

CITY COUNCIL WORK SESSION MEETING
Pension Funding
CY2012 Property Tax Levy
October 22, 2012; 5:00 PM

Council Present: Aldermen Judy Stearns, Mboka Mwilambwe, David Sage, Robert Fazzini, Jennifer McDade, Steven Purcell, Karen Schmidt, Jim Fruin and Mayor Stephen F. Stockton.

Council Absent: Alderman Bernard Anderson.

Staff Present: David Hales, City Manager, Patti-Lynn Silva, Finance Director, and Tracey Covert City Clerk.

The Work Session was called to order at 5:01 p.m. Mayor Stockton cited the Work Session topics and reviewed the agenda.

Pension Funding

David Hales, City Manager, addressed the Council. He stated that the discussion would provide recommendations and alternatives to fund Pensions. Some would be incorporated into the City's long term strategic financial plan. Tonight was an initial discussion.

Patti-Lynn Silva, Finance Director, addressed the Council. She noted that public pensions impact the property tax levy. A Request for Proposal (RFP) was awarded to Milliman Actuarial Consultants. Rebecca A. Sielman, FSA would present a power point. The goal would provide a vocabulary, better understanding, Illinois State required minimum and other options.

Ms. Silva noted various demographic assumptions: employee turnover, retirement and mortality. The interest rate assumption was investment income and contributions funneled into the trust fund and output to retiree benefits. The question was how much funding was required to pay benefits. She noted that benefits equal contributions and investment income. An unrealistically high interest rate would result in higher investment earnings and difficulty with long term future forecasts. Previously returns were expected at 8.5%, actual earnings were 7.5%.

Short term impacts of lowering interest rate assumption were: higher liabilities, lower funding ratios and larger contributions. Long term same would: investment returns would meet or exceed assumptions, less likely that actuarial losses would accumulate greater stability of contribution levels, decreased pressure on future taxpayers and positive credit.

Mr. Hales noted the state's pension funding changes.

Rebecca A. Sielman, FSA, Milliman Actuarial Consultants (MAC), addressed the Council. Ms. Sielman noted that the state recommended 6.75% assumption, MAC recommended 6.5%. The contribution impacts would be 12 – 15%.

She noted that there were different approaches to allocating the cost of pension benefits over a member's working lifetime. Accrued liability equaled cost allocated to past years of service; normal cost equaled cost of benefits earned this year and the rest were funded future amounts for future years of service. The ideal funding would be enough to cover the accrued liability. 100% funding was not normal due to market fluctuations etc.

There were two (2) approaches to allocate costs: entry age normal and projected unit credit. Choice did not impact long term costs. Choice would impact the current contributions and pattern of future contribution increases. Ms. Sielman noted that there was not a significant difference for Police and Fire pension plans.

Amortization method had different approaches to paying off the unfunded accrued liability over time: level dollar and level percent. She compared same to a mortgage. Level dollar were the principal and interest, same amount each year, high amount present and thirty (30) year; lowering percentage of city's budget. Level percent were: payroll and growth rate percentage.

Ms. Sielman questioned making the choice. She explained if the organization was young and rapidly growing the choice would be level percentage. A mature, community legacy cost the choice would be level dollars. There was not a one size fits all approach.

Annual Required Contribution (ARC) once calculated should be disclosed. Normal costs were known as this year's IOU's or current retirees. Amortization payment was paying off the unfunded accrued liability i.e. IOU's that have been handed out but not cashed. Interest needed adjusting for timing between valuation date and contribution payment date.

Ms. Sielman provided a brief pension funding history for Police, Fire and IMRF. She noted that assets/liabilities continued to climb. Police and Fire were 50% - 60% funded. She noted the global recession loss of 20% - 30%.

1992 was a historical period. Ms. Sielman believed funding was not as healthy as it could have been. She cited statute restrictions. Funding was 80% - 85%.

Mr. Hales questioned state law restrictions. Ms. Sielman stated there were limitations of investments, risk limited and no contest benefit levels. The state legislature continues to increase benefits which increased liability. A contribution policy should be established.

Mr. Hales noted that in 2009 employees with IMRF were offered early retirement incentive (ERI). Repayment for same would be within the next four to five (4 – 5) years.

Ms. Sielman outlined contribution policy characteristics (LEAF): long term in outlook; equitable across generations of taxpayers; avoid surprises by using a consistent process designed to minimize volatility and flexible in responding to unusual situations. The long term outlook was fully funded in thirty (30) years.

An interactive model would change the contribution level and the funded ratio. An interest rate assumption at 6.5% increased liability and contributions. The goal would be 90% funded in thirty (30) years with affordable contributions. Same would provide enough assets to cover accrued benefits. The target was 100% funded to establish a cushion and account for market fluctuations. Choosing a shorter time line eliminates amortization.

Amortization/level dollars would have the same time line for fully funded. The size of amortization would be different.

Projected Unit Credit (PUC) method – shown until 2041. Demonstrates how decisions play out over time. Entry Age Normal must be used to measure liability per GASB (Government Accounting Standards Board) 68. Same was used by 80% of large public pension plans. Cost methods pattern costs over time and require minimum contributions.

Mr. Hales questioned recommended contributions. Ms. Sielman believed a 90% funding target. She noted the PUC amortization. Actuaries use level dollar. Same was appropriate for public plans. Ms. Sielman noted the amortization payment growth.

Mr. Hales noted that Art Tepfer, Tepfer Consulting Group, Ltd continued work with Police and Fire pension funding.

Ms. Sielman stated that thirty (30) year time line was the longest. Affordability had not been addressed. She suggested considering the average working life span. She believed level percent was the best fit for the city's long term prospects.

Alderman Fazzini questioned the states use of forty (40) years. He believed twenty-five (25) years at 6.5% was good. Ms. Sielman responded that the liability must be paid for. Twenty-five (25) years shortens transition time and would never be fully funded.

Alderman Schmidt questioned funding over 100%. Ms. Sielman believed one goal would be sacrificed for another. Same would provide a cushion against market volatility.

Mr. Hales used ERI as an example. There would be an additional \$2 million after payments were completed. Same could be used for cushion.

Ms. Sielman noted one (1) time revenue. Same could be included in the contribution policy. She noted market volatility. There was risk taking more equities. Possibly forego investment income. There were trade - offs.

Mr. Hales stated that tonight established the foundation. Staff would compare numbers and affordability. This was a complex issue.

Mayor Stockton requested that Council submit questions to staff via email.

CY2012 Property Tax Levy

David Hales, City Manager, addressed the Council. He noted that the property tax was a significant revenue source.

Patti-Lynn Silva, Finance Director, addressed the Council. She informed Council that the General Fund (GF) was \$1.4 million ahead. Expenditures were on point and there was a positive fund balance. She noted that the Equalized Assessed Value (EAV) had decreased \$30 million. She suggested raising the tax rate by two percent (2%) to maintain current levels. She cited previous statutory minimums. Health care and salary costs had increased. The state XXX facing under-funded.

Ms. Silva stated city capital needs were \$100 million. Costs for same would be spread out over fifteen to twenty (15 – 20) years. Funding options would be presented next year. There was \$60 million for deferred maintenance, \$10 million for vehicle/equipment replacement and several water issues (total unknown). She recommended developing a joint plan. Studies were underway, citing streets and sewers. Ms. Silva noted the positive impact was economic development.

Mr. Hales not that the city was six (6) months into the fiscal year (FY). The goal was to present the budget the 1st meeting February 2013. Staff was working on a twenty (20) year comprehensive Capital Improvement program. Same would include review of operations, looking at the growth impact upon city service levels; costs to implement ten (10) Unions; Recession impact; and asset investments.

Ms. Silva provided the tax levy timeline. She reviewed the property tax allocation by district.

Mr. Hales noted that 13.5% of all property tax collected came to the city. He noted that District 87 would have a deficit this year. EAV was declining from the strain of the other taxing bodies. Past tax levy allocations were: general corporate (fire and police protection and public parks); Bloomington Public Library; Police Pension; Fire Pension; Illinois Municipal Retirement Fund (IMRF); social security and bond and interest funding. Funds derived from each tax levy can only be designated for that specific purpose. Mr. Hales anticipated that FY 2012 tax rate would be 1.33. He noted that 2009 – 2011 the amount levied was flat.

Mr. Hales stated the tax levy had decreased \$400,000. He anticipated an increase to pensions. There was a backlog of deferred maintenance. FY 2010 Council held the tax levy flat. Street resurfacing had increased. He questioned Council's policy.

There being no further business the meeting adjourned at 6:26 p.m.

Respectfully submitted,

Tracey Covert
City Clerk