

Village of Winthrop Harbor
Committee of the Whole
President and Board of Trustees Meeting
November 2,2021

MINUTES

The meeting was called to order by Mayor Bruno at 6:00 PM.

The following Elected Officials were present:

Mayor: Dr. Michael Bruno

Trustees: Buddy Hargett, Dana McCarthy, Hartmut "Fritz" Weiss

Absent: John Levin, Robert Marabella, Alanna Whitmore

Also present:

Robert Long, Interim Village Administrator
Pat DiPersio, Director of Community Development
Julie Rittenhouse, Village Clerk
Scott Fuller, Recreation Director
Ed Mohn, Police Chief
Rocco Campanella, Fire Chief
John Lewis, Deputy Fire Chief
Tim Nearingard, Superintendent of Public Works

The meeting was called to discuss the following items.

10 – 20 Year Vision for the Future #4

Interim Village Administrator, Robert Long and Community Development director, Pat DiPersio gave the board and department heads a copy of their presentation on the Financial Vision for the Village, now and in the future. Administrator Long started out by telling the Board about, facing multi-million-dollar capital and operations needs that are a serious challenge. Also, structural deficits that raise more challenges. There are solutions, but they require setting and keeping rules. He explained there are two primary sources of revenue. One is the "enterprise fund" which is supposed to pay for all expenses of the water and sanitary sewer system and that, is paid for by water billing. The other is used for everything else and includes taxes, grants and a wide variety of user and permit fees. Historically over the past 10 years the Village has received about \$5,250,000 annually from all sources, aside from water billing. Water billing runs about \$1,100,000 a year. Administrator Long broke the costs down to show exactly where the money comes from: property taxes, state tax distributions, permits, fees and fines, utility taxes, landfill, video gaming, grants and MFT (restricted). Water billing pays just about enough

to cover current water purchases. The general fund pays for everything else. There are a number of restrictions on the use of funds.

For example:

- MFT must be used for specific types of road-related projects.
- Grants are targeted for particular purposes.
- Other restricted funds include: Tourism, Police Forfeitures, Toys for Tots, Foreign Fire Insurance Taxes and a few smaller funds.

We can't spend this money for anything other than the permitted uses. We segregate these funds into what the Auditor calls, Trust and Fiduciary Funds.

The State mandates significant expenditures. This means requirements put on local governments which are supposed to be paid for by the local governments from local sources, such as their share of the sales tax or property taxes. The biggest of these are police pensions, liability insurance, worker's comp insurance and FICA. We've run multiple deficits in our budgets. Raw deficits over 6 years total \$1,786,669. These figures are of all governmental activities other than water and sewer enterprise funds.

Explanation of parts of the deficit:

- The differential between restricted funds and general funds is not separated out.
- The final sums include some depreciation and other "paper" expenses. And, at the same time, there are not entries for the principal paid back on capital expenses, which are accounting offsets.
- Some of the funds (such as MFT) were collected over two years for a larger road project, skewing the figures
- The positive balance in 2020 was due to an accounting entry for the cell tower sale. Without that accounting entry of \$886,586, the six-year raw deficit would have been \$2,673,255.
- No matter how you look at it, there is a serious issue needing correction when the Village has consistently spent virtually all its revenue to meet current needs.

The Village Board has adopted 3 formal resolutions over the past 11 years, setting up ways to conserve funds from specific sources and to both build reserves and spend part of the receipts for targeted purposes.

- 2010 – Landfill fees increased to \$1.00 per ton, half of the increase to go to a Reserve Fund, half to go to Capital Reserves.
- 2013 – Gaming revenue was directed to provide capital and reserve funds for the Fire Department.
- 2018 – A long term Strategic Reserve Fund was established, funded initially with the proceeds from the sale of the Cell Tower.

The 2010 Resolution was honored to some extent. Some Public Works projects were paid for, including the salt dome and storage barn. Nowhere near half, of the landfill money was actually put into this fund.

The 2010 resolution's reserve fund was never funded

The 2013 video gaming resolution was never funded

The 2018 cell tower resolution was funded, but \$700,000 of the funds were diverted to pay current expenses, leaving a balance currently of about \$189,000.

You can't fund reserves if you spend all of your revenue. The formal resolutions should have been honored. At a minimum, the Board should have received periodic reports from Finance and the Administrator about the use of these funds and what the balances were. That was not done.

You can't fund capital improvements if you spend everything on operations.

- A different, and perhaps better, way to think about the current situation is to first examine what our actual capital expenses are, then set it aside. After that, we can then see how much we have to spend on operations.
- This is similar to a home economy where the owner has a salary which goes first to pay the mortgage and utilities, then the owner can figure how much can be spent on discretionary items.

This is where we are:

- The revenue we gather from all of our sources is barely enough to pay our bills as they come due, and we borrow the balance, leaving nothing to spare.
- Some years we have a little more cushion, and others we use up that cushion.
- We have not had a "fat" year in a very long time.
- While we've seen revenues from sources other than property taxes increasing, they're not going up nearly as quickly as we need them to in order to offset increased expenses for the cost of labor and goods.
- Increasing property taxes is obviously extremely unpopular, although our tax rate is currently about 11.97% of EAV, comparable to many other communities in Lake County. It is significantly lower than the rate in Zion, which runs in excess of 16%. The Village receives about 11% of the total tax bill on a property. About 69% goes to schools. The EAV is supposed to be about 1/3 of the market value of each parcel. The Village's actual tax amounts to, about 0.036% of the nominal market value of each property, subject to reductions for homestead, senior, disabled, veteran and other exemptions. So, a property randomly selected from those on Fulton Avenue, with a nominal market value of \$103,395.00 paid \$372.20 to the Village in tax year 2020. Their total tax bill was \$3,161.32.

The Landfill:

- SWALCO figures that there are about 5,500,000 tons of capacity left under existing licensing and the pending expansion plan would provide another 14,500,000 tons of capacity, if approved.
- We don't get paid on all that tonnage, since our contract is tied to what the State gets, but that's a large fraction of the total tonnage.

Committee of the Whole Meeting Minutes 11/02/2021

- At current rates, this amounts to something like 20-30 years of revenue at about \$4-500,000 per year, but then nothing after that.

The Marina:

- There is a binding agreement with Westrec which requires them to pay 4% of gross revenues from boat slip fees to the Village. The agreement runs concurrently with Westrec's lease with IDNR, through 2042, and it can be extended by another 25 years after that. Revenues in 2021 so far have been \$45,791.44.
- We don't get sales tax on boat sales (unless the buyer happens to live in this Village), but we do for parts and equipment sales at Skipper Bud's.
- We collect sales taxes on food, drink and other retail services at the Marina.
- Due to State confidentiality laws, we cannot specifically quantify the sales taxes received from individual businesses. However, overall sales taxes throughout the Village increased from \$483,000 in 2016 to \$563,000 in 2020.
- That's encouraging, but we need a lot more than this to fund operations and rebuild key infrastructure.

Video Gaming:

- Across the board, the video gaming provides a total of about \$221,500 to the Village
- That's comparable to half the payments from the landfill and about 4 times what the Marina currently provides.
- Hopefully, by the time the landfill closes, revenues from the Marina and the video games will be able to make up much, if not all, of the lost host fees.
- But even if that hope comes true, it won't supply surplus for capital expenses.

Our Options:

- Keep going the way we've been and hope nothing seriously goes wrong because we don't have reserves.
- Significantly cut one or more services.
 - Police – contract with Sheriff or Zion
 - Fire – end fire services, become paramedic company
 - Recreation – go to facilities only/no programs model
 - Public Works – privatize water/outsource entire department
- Invest in our future.

Invest in the TIF District:

- The best option we have to attract new businesses is to improve Sheridan Road and offer incentives. New retail and restaurants pay property taxes and sales tax revenues, as well as provide life to the downtown area. But they need a solid customer base.
- Right now, we have incomplete and antiquated water and sewer lines on a major, newly improved highway.
- We get about 12,500 vehicles a day on this road and we have about 1,000 daytime residents. This just isn't enough people to attract major chains.

- Infill housing, like 4 story condos and senior housing can pay property tax revenues, while limiting the impact on schools and provide daytime population to support local businesses.

TIF sets aside the growth of property taxes in a given area and allows that money to be used to rebuild infrastructure or provide incentives to businesses. 101 Sheridan is a prime candidate. It's a large parcel and currently has zero assessed value. All taxes it may generate will go into the TIF fund and can be used anywhere in the TIF district. If 101 Sheridan results in a development worth say \$3,000,000, it will then pay property taxes of \$120,000 a year to the TIF fund. The TIF will last until about 2040, allowing it time to collect a significant amount of money.

We need to turn our investment at 101 Sheridan soon, but there's no sewer and water on the site, so it's been impossible to market. The TIF alone won't produce enough funds to extend the utilities anytime soon. We need about \$350,000 to run the lines from 3rd and Sheridan to that site. We can use ARPA funds for that, then we can market the property. Proceeds of the sale can go into the General Fund, while the property taxes go into the TIF Fund. None of this burdens local taxpayers and we're using restricted funds appropriately.

The deficits mostly come from overly aggressive borrowing with unrealistically short payback periods. A second reason is spending too much on operations without having set aside enough to cover capital expenses. Most of our debt is being paid off over the next couple of years, and if we're much more careful and methodical with borrowing, and if we keep a lid on routine spending, the deficits should disappear.

Concrete steps to take going forward:

- Insist on matching performance to budgets on a continuous basis.
- Demand to know how capital purchases will be paid for.
- Determine what our "floor" spending is and set that aside in every budget, along with a cushion.
- Only spend as much as can reasonably be expected to come in over the floor spending.
- Set aside the 3 existing resolutions and establish on rock-solid reserves resolution, then stick to it.
- Never, never spend more than we take in.
- Borrow carefully-always within set and well-considered debt tolerance levels.
- Use the TIF and grants carefully and leverage them to achieve meaningful, game-changing goals.

Now it's the Boards turn to take this information and make appropriate decisions for our community's future. We need to list the Revenue Realities, the Vision for the Future and the Goals or steps to take to achieve these goals. There needs to be transparency, communication, honesty and rules.

ADJOURNMENT

1 - A motion was made by Trustee Weiss and seconded by Trustee Hargett to adjourn the meeting. Mayor Bruno declared the meeting adjourned at 9:19 p.m. on the following roll call vote:

Ayes: (3) Hargett, McCarthy, Weiss
Nays: (0)
Absent: (3) Levin, Marabella, Whitmore
Passed: (0)

APPROVED:

DR. MICHAEL BRUNO, MAYOR

ATTEST:

JULIE RITTENHOUSE, VILLAGE CLERK

Note: This is not a verbatim record.