



Metropolitan Water Reclamation District of Greater Chicago

100 East Erie Street
Chicago, IL 60611

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TRANSMITTAL LETTER FOR BOARD MEETING OF NOVEMBER 6, 2014

COMMITTEE ON BUDGET AND EMPLOYMENT

Mr. David St. Pierre, Executive Director

Report on Budgetary Revenues and Expenditures Through Third Quarter September 30, 2014

Dear Sir:

Attached is a report of revenues and expenditures through the third quarter ended September 30, 2014. This report is prepared on an unaudited budgetary basis of accounting.

The third quarter of 2014 includes receipts from the tax year 2013 second real estate tax installment, which were due on August 1; the first installment was due on March 4, 2014. Third quarter receipts are within normal levels.

Preliminary Corporate Fund expenditures, of 59.3 percent through the third quarter, are within normal levels. Energy and healthcare costs, two of the primary expenditure drivers, are monitored closely throughout the year. Through the third quarter, the Maintenance and Operations Department has expended 73.0 percent of the electricity budget, and 83.5 percent of the adjusted budget for natural gas.

District health care costs through the third quarter are in line with 2014 projections. Based on current spending, the cost of medical benefits for employees and retirees are projected to finish the year up 1.4% and down 1.1% respectively. Pharmacy benefits for employees are projected to end the year with an increase on 1.5%. Pharmacy benefits for retirees are estimated to finish the year approximately 15.4% under projections. These savings are a result of the implementation of the Employer Group Waiver Plan. A contribution of \$20 million was transferred to the Other Post-Employment Benefits trust in the first quarter of 2014.

The two primary economic factors driving the District's revenues are the Consumer Price Index (CPI) and the real estate market. As reported by the Bureau of Labor Statistics, the CPI rose 2.1 percent through the third

quarter of 2014 and 1.7 percent over the previous twelve months. The energy index declined 0.7 percent in September; the third consecutive decline. Over the past twelve months, the energy index has fallen 0.6 percent. Over the twelve month span, the components have changed as follows: natural gas index has risen 5.8 percent and the electricity index has increased 2.8 percent; however, the gasoline index has declined 3.6 percent and the fuel oil index has fallen 3.2 percent.

Nonresidential construction continued to increase at a moderate pace, hampered somewhat by difficulty of builders finding skilled labor. While the residential market is not recovering at the same pace as the nonresidential market, there are hopeful signs. Based on recent increases in online and open-house traffic, real estate sales are expected to return to normal levels in the coming months. The September mortgage interest rates hit a new 2014 low at 4.16 percent. In September of 2003, as a comparison, mortgage interest rates were 6.15 percent. The Illinois Association of Realtors' state year-over-year snapshot report for September 2014 is as follows: home sales decreased 4.4 percent; days on the market declined 4.1 percent; median sales price rose 4.5 percent; and the inventory of homes for sale decreased 2.3 percent. The median sales price for a home in September 2014 was \$160,000, as compared to the median sales price of \$150,000 in September 2013, a 6.7 percent increase.

A conservative approach used to develop the 2014 five-year financial plan is expected to maintain budgetary fund balances at policy levels.

Respectfully Submitted, Eileen McElligott, Administrative Services Manager, BKS

Attachment