

DATE: 1/26/2026

TO: Alderman Frost, Chair
Finance and Personnel Committee

FROM: Carrie Hagerty

RE: **Finance Policies**

The Finance Department regularly reviews best practices, auditor recommendations, and operational needs to determine where policies are needed in our operations. For Council's consideration, we are presenting the following policies for review and approval:

1. Accounting Policy: this is a new policy and effectively memorializes current practice for several general accounting practices
2. Police and Fire Pension Funding Policy: this is also a new policy and one commonly in place in municipalities in Illinois. The policy outlines the City's current practice related to defining and funding required pension contributions.
3. Unclaimed Property Policy: minor updates to an existing policy to incorporate the requirements outside the State of Illinois.
4. Capital Asset Policy: combines our current vehicle replacement policy and surplus property policy with broader capital asset practices to reflect best accounting practice and incorporate some of our current operations.

Please let me know if you have any questions.

POLICE PENSION AND FIRE PENSION FUNDING POLICY
CITY OF ROCKFORD, ILLINOIS
January 2026

I. Introduction

The purpose of this policy is to define the manner in which City of Rockford funds the long-term cost of benefits provided to plan participants in the Police Pension Fund and Fire Pension Fund. This policy also defines the calculation of the City's annual required contribution.

The primary goal of this policy is to ensure that sufficient resources exist to fund benefits, adopt criteria to achieve stable and predictable annual contributions, manage and control future contribution volatility, and meet funding requirements of the Illinois Pension Code while balancing the need to fund City operations.

II. Background and Scope

The financial objective of a defined benefit pension is to fund the long-term cost of benefits provided to plan participants. To ensure that the plan is financially stable, the plan should accumulate adequate resources for future benefit payments in a consistent and disciplined manner over the active service life of benefitting employees.

III. Funding Policy Objectives

- a. **Actuarially Determined Contribution** – Determined annually in an actuarially sound manner. Incorporates the cost of current benefits earned by active plan participants plus amortization of the unfunded actuarial accrued liability.
- b. **Funding Discipline** – Funding based on consistent methodology each year that ensures adequate funds contributed annually to pay promised plan participant benefits.
- c. **Intergenerational Equity** – Cost of plan participant benefits paid by each generation of taxpayers who receive services from plan participants during their active employment years, rather than defer costs to future taxpayers.
- d. **Contribution Management** – Manage and control future City contribution volatility. Annual City contribution costs remain consistent as a percentage of payroll.
- e. **Accountability and Transparency** – Clear reporting of pension funding to include an assessment of how and when City will ensure sufficient assets will be available to pay plan benefits as promised.

IV. **Annual Required Contribution (ARC)**

City of Rockford will determine its Annual Required Contribution (ARC) using the following principles:

- a. An enrolled actuary will calculate the **ARC**.

ARC will include normal cost for current service, amortization of unfunded liability, annual actuarial interest adjustments, and an estimate of annual cost to administer the pension plan.

- b. **Actuarial Accrued Liability (AAL)** is the accumulated value of benefits earned by plan participants, and accrued as of the valuation date.

Normal Cost is the annual cost of pension accruals by active employees each year, calculated independent of plan assets.

AAL and **Normal Cost** are calculated using Entry Age Normal Level Percentage of Payroll Actuarial Cost method. Each are calculated using the following assumptions:

- i. Investment rate of return – recommended annually to City Council and reviewed by enrolled actuary for reasonableness
- ii. Payroll growth rate - recommended annually to City Council and reviewed by enrolled actuary for reasonableness
- iii. Non-economic assumptions – rates of separation, disability, retirement, mortality, withdrawal, marital are determined from studies to reflect current experience.
- iv. Economic assumptions – inflation rate and annual salary increases are determined from recommended rate studies

- c. **Actuarial Value of Assets** is determined using market value of assets as of the valuation date and asset smoothing of gains and losses. Asset smoothing of gains and losses are over a 5-year period and helps reduce market volatility effects on City contributions.

- d. **Unfunded Actuarial Accrued Liability (UAAL)** is the difference between **Actuarial Accrued Liability** and **Actuarial Value of Assets**. The amount is amortized using Closed Level Percentage of Payroll Amortization method to achieve funding levels required by the Illinois Pension Code.

Closed amortization states that the UAAL eliminates within a specified timeframe and the amortization period declines annually by one year. Level percentage of

pay method promotes management of cost volatility and maintenance of intergenerational equity.

V. Funding Sources of Pension Contributions

- a. Police Pension and Fire Pension Property Tax Levy
- b. The maximum allowable Personal Property Replacement Tax allocation
- c. Additional Unrestricted Revenue, net of expenses available in General Fund
 - i. City of Rockford is legally obligated to meet the ARC annually. If funding sources above do not satisfy the ARC, then General Fund reserves in excess of General Fund required fund balance may be utilized.
- d. Other sources as determined necessary by the Finance Director and City Council

VI. Transparency

Funding of the Police Pension and Fire Pension plans will be transparent to all vested parties, which include plan participants, annuitants, pension boards, City Council, and city residents. The following information is made public on the City's website:

- a. Annual actuarial valuation report for police pension and fire pension plan
- b. Annual operating budget which states City's annual required contribution to police pension and fire pension plan
- c. Annual Comprehensive Financial Report which shows City's annual required contribution and value of outstanding pension liabilities as directed by Governmental Accounting Standards Board
- d. Any other reports as deemed necessary

VII. Review

City of Rockford will review this policy annually to determine if changes to the policy are necessary to ensure that adequate resources are accumulated in the police pension and fire pension funds. City Council reserves the right to make changes to this policy at any time if deemed appropriate.

Rockford, Illinois

Date: January 26, 2026

COMMITTEE REPORT

TO THE CITY COUNCIL OF THE CITY OF ROCKFORD:

Council Members:

The Committee on Finance and Personnel having received a request hereby begs leave to report recommending **approval** of the Police and Fire Pension Funding Policy. The Legal Director shall prepare the appropriate ordinance.

Kevin Frost (Chair)

Jonathan Logemann (Vice chair)

Frank Beach

Dawn Granath

Chad Tuneberg

Committee Action Taken:

Frost:	Ayes:___	Nays:___	Absent:___
Logemann:	Ayes:___	Nays:___	Absent:___
Beach:	Ayes:___	Nays:___	Absent:___
Granath:	Ayes:___	Nays:___	Absent:___
Tuneberg:	Ayes:___	Nays:___	Absent:___