



Open Letter regarding City of Lake Forest Employee Pensions (Part 2)

In the prior letter, the current state of the City of Lake Forest pensions was discussed. Today, we want to consider the practical impact pensions have on City finances.

The Illinois State Constitution includes a clause guaranteeing pension benefits. The Illinois Supreme Court has repeatedly upheld that clause, basically stating that prior and current workers are guaranteed the benefits promised to them, and those benefits may not be diminished in any way. Consequently, unless there is a constitutional amendment, all municipalities, must operate under the assumption that meeting the current pension obligation must be achieved.

Other communities' experiences highlight the potential consequences of not adequately addressing funding percentages and allowing them to decrease. Local press reported that Danville, Illinois Police and Fire pension funds recently fell to 17 percent and 30 percent funding respectively, and forcing Danville to implement double-digit increases to their property taxes and an almost 200 percent increase in their public pension safety fee on all parcels of property to meet their obligations.

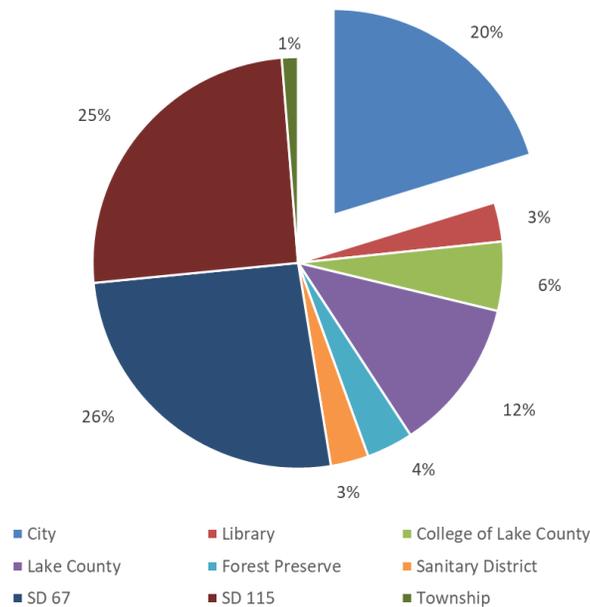
In April, Chicago media reported that the city of Harvey, Illinois, laid off over 30 firefighters and police officers to pay for a court-mandated payment to pension funds that the city had failed to adequately fund over the years, resulting in the fire fund falling to a level of 27 percent funding. The public safety unions in Harvey appealed to Springfield about the shortage, and the Comptroller withheld \$1.4MM in revenue due to Harvey from the state to satisfy the deficit, prompting the layoffs. Also, the Peoria City Council reportedly voted a few weeks ago to eliminate 22 fire and 18 police positions to fill a \$6 million budget hole and is contemplating a per parcel public safety pension fee to address increasing pension costs.

In Lake Forest, the City will contribute a combined total of more than \$4.2 million in the current fiscal year to fund the Police and Fire pensions. \$3.6M of that funding will come from property taxes, while the remaining \$.6M will come from the City's public safety pension fee, billed quarterly on residents' utility bills. The public safety pension fee was adopted in Fiscal Year 2018, and increased in Fiscal Year 2019, to raise public awareness of the pension funding issues faced by municipal employers.



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The total property tax levy for the city last year was \$31.3 million. **Lake Forest residents pay the lowest overall property tax rate in Lake County.** We intend to try to maintain that status. A resident’s property tax bill is comprised of 9 separate taxing bodies, with the City representing 20% of the total tax bill:



To honor our public safety pension funding commitment, the City undertakes an annual independent actuarial study of our Police and Fire pension obligations to calculate both the minimum contribution under State Statute and the recommended contribution to meet the City’s Pension Funding Policy. As part of that study, the City explores potential revisions to the Pension Funding Policy to ensure that the City’s approach continues to both meet legal requirements and be fiscally sustainable over the long-term.

Recently, it was determined that by removing the 2040 funding target and moving to an open, continuous 15-year rolling plan, we could achieve 80% funding in a reasonable number of years. More importantly, we found that Lake Forest can gradually reach and then maintain a level annual City pension contribution far into the future while keeping an 80% funded status. Should we continue with the State-mandated 2040 funding target, our annual pension contributions will



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increase dramatically over the period from 2019 to 2040 and then will fall to a minimal level after 2040.

In our opinion, a phased-in open 15-year rolling amortization pension plan is fiscally sustainable and fairer for the current and future residents. It will leave future contributions more stable over time and provide residents in the period after 2040 with a reasonable pension contribution for our future City Police and Fire employees. Current Police and Fire employees are assured that the City's contribution has met, and in most future years, will exceed state requirements.

We believe our actuarial-based public safety pension funding model for Lake Forest is fiscally responsible, both for meeting our current and future Police and Fire pension obligations and for meeting all of our other City services obligations.

City of Lake Forest Pension Subcommittee

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