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Finance & Administration Committee
Special Meeting Meeting
Monday, May 16, 2013
Village Hall, Executive Session Conference Room

Call to Order at 5:30pm

Roll Call - Mayor Ron Gunter, Clerk Jinny Szymski, Trustee Steve Nero, Community Development-Shannon Malik, Public Works - Steve May, Chief Tom Mulhearn, Raymond James Financial, Inc.- Tom Chapman, Finance - Spencer Parker, Deputy Chief Jim Gunther, Trustee Bob Scott, Trustee Bruce Barker, Trustee Sue Senicka, Manager Ron Searl, Deputy Clerk Cary Kmak

Pledge of Allegiance

Reports

- Finance - Monthly Reports:
  - Treasurer's Report - grand total at this time $15,000,000.00, last year at this time balance was $12,000,000.00.
  - Fund Report - Up $2,000,000.00 from last year.
  - Revenue & Expense Report - At this point 106% of budgeted revenues received, 96% expenses paid. Estimate that we will be up $2.1 million, there will be additional expenses - final best guess is $1,000,000.00.
- Trustee Barker asked about last year, Spencer replied that last year there was a surplus/ we estimate low revenues and estimate high expenses. Our goal is to always try to come in under and Departments work very hard to make this happen.
- Administration
  - There is nothing offered for this meeting.

UNFINISHED BUSINESS

  - There is nothing offered for this meeting.

NEW BUSINESS

- Infrastructure Improvement Funding Options Presentation by Tom Chapman of Raymond James; an overview of borrowing alternatives.

Mayor Gunter introduced Mr. Chapman, as the Park District has worked with Raymond James for many years - bonds for Ty Warner Park. Mayor thought that it might be time for the board to consider bonds and alternative funding so Mr. Chapman has come in to do a Bonds 101 type presentation to walk everyone through the process to take advantage of this type of revenue.

- Since 2009 there has been historically low interest rates, the market anticipates this to continue. From an interest rate standpoint, now is a good time for capital improvements.
- Costs are lower in this economy so if you can fund some internally, that is always best but if you fund internally & externally than you can achieve more savings with a costs lower at this time.

Section 1 the statutory debt limit, just like any personal loan the key to all of this is the source of payment. Based on what revenue stream you choose to make the repayment determines what type of borrowing vehicle you can utilize from a legal standpoint. The funding source is what legally drives the statutes that apply.

Non-home rule have a limit based on the percentage of your equalized assessed value of how much debt you can have outstanding. Including all types of debt, even debt that is paid back by a separate property tax, Westmont can currently have 68 million of debt outstanding. A non-referendum alternative to use property tax, you would have a 5% debt limit - 3,988,516 limit. The caveat here is the property tax cap requires a statutory debt service extension base; you would have had to have this in place in 1994 when that was placed in effect. As Westmont does not have this, there is an option to go to the voters to put this in place. Manager Searl asked if that would done as a specific referendum debt amount. Response: you could go with an amount or referendum to create a debt service extension base that will be in place forever to be used and refilled. This is not something he has ever seen done; it usually is a specific amount for a specific project. The only amount you could borrow is the $3,988,516.00 if you had a base, if you have a project set you could borrow the $68.8 million.

Trustee Scott asked if you have to wait until you have home rule back to borrow anything? Mayor Gunter. replied - the presentation is getting there. From the park district point of view they had $775,000.00 in non-referendum bonding authority in 1994. The only way that Ty Warner was purchased and developed was to pledge that money for 20 years in order to get the $8 million upfront. The only way to get there now is alternate revenue bonds, which Mr. Chapman will get to now. The park district operated by non-referendum bonding authority so in 1994 they had the max already in place.

For the Village, there are are certain steps that must be gone through to gain the authority to issue the debt. The current alternatives to borrowing include: General obligation bonds, revenue bonds and Alternative bonds.

To issue a general obligation bond at this time would have to be by referendum to allow for an ad valorem property tax to support the bonds.

Revenue bonds that would be paid back by an enterprise fund that is created by your utility system such as water. A resolution would be issued with a 30 day time period for the residents to petition. This is done so you do not have to direct referendum, a backdoor referendum.

Alternative Bonds allow for non-home rule communities to go into the marketplace with a bond issue that has two revenue sources: a primary revenue source like sales tax, motor fuel, hotel/motel tax designated as the revenue stream and two on file with the county clerk a separate property tax that you will abate every year and just use the designated stream. This has been in place since the mid 1980s. For the first time recently some park districts have not abated the tax due to the economy and the revenue stream not being able to keep up. Historically, this is not common. Generally you don't want to issue this type of bond if you are not absolutely sure that your revenue stream will support it. The secondary revenue source is there to make it easier to sell your bonds as a guarantee, however the goal is to not need it. This type of bond will have a lower interest rate than a revenue bond as it has two streams.

To do this you have to publish it in the paper, allow for a petition of 10% of registered voters in the 30 day period/if you receive this than you have to go to referendum, and a public hearing halfway through the 30 day period. The public hearing is not to stop the bond from being issued, only a chance for people to express their opinion. Currently there is legislation, House Bill 938, that is trying to change the guidelines to 500 petitioners and 45 day period. This legislation issue does not look to pass this term, if by chance it did it will not go into effect before January 1st. Trustee Scott asked how often the 10% petitions. Mr. Chapman said that he had never had this happen and did not know of any that had for a municipality or park district; school boards have had it happen.

To work it out you need to have a well thought out means of where the revenue will come from and what project the bond is issued to be used to complete and have this evident to the public along with what it would mean if this did not occur. This will allow the public to be comfortable with the bond issue.

The other options, installment contracts, do not have property tax levy guarantee are more expensive and you still have to go through the process with public hearings and petitions. Leases are the same way. The special service area bonds you have to identify a specific area and go through the public hearing process so that just the tax payers in that specific area benefit and are taxed. This can be done for street improvement, stormwater fixes for a geographic area. Manager Searl asked if you have to use the bonding authority to create the special use area, or can you create the special use area and then use the bonding authority at a later date. Mr. Chapman said you don't even have to borrow for this you can create and tax a specific area for benefit to a specific area - a pay as you go. Manager Searl said that there was only one area right now and we did not have bonds associated with it, but other funding sources in place and have the ability to tax the difference, could we utilize that? Mr. Chapman said that could be used for borrowing as well.

TIF District allows for a tax in the incremental value increases that can be used to pay the debt off for improvements in that area. A lot of start up areas really need a credit behind it as well. The Village would have have to pledge an operating revenue source to cover this debt if the TIF could not make the payments. Insurance Reserve Bonds have opportunities If you are self insured you can use these to cover insurance claims. You can levy a property tax to pay those off if you go through a 30 petition period. Again, a debt service extension base is needed to for these and the Tort judgement funding bonds with long term debt extension.

Spencer notes that some listings have notations that they do not count against statutory debt limit, does a alternate bond count against this? Mr. Chapman replied that they do not. It is one of the benefits of these bonds. This listing has been a flavor of the various debt vehicles that are available without a referendum - except the first one did require a referendum.

Mayor Gunter asked Mr. Chapman to layout for everyone how a large sum of money can be borrowed without waiting for a referendum. The idea is that the most important idea in borrowing money is the source of payment. It can be up to 25 year maximum repayment schedule. The basis is to have a revenue stream in place to cover that repayment so that you do not have to levy a property tax. When you go to issue the bonds you have to be able to show that it will be covered by the revenue stream - guarantee that there is enough income to cover the debt. If you use a projection you have to have a 3rd party run the projection - most municipalities use the previous years audit to demonstrate. Manager Searl questioned the consequence of the revenue stream dropping in the future, does it have consequences. Mr. Chapman said there was no future audit on the part of the lender; it is only analyzed if you had to levy property taxes. The amount is 125 coverage, one that you can do based on the gross revenue legally, however when you go to the marketplace the net is what bondholders and rating agency are going to want to know what the gross amount is also used for and be concerned about the net. It's important to know that you can do the debt repayment based on what you are doing now. You want to make sure you can handle it.

Trustee Senicka asked if you can use a combination of revenue sources. Mr. Chapman replied yes, and that he and Spencer had discussed the options. Trustee Scott asked if the interest rate on the bonds you issue are the same for the whole 20 years. Mr. Chapman said that the rates were fixed at the time of issue but each maturity level will have a different interest rate. It is a fixed rate debt.

Spencer reviewed the handout of figures. Amount to show available is $918,000.00 maybe $945,000. He identifies $350,000.00 from the motor fuel tax, currently used for resurfacing in the budget putting this towards a bond if we included resurfacing in the larger bond request. Under capital projects, we receive $1,000.000.00 in utility taxes, of that we have been spending $345,000.00 paying off the note from the property on 63rd. If we pay off these notes with the cash balances, we would have that $345,000.00 to apply annually toward the bond repayment. This is not enough, being $750,000.00, we can issue a sales tax of 1.5 using the .5 towards this to make up the difference. Being that it is a new tax we would have to have a feasibility study done, costing $2500.00 (estimate), for a third party to come in and say that our estimates make sense and it will generate this amount of money. The third party is an audit/accounting firm.

To walk through this the easy move is the motor fuel tax, the debt payment has a few options. The loan interest is higher if we wait. The 1.3 million it would cost to pay it off from the cash balance we have 1.7 million. There is enough to cover but it will leave the balance very low. We do have funds that the board can designate if there were emergencies that we need to loan to the capital project fund. The places for eating tax is one that other municipalities have in place ranging from 0.5-2.5%. 1.5 puts us in the higher average for this tax, but not the highest in DuPage County.

Chief Weiss asked a question if the Hotel Motel tax could be used, Spencer said it could not be used for street improvement, as it is not a direct benefit to tourism.

Mayor Gunter said that the only way to do the streets correctly and have an impact on the Village is to have a chunk of money as the $10,000,000.00. He asks Steve May to explain what $10 million would do. Steve passed out a synopsis of what was contained in the Village study about streets. A mechanical study with no opinion done by a company that drives the village and measures the base condition of the roads, ranking the streets throughout the village in sections, estimating the cost of resurfacing of each section. The streets with really low numbers, the street needs to be reconstructed. If you use Warwick we all know that street and it needs to be done right and not just cosmetically. Starting with the worst streets and moving upwards the handout shows that to do the whole Village would be over $19,000,000.00. Mayor Gunter then asked how many years it would take to do the whole Village.

Steve May said that was a good point, and really we wanted to get our average back up. He had lines on the handout that show in increments of 10 mechanical rankings what needed to be done. The goal being anything below 70 would put us in a good way, and the cost is about $8 million. The ranking shows us that 30 miles of street in the Village are below 70 grade. If we did 10 miles a year that would make a great improvement. We don't want to rip up the whole town at once, it also has to be managed. If you did the whole town in 10 years you would have to do the whole town again, it would be the cycle and not easily managed.

To plan it - if we did 10 miles of streets a year, which is 5 times bigger than our big projects and 10 times bigger than we intend to do this year, it can be managed. Mayor Gunter mentions that if you just want to do 5 million and it will take you 3 years; Steve responds we could do that but remember that in 3 years from now or 5 years from now we are going to be worse - the whole scale is sliding while you are doing it. With this many miles of streets it is hard to imagine what it means throughout the town. Steve handed out a map that Noriel did showing everything 49 and below in red throughout the whole village to give you a visual of what could be hit.

Steve feels that 3 years - 8 million dollars is the scenario that will work best, doing everything that is on the last map handout. Mayor Gunter asks Tom, funding wise, if you were to issue that 3 years there is no problem? Mr. Chapman responds that from an arbitrage standpoint you demonstrate that you will spend the funds from a 3 year period of time and if by chance you don't, the penalty is that you need to rebate back to the government any interest that you have earned on that money that is greater than the interest on the bonds. Mayor said that you would need to spend it in the 3 years, find something. Mr. Chapman feels that it is not a huge risk, or much of a penalty - it is the penalty of the difference (3% bond issue and 4% earning would be a rebate of 1%).

Steve is asked if he is the General Contractor? Steve replays that yes it is done in house. Noriel prepares the contract and bid we handle that aspect. Noriel is essentially the engineer on the project. We do use a testing service. Steve also points out that we do a tentative plan, and do not list street names as decisions need to be made as to the best use of the funds. Example you would not do a whole area and leave out one street because it ranked a little better. You would do the cost effective thing and repair it now while the equipment was there. We have not listed street names on the bid plans since the 1980's as it can upset people if they do not see there street. Factors do come up that need to have changes made to the plan.

Mayor Gunter clarifies that to do a big ticket items you have a few options: Wait and see if you get home rule back if it goes to the voters, borrow the funds with revenue bonds, go to the voters and ask for a referendum for stormwater & roads, or do nothing and just keep patching. Steve May points out that if you are doing stormwater repair you wouldn't spend money fixing a street just to rip it up to do the sewer in a couple years. So all these decisions need to be coordinated. Mayor points out that If you want to move forward with this than there is no negative if home rule comes back. When you are talking to residents the biggest thing people want to talk about is streets & stormwater.

Trustee Barker asks how you do all this and pay for it for the next twenty years, then have the next project needed and where does that money come from? Steve points out that we have the normal monies we have used to maintain even though we have the payments. Trustee Barker points out that that has not been enough money in the past even for maintenance? Steve explains that the life span is 10 years and right now we are way over 10 years; Trustee Barker said that there needs to be a plan in place so you don't need to go back. Mayor Gunter puts forth that the Park District does 20 years and after 4 or 5 if we need a big chunk of money we will reissue and tack it on the end of the bond. People that buy our bonds won't see money until year 16 or 17. We are pledging for the future. We want to do anything substantial we need to do it.

Trustee Scott asks what is the ramification of this move if the Village can not pay it back? Mr. Chapman replied that the downside would be that there would have to be a levy of property taxes and the property taxes would go up. That's the downside. If there was a catastrophe and the village went bankrupt the bondholders are the first made whole. So that is the absolute worst case scenario. Manager Searl said that this has not happened in Illinois. Trustee Scott said that you have to know both the good and the possible bad to make a decision. Mr. Chapman replied that knowing where the funds were needed and the ability to refinance the debt if something happened with the revenue stream or if the interest rate comes down again make for positive outcomes.

Manager Searl questions the data on municipalities here in Illinois going into debt and having debt repayment issues, believes most are TIF related debt not infrastructure; or is it a combination of the two? Mr. Chapman responded that the market is a $3 Trillion market and less than 1% have defaulted. In Illinois nothing has defaulted or maybe one small district in Harvey - didn't use it properly, people ran off with the money. Mr. Chapman said that is a strength for bonds issued in Illinois, Manager Searl said that it could be a weakness. The state cannot keep issuing debt to solve its problems. It's not a solution, and hurts us all. Ever since the crisis in 2009 local municipalities are paying 50 to 100 more basis points than alike municipality in Wisconsin or somewhere else. Municipalities in Illinois, Puerto Rico, and California all have higher interest rates due to the financial problems of the state.

Trustee Scott notes that public perception is the same as the bond issuers. It could make it difficult for a referendum. Mr. Chapman concludes that the local referendum is not something that will have an impact on the bond issuers, the state's problems will.

Mayor Gunter notes that Mr. Chapman was a trustee in Roselle back in the 1980's; night meetings became difficult with his position in public finance. Mayor Gunter states that he asked Mr. Chapman here to give us some information on the process. He feels that what Steve May gave everyone was a reality check. Steve states that it is what it is and this is what we have.

Spencer would like to know which amount for the places for eating tax should be listed on the agenda? The budget lists the tax as 1% we have discussed 1 1/2%; which is preferred? Trustee Scott mentioned the article in the Bugle about Woodridge being favored for a warehouse site due to it's sales tax (7.75) - noting that Westmont & Woodridge have the lowest sales taxes. It was a nice mention for us. Even though it's in the budget, we do have to put the eating tax on an agenda. Do we want to word it as "up to 1.5%" or not? That's what Spencer is asking? Trustee Senicka feels that the places for eating tax was discussed at budget workshops as a way to have non-residents assist in paying for things. Streets however is a resident based item and she would be willing to go nose to nose with anyone and explain why we had to go higher. She would be comfortable with that; people that live on the streets along with people that come into town for restaurants drive on the streets and are sharing the tax. Hanover Park has a 3% tax and no one there even noticed when it passed. Westmont, everyone notices. Trustee Scott commented on the whole thing about the cars sales tax.

Mayor Gunter asked Trustee Barker his thoughts. Trustee Barker said that the underfunding of the Village for years, wouldn't want to go higher than 1.5. If you don't take advantage of it now than you will lose the revenue. Trustee Scott said that you're right the average person is not going to see the 1.5% but the papers are going to make an issue of it. Mayor Gunter states that the consensus here is to put up the 1.5% and see about passing that.

There is not any choice based on Steve's report of the 70 rating, and it is beneficial to know the options. Mr. Chapman asked that everyone please request whatever borrowing numbers you feel you need. He will work with Spencer, and will come back as often as you need. Spencer asks if it would be wise to have an estimate at 8.5 million based on the 70 rating and Steve May agrees that some adjustment will be needed.

Trustee Barker asks Steve about the alleys. Steve said that alley's are what they were designed to be. Not great alley's but perfectly useable. Are you asking Village wide? Trustee Barker said he is thinking of the one up the street. Steve said in that circumstance you have no driveways on either side of the street or on street parking and everyone uses the alley as their main drive. Steve said you have to look at the alley as serving 100 while the street serves 40,000. Trustee Barker said that it might be better if it was gravel. If you pave the alley then people are speeding down the alley. Can you maintain it better if it's gravel. Steve said no, the gravel moves too much, it's a constant grading.

Mayor Gunter asks for a motion to adjourn. Motion by Senicka seconded by Scott.

ADJOURN at 6:35pm