

The Civic Federation

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METROPOLITAN WATER RECLAMATION DISTRICT FY2011 BUDGET:

Analysis and Recommendations

December 8, 2010

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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.

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EXECUTIVE SUMMARY

The Civic Federation **supports** the Metropolitan Water Reclamation District's FY2011 Tentative Budget of nearly \$1.0 billion. The tentative budget is a \$681.1 million, or 41.1% decrease over final adjusted FY2010 appropriations. This decline is largely due to decreases in appropriations for the Construction Fund and Capital Improvements Bond Fund. The District plans to reduce Corporate Fund spending by \$14.2 million or 4.0% from FY2010 appropriations and raise the property tax levy for tax capped funds by the maximum allowable rate of 2.7%. The District plans to reduce its staffing level of 2,116 positions to 2,097 positions.

The Civic Federation offers the following **key findings** from the FY2011 Tentative Budget:

- The MWRD FY2011 Tentative Budget will total nearly \$1.0 billion and is a \$681.1 million, or 41.1% decrease over final adjusted FY2010 appropriations of \$1.7 billion;
- Corporate Fund appropriations will decrease by \$14.2 million to \$340 million in FY2011, a 4.0% decrease from FY2010 appropriations of \$354.5 million.
- The District is proposing to increase its gross property tax levy for FY2011 by 1.2%, or \$12.9 million, to \$467.6 million which includes the maximum increase allowed of 2.7%, or \$7.5 million, for tax capped funds;
- The District is reducing staffing levels by 19 FTE positions, which is a 0.9% decline from 2,116 FTE positions in FY2010 to 2,097 in FY2011.
- In FY2011 the District will set aside \$22.8 million as non-appropriated Corporate Fund balance. This amount equals 6.7% of the total FY2011 Corporate Fund appropriation of \$340.3 million;
- In FY2009 the pension fund's unfunded liabilities rose to \$761.4 million, up from \$156.8 million ten years prior in FY2000. This was a 385.4%, or \$604.5 million increase; and
- The funded ratio for pensions declined from 87.6% to 60.7% over the same ten-year period.

The Civic Federation **supports** several elements of the proposed budget including:

- Increasing non-appropriated Corporate Fund balance;
- Reducing staffing levels and controlling personnel costs;
- Utilizing and publishing long-term financial planning techniques; and
- Producing a detailed and comprehensive budget document.

However, the Civic Federation has **concerns** about the FY2011 proposed budget including:

- Maintaining a pension fund that shows signs of declining fiscal health including increasing unfunded liabilities and a declining funded ratio; and
- Increasing the FY2011 property tax levy to the maximum increase allowed for tax capped funds.

The Civic Federation offers the following **recommendations** to improve the Metropolitan Water Reclamation District's financial management:

- Implement comprehensive pension reform which would include reduced benefits for current employees if the District is unable to secure adequate funding for its current pension promises. Employer and employee contributions must relate to funded status of the plan and as the alternative, the District should consider pension fund consolidation with the Illinois Municipal Retirement Fund to effectively reform pension board governance issues and save in administrative costs;
- Contribute the Tax Increment Financing surplus expected in late 2011 to the OPEB Trust;
- Add property tax and personal services content to future budget documents; and
- Budget the Reserve Claim Fund based on anticipated expenditures.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the Metropolitan Water Reclamation District's FY2011 Tentative Budget of nearly \$1.0 billion. The budget is a \$681.1 million or 41.1% decrease from final adjusted FY2010 appropriations of \$1.7 billion. The reduction in appropriations reflects the variance that often occurs between budget years for MWRD, due in part to changes in number and scale of capital projects and the timing of funds required to complete multi-year projects.

The District proposes to reduce staff by 19 full time equivalent (FTE) positions, or 0.9%, declining from 2,116 FTEs in FY2010 to 2,097 FTEs in FY2011. Personnel appropriations will increase by \$1.9 million or 0.6% from \$332.4 million in adjusted FY2010 appropriations to \$334.3 million for FY2011.¹

In addition, the District has proposed to increase its contribution of net assets appropriable to the non-appropriated Corporate Fund balance to \$22.8 million, thus strengthening its fund balance as recommended by the Government Finance Officers Association (GFOA).

The health of the MWRD pension fund continues to decline. In FY2009, the last year for which complete data are available, MWRD's pension fund's unfunded liabilities rose to \$761.4 million, up from \$156.8 million ten years prior in FY2000. As a result of rising unfunded pension liabilities and a decline in the pension funded ratio, in FY2010 the District proposed to appoint a task force to address the pension concerns. The District was also considering contracting with a pension benefit consultant to evaluate and develop a plan to increase the funded ratio of the MWRD Retirement Fund.² However, after the enactment of Public Act 96-0889 in April 2010 which created a new tier of benefits for many public employees hired on or after January 1, 2011, the focus on pension reform shifted away from the task force and towards responding to the new statute. The Civic Federation recommends that the District pursue employer contribution, employee benefit and board governance pension reforms going forward. The Federation supported Public Act 96-0889 and we strongly urge the District to seek approval for additional reforms.

Issues the Civic Federation Supports

The Civic Federation supports the following issues contained in the MWRD FY2011 Tentative Budget.

Reducing Staffing Levels and Controlling Personnel Costs

In 1995 the District adopted an appropriation control strategy in response to the implementation of the tax cap law in Cook County. The program strategically identified vacant positions for elimination that open up each year due to retirement or other factors. The District initially set a goal of reducing its total workforce to 2,000 positions. This number was modified in subsequent

¹ MWRD FY2011 Executive Director's Recommendations, p. 61. A summary of personal service appropriations is not available in the MWRD FY2011 Tentative Budget.

² MWRD FY2010 Executive Director's Recommendations, p. 9.

years. In its FY2010 Tentative Budget, MWRD proposed to reduce the total number of positions to 2,062 positions over the next four years via attrition.³

Since FY2002 the District has reduced its FTE staffing level from 2,232 positions to 2,097 positions, a decrease of 135 FTE positions or 6.0%. The District is proposing a reduction from 2,116 in FY2010 to 2,097 in FY2011 for a decrease of 19 positions or 0.9%.

In FY2011 the District is projecting a slight increase in personal service appropriations. Between FY2010 adjusted appropriations and FY2011 recommended appropriations, District personnel expenditures will increase by \$1.9 million or 0.6% from \$332.4 million to \$334.3 million.⁴

The Civic Federation commends the District for recognizing that personnel staffing levels and associated costs must be monitored and controlled over the long-term.

Increasing Non-Appropriated Corporate Fund Balance

The Civic Federation commends MWRD for increasing its contribution to the non-appropriated Corporate Fund balance in FY2011. The District will set aside \$22.8 million, or 6.7% of the total FY2011 Corporate Fund appropriation of \$340.3 million, as non-appropriated Corporate Fund balance. This is a modest rise from the FY2010 proposed contribution of \$19.0 million, or 5.4% of the Corporate Fund appropriation. However, the amount does not satisfy the GFOA recommended goal of two months of regular general fund operating expenditures, or 16.7%, which would be \$56.8 million for FY2011. The District also falls short of its own policy to maintain \$45 million to \$55 million in non-appropriated, unreserved corporate funds.

The Federation supports the District for setting aside a greater amount of funds for contingencies in FY2011. We also encourage the District to continue to work towards meeting the GFOA's recommended goal of setting aside two months of operating expenditures and its own planning goal of reserving between \$45 million and \$55 million.

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; 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 creating a trust fund in order to begin saving for the future payment of other post employment benefits (OPEB) liabilities. The Board of Commissioners established the trust in 2007 with a policy target of reaching a 50% funded

³ MWRD FY2010 Executive Director's Recommendations, pp. 29 and 69.

⁴ MWRD FY2011 Executive Director's Recommendations, p. 61. A summary of personal service appropriations is not available in the MWRD FY2011 Tentative Budget.

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, and an additional \$10 million was added during FY2007 for a total of \$25 million in the first year. In FY2008, the District contributed \$22 million. The contributions in excess of the policy target of \$10 million were made possible by transfers of surpluses in other funds. No contributions were made in 2009 or 2010 due to revenue constraints. The District intends to contribute a minimum of \$3.0 million in 2011 with the possibility of an additional \$5.0 million depending on financial conditions.⁵ If \$8.0 million is contributed in 2011, the District will have contributed \$50.0 million in the first five years of the trust, consistent with its policy.

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

Producing a Comprehensive Budget Document

MWRD has produced a thorough, well-organized budget document. In years past the Civic Federation has made recommendations for improvements to the annual budget document and the District has responded by including additional data. Extensive narrative sections that explain financial data, diagrams explaining how to read charts included in the budget book, a detailed overview of the MWRD's functions, trend data and detailed information on departmental goals and measurable outcomes all result in a user-friendly document.

The Civic Federation commends the District for producing a transparent and comprehensive budget document that outlines its finances and financial policies in a manner that can be understood by all stakeholders.

Civic Federation Concerns

The Civic Federation has the following concerns regarding the MWRD FY2011 Tentative Budget.

Financial Status of Pension Fund

The Civic Federation reiterates its previously expressed concerns about the continued steady decline of the fiscal health of the MWRD pension fund.

In FY2009, the last year for which complete data are available, the pension fund's unfunded liabilities rose to \$761.4 million, up from \$156.8 million ten years prior in FY2000. This was a 385.4% or \$604.5 million increase. Correspondingly, the funded ratio declined from 87.6% to 60.7% over the same ten-year period.

⁵ MWRD FY2011 Executive Director's Recommendations, p. 8.

Shortfalls in employer contributions have significantly contributed to the increase in unfunded liabilities and the decrease in funded ratio. State statute requires that MWRD levy a property tax equivalent to 2.19 times the employee contributions made two years prior. This amount is unrelated to the actuarially calculated annual required contribution (ARC) for funding normal cost plus the amortization of the unfunded liability. The ARC payment would have been \$54.8 million in FY2009, approximately \$22.6 million more than the District's actual \$32.2 million contribution.

Given the continued economic challenges and resulting market instability, the retirement fund will continue to face funding challenges and this could make significant funding reforms necessary sooner rather than later. The Civic Federation is concerned about the District's resistance to pension reform efforts including Public Act 96-0889, which they believe will inhibit their recruitment capacities.⁶ The District has not conducted a salary study in at least ten years and offers no objective evidence that its compensation levels are less than competitive with the private sector.

Increase in Property Tax Levy for FY2011

The Civic Federation is concerned that the District is proposing the maximum levy for FY2011. The proposed budget includes a 1.2% increase in its gross property tax levy and the maximum 2.7% increase in levies for tax-capped funds.

The District is proposing to increase its gross property tax levy for FY2011 by 1.2% or \$12.9 million across all funds to \$467.6 million. Of the \$467.6 million, \$284.9 million will be levied for funds that are subject to the tax cap law. The tax cap law limits annual increases to 5.0% or the rate of inflation, whichever is less.⁷ MWRD estimates that the effective inflation rate will be 2.0% and an additional 0.7% increase will be available for new property. This amount is \$7.5 million, or 2.7%, more than the FY2010 adjusted amount of \$277.4 million levied for tax-capped funds.

While not desirable, the proposed increase is combined with the District's efforts to cut Corporate Fund appropriations. While the District is undertaking the prudent measure of reducing expenditures, we encourage the District to look for further cost-cutting measures that will minimize the burden on the District's taxpayers. We also urge the District to fully explore alternative revenue sources such as the sale of its waste products and alternative energy production.

Civic Federation Recommendations

The Civic Federation has several recommendations on ways to improve the Metropolitan Water Reclamation District's financial and transparency practices.

⁶ Meeting between the Civic Federation and Richard Lanyon, Executive Director of MWRD, November 24, 2010.

⁷ See the Civic Federation, "The Cook County Property Tax Extension Process: a Primer on Levies, Tax Caps, and the Effect of Tax Increment Financing Districts," October 5, 2010. <http://www.civicfed.org/civic-federation/publications/cook-county-property-tax-extension-process-primer-levies-tax-caps-and->

Implement Comprehensive Pension Reform

The Civic Federation offers the following specific recommendations to improve the long-term financial health of the Metropolitan Water Reclamation District's Pension Fund. These measures would require General Assembly authorization. The Civic Federation supported Public Act 96-0889, which created a different tier of benefits for many public employees hired on or after January 1, 2011. Over time these benefit changes for new hires 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, the pension fund's actuarial funded ratio has fallen to 60.7% and the District needs to take action immediately. We strongly urge the District to seek approval for additional reforms.

Reduce Benefits for Current Employees if Adequate Funding for Pension Promises Is Not Secured

The District's unfunded pension liabilities have grown, from \$156.8 million in FY2000 to \$761.4 million in FY2009. The actuarially calculated annual required contribution (ARC) has jumped from 20.3% of payroll to 31.0% of payroll over the same period (see page 36 of this report), although the District only contributed the equivalent of 18.2% of payroll in FY2009. If the District does not take dramatic action to significantly increase its contributions immediately, the contributions needed to rescue the fund will become so substantial that the District will have great difficulty funding the pension promises it has made to its employees. Raising taxes high enough to deal with the problem may not be a viable option. Therefore, the District may have to seriously consider supporting reductions in non-vested pension benefits for current employees in future pension reform legislation.

Require Employer and Employee Contributions to Relate to Funded Status of the Plans

The District's employer contribution to its pension fund is a multiple of past employee contributions with no relationship to the funded status of the plan. The employee contributions are a fixed percentage of pay. The Civic Federation recommends that employer and employee contributions be tied to actuarial liabilities and funded ratios, such that contributions are at levels consistent with the actuarially calculated annual required contribution (ARC). This will require additional revenues or reductions.

The Civic Federation believes that employees need to share in the rising costs of public pension plans and recommends that employer and employee contributions be restructured such that employees pay a proportion of required contributions, similar to the new structure of the Chicago Transit Authority pension fund contributions. A proportional relationship should be set whereby, for example, the employer pays 50% and the employees pay 50% of the annual required contribution. Whether the proportion is 50%/50%, 60%/40%, or some other ratio, it is critical that both parties pay a share of required contributions and that those contributions relate to the fiscal health of the fund.

Study Consolidation with the Illinois Municipal Retirement Fund

Currently the Metropolitan Water Reclamation District does not participate in the Illinois Municipal Retirement Fund. There could be efficiency gains by merging the MWRD Pension

Fund with the IMRF, and the Civic Federation strongly recommends that the District study this option.

MWRD Pension Fund Governance Reform

The District's Pension Fund is governed by a seven-member Board of Trustees that includes four active employees, two representatives from management and one appointed retired employee.⁸ The proper role of a pension board is to safeguard the fund's assets and to oversee benefit administration. If the District does not join the Illinois Municipal Retirement Fund, the Civic Federation recommends that the composition of the pension board of trustees be revised in three ways. The balance of employee and management representation on the board should be changed so that employees do not hold the majority of seats. A tripartite structure should be created that includes independent citizen representation on the board. Finally, financial experts should be included on the pension board and financial training for non-expert members should be required.⁹

Dedicate TIF Surplus Distribution to Unfunded Liabilities

The District is expecting \$10.0 million in Tax Increment Financing (TIF) surplus to be distributed by the City of Chicago in late 2011.¹⁰ However, it has prudently chosen not to budget for this one-time revenue source given the uncertainty of the timing.

The Civic Federation recommends that when the TIF surplus distribution is received, it be used to pay down long-term liabilities and not to close an operating budget gap. For example, the District could contribute the surplus to its OPEB Trust for retiree health care liabilities or make an exceptional contribution to reduce the unfunded pension liabilities.

Add Total Revenue Collection and Personal Services Content in Future Budget Documents

In an effort to further improve the comprehensive budget book produced by MWRD each year, we recommend that future budget documents clarify total anticipated revenues, and that the personal services summary from the Executive Director's Budget Recommendation be updated in the Tentative Budget document.

The budget does not provide a clear summation of all FY2011 revenues. The proposed budget includes the 2011 tax revenue for the Corporate Fund, Construction Fund and Stormwater Management Fund. However, the budget does not include the 2011 tax revenue for the Retirement, Reserve Claim and Bond and Interest Funds. That revenue will be reflected next year as part of "net assets appropriable." The District attributes this to its cash-based budgeting practices and the lag time in collections. The District also budgets Personal Property

⁸ 40 ILCS 5/13-701 (2008).

⁹ Government Finance Officers Association, "Best Practice: Governance of Public Employee Post-Retirement Benefits Systems (2010)." http://www.gfoa.org/downloads/GFOA_governanceretirementbenefitssystemsBP.pdf. See also Civic Federation, *Recommendations to Reform Public Pension Boards of Trustees in Illinois* (February 13, 2006).

¹⁰ Meeting between the Civic Federation and Eileen McElligott, Administrative Services Manager for the MWRD, November 25, 2010.

~~Replacement Tax (PPRT) revenues below expected receipts for historical reasons. Please see the~~
Resources section for more details on this practice. We urge the District to provide a clear summation of all FY2011 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. Currently, the budget does note the difference in the tax levies, but not PPRT.
- 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.
- Consider budgeting the full amount of revenues anticipated to be received from the PPRT.

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

Second, the Civic Federation commends MWRD for streamlining the production of budget books by reprinting only selected pages of the Executive Director's Recommendation in the Tentative Budget. The Tentative Budget reflects changes recommended by the Board's Committee on Budget and Employment pursuant to departmental hearings. However, the Personal Service Appropriations summary from the Executive Director's Recommendation 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 and public to review.

Budget the Reserve Claim Fund Based on Anticipated Expenditures

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.¹¹

From FY2007 to FY2009, the District has not expended more than 17% of the proposed appropriation. The largest expenditure during this period was \$9.5 million. The FY2011 recommended budget is \$60.0 million, but it only anticipates \$9.3 million in expenditures.

¹¹ MWRD FY2011 Executive Director's Recommendations, p. 101.

MWRD Reserve Claim Fund: FY2007 - FY2011			
	Proposed Appropriation	Actual Expenditure	Ratio
FY2007	\$ 56,705,500	\$ 9,353,456	16.5%
FY2008	\$ 55,500,000	\$ 7,626,464	13.7%
FY2009	\$ 62,500,000	\$ 9,463,787	15.1%
FY2010*	\$ 63,000,000	\$ 8,649,400	13.7%
FY2011**	\$ 60,000,000	\$ 9,300,000	15.5%

*Estimated expenditure 12/31/2010.

**Projected expenditure for FY2011.

Source: MWRD Executive Director's Recommended Budget FY2009-FY2011.

Cook County also had a Self-Insurance Fund until FY2009.¹² Unlike MWRD, Cook County did not appropriate the entire self-insurance fund balance. Despite having large fluctuation in expenses from year-to-year, County appropriations for the fund were much closer to actual expenditures than MWRD.

Cook County Self Insurance Fund			
Fiscal Year	Appropriation	Expenditure	Ratio
2004	\$ 74,600,166	\$ 41,201,776	55%
2005	\$ 64,430,478	\$ 56,764,473	88%
2006	\$108,141,402	\$ 60,181,873	56%
2007	\$ 82,177,672	\$ 60,051,392	73%
2008	\$ 94,498,400	\$ 101,394,349	107%

Source: Cook County Appropriation Bills, Citizens' Summary
FY2005-FY2010

The Civic Federation recommends that the District change the practice of budgeting all available resources 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 it would provide the Reserve Claim Fund with an appropriation of \$11.6 million. This is \$50.7 million less than the recommended appropriation and still significantly above any single year 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.¹³ A realistic appropriation for the Reserve Claim Fund will communicate a more accurate picture of the District's financial plan to the public and policy makers. The large budget for the Reserve Claim fund significantly distorts the overall total budget numbers, especially when compared to actual prior year expenditures.

¹²Cook County is still self-insured. However, the Self Insurance Fund was absorbed with the General Fund starting in FY2009.

¹³ Government Finance Officers Association, "Awards Criteria"
www.gfoa.org/downloads/BudgetCriteriaExplanations_000.pdf (Last viewed on December 12, 2010).

~~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."¹⁴ Budgeting well in excess of anticipated expenditures makes the budget-to-actual results meaningless and therefore removes an important control mechanism.~~

ACKNOWLEDGEMENTS

The Civic Federation would like to commend Administrative Services Manager Eileen McElligott, Budget Officer Beverly Sanders and their staffs for their hard work in preparing this budget. We very much appreciate their willingness to meet with us and provide additional information.

APPROPRIATIONS

The District proposes to appropriate nearly \$1.0 billion in its FY2011 Tentative Budget.¹⁵ This is a 41.1%, or \$681.1 million, decrease from the FY2010 Adjusted Budget of \$1.7 billion.

It is important to recognize that the MWRD's budget process differs from the budget processes of other northeastern Illinois governments in two respects. First, the MWRD's appropriations often vary significantly from budget year to budget year, depending on the number and scale of capital projects that the District undertakes and also on the timing of funding required to complete different phases of multi-year projects. Second, the adjusted and final budgets produced at the end of the fiscal year may differ significantly from the budget adopted by the District because revenues for capital projects often become available only after the budget's adoption. For these reasons, the Civic Federation compares the MWRD's proposed or Tentative Budget to the adjusted budgets and, when available final budgets, from previous years.

The following exhibit shows MWRD budget appropriations from FY2006 to FY2010. It compares the Tentative Budget appropriations proposed in each of those years with the final appropriations as reported in the succeeding year's Adjusted Budget. Adjusted appropriations include capital project awards made after the initial release of the budget, among other changes.

¹⁴ Government Finance Officers Association "Recommended Budget Practices, National Advisory on State and Local Budgeting," <http://www.gfoa.org/services/df/budget/RecommendedBudgetPractices.pdf> (Last viewed December 2, 2010).

¹⁵ MWRD FY2011 Tentative Budget, p. 12.

MWRD Appropriations Tentative v. Final: FY2006-FY2010			
	Tentative	Final	Variance
FY2006	\$ 1,000,557,313	\$ 1,038,840,599	\$ 38,283,286
FY2007	\$ 968,775,832	\$ 1,023,147,811	\$ 54,371,979
FY2008	\$ 1,428,240,815	\$ 1,472,660,136	\$ 44,419,321
FY2009*	\$ 1,625,593,990	\$ 1,630,596,977	\$ 5,002,987
FY2010**	\$ 1,378,626,653	\$ 1,655,410,779	\$ 276,784,126

* Final amount for FY2009 is estimated in FY2011 Executive Director's Recommendations.

** Final amount for FY2010 is as adjusted in FY2011 Executive Director's Recommendations.

Source: MWRD Final Budgets FY2008-FY2010; MWRD FY2011 Executive Director's Recommendations, p. 48.

In FY2011 Corporate Fund appropriations, which are used for operational and general expenditures, are projected to decrease by 4.0%, or \$14.2 million, to \$340.3 million. Similar to last year's appropriation, this decrease occurs because of a spending cutback due to reduced revenues as a result of the economic downturn.¹⁶ The Corporate Fund also includes a working cash fund whose sole purpose is to make temporary loans to the Corporate Fund in anticipation of tax collections.¹⁷ This practice is an alternative to a more common practice of a government issuing tax anticipation notes (TANs) to cover expenses before tax revenues are collected.

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 or a value of less than \$1.0 million, and are financed by a tax levy sufficient to pay for project costs as they are constructed. Construction Fund FY2011 appropriations include re-appropriations for prior year projects still under construction. In FY2011 the Construction Fund will decrease by \$10.5 million, or 38.6%, to \$16.6 million. The decrease reflects the anticipated expenditures for existing projects and appropriations required to fund projects with 2011 award dates.¹⁸ The District will appropriate \$0.3 million in FY2011 for two new projects with total contract costs of \$2.9 million. Construction fund appropriations for salaries, support and projects under construction will also decrease from FY2010 appropriations of \$26.8 million to \$14.8 million in FY2011.¹⁹

The Capital Improvements Bond Fund is for major infrastructural improvements whose useful life is longer than 20 years and which are financed by long-term debt, Federal and State grants, or State Revolving Fund loans. The 66.1%, or \$644.5 million, decrease in Capital Improvements Bond Fund appropriations to \$330.7 million in FY2011 reflects the timing of the award of major projects, including two plant expansion and improvement projects with an award value estimated at \$29.5 million; three collection projects at \$49.3 million; and sixteen replacement of facilities projects at \$108.3 million.²⁰ This fund fluctuates from year to year based upon the scheduled award of major projects.²¹

¹⁶ MWRD FY2011 Executive Director's Recommendations, p. 20.

¹⁷ MWRD FY2011 Executive Director's Recommendations, p. 75.

¹⁸ MWRD FY2011 Executive Director's Recommendations, p. 95.

¹⁹ MWRD FY2011 Executive Director's Recommendations, p. 21.

²⁰ MWRD FY2011 Executive Director's Recommendations, p. 21.

²¹ MWRD FY2011 Executive Director's Recommendations, p. 95.

Stormwater Management Fund appropriations will grow to \$39.9 million in FY2011, an increase of 0.1% or \$20,200. This increase is due to the final design phase of the Heritage Park Flood Control Facility and the initiation of the Stormwater Management Fund Capital Improvement Program.²²

Appropriations for the Reserve Claim Fund will decrease 4.8%, or \$3.0 million, to \$60 million in FY2011. 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. 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. However, due to the downturn in the economy, only a portion of the tax rate limit will be levied.²³ Anticipated expenditures are much less than appropriation, and are expected to rise 7.5% from \$8.6 million in FY2010 to \$9.3 million in FY2011.²⁴

MWRD Major Fund Appropriations: FY2010 & FY2011				
	2010 Adjusted	2011 Proposed	\$ Change	% Change
Corporate Fund	\$ 354,500,900	\$ 340,347,500	\$ (14,153,400)	-4.0%
Construction Fund	\$ 27,078,700	\$ 16,623,800	\$ (10,454,900)	-38.6%
Capital Improvements Bond Fund*	\$ 975,197,900	\$ 330,704,100	\$ (644,493,800)	-66.1%
Stormwater Fund	\$ 39,928,900	\$ 39,949,100	\$ 20,200	0.1%
Retirement Fund	\$ 32,766,924	\$ 32,384,000	\$ (382,924)	-1.2%
Reserve Claim Fund	\$ 63,000,000	\$ 60,000,000	\$ (3,000,000)	-4.8%
Bond Redemption & Interest Fund	\$ 162,937,455	\$ 154,260,452	\$ (8,677,003)	-5.3%
Total	\$ 1,655,410,779	\$ 974,268,952	\$ (681,141,827)	-41.1%

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

Source: MWRD FY2011 Tentative Budget, p. 12.

The next exhibit shows MWRD appropriations by fund for FY2007 and FY2011. When comparing actual expenditures to proposed appropriations, it is necessary to deduct the Reserve Claim Fund since the appropriation is much larger than what is anticipated to be spent. Excluding the Reserve Claim Fund, appropriations will increase by 30.3%, or \$212.6 million, from \$701.6 million in FY2007 to just under \$914.3 million in FY2011. The largest dollar increase will be in the Capital Improvements Bond Fund, which will rise from \$165.5 million in FY2007 to \$330.7 million in FY2011. Significant increases in the Capital Improvements Bond Fund began in FY2009, which reflected the pattern in awards of major projects including Tunnel and Reservoir Plans, plant expansion and improvement projects and solids management projects.²⁵ The Bond Redemption and Interest Fund will decrease by 1.1%, or \$1.8 million, over the five-year period to \$154.3 million in FY2011.

²² MWRD FY2011 Executive Director's Recommendations, p. 437.

²³ MWRD FY2011 Executive Director's Recommendations, p. 453.

²⁴ MWRD FY2011 Executive Director's Recommendations, p. 453.

²⁵ MWRD FY2009 Adopted Budget, p. 23.

MWRD Major Fund Appropriations: FY2007 & FY2011				
	2007 Actual	2011 Proposed	\$ Change	% Change
Corporate Fund	\$ 331,694,700	\$ 340,347,500	\$ 8,652,800	2.6%
Construction Fund	\$ 12,246,700	\$ 16,623,800	\$ 4,377,100	35.7%
Capital Improvements Bond Fund*	\$ 165,452,200	\$ 330,704,100	\$ 165,251,900	99.9%
Stormwater Fund	\$ 7,519,500	\$ 39,949,100	\$ 32,429,600	431.3%
Retirement Fund	\$ 28,703,600	\$ 32,384,000	\$ 3,680,400	12.8%
Bond Redemption & Interest Fund	\$ 156,023,400	\$ 154,260,452	\$ (1,762,948)	-1.1%
Sub-Total	\$ 701,640,100	\$ 914,268,952	\$ 212,628,852	30.3%
Reserve Claim Fund	\$ 9,353,500	\$ 60,000,000	\$ 50,646,500	541.5%
Total	\$ 710,993,600	\$ 974,268,952	\$ 263,275,352	37.0%

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

Source: MWRD FY2009 Final Budget, p. 84; FY2011 Tentative Budget, p. 12.

The Board of MWRD 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; using the EAV of 2008, the maximum accumulation is approximately \$85.0 million.²⁶ From FY2007 to FY2009, the District had not expended more than 17% of the proposed appropriation. Though actual or estimated expenditure for the Reserve Claim Fund has not exceeded \$10.0 million, the District continues to budget appropriations equal to available resources to fund emergencies or large claims. MWRD is projecting expenditures will be \$9.3 million in FY2011, much less than the \$60 million budgeted.²⁷

MWRD Reserve Claim Fund: FY2007-FY2011			
	Proposed Appropriation	Actual Expenditure	Ratio
FY2007	\$ 56,705,500	\$ 9,353,456	16.5%
FY2008	\$ 55,500,000	\$ 7,626,464	13.7%
FY2009	\$ 62,500,000	\$ 9,463,787	15.1%
FY2010*	\$ 63,000,000	\$ 8,649,400	13.7%
FY2011**	\$ 60,000,000	\$ 9,300,000	15.5%

*Estimated expenditure 12/31/2010.

**Projected expenditure for FY2011.

Source: MWRD Executive Director's Recommendations FY2009-FY2011.

RESOURCES

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

The FY2011 proposed budget includes the 2011 tax revenue for the Corporate Fund, Construction Fund and Stormwater Management Fund. However, the budget does not include the 2011 tax revenue for the Retirement, Reserve Claim and Bond and Interest Funds. That revenue will be reflected next year as part of "net assets appropriable."²⁸ MWRD attributes this inconsistency in the budget to its cash-based budgeting practices. The levies for tax year FY2011

²⁶ MWRD FY2011 Executive Director's Recommendations, p. 101.

²⁷ MWRD FY2011 Executive Director's Recommendations, p. 453.

²⁸ MWRD FY2011 Executive Director's Recommendations, p.80.

are not collected until 2012.²⁹ Therefore they are not available for FY2011 if budgeting on a cash basis. Many other local units issue tax anticipation notes to bridge tax collection timing gaps through borrowing. The MWRD maintains a Corporate Working Cash Fund, a Construction Working Cash Fund and a Stormwater Management Fund for the sole purpose of making temporary loans to their respective funds in anticipation of tax collections,³⁰ but there are no working cash funds for the Retirement, Reserve Claim and Bond and Interest Funds.

The PPRT revenue is budgeted in a similar manner to the property tax levy. The District anticipates \$35 million in PPRT revenue to be collected in FY2011.³¹ However, the District has only budgeted \$23.5 million. The district attributes this budgeting practice to the PPRT's history, since it was once a local property tax subject to a collection lag³², but it is now a state-collected corporate income tax.

Corporate Fund Resources

The FY2011 Corporate Fund revenue will increase by 6.2% or \$19.0 million from \$306.7 million in FY2010 to \$325.7 million. The District is taking \$14.7 million from its net assets, which is 69.3% less than what was drawn in FY2010.³³ Net assets are similar to fund balance in a governmental fund and can be thought of as the savings account for the District. When total net assets and revenues are combined, the total resources being utilized will decrease by 4.0% or \$14.2 million.

Some key revenue changes include:

- The District's 2011 net Corporate Fund property tax levy, which constitutes 73.6% of its revenues, will increase by \$8.0 million or 3.5%. The net property tax revenues provide for a 3.5% loss in collections to account for Property Tax Appeals Board (PTAB) decisions, Circuit Court decisions and other tax refunds.
- The Corporate Fund allocation of the Personal Property Replacement Tax (PPRT), which is a corporate income tax, is expected to increase by \$3.5 million or 20.7%. PPRT revenues are first used to fund the Retirement Fund with the remainder distributed to non-debt funds. The increase in the Corporate Fund is primarily due to a larger proportion being distributed to the Corporate Fund. Total estimated cash collected from the PPRT is estimated to increase at a more modest 9.7%.³⁴ According to MWRD, this revenue moves in parallel to the state and national economy.³⁵

²⁹ Meeting between the Civic Federation and Eileen McElligott, Administrative Services Manager, November 24, 2010.

³⁰ MWRD FY2011 Executive Director's Recommendations, p.75.

³¹ MWRD FY2011 Executive Director's Recommendations, p.15.

³² Meeting between the Civic Federation and Eileen McElligott, Administrative Services Manager, November 24, 2010.

³³ 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 a Corporate Fund balance.

³⁴ MWRD FY2011 Executive Director's Recommendations, p.88.

³⁵ MWRD FY2011 Executive Director's Recommendations, p. 15.

- User charges are 13.8% of Corporate Fund revenues in FY2011 and are expected to remain flat at \$45.0 million. User charges are paid by large industrial and government users based on the volume and strength of effluent discharged.
- Equity transfer is increasing from \$0 in FY2010 to \$8.0 million in FY2011. This is a transfer from the Corporate Working Cash Fund. MWRD defines an equity transfer as a transfer between funds.³⁶
- Property and Service Charges, which includes land rentals and other revenues, will decrease by 2.0% or \$272 thousand in FY2011 and will constitute 4.1% of Corporate Fund revenues.

MWRD Corporate Fund Resources: FY2010 & FY2011 (in \$ millions)					
Resource	FY2010 Adopted	FY2011 Proposed	\$ Change	% Change	
Property Taxes (net)	\$ 231.8	\$ 239.8	\$ 8.0	3.5%	
User Charges	\$ 45.0	\$ 45.0	\$ -	0.0%	
PPRT	\$ 17.0	\$ 20.6	\$ 3.5	20.7%	
Property & Service Charges	\$ 13.6	\$ 13.3	\$ (0.3)	-2.0%	
Other	\$ 3.8	\$ 3.8	\$ (0.0)	-1.3%	
Equity Transfer	\$ -	\$ 8.0	\$ 8.0	-	
Working Cash Borrowings Adjustment	\$ (4.5)	\$ (4.8)	\$ (0.2)	5.4%	
Total Revenues	\$ 306.7	\$ 325.7	\$ 19.0	6.2%	
Net Assets Appropriable	\$ 66.8	\$ 37.4	\$ (29.4)	-44.0%	
Non-Appropriated Net Assets	\$ (19.0)	\$ (22.8)	\$ (3.7)	19.6%	
Subtotal - Net Assets Appropriated	\$ 47.8	\$ 14.7	\$ (33.1)	-69.3%	
Total Resources	\$ 354.5	\$ 340.3	\$ (14.2)	-4.0%	

Sources: MWRD FY2010 Budget as Adopted p. 82; FY2011 Tentative Budget, p. 17.

The five-year trend in MWRD Corporate Fund revenues is presented in the next exhibit. Total revenues have increased 1.1% or \$3.5 million, while total resources, including appropriated net assets, increased by 2.6% or \$8.7 million. Some revenue highlights include:

- Other revenues, which include resources from miscellaneous sources and the District's TIF Differential Fee and Impact Fee, will decrease by 48.0%, or \$3.5 million;
- Net property tax revenues will rise by 6.6%, from \$224.9 million to \$239.8 million;
- Property and service charges, which include income from land rentals, agricultural products and investments, will decrease by 30.9%, from \$19.3 million to \$13.3 million; and
- Personal property replacement tax revenues will decline by 12.2% from \$23.4 million to \$20.6 million.

³⁶ Meeting between the Civic Federation and Eileen McElligott, Administrative Services Manager, November 24, 2010.

MWRD Corporate Fund Resources: FY2007 & FY2011				
(in \$ millions)				
Resource	FY2007 Actual	FY2011 Proposed	\$ Change	% Change
Property Taxes (net)	\$ 224.9	\$ 239.8	\$ 14.9	6.6%
User Charges	\$ 52.0	\$ 45.0	\$ (7.0)	-13.4%
PPRT	\$ 23.4	\$ 20.6	\$ (2.9)	-12.2%
Property & Service Charges	\$ 19.3	\$ 13.3	\$ (6.0)	-30.9%
Other	\$ 7.3	\$ 3.8	\$ (3.5)	-48.0%
Equity Transfer	\$ -	\$ 8.0	\$ 8.0	-
Working Cash Borrowings Adjustment	\$ (4.6)	\$ (4.8)	\$ (0.2)	3.5%
Total Revenues	\$ 322.2	\$ 325.7	\$ 3.5	1.1%
Net Assets Appropriable	\$ 93.8	\$ 37.4	\$ (56.4)	-60.1%
Non-Appropriated Fund Net Assets	\$ (84.3)	\$ (22.8)	\$ 61.6	-73.0%
Subtotal - Appropriated Net Assets	\$ 9.5	\$ 14.7	\$ 5.2	54.6%
Total Resources	\$ 331.7	\$ 340.3	\$ 8.7	2.6%

Sources: MWRD FY2009 Budget as Adopted pp. 81, 84; FY2011 Tentative Budget, p. 17.

Property Tax Levy

In FY2011 the MWRD's gross property tax levy will increase by 1.2% to \$467.6 million.³⁷ Figures for the gross property tax levy do not reflect loss in collections, Property Tax Appeals Board (PTAB) decisions, Circuit Court decisions and other tax refunds.³⁸ Of the \$467.6 million, 60.9% or \$284.9 million will be levied for funds that are subject to the tax cap law, which limits annual increases to 5.0% or the rate of inflation, whichever is less.

The District estimates that the effective inflation rate will be 2.0% and an additional 0.7% increase will be available for new property. Therefore the maximum projected increase for the capped funds would be 2.7%³⁹ and the budget proposes the maximum increase for those funds.⁴⁰ The largest percentage change will occur in the Reserve Claim Fund, which will increase by 74.3% or \$1.4 million. The Construction Fund is decreasing by 45.1% or \$3.9 million based on appropriations required to fund projects with 2011 award dates.⁴¹

The remaining 39.1%, or \$182.7 million, is levied for the Bond and Interest Fund and the Stormwater Management Fund, which are not subject to tax caps.⁴² The FY2011 Stormwater Management levy will remain stable with a 0.3% increase to \$24.1 million. The Bond and Interest levy, reserved for debt service, will decline by 1.3% or \$2.1 million.

³⁷ The FY2011 levy is for tax year 2011, which will be collected in 2012.

³⁸ MWRD FY2011 Executive Director's Recommendations, p. 64

³⁹ MWRD FY2011 Executive Director's Recommendations, p. 76.

⁴⁰ MWRD FY2011 Executive Director's Recommendations, p. 63.

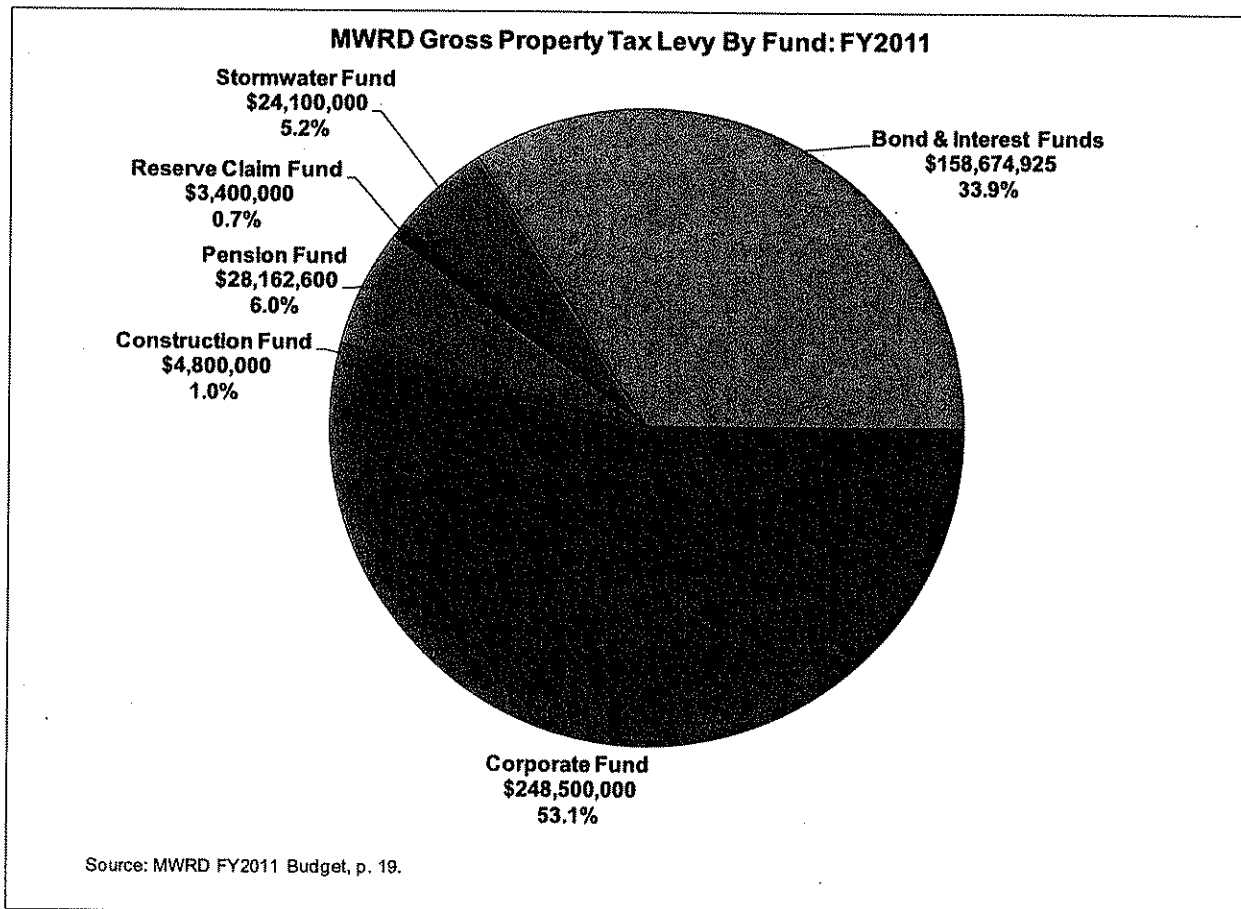
⁴¹ MWRD FY2011 Executive Director's Recommendations, p. 81.

⁴² 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.

MWRD Gross Property Tax Levy: FY2010 & FY2011				
	FY2010 Adjusted	FY2011 Proposed	\$ Change	% Change
Corporate Fund	\$ 240,207,200	\$ 248,500,000	\$ 8,292,800	3.5%
Construction Fund	\$ 8,748,700	\$ 4,800,000	\$ (3,948,700)	-45.1%
Pension Fund	\$ 26,478,000	\$ 28,162,600	\$ 1,684,600	6.4%
Reserve Claim Fund	\$ 1,951,153	\$ 3,400,000	\$ 1,448,847	74.3%
Subtotal - Tax Capped Funds	\$ 277,385,053	\$ 284,862,600	\$ 7,477,547	2.7%
Stormwater Fund	\$ 24,028,900	\$ 24,100,000	\$ 71,100	0.3%
Bond & Interest Funds	\$ 160,781,778	\$ 158,674,925	\$ (2,106,853)	-1.3%
TOTAL	\$ 462,195,731	\$ 467,637,525	\$ 12,919,341	1.2%

Source: MWRD FY2011 Tentative Budget, p. 12.

The next exhibit shows the distribution of property tax dollars among the MWRD's various funds in FY2011. The Corporate Fund and Bond and Interest Funds together will consume 87.0% of the District's total levy.

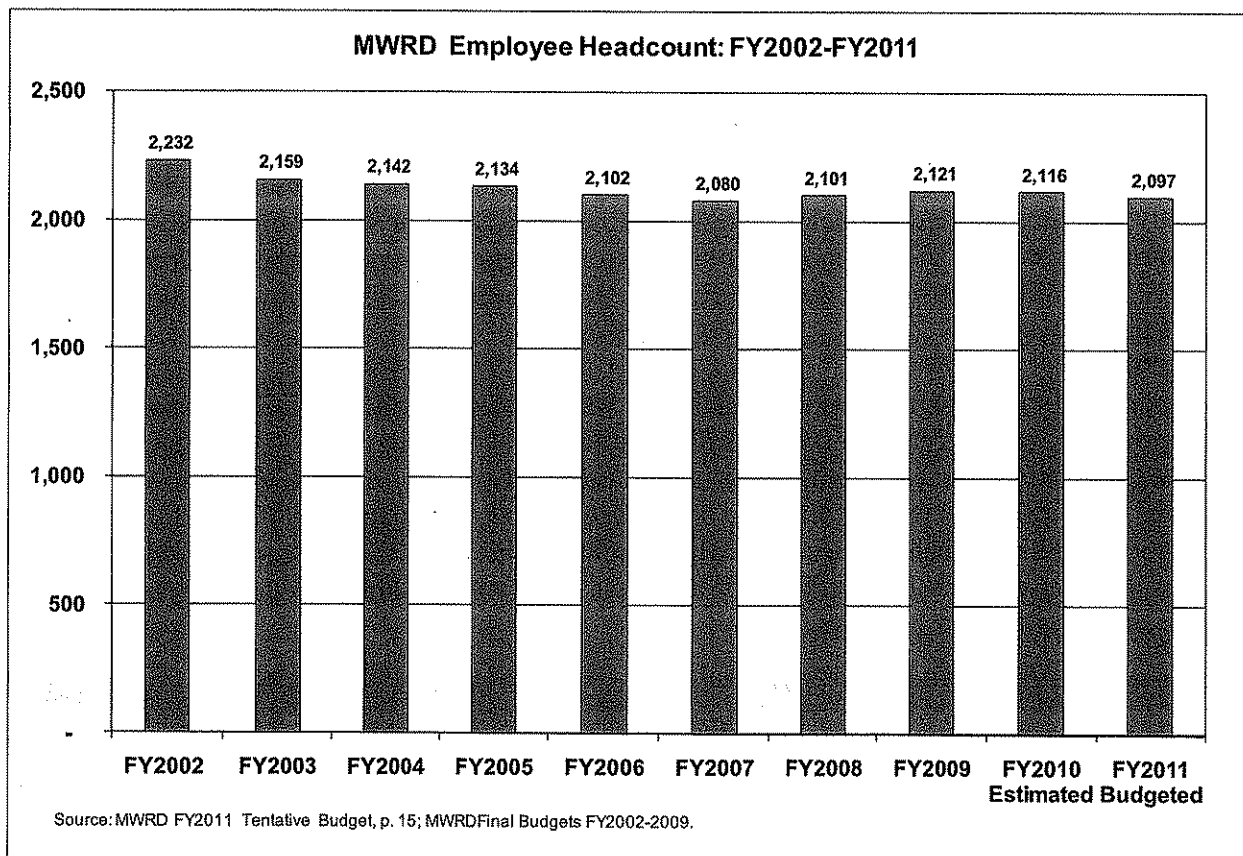


The MWRD Board of Commissioners has a policy of adopting tax levies that do not increase by more than 5% over the prior year (excluding the Stormwater Management Fund). There is also a policy that when investment income in the Bond & Interest Funds exceeds the amount necessary

for paying the principal and interest over the next twelve months, the Bond & Interest property tax levy is abated.⁴³

PERSONNEL

The number of positions at the District is projected to decrease by 19 positions, a 0.9% decline from 2,116 positions in FY2010 to 2,097 positions in FY2011. Since FY2002 the District has cut its workforce by 6.0% or 135 positions. Reductions in operating departments through FY2007 can be attributed to automation of manual processes, the transfer of support positions to support departments and the completion of major infrastructure projects.⁴⁴ After modest growth to staff the Master Plans and new initiatives, FY2011 personnel reductions mark the beginning of a five-year plan to reduce staffing levels due to revenue constraints.⁴⁵



Nearly 87% of District employees are funded with Corporate Fund dollars. Between FY2010 and FY2011 the number of Corporate Fund positions will decrease by 0.7% or 12 positions. Maintenance and Operations will decrease by nine FTE positions and Research and Development will decrease by three FTE positions.

⁴³ MWRD FY2011 Executive Director's Recommendations, p. 32.

⁴⁴ MWRD FY2011 Executive Director's Recommendations, p. 61.

⁴⁵ MWRD FY2011 Executive Director's Recommendations, p. 61.

MWRD Corporate Fund Employee Headcount: FY2010-FY2011				
	FY2010 Adjusted	FY2011 Proposed	# Change	% Change
Maintenance and Operations	1,047	1,038	-9	-0.9%
Research and Development	308	305	-3	-1.0%
General Administration	124	124	0	0.0%
Purchasing	70	70	0	0.0%
Information Technology	71	71	0	0.0%
Human Resources	60	60	0	0.0%
Law	40	40	0	0.0%
Board of Commissioners*	38	38	0	0.0%
Finance	31	31	0	0.0%
Engineering (Corporate Fund)	34	34	0	0.0%
Treasury	7	7	0	0.0%
Total	1,830	1,818	-12	-0.7%

*Excludes Treasury employees, which are presented in a separate line item for the purposes of the Civic Federation's analysis.

Source: MWRD FY2011 Tentative Budget, p. 15.

Personal Service Appropriations

The summary of personal service appropriations for all funds is not available in the FY2011 Tentative Budget. The exhibit below shows the Executive Director's recommended appropriations for FY2011 compared with the adjusted personal service appropriations for FY2010. The following figures do not reflect the same headcount as the above exhibits or the rest of the analysis.

The appropriation for regular employee salaries, which constitutes 52% of all personal service appropriations, will increase by 0.1%, or \$210,000 to \$174.4 million in FY2011. Appropriations for health and life insurance premium costs will increase by 4.9%, from \$48.0 million to \$50.4 million. Appropriations will decrease for Employee Claims, Compensation Plan Adjustments and Other Employee Personal Services, which include tuition and training programs, by a total of \$3.1 million between FY2010 and FY2011. This is largely due to budget reductions for relief workers and training for employees.⁴⁶

MWRD All Funds Personal Service Appropriations: FY2010-FY2011				
	FY2010 Adjusted	FY2011 Proposed	\$ Change	% Change
Salaries of Regular Employees*	\$ 174,238,400	\$ 174,448,500	\$ 210,100	0.1%
Contractual Services	\$ 85,548,000	\$ 87,869,000	\$ 2,321,000	2.7%
Health & Life Insurance Premiums**	\$ 48,042,700	\$ 50,407,400	\$ 2,364,700	4.9%
Employee Claims	\$ 12,100,000	\$ 10,110,000	\$ (1,990,000)	-16.4%
Compensation Plan Adjustments	\$ 8,290,500	\$ 7,392,800	\$ (897,700)	-10.8%
Other Employee Personal Services***	\$ 1,798,000	\$ 1,578,600	\$ (219,400)	-12.2%
Social Security & Medicare Contributions	\$ 2,400,000	\$ 2,520,000	\$ 120,000	5.0%
Total	\$ 332,417,600	\$ 334,326,300	\$ 1,908,700	0.6%

* Includes FY2011 Salary Adjustments

** Includes OPEB distribution

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

Source: MWRD FY2011 Executive Director's Recommendations p. 61.

⁴⁶ MWRD FY2011 Executive Director's Recommendations, p. 61.

The exhibit below shows FY2010 adjusted appropriations and FY2011 Tentative Budget appropriations for personal service by department. The analysis of personal service appropriations by department includes the carry forward open value of contracts from the prior year. As such, the total appropriations below differ from the summary above.

The General Administration department will increase personal service appropriations by \$535,800, or 4.9%, to \$11.4 million in FY2011. This is largely due to increases in payments for professional services.⁴⁷ Appropriations will rise for the Board of Commissioners by \$203,400, or 5.2%, to \$4.1 million due to an increase in salaries.⁴⁸ Appropriations will increase in the Purchasing department by \$64,800, or 1.2%, to \$5.6 million also due to an increase in salaries. All other departments will decrease their personal service appropriations, including a 5.8% or \$1.5 million decrease in Research and Development appropriations to \$24.2 million in FY2011. This decline is due to lowered FTE positions and appropriations for salaries, as well as a decrease in payments for professional services.⁴⁹

MWRD All Funds Personal Service Appropriations by Department: FY2010-FY2011				
	FY2010 Adjusted	FY2011 Proposed	# Change	% Change
Maintenance & Operations	\$ 90,916,600	\$ 90,690,300	\$ (226,300)	-0.2%
Research & Development	\$ 25,682,100	\$ 24,194,700	\$ (1,487,400)	-5.8%
General Administration	\$ 10,869,200	\$ 11,405,000	\$ 535,800	4.9%
Purchasing	\$ 5,498,900	\$ 5,563,700	\$ 64,800	1.2%
Information Technology	\$ 10,622,300	\$ 9,754,200	\$ (868,100)	-8.2%
Human Resources	\$ 54,750,800	\$ 54,049,700	\$ (701,100)	-1.3%
Law	\$ 6,741,400	\$ 6,399,700	\$ (341,700)	-5.1%
Board of Commissioners	\$ 3,913,300	\$ 4,116,700	\$ 203,400	5.2%
Finance	\$ 3,262,300	\$ 3,229,500	\$ (32,800)	-1.0%
Engineering*	\$ 167,121,745	\$ 112,057,700	\$ (55,064,045)	-32.9%
Employee Claims (Reserve Claim Fund)	\$ 12,000,000	\$ 10,000,000	\$ (2,000,000)	-16.7%
Total	\$ 391,378,645	\$ 331,461,200	\$ (59,917,445)	-15.3%

*Includes the carry forward open value of contracts from the prior year.

Source: MWRD FY2011 Tentative Budget.

NON-APPROPRIATED CORPORATE FUND BALANCE

One of the stated goals guiding MWRD budget development is to maintain an unreserved Corporate Fund balance of \$45 to \$55 million.⁵⁰ Beginning in 2004, the District began to set aside a portion of the net assets appropriable as a non-appropriated or unreserved fund balance that would be available for contingencies.⁵¹

In FY2011, the portion of Corporate Fund balance, or net assets, proposed to be set aside is \$22.8 million, or 6.7% of Corporate Fund appropriations of \$340.3 million. This is a slight increase from the FY2010 estimated ending net assets of \$19.0 million, or 5.4% of Corporate Fund appropriations of \$354.5 million. The Government Finance Officers Association (GFOA) recommends "at a minimum, that general-purpose governments, regardless of size, maintain

⁴⁷ MWRD FY2011 Tentative Budget, p. 20.

⁴⁸ MWRD FY2011 Tentative Budget, p. 18.

⁴⁹ MWRD FY2011 Tentative Budget, p. 26.

⁵⁰ MWRD FY2011 Executive Director's Recommendations, p. 78.

⁵¹ MWRD FY2009 General Superintendent's Recommendation, p. 22.

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.”⁵² Two months of operating expenditures for the District is approximately 16.7%. MWRD’s net assets do not fall within the GFOA recommendation, nor do they fall within the District’s stated goal of maintaining a \$45-\$55 million, or 13% to 16%, unreserved Corporate Fund balance.

From FY2005 to FY2008, actual ending net assets ranged from 25.0% to 41.1% of actual operating expenditures. However, beginning in FY2009 the District began to significantly reduce the size of the Corporate Fund balance. Net assets fell from \$96.5 million, or 27.3% of total expenditures, in FY2008 to a proposed unappropriated \$22.7 million, or 6.7% of proposed appropriations, in FY2011. This four-year trend represents a 76.4% decrease in net assets, or a decline of \$73.7 million. The lowered fund balance in FY2009 can be attributed to an effort to reduce the higher than normal fund balance by increasing Corporate Fund appropriations.⁵³ Subsequent decreases are due in part to declines in appropriable revenue.⁵⁴

MWRD Corporate Fund Balance: FY2005-FY2011 (in \$ thousands)			
	Actual Ending Net Assets	Actual Operating Expenditures	Ratio
FY2005	\$ 67,785.6	\$ 271,529.5	25.0%
FY2006	\$ 109,388.3	\$ 266,474.4	41.1%
FY2007	\$ 84,338.3	\$ 331,694.7	25.4%
FY2008	\$ 96,462.1	\$ 352,762.3	27.3%
FY2009	\$ 54,555.8	\$ 348,322.0	15.7%
FY2010*	\$ 19,039.1	\$ 354,500.9	5.4%
FY2011**	\$ 22,762.4	\$ 340,347.5	6.7%

*Estimated Corporate Fund ending net assets and estimated total expenditure.

**Proposed Corporate Fund non-appropriated net assets and proposed appropriations.

Sources: MWRD Adopted Budget FY2007-FY2010; FY2011 Tentative Budget.

The rapid decline of the unreserved Corporate Fund balance since FY2009 is a cause for concern and should be monitored.

CAPITAL BUDGET

The MWRD annually updates and appropriates funding for projects in a five-year capital improvement program (CIP). The FY2011-FY2015 CIP proposes \$2.3 billion in funding for a variety of projects. The first year of the CIP will be the FY2011 capital budget. It is proposed to be \$394.4 million.

The MWRD’s CIP includes a comprehensive list of ongoing projects and new proposed projects for the next five years as well as funding sources. The District manages its capital resources by

⁵² Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).

⁵³ MWRD FY2011 Executive Director’s Recommendations, p. 89.

⁵⁴ MWRD FY2011 Executive Director’s Recommendations, p. 92.

~~means of a needs-based prioritization process that includes details regarding the total cost and timeframe for completion of all infrastructure improvements and expansions.~~

The exhibit below shows how spending will be allocated among the different types of MWRD capital projects and how those projects will be funded. The majority of spending, or 53.7% (\$1.2 billion), will be used for water reclamation and solids management projects. Approximately 17.4% of all capital spending or \$395.9 million will be earmarked for collection facilities, while 12.1% or \$274.0 million will be used for the District's tunnel and reservoir plan and 11.0% will be used for replacement facility expenses. A smaller sum of \$132.7 million is earmarked for stormwater management.

The majority of funding for the capital program comes from capital improvement bonds, which will make up 93.8% of all funding between FY2011 and FY2015, or \$2.1 billion. The remaining funding will be pay as you go from the Stormwater and Construction Funds.

MWRD Five-Year Capital Spending: FY2011-FY2015 (in \$ millions)							
Type	FY2011	FY2012	FY2013	FY2014	FY2015	Total	% of Total
Water Reclamation & Solids Management	\$ 146.7	\$ 215.6	\$ 281.2	\$ 338.3	\$ 239.3	\$ 1,221.1	53.7%
Replacement Facilities	\$ 90.1	\$ 98.9	\$ 23.9	\$ 13.7	\$ 22.9	\$ 249.5	11.0%
Collection Facilities	\$ 71.7	\$ 100.7	\$ 115.4	\$ 77.4	\$ 30.7	\$ 395.9	17.4%
Stormwater Management	\$ 13.7	\$ 29.0	\$ 28.0	\$ 31.0	\$ 31.0	\$ 132.7	5.8%
Tunnel & Reservoir Plan	\$ 72.5	\$ 68.4	\$ 73.8	\$ 55.8	\$ 3.5	\$ 274.0	12.1%
Total Spending	\$ 394.7	\$ 512.6	\$ 522.3	\$ 516.2	\$ 327.4	\$ 2,273.2	100.0%
Funding Source							
Stormwater Fund	\$ 13.8	\$ 29.0	\$ 28.0	\$ 31.0	\$ 31.0	\$ 132.8	5.8%
Construction Fund	\$ 3.5	\$ 2.5	\$ 1.0	\$ -	\$ 0.7	\$ 7.7	0.3%
Bond Fund	\$ 377.1	\$ 481.1	\$ 493.4	\$ 485.3	\$ 295.6	\$ 2,132.5	93.8%
Total Funding	\$ 394.4	\$ 512.6	\$ 522.4	\$ 516.3	\$ 327.3	\$ 2,273.0	100.0%

Source: MWRD FY2011 Executive Director's Recommendations, p. 372.

New Capital Spending Requests

The MWRD's request for new capital spending authorization in FY2011 totals \$34.1 million. This is a 51.9% decrease in new capital appropriation from FY2010, when it totaled \$722.4 million. There will be large decreases in most categories. Part of the reason for this is that fewer projects (23) are proposed in FY2011 than in the previous fiscal year (31).⁵⁵

⁵⁵ MWRD FY2011 Executive Director's Recommendations, p. 373.

MWRD Proposed New Capital Spending: FY2010 & FY2011
(in \$ millions)

Project Type	FY2010 Executive Budget	FY2011 Executive Budget	\$ Change	% Change
Treatment Facilities	\$142.6	\$56.5	\$ (86.1)	-60.4%
Collection Facilities	\$57.7	\$49.7	\$ (8.0)	-13.9%
Solids Processing & Disposal	\$208.1	\$32.6	\$ (175.5)	-84.3%
Flood & Pollution Control	\$121.9	\$48.6	\$ (73.3)	-60.1%
Construction Fund	\$2.1	\$3.7	\$ 1.6	76.2%
Land Cost	\$0.7	\$0.6	\$ (0.1)	-7.7%
Project Support	\$189.3	\$155.4	\$ (33.9)	-17.9%
Total	\$722.4	\$347.1	\$ (375.3)	-51.9%

Sources: MWRD FY2010 Executive Director's Recommendations, p. 369; FY2011 Executive Director's Recommendations, p. 373.

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 Metropolitan Water Reclamation District included the following short-term liabilities in its annual Comprehensive Annual Financial Report (CAFR) over the past five years:

- **Accounts Payable:** unpaid bills owed to vendors for goods and services carried over from the previous fiscal year;
- **Accrued Payroll:** employee compensation, 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;
- **Deferred & Unearned Revenue:** revenues from program fees and other sources received before a good or service has been provided;⁵⁶ and
- **Accrued Interest:** interest that is either payable or receivable and has been recognized but not yet paid or received. This may include amounts accumulated on bonds since the last interest payment up to, but not including, the settlement date.

In FY2009, the District reported a large increase in short-term liabilities over FY2008, rising by \$48.9 million, or 52.6%. Since FY2005, short-term liabilities overall have increased by \$78.6 million or 124.1%. The following chart shows short-term liabilities by category and the percent change between FY2005 and FY2009.

⁵⁶ Unearned revenue is a payment received before a good is sold or a service is provided. Unearned revenue is classified as a current liability on the balance sheet until it is recognized as earned during the accounting cycle. See <http://www.businessdictionary.com/definition/unearned-revenue.html#ixzz14ow1LgZo>.

Metropolitan Water Reclamation District Short-Term Liabilities FY2005-FY2009							
(in \$ thousands)							
Type	FY2005	FY2006	FY2007	FY2008	FY2009	5-year Change	5-year % Change
Accounts Payable	\$ 44,852.0	\$ 85,207.0	\$ 65,721.0	\$ 71,588.0	\$ 108,302.0	\$ 63,450.0	141.5%
Accrued Payroll	\$ 3,518.0	\$ 3,739.0	\$ 4,519.0	\$ 5,936.0	\$ 6,936.0	\$ 3,418.0	97.2%
Deposits Payable	\$ 3,297.0	\$ 2,421.0	\$ 2,667.0	\$ 3,035.0	\$ 2,453.0	\$ (844.0)	-25.6%
Deferred & Unearned Revenue	\$ 1,914.0	\$ 2,266.0	\$ 2,325.0	\$ 2,098.0	\$ 2,348.0	\$ 434.0	22.7%
Accrued Interest	\$ 9,793.0	\$ 10,216.0	\$ 10,121.0	\$ 10,392.0	\$ 21,964.0	\$ 12,171.0	124.3%
Total	\$ 63,374.0	\$ 103,849.0	\$ 85,353.0	\$ 93,049.0	\$ 142,003.0	\$ 78,629.0	124.1%

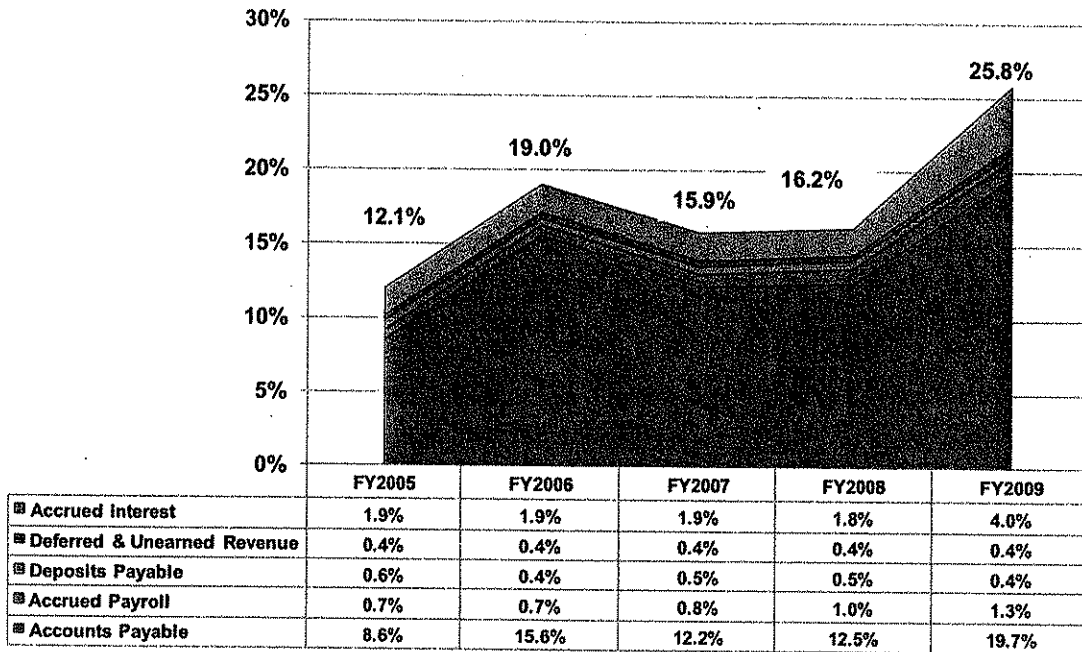
Source: Metropolitan Water Reclamation District FY2005-FY2009 CAFRS.

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.⁵⁷ 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 has shown an upward trend in short-term liabilities compared to total operating revenue between FY2005 and FY2009, rising from 12.1% to 25.8%. The increase between FY2008 and FY2009 was particularly sharp, rising from 16.2% to 25.8%. The increase in this ratio has been primarily driven by a spike in accounts payable that outpaced revenue increases over the past five years. The following graph shows the five-year trend in the District's short-term liabilities as a percentage of operating funds by category.

⁵⁷ 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), p. 77 and p. 169.

MWRD Short-Term Liabilities as % of Operating Revenues FY2005-FY2009

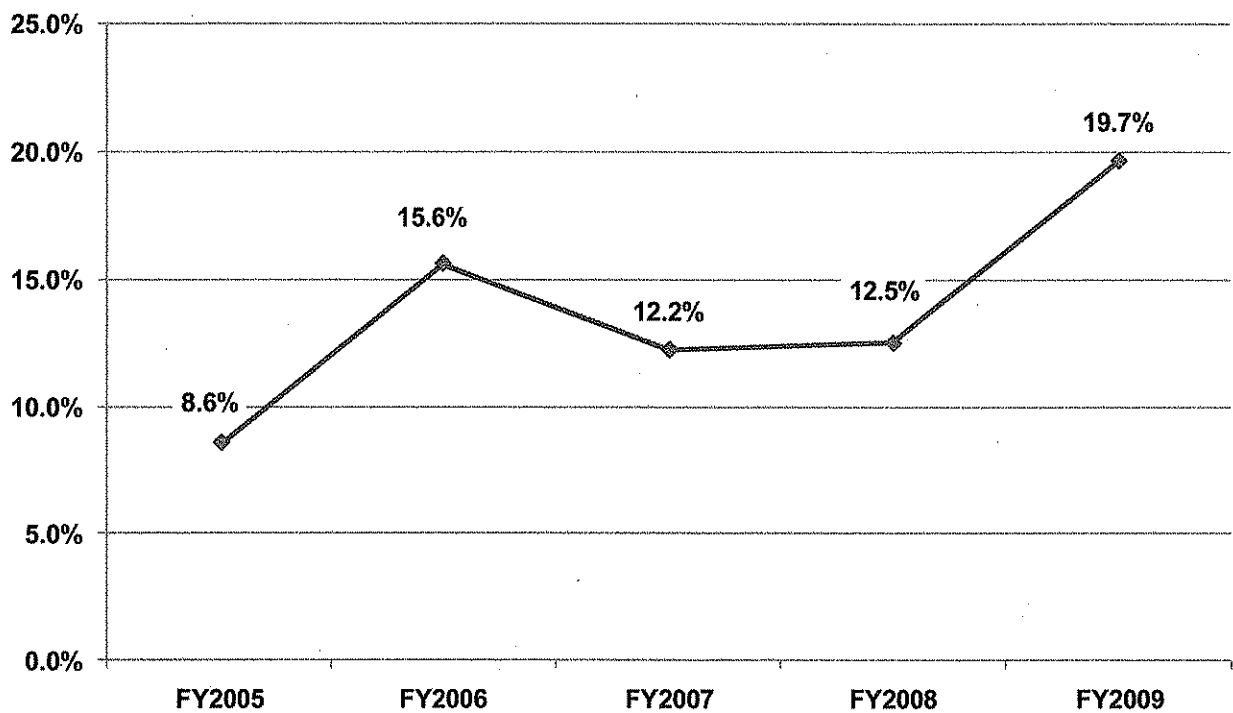


Source: Metropolitan Water Reclamation District FY2005-FY2009 CAFRs.

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 increased sharply from FY2005 to FY2009, by \$63.4 million or 141.5%. This compares to a total operating revenue increase of only \$27.4 million from FY2005 to FY2009, or a 5.2% increase. The chart below shows the five-year trend in accounts payable compared to operating revenues for the MWRD.

MWRD Accounts Payable as % of Operating Revenues FY2005-FY2009



Source: Metropolitan Water Reclamation District FY2005-FY2009 CAFRs.

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 long-term debt per capita trends and total long-term liability trends.

Long-Term Debt

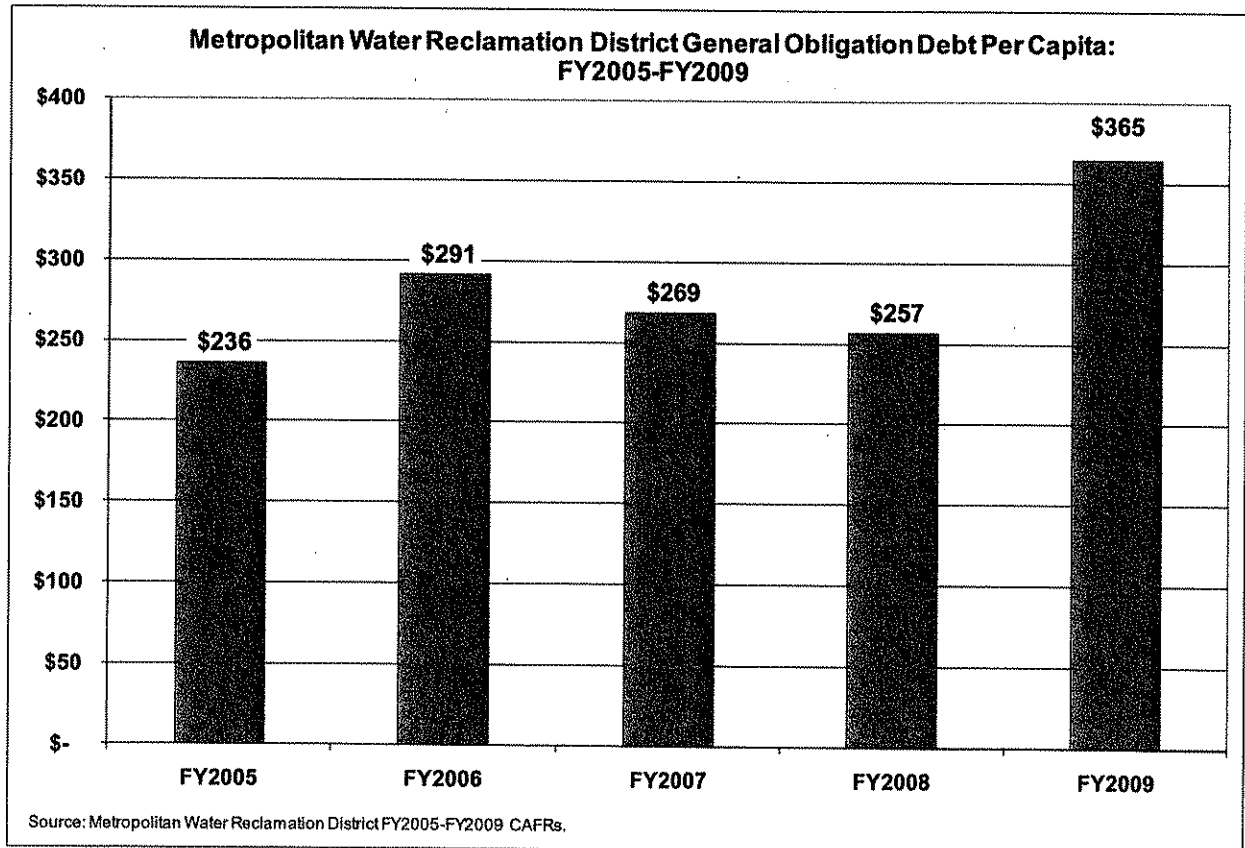
In the five-year period between FY2005 and FY2009, MWRD long-term debt increased by 54.6%. This was an increase of \$698.6 million, from nearly \$1.3 billion to \$1.9 billion. All of the long-term debt was general obligation debt. From FY2008 to FY2009, long-term debt rose by 42.1% or \$586.5 million.

Metropolitan Water Reclamation District Long-Term Debt: FY2005-FY2009 (in \$ thousands)							
Types of Debt	FY2005	FY2006	FY2007	FY2008	FY2009	5-year Change	5-year % Change
General Obligation Debt	\$ 1,280,569.0	\$ 1,579,401.0	\$ 1,456,620.0	\$ 1,344,043.0	\$ 1,870,939.0	\$ 590,370.0	46.1%
Converted bond anticipation notes	\$ -	\$ -	\$ 9,234.0	\$ 48,656.0	\$ 108,264.0	\$ 108,264.0	N/A
Total General Obligation Debt	\$ 1,280,569.0	\$ 1,579,401.0	\$ 1,465,854.0	\$ 1,392,699.0	\$ 1,979,203.0	\$ 698,634.0	54.6%

Source: MWRD CAFRs, FY2005-FY2009.

Long-Term Debt Per Capita

The MWRD's long-term debt is General Obligation (GO) debt. GO debt per capita is a measure of a government's ability to maintain its current financial policies. Increases over time bear watching as a potential sign of increasing financial risk. Between FY2005 and FY2009, the MWRD's long-term GO debt per capita increased by 54.6%, rising from \$236 to \$365. From FY2008 to FY2009, there was a particularly large increase from \$257 to \$365, a 42.1% increase. The following chart shows the change in debt per capita over the past five years.



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.

Between FY2005 and FY2009, all long-term liabilities rose by 52.2%, rising from \$1.4 billion to nearly \$2.2 billion. This represented an increase of approximately \$742.6 million.

MWRD Long-Term Liabilities FY2005-FY2009 (In \$ thousands)							
Long Term Liabilities	FY2005	FY2006	FY2007	FY2008	FY2009	5-year Change	5-year % Change
General Obligation Debt	\$ 1,280,569.0	\$ 1,579,401.0	\$ 1,456,620.0	\$ 1,344,043.0	\$ 1,870,939.0	\$ 590,370.0	46.1%
Converted bond anticipation notes	\$ -	\$ -	\$ 9,234.0	\$ 48,656.0	\$ 108,264.0	\$ 108,264.0	N/A
Subtotal General Obligation Debt	\$ 1,280,569.0	\$ 1,579,401.0	\$ 1,465,854.0	\$ 1,392,699.0	\$ 1,979,203.0	\$ 698,634.0	54.6%
Deferred Issuance Costs	\$ (4,309.0)	\$ (3,799.0)	\$ (1,313.0)	\$ (1,142.0)	\$ (6,774.0)	\$ (2,465.0)	57.2%
Deferred Premiums	\$ 15,701.0	\$ 34,460.0	\$ 73,538.0	\$ 69,286.0	\$ 65,409.0	\$ 49,708.0	316.6%
Refunding Transactions	\$ (17,295.0)	\$ (19,387.0)	\$ (34,608.0)	\$ (31,570.0)	\$ (28,532.0)	\$ (11,237.0)	65.0%
Subtotal Bonds Payable, Net	\$ 1,274,666.0	\$ 1,590,675.0	\$ 1,503,471.0	\$ 1,429,273.0	\$ 2,009,306.0	\$ 734,640.0	57.6%
Bond Anticipation Notes	\$ 48,238.0	\$ 25,261.0	\$ 63,131.0	\$ 64,894.0	\$ 86,286.0	\$ 38,048.0	78.9%
Subtotal Long Term Debt	\$ 1,322,904.0	\$ 1,615,936.0	\$ 1,566,602.0	\$ 1,494,167.0	\$ 2,095,592.0	\$ 772,688.0	58.4%
Claims and Judgments	\$ 73,640.0	\$ 69,562.0	\$ 29,265.0	\$ 30,813.0	\$ 38,886.0	\$ (34,754.0)	-47.2%
Compensated Absences	\$ 27,046.0	\$ 28,010.0	\$ 28,551.0	\$ 30,451.0	\$ 31,680.0	\$ 4,634.0	17.1%
Total Long Term Liabilities	\$ 1,423,590.0	\$ 1,713,508.0	\$ 1,624,418.0	\$ 1,555,431.0	\$ 2,166,158.0	\$ 742,568.0	52.2%

Source: MWRD FY2005-FY2009 CAFRs.

Debt Service Appropriations as a Percentage of Total Appropriations

The ratio of debt service expenditures as a percentage of total Governmental Fund expenditures is frequently used by rating agencies to assess debt burden. Debt service payments of 15-20% of all appropriations are considered high. The debt service to total appropriations ratio for the MWRD between FY2007 and FY2009 averaged 21.6% and thus can be rated as high.

MWRD Debt Service Appropriations as a Percentage of Total Appropriations: FY2007-FY2011					
	FY2007	FY2008	FY2009	FY2010	FY2011
Debt Service Appropriations	\$160,184,762	\$134,593,881	\$134,447,869	\$163,120,429	\$154,260,452
Total Appropriations	\$968,775,832	\$1,377,000,215	\$1,542,801,290	\$1,378,626,653	\$974,268,952
Debt Service as a % of Total Appropriations	22.3%	21.0%	21.0%	21.7%	21.8%

Source: MWRD Tentative Budgets.

PENSION FUND TRENDS

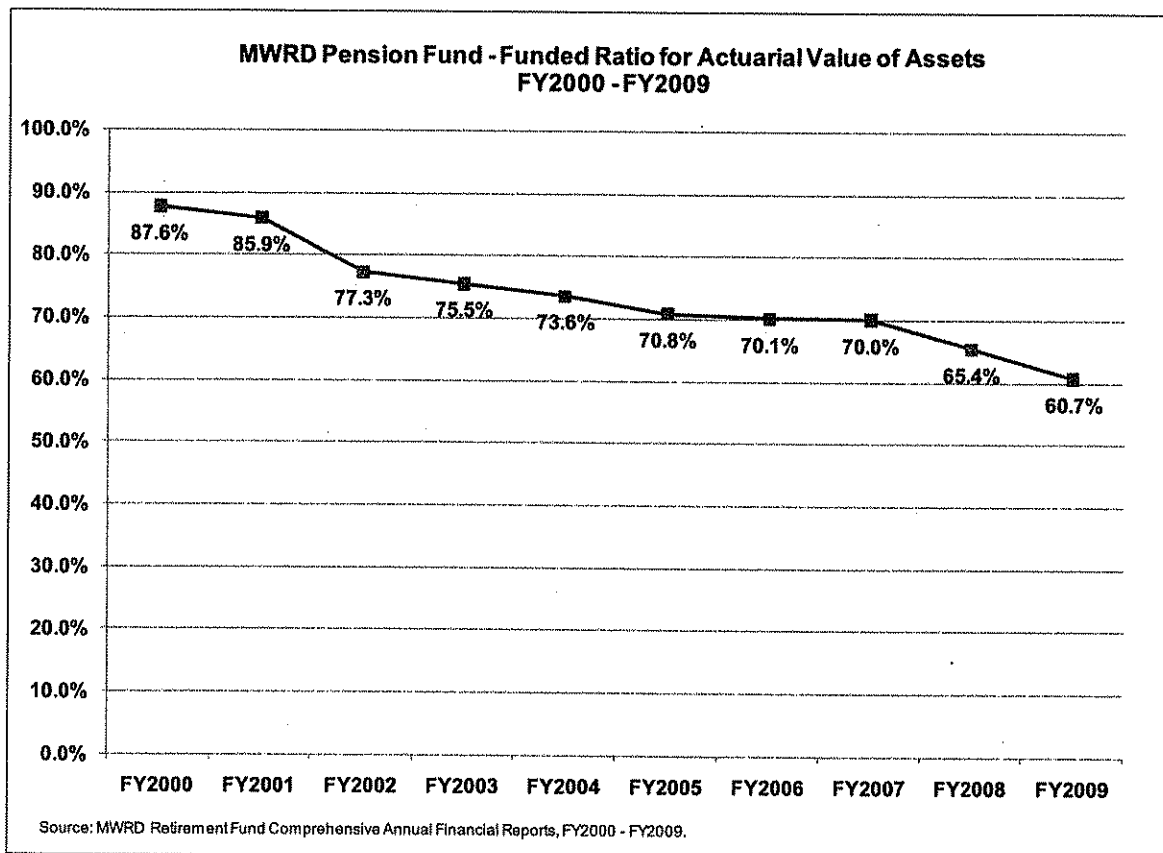
The Civic Federation used three measures to present a multi-year evaluation of the fiscal health of the MWRDs pension fund: actuarial value funded ratios, unfunded actuarial accrued liabilities and investment rate of return. This section also describes the pension benefits and annual required employer contributions to the fund.

In FY2009 there were 2,082 active members of the pension fund and 2,252 beneficiaries.⁵⁸ MWRD is the only sanitary district in Illinois whose employees who do not participate in the Illinois Municipal Retirement Fund.

Funded Ratio – Actuarial Value of Assets

The following exhibit shows the funded ratio for the MWRD’s pension fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations.

The funded ratio for the MWRD’s pension fund decreased from 87.6% in FY2000 to 60.7% in FY2009. This continued decline is a cause for concern. In general, a funded ratio below 80% is considered to be an indication that the fund is in poor health.

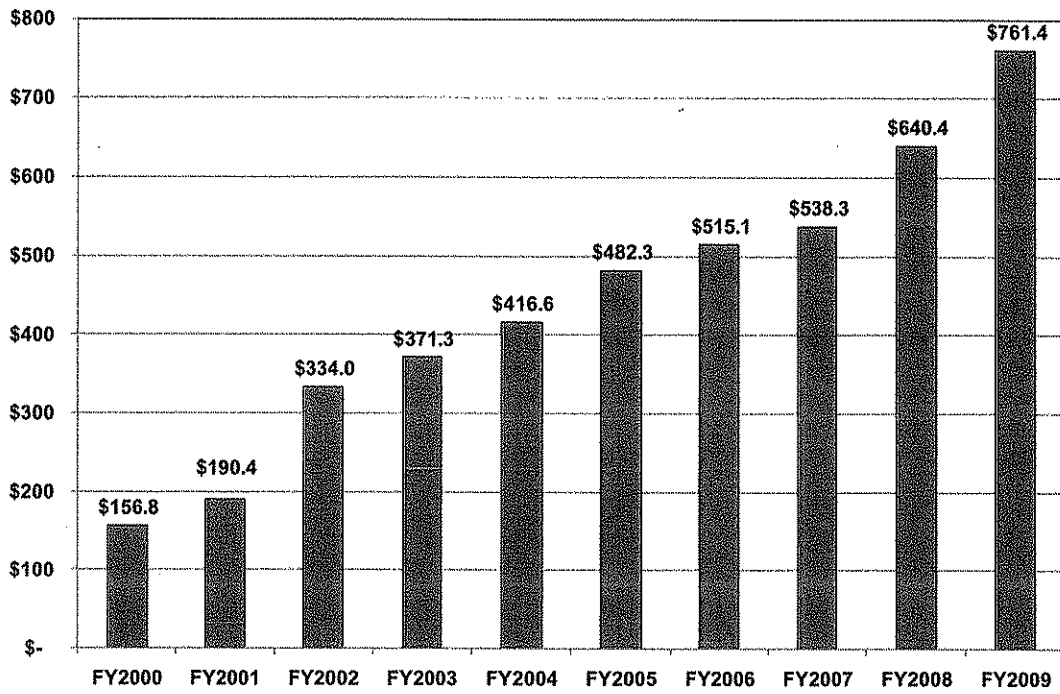


Unfunded Liabilities

Unfunded liabilities are the dollar value of pension liabilities not covered by assets. The exhibit below shows that unfunded liabilities for the MWRD’s pension fund totaled approximately \$761.4 million in FY2009, up from \$640.4 million the previous fiscal year. Between FY2000 and FY2009, unfunded liabilities rose by 385.4% or \$604.5 million.

⁵⁸ MWRD Retirement Fund FY2009 Comprehensive Annual Financial Report, p. 37.

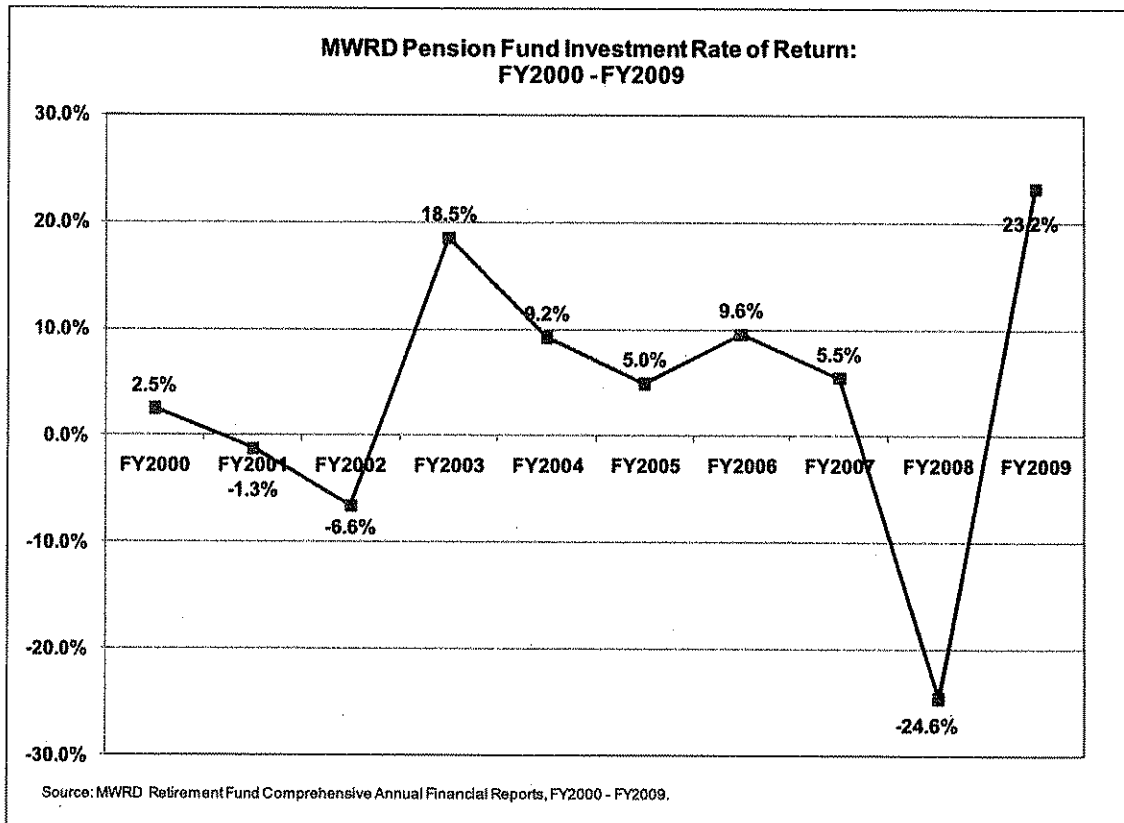
**MWRD Pension Fund Unfunded Actuarial Accrued Liabilities:
FY2000 - FY2009 (in \$ millions)**



Source: MWRD Retirement Fund Comprehensive Annual Financial Reports, FY2000 - FY2009.

Investment Rates of Return

Investment income typically provides a significant portion of the funding for pension funds. Thus, declines over time negatively impact pension assets. From FY2000 to FY2002 the investment rate of return declined from a 2.5% return to a 6.6% loss. In FY2003 it rebounded to an 18.5% rate of return. From FY2004 to FY2007 MWRD had positive returns ranging from 5% to 9.6%. In FY2008 there was a loss of 24.6% corresponding to the crisis in the financial markets. There was a large rebound in FY2009 with a 23.2% rate of return.



Pension Benefits

Public Act 96-0889, enacted in April 2010, creates a new tier of benefits for many public employees hired on or after January 1, 2011, including members of the MWRD pension fund. This report will refer to “current employees” as those persons hired before the effective date of Public Act 96-0889 and “new hires” 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 will not affect MWRD pension contributions under the current state statute requiring MWRD contributions to be a fixed multiple of 2.19 times employee contributions made two years prior.⁵⁹

⁵⁹ See the Civic Federation, “Status of Local Pension Funding Fiscal Year 2008,” March 8, 2010, p. 41ff. for an explanation of employer contributions. <http://www.civicfed.org/civic-federation/publications/fy2008statuslocalpensions>

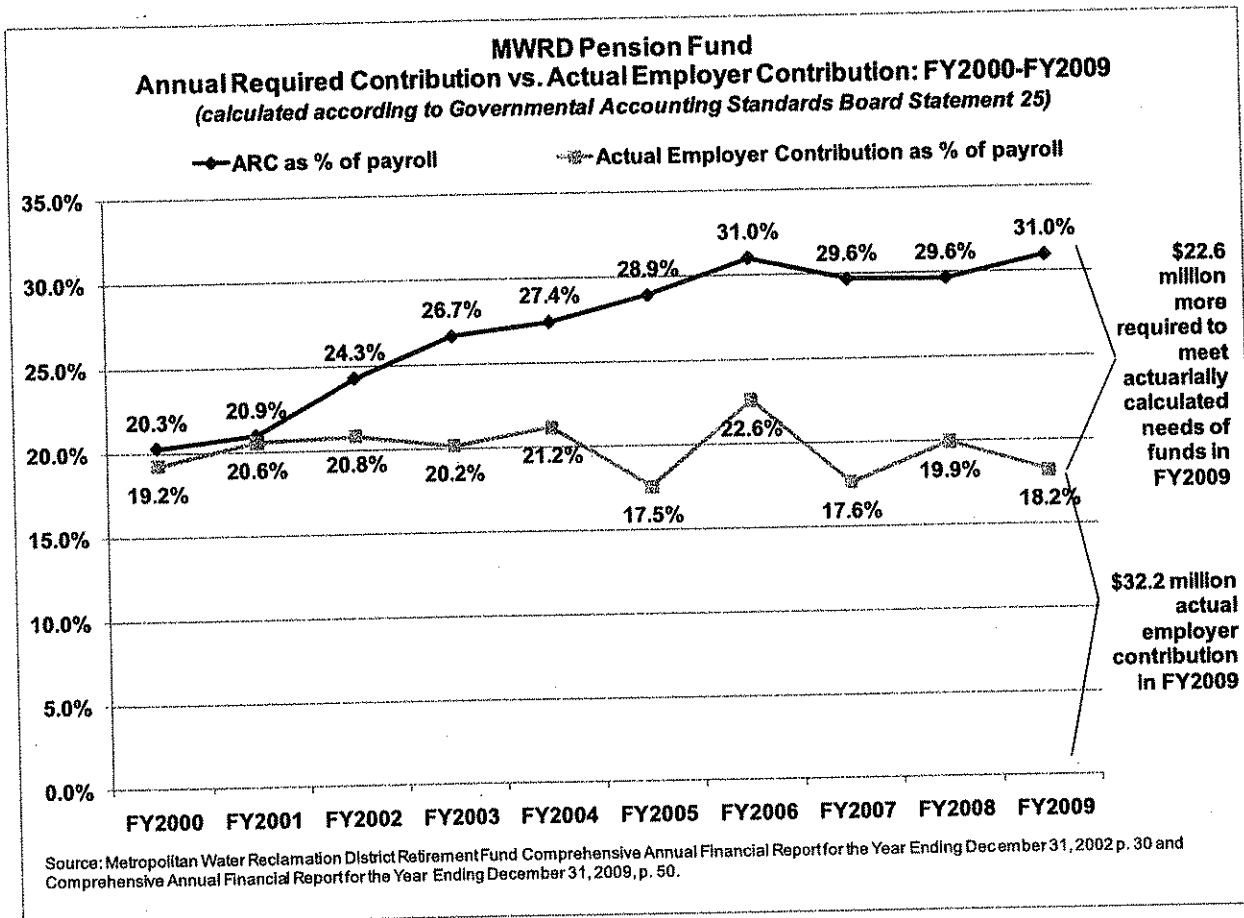
MWRD Pension Fund
Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25

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	Actuarial Funded Ratio
2000	\$ 28,905,278	\$ 27,390,683	\$ 1,514,595	94.8%	\$ 142,593,596	20.3%	19.2%	87.6%
2001	\$ 28,552,646	\$ 28,026,964	\$ 525,682	98.2%	\$ 136,382,287	20.9%	20.6%	85.9%
2002	\$ 33,414,603	\$ 28,662,510	\$ 4,752,093	85.8%	\$ 137,679,573	24.3%	20.8%	77.3%
2003	\$ 38,039,355	\$ 28,778,648	\$ 9,260,707	75.7%	\$ 142,593,596	26.7%	20.2%	75.5%
2004	\$ 40,146,454	\$ 30,982,232	\$ 9,164,222	77.2%	\$ 146,360,302	27.4%	21.2%	73.6%
2005	\$ 43,164,572	\$ 26,174,492	\$ 16,990,080	60.6%	\$ 149,246,356	28.9%	17.5%	70.8%
2006	\$ 47,368,878	\$ 34,476,332	\$ 12,892,546	72.8%	\$ 152,767,396	31.0%	22.6%	70.1%
2007	\$ 47,090,445	\$ 27,947,096	\$ 19,143,349	59.4%	\$ 158,831,772	29.6%	17.6%	70.0%
2008	\$ 49,758,238	\$ 33,406,819	\$ 16,351,419	67.1%	\$ 167,865,254	29.6%	19.9%	65.4%
2009	\$ 54,790,175	\$ 32,153,874	\$ 22,636,301	58.7%	\$ 176,915,399	31.0%	18.2%	60.7%

^{*}A dollar amount actual employer contribution is not disclosed in the Schedule of Employer Contributions for this fund so the Employer Contributions listed in the Statement of Plan Net Assets for each year is used.

Source: Metropolitan Water Reclamation District Retirement Fund Comprehensive Annual Financial Report for the Year Ending December 31, 2002 p. 30 and Comprehensive Annual Financial Report for the Year Ending December 31, 2009, p. 50.

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 has grown from a 1.1 percentage point shortfall in FY2000 to a 12.8 percentage point shortfall in FY2009. In other words, 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 12.8% of payroll or \$22.6 million in FY2009.



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 benefit (OPEB) liability. Funding parameters were also 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; and
- an initial investment allocation of 50% equities and 50% bonds.⁶¹

Public Act 095-394, effective August 26, 2007, granted MWRD the authority to establish the OPEB trust. The District made an initial 2007 contribution of \$15.0 million to the OPEB trust,

⁶¹ MWRD FY2011 Executive Director's Recommendations, p. 8.

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 interested earned on District moneys.⁶² No contributions were made in 2009 or 2010 due to revenue constraints. The District intends to contribute a minimum of \$3.0 million in 2011 with the possibility of an additional \$5.0 million depending on financial conditions.⁶³ If \$8.0 million is contributed in 2011, the District will have contributed \$50.0 million in the first five years of the trust, consistent with its policy.

Subsequent District contributions will be based on a percentage of payroll. Participants do not contribute to the plan other than by paying 25% of the insurance premium. MWRD pays the remaining 75% of premium for participating retirees.⁶⁴

OPEB Trust Funded Status

The actuarial accrued liability for the MWRD OPEB trust was \$526.5 million in FY2009. The trust has assets actuarially valued at \$47.9 million, resulting in unfunded liabilities of \$478.6 million and a 9.1% funded ratio. The funded ratio has increased from 5.7% in FY2007 due to the District's contributions which have increased the trust's assets. However, the unfunded liabilities grew from \$417.7 million to \$478.6 million over the three-year period.

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

Source: MWRD FY2009 CAFR, p. 95.

⁶² MWRD FY2009 Comprehensive Annual Financial Report, p. 41.

⁶³ MWRD FY2011 Executive Director's Recommendations, p. 8.

⁶⁴ MWRD FY2009 Comprehensive Annual Financial Report, p. 77.