

**CITY OF ROCK ISLAND
CITY COUNCIL STUDY SESSION
March 28, 2022 - 5:00 p.m.**

**City Council Chambers, City Hall, 3rd Floor
1528 Third Avenue, Rock Island, IL**

3/28/2022 - Minutes

CALL TO ORDER

Mayor Thoms called the meeting to order at 5:01 p.m. and welcomed everyone.

THIS MEETING WILL BE CONDUCTED BY AUDIO AND VIDEO CONFERENCE WITHOUT A PHYSICALLY PRESENT QUORUM OF THE ROCK ISLAND CITY COUNCIL DUE TO THE DISASTER DECLARATION ISSUED BY GOVERNOR PRITZKER.

ROLL CALL

Mayor Thoms asked City Clerk Samantha Gange to call the roll. Present: Alderperson Judith Gilbert, Alderperson Jenni Swanson, Alderperson Dylan Parker, Alderperson Mark Poulos, Alderperson Healy, and Mayor Mike Thoms. Absent: Alderpersons Moses Robinson and Randy Hurt. City Staff: Interim City Manager John Gripp, City Attorney Dave Morrison (via remote connection), City Clerk Samantha Gange, and other City staff.

Alderperson Moses Robinson joined the meeting at 5:30 p.m. Alderperson Randy Hurt joined the meeting at 5:36 pm.

PUBLIC COMMENT

Vincent Thomas, resident of Rock Island came to the podium to address Council on the Black Hawk sign. He asked if Council received information sent from the Nation American Coalition of the Quad Cities. He remarked the Black Hawk sign gives people the wrong message about Native American imagery. He asked City Council what their intention was with regards to the request from the Native American Coalition. City Attorney Morrison indicated that during public comment, direct questions to Council is not allowed and that this is for comment only. Mayor Thoms reiterated that feedback is not given during public comment and this time is for comments only. He suggested Mr. Thomas speak with the Interim City Manager or call individual Council members for questions and feedback on the issue. Interim City Manager John Gripp and Mr. Morrison explained that an individual Council person can ask for something to be put on the agenda and then through the statutory process the item can get added if three (3) members are in favor. The previous City Manager had an internal policy that four (4) members were needed.

PENSION OBLIGATION BONDS PRESENTATION BY STEPHAN ROBERTS, BAIRD

PUBLIC FINANCE.

Linda Barnes, Finance Director came to the podium to address Council about Pension Obligation Bonds (POBs). She introduced two guest speakers on the issue: Anthony Maselli from Spear Financial, who provides bond issue services to the City and Stephen Roberts from Baird, who provides the underwriting services to the City.

Mr. Roberts came to the podium to present to Council. He remarked they have identified the 2014A series as a possible candidate for refunding. He described that a bond refunding is similar to a house mortgage refinance. Based on rates from last week, if the City were to refinance the 2014A series, it would result in a savings of around \$116,000 or 3.3%. He noted interest rates have been tracking higher recently. Refunding this series could be part of a bigger plan to restructure the City's debt.

Next, Mr. Roberts provided information on Pension Obligation Bonds (POBs). He noted the unfunded pension liability for police is \$90 million and \$73 million for firefighters. This is a debt of the City accruing interest at 7.1%. A POB is basically an arbitrage as the City would borrow in the taxable bond market. Hypothetically as it relates to the unfunded pension liabilities, the City would borrow \$160 million at a taxable bond yield and the difference is between the 7.1% that the City is accruing interest at and the taxable bond yield would create savings. He indicated the Cities of Moline and East Moline have done POBs.

Mr. Roberts noted they have a good model of how the City's actuary would be. He provided a slide that showed a possible scenario with a payroll growth assumption of 3.5% and remarked it's like putting an interest rate on an interest rate which creates a curve. Basically, the City would be doubling its payments which isn't sustainable.

He explained that a POB would be issued as unlimited tax General Obligation Bonds and the City would use pension levies to support the debt service on these bonds, which is only the liability of the pension systems that would be in effect or refunded. POBs make a lot of sense when the taxable interest rate is significantly lower than the assumed rate of 7.1%. He provided a PowerPoint slide of a hypothetical that demonstrates the savings patterns with a total savings of an estimated \$56.5 million or present value of \$30 million or 19%. With the rise in taxable rates, this is one of the smaller savings amounts compared to Moline and others.

He noted the benefits and risk associated with POBs. For the benefits, POBs level the uphill slope of payroll assumptions in the future, the City is replacing one debt obligation or liability with another, lowering the interest rate of 7.1% on the pension debt to an estimated 4.22% taxable bond yield, and immediately addresses the rating agency's concern of lower funding in the pension systems.

For the risks, he encouraged everyone to review the popular press on POBs. The chief risk associated with POBs is arbitrage. If you earn at the assets that you are investing over the life of 21 years and earn less than the bond yield of 4.22% you lose money. If you earn the 7.1% percent you're assuming in the pension funds then all the savings presented will be realized. Nobody can guarantee the results. He recommended reviewing the City's average over an extended period of time going back to 2008. Other risks include accrued interest, but the risk is minimized with consolidation. Also, the ratings agencies frown on POBs and can give a downgrade and none of the pension bond assets are pledged to POBs.

Mr. Anthony Maselli with Spear Financial came to the podium to address Council. He remarked the City does not have to fund 100% of the liability. For example, the City of Moline funded up to 85%. The City would have to be comfortable with what the taxable rate would be as this is an

arbitrage. If Council is interested in learning more, it comes down to what is the rate at which Council would be comfortable with moving forward.

Aldersperson Healy asked about the rates. Mr. Roberts remarked interest rates have spiked since the beginning of this year and if Council is interested they can put a parameter around the rate of what they are comfortable with.

Aldersperson Gilbert asked Ms. Barnes to come to the podium to answer a few questions. She remarked on the CAFER report and noted there is \$345 million in debt and unfunded liabilities, of which \$205 million is unfunded liabilities. This presentation indicated the City has \$160 million in unfunded pension liabilities and asked what the remaining \$45 million is in unfunded liabilities. Ms. Barnes replied she would get back to Council on the answer.

Next, Aldersperson Gilbert asked what the 2014A bonds were for. Ms. Barnes responded the new police station. Aldersperson Gilbert asked with regards to bond series restructuring, if the Finance Department tracks the rates that are indicated at the time they are presented to Council and what the final rates are when they go to market to be sold and whether there is a difference. She asked Ms. Barnes to provide a historical report of when the City restructured bonds since 2017. Ms. Barnes indicated she would get the information to Council.

Aldersperson Parker referenced Mr. Roberts' earlier statement that some communities pay the entire unfunded portion of the POB and others pay a portion, and noted his concern was the 'ramp' and the annual increase in taxes. He asked Mr. Roberts if communities that opt for partial payment end up paying off enough in order to level out the ramp, or if it made more sense to pay all. Mr. Roberts replied that the idea other communities had was to fix most of it, but later come back for the rest. Mayor Thoms noted that state legislators discussed taking it from 2040 to 2050 in order to have the 90 percent funded. Mr. Maselli said Moline was leaving the 15% out in the event the state did that, then the Council would have the option to extend the amortization on that portion of the liability. He noted that was their particular 'sweet spot'. Aldersperson Parker expressed curiosity as to where Rock Island's 'sweet spot' would be, or how much of the City's unfunded liability would need to be filled in order to level out the ramp. Mr. Maselli replied that in the future he could provide scenarios to Council as to what the situation would be at different levels of funding. He said another reason not to fully fund is to mitigate risks.

Aldersperson Parker asked if other communities have used POBs as part of a larger discussion with bargaining units regarding long-term restructuring of benefits. Mr. Roberts replied that is sometimes the case, and discussed the example of Winnebago, Illinois. Mayor Thoms said another possibility is that the unfunded mandate could grow, and the market could return less than the preferred four percent. Aldersperson Poulos said this should be looked at as a long-term plan, and addressed Aldersperson Parker's question by noting Chicago is in a different pension system than Rock Island.

Aldersperson Parker asked if there was an opportunity to negotiate with the bargaining units for whom the pensions are for, suggesting a POB as part of a restructuring of benefits. Mayor Thoms said it was in the State Constitution that public bodies cannot lower the benefits, and it was illegal to do so. Aldersperson Poulos added that although the Constitution cannot be changed, we can change the raise and part of the assumption that goes into the actuarial assessment. He said prior to 2005 the state had a self-managed program for pensions that did not succeed. Aldersperson Parker asked for confirmation that the City could not come to an agreement where the Fraternal Order of Police (FOP) agrees to go into a separate 401k plan with the City. Aldersperson Poulos confirmed that was true, and Aldersperson Parker noted it was bizarre that the state could dictate that which collective bargaining units agree. City Attorney Morrison replied via remote connection [inaudible].

Jerry Huiskamp, retired President of the Board of Black Hawk Bank and Trust, asked Mr.

Roberts and Mr. Maselli if there were limits as to how the \$160,000,000 could be invested. He noted it was his understanding that cities could only invest a certain percentage in the stock market, and the rest would go to the bond market. He said if the City can only get 2.5 or 2 percent return on bonds, what percentage would be able to go to the stock market, and would that require the stock market to earn 10 percent. He said the real question was how much would be required by the state, and what percentage could be invested in the stock market or other type of investments. Mr. Roberts responded that at closing if the City were to do the entire \$160,000,000 it would all get invested with the pension funds and be subject to investment restrictions. He said he did not immediately know what the percentages were, but there is a percentage split between the most the City could have in equities, and the rest would be in bonds.

Aldersperson Poulos said now that the monies are going into the consolidated fund, he did not immediately have the numbers available. He said prior to the consolidation it was 60 percent equities and 40 percent bonds. Mr. Maselli said if the City was at the 60/40 split and borrowed \$160 million to invest a portion in bonds, it would be borrowing bonds to invest in bonds. Aldersperson Poulos asked what percentage of a potential POB would be directed to the consolidated fund. Mr. Roberts said it would be deposited with the pension fund so the asset number would increase and therefore not get a bill for an unfunded liability. He said there are strategies for dollar cost averaging the investment, in which the City would hold on to the funds for a year and deposit additional funds with the pension fund.

Aldersperson Poulos said the consolidated funds are putting a stop to all trades date, and from that point on it is not dollar-cost averaging, with the exception of a 60- or 90-day level of funding to pay bills. He added the remainder of that is transferred to the consolidated fund. He said it seemed disadvantageous to the City doing so, as then the City would not see the benefit of the returns. Aldersperson Parker asked if other communities have pursued a POB to pursue post-employment benefits such as retiree healthcare. Mr. Roberts said typically in Illinois those are on the books but are paid for by a worker or retiree, and therefore is an implicit but not real liability. He said he was not aware of a municipality in Illinois that has borrowed to pay for such benefits.

Mayor Thoms thanked Mr. Roberts and Mr. Maselli for their time.

MILLENNIA HOUSING DEVELOPMENT'S HEATHER RIDGE AND CENTURY WOODS TAX INCREMENT FINANCING (TIF) AGREEMENTS PRESENTATION BY KATHRYN FIELD-ORR.

Miles Brainard, Director of Community & Economic Development Director came to the podium to introduce Kathy Field-Orr, the City's Tax Increment Financing (TIF) attorney who would be speaking on the Millenia Housing developments.

Ms. Orr remarked there are serious problems with these developments and noted that when they first drafted the TIF agreements, they thought that these developments would change the neighborhoods and improve the properties. Despite best efforts, there is nothing more the City could have done in terms of agreements, permits, etc. The project was never completed even though the City gave Millenia an additional six months to complete the project.

She noted in January 2022 she met with City staff and they sent out default letters and Millenia Housing Development did contact her after receiving the letters. She also contacted Millenia's attorney, and since then they have been in contact with the City and have requested reissuance of the permits and have resumed redevelopment of the property. Additionally, they hired a new entity to oversee the redevelopment.

Ms. Orr indicated she did not have a recommendation to Council at this time other than to continue to monitor the situation very closely and work with the entity to the extent they are

willing to. If they do not continue the redevelopment and construction as agreed, then the City can return to the default as the final option. She noted an amendment to the agreement had already been done and she would not advise another amendment.

Alderman Robinson indicated he received several complaints from residents and others of a dangerous environment to live in. He asked for clarification on what it means specifically that they have resumed redevelopment. Ms. Orr responded they have gotten their permits reissued and staff have been on the premises and can confirm that they are working. Mr. Brainard confirmed that staff will be monitoring their work and progress regularly. Additionally, a different contractor is managing the site.

Alderman Healy asked who the person is with the City that is going to follow-up with Millenia and be consistently onsite monitoring their progress. Mr. Brainard responded Jared Irvine, Building Official will be monitoring the situation and providing regular updates.

Mayor Thoms and Mr. Brainard noted the City enforces the minimum of the code and that does not require quality craftsmanship.

Alderman Robinson asked if the City is confident that they are meeting the minimum code. Ms. Orr responded they should be as they were issued Certificates of Occupancy for those units. If there is a resident who has a unit falling apart, it needs to be reported to the inspections department. Alderman Robinson asked what the City can do to ensure the residents are being protected as the residents are making complaints, but when they do they are retaliated against and now they are fearful to report anything.

Alderman Gilbert asked for clarification on who is giving the push back to the residents. Alderman Robinson responded the management.

Interim City Manager John Gripp indicated that Mr. Brainard would provide contact information for who should be contacted in the inspections department so that they can monitor and if needed follow-up with Millenia on what needs to be fixed.

Ms. Colleen Small-Vollman with the Community & Economic Development Department came to the podium to address Council. She remarked the agreement is very specific and requires Millenia to provide services to the residents as well as meet the threshold of what they said they would spend at both Heather Ridge and Century Woods. She clarified that we did not issue Certificates of Occupancy but Certificates of Substantial Completion.

Ms. Orr noted that the City has leverage with not releasing any TIF money until the agreement has been fulfilled. She indicated that if we cancel the agreement we would have no leverage and at this point we are able to try and work with them. Alderman Parker said there has been a Crawford sign in front of Century Woods from day one of construction, but if the prime contractor is not instructing them to work, it does not matter if the subcontractors are local. He said he was not impressed that the developer rehired new staff. He added that it seemed Alderman Robinson was describing that residents need is outside the scope of the Community and Economic Development Department does, as the City is limited to the development agreement. He said the Attorney General's office or the Community Alliance of Tenants would handle such a situation, providing nuanced legal assistance to tenants. He suggested creating such an entity, as this is not the only rental situation in the City that has these issues. Ms. Small-Vollman noted that Prairie State Legal Services, who receives funding from Housing and Urban Development (HUD), is available to specifically help tenants. She said she has directed many residents to them. She added that CED does help tenants with rental inspections, and an inspector could be sent in to do an initial walkthrough.

Ms. Field-Orr added that the agreement provides further protection than the rehabilitation in that it states it shall be constructed and maintained throughout the term of the agreement. She noted that the developer had agreed to organize quarterly meetings with residents. She said walking away would not give the City any leverage and would not help the residents, which is why they continue to work at it. Alderperson Parker said the only real leverage the City has is to not pay them, which has not been done already, but each resident is still paying rent each month. It was his understanding that the State allows tenants to withhold paying rent in lieu of fixing property, and that there are tools outside the scope of the City that could help the residents, and the City could play a role in trying to develop those institutions locally.

Alderperson Parker added that perhaps the City should consider renegotiating with a developer with regards to a community benefits agreement. This would mean developers agree to certain tenant rights, including grievances and arbitrations. Ms. Field-Orr replied that the developer would not come back to the table for that, as they already have an agreement. She added that the City can do the best they can with the agreement or declare default. She said Century Woods is currently generating \$200,000 a year, but the problem with them is they only care about money, and the only thing the City can nudge them on is money. She said if they had substantial building code violations and the City pursued enforcement, they could be forced to lose HUD financing. She opined that asking them to enter a redevelopment agreement with more regulations would be unrealistic. Alderperson Parker wished to entertain a more nuanced conversation about available options.

Alderperson Hurt asked if the City had input on the general contractor, and Ms. Small-Vollman replied no. He said he wished he'd known more about the situation before the meeting, and asked for contact information for Millenia Housing. Mr. Brainard referenced details of an internal memo submitted to Council two months prior.

Interim City Manager Gripp thanked Staff for their work on this issue, as the City has done their part. Mr. Brainard thanked Ms. Field-Orr for her hard work on this as well.

MOTION TO ADJOURN.

MOTION:

Alderperson Swanson moved to adjourn; Alderperson Gilbert seconded.

VOTE:

Motion passed on a 7-0-0 roll call vote. Aye: Poulos, Healy, Robinson, Hurt, Gilbert, Swanson, and Parker. Nay: None. Absent: None.

The meeting concluded at 6:29 p.m.

Samantha Gange

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