

FINANCE AND AUDIT COMMITTEE
McHenry County Government Center – Administration Building
667 Ware Road
Woodstock IL 60098

MINUTES OF MONDAY, OCTOBER 17, 2011

Mr. Breeden, Chairman called the meeting to order at 9:30 a.m. The following Committee members were present: Scott Breeden; John Hammerand; Jim Heisler; Mary McCann; and Tina Hill. Bob Bless and Mary Donner were absent. Also in attendance: Pete Austin, County Administrator; Ralph Sarbaugh, Associate County Administrator-Finance; John Labaj, Deputy County Administrator; Pam Palmer, Auditor; Dennis Sandquist, Planning and Development; Kathie Schultz, County Clerk; Cindy Kozlowski, Financial Analyst; Nick Provenzano, Kathleen Bergan Schmidt and Ersel Schuster, County Board Members; and the press.

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| Scott Breeden, Chairman | |
| Bob Bless | Mary L. Donner |
| John Hammerand | James Heisler |
| Tina Hill | Mary McCann |

MINUTES

None.

PUBLIC COMMENT

Mr. James Reaves – McHenry, Mr. Steven DeBerg – Marengo, Ms. Julia Maddock – Marengo, Mr. John Maddock – Marengo, Mr. Jim Hanter – Hebron and Mr. Dale Nelms – McHenry, joined committee members to voice their support of the Lake and McHenry Counties Extension Service.

Mr. Reaves stated that he is the Director for Unit 3, Lake and McHenry County Extensions. The group just went through a reorganization of the extension service and the State joined the two groups together. They are now known as Unit 3. The State joined the groups because of the lack of resources and to hold down costs. They decided to implement four areas throughout the State. The groups are 4H, Community Development, Economic Development and Ag Resources. There is a State program where leaders and county educators are providing education in these four areas. If the County units have enough funds in their local budgets, they are responsible for the hiring of these educators. The Lake and McHenry County group had enough funds to support two educators. These educators helped with the 4H program, youth development and Family and Consumer Science. For the AG and Master Resources program they have to pay someone from other units to come in and train their support staff and volunteers. If there are any additional cuts to their budget they would most likely lose one of their educators. Right now there is enough in the budget to pay for rent, utilities and support staff and are barely getting by with what they have. Mr. Reaves appealed to the committee to not reduce this budget anymore. This County is largely an agriculture county. The group is mainly successful because of the U of I Extension and Soil and Water Service. The U.S. Department of Agriculture implemented these programs in the County in order to support farmland and the youth in the County. What they are doing now is asking for support to keep this entity in this County. He questioned what would happen if we had no youth at the County Fairs to show projects and animals. They are responsible for the education in the community regarding pesticides in the groundwater, streams and lakes. They are responsible for licensing of commercial landscapers and home gardeners. He stated that the County is unaware of all this group does. Mr. Reaves stated he will be more diligent for making sure updates are provided to the County regarding their programs in the future. He thanked the committee for their time.

Mr. Steve DeBerg from Marengo joined committee members and stated that he is a Master Gardner and Vice Chairman of Unit 3 Advisory County and also serves on the funding committee. He requested permission to read to letters to the committee. Mr. DeBerg coordinates a food pantry for Harvard where over 6,000 lbs of produce was provided, manned by the master gardeners. Without the current level of funding they would be unable to provide this service. The support is needed in order to continue to provide food to the food pantry. Other groups are looking to develop a food pantry garden and these groups are relying on them to provide this service. Without this funding they will be unable to do this.

Julia Maddock, a 12 year old 5th grader stated that she is in the fifth year of the program for 4H. Her experience has given her the opportunity to explore additional life skills. She stated that over the last few years, with the guidance of the 4H club she has raised rabbits, helped her family raise chickens which now provides eggs for the family as well as selling them and her turkey won grand champion at this year's fair. Her garden flourished with the help from 4H and the Master Gardeners. She asked the committee to not cut their funding on behalf of herself and her fellow 4H'ers.

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Mr. Maddock, Julia's father joined the committee to voice his support of the extension service and the programs offered. He stated that he knows this is a difficult time economically and the budget is under pressure. He asked that they look at the importance of this program before cutting the funding of this group. He stated that one of the things that attracted them to this county was the County's long-range plan, mix of agriculture and agriculture tourism that is moving forward. He asked who was going to "plan the land" if the services wasn't available. In the 4H program they train the leaders of tomorrow. Skills that are being lost today because of the cuts in the schools, this group helps fill this gap. Practical knowledge is taught, cooking, sewing, photography rocketry, computer science, robotics and small engine repair. They receive hands-on experience through this youth-run organization. They run official meeting and follow Roberts Rules of Order. He stated that he appreciates the support that has been provided in the past and ask that you prioritize these programs and maintain the funding for the coming year at their current levels. These funds impact matching funds that would be lost if further cuts are made. Mr. Maddock thanked the committee for their time.

Mr. Jim Hanter joined committee members to voice his support of the extension service. He expressed his sincere hope that no further cuts would be made to the extension service because of the effects this would have on the 4H club. He stated that this program provides youth leadership and opportunities for the children in the county. This program improves leadership skills, they provide community service and his group helped with the Master Gardeners program and are now helping at the Woodstock Food Pantry to unload their food shipments that are received every month. He asked for continued support of this program. He thanked the committee for their time.

Mr. Dale Nelms from McHenry joined the committee to voice his support of the extension service programs. He stated that is the President of the University of Illinois. He is also a Master Gardener. He was in 4H and has been a leader in the 4H program. 4H allowed him, coming from a small town, to be a part of the bigger world. His sons were in 4H and they have already been organizing to get ready for the upcoming fair. This program teaches kids life skills not taught elsewhere. What 4H does for these kids today will have an impact on them in the future. He asked that these kids not be shortchanges because of recommended cuts. Mr. Nelms thanked the committee for their time.

PRESENTATION

None

NEW BUSINESS

FY2011-2012 Budget Review: Mr. Austin and Mr. Sarbaugh joined committee members for review of the FY2011-2012 budget. They thanked the committee for the extra time provided in order to prepare the budget. Additional revenue was found and they made shifts within the budget. They are able to present a budget that includes meeting the requirements for the new judges, minimize the disparity between the union and non-union wages and providing a slight drawdown on the tremendous reserve that we have.

Mr. Breeden thanked Mr. Sarbaugh, Mr. Austin and Ms. Kozlowski for the tremendous amount of time they have put into working on this budget. They got a lot done that they were not capable of doing in the past. They are now able to look at the future with a different perspective. They are able to look at the reserves in order to determine how to use them. He stated he is a firm believer that they are there for a reason. He thinks they are being very aggressive with regard to how the funds are being used and before the year is over, they may have some other suggestions for future projects. He wanted to make sure the committee understands all the future impact we have with regards to the reserves. There are some things out there in the next three to five years that have to be addressed. He stated that he doesn't want those issues to be a surprise to anyone on the County Board and the public. He asked if there were any questions pursuant to the budget.

Mr. Hammerand made a motion, seconded by Ms. McCann to reinstate the funding for the extension service (4H) budget. Ms. Hill stated that she does not think anyone could have said it better than the guests in the audience. Mr. Breeden noted that the Boy Scouts and other groups fund themselves. We have to think about what the role of the County is in terms of some of these other groups. The motion carried with all members present voting aye on a roll call vote (Hammerand, Heisler, Hill, McCann, Breeden)

Mr. Hammerand questioned how the general fund is regarding the outstanding debt on the courthouse remodel bonds. He questioned if these work in the retirement of these bonds. Mr. Sarbaugh stated that no, the underwriter

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will bring several different options for the committees review. When the County Board wants to retire these bonds a resolution will be brought forward and the funds will come out of the reserve. Chairman Breeden noted that we will address this prior to the end of the year. It is incumbent for us to bring to Mr. Hammerand what the impact is to the county as well as what the costs will be to reduce these funds.

Mr. Hammerand questioned if the budget includes any debt payments. Mr. Sarbaugh responded that yes, out of the reserve. Mr. Hammerand stated that he hopes the debt payments are being addressed. He questioned whether we should make the debt payments out of the reserve or retire the debt. He asked if this would be a decision made by this committee or the County Board.

Chairman Breeden stated that debt retirement is not in the budget, but, debt payments are. Ms. Hill questioned if we will continue with these payments or are we retiring any debts. Chairman Breeden stated that the two bonds that were discussed do not bring us to where we could have a balanced budget. We still don't have all of the information about the bonds we want to reduce. In order to present time wise, a balanced budget, this is the approach to take. They will reduce a couple of the bonds with the reserve prior to the end of the year. Chairman Breeden stated that as we move forward to retire the debt, we have to have a picture of what we are responsible for and what the requirements will be for the next three to five years. A projection of what is money going to cost in these three five years with respect to requirements have. With the added judges and many unfunded situations coming our way we need to review these future needs. We need to take some of the reserves and target two bonds to eliminate. He asked that they look at reducing those and review how other reductions may impact our future. Mr. Hammerand reminded the committee members that the county is making some large debt payments yearly. There is a lot of interest in our ten year plan. He noted that he would like to see the 2003A debt paid off because of the large amount of interest on this debt. He stated he is looking for a certain time when this will be discussed and a decision made. Mr. Sarbaugh stated that he believes the County's bond Council; Eric Anderson would probably be available to discuss this at the next Finance and Audit Committee meeting. Chairman Breeden questioned if this should be placed on the agenda.

Ms. Schuster questioned what the total amount of the debt payments coming out of the debt reserve? Mr. Sarbaugh responded that 1.7 million would come from the reserve. Ms. Schuster questioned if we were still living off the cash reserve. Mr. Sarbaugh responded yes.

Committee members reviewed the budget highlights. They were reminded that due to the reinstatement of Extension Funds the budget will now be adjusted by \$30,000. Of the \$254 million, \$8 million of that is the Valley Hi principal payment. The outstanding \$9 million will be paid off. If you take away the yearly annual payment that would have been made on January 15th for the annual payment, the balance is \$8 million. If you pull the \$8 million out of \$254 million this brings the budget down to \$245-246 million. Last year's budget was \$249 million. Ms. Hill stated that means that over the past two years the budget has been reduced by \$11 million. Mr. Sarbaugh stated that was correct. Mr. Austin stated that we are not growing the budget. Between August 1, 2001 and February, there are 15 fewer positions in the County, though they will be adding a couple positions in this budget.

Mr. Sarbaugh noted that the general fund budget is highlighted in green on top. Expenditures are in orange. The budget has grown \$2.4 million over last year. \$984,382 is for the health insurance coverage on employees and \$102,375 is for the required additional election costs because 2012 is a presidential election. Mr. Sarbaugh stated that he wants to point out, if you take away the increases that were approved via the supplemental, the increased costs of insurance, elections, union negotiated increased and the amount set up for non-union employees the general fund budget declined from the previous year by \$488,735. We are not growing the budget and the numbers reflect that. The only way the budget is growing is by what has been presented and what the board has approved.

Ms. Schuster stated that about one month ago we were told you were hunting for \$1.8 million dollars and we were still in debt by the same amount. She questioned what changed and how did we save some of these funds. She asked what the increases were and asked to be provided a rundown of what occurred. Mr. Sarbaugh provided a handout with a summary. Ms. Schuster questioned what caused the \$2.5 million reduction from 2011 to 2012. Mr. Sarbaugh noted that back in August when the budget was first presented we did not use the reserve for any debt service payments. When the Finance and Audit Committee gave the consensus to move ahead with this. Administration was able to then balance the budget. Mr. Austin stated that reviews were still taking place in order to find additional revenues and cuts. This was \$1.7 of the \$1.8 million. When the budget was first put together,

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they were using the July employee rosters for the personnel section. When we reviewed the numbers in September there was some turnover so some of these costs were reduced. The supplemental awards are of the new positions because of the new judges, administrative assistants, court security and bailiffs.

Mr. Provenzano voiced concern over the difficult situation with this budget. If the County Board is going to take from the reserve to service out our debt, then they want to plan to possibly take more from the reserves to pay off more debt, that may work for a short period of time but what we are doing is betting on the hope that the economy turns around. If the revenue does not turn around how will we strengthen up our reserves?

The amount of spending, whether mandated by the State or from programs that we participate in, what this budget represents does not appear to him to be sustainable on the current course to fund it through the revenue streams we incur every year. We have some long term debt that costs a lot of money. We have affordable long term debt servicing agreements every year. When we left the COW meeting last week we heard we may pay off some of the debt service from the general fund as well as pay off some general bonds, now he is hearing we may do both. They questioned Mr. Sarbaugh if we can afford to do both and still have, not just a cushion of the cash reserve we need, but some cushion next year in case the economy doesn't grow and instead gets much worse.

Mr. Sarbaugh stated that it is his professional recommendation to the Finance and Audit Committee that we use \$1.7 million dollars for the next seven years. It takes about \$7 million per month to run this organization. It is therefore his professional recommendation to this committee that if we only use the reserves to pay the \$1.7 million over the next seven year period, we would only draw down the reserves by one month. This is a very conservative approach and we would still have a strong reserve.

Moody's looks at how fast the reserve is spent down. In his opinion, he is concerned about paying off the principle and interest all at once because if we pay off the \$5 million before the end of the year and do a double dip, we can't go back to the back and ask for it back at 2% interest. He is recommending a very conservative approach.

Mr. Provenzano stated that his suggestion would be to do neither. Don't pay down the bonds with the reserve and pay down the debt. Look at the programs and the number of employees in this County as this will be the only way to have sustainable cuts and savings for the long term. He stated that he does not feel that the economy or incomes are getting any better.

Mr. Breeden stated that he agrees with this theory and approach though he questioned what is too much to have in the reserve. The reserve will continue to grow. His concern is that we need to start looking at reducing the size of government. He has not seen one committee come up with a reduction. He has not seen one committee make a difficult decision with what staff has been asked to work with. You can come to this committee and state you want to reduce government but our job is to fund those projects and everything that is brought before a committee and the County Board. He stated that is his job. Now it is their job to find out how we can finance what you guys want to have done. This issue goes back directly to the committees and until they make a decision to say no to some of the requests, the budget will increase. Committee members stated that this is not a decision to be made and they need to keep this discussion toady on the budget and not on theory. Our job is to fund what you have requested and to make sure what you requested is in the budget. It was stated that they need a concurrence in order to move the budget forward.

Ordinance Authorizing the Annual Appropriations for FY11-12 Budget (not in packet): Ms. Hill made a motion, seconded by Ms. McCann to recommend approval of the Ordinance Authorizing the Annual Appropriations for FY11-12 Budget (not in packet). The motion carried with all members present voting aye on a roll call vote (Hammerand, Heisler, Hill, McCann, Breeden)

Ordinance Providing for the Levy of Taxes for McHenry County for Fiscal Year December 1, 2011 through November 30, 2012 (not in packet): Ms. Hill made a motion, seconded by Ms. McCann to recommend approval of the above Ordinance as presented. Mr. Hammerand questioned if this reflects a 1.5% increase from last year. Mr. Sarbaugh noted this is correct. The motion carried with four ayes (Heisler, Hill, McCann, Breeden) nay (Hammerand)

FUTURE TOPICS

None

Approved 11 8 11

EXECUTIVE SESSION
None

ADJOURNMENT

Noting no further business, Ms. McCann made a motion, seconded by Mr. Hammerand to adjourn the meeting 10:35a.m. The motion carried with all ayes on a voice vote.

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RECOMMENDED FOR BOARD/COMMITTEE ACTION:

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