Barrington Enlightened Taxpayers Association (BETA)

P.O. Box 1522 • Barrington, Illinois 60011

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Information For Local Elections

All local elections are April 5, 2011

DISTRICT 220 BARRINGTON SCHOOL SYSTEM:

- 3 4-year terms up for this election cycle
- Need 50 signatures on petition, all from in-district voters. Be sure to get more than 50 signatures in case of challenges.
- Petitions must be submitted at the James Street Office between December 13th and 20th.
- Election packets are available now at the James Street Office.

BARRINGTON AREA LIBRARY:

- 3 4-year terms and 1 2-year term up for this election cycle
- Need 50 signatures on petition, all from in-district voters. Be sure to get more than 50 signatures in case of challenges.
- Petitions must be submitted to the Library Administrative Offices (2nd floor) between December 13th and December 20th.
- Election packets are available now at the Library Administrative Offices (2nd Floor).

VILLAGE OF BARRINGTON:

- 3 4-year terms up for this election cycle
- The number of signatures is dependent on the number of voters in the prior election.
- Petitions must be submitted between December 13th and December 20th.
- Election packets are available now at the Barrington Village Hall, 200 S. Hough Street.

The Public Sector Pension Crisis

There is a nationwide public sector pension crisis. The purpose of this article is to describe the crisis and its implications for taxpayers. Of particular concern is the lack of visibility of the magnitude and impact of public sector pensions at all levels from the state, county, municipal and township perspectives.

Excluded from the scope of this discussion are federal pensions, also paid for by the taxpayers. Also excluded is a discussion of medical benefits. In many cases, public sector retirement benefits include lifetime medical at little or no cost to the retiree. Little information quantifying the medical benefits has been published.

The Nationwide Perspective

The February 16, 2009 issue of Forbes magazine included an article discussing public sector retirement benefits, comparing them to private-sector benefits. ("Gilt-Edged Pensions," www.forbes.com/forbes/2009).

Some of the key points made in the article are:

> "The 22.5 million-strong public sector (that includes retirees) is growing ever larger, and enjoying ever greater wages and benefits often guaranteed by state constitutions."
>
> "State and local government workers get paid an average of $25.30 an hour, which is 33% higher than the private sector's $19.00, according to Bureau of Labor Statistics data. Throw in pension and other benefits and the gap widens to 42%."
>
> "Four in five public-sector workers have lifetime pensions, versus only one in five in the private sector. The difference shifts huge risks from government to private-sector workers."
>
> "Around the nation states, cities and their workers typically kick in a set amount to fund defined benefit pensions. The remainder, it is assumed, will come from investment returns of 8% to 8.5% annually. Often, however, the kitty comes up short."
>
> "The recent market meltdown erased $1 trillion from municipal pension funds, Boston College's Center for Retirement Research figures. That has left the average public plan 35% underfunded. With benefits inexorably rising, the shortfall will balloon to 41% by 2013 if stocks and bonds stay at current levels…."

The article includes a table titled "Perilous State" that depicts the funding status of state pension plans as of 2006-2007. The subtitle of the table is "State pension plans are woefully underfunded. Taxpayers may get the bill." Twenty-one states' plans were 60% or less funded according to the table, one state was 81% or higher and 28 states were 61% to 80% funded. Illinois was 52% funded.

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The messages conveyed by the article are onerous for taxpayers:

- The cost of funding these pensions has increased geometrically in the last ten years and is now squeezing out expenditures for core services.
- The shortfall will become the obligation of the private sector taxpayers unless significant pension reform is enacted.
- In many cases, pension enhancement schemes such as end of career large pay increases have caused large increases in unfunded liabilities.
- The risk of municipalities resorting to bankruptcy to solve the pension liability problems is increasing – Vallejo California did so in 2008.

Illinois has a Crisis

According to Chicago Breaking News Center (www.chicagobreakingnews.com) March 24, 2010, Illinois' public pension debt was estimated to be $77 billion to $90 billion. That pension debt excludes the separate debts of cities and counties.

A study released October 12, 2010 titled "The Crisis in Local Government Pensions in the United States," co-authored by Joshua Rauh of the Kellogg School and Robert Novy-Marx of the University of Rochester (www.kellogg.northwestern.edu/News_Articles/2010) calculates the unfunded liabilities and forecasts the number of years assets will last for defined benefit pension plans for 50 major U.S. cities and counties. That study reveals that the City of Chicago has a $44.8 billion unfunded liability and assets sufficient to cover eight years of benefits. Cook county has an $8.2 billion unfunded liability and assets sufficient to cover 14 years of benefits. An earlier study by Rauh and Novy-Marx (find it at the Kellogg link noted above) estimates that the three main Illinois state funds will run out of money in 2018 and annual benefits would approximate $14 billion at that time, or roughly 50% of total estimated state revenues for 2010.

In March 2010 the Illinois legislature passed what was characterized as massive reform of the state's pension systems. Included were 13 public pension systems. Excluded without clear explanation were Chicago and downstate police and firefighters, and county sheriffs' pension funds across the state. This was all done in one day. The reasons for the hurry were not clearly stated, but some observers attributed the action to pressure related to bond rating issues. The March 26, 2010 issue of the Daily Herald included an article titled "Pension changes in detail" and the Opinion page included commentary "Sweep to a pension plan too speedy" (both at dailyherald.com).

The pension reform consists of the following:

- All employees hired after January 1, 2011 will be subject to the new rules.
- The new rules relate to allowable pensionable salary, retirement age and other elements intended to reduce future pensions.
- There are no changes to the benefits of existing employees (i.e. those hired before the new rules become effective).

The article states that projected savings are more than $100 billion over the next 35 years, but there is no explanation of how the savings would be generated.

The problem with the enacted reform is that it deals only with the growth of pension liabilities that will not begin coming due until 20-35 years from now. In the meantime, we still have the solvency problem looming for the existing beneficiaries, both active and retired. Remember the Rauh Novy-Marx projection that Illinois funds will run out in 2018.

Crain's Chicago Business on August 30, 2010 posted an article "Illinois state pension funds' asset sales underscore crisis" (www.chicagobusiness.com/article) that includes the following statements:

> "Illinois' pension costs entered a dangerous new phase last week when the large state employee retirement funds said they have to sell off big chunks of their invested portfolios to raise cash for payments to retirees."
>
> "As first reported by Crain's sister publication Pensions & Investments, the Illinois Teachers' Retirement System is selling $3 billion of investments, the State University Retirement System is selling $1.2 billion, and the board that administers three other funds is unloading nearly $1 billion. For each, the liquidations represent about 10% of assets, an unusually large amount…"
>
> "Ordinarily, pension funds use the income generated by their investments to pay benefits to retirees."
>
> "But the asset sales announced last week deviate from prudent management principles."

The point of this article is that state pension funds are liquidating principle to meet current benefit payments instead of fund balances being adequate to generate income sufficient to meet benefit payment requirements.

Research by an Informed Local Resource

Champion News.net has its roots in an organization formed in the early 1990's, promoting fiscal responsibility in all levels of government. A major contributor to Champion News is Bill Zettler, a free-lance writer and consultant specializing in public sector compensation. Bill has written many articles on state pensions based on extensive research. The articles are worth reading and can be found at www.championnews.net.

Legislators have held out the 1970 guarantee of pensions enacted as part of the 1970 Constitutional Convention as a reason that current benefits can not be reduced. (How many of us remember voting on this?) In "Back to the Pension Future: What Did We Actually Guarantee?" July 5, 2010, Zettler makes the following points:

> "If the pension rules in effect when the Constitutional guarantee was made were in effect now there would be no deficit."
>
> "Before 1970 few substantive changes to pensions were made."
>
> Immediately following the 1970 guarantee, fourteen major enhancements were enacted by the Legislature from 1971 to 1998, adding hundreds of billions of dollars to pension liabilities over the decades.

Zettler concludes by stating that while Constitutional provisions cannot be reversed (without amending the Constitution), legislative ones can be reversed. He recommends that legislative relief from post-1970 enhancements be pursued.

Local Issues

The largest portion of our property tax goes to Barrington School District 220.

The Daily Herald published an article on April 26, 2010 titled "School boards part of pension problem". The article pointed out that District 220 was high on the list of districts paying penalties to the State for granting "excessive raises and sick leave benefits for retiring employees, boosting their pensions beyond limits lawmakers put in place to try to combat skyrocketing pension costs." Excessive raises were defined as those in excess of 6% per year.

When the District 220 Board extended the superintendent's contract to 2014 in conjunction with his planned retirement, the raises granted included 3.6% for the then current year and 6% per year for each of the last four contract years. That level of raises avoids State fines, but it is a pension enhancement that will not be funded by contributions over the next four years. This decision was that of the District 220 Board.

Another example of decisions within the control of the Board is pay schedules included in the teacher contract. The Board negotiates these contracts usually every three years. The last two contracts have granted pay increases far in excess of those realized in the private sector. The pay ultimately translates to pensions, which in turn become higher than they would otherwise have been.

The question is what is the school board doing to minimize the financial problem?

Conclusion

The public sector pension crisis is the result of decades of granting and enhancing retirement benefits for public sector employees by governmental bodies at all levels. The magnitude of the resulting liabilities was not known by the general public.

The crisis has surfaced because the governmental bodies are strapped for cash and it is not clear that the hard decisions are being addressed.

If the pensions are to continue and be honored in their current form crushing tax increases for all will be necessary. A federal bailout of selected plans is not beyond imagination.

Much of what has happened was done by legislators, local government, public employee unions and boards of education. The taxpayers apparently were not watching what was being done. Taxpayer involvement in these processes is difficult at best – although the legislators, etc. did not do this in secret, they also do not spend much time checking with us.

The challenge to all of us is to decide what we want done to solve this crisis and prevent future repeat of it.

An organization such as BETA can alert taxpayers to the problem, but the solution must arise by the taxpayers becoming involved. Get informed on the issues, contact your school board and governmental officials at all levels and convey your views. We have provided some links to excellent analysis performed by qualified individuals – check it out for yourself; there is more available. ■

TAXPAYER LEVY WATCH!

Taxpayers should watch the local newspapers for Levy Hearing Notices for the School District, Library and other local municipalities. These Levy Hearing Notices will be appearing in the newspapers during the next few weeks. It is important to attend these hearings to object to any unreasonable tax rate.

Fiscal State of Illinois

The Chicago Tribune and Daily Herald have done a good job of informing us about the fiscal woes of Illinois state and local governments. Since we will ultimately bear the costs, it is critical that we let the elected and appointed officials at all levels know that the fiscal mess must be fixed.

The state's fiscal situation:

- Illinois ended fiscal 2010 on June 30 "in the worst fiscal position in its history" says Comptroller Daniel Hynes.[1]
- The Chicago Tribune reports that Moody's changed its outlook on Illinois finances from stable to negative, meaning that Illinois will have a harder time borrowing money and will have to pay higher interest rates. Since 1991, Illinois has fallen from AAA several notches to A1. The negative outlook means that Illinois' credit rating is likely to go lower. Only California's rating is as low. Moody's says no state has a credit rating worse than Illinois.[2]
- According to the Civic Federation, this means that Illinois will pay 21% more for one year of borrowing. [3]
- The Daily Herald reports that Illinois debt is the most expensive to insure, at 19 basis points above California.[4]
- The public employees' pension plans assume returns on the pension investments of 8.5%. A study by two public finance professors shows that a realistic study of the unfunded pension liabilities reveals a debt of more than $200 billion for Illinois state and local governments and that the fund will be empty by 2018. Moreover, Illinois pension funds are selling off core assets in order to pay current benefits making things even worse.[5]

- The $200 billion debt amounts to $42,000 per Illinois household and only counts benefits that public employees can claim based on today's pay and work history. This amount increases every day and does not include other debt obligations in Illinois such as retiree healthcare.[6]
- The Chicago Tribune reports that state and local boards are inflating pensions for their retiring public employees with perks awarded in their final years of work. Pensions for public employee executives are routinely boosted with bonuses, car allowances, cash-outs of unused sick and vacation time, and other perks, a practice other midwest states do not follow. Moreover, the only rule that applies by law to every public retiree is a limit on pay spikes in the last three months, allowing a 25% spike in the last three months to apply to pensions.[7]

How might Illinois pay for this ever-increasing debt? Two ways: cut costs and/or increase taxes. When increasing taxes, one must consider the effect on business. An article in the Chicago Tribune Business Section of September 5, 2010 states that companies are leaving Illinois because of a bad business climate, and that Illinois lost 6.8% of non-farm jobs between 2000 and 2010 leaving the state with a 10.3% unemployment rate.

One way to increase taxes is to increase property taxes even as property values drop. The Chicago Tribune discusses the "hard-to-grasp phenomenon of rising tax bills while property values plummeted." [8]

What businesses do within Illinois depends on the state's competitiveness with other states. The Tribune reported the following in its September 12, 2010 edition in an editorial entitled: "The State of this State". Illinois is:

- 46th in conditions favorable for business.
- 30th in business tax climate (falling from 23rd in 2009).
- 48th in rate of job creation (only Ohio and Michigan are worse).
- 47th in total economic outlook (from 43rd in 2009).
- 40th for maintenance of its road system.
- 50th in funding of its public pension system.
- 3rd most expensive for Medicaid healthcare expenditures for the poor.
- 3rd most toxic metropolitan area in the U.S.
- 38th in overall education performance.
- 18th most expensive cost per pupil (rising 6.2% from the year before).
- 40th in Happiness Index based on jobless rate, foreclosure rate and non-mortgage debt as a percent of income.

Additionally, Illinois is:

- 4th highest in the nation with an average teacher salary of

$58,686, and its NAEP test scores are 30th.[9]

- 39th in property tax burden, plus Illinois has an estate/inheritance tax.[9]
- 46th in a state liability survey (tort litigation liability, judicial impartiality, etc.)[9]
- 40th in average workers compensation costs.[10]
- 50th (last) in late payments to health and human services non-profits.[10]

If Illinois hopes to solve this fiscal mess, it must do better in competition with other states. How to completely avoid paying the $42,000 in public pension costs? Move out of Illinois. But consider who would be most likely to move: businesses and taxpayers disadvantaged by high taxes and a negative business climate. A continuing drain of tax-paying workers and businesses can only lead to a fiscal disaster for Illinois.

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1 Daily Herald/Bloomberg News September 24, 2010

2 Chicago Tribune September 23, 2010 "Storm Warning"

3 Chicago Tribune August 30, 2010 Report at civicfed.org.

4 The Daily Herald June 29, 2010

5 Chicago Tribune September 5, 2010. Public finance professors Joshua Rauh of Northwestern University and Robert Novy-Marx of the University of Rochester.

6 Chicago Tribune article by Joshua Rauh of Northwestern University and Robert Novy-Marx of the University of Rochester.

7 Chicago Tribune September 19, 2010 Chicagoland section, and Chicagotribune.com September 17, 2010

8 Chicagotribune.com October 27, 2010 by Bob Secter-Tribune staff reporter.

9 "Rich States, Poor States" by Art Laffer, Stephen Moore & Jonathan Williams.

10 Chicago Tribune, Section 1 October 7, 2010.

Housing Market Report: Barrington Areas Through September 2010

All Areas of Barrington
In the reporting of Area 10 (Barrington) in the Multiple Listing Service there were 352 properties that were sold and closed. The average list price of sold properties through September 2010 was $411,145. The average sold price was $376,252 (88 % of asking price). The average marketing time reported for this period was 175 days.

For the same reporting period last year the MLS reported 292 properties that were sold and closed. The average list price of sold properties through September 2009 was $514,869. The average sold price was $436,649 (85% of asking price). The average marketing time reported for this period was 241 days

North Barrington
The Multiple Listing Service reported 25 of those 352 properties were in North Barrington. The average list price of those sold properties was reported to be $606,712.

The average sold price of those sold properties was $549,300 (91% of asking price). The average marketing time reported for the properties in North Barrington was 272 days. According to those figures North Barrington reported to be above the average in list price, sold price and days on market.

For the same reporting period last year the MLS reported that 27 of the 292 properties that were sold and closed were in North Barrington. The average list price of sold properties through September 2009 was $742,411. The average sold price was $620,691 (84% of asking price). The average marketing time reported for this period was 314 days.

South Barrington
The Multiple Listing Service reported 40 of those 352 Properties was in South Barrington. The average list price of those sold properties was reported to be $1,118,482. The average sold price of those properties was $948,370 (85% of asking price). The average marketing time reported for the properties in South Barrington was 248 days.

For the same reporting period last year the MLS reported that 29 of the 292 properties that were sold and closed were in South Barrington. The average list price of sold properties through September 2009 was $1,178,703. The average sold price was $993,457 (84% of asking price). The average marketing time reported for this period was 259 days.

Barrington Hills
The Multiple Listing Service reported 26 of those 352 Properties were in Barrington Hills. The average list price of those sold properties was report-

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ed to be $1,419,534. The average sold price of those properties was $1,138,351 (80% of asking price). The average marketing time reported for the properties in Barrington Hills was 289 days.

For the same reporting period last year the MLS reported that 21 of the 292 properties that were sold and closed were in Barrington Hills. The average list price of sold properties through September 2009 was $1,352,514. The average sold price was $1,079,758 (80% of asking price). The average marketing time reported for this period was 253 days.

www.betaonline.us

Deer Park

The Multiple Listing Service reported 21 of those 352 Properties was in Deer Park. The average list price of those sold properties was reported to be $503,127. The average sold price of those properties was $435,455 (86.5% of asking price). The average marketing time reported for the properties in Deer Park was 258 days.

For the same reporting period last year the MLS reported 17 of the 292 sold properties were in Deer Park. The average list price of those sold properties was reported to be $552,864. The average sold price of those properties was $465,971 (83.5% of asking price). The average marketing time last year was 341 days.

Steve Harney of *Keeping Matters Current* who provides an industry newsletter as well as other Market Place watchers, anticipate a continued downward trend in housing prices through 2011. They indicate that the pricing level we are at today will not be seen until mid 2012. ■

CUSD 220 Enrollment Report

These numbers are provided by CUSD220. Enrollment has been on a decline. Do we need to fill empty rooms with Mandarin Chinese classes? Do we need the long term cost? Private language schools in and around Barrington offer the same.