



Legislation Text

File #: 20-231, **Version:** 3

ACTION REQUESTED:

Communication from the Mayor and City Manager with a Request for the Following:

- A. APPROVE a RESOLUTION Submitting a Public Question to Referendum Pertaining to the FIREFIGHTERS' PENSION TAX (ADVISORY REFERENDUM), and
- B. APPROVE a RESOLUTION Submitting a Public Question to Referendum Pertaining to the POLICE PENSION TAX (ADVISORY REFERENDUM).

At the October 27, 2020 City Council Meeting, the Council directed the City Manager and Corporation Counsel to draft advisory referendum questions for the Council to consider. Those questions are attached to this Council Communication.

The City Council discussed the Fire Protection Tax and Police Protection Tax levies, as well as public safety pension costs and the property tax levies that support those pensions on September 8. The background from that communication is attached below. *January 19, 2021 is the deadline to place a referendum on the April 6, 2021 ballot, whether the question is binding or advisory.*

The City Council has three options:

- 1. Place binding referendum questions on the ballot for a Fire Protection Tax and a Police Protection Tax. These two questions are outlined below. The City Council would need to determine the tax rate for each levy, (0.01% equals \$200,000 of property taxes) and pass a resolution. A rate of 0.10% would generate approximately \$2,000,000 for a Fire Protection Tax and a rate of 0.10% would generate approximately \$2,000,000 for a Police Protection Tax. The passage of these referendum questions would cost the owner of a \$125,000 home \$83.33 in additional property taxes.
- 2. The City Council could place an advisory referendum on the ballot asking the voters about their willingness to support additional property taxes for public safety pensions. The City Council would have latitude in crafting the advisory question for the voters to decide.
- 3. The City Council could plan, as part of the 2022 budget process, to increase the Fire and Police Pension Fund Taxes. This does not require any voter approval, simply a majority vote of the Council during the budget process.

Fire and Police Protection Taxes:

Currently the City does not levy a Fire Protection Tax (65 ILCS 5/11-7-1) or a Police Protection Tax (65 ILCS 5/11-1-3 and 11-1-5.1). Both statutes allow the City to implement a rate of up to 0.075% *without* referendum. This tax may be increased up to 0.6% *with* a referendum. The statutory sections are attached for your review.

The Council has the authority, without a referendum, to adopt a tax levy for Fire Protection of up to 0.075% and/or a tax levy for Police Protection of up to 0.075%. Even though the Council has the authority to implement this tax rate without a referendum, it could still seek input from the public via an advisory

referendum.

The Council also has the authority to place a public question on the ballot for an advisory referendum pursuant to 10 ILCS 5/28-2. These questions would be non-binding. December 7, 2020 is the deadline for the Council to adopt a Resolution placing an advisory public question on the February 23, 2021 ballot.

If the Council chose to place the public question(s) of Fire and Police Protection Tax on the ballot, they would appear in substantially the following form:

Shall the City of Peoria adopt a Fire Protection Tax in the amount of 0.XXX%?	YES	
	NO	

Shall the City of Peoria adopt a Police Protection Tax in the amount of 0.XXX%?	YES	
	NO	

Again, the results of an advisory referendum are non-binding.

If the Council wants to adopt a tax levy for Fire Protection of greater than 0.075% and/or a tax levy for Fire Protection of greater than 0.075% it would require a binding referendum. The ballot questions would appear in substantially the same form as above.

Fire and Police Pension Fund Taxes:

The Firefighters Pension Fund Tax (40 ILCS 5/4-118) and the Police Pension Fund Tax (40 ILCS 5/3-125) do not have a maximum rate. The City can levy whatever rate is necessary to produce a sum sufficient to meet the needs of the funds.

Article 3 (Police) and Article 4 (Fire) of the Illinois Pension Code establish the rules and benefits for police officer and fire fighter pensions. Up until last year, each police and fire fund established under the Act were separate, self-managed entities governed by a 5-member board:

- Two appointments by the Mayor;
- Two members selected by the respective police or fire department employees; and
- One annuitant member.

The Pension Board decides the investment of the pension fund's assets (until the funds are consolidated), the calculation of benefits for employees and whether to award disability benefits.

The State of Illinois establishes the benefit levels but makes no financial contribution to the police and fire pension funds. The pension funds receive their funding from three main sources:

- Payments made by the employees (fixed by state law at 9.91% for police and 9.455% for fire); and
- Income from the investment of the assets of the funds (which can fluctuate based upon investment decisions of the board); and
- Payments made by the municipality (statutorily responsible for making up any difference).

Illinois law requires that the pension funds be 90% funded by 2040. Currently, the police pension fund is 50% funded, and the fire pension fund is 48% funded. By comparison, in 2010 the police pension fund was 63% funded and the fire pension fund was 60% funded. According to the attached Actuarial Valuation Reports from the Illinois Department of Insurance, the unfunded fire pension liability is \$156.5 million and the unfunded police liability is \$172.2 million.

The 90% funded ratio is driving the City to increase contributions to the pension funds through higher property taxes, more personal property replacement taxes and the public safety pension fee. Beginning in 2020, the City will have to transfer \$4.0 million out of the General Fund to meet the public safety pension obligations. As the table below indicates, 2020 public safety pension contributions are \$24.6 million (\$12.8 million for police and \$11.8 million for fire), up from \$10.2 million in 2010 (\$4.6 million for police and \$5.6 million for fire).

	2010	2019	2020	2021	2022	2023
Contributions						
Police Pension	\$4.6	\$11.5	\$12.8	\$13.8	\$14.9	\$16.0
Fire Pension	5.6	10.3	11.8	12.4	13.3	14.4
Total Contributions	10.2	21.8	24.6	26.2	28.2	30.4
Revenues						
Property Tax	8.5	17.0	15.0	14.8	14.8	14.9
PPRT	1.7	3.6	4.0	4.2	4.6	4.9
Pension Fee	0.0	1.2	1.6	2.0	0.0	0.0
General Fund Transfer	\$0.0	\$0.0	\$4.0	\$5.2	\$8.8	\$10.6
Funded Ratio						
Police	63%	52%	50%			
Fire	60%	50%	48%			

The police and fire pension boards have requested that the City move to provide 100% funding of pensions by 2040. This would increase the contribution required of the City in 2021 for police from \$13.8 million to \$15.5 million, and for fire from \$12.4 million to \$14.0 million. Their letters requesting the additional funding are attached.

The public safety pension fee sunsets in 2021. Even with the fee, the City will need to contribute \$5.2 million of General Fund revenues to meet pension obligations next year. The General Fund transfer grows to \$8.8 million in 2022 and \$10.6 million in 2023. In 2021, \$1 of every \$9 collected in the General Fund would be dedicated for public safety pension.

This growth in pension costs is forcing the City to cut services. As stated above, property tax levies for police and fire have no rate limitation. The Council could increase these levies without referendum in order to ease the financial burden on the General Fund and to limit the continued reduction in services provided to the public.

NEIGHBORHOOD CONCERNS: Public safety is a concern for every neighborhood. The reduction of services due to the pandemic and the growing legacy costs will hamper the ability of the City to deliver services in the future.

IMPACT IF APPROVED: The Council has several policy considerations to determine prior to approval.

IMPACT IF DENIED: If no change is made, the current an additional \$24.6 million of revenue in the General Fund will be transferred to cover pensions in 2021-2023.

ALTERNATIVES: N/A

EEO CERTIFICATION NUMBER: N/A

WHICH OF THE GOALS IDENTIFIED IN THE COUNCIL'S 2017 - 2032 STRATEGIC PLAN DOES THIS RECOMMENDATION ADVANCE?

1. Financially Sound City

WHICH CRITICAL SUCCESS FACTOR(S) FROM THE COMPREHENSIVE PLAN DOES THIS RECOMMENDATION IMPLEMENT?

1. Have an efficient government.

DEPARTMENT: Legal