

**The City of Lake Forest
FINANCE COMMITTEE
Proceedings of the October 18, 2021 Meeting
6:30 p. m. – Remote Access Meeting**

I. Call to Order and Roll Call

The meeting was called to order at 6:32 p.m. by Chairman Morris. Present: Chairman Morris, Mayor Pandaleon, Aldermen Karras, Rummel, Notz, Preschlack, Goshgarian, Buschmann and Weber. Absent: None. Quorum present. There were approximately 16 present in the audience.

Staff present: Jason Wicha, City Manager; Elizabeth Holleb, Finance Director; Diane Hall, Assistant Finance Director; Cathy Czerniak, Director of Community Development; Jim Shaw, Director of Innovation Technology; Michael Thomas, Director of Public Works; Mike Strong, Assistant City Manager and Julie Tappendorf, City Attorney

Others present: There were approximately 8 people in the audience.

Alderman Morris provided a statement as required by the Open Meetings Act regarding the decision to hold the Finance Committee Meeting remotely.

II. Consideration of Minutes from the Finance Committee Meeting Held on July 19, 2021

Alderman Rummel made a motion to approve the minutes from the Finance Committee meeting held on July 19, 2021. The motion was seconded by Alderman Weber. The motion carried unanimously by roll call vote.

III. City Mission Statement and FY23 Fiscal Policy

Ms. Elizabeth Holleb, Finance Director stated affirming the City's mission statement and reviewing the Fiscal Policy begins the budget process. The mission statement was approved by the Finance Committee starting in 2013 and is affirmed each year.

Alderman Rummel made a motion to affirm the City's mission statement. The motion was seconded by Alderman Preschlack. The motion carried unanimously by roll call vote.

Ms. Holleb reviewed recommended changes to the Fiscal Policy. These included adding language to maintain General Fund reserves at 70% of revenues plus accrued sick and vacation leave, changing the minimum fund balance in the Water Capital Fund from \$0 to \$1 million and adding to debt policies the Finance Director/Treasurer will be responsible for maintaining policies and procedures related to post-issuance compliance.

The Committee discussed if excess fund balance in the Water Capital Fund could be transferred to other funds for other uses. Because the revenues are generated in an Enterprise Fund, the funds are restricted from transferring to another City operating fund with the exception of administrative service charges paid to the General Fund.

The Committee discussed the City's policies regarding sick and vacation time.

The Committee discussed the General Fund reserve recommended change and the history of General fund reserve policies. The General Fund could transfer excess fund balance to the Water Capital Fund if additional funding was needed.

Alderman Notz made a motion to approve the FY2023 Fiscal Policy. The motion was seconded by Alderman Weber. The motion carried unanimously by roll call vote.

IV. Police and Fire Pension Funding Update

Ms. Holleb reviewed the April 30, 2021 actuary valuations for the Police and Fire Pension Funds. Funded ratios have a correlation with investment returns. The funded ratios in both pensions are much better compared to the previous year. The actuary utilizes a five year smoothing of investment returns to calculate the actuary determined contribution for the fiscal year. In 2017 changes were made to assumptions that increased contributions now, which would result in lower contributions in the future. Modeler's were run again in 2019 and 2021 to see if the anticipated results were realized. If the pensions receive at a minimum of 6.5% interest returns each year, the City will have contributed an additional \$3.7 million, but will save an estimated \$25.5 million.

Ms. Holleb reviewed the concepts of closed versus open amortization. Currently, statutes require a closed amortization period of forty years with a current funding deadline of 2040. Open amortization approach amortizes the liability over fifteen years continuously and contributions may be reduced each year, but the plan will not reach 100% funded. The pension subcommittee has recommended when the contributions reach the same using open amortization to flat line contributions until 100% funded.

Ms. Holleb reviewed actuary report recommendations for the tax levy to decrease slightly due to investment returns in FY21 and the pension subcommittee recommendation to increase the contributions to continue move to open amortization.

The Committee discussed the wage assumption used based on current markets. The wage assumption is in addition to projected wage increases utilized in the calculations. They discussed the reason Police funding levels are lower than Fire. Records indicate that when equities became an available investment, Fire took advantage of the new investment and benefited from returns in the 1990's.

Ms. Holleb reviewed the status of pension consolidations. Fire is scheduled to move November 1 and the date has not been set for Police.

V. Property Tax Levy Estimate

Ms. Holleb reviewed the dates the tax levy will be brought to the City Council for discussion. The review on November 1, 2021 would provide an opportunity for the City Council to discuss and approve a non-binding estimate of the property tax levy as required by state statute. The tax levy would be an item on the November 8th budget workshop for discussion and would be brought for City Council approval on November 15th and December 6th.

Ms. Holleb reviewed the individual tax levy line items, including the PTELL limit of 1.4%. New growth and construction estimates from the County have been included as well as the recommended increases for Police and Fire pensions. The projected increase is 2.5%

The Committee discussed new growth and the time period it represents.

Alderman Goshgarian made a motion to recommend a non-binding 2021 tax levy estimate to be presented at the November 1, 2021 City Council meeting. The motion was seconded by Alderman Notz. The motion carried unanimously by roll call vote.

VI. Discussion Re. American Recovery Plan Act (ARPA) Funding

Ms. Diane Hall, Assistant Finance Director reviewed the ARPA funding program including the City receiving \$1.3 million (1/2 of total \$2.6m allocation). Eligible uses provided by the U.S. Treasury allow revenue replacement to the extent due to COVID-19, direct expenses attributed to COVID-19, premium pay for essential workers and investment in water, sewer and broadband infrastructure. Ineligible expenses include offsetting tax reductions or tax increases and depositing into a pension fund. Staff recommended an eligible capital project to provide long-term financing and ease of reporting. A project would be brought to the November 8th capital

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budget meeting for consideration. The City has received \$2.4 million in COVID-19 related assistance to date from all sources.

The Committee discussed previous COVID-19 funding as a one for one reimbursement of expenses and ARPA funds to be used for a project to benefit the community. Using the ARPA funds on a single project would streamline the reporting requirements to the federal government.

The Committee requested providing several projects to consider at the capital budget meeting.

VII. Investment Program Recommendations

Ms. Holleb reviewed current rates on eligible investments available to City funds, excluding Police and Fire Pensions and the Cemetery Commission. Currently, all available rates are below 1% where higher returns are for long-term investments. She reviewed recommended changes to the investment policy, creating segmentation of the City's portfolio and creating benchmarks for investment reporting.

The Committee discussed what the City would be giving up between liquidity and higher yields. The City would start out in investment pools to gain a small amount of additional yield, but would retain liquidity.

Affirmation of the investment program recommendations will be brought back to a future meeting.

VIII. Other Business

- 1) September 2021 Flash Report – Real Estate transactions are starting to slow down slightly, but prices remain high.
- 2) FY2021 Treasurer's Report – No discussion

IX. Opportunity for the Public to Address the Finance Committee

Chairman Morris provided instructions to the Public to provide comment.

Rommy Lopat offered comment to the Finance Committee

X. Adjournment

There being no further business, Alderman Rummel moved, seconded by Alderman Weber, to adjourn the meeting at 8:01 p.m. The motion carried unanimously.

Respectfully Submitted,

Diane Hall
Assistant Finance Director