

VILLAGE OF LAKE BLUFF - FINANCE COMMITTEE
MINUTES OF MEETING – September 23, 2019

I. Call to Order – Roll Call

The Finance Committee of the Village of Lake Bluff was called to order on Monday, September 23, 2019 at 6:00 PM in the Village Hall Board Room, 40 E. Center Ave., Lake Bluff, Illinois.

Members Present: Trustee Barbara Ankenman, Chair
Trustee William Meyer, Member
Trustee Aaron Towle, Member

Others Present: Kathleen O'Hara, Village Board President
Megan Michael, Village Clerk
Regis Charlot, Village Trustee
Joy Markee, Village Trustee
R. Drew Irvin, Village Administrator
Bettina O'Connell, Finance Director
Marlene Scheibl, Assistant Finance Director
Jeff Hansen, Village Engineer
Dan Berg, Partner, Sikich, LLP (departed at 6:30 pm)

II. Approval of Minutes

Member Aaron Towle made a motion to approve the minutes of the September 9, 2019 meeting as amended; seconded by Member William Meyer and approved unanimously on a voice vote.

III. Business Items

1. Discussion Regarding Draft FY2019 Comprehensive Annual Financial Report ("CAFR") and Auditor Communications to the Board

Director O'Connell said the Village received an unmodified opinion on its CAFR, which is the most favorable opinion which can be issued. She noted the decrease in net position was the result of the implementation of Governmental Accounting Standards Board ("GASB") Statement No. 75, which required the Village to retroactively record the total Other Post-Employment Benefits ("OPEB") liability. This resulted in an adjustment to the FY19 beginning net position.

Mr. Berg distributed a revised balance sheet for the governmental funds. He said his firm had done calculations, which resulted in the Vehicle/Equipment Replacement Fund being classified as a major fund. This is due to the fund having total assets and total liabilities of at least 10% of the total for governmental funds and at least 5% of the combined total for governmental plus enterprise funds. GASB requires the fund to be classified as a major fund since it meets these criteria.

Mr. Berg said the net OPEB liability has been disclosed in the notes in previous years but now the entire liability of OPEB must be measured and shown as a liability on the statement of net position. The total OPEB liability for FY19 is \$2.2 million, last year it was \$1 million. The exposure is mostly with disabled police officers whose medical insurance premiums are paid by the Village. The governmental activities total net position decreased by \$599k and the business-type activities total net position increased by \$90k for a total decrease of \$509k. The general fund balance increased by \$135k, after

transfers of approximately \$1M, resulting in a \$6.8M fund balance. This balance represents approximately 7.5 months of operating expenses or 63% plus transfers out.

Mr. Berg stated the police pension fund had positive net investment income but the IMRF fund had negative net investment income. Though the IMRF pension liability didn't change, the net assets decreased resulting in a lower funding percentage. In FY18, the IMRF funding was 101%, this year it is down to 87%. Most of Sikich's clients have a similar decrease in their funding of 7-10%. The funded percentage is the percentage of assets to liabilities. GASB 68 will require the market value of the assets at 12/31/19 and 4/30/19. There were no new auditor's comments to the Board regarding audit findings. Mr. Berg suggested staff continue to monitor water utilization to compare the gallons pumped and gallons billed.

Member Meyer asked what caused the water fund to have an operating income of \$3k in FY18 and an operating loss of \$78k in FY19. Mr. Berg said there was nothing of great magnitude causing the decline in income, but depreciation continues to rise, and dollars billed had decreased. Member Meyer asked if the operating loss is not attributable to operations, could it be a water loss. Mr. Berg said it could be due to water loss but typically the water utilization is about 73% and the older the Village the lower the utilization. Director O'Connell said the water sales had decreased because gallons billed are lower. Mr. Berg added the trend in municipalities is lower water usage.

Chair Ankenman asked how the GASB implementations could affect the Village's AAA rating from Moody's. Mr. Berg said Moody's does talk about police pensions, but not about IMRF. The Village's conservative and consistently applied funding policy of the police pension plan is viewed positively. Some municipalities implemented the OPEB change early. Moody's may look at how many officers retire early. Director O'Connell stated that Moody's is currently analyzing more qualifiers than they looked at previously. VA Irvin asked why a community would implement the OPEB change early. Mr. Berg said it was because the liabilities were astronomical. Some municipalities pay for employee's health insurance after retirement. Member Towle asked how far in advance of implementation new GASB changes are announced. Mr. Berg said for the pension change, it was announced two and half years before implementation, followed by a comment period, and for OPEB it was about three years prior to implementation. Member Towle asked if there were any other required changes anticipated that would affect fund balance in the future. Mr. Berg said there was nothing significant, but one current change is the elimination of the classification of any leases as operating leases. All leases are now classified as capital leases. He added in the future there could be a new reporting model relating to the fund balance, based on three options: 1). leave it as is, 2). change it to cash basis, 3). change it to full accrual basis. This could have an effect on fund balance if current liabilities were higher. Member Meyer asked if Mr. Berg had seen anything in the past that the Village should be prepared for in the future. Mr. Berg responded no but that his position was to work with the historical information. VA Irvin added the Village's biggest issue is the water loss. Mr. Berg said there is also equipment available to measure outflow from the village's pipes.

VA Irvin said the Village was exploring a change to the police pension plan contribution policy. Director O'Connell said the change being analyzed would be to amortize the unfunded liability over an open rolling 15 year period rather than over a closed 30 year period which would be a more level approach. Mr. Berg said he had 3 or 4 clients doing this since the police pension contributions are a big issue with his clients and the contributions are requiring a bigger portion of the levy.

2. Discussion Regarding 2019 Property Tax Levy Estimates and Police Pension Actuarial Recommendation

Director O'Connell presented the property tax preliminary levy estimates with CPI and without CPI. The total levy amounts were \$4,441,409, with CPI, and \$44,358,595 without CPI. VA Irvin said the question on the levy is if the Village seeks new growth plus CPI.

Chair Ankenman stated if the Village doesn't take advantage of maximizing the levy, then there is a loss of money in the future. Director O'Connell added if the Village doesn't use CPI then the Village levy without the police pension is \$4,788 negative. VA Irvin said staff was looking for general direction from the committee. Chair Ankenman said the Village has historically taken the maximum it was entitled to, with the exception of one year, and even a small amount can add up over the years. Chair Ankenman said maybe the Village should take the CPI. Member Towle said he agreed and there could be uncertainties so the Village needs to protect the taxpayers and the Village. VA Irvin said staff could gather more data by checking with other taxing bodies to see what they are planning.

Chair Ankenman stated that currently the fund balance is higher than the fund balance policy. She said since the policy states the Village would maintain 50% of annual operating expenses, she would like to see an updated schedule of projections of the fund balance. She stated she understood it could never be maintained at exactly 50%. President O'Hara said the goal is to maintain a balance as close as possible to 50%. In the past the past 25-30% was a comfortable level but not now with so much uncertainty. VA Irvin added that the Village is also very reliant on sales tax which fluctuates. Director O'Connell said this should also be looked at in conjunction with the police pension contributions and the budget.

IV. Informational Items

1. Staff & Committee Updates

VA Irvin said in response to the question at the last committee meeting on the subject of residents opting out of new water meters, Com Ed had less than 1% of their customer's opt-out of smart meters.

Engineer Hansen provided an update on the Green Bay road and Street funding projects. He attended an IDOT workshop on funding. There is a 6 to 9 month approval process and could be pushed back even later than that. Until the agreement is approved, anything the Villages spends will not be reimbursed. Chair Ankenman asked if the Village needed to delay something, would that be possible. Engineer Hansen said that Phase 1 of the Bridge project was budgeted for this year but won't be completed and will need to be carried over to the next budget.

Director O'Connell said it was brought to staff's attention that Starbucks at Target has not been filing or paying their Food and Beverage tax. The Village has now received Starbuck's total payment, including interest. VA Irvin said staff will perform an audit to determine if there are any other businesses which are not in compliance with the Food and Beverage tax but the Village may want to create a policy to cover non-compliance, if it were to occur in the future. Director O'Connell informed the committee that the Fire Department has applied for a grant for uniforms and equipment in the amount of \$42,000.

Chair Ankenman said she would like the committee to continue the Senior Housing discussion. Previously, the Senior Housing commission had asked the Village to consider a contribution to the proposed Senior Housing plan for building 5 new cottages. Member Towle opined the result of the previous discussion was the committee wanted assurance that if the Village did make a contribution, there would be a guarantee of some level of benefits to a Lake Bluff senior resident. Chair Ankenman said the commission was looking for a commitment, not necessarily the funds at this time. She asked how the committee could move forward to make this commitment. Member Meyer opined that one of the cottages should be allocated to a Lake Bluff senior. Member Towle said his understanding was that if a Lake Bluff resident applied for Senior Housing, they would be added to a waiting list. Chair Ankenman said she thought the wait list was "weighted" so a Lake Bluff resident could be given priority. VA Irvin said if the goal is to receive a guarantee of benefits to a Lake Bluff senior, we will need to find out what dollar amount that contribution should be to provide certainty. Member Towle stated that to date there

haven't been any Lake Bluff seniors who have applied. President O'Hara added that in the past the opportunity has not been open to Lake Bluff seniors. Member Towle asked how the committee even knows if anyone is interested if there haven't been any Lake Bluff seniors who have applied to date. Member Meyer opined the Village should not make a contribution if we don't know what the benefit will be or if there isn't any need for it. President O'Hara agreed and said the Committee needs more information before proceeding with any recommendation.

The consensus of the Committee was to continue this discussion after more information is received.

V. Next Meeting

The next meeting is to be determined.

VI. Adjournment

Member Meyer made a motion to adjourn the meeting at 6:58 PM; seconded by Member Towle and all members voted aye.

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