

REPORT TO STREATOR TAXPAYERS—FIRE FIGHTER COSTS

During the past several months, the city and the local fire fighters' union have been at odds over matters related to the fire fighters' union contract. After the fire union terminated negotiations and mediation in 2017, they turned to social media to argue their case. This outreach produced inaccurate and misleading information. At times, the posts incited negativity toward the city and its officials.

The fire union has advocated that: the city take-over the local private ambulance; give pay increases that exceed other city union's proposals, fund future pensions without any strategies to slow rapidly escalating costs, and do all this without any reforms to protect local property taxpayers from unrelenting rate increases. Granting all three fire union demands will result in much higher property taxes.

To set the record straight, the city has prepared this "Report to Taxpayers." It is intended to demonstrate that City Council's overriding concern is to halt property and other tax increases due to increasing employee costs. The city hopes that this "Report to Taxpayers" fosters a reasoned public dialogue about the best policies for preventing tax increases and protecting the city's long-term financial health. Neither the fire union nor the Associated Fire Fighters of Illinois (AFFI) have offered solutions for how to close the growing gap between pension requirements and available revenues. But strategies should be developed now, so the city can avoid the more radical measures some other Illinois communities are already considering.¹

The city has never made disparaging remarks about the quality of work provided by firefighters. The city agrees that local firefighters care about the city they serve, and are committed to providing professional public safety services to Streator citizens. Statements to the contrary are offensive and divide the community rather than add to the debate about what is best for Streator and the State of Illinois.

The current city government feels that Streator property taxes are too high and are a drag on local economic development. High taxes in Illinois are driving taxpayers to other states in record numbers. With the highest pension debts in the nation, the solution to the pension problem in Illinois' **cannot** be to just keep increasing taxes. Other solutions must be considered.²

Current salary and benefits provided to Streator fire fighters are detailed below. Citizens can judge for themselves if this package of compensation and benefits is unfair. In 2017, the city proposed to leave this salary and benefits package in-place with only one exception—we believe employees who receive family medical coverage should pay a little more for the much higher cost of family coverage, and because we seek to decrease the significant fairness gap between employees receiving family coverage and those who do not have families.

¹ "Firefighter Staffing Law Continues to Ignite Debate," *Lake Forester*, Chicago Tribune Co., January 23, 2015, <http://www.chicagotribune.com/suburbs/lake-forest/ct-firefighter-staffing-law-met-20150123-story.html#share=email~story>. Tom Negovan, "Matteson Looking to Lay Off Police, Firefighters," WGN-TV, January 22, 2015, <http://go.wgntv.com/1JpJHAu>

² The city has prepared a "white paper" on the subject of local public safety pensions, detailing causes of the crisis and possible solutions. This position paper was sent to 12 Illinois newspapers, and the Illinois Municipal League. A copy of the "white paper" is included as an attachment to this report, and can also be viewed at the city's website.

City fire services have changed a lot in the last half-century. The advent of sprinkler systems, fire rated walls, fire retardant and fire resistant building materials, smoke alarms, and rigorous fire code and inspection regimes has decreased fires dramatically. With the number of actual fire calls decreasing to about one per day in many cities the size of Streator (including Streator), most local governments and fire unions worked together to realign and redefine the work day of the local fire fighter. But in Streator, the union demanded minimum staffing rules that added to staffing and overtime costs. They demanded more money just to provide first responder assistance to back-up the local private ambulance service with lift assistance and first aid, just as the future of the hospital and Streator's health care was changing.

Throughout the country, the significant decrease in live fire calls has been offset by an increase in emergency medical assistance calls. Most fire unions embraced this change because the gradual duty realignment kept fire fighters busy and relevant—while still working within the department's fire and rescue mission. In Streator, however, we are in the midst of a labor dispute, and the union has asserted the city committed an unfair labor practice because they did not *immediately* offer the union more money when an advanced first aid service was extended (at the time of the hospital shut-down in early 2016). This position, and the union's historic opposition to performing limited nuisance and safety inspections, caused the city to be concerned that every new training session or every new piece of equipment could result in a demand for more money. The city does *not* want to reach a point where the city or the union demands more or less wages whenever some new task is added or subtracted. In this instance, updated duties are within the fire and rescue mission, and within regular shift hours. The city is not requiring firefighters to pave streets.

The city of Streator believes the city's overall financial condition and the ability of its citizens to pay more taxes should be a major factor in deciding contract arbitration cases. However, the AFFI opposes legislation requiring labor arbitrators to consider whether a city and its citizens have the financial ability to fund union demands when settling labor disputes. This attitude will eventually bankrupt local governments, and increase the exodus of good taxpaying citizens from Illinois.³

After the summary of fire union salary and benefits below, this report details policy issues currently being debated by the city and fire union. The city hopes this information will help everyone engage in a more productive dialogue about the *real* policy issues the city is trying to confront (burgeoning employee costs and their impact on property taxes), so that we can all work together to solve the long-term financial challenges facing our city and State.

³ Illinois recently fell from the 5th largest state in the nation to the 6th as a direct result of a population exodus that is the highest in the nation. For Associated Firefighters of Illinois' opposition to arbitration reform, see *The Daily Southtown*, March 29, 2017 (<http://www.chicagotribune.com/suburbs/daily-southtown/news/ct-sta-arbitration-legislation-st-0329-20170329-story.html#share=email~story>).

SUMMARY OF FIRE UNION WAGES AND BENEFITS

Streator Fire Union Employee	Actual wages paid in FY 2017	+ Direct Benefits for Pensions/Insurance ⁴	TOTAL
Streator Firefighter A	\$ 50,358	\$25,479	\$ 75,837
Streator Firefighter B	\$ 95,628	\$56,114	\$151,742
Streator Firefighter C	\$ 63,392	\$42,113	\$105,505
Streator Firefighter D	\$ 58,490	\$36,782	\$ 95,272
Streator Firefighter E	\$ 74,332	\$48,700	\$123,032
Streator Firefighter F	\$ 54,657	\$16,498	\$ 71,155
Streator Firefighter G	\$ 69,826	\$21,337	\$ 91,163
Streator Firefighter H	\$ 81,348	\$52,190	\$133,538
Streator Firefighter I	\$ 63,219	\$19,804	\$ 83,023
Streator Firefighter J	\$ 68,896	\$22,945	\$ 91,841
Streator Firefighter K	\$ 68,593	\$37,741	\$106,334
Streator Firefighter L	\$ 81,301	\$52,801	\$134,102
Streator Firefighter M	\$ 48,813	\$24,850	\$ 73,663
Streator Firefighter N	\$ 77,484	\$39,667	\$117,151
Streator Firefighter O	\$ 66,616	\$45,634	\$112,250

Fire Union **Pension Benefits** are set by State Law: Firefighters can retire at age 50 on full-benefits if they have 20 years of service, or at age 55 with full-benefits if they have 10 years of service. For those hired after 2011, it is possible to retire at age 50 with only 10 years of service at a reduced benefit rate (meaning firefighters can retire up to 17 years ahead of non-public safety employees with full benefits). Calculation of employee pension benefits: accrual rate of 2.5, multiplied by the number of service years and final average 'base' salary. Firefighter pensions can be up to 75% of final pay. They receive automatic 3% increases in pension payments every year during retirement. Employees hired after 2011 automatically receive the lesser of 3% more per year, or half of the annual inflation rate (regional consumer price index). More pension benefit information is on the following pages.

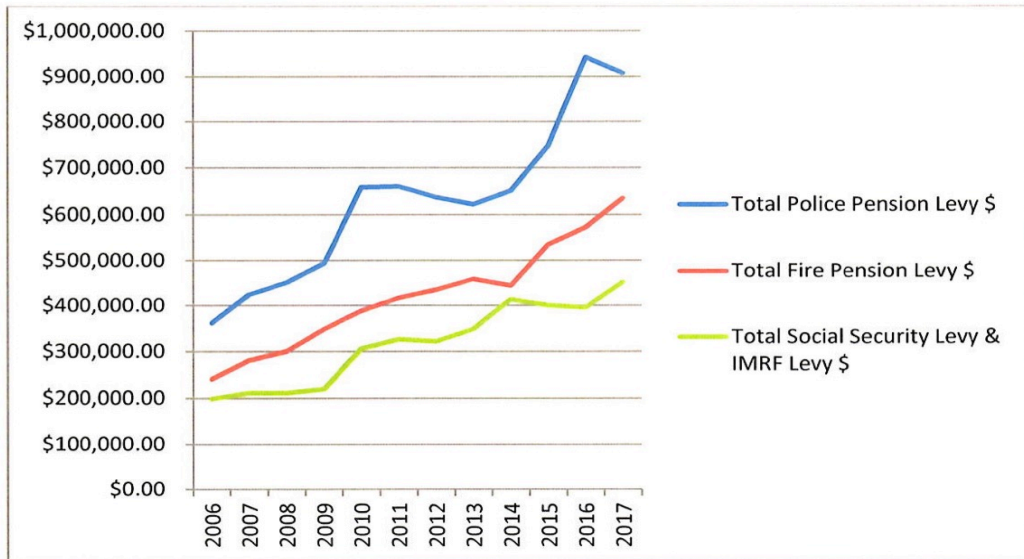
Fire Union Group **Health Insurance Benefits**: The city offers a plan covering a wide range of services and procedures for the employee and his dependents. The city pays 85% of all plan premiums, and 80% of all medical expenses after the employee satisfies an annual \$500 deductible. The employee pays just 15% of monthly premium costs. After total employee co-insurance payments reach \$1000 for the employee and \$3000 for families in a single year, the plan pays 100% of eligible costs.

Paid Leaves: Firefighters receive paid holidays, paid personal days, paid Kelly Days off, paid vacation days, paid sick leave, plus paid funeral and bereavement leaves.

Work Schedule: Streator's full-time firefighters are scheduled for 24-hour duty shifts, every third day. This means each duty shift is followed by 48-hours off. Firefighters may elect to have outside jobs during their off-days. Except for when they respond to emergency calls, each 24-hour duty shift includes 8 to 9 hours of "work" (equipment maintenance, inspections, training, pre-planning, etc.). Working or sleeping, firefighters must maintain a state of readiness throughout their entire 24-hour shift.

⁴ Does not include indirect benefits such as workers compensation, training, uniforms, employee discounts, etc.

Police, Fire, Social Security & IMRF Pension Levy in \$



In 2017, pensions, group insurance and workers compensation payments together comprised 31% of the city's general government budget. This does not include salaries, capital improvements and all the other items that make up the City Council's annual budget.

The chart on the previous page illustrates the historic trend for pension costs in terms of the dollars needed to support pension mandates—which come from annual property tax levies. Pensions are the largest part of the annual tax levy.

The City Council does not object to paying for pensions, insurance and workers compensation, but the trend illustrated in the chart is unsustainable, especially because the City Council wants to decrease (or not increase) local property taxes.

In 2007, the average Streator fire retiree received \$27,840 in annual benefits.*

In 2016, the average Streator fire retiree received \$43,419 in annual benefits, a 56% increase over the preceding nine years.*

Even with some proposed reforms by 2025, it is estimated that the average Streator fire retiree will receive over \$60,000 in annual benefits, or an additional 40% over 2016 levels, after which the rate will continue to climb.

Each year actuarial liabilities are recalculated for the Streator Fire Pension Fund, Police Pension Fund and Illinois Municipal Retirement Fund (IMRF) to determine how much the city must levy in property taxes to meet its obligation to achieve 90% funding by the year 2040. The growth of pensions as part of the city's annual property tax levy is illustrated above. Tax requirements for fire and police pensions grow faster than non-public safety pensions for two reasons: 1) public safety pensions are more generous; and 2) fire and police pensions are inefficiently managed—they earn a significantly lower rate of investment return; and since they are decentralized they have higher overheads and cannot achieve benefits from bundling assets.*

In the five years ending 2017, Streator fire pension total asset values slipped from \$4,920,880 to \$4,704,701, a loss of 4.6%. The main reason for the fund's poor performance was **not** because benefit payments exceeded revenue from employee deductions and city contributions, but because the fund's investments performed at about 1.7% per year. But Illinois pension rules allow the fund assume a fictitious rate of return of about 6% per year during the last seven years. This investment return shortfall adds to the unfunded liability, and therefore adds to the local tax burden.*

By comparison, IMRF averaged returns of 8.8% per year for the five years ending 2017. IMRF's assets have seen healthy growth almost every year, they are now nearly \$40 billion, and they are funded at nearly 95% of anticipated benefit liabilities. Nevertheless, police and fire unions have resisted attempts to fold their pension funds into better performing systems, such as IMRF (see IMRF website).

* "Fiscal Analysis of the Downstate Police and Downstate Fire Pension Funds in Illinois – 2017 Edition," State of Illinois, Commission on Government Forecasting and Accountability, p. 341. Amounts do not include additional payments for disability and surviving spouse annuities. See also, city of Streator pension "white paper."

CURRENT POLICY DEBATES WITH STREATOR'S FIRE UNION

Policy Issue: Because fire pension benefits are more generous than non-public safety pensions provided to other city employees, and because fire pension assets have a poorer rate of return (owing to the way they are administered), how should the city manage this growing obligation that, in 2017, consumed the equivalent of 66% of current fire department payroll costs?* By comparison, the city spends just 19% of non-public safety employees' payroll on pensions (IMRF plus Social Security).

* In some cities an "unfunded liability" was created by cities' failure to fund pensions as set and recommended by actuaries. This did **not** occur in Streator; here, the Council has always funded the fire pension fund in accordance with actuaries' recommendations for the last 30 years. The fire pension fund remains "underfunded" because mandated benefits dictated by the State have increased at the same time the fund's invested assets have performed poorly in comparison to the Illinois Municipal Retirement Fund (IMRF) and other indices. Fire pension benefits have a higher multiplier than IMRF pensions, allow members to retire with full benefits at age 50, give automatic increases every year, and can cost 2 or 3 times what an IMRF pension costs taxpayers in lifetime benefits.

Policy Issue: What is the best way to gradually transition to a mixed full-time & part-time fire department staffing model?

City's Position: Since the State Supreme Court has ruled that benefits for **current** retirees and **current** employees cannot be rolled back, the city has advanced 4 separate pension cost containment strategies: 1) end all attempts by the union to "hike" or "spike" pensionable base salary calculations with additions to base wages that drive up an employee's pension payments; 2) Combine all of the Downstate Fire & Police pension systems into one consolidated pension fund administered by IMRF to increase efficiency, thereby increasing pension funding; 3) find alternative revenue sources to augment the amounts currently paid by the city for fire pensions in a way that reduces underfunding in the long-term; and 4) reduce the number of full-time employees in the fire service to reduce long-term pension liabilities.#

#By gradually adding up to 2 fully trained part-time firefighters per shift, the city will reduce its pension and insurance costs. The city will not receive pension payments from part-timers, but the long-term avoided pension cost/liabilities are far greater. This puts less pressure on property taxes.

City's Position: The city acknowledges that this matter should be bargained with the fire union. So the city raised the issue and made numerous proposals during current contract talks with the fire union. The city promised to make changes only through attrition (only as turn-over occurs naturally), and pledged that shifts would be scheduled so that a majority of every shift would still be staffed with full-time firefighters. The union has refused to bargain or discuss this issue.

Policy Issue: As the nature and scope of local fire protection services change, how much freedom should the city have to make changes in assignments, and to alter firefighter duties so long as the job retains its essential fire and rescue mission, and so long as changed duties can be performed within regular shifts without impacting local safety?

City Position: The city believes that so long as the fire department staff is asked to perform work reasonably related to their fire and rescue mission, and so long as gradual changes in firefighter duties enhance the services provided to citizens in a way that is reasonably within the abilities of current staff to perform them in existing shifts, then the city should be able to make such changes to keep the fire service up-to-date. If unions believe that the scope of job changes are significant enough to warrant more pay, this can be addressed through normal and periodic collective bargaining processes when contracts come up for renewal; but it would be disruptive to *immediately* submit every single change in job duties, training, the addition of new equipment, etc. to immediate collective bargaining, because it would inhibit innovation and efficiency, and it would discourage efforts to introduce more training and improved equipment.

Policy Issue: Is it possible for cities to provide quality fire services with mixed part-time and full-time staffing?

City Position: Yes; many other cities have achieved good ISO (Insurance Services Office) ratings and other community fire safety awards and evaluations that are equal to or better than Streator's ratings with a mixture of full and part-time staffing. The city has pledged to make these changes gradually so that **NO** current firefighter experiences **ANY** loss of pay or pension benefits, and is not subject to any layoff. As required by ordinance, part-time fire fighters will be fully trained and certified.

Policy Issue: Is it reasonable to expect better investment returns on pension fund assets just because they are consolidated with other Downstate pensions?

City Position: Yes. In the last seven years the Streator Fire Pension Fund earned an annual average of 1.7% on its assets. IMRF earned an annual average of 8.8% during the same time. This poor investment performance adds to the calculation of unfunded liability and exposes local property owners to unnecessary property tax increases to make-up the losses. Consolidated management of pension assets improves returns because the assets can be bundled, and because overhead and administrative costs are lower.