



Finance & Budget Committee
Tuesday, March 8, 2022 @ 6:00 PM
Lorraine H. Morton Civic Center, Room 2404

AGENDA

Page

1. CALL TO ORDER/DECLARATION OF A QUORUM

2. PUBLIC COMMENT

3. APPROVAL OF MINUTES

Approval of the February 8, 2022 Finance & Budget Committee Meeting Minutes

- A. [Finance and Budget Committee - Feb 08 2022 - Minutes](#) 2 - 3

4. DISCUSSION

Discussion of the Police and Fire pensions for the City of Evanston

- A. [Pension Presentation by Jason Franken from Foster & Foster, Pension Funds Actuary](#) 4 - 22
[Pension Funding Basics](#)

5. ADJOURNMENT



City of
Evanston™
MINUTES

Finance & Budget Committee

February 8, 2022 @ 6:00 PM

Virtual

**COMMITTEE MEMBER
PRESENT:**

Shari Reiches, Committee Member, David Livingston, Committee Member, Leslie McMillan, Committee Member, Melissa Wynne, Councilmember, Bobby Burns, Councilmember, Devon Reid, Councilmember, Clare Kelly, Councilmember, and Jonathan Nieuwsma, Councilmember

**COMMITTEE MEMBER
ABSENT:**

STAFF PRESENT:

Jessica Tapia, Financial Analyst, Hitesh Desai, CFO, Lara Biggs, City Engineer, David Stoneback, Interim City Manager, Alexandra Ruggie, City Attorney

1. CALL TO ORDER/DECLARATION OF A QUORUM

Councilmember Melissa Wynne called the meeting to order at 6:02 PM

2. PUBLIC COMMENT

Trisha Connolly (2nd Ward) is interested in what this group can do about the 5 year budgeting forecast based on the Capital Improvement Plan. She expressed some concerns about the issuing of bonds and consulting fees.

3. APPROVAL OF MINUTES

Approval of the January 11, 2022 Budget & Finance Committee Meeting Minutes

Moved by Devon Reid

Seconded by Jonathan Nieuwsma

Ayes: Shari Reiches, David Livingston, Leslie McMillan, Devon Reid, Jonathan Nieuwsma, Clare Kelly, Melissa Wynne, Bobby Burns

Nays: None

4. DISCUSSION

Discussion of City of Evanston's Capital Improvement Plan (CIP)-including funding sources

A. Staff provided a presentation for discussion of funding for the Capital Improvement Program.

Draft

Finance and Budget Committee
February 8, 2022

Lara Biggs, the City Engineer provided a presentation regarding the Capital Improvement Plan, the funding sources, and the timeline of how projects are completed. She went into detail about the hefty maintenance costs some of the City of Evanston's parks and buildings incur and how in the preceding decades, maintenance was very minimal. Councilmember Nieuwsma and committee member Livingston raised questions about how much debt is being issued to fund Capital Improvement projects. Councilmember Wynne suggested the committee should look for revenues that could fund future Capital Improvement projects. Several committee members suggested there be a list of discussions two/ three members of the committee can work on independent from the committee meetings. Committee member Reiches is going to compile this list of items and send to staff for approval. Attorney Ruggie commented on how the committee members can meet for these items so that it complies with the Open Meetings Act.

5. ADJOURNMENT

Meeting was adjourned by Councilmember Wynne at 8:01 PM Moved By Clare Kelly
Seconded by Shari Reiches

City of Evanston Pension Funding Basics

Presented By:
Jason L. Franken, FSA, EA, MAAA



FOSTER & FOSTER
ACTUARIES AND CONSULTANTS

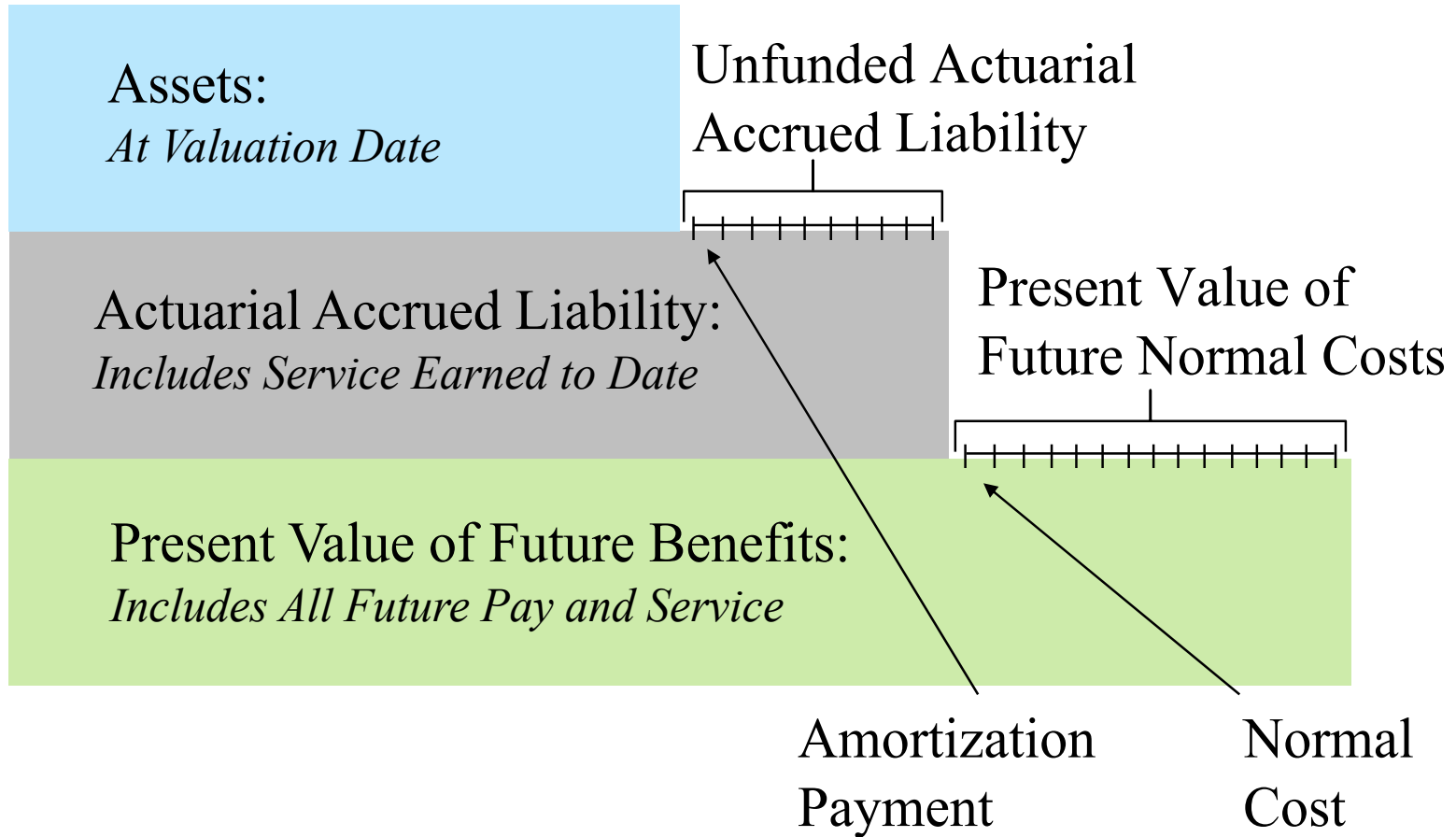
FUNDING BASICS

The Fundamental Truth of Pension Funds...

Benefits + Expenses = Contributions + Investment Earnings



FUNDING BASICS



FUNDING BASICS

ANNUAL PENSION CONTRIBUTION

- The annual pension contribution consists of two pieces:
 - Normal cost
 - The amount of benefits that are earned by the active workforce each year, reflecting increases in pay and service earned during the year
 - Includes administrative expenses paid out of the pension trust
 - Amortization payment
 - The amount paid each year to eliminate the unfunded liabilities of the plan
- The contribution needs to reflect the timing of the payment so it should include interest from the valuation date to the estimated payment date

ASSUMPTION SETTING

- Assumptions Used by the Actuary to Determine Liabilities:
 - Investment Return
 - Salary Increase
 - Payroll Growth
 - Mortality
 - Retirement
 - Turnover
 - Disability
 - Others



METHOD SELECTION

AMORTIZATION OF UNFUNDED LIABILITIES

- The actuarial cost method determines the actuarial accrued liability.
- In the actuarial valuation, the accrued liability is compared to the actuarial value of assets.
- If the accrued liability is larger, unfunded liabilities exist and need to be paid down, similar to a mortgage.
- Currently, the amortization period in Illinois Pension Code ends in 2040 (target is 90% of accrued liability).

METHOD SELECTION

AMORTIZATION OF UNFUNDED LIABILITIES

- Many considerations when selecting an amortization method:
 - Length of the amortization period?
 - Open (rolling) or closed amortization?
 - Level dollar or level percentage of payroll basis?
 - If level percentage basis, what is the payroll growth assumption?

METHOD SELECTION

AMORTIZATION OF UNFUNDED LIABILITIES

- Length of amortization period?
 - Typically, funds rely on the Illinois Pension Code.
 - Currently, the amortization period is through the year 2040.
 - This is an arbitrary date arrived at through the political process.
 - Amortization periods that end at an arbitrary date can be dangerous.
 - The plan is going to be around for a lot longer than this “end date.”
 - This date is often pushed back without any consideration of the effect on the plan or the municipality.
- Increasing contributions and volatility as you approach the end of the amortization period will be difficult for the municipality to manage.

METHOD SELECTION

AMORTIZATION OF UNFUNDED LIABILITIES

- Open (rolling) or closed amortization?
 - An amortization with a finite period is called a closed amortization.
 - 2040 is a closed amortization.
 - Or is it?!?! The date will be moved at some point in the future.
 - An open amortization is one that always uses the same number of years.
 - For example, IMRF is going to an open 15 year amortization.
 - Opponents do not like it because it does not get you to 100% by any specific date.

METHOD SELECTION

AMORTIZATION OF UNFUNDED LIABILITIES

- Level dollar or level percentage of payroll basis?
 - The level dollar approach produces an amortization payment that is always the same amount.
 - Becomes a smaller percentage of payroll over time.
 - The level percentage of payroll produces a payment stream that is designed to increase based on the expected growth in payroll.
 - Payments start out small and increase over time.
 - The actuary uses a payroll growth assumption to determine the payment pattern; the higher the assumption, the more the payment will increase over time.
 - The current payment is less than the level dollar approach since future payments get larger each year.
 - The level dollar method is the same as the level percentage approach with a 0% payroll growth assumption.

METHOD SELECTION

AMORTIZATION OF UNFUNDED LIABILITIES

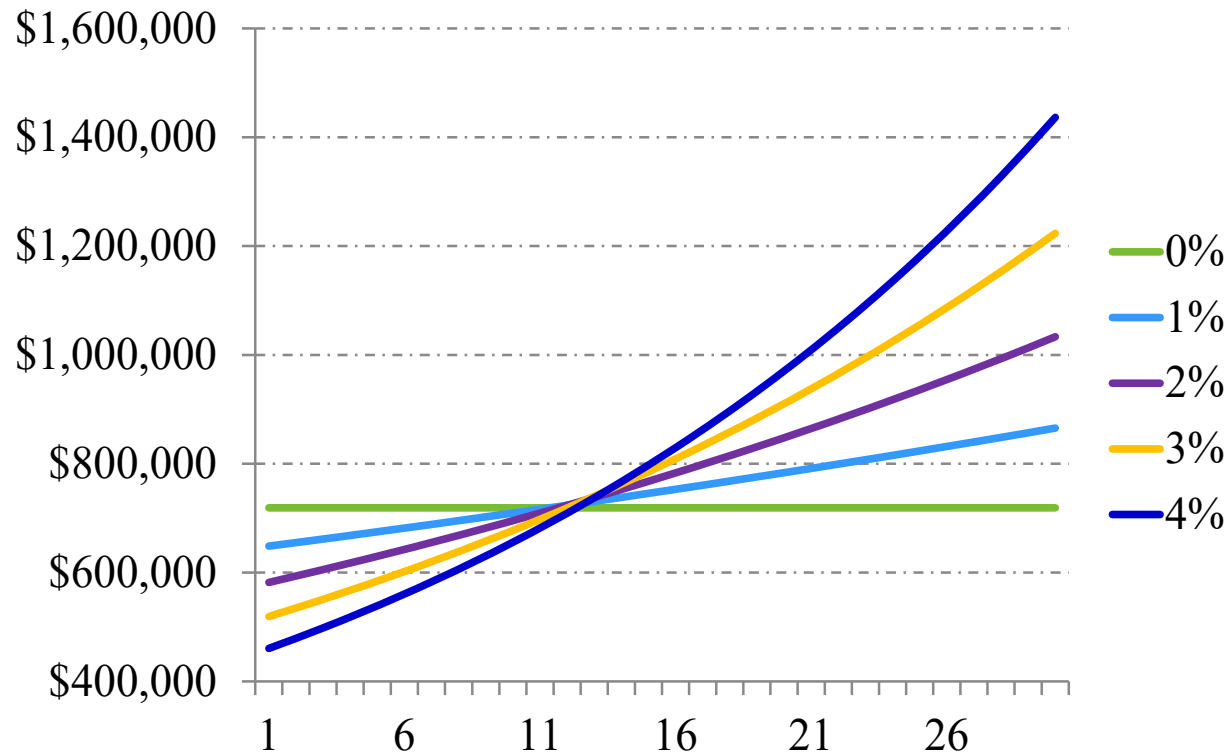
- The payroll growth assumption determines how unfunded liabilities are paid off.
- Example – 30-Year Amortization
 - Unfunded Actuarial Liability = \$10,000,000
 - Interest Rate = 6.50%

Payroll Growth Rate	UAL Payment (1st year)
0% (Level \$)	\$719,037
1%	\$648,601
2%	\$581,886
3%	\$519,150
4%	\$460,600

METHOD SELECTION

AMORTIZATION OF UNFUNDED LIABILITIES

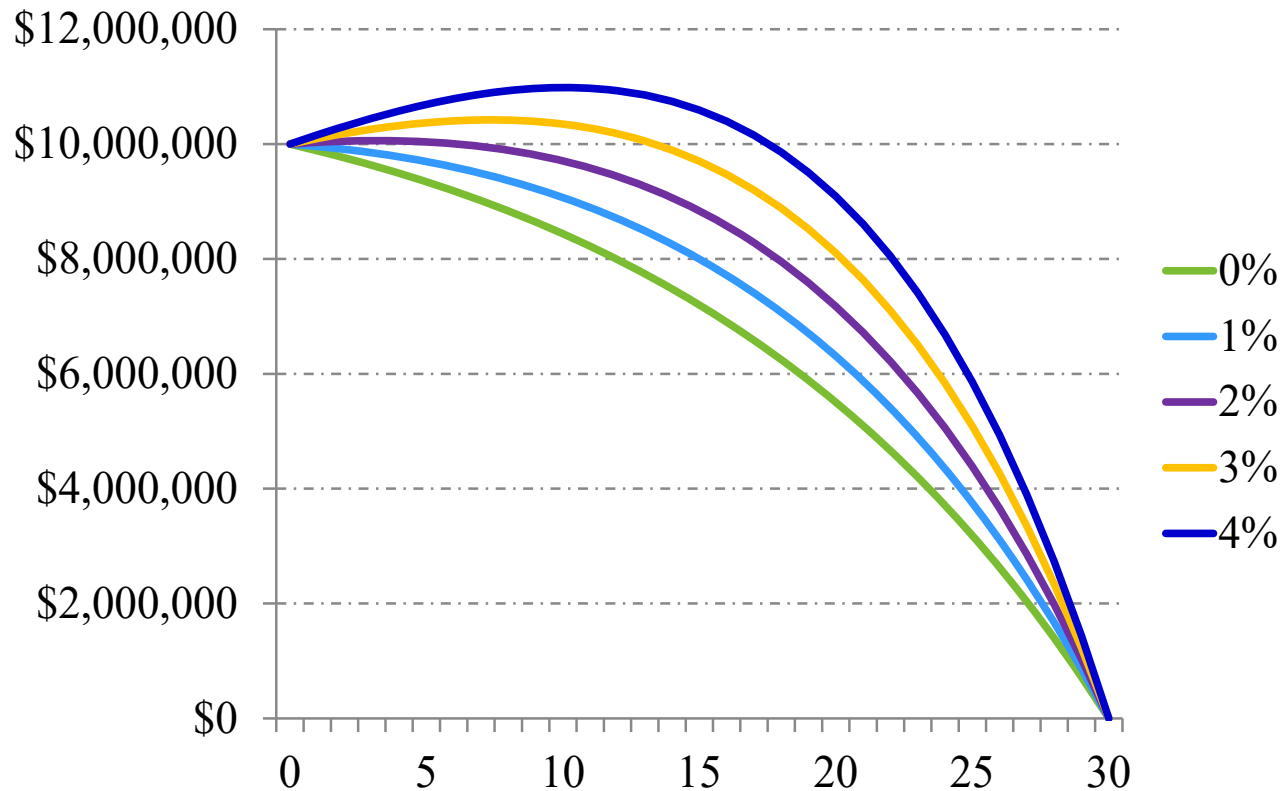
- How do the amortization payments change over the 30-year period with various payroll growth assumptions?



METHOD SELECTION

AMORTIZATION OF UNFUNDED LIABILITIES

- What happens to the unfunded liabilities under various payroll growth assumptions?



METHOD SELECTION

AMORTIZATION OF UNFUNDED LIABILITIES

- Each municipality should select its own amortization approach rather than relying on pension legislation from Springfield.
- Need to consider how all of the factors work together and select those that will help you succeed.
 - Cannot cherry pick the “cheapest” approach from each category.
- Once you have made a selection, stick with it and do not change the rules along the way.
 - Changing the rules will set you up for failure.

ACTUARIAL VALUATION RESULTS

EVANSTON FIREFIGHTERS' PENSION FUND

	January 1, 2021 Valuation	January 1, 2020 Valuation
Total Accrued Liabilities	\$ 200,806,248	\$ 194,044,011
Actuarial Value of Assets	<u>93,223,249</u>	<u>85,683,402</u>
Unfunded Actuarial Liability	\$ 107,582,999	\$ 108,360,609
Funded Percentage	46.4%	44.2%
City Contribution Requirement	\$ 10,056,876	\$ 10,144,265
Market Value Return	12.64%	19.23%
Smoothed Asset Return	8.94%	5.91%

ACTUARIAL VALUATION RESULTS

EVANSTON POLICE PENSION FUND

	January 1, 2021 Valuation	January 1, 2020 Valuation
Total Accrued Liabilities	\$ 273,132,875	\$ 263,181,756
Actuarial Value of Assets	<u>143,692,247</u>	<u>130,942,778</u>
Unfunded Actuarial Liability	\$ 129,440,628	\$ 132,238,978
Funded Percentage	52.6%	49.8%
City Contribution Requirement	\$ 11,971,613	\$ 12,177,042
Market Value Return	12.53%	21.49%
Smoothed Asset Return	10.40%	7.44%

STEPS TO IMPROVE FINANCIAL HEALTH OF PENSION PLANS

- Review funding policy
 - Adopt amortization policy that reduces back-loading in contribution requirement
 - Helps reduce the expected growth in the unfunded liabilities over time
- Pension Obligation Bonds
 - Many Illinois municipalities have issued pension obligation bonds in the last 18 months
 - Borrowing money to fund their pension plans trying to take advantage of low interest rates
 - Some bonds have been issued at rates as low as 2.25%

STEPS TO IMPROVE FINANCIAL HEALTH OF PENSION PLANS

- Additional sources of revenue for the pension funds
 - Are there new sources of revenue that can be dedicated to the pension funds to help improve funding?
- Pension Consolidation
 - New consolidated pension plans will combine the assets for police plans and all fire plans to try to increase investment income and reduce expenses
- New benefit tiers
 - All members hired after 2010 are entitled to reduced benefits relative to members hired before 2011
 - Will reduce pension costs over time

Questions?

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