COMMITTEE OF THE WHOLE
City Hall Council Chambers
October 21, 2013

Council present: Aldermen Scott Black, Mboka Mwilambwe, Rob Fazzini, Kevin Lower, David Sage, Judy Stearns, Jennifer McDade, Karen Schmidt, and Jim Fruin, and Mayor Tara Renner.

Staff present: David Hales, City Manager; Patti-Lynn Silva, Director of Finance; Georgia Buda, Director and Bill Wetzel, Board Member – Public Library; and Tracey Covert, City Clerk.

Others present: Rebecca A. Sielman, Millikan Principal and Consulting Actuary.

Mayor Renner called the Committee of the Whole to order at 5:30 p.m.

PUBLIC COMMENT

Mayor Renner opened the Public Comment section of the meeting. He added that there would not be a response from the Committee under the Public Comment portion of the meeting.

Alton Franklin, 508 Patterson Dr., addressed the Committee. The Committee would deal with various issues as a whole Council. He believed that this approach would be more productive. He expressed his concern regarding the property tax and funding for the Police and Fire Pension Funds. He believed that Plan A would result in a twenty-five percent (25%) increase to the property tax levy. He also cited a proposal to increase the Utility Tax. This proposal was transitional and he did not believe that the sum per household would be substantial.

Alderman Black arrived at 5:35 p.m.

Mr. Franklin cited the cost for sewers. The Library was requesting an increase to the property tax levy. The Library was a vital community service. He endorsed this increase to the property tax levy. The amount requested was small. He cited the Library's use of technology. The property tax levy had remained stable and should remain so until there was proof of instability.

MINUTES

Motion by Alderman Schmidt, seconded by Alderman Fazzini to approved the minutes of the following meetings: September 10, 2013 Administration & Finance Committee; September 16, 2013 Infrastructure Committee; and August 13, 2013 Public Safety Committee.

Motion carried, (viva voce).

POLICE & FIRE PENSION FUNDING POLICY

Mayor Renner introduced this topic. The Council needed to provide City staff with clear guidance. He noted two (2) options: 1.) service cuts and 2.) tax and/or fee increases.

David Hales, City Manager, addressed the Committee. The presentation would be minimal. Becky Sielman, Milliman Principal and Consulting Actuary, was present at this evening's meeting. Comments would also be made by Patti-Lynn Silva, Finance Director and himself.

Rebecca A. Sielman, Milliman Principal and Consulting Actuary, addressed the Committee. The City needed to adopt a formal policy for the City's Police and Fire Pension Funds. Pension contributions were required by state statute. The state's Department of Insurance only requires the minimum payment. The City's goal should be to fund these pension plans. She added that these pensions should be fully funded and accomplishing this goal was manageable.

She reminded the Committee of the LEAF concept. There were four (4) characteristics to same: 1.) Long term outlook – decades, generations; 2.) Equitable – across generations; 3.) Avoid surprises – consistent process; and 4.) Flexible – respond to unusual situations. The Police and Fire Pension Funds were not well funded at this time. The City was faced with catch up. One goal was minimum volatility, the funding policy needed to be stable and predictable.

Ms. Sielman addressed Contribution Policy. A key question raised was how to fund. She addressed various approaches: 1.) statutory minimum or 2.) actuarially determined amount. There were a number of key questions which needed to be answered: 1.) funding method: entry age normal or Projected Unit Credit; 2.) ninety percent (90%) versus 100% funded; 3.) level dollar or level percent amortization; 4.) conservative or aggressive assumptions; and 5.) transition strategy needed in the short term. Ms. Sielman added that eighty percent (80%) of pension plans used entry age normal. This funding method would be required by GASB, (Government Accounting Standards Board), 67/68. This would impact financial reporting. Funded level: the state had given municipalities a thirty (30) year time line to reach the statutory minimum of ninety percent (90%). Ms. Sielman used the example of a thirty (30) year mortgage. The policy was draft at 100% funded. Ms. Sielman addressed structure. The level percent amortization would grow over time and was the recommended approach. The interest rate assumptions were conservative. She believed that the appropriate interest rate was 6.25%. The policy used seven percent (7%) and the Pension Funds' actuary had used 7.25%. Anything above these numbers would require a significant increase. In the short term, a transition strategy was recommended to keep pension funding manageable.

Ms. Sielman addressed the draft funding policy. The policy included the following: 1.) funding method – Entry Age Normal; 2.) funding goal – 100% by 2041; 3.) amortization method – level percent with four percent (4%) growth rate; 4.) interest rate – seven percent (7%); 5.) phase in from 2014 statutory minimum funding to funding level. The phase in called for $750,000 annual increase per plan. Phase in completed in four (4) years for Fire Pension Fund and five (5) years for Police Pension Fund.

Ms. Sielman addressed a number of bar graphs: 1.) Annual City Contributions, Both Plans which compared Statutory Minimum, DOI, (Department of Insurance), Assumptions and Funding Policy Basis; and 2.) Funded Ratio which compared Statutory Minimum, DOI, (Department of Insurance), Assumptions and Funding Policy Basis. The final chart was entitled By the Numbers which provided a thirty (30) year projection.

Mr. Hales addressed the Council. City staff had drafted a Pension Funding Policy which would be presented as a text amendment. The Council would be requested to adopt the ordinance.

Patti-Lynn Silva, Finance Director, addressed the Council. She addressed Scenario 1. Statutory Minimum Contribution based on the IL Dept. of Insurance Assumptions. She addressed costs and savings over time. The short term would be painful. The phase-in approach would ease the pain. Pension funding must be maintained over time. The cumulative increase for the first three (3) years would be an additional $1.5 million to the pension funds. Pension funding would grow from $6 million to $12 million over five (5) years.

Mr. Hales stated that property taxes were one (1) way to fund the pensions. The Council could choose to raise other General Fund revenues. He cited the Utility Tax as an example. Generally, pensions were funded by property taxes. Other revenue streams were used to fund City services. There were municipalities that only use property taxes to fund pensions.

Alderman Stearns addressed the Police and Fire Pension Funds' shortfall.

Ms. Silva stated that using the Fiscal Year (FY) 2012 Audit the figure was $118 million. This figure included the IL Municipal Retirement Fund, (IMRF). IMRF was eighty percent (80%) funded. The combined shortfall for the Police and Fire Pension Funds was estimated at $99 million.

Alderman Stearns questioned OPEB, (Other Post-Employment Benefits) and the cost for same. Ms. Silva noted that this information had been included in the FY 2013 audit.

Alderman Stearns noted the five (5) year plan to address the Police & Fire Pension Funds. She described the plan as aggressive. She questioned the possibility of a shortfall and the impact of same.

Alderman Schmidt stated that the City was building up the pension funds with additional funding. She cited the utility tax and questioned if an increase to the utility tax would match the funding needs of the pension funds.

Mr. Hales stated that City staff was researching same. Each utility was taxed at a different rate. The proposed increase to the utility tax would mean that the City would be on par with the Town of Normal. He estimated the increase at $4 million. The increase could be phased in. It would not generate $6 million. There were a number of factors which impacted utility taxes.

Alderman Schmidt added that the dollars generated by an increase to the utility tax needed to go towards the intended services.

Mr. Hales cited changes made to the tax levy. A text amendment would be required to increase utility taxes. He cautioned that any change to the City Code would be amended by future Councils.

Alderman Fazzini noted that the Administration & Finance Committee agreed to a percentage to be paid. This course of action would be less expensive over time. Fitch used seven percent, (7%), which he believed to be aggressive. He believed that the City could catch up with a bond issue. Utility taxes could be dedicated to this expense. The bond issue would be for a term of thirty (30) years.

Ms. Sielman addressed pension obligation bonds. These were taxable bonds which carried higher interest rates. She described them as a soft for hard obligation. Other communities have taken this course of action. This type of bond issue has fallen out of favor due to investment losses.

Mayor Renner noted that the City would be borrowing money to pay for pensions.

Ms. Sielman added that this type of bond was subject to risk. The City would borrow money and invest same in the hope of fully funding pensions. She restated that these were taxable bonds with an interest rate of five percent (5%) or higher. She added that there were statutory limits regarding equity investments on both police and fire pension funds. For a small margin there was a lot of risk. She noted that under accrued liability, the level percent would grow in the early years and the funded ratio would rise slowly.

Alderman Stearns believed that it would be hard to see the unfunded liability rising. She questioned the impact of same.

Ms. Sielman noted that additional funding would be required. The level dollar approach would result in much higher contributions. It would require $8 million. More money would be required sooner and would result in better funded pension funds. It would require a huge jump in pension funding.

Alderman Fruin had several questions. He believed that bonds were intertwined with the City's existing bond debt.

Mr. Hales noted the recent street resurfacing bond issue. City staff was developing a list of capital needs. He added his belief that the City would issue additional bonds in the future. This was another part of the big picture. The City may also need to borrow additional funds for infrastructure.

Alderman Fruin believed that the Council needed to see the big picture. The Council was being presented with one piece at a time. The City's various needs should be pulled together.

Ms. Silva cautioned the Council that if the City issued pension bonds, the pension boards would be responsible for the investments.

Alderman Sage presented a hypothetical situation. He addressed values and principals. He noted the history of the refuse fee. He cited other fees/rates which needed to be addressed such as liquor licenses, refuse and water and/or sewer rates. The Council needed to have the whole picture in order to address revenue in an expedited manner. He was shocked by the four to five

(4 – 5) year plan to fund the Police and Fire Pension Funds. He acknowledged that the plan was level, manageable with a slow climb. It appeared that this approach would be measured and constant over time. He was concerned that the taxpayers would be shocked. He expressed his interest in other options.

Alderman Mwilambwe questioned how contributions would be made, (i.e. annually, quarterly, etc.).

Ms. Silva informed the Council that property taxes were paid in two (2) installments. Utility taxes were paid monthly.

Alderman Lower believed that the issue was reprioritization. The Council needed to take the responsibility and act aggressively. He supported the level dollar approach. The City needed to focus on essential services. He questioned quality of life services such as parks and the Grove at Kickapoo Creek Subdivision. The Council needed to insure that the City would have choices in the future. The pension debt needed to be paid down. The Council needed to determine what is was willing to ask the taxpayers to pay for. Citizens have not recovered from the recession. He cited foreclosures, etc.

Mayor Renner informed the Council that it needed to provide direction to Mr. Hales. The City needed millions of dollars. City staff needed to be productive. He questioned what the Council wanted to be brought back regarding this issue.

Mr. Hales noted that there were other critical factors, (i.e. the General Assembly set the benefit level). The uniformed police and fire personnel also made contributions towards their pensions. He addressed shared sacrifice. He questioned the financial sustainability of defined benefit plans. Municipalities needed to play a stronger role in Springfield. There needed to be changes made to state law.

Mayor Renner questioned two (2) things: 1.) more aggressive payment schedule or not and 2.) how to pay for. City staff would prepare the options. He cited the proposed property tax levy. Another option was the utility tax. Most communities were at five percent (5%) while the City was at 2.5%.

Alderman Fruin questioned if the City was looking at the utility tax just because of other communities. He cited tax exempt properties. If the Council wanted to take an aggressive approach, he believed that enough scenarios had been presented. The Council needed to determine how much (i.e. dollar amount) it wanted to fund. From there the Council would select the method. He still questioned how pension funding intertwined with other items, (i.e. streets, sewers, etc.)

Mayor Renner agreed that there were additional items with costs associated with them. He questioned the revenue source. The Council needed to deal with the pensions. He presented two (2) options: 1.) raise property taxes and/or 2.) raise the utility tax.

Alderman Fazzini believed that the Council could decide to be less aggressive. The pension policy could be set at ninety percent (90%) funded. There would be no impact on the City's bond rating. Property taxes would not have to be increased. He expressed his support for a local gasoline fuel tax and/or a utility tax increase.

Alderman Black expressed his opinion that a critical component included a moderate approach. He supported a local gasoline fuel tax and the ninety percent (90%) funding level. He encouraged City staff and the Council to be creative, (i.e. fuel tax, utility tax, etc.).

Alderman Schmidt was comfortable with staff's proposal. She expressed her preference to take a more aggressive approach. She questioned other funding needs, (i.e. sewers, refuse, etc.), and how to pay for them. An increase to the utility tax would be palatable if it were phased in over a number of years.

Alderman McDade supported staff's proposal. It was reasonable. Pension funding was a long term issue and the proposal was long term. The City would start this year. She would consider an increase to the utility tax but not a property tax increase. Council and City staff would prioritize each year. This would be a continuous process. She expressed her commitment to public safety and infrastructure. The pension funding needed to be corrected. This reasonable long term approach would take a long time to complete.

Alderman Stearns expressed her interest in seeing the unfunded liability decrease. She cited the $130 million figure. She believed that if other Councils had been aggressive, the City would not be in this position today. She wanted the City to have a higher bond rating. The City needed to fund pensions. She addressed taxation and did not believe that the Council understood those who were on a fixed income. The Council needed to empathize and be sensitive to the citizens. The Council needed to give serious consideration to spending cuts. She cited $1.2 million that had been spent on City parks.

Alderman Mwilambwe favored taking a moderate direction. This was a long term problem. This would be a change in policy. The City had a number of needs. He did not have enough knowledge regarding the utility tax, a local gasoline fuel tax, cost cutting, etc.

Alderman Sage addressed cost cutting. The tax levy was a part of the budget process. He cautioned the Council to think about the possibility of finding $1.5 million in budget cuts. He also addressed the funding level. He expressed his support for the ninety percent (90%) level. This approach represented an incremental, measured and manageable approach. He believed that he had an open mind on this issue. There needed to be a line of sight regarding a number of issues.

Alderman Lower was not comfortable with this issue. The Council needed to work to keep individuals in their homes. He would not support any tax increases. The Council needed to prioritize and find $1.5 million in budget cuts. The subject of taxation needed to be put aside. The Council needed to see the big picture.

LIBRARY BOARD RECOMMENDED PROPERTY TAX LEVY

Bill Wetzel, Library Board member/Budget & Personnel Committee Chair, addressed the Council. He was accompanied by Georgia Bouda, Library Director. He noted the number of people served by a good library. The Library Board was created by state statute. The Board had approved the budget. The Library's portion of the tax levy was separate from the City. He described the Library's budget as lean with modest salary increases. An additional facility was not included. He requested Council' approval of the budget and requested tax levy.

Mayor Renner informed Mr. Wetzel that this was a Work Session. The Council would not be granting any approvals this evening. He noted that in the Town of Normal the Library Board was elected. He expressed his opinion that any request for a tax increase should be presented to the Mayor and Council first. He had read about the proposed increase to the Library's portion of the tax levy in the newspaper.

Alderman Sage addressed the Library's Emergency Fund which had a balance of $3.5 million. Mr. Wetzel noted that a portion of this fund was for capital improvements.

Alderman Sage questioned how many months of the operating budget could be addressed with these dollars.

Georgia Bouda, Library Director, addressed the Council. The Emergency Fund included all capital including fixed assets. A current capital fund project was a new HVAC (Heating, Ventilating & Air Conditioning) system. The M & O (Maintenance & Operating) Fund had a budget of $1.1 million. This was part of the operating budget.

Alderman Sage believed that the Emergency Fund represented an eight (8) month budget reserve. He believed that the City had adopted a percentage of budget plus six (6) months.

Mr. Hales noted that the City had approximately two (2) months in cash reserve or fifteen percent (15%) of budget.

Alderman Sage compared the City to the Library. Mr. Hales added that the City had eliminated fixed assets and had no capital fund.

Alderman Sage recommended that the Library take $33,000 from its reserve fund.

Alderman Black noted that these dollars had been set aside for capital improvements.

Ms. Bouda stated that $1.7 million had been designated as a capital fund.

Alderman Black questioned what the $33,000 would be used for. He noted that Employee Relations was cited and requested additional detail.

Mr. Hales informed the Council that the City would receive the CAFR (Comprehensive Annual Financial Report) in the next thirty (30) days. The City would have the final the numbers by then.

Alderman Black restated his request for additional detail. Ms. Bouda invited Alderman Black to contact her. Mayor Renner instructed Ms. Bouda share the information with the entire Council.

Alderman Fazzini described the comparison as apples to oranges. He did not believe that the Library should be penalized for it financial stewardship.

Alderman Mwilambwe questioned the $33,000. Ms. Bouda cited a $100,000 transfer to the Capital Fund. The Library was trying to plan for the future. She cited the growth in service demand. The $33,000 would be directed to staff wages and benefits.

Mayor Renner solicited Council feedback regarding the Library's request for a property tax increase.

Alderman Fruin stated that the Library was well managed. The request was reasonable and he would support same.

Aldermen Fazzini and Schmidt echoed Alderman Fruin's comments.

Alderman Black requested additional data.

Alderman McDade cited a projected positive year-end balance, ($200,000). Ms. Bouda noted that this figure was the result of cost savings throughout the year. These dollars would be divided equally between capital and operations & maintenance.

Alderman Stearns was a library patron. The Library brought stability to the Downtown. It was also fiscally lean. The $33,000 was a small percentage of the Library's budget. The Library offered its services free of charge.

Alderman Mwilambwe noted the explanation for the $33,000 increase: wages and benefits. He would support same.

Alderman Sage responded negatively.

Alderman Lower stated that there were citizens that had not seen a wage increase. He encouraged the Library Board to look elsewhere for these funds. It appeared to him that the Board was unwilling to look.

ESTIMATED TAX LEVY

Mr. Hales introduced this topic.

Patti-Lynn Silva, Finance Director, addressed the Council. She defined various terms related to the tax levy. The Council needed to select an amount for the estimated/preliminary tax levy. She presented the time line for the tax levy process. The minimum increase to the pension funds would be $1.5 million.

She reviewed Truth in Taxation requirements. She presented a tax levy timeline. She noted the number of taxing districts, (i.e. nine). There were two (2) public school districts: District 87 and Unit 5.

She addressed the allocation of the tax levy. She specifically cited the Bond & Interest Fund. The City made limited use of this activity area. In order to guarantee money for the pension funds, the tax levy is used. The property tax was also called the perfect tax. The City adopts a tax levy and property taxes were collected based upon the tax levy.

She addressed Equalized Assessed Value, (EAV), which was calculated on a three (3) year average. The tax rate was impacted by the tax levy and the EAV. In 2009, the tax levy was increased for pension contributions. The property taxes for calendar year 2013 would be placed in the City's FY 2015 budget. The estimated Tax Levy must be set in November 2013. The Council had been provided with spreadsheet which addressed the Tax Levy from 2005 – 2015. It contained the amount levied and the percentage of change. She restated that the increase for the pensions was $1.5 million which equaled a 6.47% increase. If the Council chose to leave the tax levy flat, then $1.5 million in costs would need to be removed from the levy. The Council would need to determine another revenue source.

Mayor Renner estimated the impact of a tax levy increase upon the owner of a home valued at $160,000 at $42 per year.

Mr. Hales noted that if the Pension Funding Policy was set aside, the statutory minimum was an additional $1.5 million for pensions. He referred the Council to 2009 Tax Levy. The increase was used to fund pension costs. Last year, the tax levy was decreased even in light of the pension funding requirement. The Pension Policy would bring consistency. He highlighted the current fiscal year's revenue and expenditures. FY 2015 would bring budget challenges.

Ms. Silva added that the current year's expenditures were in line with budget. She addressed revenue: sales taxes were lower during the past four (4) months; income taxes were higher by thirteen percent (13%). She noted the City's low unemployment numbers. As net these two (2) revenues were a wash. She was not anticipating any carryover balance.

Mr. Hales restated that the CAFR/Audit was coming. In addition, City staff was preparing a comprehensive midyear financial report.

Ms. Silva addressed FY 2015. In the General Fund, salaries and benefits would increase by two percent (2%); pension contributions would increase by $1.5 million; nine (9) additional Firefighters would cost $1.5 million; bond payments for the $10 million issue would be $1 million; and the Solid Waste Fund needed a transfer from the General Fund at a cost of $1.2 million. These figures were preliminary numbers. She addressed other concerns, (i.e. storm water and solid waste). She urged the Council to be careful and cautious. The total increase to the General Fund budget was estimated at $6 million or a seven percent (7%) increase. The Council and City staff needed to look at costs, revenues, etc. There were separate funds for capital and sewers. In FY 2015, there would be $14 million available for critical projects. She questioned how the City would pay for same. The City needed to develop a plan. The City had exposures in the area of infrastructure. The City had issued bond debt and could consider additional bond issues. There were a number of items that would come before the Council.

Alderman Sage thanked City staff for the presentation. He recommended that the information presented to the Council be placed on the City's web site. He made the following suggestions: EAV and the Township Assessor's role. This individual was an elected Township official. There needed to be a line of sight regarding the property tax process. He cited the taxing bodies and recommended a pie chart and/or dollar bill (property tax dollar). These two (2) items would create a line of sight. City staff needed to help citizens' understanding of the property tax.

Alderman Fazzini addressed debt service bond at $1 million.

Ms. Silva informed the Council that the City had doubled its savings on the refunding issue. The City had not gone out for the $10 million street/sewer bond issue. There would be a competitive bid on October 29, 2013. She noted the demand for the City's bonds as they were seen as a good investment.

Alderman Fazzini cited the City's AA+ rating. The only higher rating was AAA. Interest rates were good.

Alderman Fruin addressed communication. He believed that pie charts, the dollar bill, etc. helped to document where property tax dollars went. Unit 5 needed to be added to the Overlapping Tax District listing. He stated that the school districts, transit system and soccer complex all wanted tax dollars. It was critical for the City to know where it fit in.

Alderman Schmidt cited the estimate increase, $1.5 million. She recommended that it be presented at $500,000 or $1 million. The Council should look for other revenue sources.

Mr. Hales encouraged the Council to share their thoughts/ideas with him and/or the Mayor prior to Tuesday, November 12, 2013. He did not hear a clear position regarding the estimated tax levy. He needed to know what to bring back to the Council. He restated that the minimum increase to pension funding was $1.5 million. He needed to know where the estimated tax levy should be.

Mayor Renner restated that the Council needed to provide City staff with direction.

Alderman Sage summarized that there were a handful of options and Council should respond to either the Mayor or Mr. Hales via email.

Alderman Fazzini questioned if the Council would be allowed to raise questions at the Council meeting.

Mr. Hales noted that customer service would need resources.

ELECTRONIC VOTING TRAINING

Mr. Hales introduced this topic. He believed that the voting process would be quicker.

Scott Sprouls, Information Services Director, reviewed the process. The voting option would be opened, each Alderman would select his/her choice, the Mayor would stop the vote, display the results and clear the vote.

Mr. Hales reminded the Council that the City Code had been amended. He cited the City of Peoria as an example of a municipality that used electronic voting.

Alderman Schmidt questioned abstentions. The Alderman was supposed to state the reason for same.

Tracey Covert, City Clerk, reviewed the impact of abstentions.

Mr. Hales offered to prepare a sheet regarding super majority votes.

Alderman Black questioned if a screen shot of the vote would be retain. Mr. Sprouls responded affirmatively. A separate screen shot would be recorded.

Ms. Covert recommended that the vote be announced afterwards.

The meeting adjourned. Time: 7:44 p.m.

Respectfully submitted,

Tracey Covert
City Clerk