



**Finance and Budget Committee
Tuesday, July 11, 2023
Lorraine H. Morton Civic Center 5:00 PM**

Join Zoom Meeting

<https://us06web.zoom.us/j/87282660590?pwd=Slg3aW55MIBsVnEvL25DQVVrRHVMdz09>

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AGENDA

Page

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1. CALL TO ORDER/DECLARATION OF A QUORUM

2. PUBLIC COMMENT

3. APPROVAL OF MINUTES

- M1. **Approval of the June 13, 2023 Finance & Budget Committee meeting minutes.** 4 - 5
[Finance and Budget Committee - Jun 13 2023 - Minutes - Pdf](#)

4. CONSIDERATION

- FB1. **Review of the Annual Comprehensive Financial Report 2022** 6

Staff recommends that the Finance and Budget Committee review the Annual Comprehensive Financial Report for 2022 and refer it to the City Council for them to approve and place on file.

For Action: Accept and Place on File

[Review of the Annual Comprehensive Financial Report 2022 - Attachment - Pdf](#)

- FB2. **Resolution 45-R-23, Adopting the Pension Funding Policy for Public Safety Pension Plans** 7 - 13

The Finance and Budget Committee recommends that the City Council Pass Resolution 45-R-23 Adopting the Pension Funding Policy for Public Safety Pension Plans.

For Action

[Resolution 45-R-23, Adopting the Pension Funding Policy for Public Safety Pension Plans - Attachment - Pdf](#)

- FB3. **Assumed Rate of Return on Investments for 2023** 14 - 16

The Finance and Budget Committee recommends that the City Council approve an assumed rate of return of 6.5% for the 2023 police and fire pension actuarial valuation reports.

For Action

[Assumed Rate of Return on Investments for 2023 - Attachment - Pdf](#)

5. DISCUSSION

D1. **Presentation on CIP Funding** 17 - 22

Staff requests that the Finance and Budget Committee provide direction to staff on next steps related to funding for CIP projects.

For Discussion

[Presentation on CIP Funding - Attachment - Pdf](#)

D2. **Water Fund Status** 23 - 24

Staff requests that the Finance and Budget Committee provide direction on next steps related to maintaining an appropriate fund balance in the Water Fund.

For Discussion

[Water Fund Status - Attachment - Pdf](#)

6. ADJOURNMENT

Draft



City of
Evanston™
MINUTES

Finance and Budget Committee

Tuesday, June 13, 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, and Jonathan Nieuwsma, Councilmember

**COMMITTEE MEMBER
ABSENT:**

Devon Reid, Councilmember and Bobby Burns, Councilmember

STAFF PRESENT:

Jessica Tapia, Finance Analyst, Hitesh Desai, Chief Financial Officer/Treasurer, and Clayton Black, Budget Manager

1. CALL TO ORDER/DECLARATION OF A QUORUM

Meeting was called to order by Chair David Livingston at 5:15 PM

2. PUBLIC COMMENT

Jack Mortell spoke on funding public safety pensions

Timothy Schoolmaster spoke on funding public safety pensions

3. APPROVAL OF MINUTES

M1. Approval of the May 9, 2023 Finance and Budget Committee Meeting minutes

4. CONSIDERATION

FB1. Amending the 2023 Committee Calendar

Committee approved removing the August 8, 2023 date and added a December 12, 2023 date

For Action

Moved by Councilmember Nieuwsma
Seconded by Councilmember Kelly

Draft

Finance and Budget Committee
June 13, 2023

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

Approved 6-0 on a recorded vote

5. DISCUSSION

D1. Discussion Regarding Draft Public Safety Pension Policy

Committee voted on moving this up to D1. Members present participated in the discussion on pension funding policy including assumed rate of return, pension funding sources, and other policy items. They agreed to continue the discussion of pension funding policy at the next meeting in July.

For Discussion

Moved by Councilmember Nieuwsma
Seconded by Councilmember Kelly

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

Approved 6-0 on a recorded vote

D2 Discussion Regarding Transfer of General Fund Reserves to the Parking and Insurance Funds

Staff provided a brief presentation on General Fund Reserve transfers to Parking and Insurance Funds noting that corrections to these two funds would be handled through the FY 2024 budget process.

For Discussion

D3. Discussion on Fund Balances

Chair David Livingston and staff spoke briefly about the status of the fund balances.

For Discussion

6. ADJOURNMENT

Meeting was adjourned by Chair David Livingston at 6:37 PM.



Memorandum

To: Members of the Finance and Budget Committee
From: Hitesh Desai, Chief Financial Officer/Treasurer
Subject: Review of the Annual Comprehensive Financial Report 2022
Date: July 11, 2023

Recommended Action:

Staff recommends that the Finance and Budget Committee review the Annual Comprehensive Financial Report for 2022 and refer it to the City Council for them to approve and place on file.

Committee Action:

For Action: Accept and Place on File

Summary:

Local governments are required by state law to have their annual financial statements audited by a qualified certified public accountant. The City retained the services of Sikich, LLP to perform the audit of City of Evanston financial statements for the fiscal year ended December 31, 2022.

The auditors' opinion, on the financial statements, reports that the financial statements are prepared in accordance with generally accepted accounting principles and present fairly the financial position of the City at December 31, 2022 and the results of its operations for the year then ended.

The ACFR is currently being finalized and every effort will be made to provide it to the Finance and Budget Committee prior to the meeting on July 11th. Staff from Sikich will be in attendance to present the results and address any questions.



Memorandum

To: Members of the Finance and Budget Committee
From: Hitesh Desai, Chief Financial Officer/Treasurer
Subject: Resolution 45-R-23, Adopting the Pension Funding Policy for Public Safety Pension Plans
Date: July 11, 2023

Recommended Action:

The Finance and Budget Committee recommends that the City Council Pass Resolution 45-R-23 Adopting the Pension Funding Policy for Public Safety Pension Plans.

Committee Action:

For Action

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 the market value of assets, contractual wage increases, and current assumptions. Staff shared the results of this analysis with the Finance and Budget Committee at the May 2023. In June 2023, Chair Livingston presented a draft funding policy that was prepared using a template provided by Foster and Foster.

Since the last meeting, Chair Livingston and Member Reiches have incorporated feedback provided by members of the Committee and the revised policy is attached for consideration. The attached policy provides staff with direction on developing the assumed rate of return on an annual basis as well as the sources of pension funding contributions.

Legislative History:

The Finance and Budget Committee has discussed this Public Safety Pension Policy at Committee meetings in February 2023, March 2023, May 2023, and June 2023. At the June 2023 meeting, an initial draft policy was discussed with the Committee. Since that meeting, Chair Livingston and Committee Member Reiches have incorporated feedback from other committee members into the policy.

Attachments:

[Resolution 45-R-23](#)

45-R-23

A RESOLUTION

Adopting the Pension Funding Policy for Public Safety Pension Plans

WHEREAS, the City of Evanston (“City”) funds the Police Pension Fund and the Firefighters’ Pension Fund (collectively, the “Public Safety Pension Plans”); and,

WHEREAS, the purpose of the Public Safety Pension Plans is to provide long-term benefits promised to participants in the City of Evanston Police Pension Fund and the City of Evanston Firefighters’ Pension Fund; and,

WHEREAS, the State of Illinois requires that municipal governments have Public Safety Pension Plans 90% funded by 2040; and,

WHEREAS, the City’s Finance and Budget Committee desires that the City increase the amount of funding it is committing towards Public Safety Pension Plans to ensure the plans are 100% funded by 2040, and proposes the Pension Funding Policy for Public Safety Pension Plans (the “Pension Funding Policy”) to meet that goal; and,

WHEREAS, the Pension Funding Policy provides direction on long-term funding to systematically eliminate any unfunded liabilities while producing a contribution requirement that is predictable and reflected in the City’s long-term financial forecasts; and,

WHEREAS, the Pension Funding Policy sets forth the objectives, actuarially determined contribution funding principles, and sources of pension contributions as a means for the City to reach its full funding goal; and

WHEREAS, in order to implement the Pension Funding Policy, the City Council has determined it to be in the best interests of the City to adopt this Resolution.

NOW BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF EVANSTON, COOK COUNTY, ILLINOIS:

SECTION 1. The foregoing recitals shall be and are hereby incorporated as findings of fact as if said recitals were fully set forth herein.

SECTION 2. The Pension Funding Policy as set forth in Exhibit A, attached, is hereby adopted.

SECTION 3. . That this Resolution 45-R-23 shall be in full force and effect from and after its passage and approval in the manner provided by law.

Daniel Biss, Mayor

Attest:

Approved as to form:

Stephanie Mendoza, City Clerk

Nicholas E. Cummings,
Corporation Counsel

Adopted: _____, 2023

Exhibit A

City of Evanston Pension Funding Policy Public Safety Pension Plans _____, 2023

I. INTRODUCTION

Policy Statement

The purpose of this Policy is to establish how the City of Evanston annually fully funds the long-term cost of benefits promised to the participants in the City of Evanston Police Pension Fund and the City of Evanston Firefighters' Pension Fund (Public Safety Pension Plans). It also defines the calculation of the City's actuarially determined contribution (ADC) to such plans.

Policy Goal- Fully Funded by 2040

The goal of this Policy is to ensure that pension benefits can be paid by adopting a long-term funding plan that systematically eliminates any unfunded liabilities while producing a contribution requirement that is predictable and reflected in the City's long term financial forecasts. It is the goal of this Policy to achieve approximately full funding by 2040 and that on an annual basis 100% or more of the ADC is contributed to the Public Safety Pension Plans.

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. These benefits include statutory retirement, death and disability payments. To assure the plan remains sustainable, the plan must accumulate adequate resources for future benefit payments in a systematic and disciplined manner during the active service life of the benefiting employees. There are several factors to consider in achieving this:

- 1) **Actuarially Determined Contributions** - This should be determined annually 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) **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:

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- 1) The **Actuarially Determined Contribution (ADC)** will be calculated by an enrolled actuary (Actuary). The Actuary shall be engaged by the City of Evanston in consultation with the Boards of the Public Safety Pension Plans.
- 2) The ADC will include the normal cost, amortization of any unfunded liability, and an estimate of the annual cost to administer the Public Safety Pension Plans.
- 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 reconsidered annually by the City Council, or its designated Committee, and take input from the relevant Public Safety Pension Boards. The rate shall be reviewed by the Actuary for reasonableness.
 - 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, or other method considered reasonable by the Actuary, 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 shall be eliminated by the end of 2040 (the **Full Funding Date**). Once 100% funding is achieved, the City Council shall consider if funding over 100% is desirable, to help ensure the long-term funding status of the pension plans.
- 6) Periodic Reforecasting-- To help ensure that the City is on a path to 100% funding by the Full Funding Date, the City shall engage with the Actuary to periodically reforecast the required contributions in accordance with this Policy. The City shall reflect those required contributions into its long-term planning.

IV. SOURCES OF PENSION CONTRIBUTIONS

Required Contribution based on the actuarial valuation report using 100% funding by 2040 will come from any one or more of the following:

- 1) A Pension Property Tax levy that is at the same dollar value level as the prior year adjusted for allocated PPRT per item 2 below;
- 2) The maximum allowable PPRT allocation.
- 3) Additional unrestricted revenues, net of expenses available in the General Fund.
 - a. If the subsequent year budget, after due consideration of discretionary and non-

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discretionary expenses such as the ADC, is in deficit, then the ADC may be funded, in part, by any General Fund Reserves in excess of the General Fund required fund balance.

- b. The City Council may, at its discretion, also consider transferring to the General Fund, for use in making the ADC, any excess fund balances in other unrestricted City Funds.
- 4) If there are not excess reserves available to make the full ADC, then the City Council shall raise the Pension Property Tax levy in order to fund the ADC.
 - a. It is the intent of this Funding Policy that if adequate budget revenues net of expenses or reserves are not available to make the full ADC, then the Pension Property Tax levy shall be raised in order to provide additional funds to achieve the required contribution.
 - 5) The City Council is encouraged to devote a portion of any unrestricted proceeds from asset sales or any other non-recurring revenue sources to fund incremental pension contributions above the ADC for that year. Any incremental contributions shall then be considered in calculating the required future contributions under this Policy.

V. TRANSPARENCY

Funding of the Public Safety 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 Public Safety 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 Finance and Budget Committee and City Council and include a 5- year or more historical perspective on recent contributions, asset returns and funding levels.
- 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 four years to determine if changes to this policy are needed to ensure adequate resources are being accumulated in the Public Safety Pension Plans. The City Council, in consultation with its designated committee, reserves the right to make changes to this Policy at any time if it is deemed appropriate.



Memorandum

To: Members of the Finance and Budget Committee
From: Hitesh Desai, Chief Financial Officer/Treasurer
Subject: Assumed Rate of Return on Investments for 2023
Date: July 11, 2023

Recommended Action:

The Finance and Budget Committee recommends that the City Council approve an assumed rate of return of 6.5% for the 2023 police and fire pension actuarial valuation reports.

Committee Action:

For Action

Summary:

At the June 2023 Committee meeting, the Finance and Budget Committee requested that Committee Member Reiches work with representatives from the pension boards to make a recommendation on the assumed rate of return to be used for the 2023 police and fire pension actuarial valuation reports.

Committee Member Reiches has provided the attached memo providing information on comparable communities and recommending that the Finance and Budget Committee recommend that the City Council approve an assumed interest rate of 6.5%. The numbers contained in these valuation reports would be adopted by the City Council as part of the budget process and the 2023 tax levy would be received in 2024.

Attachments:

[Memo from Committee Member Reiches Re. Expected Investment Rate of Return Guiding Principles](#)

Expected Investment Rate of Return Guiding Principles- Draft July 2023

The ultimate setting of the Rate is the responsibility of the City of Evanston through the Evanston City Council.

The annual setting of the Expected Investment Rate of Return (the Rate) on pension assets of the Public Safety Pension Plans shall include input from various stakeholders including:

1. Member(s) of the Finance and Budget Committee or its equivalent
2. City Staff
3. Representatives from the Police and Fire Pension Boards
4. Input from the plan's actuary

The selection of the appropriate Rate is a judgmental assessment. It impacts not only the expected investment returns required to achieve targeted full funding by 2040 (the Full Funding Date), but also the discount rate used to determine the present value of future benefits used in the calculation of the pension plan current funding position.

It is the City's desire to achieve the goal of 100% funding of the public safety pension plans by the Full Funding date.

The setting of the annual Rate used for the subsequent year actuarial calculation of the required contribution and the forecast of required contributions should consider:

1. Published expected investment rates of return from the Illinois State Board of Investment pension funds if the assets of the Public Safety pension plans are invested through those funds.
2. Rates used by comparable communities, recognizing that the City of Evanston intends to fully fund the pensions by 2040.
3. The Rate will be reviewed on an annual basis.

Memo:

To: Evanston Finance and Budget Committee

From: Shari Reiches and Jack Mortell

On June 13th 2023, Evanston's Finance and Budget Committee requested Jack Mortell and Shari Reiches to make a recommendation of the Expected Rate of Return for the Evanston Fire and Police Pension Plans.

We recommend a rate of **6.50%**

- This rate is within the range of returns provided by Foster and Foster.
- We feel this is a conservation rate and should help us achieve full funding by 2040
- The following are the most recent AFR rates of comparable communities and other agencies.
 - Bartlett- 7.25%
 - Fire State Fund- 7.125%
 - Schaumburg- 7.125%
 - Elk Grove Village- 7%
 - Elgin- 7%
 - Oak Lawn- 7%
 - Naperville- 6.85%
 - Police State Fund- 6.8%
 - Mount Prospect- 6.8% (Police) and 7.125% (Fire)
 - Algonquin- 6.75%
 - Warrenville- 6.75%
 - Arlington Heights- 6.75%
 - Cicero- 6.75%
 - Oak Park- 6.75%
 - Skokie- 6.75%
 - Woodridge- 6.5%
 - Illinois Department of Insurance- 6.5%
 - Joliet- 6.5%
 - Waukegan- 6.5%
 - Evanston- 6.5%



Memorandum

To: Members of the Finance and Budget Committee
From: Lara Biggs, Capital Planning & Engineering Bureau Chief
Subject: Presentation on CIP Funding
Date: July 11, 2023

Recommended Action:

Staff requests that the Finance and Budget Committee provide direction to staff on next steps related to funding for CIP projects.

Committee Action:

For Discussion

Summary:

The following issues are identified as challenges to the continued implementation of the Capital Improvement Program and the maintenance of City infrastructure.

- 2022 and 2023 GO Bond Issuance
- Proposed 2024 Capital Improvement Program Challenges

2022 and 2023 GO Bond Issuance

On January 10, 2022, the City Council approved Resolution 4-R-22 authorizing \$10,928,000 in 2022 GO Bond funded CIP projects. On March 27, 2023, City Council approved Resolution 19-R-23 authorizing \$13,258,000 in 2023 GO Bond funded CIP projects. Resolution 19-R-23 also included \$950,000 in Library Fund projects and \$3,498,000 in Water Fund projects. These resolutions allowed the City to spend funding from future G.O.Bond Issues and were intended as a temporary measure to allow the City to time the bond market to get a good interest rate.

However, these bonds have not yet been issued. In lieu of issuing bonds, the City has drawn on the cash balance of the Capital Improvement Fund. While a substantial balance did exist, the funding was largely encumbered in contracts that had been already approved by the City Council. Because CIP projects can take more than 12 months to complete, a balance of already committed funds is held within the Capital Improvement Fund to make sure that contractor invoices can be paid once work is complete. Currently, the City has expended the following amount from the 2022 and 2023 GO Bond accounts:

	Proposed Issuance	Amount Expended	Additional Commitment
2022 GO Bond	\$10,443,000	\$2,084,761	\$3,867,552
2023 GO Bond	\$13,258,000	\$200,937	\$5,664,394
Total	\$23,701,000	\$2,285,698	\$9,531,946

In addition, the City works with the Illinois Department of Transportation on larger, federally-funded projects where IDOT holds the contract for construction. In these cases, IDOT periodically invoices the City for the City-share of the construction cost, but it can take several years for the City to receive the final invoice as IDOT works through the closeout paperwork. The City currently has \$5,080,575 in IDOT contract commitments for projects that have been completed, but have not been closed out by IDOT. More IDOT commitments will be added this year with the construction of the Ridge Avenue Intersection Improvements.

As of 5/31/23, the Capital Improvement Fund has a fund balance of \$4,361,809, and a cash balance of \$10,320,059. A portion of these balances, \$3,264,226, are funds restricted to four projects awarded in 2023 that were approved over budget and had a transfer from the General Fund for the amount of the budget overage deposited in the Capital Improvement Fund, leaving an unrestricted fund balance of just \$1,097,583. The table below summarizes the contract commitments that are owed by the Capital Improvement Fund as of 7/7/23:

Funding Type	Commitment Amount	Notes
2023 GO Bonds	\$5,664,394	Bonds Not yet issued
2022 GO Bonds	\$3,867,552	Bonds Not yet issued
2021 GO Bonds	\$3,345,195	Bonds Issued
2015 - 2020 GO Bonds	\$4,766,861	Bonds Issued
Non-Debt Commitments	\$8,407,747	Grants and transfers stored in the Capital Improvement Fund for use in executing CIP projects
Total Commitments	\$26,051,749	Funds under contract
Cash Balance	\$10,320,059	

Regardless of what the fund's cash balance was at the start of 2022 and what capital projects were actually completed during this time frame, the commitment total compared to actual cash balance is a current financial reality.

The Capital Improvement Fund has a fund balance policy requiring that a reserve is maintained equal to 25% of expenses. The policy further states that this reserve balance “shall be used for the startup costs of the current year capital projects”, until bonds are issued. With an unrestricted fund balance of \$1.1 million, the fund balance is well below the reserve of \$5.6 million and will only continue to fall further below this reserve until such a time that bonds are issued.

In addition, G.O. Bonds abated by property tax are not the only debt that is typically issued. Each year, a substantial amount of debt is issued from the Water Fund, which is abated using revenues from the water bill. Additional debt is issued to support other funds as well, such as the Library Fund. By issuing all annual debt at one time, the City realizes significant savings on debt issuance fees. However, not issuing any debt has bigger implications beyond the management of the Capital Improvement Fund, particularly for the Water Fund. The proposed total debt issuance for 2022 and 2023 is as follows:

	Capital Improvement Fund	Water Fund	Library Fund
2022 Debt	\$10,443,000	\$5,600,000	\$485,000
2023 Debt	\$13,258,000	\$4,098,000	\$950,000
Total	\$23,701,000	\$9,698,000	\$1,435,000

The current level of unfunded construction commitments is not a good practice and is unsustainable. Staff is requesting a plan for either proceeding with the issuance of the 2022 and 2023 G.O. Bonds or identifying an alternate funding source.

Proposed 2024 CIP

The proposed 2024 CIP is currently under development. Similar to last year, staff is assembling a list of all needed projects for review and prioritization by the City Council. This list far exceeds the available funding and staff resources necessary to implement the program and will need to be reduced prior to adoption of the 2024 budget. A summary of the project needs are as follows:

	2024 GO Bonds	Other Funding	Total
Street Resurfacing, Water Main, and Sewer	\$2,320,000	\$20,221,000	\$22,541,000
Other Transportation	\$2,375,000	\$4,090,000	\$6,465,000
Parks	\$12,135,000	\$1,090,000	\$13,225,000
Facilities	\$14,050,000		\$14,050,000
Miscellaneous	\$480,000	\$375,000	\$855,000
Water Treatment, Billing and Storage	-	\$28,336,000	\$28,336,000
Total	\$31,360,000	\$48,421,000	\$79,781,000

**Note that all costs are estimates, as the program is still being finalized.*

In developing the 2024 CIP, staff has identified three challenges, all of which are related to the overall funding of the CIP, and would require a significant expansion in the amount of infrastructure work being completed in the next five years. These challenges include:

- Water Main Replacement/Lead Service Line Regulatory Requirements
- Legacy Park Infrastructure Needs
- Legacy Facilities Infrastructure Needs

Challenge 1 - Water Main Replacement/Lead Service Line Regulatory Requirements

Water main has a typical lifespan of 100 years. Therefore, the City targets replacement of 1% of the system per year, or approximately 1.5 miles. However, so much of the water main is over 100 years in age, that the system is aging faster than can be replaced. Rising materials costs and the addition of new regulations regarding lead service line replacement are also having a significant impact on the City’s ability to maintain a reasonable water main replacement program within the current budget. This challenge will be addressed in detail as part of a separate discussion, but is creating a significant impact related to the CIP.

Challenge 2 - Legacy Park Infrastructure Needs

The City of Evanston operates and maintains 88 parks totaling approximately 266 acres. The park system is made up of a wide variety of amenities and infrastructure elements from playgrounds and active fields to decorative fountains and contemplative landscapes. Over the last 20 years, the City’s investment in parks has been substantially underfunded. This has resulted in infrastructure needs that far exceed the available funding. Of the neighborhood parks, 11 have had no appreciable infrastructure investment for at least 26 years. These “Legacy Parks” are experiencing so much deterioration that the entire park needs to be renovated. The renovation of these 11 parks have been placed on the 5 year CIP to be addressed.

However, for parks that are not yet fully deteriorated, staff recommends that the City begin a program of regular investment and modernization. For example, the City should be budgeting funding each year for playground equipment replacement in parks that are not yet fully deteriorated. Funding should also be budgeted for other items, such as court resurfacing, lighting modernization, pathway resurfacing, etc. Investing in smaller regularly-scheduled improvements will keep parks in better overall condition. However, to be effective, this funding would need to begin now in order to prevent the next generation of parks from becoming Legacy Parks. This requires extra funding over the next 5 years.

Staff will continue to provide information on the amount of funding needed, but requests that the Finance and Budget Committee provide guidance on what is a recommended level of debt issuance and if new funding sources can be identified.

Challenge 3 - Legacy Facilities Infrastructure Needs

The City owns over 50 facilities, ranging from public-facing recreation centers, park fieldhouses and municipal buildings (such as the Civic Center) to facilities that provide a critical infrastructure need, such as fire stations and the Service Center. The City has chronically underfunded infrastructure projects at facilities, even though the needs have been well known for decades. An example of this is the Civic Center, which has been known to need substantial investment since the City began a public discussion in 1998 (25 years ago).

The City currently has six Legacy Facilities that are undergoing substantial failures in multiple building systems. In each case, the City has engaged a consultant over the last three years to provide more detailed solutions for how to proceed. While the reports are still in draft form, enough information is available to begin placing the improvement or replacement of these facilities into the budget. As the detailed reports are finalized and presented to the City Council over the next few months, they will also be made available to the public. A summary of the Legacy Facilities is as follows:

	Systems in Failure	2023/24 Costs	Future Costs
Police Fire HQ	Building Insufficiency, Security, Electrical, Envelope	\$2,000,000 ²	\$50M - \$100M
Service Center	Fuel System, Structural, HVAC, Electrical	\$4,300,000	\$35M - \$55M
Civic Center	HVAC, Electrical, Envelope	\$1,500,000	\$50M - \$100M
Noyes	HVAC, Electrical, Envelope		\$10M - \$20M
Animal Shelter ¹	Building Insufficiency, HVAC	\$3,825,000	
Ecology Center ¹	Structural Subfloor, Security, <u>Crawlspace Moisture</u>	\$3,500,000	
TOTAL		\$15,125,000	\$145M - \$275M

Notes:

1. These facilities are "below the line" in that the City Council has provided guidance on a plan to renovate or replace these facilities that is currently being implemented.
2. This does not include approximately \$1.5 million related to the elevator and elevator shaft repair work.

Similar to Parks, there is another generation of buildings that will become Legacy Facilities without regular investment. Typical improvements that the City should be investing in regularly include:

- Roofing
- Tuckpointing
- Flooring
- Interior space renovations such as kitchens, locker rooms and restrooms
- ADA improvements
- CARP implementation (lighting modernization, vehicle charging, electrification)
- Evolving operational needs

This creates an operational challenge, as current funding levels do not support the annual investment needs, much less addressing the challenges of the Legacy Facilities.

Staff will continue to provide information on the amount of funding needed, but requests that the Finance and Budget Committee provide guidance on what is a recommended level of debt issuance and if new funding sources can be identified.



Memorandum

To: Members of the Finance and Budget Committee
From: Darrell King, Water Production Bureau Chief
Subject: Water Fund Status
Date: July 11, 2023

Recommended Action:

Staff requests that the Finance and Budget Committee provide direction on next steps related to maintaining an appropriate fund balance in the Water Fund.

Committee Action:

For Discussion

Summary:

The Water Production Bureau of the Public Works Agency has been using a cost of service rate model to monitor the Water Fund and Sewer Fund since 2009. This model was developed by a consultant when they prepared the Water & Sewer Cost of Service Rate and Fee Study Report dated April 2009. Since then employees in the Bureau have been updating the model with current information related to both revenues and expenditures and future capital improvement projects. The current financial goals of the water fund are to maintain a minimum cash balance of \$4,000,000 and to keep debt service expenses to less than twenty-five percent of the operating capital while maintaining the water treatment plant in good operating condition and to replace or rehabilitate one percent (1.5 miles) of the water distribution system annually.

As staff continues to input data into the model, the model indicates that the water fund will be in serious financial trouble within a few years. This is due to the costs of replacing the aging distribution system infrastructure and replacement of the lead service lines.

Water Main Replacement:

The distribution system consists of approximately 150 miles of water main of which 99% is 18" diameter and smaller and serves only the Evanston retail customers. The life expectancy of a water main is generally 100 to 120 years. As the table below indicates, Evanston currently has 50 miles of water main that is over 100 years old of which 1.1 miles is more than 120 years old.

Scenario	Miles of Pipe in Each Age Category				
	60 and Younger	61 to 80	81 to 100	101 to 120	121 and Older
2022	60.1	10.6	34.6	49.6	1.1
2042, No Annual Replacements	47.8	12.3	10.6	34.6	50.7
2042, 1.5 Miles Annual Replacements	77.8	12.3	7.6	31.6	26.7
2042, 2.0 Miles Annual Replacements	87.8	12.3	6.6	30.6	18.7
2042, 3.2 Miles Annual Replacements	111.8	12.3	4.2	27.7	0.0
2042, 4.8 Miles Annual Replacements	143.8	12.3	0.0	0.0	0.0
2042, 5.5 Miles Annual Replacements	156.0	0.0	0.0	0.0	0.0

The table also indicates that the amount of annual water main replacement should be doubled in order to prevent having water mains older than 120 years old.

Lead Service Line Replacement:

The Lead Service Line Replacement and Notification Act adopted by the State of Illinois went into effect on January 1, 2022. This act had an immediate impact on the Water Fund by requiring the replacement of any damaged lead service lines and the full replacement of lead service lines during the installation of new water mains. The act will also have a significant long term impact to the water fund as well because it requires the replacement of all 11,000+ lead service lines throughout the City over a twenty year period beginning in 2027.

Cost Implications:

The cost for water main installation significantly increased in 2022 due to the State's requirement to replace lead service lines connected to the water mains being replaced. Additionally, significant construction costs were observed in the 2023 bids received for the water main replacement project.

Beginning in 2027, the City must implement a plan to replace all lead service lines. Since approximately 150 lead service lines are replaced with the water main projects, additional funding will be needed to replace an additional 350 lead service lines.

Staff recommends that the future financial goals of the water fund be modified to: a) maintain a minimum cash balance of \$3,000,000 for plant capital projects / operations and \$1,000,000 for distribution capital projects / operations, b) keep debt service expenses associated with the distribution system to less than twenty-five percent of the operating capital, c) maintain the water treatment plant in good operating condition and d) replace or rehabilitate approximately two percent (3.2 miles) of the water distribution system annually.

Staff continues to evaluate funding options to meet these new proposed financial goals. At this time, it is estimated that water rate increases in the magnitude of 13% each year for six years will be needed to meet these new financial goals.