MINUTES OF THE
COMMITTEE OF THE WHOLE MEETING
VILLAGE OF NORTHFIELD
TUESDAY, March 2, 2021

The Committee of the Whole meeting was called to order remotely via Zoom, due to the COVID-19 crisis, by Village President Joan Frazier on Tuesday, March 2, 2021, at 6:00 p.m. Village Clerk Stacy Sigman called the roll as follows:

Committee Members Present:	**Absent:**
Trustee Tom Terrill	
Trustee John Goodwin	
Trustee Greg Lungmus	
Trustee Charles Orth	
Trustee Todd Fowler	
Trustee Tom Whittaker	
President Joan Frazier	

Others Present:
Village Manager Stacy Sigman, Director of Administrative Services Melissa Jewett, Community Development Director Steve Gutierrez, Finance Director Kyle Cratty, Chief Michael Nystrand, and Chief Bill Lustig.

<u>Discussion on the VILLAGE OF NORTHFIELD PROPOSED BUDGET 2021/22</u>

President Frazier indicated the next item was a discussion on the proposed 2021/22 Budget.

Village Manager Sigman stated that she would go through the PowerPoint presentation and start by going through the current trends. She would spend time talking about our revenues and expenses and outline which of those we control and which we do not, and summarize where we expect to end this fiscal year. Finance Director Cratty would take over and run through the details of the proposed 2021/22 budget. At the end, each department head would go through any special projects planned for their department and open it up for questions.

Manager Sigman noted that a few years ago when we undertook a comprehensive assessment of our financial trends, we started with a very broad overview of our revenues and expenses. We looked at those that we have complete control over noting those with green dots, some control over noting those with yellow dots, and no control over noting those with red dots. Unfortunately, as the slide illustrated, the vast majority of the Village's revenue sources were such that we have little to no control over them. All of the green revenues combined were less than 2% of our total revenues.

Our Village's largest source of revenue comes from property taxes and in theory, the Village can raise those if/when needed. However, when Northfield became Home Rule we adopted an ordinance that requires us to comply with the state tax cap which is capped at the annual CPI-U.

Over the past 10 years, the CPI has averaged 1.8%. The only way we can exceed that is by referendum or if there is an emergency or court finding we have to comply with. Our second largest source of revenue is sales tax and that is based on the economy and how our local sales producing entities perform.

Since about 2000 the revenue landscape changed and we have seen income, use, and utility taxes all decline while our pension benefits and costs soared. Also, the state began taking revenues away from municipalities to help solve their budget crisis. To address this, the Village has aggressively cut costs, programs, and staff to maintain a balanced budget.

On the expense side, we have a lot more control, BUT 65% of our expenses are associated with employee costs. As a service industry, we need people to patrol streets, staff ambulances, respond to fire calls, plow streets and run the day-to-day operations of the Village. The only way to substantially cut expenses is through the staff. Since 2008, our total staffing count has been cut by about 1/3. However, through outsourcing and other creative approaches, we have been able to maintain all essential services but we do so with a very lean crew and budget.

For the past 10 years, our revenues have gone up about 1.78% a year, while our expenses have gone up about 2.7%. Each year we start the budget process in the hole and have to find ways to maintain a balanced budget. Each year this gets harder and this past year with COVID, our revenues dropped about 8-10% so we had to rely on reserves. Although we anticipate things being better in FY 2021/22, we believe there will continue to be COVID impacts on our revenues and expenses so we will need to again rely on reserves to maintain our all essential services.

As we look to close out the 2020/21 fiscal year, Manager Sigman was pleased to report some positive news. The Village will end this year better than our projected COVID impact "most likely" scenario. We initially anticipated a $1,200,000 drop in revenue and having to use about $1,200,000 of our reserves. We are projecting losing about $575,000 in revenues and thanks to controlling expenses, we anticipate using $400,000 in reserves. This will leave a reserve level going into the next fiscal year of about $6.6 million or 7.3 months, which is well over the Board's minimum 6-month reserve policy. We maintained our AAA bond rating despite very turbulent financial times. We kept our municipal Property Tax Rate low. Northfield ranged 9 to 39% less than our counterparts in Glencoe, Kenilworth, Wilmette, and Winnetka. We maintained a strong business base despite COVID. Most of our businesses have remained operational and our overall sales tax numbers have been good despite the pandemic. We have also seen several new businesses open and there is a strong interest in the very few vacant spaces we have in the downtown. For the 12th year in a row, we have the lowest vacancy rate anywhere in the Chicago region. Our market returns for the Police Pension Fund have fluctuated greatly and we were able to fully fund our pension obligations. At our last actuarial assessment in September, the Police Pension Fund was at 59.6% funded. Since then we have seen huge gains in the market and are now up about 20%. Our FY2020/21 budget anticipated just over $2 million in revenues but we are now projecting $5.8 million. If that holds till the end of April, that will put us well above our anticipated rate of return for the year and would have the police pension at 61.6% funded. We also stayed in compliance with the Tax Cap.

Looking forward, Manager Sigman noted we will need to try to guess what the State will do and our predictions will be woven into our revenue and expense projections for next year. Succession planning will remain important as 60% of our current force can retire now or within the next 3-4 years. The Village needs to plan for things such as vacation time payouts, temporary employees, and recruitment costs. This past year we had 4 employees retire. The first of 10 payments to IDOT for the Willow Road project is included in the draft budget and will continue to fully fund the equipment replacement fund. Finally, over the next 1-3 years we will be transitioning to the new state-wide police pension. In the long term, this is supposed to save the Village money but in the short term, it will likely cost us more due to the Tier II pension enhancements. The state approved this so we will have to continue with our regular audit, actuary, legal, and investment expenses until the new fund is fully functional.

The financial crisis within the State remains our biggest concern moving forward. We are projecting that they will continue their recent practice of taking funding from local municipalities to help deal with their issues. This includes continuing to keep 5% of our LDF and 1.5% of our home rule sales tax. However, based on the recently released budget from the Governor, there could be even more changes. He is proposing to take 10% of the LGDF but offsetting this by taxing certain services and ending some business tax breaks. The Village will continue working with the NWMC and the IML to monitor legislation in Springfield and also regionally to oppose changes that would negatively impact our community. We will be monitoring the state's planned issuances of the next tranche of cannabis dispensary licenses. Once those are released, a vendor may want to explore a Northfield location.

The final thing we will be monitoring is the ongoing impacts of COVID 19 on our revenues and businesses. Before looking at next year, it is important to assess how we think we will end this fiscal year. Many of our revenue sources have struggled due to the pandemic. Thanks to the new loss and cost factor, we anticipate receiving our full levy but most other revenue areas are down. On a positive note, overall the Village is performing better than we anticipated when the "most likely" COVID model was developed. This fact combined with closely controlling expenses means we anticipate ending the year utilizing about $367,000 of our reserves. Even with that drawdown, our reserves remain strong and will end at about $6.6 million which is equivalent to about 7.3 months of operating expenses. This is well ahead of the Board's adopted policy of maintaining a minimum of 6 months of reserves.

Financial Director, Kyle Cratty, then began to go through the details of the FY21/22 draft budget. Financial Director Cratty stated that the Village budget is organized by funds and we currently have 15 active funds. These are broken into six categories based on revenue sources and spending restrictions. In recent years we have created new funds to track the infrastructure work done with the 2016, 2017, & 2019 bond issuances and the Longmeadow and Rolling Ridge SSA bond funds. Legally, we have to keep all bond proceeds and their associated debt service separated as this is a required covenant in all bond ordinances. The operating funds are where we will spend the most time this evening since this is where we budget for all of the day-to-day services the Village provides. When we refer to the "Operating funds" this includes both the General Fund and our Water/Sewer Fund. The "General Fund" is where we account for all of the day-to-day activities of the Administration and Finance, Community Development, Police, Fire-Rescue, & Public Works – except their water and sewer work. The water and sewer fund is set up differently than the general fund and is operated as an "enterprise fund." This means that the GAAP requires us to have an enterprise fund to account for "business-type activities." These are activities similar to the private sector in which services are funded through user charges and in our case, water and sewer fees. Revenues in the General Fund are projected to be down 1.5% next year. Total property taxes are anticipated to increase by 4.3%. Village property taxes will remain in compliance with the Tax Cap and consists of a 1.9% increase based on the CPI, 0.5% for new growth, and 2% for loss and cost. The budget assumes 98% collection on the levy. Our home rule and municipal sales tax revenues are expected to be down with Home Rule Sales tax down 4.6% and general Sales Tax up about 2.8%. The vast majority of both of these taxes come from Medline, Fields, Mariano's, and Walgreens. The reason for the increase in the sales tax figure is due to the reclassification of use tax to sales tax effective May 1st.

On the expense side, operating expenses are up 1.8%. The Finance and Administration budget continues to provide funding for succession planning which covers things like vacation time payouts, temporary employees, and recruitment costs. Salary costs are up 2.5%. That number includes a 2.5% cost of living adjustment in conformance with our adopted pay and benefits plan. Benefit costs are up 2.6% and that covers IMRF, police pension, and health care costs. Contractual services are expected to increase 3.8% and that is primarily attributable to the outsourcing of our water billing/accounts payable clerk. To maintain all essential services, the draft budget relies on using $325,000 of reserves.

In the Water and Sewer Fund, the overall revenues are projected to increase 15%. That assumes a 15.5% rate increase, as recommended in the Raftelis Report, but also a 4.4% decrease in overall gallons sold which is based on a 3 year average of water consumption. The draft budget assumes the new water and sewer rate going into effect May 1st and being able to transition to monthly billing. If approved, our current rate of $9.09/100 cubic feet would increase to $10.50.
On the expense side, overall, total expenses are down 14.5%. This includes a 7% increase in contractual services to account for the contracted water billing clerk as well as funding to implement monthly billing. This includes a 1.4% increase in the water rate from Winnetka but a 4.4% decrease in the amount of water we purchase from them. Northfield has a 30 year contract to purchase water from Winnetka and we are now in the 18th year of that contract.

Salaries and benefits are down 15.8%.

$597,000 in capital work is planned and includes the design engineering for the first phase of water main replacements, water meter replacements, and about $300,000 to address MWRD mandates and televise lines. Funding for the repayment of the Willow Road loan is provided if it should be needed. Over the past few years, the Village has spent a great deal of time assessing our water infrastructure and our water and sewer rate. Last year, the Board approved a 15.5% rate increase, to cover infrastructure costs, but implementation was delayed due to COVID. This year, we plan to move forward with that increase and this chart helps illustrate how that new rate compares regionally. The blue bar is for water, the red is for sewer, and the green represents a fixed fee. It is important to note that many other area towns are facing similar infrastructure needs and have started increasing their water and sewer rate. For example, the rate for Skokie is also artificially low. They currently only charge for water and pay for sewer with sales tax revenue. This community is facing a $10 million deficit so charging for sewer is likely. On the water side, Skokie has been in a court battle over the rate they pay Evanston for several years. Evanston raised their wholesale rate to $2.06/1000 cu ft. and Skokie filed suit to retain their old rate of .078/1000 cu ft. Evanston has prevailed in federal court, but Skokie has appealed that decision. Winnetka recently implemented a new rate program to increase their rate by 92-108% over a 9 year period which will be done through annual 8.5% increases. Similarly, Glencoe's new rate structure started with an initial 42.8% to 67.7% increase based on usage followed by an additional 6 years of 4-9% increases. By 2025, their total rate will have gone up 134% for the average customer. Although these rate increases seem high, they are necessary to maintain healthy water systems. Glencoe, Winnetka, and Northfield are ahead of the curve on this by being proactive in strengthening and protecting their systems.

The Village of Northfield has diverse sources of revenue. As the chart depicts, property tax is the single largest source of revenue followed by water and sewer revenues and sales tax. This slide shows the breakdown of a typical property tax bill. Most of the taxes people pay are not for the Village since 88.4% go to other governmental entities such as the schools, park districts, library, township, and the county. The Village receives about 11.7 cents out of every dollar paid, so approximately $1,170 would be paid to the Village for a resident's $10,000 tax bill. Sales tax is another important revenue source for the Village and accounts for about 15% of our total operating revenues. 2019 data is the last full calendar year in which we have information because the state distributes sales tax to Villages about 3 months after the actual sale takes place. We will not know the final 2020 numbers until early April.

As we look at our revenues and consider future trends, we are always mindful of our sales tax producers. We are fortunate to have four auto dealers in the Village and they account for over 50% of our total sales tax. In 2016, auto sales accounted for 62% of all sales but car sales have not dropped. Instead, the percentage change reflects the addition of Medline coming on board. The Medline sales tax is categorized by the State in the "Other category." In 2016, this "Other" category was only 8.4% of the total and in 2019, it was over 24%.

Next, Director Cratty explained where the Village spends its money. Expenditures are broken out by services and about 54% of the operating budget is for public safety, while another 30% is for public works, water, and sewer. This is to be expected as these are the departments that operate 24/7, have the most employees, and respond to emergencies like 911 calls, snowstorms, and utility breaks. Pensions (IMRF and Police) have a substantial impact on local budgets and currently make up about 12% of our operating budget. It is important to remind you that all pension benefits are set in Springfield and municipalities cannot cut or change any of these. Over the past few years, we have made some solid strides to improve the Police Pension Fund. Our percentage funded has gone from 49.7% in 2009 to almost 60% at the end of FY19/20. Some of our efforts over the years to strengthen the Fund were not reflected favorably on the funding status. For example, the Village twice reduced the assumed rate of return from 7.25% to the current 6.75%, and twice we adopted more conservative actuarial tables. Both of these actions strengthened the pension fund in the long term but held down the percent funded in the short term. In 2011, the State created a new Tier II system and the Village was beginning to see the positive effects of that. However, the recent pension consolidation legislation provided some pension sweeteners for Tier II police officers that will certainly dilute these positive effects as more of our police workforce turns over to Tier II. In the long term, the hope is that the consolidation will save municipalities money but during the transition period, it is likely to cost us more. Currently, the Village has 3 police officers and 4 regular IMRF employees that are Tier II. That is about 16% of our workforce. IMRF continues to remain very healthy and is one of the healthiest pension funds in the nation. For calendar 2020, the Village's IMRF rate ticked up due to the decrease in the IMRF assumed rate of return 7.25% from 7.5%. In 2021 we will experience a higher rate due to negative earnings for IMRF in 2020.

Previously, as was noted the proposed water and sewer improvements represent the Village's ongoing commitment to maintaining our infrastructure. Storm sewer improvements include slip-lining Central, Avon, and Riverside that are all subject to receiving the grant that State Senator Fine secured for us. If the grant money is not received this year, then those projects will be pushed out. In addition to those grants, we have also applied to MWRD for some stormwater improvements and if successful, we plan to use a portion of the Fine grants as our local match.

Through the referendum bonds, the Village has been able to address all our Village streets. In FY21/22, our road work is limited to seal coating, stripping, and patching of our other streets. Also, the Village will undertake the engineering for the replacement of the Bosworth Pedestrian Bridge and do some deck work on the Sunset Drive Bridge. Finally, we will be replacing the roof at Village Hall and continue to improve the Village's appearance with parkway and median tree plantings.

Over the years the Village has started to lease–to-own our larger pieces of equipment. These are not typical leases. They are more like payment plans and the Village keeps the equipment at the end of the lease term. Anything shown on the slide above with an asterisk is something that was purchased in the past and the budget just reflects a continued annual lease payment. We do most of our large equipment purchases on a 4-year lease-to-own payment schedule and the details as to which year of the lease we are in can be found on page 34 of the budget book. Everything without an asterisk is equipment scheduled to be purchased this next year. It is important to remember that each year during the budget process, we evaluate the equipment that is scheduled for replacement and based on its condition determine if it should be included in the budget or pushed out a year. When you look at pages 33-37 and the details on Equipment Replacement, anything you see highlighted in yellow has been pushed out past its anticipated useful life. We always try to get additional years of service from equipment and only replace things when absolutely necessary. Even once the equipment is in the budget, we do one final assessment before we get bids and send it to the Board for approval. It should be noted that there is one typo on page 23 of the budget book. The $13,000 noted there is for replacement AED's in our municipal buildings and not an automated chest compression devise. The compression device for the ambulance was purchased last year.

At the end of the next fiscal year, we are projecting a fund balance of $6.3 million, which remains in compliance with the Board's 6-month fund balance policy. That balance represents 6.5 months of operating expenses. As part of the annual budget process, we look at how these fund balances fit into our longer-term needs and perform 5-year projections. The projection for the General Fund is on Page 18 and the projection for the Water and Sewer Fund is on Page 19. Overall, both are looking fairly strong. As you can see from those projections in the General Fund, if nothing else changes, the Village will dip below our 6-month reserve policy in FY

25/26. This is something staff and the Board will have to continue to monitor and address over the next few years. The Water & Sewer Fund projections include the assumptions from the Raftelis Report which assumes an initial 15.5% rate increase followed by smaller cost of living increases after that.

Village Manager Sigman thanked Financial Director Cratty and Chief Nystrand who took the lead role on the development of the Capital Improvement Plan budget, as well as all of the department heads for holding down expenses and coming up with creative ways to maintain services. She then asked each department head to highlight their budget and any special projects they have planned next year.

Director of Administrative Services Melissa Jewett gave an overview of the Finance and Administrative budget. Salaries and benefits are down in the department reflecting the transition of 2 positions going from full to part-time. These 2 positions, as well as most of the Administrative and Finance positions, are billed from both the Administrative/Finance budget and the Water and Sewer Fund, based on the proportion of work done in the different areas. A lot more time was spent by staff on public outreach last year. Website traffic increased by 70% in 2020 to over 62,000 hits. There were 35 more E-news blasts than in the past and we posted 480 times on social media. There is an increase in the insurance line item that reflects increases in PPO and HMO premiums. You will see these insurance increases throughout each department within their budgets. Based on a comprehensive survey with neighboring municipalities, the employee contribution for medical coverage was increased. There was a progressive transition to online vehicle sticker purchases which lead to higher credit card fees that are a cost of doing business. There is an increase in the Village Code. Staff is working on a shift to a new codifier that will vastly improve the administrative update process and the user experience to view the Village Code online which is incredibly important to our daily operations. There is an increase in Telephone maintenance to reflect the cost of software to ensure that our network is protected. Within the Capital improvement fund budget, it includes $55,900 for IT system upgrades and replacements. This includes an outdated server in Public Works, replacement of a police network switch, replacement of our wireless point-to-point connection for Public Works, and our annual computer replacement program enabling the conversion of appropriate workstations to laptops with docking stations to accommodate telework in the future.

Community Development Director Steve Gutierrez gave an overview of the Community Development Department Budget. They have cut schools and seminars by 1/3 by suspending professional development programs this coming year but keeping essential continuing education requirements for vital certifications for the Building Inspector (International Building Council) and Village Engineer (Flood Plain Manager Certification.) They have cut memberships & dues by almost 2/3 by cutting his professional association memberships as well as a research service provided by the American Planning Association. The largest reduction comes by reducing our IMRF contribution by 12% through the reclassification of our part-time planner's hours through non-IMRF status by keeping below 1,000 hours/year. One caveat is if our tree preservation ordinance requirements expand, this may affect our ability to keep the planner under 1,000 hours/year. We do not know what changes might be made to this program but it could affect the number of hours this position spends on plan reviews, inspections, and fieldwork. The capital improvement fund budget includes the restoration of the Village Hall roof for approximately

$225,000. They considered replacement that would cost $400,000 and replacing the worst sections for $200,000. Unfortunately with this Band-Aid approach, we would not know when other parts of the roof would need to be replaced. We felt restoration was a better value and should buy us 10-20 years of additional life versus 30 years for a completely new roof.

Police Chief Bill Lustig stated when looking at their maintenance agreements, they could not change their contract agreement with Glenview for their dispatching system. They have a reduction in their school/seminar training. This year they did not have to budget for hiring police officers since last year they entered into an agreement to test with Winnetka to minimize costs and all of their supervisors are currently trained. There is an increase in medical screenings for blood lead and hearing for officers. There is a cost increase for the replacement of a NIFUS officer. Major crime taskforce costs have increased but these are important when severe crimes incur and a huge benefit for the Village. Equipment replacement costs have increased to replace warning lights on the squad cars.

Fire-Rescue Chief Mike Nystrand noted that they hope to continue to work through the COVID-19 concerns and issues. They want to continue administering vaccines, sponsored by the MABAS 3 division towns, at the New Trier West campus. It appears they will be starting the second round of vaccines on Wednesday, March 10. Under fire protection, inspections were down by 267 due to COVID and not being able to get into facilities. Inspections are expected to slowly increase. There is a reduction in salaries and administration due to a change of an employee from a full-time to a part-time position. There was a 30% decrease in the training because last year the Village Board approved online training that staff can do while on duty to stay up to date. There was a 14.3% reduction in emergency call-back salaries. Otherwise, the fire rescue budget remained the same.

Public Works Director Mike Nystrand stated one of their goals for the next fiscal year would be implementing monthly water meter readings to support the new monthly billing operation. The operating budget is down 1.6% from the current budget due to a full-time employee switching to part-time status.

Village Manager Sigman noted a few things:

- Any line items that have gone up or down in any meaningful way are highlighted and footnoted and a lot of these, such as IMRF, apply to all departments.
- All of the numbers are just for budgeting purposes. All projects and purchases over $25,000 are brought back to the board for formal approval before they can move forward.
- After tonight if we need more time to review the budget, a second budget workshop has been planned for Thursday at 6:00 PM. That meeting will only need to take place if we are unable to get through all the material we need to this evening.
- The public hearing on the budget will take place directly after the March 16th Board Meeting. The formal adoption of the FY21/22 budget is scheduled to take place at the April 20th Board Meeting and will go into effect May 1st. There are a few new special requests that are not in the draft budget but can be added to the final draft based on Board input. Since we are already relying on reserves, the funding for any of these would need to come from reserves.

There were no questions on the draft budget so the Board then began their review of the three special requests. $30,000 was requested for the Business Support Program to help our businesses recover from COVID. The Board agreed with this request and asked that it be included in the final budget. The next item was a resident request for a Coyote Culling Program and that was estimated to cost about $60,000 a year. That cost was based on an assessment of our complaints over the past three years and the likely need to cull about 12 coyotes a year. The Board did not support a culling program but directed staff to add $10,000 to the Police budget so that there were resources available to address dangerous situations. Finally, the Board discussed removing the cap on 50/50 parkway tree program. Annually, the Board budgets $5,000 for this program and some years that is sufficient and other years it is not. Staff estimated that removing the cap could result in about $2,000-$5,000 in expenses in a really busy year. The Board agreed that they did not want to place a limit on the number of parkways trees to be planted through the 50/50 program and directed staff to process all requests in FY2021/22 even if they are above the budgeted $5,000. Those additional costs would be paid for out of reserves.

<u>Other Business</u>

Trustee Terrill made a motion, seconded by Trustee Goodwin to adjourn the meeting.

AYES:	Orth	NAYS: 0	ABSTAIN: 0	ABSENT: 0
	Fowler			
	Lungmus			
	Goodwin			
	Whittaker			
	Terrill			

The meeting adjourned at 7:26 p.m.