



# MINUTES

## FINANCIAL COMMITTEE MEETING

City Hall, 619 16<sup>th</sup> Street  
Friday, September 4, 2020

### Call to Order

#### Remote Electronic Attendance

Alderman Moyer, seconded by Alderman Wendt, moved to approve the remote electronic attendance of Aldermen Parker and Schoonmaker. Motion passed on roll call with the following vote: ayes: Mayor Acri, Aldermen Parker, Wendt, Potter, Moyer and Schoonmaker; nays: none.

COMMITTEE MEMBER	PRESENT	ABSENT
Mayor Acri	On-site	
Alderman Parker	Remote	
Alderman Wendt	On-site	
Alderman Potter	On-site	
Alderman Moyer	On-site	
Alderman Schoonmaker	Remote	

#### Roll Call

Quorum. Also present: On-site: Marty Vanags, Interim City Administrator; Carol Barnes, Finance Director; Janine Hollembaek Parr, City Clerk; Don Goff, Information Technology Manager; Remote: Derke Price, Corporation Counsel; K.J. Whitley, Community Development Program Manager

#### Open Session

##### **Budgeting and Accounting Practices and Policies**

Carol Barnes, Finance Director, provided an overview of recommended changes to budgeting and accounting practices. Barnes walked Committee members through the attached presentation. Mayor Acri explained the structure that the meeting will follow and indicated that all motions will be presented as recommendations to the City Council.

##### **Recommendations for Streamlining the Budget**

###### **Reduce Use of Transfers**

By definition, transfers are for subsidizing, one-time funding only, of operations, with no payback expected. Overuse of transfers has caused a doubling up effect and thereby over-inflation of the budget. Barnes indicated that removing double transfers will reduce \$5.7 million from the 2020 Budget and thereby reduce reserve restrictions for transfers by \$1.4 million across applicable funds. Reducing the overall reserve balance will raise the percent of reserves as well as the City's Moody's rating. Barnes explained examples of transfers to be reduced. Conversely, utilizing "due to/from", asset and liability accounts, for short-term loans/revenue anticipation notes would reduce the overall size of the budget and enable comparison to other municipalities. There was discussion. Mayor Acri, seconded by Alderman Wendt, moved to recommend that the use of transfers be reduced and that this change in practice be reflected in the 2021 Budget with an explanation to the auditors. Motion passed on roll call with the following vote: ayes: Mayor Acri, Aldermen Parker, Alderman Wendt, Alderman Potter, Alderman Moyer and Alderman Schoonmaker; nays: none. Barnes will work with Derke Price, Corporation Counsel, to amend the Code to reflect this change.

###### **Limit Charge Backs to Only Internal Service Funds**

Barnes recommended that, throughout the year, salaries be split up-front and paid just one time to the correct account. Staff will provide a report detailing the allocation. There was discussion. Alderman Wendt moved to recommend that, beginning January 1, 2021, chargebacks be limited to Internal Service Funds, including salary splits and splitting of invoices. Seconded by Alderman Potter. Motion passed on roll call with the following vote: ayes: Mayor Acri, Aldermen Parker, Wendt, Potter, Moyer and Schoonmaker; nays: none.

###### **Eliminate Contr-Accounts by Department to Streamline Accounting**

Reduce various total Operating Fund Budgets by 1-2 percent (budget as negative). This percentage will be based on historical data, so may fluctuate. The recommendation would combine contra-accounts to be more easily managed. A line would be added by fund with an estimated projected payout for future vacancies. The estimate would be calculated as an average of payout over three years. There was discussion. Alderman Wendt

moved to recommend that contra-accounts be managed by fund and include the rolling average payout for vested departures. Seconded by Alderman Moyer. Alderman Parker inquired if career earnings are tracked and averaged. Barnes explained that under the current system, it would be difficult to track at what scale the vacation time is earned and used. Barnes will investigate this. Motion passed on roll call with the following vote: ayes: Mayor Acri, Alderman Parker, Alderman Wendt, Alderman Potter, Alderman Moyer and Alderman Schoonmaker; nays: none.

### **Recommendations for Fund Balance Policy**

In the three main operating funds (government funds): **General, Parks and Library**, the standard is to strive for 20-25 percent fund balance to annual expenditures, with one-time draw-downs below 20% for exceptions or emergency purchases only. Barnes requested that a Fund balance accumulating in excess of 25% might be considered for use in balancing future budgets. No fund balance would be required for Debt Service (budget to break even), and \$500,000 or adequate cash reserves should be budgeted to support fluctuating capital expenditures. There was discussion. Mayor Acri stated that contingencies should address over-runs on capital projects, noting that more often there is a surplus. The Capital Improvement Plan (CIP) is supported by Utility and Home Rule Sales Tax received on a monthly basis. Barnes suggested that a 20% allocation to contingency would help level out cash flow. Alderman Potter, seconded by Alderman Wendt, moved to set a \$500,000 cash reserve balance for capital projects. Motion passed on roll call with the following vote: ayes: Mayor Acri, Aldermen Parker, Wendt, Potter, Moyer and Schoonmaker; nays: none. Barnes noted that due to COVID-19 budget cuts, Library and Park funds were drawn down, except for capital project lines, below 20%. There was discussion. Because of their funding source, Library and Park Funds have cash flow fluctuations. Currently, the General Fund cash flows Library and Parks for six months until property tax revenue is received and then they break even. The goal should be to, over time, build those back up to the 20-25% level, so that they are not always relying on the General Fund for cash flow. Mayor Acri, seconded by Alderman Wendt, moved to allocate 20-25% of General, Library and Park fund balance to annual expenditures, and Debt Service should have zero fund balance budgeted. Motion passed on roll call with the following vote: ayes: Mayor Acri, Aldermen Parker, Wendt, Potter, Moyer and Schoonmaker; nays: none.

**The Enterprise Funds** (proprietary funds) should strive for 25-30% net available cash reserves; currently, WPC is at 120%; there was discussion that projects might be identified to spend down these reserves. Water, Stormwater and Sanitation are on target at 29.5%, 27% and 24% respectively. Barnes stated that minimal stormwater fees are collected and suggested that a list of projects be identified and potential revenue be reviewed. Marty Vanags, Interim City Administrator, indicated that stormwater repairs will come close to depleting that fund by year-end. Alderman Potter queried if the large WPC balance might be due to a planned large project at South Slope. Staff was asked to investigate and provide the intention for the large reserve balance and whether some of the WPC fees might address infiltration issues. Mayor Acri suggested that prepayment into a future investment should be placed in a separate account. Alderman Wendt asked that staff review projects paid out of this fund over the past decade that should have been paid with tax increment financing (TIF) funds, and whether TIF funds, with positive cash flow, might pay back those expenditures now. Mayor Acri, seconded by Alderman Moyer, moved to strive for 25-30% cash reserves in the Enterprise Funds. Alderman Wendt asked that an annual review be included. Motion passed on roll call with the following vote: ayes: Mayor Acri, Aldermen Parker, Wendt, Potter, Moyer and Schoonmaker; nays: none. Barnes suggested that future budget preparation include a look back at fee schedules.

**Fleet, Facilities and IT Internal Service Funds:** These enterprise funds have operating expenditures as well as capital components. By definition, an internal service fund services all other funds. As a result of operations, zero reserve is recommended because 20-25% is already restricted in other funds as charge backs. Net available cash reserves are needed to support fluctuating cash purchases similar to the CIP. A funding mechanism is needed that would set a flat amount over a rolling period to level the highs and lows out while maintaining a minimum fund balance at all times. Barnes recommends maintaining 10-year replacement projections and a minimum fund balance of \$250,000 for each IT and Facility, and 20-year replacement projections and a minimum fund balance of \$500,000 for Fleet (to account for Fire Apparatus). IT projections are still being

developed and staff will confirm that recommendation by the next Council meeting. Alderman Parker, seconded by Alderman Wendt, moved to recommend maintaining 20-year replacement projections and a minimum fund balance of \$500,000 for Fleet (to account for Fire Apparatus). For Facility and IT, 10-year replacement projections are recommended, and a minimum fund balance of \$250,000 is recommended for Facility. Staff will provide a minimum fund balance recommendation for IT by the September 15, 2020 review by Council. Motion passed on roll call with the following vote: ayes: Mayor Acri, Aldermen Parker, Wendt, Potter, Moyer and Schoonmaker; nays: none.

**Liability Fund:** Alderman Parker, seconded by Alderman Moyer, moved to recommend that an actuarial report be obtained annually, maintaining reserves at a level, currently \$1.5 million, to cover the IBNR from the actuarial report and backfill with General Fund Reserves if needed. Motion passed on roll call with the following vote: ayes: Mayor Acri, Aldermen Parker, Wendt, Potter, Moyer and Schoonmaker; nays: none. An actuarial report was done in May, 2020. Barnes recommends maintaining the current reserve level.

**Active Health:** Expected claims are provided in an aggregate amount. An actuarial report is not needed for this. Alderman Parker, seconded by Alderman Wendt, moved to recommend that the Active Health Fund balance be kept at 125% of expected claims. Motion passed on roll call with the following vote: ayes: Mayor Acri, Aldermen Parker, Wendt, Potter, Moyer and Schoonmaker; nays: none.

**Retiree Health:** stay the course at 27%. The annual contribution is \$500,000; there is currently no mandatory contribution. Staff's recommendation is to continue to strive to increase annual funding toward liability if and when extra cash reserves are available, with a goal to maintain a minimum of 25% and strive toward net OPEB liability. Staff will provide a suggested percentage and time period at the next meeting. No motion was made.

**Tourism fund:** There is no minimum fund balance; currently, there is \$600,000 available in reserves. The TaxSlayer has available funds of \$7.6 million. If the TaxSlayer incurs a deficit, they must deplete all of their audited operating funds prior to the City having any obligation. The City must then use hotel/motel tax funds at a level equal to the prior year's operating deficit. Mayor Acri, seconded by Alderman Wendt, moved to recommend zero fund balance in the tourism account with an annual audit. Barnes requested Council's consideration to have Derke Price, Corporation Counsel, assist in drafting a fund balance policy for the City, highlighting today's discussion for Council's final approval and adoption.

The committee recommends investigating General Obligation Bond runs to enhance CIP programs. Interest rates are very low at this time.

Regarding the City's Purchasing Policy, a formal Purchase Order module will be initiated. Mayor Acri asked that staff formulate a policy based on what is being done now, not tethered to the state of emergency.

Alderman Wendt noted that the law must be followed for change orders.

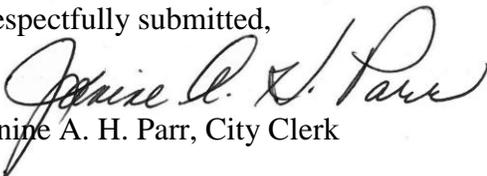
Open Questions: 1) IT reserves; 2) CIP Code Amendment; 3) Sanitary storm sewer relationship (talk to Utilities General Manager Tony Loete about modeling) Are WPC reserves due to plans for large project? Can we invest in ravines, etc.? Corporation Counsel Derke Price stated that the Plan for Utility must mention infiltration and then it can be spent on these things; 4) Retirement health contributions; 5) Hotel/motel tax use for tourism is restricted by statute.

### **Public Comment**

There was no public comment.

Mayor Acri adjourned the meeting at 5:07 p.m.

Respectfully submitted,



Janine A. H. Parr, City Clerk

# FINANCIAL COMMITTEE AGENDA

## Budgeting & Accounting Practices and Policies

Friday, September 4, 2020  
3:00 p.m.

City Hall  
Council Chambers - 2<sup>nd</sup> Floor  
619 16<sup>th</sup> Street  
Moline, IL

# REDUCE USE OF TRANSFERS

- Used for Subsidies or one-time funding only - no payback expected
  - Results in reducing \$5,738,762 from 2020 Budget, reduce reserve requirements across applicable funds by 25% or \$1,434,690 ( see chart on next slide)
- Utilize Due To/From for short-term loans, with full intent of paying back - RANS's
- Debt Service payments - from 60% Home Rule Sales Tax Allocation
  - Deposit 1/12 of annual debt service directly into Debt Fund from monthly Home Rule Sales Tax. Balance of 60% Home Rule Sales Tax deposited into CIP Fund.
  - Eliminate transfers from CIP to Library & Parks, and Library & Parks to Debt Service
  - Establish new debt service P & I account #'s in Debt Service to account for Library and Park Debt.

# Transfers Between Funds

## FY 2020

	From General	From Trust	From Tourism	From Library	From Parks	From Perpetual Care	From Revolving Loan	From NSP #2	From TIF #3	From TIF #5	From TIF #13	From Library Trust	From Capital Projects	From Water	From WPC	From Health Insurance	From Liability	Total Transfers In
To General Fund			150,000						8,177									158,177
To Library	414,825											60,000	571,690					1,046,515
To Parks						10,000							174,120		1,175,000			1,359,120
To Debt Service			571,690	174,120									2,266,850					3,012,660
To TIF #1										55,475	9,735							65,210
To TIF #3																		0
To TIF #7														281,830	350,075			631,905
To Downtown Bus Gap Loans							100,000											100,000
To Water															100,000			100,000
To Health Insurance																	70,340	70,340
To Retiree Healthcare																482,060		482,060
To Public Safety Equipment	60,000																	60,000
To Fleet		8,000																8,000
To Capital Improvement	100,000																	100,000
<b>Total Transfers Out</b>	<b>574,825</b>	<b>8,000</b>	<b>150,000</b>	<b>571,690</b>	<b>174,120</b>	<b>10,000</b>	<b>100,000</b>	<b>0</b>	<b>8,177</b>	<b>55,475</b>	<b>9,735</b>	<b>60,000</b>	<b>3,012,660</b>	<b>281,830</b>	<b>1,625,075</b>	<b>482,060</b>	<b>70,340</b>	<b>7,193,987</b>

# LIMIT CHARGE BACKS TO ONLY INTERNAL SERVICE FUNDS

- Reduces doubling up of expenditures: FY 2017-2019 average \$1 million.
  - Legislative
  - HR
  - Legal
  - Engineering
  - Finance
  - Public Works
- Implement Salary splits and splitting invoices
- Results in reducing reserve requirements by \$250,000 or 25%

# CONTRA-ACCOUNTS

- Eliminate by Department - to streamline accounting
- Reduce various total operating Fund Budgets by 1-2%, budget as Negative Contingency (2021 may not have as many w/early retirements)

# RECOMMENDATIONS FOR FUND BALANCE POLICY

- General, Parks, and Library
  - Strive for 20-25% Fund Balance to Annual Expenditures
    - Draw downs below 20% for 1 time exceptions or emergency purchases only
    - Fund Balance accumulating in excess of 25% can be considered for balancing future budgets
- Debt Service - Budget to breakeven - Zero
  - No fund balance required
- Capital Projects Fund
  - Strive to maintain a minimum \$500,000 or adequate cash reserves to support fluctuating capital expenditures

# RECOMMENDATIONS FOR FUND BALANCE POLICY cont.

- All Enterprise Funds - Water, WPC, Stormwater, & Sanitation
  - Strive for 25-30% Net Available Cash Reserves
  - Draw downs below 25% for 1 time exceptions or emergency purchases only
  - Review & adjust fees annually if needed

# RECOMMENDATIONS FOR FUND BALANCE POLICY cont.

- Internal Service Funds - Fleet, Facility, & IT
  - Reserve 0% for operating expenditures (20-25% already reserved in other funds as charge backs)
  - Net Available Cash Reserves: Must maintain adequate cash reserves to support fluctuating capital purchases
    - IT: Strive for a minimum \$250,000 Fund Balance, maintain 10 Year Replacement Projections
    - Facility: Strive for a minimum \$250,000 Fund Balance, Maintain 10 Year Replacement Projections
    - Fleet: Strive for a minimum \$500,000 Fund Balance, Maintain 20 Year Replacement Projections (to account for Fire Apparatus)

# RECOMMENDATIONS FOR FUND BALANCE POLICY cont.

- Liability

- Recommend Annual Actuarial Report - \$6-7,000 (paid by Liability Fund)
- Strive to fund 100% of expected claims and premiums through Internal User Charges, Interest Income, other revenues if available/needed (property taxes)
- Reserve 0% for operating expenditures in Fund Balance (20-25% already reserved in other funds as charge backs)
- Net Available Cash Reserves: Maintain reserves at a level to cover projected IBNR claims from Actuarial Report, backfill with restricted reserves in General Fund if needed. (IBNR for 2019 = \$1.5M)

# RECOMMENDATIONS FOR FUND BALANCE POLICY cont.

- Active Health

- Maximum Exposure = Aggregate, or 125% of Expected Claims (Maintain Insurance for claims over 125%)
- Strive to Fund 100% of Expected Claims/Premiums through Internal User Charges, Interest Income, other revenues if available/needed (property taxes)
- Net Available Cash Reserves: Maintain reserves at a level to cover gap between Expected Claims 100% and Aggregate Claims 125%, backfill with restricted reserves in General Fund if needed. (FY 2020 \$1.495M)

# RECOMMENDATIONS FOR FUND BALANCE POLICY cont.

- Retiree Health

- Stay the course
- Net OPEB Liability - \$13,033,106 at 12/31/19
- Net Available Cash Reserves: Currently \$3,545,000 or 27.2% of total Liability (similar to Pension Liability)
- Currently no mandatory contribution, City currently \$500,000, retirees \$1,200,000
- Recommend continuing to strive to increase annual funding towards liability if cash is available

# RECOMMENDATIONS FOR FUND BALANCE POLICY cont.

- Tourism Fund

- No fund balance required (City currently has \$650,000 reserved)
- Taxpayer must deplete all of their audited “OPERATING SURPLUS FUNDS” prior to the City having any obligation (2019: \$7,627,131)
- If a Taxpayer operating deficit occurs, the City must use Hotel/Motel Tax to fund a reserve to pay for any operating deficits, at a level equal to the prior year’s operating deficit

# CITY COUNCIL

- Request Council direction on preparing the City's 2021 budget utilizing these budgeting & accounting recommendations.
- Request consideration by Council to have Derke draft a Fund Balance Policy for the City highlighting our discussions today, for Council's final approval and adoption.

# OCTOBER 2021 BUDGET PREPARATION

- Interest in having G.O. Bond runs to enhance CIP programs?
  - VERY LOW INTEREST RATES
  - \$ amounts for bonding

# QUESTIONS