PROPERTY TAX RELIEF TASK FORCE

Pension Sub-committee

Meeting Minutes

Monday September 23, 2019

12:00pm

James R. Thompson Center
100 West Randolph Street
Suite 9-040
Chicago, Illinois 60601

MEETING START
Meeting scheduled to start at 12:00pm

AGENDA

I. Welcome/Roll Call

a. IDOR Staffer Sam Salustro called the meeting to order around 12:15pm CDT and welcomed members.
b. Roll Call was taken. Quorum was met at this time.

Name	Present
Representative Edly-Allen	No
Representative Jeff Keicher	Yes
Representative Thomas Morrison	Yes
Representative Joe Sosnowski	Yes
Representative Dan Ugaste	No
Representative Karina Villa	Yes
Representative Kathleen Willis	Yes

Name	Present
Representative Sam Yingling	Yes
Senator Cristina Castro	No
Senator Donald DeWitte	Yes
Senator Robert Martwick	Yes
Senator Steve Stadelman	Yes
Senator Craig Wilcox	Yes

II. Overview of Pension Liability and Goals of Task Force

a. Representative Kathleen Willis opened the meeting by outlining the goals of the taskforce. Governor Pritzker has put together a working group to look at local pension consolidation which includes downstate police and fire boards to see how they can consolidate their investments and get a better return on their money. Our Local Pensions subcommittee will continue to work with them with a goal of coming together with an agreed upon solution, bringing legislation to the January 1st Session.
b. Senator Martwick went over the legislative history of how the state has done pensions over the last few years and how it affects property tax. The sub-committee is developed to understand the scope of our responsibility and determine and identify changes or efficiencies that would allow us to alleviate the

high tax burden in Illinois. It is important to determine the changes have an actual effect on property tax. Changes, big or small, need to be implemented.

III. Presentations - Suzy Park, Budget Director for the City of Chicago.

a. City of Chicago has 4 pension funds:
    1. Municipal Annuity and Benefit Fund,
    2. Laborers' Annuity and Benefit Fund
    3. Policemen's Annuity and benefit Fund
    4. Firemen's Annuity and Benefit Fund

   The city also makes an annual contribution to each fund. Pensions payments have continually increased over the years in part because contributions were based on a multiplier of what workers contributed and did not account for fund performance or benefit changes. Park explained recent legislative changes called for a ramp up to auctorial system. The property tax levy to fund pension payments has continued to increase. In addition to the property tax levy, the city allocates pension cost levy across operation funds based on the distribution of salaries. Other funding sources to make annual pension contributions are:
    - Enterprise Funds
    - Special Revenue Funds
    - General Operating Fund.

   The Police and Fire Funds have primarily been funded by property tax. In 2017 the city council adopted a "phase-in" tax on water sewer services to fund increasing contributions to the city's Municipal Fund. A portion of the funds have been set aside in an escrow account to fund part of the first year's actuary payments for the Municipal Fund which will begin in 2022. Increases for the Laborers' Fund comes from Corporate Fund. In addition to pensions, the cities property tax levy is used for debt service and library operations and city colleges. Since 2013, the city's pension portion of the property tax levy represented 90% of the increase in the city's property tax levy. The average home owner in the city pays $4,000 in property taxes of which the city takes $1,000 and uses $600 of that for pensions. Part of the tax includes:
    - Cook County
    - Forest Preserve District
    - Metropolitan Water Reclamation
    - Board of Education
    - Park District and
    - Community Colleges

   From 2014, the last year the city's pension payments were based on a multiplier, and 2022, the first year all four funds will be on an actuarial basis, the city's pension payments will increase $1.8 billion.

b. Representative Willis asked at what percentage are each of the funds funded? Park said overall about 23%, - Municipalities 23%, Labor 41%, Police 22%, Fire 16%.

c. Senator DeWitte wanted a description of the 2014/2015 dramatic increase in the city's pension bill. Park's staff explained that is when the city began the property tax ramp. DeWitte also asked if the four pension plans were subject to the same legal guidelines that the state pension plans are bound to with regards to benefits, constitutionally. Senator Martwick explained that reforms were passed in 2013 and those were ruled unconstitutional despite being agreed to by the city and unions. Martwick explained the contributions used to be calculated by a multiplier – it was insufficient and the city committed to a ramp as part of the aborted reforms in 2013 (or 2015).

d. Representative Mazzochi asked who manages the funds. Park said each have their own boards. The Mayor has appointees on the board and pension appointed people as well. It varies by fund. Mazzochi asked if there are assessments to how the city's boards managed each of the funds relative to its peers either by other states or in the private sector. Parks said she would look into this and get the information back to the committee. Mazzochi wanted to know if the board members were seeking outside expertise and she wanted to know who the vendors were that are providing service, what were fees, and what they were investing in. Willis noted a lot are restricted to statute. It is one of the main goals, to look at the benefits of consolidation to cut down on the fees and to get a better investment. It will not impact the city of Chicago. DeWitte explained each of the four boards has its own board which does not necessarily handle the investments for each of the four firms. Mazzochi wanted to know what are the assets for each of the funds? Parks will get that information back to the committee. Mazzochi asked what happens if a person was holding two pensions. Park didn't think they could hold two pensions. Willis stated the double-dipper situation cannot be corrected, but the state can only correct changes going forward. Mazzochi wanted to know the number of employees above the Social Security payout vs the number below the payout. Martwick explained the Chicago pension systems are all different and different than other pension funds. For instance, downstate Police and Fire Pensions Tier 1 have a 3% compounded COLA. Tier 1 Chicago Police and Fire get 3% simple COLA or 1 ½% simple COLA. Chicago Police and Fire's amount of the annual adjustment is not determined by the date they started, but by the day they were born.

e. Martwick wanted to make a few stated Chicago property tax payers' municipal portion that goes to Chicago:
    i. 7% goes to libraries
    ii. 30% goes debt services
    iii. The remaining 63% goes to pensions

   Martwick said the city was using more outside funds to pay for pensions costs. Police and Fire funds, while underfunded, are stable, while Municipal Funds is losing 9% of the assets per year and are not stable. Municipals are the largest portion of the total Chicago pension fund at 45%. The Mayor is trying to find something structural such as casinos, and other on-going sources of revenue to start paying the ramps over the next 4 years. Representative Wilcox wanted to know if there was a date which the municipal fund would become insolvent. Martwick said the fund is on a ramp to reach an actuarial requirement by 2022. Park's staff said the ramp should achieve full funding by 2058.

f. Mazzochi asked if people thought about the difference between home rule and non-home rul units and what they can use to pay for pension obligations. Brad

Cole of the Illinois Municipal League answered there is a statutory mandate for downstate municipalities - Article 3 and 4 for Police and Fire – that states municipalities shall levy property taxes equivalent to the entire contribution, including other sources of revenue. The statutory requirement is for communities over 5,000. The only difference is the avocation of PTELL.

IV. Presentations - Elba Acevedo, Manager of Compliance for the Department of Insurance.

a. Acevedo was to talk about information she gathered showing how much employer contributions went into pension funds in 2017, which included the tax levy, Illinois property replacement, any money that went into the municipalities pension fund. According to the DOI it was $860 million. For actuary evaluation, which is developed by their independent enrolled actuary the number was $992 million in 2017. For 2018, the employer contribution is $980 million, in 2018 actuary evaluation is $1.1 billion. The best way to analyze the numbers is to take the 2017 actuary evaluation and subtract the contributions that occurred in 2018. The reason is because there is a lag from when the number is calculated and when the funds are received. The difference is $12.4 million. The Department of Insurance's role is to gather information from the Illinois public pension funds and analyze it for legislative changes or proposals. The Department also regulates by examining Article 3 and Article 4 funds and provides guidance to the all funds by providing a report on recommendations. The municipalities are allowed to choose a different method or use their own actuary. The municipality has the final say on how to make the payments.
b. Martwick asked if she knew how often payments, made by the municipalities, line up with the Department of Insurances' recommendation. Acevedo said all 647 funds would have to be analyzed in order to get a number. For Article 3 & 4 (all downstate Police and Fire outside the city of Chicago) the most recent required pension payment from employers (from DOI's respective) is a total of a $1 billion.
c. In 2017, legislation was passed requiring municipalities to make an actuary payment or the state comptroller could intercept funding. This determination is made by the municipality as long as there is a report that backs their study.
d. The total city of Chicago required contribution in 2019 is $1.3 billion, Police and Fire $2 billion. With a total state-wide required payment of $3.3 billion.
e. Representative Willis stated the reality of the legislative ramp (the state will be 90% funded by a certain date) is not practical or necessary. Willis suggested a healthier number should be more like 65-70%. Acevedo said the Comptroller does not start an interception until it was asked.
f. Keicher clarified that advice is given by the DOI every year but she did not know how many communities Pat Devany with Associated Firefighters stated from their observations, almost always, the employer makes a contribution based on the actuary evaluation that they hired. Pat said that his own research shows the numbers between the DOI and actuaries hired by the municipality are getting closer to agreement, though the community usually put in less. Devany said that can be caused by having different mortality rates or growth rates estimates.

Devany and Keicher spoke about how there was no standard. Others noted that some smaller funds are confined by what they can invest in based on the asset allocations they have by statutory law, and how Governor Pritzker's consolidation task force was looking into the issue. Willis brought up mortality rates are shifting longer, people are living longer and healthier.

g. Wilcox wanted to know what percentage of funding pension boards are willing to live with before they invite the Comptroller to withhold funds. Acevedo and Willis said the decision is up to each individual board. While the pension fund has the control to request it from the Comptroller has discretion as to how much goes into it.
h. Mazzochi wanted to know what the consequences are if the board knows it is underfunding and does not take action to pull in more funds. Willis said it will need to be a balance by the state. Wilcox verified if the Comptroller withhold payments to the municipalities, it would not affect education because municipalities do not fund education.
i. Keicher asked if the DOI had any recommendations or suggestions for transparency. DOI will have recommendations in the upcoming biannual.

V. Presentations - Professor Kenneth Kriz – University of Illinois

a. Kriz said currently, the average tax funding reliance on property taxes is about 85% for Police and Fire. Of that, 74% of Fire and 69% of Police plans rely on property tax for 90% of more of its funding. In comparison, 12% to 14% rely on property tax for less than 50% of funding, respectively. The property tax in general is a high percentage of what municipalities contribute to their pension funds. Kriz looked at figures from IDOR for taxing districts funds between 2011-2017. The portion of property tax extensions that are attributable to Fire and Police pension contributions is 20% to 28%. Tax extensions for IMRF pension contributions are more stable below 7%. The aggregated total, comparing 260 taxing districts that two kinds of contributions with a specific property tax levy is between 29% and 35% of the total levy.
b. Looking at the future, the problem is only going to get worse. He is concerned about the actuary calculations. Actuary contributions can hide what is really going on. Current service cost + payment on unfunded liability = Employee/Employer contributions + Investment returns. This process has to be in order to bring a fund into a fully funded status. Investment return fees, including consulting and management fees, can have a pretty big effect going forward. This is on all fees including consulting and management fees. If one rearranges the equation, the amortization (unfunded liability) = Contributions plus investment returns minus current service cost. If you want to pay off your unfunded liability, you have a positive amortization. You need a new way of thinking.
c. There are three ways to answer the debt question. Actuarial is calculated on "level percentage of payroll" and funded at 100%, but it it's hard to get information on assumptions. Statutory contributions (90%). Kriz said these two methods may result in insufficient contributions to pay off debt. If assumed payroll growth rate is increased the current contribution goes down and contribution in the future goes up this is called the "ramp". A third way, net amortization, looks whether the plan

is covering the interest on their debt. According to Kriz, only 16% of plans are on track to reach a 90% according to the net amortization model. In order to reach the 90% goal, the plans will have to contribute quite a bit more.

d. Kriz summarized:
    1. Pensions place a significant burden of the property tax.
    2. There is some variation in the burden depending on reliance.
    3. The situation is likely to get worse if funding policies are not strengthened.
    4. Data is fragmented
    5. Actuarial standards and practices must be tightened.
e. Willis asked about Tier 2 pensions plans where the employee pays more than they will ever get out. Kriz said that contributing sharing between employee and employer, and he said it was low. Kriz relayed his experience in Omaha where they were able to agree to a deal between unions and employers to stabilize their program, which he said would be difficult due to the Illinois Pension Protection Act.
f. Martwick clarified that the administration did not change the pension ramp, and made a full payment recently. Martwick summarized Kriz's testimony to be that the answer is funding needs to be increased. Martwick said his research showed underfunding of pension payments accounted for $45 billion of the $134 billion liability. In second was changes to actuarial assumption accounted for $34 billion. He asked Kriz to clarify the statement that employees currently pay significantly less than they had been in the past. Kriz said that the ratio between employee and employers has grown, while employees are still paying more. Finally, Martwick asked how net amortization was calculated, specifically at 6%. Kriz used data back to 1938 using 30-year increments on how they predict the next 30 year. Volatility tends to be smoothed out, in order to produce a consistent average, you have to look at the entire time series of data.

VI. New Business

a. No new business discussed. A future meeting will be discussed.

VII. Public Comment

a. No public comment

VIII. Adjournment

a. Having no other comments, the committee recessed to the call of the Chair.