

Finance Committee of the Village Board Minutes
Thursday, October 9, 2014
6:30 pm Room 130

APPROVED MINUTES

Call to order 6:35 p.m.

Present were members of the Finance Committee, President Abu-Taleb, Trustees Salzman and Tucker

Absent: Trustee Brewer

Staff in attendance included Village Clerk Powell, Village Manager Pavlicek, Village Attorney Stephanides, Village CFO Lesner and Assistant Village Manager Rob Cole.

The minutes of the July 28, 2014 Finance Committee meeting were approved as submitted.

There was no public comment.

New Business

CFO Lesner provided an overview of state law regarding police and fire pensions which require a review of revenue and expenses from the past year and projections for the future in order to establish the amount of the levy required to get to the pension funding amount. He noted that Fire employees contribute 9.455% and Police employees contribute 9.91% of salary. The amount of the annual levy is based on actuarial analysis.

President Abu-Taleb asked the members and representatives of the Police and Fire Pension Boards attending to introduce themselves. Police Pension Board representatives were President Len Jorgensen and Tom McShane of Graystone Consulting. Fire Pension Board representatives were President Scott Bartelt, Dan McInerney, John McDonald, Attorney Carolyn Clifford, Paul Marchise of Marquette Associates and Deb Kadin, administrative assistant.

Manager Pavlicek noted that setting the annual pension levy for police and fire is an important part of the budget process. She indicated that a placeholder was inserted into the draft budget to be adjusted based on Board direction.

CFO Lesner explained that the Fire Pension Board is working with three actuarial reports from the State of Illinois Department of Insurance, a report commissioned by the Fire Pension Board and the Village's analysis. The Police Pension Board uses both the State Department of Insurance and Village analyses. He noted that additional assets with increased value of investments serve to reduce the overall tax burden. As salaries and benefits increase, the overall pension requirement rises as well.

This past year the General Assembly revised the law, which previously required 100% funding by 2040 to require 90% funding by 2040. The Village budget has not made use of this option in this year's budget. If the Village used it, we would still want to budget for 100% by 2040.

Factors impacting pension levels include the mortality table, which measure longevity. The Illinois Department of Insurance periodically updates which mortality table it uses. The current table dates to 2000. The Village's analysis also utilizes the updated table. The analysis prepared for the Fire Pension Board uses a different mortality table more specifically geared to public safety employees. The percentage currently funded by the Village is 47.55 for the Fire Pension and 60.6% for the Police Pension. Attorney Clifford noted that funding of the Fire Pension was 46.19% in 2011 and 43.42 in 2012. CFO Lesner noted that the amount fluctuates with the value of investments and the contributions from the Village.

Attorney Clifford provided an example from a recent Better Government Association (BGA) published report comparing different municipal pension contributions and explained why such comparisons can be deceptive. These two municipalities used different assumptions in preparing their levies making one appear among the worst in the region and the other appear better than might have been warranted.

President Abu-Taleb noted that a lower discount rate makes the pension fund percentage look worse. CFO Lesner explained that the discount rate is currently at 7% and that that he has ongoing conversations with fund managers on how to balance investments. Funding must come from taxpayers if not from investment returns. He explained that a portion of the TIF surplus distributions to the Village are allocated to these two pension funds and to debt service. Trustee Tucker notes that these operate, in effect, as separate taxing bodies which receive a portion of TIF surplus distributions.

CFO Lesner reported that returns this past year were 15.88% for Fire and 14.59% for Police; however there was a 12% loss in 2008.

Attorney Clifford discussed how some municipalities find additional revenues to invest. Naperville instituted a new tax dedicated to funding pension investments. She also noted that newer municipalities with fewer retirees tend to have better-funded pensions.

Trustee Salzman noted that those funds at 70%-90% funding are considered to be doing well. President Abu-Taleb asked what it would take to increase Village funding by 10%. Manager Pavlicek noted that it would more than double current contributions for both fire and police.

Mr. McShane reported that Berwyn took out bonds to purchase investments and plans to issue bonds for \$15 million for each in alternate years to improve their funding ratio, which is currently not strong. President Abu-Taleb asked how well this worked. Mr. McShane noted that the spread was "skinny" in general, but has worked fairly well this year.

Attorney Clifford noted that actuarial studies aim not to get the “right” contribution, but one that is based on sound actuarial methodology. She added that the State of Illinois uses accelerating contributions versus accepted actuarial methods of a level percentage versus level dollars. Mortality is being reevaluated along with investment returns. She encourages sound, thoughtful solid numbers as the basis for these decisions.

CFO Lesner noted that the levy is rising slowly and investment returns are in line with assumptions. Increases in salaries, longevity and liability leave no place to get relief from this pattern.

Attorney Clifford noted the strategy being used by the pension funds of not realizing all gains in the year received but allocating some for future years to “smooth out” increases. CFO Lesner noted that this can minimize big swings in the levy and provide stability and balance and reduce high and erratic tax increases.

Trustee Tucker remarked that he liked this idea as well as the idea of additional bonding to achieve a smooth and reasonable increase. Attorney Clifford noted that actuarial value versus market value could be a problem. President Abu-Taleb noted that some communities use 6.5% or 6.75% to be more conservative in their projections. There was further discussion of this option. Municipalities with higher total investments (over \$10 million) have the option of investing in equities subject to state statute but must consider their risk tolerance.

CFO Lesner reported that equities were rebalanced and have done well this year. Caps must be maintained to keep risk down. Attorney Clifford stressed being a prudent investor and recommended against too much risk.

Mr. McShane noted that new GASB rules imply keeping “two sets of books.” CFO Lesner noted that Moody’s had downgraded Oak Park but S&P had raised the rating. Moody’s had more focus on obligations but S&P was positive about other issues. President Abu-Taleb asked if GASB allowed market value versus book value and Attorney Clifford confirmed that this was the case and would apply in 2015. Attorney Clifford noted the challenge of explaining these issues to the public.

Mr. McShane noted recent action by the General Assembly and subsequent court rulings which prevent reduction in benefits or greater health contributions. Such changes appear not to be an option going forward. Attorney Clifford added that these changes were ruled unconstitutional and how to address the pension burden remains a challenge for the state.

Trustee Salzman asked about the recommended levy. Manager Pavlicek reported that for Fire it is \$3.3 million and for Police \$3.9 million. Mr. Bartelt noted that the Fire pension board recommends \$3.7 million which is higher than the Village recommendation. Manager Pavlicek noted that a public hearing required by law will be held to review this issue on November 3. President Abu-Taleb noted that this would represent a tax hike of \$400,000 and Mr. Bartelt confirmed this.

Manager Pavlicek announced that the Finance Committee will meet on October 16 (major funds, health insurance and parking), October 23 (capital projects, water/sewer fund and possible fee changes) and 27 (changes to Adjudication, Health and Engineering).

At 7:20 p.m. there was a motion by Trustee Tucker seconded by Trustee Salzman to adjourn to executive session for the purposes of discussing the appoint, employment, compensation, discipline, performance or dismissal of specific employees of the public body pursuant to 5 ILCS120/29(c)(1).

The Committee returned to public session at 7:36 p.m. It was moved by Trustee Tucker and seconded by Trustee Salzman to adjourn.

Ayes: All. Nays: None.

The meeting was adjourned at 7:37 p.m.

SUBMITTED AND RECORDED IN THE OFFICE OF:

Teresa Powell, Village Clerk