

**RESOLUTION NO. 2021-02**

**A RESOLUTION ADOPTING A PENSION OBLIGATION BOND POLICY**

**WHEREAS**, the Addison Fire Protection District No. 1 ("the District") is a fire protection district duly organized under the laws of the State of Illinois(70 ILCS 705/1 *et seq.*); and

**WHEREAS**, the Board of Trustees of the District ("the Board") has full power to pass all necessary ordinances and rules and regulations for the proper management and conduct of the business of the Board of Trustees and for carrying into effect the objects for which the District was formed pursuant to Section 6 of the Fire Protection District Act (70 ILCS 705/6); and

**WHEREAS**, the Board has determined that it is in the best interest of the District and its employees to adopt and approve a Pension Obligation Bond Policy.

**NOW, THEREFORE, Be It Resolved** by the Board of Trustees of the Addison Fire Protection District No. 1, DuPage County, Illinois as follows:

**Section One:** The District is committed to diligently funding its unfunded pension liabilities in the most efficient and cost effective manner possible.

**Section Two:** The District recognizes the potential benefits and risks associated with Pension Obligation Bonds (POBs).

**Section Three:** The Pension Obligation Bond Policy outlines procedures the District will follow in order to mitigate these risks.

**Section Four:** This Resolution shall supersede any ordinances, resolutions, or motions, or parts of ordinances, resolutions, or motions in conflict with any part herein, and any such ordinances, resolutions, motions, or parts thereof, are hereby repealed.

**Section Five:** If any section, paragraph or provision of this Resolution or shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect any of the remaining provisions of this Resolution.

ADOPTED this 6<sup>th</sup> day of January, 2021, by a roll call vote as follows:

AYES: 3  
NAYS: 0  
ABSENT: 0



*Michael R. Popper*  
President, Board of Trustees  
Addison Fire Protection District No. 1

ATTEST:

*Charles S. [Signature]*  
Secretary, Board of Trustees  
Addison Fire Protection District No. 1

STATE OF ILLINOIS        )  
  )  
COUNTY OF DUPAGE        )        SS

**SECRETARY'S CERTIFICATE**

I, CHARLES BAXA, JR., the duly qualified and acting Secretary of the Board of Trustees of the Addison Fire Protection District No. 1, DuPage County, Illinois, do hereby certify that attached hereto is a true and correct copy of a Resolution entitled:

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which Resolution was duly adopted by said Board of Trustees at a meeting held on the 6<sup>th</sup> day of January, 2021.

I do further certify that a quorum of said Board of Trustees was present at said meeting, and that the Board of Trustees complied with all the requirements of the Illinois Open Meetings Act.

**IN WITNESS WHEREOF**, I have hereunto set my hand this 6<sup>th</sup> day of January, 2021.



*Charles Baxa Jr.*  
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Secretary, Board of Trustees  
Addison Fire Protection District No. 1

## **Addison Fire Protection District Pension Obligation Bond Policy**

In conjunction with the issuance of the District's general obligation bonds to fund the Addison Firefighters' Pension Fund unfunded liabilities, the District is adopting this policy to set forth the following:

1. The District's commitment to diligently funding its unfunded pension liabilities in the most efficient and cost effective manner possible.
2. The District's recognition of the potential benefits and risks associated with Pension Obligation Bonds (POBs); and
3. Procedures the District will follow in order to mitigate these risks.

Therefore, the District hereby adopts the following Pension Obligation Bond policy:

- I. The District has determined that issuing POBs assures a more rapid funding of the Pension Fund with significant expected savings while recognizing that it will incur certain risks by doing so.
- II. The principal risk the District will incur is that bond proceeds are expected to be invested by the Pension Fund at an overall return higher than the interest rates on the bonds and that rate of return may not be realized.
  - A. The District has determined that it is likely that the Pension Fund will achieve an average return on the investment of POB proceeds over the life of the POBs at the fund's actuarial rate. The current actuarial rate for the fund is 6.75%; but it is expected that the fund's actuarial rate may decrease in the future. Further, the District believes the plan should at least achieve a return above the expected rate on the POBs of approximately 3.10% which is the District's break-even point (final breakeven will be determined at pricing).
  - B. Should the overall return on the investment of bond proceeds be less than the POB interest rate, the POBs would cost the District more than the Pension Fund's current funding methodology. In addition, the investment of bond proceeds could result in adverse market timing.
  - C. Over the past 10 years, the District has achieved an approximate rate of return of 6.79% in its Firefighters' pension funds.
- III. In order to mitigate these risks, the District has determined to adopt the following policies and procedures, recognizing that these procedures will not eliminate all risks:
  - A. The District will not use any bond proceeds to fund annual the "normal costs" nor will it fund any capitalized interest with bond proceeds with a view to reducing current cost in exchange for higher long-term costs.
  - B. The District, will use a combination of its firefighters' pension fund levy, its corporate fund levy and a tax levy, unlimited as to rate or amount, to fully pay debt service on the POBs.

- C. The District will not extend the bonds beyond the Pension Fund's amortization period nor will it defer principal repayments versus the current payment methodology.
- D. The District will not use any other financing technique which will have the effect of enhancing early year savings at the expense of higher long-term costs.
- E. The District will further limit its risk by not using guaranteed investment contracts, swaps or other derivative products in conjunction with the POBs, thus avoiding counter-party risk, credit risk and related interest rate risk.
- F. The District is a non-home rule entity and is subject to debt limitations. However, the POBs will be structured as alternate revenue source bonds and will not count against the debt limit of the District, so long as the bond and interest property tax is abated each year. Further, because the pension liability is already a debt of the District, the issuance of POBs will not increase the District's overall debt burden. Finally, the bonds are expected to be issued with no longer than a ten-year optional par call allowing for refunding or restructuring of the bonds in the future.
- G. The District recognizes that the current actuarial based funding methodology uses a constant percent of payroll factor resulting in estimated future payments to amortize the current unfunded liabilities that are higher than the current payment amount. In order to address this unsustainable practice, the District's POBs will be issued with a debt service payment structure that will limit early year expected savings to the District in order to allow for level debt service on the bonds as soon as is practicable in the future.
- H. The District will create a linkage between its unfunded pension liabilities and its POBs in its annual budget so that future District leaders will recognize that the District has chosen to issue bonds to fund liability. This will assure that the proper understanding of the Pension fund's funding status must include recognizing the POBs as a pension liability.

**Approved during an open meeting of the Board of Trustees on January 6<sup>th</sup>, 2021.**