MINUTES OF THE
COMMITTEE OF THE WHOLE MEETING
VILLAGE OF NORTHFIELD
TUESDAY, SEPTEMBER 17, 2019

The Committee of the Whole meeting was called to order by Village President Joan Frazier on Tuesday, September 17, 2019 at 5:30 p.m. Village Clerk Stacy Sigman called the roll as follows:

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

President Joan Frazier

Others Present:
Village Attorney Everette Hill, Village Manager Stacy Sigman, Finance Director Steve Noble, Assistant to the Village Manager Melissa DeFeo and Todd Schroeder, Kevin Cavanaugh and Ron Amen of Lauterbach & Amen.

<u>Approval of the August 20, 2019 Report of Proceedings</u>

Trustee Whittaker made a motion, seconded by Trustee Terrill to approve the August 20, 2019 Report of Proceedings. Approval was unanimous.

<u>Review and Discussion of the Police Pension Actuarial Report – Lauterbach & Amen</u>

Todd Schroeder, Director of Actuarial Services at Lauterbach & Amen, said he has been working with Northfield's Pension Fund for four years and greatly appreciates the opportunity.

Kevin Cavanaugh has been at Lauterbach & Amen for a year and a half, and attended last year's Committee of the Whole meeting.

Finance Director Steve Noble informed the Board that the Actuarial Report and a summary of the report were in their packets.

Mr. Cavanaugh said they have taken the results for the Actuarial Funding Report and consolidated the 40 page report to an easier to digest format. Page 1 of the Report shows the bottom line for this year. The current year contribution requirement is $1,249,000. Compared to the prior year, contribution of $1,163,000, this represents an $86,000 increase or 7.4% increase. Contributions are made up of two key components, one is the normal cost or the cost of benefit accrual for this year for all active employees. The other component is the reduction of our unfunded liability. The breakdown of this year's contribution is about 30% normal cost or the benefit accrual component and about 70% is the unfunded liability which is at $12,500,000. This unfunded liability will be eliminated over the next 21 years. The current year percentage funded is 61.55% and is up about ¾% from last year. The fund is slightly more heavily weighted towards inactive members at 23 than active member at 19. Seventeen of the 19 members are Tier I.

Mr. Cavanaugh indicated that page 2 shows a breakdown on the asset side from last year's ending market value to this year's ending market value. We started the fiscal year at $18,730,000 and ended the year at $19,570,000, for a total gain of $846,000. The employer contribution of $1,163,000 represented the actuarially recommended contribution. The Village is putting in exactly what the actuarial recommended contribution is for the pension fund. Return on investments for the year was about 4.1% versus the expected 6.75%. Trustee Terrill indicated this is about 2/3rds of expectations. Mr. Cavanaugh said that some of their calendar year clients got really bad news on that front as December 31st was the market low point. Northfield uses an April 30th FY so we had time to recover and achieve 4.1%. President Frazier asked what the December 31st date related to. Mr. Cavanaugh indicated that it is the fiscal year cutoff date for some municipalities. Some municipal funds on their December 31st cutoff were as low as negative 4% for the entire fiscal year. From an actuarial standpoint, they then have to use that number in their projections. President Frazier said that our returns were surprising as every time we received reports, the fund was doing so well. Trustee Terrill said since the crash in December, much of it has been made up. He believes it will come in over 6% this year.

Director Noble noted that in the monthly report, there is information from our investment advisors that from January to July 31st the fund is up 11.1%. For the previous 12 months from last July, it's only up 3.46%. The market started going down at the end of last year and it's now starting to come back up. The actuarial number is a snapshot in time, based on the previous 12 months. Trustee Terrill added that the market has made up losses as of now. but we will experience declines in the near future.

Mr. Schroeder said that volatility is part of the process. One of the things they do from a funding standpoint is to look at the returns on a rolling five year basis. They don't chase the ups and downs, year by year, but rather smooth out for a longer period. The full report, on page 16, looks at a four year history. There were a couple years in a row where the fund was over the 6.75%. Last year it was 7.1% and fiscal year 2017 it was 9.5%. This is all part of the ups and downs of the market.

Mr. Cavanaugh outlined the benefit payments on page 3. The current payment level, ending fiscal year April 30th, is $1,296,000. In the next five years, we expect about a 45% increase in benefit payment to $1,877,000 and in ten years, we expect an 80% increase to $2,305,000. It is important to keep in mind that as long as the full recommended contribution is being made, these future benefit payments are provided for.

Mr. Cavanaugh then discussed changes in contributions and the factors that led to either an increase or decrease. $37,800 is for salary increases which were less than expected, and resulted in a $7,400 reduction. In demographic changes, there was a more senior new hire which led to an increase of $43,500 in the contribution. A $13,100 increase was due to asset returns being less than expected. Contributions, greater than expected, led to a reduction of $610. This is reflective of the fact that the Village is putting in the full recommended contributions. Trustee Terrill questioned the salary decrease. Mr. Cavanaugh said that in setting that assumption they use a Collective Bargaining Agreement profile. The step increases, dictated by that Agreement; the COLA's; and promotions are all part of this. On a long term basis, they expect salary increases to run about 4%. Last year, members received a 2.75% COLA for the year. Director Noble corrected that we don't have a Collective Bargaining Agreement. What the actuary is following is our pay plan. On the demographic change, as noted we hired a more experienced officer last year. That officer has since left and was replaced with a much younger Tier II employee.

Mr. Cavanaugh went into the funded percentage summary based on actuarial value of assets. Page 6 shows the impact each change has had on the funded percentage for the Police Pension Fund. Page 7 gives information and highlights from the Net Pension Liability and Pension Expense Report. Net pension liability is $12,740,000 and the fund is protected and fully solvent. This is good news from a GASB perspective.

President Frazier asked Trustee Terrill if he had any comments. Trustee Terrill agreed with everything stated and thinks our pension returns are misleading, because of where we stand today, versus April 30th. He noted we should be prepared to see some declines from the equity side of the pension fund and is satisfied that we have 43% invested in bonds.

Trustee Lungmus asked if the expected benefit payments projected are typical. Mr. Cavanaugh said it is in line with a fund of this size. It is an 80% increase in 10 years from now. Generally, about 45% on a 5 year basis and 90% on a 10 year basis is average. It is reflective of COLA's, benefit payments, retirements and the current population. Trustee Orth added that there are some older people closer to retirement and assumes those are factored in. Mr. Cavanaugh indicated that by making the full recommended contributions those are covered. We are funding for those expected benefit payments now. Trustee Terrill added that he doesn't think we will get the 6.7% rate of return in the future or that we'll take more risk by going into equities with higher yields. He felt the next five year period will produce lower returns. Trustee Lungmus agreed. Trustee Terrill said that we may have to place greater demands on our budget. They have taken the conservative step in terms of lowering our assumed rate of return for the plan. Director Noble added that in the future, the state will likely pass a new re-amortization period for the unfunded liability. Mr. Cavanaugh pointed out if you look at the history since 1980, that has never been under 20 years and we are now at 21 years. It is likely they may grant us another 30 year amortization period. Director Noble noted that it might be good time to assess the validity of the 6.75% rate. Mr. Schroeder said these options can be reviewed and that they could do some sensitivity models or potential adverse market over the next five years and get an idea of what the impact means on a contribution that would normally, in a steady market, go up 3-1/2% a year.

Director Noble indicated that every year in December he asks Mr. Schroeder for projections on the next five years and that number is used in our five year financial forecast. In looking at it this year, the differences that he pointed out with the change in the demographics in the salaries are exactly the difference from what they put into the projections. If all things had gone well this year, the projections would have been right on. Stress testing with the numbers would be a good thing.

Review and Discussion of the Draft 2018/2019 Comprehensive Annual Financial Report – Lauterbach & Amen

Director Noble introduced Ron Amen of Lauterbach & Amen to the new Board members. L&A have been our auditors for 12 years now. Director Noble believes that they have done a very good job. The audit goes well and they are very well organized and keep a good schedule. It's nice to work with them.

Director Noble said that L&A has provided a clean or unmodified opinion and that's the most important thing that comes out of the whole process. This audit is also referred to as a CAFR which stands for Comprehensive Annual Financial Report. It contains a lot more information than a normal audit. There are transmittal letters, detailed information called the "management discussion and analysis," and additional schedules and tables you don't find in a traditional, standard audit. This CAFR meets the strict requirements of the Government Finance Officers Association to be part of their Certificate of Achievement for Excellence in Financial Reporting. Northfield won this award in FY2007/2008 and has maintained it ever since. He believes this year's audit meets their vigorous standards and will be submitting it as well. There are 152 pages in the audit and when he started in 2006, it was 65 pages. The audit has gotten more involved over the years. He suggested focusing on the transmittal letter that talks about major initiatives that the Village is undertaking, our local economy, and an outline of the outstanding debt and pensions as well. The Management Discussion and Analysis (MD&A) is more technical but has a lot of useful information. Page 31 of the audit confirms that the Village had a $188,569 surplus in the General Fund this year. This brings our unassigned fund balance to $6.8 million which represents almost 8 months of operating expenses. It is a longstanding Village policy of maintaining at least six months of operating expenses as fund balances.

Director Noble said that in the past, staff has requested L&A increase the scope on the audit with respect to Village Manager Sigman and himself since they have the most control over Village funds. L&A looks at 100% of what he and VM Sigman get paid, whether it's a paycheck, reimbursements or credit card accounts. There are also communications from the auditors in the packets. One is the SAS on page 114 which lays out the audit standards and the Village's representation letter outlining what our responsibilities are in the process. He is pleased to report that L&A didn't encounter any material abnormalities.

Mr. Ron Amen reported that as auditors for Northfield, they are required to give a concise overall opinion. This year's overall opinion is "unmodified." A clean, "unmodified" opinion is the optimum overall opinion from auditors.

He said his industry keeps changing and is evolving. The industry, as a whole, is criticized for going from the old audit of 60 pages to the current 160 pages. But a government audit must now include the management letter, the statement on auditing standards letter and a lot of things about the industry and what they are required and allowed to do under professional standards.

Mr. Amen indicated pages 31 and 32 shows the General Fund. This is divided into groups of such funds called Governmental Funds. The Governmental Funds page shows a decrease of $2,057,095. This decrease is a result of recognizing the 2017 GO Bond as a capital fund and the conversion to "full accrual" accounting. With this method, capital assets and long term debt are treated very uniquely and indicates we've invested in capital assets to pay down debt.

Page 36 contains the Water and Sewer Fund, which Mr. Amen explained, shows the net change over the 12 month period ending April 30th. The Water and Sewer Fund had a net increase of $735,000 in equity for the year.

Mr. Amen thanked Director Noble and the staff for doing a great job and always being prepared. They get their questions answered in a very timely and professional manner by staff.

Trustee Whittaker said as a Board, they owe a huge thank you to the staff and department heads for being so fiscally responsible. He appreciates creative thinking, such as what they are doing with the vehicles and equipment replacement. Staff always helps to push the Board in the right direction.

President Frazier asked Mr. Amen about the top figure for current and other assets in 2018. It was $18 million and in 2019 it is $16 million. Director Noble responded that it was entirely due to spending down the bond proceeds; not only from our 2017 bond issue, but also the Rolling Ridge bond issue. Mr. Amen said that when he talked about the GO bond fund, the cash was sitting there for the bond proceeds from the prior year and $1,993,633 of that was expended.

President Frazier asked if the eight month surplus we have is wise to carry. Mr. Amen said as an auditor, he doesn't think that way, but nearly every board meeting he attends asks that question. The role of the auditor is to say, as your controls and processes go, are your financial statements materially correct. Auditors guide themselves away from management decisions such as reserve balance. The answer always becomes what is the intent of the Board and what's the future. If the future is pension fund related, you see the numbers of $12 million and $15 million in your liabilities. You can also look stable by how your revenues are. Things like property taxes are incredibly stable in Northfield. You're going to levy a property tax and collect 98%, it is guaranteed money. With that you can operate with lower reserves. If your revenues are unstable, the risk is greater. Then your reserves would want to be higher. If your reserves get close to or exceed 100% of your operating expenses, you may have property tax objectors. Somewhere between 25 and 30% is on the low end up and 75 to 80% on the top end. If you get too low, you will run into cash flow issues and if you're too high you will have residents concerned. The 60% which you have in the General Fund, is right in line.

Trustee Terrill said there is an attitude in Springfield that if there is a lot of money in the reserves they will be less willing to help us out with grants. We have been holding to six months and now we're up to eight months. Six months will get us a AAA rating. He asked why we don't put the balance of that money to other use. Mr. Amen indicated with bond ratings, reserves are only one component of the rating. The difference between six and eight months would not make any difference. Trustee Terrill then said you could go to six months and still get the same rating. Trustee Terrill believes that having eight months would make it harder to get money out of Springfield.

VM Sigman said she has followed issues in Springfield for a long time and she doesn't believe that reserve levels impact grants. She has never seen a grant application that asks for reserve levels. At one time Springfield was trying to balance their budget, they argued they could take revenues away from local municipalities because some had reserves. However, it is that exact volatility in Springfield that makes her be more conservative. There is talk of an economic downturn and there's volatility in Springfield. Having a higher reserve gives confidence that the Village can weather such volatility. In the past years, we have done some voluntary transfers from our General Fund into the Police Pension Fund.

Trustee Terrill believes that Springfield taking money from the municipalities will continue. Director Noble indicated that within the last week or two, he has been communicating with the Finance Director in Glenview and they're looking to increase their policy on what their fund balance should be. Now, they are 35 to 40% and want to go to 45 to 55%. In their case, that's $60 million and their rationale is looking to future and potential downturns in the economy. VM Sigman added that, as part of the program that Trustee Lungmus headed, was an analysis of our infrastructure and our revenue sources to see what we can and can't control. There are many things over which we have very little control. Property taxes are stable but the car dealership and other sales are volatile and not under our control. Those economic factors will have a direct impact on revenues. Mr. Amen indicated that sales tax revenues in Northfield doubled in the last 10 years.

Trustee Fowler said we have bonds that are maturing and cash will be freed up. The equipment lease was just paid up. The bonds are in different funds. The roadway is expected to be re-rolled and re-issued into the next tranche of roadway work. Director Noble indicated that one of the things a prior Board discussed was when you have these multiple laddered bond issues that one falls off, it can't be replaced without having the need to raise property taxes. You would be able to replace that debt, keep the property tax level that they would have funds for capital projects.

Mr. Amen directed the Board to page 64 of the audit and the schedule about principal and interest for the GO bonds, governmental funds and installment contracts for the next five years.

President Frazier asked Trustee Lungmus what his thoughts were. Trustee Lungmus said we have been at 7-1/2 months for a while now. Director Noble pointed out that last year we had a deficit in the General Fund, so it fluctuates. A transfer was made three years ago of $500,000 to the Pension Fund and the following year another $200,000. Trustee Lungmus said he likes where it's at. Trustee Terrill indicated that some of the principal could be paid down on the bonds and go back to six months and pay less interest. That should amount to $8,000 or $9,000 savings. Director Noble said he would have to look at the bonds to see which ones are callable. VM Sigman indicated another strategy that the Board has discussed is additional contributions to the Police Pension Fund because we get higher returns. President Frazier suggested keeping an eye on things and consider doing that again.

Trustee Fowler commended staff because when you look at over 10 years, the expenses for governmental activities were 28% over 10 years. That is 2.8% a year and is absolutely incredible that we have been able to maintain that with a high level service. President Frazier agreed.

Adjourn to Closed Session

Trustee Whittaker made a motion, seconded by Trustee Lungmus to adjourn to Closed Session to approve Closed Session meeting minutes from the March 19, 2019 Village Board Closed Session meeting pursuant to 5 ILCS 120/2(c)(21) and to discuss the audit internal controls and fraud risks pursuant to 5 ILCS 120/2(c)(16).

Village Clerk Stacy Sigman called the roll as follows:

Trustee Tom Terrill
Trustee Charles Orth
Trustee Todd Fowler
Trustee John Goodwin
Trustee Greg Lungmus
Trustee Tom Whittaker

President Joan Frazier

Trustee Orth made a motion, seconded by Trustee Goodwin to return to Open Session.

Other Business

Trustee Whittaker made a motion, seconded by Trustee Orth to adjourn the meeting.

The meeting adjourned at 7:00 p.m.