

**MINUTES OF THE
COMMITTEE OF THE WHOLE MEETING
VILLAGE OF NORTHFIELD
TUESDAY, September 20, 2022**

The Committee of the Whole meeting was called to order by Village President Greg Lungmus on Tuesday, September 20, 2022, at 5:30 PM. Village Clerk Stacy Sigman called the roll as follows:

Committee Members Present:	Absent:
Trustee Todd Fowler	
Trustee Barnaby Dinges	
Trustee Tom Whittaker	
Trustee Matt Galin	
Trustee Tracey Mendrek	
Trustee Charles Orth	

President Greg Lungmus

Others Present:
Village Attorney Mallory Milluzzi

Approval of the August 16, 2022 Report of Proceedings

Trustee Whittaker made a motion, seconded by Trustee Orth to approve the August 16, 2022 Report of Proceedings. Approval was unanimous.

Review and discussion of Police Pension Actuarial Report – Lauterbach & Amen and consideration of an additional contribution

Finance Director Morley noted that this was Lauterbach & Amen’s 7th year providing actuarial services for the Village’s Police Pension Fund. Kevin Cavanaugh, from Lauterbach & Amen (L&A), was present at the Committee of the Whole to review the draft Police Pension Actuarial report. (See attached.)The highlights from the FY 2021-22 Police Pension Fund Actuarial Valuation were as follows:

- The Rate of Return on investments for the year was negative, at (-5.35%). That was well below the Village’s assumed 6.75% rate of return;
- The total market value of assets decreased by \$1,171,000;
- The percentage funded, on an actuarial value of assets basis, went up from 61.59% to 64.72%;
- The unfunded liability increased to \$13,136,953;
- During the year, 2 new members were hired while 2 members retired. There were no disability claims or deaths;
- The recommended contribution is down \$65,848 from last year - with a prior recommended contribution of \$1,450,628 and a current recommended contribution of \$1,384,780.

This year, there was one minor actuarial assumption change. In prior years, there was no recognition of the difference in the regular pension payments and surviving spousal benefits. Per statute, police pensions received an annual 3% increase. However, that increase goes away upon death. Under the old approach, the actuary standards did not account for that increase expiring. That has now been adjusted to reflect its termination upon the death of the pensioner. For this fiscal year, the actuary has determined that the Village's contribution should be decreased by 4.54% from \$1,450,628 to \$1,384,780. The FY2022-23 Budget provides for \$1,508,660 or \$123,880 over what is recommended.

Pension reform legislation was passed in 2011 including reduced benefits for newly hired police officers; a new actuarial method to amortize the accrued liability; a new 30-year amortization period; a new funding target of 90% by 2040; and a phased-in five-year "smoothing" of plan asset values. Although this provided the Village the ability to greatly reduce its contribution, the Village chose to continue to follow more conservative actuarial methods and maintain a 100% funding target, to help strengthen the pension fund. If the Village followed the minimum standards in the State's 2011 pension legislation, its current contribution would be \$1,068,953. Although this method reduces costs in the early years, it results in much higher costs in later years. For this reason, the Village has not embraced this option. In addition, if the Village followed this approach, two actuarial reports would need to be prepared – one to determine the Village's contribution and another for use in their financial statements. Incorporating this method would also result in significant future increases in the Village's pension obligations and conspicuous disclosure in the Village's annual report.

In June, the Village's pension assets were transferred to the Illinois Police Officer Pension Investment Fund (IPOPIF.) Under this new state consolidated system, the Village's local pension board no longer has investment authority and the management of our assets resides solely with IPOPIF. The Northfield Pension Board will remain active to rule on disabilities, retirement, and survivor benefits. IPOPIF will prepare an annual actuary funding report for each municipality, set the assumed rate of return, and establish each municipality's minimum required contribution. However, IPOPIF just finally adopted an assumed rate of return of 6.8% but has not yet produced any actuary funding reports. Without that, the Village will need to determine our minimum contribution based on the Lauterbach & Amen report and our past practice/goal of strengthening the fund. The Village will be good as long as their contribution is at or above whatever minimum is established by IPOPIF. If the funding for next year's pension is similar to the Village's past practices, it will be above the IPOPIF minimum, as the Village's adopted 6.75% is based on 100% funding by 2040 and the IPOPIF is 6.8% with 90% funded by 2040.

Trustee Fowler recommended that the Village contribute more, like has consistently been done in the past, and not less. He stressed how benefit payments are currently \$1,552,000 and in ten years are expected to be \$2,755,000.

President Lungmus agreed with Trustee Fowler's recommendation.

Trustee Orth agreed with Trustee Fowler's recommendation so the Village does not have to play

catch up in the future. He noted that most officers try to maximize their service years to get the maximum pension dollars.

Trustee Whittaker inquired if the Village's contribution would be affected in the future because of the pension reform legislation that was passed in 2011, resulting in reduced benefits (Tier II) for any new police officers hired. Kevin Cavanaugh replied that as more Tier II officers retire in future years, the benefits will be cheaper and the expenditure will be less but stressed that this is not happening yet.

Trustee Mendrek agreed with Trustee Fowler's recommendation.

President Lungmus thanked Kevin Cavanaugh for his presentation and ability to make a complex subject easy to understand.

Staff recommended accepting the L&A report and utilizing the same approach as in prior years in establishing the FY 2022/23 Police Pension contribution. This will ensure the Village's contributions meet or exceed the IPOPIF minimum and continue to strengthen the fund. One of the Board's adopted strategic goals is to strengthen the Police Pension Fund. In the past when the Village has ended a fiscal year in a stronger than anticipated position, the Board has occasionally chosen to make an additional contribution. As depicted in the audit, the Village anticipated drawing down \$370,577 of reserves but instead will end \$1,174,511 ahead (which is \$1,545,154 ahead of planned).

President Lungmus noted that based on the Village's positive financial position, the Board was being asked to consider an additional transfer. He thought the budgeted \$123,880 (above the recommended minimum contribution) should remain. He noted that staff had done a lot of research to get to the proposed additional \$250,000. To get to \$250,000, this would mean contributing the extra, budgeted \$123,880 and augmenting this with \$126,120 from the excess reserves from last fiscal year. President Lungmus recommended the \$250,000, noting that it made sense and was not too aggressive in light of what Trustee Fowler had noted regarding uncertainties about the economy and equity markets. A budget amendment would be required for any contribution amount above \$123,880.

Trustee Fowler stated he was good with \$250,000 but stressed he wanted to review this closely in the upcoming year's budget and increase it by a minimum of 3% if the Village has the financial means to do it.

President Lungmus recommended that Village stay with the funding target of 100% by 2040 but noted there was the state's option of 90% funded by 2040. Trustee Fowler stressed that if the Village contributed more than 90%, the money would go into the Village's account there. Village Manager Sigman stated that there were talks of extending the 2040 funding target timeline.

The Board recommended an additional transfer of \$250,000 into the Police Pension and a minimum increase of 3% in next year's budget. A budget amendment of \$126,120 will be presented at the October Board meeting.

Review and discussion of the draft FY2021/2022 Comprehensive Annual Financial Report – Baker Tilly (BT) for the fiscal year ending April 30, 2022

Finance Director Morley stated that this was BT's second year as the Village's auditor and the process again went smoothly. Staff believed this year's report met the strict requirements of the GFOA Certificate of Achievement for Excellence in Financial Reporting program and will be submitting the final report for their consideration. The Village first received this award in 2007 and has maintained it ever since. Morley noted that the General Fund ended in an extremely favorable position with the ending unassigned balance increasing from the anticipated \$7,560,748 to \$8,735,259. This represents over nine months of operating expenses reserves.

Joseph Lightcap from BT was present to review the Village's audit report for the fiscal year ending April 30, 2022. BT provided an unmodified opinion on the Village's financial statements. Mr. Lightcap reviewed the Village's basic financial statements. As part of the audit process, BT was required to communicate to the Board and management certain items related to the audit process and their findings. BT submitted this in a document entitled "Reporting and insights from the 2022 audit..." which communicated both BT's as well as the Village's responsibilities related to the audit process. The documents were issued in "draft" form to encourage discussion. The Board was asked to review the documents and provide any feedback or concerns at the meeting so that BT could incorporate them into the final communication letters. Once finalized, the final report will be forwarded to the Board, included on the Village's website, and a copy made available to the public library.

President Lungmus thanked Finance Director Kathleen Morley and the entire Finance department for all their work on the audit.

Adjourn to Closed Session

Trustee Orth made a motion, seconded by Trustee Fowler to adjourn to Closed Session to approve Closed Session meeting minutes from the June 21, 2022 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). Staff was not part of the Closed Session but the Village Attorney and Auditor were present to review details and to answer any questions the Board had on fraud prevention and detection.

Committee Members Present:

Trustee Todd Fowler
Trustee Barnaby Dinges
Trustee Tom Whittaker
Trustee Matt Galin
Trustee Tracey Mendrek
Trustee Charles Orth

President Greg Lungmus

Upon completion of the Closed Session, President Lungmus re-opened the regular meeting session and asked for a motion to adjourn.

Trustee Orth made a motion, seconded by Trustee Dinges to return to Open Session at 6:55 PM.

Other Business

Public Comment

Trustee Mendrek made a motion, seconded by Trustee Galin to adjourn the meeting. Trustee Whittaker was missing from the room for adjournment.

AYES: Fowler NAYS: 0 ABSTAIN: 0 ABSENT:
 Dinges
 Galin
 Mendrek
 Orth

The meeting adjourned at 6:56 PM.