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 24, 2024
7:00 P.M.

BOARD MEMBERS PRESENT:	Mayor Thomas Hayes, Trustees Baldino, Bertucci, Grasse, LaBedz, Schwingbeck, Shirley, and Tinaglia
STAFF MEMBERS PRESENT:	R. Recklaus, T. Kuehne, M. Juarez, A. Smulson, K. Baumgartner, D. Mikula, and M. Mattio
OTHERS PRESENT:	Martha Trotter of Sikich, LLP

SUBJECTS:

A. Review of the 12-month Period Ending 12/31/23 Annual Financial Report – Sikich, LLP
B. Review of the 2025-2029 Capital Improvement Program
C. Operating Fund Overview/Recommended Budget Ceilings – 2025

President Hayes called the meeting to order at 7:00 PM.

Review of the 12-month Period Ending 12/31/2023 Annual Financial Report – Sikich, LLP

Ms. Juarez thanked Finance staff for their hard work during the audit and mentioned this was the first audit completed after the implementation of the new ERP software. She introduced Martha Trotter, Partner with Sikich LLP. Ms. Trotter presented the key results from the Village's 2023 Annual Comprehensive Financial Report (ACFR), the Board Communication, the Management letter which is required in accordance with IL compiled statutes, and the Village's single audit report required based on the level of grant activity. Within the introductory section of the ACFR, Ms. Trotter highlighted the Certificate of Achievement for excellence in financial reporting. It was awarded to the Village for excellence in financial reporting and transparency of financial statements for the fiscal year ending December 31, 2023.

In regards to the Independent Auditor's Report, Ms. Trotter was pleased to present a clean and unmodified opinion, which is the highest level of assurance can be provided. She noted that within the Independent Auditor's Report there is a new paragraph related to the implementation of GASB Statement No. 96, which relates to the accounting for subscription-based information technology arrangements.

Ms. Trotter said the Management Discussion and Analysis provided an executive summary of the financial statements and context on variances and what may have caused the variances compared to the prior years. The statement of net position and statement of activities were presented on a full accrual basis. Both the Governmental Activities net position and the Business-type activities increased $9.7M over the previous fiscal year. The General Fund's fund balance saw an increase of $1.6M over the previous year. The General Fund has an unassigned balance of $32.8M which is roughly 40% of the fiscal year's expenditures. This portion of the General Fund's fund balance is available without any restrictions to fund future operations. The Water & Sewer Fund also saw an increase of $2.7M in its net position over the previous fiscal year.

Ms. Trotter concluded by mentioning the statistical section within the ACFR. This section provides ten years of historical data related to financial, demographic, and economic information, and information associated with significant revenue sources.

Trustee Bertucci asked if the adjustments within the report are related to GASB. Ms. Trotter said that was correct and added that the $1,500 adjustment pertained to an allocation to equity that needed correction for the Library.

Ms. Trotter said the Board Communication would list any material weaknesses and/or significant deficiencies, and was pleased to inform the Board there were none. Village staff was professional and responded to requests in a timely manner.

Trustee LaBedz inquired about the consolidation of the Village's Fire Pension Fund with the State's Fire Pension Investment Fund and asked if the Village has any input on what that Board does. Mr. Kuehne said that the change is only for investment matters and that the State Fire Pension Investment Board provides monthly reports to show its progress. The State's Fire Pension Investment Board is comprised of executive trustees and employee trustees elected on a state-wide basis by their peers, and operates under the advisement of, professional investment advisors and an Executive Staff Director. The Village does not have input on Board decisions unless a Village member is elected to sit on the Board. The Village's Fire Pension Board would continue to handle administrative duties. He added that the Police Pension Fund will be consolidated with the State's investment fund in November 2024 after being part of a losing lawsuit to continue to manage its own pension fund.

Trustee Shirley asked for an explanation of the Police Pension Fund lawsuit and if the Village's Police and Fire Pension Funds are at risk of being underfunded at the hands of the State. Mr. Kuehne explained that the State passed legislation to bring the investment function of the pension funds to the state level to allow for smaller pension funds an equal opportunity to have a diversified investment program. The Village's Police Department along with some other police and fire departments filed a lawsuit to fight the legislation, as they felt there was no benefit in combining the plans. The lawsuit reached the Illinois Supreme Court who ultimately ruled that the consolidation of the Pension Funds' investments was valid. Mr. Kuehne's opinion is that the risk of the Police Pension Fund being underfunded at the State level is less than other State-run funds, as the decision makers on the Board is comprised of employees and executive trustees who have interests in the fund.

Ms. Cayer asked if Mr. Kuehne was and IMRF Board member. Mr. Kuehne confirmed he was. Ms. Cayer asked if it was common practice for the Foreign Fire Insurance Fund to have $500,000 in reserves. Mr. Kuehne said that the Foreign Fire Insurance Fund is run by a separate Board composed of the Village's Fire Chief and firefighters. The fund is used for purchases that may not be covered by regular operations. Mr. Recklaus added that the fund was not created by the Village, rather it was a state statute and the fund is allowed to have reserves.

TRUSTEE LABEDZ MOVED, SECONDED BY TRUSSTEE GRASSE THAT THE COMMITTEE-OF-THE-WHOLE ACCEPT THE 12-MONTH PERIOD ENDING DECEMBER 31, 2023 ANNUAL FINANCIAL REPORT.

The following voice vote was recorded:

8 Ayes **0 Nays**

The motion passed.

Review of the 2025-2029 Capital Improvement Program

Mr. Recklaus stated that every other year a 5-year Capital Improvement Program is created to forecast maintenance and acquisition expenditures of capital items. The 2025-2029 Capital Improvement Program was developed with much consideration from all Village Departments and residents to identify and prioritize Village needs.

In terms of debt service, there will be a $20 million bond sale scheduled for 2024 to replace maturing debt. Mr. Recklaus recommended that $5 million go into the Water & Sewer Fund, $13 million into the Lead Service Line Replacement Fund, and $2 million to the Municipal Parking Fund. Mr. Kuehne added that the bond is deposited into the Capital Projects Fund and then transferred to different funds using existing reserves. The bond proceeds will be designated to be used for street purposes, to meet the three-year spend down requirement for the bond.

Trustee Bertucci asked if the Village is committed to the bond sale in August or if it can wait until end of 2024, beginning of 2025 when it is predicted that interest rates decrease. Mr. Kuehne said that staff can discuss timing with the Village's bond consultant. However, Mr. Recklaus recommended that the bond sale occur within the levy year to avoid an increase in the levy.

Mr. Recklaus highlighted some of the major projects in 2024, including an investment of $13.6M for streets, $3.75M for Public Works Roof Maintenance Program, $6M for Storm Sewer Projects, $4M for Residential Meter Replacement Program, and $3M in expenditures for Lead Service Line Replacement Project. In 2025, he mentioned there will be $11.1M invested in Street Capital & Maintenance, $12M in Water & Sewer Capital expenditures, and $4.2M for Lead Service Line Replacement.

Trustee Grasse suggested the Village improve communication with its residents regarding upcoming projects whether it be via social media or QR codes.

Capital Projects Fund
Mr. Kuehne went on to discuss the different funds. In regards to the Capital Projects Fund, the property tax levy is proposed to be increased by $100,000 each year to account for the increase in street project costs.

Motor Fuel Tax Fund
In 2022 the Village received its last installment of the three year Rebuild Illinois Program. The additional revenues in the Motor Fuel Tax Fund allowed for a higher street rehabilitation program. Since then, the revenues have returned to its standard amount and will continue to remain the same in the out years.

Trustee LaBedz asked if the Village received those funds per capita. Mr. Baumgartner said the revenues were on the sale per gallon and distributed on a per capita basis.

Storm Water Control Fund
The fund began with $10M from a prior year's bond issue. It has an annual debt service payment of $690,000 that will continue through 2038.

Trustee Shirley asked if the stormwater lift station maintenance/replacement budgeted in 2028 and 2029 was for more than one. Mr. Papierniak said it is one project. They will begin with design in 2028 and construction in 2029.

In regards to the enhanced overhead sewer program, Trustee Bertucci asked if there is a continued demand for the program and how it is promoted to residents. Mr. Kuehne said that the demand correlates directly with when a high level of rainfall occurs. Mr. Recklaus added that the enhanced program is more generous, however the interest has diminished.

Water & Sewer Fund

In regards to the Water & Sewer Fund, revenues from 2025 to 2029 remain the same. In the fall, Public Works and the Finance Department will conduct an internal water and sewer rate study to determine the amount of a rate increase to avoid a fund deficit in the out years. It is the Village's goal to continue to invest at least $4M per year for the Watermain Replacement Program. Public Works has continued to work on the residential meter and AMR replacement program scheduled to be completed in 2025. Mr. Recklaus mentioned that when water meters are older, they tend to under report water usage. An indicator of that is that the Village has been purchasing more water than it's selling. The installation of new meters will provide a more accurate reading of water usage, and potentially reduce the rate increase amount. There are also water tank painting projects budgeted for 2025.

Trustee LaBedz asked if residents have experienced higher water bills as a result of the new water meters and more accurate readings. Mr. Recklaus said they certainly have noticed; however, it is appropriate as now they are paying for what they use.

Trustee Schwingbeck asked how sewage charges are calculated for those households who use well water. Mr. Kuehne said it's based on an average of water usage across the Village.

Lead Service Line Replacement Fund

The Lead Service Line Replacement Project was mandated by the State Federal Government to be completed in 2037. In order to fund this mandate, the Village will be utilizing monies from the 2024 bond issue and from future bond issues in 2029 and 2034.

Trustee Bertucci asked if the state or federal government offered any funding to comply with the lead service line replacement mandate. Mr. Recklaus said it was an unfunded mandate, however, local legislatures are trying to access different funding sources to help the Village partially fund this mandate.

Municipal Parking Fund

Prior to COVID, the fund saw about $1.25M per year in revenue from fees and fines. However, the number of commuters utilizing the parking garages has decreased significantly post-pandemic. The current revenue projection is $975,000 or 78% of prior years. In an effort to counteract the loss in revenue, the internal service charge going into the General Fund was eliminated. Monies from future bond issues will have to be used to cover capital expenditures to repair and maintain parking garages. Mr. Recklaus mentioned that visitors are becoming the higher percentage of users of parking garages and staff will be analyzing how to capitalize on that usage to help offset the loss in revenue.

Technology Fund

The largest expenditure has been the ERP software which should be finalized this year.

Criminal Investigation Fund
This fund is managed by the Police Department. Its revenues depend on monies received by Federal and State agencies.

TIF Funds
Mr. Witherington-Perkins presented on the different TIF funds. In regards to TIF IV which corresponds to International Plaza, he said the Village approved a memorandum of understanding in October, 2023 and have been working with the developer on the project. Meanwhile, TIF V has been very successful the last few years resulting in the issuance of $1M surplus monies to all taxing districts with schools receiving 60% of those monies. Mr. Witherington-Perkins predicted that there will be additional surplus monies distributed over the next few years. Uptown signage was completed in the Rand Road Corridor and the Village is working towards the next phase which includes pedestrian crossing, landscaped medians, and additional banners and signage. In regards to the Hickory/Kensington TIF, the Village acquired excess land for future development. The Board previously approved contracts with ComEd and AT&T to underground the utilities along the north side of Kensington Rd. In addition, there will be a commitment to pay up to 40% of the increment of the development to school districts if children reside at the 4 N. Hickory development. The S. Arlington Heights Road TIF district is under a major sanitary sewer upgrade project. That project must be completed before commencing other projects.

Mr. Recklaus discussed some unfunded projects. While the Board identified the redevelopment of the Senior Center as one of their goals, the budget didn't allow for the $18M estimated cost which will be reconsidered in the 2030 bond issue. Mr. Kuehne suggested removing the Metra STAR Line Station & Parking Lot project from the unfunded projects list as it's been listed for many years without any movement.

Trustee LaBedz asked if the CIP resident survey was anonymous as she noticed some of the suggestions were projects already in the works. She suggested either emailing participants or posting a message on social media regarding said projects.

Trustee Grasse mentioned that survey results show a high request for street and sidewalk repairs and the addition of bicycle and pedestrian walkways.

TRUSTEE BERTUCCI MOVED, SECONDED BY TRUSTEE SCHWINGBECK THAT THE COMMITTEE-OF-THE-WHOLE RECOMMEND TO THE VILLAGE BOARD THAT THE BOARD APPROVE THE FIRST YEAR OF THE PROGRAM TOTALING $49,803,600 BE INCORPORATED INTO THE VILLAGE'S PROPOSED 2025 BUDGET.

The following voice vote was recorded:

8 Ayes **0 Nays**

Motion passed.

<u>Operating Fund Overview/Recommended Budget Ceilings - 2025</u>
Mr. Kuehne stated that both the General Fund and the Water & Sewer Fund, which are the key operating funds, have a healthy fund balance. The Water & Sewer Fund will need a boost in terms of future water rate increases.

In regards to the General Fund, in past years the fund experienced some large increases in sales and income taxes. However, sales and income taxes have since started to decrease and are at or below what they were last year. Other variants in the General Fund include

$500,000 in additional revenues from ambulance fees and $1.2M in interest income. In regards to expenditures, Mr. Kuehne said the largest cost will be related to the Police and Fire Pension Funds. He explained that each year the actuary examines gains/losses within the fund, then smooths those gains/losses over the next three years to determine a required contribution. In 2022, the stock market under-performed and both the Police and Fire Pensions Funds experienced losses of over 20%. The Village will be required to contribute additional funds in 2024 and 2025 to make up for those losses. Mr. Kuehne proposed a 3.51% increase in the property tax levy in part due to the decreased revenue in sales and income taxes and the necessary additional contributions towards the Police and Fire Pension Funds. He also noted that 2025 health insurance costs are expected to increase by over 10%

Trustee Bertucci asked if increase in salary and wages is a factor for the proposed increase in the property tax levy. Mr. Kuehne said there are multiple factors for the $4M expenditure increase in the General Fund. Salary and wages increased by $1.87M from 2024 to 2025 based on union contracts, medical insurance expenditures are projected to increase at least 10% due to claims and usage, and the $1.38M combined contribution towards the Police and Fire Pension Funds. However, the IMRF contribution will decrease by $478,000 because the elevated sales and income taxes allowed the Village to pay down some of the unfunded liability in prior years. Trustee Bertucci noted that the increase in salary and wages and medical insurance costs are twice the amount of the increased contribution into the Police and Fire Pensions Funds. He disagreed with the message that the Police and Fire Pension Funds are the reason for a proposed increase in the property tax levy. Mr. Recklaus clarified that in the last few years surplus monies have been applied to overfund the Police and Fire Pensions Funds.

Trustee Grasse said that the Village is tasked with providing for the health, safety, and welfare of its residents and supported the increase in property taxes if it is for the benefit of the Police and Fire Departments who provide those services.

Trustee LaBedz recalled that surplus monies had been paid into Police and Fire Pension Funds, and asked for clarification on the extra IMRF contributions. Mr. Kuehne said that the additional IMRF contributions came from charging a higher rate to pay down some of the unfunded liability.

Mr. Kuehne went on to discuss additional expenditures in the General Fund related to an increase in staffing. The Police Department will gain an additional Sergeant to reduce other sergeant overtime, as well as a Victim Services Coordinator, and a Crisis Co-Responder which were previously covered through grants. The Village Manger's Office added a Communications Assistant whose salary will be funded in equal parts from Alfresco revenues in the Arts, Entertainment & Events Fund and the General Fund. Mr. Recklaus added that the idea of staffing a 5th ambulance full-time was presented to the Board, however the program is placed on hold due to budget realities.

Trustee LaBedz asked if the state's elimination of the 1% grocery tax will impact the Village and if it's reflected in the 2025 proposed budget. Mr. Recklaus said that change doesn't go into effect until 2026, therefore not impacting the 2025 budget.

Trustee Shirley inquired about streaming tax to help fund the 5th ambulance. Mr. Kuehne said the Village considered funding the 5th ambulance with revenues from streaming tax and the additional $500,000 generated from the increased ambulance rates. However, when developing the budget, the additional $500,000 in ambulance fee revenue had to be applied towards base revenue due to decreased sales and income taxes revenues. Mr. Recklaus added that streaming tax alone would not fund a 5th ambulance. The 5th ambulance has been in placed into service during peak times and when staffing permits.

Chief Harris confirmed the Village often received mutual aid from Rolling Meadows, Palatine, Buffalo Grove, and Mt. Prospect. He noted that this year alone the 5th ambulance has been in place 64 days, from 8:30 am to 4:30 pm, and has responded to 164 calls.

Trustee Tinaglia asked how the Village could keep the 5th Ambulance Program on track to be in service full-time as the safety of its residents is a priority. Mr. Recklaus said that the program would have a yearly expense of $1.2M. The expense would not be a one-time expense, rather an ongoing commitment. He assured Trustee Tinaglia of the Village's commitment to staff a 5th ambulance full-time, however budget constraints may not allow for it to be completely implemented in 2025. He added that imposing an additional increase in the tax levy at once could be burdensome.

Trustee Bertucci agreed that the 5th ambulance is highly important and Police and Fire should be a priority, over events such as Sounds of Summer. He said the Village has an aging population and home to many memory care and senior facilities that require increased ambulance services. He would like to see the 5th ambulance in place on a long-term basis.

Trustee Schwingbeck asked for further explanation on the correlation between the Police and Fire Pension Funds and the proposed increase in property tax levy. He asked why the underperformance of the stock market in 2022 is being reflected in 2024 if the market has since rebounded. Mr. Kuehne said that pension funds operate differently than individual investment and retirement accounts. Gains and/or losses in pension funds are smoothed over a three-year period, therefore experiencing some lag time. Last year was the first of the three-year period where the Police and Fire Pension Fund losses were incurred. There was a large increase for Police and Fire Pensions funding in the 2023 levy, paid in 2024. Those increases were covered by increased revenues of sales and income taxes; however, those revenues have now decreased. This year was the second year of the three-year period, and once again there is a large increase in funding, which will also occur next year. Mr. Recklaus added that the Village is legally required to fund the Police and Fire Pensions funds to a certain level.

Trustee Bertucci reiterated the importance of communicating the increase of property tax levy to residents as an unexpected occurrence due to inflation in wages and health insurance costs rather than the underfunded Police and Fire Pension Fund. Mr. Kuehne said that the proposed increase was not unexpected. He added that staff has been advising the Board that sales and income taxes were expected to level off.

Trustee Shirley asked how the Village will proceed after budget ceilings are set with the proposed 3.51% increase in property tax levy and if there are any cost-saving exercises to reduce expenditures. Mr. Recklaus said the feedback from the Board is that they want to keep taxes low, but also want funding for a 5th ambulance. The solution would be to find other revenue sources to offset expenditures. He said that staff will work to address these competing issues during the budget preparation process.

Trustee Grasse suggested finding a more creative approach to resolving the ambulance needs and suggested that certain health or senior facilities be trained on what is an appropriate call for an ambulance. A transfer would not constitute an appropriate call for an ambulance. Mr. Recklaus asked Trustee Grasse if she was suggesting passing Village ordinances to limit unnecessary calls or calls of less priorities from facilities.

Trustee Bertucci asked if Sounds of Summer is considered part of Alfresco. He noted that the revenue from Alfresco Food & Beverage tax isn't sufficient to cover the cost of Alfresco set-up and Sounds of Summer. He mentioned that business owners outside of the Alfresco zone contribute towards Sounds of Summer, yet they or their patrons don't see any benefit from it. Mr. Recklaus said the idea behind Sounds of Summer and other Village events is to raise the Village profile and provide residents with a sense they are receiving something in return from paying food & beverage tax. While not all businesses benefit from Sounds of Summer, the residents like these types of events. Trustee Bertucci asked if the Village is doing enough for businesses on the north and south side of town, and suggested hosting a Village event to enhance the small restaurants in those areas. He also inquired about the Sounds of Summer sponsorship opportunities. Mr. Recklaus said that in an effort to increase revenues, sponsorship costs increased this year. The new Communications Assistant will be tasked with identifying new sponsorship opportunities and planning Sounds of Summer, Alfresco, and other community events.

Resident Martin Bauer applauded the Village's Finance staff and their level of transparency. He felt the proposed 3.51% increase in the property tax levy is appropriate after having a 0% or 1% increase the past 5 years. He suggested that Village staff not only consider what 2025 may bring, but look at the upcoming years based on 2024 stock market results which could lead to further property tax increases.

Resident Melissa Cayer suggested that the Village change its pension fund to individual retirement accounts if funding impacts property taxes and asked why there was an increase in health insurance claims. In regards to pension funds, Mr. Recklaus said State Law requires municipalities who employ sworn officers and firefighters to participate in a pension fund. As for the increase in medical claims, he said that HIPAA does not allow for the discussion of individual claims but explained that the claims submitted are for serious health conditions. Mr. Kuehne added that during the pandemic, many insured withheld visiting doctors and receiving treatment, but are doing so now.

Resident Keith Moens commented on the speed study and how speeding is determined in neighborhoods. He also asked if the threshold of 40% of the General Fund Expenditures is required to be maintained as the General Fund's ending balance or if its set by staff. He suggested the $1.3M increase in the property tax levy be covered by the General Fund ending balance to reduce the tax levy.

TRUSTEE LABEDZ MOVED, SECONDED BY TRUSTEE BALDINO THAT THE COMMITTEE-OF-THE-WHOLE RECOMMEND TO THE VILLAGE BOARD THAT THE BOARD APPROVE THE 2025 BUDGET CEILINGS OF $92,912,100 FOR THE GENERAL FUND; AND $30,076,200 FOR THE WATER & SEWER FUND.

The following voice vote was recorded:

8 Ayes **0 Nays**

Motion passed.

TRUSTEE LABEDZ MOVED, SECONDED BY TRUSTEE SCHWINGBECK TO ADJOURN THE MEETING AT 9:31 P.M.