

City of Evanston
 FY 07-08 Budget Memo Requests #42-48
 February 9, 2007

Budget Memo #	Requestor	Department Head	Requests from January 31 & February 5, 2007
42	Jean-Baptiste	Jay Terry, Health & Human Services	How much money will be needed for Health Dept. if the budget must be amended in May to cover services not ready for transition on 7/1?
43	Rainey	Matt Grady, Finance	Information on 1800 Sherman Ave. Leashold Taxes
44	Rainey	Matt Grady, Finance	Please explain the nature of Water Fund operating transfers (from the November Financial Report).
45	Hansen	Matt Grady, Finance	Provide information on unreserved balances in the general fund.
46	Rainey	Matt Grady, Finance	Provide information on the impact of downgrades in the City's Bond Rating.
47	Rainey	Matt Grady, Finance	Provide an explanation of the expenditure accounts in the insurance fund (p. 460 of the 07-08 proposed budget book).
48	Mayor Morton	Matt Grady, Finance	On December 21, 2004 Northwestern University wrote a letter to the City of Evanston stating it would give the City \$350,000.00 for 3 years. Where is the \$350,000.00 recorded in the 2005-06 and 2006-07 budget?
48	Mayor Morton	Matt Grady, Finance	When will there be a discussion on the selling of Chiaravalle Montessori School? How much revenue have we received from this school since 1980.
48	Mayor Morton	Matt Grady, Finance	What things are being considered as "miscellaneous Revenue," 6045, Page 76?
Outstanding Items			
49	Jean-Baptiste, Rainey	Judy Aiello, City Manager's Office	Information on T.I.F.: 1) provide the formula used to fund employees from the TIF funds; 2) can services or staff be funded out of the two new TIFdistricts. 2) For the two new TIF districts, how much is in them and how much has been allocated for staff. 3) Can dollars be transferred to the Fire Dept. from TIF? 4) What was the formua or method used to determine that \$135,000 should come from Howard-Hartrey to the Gen Fund? 5) Is Facilities Management funded through TIF?



Interdepartmental Memorandum

To: Julia Carroll, City Manager
From: Jay Terry, Director of Health and Human Services
Subject: **Budget Memo # 42: Costs for Continuation of Health Services**
Date: February 6, 2007

Alderman Jean-Baptiste asked staff to estimate the cost of providing health care services for those services where alternative providers may not be in place by July 1, 2007. Commitments are in place for the delivery of school physicals, child immunizations, and adult flu immunizations. We believe the State will have a new provider of Family Case Management in place by July 1st.

Our department has been in discussions with various providers regarding Family Planning Services and Sexually Transmitted Disease treatment. We believe that alternative services will be in place by July 1st and we are committed to returning to the City Council before that date with a transition update. Should it be necessary to continue those services for a limited time after 7/1 our estimate is that it would require \$7,000-\$8,000 per month to continue those clinics. This estimate is based on projected personnel costs, medications, other pharmaceuticals, and external laboratory analysis

It is not our current recommendation that such an allocation be made. Further it should be clear that such cost estimates are based on using part-time nurses, doctors, and clerical support which we would need to identify for an effort such as this. Given that the actual clinic hours only account for 12 hours per week, we would not be retaining any of our full time staff for this function as this would not be cost effective.

Again, we expect to provide regular transition reports to the City Council as events develop.



Interdepartmental Memorandum

To: Julia Carroll, City Manager
From: Matthew Grady, III
Subject: **Budget Memo # 43: 1800 Sherman Leasehold Taxes**
Date: February 8, 2007

Question: What is the status of the leasehold taxes for 1800 Sherman Avenue? How much was billed and paid in 2005 and 2006?

Response: The leasehold PIN's for the entities leasing space in the property commonly known as 1800 Sherman Avenue were not created until 2006. Therefore, there have been no tax bills sent to businesses leasing space in the NU-owned 1800 Sherman Avenue building until last week when first installment tax bills were sent out by the County Treasurer. Since no assessed values were assigned to the individual leasehold PIN's in 2005 (and therefore, no tax amounts were determined and/ or billed), the tax bills for each of the leasehold PIN's currently have \$0 billed (first installment taxes are always 1/2 of the total taxes billed in the prior year). Said leasehold PIN's (listed below) have been assessed for 2006 and the estimated assessed values for 2007 for each of these leasehold PIN's are as follows:

11-18-119-038-8001	\$ 0
11-18-119-038-8002	\$ 53,112
11-18-119-038-8003	\$ 132,684
11-18-119-038-8004	\$ 95,149
11-18-119-038-8005	\$ 45,598
11-18-119-038-8006	\$ 34,169
11-18-119-038-8007	\$ 1,676,522
11-18-119-038-8008	\$ 515,395
11-18-119-038-8009	\$ 184,505
11-18-119-038-8010	\$ 43,210
11-18-119-038-8011	\$ 140,199
11-18-119-038-8012	\$ 85,912
11-18-119-038-8013	\$ 86,264
11-18-119-038-8014	\$ 4,148
11-18-119-038-8015	\$ 15,342
11-18-119-038-8016	\$ 5,871
11-18-119-038-8017	\$ 3,992
11-18-119-038-8018	\$ 24,971
11-18-119-038-8019	\$ <u>11,350</u>
<u>Total AV</u>	<u>\$ 3,158,393</u>
Total EAV (using 2005 multiplier)	\$ 8,628,730

Total Anticipated 2007 Taxes to be Paid (using 2005 tax rate) \$ 686,243

The tax payment history of 1800 Sherman since it was purchased by NU in late 2003 is as follows:

2003 Final EAV: \$ 8,738,131. 2004 Taxes Due (\$ 824,880) and Paid by NU 11/04.

2004 Final EAV: \$ 9,879,252. 2005 Taxes Due (\$ 813,062) and Paid by NU (\$ 715,064) on 10/26/05 pursuant to Complaint # 6-905 (Certificate of Error) based on exemption granted in June, 2004.

2005 Final EAV: \$17,353,459. 2006 Taxes Due (\$1,380,120 + \$20,702) **No taxes Paid to Date** but not expected at this amount as total tax is based upon assessment of parcel as privately-owned commercial building, which is erroneous. A Certificate of Error (Complaint CE # 49-987) has subsequently been filed on this original PIN (11-18-119-035) before it was subdivided into the aforementioned leasehold PIN's. What is not clear, however, is how much of the erroneous 2005 assessment will likely be reapportioned to represent the 2005 values for the area represented by the leasehold parcels. The City is investigating how the County will capture (or assess) the area represented by the leasehold parcels for tax year 2005 since the actual PIN's were not created until 2006.

Summary:

The 2006 tax bill for 1800 Sherman Ave represented the 2005 assessment for the entire building (prior to leasehold PIN's being formed) and was erroneous, as the building was rendered exempt in 2004. The disputed assessment and subsequent tax bill represents approx. \$ 1,400,000 due in property taxes. Northwestern University has filed a Certificate of Error for this tax year and the County should determine what portion of the area would be assessable for 2005 based upon existing private leases within the building during that tax year.

The 2007 tax bills for 1800 Sherman Ave are now represented by the aforementioned 19 leasehold PIN's and the first installments billed for these leaseholds all are for \$0. The second installment bills for the 2007 tax year (normally due after Sept.1) will reflect the 2006 assessments for the leased space and could likely total approx. \$ 690,000 assuming prior year multiplier, tax rate and no reductions based upon appeals. In December 2004, Northwestern University committed to pay the City \$350,000 for 3 years. We have received payments for 2005 and 2006 totaling \$700,000 and anticipate receiving the third payment in the spring of 2007.



Interdepartmental Memorandum

To: Julia Carroll, City Manager
From: Matthew Grady III, Finance Director
Subject: **Budget Memo # 44: Water Fund Operating Transfers**
Date: February 7, 2007

Question # 1: Please explain the nature of transfers in the Water Fund from the November 2006 YTD Actual to Budget Performance Report?

Response:

A description of the transfers in the Water Fund is as follows:

- **General Fund-** There is \$2,693,600 budgeted to be transferred from the Water Fund to the General Fund for Return on Investment and Operating Cash in FY 2006-07.
- **Capital Improvement-** This line item is a transfer from Capital Improvement of \$2 million from 2006 bond proceeds that pay for water system capital improvements.
- **Insurance Fund-** This line item shows that there is a transfer from the Water Fund to the Insurance Fund in operating cash of \$2 million.
- **Transfer to Water DI&E-** This line item shows that there is a transfer from the Water Fund to Water DI&E (Depreciation, Improvements and Extension). This fund is utilized for bond and CIP payments.



Interdepartmental Memorandum

To: Julia Carroll, City Manager
 From: Matthew Grady III, Finance Director
 Subject: **Budget Memo # 45: General Fund- Unreserved Fund Balance**
 Date: February 8, 2007

Question # 1: Please provide information about the how much money is in the unreserved fund balance for the General Fund.

Response:

CAFR for the Fiscal Year Ended February 28, 2006 has General Fund Operating Expenditures of \$84,011,871 (pg. 16) and an unreserved Fund Balance of \$18,483,938 (pg. 15). The budget policy requires a one month reserve of 8.33% and a 5.0% debt reserve. The budget policy also states that any monies over a 10% reserve in this fund shall be re-appropriated to other funds that have not met their reserve requirements. Once all funds have met their fund requirements, additional funds shall go to the Capital Improvement Program. Utilizing one time funds for on-going operating expenses is not in compliance with the budget policy. The reserve calculations are detailed below:

Reserve Calculation - General Fund

\$ 85,784,800	General Fund Budgeted Expenditure FY 2006-07
\$ 18,483,938	General Fund Unreserved Fund Balance as of 2/28/06
\$ 7,145,874	8.33% of General Fund Operating Expenditures
\$ 4,289,240	5.0% of General Fund Operating Expenditures
\$ 11,435,114	Total Required Reserves
\$ 7,048,824	Unreserved Fund Balance Remaining after Reserves

As stated above, the unrestricted net assets after calculating reserve requirements will be used towards other funds that have not met their reserve requirements. Once all funds have met their fund requirements, additional funds shall go towards capital improvements and police and fire pension liabilities.

Proposed uses for the remaining funds are:

	<u>Per Policy</u>	<u>Optional Use</u>
Transfer to Fleet Fund	(\$ 300,000)	same
Transfer to Insurance Fund-General Liability	\$1,500,000)	same
Capital Improvement Program-	(\$5,248,824)	(\$2,624,412) (50% of balance)
<i>(Optional use: Remaining 50% of balance equally split between police and fire pension funds.)</i>		
Police Pension Fund	(\$0)	(\$1,312,206) (25% of balance)
Fire Pension Fund	(\$0)	(\$1,312,206) (25% of balance)
	(\$7,048,824)	(\$7,048,824)

If the proposed use of the remaining funds is approved, there will be a \$0 balance in the General Fund -Unreserved Fund Balance.



Interdepartmental Memorandum

To: Julia Carroll, City Manager
From: Matthew Grady III, Finance Director
Subject: **Budget Memo # 46: Impact of Downgrades in the City's Bond Rating**
Date: February 8, 2007

Question # 1: Please provide information about the impact of downgrades in the City's bond rating.

Response: Detailed below is the response from John H. Peterson from William Blair & Company LLC regarding the question above. William Blair & Company provides both underwriting and financial advisory services for municipalities and has served Evanston for the past 10 years.

John Peterson states:

“It is extremely rare that a credit rating is revised two whole grades. As you know, there are gradations (at Moody's in particular) that indicate shades of meaning in the high and medium investment grade levels. For example, after “Aaa” Moody's assigns ratings (in descending order) at Aa1, Aa2, Aa3, A1, A2 and A3. So a downgrade (by Moody's) would not likely be from Aaa to the “A” category, but to the Aa1 or Aa2 level. And even a two step drop is unusual; their practice is usually (not always) to make incremental changes.

If there are nuances and gradations in the rating categories there are corresponding, but not exactly equivalent, gradations in the market response, that is, in the pricing of credits with these gradations. Some borrowers who have an Aa1 are so strong that they ‘trade like’ a Aaa credit – they are not affected by the difference; on the other hand, any “news” occasionally demands a reaction and investors are usually more interested in paying less than more if they can find an excuse to do so.

If we look at the most widely published daily index of municipal interest rates, the difference between a Aaa, Aa and A category interest rate in the range of twenty to twenty-five year maturities is .10% from Aaa to Aa, and .25% from Aaa to A. Per \$10,000,000 of borrowing that amounts to \$10,000 per year and \$25,000 per year respectively (but remember, double notch downgrades are unusual, and a “split” rating where one rating service has reduced the credit rating but the other has not reflects a less than conclusive forecast of the credit of that borrower).”



Interdepartmental Memorandum

To: Julia Carroll, City Manager
 From: Matt Grady, Finance Director
 Subject: **Budget Memo # 47: Explanation of Insurance Fund Expenditure Accounts**
 Date: February 7, 2007

Question: Please explain the use of the expenditure accounts in the Insurance Fund from page 460 of the 2007/08 proposed budget book.

Response: There are 20 expenditure accounts identified on this page. A brief explanation of the intended use of each one is identified on the following table.

Acct #	Description	2007/08 Proposed Amount	2007/08 Proposed Use
61010	Regular Pay	114,400	Salary of the Risk Manager position and support
61510	Health Insurance	9,900	Health Insurance for the Risk Manager position
61615	Life Insurance	400	Life Insurance for the Risk Manager position
61625	Auto Allowance	500	Auto allowance for the Risk Manager - this person may have auto expenses due to job-related fieldwork
61710	IMRF	9,100	IL Municipal Retirement Fund contribution (City portion)
61725	Social Security	4,700	Social Security for Risk Manager position
61730	Medicare	1,400	Medicare for Risk Manager position
62130	Legal Services - General	230,000	Outside attorneys / legal services on cases (as needed)
62255	Settlement Costs - Workers Compensation	400,000	Budget for actual expenditures on workers compensation settlements
62260	Settlement Costs - Liability	500,000	Budget for actual expenditures on liability settlements
62275	Postage Chargebacks	1,000	Chargeback for mailing / postage charges
62295	Training & Travel	1,000	Training & training-related travel for the Risk Manager
62320	Telephone Chargebacks	1,000	Chargeback for telephone expenses
62360	Membership Dues	500	For membership dues related to professional associations related to the Risk Manager position
62380	Copy Machine Charges	600	Charges related to copy machine use (e.g. copier lease, copier & supplies, etc.)
62605	Other Charges	150,000	Third party administration of workers compensation claims
62615	Insurance Premium	650,000	Insurance premiums: Property, Excess Liability, Excess Workers Compensation, Medical Professional Liability, Fine Art / Inland Marine, Crime (employee theft)
65010	Books, Publications, Maps	1,000	For magazines, books, etc. related to the Risk Manager and the management of this fund
65095	Office Supplies	500	General office supplies (paper, pens, etc.)
65125	Other Commodities	2,000	Misc. supplies (e.g. cameras) needed for the fund
Total		2,078,000	



Interdepartmental Memorandum

To: Julia Carroll, City Manager
From: Matt Grady, Finance Director
Subject: **Budget Memo # 48: Response to Budget Questions from Mayor Morton**
Date: February 8, 2007

Question 1: On December 21, 2004 Northwestern University wrote a letter to the City stating it would give the City \$350,000.00 for 3 years. Where is the \$350,000.00 recorded in the 2005-06 and 2006-07 budget?

Response: These funds were received by the City and have been placed in the Capital Improvement Fund (415101 – Other Admin Services). This money has not been used and is available for use by the Council. It was given in response to the purchase of 1800 Sherman Avenue by NU.

Question 2: When will there be a discussion on the selling of Chiaravalle Montessori School?

Response: The school has expressed an interest in approaching the City on acquisition of the property. A meeting has been scheduled for Thursday February 8, 2007 with Alderman Wynne, City Manager Julia Carroll, First Asst. Corp. Counsel Herb Hill, and the President of the school's board.

Question 3: How much revenue have we received from this school since 1980?

Response: The school is currently in a 25 year lease with the City which started in 1997. The revenue from this lease from 1997 to 2003 was \$25,000 per year. It rose to \$35,000 per year in 2004. Prior to 1997, data was not available. The total amount received for the period of 1997-2003 breaks out as follows:

1997-2003:	$7 \times \$25,000 = \$175,000$
2003-2006:	$4 \times \$35,000 = \underline{\$140,000}$
Total:	\$315,000

Question 4: What things are being considered as “miscellaneous Revenue,” 6045, Page 76?

Response: This account includes: 1) charges to other funds; and 2) other miscellaneous revenues. The charges to other funds are reimbursements to other funds for staff or services provided by the general fund. The other revenues line items are as follows:

Charges to other funds:

- Fleet Fund
- Community Development Fund
- Home Fund
- Emergency Telephone System Fund
- Economic Development Fund
- Parking Fund
- Water Fund – Administrative Expense
- Maple Garage Fund
- Sewer Fund

Other Revenues:

- Property Sales & Rentals
- Damage to City Signage
- Damage to City Traffic Signal
- Damage to Street Lights
- Damage to Other City Property
- Miscellaneous Revenue
- Payment in Lieu of Taxes
- Parking Permits – Ryan Field
- Mayor’s Summer Youth Program