

SUPERINTENDENT REPORT TO BOARD OF EDUCATION

May 14, 2015

Pension Reform from Senate Bill 1 deemed unconstitutional by Supreme Court.

- a. The Illinois General Assembly made an effort to break what the Court considered an employment agreement between state workers (including TRS employees) and their employers as it relates to the defined benefits guaranteed in said contracts.
- b. However, it would be foolish to believe that there will not be some type pension reform action coming. Only 5% of the population of Illinois is covered by state pensions, and yet it has become more than 30% of the budget and debt taken on by the State of Illinois. Certified employees will be at some risk, but at more risk may be local taxpayers when a local cost-shift for the “normal cost of pensions” arrives. More about that to follow.
- c. The sentiment of many across the state can be captured in the words of the CEO of the Illinois Policy Institute, stated here:

“Today the [Illinois Supreme Court struck down Senate Bill 1](#), the pension-reform law enacted in 2013 by former Gov. Pat Quinn.

Illinois’ political elite have devised a pension scheme that is excessive, bloated, corrupted and was never affordable for Illinois taxpayers. While SB 1 did not solve the pension crisis, the legislation at least took a first step toward achieving parity between government workers who receive pensions and the taxpayers who fund them. But with today’s ruling, Illinois’ high court says that state government’s No. 1 financial responsibility is paying for the retirements of people who no longer work for state government. Pension costs are first in line, ahead of funding for public safety, education, helping the poor and disadvantaged, and all core services provided by state government. The court’s ruling suggested that raising taxes is a way to pay for pensions. Raising taxes will not fix a broken system. The pension system is beyond repair, and there will never be enough money to fund it. Case in point: The 2011 tax increase. That tax increase generated more than \$31 billion, and [90 cents out of every tax-hike dollar collected went to pensions](#). Yet it still was not enough to make the pension system whole.

Ultimately, the only way Illinois can break the cycle of siphoning more and more tax dollars and sacrificing more and more state programs to pay for pensions is to follow the lead of the private sector and move new employees to a 401(k)-style system. In the short term, it will not be surprising to see calls to change the state constitution or allow Illinois to file for bankruptcy.”

Please keep in mind that the Illinois Policy Institute is not an independent ‘think tank’ as they like to report, but is supported in great part by money from the Koch Brothers and other “dark money” political investors. But there is no question that state pensions will soon be funded by

a different mechanism and new TRS employees will at some point be shifted to a pension plan much more similar to that of those employees in the private-sector.

Insurance Information for both Health Insurance and Property/Casualty and Worker's Compensation Coverage

We received word that our Prairie States Cooperative Trust premiums for Property/Casualty premium will decrease 3% and our Worker's Compensation premium will decrease 6%. This is encouraging as we move into the second year with that program.

You will see at the end of this report a chart with Key Metrics related to our Health Insurance Program. The program is still running well, with a balance of approximately 1 year of premium costs in balance.

Dialogue Begins on Property Tax Proposal

During his campaign, Governor Rauner repeated a theme calling for a "property tax freeze". While no bills have been proposed, apparently the chatter around Springfield this week has been heard that the Governor will soon freeze the property tax extension for all local units of government, including school districts. The Governor has established a task force studying the issue of "Taxpayer Protection".

According to the Governor's "Turnaround Agenda", he states "Illinois has the second-highest property taxes in the nation. Instead of government deciding when property taxes should increase, we should empower voters to decide for themselves." Essentially, he is proposing forced Property Tax Extension Limitation Law (PTELL) on all counties. In PTELL counties, the property tax extension is the lesser of 5% or the increase in the Consumer Price Index from one year to the next. Thirty-nine counties in Illinois are currently subject to PTELL.

The Governor's proposal appears to be:

- a. Starting in property tax year 2016, payable in 2017, all property tax extensions from local taxing districts will be equal to the extension from 2015.
- b. Home rule and non-home rule units of government would be affected as would taxing districts in both PTELL and non-PTELL counties.
- c. Units of local government could increase extension with a majority vote in a referendum

Here are some points to consider:

- a. Fiscal Year 2015 State funding for public schools was below 2006 Funding Levels, including a mid-year cut of more than \$50M.
- b. Fiscal Year 2016 State funding for public schools has been projected to again be reduced or pro-rated.

- c. Limiting local property tax revenue to zero growth, combined with cuts in State funding, will likely lead to significant reductions in staff, larger class sizes, elimination of programs, etc.
- d. In our district alone, our General State Aid revenues have dipped from \$6.6M in 2010 to \$4.4M in 2015. The cumulative loss of revenue from state sources can be aggregated since 2008 to a figure nearly equal to one year of Education Fund total revenue. As Mr. Gronski shared, our real dollar reduction in state revenues from the last half of decade is more than 1/3.

Pension Reform Issues

The major public pension systems in Illinois are as follows:

TITLE	Abbreviation	Membership
State Teacher’s Retirement System	TRS	389,000
State Universities Retirement System	SURS	217,000
State Employees Retirement System	SERS	113,539
General Assembly Retirement System	GARS	Participation not required
Judges Retirement System of Illinois	JRS **	1,946

** JRS not included in the Reform Law

With the recent announcement of the unconstitutionality of Senate Bill 1 by the Supreme Court, many believe that some type of pension cost-shift is inevitable. It could possibly be immersed in some type of “mega deal” that is being discussed in Springfield.

Cost shift proponents argue that if a wealthy school district negotiates a collective bargaining agreement that pays a teacher \$90,000 or an administrator \$200,000, then that district should also be responsible for the yearly pension payment for that teacher. A poorer district may pay that same teacher \$48,000, and advocates for pension cost-shifts believe both districts are “on the hook” for the actuarial costs of that pension and that the State (or better the state income tax) should not pay that cost.

The estimated “normal cost” that is being discussed that would become a district’s responsibility is 7.65%. Currently, the District pays the 10.2 % of the employee share of TRS contributions for approximately 22% of the teachers. The District pays at least 0.58% for all teachers, but many of our teachers pay 9.4% themselves. Part of the legislation considered would mandate that NO school district could make the employee contribution, which means

some teachers would lose nearly 10% of their creditable earnings in one fell swoop. This would obviously change the collective bargaining climate for many schools, not just ours.

To put this in perspective, our total TRS creditable earnings total for teachers and administrators is approximately \$10,000,000. The pension cost shift would then cost our District approximately \$800,000 per year. The other possibility that has been discussed is that there is a phase in of this shift, exacting between 0.5%-1% per year until the roughly 8% cap is reached.

Graduation 2016

A hot topic for discussion is when the Commencement Exercises should be set for May 2016. As we have heard, the ProjectLEAF construction will begin in the spring of 2016. The High School has been surveying the Class of 2016 to see their preference to keep the date for Memorial Day weekend or to move it earlier. I believe that we could still keep the Stadium option open if we move up to Friday, May 13, 2016 before demolition. As I mentioned at the ProjectLEAF meeting, moving the date earlier doesn't assure good weather. Several of you have mentioned enjoying the indoor graduation better. As we know with most decisions, we will not make everyone happy.

Answer Choices –	Responses
–	8.00%
Sunday, May 29th	4
–	2.00%
Saturday, May 21st (possible spring sport conflict)	1
–	84.00%
Sunday, May 22nd	42
–	2.00%
Friday, May 27th (possible spring sports conflict)	1
–	4.00%
Responses	2
Other (please specify)	