

**MINUTES  
FINANCE ADVISORY COMMITTEE  
CITY OF DEKALB  
AUGUST 7, 2018**

**1. CALL TO ORDER**

The Finance Advisory Committee (FAC) held a meeting on August 7, 2018, at the City of DeKalb Police Department in the Police Training Room, 2<sup>nd</sup> Floor, 700 W. Lincoln Highway, DeKalb, Illinois 60115.

FAC Chair Peddle called the meeting to order at 5:00 p.m.

**2. ROLL CALL FOR ATTENDANCE**

Deputy City Clerk Ruth Scott called the roll and the following members of the FAC were present: Members Bob Higgerson, Lynn Neeley, Steve Parker, and Chair Mike Peddle. Member Ron Partch arrived at 5:15 p.m. Member Tom Teresinski was absent.

Also present were: Interim City Manager Molly Talkington (arrived at 5:33 p.m.), Assistant Finance Director Bob Miller, Fire Chief Eric Hicks, Management Intern Jason Blumenthal, Technical Services Supervisor Jeremy Alexander, and Deputy City Clerk Ruth Scott.

**3. PUBLIC PARTICIPATION**

Chair Peddle asked if there was anyone present who wished to speak; no one did.

**4. APPROVAL OF MINUTES**

- a. Minutes of the Finance Advisory Committee Meeting of June 26, 2018.

Member Neeley noted a scrivener's error in the minutes, stating that Member Parker was left off the minutes as absent.

Deputy City Clerk Scott noted the error and stated the correction would be made.

**MOTION**

Member Parker motioned to approve the minutes as amended; seconded by Member Neeley.

**VOTE**

Motion carried by a 4-0-2 voice vote. Aye: Higgerson, Neeley, Parker, Peddle. Nay: None. Absent: Partch, Teresinski. Chair Peddle declared the motion passed.

## **5. 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT.**

Chair Peddle introduced Brian LeFevre from Sikich, LLP (the City's auditor), who provided a comprehensive overview of the 2017 Comprehensive Annual Financial Report (CAFR) for Fiscal Year Ending December 31, 2017, noting highlights of the report as follows:

- The City received the Certificate of Achievement for Financial Reporting for its 2016 fiscal half-year from the Government Finance Officers Association (GFOA), which makes 24 consecutive years that the City has received this award. This award is the highest such award in the local government industry.
- The City has also been receiving the award for its budget, as well as preparation of a Popular Annual Financial Report (PAFR). The PAFR is a streamlined version of the CAFR.
- At the beginning of the Financial Section of the CAFR is a letter from Sikich that expresses an opinion on the financial statements, using two sets of standards: standards issued by the American Institute of CPAs (AICPA) for conducting audit procedures, and the Government Accounting Standards Board (GASB) reporting standards that drive what the CAFR should look like. Sikich presented an "unmodified" opinion, which means the financial statements are a fair representation of the City's financial position and free of material misstatement. "Unmodified" represents the highest-level opinion that the City can achieve.
- The City was also subject to a separate, single audit, triggered by expenditures of federal funds totaling more than \$750,000. Specifically, the City spent just under \$1.8 million in federal grants for mass transit projects during the reporting period. Sikich issued unmodified opinions on laws and regulations that impacted the financial statements, and on compliance with the program financed by the federal funds.
- Sikich also issued unmodified opinions on the financial statements of DeKalb's Tax Increment Financing (TIF) districts and compliance with TIF regulations.
- Management Discussion and Analysis in the CAFR, prepared by the City, is required under GASB standards and serves as an executive summary of the financial statements. Immediately following that are the Statement of Net Position and Statement of Activities, which Mr. LeFevre calls the "global view" financial statement. The long-term liabilities include the net pension liability for IMRF, police, and fire pensions. This has been a GASB rule for several years, and it's what causes the unrestricted net position for governmental activities to be negative.
- Revenues over expenditures for the year in the General Operating Fund were \$1.2 million following budgeted transfers to and from other funds, a decrease to the fund balance of \$155,000. This started the fiscal year with a fund balance of \$9.299 million, the City finishing at \$9.073 million which is just shy of the 25% benchmark for operating reserves.

- Covering statements for the proprietary funds, the Water Fund showed a net increase of \$469,000. The Airport also showed an increase for the year, but Mr. LeFevre noted that the City had significant grant dollars going into that fund, as well as home rule motor fuel taxes; therefore, from an operating standpoint, airport expenses exceeded revenues.
- The consolidated Police and Fire Pension Fund statement shows City (employer) contributions just over \$5.453 million. Active member contributions were at \$1.1 million, so \$6.554 million in new monies went into the police and fire plans. Net investment income was \$7.431 million, so overall revenues totaled \$13.9 million. Expenses were \$6.7 million, leaving an increase in the combined plans of \$7.2 million. Total assets in the plans rose from \$57.27 million at the beginning of the year to \$64.512 million at the end.
- The budgetary impact of City contributions for IMRF was just under \$1.12 million, which is equal to the actuarially-determined contribution rate required under a statutory provision. It was 15.3% of the payroll for the year. For the Police Pension Plan, the contribution was \$4.485 million, just shy of the actuarially-determined contribution and 42.6% of payroll. Fire Pension contribution was also just under the actuarially-determined contribution at 58.2% of payroll. Making required contributions is an indicator of the health of the pension plans, as is fiduciary net position (i.e., assets at market value). Total pension liability in the CAFR is the total of the actuarially-projected payments for all the active employees and beneficiaries over the life of these individuals from December 31, 2017. For IMRF, the liability is \$56.1 million with a net position of \$52.8 million, and therefore unfunded liability of \$3.3 million, meaning the IMRF pension was 94% funded at the end of 2017, up 11% from the prior year. Police net pension liability is \$35.6 million with funded percentage going from 47.9% to 49.7% based on the market value asset numbers. Net pension liability for fire was \$42.5 million and the percentage funded rose from 39.1% to 40.8%.
- Investment returns in the Fire and Police Pension funds enjoyed a “banner year.” The Police Pension Fund had a 14.21% investment return, and the fire pension a 12.26% return.

Chair Peddle commented that the budget is a plan and the CAFR is the results and include audited statements. Also, there are some government wide statements that are prepared on a different basis. Therefore, because of accounting and auditing rules, a local governmental unit is going to have to keep records on a variety of other records that are used to prepare the statements.

Chair Peddle also noted that the statistical section is one of the sources for the Five-Year Financial Plan, which is a matter of pulling some of the information together from different sources and putting them all in one place.

## 6. ACTUARIAL REPORTS.

Ms. Heidi Andorfer of Foster & Foster provided a comprehensive overview of the Actuarial Report.

There was brief discussion between Chair Peddle and Ms. Andorfer regarding the summary page.

Ms. Andorfer began with the Police Pension, which experienced growth of about 15% in contributions this year over last. Most of the growth was attributable to a change in performance assumption that increased the liabilities. There was also some “unfavorable experience” related to demographic assumptions about rates of retirements, terminations, and disability. Another factor is assumed payroll growth, which drives annual increases in contributions. Main points covered are as follows:

- The biggest factor driving the increase is the change in assumption of interest rates. Last year DeKalb used a 7.5% discount rate, but since has dropped it to 7%. At 7.5%, the City was a borderline outlier, and at 7% is on the higher end of a lot of funds – 6.75% is more typical – but 7% is much more in line with the predictions of the City’s investment advisors. However, it did increase liabilities.
- Changes in rate assumptions about demographic categories was triggered by a Department of Insurance study. Every five years, DOI does an assumption study of police plans across the state over the previous five years to see what the rates of retirements, disability, and terminations look like, for municipalities to use. DOI does this because most retirement funds aren’t large enough to do this on their own. However, Foster & Foster doesn’t just rely on DOI tables, but also software to compare DeKalb’s actual experiences to them as well. In this case, DeKalb’s experience did line up well with the new DOI tables from 2017 and decreased the liability a little.
- The payroll growth assumption is solely used to amortize the unfunded liability. That’s been brought down from 4.5% to 4%, because the amortization payment isn’t expected to increase as much in the future, but the lower assumption increases the contribution requirement today.
- Funded status is based on market value of assets, but when calculating a contribution, a smoothing method is used to decrease volatility, so the contribution doesn’t “jump” up and down on a yearly basis. Gains and losses are smoothed over a five-year period, and funded ratios are based on the smoothed values.
- Changes of assumptions raised the recommended police pension contribution to \$3.1 million. Contributions consist of normal cost (one year’s accrual), administrative expense, and the unfunded component. At present, 75% of the contribution is just paying down past liability accruals.

- The City is funding very closely to the recommended amount, so can expect funded status to improve over time, even though the amortization amount will increase in the short term (due to payroll growth assumption).
- On the current population, the expected benefit payments are expected to total \$3.2 million in 2018, which is about 9% of the market value of assets, and these payments are not expected to double for 13 years. This means the City has time to strengthen these funds and avoid liquidation issues.
- The five-year smoothing method is currently accounting for past losses. Last year's performance of 6.92% didn't reach the 7.5% assumption, but only because the smoothing process diminishes more recent gains – that will be realized in actual value of assets if the trend continues.
- DeKalb has 46 Tier One active employees, and 18 in Tier Two, when it comes to the police pension plan. The City introduced a Tier Two (lowered) level of benefits in 2011, and as Tier One employees leave and Tier Two employees replace them, costs will go down as these employees contribute the same amount but earn benefits at a lower rate.
- Age and service distribution reveals who can retire right now, which impacts both the benefits paid and workforce planning. As of January 1, 2018, 6 people are eligible to retire (about 10% of the population) and a total of 19 eligible in the next 5 years (30% of the population).
- Increase in contribution year-over-year was 10%, a little less than the 15% seen for police.
- The drop of 50 basis points in the interest rate assumption, from 7.5% to 7%, is the same, as is payroll growth assumption that feeds the expectation of contribution increases each year.
- Funded status last year was 41.1%, but with the new assumption changes, it drops this year to 40.9%. Fire pension is less well funded than the police pension.
- Amortization amount of the contribution is \$2.7 million, which is 76% of the recommended employer's contribution of \$3.5 million. Employees' contribution brings the total amount to \$4 million.
- The drop from 4% payroll growth to 0% increases the amortization number by about \$1 million, a painful increase in the short term but will result in less pain in the future.
- Factors that raised last year's recommended contribution amount of \$3.2 million were amortization growth of \$100,000; and the assumption changes added nearly \$250,000.
- Fire fund production total benefit payments for 2018 of \$3.5 million equals 12.5% of market value of assets, higher than the 9% of the police fund, but still not alarming in terms of risk of having to liquidate assets to pay benefits. Payments are not expected

to double for 16 years; which time factor gives the City the time to further strengthen the fund.

- Investment return for the year was 12%, but the actuarial value of assets shows a loss for now, 6.73% after smoothing.
- Population of fire employees active in Tier One is 38, and in Tier Two there are 19. As with the police pension, over time the Tier Two benefit level will help bring down normal cost. As of now, there are 9 fire who are eligible to retire, plus 6 more who will reach eligibility within 5 years, or about 26% of the population, a relatively low number.

Throughout Ms. Andorfer's report, there was brief discussion between FAC members regarding the report.

Member Neeley left the meeting at 6:23 p.m.

## **7. CONTINUATION OF THE FIVE-YEAR FINANCIAL PLAN DISCUSSION.**

Interim City Manager Talkington explained this item was brought back to the FAC in order to provide an opportunity to further discuss. She also noted that an email from citizen Bill Feldman had been forwarded to the FAC with suggestions on sign enforcement that could lead to potential revenue for the General Fund.

Chair Peddle noted that he had spoken with Mr. Feldman regarding the suggestions and encouraged him to write the email. He noted that Mr. Feldman is concerned that there is not adequate enforcement of the City's sign ordinance.

Discussion ensued.

## **8. CONFIRMATION OF THE NEXT FINANCE ADVISORY COMMITTEE MEETING AND DATE.**

- a. Tuesday, September 11, 2018, at 5:00 p.m. at the DeKalb Police Department, Training Room, 2<sup>nd</sup> Floor.

Chair Peddle noted he would be unavailable to meet on Tuesdays for the next two FAC meetings. There was brief discussion regarding changing those meetings to Wednesdays. There was consensus from those present that Wednesdays could be a possibility. Interim City Manager Talkington stated she would follow up with everyone.

Chair Peddle recognized citizen Bessie Chronopoulos for public comment. Ms. Chronopoulos noted that the more often the FAC meets the better off the City will be. However, she still isn't a fan of the location of the FAC meetings (Police Department), stating all meetings should be held at City Hall. Ms. Chronopoulos continued, providing

her opinion regarding possible sources of revenue, cutting back on services, and the library rebate issue.

Chair Peddle responded to Ms. Chronopoulos' comments regarding the library rebate issue, noting he takes it personally that it's messed up. Brief discussion ensued.

## **9. ADJOURNMENT**

### **MOTION**

Member Partch moved to adjourn the FAC meeting; seconded by Member Parker.

### **VOTE**

Motion carried by a 4-0-2 voice vote. Aye: Higgerson, Parker, Partch, Peddle. Nay: None. Absent: Neeley, Teresinski. Chair Peddle declared the motion passed and adjourned the meeting at 6:59 p.m.

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**RUTH A. SCOTT**, Deputy City Clerk

Approved by the Finance Advisory Committee: September 27, 2018.