The Civic Federation

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METROPOLITAN WATER RECLAMATION DISTRICT FY2014 TENTATIVE BUDGET:

Analysis and Recommendations

December 11, 2013

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The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The Civic Federation **supports** the Metropolitan Water Reclamation District's (MWRD) FY2014 Tentative Budget of $1.20 billion. The budget is a $48.3 million, or 4.2%, increase from amended FY2013 appropriations of approximately $1.15 billion. MWRD appropriations often vary significantly from budget year to budget year, depending on the number and scale of capital projects that the District undertakes and the timing of funding required to complete different phases of multi-year projects.

The Civic Federation applauds the MWRD for proposing to make an additional pension contribution according to the actuarially determined needs of its Retirement Fund. The MWRD is practicing responsible fiscal management by addressing the poor health of the fund through a contribution above the statutorily required amount. The District continues to demonstrate strong leadership and initiative in taking action to stabilize the health of its retirement system.

The Federation commends the MWRD for continuing to use long-term financial planning to guide its operations and future projects. We also commend the District for adhering to its fund balance policy and maintaining substantial reserves in its Corporate Fund fund balance. The Civic Federation recommends that the District improve its fund balance policy by setting a maximum target for fund balance accrual and formalizing a plan to appropriately spend down excess reserves.

While the MWRD provided additional information in its FY2014 budget regarding some tax revenue, the Civic Federation calls for further improvements to and increased transparency in the District's budget documents, including providing personnel data according to full-time equivalent positions rather than headcount. The Federation also recommends that the District increase the time allowed for public review of the version of the MWRD's budget that is considered by the Board of Commissioners.

The Civic Federation offers the following **key findings** from the FY2014 Tentative Budget:

- The MWRD FY2014 Tentative Budget will total $1.20 billion and is a 4.2%, or $48.3 million, increase over the FY2013 amended budget of approximately $1.15 billion;
- Corporate Fund appropriations will increase by 2.7%, or $10.4 million, to $394.0 million in FY2014 from the FY2013 amended budget of $383.6 million;
- The District proposes to increase its gross property tax levy for FY2014 by 5.2%, or $26.5 million, to $540.3 million, including both non-tax-capped funds and those limited to a maximum annual increase of 5.0% or the rate of inflation, whichever is less. The overall levy for tax-capped funds will increase from FY2013 by 2.6%, or $7.6 million, and the tax levies for Bond and Interest Funds and the Stormwater Management Fund will increase by 8.6%, or $18.9 million;
- The District is increasing staffing levels by 35 positions to 1,962 in FY2014, which is a 1.8% increase from 1,927 positions in FY2013;
- District appropriations for personnel will increase by 2.7%, or $7.9 million, from FY2013 levels to $299.5 million in FY2014;
- In FY2014 the District will set aside $151.6 million as non-appropriated Corporate Fund fund balance. This amount is equivalent to 38.5% of the total FY2014 Corporate Fund appropriation of $394.0 million;
- In FY2012 the pension fund's unfunded liabilities rose to nearly $1.1 billion, up from $371.3 million ten years prior in FY2003. This is a 185.4%, or $688.5 million, increase;
- The actuarial value funded ratio for the District's pension fund declined from 75.5% to 50.4% over the same ten-year period;
- The District's long-term liabilities rose by 86.7%, or $1.4 billion, to $3.0 billion in the five-year period between FY2008 and FY2012 and;

- The MWRD's five-year capital budget for FY2014-FY2018 is approximately $1.1 billion, and the amount budgeted for FY2014 is $300.9 million.

The Civic Federation **supports** the following elements of the proposed budget:

- Budgeting for an actuarially determined pension contribution;
- Utilizing and publishing long-term planning techniques;
- Maintaining substantial reserves; and
- Providing additional information in its FY2014 budget documents.

The Civic Federation has the following **concerns** about the FY2014 proposed budget:

- Budgeting the Reserve Claim Fund based on all available resources, rather than anticipated expenditures;
- Failing to present personnel data according to full-time equivalent positions; and
- Providing insufficient time for public review of the budget version that is considered by the Board of Commissioners.

The Civic Federation offers the following **recommendations** to improve the MWRD's financial management:

- Contribute to the Retirement Fund according to an actuarially determined funding level in future years;
- Budget the Reserve Claim Fund based on anticipated expenditures;
- Develop publicly shared plan for managing the District's large Corporate Fund fund balance;
- Increase the time allowed for public review of the version of the proposed budget on which the Board of Commissioners will vote; and
- Improve budget documents by presenting staffing information according to full-time equivalent positions, providing narrative descriptions of changes between the Executive Director's Recommendations and Tentative Budget and including more information on total revenue collection and personnel services appropriations.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the Metropolitan Water Reclamation District's (MWRD) FY2014 Tentative Budget of $1.20 billion. The budget is a $48.3 million, or 4.2%, increase from amended FY2013 appropriations of approximately $1.15 billion. MWRD appropriations often vary significantly from budget year to budget year, depending on the number and scale of capital projects that the District undertakes and the timing of funding required to complete different phases of multi-year projects.

The Civic Federation applauds the MWRD for proposing to make an additional pension contribution to match the actuarially determined needs of its Retirement Fund. The MWRD is practicing responsible fiscal management of its pension fund by addressing the poor health of the fund through a contribution above the statutorily required amount. The District continues to demonstrate strong leadership and initiative in taking action to stabilize the health of its retirement system.

The Federation commends the MWRD for continuing to use long-term financial planning to guide its operations and future projects. The District's adherence to its fund balance policy and maintenance of substantial reserves in its Corporate Fund fund balance is praiseworthy. The Civic Federation recommends that the District improve its fund balance policy by setting a maximum target for fund balance accrual and formalizing a plan to appropriately spend down excess reserves.

While the MWRD provided additional information in its FY2014 budget regarding some tax revenue, the Civic Federation calls for further improvements to and increased transparency in the District's budget documents, including providing personnel data according to full-time equivalent positions rather than headcount. The Federation also recommends that the District increase the time allowed for public review of the version of the MWRD's budget that is considered by the Board of Commissioners.

Issues the Civic Federation Supports

The Civic Federation supports the following issues contained in the MWRD FY2014 Tentative Budget.

Budgeting for an Actuarially Determined Pension Contribution

Last year the District successfully developed and the General Assembly and Governor Quinn approved increased employee and employer contributions to its Retirement Fund.[1] The statutory employer contribution is a multiple of what employees contributed two year prior. Through Public Act 97-0894, this statutory multiplier increased from 2.19 to 4.19. However, the District has determined that this new multiplier is insufficient to meet the actuarial funding needs of its Retirement Fund for FY2014. In its FY2014 budget, the MWRD proposes to make an additional contribution in order to raise its funding to an actuarially determined level. The Civic Federation applauds the MWRD for prudently addressing the poor financial health of its pension fund and for taking another important step toward stabilizing the fund.

[1] For more information on these reforms, see page 29.

Utilizing and Publishing Long-Term Planning Techniques

MWRD utilizes and publishes long-range planning tools and techniques, including:

- Five-year financial forecasts for revenues, expenditures and personnel;
- A Strategic Business Plan, including the 2014 update to the Plan; and
- A Capital Improvement Plan that includes narrative descriptions of capital projects, justifications for projects and descriptions of their impact, project costs, maps that show project locations, line item analyses of appropriations and expenditures and an analysis of projects' personnel requirements.

The District has also demonstrated fiscal leadership in its recent successful pursuit of pension funding reforms for its Retirement Fund and in creating and maintaining a trust fund for the future payment of other post employment benefits (OPEB) liabilities in 2007. The Board of Commissioners established the trust with a policy target of reaching a 50% funded ratio in 50 years, and requiring a $10 million contribution from the Corporate Fund in each of the first five years.

The trust was initially seeded with $15 million upon its creation in 2007. Through additional contributions in the years following, the District met its goal of $50 million total contributed through 2011. The District made a $20.0 million contribution in FY2013, and expects to contribute $20.0 million again in FY2014.[2] At the end of FY2012, the trust was funded at 13.9%.[3]

The Civic Federation commends the District for its forward-thinking efforts and recognizes the MWRD as a leader amongst northeastern Illinois local governments in producing long-term plans and making them publicly available.

Maintaining Substantial Reserves

The Federation commends the MWRD for continuing to maintain substantial reserves in its non-appropriated Corporate Fund fund balance in FY2014. The District is budgeting to set aside $151.6 million, or 38.5% of total Corporate Fund appropriations, as non-appropriated fund balance.

The MWRD has a fund balance policy of maintaining 12-15% of appropriations, or between $47 million to $59 million, in unreserved Corporate Fund fund balance.[4] The Government Finance Officers Association (GFOA) recommends "at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."[5] Two months of operating expenditures for the District is approximately 16.7%.

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[2] MWRD FY2012 Comprehensive Annual Financial Report, p. 85 and FY2014 Executive Director's Recommendations, p. 13.

[3] For more information on the OPEB trust, see page 36 of this report.

[4] MWRD FY2014 Executive Director's Recommendations, pp. 20 and 25.

[5] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).

The District's projected FY2014 level of net assets exceeds the GFOA recommendation and the MWRD's stated goal of maintaining a reserve of 12-15% of Corporate Fund appropriations.

Providing Additional Budgetary Information

In the Civic Federation's analysis of the MWRD's FY2013 Tentative Budget, the Federation recommended that the District include additional details about projected revenue, specifically personal property replacement tax (PPRT) revenue. The District took this recommendation into consideration and added a page to its FY2014 proposed budget which lists PPRT revenue from previous years dating back to FY2009 and estimated PPRT revenue for FY2014. The Civic Federation applauds the MWRD for increasing the transparency of its budgeting process and including additional revenue information in its budget document.

Civic Federation Concerns

The Civic Federation has the following concerns regarding the MWRD FY2014 budget.

Reserve Claim Fund Budgeting

The Reserve Claim Fund is the District's self-insurance fund. The District does not budget this appropriation based on anticipated expenditures. Instead, it budgets all available resources including all available fund balance and any new resources in order to fund emergencies and to settle large claims or lawsuits.[6]

From FY2010 to FY2013 the District did not expend more than 11.0% of the proposed appropriation. The largest expenditure during this period was $6.7 million in FY2012. The FY2014 recommended appropriation is $64.0 million, an increase of $2.0 million over the FY2013 proposed appropriation.

MWRD Reserve Claim Fund: FY2010-FY2014			
	Proposed Appropriation	Actual Expenditure	Ratio
FY2010	$ 63,000,000	$ 1,951,153	3.1%
FY2011	$ 60,000,000	$ 3,400,000	5.7%
FY2012	$ 61,000,000	$ 6,669,900	10.9%
FY2013*	$ 62,000,000	$ 6,500,000	10.5%
FY2014	$ 64,000,000	-	-

*Adjusted expenditure for FY2013.

Source: MWRD Final Budgets, FY2012 and FY2013; FY2014 Executive Director's Recommendations.

Budgeting well in excess of anticipated expenditures makes the budget-to-actual results meaningless, making it difficult for the public to accurately evaluate the MWRD's overall budgeting and spending practices.

[6] MWRD FY2014 Executive Director's Recommendations, pp. 23-24.

Presenting Personnel Data by Headcount, Not Full-Time Equivalent Positions

In its budget documents the MWRD accounts for personnel according to headcount or position count and does not provide information on personnel in terms of full-time equivalent (FTE) positions. FTE data quantifies annualized hours for positions and provides a standard means of comparability that position data does not. By not using FTE data, the MWRD falls short of fully following best practices in budgeting.

Insufficient Time for Public Review of Budget

The MWRD's budget process differs from the budget processes of other Chicago-area local governments. The MWRD produces multiple versions of its budget which include, in order of release, the Executive Director's Recommendations, the Tentative Budget (BF-19) and the Adopted Budget (BF-20).[7] The Executive Director's Recommendations and the Tentative Budget are modified through the budget review process and the Adopted Budget is the version approved by the Board of Commissioners. These modifications can include changes to the District's proposed appropriations and property tax levy, significantly impacting the overall budget.

In the FY2014 budget cycle the Executive Director's Recommendations was released to the public on October 15 and the Tentative Budget was released to the public on November 21. The version to be approved by the Board as the Adopted Budget was not released to the public until December 9, only two business days before the public hearing. Two days is not a sufficient amount of time for the public to review and comprehend a complex budget document, especially when the reader must reconcile changes across multiple versions of a budget.

Civic Federation Recommendations

The Civic Federation has several recommendations on ways to improve the MWRD's financial and transparency practices.

Continue to Contribute to Pension Fund According to an Actuarially Determined Funding Level

The Civic Federation strongly supports the MWRD's proposal to make an additional contribution in order to raise its funding of the Retirement Fund to an actuarially sound level in FY2014. Legislation implemented last year increased the District's statutory multiplier from 2.19 to 4.19, and this amount is already insufficient to meet the actuarial needs of the pension fund. This demonstrates that while using a multiplier may be helpful on a budgetary basis, it is not an ideal mechanism for adequately funding a pension fund. By limiting its contributions to a multiplier, the MWRD may risk continuing to underfund the pension fund.

The Federation strongly believes that annual pension contributions should be tied to the actuarial needs of the fund, rather to an arbitrary multiplier. The Federation therefore encourages the District to consider pursuing legislation that would tie its annual contribution to its pension fund

[7] BF is an abbreviation for Budget Forms and is a term typically used internally by MWRD staff and Board of Commissioners to identify different versions of the budget.

to an annually determined actuarial funding level, rather than making contributions according to an unchanging multiple of what its employees contributed two years earlier. As an alternative to pursuit of new legislation with the Illinois General Assembly, the District could implement a policy pledging to make additional contributions to the Retirement Fund each year should the statutory multiplier fall short of meeting the actuarial needs of the fund.

Budget the Reserve Claim Fund Based on Anticipated Expenditures

The Civic Federation recommends that the District change its current practice of budgeting all available resources in the Reserve Claim Fund and instead budget anticipated expenditures plus a reasonable amount of contingency funds for emergencies or unanticipated claims. The Board would need to be informed and approve of any additional appropriation required above a reasonable contingency. If the District budgeted an additional 25% above anticipated expenditures, using FY2013 adjusted expenditures it would provide the Reserve Claim Fund with an appropriation of $8.1 million. This is $55.9 million less than the FY2014 recommended appropriation and still well above the average amount of actual expenditures over the past five years.

The Government Finance Officers Association (GFOA) views budgets not just as a legal appropriation, but as a policy document, financial plan, operations guide and communication tool.[8] A realistic appropriation for the Reserve Claim Fund will communicate a more accurate picture of the District's financial plan to the public and policymakers. The large budget for the Reserve Claim fund significantly distorts the overall total budget numbers, especially when compared to actual prior year expenditures.

In addition, this change would provide enhanced accountability. Budgeting above anticipated expenditures impacts the ability to monitor expenditures, which is a government budgeting best practice. The National Advisory Council on State and Local Budgeting recommends regular monitoring of budget-to-actual results in order to provide an early warning sign of potential problems and advises that decision makers have time to consider actions that may be needed in response. It recommends that reports on budget-to-actual results be prepared on "a routine widely-publicized basis."[9] Budgeting well in excess of anticipated expenditures makes the budget-to-actual results meaningless, and therefore removes an important control mechanism.

Develop Publicly Shared Plan for Managing Fund Balance

The Civic Federation commends the MWRD for adhering to its fund balance policy and for maintaining a very high level of reserves. We encourage the District to consider adding a maximum target to its fund balance policy to provide guidance on appropriate steps that should be taken as its fund balance continues to grow. A maximum target prevents the excessive accumulation of resources that could impact intergenerational equity. A large fund balance like the MWRD's may invite questions about over-taxation, unless a government is saving for a

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[8] Government Finance Officers Association, "Awards Criteria" www.gfoa.org/downloads/BudgetCriteriaExplanations_000.pdf (Last viewed on November 27, 2013).
[9] Government Finance Officers Association "Recommended Budget Practices, National Advisory on State and Local Budgeting," http://www.gfoa.org/services/dfl/budget/RecommendedBudgetPractices.pdf (Last viewed December 2, 2013).

specific expected expense. Appropriate uses of excess fund balance include capital projects, extra pension contributions to reduce the unfunded liability, directing the revenue stream to other priorities, such as paying off debt or other liabilities. The District could even abate its property tax levy until the excess reserves are spent down. The District should develop a formal plan for appropriating its reserves and share the plan with the public.

Increase Time Allowed for Public Review of Proposed Budget

The MWRD is very transparent in its budget process as it allows the public access to multiple stages of review of the proposed budget. However, more time should be allowed for the public to review and understand the version of the MWRD's $1.2 billion budget that is considered by the Board of Commissioners. At a minimum, **ten working days** should be allowed for the public review period before public testimony is heard. This is the only way that citizens can give fully informed commentary on one of the larger local government budgets in the Chicago area.

Improve Budget Documents

In an effort to further improve the District's overall budget process, the Civic Federation recommends that the MWRD provide additional clarity by presenting personnel data according to full-time equivalent positions. The Federation also recommends that the MWRD provide more narrative explanations and an updated version of the personal services summary in the Tentative Budget. All future budget documents should include total anticipated revenues.

Provide Personnel Data by FTE Positions

In its budget documents, the MWRD currently presents personnel staffing levels according to position, or headcount, as opposed to full-time equivalent (FTE) positions. The Civic Federation recommends that in future budgets the District provide personnel data according to FTE positions to increase transparency and comparability for accurately assessing staffing trends. Presenting staffing information by FTEs is a standard best practice and a common practice of other local governments in the area.

Improve Tentative Budget

As part of the MWRD's budget process, the District produces multiple versions of its proposed budget, including, in order of release, the Executive Director's Recommendations and the Tentative Budget. The Tentative Budget reflects changes recommended by the Board's Committee on Budget and Employment pursuant to departmental hearings.

The Civic Federation recognizes the MWRD's efforts to streamline the production of budget books by reprinting only selected pages of the Executive Director's Recommendations in the Tentative Budget. However, because the Tentative Budget does not include an updated version of the "Budget Message/Highlights" narrative, it is difficult for the reader to identify and understand all of the changes that may have occurred between the different versions of the budget. Therefore, the Civic Federation recommends that the Tentative Budget include an updated "Budget Message/Highlights" section describing any changes and/or new information to the MWRD's proposed budget.

Include Total Revenue Collection

The FY2014 proposed budget includes the 2014 tax revenue for the Corporate Fund, Construction Fund and Stormwater Management Fund. However, the budget does not include the 2014 tax revenue for the Retirement, Reserve Claim and Bond and Interest Funds. That revenue will be reflected in next year's budget as part of "net assets appropriable."[10] MWRD attributes this inconsistency in the budget to its cash-based budgeting practices. Please see the Resources section for more details on this practice.

We urge the District to provide a clear summation of all FY2014 revenues by taking the following steps:

- Clearly note when the amount of funds budgeted for a revenue source differ from the amount that the District is estimating to collect; and
- Include a chart that summarizes all revenues that will be collected and accounted for in the upcoming fiscal year with comparisons to the previous year actual, current year budget and proposed budget.

This information would improve the budget book by providing stakeholders with a clearer sense of how much the District anticipates in overall revenues.

Include Personal Services Content

The Personal Services Appropriations summary from the Executive Director's Recommendations book is not revised and reprinted in the Tentative Budget book. Personal services represent a substantial portion of the District's budget and the Civic Federation recommends that this important summary information be included in the Tentative Budget for the Board of Commissioners and public to review.

ACKNOWLEDGEMENTS

The Civic Federation would like to express our appreciation to Executive Director David St. Pierre, Administrative Services Manager Eileen McElligott, Budget Officer Beverly Sanders and their staffs for their hard work in preparing this budget. We appreciate their willingness to answer our questions.

[10] MWRD FY2014 Executive Director's Recommendations, p. 72.

APPROPRIATIONS

The District proposes to appropriate $1.20 billion in its FY2014 Tentative Budget. This is a 4.2%, or $48.3 million, increase from the FY2013 amended budget of $1.15 billion.

MWRD Budget Process

It is important to recognize that the MWRD's budget process differs from the budget processes of other northeastern Illinois governments. The MWRD produces three versions of its budget which include, in order of release, the Executive Director's Recommendations, the Tentative Budget and the Adopted Budget (also referred to as the As Adopted and Amended budget document, or Final Budget). Within these three budget documents are the following financial figures:

- *Proposed appropriations* – appropriations as proposed in the Executive Director's Recommendations;
- *Tentative appropriations* – appropriations approved by the Board of Commissioners based on recommendations from the Committee on Budget and Employment hearings regarding the Executive Director's Recommendations (BF-19 changes).[11]
- *Adopted appropriations* – appropriations as adopted by the Board (BF-20 changes);
- *Amended appropriations* – appropriations as amended by the Board (BF-21 changes, or Final);
- *Adjusted appropriations* – year-end estimated appropriations; and
- *Actual expenditures* – audited expenditures, available in the budget documents.

MWRD appropriations often vary significantly from budget year to budget year, depending on the number and scale of capital projects that the District undertakes and the timing of funding required to complete different phases of multi-year projects. Revenues for capital projects often become available only after the budget's adoption. For these reasons, the Civic Federation compares the MWRD's tentative appropriations to the adjusted appropriations from previous years and, when available, actual expenditures from previous years.

[11] BF is an abbreviation for Budget Forms and is a term typically used internally by MWRD staff and Board of Commissioners to identify different versions of the budget.

The following exhibit shows MWRD appropriations for all funds for the tentative budgets, adopted budgets, adjusted budgets and actual expenditures for FY2009 to FY2013. As of the writing of this analysis, the District had only released the FY2014 Executive Director's Recommendations and the FY2014 Tentative Budget.

MWRD Appropriations - Tentative, Adopted, Adjusted and Actual: FY2009-FY2013				
	Tentative	Adopted	Adjusted	Actual
FY2009	$ 1,542,801,290	$ 1,630,593,990	$ 1,630,596,983	$ 1,630,596,977
FY2010	$ 1,378,626,653	$ 1,655,593,753	$ 1,655,410,779	$ 1,655,410,779
FY2011	$ 974,268,952	$ 1,030,439,078	$ 1,031,719,451	$ 1,031,719,451
FY2012	$ 925,983,388	$ 1,040,949,849	$ 1,040,949,849	$ 1,040,949,849
FY2013	$ 1,118,964,609	$ 1,152,384,409	$ 1,155,064,990	-

Note: FY2013 actual figures are not yet available.

Source: MWRD Tentative and Adopted Budgets, FY2009-FY2013 and MWRD FY2014 Executive Director's Recommendations, p. 44.

The next exhibit compares the four types of appropriations for FY2009-FY2013. The comparisons include: tentative vs. adopted, tentative vs. adjusted, tentative vs. actual, adopted vs. adjusted, adopted vs. actual and adjusted vs. actual. In the five-year period examined, with the exception of a slight variance in FY2009, no variance occurred between the adjusted and actual appropriations. However, significant variances occur between the tentative and adopted budgets.

MWRD Appropriations Comparison of Tentative, Adopted and Actual: FY2009-FY2013						
	Variance: Tentative vs. Adopted	Variance: Tentative vs. Adjusted	Variance: Tentative vs. Actual	Variance: Adopted vs. Adjusted	Variance: Adopted vs. Actual	Variance: Adjusted vs. Actual
FY2009	$ 87,792,700	$ 87,795,693	$ 87,795,687	$ 2,993	$ 2,987	$ (6)
FY2010	$ 276,967,100	$ 276,784,126	$ 276,784,126	$ (182,974)	$ (182,974)	$ -
FY2011	$ 56,170,126	$ 57,450,499	$ 57,450,499	$ 1,280,373	$ 1,280,373	$ -
FY2012	$ 114,966,461	$ 114,966,461	$ 114,966,461	$ -	$ -	$ -
FY2013	$ 33,419,800	$ 36,100,381	see note	$ 2,680,581	see note	see note

Note: FY2013 actual figures are not yet available.

Source: MWRD Tentative and Adopted Budgets, FY2009-FY2013 and MWRD FY2014 Executive Director's Recommendations, p. 44.

Appropriations by Major Fund

As shown in the chart below, between FY2013 and FY2014, appropriations for all funds will increase by 4.2%, or $48.3 million. In FY2014 Corporate Fund appropriations, which are used for operational and general expenditures, are projected to increase by 2.7%, or $10.4 million, to $394.0 million from the FY2013 final appropriation of $383.6 million. The increase in the Corporate Fund includes $30.0 million for a Community Flood program which will provide direct financial assistance to communities in the Chicagoland region.[12] The Corporate Fund also includes a working cash fund, which is intended to make temporary loans to the Corporate Fund in anticipation of tax collections.[13] This practice is a lower cost alternative to the more common practice where governments issue tax anticipation notes (TANs) to cover expenses before tax revenues are collected.

[12] Information provided by the MWRD, December 6, 2013.

[13] MWRD FY2014 Executive Director's Recommendations, p. 27.

The Construction Fund serves as a pay-as-you-go funding source for capital projects that rehabilitate aged or less effective infrastructure. Capital projects paid for through this fund have a useful life of less than 20 years and typically do not exceed $0.5 million. Capital projects are financed by a tax levy sufficient to pay for project costs as they are constructed.[14] Construction Fund appropriations in FY2014 include re-appropriations for prior year projects still under construction. In FY2014 the Construction Fund will increase by 32.3%, or $13.2 million, to $54.0 million due to approximately a $3.0 million increase in professional services for FY2013 projects and a $9.0 million increase in capital projects in FY2014.[15]

The Capital Improvements Bond Fund is for major infrastructural improvements with useful lives longer than 20 years which are financed by long-term debt, Federal and State grants or State Revolving Fund loans. The 5.3%, or $18.4 million, increase in Capital Improvements Bond Fund appropriations in FY2014 reflects the Fund's regular annual fluctuation according to the scheduled awards of major projects and projects carried forward from FY2013.[16]

Stormwater Management Fund appropriations will fall by 17.0%, or $10.4 million, to $50.8 million in FY2014. The MWRD plans to issue $50.0 million in alternate bonds in FY2014 to fund stormwater management capital projects. Therefore, funding for projects will come from the Capital Improvements Bond Fund rather than the Stormwater Management Fund.[17]

The Retirement Fund is expected to increase by 15.8%, or $10.2 million, from $64.8 million in FY2013 to $75.0 million in FY2014. Beginning in FY2014, the MWRD's contribution to the Retirement Fund will be an amount calculated by the Fund's actuary to be sufficient to bring the total assets of the Fund up to 90% of total actuarial liabilities by 2050. According to State law, this amount will not exceed the employee contributions two years prior multiplied by 4.19. Previously, the multiplier was 2.19.[18] The MWRD projects that for FY2014 the 4.19 multiple will be insufficient in meeting the actuarial needs of the fund measured on an annual required contribution basis. Therefore, the District proposes to make an additional contribution beyond the multiple of what was contributed by employees two years prior in order to meet the actuarial needs of the fund.[19] Unlike other area local governments that are not allowed to contribute more or less than the statutory multiplier to their pension funds, the MWRD is allowed to transfer interest earned on any of its moneys to its pension fund, as permitted under Public Act 95-0891.[20] In FY2013 $30.0 million was transferred from the Corporate Fund to the Retirement Fund. The District plans to transfer $12.0 million in interest income from the Bond Redemption and Interest Fund to the Retirement Fund in FY2014.[21]

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[14] MWRD FY2014 Executive Director's Recommendations, pp. 22 and 356.
[15] Information provided by the MWRD, December 6, 2013.
[16] MWRD FY2014 Executive Director's Recommendations, p. 23.
[17] Information provided by the MWRD, December 6, 2013.
[18] In August 2012, Governor Quinn signed into law pension reforms for the MWRD Retirement Fund as Public Act 97-0894 which increases employee and employer contributions. For more information about the MWRD's recent pension reforms, see page 29 of this report.
[19] MWRD FY2014 Executive Director's Recommendations, p. 23.
[20] MWRD FY2014 Executive Director's Recommendations, p. 23.
[21] MWRD FY2014 Executive Director's Recommendations, 97.

The Bond Redemption and Interest Fund is the District's debt service fund. It finances major projects in the Capital Improvement Program through the issuance of bonds, governmental grants and State Revolving Fund loans.[22] The Bond Redemption and Interest Fund will rise by 2.4%, or $4.5 million.

Appropriations for the Reserve Claim Fund will increase by 3.2%, or $2.0 million, to $64.0 million in FY2014. The Reserve Claim Fund is a self-insurance fund for a variety of claims including employee claims, environmental remediation costs that cannot be recovered from tenants and catastrophic failure of District operational infrastructure. As described further in this section, the Board has adopted a policy of striving to finance the Reserve Claim Fund at the maximum level permitted by state statute and to levy at the tax rate limit. The levy will be raised by the maximum allowable ½ cent.[23] Actual expenditures have been much less than appropriated amounts according to historical trends, as described later in this section.

In a five-year comparison of MWRD actual expenditures and proposed appropriations by fund between FY2010 and FY2014, overall spending will fall by 27.5%, or $454.7 million. When comparing actual expenditures to proposed appropriations, it is helpful to exclude the Reserve Claim Fund since this appropriation is much larger than what is anticipated to be spent. Excluding the Reserve Claim Fund, appropriations will decline by 28.6%, or $455.7 million, from nearly $1.6 billion in FY2010 to $1.1 billion in FY2014. Most of the decline reflects the decline in appropriations for the Capital Improvements Bond Fund, which will fall from $975.2 million in FY2010 to $368.0 million in FY2014. This is a decrease of 62.3%, or $607.2 million. This significant change reflects the Capital Improvements Bond Fund's regular annual fluctuation according to the scheduled awards of major projects and projects carried forward across multiple years.[24]

[22] MWRD FY2014 Executive Director's Recommendations, p. 24.
[23] MWRD FY2014 Executive Director's Recommendations, p. 24.
[24] MWRD FY2014 Executive Director's Recommendations, p. 23.

Appropriations for the Construction Fund will increase by 99.4%, or $26.9 million, over the five-year period. Retirement Fund appropriations will also grow significantly, by 128.8%, or $42.2 million, partially as a result of the implementation of recent pension funding reforms with the FY2014 budget.[25] The increase also reflects transfers of approximately $30.0 million of interest income to the Retirement Fund in FY2012 and FY2013. Corporate Fund appropriations will rise by 11.2%, or $39.5 million, over the five-year period.

MWRD Major Fund Appropriations: FY2010-FY2014 (in $ thousands)

	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Amended	FY2014 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 354,501	$ 341,093	$ 339,445	$ 383,608	$ 394,047	$ 10,439	2.7%	$ 39,546	11.2%
Construction Fund	$ 27,079	$ 17,700	$ 33,774	$ 40,812	$ 54,000	$ 13,188	32.3%	$ 26,921	99.4%
Capital Improvements Bond Fund*	$ 975,198	$ 385,052	$ 305,505	$ 349,649	$ 368,032	$ 18,384	5.3%	$(607,166)	-62.3%
Stormwater Management Fund	$ 39,929	$ 39,949	$ 51,000	$ 61,251	$ 50,815	$ (10,436)	-17.0%	$ 10,886	27.3%
Retirement Fund	$ 32,767	$ 32,384	$ 64,362	$ 64,761	$ 74,984	$ 10,223	15.8%	$ 42,217	128.8%
Bond Redemption & Interest Fund	$ 162,937	$ 155,541	$ 185,863	$ 190,304	$ 194,844	$ 4,540	2.4%	$ 31,906	19.6%
Sub-Total	$1,592,411	$ 971,719	$ 979,950	$1,090,384	$1,136,722	$ 46,337	4.2%	$(455,689)	-28.6%
Reserve Claim Fund**	$ 63,000	$ 60,000	$ 61,000	$ 62,000	$ 64,000	$ 2,000	3.2%	$ 1,000	1.6%
Total	$1,655,411	$1,031,719	$1,040,950	$1,152,384	$1,200,722	$ 48,337	4.2%	$(454,689)	-27.5%

*Capital Improvements Bond Fund includes appropriations for prior year obligations.

**Reserve Claim Fund includes adopted appropriations, not actual expenditures for FY2010-FY2012.

Source: MWRD Final Budgets, FY2012-FY2013 and FY2014 Tentative Budget, p. 13.

Reserve Claim Fund

The MWRD Board of Commissioners has adopted a policy of striving to finance the Reserve Claim Fund at the maximum level permitted by state statute, which is 0.05% of the last known equalized assessed valuation (EAV). Using the 2011 EAV, the maximum accumulation is approximately $66.7 million. Each year the MWRD appropriates the Fund's available fund balance plus new revenue.[26] Between FY2010 and FY2013, the District did not expend more than 10.9% of the proposed appropriation. Although actual expenditures for the Reserve Claim Fund have not exceeded $6.7 million, the District continues to budget appropriations equal to available resources to fund emergencies or large claims. The District is projecting expenditures to be $6.5 million, or 10.5% of the total proposed appropriation, in FY2013 as shown below.[27]

MWRD Reserve Claim Fund: FY2010-FY2014

	Proposed Appropriation	Actual Expenditure	Ratio
FY2010	$ 63,000,000	$ 1,951,153	3.1%
FY2011	$ 60,000,000	$ 3,400,000	5.7%
FY2012	$ 61,000,000	$ 6,669,900	10.9%
FY2013*	$ 62,000,000	$ 6,500,000	10.5%
FY2014	$ 64,000,000	-	-

*Adjusted appropriation for FY2013.

Source: MWRD Final Budgets, FY2012 and FY2013; FY2014 Executive Director's Recommendations.

[25] For more information on the MWRD Retirement Fund, see page 26.
[26] MWRD FY2014 Executive Director's Recommendations, p. 547.
[27] MWRD FY2014 Executive Director's Recommendations, p. 44.

RESOURCES

This section presents trend information about MWRD Corporate Fund resources. The Civic Federation does not present resource information for all funds because the budget does not provide a clear summation of total resources for the upcoming year.

The FY2014 proposed budget includes 2014 tax revenue for the Corporate, Construction and Stormwater Management Funds. However, the budget does not include the 2014 tax revenue for the Retirement, Reserve Claim and Bond and Interest Funds. That revenue will be reflected in next year's budget as part of "net assets appropriable."[28] The MWRD attributes this inconsistency in the budget to its cash-based budgeting practices. The levy for tax year 2014 is not collected until 2015. Therefore the revenue is not available for FY2014 if budgeted on a cash basis. Many other local units issue tax anticipation notes to bridge tax collection timing gaps through borrowing. However, the MWRD maintains a Working Cash Funds for the Corporate Fund, Construction Fund and Stormwater Management Fund for the sole purpose of making temporary loans to their respective funds in anticipation of tax collections. There are no working cash funds for the Retirement, Reserve Claim or Bond and Interest Funds.[29]

Personal property replacement tax (PPRT) revenue is budgeted in a similar manner to the property tax levy, although PPRT is a corporate income tax. The District anticipates $29.1 million in PPRT revenue to be collected in FY2014. The PPRT revenue will consist of $18.6 million in appropriable Corporate Fund revenue and $10.5 million in appropriable Construction Fund revenue.[30]

MWRD Budget Process

As described in the Appropriations section of this report on page 13, the MWRD produces three versions of its budget which include, in order of release, the Executive Director's Recommendations, the Tentative Budget and the Adopted Budget (also referred to as the As Adopted and Amended budget document, or Final Budget). The Civic Federation compares the MWRD's proposed and tentative resources to the amended resources from previous years and, when available, actual resources from previous years. Amended resources, or the final budget figures, are preferable to year-end estimates since they represent official data approved by the governing board.

Corporate Fund Resources

Corporate Fund revenue in FY2014 will decrease by 3.2%, or $9.8 million, from $306.7 million in FY2013 to $296.9 million in FY2014. The District is additionally budgeting $97.2 million of its net assets.[31] Net assets can be thought of as the savings account for the District. When total net assets and revenues are combined, representing the District's total resources, the amount of resources being utilized will increase by 2.7%, or $10.4 million, between FY2013 and FY2014.

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[28] MWRD FY2014 Executive Director's Recommendations, p. 72.

[29] MWRD FY2014 Executive Director's Recommendations, p. 578.

[30] MWRD FY2014 Tentative Budget, p. 13.

[31] Until FY2004, all net assets appropriable were re-appropriated as resources for the following year. Since then, a portion of those assets has not been re-appropriated in order to provide for the Corporate Fund fund balance.

Some key revenue changes include:

- The District's FY2014 net Corporate Fund property tax levy, which constitutes 74.8% of its total revenues, will increase by $5.7 million, or 2.6%. The property tax levy will be discussed in more detail later in this section;
- User charges will represent 13.5% of Corporate Fund revenues in FY2014 and are expected to decrease by $10.0 million to $40.0 million. User charges are paid by large industrial and government users based on the volume and strength of effluent discharged. Revenue from user charges are affected by the economic conditions (for food processing and chemical industries) and by weather conditions (for government operated airports and water filtration facilities);[32]
- The Corporate Fund allocation of PPRT is expected to decline by $5.2 million, or 21.9%. The decline is due to an allocation of $10.5 million of PPRT revenues to the Construction Fund. In FY2013 all PPRT revenues were allocated to the Corporate Fund. Generally, this revenue changes in relation to the state and national economy;[33]
- Property and Service Charges, which includes land rentals and other revenues, will increase by $500,000, or 3.5%, to $14.8 million in FY2014 from FY2013;
- Investment Income will decrease by $1.0 million, or 30.3%, to $2.3 million. The level of investment income in FY2014 is in line with years prior to FY2013 and reflects stable short-term interest rates and fund balance resources available for investment;[34]
- Other revenues, which include revenues generated from the TIF Differential Fee and Impact Fee and miscellaneous revenues, will remain flat from FY2013 at $3.6 million; and
- There are no equity transfers recommended in the FY2014 budget. In FY2011 the District approved to transfer $8.0 million from the Corporate Working Cash Fund to the Corporate Fund. MWRD defines an equity transfer as a transfer between funds.[35]

Since FY2010 Corporate Fund revenue will decrease by 5.7%, or $18.0 million, from $314.9 million in FY2010 to $296.9 million in FY2014. Total resources will increase by 7.2%, or $26.4 million. During this five-year period, the property tax levy allocated to the Corporate Fund will decrease by $9.9 million, or 4.2%. Appropriated net assets will increase from $52.7 million in FY2010 to $97.2 million in FY2014, an increase of $44.4 million, or 84.2%.

Over the five-year period, user charges will fluctuate significantly. The changes can be attributed to a decrease in the operations, maintenance and replacement factor of the user charge rate calculation and also unprecedented increases in assessed user charges due to high Lake Michigan turbidity in 2012 that did not recur.[36]

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[32] MWRD FY2014 Executive Director's Recommendations, p. 85.
[33] MWRD FY2014 Executive Director's Recommendations, p. 72.
[34] MWRD FY2014 Executive Director's Recommendations, p. 85.
[35] Information provided by the MWRD, November 24, 2010.
[36] Information provided by the MWRD, December 10, 2012.

MWRD Corporate Fund Resources: FY2010-FY2014 (in $ thousands)									
Resource	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Amended	FY2014 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Property Taxes (net)	$231,800	$239,803	$ 228,891	$ 216,257	$221,950	$ 5,694	2.6%	$ (9,850)	-4.2%
User Charges	$ 48,367	$ 48,314	$ 77,638	$ 50,000	$ 40,000	$ (10,000)	-20.0%	$ (8,367)	-17.3%
PPRT	$ 17,044	$ 22,649	$ 26,215	$ 23,832	$ 18,608	$ (5,223)	-21.9%	$ 1,564	9.2%
Property & Service Charges	$ 13,120	$ 15,210	$ 13,465	$ 14,302	$ 14,802	$ 500	3.5%	$ 1,682	12.8%
Investment Income	$ 1,084	$ 2,359	$ 2,538	$ 3,300	$ 2,300	$ (1,000)	-30.3%	$ 1,216	112.2%
Other	$ 8,025	$ 22,287	$ 12,555	$ 3,567	$ 3,567	$ -	0.0%	$ (4,458)	-55.6%
Equity Transfer	$ -	$ 8,000	$ -	$ -	$ -	$ -	-	$ -	-
Working Cash Borrowings Adjustment	$ (4,544)	$ (4,851)	$ (4,906)	$ (4,588)	$ (4,358)	$ 230	-5.0%	$ 186	-4.1%
Total Revenues	$314,895	$353,770	$ 356,396	$ 306,669	$296,869	$ (9,800)	-3.2%	$ (18,026)	-5.7%
Net Assets Appropriable	$ 43,153	$ 72,251	$ 132,025	$ 184,798	$151,604	$ (33,195)	-18.0%	$ 108,451	251.3%
Adjustments for Receipts	$ 9,596	$ (2,270)	$ 1,707	$ -	$ -	$ 53,434	-49.5%	$ (64,022)	-667.1%
Budget Reserve	$ -	$ -	$ -	$ (107,859)	$ (54,426)	$ 20,239	26.3%	$ 97,178	-
Subtotal - Appropriated Net Assets	**$ 52,749**	**$ 69,981**	**$ 133,732**	**$ 76,939**	**$ 97,178**	$ 20,239	26.3%	$ 44,429	84.2%
Total Resources	$367,644	$423,751	$ 490,128	$ 383,608	$394,047	$ 10,439	2.7%	$ 26,403	7.2%

Note: Other includes TIF Differential Fee and Impact Fee and Miscellaneous. Difference may occur due to rounding.

Source: MWRD FY2012 Executive Director's Recommendations, p. 72; FY2013, p. 76; FY2014, p. 78; FY2013 Final Budget (Amended December 20, 2012), p. 78; and FY2014 Tentative Budget, p. 13.

Property Tax Levy

In FY2014 the MWRD's total property tax levy will increase by 5.2%, or $26.5 million, to $540.3 million from the FY2013 amended budget.[37] Figures for the property tax levy include a budgeted loss of 3.5% to reflect loss in collections, Property Tax Appeals Board (PTAB) decisions, Circuit Court decisions and other tax refunds.[38] Of the $540.3 million, 55.7%, or $300.9 million, will be levied for funds that are subject to the property tax extension limitation law (PTELL) or "tax cap," which limits total annual increases to 5.0% or the rate of inflation, whichever is less. This portion of the levy will increase by 2.6%, or $7.6 million, from FY2013 though the distributions of the property tax revenues will be significantly different.

The Corporate Fund and Construction Fund will receive $5.9 million, or 2.6%, and $6.3 million, or 57.0%, more in property tax revenues, respectively. The increase in the Corporate Fund levy is due in part to the planned implementation of the Community Flood Program, which is designed to provide direct financial assistance to communities for flood-related problems. The Construction Fund levy is increasing to pay for pay-as-you-go capital projects at the District's plants.[39] Property tax revenues for the Retirement Fund and Reserve Claim Fund will decline by $1.1 million, or 2.1%, and $3.5 million, or 53.8%, respectively. The decrease in the Retirement Fund reflects the statutory formula that ties employer pension contributions to employee pension contributions made two years prior. The Reserve Claim Fund levy will be reduced partly because of falling equalized assessed value (EAV) of property within the District and partly to keep the extension within the statutory limit under PTELL.[40]

The remaining 44.3%, or $239.3 million, of the total levy is for the Bond and Interest and Stormwater Management Funds, which are not subject to tax caps.[41] The FY2014 Stormwater Management levy will increase by $1.0 million, or 5.0%, while the Bond and Interest levy, reserved for debt service, will increase by $17.9 million, or 8.9%.

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[37] The FY2014 levy is for tax year 2014, which will be collected in 2015.
[38] MWRD FY2014 Executive Director's Recommendations, pp. 19 and 25.
[39] Information provided by the MWRD, December 6, 2013.
[40] Information provided by the MWRD, December 6, 2013.
[41] The November 2004 passage of Public Act 93-1049 authorizes the MWRD to levy an additional $50 million in non-capped funds for stormwater management in Cook County.

Over the past five years, the portions of property tax revenues allocated to funds subject to PTELL have fluctuated. Property tax revenues for the Retirement Fund increased significantly from $26.5 million in FY2010 to $51.6 million in FY2013 and decreased slightly to $50.5 million in FY2014. The increase for the Retirement Fund is the result of a change in the pension multiplier from 2.19 to 4.19 with the implementation of Public Act 97-0894. The bill changed the calculation of the tax levy so that the levy would be based on the Fund's actuarially determined contribution requirement not to exceed an amount equal to employee contributions two years prior multiplied by 4.19.[42]

MWRD Property Tax Levy: FY2010-FY2014
(in $ thousands)

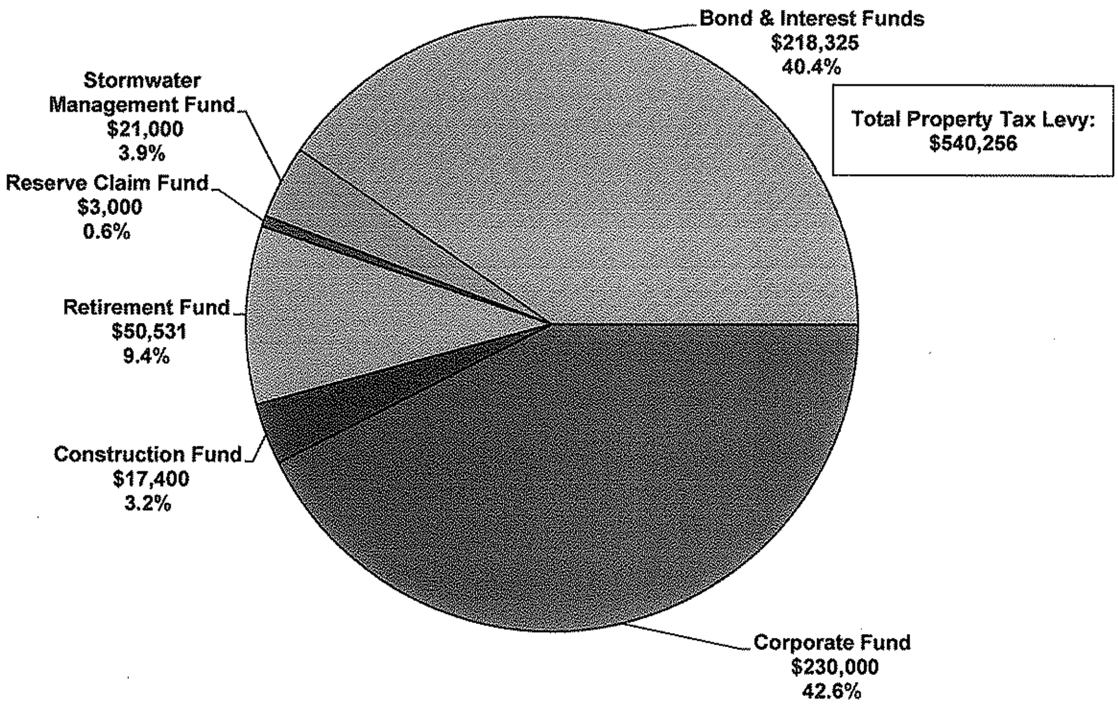
	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Amended	FY2014 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 240,059	$ 249,828	$ 237,248	$ 224,100	$ 230,000	$ 5,900	2.6%	$ (10,059)	-4.2%
Construction Fund	$ 8,749	$ 1,819	$ 20,418	$ 11,079	$ 17,400	$ 6,321	57.0%	$ 8,651	98.9%
Retirement Fund	$ 26,478	$ 28,163	$ 28,490	$ 51,621	$ 50,531	$ (1,090)	-2.1%	$ 24,053	90.8%
Reserve Claim Fund	$ 1,951	$ 3,400	$ 6,670	$ 6,500	$ 3,000	$ (3,500)	-53.8%	$ 1,049	53.8%
Subtotal Tax Capped Funds	$ 277,237	$ 283,210	$ 292,825	$ 293,300	$ 300,931	$ 7,631	2.6%	$ 23,694	8.5%
Stormwater Management Fund	$ 24,029	$ 24,100	$ 20,000	$ 20,000	$ 21,000	$ 1,000	5.0%	$ (3,029)	-12.6%
Bond & Interest Funds	$ 156,090	$ 169,646	$ 180,748	$ 200,443	$ 218,325	$ 17,882	8.9%	$ 62,235	39.9%
Total	$ 457,356	$ 476,955	$ 493,573	$ 513,743	$ 540,256	$ 26,513	5.2%	$ 82,900	18.1%

Source: MWRD FY2012 Final Budget, p. 40; FY2013 Final Budget, p. 46; and FY2014 Executive Director's Recommendations p. 44.

[42] MWRD FY2013 Executive Director's Recommendations, p. 538.

The next exhibit shows the distribution of property tax dollars among the MWRD's various funds in FY2014. Together the Corporate Fund and Bond and Interest Funds will consume 83.0% of the District's total levy.

MWRD Proposed Property Tax Levy By Fund: FY2014
(in $ thousands)



Source: MWRD FY2014 Executive Director's Recommendations, p. 44.

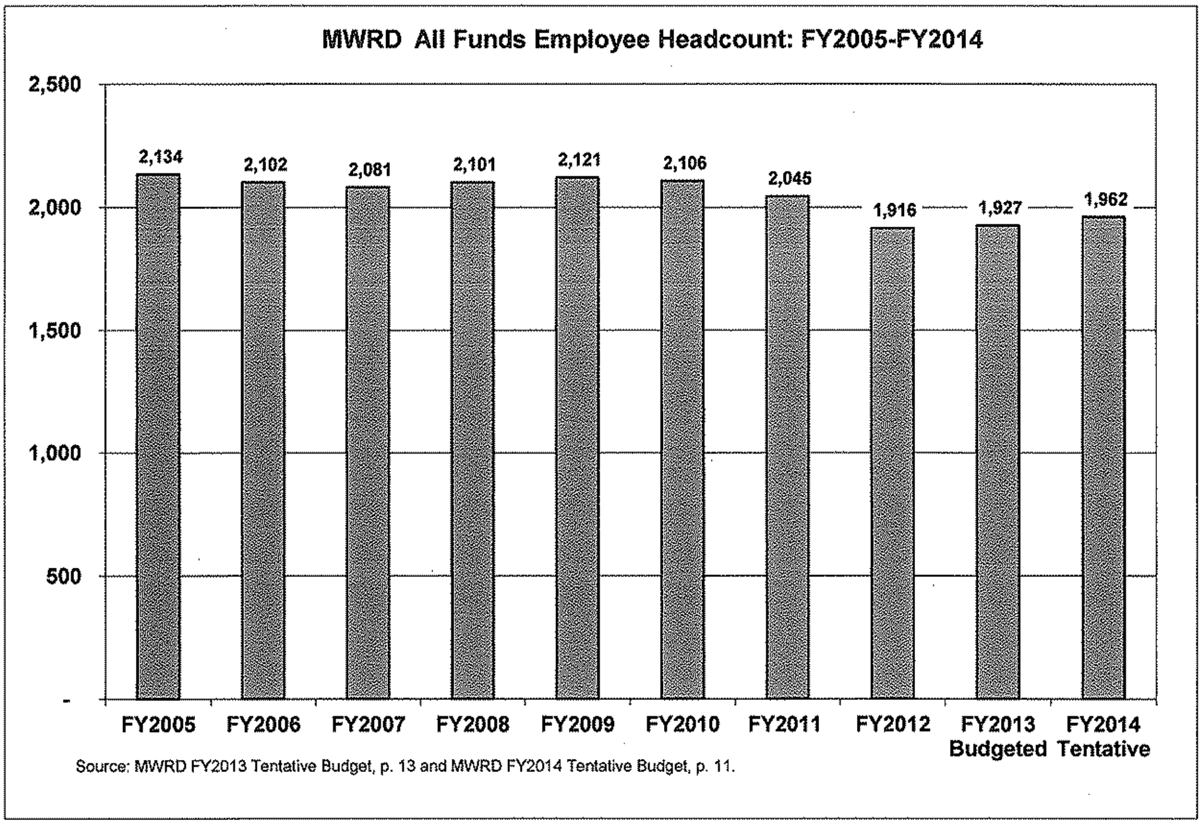
The MWRD Board of Commissioners has a policy of adopting aggregate tax levies that do not increase by more than 5.0% over the prior year (excluding the Stormwater Management Fund). There is also a policy that when investment income in the Bond and Interest Funds exceeds the amount necessary for paying the principal and interest over the next twelve months, the Bond and Interest property tax levy is abated.[43]

PERSONNEL

The Metropolitan Water Reclamation District reports its workforce by positions or headcount, which represents the total number of individual employees including full-time, part-time and intern employees. Full-time equivalent (FTE) positions, which are reported by many other local governments including the City of Chicago, reflect the total hours worked by all employees as a factor of full-time employment. Generally, it is useful to examine FTE data, as opposed to headcount data because it helps to make varying workloads within the organization more comparable.

[43] MWRD FY2014 Executive Director's Recommendations, p. 27.

The number of positions for all funds at the District is projected to increase by 35 positions to 1,962 positions in FY2014. This is a 1.8% increase from 1,927 positions budgeted in FY2013. The increase includes 12 interns and 14 positions to support stormwater management initiatives.[44] Since FY2005 the District has cut its workforce by 8.1%, or 172 positions.



Approximately 96.8% of District employees are funded with Corporate Fund dollars. Between FY2013 and FY2014 the number of Corporate Fund positions will increase by 1.1%, or 21 positions.

[44] MWRD FY2014 Executive Director's Recommendations, p. 13.

Since FY2010 Corporate Fund positions will increase by 4.2%, or 77 positions. The overall increase is due to a shift in funding of some positions, including salary and benefit expenses, from the Construction Fund and Capital Improvements Bond Fund to the Corporate Fund that occurred in FY2013. The change brought approximately 21 Construction and 196 Capital Improvements Bond positions to the Engineering departments funded by the Corporate Fund.[45] Over the five-year period beginning FY2010, other departmental positions funded by the Corporate Fund have mostly declined. After modest growth to staff Master Plans[46] and new initiatives in FY2008 and FY2009, personnel reductions in FY2010 mark the beginning of a five-year plan to reduce staffing levels due to revenue constraints.[47] Significant staffing reductions in FY2011 and FY2012 were part of the five-year plan aimed at restructuring the District to ensure financial stability going forward.[48]

MWRD All Funds Employee Headcount: FY2010-FY2014									
	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Budgeted	FY2014 Tentative	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Corporate Fund									
Maintenance & Operations	1,046	1,024	942	947	951	4	0.4%	-95	-9.1%
Monitoring & Research	306	299	280	286	288	2	0.7%	-18	-5.9%
General Administration	123	123	112	109	113	4	3.7%	-10	-8.1%
Procurement & Materials	70	67	62	62	62	0	0.0%	-8	-11.4%
Information Technology	71	69	69	70	70	0	0.0%	-1	-1.4%
Human Resources	60	59	57	58	72	14	24.1%	12	20.0%
Law	40	37	37	38	36	-2	-5.3%	-4	-10.0%
Board of Commissioners	41	38	35	37	37	0	0.0%	-4	-9.8%
Finance	31	31	29	29	29	0	0.0%	-2	-6.5%
Engineering (Corporate Fund)	34	29	28	242	241	-1	-0.4%	207	608.8%
Total Corporate Fund	**1,822**	**1,776**	**1,651**	**1,878**	**1,899**	**21**	**1.1%**	**77**	**4.2%**
Construction Fund	45	25	21	0	0	0	-	-45	-100.0%
Captal Improvements Bond Fund	189	201	196	0	0	0	-	-189	-100.0%
Stormwater Management Fund	50	43	48	49	63	14	28.6%	13	26.0%
Total	2,106	2,045	1,916	1,927	1,962	35	1.8%	-144	-6.8%

Source: MWRD FY2012 Tentative Budget, p. 9; FY2013, p. 13; and FY2014, p. 11.

Personal Services Appropriations

The summary of personal services appropriations for all funds is not available in the FY2014 Tentative Budget. The exhibit below shows the FY2014 appropriations as proposed in the Executive Director's Recommendations compared with the adjusted personal services appropriations for FY2013 and actual appropriations for FY2010 through FY2012. The following figures therefore do not reflect the same headcount for FY2013 and FY2014 as the above exhibits or the rest of the analysis.

The proposed appropriation for regular employee salaries, which constitutes 58.8% of all personal services appropriations, will increase by 4.9%, or $8.2 million, to $176.1 million in

[45] The Executive Director's budget proposed three additional positions to be transferred to the Corporate Fund; however the Tentative Budget did not include the details of the change in positions. See MWRD Executive Director's Budget Recommendations, p. 322.
[46] The District developed Master Plans to study and review engineering infrastructure and the treatment processes at its plants to identify efficiencies in manpower and energy and to reduce maintenance costs. See the MWRD FY2008 General Superintendent's Recommendations, p. 5.
[47] MWRD FY2012 Executive Director's Recommendations, p. 51.
[48] MWRD FY2014 Executive Director's Recommendations, p. 57.

FY2014. Since FY2010 salaries have increased by 2.0%, or $3.4 million. The fluctuations reflect the staffing adjustments noted above, with declines in FY2011 and FY2012 and moderate growth in FY2013 and FY2014. Contractual services will decline by $3.7 million, or 8.2%, over the five-year period.

MWRD All Funds Personal Services Appropriations: FY2010-FY2014 (in $ thousands)

	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Adjusted	FY2014 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries of Regular Employees*	$ 172,721	$ 162,780	$ 159,769	$ 167,929	$ 176,109	$ 8,181	4.9%	$ 3,389	2.0%
Contractual Services	$ 45,231	$ 33,573	$ 32,873	$ 42,677	$ 41,513	$ (1,164)	-2.7%	$ (3,718)	-8.2%
Health & Life Insurance Premiums**	$ 40,966	$ 41,570	$ 57,328	$ 60,065	$ 60,197	$ 131	0.2%	$ 19,231	46.9%
Employee Claims	$ 5,845	$ 4,645	$ 4,744	$ 10,100	$ 10,100	$ -	0.0%	$ 4,255	72.8%
Compensation Plan Adjustments	$ 8,448	$ 6,258	$ 6,027	$ 6,843	$ 7,378	$ 535	7.8%	$ (1,070)	-12.7%
Other Employee Personal Services***	$ 999	$ 654	$ 633	$ 1,580	$ 1,788	$ 208	13.2%	$ 789	79.0%
Social Security & Medicare Contributions	$ 2,274	$ 2,250	$ 2,223	$ 2,425	$ 2,425	$ -	0.0%	$ 151	6.7%
Total	$ 276,483	$ 251,729	$ 263,597	$ 291,619	$ 299,510	$ 7,891	2.7%	$ 23,028	8.3%

* Includes FY2014 Salary Adjustments

** Includes OPEB distribution

*** Includes Tuition, Training, Nonbudgeted Salaries, and Relief Workers

Note: The summary of personal services appropriations for all funds is not available in the FY2014 Tentative Budget.

Source: MWRD FY2012 Final Budget, p. 53; FY2014 Executive Director's Recommendations, p. 57.

The exhibit below compares actual personal services appropriations from FY2010 through FY2012 with FY2013 adjusted appropriations and FY2014 Tentative Budget appropriations by fund and by department. The analysis of personal services appropriations by department includes adjustments that carry forward the open value of contracts from the prior year. As such, the total appropriations for FY2013 and FY2014 may differ from the summary above.

The total appropriation for personal services district-wide will decrease by $47.7 million, or 13.7%, from FY2013 adjusted budget figures. Since FY2010, appropriations have increased by $23.9 million, or 8.7%. Corporate Fund personal services appropriations will grow by $9.6 million to $252.7 million, as proposed in FY2014. This reflects a 4.0% increase over FY2013 and a 22.7% increase since FY2010. The five-year growth is largely driven by 700.9%, or $23.8 million, increase in the Corporate Fund's Engineering department. This is due to the FY2013 transfer of positions from the Construction and Capital Improvement Bonds Funds to the Corporate Fund, which also transferred personnel-related costs such as healthcare.[49] In addition, the Human Resources department will increase by 51.7%, or $24.0 million, since FY2010. The increase can be attributed to the implementation of a retiree healthcare funding strategy in FY2012 in which the District appropriated an additional $9.1 million to the other post-employment benefits (OPEB) Trust.[50]

MWRD All Funds Personal Service Appropriations by Department: FY2010-FY2014 (in $ thousands)

	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Adjusted	FY2014 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund									
Maintenance & Operations	$ 91,223	$ 85,963	$ 82,348	$ 84,491	$ 88,454	$ 3,963	4.7%	$ (2,769)	-3.0%
Monitoring & Research	$ 25,498	$ 22,680	$ 22,042	$ 24,852	$ 25,232	$ 381	1.5%	$ (266)	-1.0%
General Administration	$ 10,619	$ 10,491	$ 9,870	$ 10,828	$ 13,381	$ 2,553	23.6%	$ 2,762	26.0%
Procurement & Materials	$ 5,265	$ 4,912	$ 4,641	$ 5,199	$ 5,211	$ 12	0.2%	$ (54)	-1.0%
Information Technology	$ 9,529	$ 7,973	$ 7,699	$ 8,943	$ 8,391	$ (552)	-6.2%	$ (1,138)	-11.9%
Human Resources	$ 46,440	$ 47,197	$ 62,565	$ 69,252	$ 70,460	$ 1,208	1.7%	$ 24,020	51.7%
Law	$ 7,381	$ 6,339	$ 5,080	$ 7,205	$ 7,058	$ (148)	-2.0%	$ (323)	-4.4%
Board of Commissioners	$ 3,587	$ 3,283	$ 3,422	$ 3,748	$ 3,877	$ 129	3.4%	$ 290	8.1%
Finance	$ 3,113	$ 2,874	$ 3,099	$ 3,390	$ 3,449	$ 59	1.7%	$ 336	10.8%
Engineering	$ 3,400	$ 2,747	$ 2,860	$ 25,210	$ 27,227	$ 2,017	8.0%	$ 23,827	700.9%
Sub-Total Corporate Fund	$ 206,055	$ 194,460	$ 203,626	$ 243,118	$ 252,739	$ 9,621	4.0%	$ 46,684	22.7%
Construction Fund	$ 7,089	$ 4,366	$ 3,525	$ 5,378	$ 8,195	$ 2,817	52.4%	$ 1,106	15.6%
Capital Improvement Bonds Fund	$ 47,744	$ 40,661	$ 41,932	$ 65,219	$ 10,850	$ (54,369)	-83.4%	$ (36,894)	-77.3%
Stormwater Fund	$ 9,861	$ 7,658	$ 9,827	$ 24,387	$ 18,633	$ (5,753)	-23.6%	$ 8,772	89.0%
Reserve Claim Fund	$ 5,733	$ 4,584	$ 4,688	$ 10,000	$ 10,000	$ -	0.0%	$ 4,267	74.4%
Total	$ 276,483	$ 251,729	$ 263,597	$ 348,101	$ 300,417	$ (47,684)	-13.7%	$ 23,934	8.7%

Source: MWRD Tentative Budget, FY2012-FY2014.

NON-APPROPRIATED CORPORATE FUND FUND BALANCE

This section reviews the MWRD's Corporate Fund fund balance according to the assets available for future use as stated in the District's adopted, or final, budget for each fiscal year. Assets available for future use are estimated for the start (January 1) of the fiscal year.[51]

The MWRD has a fund balance policy of maintaining 12-15% of appropriations, or between $47 million to $59 million, in unreserved Corporate Fund fund balance. Beginning in 2004, the District began to set aside a portion of the net assets available as a non-appropriated or unreserved fund balance that would be available for contingencies. The FY2014 budget states that over the next few years, the District intends to reduce the fund balance and then maintain it at a level equal to 12-15% of appropriations, as according to its policy.[52]

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[49] MWRD FY2014 Executive Director's Recommendations, p. 23.
[50] MWRD FY2012 Executive Director's Recommendations, pp. 179 and 181.
[51] For example, assets available for future use as found in the FY2013 Final Budget are estimated for January 1, 2013.
[52] MWRD FY2014 Executive Director's Recommendations, pp. 20 and 25.

The Government Finance Officers Association (GFOA) recommends "at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."[53] The GFOA's recommendation is a good benchmark for special-purpose governments like the MWRD. Two months of operating expenditures for the District is approximately 16.7%. The MWRD's projected FY2014 level of net assets significantly exceeds the GFOA recommendation and the District's stated goal of maintaining a reserve of 12-15% of Corporate Fund appropriations.

Between FY2009 and FY2011, the District's fund balance did not exceed 10.0% of operating expenditures, and therefore did not meet the MWRD's own standard. In FY2012 the District's Corporate Fund fund balance rose by $70.6 million from a level representative of 5.8% of operating expenditures, or $19.8 million, in FY2011 to $90.4 million, or 26.6% of operating expenditures.

In FY2013 the fund balance rose again by $94.3 million to $184.7 million, or 48.1% of operating expenditures, its highest level in the past six years. In FY2014 the Corporate Fund fund balance is estimated to drop by $33.1 million to $151.6 million, or 38.5% of operating expenditures. This projected decrease is primarily because the District proposes to transfer $30.0 million from the Corporate Fund to the District's Retirement Fund in FY2014.[54]

MWRD Corporate Fund Fund Balance: FY2009-FY2013 (in $ millions)			
	Assets Available for Future Use	Corporate Fund Appropriations	Ratio
FY2009	$ 20.8	$ 395.0	5.3%
FY2010	$ 19.0	$ 354.5	5.4%
FY2011	$ 19.8	$ 341.1	5.8%
FY2012	$ 90.4	$ 339.4	26.6%
FY2013	$ 184.7	$ 383.6	48.1%
FY2014*	$ 151.6	$ 394.0	38.5%

* Proposed Corporate Fund assets available for future use and proposed appropriations.

Sources: MWRD Adopted Budgets, FY2009-FY2013, Summaries of Net Assets Appropriable - All Funds and Comparative Statements of Appropriations and Tax Levies - All Funds; FY2014 Tentative Budget, p. 12

PENSION FUND

The Civic Federation analyzes four indicators of the fiscal health of the MWRD pension fund: funded ratios, unfunded actuarial accrued liabilities, investment rate of return and annual required employer contributions. This section presents multi-year data for those indicators and describes the MWRD pension benefits.

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[53] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).

[54] Information provided by the MWRD, December 10, 2013.

Plan Description

The Metropolitan Water Reclamation District Retirement Fund is a single employer defined benefit pension plan for employees of the MWRD and the Fund. It was created in 1931 by Illinois State statute to provide retirement, death and disability benefits to employees and their dependents.[55] Plan benefits and contribution amounts can only be amended through State legislation.[56] The MWRD is the only sanitary district in Illinois whose employees do not participate in the statewide Illinois Municipal Retirement Fund.

The MWRD pension fund is governed by a seven-member Board of Trustees. As prescribed in State statute, four members are elected by the employees and three members are appointed by the MWRD Board of Commissioners with the approval of the pension fund Board of Trustees. One of the appointed members must be a retiree.[57]

In FY2012 there were 1,856 active members of the pension fund and 2,317 beneficiaries, for a ratio of 0.80 active member for every beficiary. This ratio has fallen from 0.94 in FY2003 as the number of active members has declined and the number of beneficiaries has risen. This trend puts financial stress on the fund as there are fewer employees contributing to the fund and more annuity payments to make.

MWRD Pension Fund Membership: FY2003-FY2012

Fiscal Year	Active Employees	Beneficiaries	Ratio of Active to Beneficiary
FY2003	2,060	2,193	0.94
FY2004	2,051	2,206	0.93
FY2005	2,025	2,215	0.91
FY2006	1,995	2,248	0.89
FY2007	2,002	2,276	0.88
FY2008	2,052	2,272	0.90
FY2009	2,082	2,252	0.92
FY2010	2,024	2,248	0.90
FY2011	1,888	2,328	0.81
FY2012	1,856	2,317	0.80
Ten-Year Change	-204	124	-0.1
Ten-Year % Change	-9.9%	5.7%	-14.7%

Source: MWRD Retirement Fund Comprehensive Annual Financial Reports, FY2003-FY2012.

Pension Benefits

Public Act 96-0889, enacted in April 2010, created a new tier of benefits for many public employees hired on or after January 1, 2011, including members of the MWRD pension fund.[58]

55 MWRD Retirement Fund FY2012 Comprehensive Annual Financial Report, p. 34.
56 The MWRD pension article is 40 ILCS 5/13, but the fund is also governed by other parts of the pension code, such as 40 ILCS 5/1-160 which defines the changes to benefits for new employees hired on or after January 1, 2011 enacted in Public Act 96-0889.
57 MWRD Retirement Fund FY2012 Comprehensive Annual Financial Report, p. 34.
58 A "trailer bill" to correct technical problems with Public Act 96-0889 was enacted in December 2010 as Public Act 96-1490.

This report will refer to "Tier 1 employees" as those persons hired before the effective date of Public Act 96-0889 and "Tier 2 employees" as those persons hired on or after January 1, 2011.

Over time these benefit changes will slowly reduce liabilities from what they would have been as new employees are hired and fewer members remain in the old benefit tier. However, this change did not affect MWRD pension contributions under the state statute at the time requiring MWRD contributions to be a fixed multiple of 2.19 times employee contributions made two years prior. The next section discusses changes made to employer and employee contributions by Public Act 97-0894.

Tier 1 employees are eligible for full retirement benefits once they reach age 60 and have at least five years of employment at the District or age 55 with 30 years of service. The amount of retirement annuity is 2.2% of final average salary multiplied by years of service for the first 20 years of service and 2.4% for each year in excess of 20. Final average salary is the highest average annual salary for any 52 consecutive bi-weekly pay periods (i.e., roughly two years) within the last ten years of service. The maximum annuity amount is 80% of final average salary. For example, a 60 year-old employee with 22 years of service and a $113,000 final average salary could retire with a $55,144 annuity: (20 x $113,000 x 2.2%) + (2 x $113,000 x 2.4%)= $55,144.[59] The annuity increases every year by an automatic 3.0% adjustment compounded. Employees with ten years of service may retire as young as age 55 but their benefit is reduced by 0.5% for each month they are under age 60 or their years of service are less than 30. There is also an enhanced annuity formula with additional contributions available to MWRD Commissioners.[60]

[59] The average age at time of retirement in 2012 was 61.7 years and the average years of service were 21.5 years. The average final average salary for persons retiring in 2012 with 20-25 years of service was $113,244. MWRD Retirement Fund FY2012 Comprehensive Annual Financial Report, pp. 101 and 102.
[60] See 40 ILCS 5/13-314 and MWRD Retirement Fund FY2012 Comprehensive Annual Financial Report, p. 85.

The following table compares Tier 1 benefits to Tier 2 benefits enacted in Public Act 96-0889. The major changes are the increase in full retirement age from 60 to 67 and early retirement age from 55 to 62; the reduction of final average salary from the highest two-year average to the highest eight-year average; the $106,800 cap on final average salary; and the reduction of the automatic increase from 3% compounded to the lesser of 3% or one half of the increase in Consumer Price Index (CPI) calculated as simple interest.

Major MWRD Pension Benefit Provisions		
	Tier 1 Employees (hired before 1/1/2011)	**Tier 2 Employees (hired on or after 1/1/2011)**
Full Retirement Eligibility: Age & Service	age 60 with 5 years of service or age 55 with 30 years of service (age 50 for persons hired before June 13, 1997)	age 67 with 10 years of service
Early Retirement Eligibility: Age & Service	age 55 with 10 years of service (age 50 for persons hired before June 13, 1997)	age 62 with 10 years of service
Final Average Salary	highest average annual salary for any 52 consecutive bi-weekly pay periods within the last 10 years of service	highest average monthly salary for any 96 consecutive months within the last 10 years of service; capped at $106,800*
Annuity Formula**	2.2% of final average salary for each of the first 20 years of service, 2.4% for each year in excess of 20	
Early Retirement Formula Reduction	0.5% per month under age 60 or less than 30 years of service, whichever yields less	0.5% per month under age 67
Maximum Annuity	80% of final average salary	
Automatic Annual Increase on Retiree or Surviving Spouse Annuity	3% compounded; begins at first anniversary of retirement	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 67 or the first anniversary of retirement

*The $106,800 maximum final average salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U during the preceding 12-month calendar year.

**There is also an enhanced annuity available to District Commissioners. See MWRD Retirement Fund FY2012 Comprehensive Annual Financial Report, p. 37.

Note: New Hires are prohibited from simultaneously receiving a salary and a pension from any public employers covered by the State Pension Code ("double-dipping").

Sources: MWRD Retirement Fund FY2012 Comprehensive Annual Financial Report, pp. 85-89 and Public Acts 96-0889 and 96-1490.

Members of the MWRD pension fund do not participate in the federal Social Security program so they are not eligible for Social Security benefits related to their District employment when they retire.

Pension Contributions

Public Act 97-0894, enacted in August 2012, increases the contributions to the pension fund by Tier 1 employees hired before January 1, 2011 and the employer contribution made by the District starting January 1, 2013.

In fall of 2011, the MWRD Retirement Fund Board of Trustees proposed the pension funding reforms with support from the Board of Commissioners. The changes were introduced in the Illinois General Assembly as House Bill 4513 by Representative Elaine Nekritz in January 2012, passed the Illinois House in March 2012 and the Senate on May 31, 2012 and was signed into law by Governor Pat Quinn in August 2012.

The first funding reform increases employee pension contributions for members who first became participants in the MWRD or a reciprocal fund before January 1, 2011. As noted in the previous section, pension benefits are more generous for members of this group, known as "Tier 1," so they are required to pay increased contributions, while Tier 2 members, who have lesser benefit levels, will not provide increased contributions.

As shown in the following table, the increases will be phased in over three years starting January 1, 2013. Increased contribution levels for Tier 1 members apply to the portion of the employee contribution related to the retirement annuity itself, to the annual increase (sometimes called the cost-of-living increase, or "COLA") and the surviving spouse annuity. The first pay period after the Retirement Fund reaches a 90% funded ratio, employee contributions will return to their pre-2013 levels.

The MWRD estimates that the one percentage point increase in employee contributions in FY2014 will increase funding to the pensions by approximately $2.2 million.[61]

Employee Contributions to the MWRD Pension Fund		
	Tier 1 Employees (hired before 1/1/2011)	**Tier 2 Employees (hired on or after 1/1/2011)**
Before January 1, 2013		
Retirement Annuity	7.0%	7.0%
Annual Increase	0.5%	0.5%
Surviving Spouse Annuity	1.5%	1.5%
Total	**9.0%**	**9.0%**
January 1, 2013		
Retirement Annuity	7.5%	7.0%
Annual Increase	1.0%	0.5%
Surviving Spouse Annuity	1.5%	1.5%
Total	**10.0%**	**9.0%**
January 1, 2014		
Retirement Annuity	8.0%	7.0%
Annual Increase	1.5%	0.5%
Surviving Spouse Annuity	1.5%	1.5%
Total	**11.0%**	**9.0%**
January 1, 2015		
Retirement Annuity	8.5%	7.0%
Annual Increase	1.5%	0.5%
Surviving Spouse Annuity	2.0%	1.5%
Total	**12.0%**	**9.0%**
First Pay Period After Fund Reaches 90%		
Retirement Annuity	7.0%	7.0%
Annual Increase	0.5%	0.5%
Surviving Spouse Annuity	1.5%	1.5%
Total	**9.0%**	**9.0%**

Source: Public Act 97-0894.

The second funding reform in P.A. 97-0894 increases the District's contribution to the pension fund. The District's contribution prior to fiscal year 2013 was set in state statute as a multiple of

[61] Information provided by MWRD, December 6, 2013.

the total employee contribution made two years previously. The statute required that the MWRD levy a property tax not to exceed 2.19 times what employees contributed two years prior.[62] This multiple was not automatically adjusted to meet the funding needs of the pension plans. Over the past ten years, insufficient employer contributions are responsible for $298.7 million to the nearly $1.1 billion unfunded liability.[63]

Under the revised MWRD pension statute, the District will be required to increase its tax levy multiple to an amount calculated by the actuary to be sufficient to bring the total assets of the MWRD Retirement Fund up to 90% of the total actuarial liabilities of the Fund in 2050. Beginning with the 2013 tax levy (payable in 2014), and each year thereafter, the MWRD shall levy a tax annually which will be sufficient to meet the annual required contribution by the Fund, but shall not exceed an amount equal to the total employee contributions two years prior multiplied by 4.19. That is, the MWRD will be required to fund its pensions at a level consistent with their actuarial needs, so long as those needs do not exceed 4.19 times employee contributions two years prior. The amount the District must contribute to the fund will not decrease once the fund reaches 90% funded.

Due to timing issues with the Cook County property tax system, the MWRD will not receive the increased pension levy authorized by P.A. 97-0894 until 2014. However, the MWRD increased its FY2012 and FY2013 contributions before it was required to do so by transferring $30.0 million in interest income to the Retirement Fund appropriation, as allowed under Public Act 95-0891. The MWRD projects that for FY2014 the 4.19 multiple will be insufficient for the actuarial needs of the fund measured on an annual required contribution basis. Therefore, it will make an additional contribution beyond the multiple of what was contributed by employees two years previous in order to meet the actuarial needs of the fund. The total FY2014 employer contribution to the fund will be $75.0 million.[64] Unlike other area local governments that are not allowed to contribute more or less than the statutory multiplier to their pension funds, the MWRD is allowed to transfer interest earned on any of its moneys to its pension fund, as permitted under Public Act 95-0891.[65] In FY2013 $30.0 million was transferred from the Corporate Fund to the Retirement Fund. The District plans to transfer $12.0 million in interest income from the Bond Redemption and Interest Fund to the Retirement Fund in FY2014.[66]

Funded Ratio

This report uses two measurements of pension plan funded ratio: the actuarial value of assets measurement and the market value of assets measurement. These ratios show the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations.

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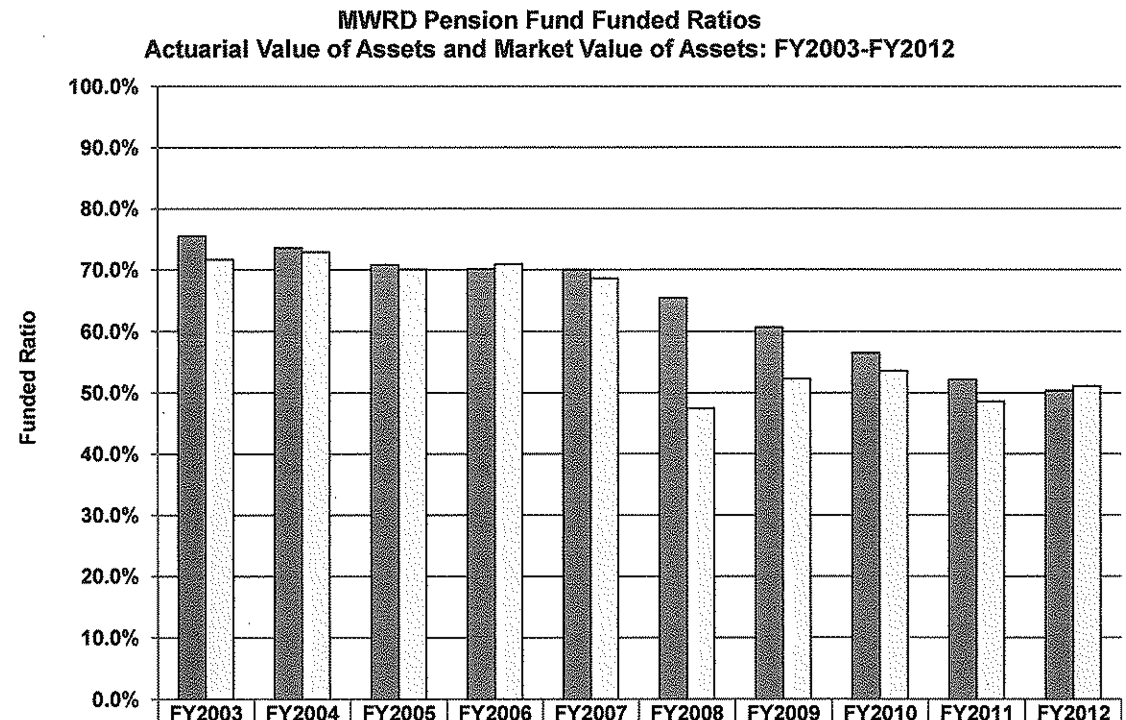
[62] 40 ILCS 5/13-503. Employee contributions to optional additional benefits made after January 1, 2003 are multiplied by 1.0.
[63] MWRD Retirement Fund FY2012 Comprehensive Annual Financial Report, p. 90.
[64] MWRD FY2013 Executive Director's Recommendations, p. 23.
[65] MWRD FY2014 Executive Director's Recommendations, p. 23.
[66] MWRD FY2014 Executive Director's Recommendations, 97.

The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses over a period of three to five years.[67] The market value of assets measurement presents the ratio of assets to liabilities by recognizing investments only at current market value. Market value funded ratios are more volatile than actuarial funded ratios due to the smoothing effect of actuarial value. However, market value funded ratios represent how much money is actually available at the time of measurement to cover actuarial accrued liabilities.

The following exhibit shows the actuarial and market value funded ratios for the MWRD's pension fund over the last ten years. The actuarial value funded ratio fell from a high of 75.5% in FY2003 to 50.4% in FY2012. The market value funded ratio fell from a high of 72.9% in FY2004 to a low of 47.4% in FY2008 before rebounding slightly to 53.6% in FY2010, dropping again to 48.6% in FY2011 and rising to 51.1% in FY2012. The sizeable difference between FY2008 actuarial and market value funded ratios is due to the fact that FY2008 investment returns were much lower than the smoothed returns over five years.

[67] For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2011*, May 21, 2013.

This continued decline in funded ratio is a cause for concern. The optimum situation for any pension fund is to be fully funded, with 100% of accrued liabilities covered by assets. There is no *official* industry standard or best practice for an acceptable funded ratio other than 100%.



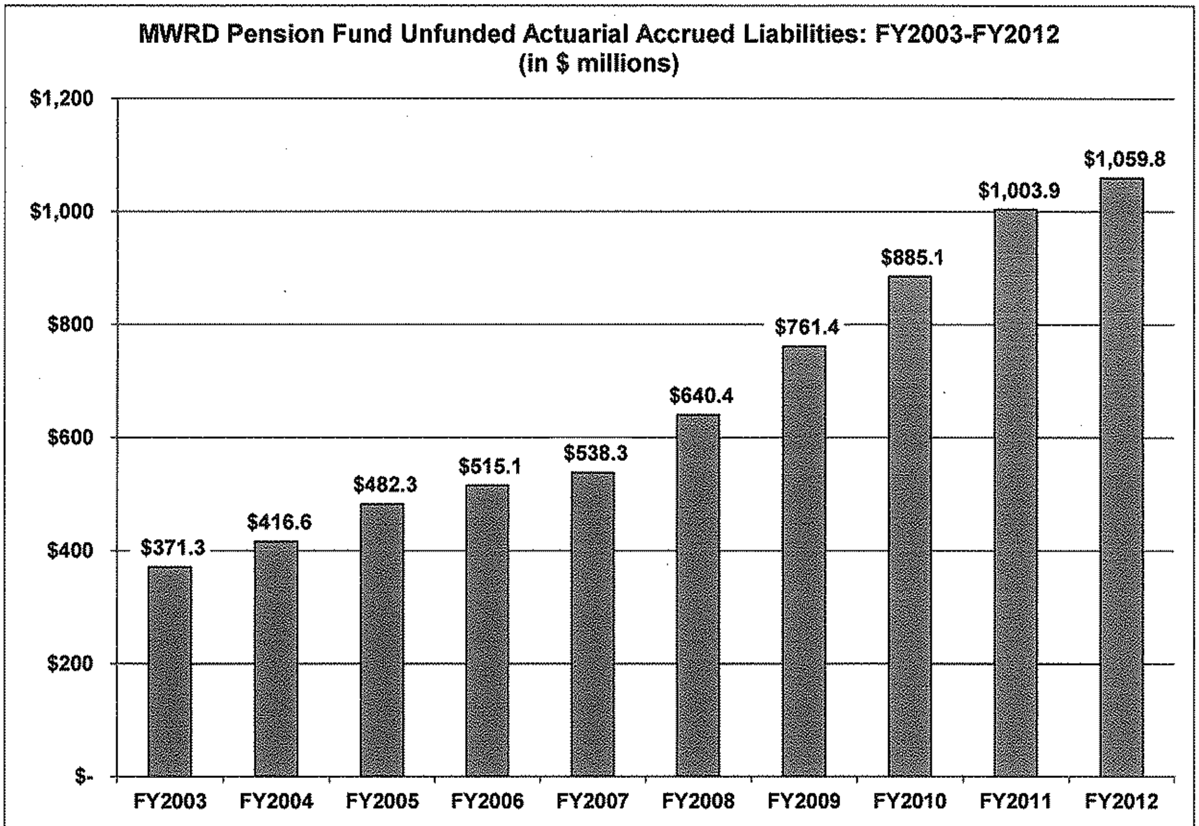
	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Actuarial Value	75.5%	73.6%	70.8%	70.1%	70.0%	65.4%	60.7%	56.5%	52.2%	50.4%
Market Value	71.7%	72.9%	70.1%	70.9%	68.6%	47.4%	52.3%	53.6%	48.6%	51.1%

Source: Civic Federation calculations based on MWRD Retirement Fund Comprehensive Annual Financial Reports, FY2003-FY2012.

Unfunded Actuarial Accrued Liability

Unfunded actuarial accrued liability (UAAL) is the dollar value of accrued liabilities not covered by the actuarial value of assets. As shown in the exhibit below, the unfunded liability for the MWRD pension fund totaled nearly $1.1 billion in FY2012, up from $371.3 million in FY2003.

The largest contributor to the growth in unfunded liabilities between FY2003 and FY2012 was investment returns failing to meet the 7.75% expected rate of return. This added $448.7 million to the UAAL. The second largest contributor was employer contributions that were $298.7 million less than the annual normal cost plus interest on the UAAL.[68]



Source: MWRD Retirement Fund Comprehensive Annual Financial Reports, FY2003-FY2012.

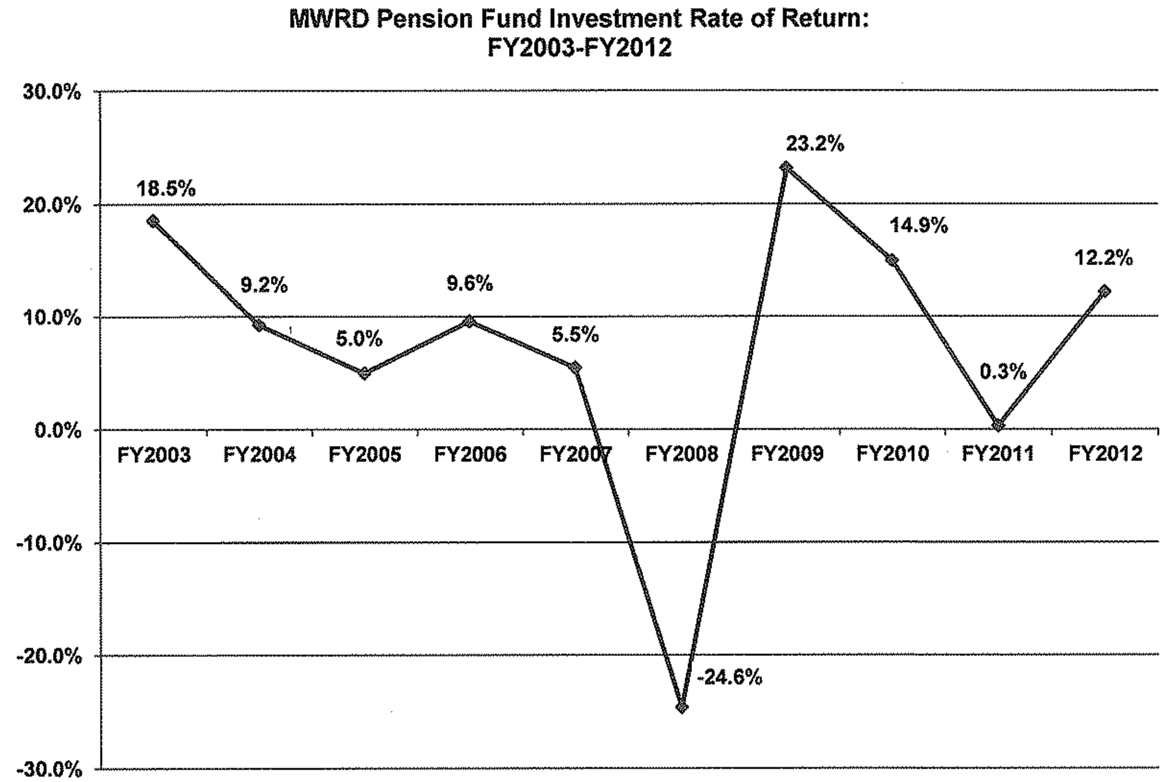
Investment Rates of Return

Investment income typically provides a significant portion of the funding for pension funds. Thus, declines over a period of time can have a negative impact on pension assets. Between FY2003 and FY2012 the MWRD pension fund's average annual rate of return was 7.4%.[69] Returns ranged from a low of -24.6% in FY2008 corresponding with the crisis in the financial markets to high of 23.2% in FY2009. Returns declined to 0.3% in FY2011, reflecting national

[68] MWRD Retirement Fund FY2012 Comprehensive Annual Financial Report, p. 90.

[69] The Civic Federation calculates investment rate of return using the following formula: Current Year Rate of Return = Current Year Gross Investment Income/ (0.5*(Previous Year Market Value of Assets + Current Year Market Value of Assets – Current Year Gross Investment Income)). This is not necessarily the formula used by the pension fund's actuary and investment managers, thus investment rates of return reported here may differ from those reported in a fund's actuarial statements. However, it is a standard actuarial formula. Gross investment income includes income from securities lending activities, net of borrower rebates. It does not subtract out related investment and securities lending fees, which are treated as expenses.

public pension fund trends of low investment returns for 2011[70] and increased to 12.2% in FY2012.



Source: Civic Federation calculation based on MWRD Retirement Fund Comprehensive Annual Financial Reports, FY2003-FY2012.

Employer Annual Required Contribution

The financial reporting requirements for public pension funds and their associated governments are set by the Governmental Accounting Standards Board (GASB). GASB standards require disclosure of an Annual Required Contribution (ARC), which is an amount equal to the sum of (1) the employer's "normal cost" of retirement benefits earned by employees in the current year and (2) the amount needed to amortize any existing unfunded accrued liability over a period of not more than 30 years.[71] Normal cost is that portion of the present value of pension plan benefits and administrative expenses which is allocated to a given valuation year and is calculated using one of six standard actuarial cost methods. Each of these methods provides a way to calculate the present value of future benefit payments owed to active employees. The methods also specify procedures for systematically allocating the present value of benefits to time periods, usually in

[70] National Association of State Retirement Administrators, "NASRA Issue Brief: Public Pension Plan Investment Return Assumptions." August 2012. According to this report, the median annualized investment returns for U.S. public pension funds in 2011 was 0.8%.

[71] The ARC reporting requirement was established by GASB Statements 25 and 27. GASB Statements 67 and 68 will end the requirement for ARC disclosure. No substitute measure of a government's annual pension funding adequacy was proposed by the GASB.

the form of the normal cost for the valuation year and the actuarial accrued liability (AAL). The actuarial accrued liability is that portion of the present value of benefits which is not covered by future normal costs.

ARC is a financial reporting requirement but not a funding requirement. The statutorily required MWRD contribution to its pension fund is set in the state pension code. However, because paying the normal cost and amortizing the unfunded liability over a period of 30 years does represent a reasonably sound funding policy, the ARC can be used as an indicator how well a public entity is actually funding its pension plan.

The following table compares the ARC to the actual MWRD contribution over the last ten years. In FY2003 the employer contribution was only slightly below the ARC, but it grew to a significant gap by FY2011. The difference between the ARC and the actual employer contribution grew from a $9.3 million shortfall in FY2003 to $32.0 million in FY2011. The difference between the ARC and the employer contribution diminished to $9.7 million in FY2012 because the MWRD made an additional contribution to the pension fund in FY2012 beyond the statutory contribution of $28.5 million by transferring nearly $30.0 million in interest income to the Retirement Fund appropriation, as allowed under Public Act 95-0891.The cumulative ten-year difference between the ARC and the actual employer contribution is $180.1 million.

Expressing ARC as a percent of payroll provides a sense of scale and affordability. In FY2003 the ARC was 26.7% of payroll while the actual employer contribution was 20.2% of payroll. In FY2012 the pension ARC was 45.7% of payroll while the actual employer contribution was 39.7% of payroll. Employees contributed 9.0% of salary to the pension fund in FY2012.

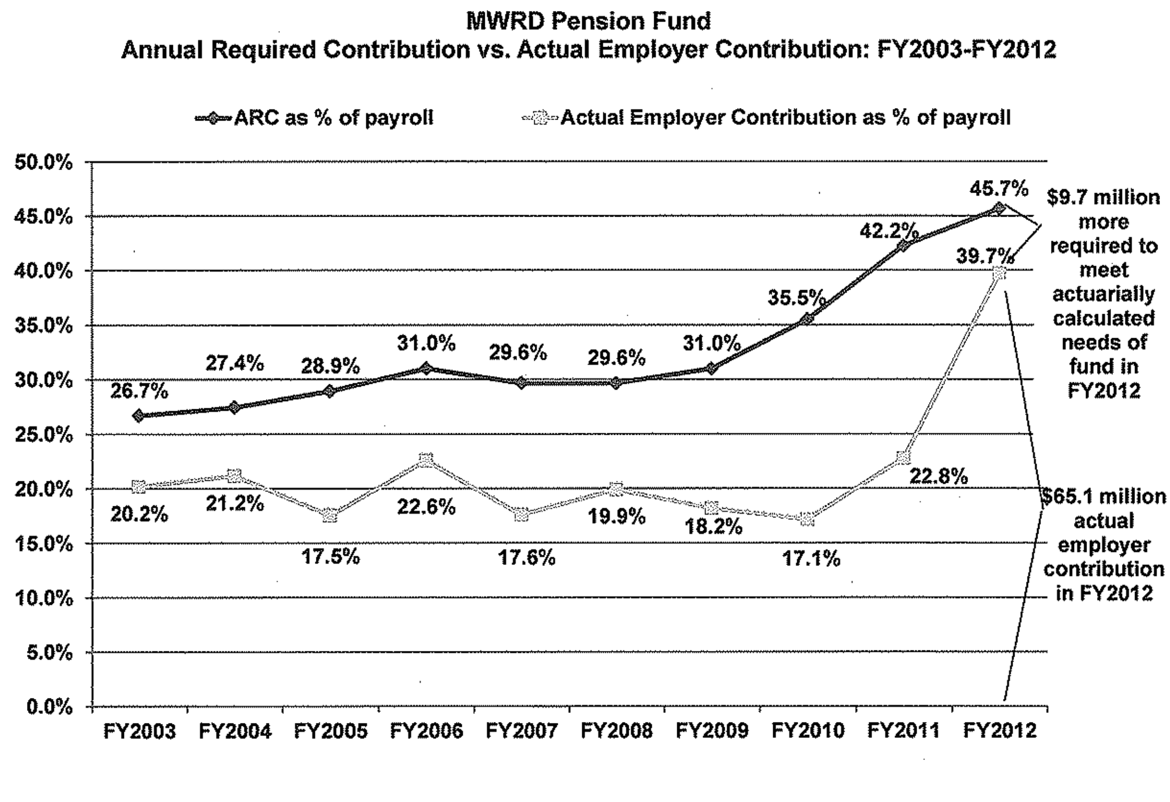
MWRD Pension Fund Schedule of Employer Contributions
As Computed for GASB Statement 25: FY2003-FY2012

Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution (2)*	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll
2003	$ 38,039,355	$ 28,778,648	$ 9,260,707	75.7%	$ 142,593,596	26.7%	20.2%
2004	$ 40,146,454	$ 30,982,232	$ 9,164,222	77.2%	$ 146,360,302	27.4%	21.2%
2005	$ 43,164,572	$ 26,174,492	$ 16,990,080	60.6%	$ 149,246,356	28.9%	17.5%
2006	$ 47,368,878	$ 34,476,332	$ 12,892,546	72.8%	$ 152,767,396	31.0%	22.6%
2007	$ 47,090,445	$ 27,947,096	$ 19,143,349	59.3%	$ 158,831,772	29.6%	17.6%
2008	$ 49,758,238	$ 33,406,819	$ 16,351,419	67.1%	$ 167,865,254	29.6%	19.9%
2009	$ 54,790,175	$ 32,153,874	$ 22,636,301	58.7%	$ 176,915,399	31.0%	18.2%
2010	$ 61,872,925	$ 29,917,793	$ 31,955,132	48.4%	$ 174,485,734	35.5%	17.1%
2011	$ 69,393,171	$ 37,379,137	$ 32,014,034	53.9%	$ 164,275,424	42.2%	22.8%
2012	$ 74,828,844	$ 65,097,835	$ 9,731,009	87.0%	$ 163,816,934	45.7%	39.7%

* A dollar amount actual employer contribution was not disclosed in the Schedule of Employer Contributions for this fund until FY2011 so the Employer Contributions listed in the Statement of Plan Net Assets for each year is used for FY2003-FY2005.

Source: MWRD Retirement Fund FY2003 Comprehensive Annual Financial Report and FY2013 Comprehensive Annual Financial Report, p. 49.

The graph below illustrates the growing gap between the ARC as a percent of payroll and the actual employer contribution as a percent of payroll. The spread between the two amounts grew from a 6.5 percentage point shortfall in FY2003 to a 19.5 percentage point shortfall in FY2011 before dropping to a 5.9% shortfall in FY2012. To fund the pension plan at a level that would both cover normal cost and amortize the unfunded liability over 30 years, the District would have needed to contribute an additional 5.9% of payroll, or $9.7 million, in FY2012.



Sources: MWRD Retirement Fund FY2006 Comprehensive Annual Financial Report, p. 29 and FY2012, p. 49.

OTHER POST EMPLOYMENT BENEFITS

On July 13, 2006 the Board of Commissioners voted to create an irrevocable trust for funding the District's future other post employment benefits (OPEB) liability. Public Act 095-394, effective August 26, 2007, granted MWRD the authority to establish the OPEB trust. The Civic Federation supported the creation of this trust fund and has urged the General Assembly to allow other governments to do the same.

Funding parameters for the Trust have been established, including:

- A 50-year period over which to reach a 50% funded ratio;
- $10 million contributions from the Corporate Fund in each year from 2007-2011;
- Subsequent funding based on a percentage of payroll; and

- An initial investment allocation of 50% equities and 50% bonds.[72]

The District made an initial 2007 contribution of $15.0 million to the OPEB trust, followed by an additional $10.0 million due to surpluses in the Human Resources Department health insurance account and a deferral of projects and purchases throughout the District. In 2008 the District contributed $22.0 million to the trust. In 2008 a state statute was also passed allowing the District to transfer into the OPEB trust any interest earned on District money.[73] No contributions were made in 2009 or 2010 due to revenue constraints. In 2011 the District contributed $3.0 million, thus meeting its goal of $50 million total contributed through 2011. The District contributed $22.0 million for FY2012.[74] The FY2013 contribution was $20.0 million and the FY2014 contribution is also $20.0 million.[75]

Employees do not contribute to the plan. According to a policy implemented by the MWRD Board of Commissioners, retiree contributions will rise by 2.5% each year until the total portion of the premium paid by retirees reaches 50%. In FY2014 the retiree contribution rate will be 32.5% and the employer contribution will be 67.5%. As of the last actuarial valuation in FY2011 there were 2,889 beneficiaries receiving health care coverage.[76]

OPEB Trust Funded Status

The OPEB actuarial valuations are required to be done every two years. The most recent valuation was as of December 31, 2011. The actuarial accrued liability computed for the MWRD OPEB trust in the 2011 valuation was $394.7 million. The trust had assets actuarially valued at $55.0 million, resulting in unfunded liabilities of $339.7 million and a 13.9% funded ratio for FY2011. The reduction in the actuarial accrued liability and unfunded accrued liability was due to the changes in the OPEB funding plan to increase retiree contributions to ultimately reach 50% of expected plan cost by 2021.

MWRD OPEB Funded Status: FY2007-FY2012 (in $ millions)						
	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Actuarial Accrued Liability	$ 442.7	$ 526.5	$ 526.5	$ 526.5	$ 394.7	$ 394.7
Actuarial Value of Assets	$ 25.0	$ 47.8	$ 47.9	$ 47.9	$ 55.0	$ 55.0
Unfunded Actuarial Accrued Liability	$ 417.7	$ 478.7	$ 478.6	$ 478.6	$ 339.7	$ 339.7
Funded Ratio	5.7%	9.1%	9.1%	9.1%	13.9%	13.9%

Source: MWRD FY2009 Comprehensive Annual Financial Report, p. 95; and FY2012, p. 86.

SHORT-TERM LIABILITIES

Short-term liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll and other current liabilities. The MWRD included the following short-term liabilities in its annual Comprehensive Annual Financial Report (CAFR) over the past five years:

[72] MWRD FY2014 Executive Director's Recommendations, p. 13.
[73] MWRD FY2009 Comprehensive Annual Financial Report, p. 41.
[74] MWRD FY2012 Comprehensive Annual Financial Report, p. 85.
[75] MWRD FY2014 Executive Director's Recommendations, p. 13.
[76] MWRD FY2012 Comprehensive Annual Financial Report, p. 85.

- *Accounts Payable*: Unpaid bills owed to vendors for goods and services carried over from the previous fiscal year;
- *Accrued Payroll*: Employee compensation and related payroll taxes and benefits that have been earned by MWRD employees, but have not yet been paid or recorded in the District's accounts;
- *Deposits Payable*: Bid deposits held by the MWRD that must be repaid within a year; and
- *Accrued Interest Payable*: Interest that is payable and has been recognized but not yet paid. This may include amounts accumulated on bonds since the last interest payment up to, but not including, the settlement date.

In FY2012 the District reported a 20.0% decrease in short-term liabilities from the FY2011 levels; they fell by $23.9 million. Most of the decrease is due to the $17.8 million, or 19.7%, decrease in accounts payable. Approximately $15.7 million of the $17.8 million decline is attributable to the Capital Improvements Bond Fund. The totals for each year include four general ledger accounts: Vouchers Payable, Accounts Payable, Unclaimed Checks and Credits, and Contract Retainage Payable. For the years 2011 and 2012, the majority of the variance is due to the timing of payments at year-end for multiple projects under construction.[77] Since FY2008 short-term liabilities overall have increased by $4.6 million, or 5.1%.

MWRD Short-Term Liabilities in the Governmental Funds: FY2008-FY2012 (in $ thousands)

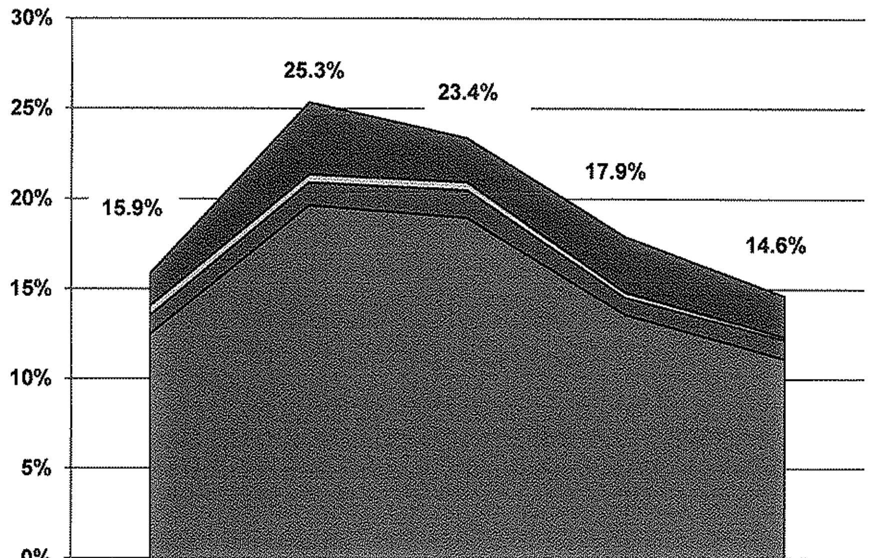
Type	FY2008	FY2009	FY2010	FY2011	FY2012	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Accounts Payable	$71,588	$108,302	$104,703	$ 90,522	$ 72,699	$ (17,823)	-19.7%	$ 1,111	1.6%
Accrued Payroll	$ 5,936	$ 6,936	$ 8,463	$ 6,350	$ 6,958	$ 608	9.6%	$ 1,022	17.2%
Deposits Payable	$ 3,035	$ 2,453	$ 2,435	$ 1,897	$ 885	$ (1,012)	-53.3%	$ (2,150)	-70.8%
Accrued Interest Payable	$10,392	$ 21,964	$ 13,468	$ 20,634	$ 15,007	$ (5,627)	-27.3%	$ 4,615	44.4%
Total	$90,951	$139,655	$129,069	$119,403	$ 95,549	$ (23,854)	-20.0%	$ 4,598	5.1%

Source: MWRD Comprehensive Annual Financial Reports, FY2008-FY2012.

[77] Information provided by the Metropolitan Water Reclamation District, December 6, 2013.

Increasing current liabilities in a government's operating funds at the end of the year as a percentage of net operating revenues may be a warning sign of possible future financial difficulties.[78] This indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. The MWRD had an increase in short-term liabilities compared to total operating revenue between FY2008 and FY2009, rising sharply from 15.9% to 25.3%. However, the ratio declined subsequently in FY2010 before falling to 14.6% by FY2012. The decreasing trend, driven in part by decreases in accounts payable, from FY2009 to FY2012 is a positive trend.

MWRD Short-Term Liabilities as % of Operating Revenues in the Governmental Funds: FY2008-FY2012



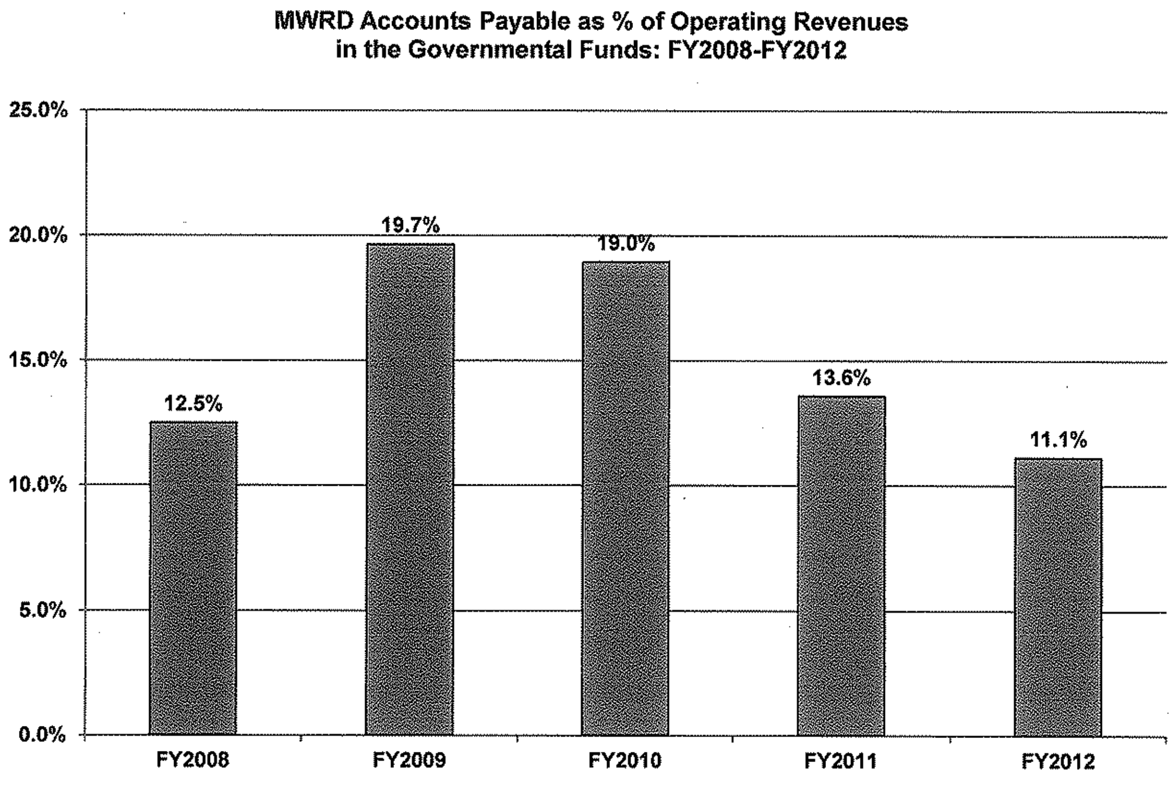
	FY2008	FY2009	FY2010	FY2011	FY2012
Accrued Interest Payable	1.8%	4.0%	2.4%	3.1%	2.3%
Deposits Payable	0.5%	0.4%	0.4%	0.3%	0.1%
Accrued Payroll	1.0%	1.3%	1.5%	1.0%	1.1%
Accounts Payable	12.5%	19.7%	19.0%	13.6%	11.1%

Source: MWRD Comprehensive Annual Financial Reports, FY2008-FY2012.

[78] Operating funds are those funds used to account for general operations – the General Fund, Special Revenue Funds and the Debt Service Fund. See Karl Nollenberger, Sanford Groves and Maureen G. Valente. *Evaluating Financial Condition: A Handbook for Local Government* (International City/County Management Association, 2003), pp. 77 and 169.

Accounts Payable

Over time, rising amounts of accounts payable passed from one year to the next may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. The District's accounts payable as a percentage of operating revenue declined from 12.5% to 11.1% over the five years of this review. Between FY2008 and FY2009, the ratio rose sharply from 12.5% to 19.7% before declining to 11.1% in FY2012. The decline is a positive trend.



Source: MWRD Comprehensive Annual Financial Reports, FY2008-FY2012.

Current Ratio

The current ratio is a measure of liquidity. It assesses whether the government has enough cash and other liquid resources to meet its short-term obligations as they come due. A ratio of 1.0 means that current assets are equal to current liabilities and are sufficient to cover obligations in the near term. Generally, a government's current ratio should be close to 2.0 or higher.[79]

In addition to the short-term liabilities listed above, the current ratio formula uses the current assets of the District, including:

[79] Steven A. Finkler. Financial Management for Public, Health and Not-for-Profit Organizations. (Upper Saddle River, NJ, 2001), p. 476.

- *Cash and cash equivalents*: Assets that are cash or can be converted into cash immediately, including petty cash, demand deposits, deposits with escrow agent and certificates of deposit;
- *Investments*: Any investments that the government has made that will expire within one year, including stocks and bonds that can be liquidated quickly;
- *Receivables*: Monetary obligations owed to the government including property taxes and interest on loans;
- *Inventory*: Materials, supplies, and repair parts which extend the life of the District's treatment facilities; and
- *Restricted cash*: Cash and investments set aside pursuant to real estate escrow and intergovernmental agreements.[80]

The MWRD's current ratio was 15.0 in FY2012, the most recent year for which data are available. In the past five years, the District's current ratio averaged 12.2, which is far above the preferred benchmark of 2.0 and thus demonstrates a healthy level of liquidity. From FY2008 to FY2012, the current ratio rose from 12.7 to 15.0, a 17.8% increase.

MWRD Current Ratio in the Governmental Funds: FY2008-FY2012
(in $ thousands)

	FY2008	FY2009	FY2010	FY2011	FY2012	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Current Assets									
Cash	$ 7,394	$ 53,366	$ 47,769	$ 28,258	$ 26,080	$ (2,178)	-7.7%	$ 18,686	252.7%
Certificates of Deposit	$ 379,472	$ 480,249	$ 103,342	$ 59,645	$ 57,211	$ (2,434)	-4.1%	$(322,261)	-84.9%
Investments	$ 304,536	$ 457,654	$ 515,121	$ 909,638	$ 803,692	$(105,946)	-11.6%	$ 499,156	163.9%
Taxes Receivable, net	$ 415,703	$ 440,473	$ 449,852	$ 467,133	$ 486,227	$ 19,094	4.1%	$ 70,524	17.0%
Other Receivables, net	$ 11,668	$ 30,671	$ 79,174	$ 55,805	$ 18,752	$ (37,053)	-66.4%	$ 7,084	60.7%
Inventories	$ 38,067	$ 38,761	$ 38,924	$ 38,922	$ 39,467	$ 545	1.4%	$ 1,400	3.7%
Restricted cash	$ 1,878	$ 1,812	$ 1,815	$ 1,967	$ 2,018	$ 51	2.6%	$ 140	7.5%
Total Current Assets	$ 1,158,718	$ 1,502,986	$ 1,235,997	$ 1,561,368	$ 1,433,447	$ (127,921)	-8.2%	$ 274,729	23.7%
Current Liabilities									
Accounts Payable	$ 71,588	$ 108,302	$ 104,703	$ 90,522	$ 72,699	$ (17,823)	-19.7%	$ 1,111	1.6%
Accrued Payroll	$ 5,936	$ 6,936	$ 8,463	$ 6,350	$ 6,958	$ 608	9.6%	$ 1,022	17.2%
Deposits Payable	$ 3,035	$ 2,453	$ 2,435	$ 1,897	$ 885	$ (1,012)	-53.3%	$ (2,150)	-70.8%
Accrued Interest Payable	$ 10,392	$ 21,964	$ 13,468	$ 20,634	$ 15,007	$ (5,627)	-27.3%	$ 4,615	44.4%
Total Current Liabilities	$ 90,951	$ 139,655	$ 129,069	$ 119,403	$ 95,549	$ (23,854)	-20.0%	$ 4,598	5.1%
Current Ratio	12.7	10.8	9.6	13.1	15.0		14.7%		17.8%

Source: MWRD Comprehensive Annual Financial Reports, FY2008-FY2012.

[80] MWRD FY2012 Comprehensive Annual Financial Report, p. 66.

LONG-TERM LIABILITIES

This section of the analysis examines trends in the MWRD's long-term liabilities. This includes a review of long-term debt trends and total long-term liability trends.

Long-Term Liabilities

Long-term liabilities are all of the obligations owed by a government. Increases in long-term liabilities over time could be a sign of fiscal stress. These liabilities include long-term debt as well as:

- *Compensated absences*: Liabilities owed for employees' time off with pay for vacations, holidays and sick days;
- *Claims and judgments*: Liabilities owed as a result of claims for tort liability and property judgments; and
- *Net Pension and OPEB Liabilities*: Net pension liabilities (NPO) are the cumulative difference (as of the effective date of GASB Statement 27) between the annual pension cost and the employer's contributions to the Plan. This includes the pension liability at transition (beginning pension liability) and excludes short term differences and unpaid contributions that have been converted to pension-related debt. Net Other Post Employment Benefit (OPEB) liabilities are the cumulative difference (as of the effective date of GASB Statement 45) between the annual OPEB (employee health insurance) cost and the employer's contributions to its OPEB Plan.

Between FY2011 and FY2012, long-term liabilities rose slightly by 0.2%, or $5.6 million. In the five-year period between FY2008 and FY2012, all long-term liabilities rose by 86.7%, rising from $1.6 billion to nearly $3.0 billion. This represented an increase of $1.4 billion.

In this same five-year period, long-term debt increased by 78.8%. This was an increase of $1.2 billion, from nearly $1.5 billion to $2.7 billion. Long-term debt was primarily general obligation debt, but also included a capital lease obligation. In FY2010 the District entered into an agreement with a contractor to design, build, finance, own and operate a 150 dry ton per day biosolids processing facility at the Stickney plant. The cost of the facility is considered a capital lease because it will become the District's property at the end of the lease term.[81] From FY2011 to FY2012, long-term debt declined slightly by 0.7%, or $18.7 million.

[81] MWRD FY2010 Comprehensive Annual Financial Report, p. 90.

Other long-term liabilities, which include claims and judgments, net pension and other post employment liabilities and compensated absences, rose by 209.1% between FY2008 and FY2012. This was a $201.6 million increase from $96.4 million to $298.0 million. About half of that increase was due to increase in net pension liabilities.

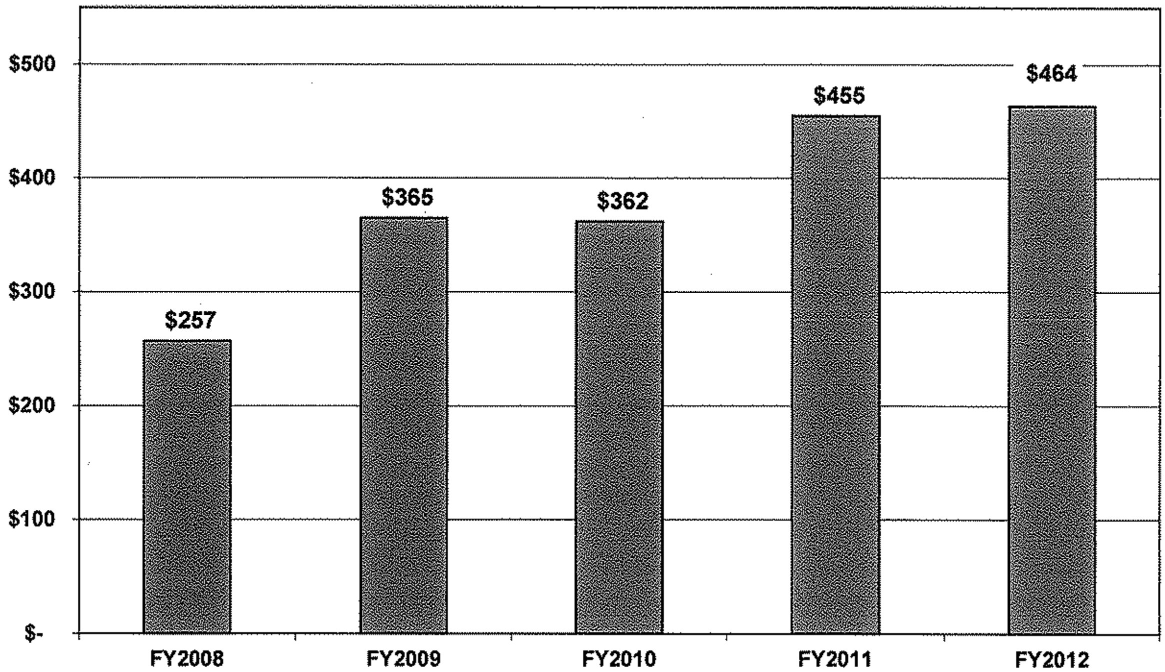
MWRD Long-Term Liabilities: FY2008-FY2012 (in $ thousands)									
Long-Term Liabilities	**FY2008**	**FY2009**	**FY2010**	**FY2011**	**FY2012**	**Two-Year $ Change**	**Two-Year % Change**	**Five-Year $ Change**	**Five-Year % Change**
General Obligation Debt	$ 1,344,043	$ 1,870,939	$ 1,811,184	$ 1,965,824	$ 1,896,371	$ (69,453)	-3.5%	$ 552,328.0	41.1%
Converted bond anticipation notes	$ 48,656	$ 108,264	$ 150,790	$ 500,640	$ 619,005	$ 118,365	23.6%	$ 570,349.0	1172.2%
Subtotal General Obligation Debt	**$ 1,392,699**	**$ 1,979,203**	**$ 1,961,974**	**$ 2,466,464**	**$ 2,515,376**	**$ 48,912**	**2.0%**	**$ 1,122,677.0**	**80.6%**
Deferred Issuance Costs	$ (1,142)	$ (6,774)	$ (6,472)	$ (8,316)	$ (7,889)	$ 427	-5.1%	$ (6,747.0)	590.8%
Deferred Premiums	$ 69,286	$ 65,409	$ 61,532	$ 94,260	$ 88,610	$ (5,650)	-6.0%	$ 19,324.0	27.9%
Refunding Transactions	$ (31,570)	$ (28,532)	$ (25,493)	$ (22,454)	$ (19,415)	$ 3,039	-13.5%	$ 12,155.0	-38.5%
Subtotal Bonds Payable, Net	**$ 1,429,273**	**$ 2,009,306**	**$ 1,991,541**	**$ 2,529,954**	**$ 2,576,682**	**$ 46,728**	1.8%	$ 1,147,409.0	80.3%
Bond Anticipation Notes	$ 64,894	$ 86,286	$ 196,225	$ 108,008	$ 44,527	$ (63,481)	-58.8%	$ (20,367.0)	-31.4%
Capital Lease	$ -	$ -	$ 53,688	$ 51,784	$ 49,837	$ (1,947)	-3.8%	$ 49,837.0	-
Subtotal Long-Term Debt	**$ 1,494,167**	**$ 2,095,592**	**$ 2,241,454**	**$ 2,689,746**	**$ 2,671,046**	**$ (18,700)**	**-0.7%**	**$ 1,176,879.0**	**78.8%**
Claims and Judgments	$ 30,813	$ 38,886	$ 41,292	$ 59,857	$ 79,597	$ 19,740	33.0%	$ 48,784	158.3%
Compensated Absences	$ 30,451	$ 31,680	$ 29,860	$ 28,784	$ 28,356	$ (428)	-1.5%	$ (2,095)	-6.9%
Net OPEB Liablity	$ 16,325	$ 41,789	$ 66,329	$ 76,580	$ 69,425	$ (7,155)	-9.3%	$ 53,100	325.3%
Net Pension Liability	$ 18,829	$ 41,889	$ 74,786	$ 108,482	$ 120,651	$ 12,169	11.2%	$ 101,822	540.8%
Subtotal Other Long-Term Liabilities	**$ 96,418**	**$ 154,244**	**$ 212,267**	**$ 273,703**	**$ 298,029**	**$ 24,326**	**8.9%**	**$ 201,611**	**209.1%**
Total Long-Term Liabilities	$ 1,590,585	$ 2,249,836	$ 2,453,721	$ 2,963,449	$ 2,969,075	$ 5,626	0.2%	$ 1,378,490	86.7%

Source: MWRD Comprehensive Annual Financial Reports, FY2008-FY2012.

General Obligation Debt Per Capita

A common ratio used by rating agencies and other public finance analysts to evaluate long-term debt trends is tax-supported general obligation debt per capita. This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements. Increases over time bear watching as a potential sign of increasing financial risk. Between FY2008 and FY2012, the MWRD's long-term General Obligation debt per capita increased from $257 to $464. This large increase bears watching in future years.

Metropolitan Water Reclamation District General Obligation Debt Per Capita: FY2008-FY2012



Source: MWRD Comprehensive Annual Financial Reports, FY2008-FY2012.

Debt Service Appropriations as a Percentage of Total Appropriations

The ratio of debt service expenditures as a percentage of total expenditures is frequently used by rating agencies to assess debt burden. The rating agencies consider a debt burden high if this ratio is between 15% and 20%.[82] The debt service to total appropriations ratio for the MWRD between FY2010 and projected FY2014 rises from 9.8% to 16.2%. While the ratio over time is high, averaging 15.1%, it is important to note that the MWRD is a government with large ongoing capital expenses due to its mission of stormwater management.

MWRD Debt Service Appropriations as a Percentage of Total Appropriations: FY2010-FY2014 (in $ millions)					
	FY2010 Actual	FY2011 Actual	FY2012 Adjusted Approp.	FY2013 Adjusted Approp.	FY2014 Proposed
Debt Service Appropriations	$162.9	$155.5	$185.9	$193.0	$194.8
Total Appropriations	$1,655.4	$1,031.7	$1,040.9	$1,155.1	$1,200.7
Debt Service as a % of Total Appropriations	9.8%	15.1%	17.9%	16.7%	16.2%

Sources: MWRD FY2011 Final Budget, p. 50; FY2012 Tentative Budget, p. 6; and FY2014 Executive Director's Budget, p. 19 (for FY2013 adjusted appropriations) and FY2014 Tentative Budget, p. 13.

BOND RATINGS

The MWRD has the following current bond ratings:

- Moody's Investor Services – Aa1 (since 2013);
- Fitch – AAA (since 2001); and
- Standard & Poor's – AAA (since 2006).[83]

In August 2013, Moody's Investor's Services downgraded their rating on MWRD general obligation unlimited and limited tax break bonds to Aa1 from Aaa, with a negative outlook. The reasons given for the downgrade were twofold:

- Concerns over the District's significant and growing unfunded pension obligations; and
- The significant debt burden and pension liabilities of the governments in the Chicagoland region that share an overlapping tax base, including the MWRD as well as the City of Chicago, the Chicago Public Schools, the Chicago Park District, Cook County and the Cook County Forest Preserve District.[84]

CAPITAL BUDGET

The MWRD annually updates and appropriates funding for projects in a five-year capital improvement program (CIP). The FY2014-FY2018 CIP proposes approximately $1.1 billion in

[82] Standard & Poor's, Public Finance Criteria 2007, p. 64. See also Moody's, General Obligation Bonds Issued by U.S. Local Governments, October 2009, p. 18.
[83] MWRD FY2014 Executive Director's Recommendations, p. 30.
[84] Moody's Investor's Services. "Rating Action: Moody's downgrades Met Water Reclamation District, IL to Aa1; outlook negative," August 27, 2013.

funding for a variety of projects. The first year of the new CIP will be the FY2014 capital budget. It is proposed to be $300.9 million.

The exhibit below shows how spending will be allocated among the different types of MWRD capital projects and how those projects will be funded. It is presented in terms of projected cash disbursements, not total project costs. The majority of spending, 51.2%, or $581.8 million, will be used for Water Reclamation and Solids Management projects. Approximately 19.1% of all capital spending, or $217.2 million, will be earmarked for Replacement of Facilities. The Tunnel and Reservoir Plan is projected to receive approximately 16.1%, or $183.5 million. About 4.2%, or $47.3 million, is reserved for Stormwater Management. Finally, 9.4%, or $106.6 million, will be used for the District's Collection Facilities.

The majority of funding for the MWRD capital program comes from capital improvement bonds, which will make up 87.4% of all funding between FY2014 and FY2018, or $992.6 million. The remaining funding will consist of pay-as-you-go funding from the Stormwater and Construction Funds.

MWRD Five-Year Capital Spending: FY2014-FY2018 - Estimated Cash Disbursements (in $ millions)							
	FY2014	FY2015	FY2016	FY2017	FY2018	Five-Year Total	% of Five-Year Total
Capital Spending by Category							
Water Reclamation & Solids Management	$ 120.1	$ 145.9	$ 114.0	$ 109.5	$ 92.3	$ 581.8	51.2%
Replacement of Facilities	$ 68.2	$ 45.3	$ 25.7	$ 44.3	$ 33.7	$ 217.2	19.1%
Collection Facilities	$ 11.0	$ 29.2	$ 30.0	$ 31.8	$ 4.6	$ 106.6	9.4%
Stormwater Management	$ 19.1	$ 6.4	$ 7.3	$ 7.3	$ 7.3	$ 47.3	4.2%
Tunnel & Reservoir Plan	$ 82.5	$ 80.8	$ 10.1	$ 5.0	$ 5.0	$ 183.5	16.1%
Total Spending	$ 300.9	$ 307.6	$ 187.1	$ 197.9	$ 142.8	$ 1,136.3	100.0%
Capital Funding Source							
Stormwater Fund	$ 19.1	$ 6.4	$ 7.3	$ 7.3	$ 7.3	$ 47.3	4.2%
Construction Fund	$ 25.5	$ 18.4	$ 18.0	$ 17.5	$ 17.0	$ 96.4	8.5%
Bond Fund	$ 256.4	$ 282.8	$ 161.8	$ 173.1	$ 118.6	$ 992.6	87.4%
Total Funding	$ 300.9	$ 307.6	$ 187.1	$ 197.9	$ 142.8	$ 1,136.3	100.0%

Source: MWRD FY2014 Executive Director's Recommendations, p. 355.

New Capital Spending Requests

The MWRD's request for new capital spending authorization for total project costs in FY2014 totals $360.8 million. This is a 3.2% increase in new capital appropriations from FY2013, when they totaled $349.7 million. The amount of proposed new capital spending for FY2014 differs from the amount proposed for FY2014 in the five-year capital budget. New capital spending pertains to total projects costs while the capital budget details what the District plans to spend each year, which does not always match the total cost of capital projects, as is the case in FY2014.

MWRD Proposed New Capital Spending: FY2013 and FY2014 (in $ thousands)

Project Type	FY2013 Adopted Budget	FY2014 Proposed Budget	$ Change	% Change
Treatment Facilities	$ 135,265	$ 127,500	$ (7,765)	-5.7%
Collection Facilities	$ 75,214	$ 63,100	$ (12,114)	-16.1%
Solids Processing & Disposal	$ 28,550	$ 32,100	$ 3,550	12.4%
Flood & Pollution Control	$ 39,300	$ 48,716	$ 9,416	24.0%
Land Cost	$ 550	$ 980	$ 430	78.2%
Project Support	$ 70,770	$ 88,387	$ 17,617	24.9%
Total	$ 349,649	$ 360,783	$ 11,134	3.2%

Sources: MWRD FY2013 Adopted Budget, p. 502 and MWRD FY2014 Executive Director's Recommendations, p. 501.

Capital Improvement Plan

According to best practices for capital budgeting, a complete capital improvement plan (CIP) includes the following elements:[85]

- A comprehensive inventory of all government-owned assets, with description of useful life and current condition;
- A narrative description of the CIP process including how criteria for projects were determined and whether materials and meetings were made available to the public;
- A five-year summary list of all projects and expenditures by project that includes funding sources per project;
- Criteria for projects to earn funding in the capital budget including a description of an objective and needs-based prioritization process;
- Publicly available list of project rankings based on the criteria and prioritization process;
- Information about the impact of capital spending on the annual operating budget of each project;
- Annual updates on actual costs and changes in scope as projects progress;
- Brief narrative descriptions of individual projects, including the purpose, need, history, and current status of each project; and
- An expected timeframe for completing each project and a plan for fulfilling overall capital priorities.

Once the CIP process is completed, the plan should be formally adopted by the governing body and integrated into its long-term financial plan. There should be opportunities for public input into the process. A well-organized and annually updated CIP helps ensure efficient and predictable execution of capital projects and helps efficiently allocate scarce resources. It is important that a capital budget prioritize and fund the most critical infrastructure needs before funding new facilities or initiatives.

The MWRD meets almost all of the best practice guidelines for a capital improvement plan. Its CIP is included in the budget and available on the District's website. The CIP includes a comprehensive list of ongoing projects and new proposed projects for the next five years, the timeframe for completing those projects and summary financial information. A narrative description is provided that briefly describes the CIP process. Projects are identified and ranked using a formal needs-based prioritization process that is, however, not described in the CIP document. Also, the prioritization process is internal and does not include input from external stakeholders.

[85] National Advisory Council on State and Local Budgeting Recommended Practice 9.10: Develop a Capital Improvement Plan, p. 34; Government Finance Officers Association, Best Practices, Development of Capital Planning Policies, October 2011.

Metropolitan Water Reclamation District Capital Improvement Program Checklist	
Does the government prepare a formal capital improvement plan?	Yes
How often is the CIP updated?	Annually
Does the capital improvement plan include:	
• *A narrative description of the CIP process?*	Yes[86]
• *A five year summary list of projects and expenditures by project as well as funding sources per project?*	Yes
• *Information about the impact and amount of capital spending on the annual operating budget for each project?*	Yes
• *Brief narrative descriptions of individual projects, including the purpose, need, history, and current status of each project?*	Yes
• *The time frame for fulfilling capital projects?*	Yes
Are projects ranked and/or selected according to a formal prioritization or needs assessment process?	Yes, but information is not provided about the prioritization methods used.
Is the capital improvement plan made publicly available for review by elected officials and citizens?	
• *Is the CIP published in the budget or a separate document?*	The CIP is included in the annual budget.
• *Is the CIP available on the Web?*	Yes, as part of the budget.
Are there opportunities for stakeholders to provide input into the CIP?	
• *Is there stakeholder participation on a CIP advisory or priority setting committee?*	No. Projects are identified based on asset management audits. Project selection and prioritization completed by internal interdepartmental review panel.[87]
• *Does the governing body hold a formal public hearing at which stakeholders may testify?*	No information in CIP
• *Is the public permitted at least ten working days to review the CIP prior to a public hearing?*	Yes, as part of the budget.
Is the CIP formally approved by the governing body of the government?	It is approved with the budget
Is the CIP integrated into a long term financial plan?	Yes
Source: MWRD FY2014 Executive Director's Recommendation, pp. 353-509.	

[86] MWRD FY2014 Executive Director's Recommendations, p. 353.
[87] MWRD FY2014 Executive Director's Recommendations, p. 353.