Wirepoints Report
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Harvey, the first domino in Illinois: Data shows nearly 400 other pension funds could trigger garnishment

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* (4/25/18) The report below has been updated to adjust for mislabeled pension contribution data provided in an Illinois Department of Insurance FOIA request. The changes, however, are not material to the overall findings of the paper – that 368 pension funds were shorted their required contributions. Each pension fund's FY 2016 "required contribution" has been corrected and shortfalls/surpluses updated.

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Introduction

You'd be mistaken to think Harvey, Illinois has a unique pension crisis. It may be the first, and its problems may be the most severe, but the reality is the mess is everywhere, from East St. Louis to Rockford and from Quincy to Danville. A review of Illinois Department of Insurance pension data shows that Harvey could be just the start of a flood of garnishments across the state.

Harvey made the news last year when an Illinois court ordered the municipality to hike its property taxes to properly fund the Harvey firefighter pension fund, which is just 22 percent funded.

Now, the state has stepped in on behalf of Harvey's police pension fund. The state comptroller has begun garnishing the city's tax revenues to make up what the municipality failed to contribute. In response, the city has announced that 40 public safety employees will be laid off.

Under state law, pensions that don't receive required funding may demand the Illinois Comptroller intercept their municipality's tax revenues. In total, 368 police and fire pension funds, or 57 percent of Illinois' 651 downstate public safety funds, received less funding than what was required from their cities in 2016 – the most recent year for which statewide data is available.

If those same numbers continue to hold true, all those cities face the risk of having their revenues intercepted by the comptroller.

Nearly 60 percent of Illinois public safety pension funds were shorted their full payments in 2016

Police and fire pension funds	Number	Percent
Received entire required contribution	283	43%
Received partial required contribution	368	57%
Total	651*	

Source: Illinois Department of Insurance
*Four fire funds have incomplete data

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*Table updated 4/25/18

More on the way

The state comptroller began intercepting Harvey's revenues – sales, income and other taxes that the state collects on behalf of municipalities – after the city's police pension fund certified that Harvey had failed to make its required pension contribution to the fund. Once a pension fund certifies a shortfall, the state comptroller must garnish city funds, according to a law passed in 2011 and then further clarified in 2015.

The state has already taken $1.5 million dollars from Harvey since February. Harvey is the first municipality to have its funds intercepted under the 2011 law.

Under the law, a city's required yearly contributions to each pension fund must cover two parts. First are the normal costs – the cost of benefits created by employees working one additional year. The second is an amount necessary to amortize a portion of the legacy shortfall such that the debt is paid off by 2040.

Harvey's police fund should have received $1.22 million in 2016. That's the number found in both the DOI report and the fund's actuarial report. Instead, the police fund received only $110,000, or just 9 percent of what it was supposed to. That lack of funding persisted over the past decade and continued into 2017, hence the intercept by the state.

Harvey may be the first city to suffer garnishment, but it won't be the last. Illinois has a $10 billion downstate pension crisis – made up of municipal police and firefighter pension funds – that is separate from the state's own $130 billion crisis.

Some public safety funds are in good shape, but the majority are in trouble. And a growing number are approaching total insolvency. More than half of Illinois' 651 public safety funds are less than 60 percent funded.

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Funding ratios of police and fire funds, 2016

Funding ratio	Funds	Percent of total
0%-20%	17	3%
20%-40%	76	12%
40%-60%	264	40%
60%-80%	225	35%
80%-100%	69	11%
Total	**651**	

Source: Illinois Department of Insurance

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Contribution shortfalls

Harvey's pension funds were among those facing the largest contribution shortfalls. The ten public safety funds most impacted, in percentage terms, received less than half their required amounts in 2016. Communities like East St. Louis, Round Lake Park, Sauk Village and Riverdale were among the top ten.

The top 10 police and fire funds with most-delinquent cities all received contributions less than half their required amount

Required vs. actual city contributions to downstate police pension funds, 2016

Police funds	2016 funding ratio	Total required contribution	Actual city contribution	Contribution shortfall	Percent shortfall
Lakemoor	32%	$315,778	$0	($315,778)	-100%
Harvey	51%	$1,220,938	$110,219	($1,110,719)	-91%
Sauk Village	44%	$616,874	$193,171	($423,703)	-69%
East St Louis	38%	$2,045,760	$688,617	($1,357,143)	-66%
Lynwood	32%	$579,980	$203,555	($376,426)	-65%
Salem	48%	$410,737	$146,414	($264,323)	-64%
Round Lake Park	22%	$518,941	$211,320	($307,621)	-59%
East Alton	34%	$378,480	$181,988	($196,492)	-52%
Midlothian	74%	$508,199	$249,587	($258,612)	-51%
Marengo	44%	$518,023	$259,382	($258,641)	-50%

Firefighter funds	2016 funding ratio	Total required contribution	Actual city contribution	Contribution shortfall	Percent shortfall
Harvey	22%	$2,182,684	$398,566	($1,784,118)	-82%
Justice	--	$27,954	$5,342	($22,612)	-81%
Win-Bur-Sew	44%	$48,050	$9,215	($38,835)	-81%
East St Louis	13%	$3,111,226	$801,797	($2,309,429)	-74%
Westmont	62%	$83,227	$25,000	($58,227)	-70%
Riverdale	48%	$529,334	$161,962	($367,372)	-69%
Sauk Village	11%	$33,213	$10,875	($22,339)	-67%
Pingree Grove & Cntrysde	34%	$209,916	$70,621	($139,295)	-66%
Centralia	59%	$28,208	$9,630	($18,578)	-66%
Newport Township	59%	$138,339	$50,087	($88,252)	-64%

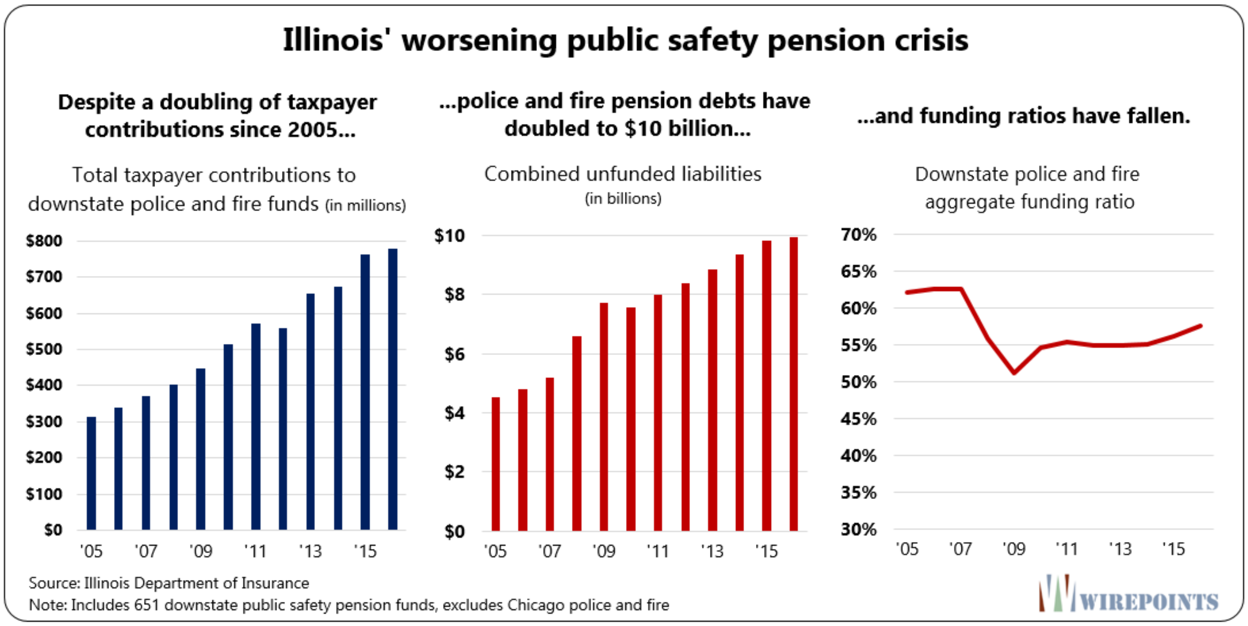
Source: Illinois Department of Insurance

*Table updated 4/25/18

Overall, nearly 60 percent of Illinois' 651 pension funds got less than their required contribution from their cities/localities in 2016. All those funds could potentially go after their cities and request a state-comptroller intercept of local revenues. However, pension funds under Fire Protection Districts will have a much harder time benefitting from the intercept law.

It's foolish to think that garnishments are going to solve anything. Taxpayers in municipalities across the state – who already pay the highest property taxes in the nation – have been putting more and more money into pensions, only to watch the funds continue to deteriorate.

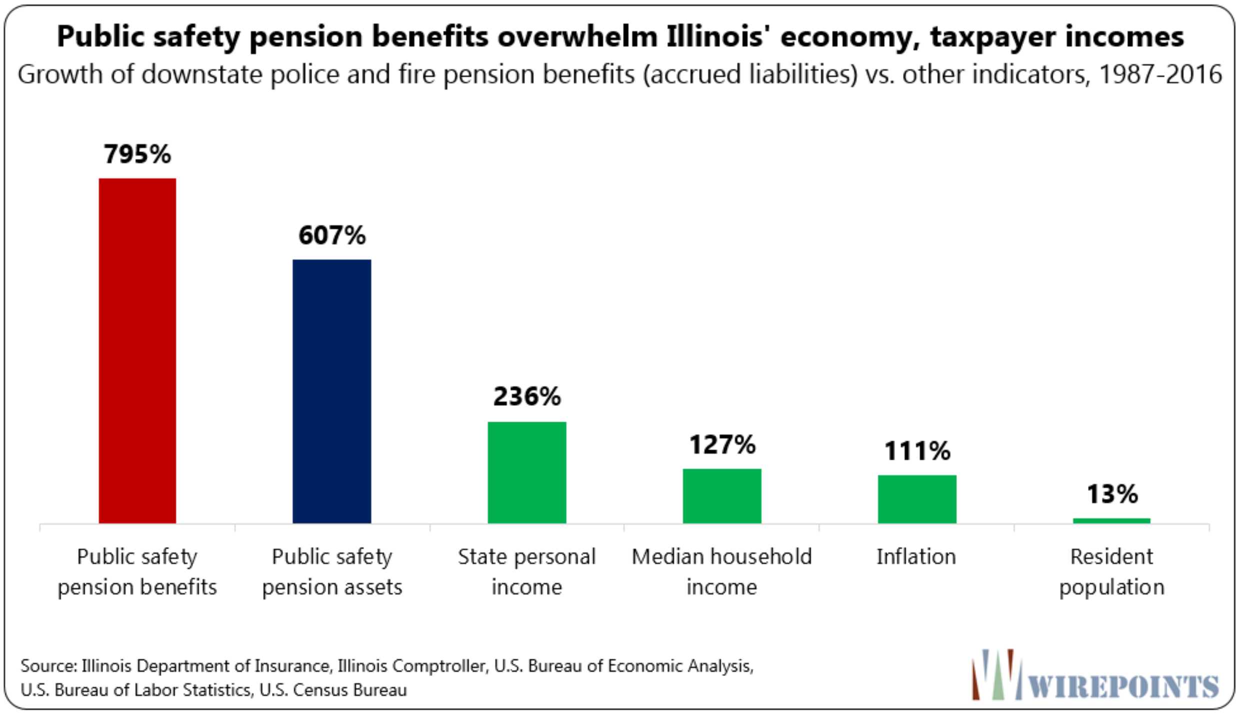
Despite a doubling of taxpayer contributions since 2005, police and fire pension debts have doubled to $10 billion instead of shrunk, while funding ratios have fallen.



Many will want to blame historical underfunding as the cause of this mess. But it's really ballooning pension promises that's the culprit.

In 1987, municipalities owed a total of $2.6 billion in benefits to public safety workers and retirees across the state. Today, that number has jumped to $23.4 billion. That's nearly an 800 percent increase.

Those total owed pension promises have grown at a pace that's swamping the state's economy, inflation and household incomes. Inflation has risen by just 111 percent and household incomes by 127 percent over those 30 years.



And it's not as if taxpayers didn't try to keep up with the funding. Illinois police and fire pension assets, buoyed by taxpayer contributions, grew 607 percent over the past 30 years. That growth, too, was multiples faster than the growth of the economy, inflation, and resident incomes.

Not surprisingly, no matter what taxpayers put in, their payments could never catch up with the state's out-of-control benefits. And with benefit and labor rules out of communities' control, cities have had few ways of cutting the burden themselves.

Protecting the status quo

With nearly 60 percent of pension funds not getting the contributions they require in 2016 and a $10 billion shortfall already in place, it's a wonder more cities haven't had their revenues garnished.

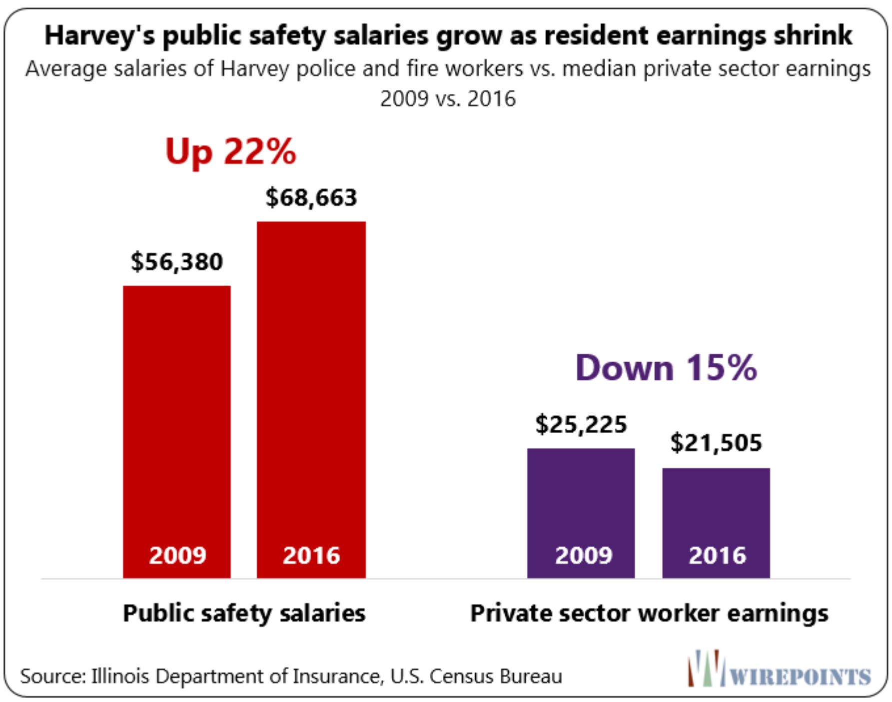
The answer lies in city and union officials' protection of the status quo.

Even union officials don't want the state to garnish city revenues because they know what will result: layoffs and pay cuts. They'd rather sacrifice pension funding to grow current payrolls because that's where their power comes from – dollars right now.

And if the pension funds collapse, they're gambling that the constitutional protections will bail them out – that an ever-shrinking number of taxpayers will be forced to pay no matter what.

Harvey was the perfect example of this for nearly a decade. The public safety unions there accepted raises at nearly double the rate of inflation.

At the same time, their retirement security was being gutted, the incomes of Harvey residents were collapsing, poverty grew by 7 percentage points, and the city lost 10 percent of its population.



But now that the crisis has deepened to the point where the state and the courts have stepped in, the game Harvey's played is nearly over.

Paradox

The root of Harvey's problems are the same ones driving cities and towns all across Illinois into crisis. They're all stuck on the same path, dealing with the same impossible pension math. It's just that Harvey managed to get to the end of the path first because of its deep economic plight and criminal mismanagement.

It all comes back to local control, and in Illinois munis' case, a lack of it.

As one of Wirepoints' readers commented recently:

> *"Harvey has no bond market option. No more room to tax option. No constitutional option to reduce their obligation. No ability to outright default option as they are now garnished. No cash flow option. No sellable asset option as the town is a wreck. What's left to do? Bankruptcy. The problem is who will run that process?"*

Cities in Illinois can't reform pensions, cut labor costs, or (as of yet) declare bankruptcy. The state sets the rules that define pension benefits and the collective bargaining laws that must be followed. If Illinois cities are to get out of this impossible situation, that has to change.

It may seem paradoxical to supporters of the status quo, but bankruptcy, a constitutional amendment, pension reforms and changes to collective bargaining rules are what's needed if Illinoisans really care about those who risk their lives for their communities. Otherwise, those workers will be out of a job, and maybe their pensions, to boot.