

# KEY FINANCIAL STRATEGIES UPDATE

## VILLAGE OF CARBON CLIFF



AUGUST 2008



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**EHLERS**  
LEADERS IN PUBLIC FINANCE

August 13, 2008

Mr. Kenneth Williams  
Village President and Mayor  
Village of Carbon Cliff

Re: Key Financial Strategies Update Report for Village of Carbon Cliff

Dear Mr. Williams:

Ehlers & Associates submits to the Village Board of Trustees this update to the Key Financial Strategies (KFS). It is a review of the KFS for 2001 – 2005, progress to date, and recommendations for the years 2008 – 2012.

We address 8 categories of tasks that relate to the financial well-being of the Carbon Cliff community. While all findings and recommendations are important, we highlight the following critical items:

- Σ The Village Board took several actions in recent years that improved the financial condition of the community.
- Σ The community supported its Village government by adopting Home Rule status.
- Σ The Village should establish a formal policy on long-term debt.
- Σ The Village should establish a formal policy on cash flow and investments.
- Σ Additional research and planning is required to finance and proceed with stormwater capital improvements to relieve flooding.
- Σ Additional research and planning is required to achieve a financial self-supporting status for the water and sewer enterprise funds.
- Σ Identify any and all financial obligations of the Tax Increment Financing District funds as a prerequisite to financial planning for infrastructure improvements. There is urgency to this task because TIF districts #1 and #2 will terminate in 2009 and 2011 respectively.
- Σ Set timelines, marshal resources, implement, and evaluate the results.

We stand ready to further advise and assist.

Sincerely,

Bradford J. Townsend, ICMA CM  
Financial Advisor  
Ehlers – Leaders in Public Finance

## KEY FINANCIAL STRATEGIES UPDATE

### INTRODUCTION

The Village of Carbon Cliff, Illinois (the Village) retained Ehlers & Associates (Ehlers) to assist in a review and update of their Key Financial Strategies (KFS). The original KFS covered the time frame of 2001 – 2005. Village leaders found that the process helped them formulate a plan, take action, and achieve results. Carbon Cliff leaders have acknowledged that KFS played an important role in several Village accomplishments. Positive outcomes included financial planning, account management, funding of capital projects, and attaining home rule status. This report is an update to the original KFS Report for the years 2008 - 2012. The entries are a combination of recommendations still pending or in progress from the first KFS plus many new recommendations for follow-up.

The Carbon Cliff KFS advisory committee convened in a workshop session per request of the President and Board of Trustees on 11/20/07 in the Village Hall. The purpose was to review accomplishments to-date, the current situation, and potential priorities for further action. An Ehlers financial advisor prepared the session agenda and served as facilitator. This report is comprised of an overview of the KFS workshop and an updated KFS with recommendations.

It is particularly important for the Village to seek results on project priorities soon because the two existing Tax Increment Financing (TIF) districts are approaching their termination dates.

### OBJECTIVES FOR THE FINANCIAL PLANNING PROCESS

We know from the first process that a financial plan is an important part of the Village's strategy to remain competitive in today's demanding environment. Other objectives of the KFS process continue to be:

- Establishing a common understanding among the elected officials and staff of the Village's needs and financial capacity.
- Developing a comprehensive view of financial resources and options.
- Identifying Village issues and opportunities.
- Creating a framework in which elected officials and staff can make immediate and long-term investment decisions.
- Developing a consensus among the elected officials and staff on key actions the Village will take to remain competitive.

### PROGRESS TO DATE: KFS 2001 – 2005

The Village was spending too much and did not have a handle on finances before the first KFS process began in 2000. They realized that an audit and budget alone are not sufficient to manage

millions of dollars in operating and capital expenditures. Many of Ehlers recommendations were implemented. The Village took the following notable actions:

- ✓ Established four capital accounts to expend and serve as a reserve to accumulate funds. The accounts relate to the water system, sanitary sewer system, general operations, and fire protection.
- ✓ Presented a referendum question before the public to ask whether the Village should be granted Home Rule authority. This included a campaign in which Carbon Cliff officials promised that home rule powers would be used to expend hotel/motel taxes on community development. In particular, dollars would be expended on *“infrastructure needs and Village improvements, instead of limiting its sole use to tourism-related purposes.”* The Village Board further promised not to raise property taxes and property tax rates beyond what a non-home rule community could do: *“It shall be the policy of the village to levy real property taxes in the same amount as if the village had remained a non-home rule unit and was subject to the maximum aggregate levy increase permitted by the State.”* The voters answered yes 58% to 42%.
- ✓ Approved a property tax levy, after securing home rule status. It was within the non-home rule statutory publication limitation of 1.05%.
- ✓ Assembled a list of needed capital items including fire apparatus, new village hall and fire station, public works equipment, new parks, and public works infrastructure. This encompassed a downtown stormwater control project, remediation of radium in the potable water wells, and upgrading sanitary sewer system pipes through replacement, repairs, or slip-lining to stop stormwater infiltration.
- ✓ Implemented the informal policy and practice of maintaining positive fund balances.
- ✓ Responded to a bulk wastewater treatment rate increase that the City of East Moline imposed on Carbon Cliff and other communities. The Board increased customer rates in the Village to at least match the bulk rate increase from the City.
- ✓ Increased water system customer rates.

## RENEWED REPORT: KFS 2008 – 2012

The results produced from the first KFS Report show that specific recommendations can be successfully implemented. This is especially true if the original idea is sound, relevant factors are thoroughly researched, a good plan is devised, financial resources are secured, the necessary tasks are performed, and work is completed in a timely manner. The KFS way of doing business even helped Carbon Cliff adapt more quickly to unexpected challenges like the bulk wastewater treatment rate hike.

The Village should continue on the path of good financial practices and proactive community development. More can be done to grow and channel the resources necessary to improve services and infrastructure in Carbon Cliff. In the following paragraphs, this report offers for reconsideration those recommendations from KFS 2001- 2005 still worth doing that have not yet been implemented (See items marked with a superscript “1”). Some of them offer a new

perspective on the old ideas. Additionally, this report offers new ideas for consideration. Many are based upon discussions between personnel of the Village and Ehlers during the past year. Others are from the recent KFS workshop session. The combination of each will comprise the new recommendations for KFS 2008 - 2012 (See items marked with a superscript “2”).

We provide in this report a synopsis of all recommendations; both old and new. The same numbering system is used, but some of the old items were assigned a different identification number than they had in the original KFS Report. All are either critical or desirable tasks for the Village to consider. However, Ehlers highlights the following three critical tasks at the outset:

### Stormwater Management Projects

Perhaps the most important critical tasks in this KFS Report relate to the issue of stormwater management. The Village is working under the assumption that the consulting engineer’s concept to resolve surface flow and flooding problems in the lowland areas of town is, indeed, the right solution. Further, the Village has been working under the assumption that the engineer’s rough estimate of the cost to correct is in the range of \$1.5 million up to \$3.8 million. Ehlers has been asked to advise the Village on what dollar figure is financially feasible to expend on the project. It will be seen in section 3.0 on Infrastructure at subsections 3.3A, 3.3B, and 3.3C below that much more information is required to provide an knowledgeable answer. The Ehlers team needs more than a concept, a sketch drawing, and rough estimates. We propose that the Village secure a preliminary engineering report, a preliminary design, and a more precise estimate before our financial advisors can render a competent opinion for Carbon Cliff officials to consider. A second opinion from another consulting engineer is also advisable. Perhaps another firm could identify a less costly or better way to resolve the stormwater drainage problems. This is particularly important because the Village does not have unlimited resources on hand. While the Village now has the legal authority to extend debt as a home rule community, the Board has pledged not to use its home rule powers with regard to increasing taxation. Further, the TIF districts are nearing termination. Now would be a good time to spend those dollars on a complete engineering study in order to move forward. That is why a short time frame to start and complete necessary tasks is recommended.

### Water and Sewer Utilities

Another critical task is the challenge of achieving financial self-supporting status for the water and sewer funds plus their respective capital reserve funds. Relevant information on this topic appears in sections 3.0 on Infrastructure and 6.0 on Enterprise Funds. The Village has realized much progress toward fortifying revenues and identifying costs of operations and infrastructure. Water rates were raised to increase the stream of customer fees as referenced in subsection 6.2A. Sewer rates were increased as a way to off-set recent hikes in bulk rates for wastewater treatment related to plant improvements as noted in subsection 6.2B. These actions have been positive. However, they are only the first of many decisions yet to be made over-time to strengthen the financial status of all utility related funds. This includes conducting an independent utility rate study as recommended at subsection 6.1 to ensure equitable and sufficient revenues. At subsection 6.4, the Village is advised to continue transferring and depositing funds into the water and sewer capital reserve funds. At minimum, this needs to cover engineering estimates on

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depreciation of existing utility assets. Ideally, funds would be set aside at a greater rate than has occurred as seed money for the financing of new infrastructure.

## Long-Term Debt

The third critical task relates to financial planning and policy. The Village should develop a debt management policy. This may include consideration of refinancing old debt that was secured at higher interest rates and retire it early. This can be done concurrent with the financing of new debt at lower rates. Long-term debt planning and policy is addressed in section 2.0 at subsections 2.4 and 2.7. We also raise this issue in section 5.0 at subsection 5.5.

## Findings and Recommendations: Tables 1.0 to 8.0

The full set of KFS Report findings and recommendations with an action timeline is presented in 8 categories on the following pages. Ehlers has marked suggested times for starting and completing the recommendations. A more specific schedule with action items and tasks would need to be prepared for each item to be implemented.

Table 1.0 relates to strategy, analysis, protecting resources, and creating a sense of community.

1.0	Community Goals/Initiatives and Local Tax Base Consideration	Start	Complete
1.1	Conduct an annual goal setting process prior to budget preparation involving both elected officials, key staff, and department managers. <sup>1</sup>	Now	Continue
1.2	Commission a fiscal impact analysis to study what resources will be needed to grow the community; i.e., capital and service expansion. <sup>1</sup>	2009	2009
1.3	Ensure that developers pay for their fair share of costs the Village will bear in serving new developments; i.e., fiscal impact analysis. <sup>2</sup>	As needed	
1.4	Create a sense of community among the residents in the various neighborhoods. Consider new community events, continue progress on design and erection of new entryway welcome signs. Upgrade community parks and playgrounds; 2 or 3 basketball courts, Mansur Wood park, and Eagle Ridge Carbon Cliff-Barstow School park. Plan for needed funding. <sup>2</sup>	2008	2011
1.5	Civic organizations should be encouraged to hold events that draw the people from all areas together as a way to foster community identity. <sup>2</sup>	2008	Continue

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The stronger Carbon Cliff can become in setting policy and directing follow-up action, the better chance it will have to grow and prosper as a community. Every effort should be encouraged to inform the public and gain support for initiatives.

Table 2.0 describes the research and analysis necessary to help the Village formulate financial policy, plans, and follow-up actions.

2.0 Financial Position		Start	Complete
2.1	Research and establish a formal fund balance policy in writing. The current informal practice of keeping a \$100,000 General Fund minimum may not be sufficient for all funds. <sup>1 &amp; 2</sup>	2008	2009
2.2	Commission water, sewer, and garbage fee analysis. Adjust the fees. <sup>1</sup>	2010	2011
2.3	Conduct a cash flow analysis to plan best mix of cash-on-hand and investments. Prepare an investment policy to review and update. <sup>1 &amp; 2</sup>	2009	2010
2.4	Develop long-range revenue forecasts and a long-term debt policy. <sup>1</sup>	2008	2008
2.5	Review funds remaining in the two TIF District accounts to quantify available resources. Tabulate an accurate account of TIF increment that is obligated, but not yet expended, to reveal the real amount of available TIF increment. This is a necessary prerequisite to preparing a bond financing plan. <sup>2</sup>	2008	2008
2.6	Plan for disposition of remaining TIF funds on eligible projects before the respective terms of each end; District #1 in 2009 and District #2 in 2011. Spend now or establish a 3 <sup>rd</sup> TIF and transfer the funds. <sup>2</sup>	2008	2011
2.7	Debt – corporate purpose bonds paid-off November 2008. SSA SSA special purpose bonds pay-off schedule extends to 2017. <sup>2</sup>	2008	2009
2.8	Explore opportunities for debt refunding and debt restructuring. This should include the early retirement of debt when issuing new debt related to the financing of remaining TIF projects. <sup>2</sup>	2009	2010
2.9	Consider ways that sales taxes, hotel/motel taxes, MFT funds can serve as a mix of resources on capital projects and debt service. <sup>2</sup>	2009	2010

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There should be a sense of urgency in Carbon Cliff to move forward in using TIF district resources and financial options to improve the community.

Table 3.0 covers the all-important topic for Carbon Cliff of public works infrastructure and facilities including inspection, engineering, capital improvements planning, and funding. Stormwater, utilities, the Village Hall, and vehicles are specifically noted. This is where Ehlers calls for more and better information before financial solutions can be devised.

3.0 Infrastructure		Start	Complete
3.1	The Village began replacing water distribution mains in 1991. Review to quantify the additional scope of replacements. <sup>2</sup>	2009	2010
3.2	Continue televising and documenting the sanitary sewer collection system to identify needed repairs and replacements. <sup>2</sup>	2008	Continue
3.3A	Stormwater project information produced to-date is not sufficient for a funding analysis to proceed. The Village should order a preliminary engineering study with detailed research data on site conditions, engineering solutions, and cost estimates for each project segment. This should include land surfaces, the creek bed, and elsewhere. <sup>2</sup>	Now	2008
3.3B	Engage another engineering firm to evaluate the stormwater problems and to offer a second opinion on the management solution. This is critical to ensuring that the right project is funded and built. <sup>2</sup>	Now	2008
3.3C	Engage a construction engineer to be on-site when the contractor is working on the stormwater management project to ensure that the contractor strictly follows project design specifications. <sup>2</sup>	2009	2010
3.4	Develop a 5-year Capital Improvements Plan to guide the annual budget. Update it yearly by dropping completed items and adding new. <sup>1 &amp; 2</sup>	2008 See	2009 6.3
3.5	Expend available dollars remaining in the two TIF district funds on eligible capital projects or transfer to a 3 <sup>rd</sup> TIF before the terms end. <sup>2</sup>	2008	2011

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3.6	Consider the best mix of other funds as resources to pay for needed infrastructure improvements; e.g., sales, hotel/motel, and MFT. <sup>2</sup>	Now	2008
3.7	Plan for expanding the water distribution system and sanitary sewer collection system into areas currently without service. This is critical to promoting the growth of Carbon Cliff. <sup>2</sup>	2010	2012
3.8	Engage an engineering consultant to study the water system to determine current and future demands. Consider the quantity and quality of aquifer water, storage with a new reservoir or tower, and pressure required to meet public health and fire suppression needs. <sup>2</sup>	2010	2010
3.9	Plan to relocate and construct of a new Village Hall/Fire Station. <sup>1</sup>	2010	2010
3.10	Develop a vehicle and equipment replacement schedule as a guide for the annual budget. Update it every 3 years. <sup>1 &amp; 2</sup>	2009	2009

Many of the entries in the above Table 3.0 will require immediate action in regard to engineering research as a prerequisite for exploring financing solutions. It appears that this table and Table 6.0 on Enterprise Funds address most important needs of the Village at this time.

Table 4.0 identifies factors and ways that the Village could improve its prospects in competing with neighboring communities for development.

4.0 Competitiveness	Start	Complete
4.1 The policy of Carbon Cliff has been to limit the amount of property taxes raised to pay for City operations and capital improvements. This is continuing after passage of the Home Rule referendum. A primary result of this policy is to reduce or control the residential property tax burden. However, the Village should market this as an opportunity to compete for development and redevelopment. <sup>2</sup>	2009	Continue
4.2 The property tax represents 19.4% of the Village General Fund revenues as reported in the Annual Audit for FYE 2006. The property tax represents 19.3% of all revenues for all funds per the Annual Budget for FY 2007. This is a significant percentage, but indicates that over 80% of revenues come from other sources. Other sources include state revenue sharing of sales and income taxes, motor fuel taxes, fees, fines, utility billings, and more. This should continue with an emphasis on sales tax generating business as a way to maintain competitiveness in regard to the property tax. <sup>2</sup>	2009	Continue
4.3 Long-range financial planning creates the opportunity for managing property taxes and providing the greatest stability in tax rates. Produce a three-year tax levy projection and renew it each year. <sup>1</sup>	2009	Continue

Carbon Cliff should do more to position itself for attracting new residential, business, and industrial development. The policy of reducing reliance on the property tax and the burden in places on property owners should be emphasized in marketing the community to development prospects.

Table 5.0 looks at the present and future debt financing situation and possible credit rating.

5.0 Credit Position	Start	Complete
5.1 Carbon Cliff's renewal of KFS will continue to document a commitment to financial management. This act will be a positive factor if a service is hired to assess the Village for a bond rating. <sup>1 &amp; 2</sup>	Now	2008
5.2 The Village will endeavor to keep the total maturity length of general obligation bonds below 15 years and at least 50% of the principal shall be retired within 10 years. In all cases, the maturity shall be shorter than the life of the related assets. <sup>1</sup>	2009	2009
5.3 The Village shall continue to minimize the amount of debt supported by property taxes and will seek maximum use of alternate revenue sources. <sup>1</sup>	2009	2012
5.4 The Village previously entered into debt using Ehlers as its financial advisor. To this end, Ehlers continues to work with the Village to assure that it will comply with Securities Exchange Commission (SEC) reporting requirements and regulations on continuing disclosure, will assure that their issues are bank qualified (less than \$10 million per year), and will assure that their issues are not subject to arbitrage restrictions (\$5 million) as they apply to each bond issue. <sup>1</sup>	Now	Continue
5.5 Working with Ehlers, the Village shall continue to monitor outstanding debt to reduce the debt burden through refinancing at lower interest rates and, if appropriate, the early retirement of bonds. <sup>1</sup>	See	6.4

Table 6.0 focuses on important revenue factors and studies required to fortify the utility funds. The items encourage additional systematic steps toward enterprise solvency.

6.0 Enterprise Funds	Start	Complete
6.1 Fees charged for public utilities and other enterprise operations should reflect the costs of maintenance and capital improvements. Commission a utility rate study to determine the appropriate rates to charge. If adjustments are required, plan and take action. <sup>1 &amp; 2</sup>	2008 See	2009 6.2
6.2A The study referenced in 6.1 is critical to resolving the negative revenue to expense problem in the water fund. Customers simply do not pay rates sufficient to cover the cost of operations, maintenance, and infrastructure. Correcting this situation will strengthen the Village. <sup>2</sup>	See	6.1
6.2B The study referenced in 6.1 is critical to resolving pending issues with the sewer fund. Customers need to pay rates sufficient to cover the higher bulk rate that Carbon Cliff will continue to pay East Moline for wastewater treatment. Also, funds are needed to replace or reinforce aging sewer system infrastructure. <sup>2</sup>	See	6.1
6.2C The study referenced in 6.1 should contemplate reserves adequate to help cover the cost of unexpected emergencies. <sup>1 &amp; 2</sup>	See	6.1
6.3 Utilities should be included in the CIP referenced in 3.4. Good examples are to continue televising sewers to detect infiltration, testing and replacing water meters, and other relevant tasks. <sup>1 &amp; 2</sup>	See	3.4
6.4 Increase the infusion of funds into the water and sewer capital reserve to cover depreciation of assets and to serve as equity to leverage financing for system expansion. <sup>1 &amp; 2</sup>	See	5.5

The items in Table 6.0 would help the Village achieve a long-term solution as opposed to a continuing series of stop-gap measures. It appears that this table and Table 3.0 on Infrastructure address most important needs of the Village at this time.

Table 7.0 connects the Key Financial Strategies process and document to the Village budget process and document.

7.0 Implementation Issues		Start	Complete
7.1	The Financial Strategies should be reviewed and updated annually again as part of the Village's budget process. <sup>1</sup>	September	Yearly
7.2	Expand the information in the annual budget to incorporate a message that explains how the revenues and expenditures relate to Village priorities. This could include a reference to the Financial Strategies or a direct quote from this document. Two basic purposes would be achieved. First, a budget with written policy direction will help the Village Board stay on track during the year. Second, a message would help citizens understand what the Board is doing with public financial resources and how this relates to improving the community. <sup>2</sup>	2008	2009
7.3	The Financial Strategies should continue to be the overall guide for Village Board planning and decision-making throughout the year. It should be used as a reference document to help tie together singular actions within the context of larger Village issues related to operations and community development. <sup>2</sup>	Now	Continue

The explanatory information recommended for the budget document will help in implementing policy priorities and in explaining to others what the Village Board is trying to accomplish.

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Table 8.0 deals with opportunities that the Village should explore to gain and continue momentum for economic development. This includes some review of past planning efforts and a look forward to what Carbon Cliff could be in the future.

8.0 Economic Development	Start	Complete
8.1 Consider the merits of adopting a new TIF District #3. This could include the railroad property, camper sales property, North 1st Avenue area, and other adjacent parcels. <sup>1 &amp; 2</sup>	2008	2011
8.2 Work to diversify the tax base by seeking to attract and retain commercial and industrial land users in addition to residential. Retail business usually follows residential growth. <sup>1</sup>	2008	Continue
8.3 Review the comprehensive land use plan. Then, prioritize locations for economic development attraction initiatives. Look at all types; i.e., residential, commercial, and industrial prospects. <sup>2</sup>	2009	Continue
8.4 Review the comprehensive land use plan. Then, identify where water and sanitary sewer mains should be extended to facilitate residential and commercial growth. <sup>2</sup>	2009	Continue

Carbon Cliff has considerable public works assets to use in promoting economic development. This fact needs to be incorporated in planning and implementation of economic development initiatives.

## CONCLUSION

## ***VILLAGE OF CARBON CLIFF***



Village of Carbon Cliff leaders are to be commended for embracing the Key Financial Strategies process over past 8 years. This has encompassed brainstorming, planning, and implementation of many KFS recommendations. Leaders have taken a fresh look at community needs this past year and the resources needed to improve the community. The results of past endeavors, renewed efforts for the future are recorded in this report along with Ehlers recommendations. This work product needs to be kept alive to guide policy decisions and action. There is every indication that progress will continue to happen based upon past Village Board action. This will be bolstered by a new urgency to move forward and complete remaining tasks for the betterment of the community.

***Ehlers & Associates***