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**MINUTES**

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**JOURNAL OF THE PROCEEDINGS  
FINANCE & BUDGET COMMITTEE OF THE WHOLE  
BUDGET HEARING**

City Hall - Council Chambers  
505 Butler Place  
Park Ridge, IL 60068

Monday, April 2, 2012

Ald. Knight called the meeting to order at 6:30 p.m.

**I. ROLL CALL**

City Clerk Henneman read the roll call. The following Elected Officials indicated their presence at the meeting: Ald. Sweeney, Di Pietro, Smith, Raspanti, Knight and Ald. Bernick and Mayor Schmidt. Ald. Maloney was absent. There was a quorum.

**II. COMMENTS BY ALDERMAN KNIGHT, CHAIRMAN OF THE FINANCE & BUDGET COMMITTEE**

"I have some comments about the budget and documents before us. After my comments, we will go immediately out to the gallery for comments and / or questions and then come back to the Council. If there is anything further to discuss among the Council we will take that up and then adjourn.

First, I'd like to acknowledge and thank the staff for their efforts during this budget cycle. As has been previously said the process of the compilation of this year's budget was different than in years past so everyone's effort toward making it work has been greatly appreciated. Overall the process went pretty smoothly but there are areas where we can improve and I will hope we can take that up in advance of the next budget. I'd ask any staff member or Alderman if they have observations or ideas on how we can improve the process to submit that to the Finance Director or me as soon as practical.

The Aldermen must be acknowledged for the time and effort they put into this budget process. With 5 new Aldermen and a completely revamped budget process we met more than 10 times for specific budget meetings or otherwise during regularly scheduled meetings. The hours put in for the meetings alone were significant and that doesn't account for preparation and the like. The budget is one of the more significant undertakings we have as Aldermen and this budget cycle proved why.

Finally, I want to specifically acknowledge our Finance Director, Ms. Stutts. Simply put and I think obviously, we would not have accomplished what we did over the last few months without her significant effort to provide us with the data, information and direction we needed to forge this budget. Ms. Stutts also helped keep us focused and on task which is no small undertaking when you are dealing with a City Council of 7 individual Aldermen and a Mayor... not to mention the myriad of City Staff.

I am going to address the budget in a three-step manner. First I'll comment about the 2012/13 overall and General Fund budgets that will be voted on later this evening. Then I will address the last several fiscal years leading up to this year's budget process. And finally I will address the set of projections we have for the next two fiscal years out.

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## **2012/2013 Budget**

The overall budget for 2012/13 calls for revenue of \$60.523 million and expenditures of \$64.893 million. This results in an overall deficit of \$4.370 million which is largely driven by deficits in non-general fund accounts where in some manner or another we have accumulated significant sums and are spending existing fund surpluses or monies collected for specific capital projects.

Making up the total \$4.370 deficit includes, among other amounts, individual fund deficits of \$2.374 million in the sewer construction fund, \$941,000 in the parking fund, \$620,000 in the water fund and \$552,000 in the library fund. At present, this Council has agreed that the projects associated with these funds and the 2012/13 fund deficits they create are appropriate.

This Council has agreed that the General Fund and its health should be of particular emphasis and importance and that is where we spent much of our time during the budget process. This is because the General Fund is essentially the City's main operating account or, in household terms, our regular checking account.

The 2012/13 budget for the General Fund calls for total revenue of \$30.614 million and expenditures of \$30.159 million. The total revenue collected is supported by a December 2011 overall property tax increase that was 3% higher than the 2010 levy. The result of our planning is a 2012/13 surplus of \$455,000. If we could stop the discussion here we might say "that sounds good" but unfortunately there is more to the story. Despite the fact that we are projecting a \$455,000 General Fund surplus for 2012/13 we are projecting that we will see our General Fund unreserved fund balance – that is essentially our actual cash balance – reduced by nearly \$310,000 from \$3.056 million to \$2.739 million at the end of 2012/13. This is because for every year since its inception and until it is retired the City's General Fund must support and pay for any annual Uptown TIF deficits and for 2012/13 the TIF is projected to have a deficit of \$773,000.

And so we have all the facts, the projected 2012/13 General Fund unreserved fund balance of \$2.739 million is only 36% of its target, which target is a mere 3 months of operating expenditures. We are at about one month of reserves on hand.

So in a nutshell, for the General Fund, 2012/13 is a true "good news / bad news" scenario. The good news is that we are planning for a healthy annual General Fund surplus - \$455,000. But the bad and really sobering news is that we are projecting that the TIF debt will continue to erode our General Fund cash position due to its continuing annual deficits so that at the end of the 2012/13 year we have only \$2.739 million cash on hand in the General Fund which is only 36% of our target balance.

### **General Fund – How Did We Get Here?**

As said previously, for this Council the stability and health of the General Fund was of particular concern as we navigated through the budget process over the last few months. During that time as I have talked to other Aldermen and residents alike I have been asked many times: *how did we get here?* Given the piecemeal way in which we budget the answer is not as simple as any of us would like. That said, I asked the Finance Director to help me try to boil an answer down to something understandable and I think the two pages (the set of numbers and the chart) labeled General Fund Historic Performance are instructive.

Focusing on the chart and looking back to the 2005/06 fiscal year we can see that coming forward to the end of our current fiscal year, 2011/12, we had deficits in 4 separate fiscal years that totaled \$10 million, we had a surplus of \$6.4 million in 2006/07 – due to the sale of City owned property related to the Uptown TIF - and finally in the two most recent fiscal years we show surpluses of an estimated \$260,000. So, over the timeframe since 2005/06 we have had accumulated deficits in the General Fund of \$3.6 million and an associated degradation of unreserved cash in the General Fund of the same amount. Again, this leaves us with an estimated cash balance of \$3.1 million at the end of the current fiscal year versus a target of \$7.3 million. The point here is that this didn't happen overnight but was allowed to occur over the past several years.

Some have said that we shouldn't be considering an overall tax increase of anything much more than the 4% we have averaged annually since the 2005/06 fiscal year. It seems somehow or another that this has become a target or a norm. What needs to be recognized is that over this period when we have maintained overall property tax increases averaging 4% is that we have also degraded our cash balance by \$3.6 million. So, in a sense, this 4% to 5% target or norm has been a fallacy. Because if the City had been honest with itself over this time period

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while maintaining such relatively low year over year increases in the property tax rate it would have been raising revenue or reducing expenses elsewhere and it didn't. The result is the uncomfortable situation we now find ourselves in.

### **What Lies Ahead?**

Continuing with a focus on the General Fund in particular and looking beyond the 2012/13 year as budgeted we can see what one might call a disturbing trend. In both the fiscal years 2013/14 and 2014/15, based on some reasonable assumptions, we can see that with overall property tax increases of 11% and 4% respectively (that for the December 2012 and December 2013 levies) we just manage to balance the General Fund by \$57,000 and \$1,300 respectively. All other things being equal we still need to fund the Uptown TIF deficits over those two years that are projected total nearly \$1.1 million. In the absence of any other actions, if we allow this, we risk degrading our unreserved General Fund fund balance to \$1.7 million or a mere 21% of its target. That is less than one month's projected expenditures.

(And as a side note for those who may not be aware it is probably "fair" to estimate that the City's portion of a total property tax bill is currently in the range of 10% to 12%. So an 11% increase in the City's portion of a homeowner with a \$10,000 tax bill might be as much as \$133 or 1.3%. Said different, any 10% increase by the City should raise a typical tax bit by 1.0% to 1.2%)

For those advocating a more modest overall property tax increase for the December 2012 and 2013 levies the math tells us that year over year tax increases of 4% to 5% for these two upcoming levies would reduce the unreserved general fund balance to about \$0 – it would wipe it out. No tax increases at the time of the next two levies would take the balance negative to something in the range of \$1.5 million. This obviously would not be prudent in the absence of some other realistic planned actions to raise revenues or reduce expenses.

And while we don't have a full set of projected budgets for the fiscal years beyond 2014/15 all one needs to do is look at the projections for the Uptown TIF to see that it projects annual deficits out to 2021/22 ranging from \$700,000 to \$1.5 million to the point where it will owe the City more than \$13 million. And if it comes from nowhere else that \$13 million needs to come from the general fund.

Clearly something has to give.

I don't think there is any magic bullet that will solve this dilemma for us. This is likely and unfortunately going to take some combination of ongoing property tax hikes, ongoing revenue enhancements outside of property tax hikes and ongoing cost cuts.

When the Council started this year's budget process it became apparent that we were taking a three step process.

In the short term we needed to forge a one year budget for 2012/13... done.

Secondarily we needed to take a look out two short years to see what a reasonable look at the short term had in store for our unreserved General Fund fund balance. We have done that and the outlook is somewhat troubling.

And finally we needed to take a longer term look at and start to figure out how we solve for the looming and unrelenting requirement that the City fund the TIF's projected annual deficits. This needs far more time and attention that we could afford during this budget process. We need to come back to this quickly and with some urgency.

Recapping, to a great degree we have taken care of the first two steps we now must turn our collective efforts to the important final step – how we deal with the General Fund's obligation to fund the Uptown TIF's projected deficits. This will be no small task and it will take the collective effort of the City Manager and the City Staff along with the elected officials. All Park Ridge residents can and should participate as well by contacting or meeting with their elected official and letting them know where they stand on decisions about the important matters that we will address as we take up this challenge."

### **III. CITIZENS WISHING TO BE HEARD**

George Kirkland (1909 Des Plaines) supports the 11% increase and believes the number may be too conservative. He expressed more concern for where the money is going. He questioned if the specific reason for replacing sewers was due to the City's neglect of maintenance. Unless the City is at fault, he views this project as

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a specific interest, not a common good. Public Works Director Zingsheim explained that the study needed to be performed to find out where improvements were required. He indicated that the Sewer Lining Program is maintenance that has been pushed aside for many years. The Sewer Improvement Program addresses the redirection of abundant water in smaller rainstorms. Furthermore, Mr. Kirkland questioned if the cash flow is worse than what has been presented. Ald. Knight provided an explanation which included the unreserved general fund balance. Ms. Stutts assisted with the explanation which proved to satisfy Mr. Kirkland. In closing, Mr. Kirkland requested that the City's money be used wisely.

**IV. ADJOURNMENT**

The meeting adjourned at 6:47 p.m.

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Transcribed by  
Cheryl L. Peterson, Deputy Clerk

Approved by the Council this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_.

Attest:

\_\_\_\_\_  
Daniel Knight, Chairman

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Betty W. Henneman, City Clerk