

**COMMITTEE-OF-THE-WHOLE
MINUTES OF THE MEETING OF THE PRESIDENT
AND THE BOARD OF TRUSTEES OF
THE VILLAGE OF ARLINGTON HEIGHTS
VILLAGE BOARDROOM
MONDAY, JUNE 28, 2020
7:00 P.M.**

BOARD MEMBERS PRESENT: Mayor Thomas Hayes, Trustees Baldino, Bertucci, Canty, Grasse, LaBedz, Scaletta, Schwingbeck, and Tinaglia

STAFF MEMBERS PRESENT: R. Recklaus, T. Kuehne, M. Juarez, A. Smulson, K. Baumgartner, and M. Mattio

OTHERS PRESENT: Anthony Cervini of Sikich, LLP

SUBJECTS:

- A. Review of the 12-month Period Ending 12/31/20 Annual Financial Report – Sikich, LLP
 - B. Review of the Capital Asset Policy Update
 - C. Review of the 2022 Capital Improvement Program Update
 - D. Operating Fund Overview/Recommended Budget Ceilings – 2022
 - E. Review of the American Rescue Plan Grant – Spending Proposal
-

President Hayes called the meeting to order at 7:02 PM.

Review of the 12-month Period Ending 12/31/2020 Annual Financial Report – Sikich, LLP

Mr. Kuehne introduced staff of the Finance Department and Anthony Cervini, Partner in Charge with Sikich LLP. Mr. Cervini presented the key results from the 2020 Village audit. He commended the Village for investing the time and resources necessary to prepare the Comprehensive Annual Financial Report (CAFR), in the spirit of full-disclosure, accountability, and transparency. He went on to congratulate the Village on receiving the GFOA's Certificate of Achievement for Excellence in Financial Reporting for the December 31, 2019 report.

Mr. Cervini indicated that the Independent Auditor's Report is a fair presentation of financial statements by management and reviewed by auditors to provide an opinion on said statements. He was pleased to present a clean unmodified opinion on the Village's financial statements as of and for the fiscal year ending on December 31, 2020, which is the highest level of assurance as auditor's that can be provided. He added that Village worked to implement GASB Statement No. 71, which relates to *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and could also provide an unmodified opinion with respect to said matters.

In regards to the Management Discussion and Analysis, Mr. Cervini said it included current and prior year information as well as management explanations for why figures change from one year

to the next. He pointed out there were a few figures that the Village is working on updating. He reported on the Village's statement of position and explained there are three categories: Government Activities (tax supported funds), Business-type Activities (Water & Sewer Fund), and the Total.

As of December 31, 2020, the Governmental Funds reported a combined fund balance of \$85,231,611 which is a 15% increase from the beginning of the year. Of the total fund balance, \$28.9 million is unassigned and available for continuing Villages services. The General Fund ended the current fiscal year with an unrestricted fund balance of \$30.4 million or 41.4% of General Fund Expenditures. An overview of the pension funds was also given: Police pension 89.53% funded; Fire Fighters pension 83.11% funded, and IMRF 99.97% funded as December 31, 2020.

Mr. Cervini noted that within the 2020 audit report the Village expended \$1,527,494 in Federal awards for the year. Anytime you expend anything greater than \$750,000 it is required to undergo a single audit of federal expenditures, prepare a separate report, and submit the information to the Federal Audit Clearing House. There were two major programs which were tested for 2020: COVID-19 Relief Funds and COVID-19 Disaster Public Assistance. He reported that there were no significant deficiencies, material weakness or non-compliance noted.

In conclusion, Mr. Cervini said the 2020 audit was a smooth process with no disagreements with management or difficulties in performing the audit.

Trustee Canty asked Mr. Cervini if he could elaborate on the State of Net Position in simpler terms. Mr. Cervini said looking at the two amounts on page 5, that the 2019 Capital Asset figures presented in the report were overstated. This flowed through the Village's income statement in to the 2020 reporting for the current year. The impact then of the second piece is an opposite effect related to the revenue recognition. These were amounts that were previously deferred at the government-wide level that did not need to be deferred. The prior year net position related to the revenue recognition was then understated by that amount and flowed through to the current year. Mr. Kuehne added that the capital asset was overstated in the prior year based on information provided by the Public Works Department in regards to Storm Water estimates. When Public Works was asked to update the estimate for 2020 it was significantly lower. The auditors were immediately notified and an adjustment was made by staff.

Trustee Scaletta asked Mr. Cervini if he was involved in performing the Village's audit and if he could elaborate on the significance of issuing an "unmodified opinion." Mr. Cervini said he was involved in performing the Village's audit. As for presenting an unmodified opinion of the 2020 audit, he said it is a level of assurance he can provide that financial statements were fairly presented and free of material misstatements in accordance with accounting principles set forth by the Governmental Accounting Standards Board. An unmodified opinion is the highest level. Trustee Scaletta asked if the Village should have any concerns. Mr. Cervini said there are no significant concerns and added that the Village is proactive about reviewing and updating policies, has healthy reserves, is very sound in the control process and has no compliance issues.

Trustee LaBedz asked about a prior discussion of combining the Police and Fire Pension Fund from single employer into an IMRF style pension fund. Mr. Kuehne said that the State previously passed legislation to set up two separate statewide funds similar to IMRF, one for downstate Police and one for downstate Fire pension systems which would exclude the city of Chicago. Assets will have to be turned over to the state-run pension funds by next year. He added that he doesn't believe this change will result in a specific benefit to the Village as both of our public safety pension funds are large, well-funded, and the invested funds are already diversified. However, he said on a state-wide basis the consolidation should result in a long-term benefit. Trustee LaBedz asked if it would still be in the best interest of the Village to contribute additional funds towards pensions. Mr. Kuehne said it would because the disbursement of the funds to the state-wide public safety pension funds is accounted for by individual community, similar to the IMRF pension plan.

Trustee Tinaglia asked if there is a deadline of when communities should have their pension funds 100% funded. Mr. Kuehne answered that according to the legislative intent that should occur by 2040. However, the state has discussed extending the deadline because some communities are having difficulties paying for their pensions.

Trustee Scaletta inquired who determines the members of the pension boards. Mr. Kuehne stated it is a combination of state statute, elections, and fire and police appointed individuals. Mr. Cervini added that there are representatives from city administration, certain village administrations, the Illinois Municipal League, and a variety of other stake holders.

TRUSTEE CANTY MOVED, SECONDED BY TRUSSTEE SCHWINGBECK THAT THE COMMITTEE-OF-THE-WHOLE ACCEPT THE 12-MONTH PERIOD ENDING DECEMBER 31, 2020 ANNUAL FINANCIAL REPORT.

The following voice vote was recorded:

9 Ayes

0 Nays

The motion passed.

Review of the Capital Asset Policy Update

Ms. Juarez discussed the Capital Asset Policy Update which has two main components. The first is the capitalization threshold; and the second, the control of all the assets and inventory. In an effort to align the Capital Asset Policy with the previously updated Purchasing Policy, the changes to the Capital Asset Policy focuses on capitalization thresholds. The capitalization threshold for machinery, equipment, and vehicles is recommended to increase to \$25,000 to align with the Village's bid requirements. As for buildings, improvements, infrastructure, and software, the threshold would increase to \$200,000. Any asset under the threshold will continue to be tagged and inventoried, however the depreciation will not show in financial statements. Each department is responsible for tracking their assets and reporting them to the Finance Department on an annual basis.

Mayor Hayes asked how an asset's lifespan is determined, and if it's ever modified. Ms. Juarez said the lifespan of an asset is set by industry standards and are not modified. Mr. Recklaus added that the Village does not just dispose of assets based on prescribed lifespans, and it is common practice to extend the life of an asset if it can continue to be utilized.

Trustee Scaletta expressed his concern with how assets are being tagged. Ms. Juarez said that each department is responsible for tagging their inventory and the Finance Department is able to track it with the general ledger for audit purposes. Mr. Kuehne added that assets are also reported to IRMA on a yearly basis, therefore adding another layer of how assets are controlled and tracked. He also mentioned that assets under \$10,000 such as laptops and copiers are tagged. Mr. Recklaus mentioned that he and Mr. Kuehne have to approve the disposal of any retired asset. Trustee Scaletta asked if the warrant register will look any different to the Board? Ms. Juarez said that it will not and that any changes would be reflected in the beginning and ending balance of the capital asset worksheets.

TRUSTEE BALDINO MOVED, SECONDED BY TRUSTEE BERTUCCI THAT THE COMMITTEE-OF-THE-WHOLE RECOMMEND TO THE VILLAGE BOARD THAT THE BOARD APPROVE THE CAPITAL ASSET POLICY UPDATE.

The following voice vote was recorded:

9 Ayes

0 Nays

Motion passed.

Review of the 2022 Capital Improvement Program Update

Mr. Kuehne explained that a detailed five-year Capital Improvement Program is prepared during even-numbered years. During odd-numbered years each department presents a summary of their mission and activities to the Board, and the Finance Department works with each Department to prepare an update for next year's capital improvements.

Criminal Investigation Fund

This fund has seen a decrease in expenditures of \$71,000. A planned Seized Vehicle and Long-Term Evidence Storage Facility was deferred to 2023. The Police Department would like to add two items to the Criminal Investigation Fund. The first and most important is officer body-worn cameras. It is currently an unfunded mandate that has to be completed by January 2024. The Police Department is recommending this expenditure occur in 2022 with a beginning budget of \$131,000 to fund the first year of a 5-year service agreement. The second item would be the replacement of the surveillance van along with updated equipment inside the van at a cost of \$160,000 using seizure funds.

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An increase of \$600,000 in this fund is due to an expected re-budget for the continuation of redevelopment.

Capital Projects Fund

This fund has an increase projection of \$494,900 for 2022 due to several updates. IRMA recommended that a fall protection system be installed at the Fire training tower which resulted in a \$45,000 increase. There is a re-budget of the Police Station Architect. A final payment is due but the amount has yet to be determined. The Fire Department requested replacement of three cardiac defibrillators. The price of defibrillators increased to \$50,000. In addition, \$19,500 is needed to replace turnout gear. The Police Department requested replacement of patrol vehicle equipment that cannot be repurposed from existing vehicles due to body style changes. Lastly, an additional re-budget is needed for the Downtown Streetscape and Lighting Improvements.

Storm Water Control Fund

Due to the Berkley/Hintz stormwater project being pushed back to 2022, a re-budget has resulted in a \$2,673,000 increase to this fund.

Water & Sewer Fund

An increase of \$1,055,000 in this fund is the result of a revised estimate for Water Tank Repainting project for Well 17. The tank underwent an internal inspection and it showed significant corrosion of the steel securing the rafters and the purlins.

Fleet Fund

This fund has decreased based on one less vehicle replacement.

Trustee Scaletta asked if the high cost for body-worn and dashboard cameras was due to data storage. Mr. Kuehne said that was correct and that the total cost for the cameras was \$656,000 for a 5-year service contract. Mr. Recklaus added that the cost of storage data is included in the 5-year service contract price. Trustee Scaletta also asked if Mt. Prospect will be contributing to the cost of the traffic signal upgrade on Arthur. Mr. Recklaus said they will not be contributing as it is in the jurisdiction of Arlington Heights.

Trustee LaBedz asked if each officer will have their own body-worn camera or if the cameras will be shared. Mr. Recklaus said that has not yet been decided. However, he noted that there has to be a sufficient number of cameras for every officer on duty and extras in the event one is damaged. He added that each officer will have their own storage account.

Trustee Canty asked if the cameras can be purchased with seizure funds. Mr. Recklaus said they cannot be because it's an ongoing expense.

TRUSTEE CANTY MOVED, SECONDED BY TRUSTEE LABEDZ THAT THE COMMITTEE-OF-THE-WHOLE APPROVE THE 2022 CAPITAL IMPROVEMENT PROGRAM UPDATE.

The following voice vote was recorded:

9 Ayes

0 Nays

Motion passed.

Operating Fund Overview/Recommended Budget Ceilings - 2022

Mr. Kuehne said that 2020 was a tough year due to the pandemic. While working on the 2021 budget, Staff had projected that the recession would last through at least the first quarter of 2021. However, he reported that it has been a snap recovery and it has tremendously helped with income tax and sales receipts. The Village ended 2020 under budget and in good financial standing.

He discussed the General Fund and the Water & Sewer Fund which are the key operating funds. In regards to the General Fund, he said its ending balance in 2020 as a percent of expenditures equaled 40%. This was in excess of the Village's minimum fund balance policy of 25%, and was achieved by reducing expenses and holding vacant positions open. The Water & Sewer Fund's 2020 ending balance was 44% of expenses, in large part due to the \$9 million bond funds transferred into the Water & Sewer Fund for the watermain replacement program.

Going forward, Mr. Kuehne said that the Village has some conservative but optimistic revenue projections. He projected that in 2021, General Fund revenues will come in \$665,000 over budget as a result of receiving federal funds. In 2020 the Village received \$590,000 from the Cares Act and \$122,500 in other federal grants. In 2021 the Federal Government also passed the American Rescue Plan Grant Program to help communities quickly regain their financial footing from the COVID-19 recession. The Village was awarded \$6.78 million which will be distributed over the next 2 years. On the expenditure side, Staff projected that 2021 General Fund expenditures will come in \$927,000 under budget, as a result of a reduction in payroll expenses due to holding vacant positions open through the first quarter of the year.

In regards to sales taxes, Mr. Kuehne said that there was a significant decrease in 2020, but Staff is projecting significant growth in 2021, and then 3% thereafter in 2022. He said income taxes have been consistently resilient. He attributes this to the Federal government offering taxable childcare tax credits and unemployment insurance benefits.

Trustee Scaletta inquired if the State is remitting to the Village their share of income tax. Mr. Kuehne said that in the past when the State experienced financial hardship they diverted 10% of the municipal income tax share to help balance the State's budget. However, municipalities are now receiving their full allotment. He went on to say that this is something to continue to watch, as it could happen again in the future.

Mr. Kuehne went on to discuss Local Use tax. In 2018, the U.S. Supreme Court ruled that large out-of-state online vendors are required to collect Sales or Use taxes. In 2019, the State of Illinois required remote internet sellers to collect state and local tax beginning January 1, 2021. However, the Use tax has continued to increase perhaps because online retailers are not fully aware of the changes. Over time, Mr. Kuehne predicts the Use tax will decrease and the Sales tax and Home-rule sales tax will increase. Mr. Recklaus added that these changes will benefit the Village and explained that currently the State collects Use tax for the entire state and distributes it on a per capita basis to all the municipalities. With the shift to the large internet sellers collecting Sales tax, the tax is based on what Village residents are buying. The assumption is that because the Village has a higher per capita income, residents are spending more, therefore there is a potential to collect more Sales tax.

Trustee Scaletta asked for clarification on the distribution of the Use tax vs the Sales tax relating to online purchases. Mr. Kuehne said the Use tax is based on the state the product is delivered to, not the zip code. Trustee Scaletta asked if there is a way to audit the tax process. Mr. Kuehne said there is not and the Village must rely on internet retailers to remit the proper taxes. He added that the law applies to international sales as well.

Mr. Kuehne said that the Telecommunications tax has significantly and consistently gone down because people are dropping their landlines and relying on their cell phones. For 2021, a large decrease is shown, and Staff is projecting a 5% decrease for each year thereafter. In regards to Food & Beverage Tax, he stated that this tax really suffered during the pandemic. While people ordered carry out and Al Fresco dining helped downtown restaurants, it did not make up for the losses suffered. He went on to say that there is an uphill trend with these receipts through 2022, but a full recovery is not expected until 2023.

Trustee Bertucci asked Mr. Kuehne what his comfort level is in regards to the Village's reserves and expenditures. Mr. Kuehne said he felt comfortable at 40% reserve. Mr. Recklaus added that the Village significantly reduced its staffing during the great recession and in the event of another recession, staffing would not be an area the Village could reduce expenditures. He also said that the State is not in good financial standing and the threat of them withholding municipal revenues or assigning services to municipalities without providing an offsetting revenue is always there.

Trustee Schwingbeck asked for a guestimate of what the 2020 Food & Beverage Tax would have been had Al Fresco not been so successful. Mr. Kuehne said he is working on preparing the data and will return to the Board with an analysis of the Arts & Entertainment Fund.

Trustee LaBedz mentioned the Village's conservative payroll budget and inquired how often all full-time positions are staffed. Mr. Recklaus said that there is always turnover with people retiring and new hires. He added that some positions are left vacant, some filled and others changed. He routinely examines percentage increases in payroll and projected the Village will be underbudget in payroll expenditures. Mr. Kuehne added that this trend will likely occur for the next few years as many employees are becoming eligible for retirement.

In regards to the 2022 IT/GIS Service Charge, Mr. Kuehne said the Village will experience a significant increase, but this increase is already built in the 2022 budget ceilings. He pointed out

that the new Enterprise Resource Planning (ERP) software's annual maintenance cost is projected to increase from \$223,000 to \$485,000, because the software is much more comprehensive. In addition, Staff is recommending that an additional IT Analyst be hired. This position would not only specialize in the new ERP software, but would perform other work duties as well.

Mr. Kuehne said that for the 3rd year in a row the Village proposes a 0% increase in the tax levy, due in large part due to revenues returning faster than previously projected. Last year, \$1.1 million was transferred from the Capital Projects Fund to the General Fund to help balance the fund and propose a 0% property tax increase. In addition, \$3 million was allocated to the Capital Projects Fund from 2020 bond issues to help pay for street program improvements. He said the goal for the upcoming years is to bring the Capital Projects Fund property tax levy back to where it was over the next few years. Mr. Kuehne said that the Village is in a position where it can propose a 0% property tax levy while maintaining prior year pension levies, even though the annual required contributions have gone down due to very positive investment experience over the last couple of years. This will put the Village in a better position in a succeeding year when interest income does not meet the assumed rate of return.

In regards to the Water & Sewer Fund, Mr. Kuehne said that another water and sewer rate study will need to be completed in a couple of years due to decreasing working cash flow. He explained that there are expensive capital expenditures planned over the next three to four years, including \$4.1 million per year for the watermain replacement program, and the replacement of residential and commercial water meters.

Mayor Hayes thanked Village staff on behalf of the Board and the residents for once again proposing a 0% increase in the tax levy for the third year in a row.

Trustee Scaletta expressed his and Village residents' concern pertaining to high water bills. He mentioned the high cost to repainting and rehabbing the water tower and asked what it would cost to replace it instead. Mr. Recklaus said that Staff would review the cost of purchasing a new one, but mentioned that maintaining and aging water utility is an expensive endeavor.

TRUSTEE SCALETTA MOVED, SECONDED BY TRUSTEE TINAGLIA THAT THE COMMITTEE-OF-THE-WHOLE RECOMMEND TO THE VILLAGE BOARD THAT THE BOARD APPROVE THE 2022 BUDGET CEILINGS OF \$81,592,500 FOR THE GENERAL FUND; AND \$25,035,500 FOR THE WATER & SEWER FUND.

The following voice vote was recorded:

9 Ayes

0 Nays

Motion passed.

Review of the American Rescue Plan Grant – Spending Proposal

Mr. Kuehne reported that the American Rescue Plan (ARP) Act of 2021 is a \$1.9 trillion economic stimulus bill passed by Congress to speed up the recovery from the economic and health consequences of the Pandemic. The Village will receive \$6.78 million over two years. The first installment of \$3.39 million was received in May 2021, and the Village will receive the second half in one year. Eligible uses for grant monies include public health expenditures, negative economic impacts caused by the public health emergency, replacement of public sector revenue losses, provide premium pay for essential workers, and investment in water, sewer, and broadband infrastructure. Ineligible uses include reduction in taxes, pension fund payments, funding debt services, legal settlements, or direct deposits to reserves. Mr. Kuehne went on to discuss the Village's proposal on how to use the ARP funds.

The first proposal allocates \$2.5 million into the Water & Sewer Fund, as the working cash balance is decreasing quickly. It would help with future projects such as the replacement of residential and commercial water meters and repainting Well #17 which is \$1 million overbudget.

The second proposal allocates \$2.5 million towards the purchase of police and fire replacement vehicles between now and 2024. The purchase of these vehicles using ARP funds would save money in the Fleet Fund, ultimately improving its financial position.

The third proposal allocates \$1,272,596 toward the Capital Projects Fund, to help bridge the gap as the Village brings this fund's property tax levy back to the 2019 level over the next few years. In 2020, \$1.1 million was transferred to the General Fund from the Capital Projects Fund to cover ongoing operating expenditures. Any ARP funds would need to be spent by the end of 2024 in accordance with the U.S. Treasury Guidelines.

Mr. Recklaus explained the fourth proposal which sets aside up to \$500,000 to negotiate a land use agreement of Raven Park for the Village's stormwater detention project. These funds would not only help the Park District as they suffered significant financial losses due to the pandemic, but it would also save the Village money to complete said project. In the event the Park District does not agree to convert the property into a stormwater retention base, the Village would be forced to put the project underground, increasing the cost by \$1 million.

In respect to the Park District proposal, Mayor Hayes said it was a wise use of funds as it not only benefits the Park District, it also benefits the Village. He asked if the Park District will be satisfied with the proposed \$500,000 amount. Mr. Recklaus said that negotiations are ongoing and while it is not what the Park District initially asked for, he believed somewhere near this amount would conclude negotiations.

Trustee Bertucci said that he finds it difficult to see \$500,000 go to the Park District as they are also a taxing body. He asked for further explanation on what the Village would receive in return. Mr. Recklaus said that while the Park District is a taxing body, they are subject to a tax cap. The discussion with the Park District is their allowed usage of Raven Park via easement or some type of intergovernmental agreement, in order to construct a needed Village storm water detention

project in this area. The only way to complete the project would be to use Park District property, whether it be underground or above.

Trustee Canty asked if the Village would be at risk of increasing the tax levy if the Park District did not agree to the Village's use of Raven Park for stormwater detention as it would be costlier to complete this project underground. Mr. Recklaus agreed saying that the Village would have to defer or cancel some stormwater projects, raise stormwater fees, or find ways to raise other revenue. He also said that an underwater alternative is more difficult and more expensive to maintain.

Trustee Scaletta thanked Village staff for a well-thought-out plan, their continued efforts to maintain a good working relationship with the Park District, and the ability to help them out all while helping the residents of the Village.

Mr. Kuehne mentioned that the Public Building Fund retains a balance of \$3.23 million. The fund is scheduled to be closed in 2021. Per the approved 2021 Budget, said funds were to be distributed as follows: \$2 million to the IT Fund for the ERP software; \$780,000 to help stabilize the Fleet Fund; and \$450,000 to help support the A&E Fund. Since the Fleet Fund stabilization is proposed to be addressed with ARP funds, he recommended the reallocation of the \$780,000 as follows: \$580,000 go towards the Parking Fund; and \$200,000 go towards the A & E Fund. He went to say that the A & E Fund lost revenue in 2020 and the Metropolis Building will have significant expenses in the near future including a new roof and the replacement or repair of the elevators.

TRUSTEE CANTY MOVED, SECONDED BY TRUSTEE SCALETTA THAT THE COMMITTEE-OF-THE-WHOLE APPROVE THE AMERICAN RESCUE PLAN GRANT – SPENDING PROPOSAL.

The following voice vote was recorded:

9 Ayes

0 Nays

Motion passed.

TRUSTEE TINAGLIA MOVED, SECONDED BY TRUSTEE SCALETTA TO ADJOURN THE MEETING AT 9:08 P.M.