MEMORANDUM

To: Finance and Administration Committee

From: Timothy Sexton, Director of Finance

Date: September 12, 2018

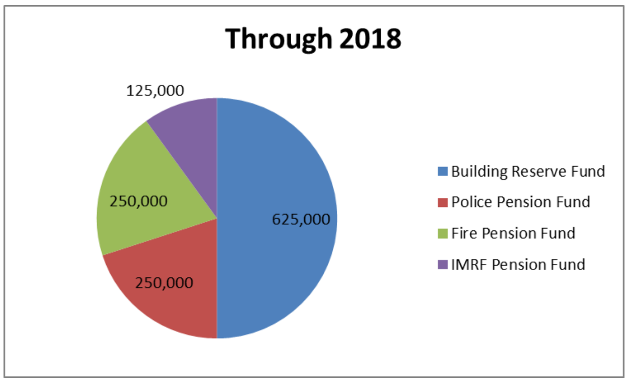
Subject: Long Range Plan (LRP) Reserve Fund – Policy Options

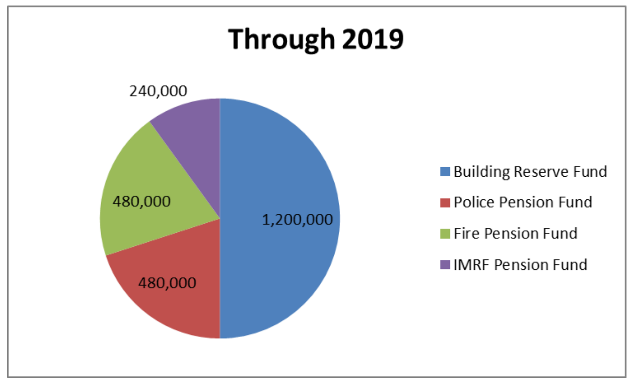
At the July Committee meeting, staff introduced the discussion on the use of the funds in the LRP Reserve Fund. There are a number of potential options that were outlined, and below are listed some items to consider for some of these options.

Attachment 1 shows the amount of Places for Eating (PFE) Tax that went into this reserve fund in 2017, and the amounts expected to go in 2018 and 2019. It is expected that the balance in this account will be approximately $1.25 million at the end of 2018, and $2.4 million at the end of 2019, although the 2019 estimated amounts may change. The following pages will highlight the pros and cons of the various options for consideration.

Option 1 - Mirror Policy on Year-End Revenues Over Expenditures (Waterall)

- Run the LRP funds through the waterfall, just as we do any revenues over expenditures at the end of the year
    - The F&A Committee had previously recommended a policy, which the Board adopted, related to any revenues over expenditures available at the end of a fiscal year.
    - As the Emergency Reserve Fund and the Revenue Stabilization Fund are filled, the LRP funds would be split 50%/50% between the Building Reserve Fund and the Pension Funds.



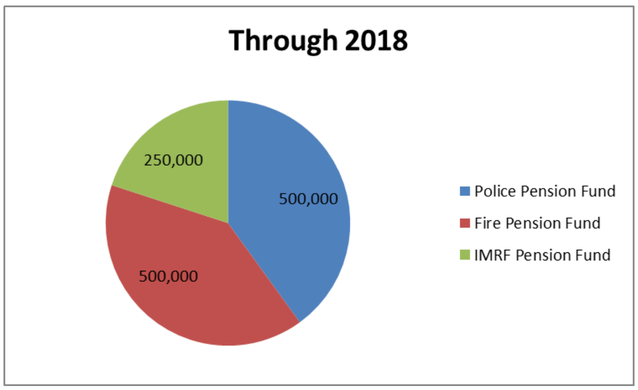


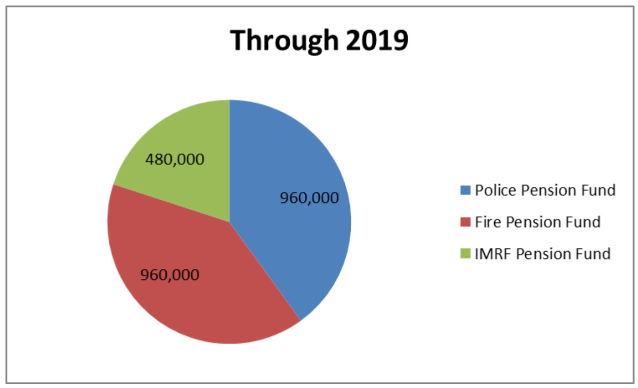
<u>Pros:</u>
- Consistent with existing policy and thought process regarding year-end revenues over expenditures
- Pays down unfunded liability of pension funds
- Provides long term funding for aging building infrastructure

<u>Cons:</u>
- Somewhat inflexible in terms of application to other possible expenses that may merit consideration

Option 2 – Pay Down Pension Liabilities

- Put all of the LRP funds towards unfunded pension liabilities.
  - From the April 11, 2018 S&P rating for Lombard:
    - "In our opinion, a credit weakness is Lombard's large pension and OPEB obligation, without a plan in place that we think will sufficiently address it. Lombard's combined required pension and actual OPEB contributions totaled 14.4% of total governmental fund expenditures in 2016. Of that amount, 13.5% represented required contributions to pension obligations, and 0.9% represented OPEB payments. The village made 100% of its annual required pension contribution in 2016."
  - Current Lombard unfunded pension liabilities and funded status:
    - IMRF - $3.9 million; 83.54%
    - Police Pension - $32.6 million; 59.88%
    - Fire Pension - $18.7 million; 69.19%
    - Total unfunded pension liabilities : $55.2 million





<u>Pros:</u>

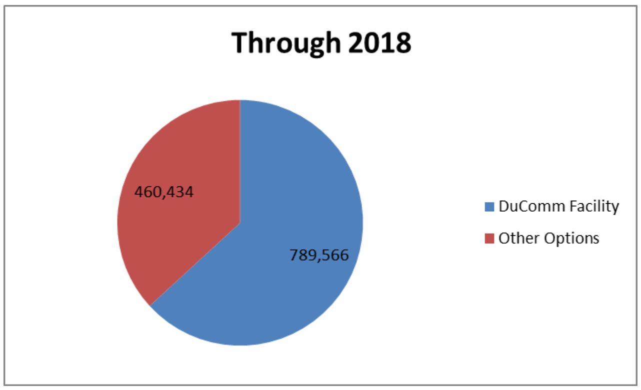
- Could provide possible benefit in terms of bond rating. The Village's Financial Advisor, Speer Financial, has given the opinion that this use would have the most potential positive impact on the Village's bond rating.
- Will have modest impact on structural budget expenses. It is estimated that paying $2.4 million into the pension funds would reduce future year payments to the pension funds by at least $120,000 per year
- Will also have a modest impact on smoothing out large fluctuations in the future. A lower unfunded liability will result in lower level of fluctuation.

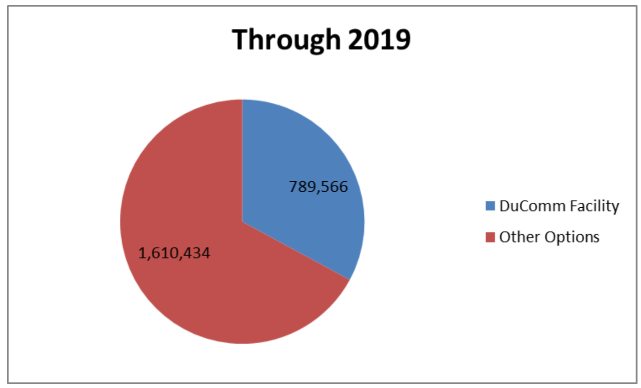
<u>Cons:</u>

- However, once the funds have been paid to the Pension Funds, they are completely unavailable for any other Village use, and therefore this is the most rigid option.

Option 3 – Apply to DuComm Facility Expenses/Remaining Amount for Another Option

- Set it aside to pay for the Village's share of the costs of the new DuComm facility
    - DuComm opened a new facility in 2018.
    - The Village is obligated to cover its share of the costs for the new facility.
    - The Village's share is $701,484 to be repaid over the next 14 years.
    - An option for the LRP funds is to use a portion of the funds to cover this capital cost for this new DuComm facility; the additional remaining LRP funds can then be used for one of the other purposes listed here.





<u>Pros:</u>

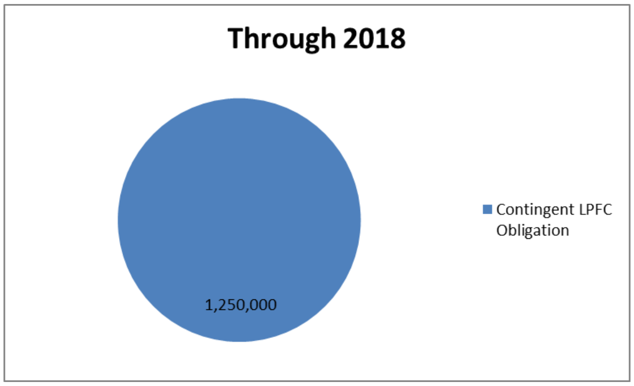
- Would decrease the annual amount of structural budget expenses for DuComm by approximately $50,000 per year for 14 years.

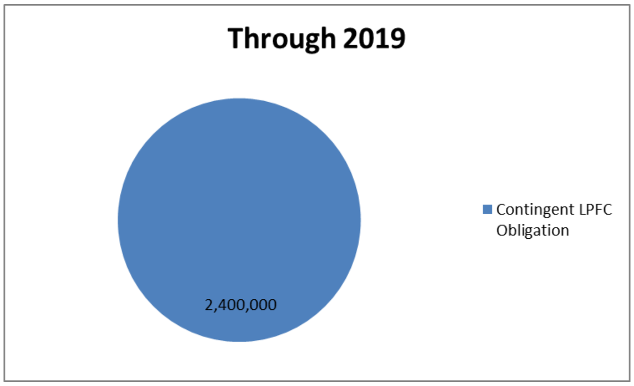
<u>Cons:</u>

- Does not provide any benefit to bond rating status, depending on other option chosen.

Option 4 – Keep in Reserve and Earmark for Potential LPFC Payment Under Settlement Agreement

- Keep in reserve for a potential payment to the LPFC as obligated under the LPFC's restructuring, in which the Village would loan the funds to the TIF and then be repaid from the TIF when funds are available
    - Total amount of TIF pledged is $3.7 million plus 5.5% interest.
    - If this amount is not paid in full by September 30, 2027, then the Village has to pay to the LPFC 50% of the outstanding principal plus any accrued but unpaid interest.
    - The ability of the TIF to cover these payments depends on the development that may occur in the TIF boundaries over the next several years.
    - The maximum potential liability, which assumes no TIF is generated in future years (highly unlikely), is $1.85 million for half the principal, and accrued interest of $1.85 million, for a total of $3.7 million. This is not a likely scenario, just a worst case scenario.
    - The TIF runs through 2040, so the ability to repay these funds in the future is very high.





<u>Pros:</u>
- Provides time for the Village to assess performance of TIF district and ability to make required LPFC payment

<u>Cons:</u>
- Does not provide any immediate benefits to other funds
- The impact on the bond rating status is uncertain

Option 5 – Status Quo/Do Nothing

- Do nothing right now; keep the funds in the LRP Reserve and look at it again next year.

Pros:
- Provides maximum flexibility

Cons:
- Does not provide any immediate benefits to other funds or bond rating status
- Leaves funds vulnerable to “other expenses” identified in future years that may not be in line with current strategic plan

Recommendation

Staff is seeking a recommendation from the F&A Committee for the application of these funds. Specifically, the F&A Committee should make a recommendation to the Village Board regarding which option they prefer. In addition, it is recommended that this recommendation be applied for the 2017 PFE put into the LRP Reserve ($800k) plus the projected 2018 amount of ($450k). Staff would then come back to the Committee next fall to offer an update on the expected 2019 PFE amount and seek recommendation on how to apply those funds. Currently, the 2019 PFE amount is anticipated to be $1.15 million, but that could change depending on various factors. This would allow the most flexibility in determining the use of those funds next year.

ATTACHMENT 1

Additional 1% Places for Eating Tax						
Effective 1/1/17						
		Used/Planned		Saved in		Balance in
Budget		for Budget		Long Range		Long Range
Year		Year		Plan Fund		Plan Fund
2017		800,000		800,000		800,000
2018	Estimated	1,150,000		450,000		1,250,000
2019	Estimated	450,000		1,150,000		2,400,000
2020	Estimated	1,600,000		-		2,400,000