Agenda
Village of Glen Ellyn
Finance Commission
Regular Meeting
Friday, March 13, 2015
7:00 AM
Glen Ellyn Civic Center, Room 301

A. **Call to Order**

B. **Public Comment (Non Agenda Items)**

C. **Approval of Minutes**

D. **Financial Update**

E. **Local Government Distributive Fund Proposal**

1. Local Government Distributive Fund Proposal

F. **Project Funding Update - Police Station and Other Projects**

1. Project Funding Update - Police Station and Other Projects

G. **Other Business**

1. IMET Update
2. Economic Development

H. **Adjournment**

Individuals with disabilities who plan to attend the hearing and who require certain accommodations in order to allow them to observe and participate, or who have questions regarding the accessibility of the meeting or facilities, are requested to contact the Village at least 24 hours before the meeting.

Finance Commission

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SCHEDULED

Meeting: 03/13/15 07:00 AM
Department: Finance
Department Head: Christina Coyle
Category: Discussion Item
Prepared By: Christina Coyle

AGENDA ITEM (ID # 1672) DOC ID: 1672

Local Government Distributive Fund Proposal

The Governor presented his budget address last month and proposed significant cuts to state revenues that would have a profound impact on local governments. Part of Governor Rauner's budget proposal is to reduce the local share of income tax revenue from 8% down to 4%. This would equate to a statewide loss of over $600 million for local governments from the current fiscal year. For Glen Ellyn, this would be a $1.35M reduction, but more importantly is that this reduction would be permanent, thereby decreasing revenue annually. The Illinois Municipal League (IML) and DuPage Mayors and Mangers Conference (DMMC) are working feverishly to explain the impact this will have on municipal budgets throughout the state. See attached information being distributed to the Governor, legislators, and other stakeholders (attached):

- Letter to Governor Rauner by various COG's:
- Local Government Distributive Fund

In addition to the proposed permanent reduction in income tax funding, the state is also looking to resolve a $1.6 billion shortfall in this year's budget and have threatened sweeping LDGF funds this year. The Senate Committee approved what would authorize the Governor to sweep several dedicated state funds in order to plug the various budget holes that are jeopardizing spending for various state programs.

The State's FY2015 budget was approved and enacted into law without sufficient revenue to fund government operations through the end of the fiscal year. This resulted in a budget hole estimated at $1.6 billion. Over the past few weeks, certain state programs began to run short of money. The proposed legislation would provide the Governor with authority to sweep a multitude of special state funds and shift the money to plug budgetary holes and keep key state programs and services afloat. In total, the sweep authority involves $579 million in revenue. Of interest to municipal governments, the fund sweeps include the following:

- Motor Fuel Tax Fund - $22,993,204.30
- State and Local Sales Tax Reform Fund - $13,371,644.79
- Local Government Tax Fund - $67,833,983.66
- Personal Property Tax Replacement Fund - $63,293,412.62
- Municipality Relief Fund - $145,671.91
- **The proposed amendment would not sweep any revenue from the Local Government Distributive Fund (LGDF).**

We have known for some time that eventually, the State's financial position would negatively impact municipalities, so our goal now is to try and minimize the damage. We are actively involved in many aspects of this issue through IML, DMMC, and our respective lobbyists. Below is a summary of actions we are taking or plan to take:

- The Senate held a joint appropriation hearing on Monday, March 9 in Chicago. Both the Senate Committees convened to take testimony about Governor Rauner's proposed FY2016 budget. State revenue sharing with local governments and the impact of a proposed property tax freeze was discussed. We submitted a witness slip opposing a reduction in LDGF and will be represented by the Board of Directors of DMMC and IML.
- Sending letters to legislators signed by the Village Manager, Village President, and Village Trustees.
- Sent email correspondence to legislators from State Representative Deb Conroy opposing any reduction in LDGF.
- Working with DMMC to establish a website for public awareness that would allow our constituents to provide feedback on the proposed legislation.

Staff has been asked what impact this could have on the proposed Police Station project and has prepared a brief memo (attached). In short, the reduction would be for income tax revenue only, and that revenue is dedicated for General Fund purposes, not capital funding. However, if we need to increase property tax to make up the difference, we might want to consider shifting property taxes from the capital fund to the general fund.

Without panicking and in being sensitive to employee groups, we have begun to brainstorm how to fill this gap through a combination of budget cuts, decreases in service, and additional revenues. Our lobbyists believe that this is a starting point to begin to address the financial issues in Springfield and that we will likely lose somewhere between 50% and 0% of LGDF. In the meantime, staff will continue to monitor the situation closely.

ATTACHMENTS:

- Memo on Governors Budget Proposal and Impact on Police Station Project (PDF)
- Letter to Governor Rauner (PDF)

MEMORANDUM

TO: Mark Franz, Village Manager

FROM: Christina Coyle, Finance Director

DATE: February 23, 2015

RE: Governor Rauner's Budget Proposal to Cut Income Taxes

Background

Last week, Governor Rauner introduced the highlights for the State of Illinois' fiscal year 2016 budget. The State of Illinois is on a fiscal year which runs from July 1 to June 30. Therefore, the proposed budget which he has outlined covers the fiscal period from July 1, 2015 to June 30, 2016. In his proposal, he recommended that the State reduce the amount of income taxes from the Local Government Distributive Fund (LGDF) shared with municipalities. The proposal would cut the amount shared with municipalities in half.

For the Calendar Year 2015 budget, the Village has projected that it will receive $2,684,000 in state shared income taxes. Were the Governor's proposal be accepted, this would mean a loss of $1,342,000 in revenue to the Village's General Fund.

Issues

If the Governor's proposal would succeed in its current form, this would have a severe impact on the Village's General Fund. The Village would need to explore many avenues to address this shortfall.

The Village has three main options to respond to any such cut in revenue, should it come to fruition. The first is to reduce the cost of Village operations. This includes implementing such measures like hiring freezes, layoff's, cutting services, reducing hours of operation, etc. The second avenue would be to increase our revenues which could be done through methods such as additions in revenue streams, increases in fee structures, or increases in taxes. The last method the Village could employ is to shift revenue streams to the General Fund from another fund. As an example, the Village could shift property tax dollars from the Capital Projects Fund to the General Fund. None of these options are palatable, but all would need to be explored in the event of such a drastic loss to our revenues. If such a loss occurred, Village Staff would work diligently with the Village Board to assemble a strategy to mitigate the impact to the Village and the Community.

You had also requested that I address any impact the Governor's proposal would have on our Capital Projects Fund and the forthcoming police station project. The General Fund, not the Capital Projects Fund, would be hit with the direct impact of the Governor's proposal. The General Fund is the main operating fund of the Village. This loss would not directly impact the Capital Projects Fund as income taxes do not support the functions of that fund. The only instance where this proposal would impact the Capital Projects Fund would be if the Village decided to shift revenue streams from the Capital Projects Fund to the General Fund to make up the shortfall in the General Fund. I would only recommend doing this as a very last resort as it would not be a financially prudent choice if it could be avoided.

The property tax dollars which have allowed us to fund our Capital Projects Fund were based upon a referendum passed by the Village. They have allowed the Village to fund its street program in a responsible manner. The other revenue streams which could be shifted would be the Real Estate Transfer Tax (RETT) or Utility Tax. These revenue streams are more erratic (RETT) or more stagnant (Utility) in nature and are better suited to the Capital Projects Fund rather than the General Fund. However, were drastic measures necessary and the Village did move revenues out of the Capital Projects Fund in the amount of $1.34 million per year, it would make it impossible to repay the debt service on the bonds without raising additional revenues to the Capital Projects Fund.

Next Steps

It should be noted that the Governor's proposal marks the beginning of several months of budget deliberations for the State government which culminate with the beginning of the State's fiscal year on July 1, 2015. Deliberations will take place to hone in on the final budget that the State of Illinois will pass into law. The proposed cuts to the Village's share of the income tax may succeed as proposed, but the cut may also be modified or eliminated altogether. It is too early in the process to definitively know the outcome.

Over the past several years, the Village has worked to increase the cash reserve levels in the General Fund. This was done both as a best business practice but also to address known issues with the State of Illinois. The reserves helped to address timing issues with the State of Illinois payments which were, at times, three months behind. These reserves also give the Village the flexibility to respond and modify its operations to address major declines in revenue due to the State of Illinois or another economic decline. These reserves will give the Village time to respond to any such changes made by State of Illinois during this budget cycle.

We will continue to monitor the developments in Springfield as well as partner with other organizations such as the DuPage Mayors and Managers Association and the Illinois Municipal League to draw attention to the extreme burden that the Governor's proposal would place upon the Village. As more certainty is known on this proposal, the Village Staff will work with the Board to determine how best to move forward to ensure financial stability for the Village.

February 25, 2015

The Honorable Bruce Rauner
Governor
207 Statehouse
Springfield, IL 62706

Dear Governor Rauner:

On behalf of municipalities and taxpayers across the state of Illinois, we are writing to express our deep disappointment with certain proposals affecting local government outlined in your February 18 Budget Address to the Illinois General Assembly. We respectfully request that the state craft a budget that does not intercept revenue due to local governments or prohibit actions necessary to balance municipal budgets.

As you know, the Local Government Distributive Fund (LGDF) was established in 1969 when Illinois implemented the state income tax. Local governments utilize LGDF revenues to fund basic governmental services including police, fire, public works and infrastructure improvements. Your proposal for a fifty percent reduction in LGDF payments spells disaster for municipalities, particularly non-home rule communities and those without a broad base of revenue options. Reducing revenue due to local governments will result in the need for massive property tax increases or dangerous cuts to services that our taxpayers have paid for and expect.

In addition to slashing LGDF revenues, you propose to freeze property taxes and exempt police officers and firefighters from any changes in their pensions. This additional one-two punch to local governments will take away the ability to fund the rising costs of basic government services and public safety pensions, which have been well documented as unsustainable.

Finally, you have called for local governments to tighten their belts. It is important to know that, through the Great Recession and beyond, municipalities have worked diligently to balance budgets, operate within our means, adjust service and staffing levels and cut programs that, while important, we simply cannot afford at this time. We ask that the state craft a fiscally responsible budget without further harming local governments and the taxpayers we all serve.

Thank you for your consideration of our request to preserve local revenues and maintain the ability to manage our local budgets. We stand ready to work with you and the General Assembly to identify ways that all levels of government can move forward and best serve the people of Illinois.

Sincerely,

(Signature page attached)

● Barrington Area Council of Governments ● DuPage Mayors and Managers Conference ● McHenry County Council of Governments ● Metro West Council of Government ● Metropolitan Mayors Caucus ● Northwest Municipal Conference ● Southwest Conference of Mayors ● South Suburban Mayors and Managers Association ● Southwestern Illinois Council of Mayors ● West Central Municipal Conference ● Will County Governmental League

Robert Kellermann
Chairman
Barrington Area Council of Governments

Gerald R. Bennett
President
Southwest Conference of Mayors

Martin T. Tully
President
DuPage Mayors & Managers Conference

Michael S. Einhorn
President
South Suburban Mayors and Managers Association

Richard E. Mack
President
McHenry County Council of Governments

John Miller
President
Southwestern Illinois Council of Mayors

David Kaptain
President
Metro West Council of Government

Richard F. Pellegrino
Executive Director
West Central Municipal Conference

Daniel J. McLaughlin
President
Metropolitan Mayors Caucus

Jim Holland
President
Will County Governmental League

Elizabeth B. Tisdahl
President
Northwest Municipal Conference

LOCAL GOVERNMENT DISTRIBUTIVE FUND

Talking Points

- When Illinois first enacted a state income tax in 1969, instead of allowing municipalities to impose a separate local income tax, the state collected and distributed an additional portion of income tax for local governments.

- For nearly 46 years this revenue has been an essential component of municipal budgets, allowing local governments to provide basic, essential services such as police and fire protection, snow plowing, road maintenance, and much more.

- Before 2011, 10% of all income tax collected was put into the LGDF. When the income tax rate was raised in 2011, the state lowered the local portion to 6% in order to keep all the new revenue in the state budget. As of January 2015 the income tax rate decreased, and the local portion adjusted to 8%, to maintain the prior revenue level.

- Reduction in LGDF does not actually decrease government expenditure, but instead shifts the fiscal and political burden of balancing the state's budget onto local governments and local taxpayers.

- Governor Rauner's proposed budget would cut the local share of income tax in half, from 8% to 4%. The local distribution of income tax revenue for 2015 is estimated to be approximately $99 per capita.

- This would cause a loss of $49.50 per resident in each municipality, for a total of over $600 million statewide, and would severely inhibit the ability of local governments to continue providing essential, basic services.

- Additional proposals by Governor Rauner to freeze all property taxes and take no action to reform municipal public safety pensions will greatly amplify the negative impacts that an LGDF cut would have on municipal residents and businesses.

- While relief from the many unfunded mandates in state law would be very welcomed, they could not come close to replacing the revenue and services lost by a 50% cut to LGDF, and any benefits would be not be realized until some future date.

- The Governor has also been reported to be seeking immediate elimination of the LGDF payments due to municipalities for the last quarter of the current state fiscal year, which covers April 1 through June 30, 2015.

Finance Commission

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SCHEDULED

Meeting: 03/13/15 07:00 AM
Department: Finance
Department Head: Christina Coyle
Category: Discussion Item
Prepared By: Christina Coyle

AGENDA ITEM (ID # 1673) DOC ID: 1673

Project Funding Update - Police Station and Other Projects

At the Village Board Workshop on February 16, 2015, the Village Board considered various options for issuing bonds to fund a new police station and various other projects. This topic was presented to the Finance Commission for their input at the Commission's February meeting. The Village Board opted to direct staff to issue $13.5 million in bonds to fund a new police station and some stormwater improvements.

Attached is the Capital Projects Fund Projection for the $13.5 million bond issuance. It should be noted that $850,000 has been added to the project schedule to continue engineering for an under/overpass in the downtown. This addition has created, at this juncture, a few years of negative fund balance in the fund which will need to be addressed by shifting projects between years so that funding is available. Or, it is also possible that revenues could exceed our projections and no shifting would be necessary. Staff will be meeting with our financial advisor and bond counsel on March 23 to start the process of the issuance. The issuance process is lengthy and will take approximately three months to complete. The Finance Commission will be updated throughout the process.

ATTACHMENTS:

- Capital Improvements Plan - Police Station and Lake Ellyn (PDF)

Village of Glen Ellyn

10-Year Capital Improvement Plan

CAPITAL PROJECT FUND

Capital Fund	SPENT TO-DATE	CY2015 BUDGET	CY2016 FORECAST	CY2017 FORECAST	CY2018 FORECAST	CY2019 FORECAST	CY2020 FORECAST	CY2021 FORECAST	CY2022 FORECAST	CY2023 FORECAST
Revenues - Capital Projects Fund		**$ 6,624,000**	**$ 6,670,812**	**$ 6,819,813**	**$ 6,975,221**	**$ 7,137,263**	**$ 7,306,175**	**$ 7,482,202**	**$ 7,665,599**	**$ 7,856,634**
Bond Proceeds		**$ 13,500,000**								
Minor capital investment/other expenditures	ongoing	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000
Pavement Preservation Program	ongoing	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Non-Roadway Construction Projects:										
Lake Ellyn Improvements	64,000	455,000	-	-	-	-	-	-	-	-
Nicoll Way Land Bridge Repairs	150,000	-	-	-	-	-	-	-	-	-
Hill Avenue Bridge	5,000	25,000	175,000	-	-	-	-	-	-	-
Reno Center Expansion - Salt Storage Facility (See MFT)	-	50,000	-	-	-	-	-	-	-	-
Street Lighting Improvements - Rte 38 / LED Initiative	20,000	250,000	120,000	-	-	-	-	-	-	-
Street Lighting Improvements - CBD	-	85,000	-	-	-	-	-	-	-	-
Other Projects: Stormwater, Traffic, etc.	20,500	1,790,000	65,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Streetscape and Signage	55,000	25,000	-	-	-	-	-	-	-	-
Sidewalk Program	ongoing	345,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000
Taylor Pedestrian Underpass		85,000	200,000	175,000	-	-	-	-	-	-
Pedestrian Tunnel in CBD-Feasibility Study	70,000	-	-	-	-	-	-	-	-	-
Viaduct / Underpass in CBD-Feasibility Study		-	850,000	-	-	-	-	-	-	-
Police Station	-	200,000	11,400,000	400,000	-	-	-	-	-	-
Roadway Rehabilitation Program										
2014 Street Resurfacing	955,000	-	-	-	-	-	-	-	-	-
2014 Chidester-Elm-Lenox-Linden	2,715,000	-	-	-	-	-	-	-	-	-
Elm-Geneva Connectors-Cottage	17,500	1,650,000	-	-	-	-	-	-	-	-
Glenwood-Arbor-Ridgewood	10,000	2,070,000	-	-	-	-	-	-	-	-
Crescent Blvd	-	1,265,000	-	-	-	-	-	-	-	-
2015 Street Resurfacing	-	300,000	-	-	-	-	-	-	-	-
CBD Roadway and Streetscape	-	250,000	-	2,250,000	2,250,000	-	-	-	-	-
Engineering for Future Projects	ongoing	390,000	-	-	-	-	-	-	-	-
Future Street Projects	-	-	4,405,000	3,235,000	1,530,000	6,715,000	4,382,000	4,024,000	2,563,000	7,319,000
IFT / General Fund Engineering	ongoing	232,600	237,000	242,000	247,000	252,000	257,000	262,000	267,000	272,000
Subtotal - Planned Improvements - Capital Projects Fund		9,872,600	17,932,000	7,082,000	4,807,000	7,747,007	5,419,008	5,066,009	3,610,010	8,371,011
Bond Repayments*		$ 888,000	$ 888,000	$ 888,000	$ 888,000	$ 888,000	$ 888,000	$ 888,000	$ 888,000	$ 888,000
Total Expenditures - Capital Projects Fund		**$ 10,760,600**	**$ 18,820,000**	**$ 7,970,000**	**$ 5,695,000**	**$ 8,635,007**	**$ 6,307,008**	**$ 5,954,009**	**$ 4,498,010**	**$ 9,259,011**
Change in Fund Balance, Capital Projects Fund		**$ 9,363,400**	**$ (12,149,188)**	**$ (1,150,187)**	**$ 1,280,221**	**$ (1,497,744)**	**$ 999,167**	**$ 1,528,193**	**$ 3,167,589**	**$ (1,402,377)**
Capital Projects Fund Balance, Beginning of Year		**$ 3,536,675**	**$ 12,900,075**	**$ 750,887**	**$ (399,300)**	**$ 880,921**	**$ (616,823)**	**$ 382,344**	**$ 1,910,537**	**$ 5,078,126**
Capital Projects Fund Balance, End of Year		**$ 12,900,075**	**$ 750,887**	**$ (399,300)**	**$ 880,921**	**$ (616,823)**	**$ 382,344**	**$ 1,910,537**	**$ 5,078,126**	**$ 3,675,749**

Finance Commission

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SCHEDULED

Meeting: 03/13/15 07:00 AM
Department: Finance
Department Head: Christina Coyle
Category: Discussion Item
Prepared By: Christina Coyle

AGENDA ITEM (ID # 1675) DOC ID: 1675

IMET Update

Please see the attached memo which provides an update on the First Farmers Financial issue.

ATTACHMENTS:

- IMET Update 2015-03-11 (PDF)

MEMORANDUM

TO: Mark Franz, Village Manager

FROM: Christina Coyle, Finance Director

DATE: March 11, 2015

RE: IMET Update, March 11, 2015

Background

Memos have been provided on October 21, November 6, and December 23, and January 23 regarding a loss on our investment in the Illinois Metropolitan Investment Fund (IMET) due to a fraudulent investment perpetrated by a USDA approved lender, First Farmers Financial. The purpose of this memo is to provide an update on this issue.

Update

IMET held its annual participants meeting yesterday on March 10, 2015. During the meeting, an update was given on the First Farmers Financial (FFF) fraud.

Information on Pennant Management and Vetting of FFF and Fraudulent Loans

FFF was an approved USDA lender. The USDA has an extensive vetting process. Pennant Management met with FFF at their offices in Orlando. The fraudulent loan packages contained signatures of USDA representatives from its offices in Georgia and Florida, so the forged signatures were of valid officials within the USDA. Pennant provided IMET with two opinion letters from counsel that the collateral underlying the loans was perfected. Pennant did background checks of FFF and of Nikesh Patel (CEO of FFF). They also confirmed that FFF was an approved lender and was part of the business and industry lending program.

Information on the FFF Victims

Besides IMET, there are three other large victims of the FFF fraud. The University of Wisconsin Credit Union lost $54 million. Harvard Savings Bank in Illinois lost $18 million. The U.S. Department of Labor is also involved in the suit as $18 million in employee stock ownership was lost in the fraud. These three groups, along with IMET, comprise 80% of the dollars lost due to the fraud. There was discussion that the involvement of the Department of Labor may work positively in the favor of the USDA honoring the backing of the loans.

USDA Appeals Process

In a prior memo, it was noted that the USDA had denied backing the loans as the fraud forged the signatures of the USDA which backed the loan. This decision has been appealed to the National Appeals Division of the USDA. At this time, this division is indicating they do not have jurisdiction to handle the appeal because the documents were forged. Once this entity makes a final ruling, then a suit will be brought in Federal District Court against the USDA.

Information on the Recovery Process

The Village received its first recovery check on February 6 in the amount of $12,036.34.

The most substantial asset recovery will come from the sale of 4 hotels. Currently, there is a fully executed letter of intent on the four hotels and a fully executed purchase contract is expected at the end of this week. Assuming this occurs, they hope to close on the sale of the hotels in May. There is an outstanding mortgage on only one property and some mechanics liens on a property which will need to be paid with a portion of the proceeds of the sale.

There are two commercial properties which were seized from Mr. Patel. Both are in Orlando, Florida. One is valued at $800,000 to $1.0 million and the other has been listed for sale at $1.45 million. They are expecting an offer of $1.1 million to be presented soon on the listed property.

Mr. Patel also has two personal properties. One in Orlando valued between $1.7 and $3.0 million, which Patel is currently residing in. The property does have an $800,000 mortgage. This mortgage could be released if it is from a Patel related entity. Patel could apply for a homestead exemption which would allow him to prevent this property from being seized; however, it is believed he will turn this property over in consideration for the criminal charges he is facing. Another residence is located in Windermere, Florida, and valued at $3.9 million. This property has no outstanding mortgages or liens and is listed for sale at $4.5 million. An offer of $3.0 million was rejected and has been increased to $3.5 million. Negotiations on this property are ongoing.

FFF also has performing loans of $17 million, several of which are legitimate USDA loans. Pennant Management is working to monetize these loans, but doing so will likely require a 25% discount. It is estimated that liquidating these loans will yield approximately $13.0 million. FFF also has residential loans for Patel's parents and in-laws which can be taken into consideration.

Recovery from a Patel counterpart, Tim Fisher, is also underway. His assets have been frozen. He has a California residence and owns a film production company. Three films from this company are almost complete and then can be sold to yield proceeds. Mr. Fisher is under investigation by the Department of Justice, but has not been formally charged.

At this point, it is estimated that we will see a 60-70% recovery of the loss out of the assets of Mr. Patel. This does not include recovery from Mr. Fisher, recovery from the USDA, recovery from other third parties who may have received proceeds of the fraud, or proceeds from various insurance policies. The recovery process will be lengthy and will continue for years.

Insurance Policies

Pennant Management has a $25 million fidelity bond which has been put on notice. Pennant also has a $5 million directors' and officers' policy and a $5 million errors and omissions policy, both of which are on notice. IMET also has a $5 million fidelity bond which it hopes can offset the loss. IMET has provided a proof of loss to its insurer, Chubb. The Village has reviewed its insurance policies and does not currently believe that coverage would extend to fraud committed by an outside third party.

We will continue to monitor this situation and will provide updates as new information becomes available.