status	Budget	Estimate Construction Completion	Comments
2022-10	2022 Watermain Project	Preliminary stages	$2,800,000	July 1, 2023	Yearly replacement project
2023-10	2023 Watermain Project	Preliminary stages	$3,000,000	July 1, 2024	Yearly replacement project
2022-xx	Water Sampling Stations	Preliminary stages	$400,000	November 1, 2022	Include the sampling stations recommended for water sampling to bypass private services
2013-01	Basin 5/6 Sewer Separation Project	Conceptual stages	$13,000,000	December 1, 2024	Separation of the combined sewers within this area. Preliminary design still needs to be completed.
2018-01	Ellen and Division I&I Reduction Program	Under Final Design	$4,500,000	June 1, 2022	Under final design and was scheduled to be bid mid this year
2017-02	Lost Bridge I & I Reduction Area	Preliminary Design	$7,300,000	July 1, 2023	Could Start final design and be ready for bid first of the 2022.
2017-02	Florian I & I Reduction Area	Preliminary Design	$4,300,001	July 1, 2023	Could Start final design and be ready for bid first of the 2022.
2020-06	Brush College and Reas Bridge Rd Pump Station	Final Design under Contract but on hold	$3,500,000	July 1, 2022	
2020-18	Sanitary Sewer Extension - Region E	Conceptual stages	$4,200,000	August 1, 2023	Area is located north and south of mound between Rt 51 and MLK. The streets could also include a full mill and overlay when work is complete. Most streets score in the 70's, price does not include a full mill and overlay
2020-18	Sanitary Sewer Extensions - Region H, I, N, Q	Conceptual stages	$3,900,000	August 1, 2023	Other top scoring areas in need of a sewer extensions
2021-XX	Distribution System Valve Replacements	Conceptual stages	$545,000	December 1, 2024	Replace (20) 6", (15) 12", (10) 16" and (5) 20" Valves
2021-XX	Galvanized Service Replacements	Conceptual stages	$875,000	December 1, 2024	Replace (250) Galvanized Services from main to curb box
2021-XX	Water Meter / Transmitter Replacements	Conceptual stages	$600,000	December 1, 2024	City Staff to replace (3,000) 3/4" water meters and transmitters
W16-03	SWTP East Clarifier Conversion	Plans at 99%	$16,000,000	December 1, 2023	Design at near final. Project can be bid within 6-8 weeks of approval
2021-XX	DeWitt Wellfield Improvements	Conceptual stages	$6,000,000	December 31, 2024	Improve the settling basins and electrify the pumps. Would be a tight timetable to achieve by the end of 2024.
		Total	**$70,920,001**		