

FIDUCIARY FUNDS

PROPOSED BUDGET

Fiscal Year

2019-2020

Fiduciary Funds

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Fiduciary Funds

INTRODUCTION

Fiduciary Funds are used to account for resources held by the City but restricted to uses outside of the government’s ongoing operations. The Police and Fire Pension Funds are subject to the City’s appropriation, but are managed by independent boards in accordance with state statute. The Governmental Accounting Standards Board (GASB) provides guidance that requires separate and distinct accounting of funds set aside for stabilization purposes. Therefore, the Fiduciary Funds are also where the City accounts for the Stabilization (“Working Cash” or “Rainy Day”) Fund that is used to provide for liquidity, meet unexpected revenue shortfalls, and address financial emergencies.

OVERVIEW

The FY20 Fiduciary Funds budget calls for \$31.3 million in revenue, expenses totaling \$15.7 million, and transfers-out of \$294 thousand. The Fiduciary Funds are anticipated to have an operating surplus of \$15.2 million after transfers. A surplus is to be expected as the pension funds should be generating a positive cash flow in order to meet current retiree payments, as well as account for the longer term liabilities of pensions currently accruing but not yet payable.

Revenues	\$31,251,000
Expenses	-15,744,000
Surplus / Deficit before transfers	15,507,000
Transfers In	0
Transfers Out	-294,000
Surplus / Deficit after transfers	15,213,000

DISCUSSION

The revenues for FY20 reflect a \$449 thousand, or 1% increase, and expenses declined 16%, or \$2.1 million compared to the prior year budget. Over a 5-year period, including the FY20 proposal, revenues average \$26.8 million and expenses average \$14.3 million.

	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Amended Budget	FY20 Proposed Budget
Revenues	14,543,489	27,854,054	29,731,692	30,802,000	31,251,000
Expenses	-13,217,056	-14,075,537	-14,972,298	-13,609,000	-15,744,000
Net Transfers	-2,500,000	1,059,862	-1,820,000	-1,101,000	-294,000
Surplus/ Deficit	-1,173,567	14,838,379	12,939,394	16,092,000	15,213,000

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SOURCES

Pension Fund revenues are made up of three sources: employer contribution, employee contributions, and investment income. The employer contribution, calculated by an independent actuary, is based upon benefit levels, demographics, and investment returns. The City funds this obligation via property and gaming taxes. The employee contributions to the Pension Funds are dictated by state statute. The investment management of the Funds are under the control of the independent Pension Boards.

The FY20 employer contribution budgeted for \$15.3 million is a 2%, or \$284 thousand increase from the prior year budget. In addition to the employer contribution, the police and fire employees' contribution is 9.91% and 9.45%, respectively, of their pay per state statute. The employee contributions for both Funds are projected to be \$2.4 million, 3% higher than the prior year budget. Lastly, interest and investment income is projected to total \$13.5 million based on prior investment experience of both Funds combined.

The Stabilization Fund cash balances are managed by the City Treasurer, and for FY20 the only revenue projected for the Fund is \$75 thousand in investment income.

USES

The Waukegan Police and Fire Pension Funds remit monthly pension benefit payments to the City's retired or disabled police officers and firefighters, or their surviving beneficiaries. This accounts for \$15.2 million or 97% of the Fiduciary Fund spending for the fiscal year. The remaining 3% in planned expenses include professional services such as fees paid to investment managers, attorneys, and accountants associated with Police and Fire Pension Fund activities.

The City anticipates transfers out of the Stabilization Fund of \$294 thousand. A transfer of \$112 thousand will be made to the General Fund in order to cover the annual Special Assessment due on the large commercial vacant property owned by the City in Fountain Square. Further information may be found in *Section 2 General Fund*. Additionally, a transfer of \$182 thousand will be made to Special Revenue Funds in order to match grants anticipated to be received by the City's Planning Department and Fire Department. Further information on these items may be found in *Section 4 Special Revenue Funds*.

OUTLOOK

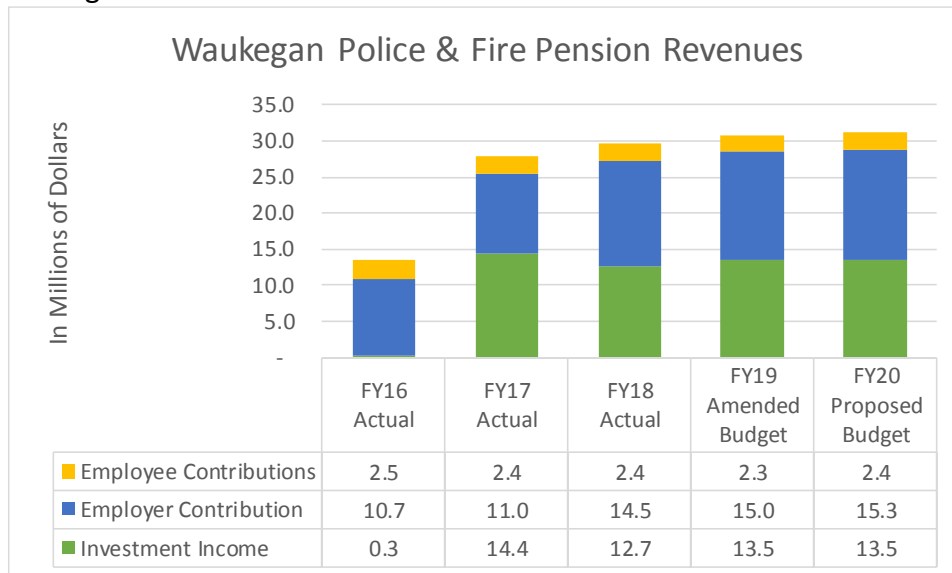
The City's bond rating, currently Moody's A2, is impacted by many factors including the City's short and long-term financial position and economic indicators. Two factors

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which are very important to the rating agencies are performance and funding level of pension obligations, and the ability for cities to offset volatility by limited unanticipated revenue downturns.

PENSION FUNDS

The City has historically levied for the statutory minimum via property taxes, and over the past several years allocated all gaming tax revenues received from the State of Illinois above that statutory minimum to the Waukegan Police and Fire Pension Funds. As illustrated in the chart below, even though there have been improved investment returns during the recent years – from \$275 thousand in FY16 to a projected \$13.5 million in FY20 – and, in spite of employer contributions increasing – from \$10.7 million in FY16 to \$15.3 million projected for FY20 – the unfunded pension liability has continued to grow.

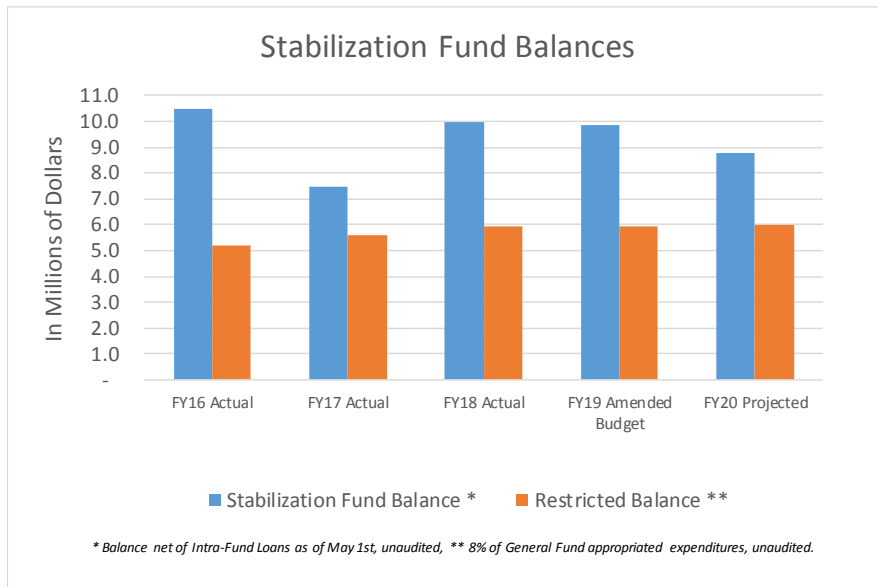


As of April 30, 2018, the most recent audited financial statements, the Waukegan Police Pension Fund had an outstanding Pension Liability of \$219 million, funded at 44.5%, and the Waukegan Fire Pension Fund had an outstanding Pension Liability of \$157 million, funded at 45.6%. Contrast that with Waukegan’s participation in the Illinois Municipal Retirement Fund (IMRF), which is the pension plan for non-sworn City employees and is managed by a statewide organization not under the control of the City. Waukegan’s share of the IMRF outstanding pension liability for the same reporting period was \$110 million, with assets held by IMRF on behalf of Waukegan funded at 98.7%.

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STABILIZATION FUND

A Stabilization or Rainy Day Fund is a useful tool to soften the blow of economic downturns and budget shortfalls. Rainy day funds help mitigate the impact of budget cuts and tax increases, and may provide the City’s leadership with time to develop strategies to deal with any unanticipated budget problems. Well-funded rainy day funds result in better bond ratings, and better bond ratings are an indicator of a healthy financial position, as well as resulting in lower borrowing costs for capital projects such as road and bridge repair. Deposits to rainy day funds typically are based on year-end General Fund surpluses; therefore the City has not been able to significantly replenish the fund for some time. While there is no hard and fast rule as to what is an appropriate balance to maintain, but typically ranging from 5% to 30%, the City’s required balance is 8% – or one month – of the General Fund appropriated expenditures.



In FY16, the City’s Stabilization Fund’s starting balance was \$10.5 million and the required reserve was \$5.2 million, accounting for 50% of the fund. Projected FY20 starting balance is \$8.8 million with the required reserve projected to be \$6 million, accounting for 68% of the fund. The amounts of the Fund and the required reserve are estimated, and will be impacted by final audit entries as well as the final appropriation approved by Council.

If the City is not able to improve its bond credit rating by improving pension funding levels and maintaining a healthy Stabilization Fund, the higher cost of borrowing money for capital improvements and other long-term needs will make it difficult to allocate tax dollars into core services that residents demand.

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LINE ITEM DETAIL

ACCOUNT #	ACCOUNT DESCRIPTION	FY20 PROPOSED BUDGET
WORKING CASH FUND, FUND 714		
<i>Sub 4600</i>	<i>Interest Earned</i>	
714 46100	Interest Earned	-75,000
Revenues		-75,000
Transfers From		0
Expenditures		0
<i>Sub 6800</i>	<i>Transfers To</i>	
714 68100	Transfers to General Fund	112,000
714 68231	Transfers to Homeland Security	62,000
714 68251	Transfers to Plan & Dev Grants	120,000
Transfers To		294,000

FUND TOTAL		219,000
POLICE PENSION FUND, FUND 719		
<i>Sub 3000</i>	<i>Tax Collection</i>	
719 30000	Property Tax	-8,335,000
719 30730	Gaming Video Tax Revenue	-500,000
<i>Sub 4600</i>	<i>Interest Earned</i>	
719 46100	Interest Earned	-40,000
719 46125	Interest Earned-Federal Invest	-880,000
<i>Sub 4900</i>	<i>Other Financing Sources</i>	
719 49223	Income Fr Mutual Funds	-1,070,000
719 49225	(Gain) Loss on Sale Mutual Fd	-5,380,000
<i>Sub 5800</i>	<i>Premium Contributions</i>	
719 58000	Retiree Contributions	-1,390,000
Revenues		-17,595,000
Transfers From		0
<i>Sub 2200</i>	<i>Personnel Benefits</i>	
719 171922465	Pension Fund Monthly Payroll	8,510,000
<i>Sub 2400</i>	<i>Contractual Services</i>	
719 171924040	Fiduciary Insurance	10,000
719 171924407	Bank Service Charges	30,000
719 171924429	Conference & Travel	5,000
719 171924437	Legal Services	20,000
719 171924438	Other Professional Services	80,000
719 171924443	Membership Dues	1,000
719 171924665	Investment Expense	130,000
719 171924696	St of IL-DOI Compliance Fee	10,000
<i>Sub 2500</i>	<i>Commodities</i>	

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719 171925468	Operating Supplies	1,000
Expenditures		8,797,000
Transfers To		0

FUND TOTAL		-8,798,000
FIRE PENSION FUND, FUND 720		
<i>Sub 3000</i>	<i>Tax Collection</i>	
720 30000	Property Tax	-5,930,000
720 30730	Gaming Video Tax Revenue	-500,000
<i>Sub 4600</i>	<i>Interest Earned</i>	
720 46100	Interest Earned	-10,000
720 46125	Interest Earned-Federal Invest	-600,000
720 46130	Interest Earned-Corp Bonds	-780,000
<i>Sub 4800</i>	<i>Miscellaneous Revenue</i>	
720 48900	Miscellaneous Revenue	-1,000
<i>Sub 4900</i>	<i>Other Financing Sources</i>	
720 49221	(G) L on Sale of Stock	-4,690,000
720 49227	Litigation Proceeds	-70,000
<i>Sub 5800</i>	<i>Premium Contributions</i>	
720 58000	Retiree Contributions	-1,000,000
Revenues		-13,581,000
Transfers From		0
<i>Sub 2200</i>	<i>Personnel Benefits</i>	
720 172022465	Pension Fund Monthly Payroll	6,730,000
<i>Sub 2400</i>	<i>Contractual Services</i>	
720 172024040	Fiduciary Insurance	10,000
720 172024407	Bank Service Charges	20,000
720 172024429	Conference & Travel	10,000
720 172024437	Legal Services	5,000
720 172024438	Other Professional Services	60,000
720 172024443	Membership Dues	1,000
720 172024665	Investment Expense	100,000
720 172024696	St of IL-DOI Compliance Fee	10,000
<i>Sub 2500</i>	<i>Commodities</i>	
720 172025468	Operating Supplies	1,000
Expenditures		6,947,000
Transfers To		0

FUND TOTAL		-6,634,000

GRAND TOTAL		-15,213,000
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