

**COMMITTEE-OF-THE-WHOLE
MINUTES OF THE MEETING OF THE PRESIDENT
AND THE BOARD OF TRUSTEES OF
THE VILLAGE OF ARLINGTON HEIGHTS
VILLAGE HALL BOARD ROOM
MONDAY, JUNE 24, 2019
7:30 P.M.**

BOARD MEMBERS PRESENT: Mayor Thomas Hayes, Trustees Baldino, LaBedz, Padovani, Scaletta, Schwingbeck, & Tinaglia

BOARD MEMBERS ABSENT: Trustees Rosenberg & Canty

STAFF MEMBERS PRESENT: R. Recklaus, T. Kuehne, M. Juarez, K. Baumgartner, P. Wilkiel

SUBJECTS:

- A. Review of the 12-month period ending 12/31/18 Comprehensive Annual Financial Report (CAFR)
 - B. Operating Fund Overview / Recommended Budget Ceilings - 2020
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President Hayes called the meeting to order at 7:30 PM.

A. Review of the 12-month period ending 12/31/18 Comprehensive Annual Financial Report (CAFR)

Mr. Recklaus explained that the budget is a plan of what the Village is aiming to spend, and that the CAFR, from a financial perspective, is the report of what actually happened. Mr. Matt Beran, a Partner with the firm Lauterbach & Amen, LLP presented the 2018 CAFR results. He stated there was nothing to cover in the Management Letter, as there were no additional findings this year. He went on to discuss the Audit Report.

Mr. Beran stated that last year's audit report was submitted to the GFOA for the Certificate of Achievement, which the Village has received. Mr. Beran stated that this award is the highest award a financial report is able to receive. Mr. Kuehne added that the Village has received that award for 29 consecutive years and that this will be the 30th year for that award. Mr. Beran talked about the Opinion Page, where Lauterbach and Amen gave the Village an unmodified opinion, the highest opinion that they give, and means that the numbers in the audit are what they say they are, that there is adequate internal control framework in place, and that the audit report is in compliance with all government accounting standards. Mr. Beran next explained that the Management's Discussion and Analysis section is a summary narrative of everything that has happened within this audit report at a high level. Mr. Beran went on to discuss fund balances in the financial section. The total net position of governmental activities at the end of 2018 was \$121 million. The big change in the Audit Report was the update of the new accounting standard, GASB 75, which is related to retiree health insurance, saying a prior-year adjustment was made to add an additional \$15 million to Other Post Employee Benefits (OPEB) liability. Discussion took place on how the actuaries are told to do calculations by this new accounting standard, and on retiree health insurance. Regarding Police and Fire pension liabilities, Mr. Beran pointed out that unfunded liability increased this year due to a crash in the market in December right before these studies were done.

The total fund balance at the end of the year was \$76.6 million, with the General Fund ending with a balance of \$30.7 million. There was a \$10 million decrease in the Public Building fund balance due to the draw down for the new police station. In the General Fund, there was an increase of \$58,000 because revenues came in over budget, up from the prior year. Mr. Beran stated that the total fund balance at the end of the year was 40% of total expenses, a very healthy balance for the General Fund. Mayor Hayes asked if 40% is too much. Mr. Beran stated that every Board is different in how conservative they want to be and added that between 25-50% is a good rule of thumb.

In regards to the Water & Sewer Fund, the total net position was \$41.4 million. However when capital assets are removed the balance is at \$17 million, which represents an increase of \$1.2 million.

Regarding pension obligations, the Village went above and beyond over what the actuary determined contributions were. Trustee Padovani questioned the different Investment Rate of Returns for IMRF and the Police & Fire Pensions. Mr. Kuehne explained that the assumed rate of returned is controlled by the IMRF Board, a statewide board, and that the Police & Fire Pension Funds are controlled by the Village Pension Boards. Trustee Scaletta asked what the percentage was that the actuary is asking for the pension contributions. Mr. Beran stated that the actuary is trying to get the Village 100% funded by 2040 without having to have a balloon payment at the end.

Mr. Beran drew attention to the statistical section of the CAFR noting that the Village's total net position has gone up every year for the last 10 years, as well as the home rule sales taxes.

Mayor Hayes thanked Mr. Beran for his report. He thanked Mr. Kuehne and his team for the great work they have done, and that the Village Board and residents appreciate them for keeping the Village in a strong financial position. Mr. Beran commended the Village and Mary Ellen Juarez for the hard work and for having everything ready when auditors start their fieldwork at the end of February.

Trustee Scaletta moved, seconded by Trustee Baldino that the Committee-of-Whole accept the 12-month period ending December 31, 2018 Comprehensive Annual Financial Report (CAFR). The motion passed unanimously.

C. Operating Fund Overview / Recommended Budget Ceilings - 2020

Mr. Recklaus stated that although the budget does not expire until December the budget process begins now, and said staff tries to base the preliminary budget discussion on realistic assumptions that the Village Board can support. Mr. Recklaus stated that it is important to note the assumptions presented tonight are preliminary, that things can and will change between now and October when the budget proposal will be presented to the Board, but this provides a framework from which staff can develop a budget. He stressed that staff always does its best to outperform the projections in the budget ceilings, and said in recent years the Village has been successful in presenting a budget that costs residents less than what the budget ceiling projections have shown.

Mr. Kuehne gave a brief overview of the General Fund and Water & Sewer Fund reserves. The Village's General Fund balance minimum requirement is 25%, but ended with 40% at year-end. It is generally kept at a higher level because bond rating agencies look at the percentage of reserves, in case reserves are needed for weather related damages/issues, and because

reserves provide flexibility in case of economic downturns. Mr. Kuehne said that the Water & Sewer Fund will need to be looked at over the next year because revenues came in less than expected, and said staff has tried to be very conservative with 2020 projections.

Mr. Kuehne started his presentation by saying sales and income tax receipts are up this year. Discussion took place regarding income taxes and the Village's per capita share, and on the 5% that the State has been keeping. Local Use taxes show a 14% increase. It was explained that 6.25% is collected from large internet vendors and that 80% of that goes directly to the State and the other 20% is divided among all municipalities in the State based on per capita. Part of the State budget that passed requires large online out-of-state retailers to pay state and local taxes starting July 1, 2020. This change could cause the local use tax receipts to decline, and sales taxes receipts to increase.

Mr. Kuehne's presentation also included three-year projections for the General Fund. He talked about some disruptive technologies that affect General Fund revenues, which include decreases in telecommunication taxes due to people cutting their landline phones, and cable franchise fees because of increases in internet streaming services. Some increases in the General Fund revenue projections include increases in building permit fees, and vehicle sticker revenues because of the enhanced vehicle sticker enforcement program. Discussion took place regarding projections showing the fund balance declining through 2020. It was explained that revenues are not expected to increase as fast as expenditures, and that projections are conservative or worst case scenarios. Discussion also took place regarding 2019 estimated actual numbers compared to what is budgeted, and on General Fund assumptions regarding salaries and health insurance costs. Staff has tried hard and has usually been successful outperforming projection numbers each year.

Mr. Kuehne gave an overview of property tax levy history, and explained how the Village's estimated 1.97% tax levy increase amount for this year was developed. A big portion was related to the decrease in IMRF's assumed rate of return from 7.5% to 7.25%. The Library's tax levy increase is at 1%, with the total estimated tax levy being 1.70%, which would generate an additional \$23 cost to an average homeowner with a \$300,000 value. Mr. Kuehne talked about some of the steps that the Village took to offset some of the expected property tax increases (shown in his attachment). He also said that there will be a bond refinancing that is scheduled to come to the Board in August, saying that the bond sale could help drive the projected tax levy even lower.

As far as the Water & Sewer Fund, Mr. Kuehne said the 2014 five-year Water & Sewer rate plan allowed the Village to increase the water main replacement program from \$400,000 a year in 2015 to \$2.5 million in 2020. He went on to explain that the lower revenue projections for the fund are because:

- The amount of water being sold has decreased due to continued wet weather the Village has been experiencing,
- Water meters are getting old
- Increased number of water main breaks

Discussion took place regarding the difference in the amount of water being pumped compared to what is being sold, with under reporting of water because of aged meters, and with meter replacements. This will be something that will be looked at over the summer.

Mr. Kuehne continued by going over the Water & Sewer Fund three-year projections. He said increases in services charges are not shown at this point, saying that it will be part of the water and sewer rate study that will be done. Options will then be provided to the Board for their consideration in August or September.

Trustee Scaletta asked if grant money was shown in these projections. Mr. Recklaus stated that storm water grants will be reflected in the Storm Water Fund or Capital Fund. He said the capital money that is allocated by the State is not reflected in the projections because the Village has not been told when or how the money will be received. Trustee Scaletta felt that there are many variables in the projections and hopes that when the proposed budget is presented that the tax levy increase would come down.

George Metropolis, resident of the Terremere/Creekside community talked about his concerns with upcoming property reassessments by the assessor, and with an increase of the Village's tax levy. He asked if excess money in the General Fund could be utilized to keep the tax levy increase down. Mr. Kuehne understood his thought, but said using one-time revenues would only help one year, and we would be back to where we are at now. Mr. Metropolis asked what the vehicle sticker compliance rate was. Mr. Kuehne said the Village was down about 20%, and added that 44,000 stickers were sold last year, and that an additional 8,300 have been be sold this year.

Trustee Padovani moved, seconded by Trustee Schwingbeck, that the Committee-of-the-Whole recommend to the Village Board that the Board approve the 2020 Budget Ceilings of \$79,018,500 for the General Fund; and \$20,431,900 for the Water & Sewer Fund. The motion passed unanimously.

Adjournment

There being no further business to discuss,

Trustee Scaletta moved, seconded by Trustee Tinaglia to adjourn the meeting at 8:43 PM. The motion passed unanimously.