

**MINUTES OF THE
COMMITTEE OF THE WHOLE MEETING
VILLAGE OF NORTHFIELD
TUESDAY, JANUARY 15, 2019**

The Committee of the Whole meeting was called to order by Village President Joan Frazier on Tuesday, January 15, 2019 at 5:30 p.m. Village Clerk Stacy Sigman called the roll as follows:

Committee Members Present:

Trustee Tom Roszak
Trustee Greg Lungmus
Trustee John Goodwin

Absent:

Trustee Allan Kaplan
Trustee Thomas Terrill
Trustee John Gregorio

President Joan Frazier

Others Present:

Village Attorney Everette M. Hill, Jr., Village Manager Stacy Sigman, Finance Director Steve Noble, Assistant to the Village Manager Melissa DeFeo

Approval of the October 16, 2018 and December 4, 2018 Report of Proceedings

Trustee Lungmus made a motion, seconded by Trustee Goodwin to approve the October 16, 2018 and December 4, 2018 Report of Proceedings. All said aye.

Discussion on the sales tax agreement

President Frazier asked Shermin Pelinski to explain the Field's request for a sales tax rebate agreement. Ms. Pelinski explained that in 2009 Fields moved their Volvo dealership to Northfield. As part of that move, they acquired the property next to their BMW store. The cost to acquire the property, to demolish the building, to provide environmental cleanup and to buy out leases formed the original impetus for the sales tax agreement. That agreement capped the potential rebate at \$2 million over a 10 year period. As part of that agreement, Fields agreed that it would maintain those franchises in Northfield. In 2014, Fields moved their Jeep store to Glenview because they had outgrown the Northfield location. This move cancelled out any entitlement to further tax rebates, so the 2009 Agreement lapsed. They have now moved the Land Rover and Jaguar stores to Northfield. Those dealerships are growing. Since Land Rover, Jaguar and Volvo are growing Fields wishes to revive the Agreement. Ms. Pelinski felt that they have always had a very good relationship with the Village and consider the Village a partner. Their goal is to continue to grow within the Village. Their expectations in the next couple of years is to bring other franchises such as the Mini Cooper dealership to Northfield and add to BMW.

Village Manager Stacy Sigman explained the terms of the agreement. The staff has tried to structure a new agreement that kept the initial \$2 million cap, but to keep the Village whole. Under the proposed new agreement, the Village would get 100% of the tax dollars that were equal to the Village's 2017 tax receipts from Fields. In other words, the Village keeps its current base. We would then share the growth. It keeps the Village whole with a base amount, but Fields shares in any growth, so as to inspire Fields to keep the dealerships here. She said we no longer need a "don't pull it out" clause because if they did, they would fall below the base and the Village wouldn't have to pay anything. In exchange, if they bring new dealerships in, they do better, they thrive and we both share in it. It's an inspiration for Field's to stay connected to the

community, keep all their dealerships here and hopefully grow and build those dealerships. The overall payout is based on the initial agreement and the extraordinary costs that were associated with the Volvo dealership years ago. She said the thought is to tie it to May 1st which is the start of our fiscal year if the Board was receptive to the concept. It wouldn't have any impact on the current budget year. We have already paid out \$219,000, so we are looking at about \$1.8 million in new payments. We would retain 100% of the base and everything over that we would split on a 60/40 basis. May 1st also coincides with when the state gives the distributions of the sales tax dollars.

President Frazier indicated that in a perfect world we wouldn't have to enter into these agreements. Our budget is down to the bone. But now that Fields may bring new dealerships into Northfield, the agreement may make sense. Fields is a very important part of our community in a number of ways and they are a good neighbor. She thinks the agreement is fair and she is in favor of it.

Trustee Roszak said he has bought Jeeps, Land Rovers and BMW's from Fields. He said he doesn't know the numbers, but knows it is significant. He doesn't see why we wouldn't do it. He is in favor of it. He then asked if there is any reason why we wouldn't do it. Attorney Hill responded, "only because we don't have to." Hill said the Agreement is drawn in compliance with state law and we didn't have any problems with the original one. President Frazier added that we did one with Medline, it's the wave of the future. VM Sigman said the Village wants to be a good partner with Fields and make sure we don't lose them. The 2017 numbers were \$1.161 million in revenue to the Village.

Trustee Roszak asked if this has been worked out with Fields and that it is an acceptable agreement. Ms. Pelinski said it is an agreement that is acceptable to them. VM Sigman added that Steve Noble, Shermin, Dan Fields and Dave McCulloch have been the team to try to figure out how to structure the deal. Fields recognizes that the Village is facing tough economic times.

Trustee Lungmus said he imagines that the agreement will be very detailed. One of the foundation elements that is fair for both sides is to maintain the current base number. He believes it is fair. The Volvo and Land Rover would not have been developed without the original tax incentive. So it makes sense to continue to build on this new agreement.

Trustee Goodwin believes this is a win/win. He has been a long time Fields customer. He thinks it works for Northfield and is in favor of it.

President Frazier then said the consensus of the Board is to move forward with the agreement. It will be on the agenda next month. VM Sigman indicated she will work with Buzz on drafting the agreement and work with Shermin on the details. The effective date will be May 1st.

Continued discussion on the Long Range Financial Planning Initiative (October 16, 2018 COW) and a review of the five year financial projections

Trustee Lungmus said this long process has been very informative. He said we were talking about the police pension and Trustees Kaplan and Terrill were debating the two sides of whether or not, now that we have reached our goal of being 60% funding and in addition to the next goal which is 70% by 2024, do we set another goal for ourselves? There were two different viewpoints. He said what he would prefer that in June when we have two new trustees, there is a goal setting session at that point and that we continue this debate at that time. VM Sigman explained that the goal of this evening is to find out what part of the study the Board

members see as imperative to identify special projects for which we might need a consultant, plan for in the draft budget and the five year projections. As far as setting goals or looking at the details, those need to come back to the Board. We may wish to discuss whether we should sell the Village owned condominiums. The purpose of the June goal setting session will be to allow the new Board to become part of the discussion.

Trustee Lungmus indicated the next part of the review is looking at the infrastructure. VM Sigman provided a model for maintaining the roadway system. The model should help in the resurfacing budget process. When a new road is built, what are the steps along the way to maximize the longevity of the roads, whether crack sealing, patching, milling or repaving and then finally rebuilding. VM Sigman and Engineer Glenn stated that the model will probably be tweaked frequently depending upon road use, weather and other variables. Staff will create a document that will help guide us to further refine that model.

President Frazier asked Trustee Lungmus if something will be built into the budget this coming fiscal year. VM Sigman indicated that the staff is working on getting pricing and updates for the capital improvement plan. She said they are trying to take that general model and begin to apply it to the 10 year plan and CIP by individual roadway. Before it was every 4 years we'll do this and every 10 years we'll do that. The new model will look at the idiosyncrasies of each roadway. This will be done as segments and also put it in a 10 year model. Right now, if you look in the report and CIP, you'll see every street in town and you have an idea of when it was last done and what the cycle is. For the water, it will be mapped and broken down into segments of pipe size, age of the main, linear feet and what is the associated cost. She indicated they are taking the study of the work that has been done for the past 6 or 7 months and put it into a format that becomes embedded in the budget process. This will make our needs and the various costs more transparent. The biggest challenge is funding. For the water side, we will need a special study to assess that system. She wants to revisit this in February and have Engineer Glenn make a presentation on the water and sanitary systems. The cost of the services need to support the infrastructure that's needed. We need to carefully plan what that next chapter will look like and how we build enough revenue into the system or model to do that. This will involve intensive examination of our fee structure. The Village has used the same model on how we charge for water and sewer for many, many years. Many Villages are using a different model. Winnetka and Glencoe have switched to a combined model. Each bill contains a set price for infrastructure. Whether you have one glass of water or you fill up your swimming pool, there is an imbedded cost in the way water is brought to your lot line. Northfield has tried to cover that in our existing fee structure by having a minimum charge. The Board needs to take a close look to make sure the way rates are apportioned among the consumers is fair. A special study should be included in the budget for next year and take an in-depth look into the system for better prioritizing and funding.

President Frazier asked VM Sigman if the original assumptions of the water, sanitary sewer fund were subject to pre-set annual increases. VM Sigman answered that the 4% increase in the water and sanitary is what we have always shown in our projections. When we did our first major study of the infrastructure around 2008, there was acknowledgement that we needed to double the water rate over a 10 year period. The report shows the increases in rates over the past years. Some years there wasn't an increase, some years it was 4% and last year it was 15%. Staff is proposing the rate to be increased by 4%. She said we need to educate the residents on the water system and costs. We don't want to have any big rate increases without explaining to the residents what's needed and what it's going to cost and how the costs are being fairly apportioned among the customers. Staff needs more work to get to that point and

more time to share that message. She said starting from 2018 going backwards the rates were 15%, 4%, 0%, 4%, 4%, 3.8%, .7%, 7.3%, 7.1%, 7.2%, 15%, 0%, and 2.5%.

President Frazier asked if there was a reason for these variable rates. Director Noble said the 7.3% rates were when we were looking at the 7.5% annual increases that the Committee had recommended so that the base water and sewer rate went up 7.5%, the fixed piece of the debt service stayed the same. When you put those two things together it brought the 7.5% down just a little bit. President Frazier then asked why 2016 was zero percent. VM Sigman said there was a study that said that we needed the 10 year doubling of our rate. There was some pushback from the residents, the Board felt like they needed to spend more time digging into the details of the project and explaining things a little bit better. The Board ultimately decided that the water and sewer should be supported through rates and not through a separate bond referendum. So the recent bond referendum was purely for roads, storm, public safety and streetscape. Trustee Lungmus added that the water study is the most important thing that we get out of this infrastructure study. We have been behind in building the resources necessary to maintain our system. The next steps are to talk to Engineer Glenn, talk the big picture and then likely hire a consultant that can help us and see what other municipalities have done to address this same kind of thing. He said he is thrilled that this process is starting and feels strongly that this is something that is the Board's responsibility.

President Frazier questioned the Board as to whether they agreed if we should budget for a sewer and water rate study. Trustee Roszak questioned the wording of "we are working on this study," who is doing that, is it internally or is Gewalt-Hamilton helping? VM Sigman responded that when you are talking about the general CIP and planning how we allocate these costs, it is a combination of staff with some assistance from Gewalt-Hamilton. Dick Knudson heads up the sanitary. We don't have an in-house engineer. Pat has the GIS system also so he can convert from a map form to a spread sheet form so we can download those things differently. CIP discussions include Dick Knudson, Bill Wipperfurth (in charge of water), Mike Nystrand, her, Steve Noble (financing) and Melissa. From a water standpoint, staff has studied what needs to be studied. Now staff needs to convert what is known into a plan. We have applied for a fellowship/grant to plan infrastructure needs. VM Sigman noted that when we last looked at this, the Board did a straight line depreciation. However, the doubling of the water rate wasn't based on what work the Board thought it was needed. It was based on the theory that if a water pipe lasts 80 years, we should do 1/80th of our water main every year. So the Village needed to embed in our rates that amount of revenue to cover the 1/80th. What it didn't account for is that for 50 years we weren't setting aside that 1/80th. So we don't have that money on hand. We don't have the reserves to cover what we believe is needed for replacements over the next 10 to 20 years. So we now have to plan for those replacements embed the cost into our rates and do those projects. If we wanted to do a straight line depreciation; that would be a 10 to 12% increase over our current rates. If we raised our current rate by 10%, we would have enough to pay for the straight line depreciation, but that would be ignoring that backlog of projects.

Trustee Lungmus summarized by saying there are three parts. Understanding the condition of what we have; aggregating it – length of pipes, diameters of pipes and then figuring out how to pay for it. The consultant could help the Village residents understand what we're doing. VM Sigman doesn't see this as a Gewalt-Hamilton question going forward. Gewalt-Hamilton has been part of aggregating the data and analyzing the system we have and so they would be great to help educate all of us. There are firms that specialize and can help with the fee structure. The surrounding communities are facing the same circumstance. She has been analyzing their consultants' reports.

President Frazier indicated it is incredibly important that we do our best work and that we not waste a lot of money repairing the same things over and over again. Replacement will involve a highly substantial increase. Trustee Lungmus said they did a side comparison of what various percentage increases represent in real dollars. President Frazier stressed that we have to tell the residents what we are doing and why and why we didn't have money in the budget in the past and why we are asking for "X" amount at this point. We need to do the proverbial deep dive to see where we are and what kind of money we need.

Trustee Roszak felt it was important to understand the engineering and the cost and the PR is really important. VM Sigman said that no one complains about their \$230 cable bill every month. You get an \$80 water bill and people are astounded. They don't understand what it takes – this resource and the age of our infrastructure. It is incumbent on us to explain it. We need to build something into our budget to make it easier for this and future Boards to understand what we have and plan for the future.

Trustee Goodwin said it is easy for people to see the value in new sidewalks, streets and flooding remediation but pipes that are underground are a little more abstract to people. PR is very important. VM Sigman suggested engaging them in a solution. Sharing the different options with the residents would be helpful. We don't need to educate from an engineer's standpoint. We need to have something the residents can relate to and understand.

Trustee Lungmus reported that we just went through a big water rate increase with Winnetka and we are 15 years out from the end of our agreement with Winnetka. But he doesn't think it is too early to start thinking, on an annual basis, of checking our options are going forward. Fifteen years from now, things will change, including where we get water. He said VM Sigman mentioned a water district because a lot of communities are in the same situation. Safe, clean water is important and people are noticing.

VM Sigman is always looking for grants for local storm water improvements and working with the county and state on the Winnetka Road trunk main project. VM Sigman added that one of the major things staff needs to do is to continue to work toward getting grants and finding other revenue sources. The Village can't do everything the community wants to do without federal, state and county grants. Our grant requests have been successful, particularly with Cook County. We have meetings to get more strategic on how we could fund that project and change it to make it more competitive for grants.

Trustee Roszak asked if that would be contemplated in the budgets, assuming some percentage will be from grants. VM Sigman responded that we normally don't budget them until we have gotten the grant. A grant was received for Northfield Road 8 years ago. That project is on tonight's agenda so it will be in next year's budget. You'll see the whole amount budgeted and then a grant come in for the 70% matching. We budget the dollars for the actual construction, the project, the engineering and the legal. There will probably be a Phase I for the Winnetka Road for which we will be seeking a grant. Phase I is about \$700,000.

Trustee Lungmus then discussed the revenue side. The first one is a real estate transfer tax. A large number of home rule communities in our area, such as Chicago, have a substantial real estate transfer tax. A standard tax is \$3 for every thousand dollars of the sale price. President Frazier asked which towns on the North Shore have a real estate transfer tax. VM Sigman indicated Lake Forest, Highland Park, Wilmette, Evanston, Skokie, Mettawa, Lincolnwood and Lincolnshire. So Winnetka, Glenview, Northbrook, Glencoe and Deerfield don't have the tax.

Trustee Lungmus indicated that Director Noble ran some numbers as far as the dollar amount of real estate sales in 2017 and if we had a \$1 per \$1,000, you would add \$84,000 to our General Fund. This could be substantial. Another potential tax is a food and beverage tax. 1% food and beverage tax would generate about \$100,000. Municipalities can rebate part of that back to the collecting entities. It doesn't go to the state; it goes back to the municipality.

Trustee Lungmus discussed the memorandum which gives updates to the five year financial plan assumptions. A number of them are much more conservative but are good moves. Our actuary has annually made recommendations that changed our Police Pension contribution slightly. Otherwise, he recommended more conservative adjustments on property and sales tax, utility tax and doubling of projected interest rates from 1% to 2%.

President Frazier questioned what the doubling of the interest rate was based on. Director Noble indicated an increase in interest rates. He feels 2% is pretty conservative. VM Sigman said there are two sets of scenarios before the Board. The first set is exactly what they saw in this year's budget for the General Fund and was prepared last February or March. She took the five year projects from last year's budget and showed what that would look like under the new assumptions. She didn't update any of the data as far as estimates on where we will end this year. Here's what it was, here's what we last looked at it and if you just change these assumptions, this is what that same data will look like.

President Frazier said she is in favor of being as conservative as possible in our projections. She would be happy to see us exceed our expectations. Director Noble said it is not just philosophical; it is based on real data and trends. We have been using the 3% CIP on the property tax side and 2-1/2% on the salary side. 3% has been reached only once in the last 10 years. There have been a lot under 1%. 5% is the maximum increase that the tax cap will allow. 3% is in the middle. Inflation has been historically low for an extended period of time. He reminded the Board of the issue with the property tax refunds. We all know about the Kraft situation; roughly \$50,000 a year for 5 years. Last year, in addition to the Kraft refund, an additional \$50,000 which is money directly taken from us by the county. In 2011, they overpaid by \$1,500 so they are taking \$1,500 away from the current one. \$100,000 between the Kraft and the smaller refunds to the county. He has assumed \$100,000 in refunds putting together the next five year plan. For the next 3 years, until we get through Kraft and once done, he can cut \$50,000 for the next couple of years after that.

Trustee Roszak agrees being conservative on the numbers, but the thin margin is scary. On a budget of \$12 million having \$12,000 leftover is not good. He thinks we should have some sort of mechanism to have a little bit more of a buffer so we have more revenues coming in. When you break the news to residents, we have to show on the expenditure side that you are also doing something there. Being creative in terms of how we spend money. You have to take a little from both sides – revenues and expenditures and show that we have a plan to try to make the graph go up.

President Frazier agreed. She would like to see serious consideration to the real estate transfer tax. The food and beverage tax may be too hard to administer. Trustee Goodwin wondered it would be a disincentive for businesses to want to come here. President Frazier said they just got hit by the county for the minimum wage and they didn't like that. She is leaning toward real estate transfer tax. Trustee Roszak added that a lot of places have it. Director Noble said that the Village receives calls on a daily basis buying and selling homes in town asking if we have a real estate transfer tax. VM Sigman said a real estate transfer tax requires a referendum. As it is studied, it will have to carefully be explained to the community so they can make an educated

decision. President Frazier agreed but said if people understand that they may be paying more in property taxes so they may see the wisdom in it.

There being no further discussion or issues to come before the Board, Trustee Roszak made a motion, seconded by Trustee Lungmus to adjourn the meeting.

The meeting adjourned at 6:35 p.m.