

**The City of Lake Forest
FINANCE COMMITTEE
Proceedings of the March 8, 2021 Meeting
6:00 p. m. – Remote Access Meeting**

I. Call to Order and Roll Call

The meeting was called to order at 6:00 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 28 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; Karl Walldorf, Police Chief; Jim Shaw, Director of Innovation Technology; Peter Siebert, Fire Chief; Mike Thomas, Director of Public Works; Sally Swarhout, Director of Parks and Recreation; DeSha Kalmar, Director of Human Resource; Mike Strong, Assistant City Manager; Chuck Myers, Superintendent of Parks and Recreation and Dan Martin, Superintendent of Public Works

Others present: There were approximately 15 people in the audience.

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

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

III. Overview of FY2022 Budget

A. Opening Comments by City Manager

Mr. Jason Wicha, City Manager thanked City staff for their work in preparing the proposed budget to be presented. He stated the proposed budget moves toward pre-Covid19 assumptions. He stated with all the challenges over the past year, there were positives which include automated self-service and greater communication abilities. He stated the FY22 budget includes City Council sustainability initiatives as well as comprehensive plan updates. He stated the Waukegan/Everett intersection agenda item would be tabled due to staff receiving additional traffic pattern information.

B. FY2021 Monthly Flash Report

Ms. Elizabeth Holleb, Finance Director stated the updated monthly Flash Report was included in the packet. She stated no new information was presented in the report.

C. Review of FY21 Estimates vs. FY22 Budget

i. Fund Balance Summary

Ms. Holleb stated at the April 2020 Finance Committee meeting, changes were made to the FY21 budget to encompass potential impacts of the Covid-19 pandemic. She reviewed projected FY21 revenue and expense variances to budget. She highlighted income tax variances of \$706k resulted from taxes generated from unemployment benefits and Covid-19 grant receipts of \$849k. She reviewed revenues reduced due to the pandemic. She reviewed reduced expenses due to position savings totaling \$625k and Covid-19 stimulus to businesses not utilized. She stated the General Fund is projecting a budget surplus of \$748k. She reviewed the comparison of FY21 budget to estimates for other City Funds.

The Committee discussed the calculation of the projected surplus in the General Fund.

Ms. Holleb stated staff is monitoring the Police and Fire pension funds. She stated the funds are forecasting to have much higher returns compared to the FY20 actuary report. These returns will affect the FY23 budget.

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Ms. Holleb reviewed the FY22 proposed budget for the General Fund. She stated 73.4% of the General Fund expenses are personnel related. She stated \$750k of operating capital expenses, previously included in the Capital Fund have been added to the General Fund. She reviewed all FY22 City Funds proposed revenues and expenses. She stated the personnel expenses reduce to 41.8% when including all funds.

ii. Key FY22 Budget Assumptions

Ms. Holleb reviewed FY22 budget assumptions for revenues and expenses used to develop the proposed budget.

iii. Payroll Projections

Ms. Holleb stated full payroll projections were included in the packet.

D. Ten-Year Fund Balance (General Fund)

Ms. Holleb reviewed the General Fund ten year net revenues/expenses before capital. She stated with long-term forecasting, staff can anticipate when expenses will outpace revenues. She reviewed the decision made by the City Council in 2019 to transfer excess surplus in the General Fund at fiscal year-end to other funds. She stated in FY20, \$1m was reserved for Covid-19 impacts on City finances.

i. Discussion of State Impacts

Ms. Holleb stated the state's fiscal year is July 1 – June 30, which could affect the City if changes are made at the state level subsequent to the City approving the budget. She reviewed a proposed budget released in February for the states upcoming fiscal year. She reviewed the states short term borrowing from Federal Municipal Liquidity Facility Program. She stated the state has budgeted 90% of income taxes to be distributed to local governments. She stated the City has been budgeting at 90% the past few years. City staff has concerns with this funding level based on \$932m included in the state's budget to reduce corporate loop holes.

The Committee discussed the revenue impact on income taxes between 75% and 90% is approximately \$300,000. They discussed the history of the City's budget and State remittance and the goal to reduce reliance on state shared revenues. They discussed the development of using 75% at the November budget meeting and what percentage between 75% and 95% should be budgeted in FY22.

Ms. Holleb reviewed the state and local fiscal aid included in the House and Senate versions of the American Rescue Plan. She stated the rescue plan includes provisions for lost revenue and pandemic economic impacts.

The Committee discussed the Coronavirus Capital Project Fund included in the plan. They discussed how the state and local fiscal aid funds would be allocated to each community and if the state would be able to receive portions of the allocated funds.

ii. Revenue and Expense Trends

Ms. Holleb reviewed historical trends of revenues and expenses from FY09 to FY22. She highlighted the changes in personnel costs over the years.

iii. Budget Process and Target Based Budgeting – Impact on General Fund Budget

Ms. Holleb reviewed the annual budget process. She reviewed revenue projections are developed first to determine the level of funding available for expenses. She reviewed how targets are developed and provided to departments to prepare their budgets. She reviewed a chart of the General Fund History excluding personnel cost, showing how operating budgets have remained relatively flat. She reviewed a chart including

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personnel costs showing the increase in costs. She stated in FY09 the budget includes 254 fulltime employees and in FY22 210 fulltime employees are included. The Committee discussed the cause of such an increase, including insurance and pensions. The police and fire pension contributions are anticipated to flat line when open amortization has been phased in.

iv. Public Safety Pension Subcommittee Update

Ms. Holleb stated a joint meeting was held in February with the police and fire pension boards. She reviewed the state law requiring police and fire assets to be consolidated. She stated the subcommittee is not recommending changes for the FY21 actuary evaluation and the City is on schedule to move to open amortization.

IV. Operating Department Summaries

A. Department Summaries

Ms. Holleb stated details of operating departments were included in the meeting packet.

i. Strategic Plan Update – No discussion

ii. Departmental Organization Charts, Narratives, Performance Measures and Financial Summaries – No discussion

B. FY22 Budget Presentations

i. Capital Improvement Plan and Five-Year Forecasts Update

Ms. Holleb stated included in the packet is the five-year forecast for the Capital Improvement Plan.

The Committee discussed non-funded high priority projects Deerpath Street Scape and Rt. 60 bike path included on the capital projects list. Both projects are awaiting grant funding.

Mr. Michael Thomas, Public Works Director stated grants have been submitted for phase II design and construction. He stated Phase I design has been completed for Rt. 60 bike path and staff is waiting on comments from IDOT to incorporate into phase II design. He stated staff is to hear a decision within the next few months and once the City is notified about the grants, staff will bring to City Council for review.

Ms. Holleb stated minor changes have been made to the capital improvement plan and five-year forecasts. She stated updated forecasts were included in the packet.

ii. Burr Oak Storm Sewer

Mr. Thomas reviewed a history of the project based on a 2013 storm water drainage analysis and an updated report completed in 2019. He reviewed the details of the project and the improvements to storm water flow utilizing a storm trap constructed under Western Avenue. He stated the City has been awarded a \$2.4m grant for the project through Department of Commerce & Economic Opportunity (DCEO). He stated the City cannot proceed with the project until we have a signed agreement with DCEO. He stated the project will need to be bid out again to incorporate DCEO standards. He stated if the City does not receive the grant, staff will bring the project to the November capital budget meeting for discussion.

The Committee discussed if the budget and timing of the project would be changed based on the grant. The original budget of \$4.3m will remain in the budget as a hold if the grant is not awarded or is awarded at a lesser amount. The project was to start this summer and will most likely move to spring of 2022. Staff will contact neighbors affected by the change.

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iii. Recycling Program

Mr. Dan Martin, Superintendent of Public Works reviewed the 2020/2021 recycling program trends, including impact from the pandemic. He reviewed the history of revenues and expenses generated from recycling materials. He reviewed a history of average monthly refuse disposal costs. He reviewed the 2020/2021 recycling campaign and challenges incurred because of the pandemic. He stated an intern would be hired this summer to conduct daily curbside cart audits and to provide information to residents on what is not allowed. He reviewed successes to date utilizing the campaign. He reviewed what other communities are doing to enhance recycling programs.

The Committee discussed the success of the program and discussed the campaign in the schools.

Mr. Martin stated an additional grant for a second intern has been received and the intern will be attending camps to promote recycling with Bart the Cart and will assist with cart audits.

iv. Discussion Regarding Waukegan and Everett Intersection Improvements

This item was tabled and will be brought to the City Council at a later time.

V. Other Operating Funds

A. Water Fund

i. Five-Year Fund Balance Forecast

Ms. Holleb stated the Water Fund is an enterprise fund and all fees must cover operating and capital costs. She reviewed the five-year forecast. She stated capital transfers have been reduced to reflect moving operating capital expenses to the Water Fund from the Water Capital Fund. She reviewed the calculation of the fund balance target and noted debt service is reduced in FY25, resulting in an increased capital transfer.

The Committee discussed the types of capital expenses allowed in the Water Capital Fund.

B. Parks and Recreation Fund

i. Parks and Recreation Programming Assumptions for FY21 and FY22

Ms. Sally Swarthout, Director of Parks and Recreation reviewed the original proposed FY21 budget, final FY21 budget revised for the pandemic and FY21 estimates. She stated the FY21 budget did not anticipate restrictions continuing past the summer of 2020. She stated staff has worked to reduce expenses while creating offerings to the public. She stated the Parks Equipment Fund has been closed to the Recreation Fund to help reduce the loss. She reviewed successes for the year including virtual offerings, beach and summer programs. She stated special events were re-imagined including drive-by tricks and treats and Santa parade. She stated FY22 assumptions reflect summer at 70%, fall at 85% and winter/spring at 100%. She stated Parks and Forestry will remain flat.

The Committee discussed virtual programming and if it will continue.

ii. Five-Year Fund Balance Forecast

Ms. Holleb stated the detailed five-year forecast was included in the packet. She reviewed the comparisons of FY19, FY20 and FY21. She stated Recreation staff did a great job with a FY21 projected loss of \$500k when the budgeted loss was \$1.1m. She stated the City Council reserved \$500k of FY20 surpluses anticipating other funds may be negatively affected by the pandemic. She stated later in the agenda, staff will recommend transferring the \$500k from the General Fund to the Parks and Recreation Fund to eliminate the net projected reduction of Fund Balance.

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C. Golf Fund

i. Golf Course Operation Assumptions for FY21 and FY22

Mr. Vince Juarez, Kemper Sports reviewed a timeline navigating the pandemic. He reviewed changes in rounds by categories with an overall increase in rounds for Deerpath. He reviewed a history of customer satisfaction, which has increased each year. He reviewed a comparison of FY19 and FY20 actual financial information to estimated FY21 and budgeted FY22. The golf course showed significant improvements over the two previous fiscal years. He stated FY22 revenues have been reduced based on the RT41/Deerpath project, which could affect rounds. He reviewed player development programs that have started registration for the summer. He thanked the City for its partnership and support. He reviewed events planned for the summer of 2021.

The Committee discussed the Junior Program and which communities the participants are from. They discussed the higher City costs in FY21, which include expenses from the RT41/Deerpath project that will have revenue in FY22. They discussed adding signage that the course is open during construction and to use the new Lake Forest App to send messages out to residents.

ii. Five-Year Fund Balance Forecast

Ms. Holleb reviewed the five-year forecast for the golf course. She reviewed the capital expenses, including the RT41/Deerpath project. She reviewed expenses to be reimbursed by IDOT, which shows as expenses in FY21 and FY22 with the revenue in FY22. She reviewed the historical transfers from Recreation to maintain debt coverage. She stated the transfer would be maintained at the budgeted amount of \$50k. She stated the final debt payment is in FY24 and would be the final year of projected transfers from the Recreation Fund.

The Committee discussed the turn around the golf course has completed and the asset it has become to the community.

D. Discussion - Additional Transfer out of the General Fund for FY2021 and FY2022

Ms. Holleb stated the City Council approved reserving \$500k of FY20 surpluses in the General Fund for Funds impacted by the pandemic. She stated staff has included in the year-end estimate and is recommending the transfer of \$500k to the Parks and Recreation Fund. She stated staff is recommending transferring the estimated FY21 \$750k surplus in the General Fund to the Capital Fund. She stated staff will present the final recommendation in July to the City Council for approval. She stated \$250k has been budgeted in FY22 to transfer from the General Fund to the Capital Fund. She stated these transfers result in a one year lag of funding of capital projects.

VI. Other Business

Ms. Holleb stated staff would make requested adjustments and will bring to the City Council in April for approval.

The Committee discussed the opening of the Forester and where the hotel tax is included in the five-year forecast. The full revenue is budgeted in the General Fund and the rebate to the hotel is budgeted in Community Development operating budget with a positive revenue to the City.

VII. Opportunity for the Public to Address the Finance Committee

Chairman Morris provided instructions to the Public to provide comment.

No one from the audience desired to address the Finance Committee.

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VIII. Adjourn into Executive Session

Alderman Rummel moved, seconded by Alderman Weber to adjourn into Executive Session at 8:45. The motion carried unanimously by roll call vote.

IX. Executive Session

Alderman Rummel moved, seconded by Alderman Notz to adjourn into Regular Session at 9:22. The motion carried unanimously by roll call vote

X. Consideration of Executive Session Minutes From the Finance Committee Meeting Held on March 12, 2020

Alderman Weber made a motion to approve the minutes from the Executive Session Finance Committee meeting held on March 12, 2020. The motion was seconded by Alderman Buschmann. The motion carried unanimously by roll call vote.

XI. Adjournment

There being no further business, Alderman Notz moved, seconded by Alderman Rummel, to adjourn the meeting at 9:24 p.m. The motion carried unanimously.

Respectfully Submitted,

Diane Hall
Assistant Finance Director