

**MINUTES
COMMITTEE-OF-THE-WHOLE
PRESIDENT AND BOARD OF TRUSTEES
VILLAGE OF ARLINGTON HEIGHTS
BOARD ROOM
MONDAY, APRIL 8, 2024 7:00P.M.**

BOARD MEMBERS PRESENT: President Hayes; Trustees: Baldino, Dunnington, Grasse, LaBedz, Schwingbeck and Tinaglia

BOARD MEMBERS ABSENT: Bertucci, Shirley

STAFF MEMBERS PRESENT: Randy Recklaus, Village Manager; Tom Kuehne, Director of Finance; Mary Ellen Juarez, Assistant Director of Finance; and Kim Peterson, Recording Secretary

SUBJECTS:

- A. Proposed 2023 General Fund Surplus Transfer
- B. Revised Village Investment Policy

Other Business

Adjournment

President Hayes called the meeting to order at 7:00 PM. The Pledge of Allegiance was recited.

New Business

A. Proposed 2023 General Fund Surplus Transfer

Mr. Recklaus advised that the Village is fortunate again to have a surplus, although it is not quite as big as it's been in recent years, and whenever there is a surplus, we like to look at different ways it could be used. Mr. Kuehne will discuss what is being proposed.

Mr. Kuehne advised that Staff is proposing a transfer of \$5,750,000 from the General Fund to the Lead Service Line Replacement Fund. Mr. Kuehne explained how the Village has had surpluses since 2017, with the exception of 2020, when we had the pandemic. The surpluses have been quite moderate, except for in 2021 and 2022 when they were rather large. Since the pandemic, sales taxes and income taxes have gone up, and faster than expenditures, which has resulted in some General Fund surpluses. In addition, there have been a number of vacancies that have gone unfilled. In 2021, there was a \$7 million surplus, and the Village put \$4 million towards the Lead Service Line Replacement Fund. In 2022, there was an

even higher surplus, and the Village put \$2 million in both the Fire and Police Pension Funds and \$3 million towards the Lead Service Line Replacement Fund. There was also a \$1.6 million property tax abatement for the 2022 taxes paid in 2023. Mr. Kuehne advised that this was all great news, however it typically doesn't repeat itself too far into the future.

Mr. Kuehne discussed the 2023 budgeted numbers and what the actual numbers for the year were, as well as what the 2024 budget looks like in comparison. Mr. Kuehne advised that some of the significant differences in the 2023 actual numbers when looking at revenues, included a lower sales tax, which came in under budget at \$1.2 million, licenses and permits, which came in \$1.4 million under budget, because of the elimination of vehicle stickers and dog tags, interest income, which came in \$1.5 million over budget, and miscellaneous, which was \$2 million over budget, with \$1.7 million of this is due to the Lexus sales tax abatement program. On the expenditure side, the Village has had some vacancies, so salaries came in under budget, fuel costs have been lower than what was originally budgeted, \$400,000 that was budgeted for contingencies was never used, and \$380,000 in sales tax abatement that was never used.

Mr. Kuehne advised that the Village is looking at a \$7.4 million surplus for 2023 and Staff is recommending that \$5,750,000 should go to the Lead Service Line Replacement Fund, which would leave the General Fund just below the 40% reserve level. Mr. Kuehne stated that things are changing now and the Village will not see these larger surpluses like they have seen since 2017. Mr. Kuehne advised that Staff is suggesting this transfer to the Lead Service Line Replacement Fund because it has no dedicated source of revenue. Its income comes from operating transfers from the General Fund and the Village is budgeting \$11 million in 2024 through the Capital Projects Fund as part of a bond issue that will be done later this year. Mr. Kuehne explained how Staff is budgeting for the worst-case scenario with this project, as the state IEPA had projected that the Village should have this lead line replacement completed by 2044, although the federal EPA has now issued a mandate that the project needs to be completed by 2034. Mr. Recklaus indicated that Staff has reached out to some local and statewide political leaders to get some direction and possibly seek exemption from the federal mandate, as the state already has a robust plan in place.

Mr. Recklaus advised that the Village has already replaced over one hundred of these lines and plans to continue with the process, but wants to be able to do it at a reasonable pace, as the lead lines constitute about 23% of the Village's water lines. The Village does not qualify for any funding under the federal or state programs, as it's all needs based, although Staff will continue to explore grants from other agencies to help. Mr. Recklaus advised this is a serious issue and the Village needs to do put as much extra money that they can find into this Fund, as they want to be consistent with the law. Mr. Kuehne advised that because of the age of our community, we have more lead lines than most, with 4,200 service lines. Mr. Kuehne stated that it is currently unknown if the Village has 10 or 20 years to do this, and because there is no dedicated source of revenue, Staff is trying to put as much revenue in this Fund, while they can. The budgeted numbers are for the worst-case scenario, and as of right now, there is nothing budgeted for the private

side of the process, so if the Village wants to help residents pay for it, they'll have to budget some money for that. In addition, Mr. Kuehne advised that in 2029, when the next five-year bond issue opportunity comes up, the Village might have to use all or most it for this particular program, depending upon where things are at that time. If more can get done in-house, or grant money is available, that could change things. The other factor is costs, because if all of the communities will be doing this at the same time, there will be a limit when it comes to those people who can actually do this work, which will make the cost go up. Mr. Recklaus advised that while this work is being completed, our Village will have less people to do the regular water main replacement work and there will be less funds to do the regular water main replacement work, as there is only so much money to go around, so some of these costs might have to be deferred or paid out at a higher cost. Mr. Recklaus stated that this is the Village's number one fiscal challenge right now. Mr. Kuehne advised that if the Village doesn't use a bond issue for this, they will have to look at water and sewer rates, which would see significant increases. The total cost for this project is \$40 million. Mr. Kuehne advised that Staff is recommending a transfer of \$5,750,000 from the 2023 General Fund Surplus to the Lead Service Line Replacement Fund.

President Hayes stated that he concurs with the recommendation and thinks it is a wise and prudent use of funds, especially since there is not a dedicated source of revenue for this mandate. President Hayes asked what other states are doing, which Mr. Recklaus advised that he is not entirely sure, but does believe our state is ahead of the pack. President Hayes stated that he is curious why the federal government would be so aggressive and bump the date up to 2034, which Mr. Kuehne stated that he thinks it might be a political issue to a certain extent, because of what happened in Flint, Michigan. Mr. Kuehne advised that unlike Flint, Michigan, our water is treated and safe. Mr. Recklaus stated that in Flint, Michigan, it was a combination of lead service lines and them not treating their water the appropriate way that caused the issue. Mr. Recklaus advised that our Village has already begun replacing the lead service lines, although when you treat your water properly, it's not an imminent issue.

Trustee Grasse stated that she is also in agreement with using the budget surplus for this Lead Service Line Replacement Fund. This is something we have to do and will save us all in the long run and is a priority. Trustee Grasse asked about the sales tax moderating and if that is something that is unique to our area, or if it's happening everywhere. Mr. Kuehne advised that the people he has spoken with are seeing the same thing happening. Mr. Kuehne stated that this is a natural thing, especially following the pandemic, and is occurring nationally. Trustee Grasse asked about the labor needed to replace a service line and if it would be more beneficial financially to hire more staff who only do this. Mr. Recklaus explained how existing staff has already begun replacing these lines, but the nature of the work is seasonal and if the Village were to hire more staff, there might not be anything for them to do when the weather is not conducive for this kind of work. Mr. Kuehne advised that on the spreadsheet, they do show that there is \$100,000 per year for internal work, which includes equipment and staff hours.

Trustee Tinaglia asked if the total number of service lines is 4,200 and the total

cost is \$40 million, which Mr. Kuehne stated yes. Trustee Tinaglia asked what the Fund's balance will be if this transfer is made, which Mr. Kuehne advised it will be \$23 million. Mr. Recklaus stated that they are budgeting \$11 million in the 2024 budget as well. Trustee Tinaglia asked about the pension funds and the money that has been transferred into those funds in the past, and if Staff doesn't think another transfer of money is more important or equally as important as this issue and will save us money down the road. Mr. Recklaus stated that when they look at their prioritization of where money should be spent, obviously first and foremost is public safety and responding to emergencies regardless of anything else, with the second priority being, is the Village meeting their legal obligations under the law. The Village is meeting all of their pension obligations, and if action is not taken on this issue, the Village will not be meeting legal obligations. Therefore, right now, this takes precedence over funding pensions. Trustee Tinaglia advised that this makes sense to him if Staff believes this is the priority right now.

Trustee Schwingbeck stated that he has no issue with this at all and asked about the properties that have already had these lines replaced and if the work is being done on the line from the water main on the street to the house. Mr. Recklaus advised that there are two components to this, a private line and a public line. The public side goes from the street to the Buffalo Box (B Box), which the Village maintains. The private side is the line from B Box to the house. Staff will be looking at different ways to possibly help with the resident's costs. Trustee Schwingbeck asked if there are any rules regarding how the line should be fixed and what type of materials should be used. Mr. Recklaus advised there are standards within the industry, and whatever processed is used, the lead pipe must be removed.

Trustee Dunnington stated that she thinks this is a very good recommendation to use the money for lead service line replacement. She asked if the money didn't go to this, would it all go to the police and fire pension funds, or are there other priorities the Village has that they would want to fund, which Mr. Kuehne advised that police and fire pension funds would be a recipient of these funds, as well as fleet. Mr. Kuehne advised that this is an obligation that is coming at them fast, so something needs to be done. Mr. Recklaus advised that the parking fund is another fund that would benefit from this money. Trustee Dunnington asked about the 2029 bond and if the plan for this money includes the senior center remodel, which Mr. Recklaus advised that it does, however, the Village will have to evaluate the Village's needs at that time. Trustee Dunnington asked if the Village will continue to treat the water after the lead service line replacement project is finished, which Mr. Recklaus advised that the Village will maintain the same treatment process, as a lot of people still have lead solder in their homes.

Trustee LaBedz asked how many lead service lines is Public Works replacing every year, which Mr. Recklaus advised that he doesn't have an exact number, but he believes they did over 100 last year, and should be able to do the same this year, if not more. Trustee LaBedz stated that she is fully in support of doing this.

Trustee Baldino stated that he supports this as well and asked if the Board can get an update on the pension funds. Mr. Kuehne advised that comparing funds statewide, the police and fire pension funds are on the high end, with police around

86% funded and fire is a little lower in the 80's. Mr. Kuehne stated that the Village has always paid the actuary amount at least, or above, which they have been able to do for a number of years.

Trustee Schwingbeck moved, seconded by Trustee Baldino, that the Committee-of-the-Whole recommend to the Village Board of Trustees that the Board approve the proposed 2023 General Fund Surplus Transfer of \$5,750,000 to the Lead Service Line Replacement Fund.

Upon a voice vote, the motion passed unanimously.

Mr. Moens, Arlington Heights resident, stated that he encourages the Board to vote yes for this motion, as it is always good when they can transfer a surplus out of the General Fund anywhere. Mr. Moens advised that this good news should allow for another 0% tax levy, for the sixth consecutive year.

B. Revised Village Investment Policy

Ms. Juarez advised that the Finance Department periodically reviews the Village's Investment Policy, to ensure that it is in allowable investment limits of the Illinois State Statute and they also want to adhere to the Government Finance Officers Association (GFOA) recommended practices. Ms. Juarez advised the last time the Policy was amended was in March of 2020.

Ms. Juarez discussed the proposed revisions to the Investment Policy, including the ability to invest in paper commercial, as well as paper notes, and allow for one-third of the Village investments to be invested in these two types of investments, which is an increase from one-fifth. Another proposed revision involves the money market fund portfolios which would limit the Village to only invest in government securities, including treasury bonds, notes and government agencies. Also, the allowable rating on an interest-bearing note has changed from AA or better, to a rating of A or better in three of the highest classifications, and can now include bonds from any political subdivision or agency of the State, which would be a water district or part district. The Village will also be adding a clarifying statement that all sector and rating limits apply to the time of settlement date versus the purchase date. Investment parameters have increased from no more than three years to 5.5 years from the date of settlement. The Village attempts to match investments with their cash flow projections. Ms. Juarez explained how over the last few years, the Village has invested in 3 to 6-month duration investments so they can take advantage of when the Feds would increase the interest rates. It is anticipated the Feds will be lowering their interest rates, therefore the Village wants to take advantage of the higher interest rates for longer terms, if they can, to get the maximum interest rates over the next few years.

Ms. Juarez referred to their investment report, which shows all the investments broken down by categories that they invest in, and right now it's cash accounts and local government investment pools. Ms. Juarez stated that they do hope to secure some investments that will give them good investment rates over the next few

years when the rates start to drop.

President Hayes stated that he really trusts Ms. Juarez and Mr. Kuehne's recommendations with this and asked about the Village Investment Officer and if it indeed it is the Finance Director, which Mr. Kuehne stated that is correct. Mr. Recklaus advised that on page 3, section 3, of the Investment Policy, it does state "authority to manage the investment program is granted to the Finance Director/Treasurer, (herein referred to as the investment officer)."

Trustee LaBedz asked what the rationale is for investing in smaller levels of government, such as park districts, which Mr. Kuehne advised there might be an opportunity, depending on the interest rate, where someone is selling something that the Village wants to support. Mr. Kuehne stated that generally the Village would not go in that direction, but it is allowed by state statute. Trustee LaBedz asked how they might find out about an opportunity like that, which Mr. Kuehne advised that it would be the investment advisors who would provide this information. Trustee LaBedz stated that she is supportive of the changes.

Trustee Tinaglia discussed the 3 to 6-month short term investments and asked if the Village uses investment advisors, as finding these investments and keeping an eye on them seems like a lot of work, which Mr. Kuehne advised that it is a lot of work and they do have investment advisors and local bank advisors that do help them. Mr. Kuehne reiterated what Ms. Juarez discussed regarding their intention to lock in on some of these higher interest rates for longer durations, which will put them in a better position. Trustee Tinaglia stated that he thinks it's amazing what Mr. Kuehne and Ms. Juarez do when it comes to the Village's investments and the good decisions they make. Mr. Recklaus stated that our Village is very lucky to have them, as they are very good at what they do.

Trustee Dunnington asked about the ethics and conflicts of interest portion of the investment policy and if there are any controls for the investment people and advisors at the banks, that they don't have a relationship with Arlington Heights. Mr. Kuehne advised that anyone they invest with gets a copy of the investment policy, but in terms of ethics, there will always be a risk, which is why they choose to deal with people they know.

Trustee LaBedz moved, seconded by Trustee Grasse, that the Committee-of-the-Whole recommend to the Village Board of Trustees that the Board approve the proposed changes to the Village's Investment Policy.

Upon a voice vote, the motion passed unanimously.

Other Business

Trustee Tinaglia discussed the Illinois Energy Efficiency Code and advised that when buildings are designed, there needs to be a certain amount of insulation and protection from the elements to protect the energy sources. Trustee Tinaglia advised that every three years the book is updated and in the updated version that

just came out, there is an item in it, that has to do with electric parking charges in parking garages. The new code requires private parking garages to be piped and have enough power going to the building to service chargers at every single stall. Trustee Tinaglia asked about unfunded mandates and if the Village will be required to install electric chargers on all the stalls in all of the public parking garages. Mr. Recklaus advised that he is aware of this possibility, but up until this point, it's just been conversations, and nothing has been confirmed yet.

Adjournment

Trustee Baldino moved, seconded by Trustee Schwingbeck, to adjourn the meeting at 8:00 p.m. Upon a voice vote, the motion passed unanimously.