

***Proceedings of the Council of the City of Joliet, Illinois
held on the 12th day of November, A.D. 2008***

SPECIAL MEETING of the Council of the City of Joliet, Illinois called for the purpose of reviewing the 2009 Budget held on Wednesday, November 12, 2008 at 4:00 P.M. in the Council Chambers, Joliet Municipal Building, 150 W. Jefferson Street, Joliet, Illinois.

ROLL CALL

PRESENT: MAYOR ARTHUR SCHULTZ and DISTRICT 4 COUNCILWOMAN SUSIE A. BARBER, DISTRICT 2 COUNCILMAN TIMOTHY M. BROPHY, COUNCILMAN AT LARGE THOMAS C. GIARRANTE, COUNCILWOMAN AT LARGE JAN QUILLMAN, DISTRICT 1 COUNCILMAN JOSEPH R. SHETINA and DISTRICT 3 COUNCILMAN ANTHONY UREMOVIC.

ABSENT: DISTRICT 5 COUNCILMAN WARREN C. DORRIS and COUNCILMAN AT LARGE MICHAEL F. TURK.

ALSO PRESENT: CITY MANAGER THOMAS A. THANAS, DIRECTOR OF MANAGEMENT AND BUDGET KENNETH R. MIHELICH and DIRECTOR OF FINANCE HUGH BRENNAN.

The City Manager advised that the proposed 2009 budget is balanced, but the City has seen the same dramatic increases in expenses and decreases in revenues as the national and global economies. He said those two changes along with the goal of not increasing any taxes and fees have resulted in a proposed budget that focuses on allocating resources for the basics in delivering municipal services to the City's residents.

The City Manager advised that Director of Management and Budget Ken Mihelich will be making a presentation analyzing the revenues and expenses and it will help us have a better understanding of where we're headed in 2009.

The City Manager noted that the City will see fixed expenses continue to increase including a \$6 million increase in pension contributions for police and fire pensions. He said regarding the funding of pensions, about three weeks ago we received a final number from the actuarial company to help us with that, and we are confident that's a number that we need to stick with.

COUNCILMAN SHETINA said on the pension funds, what happens when things get stronger and we get better revenues and income from the stock, etc. in the pension funding. He asked if we have to do the whole \$6 million now for this year.

The City Manager said we're actually looking at a fairly substantial increase next year too, probably about a 15% increase for the 2010 budget.

COUNCILMAN SHETINA said it's \$25 million now, and what would the base be next year.

The City Manager said \$25 million would be the base and we would probably add about 10% to that, maybe 15%.

COUNCILMAN SHETINA said so we need \$2.5 or \$3 million next year on a base of \$25 million.

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The City Manager said yes, and it's not all necessarily tied into the bad economy and the low return on investments. He said that's basically taking the new pension laws that have gone into effect over the last 5 or 6 years that have added benefits for the pensioners and we have also estimated the rate of return for next year. He said it was 7.5% in the 2008 budget and we've dropped that to 7.25% as a rate of return in 2009. He said in discussing this privately we think that's probably a little bit overly optimistic, but that's the best we could do this year to keep it at \$6 million. He said if we dropped it down to 7% that would have been another \$1.5 million contribution and we need to look at that going forward, so there will be substantial liabilities going forward with pension expenses over the next 25 years which is the target that's been given to us by the State to be fully funded for the pensions.

COUNCILWOMAN QUILLMAN asked why we didn't play catch up before if this has been in effect for the last 5 or 6 years.

The City Manager said we were basing our figures on the actuarial study that would come in and justify the contributions then, but we've seen a fairly substantial increase in the number of police and fire positions over the last 5 or 6 years. He said opening up a new fire station for example added a couple dozen employees, and also with police we've grown the department substantially over the last 15 years.

Director of Management and Budget Ken Mihelich said when we met with the pension boards back in March or April, they had pointed out the assumptions that were in those actuarial studies, and it was determined at that meeting by the actuaries, the administration and the pension boards that we needed to revisit those, and that study that Tom referred to actually had a large part in revising that amount. He said the \$6 million in additional contributions will be every year for about the next 25 years plus whatever happens, and the most recent developments in the market are not incorporated in that because these studies are dated January 1, 2007 in most cases.

COUNCILWOMAN QUILLMAN said even with the \$6 million it's still underfunded.

Mr. Mihelich said it is underfunded and it will be underfunded until the amortization period runs out 25 years from now, but it's kind of like a mortgage loan in that you always have a balance on there, but you're chipping away at it and we feel like we've made a very good stride with the pensions as far as determining what the size of that should be and how we're going to attack it.

COUNCILMAN UREMOVIC said in 2003 and 2004 it was underfunded and we can see the percentage increase for police in 2003 was 2.79%, the next year 2.09%, for the fire in the same two years it was 5.45% and 2.03%, so clearly these were underfunded substantially in those two years. He said at the same time, IMRF went up 8.3% in 2003 and 25% in 2004, so that was a real signal right there and a red flag that those should have been going up at the same pace, but they weren't, and what this does is drive down your funded level and increase your unfunded level, and when you look at this, you're looking at your service base, police, fire, street workers, other administrative offices, and every time your service base goes up by 1% you're going to have a compounding effect on your pensions, they'll go up 2% to 3%, possibly 3% to 4%, the same with your insurance, so this is what you're looking at. He said he thinks the City Manager is going to be telling you more about how these expenses all of a

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sudden start to mushroom even though you're not ready, but they're happening and have been for about 4 years.

COUNCILMAN GIARRANTE asked if the IMRF pension fund has the same restraints as far as investments that the fire and police pension funds have.

The City Manager said they do not, they have a different set of rules as far as what investment vehicles may be used by IMRF.

COUNCILMAN GIARRANTE said so that could very well be why there is a difference in the interest rate to answer COUNCILMAN UREMOVIC'S question.

The City Manager said yes, IMRF has a huge pool of money to deal with comparatively speaking to the fire and pension funds that we have locally. He said there is no such thing as a state-wide police pension fund or a state-wide fire pension fund whereas all of us municipal employees who aren't firefighters or police officers, we're in together with Naperville, Aurora, Elgin, etc. so that agency has a lot more flexibility as far as investment vehicles and the law allows them to be a little bit more aggressive in what they invest in.

COUNCILMAN TURK arrived at the meeting at this point.

COUNCILMAN GIARRANTE said the question was asked about being underfunded, and he asked what is the benchmark throughout the State of Illinois for percentage of funding for the fire and police pension funds. He said he would be willing to bet there's not a city in Illinois that has 100% funding in either fund.

Mr. Mihelich said the latest report he saw was about a year ago and we found that we were pretty comparably funded compared to most pensions similarly across the state.

COUNCILMAN GIARRANTE said he's not saying that we did the right thing and we should have caught it with the interest rates etc., but to have them 100% funded is nearly unheard of.

Mr. Mihelich said in fact the IMRF rate as of 12/31/07 was about 72% funded, and in the year 2000, it was about 100% funded, so obviously the market has played into that somewhat.

COUNCILMAN BROPHY said we are where we are for a number of reasons, but we did take some action that put us in a little bit better shape than we would have been. He said a few years ago we questioned the actuarial basis that we were using and we moved from a 1970 something basis to a 1980 or something actuarial for life expectancy, so we did do something back then.

The City Manager said and we have updated one more time, that was the process that we went through this year, and we're confident that the number we're bringing to you, while it's a very big increase, is a number that we need to include in the budget this year. He said it's got some ramifications on the expenditure side, but the reality is we need to address it at this point and we're confident about it. He said as far as what happened previously, our role is to help us get through the next 10 to 20 years. He said we have met with both pension funds and he believes that they're supportive of what we're recommending to you this year.

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MAYOR SCHULTZ asked if all the firemen and police officers are contributing to their pension.

The City Manager said yes.

MAYOR SCHULTZ asked if the City always did that for all the firemen and police officers in the last 10 years and when the new firemen and officers were hired were they automatically funded by the City.

The City Manager said yes, the City contribution is set by State statute. He said the calculation that had to have been done, the percentage that the City contributes, was actually done. He said the question here though is certain assumptions that we made, were those the right assumptions to make and the actuarial goes through maybe two dozen categories of things where assumptions are made, and all of those assumptions were tested and we went through all of those and we readjusted those in 2008 so they're more accurate. He said some of the figures that were used going back 8 years ago probably weren't the best numbers and were maybe the best available then, but not now, so we were funding it to the letter of the law as was required then, but certain assumptions that were being made were probably not as accurate as they should have been and now we believe we've got better assumptions. He said we're confident that the numbers that we've used to calculate the number with our actuarial company is accurate and it's a good number to use. He said we've got more work to do with them where we can make it even better and we'll do that and we've agreed that in the next year after the budget is approved we'll work on that again so we do that on a regular basis and not let it slide for 8 years.

MAYOR SCHULTZ asked if this \$6 million will bring them up to date.

The City Manager said that is the amount that we're recommending we contribute; it won't fully fund the pension and we won't get to that point for many years, and as COUNCILMAN GIARRANTE pointed out, we may never get to 100% funding level for police and fire pensions, but we're in the 50-some percent rate right now and that's not good planning and not good government for us to continue. He said we need to be able to fund it better and that's why we're making a recommendation of adding \$6.5 million to the 2009 budget for all 3 major pension funds.

COUNCILMAN UREMOVIC said backing up to 2008, if you look at the cash flow, you'll see that for the fire pension for this year we're talking about a contribution of \$6,815,000, for police \$7,729,000 and for IMRF \$7,765,000. He said that comes out to \$21,270,000, so that's what you're committing to in 2008.

The City Manager said the 2008 allocation was roughly \$19 million, and our recommendation for 2009 is roughly \$25 million. He said there must have been some adjustments made in the \$21 million figure, and Ken and Hugh will get you the information on the additional \$2 million for 2008.

COUNCILMAN GIARRANTE asked what percentage is the highest that the police and fire pensions were funded.

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Mr. Mihelich said it was probably in the low 80s.

The City Manager said and we strive to get back to that someday, and this is the first step. He said this is a multi-year process and is a commitment that we're asking the Council to make this year for the 2009 budget and going forward.

The City Manager said Ken Mihelich will go over the revenue projections and then the expense projections and it will help put the budget into perspective as to why we've recommended what we have. He said Hugh and Ken have done a great job of doing some real hard financial analysis of all of our funds and accounts and he personally wanted to thank them for helping him have a better understanding of what the budget is for 2009 and why our recommendation is a little bit different than what we've been used to over the last 16 years.

SUMMARY OF MAJOR FUNDS

Mr. Mihelich said we broke up the budget into smaller parts so it would be a little more understandable and there are six major parts, one being the General Taxing Funds which include those funds that share a lot of the sales taxes and real estate taxes such as fire, police, management and budget, human resources, everything in this building with the exception of water and sewer. He said water and sewer has it's own fund as well as parking meter, but everybody else is generally in the general taxing fund.

Mr. Mihelich said other funds are the Gaming Fund, Water and Sewer Funds, Motor Fuel Fund, Parking Meter Fund and Other Funds which include TIF Fund, Community Block Grant Funds and some Special Service Areas.

Mr. Mihelich said he would begin with pointing out some of the key revenues and key expenditures to kind of paint a picture as to why we're in the situation we're in. He said we did give you a balanced budget, but he did want to emphasize that it wasn't balanced without going into the surpluses to the tune of about \$7 million, and as we get into the 4 year plan, it also talks about some of the challenges that we have because we have to make sure that those expenses and revenues that are ongoing match up more closely.

COUNCILMAN UREMOVIC said so you're saying that the budget structurally is not balanced, accounting wise it's balanced because you've got to use reserves.

Mr. Mihelich said that's correct.

COUNCILMAN UREMOVIC asked if we dipped into the 4 year plan reserve fund for 2008.

The City Manager said no, we didn't use any of the \$19 million that's been set aside by the Council over the last 4 years for the rainy day fund. He said we were able to halt some projects and not fill some positions and do quite a few things and try to patch the budget up to finish the year, so we're confident that we'll finish with a "balanced budget" for 2008.

COUNCILMAN UREMOVIC said for accounting purposes.

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The City Manager said for 2009 accounting wise, we have a balanced budget, expenditures equal revenues, but we have balanced it by borrowing \$7 million from the rainy day fund, so structurally it's probably not considered balanced, but the rainy day fund was there for this rainy year we're going to be having in 2009, and if the Council doesn't want to use the 4 year plan to balance the 2009 budget, then we would need to start looking for \$7 million or \$6.9 million in additional cuts from all of the departments. He said that's going to be hard to do because we went through every single department and we bled each one dry of anything that we could possibly sweep out of their budget. He said we pretty much took out any discretionary funds in 2009.

Mr. Mihelich said in 2008 we did not dip into the unencumbered reserves at all. He said for 2009 we used roughly about \$6.95 million, and there was about \$18.5 million going into the year, so it leaves about \$11 million and then you'll see that that quickly deteriorates.

GENERAL TAXING FUNDS - REVENUE REVIEW

Mr. Mihelich explained charts showing a history of general taxing funds revenue including real estate taxes, sales taxes, home rule sales taxes, state income taxes and utility taxes.

COUNCILMAN BROPHY asked how using our rainy day funds would affect our bond rating.

Mr. Mihelich said he couldn't tell you anything specific, but his guess is that it certainly would not help that rating.

COUNCILMAN BROPHY asked what the rating is right now.

Mr. Mihelich said he knows it's A+ on the water system, but he doesn't have the other one right in front of him.

The City Manager said and we're getting asked by Standard and Poor's and others for updates and we have to give them to them because they're going through and looking at all municipalities and this will have some impact on us. He said if we go out for a bond issue we may see a little bit of a change and that's why we need to work on that so in a year or so we don't have that kind of decrease in our bond rating.

COUNCILMAN BROPHY said the market effect has already almost doubled our interest costs on those bonds we're talking about, but the rating hit would be yet another cost and at some point it's going to chew up all the revenue that we foresee from that project.

Mr. Mihelich said what is also particularly tough if you're going to do a bond issue right now is that the number of insurers for municipal bond issue went from six to one.

COUNCILMAN BROPHY asked Mr. Mihelich to find out if we can self-insure in the absence of those companies and see what the cost would be on that.

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Mr. Mihelich continued with the presentation and noted that regarding impact fees, 2006 was the high watermark which are the non water and sewer fees that we collect as developments come in the City for commercial as well as residential, and there was a drop-off in 2007 and then basically the bottom has fallen out in 2008 and 2009. He said we didn't feel we could budget any more for 2009. He said we do have some developments coming in such as CenterPoint and that is not in this number because we didn't know what the timing of that will be.

COUNCILMAN TURK asked what would the typical impact fee be on a project like CenterPoint.

The City Manager said it's collected at the building permit stage and he's not sure what that would be. He said that would be on the big boxes when those come in. He said right now all they're doing is moving dirt for the rail yard which is an 18 month construction project and we'll see some distribution centers start construction in 2009 for occupancy in 2010 when the rail yard opens, so we won't be seeing those numbers until late 2009.

COUNCILMAN BROPHY said you've got a sizeable number in there already for CenterPoint revenue.

The City Manager said this is part of the annexation agreement and the total contribution being made by CenterPoint is about \$12 million. He said that includes \$2 million for Laraway Road improvements east of the railroad tracks and west of Route 53, \$1.5 million or so in land that's being donated to us and about \$8.5 million that will be given to Joliet by CenterPoint over the next four years, \$2 million of it coming in at the end of 2008. He said we have put it in the budget as an income item, and we've shown it as an expense item going out but not for any particular operation or service. He said we thought we would let the City Council decide where you would like that money to go. He said when we negotiated it it was primarily there for helping us with police, fire and street department issues in dealing with CenterPoint, but there's other money there for other things too and that's something that we didn't want to make any recommendations on and we thought after the budget is approved we could convene a meeting at that point and have the Council prioritize where you would like those funds to go. He said we surely don't recommend using those funds for operational expenses though.

Mr. Mihelich finished explaining the history of revenue from impact fees, real estate transfer stamp taxes, permit revenues, ambulance fees and food and beverage taxes.

GENERAL TAXING FUNDS - EXPENSE REVIEW

Mr. Mihelich explained charts showing a history of general taxing funds expenses beginning with payroll.

Mr. Mihelich said overtime expenses in 2009 is less than 2008 and part of the reason for that is we did work very hard with each of the department heads to try to prepare for less overtime. He said in the budget we cut the special events budget considerably so right now instead of being at \$150,000 it's at about \$50,000, so certain events like the Pumpkin Fest and the Car Show would have to be either eliminated or significantly cut back.

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Mr. Mihelich continued with the history of expenses from insurance and street lighting.

Mr. Mihelich showed a chart of the pension expenses with a large increase in pension expenditures going up to over \$25 million next year. He said one of the things that isn't in here are the other post-employment benefits which have to do with retiree health care. He said we don't have to fund that right now, but in the future that's going to continue to grow and that's similar to the pension where we have a liability where we owe people benefits in the future and we also owe them benefits for health care costs in the future and those numbers can be quite staggering. He said right now there's no mandate to fund those but it's something that we have to look forward to to make sure that it doesn't affect our bond ratings and such later on.

2008/2009 BUDGET CUTS

Mr. Mihelich explained a partial list of 2008 cuts to expenses totaling about \$2.3 million which included cuts to the Reserve Fund, Fire Station 3, Broadway Greenway, Minor League Baseball, Special Events/Festivals and Fire Station 10.

Mr. Mihelich explained a partial list of 2009 budget cuts totaling about \$3 million which included ten roadway projects, special events/festivals and the façade program. He said there were numerous cuts made, too numerous to mention, so this is just a sampling of some of those and we went back two or three times to really try to get to what was key to operations. He said there is not a single dollar in here for vehicles, so that's something we did to get us through next year without dipping into the rainy day funds, but it's certainly something we can't continue to do from year to year.

GENERAL TAXING FUNDS - FOUR YEAR PLAN

Mr. Mihelich explained a summary of the four year plan which showed a 2009 reserve of \$11.5 million, a 2010 deficit of \$6 million, a 2011 deficit of \$31.7 million and a reserve deficit of \$66.8 million in 2012.

Mr. Mihelich showed a pie chart of the 2009 expenses which showed personnel expenses of 73% and operational expenses of 27%. He showed a chart of the estimated 2012 expenses which showed an operating deficit of \$66.8 million with personnel expenses of 78% and operational expenses of 22%. He said there is a 15% growth factor in there but what the four year plan does is it tells us we need to look at the way we're doing business and we need to make some adjustments in the future. He said he hopes it's not quite to this extreme but we wouldn't be doing our job if we didn't point it out and say that we need to make some adjustments in the future.

GAMING FUND

Mr. Mihelich showed a chart of gaming history actual revenues from 1999 to 2009. He said gaming revenue started to go back down from 2001 because there was some state legislation and then it started to climb right back up, but in 2008 we had the smoking ban and coupled with the economics, those revenues are lower than what we projected. He said this information was printed up last week and we got the gaming numbers in yesterday and it was the worst month that we ever had. He said the number will probably be another \$200,000 below

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what he just pointed out. He said we are projecting 7% less in 2009 than in 2008 and we hope that's enough. He said if you look at the charts we provide to you each month, during the beginning of the year we were looking at an average of maybe 7% or 8% below our budget, and now it tends to be averaging closer to 17% over the last 4 months, and then this past month it was 20%.

COUNCILMAN GIARRANTE asked what percent has the state's take dropped.

The City Manager said it's \$100 million less in their fiscal year's budget right now.

COUNCILMAN GIARRANTE asked if there is any indication of them excluding gaming from the smoking ban.

The City Manager said no. He said there is very little chance that there would be an exemption for the riverboats for the smoking ban, and that's with the State suffering to the tune of \$100 million. He said he's still not confident that our 2009 projection is accurate. He said Harrah's is seeing dramatic changes because of additional competition and where the 10th license may be located. He said we're showing about a 24% drop in gaming revenue from 2007 to 2009, and even that may not be enough of a decrease in the budget.

Mr. Mihelich then showed a slide showing the gaming expense history and how we have used the funding from 1999 to 2009. He said we've funded a good portion of the NIP Program from gaming throughout this period. He said other expenses included the building of the ballpark, the museum, the library and the water park which totaled about \$41 million which we spent from 2001 to 2005. He said what concerns us is the operational subsidy which has steadily increased from 1999 to 2009. He said the only expenses in 2009 is the payment to the Rialto, operational transfers and the NIP.

NEIGHBORHOOD IMPROVEMENT PROGRAM

Mr. Mihelich explained the NIP Program Funding Sources which he said keeps the same funding level of \$7.7 million from 2008 to 2009 and takes away the Vehicle Road & Bridge Fund and the Water & Sewer Fund and increased the gaming funds for NIP. He said a lot of the subsidies that we had given to third parties such as the schools and the other agencies are not in here at this point, but that's up for discussion.

WATER AND SEWER FUNDS REVIEW

Mr. Mihelich explained charts showing a history of water and sewer funds including volume revenue, tap on fees and daily charges comparing gross revenues to amounts rebated.

Mr. Mihelich said the daily charges progress up but on the other hand we tend to rebate all of those, so the difference between these two is the revenue that we actually keep. He said what is going to make this continually to be hard to keep is that we took away that \$1 million subsidy from the gaming fund because we just didn't have it to subsidize these rebates to customers.

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The City Manager said we've subsidized that in the past using gaming revenue that we had available to us, but unfortunately in 2009 we don't have that gaming revenue available to subsidize it, and that means looking at either removing the rebate from the water bill or else finding another source of revenue to cover it, and that's the hard part.

COUNCILMAN UREMOVIC said on the expense side though, the bonds that those were in place for, they were paid off by gaming revenue.

The City Manager said that was the sewer separation fee.

COUNCILMAN UREMOVIC said so you maintain that same revenue stream even though the expense wasn't there.

The City Manager said if the expense was removed by paying off the bonds, the money was used to pay off another obligation that we had, so it's not newly found money.

COUNCILMAN TURK asked if the 2009 rebated amount is funded.

Mr. Mihelich said no. He said that rebate is about \$2.3 million and we've been funded it to essentially \$1.12 million, so even when we were funding it we were only funding about half of it.

COUNCILMAN TURK said so that's not riverboat gaming revenues, that's showing how much would be rebated if we rebated it.

Mr. Mihelich said and right now we actually are rebating that much, but what we're trying to say is that there's no funding source to rebate that any more for 2009, and even the funding source that we had in the past like in 2008 was less than half of what it really equaled to rebate, so the water and sewer fund has basically been eating up the difference.

The City Manager said we made it up through other areas in the water and sewer fund and if we don't remove the rebates from the water bill this year, then the water and sewer fund will have to make up the \$2.3 million in rebates, and the way we did that in the budget was we eliminated all water and sewer projects from 2009; we have none. He said we don't even have any emergency funds in there for well repairs if a well goes down. He said what we told Jim Eggen was to take money from the 2008 projects, pull out as much as he possibly can, create a fund of maybe \$1 or \$2 million and set that aside for emergency well repair or emergency watermain breaks or sewer main breaks, but as far as new utility projects we have none projected for 2009 because we didn't have the income to do any of it.

COUNCILWOMAN QUILLMAN said just for the record, the water tower will go in on that east side project for the Edgecreek people and Neumann home people and all of that.

The City Manager said yes, that's funded through the 2008 budget.

COUNCILWOMAN QUILLMAN said that money was in the 2007 budget.

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The City Manager said it was in prior budgets and there was an easement issue that was not resolved for quite some time and they are much closer to having that done and the money is being encumbered to make sure we have it to construct the water tower.

COUNCILWOMAN QUILLMAN said she just wanted to make sure.

Mr. Mihelich explained increases to the water and sewer chemical expenses and electricity expenses.

MOTOR FUEL TAX/PARKING METER FUND REVENUE

Mr. Mihelich ended the presentation by explaining the history of the motor fuel tax revenue and the parking meter fund revenue.

The City Manager said the budget itself is available on the City's website so if citizens are interested in looking at the details it's there and we could probably get the slides on the website too. He said he would be happy to answer any questions on the overview and he thinks they did a good job of trying to frame the issues as far as what has happened to the revenue side and how it has changed dramatically really through no fault of our own. He said it's nothing the Mayor and Council did or the Council making a decision that was inappropriate or staff mismanaging anything, it's just that gaming, sales tax and permit fees have gone down, and these are things that not only Joliet but all municipalities are suffering through right now.

The City Manager said as far as salaries, we're probably towards the better paid side of most municipalities, but we've got most of those raises locked in through 2011 and 2012. He said we'll be starting our negotiations with FOP real soon and this will be a little different than what we're used to because in the past we always had that 5%, 10% revenue increase that we could look to to help fund raises. He said this will be much different especially when we're talking about not doing projects or not filling positions, and as he mentioned, he is prepared not to fill positions including the Deputy City Manager position and many other positions that are vacant or will become vacant through retirements or resignations.

The City Manager said he doesn't have any projected layoffs in the budget but he is prepared to do layoffs after the first of the year if it appears that we need to because of cash flow problems. He said we're in the process of evaluating all positions to see where those layoffs can take place. He said he doesn't think we can limit it just to management positions, he thinks we would have to look at all positions across the board, and that hurts, it doesn't feel good, but it's something that we need to be prepared to do if for example we see gaming revenue drop even further, so those are the kind of changes we need to be ready to make.

COUNCILMAN GIARRANTE said before we get to that, he thinks there's other areas that we can look at and one thing is the Neighborhood Improvement Program. He said if we have to maybe we need to cut back on that in order to save some jobs.

COUNCILMAN GIARRANTE said he sees all the different bargaining units here and we've got about 4 or 5 more budget meetings scheduled, so maybe we can schedule different departments at the next meeting so they don't all have to be here and they'll know when we're going to talk about their department.

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The City Manager said it's a good suggestion and we invited some of the bargaining unit presidents to come today because this was a good general overview for all of us to see. He said our next budget meeting is scheduled for this Monday at 4:00 p.m. after Pre-Council and we could focus on a couple of departments then so some of the other bargaining units don't have to sit through that meeting.

COUNCILWOMAN QUILLMAN asked if the police contract will be settled before we pass this budget.

The City Manager said he doesn't know. He said he'd love for it to be and have a hard number to plug in for 2009, and he has faith in the FOP coming in and knowing that times have changed a little bit and that there will be some hard decisions that will have to be made, but he'd certainly like to bring a contract to you along with the 2009 budget for final approval or bring it to you before that.

COUNCILMAN GIARRANTE said he doesn't expect them to take any less than any other bargaining unit has.

The City Manager said not to bargain in public, but realistically we understand that too and there is an increase built into the 2009 budget. He said we'd like to engage FOP in a good faith bargaining session in the near future and bring that contract back to the Council so we have some fixed costs that we know that we'll have to deal with in 2009.

COUNCILMAN UREMOVIC said he knows we're going to have to focus on making expense adjustments, but looking at the revenue side, and he wants to bring this up again and he wants to take it to the Legislative Committee, there are some fees and fines that we can increase that municipalities around us have been doing over the last 3 years just to prepare for this. He said for example people who don't have auto insurance that are driving, give them a \$500 fine immediately and impound the car and that would be \$3 million right there in revenue. He said these semis that are coming through this town, we ought to be pulling them over because there are mega fines we could be charging because if you look at Larkin right now it's an absolute disaster and the cold weather isn't even here yet, so he hopes that we want to take the initiative and say our goal is also increasing revenues, not property taxes, but there are other fees and fines we can increase and really obtain some significant revenue so he hopes we talk about this at our next meeting.

The City Manager said we're certainly open-minded to that; penalizing people who break the law seems to be a pretty good idea rather than trying to put this added expense on the back of the taxpayers in the form of a real estate tax or a sales tax increase or whatever that may be. He said we brought to the Council no increase at all. He said the budget as proposed does not include any tax increase or fee increase at all. He said do we need one from a staff perspective, we probably would have included that if we could have, but we feel that at this point the economy being what it is, foreclosure rates being what they are, this probably wasn't the year to bring a real estate tax increase to the Council, and he thinks part of it is we wanted to show the Council that staff is ready to make cuts, especially the management side. He said he could definitely use some help, and losing a Deputy City Manager position is not something he relishes, but he also thought he needs to lead the charge so the unions and the other departments understand that we're all going to have to make some sacrifices as we go

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forward until the revenue streams get back to what they were, assuming that they do get back there.

The City Manager said we're prepared to work with the Council on any kind of penalties that should be implemented whether it be a parking meter violation or an overweight truck violation, we'll look at those and do those kinds of things too to help us fill gaps.

COUNCILMAN BROPHY said he would like to see a contingency plan in case the 10th gaming license comes south vs. north and how that will hurt. He also asked for a list of suggested fee and tax increases and how much those would yield in dollars. He said we've got social service agencies and charities that are getting zero in the proposed budget, and if we so choose to consider funding those, we have to have some options for how we fund them.

The City Manager said he wishes he could point to areas in the proposed budget to say we can pull some discretionary funds out of there for the social service agencies and the schools, but there aren't that many areas in there. He said it's as lean as we could make it, and really the only discretionary area would be the NIP money, that's \$7.5 million and about \$2 million of that is already committed for a bond issue.

The City Manager said he's had most of the social service agencies invite him to their places and he's been to all of them and he understands the good things that they do, and the unfortunate thing is their business is going up, the demand for social services is increasing dramatically and now he is in a position where he doesn't have that discretionary fund in the budget to say let's keep the current levels or maybe even drop them 10% or 20%. He said if the Council would like to move some of the NIP money over to social service agencies and the schools, we're more than happy to do that, but that's something that's within the province of the Council and not something he felt comfortable doing as the City Manager.

COUNCILMAN BROPHY said the other thing we have to see, when you've got things labeled as "reserve for this" and "reserve for that" or "contingency for this" those things seem to be extra and they seem to be laying there not being used, but we have to be clear in defining what they are waiting for or what they are used for, and then when we draw down on some of those things, it will have at some point an effect for example on our rating, and we need to know what that threshold is so if we cross it, there's an effect, and we can make that decision, but we have to understand the consequences of such a move.

The City Manager said and you as a City Council had the foresight to set aside \$19 million for us and he thinks the Council was informed back then that as we go forward in 4 years we're going to need to dip into that. He said we didn't think we'd have to dip in that much this quickly, and that's where the \$7 million "subsidy" is coming in, and he feels badly about presenting a budget that relies on borrowing from the rainy day fund to make it balance, but that's the reality, because there really wasn't a lot of other areas to cut. He said that's why going forward what we're telling you is that rainy fund is gone in 2010 if we continue with current revenue projections and current expenses like pension, salaries, and waste removal; those things that are fixed by contract are things that we have to do. He said it's not doom and gloom, we're in better shape than most municipalities in the State of Illinois and have done so much more than any other town other than maybe Chicago that has done better with doing things for the public and turning a City around. He said the reality now is we're caught in a

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squeeze, just like a lot of other towns are, and now we need to find out how good we are and help the Council manage through that.

COUNCILMAN SHETINA asked the City Manager what his plan is now with respect to going forward with the review. He said we're going to get questions from all the social service agencies and some of the unions and others. He said no matter what happens the City of Joliet must meet its expenses, and there are only a few ways that we can meet those expenses and that's by increasing revenues. He said if increasing of revenues are not going to be affected by riverboat gaming money or anything else, he thinks we need to look at the sources we have for increasing revenue, and whatever that happens to be or how hard it might be and how politically unacceptable it may be, those have to be looked at, and if we have to make increases in certain areas we have to make them. He said not everybody is going to vote for them, not everybody is going to take the responsibility to do that, but keep that in mind, we've got to pay our debts and we have to come up with some increases in revenues and we need to look at those revenues.

The City Manager said we have a list prepared to increase revenues, an example would be a 1% increase in the hotel/motel tax generates \$300,000, and we'll have numbers like that so the Council can look at those. He said we have a 1 cent per gallon gas tax, and if that were converted to a 1% per gallon gas tax, that would generate revenue.

COUNCILMAN SHETINA said the fact is we've got to pay our bills, and if it gets to the point where we have to make those kinds of decisions, bring those decisions to us and let us make them. He said if we have to increase in areas, then the Council has to vote on that. He said we're all big boys and girls, and if we've got to pay our bills, we do it whatever way we can to fund those bills. He said we've had a honeymoon for a long time here in Joliet, a .111 rate is fantastic, great, people love that, but whatever it takes to pay the bills we need to do that. He asked where is the other \$11 million of the rainy day fund.

The City Manager said that's invested and again, say the Council wanted to pull \$2 million for social service agencies and schools, and the Council didn't want to use NIP funds, we could go into that \$11 million 4 year plan reserve and use that money.

COUNCILMAN SHETINA said nothing is sacrosanct as far as he's concerned and if you're saying here's what we need to do, we need to look at that and say this is what we probably need to do. He said some agencies aren't going to be funded probably, but as the years go on it gets greater and the challenges get greater, but the market will come back and the economy will come back and all those things will change like they did in the 1980s. He said the sky isn't falling, we don't have to close the doors, but we need to look at other sources of revenue.

The City Manager said and we'll provide that menu to and the Council will be able to decide whether that's needed.

COUNCILMAN UREMOVIC thanked the City Manager and staff for a great job on the presentation and in assembling these numbers and really putting something together where everybody can understand it and they are good honest figures and he appreciates that.

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COUNCILMAN GIARRANTE said it was easy for us to understand and it was a very good presentation.

COUNCILMAN SHETINA asked what the next step is. He said we're going to get hit by union groups, by social agencies, those kinds of things and we need to make those decisions as soon as possible.

The City Manager said as far as the union groups go we are honoring all of our commitments we've made in collective bargaining agreements. He said as far as pay raises, it's all built into the 2009 budget and the projections for 2010, 2011 and 2012, the same thing with health insurance, pension obligations, all of those are fully funded. He said now whether we engage in a conversation about changing those later on, that's a conversation we'll obviously need to have with the unions. He said pensions we can't change because that's mandated by State law, and we have some assumptions that we'll work on. He said health insurance is something we have control over and he's not saying let's start that debate as part of our budget conversation, but later on if we need to start looking at a health insurance issue, then we negotiate with the unions on that and go through a process. He said as part of the budget we're saying it's business as usual with no changes, we'll fulfill all of our commitments as far as our employees go, as far as health insurance, salaries, pension, unfortunately there's not much left over though after we take care of that slide that showed 72% this year and 78% in 2012, and how do we grow the revenues, that's something we think is within the Council's discretion and we'll give the Council the toolbox to look into to see what tools to use to help grow those revenues.

COUNCILMAN SHETINA said sales tax has always been a major source of revenue and was the number one source of revenue until riverboat gaming came, but it's still at about \$20 million give or take.

Mr. Mihelich said the combination between home rule and state sales tax is our number one source. He said it's close to about \$38 million or so.

COUNCILMAN SHETINA said so we keep on doing what we're doing in terms of developing and growing and bringing businesses in here. He said about the layoff thing, there are people calling about layoffs. He said at this point we've asked you to do attrition and there are some areas that we don't hire and that's easier and less painful than laying people off.

The City Manager said we have no layoffs projected in the budget; we have attrition built into the budget though where we're recommending that we not fill some positions, and unfortunately that includes some police and fire positions. He said we're not asking the Council to eliminate positions, all we're saying is give us some time before we need to fill those, and that's why we're recommending keeping all those positions in place. He said we may consolidate some divisions and maybe have one person supervise in an area where there's a couple of people supervising. He said there will be some consolidation that may take place and if we see a need to make some changes we will bring that back and keep the Council apprised.

A brief discussion was held on the possible location of the 10th gaming license, how that would affect Joliet's revenues and what the City can do to influence the Gaming Board's decision to move that license north.

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COUNCILMAN GIARRANTE moved that the Council adjourn at 5:45 p.m.

Motion seconded by COUNCILWOMAN QUILLMAN.

Motion carried by the following vote:

AYES: COUNCILWOMAN BARBER, COUNCILMEN BROPHY, GIARRANTE,
COUNCILWOMAN QUILLMAN, COUNCILMEN SHETINA, TURK,
UREMOVIC and MAYOR SCHULTZ.

NAYS: NONE.

ARTHUR SCHULTZ
MAYOR

JANET K. TRAVEN
CITY CLERK

Recorded on Tape