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NOTICE OF MEETING
of the
FINANCE COMMITTEE OF THE
BOARD OF TRUSTEES OF THE VILLAGE OF WILMETTE

Friday, MARCH 27, 2015 at 8:00 A.M.
Conference Room – Second Floor of Wilmette Village Hall
1200 Wilmette Avenue, Wilmette, Illinois

AGENDA

I. Call to Order.

II. Approval of Minutes.

Minutes of the Finance Committee meeting of February 5, 2015.

III. Discuss Impact of Proposed Changes in State of Illinois Revenue Distributions (LGDF)

IV. Discuss Revisions to the Village's Budget Reserve Policy

V. New Business

VI. Public Comment

VII. Adjournment

Posted by Barbara Hirsch, Deputy Village Clerk,
on March 20, 2015 at 2:00 p.m.

IF YOU ARE A PERSON WITH A DISABILITY AND NEED SPECIAL ACCOMMODATIONS TO PARTICIPATE IN AND/OR ATTEND A VILLAGE OF WILMETTE PUBLIC MEETING, PLEASE NOTIFY THE VILLAGE MANAGER'S OFFICE AT (847) 853-7509 OR TDD (847) 853-7634 AS SOON AS POSSIBLE.

THE VILLAGE OF Wilmette
EST. 1872
1200 Wilmette Avenue
WILMETTE, ILLINOIS 60091

MEETING MINUTES

FINANCE COMMITTEE OF THE VILLAGE BOARD

THURSDAY, FEBRUARY 5, 2015
8:30 A.M.
DAVID C. LEACH CONFEENCE ROOM

Members Present:	Trustee Carol Ducommun, Chair Trustee Cameron Krueger Trustee Ted McKenna
Staff Present:	Melinda Molloy, Finance Director Mike Braiman, Assistant Village Manager

I. CALL TO ORDER

Chair Ducommun called the meeting to order at 8:30 a.m.

II. PUBLIC COMMENT

None

III. APPROVAL OF MINUTES OF NOVEMBER 13, 2014

Trustee McKenna made a motion to approve the minutes. Trustee Krueger seconded the motion, all voted aye and the motion passed 3-0.

IV. DISCUSSION OF PAYMENT OPTIONS FOR FINAL SHERIDAN ROAD INVOICE

Ms. Molloy informed the Committee that the Village received in December 2014 the final invoice from the Illinois Department of Transportation (IDOT) for the $19.3 million Sheridan Road Reconstruction Project which was completed in 2009. The project was funded through a combination of local, State and Federal funds. Budgets subsequent to 2009 have projected forward the Village's final estimated actual for this project. The final invoice, which has been confirmed as accurate by the Engineering Department, is $436,000 greater than the Village's estimated actual. A percentage of this final expense is charged to Evanston for their portion of the project and as such, the final added cost to Wilmette is $325,000.

Finance Director Molloy asked the Committee to consider the following options to pay the additional $325,000 expense:

Utilize reserve funds
Reserves from the General Fund and Sewer Fund could be utilized to offset this unanticipated expense. Both funds currently possess reserves in excess of the minimum recommended level and would not be adversely impacted at this time.

Utilize MFT reserves
The MFT account has $505,000 in reserves which could be utilized to fund the invoice. Given that MFT revenues have declined each of the past several years, Staff does not recommend use of these funds as they are better suited towards continued funding of the annual road program.

Roll the additional cost of $325,000 into the loan for the Kenilworth water interconnect
The Village is working with Kenilworth to finalize a wholesale water supply agreement. Kenilworth has requested that Wilmette fund the $1.8 million construction project, to be repaid by Kenilworth through an additional line item on their water rate. Given the current low interest rates, the $325,000 in Sheridan Road expense could be rolled into this loan at a total interest cost of $40,000.

The Committee discussed the three options above and agreed that issuing debt, in relation to the Kenilworth project was the best course of action, provided that the Committee review in Spring 2015 a change in the Village's reserve policy to increase the recommended minimum reserve level.

V. OTHER BUSINESS

Assistant Village Manager Braiman discussed the impact of a reduction in the Local Government Distributive Fund (LGDF) which provides $2.5 million in annual revenue.

Finance Director Molloy discussed the status of the Police and Fire Pension Funds ongoing discussions regarding the Village's assumed rate of return for each fund.

VI. ADJOURNMENT

At 9:20 a.m., Trustee McKenna moved to adjourn the meeting. The motion was seconded by Trustee Krueger. All voted aye, the motion carried.

Respectfully Submitted,

Michael Braiman
Assistant Village Manager

THE VILLAGE OF Wilmette
EST. 1872

Village Manager's Office (847) 853-7509

Date: March 20, 2015

To: Village Board Finance Committee

From: Michael Braiman, Assistant Village Manager

Subject: Local Government Distributive Fund Analysis

Background

On February 18, 2015 Governor Rauner presented his Fiscal Year 2016 budget address which included significant proposed reductions in local government revenue, including:

- A 50% reduction in the Local Government Distributive Fund (LGDF)
- A 2-year freeze on local property taxes

As the following tables indicate, the impact of these revenue reductions is significant:

Local Government Distributive Fund- Impact to Wilmette			
	LGDF Revenue	**General Fund Revenue**	**LGDF as % of General Fund**
2013	2,580,859	33,719,930	7.65%
2014	2,593,412	34,652,975	7.48%
2015 Budget	2,512,600	34,701,160	7.24%

Reductions in the Local Government Distributive Fund			
	LGDF Revenue	**50% Reduction**	**25% Reduction**
2014 Revenue	2,593,412	1,296,706	648,353
Increase in Tax Levy to Offset		8.07%	4.03%

Property Tax Projections		
	Revenue	**Lost Revenue If Levy Is Frozen**
2015 Budget	16,070,450	
2016 Projection	16,662,923	592,473
2017 Projection	17,283,764	620,841

Recently, information has circulated out of Springfield that the State may immediately cease or reduce its monthly LGDF distributions for the remainder of the State fiscal year which ends on June 30th. Further, there is now discussion of reducing a portion of the 1% municipal share of the State sales tax that is distributed back to local governments.

While no final decisions have been made in Springfield, it is becoming increasingly clear that at least a portion of funds distributed by the State to local governments will be reduced or eliminated in the next several months.

<u>History of the Local Government Distributive Fund</u>
The LGDF is a state fund into which a portion of state income tax revenue is deposited annually. Cities and counties currently receive 8% of total state income tax revenues through this fund. This distribution was put in place in 1969 to account for loss of revenues when the State abolished the corporate personal property tax.

Until January of 2011, 10% of total income tax collections were distributed to municipalities as part of the LGDF. Distributions occur on a per capita basis. The percentage share of state income tax revenue was reduced from 10% to 6% following the enactment of the temporary income tax increase in 2011. The percentage was decreased because the State elected to keep the entirety of the new increased revenues for itself. When the income tax rates declined in January 2015, the LGDF share increased to 8% of total collections. These fluctuations since 2011 have been intended to keep municipalities whole.

<u>Other State Shared Municipal Revenue</u>
Other shared municipal revenues that may be at risk include the following:

Revenue	**2015 Wilmette Budget**
Sales Tax	$3,429,680
Motor Fuel Tax	$640,000
Personal Property Replacement Tax	$255,300

The above revenues in total account for 12% of 2015 General Fund revenues, and 16% when including income tax distributed from the LGDF.

Discussion
The Governor's proposed revenue reductions are significant enough that cuts alone may not be sufficient to offset the loss in revenue. Given the structural changes implemented by the Village since 2008 (see page three), any expenditure reductions would have a direct impact on Village services.

Village Staff will begin preparation of the Fiscal Year 2016 Budget in June. It is important to initiate discussion of expenditure reductions and revenue enhancements at this time in order to prepare a budget that meets the expectations of the Village Board.

Expenditure Reductions

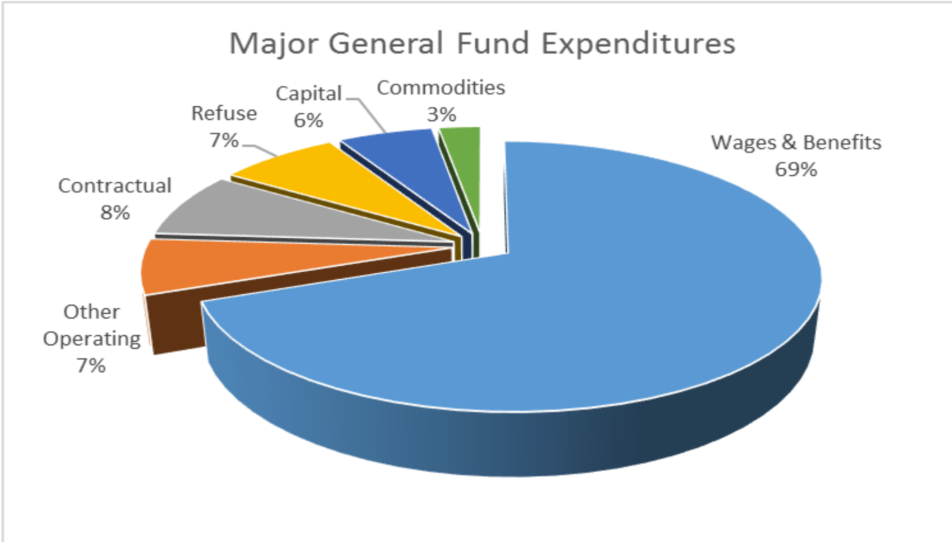
Unlike the Great Recession, the changes in state shared revenue will be permanent and require structural changes to the Village's operations in order to reduce expenses over the long term. As such, staff does not recommend some of the expense saving tools that were utilized during the recession such as deferral of capital, temporarily freezing department head pay, reduced hours for certain positions or reductions in training budgets. Changes in Village operations will need to be significant and long-lasting.

As background, the following were some of the major changes implemented since 2008:

- Reduced number of employees receiving benefits by 5%- 12 employees
- Reduced hours from 40 to 32 hours per week for 15 employees
- Department Head salaries were frozen in 2009 and 2010
- Eliminated performance bonuses for management staff
- Introduced two tier pay plan for non-union employees hired after January 1, 2011
- Introduced two tier pay plan for police union employees
- Privatized plumbing inspections and animal control
- Eliminated public funding of the Housing Assistance Program
- Reduced the Village's Leaf Collection Program by one week
- Eliminated the Village's back door refuse collection program for 5,800 homes
- $16.8 million in capital needs deferred since 2008
- Reduced the Village's tree planting program by $30,000 annually
- Reduced the Village's Emerald Ash Borer program by $100,000 annually
- Reduced department training budgets
- Consolidated four volunteer commissions into the Human Relations Commission

The table below provides a historic view of staffing levels:

As the chart below demonstrates, 70% of the Village's General Fund Budget is personnel related.



During the recession, the Village was able to reduce headcount without impacting service levels. Given that personnel expense continues to account for 70% of the General Fund budget, any further reductions in headcount are likely to reduce services.

Revenues

While the Village's revenues have improved since the depths of the recession, there are a number of major revenue sources which still lag behind their pre-recession peaks:

Revenue	**Percent Decline from Peak**	**Total Decline from Peak**
Sales Tax	-1%	$41,000
Income Tax	-1%	$24,000
Utility Tax	-13%	$366,000
Real Estate Transfer Tax	-14%	$214,000
Total	**-6%**	**$645,000**

Even if the above revenue sources return to their pre-recession peaks, and absent major changes in Village services, there will need to be some new revenue to offset the proposed reduction in LGDF. The following, non-property tax revenue options may be considered by the Village Board:

- Solid Waste Fee Adjustment
- Food & Beverage Tax
- Utility Gas Tax
- Home Rule Sales Tax
- Other Taxes- Packaged Liquor and Cigarette Taxes

Solid Waste Fee Adjustment
The Village's solid waste fee of $23.17 per household per month covers approximately 93% of the cost of the Village's solid waste collection program, with the remainder funded by property tax revenues.

As the Municipal Services Committee reviewed in March, Village Staff has negotiated a proposed contract extension with Advanced Disposal that will hold rates flat in 2015 and reduce rates by 2% in 2016. The extension provides for $210,000 in expense savings in 2016. However, revenues in 2016 were projected to continue increasing by 3.5%, the increase in the previous contract. If the rate charged to residents were to continue increasing by 3.5%, the 2016 total revenue would exceed the expenses in the refuse program. Therefore, the projected rate increase needs to be adjusted, which results in less savings in the cash flows than the $210,000 previously mentioned.

Based on the revised contract with Advanced Disposal, the Village Board may wish to re-examine its solid waste rate structure under the following scenarios:

Refuse Rate Options	Proposed Monthly Rate	Percent of Program Funded by the Rate	Net General Fund Savings in 2016
Reduce rate by 5%	$ 22.00	93%	$ 0
No Increase	$ 23.17	98%	$ 125,000
Increase rate by 2%	$ 23.63	100%	$ 175,000

Reducing the rate by 5% to continue the 93% funding ratio as stated above would save each household $14.04 per year and would result in no net savings to the Village. Increasing the rate by 2% to fully fund the refuse program through fees would result in an additional annual cost of $5.52 per household, resulting in net savings of $175,000 to the Village.

Stability of Revenue Source: Of the revenue sources discussed in this report, the solid waste fee is the most stable source as it is based on the number of households in the Village, and is not subject to economic or weather fluctuations.

Food and Beverage Tax
Separate from the H.R. sales tax, municipalities may assess a tax on food and beverages intended for immediate consumption. This tax generally applies only to restaurants and does not impact pre-packaged food sold at grocery stores.

Village Rate: None

Comparable Rates: The table on the following page provides a summary of food & beverage taxes in nearby communities:

Food & Beverage Tax	
Municipality	**Tax Rate**
Highland Park	1.0%
Park Ridge	1.0%
Evanston	0.0%
Glenview	0.0%
Lake Forest	0.0%
Northbrook	0.0%
Skokie	0.0%
Winnetka	0.0%
Wilmette	**0.0%**

While only two of the eight comparable municipalities have a food and beverage tax, many more communities not included in the survey group have successfully implemented the tax including Arlington Heights (1.25%), Buffalo Grove (1%), Des Plaines (1%), Elk Grove Village (1%), Lincolnwood (1%), Morton Grove (1%), Mount Prospect (1%), Niles (1%), Palatine (1%), Schaumburg (1%), and Wheeling (1%).

Impact on a Resident: A 1% food and beverage tax would amount to $1 on a $100 restaurant bill.

Revenue Projections: State sales tax data indicates that a 1% food and beverage tax would result in approximately $500,000 in gross revenue. As the restaurants would submit their tax receipts directly to the Village on a monthly basis, an additional part-time position or vendor may be needed to process the receipts at an estimated cost of $50,000. As such, total net revenue is projected to be $450,000.

Stability of Revenue Source: A food and beverage tax is economically sensitive. The projected $450,000 in annual revenue is based on local sales tax receipts in 2014.

Utility Gas Tax

The Village currently collects a tax on the consumption of natural gas utilized by residents and businesses.

Village Rate: The Village levies a tax of $0.024 per therm and averages $430,000 in annual revenue.

Comparable Rates: The table on the following page provides a summary of the utility tax in nearby municipalities.

Utility Tax	
Municipality	**Tax Per Therm**
Glenview	$ 0.045
Highland Park	0.045
Skokie	0.040
Evanston	0.025
Park Ridge	0.020
Lake Forest*	5%
Northbrook*	5%
Winnetka*	5%
Average	**$ 0.035**
Wilmette	**$ 0.024**

*Have not yet converted to a use tax as allowed by the the State of Illinois

Impact to a Resident: Each one cent ($0.01) increase would result in an additional $10 per year for an average household.

Revenue Projections: Each additional one cent would result in approximately $180,000 of revenue.

Stability of Revenue Source: Utility tax revenues are weather dependent and during warmer winters less revenue will be realized.

Home Rule Sales Tax

All Illinois municipalities receive 1% of the sales tax on retail sales within their corporate limits. Additionally, Home Rule municipalities may, at their discretion, enact additional sales tax in 0.25% increments (known as Home Rule Sales Tax). This tax applies only to tangible personal property sold at retail and does not include groceries, prescriptions, or property titled or registered with the state (ex: automobiles).

Village Rate: In 2005, the Village implemented a 0.25% Home Rule Sales Tax (H.R. Sales Tax) which produced approximately $500,000 in annual revenue. Effective January 1, 2015, the Village increased the sales tax to 1.0% with the additional funds dedicated to capital improvements.

Comparable Rates: The table on the following page provides a summary of H.R. Sales Tax in comparable communities.

Home Rule Sales Tax	
Municipality	**Tax Rate**
Skokie	1.25%
Evanston	1.00%
Highland Park	1.00%
Park Ridge	1.00%
Glenview	0.75%
Northbrook	0.75%
Lake Forest	0.50%
Winnetka	0.00%
Average	**0.78%**
Wilmette	**1.00%**

Of the municipalities that share a border with Wilmette (Skokie, Evanston, Glenview), the average H.R. Sales Tax is 1.0%.

Impact to a Resident: Below is the impact of increasing the H.R. Sales Tax on a $100 purchase of taxable property.

H.R. Tax Rate	Tax on $100 purchase
1.00%	$ 1.00
1.25%	$ 1.25

Revenue Projections: Each additional 0.25% of H.R. Sales Tax will produce an estimated $500,000 in annual revenue.

Stability of Revenue Source: The H.R. sales tax is economically sensitive and at the end of Fiscal Year 2014 was 11% lower than its pre-recession peak.

Other Taxes

The Village has the authority to implement a packaged liquor and/or cigarette tax. These taxes are less common and the Village does not have any data available to accurately project potential revenue.

Packaged Liquor Tax

Separate from the H.R. sales tax, municipalities may assess a tax on pre-packaged liquor not intended for immediate consumption.

Village Rate: None

Comparable Rates: The table on the following page provides a summary of comparable packaged liquor taxes.

Packaged Liquor Tax		
Municipality	**Tax Rate**	**Revenue**
Evanston*	6%	$ 2,300,000
Park Ridge	4%	$ 389,277
Highland Park	1%	$ 296,191
Glenview	0%	-
Lake Forest	0%	-
Northbrook	0%	-
Skokie	0%	-
Winnetka	0%	-
Wilmette	**0%**	-

*Evanston remits 2% back to the retailers

Impact to a Resident: A 1% tax on a $40 pre-packaged bottle of wine would result in a $0.40 tax.

Revenue Projections: The Village does not have any data to estimate packaged liquor tax revenue.

Cigarette Tax

Home Rule municipalities may enact a cigarette tax on every 20 pack of cigarettes sold. While the Village does not have a cigarette tax in place, current taxes in Cook County and the State of Illinois total $4.98 per pack.

Village Rate: None

Comparable Rates: Below is a summary of comparable municipal cigarette taxes.

Cigarette Tax		
Municipality	**Tax Rate**	**Revenue**
Evanston	$ 0.60	$ 380,000
Park Ridge	-	-
Highland Park	-	-
Glenview	-	-
Lake Forest	-	-
Northbrook	-	-
Skokie	-	-
Winnetka	-	-
Wilmette	**-**	-

Impact to a Resident: A $0.60 tax would increase the price of a pack of cigarettes by $0.60 and result in a total tax rate of $5.58 per pack of cigarettes.

Revenue Projections: The Village does not have any data to estimate cigarette tax revenue.

Revenue Summary
Below is a summary of the additional revenue sources available to the Village.

Revenue Source	Current Rate	Potential Incremental Increase	Estimated Impact to a Resident	Additional Net Revenue
Solid Waste Fee	$23.17	$0.46/month	$5.52 per household anually	$175,000
Food & Beverage Tax	0%	1%	$1 for every $100 restaurant bill	$450,000
Natural Gas Tax	$ 0.024	$ 0.01	$10 per year	$180,000
H.R. Sales Tax	1.00%	0.25%	$0.25 for every $100 purchase	$ 500,000
Packaged Liquor Tax	0%	1%	$0.40 for a $40 bottle of wine	Unknown
Cigarette Tax	$ 0.0	$ 0.60	$0.60 per pack of cigarettes	Unknown

Next Steps
The Village currently has $6.6 million in General Fund reserves, which is $2.4 million greater than the minimum recommended reserve level of $4.2 million. Assuming revenues meet budget projections, there are sufficient reserves to withstand a 50% reduction in LGDF revenue for almost two years. That being said, any such reduction to LGDF should be considered a structural change to the Village's operating budget and it is staff's recommendation that quick action be taken on the expense side to avoid a depletion of the General Fund reserve in 2015. As such, Staff is seeking initial guidance from the Finance Committee in regards to expense reductions and potential revenue enhancements.

THE VILLAGE OF Wilmette EST. 1872

Village Manager's Office (847) 853-7509

Date: March 20, 2015

To: Village Board Finance Committee

From: Michael Braiman, Assistant Village Manager

Subject: Budget Reserve Policy

Background

At the last Finance Committee meeting, the Committee indicated a desire to review the Village's Budget Reserve Policy ("policy").

The policy last amended in April 2005 is attached and states that:

> To determine the appropriate level of General Fund reserve, estimates of revenues and expenses are made for the months of January and February. The amount that expenses are projected to exceed revenues for this two month period reflects the minimum necessary amount of cash on hand at December 31 to avoid borrowing prior to the receipt of property tax revenue. The recommended minimum budget reserve is 200% of the projected two month shortfall.

The policy excerpt above equates to an approximate 12% minimum reserve level as compared to annual General Fund operating revenues.

Moody's Investor Service has regularly noted the Village's low reserve threshold as compared to similarly-rated entities as a challenge during their bond rating analysis. For background, the minimum reserve level of comparable communities, as a percent of operating revenues or expenses, is listed on the following page:

Municipality	Minimum Reserve
Highland Park	35%
Park Ridge	25%
Evanston	16%
Glenview	30-40%
Lake Forest	25%
Northbrook	40%
Skokie	25%
Winnetka	50%
AVERAGE	**30%**
Wilmette	**12%**

Discussion
The Village's General Fund reserve balance as of January 1, 2015 is as follows:

	Beginning Reserve	Recommended Reserve
Reserve Balance	$6,658,000	$4,196,000
Percent of Operating Revenues	20%	12%

Staff is presenting the following options for the Finance Committee to consider in regards to the reserve policy:

1. Amend the policy to increase the minimum recommended reserve level

2. Create a capital equipment replacement fund (CERF) where excess reserve funds would be allocated

3. Take no action at this time and re-evaluate once the impact of State of Illinois revenue reductions are fully known

<u>Amend the policy to increase the minimum recommended reserve level</u>
The Village's existing reserve is 20% of General Fund operating revenues. The reserve exceeds the minimum recommended level of 12% due to two consecutive years of revenues far-outpacing projections while expenditures have been less than budgeted.

Should the Village seek a minimum 25% reserve level, there will be a $1.8 million shortage in the General Fund reserve:

	Current Reserve	25% Level	Shortage
Reserve Balance	$6,658,000	$8,480,790	$1,822,790

It is important to keep in mind that increasing the minimum recommended reserve level creates a new cost center for the Village that must be met on an annual basis. Failure to meet the policy level is viewed unfavorably by bond rating agencies. If the General Fund budget does not project to meet the minimum reserve in a given fiscal year, expense reductions or revenue enhancements would need to be considered to eliminate the shortfall.

<u>Create a capital equipment replacement fund (CERF) for excess reserve funds</u>
A capital equipment replacement fund (CERF) is a capital projects fund that is used to set aside monies for the future replacement of vehicles and equipment in order to avoid significant fluctuations in operating budgets from one year to the next. Under such a scenario, operating departments (Police, Fire, Public Works) would typically make annual contributions to the CERF based on a depreciation schedule and have dollars available to them for equipment replacement or facility upgrades as needed.

If the Village Board elects to create a CERF, staff makes the following recommendations:

1. Allocate a portion of the existing excess reserve (which totals $2.4 million) to the CERF as seed money

2. Determine that a portion of all future non-recurring revenues (mostly in the form of large building permit fees) be allocated to the CERF

3. Amend the existing Budget Reserve Policy to acknowledge that CERF funds may be transferred to the General Fund at any time to offset large unanticipated expenditures or revenue shortfalls

By creating a CERF, the Village will be increasing its reserve level well above the current 12% minimum. However, there will be no new General Fund cost center that must be met on an annual basis as would be the case by increasing the minimum recommended reserve level to 20 – 25% as discussed above.

<u>Take no action and re-evaluate</u>
Given the uncertain state of the Local Government Distributive Fund (LGDF) as well as other state shared revenues, the Finance Committee may wish to consider deferring changes to the Village’s reserve policy until such time that the impact of revenue reductions is fully known.