



Finance and Budget Committee
Tuesday, May 9, 2023
Lorraine H. Morton Civic Center 5:00 PM
Join Zoom Meeting

<https://us06web.zoom.us/j/87036530306?pwd=cEpta2owWmxZZFFsc2RCTFNDYWMyUT09>

Meeting ID: 870 3653 0306

Passcode: 103969

One tap mobile

+13092053325,,87036530306#,,,,*103969# US

+13126266799,,87036530306#,,,,*103969# US (Chicago)

Dial by your location

+1 312 626 6799 US (Chicago)

Meeting ID: 870 3653 0306

Passcode: 103969

Find your local number: <https://us06web.zoom.us/j/87036530306?pwd=cEpta2owWmxZZFFsc2RCTFNDYWMyUT09>

AGENDA

Page

1. CALL TO ORDER/DECLARATION OF A QUORUM

2. PUBLIC COMMENT

3. APPROVAL OF MINUTES

M1. **Approval of the April 11, 2023 Finance & Budget Committee Meeting Minutes**

3 - 5

For Action

[Finance and Budget Committee - Apr 11 2023 - Minutes](#)

4. DISCUSSION

D1. **Overview of FY 2022 and FY 2023 General Fund Forecast**

6 - 10

For Discussion

For Discussion

[Overview of FY 2022 and FY 2023 General Fund Forecast - Attachment - Pdf](#)

D2. **Pension Discussion**

11 - 26

Staff seeks recommendation on the following items related to pension funding:

1. Assumed interest rates, including current 6.50% or 6.80% (used by Illinois Police Officers' Pension Investment Fund) ,or 7.125% (used by Illinois Firefighter Pension Investment Fund);
2. 90% funding (required by the State) v/s 100% funding by 2040;
3. Funding source(s) like the tax levy, PPRT, General Fund fund balance or any others;
4. Attached proposals from CM Kelly/McMillan and Chair Livingston.

Two different proposals for language to include in a resolution on pension funding have been provided to staff. The proposed language from Chair Livingston as well as the proposed language from members Kelly and McMillan are attached for reference.

For Discussion

[Pension Discussion - Attachment - Pdf](#)

5. ADJOURNMENT



City of
Evanston™
MINUTES

Finance and Budget Committee

Tuesday, April 11, 2023 @ 5:00 PM

Lorraine H. Morton Civic Center

**COMMITTEE MEMBER
PRESENT:**

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

**COMMITTEE MEMBER
ABSENT:**

STAFF PRESENT:

Hitesh Desai, Chief Financial Officer/Treasurer and Clayton Black, Budget Manager

1. CALL TO ORDER/DECLARATION OF A QUORUM

Chair David Livingston called the meeting to order at 5:05 PM

2. PUBLIC COMMENT

Mary Rosinski called for more funding on maintenance of parks throughout the City.

Ray Friedman asks Staff to provide more transparency on the budget.

Timothy Schoolmaster asks the committee to have a formalized pension funding plan.

3. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Meeting of March 14, 2023

Staff recommends approval of the minutes of the regular meeting of March 14, 2023

Moved by Councilmember Nieuwsma
Seconded by Councilmember Wynne

Ayes: Committee Member Reiches, Committee Member Livingston, Committee Member McMillan, Councilmember Wynne, Councilmember Kelly, Councilmember Nieuwsma, Councilmember Burns, and Councilmember Reid

Approved 8-0 on a recorded vote

Minutes approved.

- B. Approval of the Minutes of the Special Meeting of March 21, 2023

Staff recommends approval of the minutes of the special meeting of March 21, 2023

Moved by Councilmember Nieuwsma
Seconded by Councilmember Wynne

Ayes: Committee Member Reiches, Committee Member Livingston, Committee Member McMillan, Councilmember Wynne, Councilmember Kelly, Councilmember Nieuwsma, Councilmember Burns, and Councilmember Reid

Approved 8-0 on a recorded vote

Minutes approved.

4. DISCUSSION

- A. Transportation Infrastructure Enterprise Fund - Referral

Item was discussed and moved to the June 13, 2023 Finance and Budget Committee.

- B. Overview of General Fund Revenues

Staff gave an overview of major General Fund revenues and update on 2022 surplus.

For Discussion

5. CONSIDERATION

- A. Ordinance 40-O-23 Authorizing the City of Evanston City Manager to Reduce the Total Fiscal Year 2022 Budget by \$34,438,897, to a New Total of \$325,994,623

Staff recommends the Finance and Budget Committee recommend the City Council approve Ordinance 40-O-23 authorizing the City of Evanston City Manager to reduce the total Fiscal Year 2022 budget by \$34,438,897 to a new total of \$325,994,623.

Moved by Committee Member Livingston
Seconded by Councilmember Nieuwsma

Ayes: Committee Member Reiches, Committee Member Livingston, Councilmember Wynne, Councilmember Nieuwsma, Councilmember Burns, and Councilmember Reid

Nays: Committee Member McMillan and Councilmember Kelly

Approved 6-2 on a recorded vote

Ordinance recommended for approval to City Council.

6. ADJOURNMENT

Meeting was adjourned by Chair David Livingston at 6:32 PM.



Memorandum

To: Members of the Finance and Budget Committee
From: Clayton Black, Budget Manager
CC: Hitesh Desai, Chief Financial Officer
Subject: Overview of FY 2022 and FY 2023 General Fund Forecast
Date: May 9, 2023

Recommended Action:
For Discussion

Committee Action:
For Discussion

Summary:

At the Finance and Budget Committee meeting in March, staff updated the General Fund, highlighting the projected \$24 to \$26 million FY 2022 General Fund net operating surplus. Additionally, staff provided a list of items that have been approved by the City Council in FY 2023 that utilized General Fund reserves. These included various capital projects that exceeded budget due to inflation as well as collective bargaining contracts with Police and Fire unions that were settled at higher than budgeted amounts.

In April, staff provided an overview of General Fund revenues for FY 2023, projecting \$6 to \$10 million in potential upside over budgeted amounts.

At the May meeting, staff will walk through the attached presentation and provide an updated General Fund forecast for FY 2023 that takes into account everything currently known on expenses and revenues.

Attachments:
[F&B Presentation -May 2023](#)

General Fund Projected Surplus FY 2022

| | 2022 Budget | 2022 Projected (10-14-22) | 2022 Actual (5-2-23) | Difference (Projected to Actual) |
|--------------------------|-----------------------|------------------------------|-------------------------|--|
| Expenses | \$ 117,890,987 | \$ 119,578,541 | \$ 116,632,537 | \$ (2,946,004) |
| Revenues | \$ 117,909,687 | \$ 133,708,202 | \$ 143,166,226 | \$ 9,458,024 |
| Sales Tax - Basic | 10,300,000 | 11,492,393 | 12,987,309 | 1,494,916 |
| Sales Tax - Home Rule | 7,500,000 | 8,869,076 | 10,455,926 | 1,586,850 |
| Real Estate Transfer Tax | 3,250,000 | 4,812,378 | 5,496,306 | 683,928 |
| PPRT | 1,205,000 | 3,705,081 | 5,516,675 | 1,811,594 |
| Parking Tax | 2,600,000 | 2,321,393 | 2,952,826 | 631,433 |
| Recreation Program Fees | 5,175,525 | 5,800,000 | 6,773,874 | 973,874 |
| Building Permits | 4,225,100 | 5,700,000 | 7,000,238 | 1,300,238 |
| GEMT | 750,000 | 2,400,000 | 3,359,575 | 959,575 |
| All Other Revenues | 82,904,062 | 88,607,881 | 88,623,497 | 15,616 |
| | | | | |
| Surplus | \$ 18,700 | \$ 14,129,660 | \$ 26,533,689 | |

General Fund Revenue Projections FY 2023

| Row Labels | 2019 Actual | 2020 Actual | 2021 Actual | 2022 Actual | 2023 Budget | 2023 Projection |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| STATE INCOME TAX | 7,991,868 | 8,202,429 | 10,141,121 | 12,826,057 | 11,500,000 | 12,000,000 |
| SALES TAX - BASIC | 10,529,742 | 9,700,815 | 12,172,648 | 12,987,309 | 11,000,000 | 12,000,000 |
| SALES TAX - HOME RULE | 6,375,631 | 6,743,960 | 9,324,471 | 10,455,926 | 8,000,000 | 9,500,000 |
| RECREATION PROGRAM FEES | 5,867,376 | 4,648,130 | 5,903,315 | 6,773,874 | 5,371,375 | 6,371,375 |
| BUILDING PERMITS | 4,617,598 | 6,644,527 | 5,512,307 | 7,000,238 | 4,225,100 | 5,225,100 |
| WHEEL TAX | 2,344,475 | 2,660,196 | 3,062,072 | 2,804,272 | 3,100,000 | 2,900,000 |
| TICKET FINES - PARKING | 3,972,067 | 2,402,138 | 3,075,670 | 3,581,580 | 3,000,000 | 3,000,000 |
| LIQUOR TAX | 3,367,406 | 2,878,922 | 3,078,034 | 3,291,166 | 3,000,000 | 3,000,000 |
| ELECTRIC UTILITY TAX | 2,905,861 | 2,849,607 | 2,878,504 | 2,925,798 | 2,900,000 | 2,900,000 |
| STATE USE TAX | 2,513,280 | 3,326,042 | 2,908,688 | 3,165,654 | 2,650,000 | 2,800,000 |
| PARKING TAX | 3,271,175 | 2,423,938 | 2,845,047 | 2,952,826 | 2,600,000 | 2,850,000 |
| PERSONAL PROPERTY REPLACEMENT TAX | 1,744,366 | 1,500,129 | 2,870,429 | 5,516,675 | 2,855,000 | 3,555,000 |
| GEMT SERVICE REVENUE | - | 629,652 | 1,379,326 | 3,359,575 | 2,000,000 | 2,500,000 |
| NATURAL GAS UTILITY TAX | 1,100,794 | 997,556 | 1,250,863 | 1,987,378 | 1,400,000 | 1,400,000 |
| MUNICIPAL HOTEL TAX | 2,262,400 | 1,135,071 | 1,043,124 | 2,166,476 | 1,300,000 | 2,000,000 |
| REAL ESTATE TRANSFER TAX* | 2,671,279 | 3,251,428 | 6,227,230 | 5,496,306 | 750,000 | 750,000 |
| PENSION PROPERTY TAXES | 18,076,540 | 19,818,967 | 20,761,509 | 20,507,793 | 19,990,105 | 19,990,105 |
| PROPERTY TAXES | 11,812,398 | 9,540,660 | 8,075,176 | 8,884,604 | 9,057,297 | 9,057,297 |
| ALL OTHER GENERAL FUND REVENUES | 25,739,337 | 23,629,135 | 24,535,911 | 26,482,718 | 22,953,283 | 22,838,283 |
| TOTAL | \$ 117,163,591 | \$ 112,983,300 | \$ 127,045,444 | \$ 143,166,226 | \$ 117,652,160 | \$ 124,637,160 |
| *Note that \$3 million has been reallocated to the Reparations Fund in 2023. | | | | | Difference | \$ 6,485,000 |

General Fund Forecast FY 2018 - FY 2023

| | 2018 Actual | 2019 Actual | 2020 Actual | 2021 Actual | 2022 YTD | 2023 Budget | 2023 Projection |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|-----------------------|
| Revenues (Detail on Previous Slide) | \$ 115,829,106 | \$ 117,163,591 | \$ 112,983,300 | \$ 127,046,916 | \$ 143,166,226 | \$ 117,652,160 | \$ 124,137,160 |
| Expenses | \$ 115,401,076 | \$ 115,089,238 | \$ 111,083,607 | \$ 113,087,355 | \$ 116,632,537 | \$ 127,737,614 | \$ 133,137,614 |
| Salary & Benefit | 71,636,790 | 69,583,987 | 66,689,188 | 69,133,602 | 67,032,927 | 75,558,278 | 78,558,278 |
| Ins & Chg Backs | 22,243,869 | 23,155,655 | 24,917,618 | 25,595,919 | 25,001,458 | 28,934,436 | 28,934,436 |
| Serv & Supplies | 12,346,502 | 13,611,429 | 12,154,396 | 14,085,776 | 17,844,795 | 16,965,457 | 16,965,457 |
| Transfer | 7,691,032 | 7,534,472 | 6,497,856 | 3,334,901 | 5,012,968 | 4,248,750 | 6,648,750 |
| Miscellaneous | 936,213 | 888,503 | 500,824 | 593,170 | 1,228,632 | 617,822 | 617,822 |
| Capital Outlay | 345,496 | 180,037 | 235,983 | 290,128 | 403,802 | 694,500 | 694,500 |
| Contingencies | 106 | 6,601 | 13,122 | 18,026 | 86,511 | 598,372 | 598,372 |
| CSO | 201,067 | 128,555 | 74,620 | 35,833 | 21,444 | 120,000 | 120,000 |
| Current Year Surplus/(Deficit) | \$ 428,031 | \$ 2,074,353 | \$ 1,899,693 | \$ 13,959,561 | \$ 26,533,689 | \$ (10,085,454) | \$ (9,000,454) |
| Beginning Fund Balance | \$ 14,272,887 | \$ 14,700,918 | \$ 16,775,271 | \$ 18,674,964 | \$ 31,411,410 | \$ 57,945,099 | \$ 57,945,099 |
| Current Year Surplus/(Deficit) | \$ 428,031 | \$ 2,074,353 | \$ 1,899,693 | \$ 13,959,561 | \$ 26,533,689 | \$ (10,085,454) | \$ (9,000,454) |
| Ending Unassigned Fund Balance | \$ 14,700,918 | \$ 16,775,271 | \$ 18,674,964 | \$ 31,411,410 | \$ 57,945,099 | \$ 47,859,645 | \$ 48,944,645 |
| Fund Balance Policy (16.66%) | 16.66% | 16.66% | 16.66% | 16.66% | 16.66% | 16.66% | 16.66% |
| Required Fund Balance | \$ 19,225,819 | \$ 19,173,867 | \$ 18,506,529 | \$ 18,840,353 | \$ 19,430,981 | \$ 21,281,087 | \$ 22,180,727 |
| Required Fund Balance Excess/ (Shortfall) | \$ (4,524,902) | \$ (2,398,596) | \$ 168,435 | \$ 12,571,057 | \$ 38,514,118 | \$ 26,578,558 | \$ 26,763,918 |
| Actual Fund Balance in Reserve (%) | 12.74% | 14.58% | 16.81% | 27.78% | 49.68% | 37.47% | 36.76% |

Approved/Potential Uses of General Fund Reserves FY 2023

| Item | Approved | Cost (in thousands) |
|--|----------|-------------------------------|
| Use of Fund Balance to Balance 2023 General Fund | Yes | \$10,085,454 |
| Cover Overage on Animal Shelter Project | Yes | \$1,500,000 |
| Cover Overage on Skate Park Project | Yes | \$92,266 |
| Cover Overage on Oakton Corridor Project | Yes | \$806,960 |
| Higher than Budgeted Wage Increase (Fire) | Yes | \$1,400,000 |
| Higher than Budgeted Wage Increase (Police) | Yes | \$1,600,000 |
| Higher than Budgeted Wage Increase (AFSCME) | No | TBD |
| Cover Overages due to Inflation on Future CIP Projects | No | \$2,500,000 |
| Incremental Public Safety Pension Increases | No | TBD |
| Transfer to CIP Fund per Fund Balance Policy and Reduce/Delay GO Bonds | No | \$5,000,000 - \$10,000,000 |
| Transfer to Insurance Fund per Fund Balance Policy | No | \$4,000,000 |
| Transfer to Parking Fund per Fund Balance Policy | No | \$3,000,000 |
| Reconsider increasing GF Fund Reserve Policy to 20% | No | \$4,000,000 |
| Total Approved | | \$15,484,680 |



Memorandum

To: Members of the Finance and Budget Committee
From: Hitesh Desai, Chief Financial Officer/Treasurer
Subject: Pension Discussion
Date: May 9, 2023

Recommended Action:

Staff seeks recommendation on the following items related to pension funding:

1. Assumed interest rates, including current 6.50% or 6.80% (used by Illinois Police Officers' Pension Investment Fund), or 7.125% (used by Illinois Firefighter Pension Investment Fund);
2. 90% funding (required by the State) v/s 100% funding by 2040;
3. Funding source(s) like the tax levy, PPRT, General Fund fund balance or any others;
4. Attached proposals from CM Kelly/McMillan and Chair Livingston.

Two different proposals for language to include in a resolution on pension funding have been provided to staff. The proposed language from Chair Livingston as well as the proposed language from members Kelly and McMillan are attached for reference.

Committee Action:

For Discussion

Summary:

One of the focus areas of the Finance and Budget Committee has been pension analysis and planning. Recognizing that future contributions are likely to fluctuate significantly depending on investment returns and a variety of other factors, the City contracted Foster and Foster to provide their best view of the actual annual contributions required to get to 100% in 2040 based on market value of assets, contract negotiations, and current assumptions. This study provides the Finance and Budget Committee the information needed to make decisions regarding a funding policy and mechanism(s) to increase annual contributions to the recommended levels. The report is attached along with a Pension Funding Policy template.

Attachments:

[Foster & Foster](#)
[Pension Funding Policy Template](#)
[FundingTargetAnalysis-Evanston](#)
[Chair Livingston Proposal](#)
[Kelly/McMillan Proposal](#)

[City Contributions](#)

May 1, 2023

Mr. Hitesh D. Desai, CPA
CFO / Treasurer
City of Evanston
E. hdesai@cityofevanston.org

Re: 20-Year Projections for the Police and Fire Pension Funds

Dear Mr. Desai,

We have completed the 20-year projections of contribution requirements for each fund based on the January 1, 2022 results. These projections include the following funding policy and interest rate combinations and reflect updated plan assets as of December 31, 2022:

- 100% funding target by the end of 2040, level dollar contributions, and an interest rate of 6.50%.
- 100% funding target by the end of 2040, level dollar contributions, and an interest rate of 6.75%.
- 100% funding target by the end of 2040, level dollar contributions, and an interest rate of 7.00%.

Assumptions and Methods

The assumptions and methods employed for the purpose of this measurement were consistent with the assumptions that were used in the 2022 actuarial valuation reports completed for the funds by Foster & Foster, with the following exceptions:

- For the Fire fund, it is assumed that the active population will remain level throughout the projection period, with new entrants replacing those projected to exit the active ranks from retirements, terminations, etc.
- For the Police fund, it is assumed the active population will increase up to 150 people by 1/1/2025, at which point, the active population will remain level at 150 heads throughout the duration of the projection period.
- The new entrants will have a similar profile to recent new hires, assuming a similar gender mix, hire age and pay level (inflation adjusted).
- The long-term salary scale assumption was increased by 50 basis points in each fund to reflect current salary contracts that are expected to remain consistent throughout the projection period. It was assumed that during 2023, salaries increased across the board by 11% in the Fire fund and 18% in the Police fund.

- The interest rates evaluated were 6.50%, 6.75% and 7.00%. The rates are both the valuation interest rate and the actual return on assets for all years in that scenario.

Data

In conducting the valuation, we have relied on personnel, plan design, and asset information supplied by the City, financial reports prepared by the custodian bank and the actuarial assumptions and methods described in the Actuarial Assumptions section of the 2022 actuarial valuation reports, except where otherwise noted. While we cannot verify the accuracy of all this information, the supplied information was reviewed for consistency and reasonableness. As a result of this review, we have no reason to doubt the substantial accuracy of the information and believe that it has produced appropriate results.

Discussion of Risk and Third-Party Software

These calculations were determined for the purpose of estimating the potential evolution of the contributions and funded status under different funding targets and interest rate assumptions. Use of the results for other purposes may not be applicable and produce significantly different results. Future actuarial measurements may differ significantly from the current measurements presented in this letter for a variety of reasons including: changes in applicable laws, changes in plan provisions, changes in assumptions, or plan experience differing from expectations.

ASOP No. 51, Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions, states that the actuary should identify risks that, in the actuary's professional judgment, may reasonably be anticipated to significantly affect the plan's future financial condition. These results are based on the premise that all future plan experience will align with the plan's actuarial assumptions; however, there is no guarantee that actual plan experience will align with the plan's assumptions. It is possible that actual plan experience will differ from anticipated experience in an unfavorable manner that will negatively impact the plan's funded position. Measurement of the impact of potential deviation from the actuarial assumptions is outside the scope of this assessment, however, it is important to note that the estimate provided is produced at a single point in time and subject to the demographics as they exist on the valuation date and the actuarial assumptions used to determine the cost impact.

In performing the analysis, we used third-party software to model (calculate) the underlying liabilities and costs. These results are reviewed in the aggregate and for individual sample lives. The output from the software is either used directly or input into internally developed models to generate the costs. All internally developed models are reviewed as part of the process. As a result of this review, we believe that the models have produced reasonable results. We do not believe there are any material inconsistencies among assumptions or unreasonable output produced due to the aggregation of assumptions.

Statement of Actuarial Opinion

The undersigned are familiar with the immediate and long-term aspects of pension calculations and meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. To the best of our knowledge, the results are complete and accurate, and in our opinion, the techniques and assumptions used are reasonable.

To our knowledge, no associate of Foster & Foster, Inc. working on valuations of the program has any direct financial interest or indirect material interest in the City of Evanston, nor does anyone at Foster & Foster, Inc. act as a member of the Board of Trustees of the City of Evanston Firefighters' Pension Fund or City of Evanston Police Pension Fund. Thus, there is no relationship existing that might affect our capacity to prepare and certify this actuarial report.

Respectfully submitted,

Foster & Foster, Inc.



By:

Jason L. Franken, FSA, EA, MAAA



By:

Heidi E. Andorfer, FSA, EA, MAAA

Evanston Police and Fire Pension Funds
Projection of Funded Status Assuming Interest of 6.50%

100% Funding Target

| Years | Police | | | | Fire | | | |
|-------|-----------------------------------|---------------------------------|------------------|-------------------------------|-----------------------------------|---------------------------------|------------------|-------------------------------|
| | Actuarial Accrued Liability | Actuarial Value of Assets | Funded Status | Calendar Year Contribution | Actuarial Accrued Liability | Actuarial Value of Assets | Funded Status | Calendar Year Contribution |
| 2023 | 285,867,061 | 165,419,891 | 57.9% | 13,295,458 ¹ | 212,439,870 | 108,484,721 | 51.1% | 11,793,978 ¹ |
| 2024 | 305,059,998 | 175,706,007 | 57.6% | 14,226,645 | 221,903,269 | 116,626,933 | 52.6% | 12,387,988 |
| 2025 | 313,576,055 | 183,751,860 | 58.6% | 15,762,933 | 227,998,725 | 123,619,891 | 54.2% | 12,932,822 |
| 2026 | 322,042,378 | 191,742,504 | 59.5% | 16,254,883 | 234,110,029 | 130,194,935 | 55.6% | 13,231,588 |
| 2027 | 330,479,773 | 197,141,501 | 59.7% | 16,821,773 | 240,188,435 | 135,836,211 | 56.6% | 13,599,287 |
| 2028 | 338,815,103 | 211,214,138 | 62.3% | 17,747,126 | 246,211,660 | 146,575,582 | 59.5% | 14,114,791 |
| 2029 | 347,000,159 | 226,480,807 | 65.3% | 17,772,268 | 252,138,694 | 158,058,543 | 62.7% | 14,124,436 |
| 2030 | 355,001,611 | 242,059,516 | 68.2% | 17,686,455 | 258,010,255 | 169,850,596 | 65.8% | 14,077,069 |
| 2031 | 362,734,177 | 257,775,569 | 71.1% | 17,585,211 | 263,790,560 | 181,880,058 | 68.9% | 14,017,783 |
| 2032 | 370,104,420 | 273,546,303 | 73.9% | 17,471,965 | 269,466,218 | 194,159,586 | 72.1% | 13,940,289 |
| 2033 | 377,093,445 | 289,432,225 | 76.8% | 17,335,000 | 274,995,460 | 206,651,056 | 75.1% | 13,846,592 |
| 2034 | 383,696,721 | 305,384,257 | 79.6% | 17,195,742 | 280,391,888 | 219,368,529 | 78.2% | 13,754,904 |
| 2035 | 389,852,743 | 321,383,075 | 82.4% | 17,050,162 | 285,591,509 | 232,259,455 | 81.3% | 13,651,480 |
| 2036 | 395,610,266 | 337,523,861 | 85.3% | 16,909,823 | 290,542,101 | 245,304,941 | 84.4% | 13,536,296 |
| 2037 | 401,076,811 | 353,907,610 | 88.2% | 16,745,984 | 295,279,468 | 258,552,415 | 87.6% | 13,400,484 |
| 2038 | 406,347,362 | 370,641,353 | 91.2% | 16,555,730 | 299,797,777 | 272,008,294 | 90.7% | 13,231,668 |
| 2039 | 411,474,894 | 387,801,036 | 94.2% | 16,284,389 | 304,084,262 | 285,650,720 | 93.9% | 13,000,971 |
| 2040 | 416,555,744 | 405,393,476 | 97.3% | 15,852,944 | 308,143,314 | 299,446,758 | 97.2% | 12,640,736 |
| 2041 | 421,646,352 | 423,340,399 | 100.4% | 14,790,524 | 312,022,822 | 313,315,194 | 100.4% | 11,803,664 |
| 2042 | 426,806,427 | 441,057,844 | 103.3% | 2,956,628 | 315,826,068 | 326,869,015 | 103.5% | 2,578,787 |
| Total | | | | 316,301,643 | | | | 255,665,613 |

¹ Due to the timing of the contribution calculation and levy timing, the 2023 contribution is calculated as of January 1, 2022 (adjusted for interest) and utilizes the 100% funding target and 6.50% interest rate in all scenarios.

Evanston Police and Fire Pension Funds
Projection of Funded Status Assuming Interest of 6.75%

100% Funding Target

| Years | Police | | | | Fire | | | |
|-------|-----------------------------------|---------------------------------|------------------|-------------------------------|-----------------------------------|---------------------------------|------------------|-------------------------------|
| | Actuarial Accrued Liability | Actuarial Value of Assets | Funded Status | Calendar Year Contribution | Actuarial Accrued Liability | Actuarial Value of Assets | Funded Status | Calendar Year Contribution |
| 2023 | 277,061,656 | 165,419,891 | 59.7% | 13,295,458 ¹ | 205,921,120 | 108,484,721 | 52.7% | 11,793,978 ¹ |
| 2024 | 295,549,357 | 176,083,038 | 59.6% | 13,309,782 | 215,077,790 | 116,876,558 | 54.3% | 11,718,927 |
| 2025 | 303,861,976 | 183,608,221 | 60.4% | 14,685,128 | 221,026,989 | 123,464,940 | 55.9% | 12,175,994 |
| 2026 | 312,131,626 | 190,904,994 | 61.2% | 15,173,660 | 226,993,667 | 129,539,827 | 57.1% | 12,470,668 |
| 2027 | 320,376,116 | 195,591,016 | 61.1% | 15,752,564 | 232,931,215 | 134,666,904 | 57.8% | 12,845,886 |
| 2028 | 328,525,327 | 208,948,078 | 63.6% | 16,697,477 | 238,817,756 | 144,890,422 | 60.7% | 13,371,889 |
| 2029 | 336,531,659 | 223,506,610 | 66.4% | 16,727,871 | 244,612,240 | 155,860,466 | 63.7% | 13,383,033 |
| 2030 | 344,362,644 | 238,372,155 | 69.2% | 16,644,583 | 250,354,862 | 167,134,708 | 66.8% | 13,334,508 |
| 2031 | 351,931,705 | 253,367,403 | 72.0% | 16,544,743 | 256,009,816 | 178,639,049 | 69.8% | 13,273,744 |
| 2032 | 359,146,349 | 268,408,249 | 74.7% | 16,434,024 | 261,564,398 | 190,385,912 | 72.8% | 13,195,231 |
| 2033 | 365,989,976 | 283,555,953 | 77.5% | 16,300,770 | 266,977,363 | 202,337,698 | 75.8% | 13,101,569 |
| 2034 | 372,454,887 | 298,762,318 | 80.2% | 16,164,178 | 272,262,132 | 214,509,614 | 78.8% | 13,009,863 |
| 2035 | 378,480,564 | 314,006,574 | 83.0% | 16,022,287 | 277,354,519 | 226,849,142 | 81.8% | 12,907,094 |
| 2036 | 384,115,320 | 329,384,589 | 85.8% | 15,884,816 | 282,203,400 | 239,338,088 | 84.8% | 12,793,221 |
| 2037 | 389,463,387 | 344,996,420 | 88.6% | 15,722,868 | 286,844,392 | 252,024,642 | 87.9% | 12,659,250 |
| 2038 | 394,618,728 | 360,948,189 | 91.5% | 15,533,695 | 291,271,456 | 264,915,971 | 91.0% | 12,492,645 |
| 2039 | 399,634,054 | 377,315,266 | 94.4% | 15,264,314 | 295,471,394 | 277,990,833 | 94.1% | 12,265,110 |
| 2040 | 404,602,281 | 394,105,698 | 97.4% | 14,835,522 | 299,448,065 | 291,217,483 | 97.3% | 11,909,951 |
| 2041 | 409,579,409 | 411,242,246 | 100.4% | 13,785,540 | 303,247,402 | 304,516,837 | 100.4% | 11,084,886 |
| 2042 | 414,623,683 | 428,150,651 | 103.3% | 2,626,999 | 306,971,439 | 317,508,773 | 103.4% | 2,332,465 |
| Total | | | | 297,406,279 | | | | 242,119,912 |

¹ Due to the timing of the contribution calculation and levy timing, the 2023 contribution is calculated as of January 1, 2022 (adjusted for interest) and utilizes the 100% funding target and 6.50% interest rate in all scenarios.

Evanston Police and Fire Pension Funds
Projection of Funded Status Assuming Interest of 7.00%

100% Funding Target

| Years | Police | | | | Fire | | | |
|-------|-----------------------------------|---------------------------------|------------------|-------------------------------|-----------------------------------|---------------------------------|------------------|-------------------------------|
| | Actuarial Accrued Liability | Actuarial Value of Assets | Funded Status | Calendar Year Contribution | Actuarial Accrued Liability | Actuarial Value of Assets | Funded Status | Calendar Year Contribution |
| 2023 | 268,722,185 | 165,419,891 | 61.6% | 13,295,458 ¹ | 199,743,682 | 108,484,721 | 54.3% | 11,793,978 ¹ |
| 2024 | 286,545,807 | 176,460,068 | 61.6% | 12,431,539 | 208,610,353 | 117,126,183 | 56.1% | 11,079,270 |
| 2025 | 294,664,254 | 183,504,145 | 62.3% | 13,651,274 | 214,419,750 | 123,339,997 | 57.5% | 11,450,541 |
| 2026 | 302,746,053 | 190,151,894 | 62.8% | 14,136,368 | 220,248,167 | 128,946,633 | 58.5% | 11,741,185 |
| 2027 | 310,806,251 | 194,169,428 | 62.5% | 14,727,358 | 226,050,957 | 133,591,205 | 59.1% | 12,123,900 |
| 2028 | 318,777,523 | 206,855,055 | 64.9% | 15,691,782 | 231,806,635 | 143,330,206 | 61.8% | 12,660,375 |
| 2029 | 326,612,853 | 220,749,101 | 67.6% | 15,727,151 | 237,474,121 | 153,818,283 | 64.8% | 12,672,887 |
| 2030 | 334,280,564 | 234,944,374 | 70.3% | 15,645,918 | 243,093,141 | 164,605,134 | 67.7% | 12,623,059 |
| 2031 | 341,692,912 | 249,260,665 | 72.9% | 15,547,022 | 248,627,882 | 175,614,161 | 70.6% | 12,560,638 |
| 2032 | 348,758,234 | 263,612,324 | 75.6% | 15,438,216 | 254,066,279 | 186,857,439 | 73.5% | 12,480,859 |
| 2033 | 355,462,036 | 278,061,081 | 78.2% | 15,307,910 | 259,367,572 | 198,297,734 | 76.5% | 12,386,876 |
| 2034 | 361,793,669 | 292,559,328 | 80.9% | 15,173,264 | 264,545,004 | 209,951,193 | 79.4% | 12,294,747 |
| 2035 | 367,693,475 | 307,084,732 | 83.5% | 15,034,184 | 269,534,179 | 221,765,173 | 82.3% | 12,192,118 |
| 2036 | 373,209,353 | 321,733,513 | 86.2% | 14,898,689 | 274,284,976 | 233,721,950 | 85.2% | 12,078,919 |
| 2037 | 378,442,451 | 336,604,582 | 88.9% | 14,737,717 | 278,832,826 | 245,870,223 | 88.2% | 11,946,025 |
| 2038 | 383,485,787 | 351,802,912 | 91.7% | 14,548,608 | 283,171,497 | 258,217,634 | 91.2% | 11,780,706 |
| 2039 | 388,391,828 | 367,402,955 | 94.6% | 14,279,811 | 287,287,387 | 270,743,233 | 94.2% | 11,555,108 |
| 2040 | 393,250,352 | 383,413,359 | 97.5% | 13,851,621 | 291,183,845 | 283,415,980 | 97.3% | 11,203,130 |
| 2041 | 398,116,953 | 399,756,924 | 100.4% | 12,808,990 | 294,904,993 | 296,158,025 | 100.4% | 10,385,808 |
| 2042 | 403,048,543 | 415,865,612 | 103.2% | 2,323,182 | 298,551,701 | 308,593,446 | 103.4% | 2,104,892 |
| Total | | | | 279,256,062 | | | | 229,115,021 |

¹ Due to the timing of the contribution calculation and levy timing, the 2023 contribution is calculated as of January 1, 2022 (adjusted for interest) and utilizes the 100% funding target and 6.50% interest rate in all scenarios.

CITY OF XYZ
Pension Funding Policy
XYZ Police and Firefighters' Pension Plans
March 13, 2023

I. INTRODUCTION

Policy Statement

The purpose of this policy is to define the manner in which the City of XYZ funds the long-term cost of benefits promised to plan participants and defines the calculation of the City's actuarially determined contribution (ADC) to the Police and Firefighters' Pension Plans.

Policy Goal

The ultimate goal of this policy is to ensure that pension benefits can be paid by adopting a long-term funding plan that systematically eliminates unfunded liability while producing a contribution requirement that is stable and predictable.

II. GENERAL FUNDING POLICY OBJECTIVES

The objective of a public employee defined benefit pension plan is to fund the long-term cost of retirement benefits provided to the plan participants. To assure the plan remains sustainable, the plan should accumulate adequate resources for future benefit payments in a systematic and disciplined manner during the active service life of the benefitting employees. There can be several objectives to achieving this:

- 1) **Actuarially Determined Contributions** - This should be determined in an actuarially sound manner based on an actuarially determined contribution that incorporates both the cost of current benefits being earned by the active plan participants and the amortization of any unfunded actuarial accrued liability.
- 2) **Funding Discipline** - Funding should be based on a consistent methodology each year that will ensure that adequate funds are contributed on an annual basis.
- 3) **Intergenerational Equity** - Maintain a level of intergenerational equity so that the cost of benefits is paid by the generation of taxpayers who receive services from pension participants during their active employment years.
- 4) **Contributions as a Stable Percentage of Payroll** - Contributions should be managed so that employer costs remain relatively consistent as a percentage of payroll over time.
- 5) **Accountability and Transparency** - Clearly defined reporting of pension funding, including an assessment of whether, how and when the City will ensure sufficient assets will be available to pay benefits as promised.

III. ACTUARIALLY DETERMINED CONTRIBUTION FUNDING PRINCIPLES

The annual required contribution will be determined as follows:

- 1) The **Actuarially Determined Contribution (ADC)** will be calculated by an enrolled actuary.
- 2) The ADC will include the normal cost, amortization of any unfunded liability, and an estimate of the annual cost to administer the fund.
- 3) The **Actuarial Accrued Liability**, which is the liability accrued in the fund as of the valuation date, and **Normal Cost**, which is the annual cost of pension accruals by the active employees each year, will be calculated using the Entry Age Normal Level Percentage of Payroll Actuarial Cost Method using the following assumptions:
 - a. The investment rate of return assumption will be 6.75% per year. This assumption will be reviewed annually against the investment goals of the fund to ensure that it is a reasonable long-term assumption.
 - b. Non-economic assumptions, such as rates of separation, disability, retirement, mortality, etc., shall be determined from experience studies to most accurately reflect current experience.
- 4) The **Actuarial Value of Assets** will be determined using a smoothing method to reduce the effects of market volatility on the City's contributions. A **5-year smoothed market value** method will be used to recognize variances from the actuarial investment rate of return assumption to actual market returns.
- 5) The **Unfunded Actuarial Accrued Liability (UAAL)**, which is the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets will be amortized over an open 15-year period on a level dollar basis.
- 6) The contribution will include an estimate of the annual cost to administer the fund. This estimate will simply assume that the prior year administrative expenses will be the same in the current year.

IV. TRANSPARENCY

Funding of the pension plans shall be transparent to vested parties including plan participants, annuitants, the Pension Boards, the City Council and residents. To achieve this transparency, the following information shall be distributed and/or published on the City's website:

- 1) A copy of the annual actuarial valuation for all plans shall be made available to the City Council and Pension Boards.
- 2) The City's annual operating budget shall clearly state the City's required contribution to the pension plans. As part of the budget process, the required contribution to the fund shall be reviewed and discussed at an open meeting of the City Council.

- 3) The City's Annual Comprehensive Financial Report reflects the City's annual required contribution and the value of the outstanding pension liabilities as directed by the Governmental Accounting Standards Board.

V. REVIEW OF FUNDING POLICY

Funding a defined benefit pension plan requires a long-term horizon. Assumptions and inputs into the policy should focus on long-term trends, not year-to-year shifts in the economic or noneconomic environments. Generally, assumptions or inputs should be evaluated and changed if long-term economic or non-economic inputs have fundamentally changed or are no longer reasonable. As such, the City will review this policy every three to five years to determine if changes to this policy are needed to ensure adequate resources are being accumulated in the pension plans. The City reserves the right to make changes to this policy at any time if it is deemed appropriate.

Evanston Firefighters' Pension Fund

Cost Impact of Varying Interest Rates and Funding Target ¹

| Rate | 6.25% | 6.50% | 6.25% | 6.50% | 6.25% | 6.50% |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Funded Percentage | 90% | 90% | 100% | 100% | 105% | 105% |
| Funded Status | | | | | | |
| Total Actuarial Accrued Liability (AL) | \$217,594,465 | \$210,848,440 | \$217,594,465 | \$210,848,440 | \$217,594,465 | \$210,848,440 |
| Actuarial Value of Assets (AVA) | <u>108,325,958</u> | <u>108,325,958</u> | <u>108,325,958</u> | <u>108,325,958</u> | <u>108,325,958</u> | <u>108,325,958</u> |
| Unfunded Actuarial Accrued Liability (UAAL) | 109,268,507 | 102,522,482 | 109,268,507 | 102,522,482 | 109,268,507 | 102,522,482 |
| Funded Ratio (AVA / AL) | 49.8% | 51.4% | 49.8% | 51.4% | 49.8% | 51.4% |
| Pension Cost | | | | | | |
| Normal Cost | \$3,551,846 | \$3,332,290 | \$3,551,846 | \$3,332,290 | \$3,551,846 | \$3,332,290 |
| Administrative Expenses | 101,339 | 101,578 | 101,339 | 101,578 | 101,339 | 101,578 |
| Payment Required to Amortize UAAL | <u>8,234,427</u> | <u>7,806,173</u> | <u>10,281,947</u> | <u>9,827,253</u> | <u>11,305,707</u> | <u>10,837,792</u> |
| Total Recommended Contribution | 11,887,612 | 11,240,041 | 13,935,132 | 13,261,121 | 14,958,892 | 14,271,660 |
| Expected Member Contributions | <u>(1,030,730)</u> | <u>(1,030,730)</u> | <u>(1,030,730)</u> | <u>(1,030,730)</u> | <u>(1,030,730)</u> | <u>(1,030,730)</u> |
| Expected City Contribution | 10,856,882 | 10,209,311 | 12,904,402 | 12,230,391 | 13,928,162 | 13,240,930 |
| Assumptions and Methods | | | | | | |
| Interest Rate | 6.25% | 6.50% | 6.25% | 6.50% | 6.25% | 6.50% |
| Funded Target | 90% | 90% | 100% | 100% | 105% | 105% |
| Amortization Years | 18 | 18 | 18 | 18 | 18 | 18 |
| Payroll Growth Assumption | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Valuation Date | 1/1/2023 | 1/1/2023 | 1/1/2023 | 1/1/2023 | 1/1/2023 | 1/1/2023 |
| Applicable to Fiscal Year Ending | 12/31/2023 | 12/31/2023 | 12/31/2023 | 12/31/2023 | 12/31/2023 | 12/31/2023 |

¹ Assets revised from original analysis provided on February 6, 2023 to include the City Contribution Funding Shortfall of \$1,690,036.

Chair David Livingston Proposal

1. We recommend that the City in its preliminary work on the 2024 budget assume the City fully fund the pension contributions calculated by Foster & Foster to achieve a path to 100% funding by 2040.
2. That pension contributions in 2024 be achieved through:
 - a. A flat property tax levy in 2023
 - b. The appropriate allocation of PPRT revenues to the Public Safety pension contribution
 - c. Any remaining additional contribution to come from available excess general fund reserves
3. Further, between now and year end 2023, the Finance & Budget Committee will work to develop a formal Public Safety funding policy that identifies the long-term goals and sources of revenues for the required contributions to maintain a path to full funding by 2040.

Recommendation: Annual Full Funding of the City's Public Safety Pensions.

It is the responsibility of the Finance and Budget Committee to identify avenues to stabilize long-term city finances, strengthen the overall fiscal health of the city and to forward concrete recommendations to the City Council for approval. Full funding of public safety pension plans, annually, ensures the solvency of the pensions of our Police and Fire public safety personnel, resulting in long term property tax relief and strengthening the city's credit and bond ratings.

The fiscal health of Evanston is critical for our community's long term viability, growth and welfare. Managing the City's operations in a fiscally responsible manner is essential to retaining current residents and commerce and for generating long run economic, social and cultural growth in our community. Fully funded public safety pension plans based on actuarially estimated annual payments ensure that our fire and police personnel do not have cause for concern about their pensions. Similarly, fully funded plans ensure that the City and its citizens do not have to fear scrambles to fund or finance its pension obligations in the years ahead with a continued growing debt obligation. Full funding of the public safety pensions has a significant positive impact on the city's bond ratings. The City should contribute 100% annually now and going forward, to make sure we do not continue to put the problem off until a later date and continue to accrue burdensome debt. Accordingly, it is our recommendation that City of Evanston officials implement appropriate policies and procedures to monitor pension related budget items and intervene at an earlier time to take corrective actions and to consider contributions greater than 100% . Our community has legal and moral obligations to provide for the pensions earned by all the firefighters and police officers, and every incentive to do so from the standpoint of sound financial management and budgeting practice that best serves the residents of Evanston.

Therefore:

- 1) From this year (2023) forward, we recommend annual full funding, at 100%, of the City of Evanston's contractual obligation to the Public Safety Pensions, thereby ensuring the consistent annual reduction of the City's public safety pension liability. In order to calculate these annual payments, the City/Pension Boards' joint actuary will determine the amount that reflects the City's 100% annual contribution as well as the rate of assumption.
- 2) In order to achieve this 100% annual funding, the City will apply 100% of the annual PPRT (Personal Property Replacement Tax) payments received from the state toward the City's annual Public Safety Pension payment. Please note the

State's PPRT payments to municipalities are specifically intended to be applied towards outstanding pension obligations.

- 3) The remaining balance, of **up to 90%**, of the City's 100% annual payment, shall be paid through the property tax levy.
- 4) Should the total annual PPRT payments from the state, plus the 90% property tax levy fall short of the 100% annual full funding from the city, we recommend that the city apply excess funds from the year-end surplus fund balance towards annual public safety pension payments to meet i.e. fill the gap in order to meet the full 100% annual funding amount, when needed.
- 5) Additionally, we recommend accessing year-end surplus funds to make annual payments that exceed the 100% annual funding of 105% or more. We recommend that, when possible, the city consider annual funding at 105% or greater in order to expedite the reduction of the public safety pension debt burden on Evanston residents. The amount and the rate of assumption will be determined by the joint actuary.

Evanston Police and Fire Pension Funding**6.50% Interest Rate assumption**

| Year | Police Contribution | Fire Contribution | Total City Contribution | Tax levy at 90% of Contribution | Current (FY 2023) Tax Levy | Difference |
|-------------|--------------------------------|------------------------------|------------------------------------|--|---------------------------------------|-------------------|
| 2024 | 14,226,645 | 12,387,988 | 26,614,633 | 23,953,170 | 19,990,105 | 3,963,065 |
| 2025 | 15,762,933 | 12,932,822 | 28,695,755 | 25,826,180 | 19,990,105 | 5,836,075 |
| 2026 | 16,254,883 | 13,231,588 | 29,486,471 | 26,537,824 | 19,990,105 | 6,547,719 |
| 2027 | 16,821,773 | 13,599,287 | 30,421,060 | 27,378,954 | 19,990,105 | 7,388,849 |
| 2028 | 17,747,126 | 14,114,791 | 31,861,917 | 28,675,725 | 19,990,105 | 8,685,620 |
| 2029 | 17,772,268 | 14,124,436 | 31,896,704 | 28,707,034 | 19,990,105 | 8,716,929 |
| 2030 | 17,686,455 | 14,077,069 | 31,763,524 | 28,587,172 | 19,990,105 | 8,597,067 |
| 2031 | 17,585,211 | 14,017,783 | 31,602,994 | 28,442,695 | 19,990,105 | 8,452,590 |
| 2032 | 17,471,965 | 13,940,289 | 31,412,254 | 28,271,029 | 19,990,105 | 8,280,924 |
| 2033 | 17,335,000 | 13,846,592 | 31,181,592 | 28,063,433 | 19,990,105 | 8,073,328 |