Illinois Municipal Retirement Fund

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SPECIAL MEMORANDUM

Number: 285

Date: July 21, 2004

To: Authorized Agents of employers with taxing authority

Subject: Borrowing from IMRF Tax Levy Not Allowed

Recently, IMRF has discovered that several taxing bodies have transferred funds raised by their IMRF tax levy from their IMRF fund account into other fund accounts.

We recognize that in certain situations accounting rules allow interfund borrowing. However, section 5/7-171(h) of the Illinois Pension Code [(40 ILCS 5/7-171(h) (West 2002)] specifically prohibits the use of the money raised via the IMRF levy for any purpose other than to pay the employer contributions to IMRF. Section 5/7-171(h) provides, in part: "The revenue derived from any such tax levy [referring to the IMRF tax levy] shall be used only for the purposes specified in this Article [Article 7 of the Pension Code pertaining to IMRF]. . . ."

IMRF believes that any borrowing or transfer of funds derived from the IMRF tax levy is a violation of this statute. Such violations are taken seriously by IMRF. Taxpayers are informed through their real estate tax bills which dollars are being spent on pension benefits for the taxing body's employees.

To use the pension levy for any purpose other than to fund pension benefits seriously violates the rationale behind the requirement that taxpayers should know how many dollars are paid to fund public employee pension benefits. Furthermore, this practice is unfair to the public employee. If a taxing body uses pension levy proceeds to fund both pensions and interfund loan(s), taxpayers are mislead into believing that employee pension costs—and consequently, pension benefits—are greater than they actually are.

Moreover, interfund transfers that are not promptly repaid may lead to delinquencies. Whenever employer contributions are delinquent for more than ninety (90) days, section 5/7-172.1 of the Pension Code [40 ILCS 5/7-172.1 (West 2002)] permits IMRF to seek direct payment from the county treasurer or state comptroller. Such actions are rarely required, but when they occur the publicity generated is never favorable to the employer.

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IMRF appreciates that this may be an inadvertent violation of the Pension Code. In any event, the error can be corrected by a prompt repeal of the interfund transfer; or, at the very least, a prompt repayment of the borrowed money to the IMRF fund account.

Please share this memo with your finance officials.

Sincerely,

Louis W. Kosiba
Executive Director