COMMITTEE-OF-THE-WHOLE
MINUTES OF THE MEETING OF THE PRESIDENT AND THE BOARD OF TRUSTEES OF THE VILLAGE OF ARLINGTON HEIGHTS
VILLAGE HALL COMMUNITY ROOM
TUESDAY, NOVEMBER 12, 2013
7:30 P.M.

BOARD MEMBERS PRESENT:	Mayor Thomas Hayes, Trustees Blackwood, Farwell, Glasgow, LaBedz, Rosenberg, Scaletta, Sidor & Tinaglia
STAFF MEMBERS PRESENT:	Bill Dixon, D. Mikula, T. Kuehne, C. Perkins, B. Enright, M. Juarez, P. Robb, P. Wilkiel
OTHERS PRESENT:	S. Zalusky, Daily Herald, S. Ho, Chicago Tribune,

SUBJECTS:

4. Hickory Kensington Area:
   Tax Increment Financing District Qualification Report
5. Review of FY2013 Comprehensive Annual Financial Report (CAFR) – Mr. Dan Berg, Partner, Sikich, LLP
6. Proposed 2013 Property Tax Levy
7. Operating Fund Overview/Recommended Budget Ceilings - FY2015
8. Other Business
9. Adjournment

President Hayes called the meeting to order at 7:30 PM.

4. Hickory Kensington Area:
Tax Increment Financing District Qualification Report

Mr. Dixon started by saying that the Hickory Kensington area study was authorized by the Board in July of this year and said that Kane McKenna was of the opinion that the area qualifies as a TIF District by meeting necessary factors. He went on to say that if the Board chooses to move forward, the next step would be to draft a redevelopment plan which would detail the goals and objectives of a possible TIF and would outline project cost estimates. **Mr. Dixon** also stated that there would be an extensive public hearing process where the public would have opportunities to comment.

Charles Perkins introduced Bob Rychlicki of Kane, McKenna & Associates saying that he did the first phase of this study and said that Bill Enright is the project coordinator for the Village. **Mr. Perkins** reminded the Board that they approved the Hickory Kensington Plan in January, and the rezoning of that area in June of this year, and that this step was to determine if the area qualifies for a TIF District.

Mr. Rychlicki said that with assistance of Village staff, research was done over the last three months and said that it was determined that the Hickory Kensington area qualifies for a "conservation area" or TIF District. He explained that in order to qualify as a conservation area under the TIF Act a threshold factor as it relates to the age of structures needs to be met and if met, three out of thirteen factors identified in the TIF Act have to be demonstrated to be found. **Mr. Rychlicki** stated that six of those factors have been found and said that if the Village chose, they would have the basis for a TIF District for this area.

Mayor Hayes asked if there was a difference between criteria for a blighted area and a conservation area. **Mr. Rychlicki** stated that the thirteen factors are the same, but that the age threshold was the only difference. He stated that because of the age of the structures and with some of the Village's goals as it relates to this area, his professional opinion was that the conservation area was the best way to go. **Trustee Scaletta** asked if blight was considered. **Mr. Rychlicki** said that they try not to dictate an opinion from the beginning and said that if you go with a conservation area, the idea is that it could be blighted but it was not there yet. **Trustee Labedz** asked if there were differences on how the TIF is administered or on how it operates if it was designated as blighted or a conservation area. **Mr. Rychlicki** stated that it has no impact on the implementation of the program.

Trustee Rosenberg questioned the "Lack of Community Planning" factor. **Mr. Rychlicki** said it doesn't question whether you planned for the area, but relates to the development of the area prior to implementation of plans. **Trustee Rosenberg** also asked about the "stagnant equalized assessed value" (EAV) factor. **Mr. Rychlicki** stated that the area met all parts of that factor.

Trustee Glasgow asked Mr. Rychlicki why he thought there are barriers to successful redevelopment in that area without a TIF. **Mr. Rychlicki** said there were a number of reasons including the age of the existing infrastructure, storm water management for more dense uses, concern with drops in real estate valuation, and their associated costs etc. **Trustee Glasgow** also asked how a TIF would help facilitate this areas growth. **Mr. Rychlicki** said that if the Board decides to move forward to the next phase, the identification of a plan, there would be budget items that would allow for potential funding for some impediments which may include environmental remediation, provision of infrastructure, assistance in assembly of property, or relocation, etc.

Trustee Glasgow asked if TIF Funds have been used for storm water management in the past. **Mr. Perkins** stated that common use of TIF funds include public infrastructure, such as streets and extension of storm sewers. He added that any development would have to provide storm water detention and said without TIF funds to assist, it can preclude development.

Trustee Scaletta asked if the Park District was made aware that Recreation Park has been added to the Hickory Kensington area for redevelopment. **Mr. Dixon** stated that it has been discussed with the Park District. **Trustee Tinaglia** asked if Kane McKenna worked with staff to define the perimeter of the proposed redevelopment. **Mr. Richlycki** stated that based on some of the infrastructure, adding the park evolved and seemed to be a good addition.

Trustee Scaletta stated that the Planning Department did a nice job in providing a lot of background data and asked about the amount of savings for the Phase I study. **Mr. Enright** stated that all the bills have not yet been received, but is hopeful that the total amount will be less than what was budgeted. He added that he had provided Kane McKenna a lot of information which saved them time with research, saving the Village money. **Mr. Enright** stated that the Planning Department will be providing Kane McKenna a lot of budgetary numbers for Phase II, saying that it will be an extensive and time consuming process.

Trustee Blackwood asked that in going forward with the actual development, if underground utilities other than gas and water were planned. She voiced her concern with storm issues and loss of power with overhead utilities. **Mr. Enright** stated that it would be one of the goals, but that it is very cost prohibitive and is a supporting reason for financial assistance if a developer comes forward. **Trustee Sidor** asked that since the combined sanitary and storm sewer system along Hickory from Kensington to Minor was over 75 years old, if it was planned to tear it all out. **Mr. Enright** stated that there would be extensive public improvement costs and that it would be included in the TIF District plan.

Mr. Enright said that if the Board authorizes Kane McKenna to go forward with the redevelopment plan, there will be more definitive budgetary items generated from staff that will include sanitary storm sewers, water mains, streets, and utility lines buried if feasible.

Trustee Tinaglia asked that when the entire proposed redevelopment area is defined, how people are notified. **Mr. Rychlicki** said the purpose is to be more transparent and that there is a defined process. He continued to explain the series of notifications that are done.

TRUSTEE <u>GLASGOW</u> MOVED, SECONDED BY TRUSTEE <u>LABEDZ</u> THAT THE COMMITTEE-OF-THE-WHOLE RECOMMEND TO THE VILLAGE BOARD APPROVAL OF THE EXECUTION OF A CONTRACT WITH KANE MCKENNA AND ASSOCIATES, NOT TO EXCEED $20,500 FOR PHASE TWO. THIS PHASE INCLUDES DRAFTING THE REDEVELOPMENT PLAN AND TO COMMENCE THE PUBLIC HEARING PROCESS FOR CONSIDERING A TIF DISTRICT FOR THE HICKORY KENSINGTON AREA. The Motion carried unanimously.

5. Review of FY2013 Comprehensive Annual Financial Report (CAFR) – Mr. Dan Berg, Partner, Sikich, LLP

Mr. Dixon explained that State law requires the Village issue an annual report on its financial position and activity presented in conformance with accounting principles generally accepted in the United States (GAAP). He said that the Village's financial statements have been audited by Sikich, LLP and said that the goal of an independent audit is to find reasonable assurance that the financial statements of fiscal year ending April 2013 are free of material misstatement. **Mr. Dixon** stated that the auditor has concluded that based upon the audit, there was a reasonable basis for rendering an unmodified opinion that Village's financial statements are presented fairly in conformance with GAAP. **Mr. Dixon** then introduced Mr. Dan Berg, Partner with Sikich.

Mr. Berg complimented Finance Department staff for a great job of preparing for the audit which allowed Sikich to complete the field work and prepare the report in a timely basis. **Mr. Berg** explained that the Independent Auditor's Report is the only section of the CAFR that is Sikich's and that it states their positive opinion that the financial statements fairly represent the results of operations and financial position of the Village.

Mr. Berg highlighted some areas, saying that General Fund had a positive year, but noted that the Water Fund had somewhat of a negative year due to ongoing capital projects. He went on to say that the Village's pensions are all funded with the actuarially required contribution amounts; IMRF is 68% funded, Police Pension is 71% funded, and Fire Pension is 62% funded. He added that the Police and Fire pensions increased their funding percentage by about 3% and said that they both had positive net incomes this year.

Trustee Rosenberg asked if there was anything regarding Sikich's standards that the Board would have to adopt and that would affect the statement. **Mr. Berg** stated that in FY2014 GASB 61 will be implemented, which deems that the Library has neither a financial benefit or burden to the Village, therefore the Library will be removed from this report and have its own report. **Mr. Berg** went on to say that in FY2015 the Government Accounting Standards Board (GASB) will require the Village's actuary to change its methodology in determining the accrued liability, which in turn, will affect calculation of contributions to the pension funds. He added that it will be incorporated into the Village's report in FY2016. **Mr. Kuehne** stated that the actuary is currently using two methods of calculations and said that the Village uses the GASB calculations, which are higher, and said they will continue to do so.

TRUSTEE SCALETTA MOVED, SECONDED BY TRUSTEE FARWELL THAT THE COMMITTEE-OF-THE-WHOLE RECOMMEND TO THE VILLAGE BOARD THAT THE FY2013 COMPREHENSIVE ANNUAL FINANCIAL REPORT BE ACCEPTED. The motion carried unanimously.

Mayor Hayes called on Trustee Rosenberg regarding a point of order. **Trustee Rosenberg** thought it would be in the best interest for discussion of the tax levy to have staff give an overview of the Operating Fund and Recommended Budget Ceilings first.

7. Operating Fund Overview/Recommended Budget Ceilings - FY2015

Mr. Dixon stated that the General Fund and the Water & Sewer Funds are the Village's key operating funds. He said that for the financial review and three-year projections, conservative revenue assumptions have been made and full staffing levels have been assumed without regard to temporary vacancies that occur each year. He said that these projections can be considered worst-case scenarios for the future, and is more evident in the General Fund because of the variety of revenue sources that are dependent on the local economy. He also said that the Water & Sewer Funds' revenue stream is based on user fees which are more predictable but vary depending on usage and oftentimes weather.

Mr. Dixon went on to say that General Fund revenues are coming in better than expected through September and are projected to continue to do so through the end of the current fiscal year. He continued by saying that two of the largest revenue sources for the General Fund are income and sales taxes, and said that both of them are significantly affected by the economy as evidenced in FY2009 and FY2010. He said that those declines had a profound effect on the Village's finances and cash flow position that required the Village to reduce its staffing level by nearly 10%, or about 45 positions, and said that the Village's current staffing level has not increased since that time.

Mr. Dixon said the Water & Sewer Fund will continue to maintain a healthy cash balance through the next fiscal year, but said that in order to ensure that the fund maintains an adequate working cash reserve, it is staff's intent next summer, to prepare a rate analysis and provide a survey of water and sewer rates for communities in the Chicago area prior to the development of FY2016 budget. He explained that projections for the next two years show a growing revenue and expense gap which does not include any water and sewer rate adjustments.

Mr. Dixon stated that setting the ceilings for the two major funds is part of the budget process, which began last month with the Board's approval of the Capital Improvement Plan (CIP). The second step is the development of the annual property tax levy which is based on statutory pension and debt service requirements, with the balance of the levy going toward the Village's street program and basic Village services. The third step includes the financial review of the General Fund and the Water Fund, and stated that these steps are key points in the development of the proposed budget given the Board for their review in March.

6. Proposed 2013 Property Tax Levy

Mr. Dixon said that pension related levies comprise nearly 40% of the Village's tax levy and said that pension levels, employee contributions, and employer contributions are governed by State Statute and can only be amended by the State. He said that in recent years, the State legislature made significant changes to the IMRF and public safety pension plans by reducing the long-term costs of these plans and included the creation of a two-tiered system. The two-tiered system reduces benefits for employees hired after January 1, 2011 by increasing the retirement age, reducing pension benefits, and imposing a final rate of earnings cap. **Mr. Dixon** added that the bulk of savings generated by the two-tiered system will take a number of years to effect the actuarial value of the plan.

Mr. Dixon stated that the proposed 2013 property tax levy request for the Village and the Arlington Heights Library reflects a 2.06% increase, includes lowering the actuarial interest rate assumption from 7% to 6.75% and represents an increase of about $22 per year for an average homeowner.

Mr. Kuehne gave an overview of each of the three tax levy options that were provided to the Board; Option A has no changes to the Police and Fire actuary assumptions, Option B has an interest rate assumption change from 7% to 6.75% and no change in wage assumptions, and Option C, the recommended option, has an interest rate assumption change from 7% to 6.75% and a wage assumption change from 5.5% to 4.75. **Mr. Kuehne** explained that the total amount the Village will pay over the years will be the same with any of the options, but said that the difference is, that based on the different assumptions, the Village would pay a bit more now rather than later.

Trustee Tinaglia asked if there was any way to have a 0% increase in the tax levy. Mr. Kuehne explained the different parts of the total tax levy saying that the actuary tells the Village most of the amounts that need to be paid. He said the only area of the property tax levy that can be adjusted is the corporate fund (General Fund) and said that going to a 0% increase would create a $643,000 deficit.

Trustee Farwell asked what would be a safe pension funding percentage that would protect staff's retirement and not over burden the taxpayers. **Mr. Kuehne** said that the Village's Police & Fire pensions are currently funded in the low 70% and that various actuaries deem 75-80% as a decently funded minimum. Trustee Farwell then asked about using some General Fund reserves in order get to a 0% levy.

Mr. Kuehne stated that the bulk of the Village's revenues are fairly constant each year, and said that expenditures always go up. He said that unless other revenues, like fees and fines are increased, it would be hard to close the deficit. He said that on the expenditure side, you would need to reduce personnel costs, which represents 80% of the General Fund's costs.

Mr. Kuehne also said that reserves need to be kept at good levels because the key revenue sources, income and sales taxes are volatile. He added that having a healthy fund balance helps with keeping good bond ratings, with unexpected natural disasters, and would help if the State decides to stop its payments of income tax. **Mr. Kuehne** said he felt it is better to do a levy in small amounts, rather than have to come back the following year with a high tax levy. He recommends the 2.06% increase saying that the timing is right on making a change on the actuary assumptions and because it would be a conservative, long-term financial maneuver. **Mayor Hayes** stated that he would like to see a 0% increase but agreed with Mr. Kuehne in having a small levy increase now rather than having a large one in the future.

Trustee Rosenberg agreed that the Village has to look at a long-term perspective, and noted how the uncertainty of the State's issues presents the Village with concerns and with having to do projections based on worst-cast scenarios. He also agreed to maintaining a healthy fund balance, and to changing the actuarial assumptions, but said he would like to see the tax levy lowered between a $50,000 to $100,000 range. **Mr. Kuehne** did calculations on lowering the levy on different amounts saying that the funds would come from the General Fund contingency account. **Mayor Hayes** wanted it clarified that the funds would not come from reserves. **Mr. Dixon** said that the Village worked hard at getting to the point where we are not relying on reserves and said we would like to avoid using them for operations. **Mr. Kuehne** agreed. **Trustee Rosenberg** stated that he would be comfortable in supporting lowering the levy by $100,000. **Mr. Kuehne** said lowering the levy by $100,000 would be a 1.84% tax levy increase, for an average $19 per homeowner.

Trustee Scaletta asked how much is anticipated to be added to the reserves this year. **Mr. Kuehne** stated nothing. **Trustee Scaletta** wanted it clarified that the Village's financial picture is better right now, but said residents are still struggling. The other trustees agreed.

Trustee Glasgow asked Mr. Kuehne if he was comfortable with lowering the levy by $100,000. **Mr. Kuehne** said that it was a bit riskier than what was proposed, but said some of the numbers will be refined during the budget process, and said he felt if the Board was more comfortable with the proposed actuary assumption changes, that would be a more important long-term benefit for the Village.

Trustee Sidor agreed with the other trustee's points and said he is comfortable with lowering the levy by the $100,000. He also said that when the departments start working on their budgets, he would like them to look at what is necessary and challenged staff to find $100,000 in cuts, other than in personnel, pensions, and insurance before we go through the budgeting process. **Trustee Sidor** said that the Board is viewed as the people who steer the community and possibly set precedent for other entities and taxing bodies.

Trustee Tinaglia stated that we should look at the Village more like a business, saying that it is costing everyone more to live. He stated that he feels it is necessary to vote no on any increase to the tax levy, and said that he hopes that during the budget process the Village can find the $900,000 that the tax levy would generate and be able to hold the line on expenses.

Trustee Scaletta said that he would like to see a 0% increase, but said that the Board is responsible for balancing the budget and said that during the budget process, the Board will find items that can be cut. **Mayor Hayes** concurred and said that the Board is committed to taking a balanced approach towards our budgetary process, and said the Board will look at both the expense and revenue side as they go forward through the process and look for ways to cut the budget and save residents money.

Trustee Blackwood said the Village's minimum reserve required amount is 25% and asked what percentage of reserve constitutes a AA rating for bonds. **Mr. Kuehne** stated that it is not an exact percentage and said that it depends on a number of things; the Village's revenue source base, whether the Village is dependent on economic swings, and what the total debt is, to name a few. He said the rating agencies feel that the Village is in a healthy situation and said that given the Village's revenue stream can be volatle, it helps having the fund balance we do. **Mr. Kuehne** added that he continues to push for a bond rating upgrade, saying that he felt the Village should have a AAA rating.

Trustee LaBedz stated that she supports the tax levy increase. She said that she is aware that residents are still struggling, but said at the same time the community has challenges that are costly such as flooding issues and the EAB. She said that she wants to make sure that the Village is in a good financial position, and would be concerned if we did something that would affect our bond rating and increase costs.

TRUSTEE GLASGOW MOVED, SECONDED BY TRUSTEE ROSENBERG THAT THE COMMITTEE-OF-THE-WHOLE RECOMMEND TO THE VILLAGE BOARD TO AUTHORIZE STAFF TO PREPARE THE VILLAGE'S AND THE ARLINGTON HEIGHTS MEMORIAL LIBRARY'S 2013 TAX LEVY ORDINANCE REFLECTING AN ESTIMATED TOTAL TAX LEVY OF $44,575,400 OR A 1.84% INCREASE OVER THE 2012 TAX LEVY FOR THE VILLAGE AND LIBRARY PORTION OF THE LEVY.

AYES: 8
NAYES: 1 Tinaglia

The motion carried.

TRUSTEE SCALETTA MOVED, SECONDED BY TRUSTEE FARWELL THAT THE COMMITTEE-OF-THE-WHOLE RECOMMEND TO THE VILLAGE BOARD APPROVAL OF THE FY2015 BUDGET CEILINGS OF $69,887,100 FOR THE GENERAL FUND; AND $16,104,100 FOR THE WATER & SEWER FUND. The motion carried unanimously.

Other Business

There was no other business.

Adjournment

There being no further business to discuss,

TRUSTEE GLASGOW MOVED, SECONDED BY TRUSTEE SCALETTA TO ADJOURN THE MEETING AT 9:40 P.M. The motion carried unanimously.