WHEATON CITY COUNCIL PLANNING SESSION MINUTES

MAYOR PHILIP J. SUESS
COUNCILMAN MICHAEL BARBIER | **COUNCILWOMAN** ERICA BRAY-PARKER | **COUNCILMAN** SCOTT BROWN
COUNCILWOMAN SUZANNE FITCH | **COUNCILWOMAN** LYNN ROBBINS | **COUNCILMAN** SCOTT WELLER

WHEATON CITY HALL, COUNCIL CHAMBERS, 303 W WESLEY STREET, WHEATON, ILLINOIS 60187

Monday, March 13, 2023

I. Call to Order

The Wheaton City Council Planning Session was called to order at 7:00 p.m. by Mayor Suess. The following were:

Physically Present: Mayor Suess
Councilman Barbier
Councilwoman Bray-Parker
Councilman Brown
Councilwoman Fitch
Councilwoman Robbins
Councilman Weller

Absent: None

City Staff Present: Michael Dzugan, City Manager
John Duguay, Assistant City Manager
Robert Lehnhardt, Director of Finance
Halie Cardinal, Public Relations Coordinator

II. Public Comment

There were no public comments.

III. Approval of Planning Session Minutes – February 27, 2023

The City Council approved the February 27, 2023 City Council Planning Session Minutes.

IV. Police and Firefighters' Pension Funding Policy

City Manager Dzugan stated as part of the 2021 discussion to address the Police and Firefighters' Pension Plans' unfunded liabilities, the Council and staff discussed the need to review the current pension fund policy. He stated that a key component to calculating the funding should include a change in the City's amortization from a closed to an open approach. He stated that the current closed approach calculates pensions to a specific date, which in this case is the State of Illinois' date of 2040. He stated that an open approach acknowledges obligations to these pensions beyond 2040. He stated the City can consider an aggressive approach to funding future unfunded liabilities due to the City's actions in 2021 that brought the City's unfunded liabilities to almost zero.

Director of Finance Lehnhardt stated that staff and the City's actuary, Foster & Foster, are recommending a formal pension funding policy. The purpose of a pension funding policy is to define the manner in which the City funds the long-term cost of the pension plans and defines the calculation of the City's actuarially determined contribution (ADC) to the pension plans. The goal is to ensure that pension benefits can be paid by adopting a long-term funding plan that systematically eliminates unfunded liability while producing a contribution requirement that is stable and predictable.

Jason Franken of Foster & Foster stated that a funding policy determines how pension benefits will be financed over time. He stated that there are three main components to a funding policy including the actuarial cost method, asset smoothing method, and amortization method. The actuarial cost method is used to allocate benefits over a member's working career; the asset smoothing method is used to recognize investment gains and losses over a period of time; and the amortization method is used to pay off unfunded liabilities as they arise.

He stated that an actuarial cost method is a budgeting mechanism used to accumulate money over a member's working career so that there is enough money to pay their pension benefits in retirement. This method includes two budgeting mechanisms, which are entry age normal cost method and projected unit credit cost method. He recommended that the City continue using the entry age normal cost method because it produces a more stable and predictable contribution pattern. He stated that asset smoothing is a standard actuarial practice and, through Illinois Pension Code, requires investment gains and losses to be recognized over a five-year period. He recommended no change to five-year asset smoothing.

In response to a Council question, Franken stated that the City had significant unrecognized investment gains through December 31, 2021 and in 2022 there were significant losses.

Franken stated that in regard to amortization of unfunded liabilities, each year the accrued liability is compared to the actuarial value of assets to determine the amount of unfunded liabilities. After bond issuance, the City is in the unique position of having a limited amount of unfunded liability. He stated that when selecting an amortization method, the considerations include length of the amortization period; choosing between open, closed, or layered amortization; and choosing between a level dollar or level percentage of payroll basis. He stated that in regard to the length of the amortization period, most funds in the State rely on the Illinois Pension Code. Currently, the State's amortization period is through the year 2040, which is an arbitrary date arrived at through the political process. He stated that increasing contributions and volatility when approaching the end of the amortization period could be difficult for the City to manage.

In response to a Council question, Franken stated that as long as the City is contributing more than the statutory minimum as outlined in the Illinois Pension Code, then any desired changes to the funding policy are permitted.

Franken stated that the level percentage of payroll approach, used in the Illinois Pension Code, produces a payment stream that is designed to increase based on the expected growth in payroll, whereas the level dollar approach produces an amortization payment that is always the same amount and becomes a smaller percentage of payroll over time. Franken recommended adopting one of the following amortization approaches: 15-year open, level dollar amortization; 10-year open, level percentage of payroll with a 2.5% payroll growth assumption; and 15-year layered, level dollar amortization.

In response to a Council question, City Manager Dzugan stated that the City would maintain a disciplined approach to funding each year and that the pension funding policy is a long-term commitment. He stated that the that the City currently pays the actuarial-recommended amount.

In response to a Council question, Franken stated that for lateral hires who previously served in other departments, the Police and Fire Departments have different sets of transfer rules for pensions. Fire has a reciprocity agreement, which means the firefighter leaves his or her service in each pension fund in which they participated and ultimately receives a pension from multiple funds upon retirement, and the City of

Wheaton would pay the difference between the final rate of pay and their previous position's rate of pay for the service years at the previous department. Police add the individual's accrued liability to his or her new pension and then there is a transfer of money from the individual's previous fund to the new fund. It also requires the individual to pay for their years of previous service to be transferred to Wheaton.

The Council generally expressed support for the policy as presented. City Manager Dzugan stated staff would make minor revisions based on this discussion and prepare it for the Council's future review.

V. City Council/Staff Comments

Councilman Barbier complimented the Wheaton Park District, and everyone involved in the recent Casino Night event at Arrowhead benefitting the DuPage County Historical Museum.

VI. Adjournment

The meeting was adjourned at 8:06 p.m.

Respectfully submitted,

Halie Cardinal