Local Pension Plans and Property Taxes

Beverly Bunch, Professor, UIS

Patricia Byrnes, Associate Professor, UIS

Amanda Kass, Associate Director, GFRC, UIC

Kenneth A. Kriz, Distinguished Professor, UIS

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Presentation Outline

- Current Situation
  - How much burden do local pension plans put on the property tax base?
- Future Situation
  - Is the current situation likely to improve or deteriorate?
- Observations

Current Situation: Pension Fund Property Tax Reliance

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Property Tax Funding Reliance

% of Funding that Comes from Property Taxes

	Fire Pension Funds	Police Pension Funds
Aggregate Across Funds	87%	85%
Average for All Funds	85%	83%

Note: The figures are based on “current tax levy” divided by “total received from municipality.”

Source: Illinois Department of Insurance Public Pensions, *2018 Public Pension Report*, Sheet 8.

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Variation

	Fire Pension Funds	Police Pension Funds
% of plans that rely on property tax for 90% of more of funding	74%	69%
% of plans that rely on property taxes for less than 50% of funding	12%	14%

Note: The figures are based on “current tax levy” divided by “total received from municipality.”

Source: Illinois Department of Insurance Public Pensions, *2018 Public Pension Report*, Sheet 8.

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Current Situation: Property Tax Burden Attributable to Pensions

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About the Data

- From the Illinois Department of Revenue’s Property Tax Statistics
  - Specifically “Taxing Districts Summary of Funds” for years 2011-2017
  - Used data at the taxing district level (some municipalities have multiple taxing districts)
  - Analyzed **extensions** to determine what portion of a district’s total extension is attributable to pension contributions
  - Limitations
    - Does not account for districts that make pension contributions with property tax revenue out of Corporate or General Funds
    - Downstate only

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About the Data

Example of "Taxing Districts Summary of Funds"

District ID	Year	District Name	Fund Name	Levy214	Rate2014	Max Rate2014	Fund Extension2014
0160162400057	2014	STONE PARK	Corporate	758,936	1.85540%	9999.99999%	$759,063.47
0160162400057	2014	STONE PARK	Bonds and Interest	1,291,602	3.15710%	9999.99999%	$1,291,602.47
0160162400057	2014	STONE PARK	POLICE PENSION	777,797	1.90120%	9999.99999%	$777,800.71
0160162400057	2014	STONE PARK	GARBAGE DISPOSAL	133,900	0.32730%	9999.99999%	$133,901.83
Grand Total				2,962,235	7.24100%		$2,962,368.48

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Portion of Total Property Tax Extensions Attributable to Firefighters and Police Pension Contributions

Year	Mean	# Taxing Districts
2011	20.42%	425
2012	21.13%	438
2013	22.92%	429
2014	23.54%	433
2015	24.98%	432
2016	26.84%	430
2017	27.95%	431

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Portion of Total Property Tax Extensions Attributable to IMRF Pension Contributions

Year	Mean	# Taxing Districts
2011	6.66%	1,863
2012	6.85%	1,857
2013	7.03%	1,870
2014	7.00%	1,896
2015	6.85%	1,893
2016	6.67%	1,903
2017	6.66%	1,894

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Portion of Total Property Tax Extensions Attributable to Firefighters, Police, and IMRF Pension Contributions

Year	Mean	# Taxing Districts
2011	29.23%	260
2012	29.78%	261
2013	31.43%	265
2014	32.15%	267
2015	32.76%	264
2016	34.57%	257
2017	35.70%	257

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Future Situation

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Are Plans Contributing Enough to Pay Down Their Debt?

- Basic math of the problem
  - Current service cost + Payment on unfunded liability (amortization) = Employee contributions + Employer contributions + Investment returns
  - Rearranging: Amortization = Employee contributions + Employer contributions + Investment returns – Current Service Cost

Methods of Answering the Question

- Three methods
  - Actuarial
    - Contributions based on “level percentage of payroll” assumption and a 100% funded ratio target
  - Statutory
    - Contributions based on “level percentage of payroll” assumption and a 90% funded ratio target
  - Limitations of first two methods
    - Assumptions are open to “massaging”
    - May result in insufficient contributions to pay of the debt if (a) payoff period is too long; and (2) payoff period rolls over (actuarial)
    - Payments MUST rise in order to pay off the debt
  - Net amortization
    - Contributions evaluated against a benchmark using a standard set of assumptions
    - Benchmark is covering the service cost, fees, and interest on debt using contributions and investment returns

Data Sources and Methodology

- Illinois Department of Insurance, Public Pensions Division, *Public Pension Report, Book II Detailed Financial Data*, Fiscal Years 2015 and 2017
- Required contributions for FY 2017 calculated from FY 2015 data (two-year lag is typical)
  - Actuarial
    - Note: Many plans use different assumptions than those used by the Department of Insurance
  - Net Amortization (6% investment return, 90% or 100% funded in 2040)

Results – Police Plans

Measure	Actuarial	Net Amortization - 90% Goal	Net Amortization - 100% Goal
Maximum	229.20%	29.89%	29.29%
Median	104.70%	-0.74%	-1.34%
Minimum	31.86%	-9.02%	-9.62%
Percent of Plans Contributing At Least 100% of ADC/With Positive Net Amortization*	61.89%	38.22%	29.02%
Percent of Plans with Sufficient Net Amortization to Reach Goal		15.80%	10.63%
Aurora	100.25%	-0.86%	-1.46%
Cicero	113.29%	0.38%	-0.22%
Elgin	106.42%	-0.24%	-0.84%
Evanston	151.65%	2.79%	2.19%
Joliet	122.99%	1.06%	0.46%
Naperville	135.03%	2.20%	1.60%
Peoria	102.69%	-0.82%	-1.42%
Rockford	80.77%	-2.49%	-3.09%
Springfield	105.37%	-0.50%	-1.10%
Waukegan	103.89%	-0.52%	-1.12%

* Contributing 100% of ADC is considered adequate funding to pay off the debt under actuarial assumptions. A positive net amortization indicates that the plan's debt is actually being paid off.

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Results – Fire Plans

Measure	Actuarial	Net Amortization - 90% Goal	Net Amortization - 100% Goal
Maximum	319.49%	49.12%	48.52%
Median	103.02%	-0.86%	-1.46%
Minimum	25.60%	-22.28%	-22.88%
Percent of Plans Contributing At Least 100% of ADC/With Positive Net Amortization	58.02%	34.35%	25.57%
Percent of Plans with Sufficient Net Amortization to Reach Goal		17.56%	12.60%
Aurora	103.29%	-0.62%	-1.22%
Elgin	102.72%	-0.57%	-1.17%
Hoffman Estates	90.07%	-2.22%	-2.82%
Joliet	119.29%	0.92%	0.32%
Naperville	134.32%	2.14%	1.54%
Peoria	99.92%	-0.93%	-1.53%
Rockford	76.42%	-2.62%	-3.22%
Schaumburg	94.24%	-1.76%	-2.36%
Springfield	102.72%	-0.58%	-1.18%
Waukegan	92.59%	-1.40%	-2.00%

Observations

- Pensions place a significant burden on the property tax base
- Some variation in that burden depending on reliance
- The situation is likely to get worse if funding policies are not strengthened
- Data is fragmented
- Actuarial standards and practices must be tightened
  - Many plans use amortization practices which are not recommended practice
  - Net amortization of 2-3% of debt at a reasonable rate of return is a potential guideline

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Contacts

Beverly Bunch
Professor, UIS
Email: bbunc1@uis.edu

Patricia Byrnes
Associate Professor, UIS
Email: pbyrn1@uis.edu

Amanda Kass
Associate Director, Government Finance Research Center (http://gfrc.uic.edu)
Email: akass6@uic.edu

Kenneth Kriz
Professor, UIS
Director, Institute for Illinois Public Finance (http://uis.edu/iipf)
Email: kkriz4@uis.edu

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