



Patrick E. Kitching  
Mayor

# Village Of Alsip

**FOR IMMEDIATE RELEASE**

## **ALSIP'S ECONOMIC FORECAST- PASSING THE BATON TO A NEW ADMINISTRATION**

### **Fiscal Year 2017-2018**

(Alsip, IL. March 2017) -In order to paint an accurate picture of our village resources and finances we first must examine our past; when I became Mayor in 2005 we had a little over \$800,000 in our General Revenue Fund. The accounting practices inherited were disorderly, uneconomical, and lacked transparency. The small amount we did have was reserved to pay off bond debt- we did not have a secure financial outlook ahead of us. My administration immediately worked at improving our long term debt and got the situation under control. Due to these financial cleanup efforts, Alsip was able to achieve a coveted DOUBLE A (Aa) bond rating. This means Alsip was able to borrow money at lower interest rates- I am most proud of this outcome.

Unfortunately, our current state of finance is not so positive. The Village is being negatively impacted through several different factors. Our financial consultants (Kane, McKenna Capital, Inc.) provided a stark reality of our Village finances (attached). They stated that Alsip's current and future revenues are not enough to support our expenses, pay our large pension obligations or fund our "other post-employment benefit liabilities" (OPEB). This is a glaring reality Alsip faces and many other communities as well. We simply do not have enough revenue to cover our expenses- pension obligations are all consuming.

Let me be clear, Village trustees are responsible for our financial and legislative decisions. The Mayor is only able to vote on board to break a tie. I am informing you of this reality because the future of Alsip will need resilient officials and residents that exemplify courage, are capable of collaboration, and **WILL** make the changes needed to address this problem successfully. Residents will need to become proactive and hold the Village board accountable. Below are blunt **FACTS about Alsip's financial** situation that needs community attention **NOW**:

- ✓ Alsip has been downgraded to a rating of Aa2, this will further decline without change. This means, any money borrowed will cost more.
- ✓ The Village board has control over "post-employment benefit burden" but has failed to act.
- ✓ The Village board has control over the "pension burden" but has failed to act.
- ✓ The Village board needs to "increase revenues to provide for the shortfall" but has failed to act.
- ✓ The pension and OPEB expenses will erode funds for operating (less services and staff).

All members of the board have been aware of this financial condition since 2015. **NOT ENOUGH ACTION** has been taken to correct this serious situation. In December of 2015, I requested the current elected board of trustees assist in making the tough decisions needed to begin to rectify this problem (see attachment). I received little to no support or consensus - nothing was ever brought to a vote by the board to begin any processes.

Instead, the board majority took fiscally irresponsible and counterproductive measures by making major increases in select nonunion staff salary and benefits. In addition, was a **FULL REJECTION** of the request to reduce the stipend of both the future Mayor and Trustees.

The Board has now passed two unbalanced budgets and they continue to deficit spend. We cannot keep the current state of services to the public **AND** pay our bills. You will need to decide if a reduction in services is needed (Police, Fire, Public Works, and Water), increase rates over time slowly, or continue to erode our financial health by deficit spending.

Respectfully Submitted, Mayor Patrick E. Kitching

 **MEMORANDUM**

**To:** Kent Oliven  
**From:** Kane, McKenna Capital, Inc.  
**Date:** February 24, 2017  
**Re:** **Moody's Rating Review – Credit Opinion**

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The recent credit review of the Village of Alsip's (the "Village") outstanding general obligation bond debt by Moody's Investor Service ("Moody's") was part of Moody's annual financial review process. The annual process commences by Moody's review of the Village's audited financial statements and entering in the fiscal years financial in their rating model. If the results of the initial review of the audited financial statements reflects results that are not in line with the current credit rating for the local government, an additional review is then done by a credit analyst. The credit analyst then does a more extensive review which may entail a discussion with the local government. Upon completion of the credit analyst's review, a committee within Moody's then determines whether there is a change to the rating.

The Village was selected to undergo this additional review primarily due to the significant growth in the Village's pension benefit and other post-employment benefit liabilities and the rising costs that relate to those liabilities. Moody's requested to have discussions with the Village and us relating to the Village's economy, tax base, the Village's current and future financial profile which included discussion of current and future revenues and expenses and pension obligations. Included in those discussions were descriptions of the actions that the Village had undertaken to begin addressing the significant pension and benefit and other post-employment benefit liabilities. The credit analyst acknowledged that the Village had undertaken significant positive steps towards addressing the pension issue by creating a plan and undertaking certain actions but was still concerned about the amount of the liabilities.

It should be noted that only the Village's bonds that were issued through 2010 are currently rated by Moody's (together with Standard & Poor's). The general obligation bonds issued after that date were solely rated by S&P after it was determined that the additional cost of having two ratings was not necessary. The current S&P rating is AA.

The current Credit Opinion of Moody's reflects a downgrade from a credit rating of Aa2 to Aa3. The downgrade appears primarily due to the Village's considerable growth in pension and other post-employment benefit burden and the rising costs related to such burden. The following are some thoughts on Moody's comments in the Credit Opinion (statements in parenthesis are additional KMC comments):

MEMO  
Page Two  
February 2, 2016

- 1) The Village's credit strengths are the strong fund balances and liquidity and the flexibility allowed under home rule authority (i.e. flexibility to raise revenues);
- 2) The credit challenges identified included the post-employment benefit burden and the costs related to fund that burden (a challenge the Village has control over);
- 2) One of the factors that could lead to an upgrade is a moderation of the Village's pension burden and OPEB (i.e. legislation that decreases the burden, additional funding sources are identified);
- 3) A factor that will lead to further downgrades is a further increase in the pension burden and OPEB (the underlying message is that the Village continue addressing this burden or another downgrade could potentially occur);
- 4) Moody's noted that a representation was made that the Village intended to deposit funds into an OPEB trust to begin funding the other post-employment benefits (the mention by Moody's implies the importance of the representation);
- 5) The Village's post-employment benefits burden is high and growing (the ratios have been moving in the wrong direction);
- 6) The fiscal 2016 pension contributions were \$4.5 million and a high 20% of operating fund revenues (concern that pension contributions will take more of operating revenues and leave fewer funds for other operations without the Village increasing revenues);
- 7) In fiscal year 2016 the Village was nearly \$300,000 short of the amount needed for both plans to "tread water" (Moody's calculation of break-even) to forestall growth in the unfunded liabilities. The current plans to increase the contributions are still likely to remain short of the amount needed to tread water (the implication is that the Village needs to continue to increase revenues to provide for the shortfall); and
- 8) The Village currently expends 4.3% of operating revenues for OPEB. The current plan for OPEB is to establish a trust and with the new revenues and expenditure reductions the Village expects to set aside \$23 million in the trust by 2023 (viewed as a positive step towards addressing the OPEB liability and reducing the need to pay for such costs from operating revenues).

The discussions with Moody's and the comments in the Credit Opinion reflect that the officials and management of the Village has created a plan and undertaken positive steps to begin to address the pension and other post-employment benefit underfunding. However, the implication is that additional steps to address the liabilities need to be undertaken to maintain even the rating of Aa3. Had the Village not undertaken to creating the plan and actually taking the positive steps, it is likely the Village could have received a further downgrade from the Aa3.

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**VILLAGE OF ALSIP  
MINUTES OF  
BOARD OF TRUSTEES MEETING  
DECEMBER 7, 2015**

Mayor Kitching thanked the Girl Scouts for their holiday ceremony and for serenading the Board.

Mayor Kitching called the meeting to order at approximately 7:30 p.m. Clerk Venhuizen called the roll with the following in attendance: Trustees Shapiro, Dalzell, Ryan, Michaels and Dwyer, Mayor Kitching and Village Attorney Kathleen Elliott. Absent: Trustee McGreal.

MAYOR'S REPORT: Mayor Kitching reported: 1) Read into record the Village of Alsip's Economic Recovery Considerations: "Please let it be known that the contents of this list are actively discussed with all or some of the following on a regular basis: Finance Department, Department Heads, and Trustees. This list is part of a known and ongoing conversation to aid our financial future and it is believed we have covered most or all of the options. The next step is making decisions...

As some Trustees have stated recently and publicly 'there are other avenues we can take outside of a property tax increase to fix our finances'. In past Trustee political campaigning it was a popular slogan/pitch to say to our public 'vote for me as I can make the tough decisions'. Now is the time for tough decisions - Let's explore...

Trustees, please use this as a worksheet to check off the areas you are interested in considering and return it to my office. Ultimately, high finance is in the hands of the Village Trustees as you will, hopefully, be voting on constituting several subjects off this list in the very near future.

I would appreciate a response in a timely manner and would like your worksheets back no later than December 21<sup>st</sup> as the urgency and importance of this matter is high.

- Charge full price for Trash pickup (most towns do/approx. +\$500K in revenue)
- Institute a Retail Business Tax
- Raise Water Rates
- Raise Vehicle Sticker Fees (not touched in more than a decade)
- Remove Discounts regarding Vehicle Stickers
- Ask each department to cut their budget by 10% in this FY
- Raise our home rule sales tax from ¾% to 1%
- Institute a restaurant tax (most towns have this)
- Institute an entertainment tax (most towns have this)
- Institute a tax on natural gas (most towns have this)
- Institute a tax on electricity (most towns have this)
- Increase the cost of ambulance services
- Remove the IMRF option for Part Time elected officials
- Eliminate retiree healthcare for new hires
- Establish a Medicare wrap account
- Offer a Medicare stipend option for Non-Medicare Retirees
- Close Fire Station #2
- Reduce the Police Force by half
- Add a red light camera to 115<sup>th</sup> and Cicero (high accident rate intersection)

- 49 • Raise Property Taxes
- 50 • Sell Heritage Complexes
- 51 • Impose a Village Hiring Freeze
- 52 • Raise initial Liquor License Fee (now at \$5000.00)
- 53 • Raise fees for Storage Facilities
- 54 • Raise/impose fees for the Flea Market
- 55 \* Partner with other towns for dispatch services (required by law since we do not have a large
- 56 enough populous to carry on our own)
- 57 \*\* Raise/impose Liquor License Fees (Application fee, change of manager, renewal)
- 58 \*\* Raise Gas Tax (already completed this – will produce \$250,000 for Road and Bridge fund).
- 59 (\*= in the works, \*\*= completed)

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61 Please understand, (although hopefully I do not need to point this out), it will take a multitude of  
62 selections from this list to support the financial future of the Village of Alsip both in our current state  
63 and long-term. Respectfully, Mayor Patrick Kitching”

64 Mayor Kitching advised that there is a pension crisis statewide. New accounting practices will require  
65 us to put all liabilities on the balance sheet, which will not look good in the next few years. This year  
66 Alsip will be alright since we underestimate our revenues and never spend the full budget, nor have we  
67 ever since he has been the Mayor. The State of Illinois has been holding back revenues. A Senate Bill  
68 was passed this morning and signed by the Governor that will free up monies that are due the Village for  
69 the 911 Board, Motor Fuel Tax money and gaming and will be distributed to the municipalities.

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**Trustee Name:** \_\_\_\_\_

**Date Returned to Mayor's Office:** \_\_\_\_\_

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- \_\_\_\_\_ Remove Discounts regarding Vehicle Stickers
- \_\_\_\_\_ Ask each department to cut their budget by 10% in this FY
- \_\_\_\_\_ Raise our home rule sales tax from ¾% to 1%
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# Village Of Alsip

- \_\_\_\_\_ Increase the cost of ambulance services
- \_\_\_\_\_ Remove the IMRF option for Part Time elected officials
- \_\_\_\_\_ Eliminate retiree healthcare for new hires
- \_\_\_\_\_ Establish a Medicare wrap account
- \_\_\_\_\_ Offer a Medicare stipend option for Non-Medicare Retirees
- \_\_\_\_\_ Close Fire Station #2
- \_\_\_\_\_ Reduce the Police Force by half
- \_\_\_\_\_ Add a red light camera to 115<sup>th</sup> and Cicero (high accident rate intersection)
- \_\_\_\_\_ Raise Property Taxes
- \_\_\_\_\_ Sell Heritage Complexes
- \_\_\_\_\_ Impose a Village Hiring Freeze
- \_\_\_\_\_ Raise initial Liquor License Fee (now at \$5000.00)

\*Raise fees for Storage Facilities

\*Raise/impose fees for the Flea Market

\*Partner with other towns for dispatch services

\*\*Raise / impose Liquor License Fees (Application fee, change of manager, renewal)

\*\*Raise Gas Tax

(\* = in the works, \*\* = completed)

Please understand, (although hopefully I do not need to point this out), it will take a multitude of selections from this list to support the financial future of the Village of Alsip both in our current state and long-term.

Respectfully,

Mayor Patrick Kitching