



Finance and Budget Committee
Tuesday, September 12, 2023
Lorraine H. Morton Civic Center 5:00 PM
Join Zoom Meeting

<https://us06web.zoom.us/j/86844017325?pwd=QXgzYXhZOGhpYXdvR3V3OVdPUHdlZz09>

Meeting ID: 868 4401 7325
Passcode: 342861

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AGENDA

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1. CALL TO ORDER/DECLARATION OF A QUORUM

2. PUBLIC COMMENT

3. APPROVAL OF MINUTES

- M1. **Approval of the July 11, 2023 Finance and Budget Committee meeting minutes** 3 - 5
[Finance and Budget Committee - Jul 11 2023 - Minutes - Pdf](#)
- M2. **Approval of the August 29, 2023 Finance and Budget Committee meeting minutes** 6 - 7
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4. DISCUSSION

- D1. **Discussion of Water Fund Bonding for FY 2022, 2023, & 2024** 8 - 10
Staff is providing information to the Finance and Budget Committee regarding the next steps to maintain an appropriate positive fund balance in the Water Fund.
For Discussion
[Discussion of Water Fund Bonding for FY 2022, 2023, & 2024 - Attachment - Pdf](#)
- D2. **Discussion of Water Fund Status** 11 - 24
Staff requests that the Finance and Budget Committee provide direction on the next steps related to maintaining an appropriate fund balance in the Water Fund.
For Discussion
[Discussion of Water Fund Status - Attachment - Pdf](#)
- D3. **Proposed 2024 Capital Improvement Program Funding** 25 - 33
Staff requests that the Finance and Budget Committee provide direction to staff on next steps related to funding for CIP projects.
For Discussion
[Proposed 2024 Capital Improvement Program Funding - Attachment - Pdf](#)

5. ADJOURNMENT



City of
Evanston™
MINUTES

Finance and Budget Committee

Tuesday, July 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:

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 5:02 PM.

2. PUBLIC COMMENT

Jack Mortell commented on the pension policy item.

Timothy Schoolmaster commented on the pension policy item.

Trisha Conolly commented on the pension policy item.

Meg Welch commented on the pension policy item.

Mike Vasilko commented on the the CIP item.

3. APPROVAL OF MINUTES

M1. Approval of the June 13, 2023 Finance & Budget Committee meeting minutes.

Minutes approved.

Moved by Reid

Seconded by Nieuwsma

Ayes: Reiches, Livingston, McMillan, Wynne, Kelly, Nieuwsma, and Reid

Abstained: Burns

Approved 7-0 on a recorded vote

4. CONSIDERATION

FB1. Review of the Annual Comprehensive Financial Report 2022

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.

Martha Trotter from Sikich LLP, presented the draft Annual Comprehensive Report 2022 for the City of Evanston. They issued a "clean and unmodified opinion", this is the highest level of assurance auditors can provide on the financial statements. The City of Evanston received the Certificate of Achievement for Excellence in Financial Reporting from the GFOA for FY 2021, which is the highest award a municipality can receive for its report. This item was not recommended to City Council as the final version of the ACFR has not been issued by the City's auditors.

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

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.

Moved by Nieuwsma
Seconded by Livingston

Ayes: Reiches, Livingston, McMillan, Wynne, Kelly, Nieuwsma, Burns, and Reid
Approved 8-0 on a recorded vote

The Chair opened this discussion for all committee members to address pending policy items. Members present participated in the discussion on pension funding policy including assumed rate of return and other policy items. Members of the committee made several amendments on the floor and voted to recommend the final amended policy to City Council.

FB3. Assumed Rate of Return on Investments for 2023

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.

Moved by Livingston
Seconded by Nieuwsma

Ayes: Reiches, Livingston, McMillan, Wynne, Kelly, Nieuwsma, Burns, and Reid
Approved 8-0 on a recorded vote

Committee member Shari Reiches opened this discussion and members present participated. The committee recommended that the City Council should approve an assumed rate of 6.5%.

5. DISCUSSION

D1. Presentation on CIP Funding

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

City Engineer, Lara Biggs presented a draft proposal for the FY 2024 Capital Improvement Plan. She reminded the committee that the City has not issued any bonds in 2022 or 2023 and staff has been drawing upon the fund balance to fund projects already approved in 2022 and 2023. As a result, the council will need to decide on the GO bond amount, using an existing line of credit or identify alternate funding sources. In August, Staff will have a detailed presentation for the committee on the FY 2024 CIP projects as well funding needs. Staff intends to have council approval before FY 2024 proposed budget is out.. The committee discussed the item and decided to continue the discussion at a future date.

D2. Water Fund Status

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

This item was briefly discussed by Deputy City Manager David Stoneback and the committee agreed to discuss at a future date.

6. ADJOURNMENT

The meeting was adjourned by Chair David Livingston at 7:00 PM.



City of
Evanston™
MINUTES

Finance and Budget Committee

Tuesday, August 29, 2023 @ 5:00 PM

Lorraine H. Morton Civic Center

**COMMITTEE MEMBER
PRESENT:**

David Livingston, Resident, Leslie McMillan, Resident, Melissa Wynne, Councilmember, Clare Kelly, Councilmember, and Jonathan Nieuwsma, Councilmember

**COMMITTEE MEMBER
ABSENT:**

Shari Reiches, Resident, Devon Reid, Councilmember, and Bobby Burns, Councilmember

STAFF PRESENT:

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

1. CALL TO ORDER/DECLARATION OF A QUORUM

Meeting was called to order by Chair David Livingston at 5:00 PM.

2. PUBLIC COMMENT

Mike Vasilko commented on the GO Bond Issuance item

Mary Rosinki commented on the GO Bond Issuance item

3. CONSIDERATION

A. Review of the Annual Comprehensive Financial Report 2022

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.

Moved by Nieuwsma
Seconded by Wynne

Ayes: Livingston, McMillan, Wynne, Kelly, and Nieuwsma

Approved 5-0 on a recorded vote

Martha Trotter from Sikich,LLP presented the final Annual Comprehensive Financial Report for FY 2022. After several questions from the committee, the item was recommended to be approved by City Council.

4. DISCUSSION

A. FY 2023 Mid-Year Financial Report

Clayton Black, Budget Manager and Hitesh Desai, CFO presented the mid-year financial report to the committee where they spoke on fund balances, expenses, and projected revenues. Staff emphasized the general fund concerns moving into the FY 2024 budget and future items the committee will need to consider. After several questions from the committee, staff agreed to continue updating the committee on projections for FY 2023.

For Discussion

B. Discussion of Water Fund Status

Staff is continuing to gather data for this item. The committee agreed to table this item for a future meeting.

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

C. Proposed 2022 and 2023 General Obligation Bond Issuance

Lara Biggs, City Engineer, presented a list of projects and the recommended bond issuance. Staff sought guidance from the committee on the bond issuance amount and timing. The committee asked staff for alternative funding sources for these projects. Hitesh Desai, CFO, spoke on a possible line of credit but stated a bond issuance has a more favorable rate environment. The committee agreed to continue this discussion at a future meeting.

Staff requests guidance related to the timing of the issuance and the amount of bonds to be issued to fund proposed 2022 and 2023 General Obligation Bonds funded projects.

5. ADJOURNMENT

The meeting was adjourned at 6:40 PM by Chair David Livingston.



Memorandum

To: Members of the Finance and Budget Committee
From: Darrell King, Water Production Bureau Chief
CC: Edgar Cano, Public Works Agency Director
Subject: Discussion of Water Fund Bonding for FY 2022, 2023, & 2024
Date: September 12, 2023

Recommended Action:

Staff is providing information to the Finance and Budget Committee regarding the next steps to maintain an appropriate positive fund balance in the Water Fund.

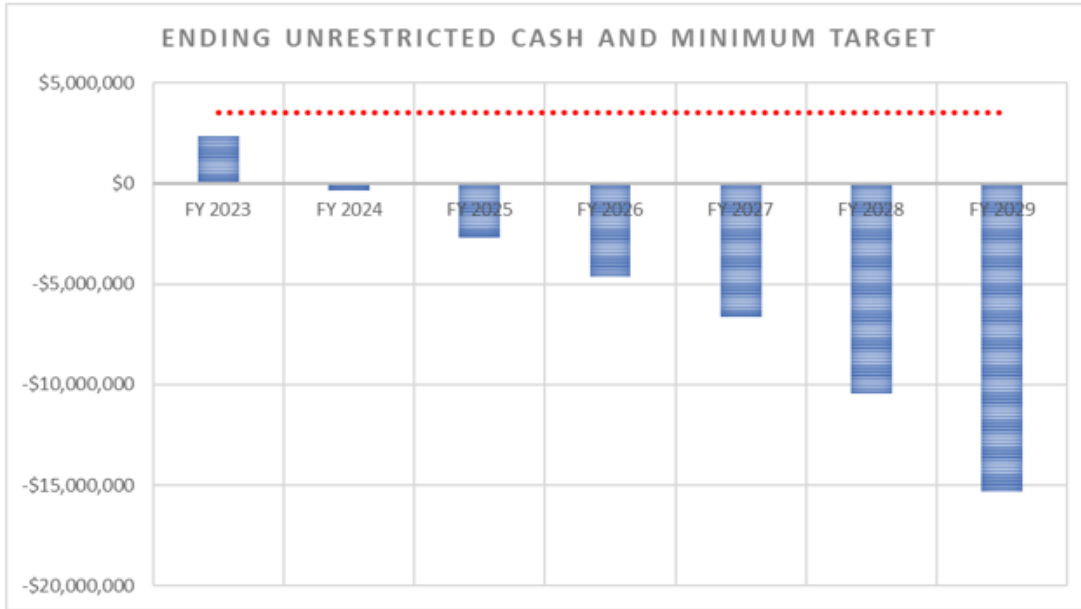
Committee Action:

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.

The Water Fund planned to sell bonds in 2022 and 2023. Neither of these bond issues occurred because they are tied to the sale of G.O. Bonds, which has been deferred by the City Council. The budgeted bond sale amounts were \$6,410,000 in 2022 and \$4,933,000 in 2023 (the actual need for 2023 due to bid prices received in 2023 is \$6,900,000). This is a total of \$13,310,000 for both 2022 & 2023. As a result of the City not selling bonds during 2022 and 2023, the cash reserves in the Water Fund have fallen below the minimum reserve target of \$4,000,000 in 2023. In 2024, it turns negative and continues to go further negative each year. Note that this does not include any costs for the state-required Lead Service Line Replacement (LSLR), which will be discussed as a separate issue.



The following graph summarizes the impact on the Water Fund had the City sold bonds that were budgeted for during 2022 and 2023:



It is imperative that the Water Fund maintains a healthy reserve each year in order to receive low-interest loans from the IEPA for funding critical projects as well as qualifying for the potential LSLR grant funding (contingent on qualifying for the loan program). As part of the IEPA loan application process, the City has to provide a 5-year water fund projection that is

healthy. This includes being able to consistently have a positive balance in the Water Fund adequate to meet the reserve requirements. Without the infusion of bonds funds, the staff is unable to provide the IEPA with a Water Fund projection that demonstrates sound financial planning. The State Revolving Fund loan applications for the next round (funding available in 2024) are due on September 15, 2023. Based on discussions related to the financial review for previous loan projects, the IEPA will not consider a short-term line of credit or an inter-fund loan (such as where the City does a temporary transfer, or “loan” between two City funds, such as the General Fund to the Water Fund) as an acceptable strategy for long-term financial stability. Staff recommends selling Water Fund abated bonds no later than March of 2024 in the amount of \$26.3M (this would include \$13.3M for both 2022 and 2023 as well as an additional \$13M for 2024).

An alternative to selling Water Fund abated bonds would be to increase the retail (Evanston) water rate. Staff does not recommend this alternative as a solution to resolve the lack of bonding in 2022 & 2023 for several reasons. The first concern is the amount of rate increase needed to make a significant impact on the funding deficit. A 10% water rate will only generate \$1,000,000. To reduce the needed bond amount by half to \$13M would require a 130% water rate increase. The second concern is that substantial retail water rate increases are likely needed in order to raise the revenue needed to comply with the new State requirement to replace all 11,000+ lead service lines throughout Evanston within 23 years.

The table below summarizes the proposed bonding levels beginning in 2024 - 2029, including the rate increases that have been previously approved as well as those currently being recommended as part of the separate LSLR discussion:

Year	Bond Amount	LSLR Proposed Water Rate Increase	Previously Scheduled Rate Increases	Total Rate Increase
2024	\$26.3M	13.1%	4.0%	17.1%
2025	\$11.2M	13.1%	9.8%	22.9%
2026	\$11.1M	13.1%	2.0%	13.1%
2027	\$13.7M	13.1%	0.0%	13.1%
2028	\$14.3M	13.1%	0.0%	13.1%
2029	\$10.1M	13.1%	0.0%	13.1%



Memorandum

To: Members of the Finance and Budget Committee
From: Darrell King, Water Production Bureau Chief
CC: Edgar Cano, Public Works Agency Director
Subject: Discussion of Water Fund Status
Date: September 12, 2023

Recommended Action:

Staff requests that the Finance and Budget Committee provide direction on the 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.

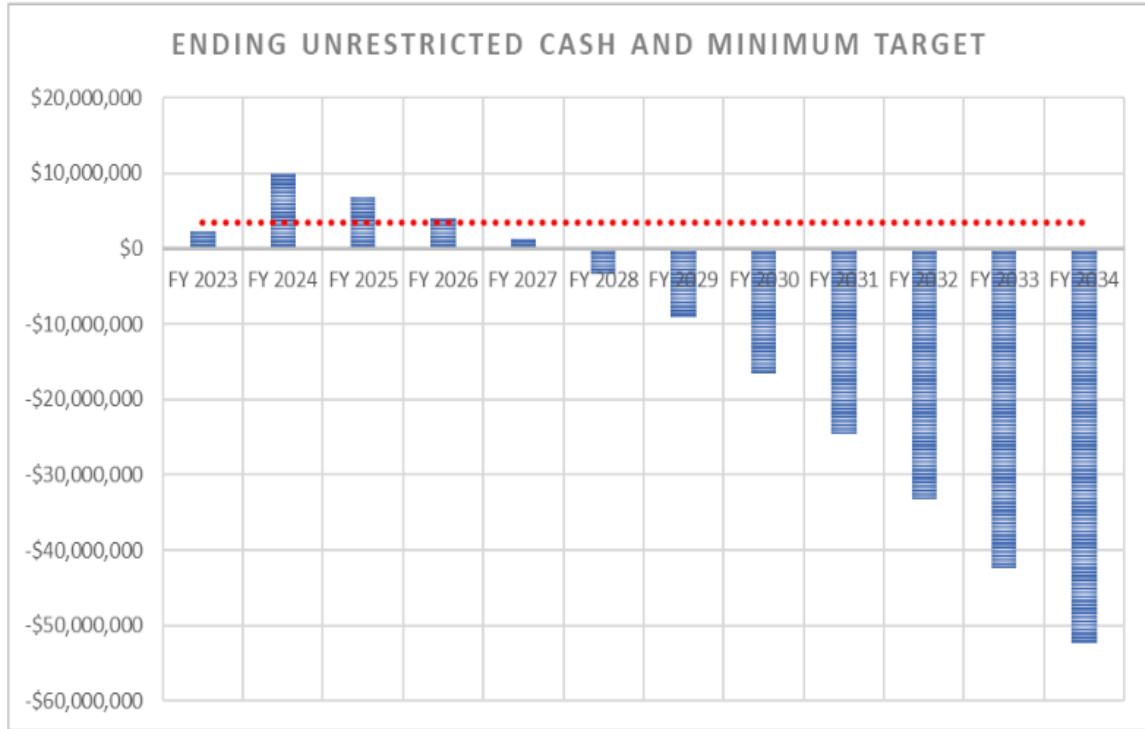
Using this model, the Bureau was successful in maintaining a constant combined water/sewer rate between 2015 and 2021 for the Evanston retail customers. This was accomplished by reducing the sewer rate and increasing the water rate to make the combined water/sewer rate remain the same. In 2022, the retail water customers realized a 2% combined water/sewer rate increase, from \$6.13 to \$6.25 / 100CF. However, [Ordinance 114-O-21](#), which raised the water rate, also created an affordable water rate for low-income families with a combined water & sewer rate that was determined to be affordable for Evanston community members.

TABLE 1 - Historical Water & Sewer Rates (Cost per 100 cubic feet)

YEAR	WATER RATE	SEWER RATE	TOTAL RATE	AFFORDABLE WATER RATE	AFFORDABLE SEWER RATE	TOTAL RATE
2015	\$2.18	\$3.94	\$6.12			
2016	\$2.18	\$3.94	\$6.12			
2017	\$2.31	\$3.82	\$6.13			
2018	\$2.47	\$3.66	\$6.13			
2019	\$2.74	\$3.39	\$6.13			
2020	\$2.89	\$3.24	\$6.13			
2021	\$2.89	\$3.24	\$6.13			
2022	\$3.17	\$3.09	\$6.25	\$1.99	\$1.94	\$3.93
2023	\$3.33	\$3.08	\$6.41	\$2.09	\$1.94	\$4.03

ANALYSIS:

As staff continues to input data into the rate model, the model indicates that the water fund will be in serious financial trouble within a few years, as depicted in Chart 1 below.

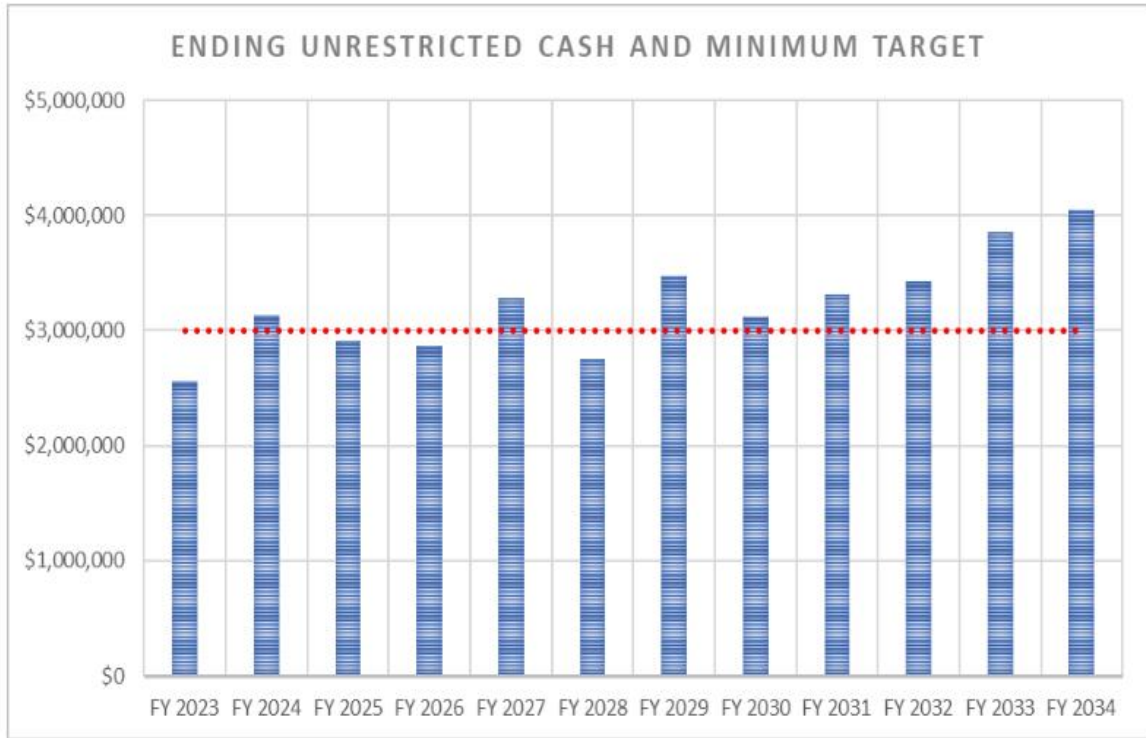


To help analyze what is causing the financial situation, the model projection was split between water plant revenue/expenses and distribution system revenue/expenses to see how each portion of the projection impacts the water fund.

Water Plant Costs

As staff has been indicating, capital projects and operations at the water plant do not significantly impact the Evanston retail customer rate since the Evanston users only account for approximately 14% of the total water plant use. As such, the debt service associated with capital expenditures and the operating costs at the water plant are mostly borne by the wholesale water customers, and no Evanston retail rate increases associated with water plant operations are needed in the foreseeable future. Chart 2 below shows the financial projection of the water fund needed for operation and capital projects at the water plant.

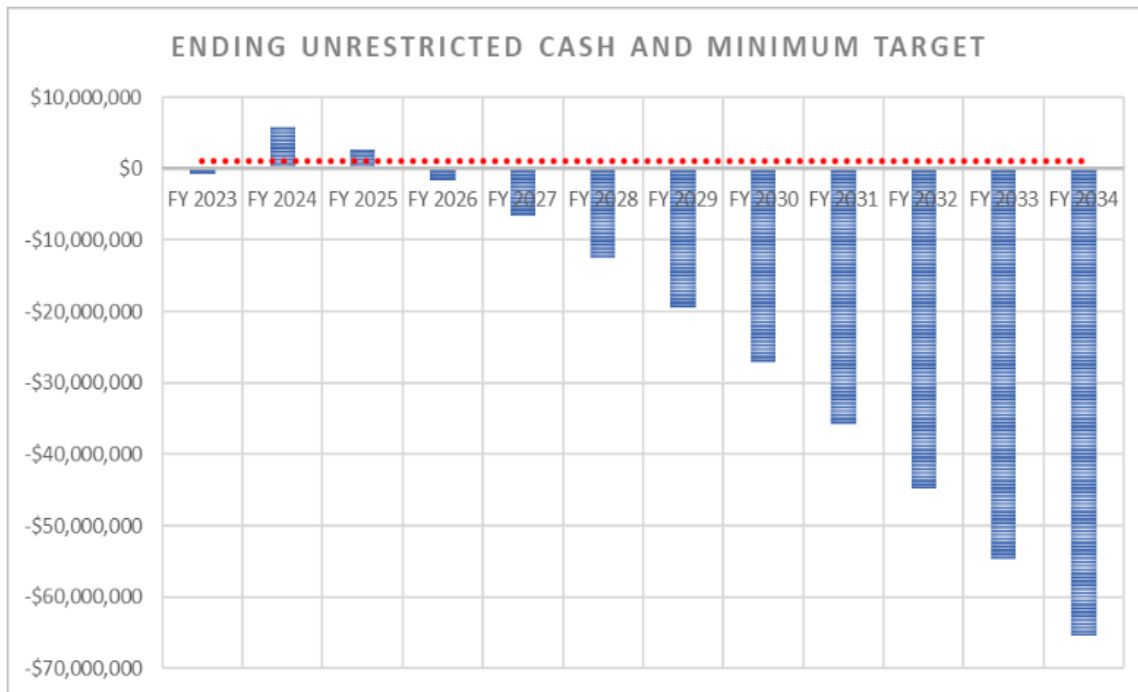
Chart 2 - Water Plant Only, \$3M recommended minimum balance



Distribution System Costs

Contrarily, the costs associated with capital expenditures for the City’s distribution system can not be shared with the wholesale water customers and must be funded by the Evanston retail customers. It is the costs of replacing the aging distribution system infrastructure and replacement of the lead service lines that are causing financial trouble for the water fund, as indicated in Chart 3 below.

CHART 3 - Distribution System Only, \$1M recommended balance
Assumes 1.5 miles of replacement per year



There are several factors that are placing the financial burden on the water fund, all of which are related to the distribution system:

- The cost of water main and lead service line replacement must be borne by the Evanston retail customers
- The need to replace the aging water mains
- The need to replace lead service lines as part of the water main projects
- The need to replace all 11,000+ lead service lines between 2027 and 2047
- The increased cost of water main construction

FINANCIAL RESPONSIBILITY OF WATER MAIN & LEAD SERVICE LINE REPLACEMENT

The distribution system consists of approximately 156 miles of water main, of which 99% is 18” in diameter and smaller and serves only the Evanston retail customers, and all of the lead service lines are only used by Evanston retail customers. Therefore, the cost of replacing this infrastructure must be borne by the Evanston retail customers and can not be charged to the wholesale water customers.

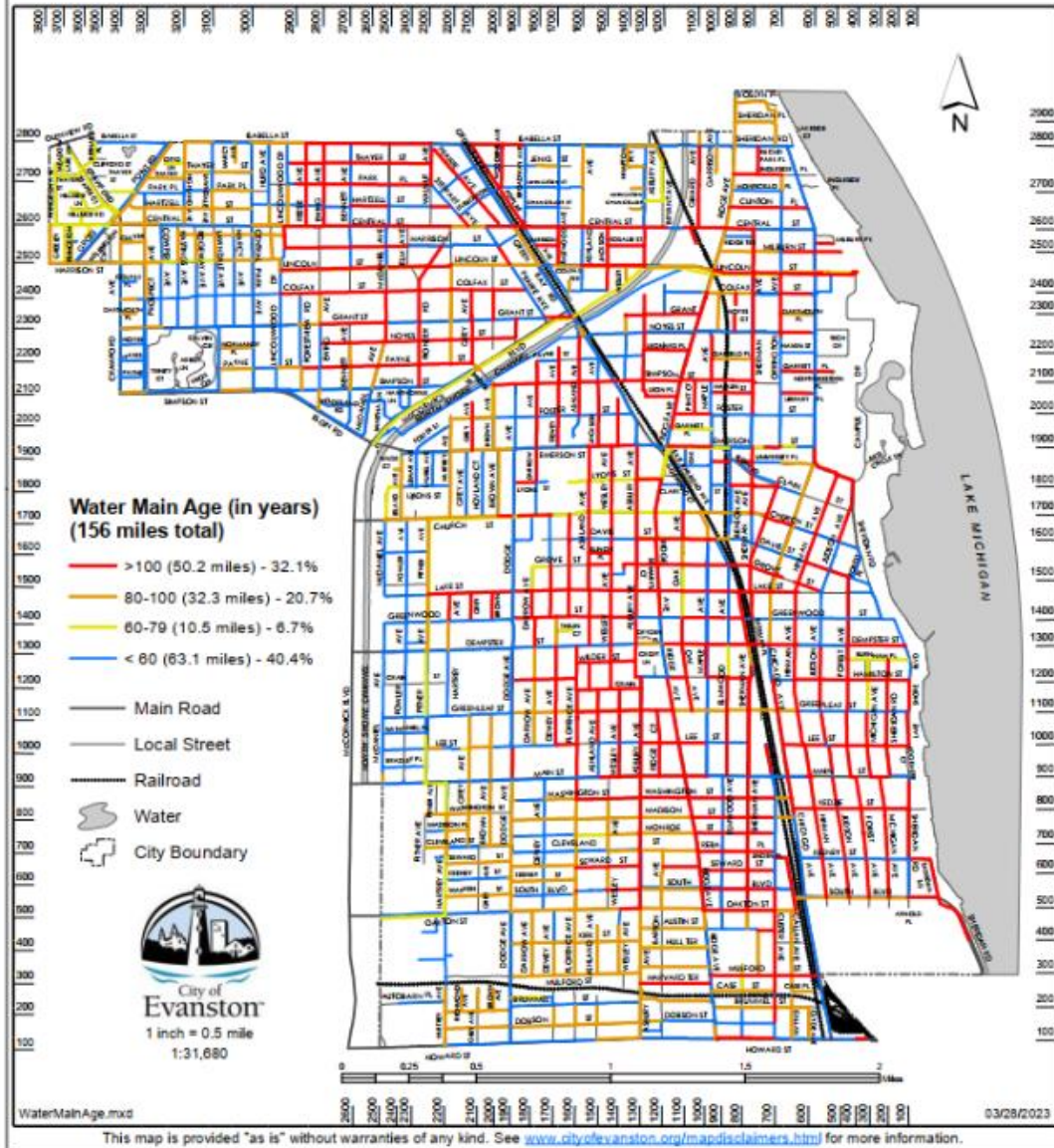
NEED FOR WATER MAIN REPLACEMENT

A significant portion of the Evanston water distribution system was in operation by 1907. These older water mains are generally constructed of heavy wall cast iron pipe and have a maximum life expectancy of 120 years. The newer water mains are constructed of ductile iron pipe and have an anticipated lifespan of 100 years. Table 2 below indicates the age of the distribution system at the end of 2022 and is graphically demonstrated in the following map.

TABLE 2 - Age of distribution system

Age of water main pipe	miles	Percent of total system
121 years and older	1.1	0.7
101 to 120 years	49.6	31.8
81 to 100 years	34.6	22.2
61 to 80 years	10.6	6.8
60 years or less	60.1	38.5

City of Evanston Water Distribution Mains (as of December 31, 2022)



NEED TO REPLACE LEAD SERVICE LINES

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 on 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.

As a result of the immediate impact, staff requested the implementation of a lead service line workforce development program. The City Council adopted [Resolution 35-R-22](#), approving the proposed plan, which included a proposed 9% water rate increase. City Council adopted Ordinance 121-O-22 that raised the water rate in 2023 by 5%, and staff will be requesting a 4% water rate increase to begin in 2024. The impact of the 5% water rate increase in 2023 is reflected in Table 1 above.

INCREASED COST OF REPLACING WATER MAINS

Table 3 provides information regarding the cost of replacing the water main over the past several years. There was a gradual, expected increase between 2019 and 2021. In 2022, there was a significant increase in cost associated with adding the cost to replace lead service lines on water mains being replaced to the scope of contracted work. In 2023, there was another significant increase in cost due to inflation costs for materials and labor. Table 4 indicates that there was a 41% cost increase for installing water mains between 2019 to 2023.

TABLE 3 - 2019 to 2023 Water Main per lineal foot (LF) Cost Increases

Total Cost Per LF - All In (Water Main, Resurfacing, and Services)			
Year	Total Project Cost	Total Cost Per LF	% Increase in Cost/LF from Previous Year
2019	\$3,563,890	\$635	–
2020	\$2,562,946	\$658	4%
2021	\$3,749,818	\$651	-1%
2022	\$5,835,816	\$835	28%
2023	\$6,551,795	\$988	18%

TABLE 4 - 2019 to 2023 Water Main per lineal foot (LF) Cost Increases

Average Cost Per LF Prior to LSLR Program (2019 to 2021)	\$648
Average Cost Per LF Since LSLR Program (2022 To 2023)	\$912
Average Percent Increase in Cost Since 2022	41%

NEED TO INVEST IN MORE WATER MAIN REPLACEMENT

Staff use the following criteria when selecting which sections of water mains to replace each year with the available funding.

1. Water main break history and maintenance calls: *How frequently are maintenance staff*

- called out to address water main breaks or other maintenance issues?*
2. Age: *Has the water main reached the end of its expected lifetime?*
 3. Planned street infrastructure improvements: *Is street resurfacing necessary, or are there planned corridor improvements above a water main that has reached the end of its expected lifetime?*
 4. Fire flow requirements: *Will improvements on the main bring deficient fire flow areas up to standard?*
 5. Racial Equity: *Has the water main in wards of low-income and communities of color been considered during the selection process so that an equitable share of infrastructure improvements are being made throughout the City?*

As indicated above, the top two criteria for selecting which sections of the water main to replace are the water main break history and the age of the water main.

Ideally, there should be no sections of the water main with more than three historical breaks. In past years, staff was generally able to meet this goal. However, currently, there are 20 sections of water main with four or more water main breaks, as listed in Table 5.

TABLE 5 - Water Main Sections with four or more water main breaks

Water Mains With 4 or More Breaks							
Street	From	To	Age-Material	Feet	Previous Breaks	Services	Street Condition
Brown	Simpson	Foster	1924	635	8	16	Good
Seward	Dodge	Hartrey	1925	1263	7	43	Poor
Darrow	Dempster	Crain	1925	639	7	23	Poor
Lyons	Darrow	Dodge	1907	331	6	15	Good
Leonard	Asbury	Ridge	1907	869	6	11	Fair
Garrison	Isabella	Dead-End	1923	529	6	25	Good
Custer	Mulford	Oakton	1907	2201	5	38	Fair
Washington	Brown	Grey	1925	425	5	6	Fair
Mulford	Custer	Sherman	1907	320	4	5	Fair
Lee	Grey	Pitner	1957	382	4	1	Fair
Church	McDaniel	Leland	1926	291	4	7	Good
McDaniel	Church	Lyons	1960	640	4	18	Good
Harrison	Bennett	McDaniel	1907	676	4	22	Good
Colfax	Ewing	Forestview	1914	384	4	9	Good
Simpson	Elgin	Forestview	1980	225	4	0	Good
Crawford	Hillside	Thayer	1954	693	4	21	Good
Hartzell	Lawndale	Central Park	1923	779	4	24	Fair
Jenks	Broadway	Eastwood	1925	395	4	4	Fair
Isabella	Broadway	Woodbine	1922	420	4	0	Fair
Ashland	Central	Isabella	1935	1,539	4	4	Good

Table 6 below indicates the current age of the distribution system but also provides different scenarios of how the distribution system will age depending on the amount of water main replaced annually.

Table 6 - Miles of Pipe in Each Age Category (By Year 2042)

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

As the table indicates, in 2022, there is only 1.1 miles of water main that is over 120 years of age. However, if the City continues to replace only 1.5 miles of water main annually, by 2042, there will be 26.7 miles of water main over 120 years of age. To prevent having so many miles of water main that are older than the industry-expected life of cast / ductile iron water main, staff highly recommends changing the goal of annual water main replacement from 1.5 miles to 3.2 miles.

Staff is also concerned about the replacement of lead service lines that are connected to water mains that are 100+ years old and how this work may cause undesirable water main failures. Experience has indicated that a water main that is disturbed by excavation is far more likely to break than when it is left undisturbed. Excavating 100+-year-old water mains to replace the lead service lines will likely cause frequent water main failures.

FUNDING WATER MAIN REPLACEMENT

There is only one source of dedicated federal funding available for Lead Service Line Replacement (LSLR): the 2021 Bipartisan Infrastructure Law (BIL), also known as the Infrastructure Investment and Jobs Act. This law appropriated \$15 billion for LSLR nationwide, as well as \$11.7 billion in General Supplemental funding to Drinking Water State Revolving Fund (DWSRF), which can be used for LSLR as well as other eligible projects through Fiscal Year (FY) 2026. These supplemental funds are appropriated on top of the base funding that Congress appropriates to the DWSRF annually. The funds are allocated and distributed by USEPA to states according to assessed needs. Congress required 49% of both DWSRF general supplemental funding and the LSLR funding to be provided as grants and forgivable loans to communities that meet a state’s disadvantaged community definition, consistent with the Safe Drinking Water Act (SDWA). In Illinois, a Disadvantaged Community is a public water supply owned by a local government unit or not-for-profit water corporation that qualifies for either the Small Community Rate or Hardship Rate as defined in Title 35 Illinois Administrative Code Section 662.210.

- A Small Community Rate is a public water supply (PWS) with a service population of less than 25,000 that also meets any of the following three criteria: Median Household Income (MHI) less than state MHI; unemployment rate higher than state rate or annual user charge is greater than 1% of community MHI.
- A Hardship Rate is a PWS with a service area of less than 10,000 that meets any of the following three criteria: MHI below 70% of state MHI; unemployment rate is at least 3%

greater than state rate; or PWS annual user charge is greater than 1.5% of community MHI.

Each state administers a state revolving fund program through its own agencies. The Illinois' DWSRF program is called the Public Water Supply Loan Program. IEPA received \$107 million for LSLR in FY 2022 and is anticipated to receive \$230.2 million in FY 2023. The IEPA anticipates receiving a total of \$1.03 billion in supplemental LSLR funding over five years. Again, this is in addition to DWSRF base funding and BIL general supplemental DWSRF funding.

The BIL LSLR funding is presently anticipated to account for less than 20% of the more than \$5.8 billion needed for LSLR statewide. The effectiveness of this funding is further limited by the stipulations within BIL, which require that only 49% of this funding (\$503.6 million) be provided as grants and forgivable loans to communities that meet the state's "disadvantaged communities" definition; the remainder will be available for technical assistance or as traditional loans. Forgivable loans operate much like grants and do not require Community Water Supplies (CWS) to generate revenue for repayment. Traditional loans, on the other hand, still require CWS to raise revenue to repay principal and accrued interest.

Evanston has submitted project plans to the IEPA to seek funding for the water main and lead service line replacement. These plans request approximately \$5M a year, five years, or a total of \$25M. The IEPA has not determined how funding for any lead service line replacement throughout the state will be offered. They have indicated that they hope to release a plan in August 2023.

REVISED WATER FUND GOALS

Staff recommends that the future financial goals of the water fund be modified to:

1. Maintain a minimum cash balance of \$3,000,000 for plant capital projects/operations and \$1,000,000 for distribution capital projects/operations
2. Keep debt service expenses associated with the distribution system to less than twenty-five percent of the operating capital.
3. Maintain the water treatment plant in good operating condition
4. Replace or rehabilitate approximately two percent (3.2 miles) of the water distribution system annually.

Using the rate model, staff analyzed several different scenarios of adjusting the water rate to meet these goals. However, because the needed rate increase is so great, the only practical recommendation was to suggest a 13% water rate increase each year for the next six years, followed by annual rate increases of 3%. This recommendation generates the anticipated revenue for the water main and lead service line replacements while bringing the percentage of debt to operating capital down from 50% to 25% and maintaining a recommended \$1M fund balance.

FINANCIAL IMPACT TO RETAIL CUSTOMERS

Table 7 illustrates the proposed rate increases, as well as the resulting debt to revenue percentage and the water fund reserve amount allocated for the distribution system.

Table 7 - Proposed Rate Increases for Distribution Improvements

Year	Water Rate Increase	Previously Scheduled Rate Increases	Total Rate Increase	% Debt to Revenue	Reserves
2023	--	5.0% ¹	5.0%	49.5%	\$6.25M
2024	13.1%	4.0% ¹	17.1%	47.3%	\$4.51M
2025	13.1%	9.8% ²	22.9%	40.1%	\$3.52M
2026	13.1%	0.0%	13.1%	38.1%	\$1.02M
2027	13.1%	0.0%	13.1%	35.6%	\$1.05M
2028	13.1%	0.0%	13.1%	32.2%	\$1.05M
2029	13.1%	0.0%	13.1%	27.9%	\$1.08M
2030	2.9%	0.0%	2.9%	27.5%	\$0.96M
2031	2.9%	0.0%	2.9%	26.1%	\$1.00M
2032	2.9%	0.0%	2.9%	25.4%	\$1.03M
2033	2.9%	0.0%	2.9%	23.7%	\$1.01M
2034	2.9%	0.0%	2.9%	22.3%	\$1.02M

NOTES:

1. Rate increase was previously approved for LSLR Workforce Development
2. Part of this rate increase (9.8%) is offset by an equivalent decrease in the sewer rate, resulting in zero impact on the overall utility bill for this portion of the water rate increase. The impact of the proposed water rate increases on the average retail custom is shown in Table 8 below.

Table 8 - Utility Cost Impact of Rate Increases

Year	Total Rate Increase	Water Rate (cost / CCF) (cost / kgal)	Sewer Rate (cost / CCF) (cost / kgal)	Combined Rate (cost / CCF) (cost / kgal)	Annual Utility Cost (Water and Sewer) ¹	Cost Per Bi-Monthly Utility Bill ²	Annual Increase
2023	5.0%	\$3.33 \$4.45	\$3.08 \$4.12	\$6.41 \$8.57	\$769.20	\$128.20	
2024	17.1%	\$3.90 \$5.21	\$3.08 \$4.12	\$6.98 \$9.33	\$837.48	\$139.58	\$68.28
2025	22.9%	\$4.79 \$6.40	\$2.77 \$3.70	\$7.56 \$10.11	\$907.46	\$151.24	\$69.98
2026	13.1%	\$5.42 \$7.25	\$2.77 \$3.70	\$8.19 \$10.95	\$982.72	\$163.79	\$75.26
2027	13.1%	\$6.13 \$8.20	\$2.77 \$3.70	\$8.90 \$11.90	\$1,067.83	\$177.97	\$85.11
2028	13.1%	\$6.93 \$9.26	\$2.77 \$3.70	\$9.70 \$12.97	\$1,164.07	\$194.01	\$96.25
2029	13.1%	\$7.84 \$10.48	\$2.77 \$3.70	\$10.61 \$14.18	\$1,272.92	\$212.15	\$108.84
2030	2.9%	\$8.06 \$10.78	\$2.77 \$3.70	\$10.83 \$14.48	\$1,300.12	\$216.69	\$27.21
2031	2.9%	\$8.30 \$11.10	\$2.77 \$3.70	\$11.07 \$14.80	\$1,328.12	\$221.35	\$27.99
2032	2.9%	\$8.54 \$11.42	\$2.77 \$3.70	\$11.31 \$15.12	\$1,356.92	\$226.15	\$28.80
2033	2.9%	\$8.78 \$11.74	\$2.77 \$3.70	\$11.55 \$15.44	\$1,386.56	\$231.09	\$29.64
2034	2.9%	\$9.04 \$12.09	\$2.77 \$3.07	\$11.81 \$15.79	\$1,417.05	\$236.18	\$30.49

CCF= 100 Cubic Feet, kgal = 1,000 Gallons

Notes:

1. Calculated based on an average annual residential metered usage of 120 CCF (89,760 gallons) of water with the shown water and sewer rates applied to all usage.
2. Based on six bills per year (bi-monthly billing)

This data indicates that the average retail customer will experience a 66% increase in their annual water/sewer bill from 2023 to 2029 when the last 13% proposed rate increase is implemented. The bi-monthly bill will increase from \$128.20 to \$212.15, and the annual payment will increase from \$769.20 to \$1,272.92.

Community members who qualify for the affordable water and sewer rate will not be impacted by the proposed utility rate increases summarized above. The affordable rate will be reviewed every three years to ensure that the rate remains affordable.



Memorandum

To: Members of the Finance and Budget Committee
From: Lara Biggs, Capital Planning & Engineering Bureau Chief
Subject: Proposed 2024 Capital Improvement Program Funding
Date: September 12, 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:

On July 11, 2023, staff provided information on the proposed 2024 Capital Improvement Program (CIP), including information on challenges related to funding. In particular, three challenges related to funding have been identified:

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

The memo providing more detailed information on these items is attached for reference.

Next Steps:

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 and if new funding sources can be identified.

The 2024 CIP is proposed to be presented to City Council at a special City Council meeting scheduled for September 18, 2023.

Attachments:

[CIP Memo dated 7/11/23](#)

[GO Bond Details](#)



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</u> Moisture	\$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.

GO Bonds Details

- **Last GO Bond Sale Date – August 23, 2021**
- **Last GO Bond Sale Amount- \$14,420,000**
- **Total GO Bond Principal Amount (Debt) Paid since the last issue**

Date		Total principal Amount
December 1, 2021		10,690,000
December 1, 2022		11,440,000
December 1, 2023	(to be paid)	11,960,000
	Total	34,090,000

G.O. Bonds Summary as of 08/24/2023

Go Bonds		\$ 14,590,000	Reoffering premium - \$611,334		
Interest		\$ 7,992,140	True Interest cost - 4.18%		
Total debt service		\$ 22,582,140			
Annual Debt service (20 year term)		\$ 1,129,107			
2021 Levy					
2022 Levy					
10% Market Value					
Market Value of Property	Assessed Value of Property	Equalized Value of Property	Estimated City Tax	Projected City Tax	AMOUNT OF INCREASE
\$100,000	\$10,000	\$32,234	\$537.66	\$548.42	\$10.75
\$200,000	\$20,000	\$64,468	\$1,075.33	\$1,096.83	\$21.51
\$300,000	\$30,000	\$96,702	\$1,612.99	\$1,645.25	\$32.26
\$400,000	\$40,000	\$128,936	\$2,150.65	\$2,193.67	\$43.01
\$600,000	\$60,000	\$193,404	\$3,225.98	\$3,290.50	\$64.52
\$800,000	\$80,000	\$257,872	\$4,301.30	\$4,387.33	\$86.03
\$1,000,000	\$100,000	\$322,340	\$5,376.63	\$5,484.16	\$107.53
Note: These are estimated numbers before any exemptions.					