

MINUTES

BOARD / COMMISSION: Finance Commission DATE: August 24, 2012

MEETING: Regular CALLED TO ORDER: 7:00 AM

QUORUM: Yes MEETING ENDED: 8:55 AM
MEMBERS LEFT, LEAVING NO QUORUM AT: 8:45 AM

MEMBER ATTENDANCE: PRESENT: Chairman Skirvin, Commissioners
Faber, Geiselhart, Moody, Nuehring, Parker

ABSENT: McCloskey

ALSO PRESENT: Village President Pfefferman; Trustee
Liaison Henninger; Manager Franz;
Recreation Director Pekarek; Finance
Director Wachtel; Village Police Chief
Norton

I. CALL TO ORDER:

This Regular Meeting of the Glen Ellyn Finance Commission was called to order at 7:00 AM by Chairman Skirvin in Room 301 at the Civic Center at 535 Duane Street; Glen Ellyn, Illinois. Roll call was taken, and a quorum was present.

II. PUBLIC COMMENT

None.

III. VILLAGE LINKS PROJECT

Manager Franz provided a background on the Village Links renovation project. After being reviewed by the Recreation Commission, Master Plan Steering Committee, a hired consultant, the National Golf Foundation (NGF) and vetted by the Village Board over the last year, the estimated cost of the project is now about \$4.5 million, plus about \$600,000 of public improvements funded by the Capital Projects Fund and grants. The project will include clubhouse renovations and expansion, driving range improvements, parking, lighting and street improvements.

Chairman Skirvin reviewed the 10 year forecast; after 10 years, the existing bonds will be paid off freeing up dollars to fund the remaining debt payments. The current forecast includes the best guess of where management thinks CY2012 and CY2013 will perform. We are projecting to start receiving increases in revenue from the renovation in CY2014, and starting with just under \$2 million in available cash reserves. Revenues and expenses for specific components of the Village Links business were reviewed. The forecast assumes an increase in rounds per week from 1,300 to 1,500, an increase of 200 rounds per week. Golf and Greens fees are a high margin part of the business, as is driving range. Food and Beverage has historically lost a small amount of money, in part due to the Keep Pace program. For the project to be successful we will need to be sure the food and beverage and banquet activity and profitability grows adequately.

Commissioner Parker asked if there was money in the project for rebranding so we could drive more traffic and activity. Recreation Director Pekarek indicated that there is not specifically funds for this purpose in the project budget, but that the overall marketing focus has shifted in recent years, and will continue to adjust, based on identified areas for potential growth. Commissioner Parker suggested using a local marketing professional to help to let the community and a wider audience know about the new facility.

Commissioner Faber asked how trends at the Village Links compare to other courses. Director Pekarek said that the Village Links has always had better volumes and revenue than other courses in the region. Commissioner Faber asked if we saw an increase in the number of rounds played as a result of improving the course in 2003, which is the primary reason golfers choose to play a specific course. Director Pekarek said that we did see a bump after the course renovations, but we need to be careful not to confuse the reason for the increase in play. We have observed a decrease in the number of golfers nationwide. The Village Links has evaluated changes in volume of play on the 9 hole course versus 18 hole course. The 18 hole course has actually held up and increased play, while the 9 hole course volume has dropped. There is no doubt that renovating the facility will generate enthusiasm and will result in more rounds played.

Chairman Skirvin asked how we handle the big gap from 10-4 during the week, is that where we are going to make up the 200 rounds per week? Director Pekarek said that is where we could make up with more outings. Trustee Henninger asked if there might be a potential bump with waves of baby boomers retiring. Director Pekarek said that retirees often have more time, so they will go out of their way to play less expensive courses. There is much more competition for that segment of customers.

Chairman Skirvin compared the Village Links to Arrowhead in Wheaton, which has a much larger banquet facility. The Village Links plays more rounds on the same number of holes. Arrowhead has a higher profit margin for food and beverage due to their banquets. However, overall, Arrowhead includes a significant tax support to keep the facility in the black.

The Commission discussed alternatives of outsourcing food and beverage/banquet facilities, and the need to ensure that adequate expertise on staff exists. Director Pekarek noted that our food and beverage director has experience in running successful food and beverage banquet operations. Chairman Skirvin asked how many outings we had in 2011. Director Pekarek indicated that there was about \$80,000 in revenue, or about 15 in 2011, and will likely be about 25 in 2012. Prior to the past three years, there was no effort to attract outings as it would have displaced many players who played regularly during the day. We are focused on attracting additional outings, and have begun advertising in certain niche marketing outlets. There are three types of outings: fundraisers, affinity groups (alumni, church groups, etc.) and business driven groups. We have identified ways to attract each of these types of groups, and have had some success with each type of group.

Commissioner Parker asked if the Finance Commission should make a specific recommendation to the Village Board. Manager Franz said that there was not a specific deliverable expected. Commissioner Parker asked Chairman Skirvin, because he worked closely on the forecast, for his opinion on the reasonableness of the forecast. Chairman Skirvin said that this is a reasonable reflection of what we think could happen, but uncertain if it is conservative. These food and beverage revenues may be conservative and there is an opportunity to beat them with good marketing plan and uptick in the economy. We are buying into the decreasing trend in golf, and food and beverage is a very volatile business, particularly if it is not managed well. We are starting with \$2 million in reserves. If we do no worse than our recent experience, in 10 years we will have no reserves remaining when the existing debt falls off. There would be things we could do to adjust the trend so we don't get to that point. Chairman Skirvin indicated that he would summarize the conversation and identify the upside and downside risks, and that the projections seem reasonable. Commissioner Parker noted that the Village Links is above the typical public course. It is an asset that has more value in it. If we can do a decent job with our facilities and our food, we will be able to do well. Commissioner Geiselhart said that the real driver to the success of the project will be how we do with food and beverage. Trustee Henninger said that this project will increase play because it will be a nicer environment to play, eat, and drink, and we will have a facility that will be able to support more outings, which are more profitable. The timing of this project is good because the cost to borrow is low, and the cost to build is also low.

Commissioner Parker said that we have a well positioned business in an industry that is dying slowly, and this is an opportunity to take market share. Manager Franz noted that the board is cognizant that we have looked at the worst case scenario and we have options so we do not need to use tax support. Chairman Skirvin noted that we have golf course management that has a proven track record that has shown that they can manage the course profitably without using tax support. Director Pekarek noted that if we see revenue shortfall, we are nimble enough to make adjustments. The Village Links would be able to make necessary changes before we would need to ask for general tax support. The reserves provide a cash cushion for us to find a way to manage the business and stormwater detention system to get us to 2023 when the debt falls off. Commissioner Moody said this is an asset of the Village, and we need to maximize the

value. Chairman Skirvin closed by noting that he will prepare a summary of the conversation and will pass it on to the Village Board.

IV. APPROVAL OF MINUTES

Commissioner Parker had a few questions/edits for the minutes, so the minutes will be revised and considered at the next meeting.

V. POLICE PENSION ASSUMPTIONS

Director Wachtel provided background to the discussion. The Village uses an actuary to determine the Village's contribution to the Police Pension Fund. We use assumptions for investment returns and salary increases that impact overall liability, unfunded liability, funding level, and annual contribution. For the past 10 years, investment returns have averaged 5.32%, and 4.82% over the past 5 years. The average increase in salaries has been 5.2% over the past 4 years. For the past several actuarial valuations, we have been assuming 7.5% investment returns and 6% salary increases, which include annual pay increases as well as promotions and steps. Management recommends lowering our assumptions from 7.5% to 7.25% for investments, and 6.0% to 5.5% for salary increases, which would increase the contribution from \$991,000 to \$1,026,000. These assumptions are more in line with our experience and will also keep in mind the impact on the Village's budget. The adjusted assumptions will result in the lowest normal (current year) cost of the options presented.

Commissioner Faber noted that we don't want to be adding more to the contribution because there is no way that the pension fund will be able to achieve 7% or 7.25% if we have half of the investments in the bonds or fixed income securities when rates are at historic lows. Chairman Skirvin noted that the assumption should be as close to reality as possible. Commissioner Geiselhart said that if we to adjust the assumptions to 5% our required contribution will take a very large portion of the Village budget.

Police Chief Norton noted that if we were fully funded, the Village's contribution would be about \$400,000 per year. Commissioner Geiselhart asked if the salary assumption was based on the contract. Director Wachtel said that the 5.2% salary increase history is based on actual experience of employees, including COLAs, steps and promotions, over the past 4 years. Commissioner Parker said that this is a time where we can send a signal that we cannot afford to have personnel expenditures increases that are growing faster than our revenue growth rate of 2.5%. With pensions and health care growing much faster than our revenue growth rate, salaries will have to grow less than our revenue growth rate over the long run. Therefore, we should look at an assumption that our salaries increase by 2.5% with investment returns of 5.5%, which would cost an additional \$300,000 per year. Not doing so would be a signaling that we are either going to have runaway tax increases, or going bankrupt.

Commissioner Faber said that we should be able to restructure pensions. Chief Norton noted that current employees can retire after 20 year with a 50% pension, and 75% pension after 30 years. Director Wachtel noted that as of 2011, pension reform has reduced the pension benefit for new hires. Commissioner Geiselhart asked if we can control salaries, because the costs for pensions and health care are dictated, or is that a function of the arbitrators? Commissioner Parker noted that we have that control by reducing the number of officers. Commissioner Geiselhart said perhaps we should also consider lowering other costs within the department. Manager Franz said that we should be including the likely scenario, and the collective bargaining table is where we can target lower annual pay increases. We are trying to adjust our assumptions to something more in line with our experience. Commissioner Nuehring said that staff is taking a reasonable approach to get our assumptions in line with expectations. We do have larger issues as has been discussed. Director Wachtel noted that the Police Pension Board has not reviewed this, and it will be discussed at the October meeting, and then will be ultimately determined by the Village Board. Commissioner Parker asked what the most conservative assumptions that are being used in Illinois. What is the range of assumptions being used? Trustee Henninger asked what is the term of the investments that we make today? What is the investment portfolio of the pension fund? Management will provide information on the range of assumptions other funds are being used as well as the current investment portfolio for discussion at the next meeting.

VI. ECONOMIC DEVELOPMENT

Manager Franz provided an update on the Haggerty agreement, and we have come to agreement on terms on a redevelopment agreement for approval hopefully on September 10. The Fresh Market is in for a permit, and we will expedite the review process. Mariano's in Wheaton is also in for a permit, so we want The Fresh Market to be open first, and we are working to make that happen. Other businesses that have recently opened include a few on Roosevelt Road and a few in the downtown. We received 2 proposals for 825 Main Street. The Chamber of Commerce has rented the 810 Main Street property and will be making renovations, which the Village will share the costs as part of a lease agreement. Manager Franz provided updates on other potential projects throughout the Village.

VII. PROJECT UPDATES

None.

VIII. FINANCIAL UPDATE

Chairman Skirvin asked to see a full fund update. Director Wachtel will distribute the report to the Finance Commission before the next meeting. Going forward, we will need to pay more attention on the Recreation Fund.

Members of the Commissioner had to leave the meeting, causing a lack of quorum at 8:45 AM. The meeting continued with information reporting only.

Director Wachtel provided an overview of the July 31, 2012, General Fund report. State income tax is about 21% higher than last year, which is a consistent trend over the past several months. Cable franchise fees are ahead by 29%, which is likely due to timing of payments. Ambulance service fees are 14% higher likely due to increased scrutiny in reporting and collection success. Miscellaneous income is up by 134%, but that is due to a police asset forfeiture transaction. Police Service reimbursements is down due to timing: the bill has been sent, but the payment has not been received. On the expenditure side, Facilities Maintenance is higher due to the contribution to the Facilities Maintenance Reserve Fund, which has not been done in the past three years. History Park there was building demolition last year. Economic Development did not have a contribution to the EDC this year. Public Works is adjusted due to changes in allocations. On a budget basis, revenues are 2% ahead, and expenditures are 4% lower. The expenditures will likely normalize throughout the year. Much of the storm damage costs will be paid from the Solid Waste Fund. Year to date, we are \$52,000 ahead of last year, and about \$250,000 ahead on a budget basis.

Another question was the performance of the home rule sales tax compared to state sales tax. The story continues to be the slowdown in the sales of titled vehicles. We extracted the sales that are just subject to state sales tax, leaving a total for the food, pharmaceuticals, and titled vehicles. The total of food and pharmaceuticals has remained very consistent over time. The revenue due to vehicle sales continues to decline. Vehicle sales costs are declining, in addition to fewer overall sales transactions.

IX. OTHER BUSINESS

Next meeting will be held September 14, 2012.

X. ADJOURNMENT

As of 8:45 AM, there was no quorum. The meeting broke at 8:55 AM.

Submitted by Finance Director Wachtel
Reviewed by Village Manager Franz