MINUTES OF A FINANCE COMMITTEE MEETING OF THE BOARD OF PARK COMMISSIONERS OF THE PARK DISTRICT OF HIGHLAND PARK HELD ON THURSDAY, AUGUST 20, 2020, 4:00PM. THE MEETING WAS CONDUCTED REMOTELY DUE TO THE GOVERNOR'S DECLARATION OF EMERGENCY AS A RESULT OF THE COVID-19 PANDEMIC. MEMBERS OF THE PUBLIC WERE ABLE TO VIEW A LIVE STREAM OF THE FINANCE COMMITTEE MEETING AND SUBMIT ITEMS FOR PUBLIC COMMENT VIA EMAIL TO THE EXECUTIVE DIRECTOR TO BE READ ALOUD DURING THE MEETING.

Present: Commissioner Bernstein, Commissioner Grossberg, President Ruttenberg

Also, Present: Executive Director Romes; Director Peters; Director Carr; Director Smith; Manager Warsaw; Accountant Rosen; Accounts Payable Lakoske; Executive Coordinator Hejnowski

Guest Speaker: None

Public Comment for Items on the Agenda - None.

August 6, 2020, Finance Committee Meeting minutes were approved.

Special Disclaimer from Public Financial Management (PFM)

Director Peters shared the District's special disclaimer, reporting that the research and any forecasts are based on current information as of July 31, 2020, as is considered to be reliable, but the District does not represent it is accurate or complete, and it should not be relied on as such. The information, opinions, estimates, and forecasts contained herein are also as of the date hereof and are subject to change without prior notification.

Updated Financial Forecasts

Projected Cash Flow/Operations (Operations General and Recreation Fund)

Director Peters presented the District's chart of operations which examines the General and Recreation Funds comparing the budgeted cash on hand vs. the projected cash on hand at the end of each month. She reported that the District budgeted to have $11.9 million in cash on hand as of December 31, 2020. She is pleased to report that staff are projecting to have $11.2 million in cash on hand as of December 31, 2020, even with the impacts of COVID-19. Additionally, the District will remain in compliance with our board policy, maintaining a 25% reserve in the general and recreation funds, and she projects the District will have $4.6 million as a reserve in both funds.

Budget vs. Actual vs. Projected (Operations General and Recreation Fund)

The next item reviewed was the 2020 Budget Comparison report of the General and Recreation Funds. This report provided a comparison of the 2020 budget approved in December of 2019 vs.

the actual figures as of today, plus the projections for the end of the year. Director Peters reported that the District budgeted a $3 million surplus for the end of the year. Due to the pandemic and its financial impacts, staff are projecting a $1.8 million surplus end of the year based on the actual revenue and expenses generated as of July 31, 2020. She reported that the overall reduction between our original budget vs. the projections is a $1.2 million deficit. However, these projections are based on the worst-case scenario and the District has generated $8.8 million in revenue as of July 31, 2020, vs. the $7.6 million projected. Additionally, the District has spent less than projected so the overall year-to-date net difference as of July 31, 2020, when comparing the District's actual vs. projected is a $1.5 million surplus.

Commissioner Bernstein would like staff to emphasize and focus on the real-time/actual figures plus the end of the year projections.

Budget vs. Actual vs. Projected No Taxes/transfers (Recreation Fund)
The next item reviewed was the 2020 Budget Comparison report of the Recreation Fund. This report provided a comparison of the 2020 budget approved in December of 2019 vs. the actual figures as of today, plus the projections for the end of the year without the support from property taxes and transfers from the general fund. Director Peters reported that the District budgeted a 2.4 million deficit for the end of the year, assuming revenues would be less than expenses. Due to the pandemic, staff are projecting the deficit to increase by $1.3 million net difference. As of July 31, 2020, the District has generated $3.6 million in actual revenue vs. the worst-case scenario projection of $2.9 million. Additionally, our actual expenses are trending slightly below our projections, which gives the District a year to date net difference of $710,821. She is pleased to report that staff has reduced the year-to-date net difference by $300,000 from the original worst-case scenario projection.

Monthly Payroll Budget vs. Actual vs. Projection
Director Peters reported that the District budgeted around $10 million in payroll expenses. However, by furloughing staff, reducing employee hours, and implementing a hiring/merit freeze, staff projected the expenses as of December 31 to be around $7.5 million which reduces the overall projected net difference of the budgeted vs. projected to $2.5 million. Unfortunately, the District's actual payroll expenses as of July came in higher than projected for a year-to-date net difference of $70,569. She reported that this is a positive difference, of the actual and projected since the District has expanded programs and has been offering more services, which generated an additional $1.5 million in revenue. Additionally, staff had budgeted the District would have spent $5.7 million in payroll expenses as of today, whereas the District has only spent $4.2 million.

President Ruttenberg would like a graph of the monthly payroll expenses vs. the cumulative.

COVID-19 Related Expenses
Director Peters reported that the District is projecting $71,701 in year-end expenses for COVID-19 related supplies, a $75,661 difference in lakefront expenses due to the additional staffing

needed to address crowd control and safety, and a $6.2million difference of lost operating revenue. Overall, staff are projecting a $6.3 million year-end net difference due to COVID-19.

President Ruttenberg would like to know what the District expenses would look like as of July 31, 2020, without the virus.

Director Peters reported that the District would have spent between $20 - $24 million so COVID-19 has impacted 30% of the District's expenses.

Commissioner Bernstein would like to know what the current financial status of the District is.

Director Peters reported that the District is doing better than the worst-case scenario financial projections and PMA, the District's financial advisors, are pleased with the District's financial status and the figures we are providing.

2021 Tax Levy

Director Peters reported that the District is preparing for the 2020 Tax Levy which affects the District's 2021 financial statements and tax extension. She shared a draft of the District's 5-year Capital Plan, which indicates how much the District plans to spend each year on capital projects based on the prioritization plan.

> Tier 1 is the highest priority, which are projects falling under safety and legal compliance, such as grants, intergovernmental agreements, or laws.
>
> Tier 2 are projects in need of critical repairs or items that need to be replaced, as these projects could pose a safety hazard, impact operations, or lead to a larger expense if ignored.
>
> Tier 3 are existing assets that are scheduled to be replaced as these assets have met their useful life. A large portion of the capital plan falls under Tier 3.
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> Tier 4 projects are improvements to existing items. If ignored it would not limit or impact operations.
>
> Tier 5 are projects that would add capacity or improve programming. If ignored it would have no impact on the District's status quo.

She reported that tiers 1-3 are maintenance projects whereas tiers 4-5 are improvements. The District is projecting to spend $24.5 million over the next 5 years in tiers 1-3 capital projects and $7.2 million in tier 4-5 projects. Overall, the District is projecting to spend around $31.7 million in capital projects over the next 5 years (this includes projects under all 5 tiers). Funding for capital projects is supported by transfers from the general operations fund. Due to the impacts of COVID-19, staff recommend transferring $1 million from the general operations fund, which is significantly less than the usual $2.5 million transfer, so the year-end balance for the 2020 capital fund is estimated to be at $10.4 million. In 2021, the year-end fund balance for capital is estimated to be $3.6 million. In 2022, the year-end fund balance for capital is estimated to be $789,000. She noted that it will be challenging for the District to cover capital expenses for all 5 tiers over the next 5 years if the District continues transferring under $2 million from the general operations fund. She reviewed the 5-year funding model, but only covered capital expenses for tier 1-3 projects, so this would eliminate improvements and new capital projects. The year-end balance for the 2020 capital fund is estimated to be at 10.4 million, in 2021 $7.8 million, and in 2022, 5.1 million.

President Ruttenberg and Commissioner Bernstein would like to revisit the 5-year funding model, asking staff to provide a summary of the projects in each tier and those project costs.

Tax Revenue vs. Operating Revenue
Director Peters reported that in 2019 property taxes accounted for 53% of the District's revenue vs. operations which was 47%. Staff are anticipating property taxes to make up a much larger percentage of the District's revenue for 2020 due to the significant reduction and cessation of operations because of COVID-19.

President Ruttenberg asked if the staff are anticipating a 70/30 split for 2020.

Director Peter's reported that staff are anticipating the 2020 property taxes accounting for 70% of the District's revenue.

Director Peters reported that the Tax Cap law allows Park Districts to increase the Tax Levy in two ways, first through the Consumer Price Index (CPI), which is 2.3% for 2020. However, due to COVID-19, the CPI as of July 31 is at .08%, so PMA advised the District to use a CPI of 1% for the 2021 Tax Levy projection. Another way to increase the Tax Levy is to capture new growth. She reported that property taxes provide critical funding that supports the District's mission by funding existing infrastructure and operations, which the Park District of Highland Park has 45 parks, 800 acres of land, and 11 facilities to maintain, resulting in the use of revenue from property taxes to fund capital improvements, repair, and replacement projects, which the District anticipates spending a little over $30 million over the next 5 years. Additionally, the District has $68 million of insured assets which need to be maintained and property tax revenue contributes to more than 50% of the District's annual $24 million of operational expenses. As a result, staff are considering asking for the entire available Tax Levy increase. She reported that the Tax Levy is affected naturally via the CPI factor that is automatically adjusted through economic conditions. Due to the pandemic, the CPI will decrease and will be imposed on the taxpayers the following year. She reported that current new growth cannot be accessed in future years nor can uncollected tax revenue be recaptured in future years. She suggests the District will avoid a negative impact on all future levies, operating budgets, and long-term funding for capital repair and replacement by increasing the Tax Levy by the CPI and the new growth. She reported that statutory tax rates have remained constant while inflation has weakened the Park District's budgetary process so the Park District would be giving up necessary revenue without an alternative source to replace it, which could negatively impact infrastructure and operations. She is suggesting taxing the full amount since operating income has been significantly reduced due to the pandemic. She reported that under levying could hurt the Park District's Triple-A bond rating possibly causing it to downgrade to a Double-A rating or potentially less. Lastly, she reminded the liaisons that the Park District has the option to rebate any portion of our property taxes in the future.

President Ruttenberg would like to know if the District does not raise taxes at least by the CPI are the underwriters suggesting the Park District's bond rating could downgrade?

Director Peters reported that the underwriters brought attention to the District's shrinking fund balance, so if the full amount is not levied than there will be less money available in the District's reserves.

President Ruttenberg would like to know if the District borrows will it result in the District paying a higher interest rate.

Director Peters reported that the interest rate will increase.

President Ruttenberg would like to know if the Tax Levy is increased by the CPI how will the District implement rebated property taxes.

Director Peters reported that to her understanding, the Village of Rosemont, for example, has a significant amount it receives in property tax revenue even though the village only has 4,000 residents so they rebate taxes annually and distribute an even amount to the taxpayers, whereas the Village of Oswego has done rebates based on the percentage collected, so there are options. If the Park District would like to conduct a rebate, she will work with PMA to find the best option. She reported that the CPI is based on the District property tax extension so a rebate will not affect it, however, a property tax freeze will negatively affect the property tax extension for the future.

Commissioner Bernstein would like to know if the District could not increase the Tax Levy by the CPI and still take advantage of the new growth?

Director Peters reported that this is possible, reporting that when capturing new growth, you want to cast your net as far as you can aiming to capture all new growth. She reported that the District will have a better idea in October since they will have had discussions with Lake County regarding how many new properties were constructed and additions were put on in 2020. If the new growth is over 5% a public hearing needs to be conducted.

Commissioner Bernstein would like to know if an extensive amount of new growth could help mitigate the CPI factor.

Directors Peters recommends doing both.

Commissioner Bernstein would like to know if there is any way by having more new growth this could provide an opportunity to capture money for new growth rather than by the CPI. He is hoping that the tax obligation could go to new growth vs. the entire community.

Director Peters reported that new growth increases the population which the District needs to serve, so new development dollars should be funded for development in that specific area, whereas the CPI is meant to care for the entire District, it's more community spread.

President Ruttenberg reported that new growth is designed to capture the additional costs to the District generated from more users.

Director Peters agreed with President Ruttenberg reporting that new growth funds should be used to improve facilities or construct new ones since they are seeing increased use from the population increase.

Commissioner Grossberg reported that the District ordinarily can introduce more programming to generate more revenue, however, this is not an option due to the pandemic so he would like staff to reiterate to the rest of the Park Board of Commissioners and the community that the District would be giving up necessary revenue without an alternative source to replace it, which could hurt infrastructure and operations.

President Ruttenberg reported that if the District does not raise property taxes by the CPI factor, then the District cannot recapture that revenue and it creates a ripple effect.

Tax Levy Freeze vs. Tax Increase 2010 - 2019

Director Peters shared a graph that compared the Tax Levy Extension freeze vs. what the District could have levied from 2010 through 2019. She reported that the District froze taxes from 2010 through 2012. In 2010, the District sacrificed around $1 million. In 2011 and 2012, the District sacrificed around $1.3 million each year. Even though the District began increasing taxes again in 2013, the basis was much smaller resulting in an $11.6 million loss over the last 10 years.

Commissioner Bernstein reported that the tax freeze was approved for those 3 years since the District did not have a 5 year capital plan nor a master plan, however, once capital plans were introduced the District started increasing the Tax Levy based on the CPI as seen in 2013.

Commissioner Grossberg reported that a conservative would be pleased with this report, suggesting someone could look at these figures and be pleased to see how much the District saved the taxpayers and what the District has to offer in regards to parks, natural areas, and facilities.

Director Romes reported that in 2010 the Park District had $24 million in reserves, whereas that number has decreased to $14 million as of today.

Commissioner Grossberg reported that the District has a strong case as to why they might ask for the entire available Tax Levy increase to avoid falling below our reserve fund balance in the general operations and recreation funds.

Commissioner Bernstein reported that the Park Board of Commissioners has spent the last 10 years planning through GreenPrint and Capital Plans, so staff has evaluated and determined what the District's capital needs are. Going forward, staff and the Finance Committee Liasons need to figure out where revenue is coming from and how it should be spent on GreenPrint and Capital Projects. He reported that if the District does not have a source of revenue, something will have to give.

Tax Levy Freeze vs. Tax Increase 2020 – 2029
Director Peters shared a graph of projections which compares Tax Levy freeze vs. what the District could have levied from 2020 through 2029. She reported that if the District freezes taxes in 2020, we would sacrifice $1.2 million, based on the 2.3% CPI. PMA projects that the CPI will be at 1% each year from 2021 through 2029, so if the District froze taxes it would result in a $13.8 million loss over the next ten years. Additionally, the State of Illinois has brought up freezing property taxes which would affect this model.

Commissioner Grossberg asked if the District is expected to lose $1.1 million a year if the District freezes taxes this year.

Director Peters reported this to be true based on the 1% CPI projection from PMA.

President Ruttenberg would like to learn more about the possibility of a rebate.

Commissioner Grossberg feels the rebate is a highly unlikely option considering the Park District has $31 million in projects which do not even include West Ridge Center repairs or renovations.

The next item reviewed was a sample property tax bill for residents examining the median home value and the percentage of taxes residents pay to the Park District. She reported that the median home value is $585,000 and 7% of the bill goes to the Pak District. The sample used was a $615,000 valued home. If the District chose to freeze taxes in 2020 it would save that resident around $26 on their property taxes, however, the loss to the Park District would be $1.3 million.

CPI vs. Inflation Comparison
She shared a graph of the computer and software expenses from 2015 through 2019 so the Finance Committee Liaisons could see how much the expenses have increased over the years due to inflation. She reported that software expenses have increased 17.5% during this time, whereas the CPI increase was 6.8%. This is one example of how the District's expenses outpace Tax Levy. She shared a second graph that compared health insurance expenses. She reported that health insurance expenses have increased by 20.3% from 2015 through 2019, so once again inflation outpaces the Lax Levy.

Commissioner Bernstein would like to revisit and discuss the Tax Levy in October before presenting to the entire Park Board of Commissioners.

Property / Facility Acquisition Opportunities

Executive Director Romes provided a brief update regarding the Highland Park Field House, which is just North of the Target, located at 225 Skokie Valley Road. He reported the Park District leases the third lot of the property from the City of Highland Park. Additionally, a portion of that property is subleased which is the Highland Park Dome. Originally this was a 10-year sublease agreement that was set to expire in 2019 but was extended an additional 2 years to April 30, 2021. The owner of the Field House would like to donate the Dome to the Park District, so staff has begun preliminary conversations regarding the donation. Executive Director Romes reported that the next steps include the Park District conducting a 10 year financial audit, engineering assessment to understand mechanicals and electric, examine ADA accessibility, and work with PDRMA to generate an appraisal, and lastly zoning requirements with the City of Highland Park.

Commissioner Bernstein would like staff to create a timeline of benchmarks.

President Ruttenberg would like staff to generate a timeline and produce a letter of intent from the owner.

Other Business

Director Peters reported the next Finance Committee Meetings will be Thursday, September 10, and Thursday, September 17 at 4:00 p.m.

The meeting adjourned at 5:10 p.m.