A Vicious Cycle: Fiscal Intervention, Pension Underfunding, and Instability in (Re)Making Racialized Geographies

Author Contact Information
Amanda Kass
Associate Director, Government Finance Research Center
College of Urban Planning and Public Affairs
University of Illinois at Chicago
412 S. Peoria St. (MC 349)
Chicago, IL 60607
312-996-8587 (office)
Email: akass6@uic.edu

Andrew Crosby
Assistant Professor of Instruction, Public Policy and Administration
School of Professional Studies
Northwestern University
405 Church St.
Evanston, IL 60201
847-491-5611 (office)
Email: andrew.crosby@northwestern.edu

Brenda Parker
Associate Dean for Academic Affairs
Associate Professor, Department of Urban Planning and Policy
College of Urban Planning and Public Affairs
University of Illinois at Chicago
412 S. Peoria St. (MC 348)
Chicago, IL 60607
(312) 996-2167 (office)
Email: bkparker@uic.edu

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Abstract

The 2008 financial crisis had profound impacts on government finances across the United States, including a lasting decrease in public pension funding levels. Today state and local governments in the United States have trillions of dollars in unfunded public pension liabilities, and the financial condition of pension systems has material impacts on borrowing costs, service delivery, and taxation, as well as retirement security. Local governments have been tasked with shoring up their pension systems while also grappling with sluggish revenue recovery, a situation that compounds already existing fiscal issues. Building on extant scholarship on crisis, austerity urbanism, and pragmatic municipalism, we examine the practice of 'shorting' pension systems among Illinois municipalities and a state law meant to strengthen the fiscal health of local pension systems by curbing that practice. Using the case of the City of Harvey, a suburb of Chicago, we show how municipal finance and seemingly neutral policies aimed at ensuring fiscal health can trigger austerity actions that deepen fiscal stress for racialized communities. By examining Illinois' pension fund landscape and proposing avenues for further research, we contribute to larger conversations about how governance, property, and pensions are inextricably intertwined with persistent racial inequality.

Introduction

The 2008 financial crisis had profound impacts on government finances, and in the United States public pensions have become an important site of fiscal stress as governments grapple with the challenge of making payments needed to boost pension systems' funding levels. That crisis accelerated an existing downward trend in pension systems' funding levels, and the aggregate funded ratio—the ratio of assets to benefit liabilities—for state and local plans in the United States fell by nearly 10 percentage points between 2007 and 2009 (authors calculation using data from Aubry et al., 2018). Since governments' contributions are linked to funding levels, this drop meant that governments' required pension payments were increasing at a time when they also had to deal with revenue shortfalls and wider fiscal fallout from the crisis. More than a decade later, many public pension systems remain severely underfunded. The narration of this problem and its purported guilty parties legitimates certain kinds of government interventions and often blames cities for their own situation, while obscuring other possibilities and underlying root causes of fiscal stress such as crisis-prone capitalism and structural racism.

Building on scholarship on austerity urbanism and pragmatic municipalism, we examine an Illinois law created in the wake of the financial crisis that was framed as important for the financial solvency of local public pension systems. We extend existing frameworks for understanding urban governance and fiscal stress by drawing on Phinney's argument that austerity is by nature racialized, and thus fiscal discipline policies "reinforce racial hierarchies and racist ideologies in society" (2020: 6). Illinois' pension funding enforcement mechanism, the focus of our study, targets municipalities that do not make their full, required annual payments to their pension systems for police officers and firefighters (referred to as 'public safety systems'). The mechanism allows the Illinois Office of Comptroller (IOC) to intercept state intergovernmental revenue from such municipalities and redirect those funds to the applicable pension system, thereby making up for the pension payment shortfall. In practice, its application has been limited to a small number of municipalities already in fiscal stress. For these communities, today's fiscal challenges are tied to historical legacies, including white flight, manufacturing loss, and reliance on the property tax. We use the City of Harvey, a majority Black suburb of Chicago, to reveal how fiscal distress materializes from racialized disinvestment, dispossession, and decline.

The structure of this article is as follows: in the next section we review literature concerning the post-crisis fiscal landscape, focusing on austerity urbanism, pragmatic municipalism, and a growing body of work concerned with the racialized nature of austerity. Section 3 discusses the challenges of unfunded pension liabilities, provides an overview of Illinois' pension landscape, and details Illinois' pension funding enforcement mechanism. Section 4 focuses on Harvey, the first community where the intercept was triggered, to highlight how pension underfunding can be symptomatic of longer, structural processes. We conclude by arguing that within the context of austerity urbanism, laws designed to ensure proper pension funding can have the unintended effect of exacerbating conditions in fiscally distressed communities, reinstantiating uneven racial geographies and adding insult to years of racial and economic injury.

Understanding Responses to Fiscal Stress and Underfunded Pensions: Austerity Urbanism or Pragmatic Municipalism?

As previously mentioned, one consequence of the 2008 crisis was the aggregate funded ratio for U.S. state and local pension plans fell sharply (Aubry et al., 2018). Many pension systems remain underfunded and for some, funding levels have eroded further (Aubry et al., 2018). As geographers and urban scholars attempted to make sense of the post-crisis urban fiscal landscape, several descriptive and explanatory constructs emerged. The first construct, embedded in critical political economy approaches, is austerity urbanism (Davidson, 2020; Davidson and Kutz, 2015; Davidson and Ward, 2014; Davies and Blanco, 2017; Hastings et al., 2017; Peck 2012, 2014; Meegan et al., 2014).

Drawing on Detroit's municipal bankruptcy, Peck developed the phrase austerity urbanism to describe an extreme variant of neoliberal governance that emerged in the wake of the financial crisis. As Peck explains, "Neoliberal austerity measures are strategies of displacement" that "systematically displace the *responsibility*, indeed the blame, for macroeconomic failure and political mismanagement" from its source onto others (2014: 19, emphasis in original). The financial crisis and its consequences were pinned on state and municipal governments, while minimizing the role of financial markets and the federal government (Peck, 2014: 19). Other scholarship explored how budget cuts to areas formerly thought untouchable (like police and fire services) were blamed on costly unfunded pension and other legacy liabilities (Davidson and Ward, 2014; Hinkley, 2017, 2018). This perspective focuses on the ways in which austerity urbanism has manifested in public service cuts, privatization, and municipal bankruptcies. Conceptually, austerity urbanism positions these actions as just the latest round of neoliberal restructuring and the dismantling of social programs on already lean public budgets. In examining the politics of austerity, scholars have shown how an austerity policy agenda has been both pushed onto municipalities by corporate interests and bubbled up from local politics and contestations (Davidson and Kutz, 2015; Peck, 2014).

Another body of work, influenced by critical race theory and racial capitalism, has focused on the racialized nature of neoliberal austerity, fiscal stress, and debt. This literature explores how events like the financial crisis are part of ongoing processes of racial differentiation and capital accumulation (Phinney, 2018, 2020; Ponder 2018; Ponder and Omstedt, 2019; Pulido, 2016; Roberts and Mahtani, 2010). Here, racial differentiation is intrinsic, not incidental, to capital accumulation and urban governance practices, and austerity policies "reinforce racial hierarchies and racist ideologies in society" (Phinney, 2020: 6). Ponder and Omstedt, for example, use the Detroit Water and Sewerage Department's debt crisis and residential water shutoffs to show how fiscal crises materialize in "unmistakably socially unjust terms" and inflict racial violence (2019: 6).

A third body of work, pragmatic municipalism, emerged in part as a critique of austerity urbanism. Researchers show how some local governments pushed back against austerity measures in the wake of the financial crisis, and emphasize local governments' agency, flexibility, and variety in response to fiscal stress (Aldag et al., 2019; Kim et al., 2020; Kim and Warner, 2016, 2020). While pragmatic municipalism stresses local government officials' agency, policy choices can be constrained or shaped by community characteristics and broader economic trends. Kim and Warner (2016) find that communities with a higher proportion of non-white residents deliver fewer services and rely more on privatization and cooperation. Suburban communities are also associated with fewer services and more privatization. Warner et al. (2021) also find that budget cuts are higher in communities with older infrastructure and higher unemployment, although not in communities with higher levels of poverty.

Unifying these bodies of work is their focus on municipal financial governance under constrained conditions. Like many austerity urbanism scholars, we posit that broader and longer waves of racialized neoliberal capitalism have produced current conditions of crisis and constraint for municipalities. We argue, drawing from Phinney (2020), that austerity manifests in different ways (including both pragmatic measures and extreme budget cuts), depending on historical racial geographies that shape a community's economic and fiscal conditions. While fiscal capacity varies between local governments, all municipalities have been impacted by neoliberal restructuring that has shifted financial and social responsibilities to local governments without providing sufficient resources or legal flexibility. For decades, the state-economy nexus has hinged upon a contradictory arrangement in which the 'naturalized market' is celebrated yet artificially buttressed by government resources and policies. As Theodore summarizes, years of neoliberal policies and now austerity have worked to reassert market logics, thus narrowing the range of policy possibilities and "simultaneously concentrating political power among elites" (2019: 5). Within this broader political, ideological, and legal environment, individual municipalities may have space to maneuver pragmatically (see Pagano and Hoene, 2010). We build off the body of work concerned with the ways in which austerity itself is racialized and racializing by examining an Illinois law meant to bolster local pension systems' finances. Our research shows how such efforts can have important consequences for poor, majority non-white communities that did and do not have the local economy to support comprehensive public services.

Unfunded Pensions and Illinois' Intercept Mechanism

After the financial crisis public attention was drawn to the issue of underfunded public pensions in a way it had not been before (Lenney et al., 2019: 36). In response to decreasing funding levels, there was a wave of state legislation under the umbrella of "pension reform" across the United States aimed at tackling the issue of unfunded pension liabilities through a variety of measures including benefit cuts and increasing government contributions (Aubry and Crawford, 2017; Brainard and Brown, 2018).

While unfunded pension liabilities are not a new concern, especially in Illinois, (c.f. Illinois Pension Laws Commission, 1919; Staats 1979), there are several reasons why the issue came under increased scrutiny in the wake of the 2008 crisis. First, as discussed in austerity literature, cuts to areas of the budget previously immune were recast from being the fault of Wall Street to costly and underfunded benefits for public (Hinkley, 2018; Peck 2012, 2014). Second, the issue of underfunded pension systems became more visible because of post-crisis changes in governmental financial reporting and credit rating agencies' methodologies (Governmental Accounting Standards Board, 2012; Hinkley, 2018; Moody's Investor Services, 2010, 2012).

Last, the financial crisis had a material impact on pension funding levels. During the 2007-2009 recession, public pension systems suffered significant investment losses, which decreased their funding levels and posed a threat to the retirement security of their members. This occurred because a major revenue source for U.S. public pension systems is investments, which binds the finances of pension systems (and retirement security writ larger) to financial markets (Clark, 2003; Langley, 2016; Monk, 2009). At the extreme, pension funds can run out of assets, becoming insolvent and unable to pay out retirement benefits, as happened in Prichard, Alabama in 2009 (Cooper and Williams Walsh, 2010). In addition to posing a threat to retirement benefits, investment losses can increase governments' annually required pension contributions because their contributions are partially a function of funding levels. The issue of unfunded pension liabilities is thus tied to both concern over retirement security and the fiscal strain paying down unexpected unfunded liabilities creates for governments.

Illinois, with nearly 700 state and local pension systems, is frequently cited as the pension crisis poster child, and pensions have been a frequent part of legislative sessions and political speeches (e.g., Egan, 2017; Hu, 2013; Long and Garcia, 2012; Williams Walsh, 2020). Focus on the topic reached a fever pitch during the 2009-2010 legislative session and state lawmakers vowed to resolve the pension crisis plaguing state and local governments. The aggregate funding level for Illinois' public safety systems decreased from a high of 79% in 1999 to 51% by 2009 (Dragoo, 2013). Unions and retirees saw declining funding levels and the political climate as a threat to their benefits (Keilman, 2009). At the same time, local municipal leaders argued that rising pension costs were a fiscal strain and questioned whether taxpayers could afford property tax increases that would be necessary to make future payments (Keilman, 2009).

Within this context, elected officials looked for ways to reduce unfunded pension liabilities, which can be done by cutting benefits, increasing assets, or a combination of the two. Legal protections, which vary from state to state, constrain lawmakers' ability to reduce unfunded liabilities via benefit cuts alone (Munnell and Quinby, 2012). Illinois has some of the strongest legal protections for public pensions, and the state constitution explicitly protects benefits (Brown and Dye, 2015; Madiar, 2014). Unable to reduce unfunded liabilities via cuts to current employees' and retirees' benefits, state lawmakers looked to reduce benefits for new hires as a means of improving pension funding levels, as well as other measures meant to strengthen pension systems' finances and provide greater retirement security for public employees and retirees.

In 2010, Illinois lawmakers approved several major pieces of legislation that enacted sweeping changes to state and local public pension systems. Public safety systems were impacted by Senate Bill 3538 (which became Public Act 96-1495). The legislation created a reduced benefit tier for new hires, altered the funding plan used to determine municipalities' annual contributions by extending the timeline for paying down unfunded liabilities and reducing the funding target, and created a funding enforcement mechanism (described further below) to ensure municipalities made their required contributions. The changes to the funding plan were intended to ease the financial burden for municipalities, who had lobbied for such changes (Keilman, 2009).[1] The funding enforcement mechanism was added to the legislation at the behest of a coalition formed by statewide police and firefighter associations. While unable to prevent benefit reductions for new hires, the associations framed the inclusion of the enforcement mechanism as a sign of their lobbying success and saw it as important for "insuring the continued solvency for all current, and future, employees and retirees" (Genz, 2010: 7). Much of the language in the union association materials around Senate Bill 3538's passage indicates the concern was about ensuring governments made their *future* contributions, rather than shorting being a widespread problem at the time.

The funding enforcement provision was modeled off one that had long existed for the Illinois Municipal Retirement Fund (IMRF), which is the multi-employer public pension fund for all municipal employees that are not employed by the City of Chicago or Cook County and are not in a public safety system. In contrast to most other Illinois pension systems, the IMRF has been well-funded and maintained a high level of funding despite the financial crisis, with the funding enforcement mechanism cited as one reason it had been able to maintain its strong financial condition (Peng and Boivie, 2011).

Current state law requires Illinois municipalities' annual contributions to their public safety systems to be equal to the employer normal cost[2] and an amount that is sufficient so that each system is 90% funded by the end of fiscal year 2040. Under the enforcement mechanism, which took effect in 2016, if a municipality does not make their full, required payment, the local pension board can have state intergovernmental revenue intercepted by the IOC, which then redirects that revenue from the municipality to the applicable pension fund.[3] This can have consequences for local governments because state intergovernmental revenue is a critical resource for municipalities. Municipalities in Illinois are, in general, more reliant on state intergovernmental revenue than in other states (Kass et al., 2020).

Triggering the intercept is at the discretion of the local pension boards, and state law does not outline a process for decision making if a municipality shorts. Local pension boards thus have several options when municipalities short pension payments, including using the threat of the intercept to negotiate alternative arrangements with municipal leaders or taking no action at all. The intercept represents the most radical action as it takes money away from municipal governments, potentially creating an immediate operating budget deficit.

Adding complexity to the situation is that although there is a clear state funding target (achieving 90% by the end of 2040), there is ambiguity in evaluating whether municipalities are adhering to it. State law allows the required pension payment to be calculated by an actuary retained by one of three different entities: the Illinois Department of Insurance (IDOI), the pension system, and/or the municipality. Different actuaries can use different assumptions, leading to different figures as to what the municipality is legally required to pay. State law does not provide clarity about how to select an actuary, or how disputes should be resolved if multiple actuarial figures for required contributions are produced. At least one actuary was accused of using inappropriate assumptions to drive down municipalities' required contributions (Williams Walsh, 2015). This ambiguity creates opportunities for uneven interpretations and/or application of penalties for vulnerable municipalities.

Identifying Municipalities that Short their Pension Systems

We sought to understand the impact of Illinois' intercept mechanism on a racially segregated and uneven fiscal landscape (Coates, 2014; Hendrick, 2004; Jaffa, 2019; Vock et al., 2019). A first step was identifying the communities where shorting had occurred. While union officials framed the enforcement mechanism as important for pension fund solvency, it was not documented at the time of Senate Bill 3538's passage whether shorting was a widespread occurrence. We suspected that for many municipalities, pension shorting was symptomatic of wider fiscal issues. Since there was a five-year gap between when the law was passed and when the intercept provision went into effect, we believe that municipalities that continue to short after the intercept's implementation are ones that cannot make their pension payments without making service cuts. We also expect the application of the enforcement mechanism to occur in extreme cases of underfunding and/or where there is local tension among the pension board and municipal government. Some trustees are active employees in their respective police and fire departments, and this creates conflicting interests regarding the distribution of revenue subject to the intercept as reallocating that money to the pension fund could cause budget cuts, thus jeopardizing their jobs.

We used IDOI data on its recommended payment and municipalities' actual payments to identify a subset of places out of 344 municipalities that were likely extreme cases of pension shorting.[4] We refer to the ratio of the municipality's actual payment to IDOI's recommendation as a 'payment ratio'.[5] For each municipality, we calculated annual payment ratios and an overall average for the 2005-2016 period.[6] We examined both because the property tax cycle poses a challenge for precisely aligning actuarially determined required payments with ultimate deposits to the pension fund. The distribution of municipalities' average payment ratios is shown in Figure 1 [Figure 1 about here].

Using the average payment ratio, we categorized the 344 municipalities into two groups based on whether their average payment ratio was more than 50%. A payment ratio of 50%

means that a municipality's actual pension payment was half of what the IDOI said the municipality was required to contribute. We use this cutoff because municipalities whose payments are less than 50% of the IDOI recommended payment likely reflect systematic shorting rather than differences in actuarial calculations or cash flow. Of the 344 municipalities in our dataset, we identified nine to investigate further that had an average payment ratio at or below 50%. While the intercept was framed as a tool for insuring pension systems' financial solvency, our analysis indicates that the number of places systematically shorting their pension systems is small.

Using data from the Illinois Commission on Government Forecasting and Accountability (COGFA), the IDOI, and financial reports from individual municipalities and pension funds, we determined whether the nine municipalities had historically shorted their public safety systems, and if they shorted in fiscal years 2016 and/or 2017 as these were years when the intercept provision was in effect. Last, we identified places where the intercept was triggered by obtaining a list of all intercept requests the IOC had received as of June 2019. These efforts allowed us to identify municipalities that continued to short after the enforcement mechanism was in place, but where local pension funds had decided not to trigger the intercept. The results of this investigation are summarized in Table 1.

Table 1

Pension Shorting in 2016 and/or 2017 for Municipalities with an Average Payment Ratio of 50% or Less

Municipality	Shorted in 2016 and/or 2017?	Intercept Triggered?	Additional Comments
East Alton	Y	N	N/A
Harvey	Y	Y	Intergovernmental aid intercepted; City protested intercept and filed lawsuit in the Circuit Court of Cook County; a settlement was reached in July 2018.
Lynwood	Y	N	N/A
Marengo	Y	N	N/A
North Chicago	Y	Y	Firefighters' fund requested intercept but withdrew its request after it reached an agreement with the Village.
North Riverside	N	N/A	Village historically shorted its pension funds but stopped before 2016. The Village attempted to privatize fire services as a strategy to reduce pension costs; effort was abandoned in 2017 after the Village lost a lawsuit from the firefighters' union.
Round Lake Park	Y	N	N/A
Sauk Village	Y	N	Village acknowledged in its FY2019 budget that it historically shorted, and while its payments were increasing it was continuing to short, but that its budgeted payment was a "good faith effort" to begin properly funding the pension systems (Sauk Village, Illinois, 2018: 6).
Skokie	N	N/A	Adopted a Municipal Utility Tax in 2011 as a pension payment revenue source.

Although most of the nine municipalities we examined shorted their pension funds in 2016 and/or 2017, the intercept was rarely triggered. In most instances, local pension boards did not request action by the IOC.

Of the hundreds of municipalities with public safety systems, the IOC files showed that local pension boards triggered the intercept in three places: East St. Louis, Harvey, and North Chicago.[7] As highlighted by Table 2, these three communities share commonalities in that they all have severely underfunded pension systems, face similar challenges of high poverty and de-population, and are also majority non-white.

Table 2

Demographic Comparison in Municipalities Subject to the Pension Intercept

	Illinois (State)	**East St. Louis**	**Harvey**	**North Chicago**
Poverty Rate, 2018 (Individuals)	12%	43%	36%	23%
Median Household Income, 2018	$61,229	$20,659	$24,343	$41,679
% Non-White, 2018	39%	98%	96%	66%
% White, Not Hispanic or Latino, 2018	61%	2%	4%	34%
Population Change – 2000 to 2010	3%	-14%	-16%	-9%
FY2017 Firefighters Pension System Funded Ratio	55%	11%	20%	31%
FY2017 Police Pension System Funded Ratio	56%	35%	49%	28%
State Intergovernmental Revenue as % of General Fund Revenue (2016)	41%*	Unavailable	31%	30%

Sources: IOC, 2016; U.S. Census QuickFacts; U.S. Decennial Censuses 2000 and 2010 from Manson et al., 2018.

*Mean among 344 municipalities with a public safety fund in our dataset.

After the North Chicago Firefighters' Pension Fund submitted a claim to the IOC to trigger the intercept, the pension fund and municipality worked out a payment plan before any money was intercepted (IOC, 2019, personal communication; North Chicago City Clerk, 2019, personal communication). Whether North Chicago can adhere to the agreement remains to be seen, and the pension fund retains the right to trigger the intercept in future years. It was only in the cases of East St. Louis and Harvey that the IOC intercepted state funds. In both cities, that revenue is a significant portion of their overall budgets and in response to the IOC's actions, elected officials in both communities laid off and/or threatened to lay off public employees, including police officers and firefighters (Blumberg, 2018; Smith, 2019).

A Vicious Cycle: Pension Intercept in the City of Harvey

We turn to the history of the City of Harvey and the recent intercept law to show how fiscal discipline tools can punish already distressed communities of color. [Figure 2 about here] The case of Harvey is important for understanding how municipal finance and seemingly neutral policies aimed at ensuring fiscal health can trigger actions that deepen financial stress for majority non-white communities. In January 2018, the Harvey Police Pension Fund notified the IOC that the city owed it over $7 million for unpaid pension contributions. A few months later the Harvey Firefighters' Pension Fund also filed a claim with the IOC, stating that the city owed it over $12 million. These actions were just the latest in longstanding disputes between the city and its public safety systems over delinquent pension payments, with the pension boards previously winning judgements against the city (see Board of Trustees of the Harvey Police Pension Fund v. City of Harvey (2017) 06 CH 15468; City of Harvey Board of Trustees of the Firefighters' Pension Fund v. City of Harvey (2018) 93 CH 1459). Harvey's finances have steadily declined as its demographics changed and the local tax base eroded. The intercept mechanism fails to remedy the structural reasons for the city's inability to make its pension payments, and instead, the diversion of revenue creates an immediate liquidity issue for its operations.

Located just south of Chicago and founded in the late 1800s, Harvey's population grew from 5,000 in 1900 to nearly 36,000 in 1980 (Rahn, 1980: 32; Manson et al., 2018). Until the mid-20th century, Harvey had vibrant commercial and industrial sectors and often had more jobs than households (Gibson, 1966). During this time, zoning laws, building codes, and federal policies fostered racial segregation in many U.S. communities (Rothstein, 2017; Taylor, 2019). Within Chicagoland, most Black households were forced into segregated neighborhoods and had to buy homes on contract from white owners, resulting in the dispossession of billions of dollars of wealth (McCloskey and Orenstein, 2019; Satter, 2009). Between 1910 and 1940, with few options, a small number of African Americans migrated to the south suburbs, some choosing Harvey (Wiese, 2004: 23). The Black population in Harvey before 1940 remained below 10% of the total. As in many municipalities, public officials in Harvey openly used racist strategies to restrict access to finance and homeownership opportunities afforded to white households (Bigott, n.d; Gibson, 1966).

The racial composition of Harvey quickly shifted in the wake of the Fair Housing Act of 1968 and other Civil Rights' era federal legislation. New policies, like the Section 235 program, were created with intention of reversing the Federal Housing Administration's role in urban disinvestment and racial polarization (Gotham, 2000; Taylor, 2019). However, many of these programs ultimately fostered more segregation, as Black households were targeted to move from Chicago to specific suburbs, including Harvey (Gaines, 1971; Taylor, 2019). Racial exclusion gave way to racial steering. The Black population in Harvey grew rapidly and foreclosures simultaneously increased, in part because Black homeowners were directed to older homes that needed repairs that they could not afford. White residents and the media blamed not the housing programs, but people, especially African American women (Taylor, 2019). By the mid-1970s, local newspapers were running stories about the rise of abandoned properties in the south suburbs, and the growing perception that the area was blighted (Satter, 1974; Washburn, 1978). Due to the white flight of industries and residents, along with racist housing policies, the economic conditions of Harvey deteriorated while its Black population grew. Table 3 captures this by showing Harvey's population, racial composition, and poverty rate between 1970 and 1990. Within just one decade, Harvey's poverty rate doubled as it racially flipped from being majority white to majority Black.

Table 3

Selected Demographic Characteristics, City of Harvey[8]

	Population	**% White**	**% Black**	**Poverty**
1970	34,636	68.5%	30.9%	8.8%
1980	35,810	32.5%	67.1%	18.2%
1990	29,771	15.1%	79.9%	25.6%

Source: Decennial Census data from Manson et al., 2019.

Harvey's history is intertwined with larger national patterns of disinvestment and dispossession. Racist practices stripped Black households of geographic and economic mobility. White businesses and residents fled to farther-flung suburbs or Northern Chicago, where property values and suburban municipal coffers increased. Meanwhile, low-income Black residents were steered into or remained 'stuck' in places like Harvey, where property values declined. Municipalities like Detroit, Baltimore, and even Harvey were stigmatized for their economic distress even as they had been abandoned by capital and endured increasing fiscal and social responsibilities under ascending neoliberalism and a related backlash to civil rights activism (Parker, 2017). This stigma translated into ‘high-risk’ status, allowing further wealth extraction vis-a-vis higher interest rates on municipal bonds, for example (Ponder, 2021)

This racialized history continues today. It is embedded in property, which is a race-making institution (Bonds, 2019), in part because racist inequalities are cumulative (Rugh et al., 2015). Property values are lower in communities with higher proportions of Black and/or Hispanic/Latino residents (Anacker, 2012; Harris, 1999), and historical sales data shape contemporary home value appraisals, undervaluing homes in Black neighborhoods (Howell and Krover-Glenn, 2020). Property also plays a key role in pension funding: Illinois state law explicitly links municipalities’ annual pension payments to property taxes (Articles 3 and 4 of the Illinois Pension Code). The racialized nature of property values means that majority white communities are at perpetual advantage, and the reverse is true for non-white communities.

Importantly, municipalities’ ability to maintain service levels from year-to-year and meet their pension funding requirements hinges on increasing property tax revenue, which is affected by levies (set by governments), property values, population change, and collection rates. In communities that have changed from majority white to majority non-white, this can ultimately result in racialized wealth transfers, where current residents must pay for the pensions of historical laborers, who were more likely to be white and to have accrued related property and housing advantages. In communities like Harvey that are experiencing declines in population and property values, governments must increase property tax levies to increase or maintain revenue. However, increasing property tax delinquencies challenges revenue collection and compounds fiscal problems. By the 1980s, Harvey's economic prosperity had eroded, and population loss, declining property values, and poverty have all limited its revenue generating capacity. Since its peak in 1980, Harvey's population has declined by nearly 30%, which has meant that there are fewer people paying property taxes that can be dedicated to public services and adequate pension payments.

Harvey's property tax rate increased by nearly 71% between 2008 and 2017, and it has one of the highest effective tax rates in Cook County (Civic Federation, 2019). In 2019, Harvey had the sixth-highest average composite tax rate (27%)[9] out of more than 130 municipalities in Cook County (Cook County Clerk, 2020). Harvey's high and rising property taxes are also consistent with Xu and Warner's (2016) findings that local fiscal effort (defined as the share of locally raised revenue per capita as a proportion of per capita income) is higher in both older suburbs and minority communities. While the city raised taxes, aggregate property values in Harvey declined by 35% between 2008 and 2017 (Cook County Clerk, 2008, 2019).[10] A number of owners are not paying their property taxes, either because they cannot afford to as nearly one-third of residents live below the poverty line (U.S. Census, no date) or as a choice because of low property values. In 2018, delinquent property taxes in Harvey were estimated at $12 million (Schutz, 2018), nearly half of the city's annual budget.

Pension shorting has long been a problem, and both of Harvey's public safety systems sued the city in the 1990s for delinquent payments. As the pension systems' funding levels have decreased, the city's required contributions have increased, as exemplified in Figure 3, which shows the Harvey Firefighters' Pension Fund's funding level (the dashed line) with what the city should have paid into the fund (the gray bars). Also included in Figure 3 is the city's actual payments (the black bars). [Figure 3 about here] Despite the pension systems' deteriorating funding levels, the city continued to short the pension systems. The city paid nothing to the pension systems in 2012, and although it has made payments more recently, these have still been less than required (IDOI, no date).

Making pension payments given Harvey's economic conditions and population loss is not feasible without cutting other areas of the budget. Table 4 shows that in 2017, before the intercept was triggered, Harvey had a $3.1 million deficit in its general fund and relied heavily on state intergovernmental revenue. Its fiscal challenges have long been documented in local media with public finance scholar Rebecca Hendrick wondering in 2014 "how [the city is] paying their bills" (Ryan et al., 2014). Even as Harvey raised property taxes and cut millions of dollars in spending, its revenue continued to decline and the city continued to run deficits, as shown in Table 4. In addition, Harvey's reliance on state intergovernmental revenue—the money eligible for intercept—increased, representing 32.4% of Harvey's general fund revenue by 2019.

Table 4

Key Financial Data for the City of Harvey for Fiscal Years 2017-2019

	2017	**2018**	**2019**
Average Composite Property Tax %	25.269%	26.219%	26.932%
General Fund Revenues	$24,543,836	$22,962,165	$22,503,569
General Fund Expenditures	$27,678,491	$24,518,202	$23,786,487
General Fund Surplus/(Deficit)	($3,134,655)	($1,556,037)	($1,282,918)
State Intergovernmental Revenues (% of Total)	*$6,883,611 (28.0%)*	*$6,624,864 (28.9%)*	*$7,299,222 (32.4%)*

It is against this backdrop in which the intercept of Harvey's state intergovernmental revenue occurred. When the IOC intercepted state intergovernmental revenue, the city faced an immediate cash flow crunch. As a result, city officials announced in April 2018 that they were going to lay off 40 police officers and firefighters, representing about one quarter of its police force and half of its fire department (Koeske, 2018; Shields, 2018). The city also contested the intercept, and ultimately reached a negotiated settlement involving the pension boards and bondholders. Under the settlement, portions of state intergovernmental revenue will go to the public safety systems until the delinquent pension contributions are paid off (City of Harvey v. Susana A. Mendoza Case No. 18 CH 4443, Circuit Court of Cook County, Illinois). While this resolution addressed the immediate crisis, Harvey's finances remain precarious, and the pension boards can trigger the enforcement mechanism in future years if the city's pension payments fall short. The interception of state intergovernmental aid signifies the untenable position of some localities affected by neoliberal austerity and the conflicting position of having local control but insufficient resources. Already fiscally stressed municipalities, like Harvey, experience both downward pressure from the State of Illinois and internal pressure from local pension boards.

Conclusion

Extreme pension underfunding is a site through which new rounds of neoliberal governance and austerity are playing out, and it is related to property as a race-making institution (Bonds, 2019). Illinois' funding enforcement mechanism exemplifies the paradoxical environment in which shoring up public pension systems is demanded but is impossible for fiscally distressed communities like Harvey. The fact that the intercept has occurred in just two, majority-Black communities reflects the racialized landscape in which only a handful of municipalities have a combination of severely underfunded pension systems, maxed out property tax base, and conflict between local pension boards and municipal governments. In such communities, the interception of intergovernmental revenue fails to ameliorate fiscal issues and creates an immediate budget shortfall.

The case of pension funding and the Illinois intercept law reveal important links between austerity, property, and racialization processes. Future research should examine a broader set of financial and urban governance practices with a critical race lens. Studies that center anti-Blackness and racial capitalism are especially needed. Pension systems and property values synergistically act as race making institutions and processes, mediated by government actions and landing upon racialized municipal landscapes. Pension crises are partially discursively constructed amidst new financial reporting rules and actuarial assumptions. Different accounting techniques can make shorting and other practices look more or less severe. This and other uneven governance practices can happen under the guise of 'good financial management' and 'colorblind' policies (Portillo et al., 2019.) Amid claims of fiscal distress, municipal takeovers have been unevenly and inequitably applied, disproportionately targeting majority Black, low-income cities, creating further economic hardship (Hughes et al., 2021; Nickels et al., 2020). Black school districts in cities with majority Black leadership have also been unevenly targeted for takeover (Morel, 2018). Similarly, the Chicago Housing Authority chose to quietly pay down debt rather than provide desperately needed housing assistance to primarily non-white residents. This action, when challenged by housing activists, was justified as financially prudent (Kass, 2020). We need investigations of governance practices that are framed as neutral or color-blind but are, in fact, not. How do such discourses and practices operate within and reproduce racial inequality and to what ends? What power relations lubricate, enable, or challenge them?

In addition, the fiscal and material conditions of *both* municipalities and residents are shaped by property practices and demand scrutiny. Racial harm is perpetuated against individuals vis-a-vis property, through unfair evictions, racialized appraisals, inflated tax assessments, and more. While substantive research and small efforts toward reparations acknowledge the historic wealth stolen from Black residents through slavery, racial zoning, land contracts and more, the same is not true about municipalities. Yet municipalities' spatial and fiscal conditions are produced by racist residential property practices and their scaled-up manifestations, including but not limited to white flight, territorial stigma, industry disinvestment, siting of environmental toxins, and an expanded carceral state. Despite these racist realities (rooted in property values and practices) there has been little talk of reparations or relief for majority non-white municipalities like Harvey with regard to pension funding or other obligations. Public finance, political economy, and other scholars could further explore property as the nexus of racial inequality and distress for both residents and municipalities, using interdisciplinary lenses and methodologies. Following Pain (2019), this work might examine the slow violence and collective chronic urban trauma begot by housing and wealth dispossession, racism, and stigmatization. Because municipalities may be both recipients and perpetrators of racist practices, the multi-scalar complexities and contradictions of racialized property practices require attention.

Research that attends to temporality and intersectionality is also essential. With eyes only on the present, it is difficult to capture the full extent of racial harm, and predicaments of municipalities like Harvey and East St. Louis and their residents are not easily narrated. They are both majority Black and two cities targeted by the intercept law, but harms and causal factors are more complex. True injustice is captured by analyzing historic, intersectional, and cumulative oppressions (and contradictions), many which are rooted in property. Racialized harm is also captured by looking forward. A striking element of austerity urbanism is its cost to future generations. As cities like Harvey hobble on, pensions and other debt must legally be paid, even as residents suffer. The racialized dimensions of these arrangements give pause. While comprehensive information on the membership of Illinois' public safety is unavailable, national data about workers is telling. In 2016, 72% percent of law officers and 82% of firefighters were white (compared to 62% of the U.S. population), and the vast majority were male (Evarts and Stein, 2020; Hyland, 2018). In most large cities, law enforcement has become whiter compared to the city population (Leatherby and Oppel, 2020). In addition, since pension funds pay workers from previous decades, recipients reflect an even whiter population (in 1987, 87% of law enforcement workers were white), while municipalities like Harvey have become majority Black and/or Latino. Critical finance and governance researchers should examine the intersectional historic, current, and future injustices of property and pension systems, including the slow violence of ongoing wealth transfers to those that have perpetuated grave harm.

Endnotes

[1] Local government officials and business organizations formed a coalition called the Pension Fairness for Illinois Communities to lobby for pension reform and the legislation that became Public Act 96-1495.

[2] Actuaries calculate the normal cost, which is the cost of earned benefits, annually. The total normal cost is paid by a combination of employee and employer contributions.

[3] While our research focuses on non-Chicago public safety systems, the Cook County and Chicago systems all have the authority to trigger the intercept if their respective governments fail to make the statutorily required pension contributions.

[4] These 344 municipalities have 525 pension systems, which represents approximately 81% of the 651 non-Chicago public safety pension funds in Illinois. Our dataset excludes 108 special purpose governments (e.g. fire protection districts) because their fiscal structure is fundamentally different from general purpose governments, and because demographic data are not readily available for special purpose governments. We also excluded 12 general purpose governments due to missing and/or incomplete data.

[5] We compared the actual payment to the required payment from two years prior (e.g. the 2016 payment ratio compares the actual 2016 payment to IDOI's 2014 recommendation). We do this because municipalities mainly make pension payments with property tax revenue. Due to the property tax cycle, there is a lag between when the required payment is determined, when the property tax levy is set, and when money is transferred to the pension fund.

[6] Payment ratios for years 2011, 2012, and 2013 were not calculated for several reasons. Incomplete data prevents calculating payment ratios for 2013 and 2011, and 2012 was excluded

because it is unclear which funding law (Public Act 96-1495 or prior law) the 2010 IDOI recommended payment and 2012 actual payments are based on.

[7] East St. Louis was excluded from our dataset of 344 municipalities because its financial data for our study period was unavailable. Local news coverage reported on the intercept being triggered and the city was listed as one of the places the IOC had received an intercept request in the documents we obtained from the IOC.

[8] Census information related to race and ethnicity has changed over time. Our figures for the portions of the population identified as white and Black were calculated using "White (single race)" and "Black or African American (single race)" figures from the "Persons by Race" tables. Importantly, this information likely overstates these percentages because it does not exclude persons also identifying as Hispanic and/or Latino.

[9] The composite tax rate is calculated as the total of all tax rates of all taxing jurisdictions for a particular property (Cook County Clerk, 2020).

[10] This figure is based on Harvey's equalized assessed value, which is taxable property value in Cook County. For context, the City of Chicago's total property value declined by 5.2% between 2008 and 2017.

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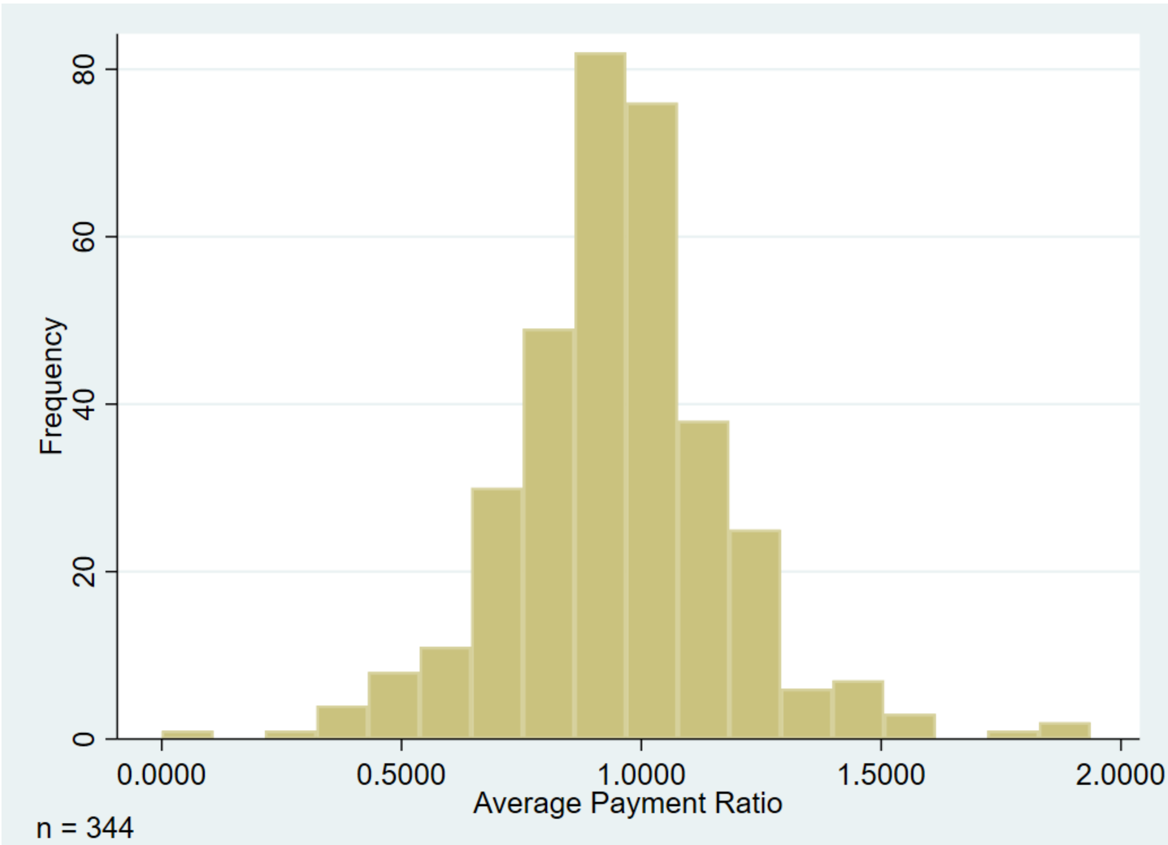
Figure 1

Distribution of Illinois Municipalities' Average Pension Fund Payment Ratio for their Police and Fire Pension Fund Contributions for 2005-2016



Source: Payment ratios calculated by authors using data from the IDOI
Note: the City of Chicago is excluded from analysis

Figure 2

Map of Harvey, Illinois

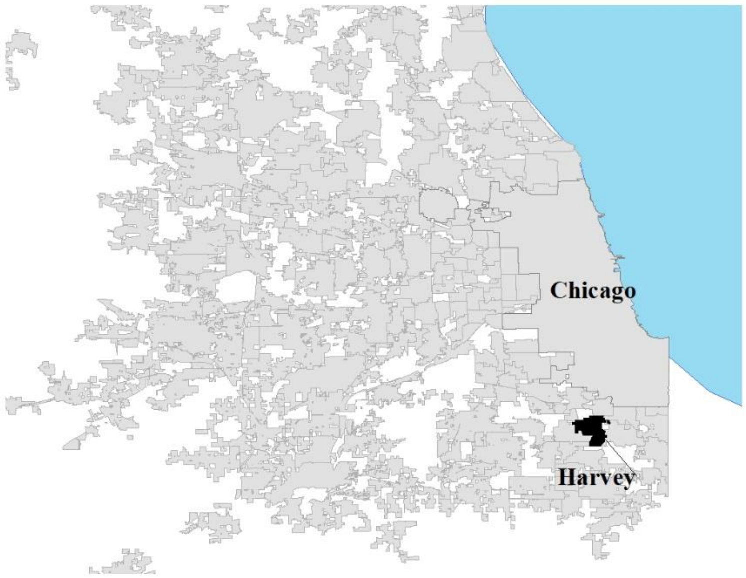
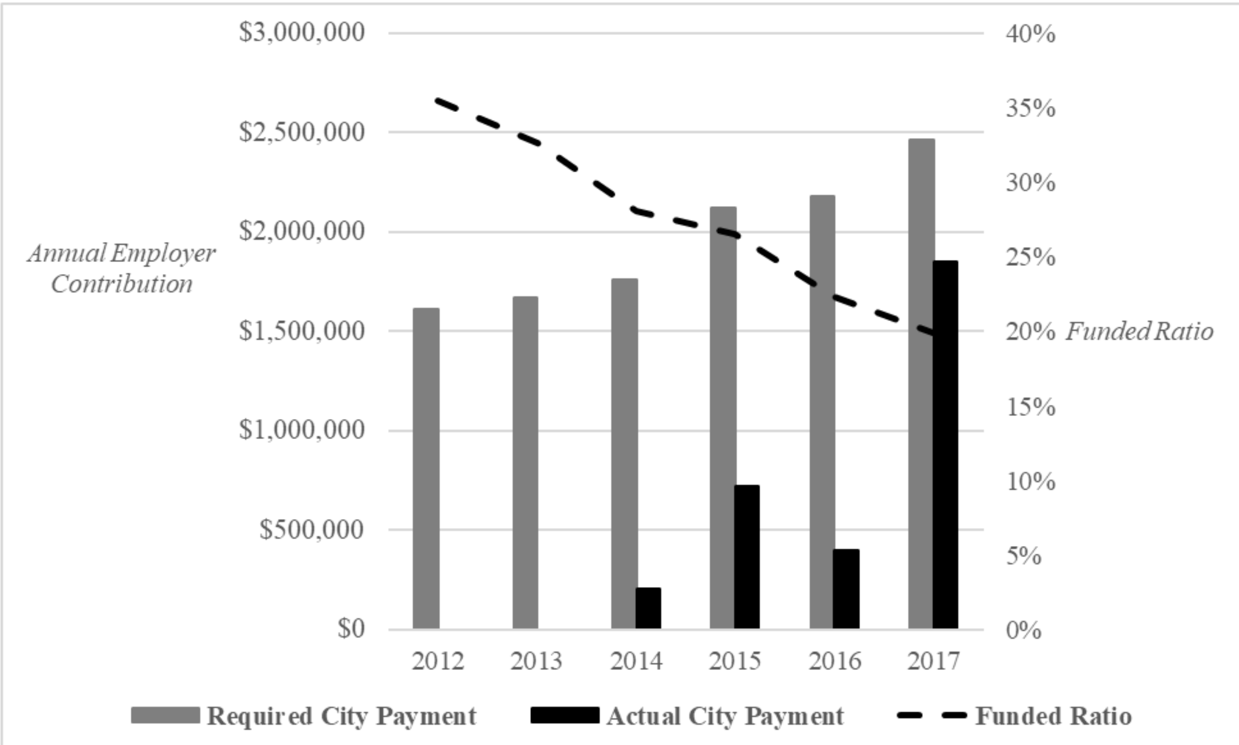


Figure 3

City of Harvey Firefighters' Pension Fund – Funded Ratio, Required City Payments, and Actual City Payments (2012-2017)



Source: Data from IDOI Complete Profile Report for the City of Harvey Firefighters' Pension Fund