The Civic Federation

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METROPOLITAN WATER RECLAMATION DISTRICT FY2012 TENTATIVE BUDGET:

Analysis and Recommendations

December 7, 2011

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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 offers **conditional support** for the Metropolitan Water Reclamation District's (MWRD) FY2012 Tentative Budget of $1.0 billion. The Federation is concerned that the budget proposes the maximum increase to the property tax levy and does not comply with the District's own fund balance policy. The proposed reforms to pension funding that have the support of the Retirement Fund Board and the Board of Commissioners are a strong step toward improving the financial health of the pension fund, which is only 56.5% funded. However, the passage of these reforms in Springfield will require strong advocacy by the Commissioners.

Therefore, the Federation cannot fully support the tentative budget unless the Board of Commissioners strongly pursues the proposed pension reforms in Springfield during the upcoming spring legislative session and the District increases its budgeted fund balance in compliance with its own policy.

The Civic Federation offers the following **key findings** from the FY2012 Tentative Budget:

- The MWRD FY2012 Tentative Budget will total $1.04 billion and is a $8.6 million, or 0.8% increase over the adjusted FY2011 appropriation of approximately $1.03 billion;
- Corporate Fund appropriations will decrease by $2.3 million, or 0.7%, to $338.8 million in FY2012 from the FY2011 adjusted appropriation of $341.1 million.
- The District is proposing to increase its gross property tax levy for FY2012 by 3.8%, or $18.3 million, to $496.9 million including tax-capped funds limited to a maximum annual increase to 5.0% or the rate of inflation, whichever is less. The tax-capped funds will increase by 3.4%, the maximum amount allowed under State law.
- The District is reducing staffing levels by 149 full-time equivalent (FTE) positions to 1,922 in FY2012, which is a 7.2% decline from 2,071 FTE positions in FY2011.
- District appropriations for personnel will decrease by $21.3 million, or 6.2%, from FY2011 levels.
- In FY2012 the District will set aside $31.7 million as non-appropriated Corporate Fund fund balance. This amount equals 9.4% of the total FY2011 Corporate Fund appropriation of $338.8 million.
- District appropriations for the Retirement Fund will increase by nearly $30.0 million over the statutory funding level through the transfer of interest income to the Fund.
- In FY2010 the pension fund's unfunded liabilities rose to $885.1 million, up from $190.4 million ten years prior in FY2001. This is a 364.9%, or $694.7 million increase.
- The funded ratio for pensions declined from 85.9% to 56.5% over the same ten-year period.

The Civic Federation has several **concerns** about the FY2012 proposed budget including:

- Failing to transparently follow the District's own Corporate Fund fund balance policy;
- A pension fund that shows signs of declining fiscal health including increasing unfunded liabilities and a declining funded ratio; and
- Increasing the FY2012 property tax levy to the maximum amount allowed under State law.

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

- Reducing staffing levels by 7.2% and personnel costs by 6.2%;
- Increasing the contribution to the pension funds by transferring nearly $30 million in interest income to the pension fund appropriation per a 2008 State law;
- Proposing pension funding reforms that would increase employer and employee contributions to the fund;
- Utilizing and publishing long-term financial planning techniques;
- Producing a detailed user-friendly budget document; and
- Dedication of TIF surplus distribution to net assets appropriable (fund balance).

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

- Implement additional pension reform, including reducing benefits for current employees and reforms for the Retirement Board;
- Increase the budgeted fund balance in the Corporate Fund to comply with the District's policy of maintaining a balance of 12-15% of Corporate Fund appropriations;
- Add total revenue collection and personal services content to future budget documents; and
- Budget the Reserve Claim Fund based on anticipated expenditures.

CIVIC FEDERATION POSITION

The Civic Federation offers **conditional support** for the Metropolitan Water Reclamation District's FY2012 Tentative Budget of $1.0 billion. The Federation is concerned the budget puts the District in violation of its own fund balance policy, and that for the second year in a row the District plans to increase its property tax levy to the maximum amount allowed under State law. The Board of Commissioners and the Retirement Fund Board's decision to pursue State legislation that would allow an increase to both employee and employer contributions to the MWRD pension fund is a very positive step, but one that will require strong leadership and active advocacy by District Commissioners and staff if it is to be adopted in Springfield.

The Federation supports many aspects of the tentative budget, including the proposal to cut staffing levels by 7.2%, reduce personnel costs by 6.2% and trim corporate fund spending by 0.7%. MWRD is also a local leader in using long-term financial planning techniques. However, the Federation cannot fully support this budget unless:

- The Board of Commissioners strongly pursues the District's proposed reforms to pension funding during the upcoming spring legislative session and
- The District increases its budgeted fund balance to comply with its own policy of reserving 12-15% of Corporate Fund appropriations for contingencies.

With a pension fund funded ratio that fell to 56.5% in FY2010, it is important for Commissioners and District staff to recognize that even if their proposed pension reform legislation is approved by State lawmakers, it may not be enough to restore the fund to fiscal health. The District should also consider merging with Illinois Municipal Retirement Fund (IMRF) or pursuing changes to the non-vested benefits of current employees.

Civic Federation Concerns

The Civic Federation has the following concerns regarding the MWRD FY2012 Tentative Budget.

Failure to Transparently Comply with Fund Balance Policy

The Civic Federation is concerned that the MWRD is not maintaining its contribution to the non-appropriated Corporate Fund fund balance in FY2012 according to the District's established policy. The District will set aside $31.7 million, or 9.4% of the total FY2012 Corporate Fund appropriation of $338.8 million, as unreserved Corporate Fund fund balance. This is a decrease from the FY2011 year-end estimated amount of nearly $73.0 million, or 22.8% of the Corporate Fund appropriation. The net assets do not fall within the District's own stated goal of maintaining an undesignated Corporate Fund fund balance of 12-15% of operating expenditures, or approximately $39-$49 million.[1] In addition, MWRD's projected FY2012 fund balance does not meet the GFOA recommendation of maintaining at least a 16.7% fund balance in the Corporate Fund.

[1] MWRD FY2012 Executive Director's Recommendations, pp. 21 and 79.

While the Federation acknowledges the District anticipates that it will increase its unreserved fund balance in the Corporate Fund by not spending its entire appropriation, this plan does not appear in the budget book and is therefore not a transparent adherence to fund balance policy.

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 FY2010, the last year for which complete data are available, the pension fund's unfunded liabilities rose to $885.1 million, up from $190.4 million ten years prior in FY2001. This is a 364.9%, or $694.7 million, increase. Correspondingly, the funded ratio declined from 85.9% to 56.5% over the same ten-year period.

Shortfalls in employer contributions have significantly contributed to the increase in unfunded liabilities and the decrease in funded ratio. State statute requires that the 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 $61.9 million in FY2010, nearly $32.0 million more than the District's actual $29.9 million contribution.

Given the continued economic challenges and resulting market instability, the retirement fund will continue to face funding challenges, and this makes significant funding reforms necessary sooner rather than later.

Increase in Property Tax Levy for FY2012

The Civic Federation is concerned that the District is proposing the maximum property tax levy at a time of financial hardship for many taxpayers. The proposed tentative budget includes the maximum 3.4% increase in levies for tax-capped funds.

The District is proposing to increase its gross property tax levy for FY2012 by 3.8%, or $18.3 million, across all funds to $496.9 million. Of the $496.9 million, $202.4 million will be levied for funds that are subject to tax cap law. The tax cap law limits annual increases to 5.0% or the rate of inflation, whichever is less.[2]

We acknowledge that the District is undertaking the prudent measure of reducing expenditures, but highlight the fact that many other local governments will either freeze their levies next year or increase them to levels less than the maximum allowed under the tax cap. The Federation encourages the MWRD 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

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[2] MWRD FY2012 Tentative Budget, p. 3. 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-

and cost-saving measures including the sale of its waste products, alternative energy production and joint-contracting with other local governments such as the Chicago Transit Authority.

Issues the Civic Federation Supports

The Civic Federation supports the following issues contained in the MWRD FY2012 Tentative Budget.

Reducing Staffing Levels and 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 for elimination vacant positions 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 years. After modest growth to staff the Master Plans and new initiatives, FY2011 and FY2012 personnel reductions mark the beginning of a five-year plan to reduce staffing levels due to revenue constraints.[3]

Since FY2003 the District has reduced its staffing level by 11.0%, or 237 positions. The District is proposing a reduction from 2,071 in FY2011 to 1,922 in FY2012 for a decrease of 149 positions, or 7.2%.

In FY2012 the District is projecting a decrease in personal service appropriations. Between FY2011 adjusted appropriations and FY2012 recommended appropriations, District personnel expenditures will decline by 6.2%, or $21.3 million, from $345.0 million in FY2011 to $323.7 million in FY2012.[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.

Increase in Pension Funding and Proposed Reforms

The MWRD will increase its 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. This legislation, which was enacted in 2008 and supported by the Civic Federation, was a good step toward improving the fiscal health of the MWRD Retirement Fund.

The MWRD Retirement Fund Board of Trustees has proposed two significant legislative initiatives for pension funding reform with support from the Board of Commissioners.[5] These changes have not yet been introduced in the Illinois General Assembly.[6]

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[3] MWRD FY2012 Executive Director's Recommendations, p. 51.
[4] MWRD FY2012 Executive Director's Recommendations, p. 51.
[5] MWRD, Transmittal Letter for Board Meeting of September 15, 2011. Committee on State Legislation and Rules. File #11-1145, Version 1.
[6] Information provided by the MWRD, December 4, 2011.

Increase in Employee Pension Contribution

The first funding reform would increase employee pension contributions for members who first became participants in the MWRD or a reciprocal fund before January 1, 2011 by 1% per year for each of 3 years in 2012, 2013, and 2014. Currently all employees contribute 9% of their salary to the Retirement Fund.

Beginning January 1, 2011, the General Assembly created different "tiers" of retirement benefits for many public employees in Illinois including MWRD retirement fund members. MWRD Tier 1 members first participated in MWRD or a reciprocal system on or before January 1, 2011. The proposed change would increase contributions for only Tier 1 employees to 10% in July 2012, 11% in July 2013, and 12% in July 2014 in keeping with the more generous benefits offered to that tier.

MWRD Tier 2 members first participated in MWRD or a reciprocal fund on or after January 1, 2011. The General Assembly passed and Governor Quinn signed Public Act 96-0889 in April 2010, which significantly modified benefits for Tier 2 employees. Tier 2 employees would still contribute 9% of their salary to the Fund.

Increase in Tax Levy Multiple (Employer Pension Contribution)

The second funding reform proposes to increase the tax levy multiple to an amount calculated by the actuary to be sufficient to bring the total assets of the MWRD Pension Fund up to 90% of the total actuarial liabilities of the Fund over a 40 year period. Beginning with the 2012 tax levy, 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.

Currently the tax levy multiple is 2.19. Due in part to lower than expected investment returns in the past few years and employer contributions that were less than the actuarial needs of the fund, the Fund's funded ratio has dropped to 56.5%. The proposed change would increase the annual tax levy to the lesser of 4.19 times employee contributions two years prior or the annual required contribution calculated by the Fund's actuary.

The Civic Federation applauds the MWRD for moving to stabilize the health of its retirement system by increasing both employee and employer contributions to the fund. The Federation strongly encourages the MWRD to move forward with these initiatives and urges the General Assembly to approve the eventual legislation.

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 by 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 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 contributed $3.0 million in 2011, thus meeting its goal of contributing $50.0 million through 2011. The District proposes a $12.4 million contribution for FY2012.[7]

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 User-Friendly Budget Document

MWRD has produced a thorough, well-organized budget document. In years past the Civic Federation 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 continuing to produce a transparent and comprehensive budget document that outlines its finances and financial policies in a manner that can be understood by all stakeholders.

Dedication of TIF Surplus Distribution to Net Assets Appropriable

The District is expecting to receive $3.0 to $3.5 million in Tax Increment Financing (TIF) surplus to be distributed by the City of Chicago in 2012.[8] However, the MWRD has prudently chosen not to budget for this one-time revenue source and will instead dedicate the surplus to its net assets appropriable, or in other words, its undesignated fund balance.

The Civic Federation supports the MWRD's plan to contribute the TIF surplus to net assets appropriable and not to use it to close an operating budget gap.

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[7] MWRD FY2012 Executive Director's Recommendations, p. 7.
[8] Information provided by MWRD, November 23, 2011.

Civic Federation Recommendations

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

Implement Comprehensive Pension Reform

While the Civic Federation supports the MWRD's proposed initiatives for pension reform, the Federation offers the following specific recommendations to further improve the long-term financial health of the MWRD's pension fund. These measures would require authorization from the Illinois General Assembly. 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 56.5%, and the District needs to take action immediately.

<u>Reduce Benefits for Current Employees if Adequate Funding for Pension Promises Is Not Secured</u>

The District's unfunded pension liabilities have grown from $190.4 million in FY2001 to $885.1 million in FY2010. The actuarially calculated annual required contribution (ARC) has jumped from 20.9% of payroll to 35.5% of payroll over the same period (see the Pension Fund section of this report), although the District only contributed the equivalent of 17.1% of payroll in FY2010. 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 should continue to consider supporting reductions in non-vested pension benefits for current employees in future pension reform legislation.

<u>Study Consolidation with the Illinois Municipal Retirement Fund</u>

Currently the MWRD does not participate in the Illinois Municipal Retirement Fund (IMRF). 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.

<u>MWRD Pension Fund Governance Reform</u>

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.[9] 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 IMRF, 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

[9] 40 ILCS 5/13-701 (2008).

representation on the board. Finally, financial experts should be included on the pension board and financial training for non-expert members should be required.[10]

Increase Budgeted Fund Balance in the Corporate Fund to Comply with District Policy

On December 21, 2006, the MWRD Board of Commissioners adopted a policy of maintaining an undesignated fund balance in the Corporate Fund of 12-15% of appropriations. The policy was intended to ensure the District's ability to maintain all operations even in the event of unanticipated revenue shortfalls.[11] In the FY2012 Tentative Budget document, the District proposes net assets available for future use (the MWRD term for fund balance in the Corporate Fund) of $31.7 million, or only 9.4% of appropriations. While the MWRD expects to spend less than it has appropriated for the year and therefore anticipates that it will increase its fund balance to the policy level by the end of the year, the Federation does not believe that this a transparent adherence the District's own fund balance policy. The Federation therefore recommends that the District increase its budgeted fund balance to the full amount it expects to maintain for the fiscal year and transparently budget for the full expected fund balance in the future.

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

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

The FY2012 proposed budget includes the 2012 tax revenue for the Corporate Fund, Construction Fund and Stormwater Management Fund. However, the budget does not include the 2012 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."[12] 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 FY2012 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.

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[10] 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.
[11] MWRD FY2012 Executive Director's Recommendations, p. 21.
[12] MWRD FY2012 Executive Director's Recommendations, p. 70.

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

The Civic Federation commends the 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 of Commissioners 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.[13]

From FY2008 to FY2011, the District has not expended more than 14.0% of the proposed appropriation. The largest expenditure during this period was $9.5 million. The FY2012 recommended appropriation is $61.0 million, but the MWRD only anticipates $8.4 million in expenditures.

MWRD Reserve Claim Fund: FY2008-FY2012

	Proposed Appropriation	Actual Expenditure	Ratio
FY2008	$ 55,500,000	$ 7,626,464	13.7%
FY2009	$ 67,500,000	$ 9,463,800	14.0%
FY2010	$ 63,000,000	$ 6,727,900	10.7%
FY2011*	$ 60,000,000	$ 7,400,000	12.3%
FY2012**	$ 61,000,000	$ 8,400,000	13.8%

*Adjusted expenditure for FY2011.

**Proposed expenditure for FY2012.

Source: MWRD 2010 Final Budget, p. 84; FY2012 Executive Director's Recommendations, pp. 70-72; and FY2012 Tentative Budget, p. 6.

Cook County also had a Self-Insurance Fund until FY2009.[14] Unlike MWRD, Cook County did not appropriate the entire Self-Insurance Fund fund balance. Despite having large fluctuations in expenses from year-to-year, County appropriations for the fund were much closer to actual expenditures than MWRD. For example, in FY2008 the County appropriated $94.5 million of the Self-Insurance Fund, and actual expenditures for FY2008 totaled $101.4 million.

[13] MWRD FY2012 Executive Director's Recommendations, p. 17.
[14] Cook County is still self-insured. However, the Self Insurance Fund was absorbed with the General Fund starting in FY2009.

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 $10.5 million. This is $50.5 million less than the recommended appropriation and still significantly above any single year of expenditures over the past five years.

The GFOA views budgets not just as a legal appropriation, but as a policy document, financial plan, operations guide and communication tool.[15] 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.

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."[16] 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 answer our questions.

[15] Government Finance Officers Association, "Awards Criteria" www.gfoa.org/downloads/BudgetCriteriaExplanations_000.pdf (Last viewed on December 12, 2010).
[16] 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, 2010).

APPROPRIATIONS

The District proposes to appropriate $1.03 billion in its 2012 Tentative Budget. This is a 0.8%, or $8.6 million, increase from the FY2011 adjusted budget of approximately $1.04 billion.

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 made at the Committee on Budget and Employment hearings held on the Executive Director's Recommendations (BF-19 changes);[17]
- *Adopted appropriations* – appropriations as adopted by the Board (BF-20 changes);
- *Amended appropriations* – appropriations as amended by the Board (BF-21changes, or Final)
- *Adjusted appropriations* – year-end estimated appropriations
- *Actual expenditures* – actual expenditures, available in the Comprehensive Annual Financial Report, typically in April or May following the end of the fiscal year.

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 proposed or Tentative Budget to the adjusted appropriations and, when available, actual expenditures from previous years.

The following exhibit shows MWRD budget appropriations and actual expenditures from FY2007 to FY2011. It presents appropriations for the tentative budgets, adopted budgets, adjusted budgets and actual expenditures for FY2007 to FY2011.

MWRD Appropriations - Tentative, Adopted, Adjusted and Actual: FY2007-FY2011

	Tentative	Adopted	Adjusted	Actual
FY2007	$ 968,775,832	$ 1,024,679,532	$ 1,023,147,811	$ 1,023,147,811
FY2008	$ 1,377,000,215	$ 1,428,086,215	$ 1,472,660,136	$ 1,472,660,136
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

Note: Actual amounts for FY2007-FY2009 are actual appropriations found in FY2009 (p. 50), FY2010 (p. 50) and FY2011 adopted budgets. Actual amount for FY2010 is actual appropriations as found in FY2012 Executive Director's Recommendations, p. 38. Actual amount for FY2011 is as adjusted in FY2012 Executive Director's Recommendations, p. 38.
Source: MWRD Tentative and Adopted Budgets, FY2007-FY2011 and MWRD FY2012 Executive Director's Recommendations.

[17] BF is an abbreviation for Budget Forms and is a term typically used internally by MWRD staff and Board of Commissioners.

The next exhibit compares the four types of appropriations for FY2007-FY2011. 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, almost no variance exists between the adjusted and actual appropriations. Relatively small changes occur between the adopted and actual appropriations. The greatest amount overall of variance occurs between the tentative and adopted, adjusted or actual budgets.

MWRD Appropriations Comparison of Tentative, Adopted and Actual: FY2007-FY2011

	Variance: Tentative vs. Adopted	Variance: Tentative vs. Adjusted	Variance: Tentative vs. Actual	Variance: Adopted vs. Adjusted	Variance: Adopted vs. Actual	Variance: Adjusted vs. Actual
FY2007	$ 55,903,700	$ 54,371,979	$ 54,371,979	$ (1,531,721)	$ (1,531,721)	$ -
FY2008	$ 51,086,000	$ 95,659,921	$ 95,659,921	$ 44,573,921	$ 44,573,921	$ -
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	$ -

Source: MWRD Tentative and Adopted Budgets, FY2007-FY2011 and MWRD FY2012 Executive Director's Recommendations.

In FY2012 Corporate Fund appropriations, which are used for operational and general expenditures, are projected to decrease by 0.7%, or $2.3 million, to $338.8 million from FY2011 adjusted appropriations. This decrease occurs in order to attempt to maintain a fund balance level compliant with the District’s policy and to adequately fund the other major funds.[18] 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.[19] This practice is an alternative to the more common practice where governments issue 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. FY2012 Construction Fund appropriations include re-appropriations for prior year projects still under construction. In FY2012 the Construction Fund will increase by $16.1 million, or 90.8%, to $33.8 million. This increase reflects the change in schedule of various projects currently under design or construction.[20] In FY2012 the District will transfer $0.3 million of the Corporate Fund total user charge revenue to the Construction Fund for two new projects with total contract costs of $2.9 million.[21]

The Capital Improvements Bond Fund is for major infrastructural improvements with useful lives longer than 20 years and which are financed by long-term debt, Federal and State grants or State Revolving Fund loans. The 20.7%, or $79.5 million, decrease in Capital Improvements

[18] MWRD FY2012 Executive Director’s Recommendations, p. 14.
[19] MWRD FY2012 Executive Director’s Recommendations, p. 21.
[20] MWRD, BF-20 Package, December 1, 2011.
[21] MWRD FY2012 Executive Director’s Recommendations, p. 85.

Bond Fund appropriations in FY2012 reflects the timing of major project awards.[22] This fund fluctuates yearly based upon the scheduled awards of major projects.[23]

Stormwater Management Fund appropriations will grow to $51.0 million in FY2012, an increase of 27.7%, or nearly $11.1 million. This significant increase is attributed to the scheduled award for the Heritage Park Flood Control Facility.[24]

The Retirement Fund is expected to increase by 98.7%, or nearly $32.0 million, in FY2012. The MWRD will increase its 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 Bond Redemption & 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 loans from the Illinois State Water Pollution Control Revolving Loan Fund. The Bond Redemption & Interest Fund will rise by 19.5%, or $30.3 million, from $155.5 million in FY2011 to $185.9 million in FY2012.

Appropriations for the Reserve Claim Fund will increase by 1.7%, or $1.0 million, to $61 million in FY2012. 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 on the following page, the Board has adopted a policy of striving to finance the Reserve Claim Fund at the maximum level permitted by state statue and to levy at the tax rate limit. The levy will be raised by the maximum allowable ½ cent.[25] Anticipated expenditures are much less than appropriated amounts and are expected to rise by 9.5% from $7.4 million in FY2011 to $8.4 million in FY2012.[26]

MWRD Major Fund Appropriations: FY2011 & FY2012				
	FY2011 Adjusted	FY2012 Tentative	$ Change	% Change
Corporate Fund	$ 341,093,400	$ 338,795,200	$ (2,298,200)	-0.7%
Construction Fund	$ 17,700,000	$ 33,774,400	$ 16,074,400	90.8%
Capital Improvements Bond Fund*	$ 385,052,100	$ 305,505,300	$ (79,546,800)	-20.7%
Stormwater Management Fund	$ 39,949,100	$ 51,000,000	$ 11,050,900	27.7%
Retirement Fund	$ 32,384,000	$ 64,362,000	$ 31,978,000	98.7%
Bond Redemption & Interest Fund	$ 155,540,851	$ 185,863,249	$ 30,322,398	19.5%
Sub-Total	**$ 971,719,451**	**$ 979,300,149**	**$ 7,580,698**	**0.8%**
Reserve Claim Fund	$ 60,000,000	$ 61,000,000	$ 1,000,000	1.7%
Total	**$ 1,031,719,451**	**$ 1,040,300,149**	**$ 8,580,698**	**0.8%**

*Capital Improvements Bond Fund includes appropriations for prior year obligations.
Source: MWRD 2012 Tenative Budget, p. 6.

The next exhibit shows MWRD actual expenditures and adjusted and proposed appropriations by fund for FY2008 through FY2012. When comparing actual expenditures to proposed

[22] MWRD FY2012 Executive Director's Recommendations, p. 17.
[23] MWRD FY2012 Executive Director's Recommendations, p. 17.
[24] MWRD FY2012 Executive Director's Recommendations, p. 15.
[25] MWRD FY2012 Executive Director's Recommendations, p. 18 and BF-20 Package, p. 7.
[26] MWRD FY2012 Executive Director's Recommendations, p. 459.

appropriations, it is necessary to exclude the Reserve Claim Fund since the appropriation is much larger than what is anticipated to be spent. Excluding the Reserve Claim Fund, appropriations will decline by 30.9%, or $437.9 million, from $1.4 billion in FY2008 to $979.3 million in FY2012. Most of the decline reflects budgeted appropriations in the Capital Improvements Bond Fund that are much lower than actual expenditures in prior years. The Corporate Fund will also decrease significantly, by 14.7%, or $58.4 million. The greatest increase in appropriations will occur in the Stormwater Management Fund, which will rise from $34.9 million in FY2008 to $51.0 million in FY2012.

MWRD Major Fund Appropriations: FY2008-FY2012							
	2008 Actual	2009 Actual	2010 Actual	2011 Adjusted	2012 Tentative	2008-2012 $ Change	2008-2012 % Change
Corporate Fund	$ 397,186,600	$ 395,002,600	$ 354,500,900	$ 341,093,400	$ 338,795,200	$ (58,391,400)	-14.7%
Construction Fund	$ 32,160,100	$ 35,583,800	$ 27,078,700	$ 17,700,000	$ 33,774,400	$ 1,614,300	5.0%
Capital Improvements Bond Fund*	$ 743,350,100	$ 932,866,800	$ 975,197,900	$ 385,052,100	$ 305,505,300	$ (437,844,800)	-58.9%
Stormwater Management Fund	$ 34,924,000	$ 33,807,000	$ 39,928,900	$ 39,949,100	$ 51,000,000	$ 16,076,000	46.0%
Retirement Fund	$ 30,371,534	$ 31,385,921	$ 32,766,924	$ 32,384,000	$ 64,362,000	$ 33,990,466	111.9%
Bond Redemption & Interest Fund	$ 179,167,802	$ 134,450,856	$ 162,937,455	$ 155,540,851	$ 185,863,249	$ 6,695,447	3.7%
Sub-Total	**$ 1,417,160,136**	**$ 1,563,096,977**	**$ 1,592,410,779**	**$ 971,719,451**	**$ 979,300,149**	**$ (437,859,987)**	**-30.9%**
Reserve Claim Fund**	$ 55,500,000	$ 67,500,000	$ 63,000,000	$ 60,000,000	$ 61,000,000	$ 5,500,000	9.9%
Total	**$ 1,472,660,136**	**$ 1,630,596,977**	**$ 1,655,410,779**	**$ 1,031,719,451**	**$1,040,300,149**	**$ (432,359,987)**	**-29.4%**

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

**Reserve Claim Fund includes actual appropriations, not actual expenditures for FY2008, FY2009 and FY2010.

Source: MWRD 2010 Final Budget, p. 50; 2011 Final Budget; and 2012 Tentative Budget, p. 6.

The MWRD Board of Commissioners has adopted a policy of striving to finance the Reserve Claim Fund at the maximum level permitted by state statue, which is 0.05% of the last known equalized assessed valuation (EAV). Using the 2009 EAV, the maximum accumulation is approximately $83.5 million.[27] From FY2008 to FY2010, the District did not expend more than 14.0% of the proposed appropriation. Although 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. The District is projecting expenditures to be $8.4 million, or 13.8% of the total proposed appropriation, in FY2012, as shown later in this section.[28]

MWRD Reserve Claim Fund: FY2008-FY2012			
	Proposed Appropriation	Actual Expenditure	Ratio
FY2008	$ 55,500,000	$ 7,626,464	13.7%
FY2009	$ 67,500,000	$ 9,463,800	14.0%
FY2010	$ 63,000,000	$ 6,727,900	10.7%
FY2011*	$ 60,000,000	$ 7,400,000	12.3%
FY2012**	$ 61,000,000	$ 8,400,000	13.8%

*Adjusted expenditure for FY2011.

**Proposed expenditure for FY2012.

Source: MWRD 2010 Final Budget, p. 84; FY2012 Executive Director's Recommendations, pp. 70-72; and FY2012 Tentative Budget, p. 6.

[27] MWRD FY2012 Executive Director’s Recommendations, p. 459.
[28] MWRD FY2012 Executive Director’s Recommendations, p. 459.

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 FY2012 proposed budget includes the 2012 tax revenue for the Corporate, Construction and Stormwater Management Funds. However, the budget does not include the 2012 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."[29] MWRD attributes this inconsistency in the budget to its cash-based budgeting practices. The levy for tax year 2012 is not collected until 2013. Therefore the revenue is not available for FY2012 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, but there are no working cash funds for the Retirement, Reserve Claim or Bond and Interest Funds. [30]

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 $38 million in PPRT revenue to be collected in FY2012.[31] However, the District has only budgeted $26.2 million. The district attributes this budgeting practice to the PPRT's history, since it was once a local property tax subject to a collection lag, but it is now a state-collected corporate income tax.[32]

Corporate Fund Resources

The FY2012 Corporate Fund revenue will decrease by 7.9%, or $25.6 million, from $323.5 million in FY2011 to $297.9 million. The District is taking $40.9 million from its net assets, which is 132.3% more than what was drawn in FY2011.[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 0.7%, or $2.3 million.

Some key revenue changes include:

- The District's 2012 net Corporate Fund property tax levy, which constitutes 72.6% of its revenues, will decrease by $23.5 million, or 9.8%.
- User charges are 14.1% of Corporate Fund revenues in FY2012 and are expected to increase by $1.0 million to $42.0 million. User charges are paid by large industrial and government users based on the volume and strength of effluent discharged.

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[29] MWRD FY2012 Executive Director's Recommendations, p. 70.
[30] MWRD FY2012 Executive Director's Recommendations, p. 65.
[31] MWRD FY2012 Executive Director's Recommendations, p. 19.
[32] Information provided by MWRD, 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 the Corporate Fund fund balance.

- The Corporate Fund allocation of PPRT is expected to increase by $3.6 million, or 15.7%. 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, as well as economic factors. Total estimated cash collected from the PPRT has grown significantly since 2002. This revenue moves in parallel to the state and national economy.[34]
- Property and Service Charges, which includes land rentals and other revenues, will remain flat in FY2012 at $12.3 million.
- Investment Income will increase by $1.1 million, or 110.0%, to $2.1 million. The increase reflects stable short-term interest rates and years of fund balance resources available for investment.[35]
- There are no equity transfers recommended in the FY2012 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.[36]

MWRD Corporate Fund Resources: FY2011 & FY2012
(in $ millions)

Resource	FY2011 Final	FY2012 Proposed	$ Change	% Change
Property Taxes (net)	$ 239.8	$ 216.3	$ (23.5)	-9.8%
User Charges	$ 41.0	$ 42.0	$ 1.0	2.4%
PPRT	$ 22.6	$ 26.2	$ 3.6	15.7%
Property & Service Charges	$ 12.3	$ 12.3	$ -	0.0%
Investment Income	$ 1.0	$ 2.1	$ 1.1	110.0%
Other	$ 3.6	$ 3.6	$ 0.0	0.7%
Equity Transfer	$ 8.0	$ -	$ (8.0)	-100.0%
Working Cash Borrowings Adjustment	$ (4.9)	$ (4.7)	$ 0.2	-3.9%
Total Revenues	**$ 323.5**	**$ 297.9**	**$ (25.6)**	**-7.9%**
Net Assets Appropriable	$ 37.4	$ 72.6	$ 35.2	93.9%
Non-Appropriated Net Assets	$ (19.8)	$ (31.7)	$ (11.9)	59.9%
Subtotal - Net Assets Appropriated	**$ 17.6**	**$ 40.9**	$ 23.3	132.3%
Total Resources	**$ 341.1**	**$ 338.8**	**$ (2.3)**	**-0.7%**

Note: Other includes TIF Differential Fee and Impact Fee and Miscellaneous.
Sources: MWRD FY2011 Final Budget p. 82 and FY2012 Tentative Budget, p. 10.

The five-year trend in MWRD Corporate Fund revenues is presented in the next exhibit. Total revenues will decrease by 11.7%, or $39.6 million. If appropriated net assets are included, revenues will decrease by 24.6%, or $110.4 million.

Other revenues will decrease by 61.5%, or $5.8 million. Net property tax revenues will decline by 6.3%, from $230.9 million to $216.3 million. Property and Service Charges, which includes income from land rentals, agricultural products and investments, will decrease by 17.9%, from $15.0 million to $12.3 million. PPRT revenues will increase by 0.8%, from $26.0 million in FY2008 to $26.2 million in FY2012.

[34] MWRD FY2012 Executive Director's Recommendations, p. 79.
[35] MWRD FY2012 Executive Director's Recommendations, p. 79.
[36] Information provided by MWRD, November 24, 2010.

MWRD Corporate Fund Resources: FY2008-FY2012 (in $ millions)							
Resource	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Final	FY2012 Proposed	Five-Year $ Change	Five-Year % Change
Property Taxes (net)	$ 230.9	$ 233.6	$ 231.8	$ 239.8	$ 216.3	$ (14.5)	-6.3%
User Charges	$ 54.1	$ 47.9	$ 48.4	$ 41.0	$ 42.0	$ (12.1)	-22.4%
PPRT	$ 26.0	$ 25.8	$ 17.0	$ 22.6	$ 26.2	$ 0.2	0.8%
Property & Service Charges	$ 15.0	$ 10.2	$ 10.1	$ 12.3	$ 12.3	$ (2.7)	-17.9%
Investment Income	$ -	$ 1.7	$ 1.1	$ 1.0	$ 2.1	$ 2.1	-
Other	$ 9.4	$ 10.2	$ 11.1	$ 3.6	$ 3.6	$ (5.8)	-61.5%
Equity Transfer	$ 7.0	$ -	$ -	$ 8.0	$ -	$ (7.0)	-100.0%
Working Cash Borrowings Adjustment	$ (4.9)	$ (16.3)	$ (4.5)	$ (4.9)	$ (4.7)	$ 0.2	-4.7%
Total Revenues	**$ 337.5**	**$ 313.0**	**$ 314.9**	**$ 323.5**	**$ 297.9**	**$ (39.6)**	**-11.7%**
Net Assets Appropriable	$ 106.5	$ 87.3	$ 43.2	$ 37.4	$ 72.6	$ (33.9)	-31.9%
Adjustments for Receipts	$ 5.2	$ 2.6	$ 9.6	$ -	$ -	-	-
Non-Appropriated Fund Net Assets	$ -	$ -	$ -	$ (19.8)	$ (31.7)	-	-
Subtotal - Appropriated Net Assets	**$ 111.7**	**$ 89.9**	**$ 52.7**	**$ 17.6**	**$ 40.9**	$ (70.8)	-63.4%
Total Resources	**$ 449.2**	**$ 402.9**	**$ 367.6**	**$ 341.1**	**$ 338.8**	**$ (110.4)**	**-24.6%**

Note: Other includes TIF Differential Fee and Impact Fee and Miscellaneous.

Sources: MWRD FY2010 Final Budget, p. 82; FY2011 Final Budget, pp. 82 and 84; and FY2012 Tentative Budget, pp. 10, 70 and 72.

Property Tax Levy

In FY2012 the MWRD's property tax levy will increase by 3.8%, or $18.3 million, to $496.9 million from the FY2011 adjusted 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 $496.9 million, 59.3%, or $294.5, will be levied for funds that are subject to the tax cap law, which limits total annual increases to 5.0% or the rate of inflation, whichever is less.

The District estimates that the effective inflation rate plus new property for 2012 will allow the levies for the capped funds to increase by 3.4%, or $9.6 million. The largest percentage change will occur in the Construction Fund, which will increase by 325.4%, or $15.6 million. The Retirement Fund is increasing by 1.2%, or nearly $327,000.

The remaining 40.7%, or $202.4 million, of the total levy is for the Bond and Interest and Stormwater Management Funds, which are not subject to tax caps.[39] The FY2011 Stormwater Management levy will decrease by 17.0% to $20.0 million. The Bond and Interest levy, reserved for debt service, will increase by 7.5%, or $12.8 million.

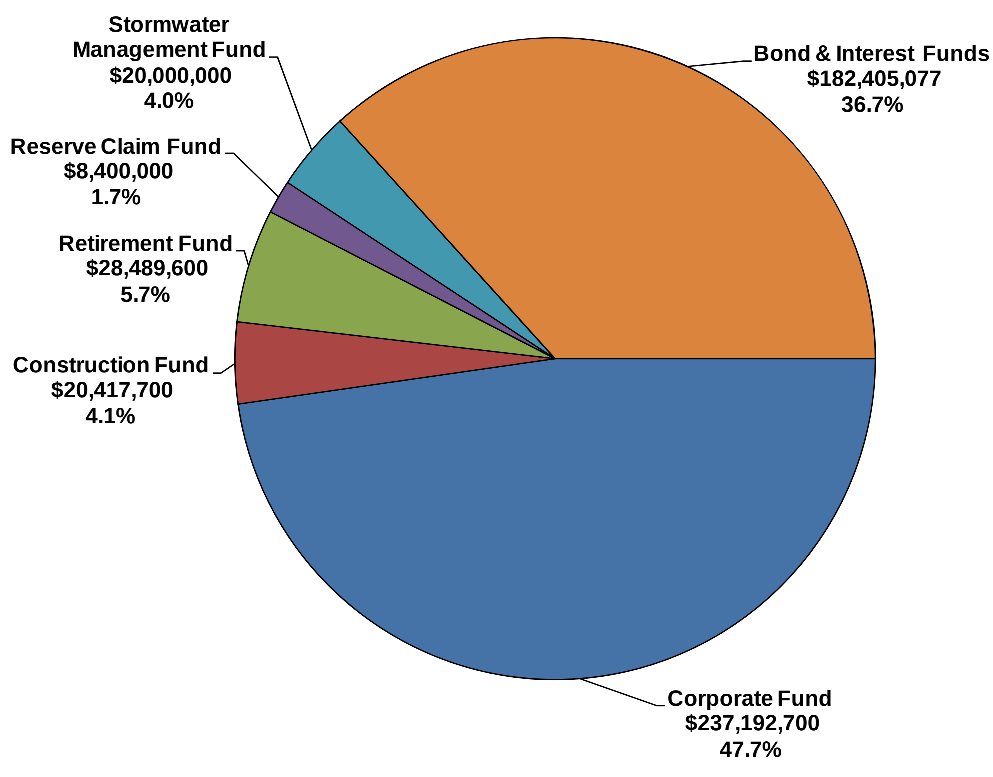
[37] The FY2012 levy is for tax year 2012, which will be collected in 2013.
[38] MWRD FY2012 Executive Director's Recommendations, p. 13.
[39] The November 2004 passage of Public Act 93-1049 authorizes the MWRD to levy an additional $50 million in non-capped funds for stormwater management in Cook County.

MWRD Property Tax Levy: FY2011 & FY2012				
	FY2011 Adjusted	FY2012 Proposed	$ Change	% Change
Corporate Fund	$ 248,500,000	$ 237,192,700	$(11,307,300)	-4.6%
Construction Fund	$ 4,800,000	$ 20,417,700	$ 15,617,700	325.4%
Retirement Fund	$ 28,162,600	$ 28,489,600	$ 327,000	1.2%
Reserve Claim Fund	$ 3,400,000	$ 8,400,000	$ 5,000,000	147.1%
Subtotal Tax Capped Funds	**$ 284,862,600**	**$ 294,500,000**	**$ 9,637,400**	**3.4%**
Stormwater Management Fund	$ 24,100,000	$ 20,000,000	$ (4,100,000)	-17.0%
Bond & Interest Funds	$ 169,645,515	$ 182,405,077	$ 12,759,562	7.5%
Total	**$ 478,608,115**	**$ 496,905,077**	**$ 18,296,962**	**3.8%**

Source: MWRD FY2012 Tentative Budget, p. 6.

The next exhibit shows the distribution of property tax dollars among the MWRD's various funds in FY2012. Together the Corporate Fund and Bond and Interest Funds will consume 84.4% of the District's total levy.

MWRD Gross Property Tax Levy By Fund: FY2012

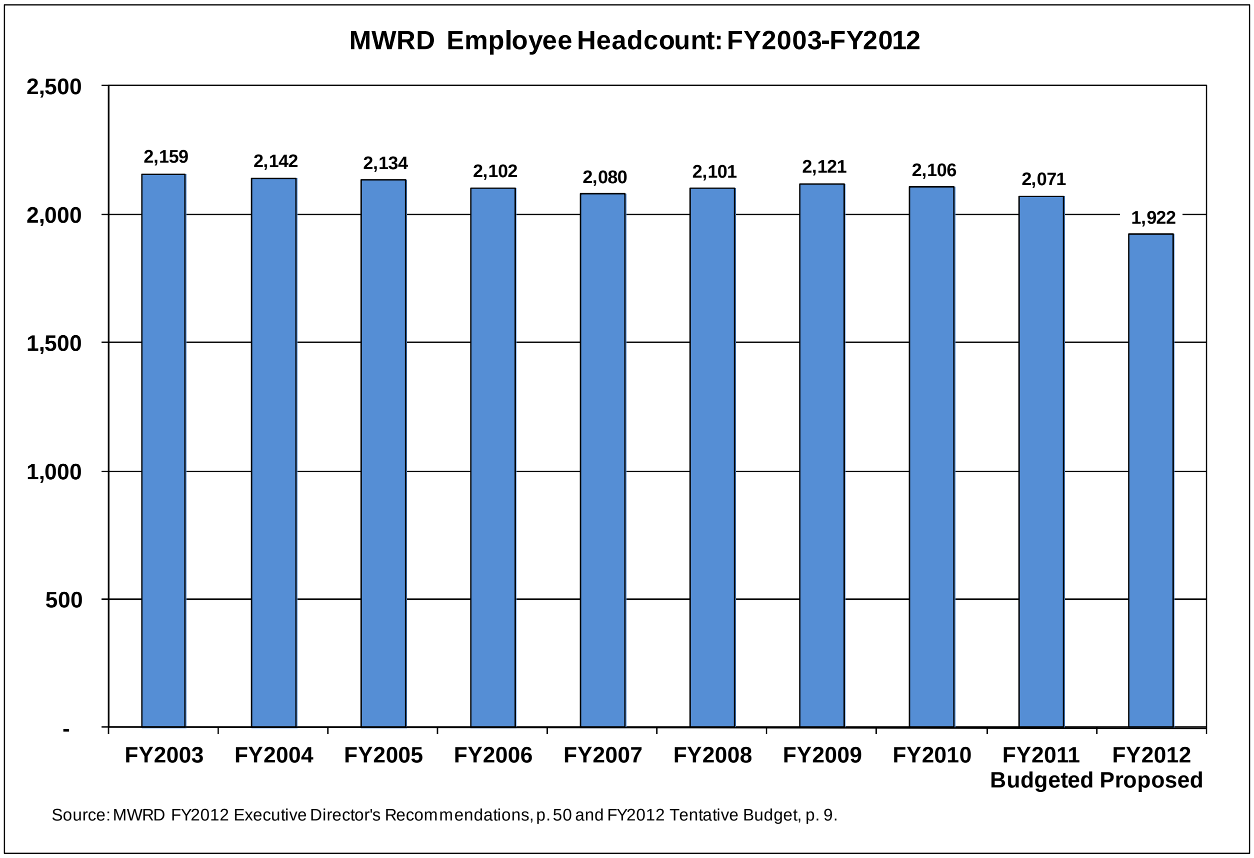


Source: MWRD FY2012 Tentative Budget, p. 6.

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.[40]

PERSONNEL

The number of positions at the District is projected to decrease by 149 positions. This is a 7.2% decline from 2,071 positions budgeted in FY2011 to 1,922 positions in FY2012. Since FY2003 the District has cut its workforce by 11.0%, or 237 positions. Reductions in the District's operating departments, which include Maintenance & Operations, Engineering and Monitoring & Research, through FY2007 are due to the automation of manual processes, the transfer of support positions to support departments and the completion of major infrastructure projects.[41] After modest growth to staff the Master Plans and new initiatives in FY2008 through FY2010, FY2011 and FY2012 personnel reductions mark the beginning of a five-year plan to reduce staffing levels due to revenue constraints.[42]



[40] MWRD FY2012 Executive Director's Recommendations, p. 21.
[41] MWRD FY2012 Executive Director's Recommendations, p. 51.
[42] MWRD FY2012 Executive Director's Recommendations, p. 51.

Approximately 86.2% of District employees are funded with Corporate Fund dollars. Between FY2011 and FY2012 the number of Corporate Fund positions will decrease by 7.8%, or 140 positions. Maintenance and Operations will decrease by 86 positions, and Monitoring and Research will decrease by 23 positions.

MWRD Corporate Fund Employee Headcount: FY2011 & FY2012				
	FY2011 Budgeted	FY2012 Proposed	# Change	% Change
Maintenance & Operations	1,029	943	-86	-8.4%
Monitoring & Research	303	280	-23	-7.6%
General Administration	125	114	-11	-8.8%
Procurement & Materials	69	62	-7	-10.1%
Information Technology	71	69	-2	-2.8%
Human Resources	59	57	-2	-3.4%
Law	38	37	-1	-2.6%
Board of Commissioners	40	37	-3	-7.5%
Finance	31	29	-2	-6.5%
Engineering (Corporate Fund)	32	29	-3	-9.4%
Total	**1,797**	**1,657**	**-140**	**-7.8%**

Source: MWRD FY2012 Tentative Budget, p. 9.

Personal Service Appropriations

The summary of personal service appropriations for all funds is not available in the FY2012 Tentative Budget. The exhibit below shows the FY2012 appropriations as proposed in the Executive Director's Recommendations compared with the adjusted personal service appropriations for FY2011. The following figures therefore do not reflect the same headcount as the above exhibits or the rest of the analysis.

The proposed appropriation for regular employee salaries, which constitutes 51.4% of all personal service appropriations, will decrease by 3.9%, or $6.8 million, to $166.3 million in FY2012. Contractual services will also decline significantly by $24.7 million, or 24.0%. Appropriations for Health and Life Insurance Premiums will increase by 24.3%, from $47.5 million to $59.1 million. Appropriations will decline for Compensation Plan Adjustments and Other Employee Personal Services, which include tuition and training programs, by a total of $1.4 million between FY2011 and FY2012.

MWRD All Funds Personal Service Appropriations: FY2011 & FY2012				
	FY2011 Adjusted	FY2012 Proposed	$ Change	% Change
Salaries of Regular Employees*	$ 173,076,500	$ 166,257,100	$ (6,819,400)	-3.9%
Contractual Services	$ 102,583,200	$ 77,917,000	$ (24,666,200)	-24.0%
Health & Life Insurance Premiums**	$ 47,507,400	$ 59,061,000	$ 11,553,600	24.3%
Employee Claims	$ 10,110,000	$ 10,110,000	$ -	0.0%
Compensation Plan Adjustments	$ 7,842,800	$ 6,519,300	$ (1,323,500)	-16.9%
Other Employee Personal Services***	$ 1,361,600	$ 1,324,900	$ (36,700)	-2.7%
Social Security & Medicare Contributions	$ 2,520,000	$ 2,520,000	$ -	0.0%
Total	**$ 345,001,500**	**$ 323,709,300**	**$ (21,292,200)**	**-6.2%**

* Includes FY2012 Salary Adjustments

** Includes OPEB distribution

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

Note: The summary of personal service appropriations for all funds is not available in the FY2012 Tentative Budget.

Source: MWRD FY2012 Executive Director's Recommendations, p. 51.

The exhibit below shows FY2011 adjusted appropriations and FY2012 Tentative Budget appropriations for personal services 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 Human Resources department will increase personal service appropriations by $11.2 million, or 20.8%, to $64.9 million in FY2012. This is largely due to increased payments to retiree benefits (additional $1.0 million) and other post-employment benefits (OPEB) (additional $9.1 million). The increased payments are necessary to meet the rise in number of retirees and anticipated rise in health care claims, as well as the required contribution level under the voluntary OPEB plan.[43] Appropriations will decrease in most other departments, with the largest decrease in the Capital Improvement Bonds Fund. The FY2011 appropriations in this fund are adjusted to carry forward open value of contracts from the prior year.

MWRD All Funds Personal Service Appropriations by Department: FY2011 & FY2012

	FY2011 Adjusted	FY2012 Proposed	# Change	% Change
Corporate Fund				
Maintenance & Operations	$ 91,018,900	$ 85,018,400	$ (6,000,500)	-6.6%
Monitoring & Research	$ 24,187,800	$ 23,460,100	$ (727,700)	-3.0%
General Administration	$ 11,371,200	$ 11,169,500	$ (201,700)	-1.8%
Procurement & Materials	$ 5,570,300	$ 5,029,100	$ (541,200)	-9.7%
Information Technology	$ 9,766,200	$ 8,890,400	$ (875,800)	-9.0%
Human Resources	$ 53,676,000	$ 64,850,800	$ 11,174,800	20.8%
Law	$ 7,559,700	$ 5,970,500	$ (1,589,200)	-21.0%
Board of Commissioners	$ 3,834,400	$ 3,642,200	$ (192,200)	-5.0%
Finance	$ 3,189,400	$ 3,199,900	$ 10,500	0.3%
Engineering	$ 4,384,900	$ 4,774,000	$ 389,100	8.9%
Sub-Total Corporate Fund	**$ 214,558,800**	**$ 216,004,900**	**$ 1,446,100**	**0.7%**
Construction Fund	$ 11,456,600	$ 7,810,000	$ (3,646,600)	-31.8%
Capital Improvement Bonds Fund	$ 158,176,608	$ 75,994,300	$ (82,182,308)	-52.0%
Stormwater Fund	$ 19,136,400	$ 14,322,900	$ (4,813,500)	-25.2%
Reserve Claim Fund	$ 10,000,000	$ 10,000,000	$ -	0.0%
Total	**$ 413,328,408**	**$ 324,132,100**	**$ (89,196,308)**	**-21.6%**

Source: MWRD FY2012 Tentative Budget.

NON-APPROPRIATED CORPORATE FUND FUND BALANCE

The MWRD has a fund balance policy of maintaining 12-15% of appropriations, or approximately $39 million to $49 million, in unreserved Corporate Fund fund balance.[44] 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.[45]

43 MWRD FY2012 Executive Director's Recommendations, p. 188.
44 MWRD FY2012 Executive Director's Recommendations, pp. 21 and 79.
45 MWRD FY2009 General Superintendent's Recommendation, p. 22.

In FY2012 the portion of Corporate Fund fund balance, or net assets, proposed to be set aside is $31.7 million, or 9.4% of Corporate Fund appropriations of $338.8 million. This is a $40.9 million decrease from the FY2011 estimated ending net assets of nearly $73.0 million, or 22.8% of Corporate Fund appropriations of $318.4 million. 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."[46] Two months of operating expenditures for the District is approximately 16.7%. MWRD's projected FY2012 net assets do not meet the GFOA recommendation of maintaining at least 16.7% of unreserved Corporate Fund fund balance, nor does the projected FY2012 fund balance meet the District's stated goal of maintaining a reserve of 12-15% of Corporate Fund appropriations.

From FY2006 to FY2008, actual ending net assets ranged from 25.4% to 41.1% of actual operating expenditures. However, beginning in FY2009 the District began to significantly reduce the size of the Corporate Fund fund balance. Net assets fell from $96.5 million, or 27.3% of total expenditures, in FY2008 to $43.5 million, or 13.4% of appropriations, in FY2010. This change in the three-year period represents a 54.9% decrease in net assets, or a decline of $53.0 million.

The year-end estimated fund balance for FY2011 is projected to be significantly higher than fund balance levels of recent years. FY2011 estimated fund balance is expected to be $72.6 million, or 22.8% of operating expenditures. However, in FY2012 the fund balance is projected to decline to the lowest level since FY2006. The FY2012 fund balance is estimated to be $31.7 million, or 9.4% of operating expenditures.

MWRD Corporate Fund Balance: FY2006-FY2012 (in $ thousands)

	Actual Ending Net Assets	Actual Operating Expenditures	Ratio
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	$ 43,463.4	$ 324,180.9	13.4%
FY2011*	$ 72,597.0	$ 318,355.5	22.8%
FY2012**	$ 31,720.8	$ 338,795.2	9.4%

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

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

Sources: MWRD Adopted Budgets, FY2007-FY2011; FY2012 Tentative Budget, p. 10.

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

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:

- *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;
- *Deferred & Unearned Revenue*: revenues from property taxes, program fees and other sources received before a good or service has been provided;[47] 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 FY2010 the District reported a decrease in short-term liabilities below FY2009 levels, falling by $10.7 million, or 7.5%. Since FY2006, short-term liabilities overall have increased by $27.4 million or 26.4%. The primary driver in the increase has been the 22.9% or $19.5 million increase in accounts payable. The following chart shows short-term liabilities by category and the percent change between FY2006 and FY2010.

Metropolitan Water Reclamation District Short-Term Liabilities FY2006-FY2010 (in $ thousands)

Type	FY2006	FY2007	FY2008	FY2009	FY2010	5-year Change	5-year % Change
Accounts Payable	$ 85,207.0	$ 65,721.0	$ 71,588.0	$ 108,302.0	$ 104,703.0	$ 19,496.0	22.9%
Accrued Payroll	$ 3,739.0	$ 4,519.0	$ 5,936.0	$ 6,936.0	$ 8,463.0	$ 4,724.0	126.3%
Deposits Payable	$ 2,421.0	$ 2,667.0	$ 3,035.0	$ 2,453.0	$ 2,453.0	$ 32.0	1.3%
Deferred & Unearned Revenue	$ 2,266.0	$ 2,325.0	$ 2,098.0	$ 2,348.0	$ 2,208.0	$ (58.0)	-2.6%
Accrued Interest	$ 10,216.0	$ 10,121.0	$ 10,392.0	$ 21,964.0	$ 13,468.0	$ 3,252.0	31.8%
Total	**$ 103,849.0**	**$ 85,353.0**	**$ 93,049.0**	**$ 142,003.0**	**$ 131,295.0**	**$ 27,446.0**	**26.4%**

Source: MWRD Comprehensive Annual Financial Reports, FY2006-FY2010.

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.[48] 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.

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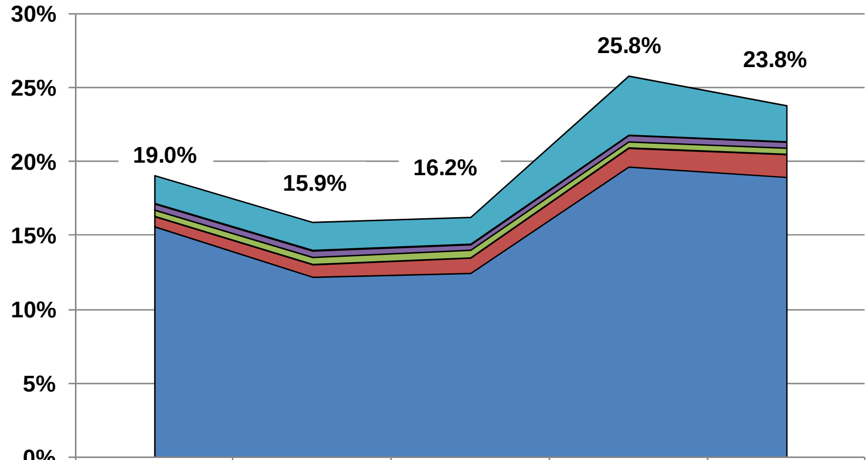
[47] Unearned revenue is a payment received before a good is sold or a service is provided. Unearned revenue is classified as a current liability on the balance sheet until it is recognized as earned during the accounting cycle. See http://www.businessdictionary.com/definition/unearned-revenue.html#ixzz14ow1LgZo.

[48] 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.

The MWRD had an upward trend in short-term liabilities compared to total operating revenue between FY2006 and FY2009, rising from 19.0% to 25.8%. However, the ratio declined in FY2010, dropping to 23.8%. The upward trend is a cause for concern. The following graph shows the five-year trend in the District's short-term liabilities as a percentage of operating funds by category.

MWRD Short-Term Liabilities as % of Operating Revenues: FY2006-FY2010

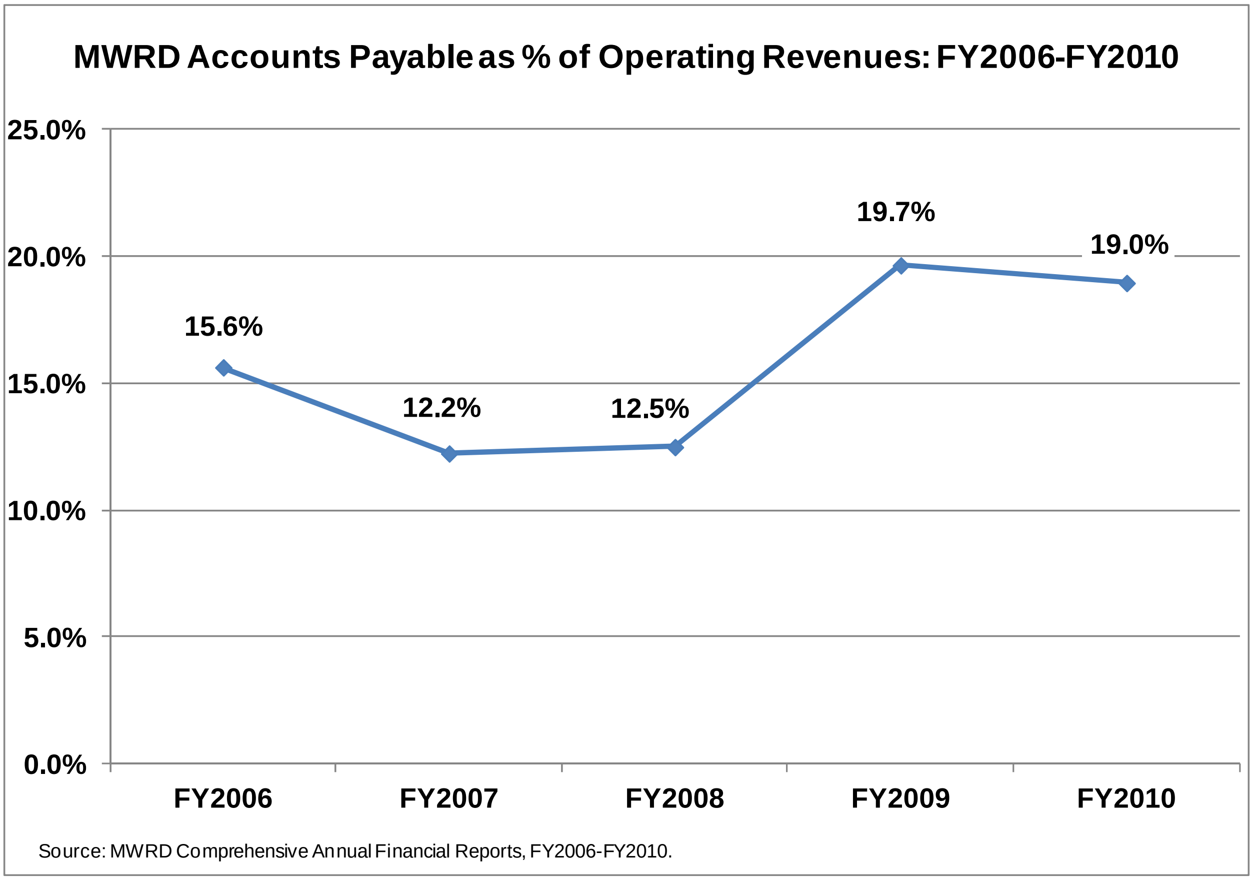


	FY2006	FY2007	FY2008	FY2009	FY2010
Accrued Interest	1.9%	1.9%	1.8%	4.0%	2.4%
Deferred & Unearned Revenue	0.4%	0.4%	0.4%	0.4%	0.4%
Deposits Payable	0.4%	0.5%	0.5%	0.4%	0.4%
Accrued Payroll	0.7%	0.8%	1.0%	1.3%	1.5%
Accounts Payable	15.6%	12.2%	12.5%	19.7%	19.0%

Source: MWRD Comprehensive Annual Financial Reports, FY2006-FY2010.

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 revenues has averaged 15.8% from FY2006 to FY2010. The chart below shows the five-year trend in accounts payable compared to operating revenues for the MWRD. Over the five-year period reviewed, it rose from 15.6% to 19.0%.



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.[49]

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

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[49] 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* consists mainly of materials, supplies, and repair parts which extend the life of the District's treatment facilities; and
- *Restricted cash* represents cash and investments set aside pursuant to real estate escrow and intergovernmental agreements.[50]

The MWRD's current ratio was 9.4 in FY2010, the most recent year for which data are available. In the past five years, the District's current ratio averaged 12.3, which is far above the preferred benchmark of 2.0 and thus demonstrates a healthy level of liquidity. From FY2006 to FY2010, the current ratio decreased from 13.9 to 9.4.

MWRD Current Ratio: FY2006-FY2010
(in $ thousands)

	FY2006	FY2007	FY2008	FY2009	FY2010	5-year Change	5-year % Change
Current Assets							
Cash	$ 459.0	$ 795.0	$ 7,394.0	$ 53,366.0	$ 47,769.0	$ 47,310.0	10307.2%
Deposits with escrow agent	$ 4,184.0	$ -				$ (4,184.0)	-100.0%
Certificates of Deposit	$ 232,298.0	$ 193,381.0	$ 379,472.0	$ 480,249.0	$ 103,342.0	$ (128,956.0)	-55.5%
Investments	$ 757,635.0	$ 639,099.0	$ 304,536.0	$ 457,654.0	$ 515,121.0	$ (242,514.0)	-32.0%
Taxes Receivable, net	$ 392,377.0	$ 407,910.0	$ 415,703.0	$ 440,473.0	$ 449,852.0	$ 57,475.0	14.6%
Other Receivables, net	$ 14,146.0	$ 12,476.0	$ 11,668.0	$ 30,671.0	$ 79,174.0	$ 65,028.0	459.7%
Inventories	$ 36,326.0	$ 35,787.0	$ 38,067.0	$ 38,761.0	$ 38,924.0	$ 2,598.0	7.2%
Restricted cash	$ 6,367.0	$ 2,404.0	$ 1,878.0	$ 1,812.0	$ 1,815.0	$ (4,552.0)	-71.5%
Total Current Assets	**$ 1,443,792.0**	**$ 1,291,852.0**	**$ 1,158,718.0**	**$ 1,502,986.0**	**$ 1,235,997.0**	**$ (207,795.0)**	**-14.4%**
Current Liabilities							
Accounts Payable	$ 85,207.0	$ 65,721.0	$ 71,588.0	$ 108,302.0	$ 104,703.0	$ 19,496.0	22.9%
Accrued Payroll	$ 3,739.0	$ 4,519.0	$ 5,936.0	$ 6,936.0	$ 8,463.0	$ 4,724.0	126.3%
Deposits Payable	$ 2,421.0	$ 2,667.0	$ 3,035.0	$ 2,453.0	$ 2,453.0	$ 32.0	1.3%
Deferred & Unearned Revenue	$ 2,266.0	$ 2,325.0	$ 2,098.0	$ 2,348.0	$ 2,208.0	$ (58.0)	-2.6%
Accrued Interest	$ 10,216.0	$ 10,121.0	$ 10,392.0	$ 21,964.0	$ 13,468.0	$ 3,252.0	31.8%
Total Current Liabilities	**$ 103,849.0**	**$ 85,353.0**	**$ 93,049.0**	**$ 142,003.0**	**$ 131,295.0**	**$ 27,446.0**	**26.4%**
Current Ratio	**13.9**	**15.1**	**12.5**	**10.6**	**9.4**		

Source: MWRD Comprehensive Annual Financial Reports, FY2006-FY2010.

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:

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[50] MWRD FY2010 Comprehensive Annual Financial Report, p. 63.

- *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 FY2006 and FY2010 all long-term liabilities rose by 35.0%, rising from $1.7 billion to $2.3 billion. This represented an increase of $599.1 million.

In the five-year period between FY2006 and FY2010, MWRD long-term debt increased by 38.7%. This was an increase of $625.5 million, from $1.6 billion to $2.2 billion. The long-term debt was primarily general obligation debt but also includes 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.[51] From FY2009 to FY2010, long-term debt rose by 7.0% or $145.8 million.

MWRD Long-Term Liabilities FY2006-FY2010
(in $ thousands)

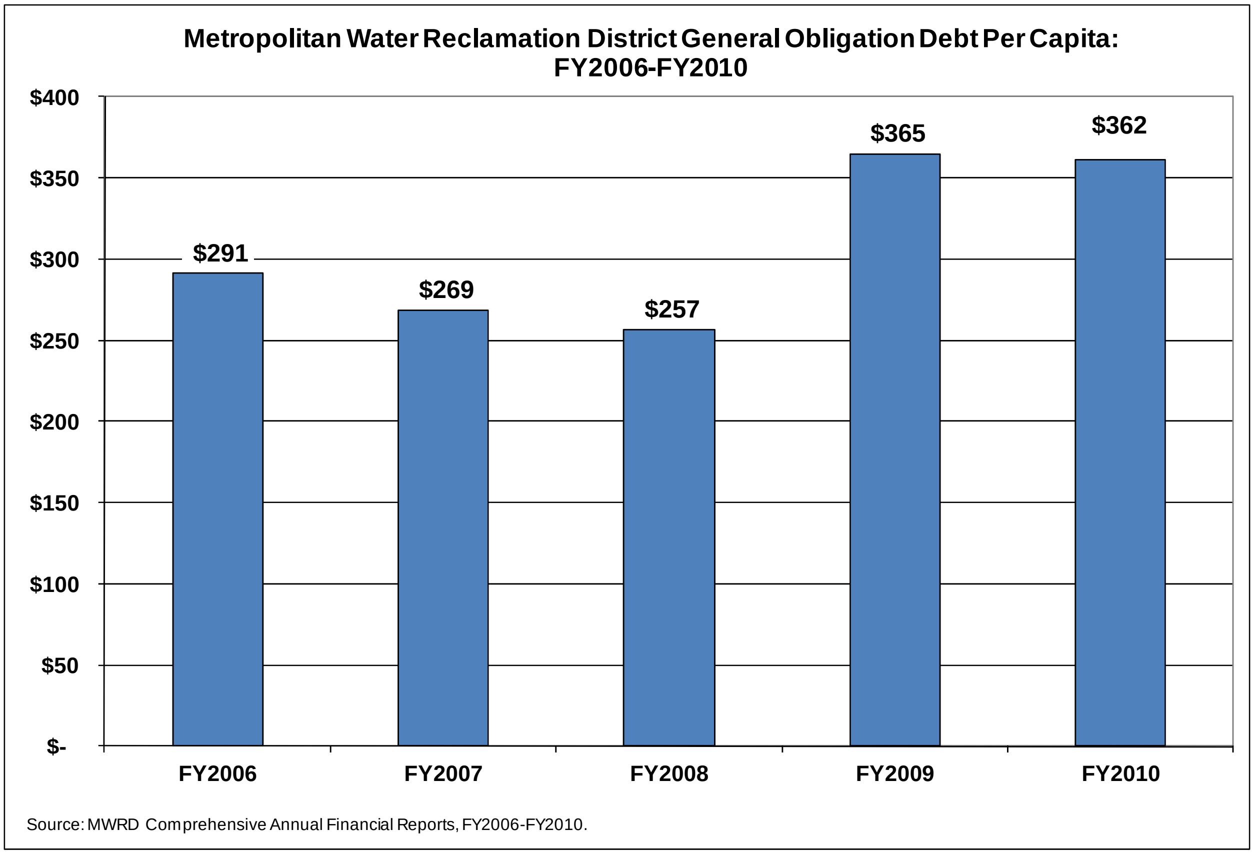
Long Term Liabilities	FY2006	FY2007	FY2008	FY2009	FY2010	5-year Change	5-year % Change
General Obligation Debt	$ 1,579,401.0	$ 1,456,620.0	$ 1,344,043.0	$ 1,870,939.0	$ 1,811,184.0	$ 231,783.0	14.7%
Converted bond anticipation notes	$ -	$ 9,234.0	$ 48,656.0	$ 108,264.0	$ 150,790.0	$ 150,790.0	N/A
Subtotal General Obligation Debt	**$ 1,579,401.0**	**$ 1,465,854.0**	**$ 1,392,699.0**	**$ 1,979,203.0**	**$ 1,961,974.0**	**$ 382,573.0**	**24.2%**
Deferred Issuance Costs	$ (3,799.0)	$ (1,313.0)	$ (1,142.0)	$ (6,774.0)	$ (6,472.0)	$ (2,673.0)	70.4%
Deferred Premiums	$ 34,460.0	$ 73,538.0	$ 69,286.0	$ 65,409.0	$ 61,532.0	$ 27,072.0	78.6%
Refunding Transactions	$ (19,387.0)	$ (34,608.0)	$ (31,570.0)	$ (28,532.0)	$ (25,493.0)	$ (6,106.0)	31.5%
Subtotal Bonds Payable, Net	**$ 1,590,675.0**	**$ 1,503,471.0**	**$ 1,429,273.0**	**$ 2,009,306.0**	**$ 1,991,541.0**	$ 400,866.0	25.2%
Bond Anticipation Notes	$ 25,261.0	$ 63,131.0	$ 64,894.0	$ 86,286.0	$ 196,225.0	$ 170,964.0	676.8%
Capital Lease	$ -	$ -	$ -	$ -	$ 53,688.0	$ 53,688.0	-
Subtotal Long Term Debt	**$ 1,615,936.0**	**$ 1,566,602.0**	**$ 1,494,167.0**	**$ 2,095,592.0**	**$ 2,241,454.0**	**$ 625,518.0**	**38.7%**
Claims and Judgments	$ 69,562.0	$ 29,265.0	$ 30,813.0	$ 38,886.0	$ 41,292.0	$ (28,270.0)	-40.6%
Compensated Absences	$ 28,010.0	$ 28,551.0	$ 30,451.0	$ 31,680.0	$ 29,860.0	$ 1,850.0	6.6%
Total Long Term Liabilities	**$ 1,713,508.0**	**$ 1,624,418.0**	**$ 1,555,431.0**	**$ 2,166,158.0**	**$ 2,312,606.0**	**$ 599,098.0**	**35.0%**

Source: MWRD Comprehensive Annual Financial Reports, FY2006-FY2010.

Long-Term 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 FY2006 and FY2010, the MWRD's long-term General Obligation debt per capita increased from $291 to $362. From FY2008 to FY2009 there was a particularly large increase of 42.1% as the debt per capita rose from $257 to $365. The following chart shows the change in debt per capita over the past five years.

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



BOND RATINGS

The MWRD has the following current bond ratings:

- Moody's Investor Services – Aaa (since 2002);
- Fitch – AAA (since 2001); and
- Standard & Poor's – AAA (since 2006).[52]

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. The rating agencies consider a debt burden high if this ratio is between 15% and 20%.[53] The debt service to total appropriations ratio for the MWRD between FY2008 and FY2012 nearly doubled, rising from 9.8% to 18.0%. The ratio for FY2011 and FY2012 is high, although it is important to note that the five-year average ratio has been 12.8% and that this is a government with large ongoing capital expenses.

[52] MWRD FY2012 Executive Director's Recommendations, p. 24.
[53] 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.

MWRD Debt Service Appropriations as a Percentage of Total Appropriations: FY2007-FY2011					
	FY2008	FY2009	FY2010	FY2011	FY2012 Est
Debt Service Appropriations	$134,593,881	$134,447,869	$163,120,429	$154,260,452	$154,780,000
Total Appropriations	$1,377,000,215	$1,542,801,290	$1,378,626,653	$974,268,952	$858,578,700
Debt Service as a % of Total Appropriations	**9.8%**	**8.7%**	**11.8%**	**15.8%**	**18.0%**

Source: MWRD Tentative Budgets, FY2008-FY2012.

CAPITAL BUDGET

The MWRD annually updates and appropriates funding for projects in a five-year capital improvement program (CIP). The FY2012-FY2016 CIP proposes $1.3 billion in funding for a variety of projects. The first year of the new CIP will be the FY2012 capital budget. It is proposed to be $245.7 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 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. It is presented in terms of projected cash disbursements, not total project costs. The majority of spending (40.7%, or $429.0 million) will be used for water reclamation and solids management projects. Approximately 19.6% or $206.8 million is earmarked for the Tunnel and Reservoir Plan, 17.5% of all capital spending, or $184.8 million, will be earmarked for Replacement of Facilities, while 11.2%, or $118.3 million, will be used for the District's Collection Facilities. The majority of funding for the capital program comes from capital improvement bonds, which will make up 87.5% of all funding between FY2012 and FY2016, or $1.1 billion. The remaining funding will consist of pay-as-you-go funding from the Stormwater and Construction Funds.

MWRD Five-Year Capital Spending FY2012-FY2016 - Estimated Cash Disbursements (in $ millions)							
	FY2012	FY2013	FY2014	FY2015	FY2016	Total	% of Total
Capital Spending by Category							
Water Reclamation & Solids Management	$ 65.4	$ 38.9	$ 146.6	$ 142.8	$ 35.2	$ 429.0	40.7%
Replacement of Facilities	$ 80.2	$ 39.9	$ 15.7	$ 19.3	$ 29.7	$ 184.8	17.5%
Collection Facilities	$ 22.1	$ 43.2	$ 4.6	$ 19.4	$ 29.0	$ 118.3	11.2%
Stormwater Management	$ 18.4	$ 15.3	$ 20.1	$ 28.7	$ 31.7	$ 114.1	10.8%
Tunnel & Reservoir Plan	$ 59.6	$ 73.5	$ 64.2	$ 6.0	$ 3.5	$ 206.8	19.6%
Total Spending	**$ 245.7**	**$ 210.8**	**$ 251.2**	**$ 216.2**	**$ 129.0**	**$ 1,052.9**	**100.0%**
Capital Funding Source							
Stormwater Fund	$ 18.4	$ 20.1	$ 20.1	$ 28.7	$ 31.0	$ 118.3	9.2%
Construction Fund	$ 10.0	$ 11.0	$ 11.0	$ 10.7	$ 0.7	$ 43.4	3.4%
Bond Fund	$ 217.4	$ 220.2	$ 220.2	$ 176.8	$ 295.6	$ 1,130.1	87.5%
Total Funding	**$ 245.7**	**$ 251.3**	**$ 251.3**	**$ 216.2**	**$ 327.3**	**$ 1,291.8**	**100.0%**

Source: MWRD FY2012 Executive Director's Recommendations, p. 354.

New Capital Spending Requests

The MWRD's request for new capital spending authorization for total project costs in FY2012 totals $269.2 million. This is a 22.5% decrease in new capital appropriation from FY2011, when it totaled $347.2 million. There will be large decreases in most categories. Part of the reason for the decrease is that fewer projects (10) are proposed in FY2012 than in the previous fiscal year (25).[54]

MWRD Proposed New Capital Spending FY2011 and FY2012				
Project Type	FY2011 Executive Budget	FY2012 Executive Budget	$ Change	% Change
Treatment Facilities	$56,522,000	$29,490,000	$ (27,032,000)	-47.8%
Collection Facilities	$49,730,000	$43,714,000	$ (6,016,000)	-12.1%
Solids Processing & Disposal	$32,600,000	$21,309,000	$ (11,291,000)	-34.6%
Flood & Pollution Control	$48,606,000	$23,000,000	$ (25,606,000)	-52.7%
Construction Fund	$3,763,300	$821,000	$ (2,942,300)	-78.2%
Land Cost	$550,000	$550,000	$ -	0.0%
Project Support	$155,395,400	$150,324,500	$ (5,070,900)	-3.3%
Total	**$347,166,700**	**$269,208,500**	**$ (77,958,200)**	**-22.5%**

Sources: MWRD FY2011 Executive Director's Recommendations, p. 373 and MWRD FY2012 Executive Director's Recommendations, p. 355.

PENSION FUND

The Civic Federation analyzed 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.

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] MWRD is the only sanitary district in Illinois whose employees who 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.

In FY2010 there were 2,024 active members of the pension fund and 2,248 beneficiaries, for a ratio of 0.9 active member for every beneficiary. This ratio has fallen from 0.99 in FY2001 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.

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[54] MWRD FY2012 Executive Director's Recommendations, p. 355.
[55] MWRD Retirement Fund FY2010 Comprehensive Annual Financial Report, p. 33.
[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.

MWRD Pension Fund Membership: FY2001-FY2010			
Fiscal Year	**Active Employees**	**Beneficiaries**	**Ratio of Active to Beneficiary**
FY2001	2,137	2,150	0.99
FY2002	2,067	2,175	0.95
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
10-Year Change	**-113**	**98**	**-0.1**
10-Year % Change	**-5.3%**	**4.6%**	**-9.4%**

Source: MWRD Retirement Fund Comprehensive Annual Financial Reports, FY2001-FY2010.

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.[57] 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 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.

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 2 years) within the last 10 years of service. The maximum annuity amount is 80% of final average salary. For example, a 60 year-old employee with 25 years of service and a $90,000 final average salary could retire with a $50,400 annuity: (20 x $90,000 x 2.2%) + (5 x $90,000 x 2.4%)= $50,400.[58] The annuity increases every year by an automatic 3.0% adjustment compounded. Employees with 10 years of service may retire as young as age 55 but their benefit is reduced by 0.5% for

[57] A "trailer bill" to correct technical problems with Public Act 96-0889 was enacted in December 2010 as Public Act 96-1490.

[58] The average age at time of retirement in 2010 was 61.4 years and the average years of service were 25.5 years. The average final average salary for persons retiring in 2010 with 25-30 years of service was $95,292. MWRD Retirement Fund FY2010 Comprehensive Annual Financial Report, pp. 99 and 100.

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.[59]

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 2 year average to the highest 8 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 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 FY2010 Comprehensive Annual Financial Report, p. 84.

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 FY2010 Comprehensive Annual Financial Report, pp. 80-84 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.

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.

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.[60] The

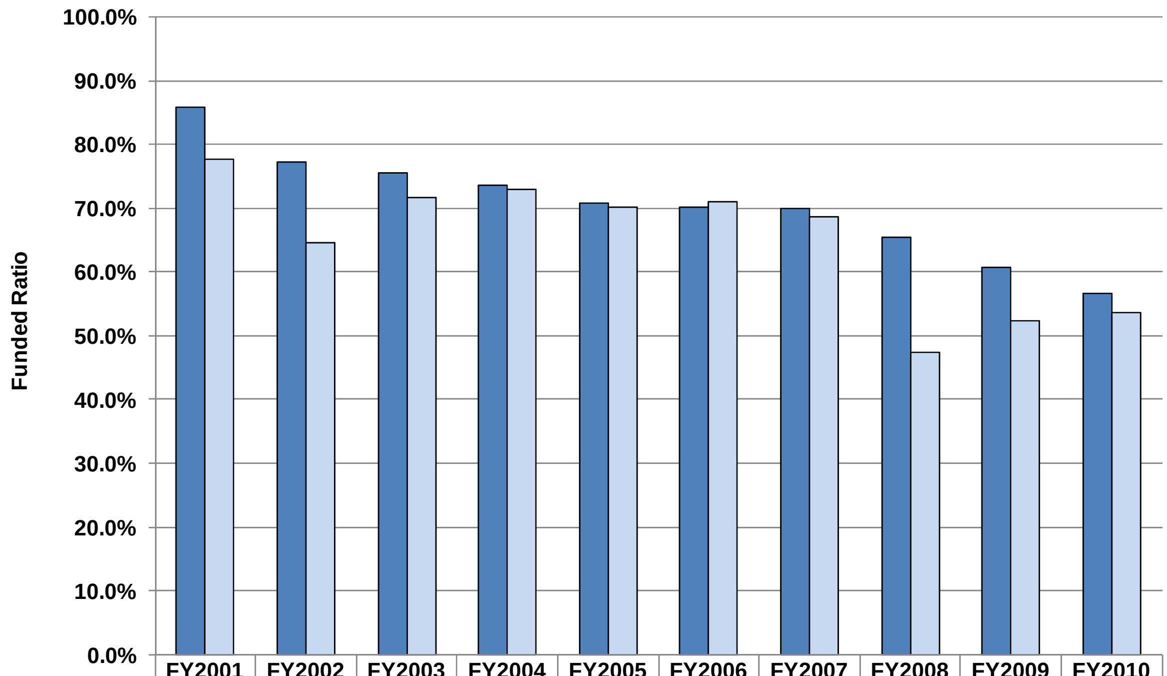
[59] See 40 ILCS 5/13-314 and MWRD Retirement Fund FY2010 Comprehensive Annual Financial Report, p. 84.

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 MWRD's pension fund over the last ten years. The actuarial value funded ratio fell from a high of 85.9% in FY2001 to 56.5% in FY2010. The market value funded ratio fell from a high of 77.6% in FY2001 to a low of 47.4% in FY2008 before rebounding slightly to 53.6% in FY2010. 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.

This continued decline in funded ratio is a cause for concern. In general, a ratio below 80% is considered to be an indication that the fund is in poor health.

MWRD Pension Fund Funded Ratios: Actuarial Value of Assets and Market Value of Assets FY2001-FY2010



	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Actuarial Value	85.9%	77.3%	75.5%	73.6%	70.8%	70.1%	70.0%	65.4%	60.7%	56.5%
Market Value	77.6%	64.6%	71.7%	72.9%	70.1%	70.9%	68.6%	47.4%	52.3%	53.6%

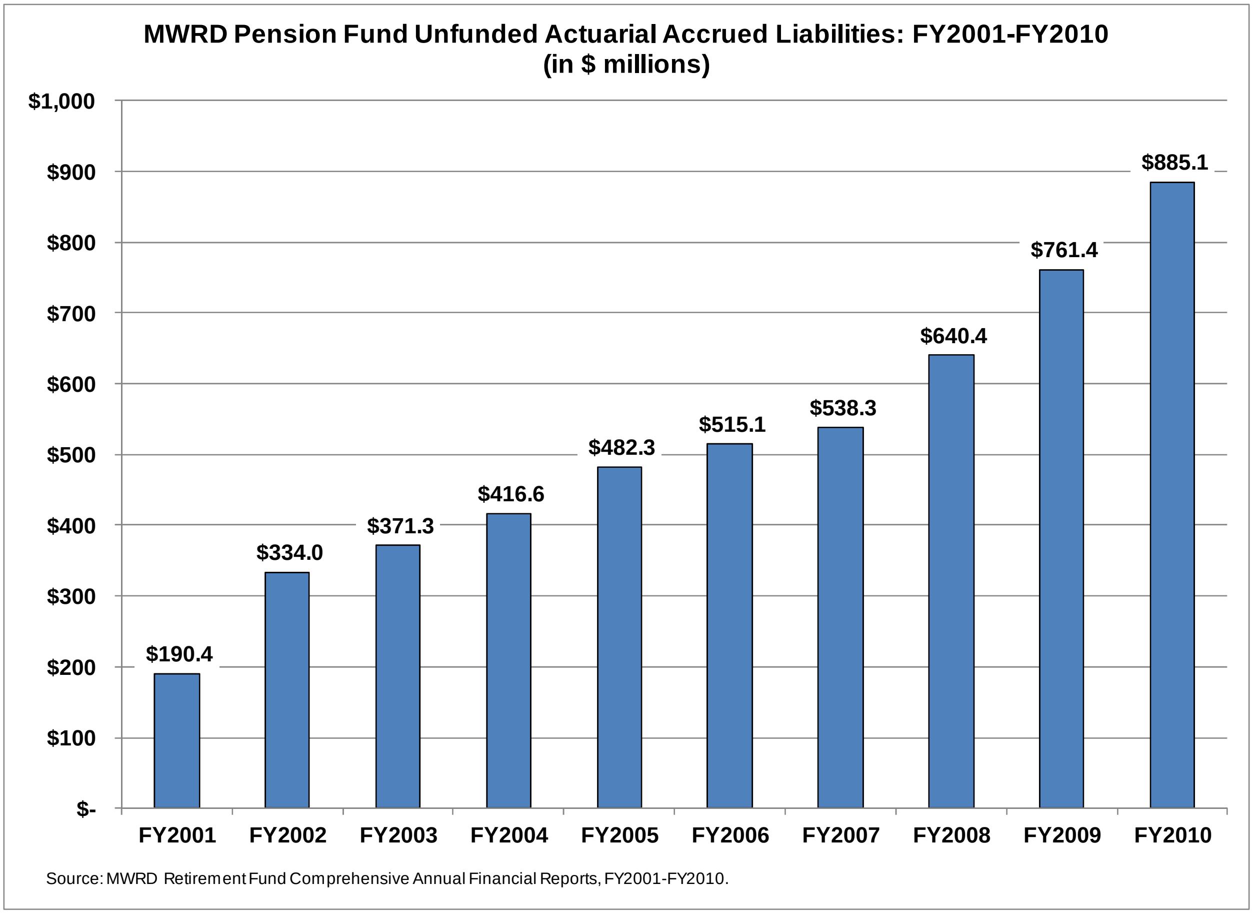
Source: Civic Federation calculations based on MWRD Retirement Fund Comprehensive Annual Financial Reports, FY2001-FY2010.

[60] For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2009,* February 10, 2011.

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, unfunded liability for the MWRD pension fund totaled $885.1 million in FY2010, up from $190.4 million in FY2001.

The largest contributor to the growth in unfunded liabilities between FY2001 and FY2010 was investment returns failing to meet the 7.75% expected rate of return. This added $426.0 million to the UAAL. The second largest contributor was employer contributions that were $218.8 million less than the annual normal cost plus interest on the UAAL.[61]

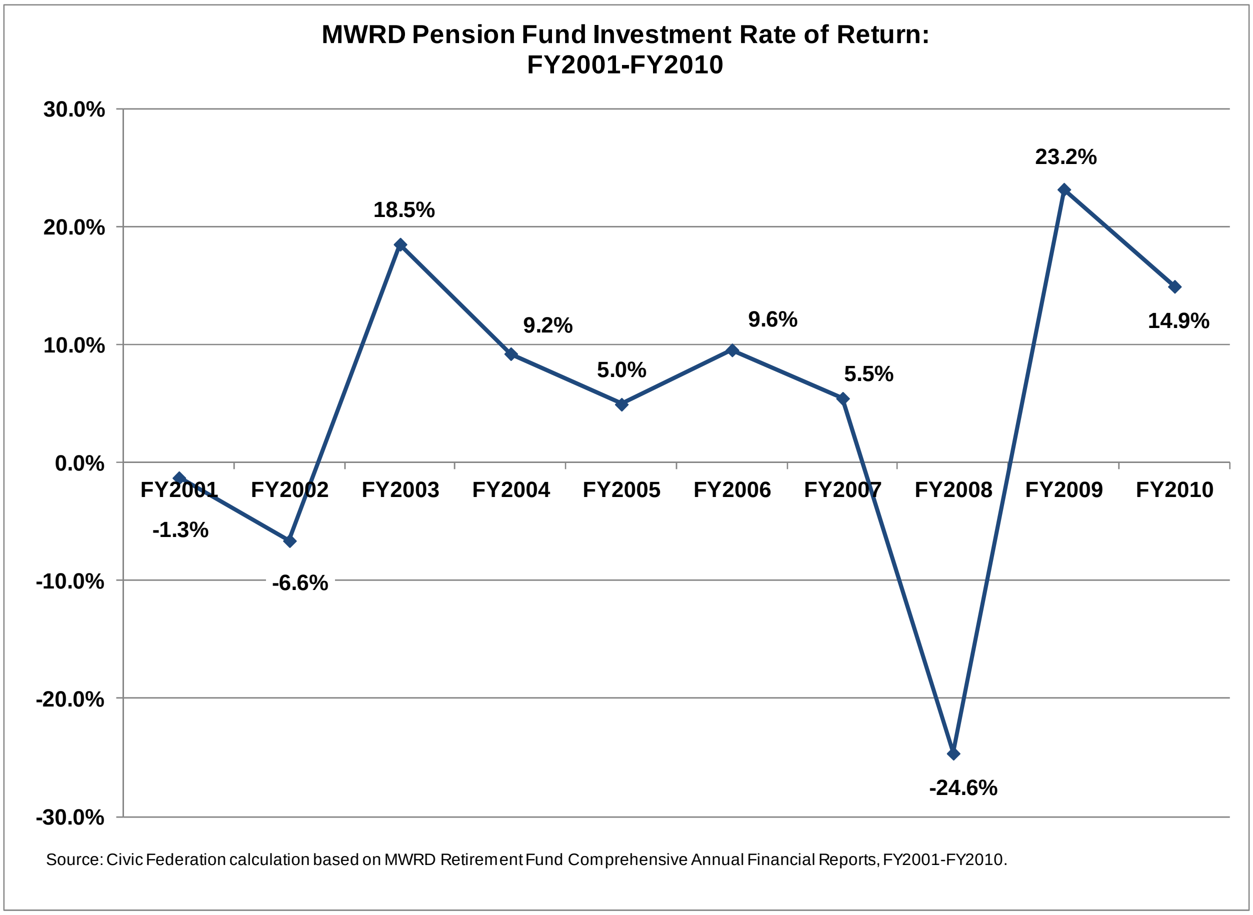


Investment Rates of Return

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 FY2001 and FY2010 the MWRD pension fund's average annual rate of return was 5.3%.[62]

[61] MWRD Retirement Fund FY2010 Comprehensive Annual Financial Report, p. 87.
[62] 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

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.



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. 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 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.

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.

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 FY2001 the employer contribution was only slightly below the ARC, but it has grown to a significant gap in FY2010. The difference between the ARC and the actual employer contribution grew from a $0.5 million shortfall in FY2001 to $32.0 million in FY2010. The cumulative ten-year difference between ARC and actual employer contribution is $143.7 million.

Expressing ARC as a percent of payroll provides a sense of scale and affordability. In FY2001 the ARC was 20.9% of payroll while the actual employer contribution was 20.6% of payroll. In FY2010 the pension ARC was 35.5% of payroll while the actual employer contribution was 17.1% of payroll. Employees contribute 9.0% of salary to the pension fund.

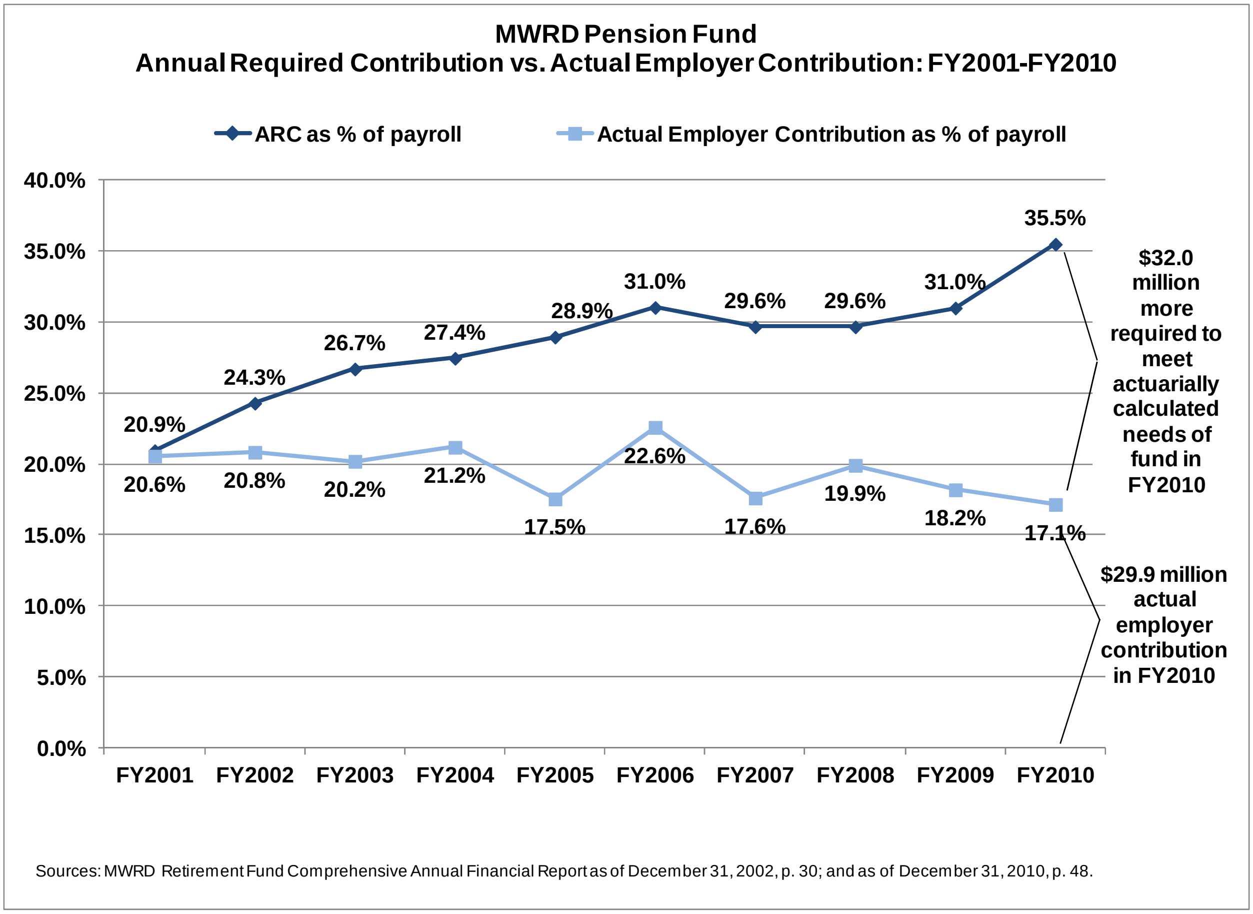
MWRD Pension Fund
Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25

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
2001	$ 28,552,646	$ 28,026,964	$ 525,682	98.2%	$ 136,382,287	20.9%	20.6%
2002	$ 33,414,603	$ 28,662,510	$ 4,752,093	85.8%	$ 137,679,573	24.3%	20.8%
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	59.4%	$ 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%

*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: MWRD Retirement Fund FY2002 Comprehensive Annual Financial Report and FY2010 Comprehensive Annual Financial Report, p. 48.

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 0.3 percentage point shortfall in FY2001 to an 18.3 percentage point shortfall in FY2010. 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 18.3% of payroll, or $32.0 million, in FY2010.



MWRD has consistently levied and contributed its statutorily required amount of 2.19 times the employee contribution made two years prior. However, that amount has been less than the ARC for each of the last ten years. The pension fund actuary estimates that in order to contribute an amount sufficient to meet the ARC in FY2011, MWRD would need to levy property taxes equal to a tax multiple of 4.19 rather than 2.19.[63]

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. 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 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;

[63] MWRD Retirement Fund FY2010 Comprehensive Annual Financial Report, p. 35.

- Subsequent funding based on a percentage of payroll; and
- An initial investment allocation of 50% equities and 50% bonds.[64]

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 interested earned on District moneys.[65] 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 proposes a $12.4 million contribution for FY2012.[66]

Employees do not contribute to the plan. Retiree participants pay 25% of the insurance premium and MWRD pays the remaining 75% of premium from the Corporate Fund annual personnel services appropriation. In FY2010 there were 2,776 beneficiaries receiving health care coverage.[67]

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, 2009. The actuarial accrued liability computed for the MWRD OPEB trust in the 2009 valuation was $526.5 million. The trust had assets actuarially valued at $47.9 million, resulting in unfunded liabilities of $478.6 million and a 9.1% funded ratio for FY2009 and FY2010. 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 same period.

MWRD OPEB Funded Status: FY2007-FY2010 (in $ millions)

	FY2007	FY2008	FY2009	FY2010
Actuarial Accrued Liability	$ 442.7	$ 526.5	$ 526.5	$ 526.5
Actuarial Value of Assets	$ 25.0	$ 47.8	$ 47.9	$ 47.9
Unfunded Actuarial Accrued Liability	$ 417.7	$ 478.7	$ 478.6	$ 478.6
Funded Ratio	5.7%	9.1%	9.1%	9.1%

Source: MWRD FY2009 Comprehensive Annual Financial Report, p. 95; and FY2010, p. 99.

[64] MWRD FY2012 Executive Director's Recommendations, p. 25.
[65] MWRD FY2009 Comprehensive Annual Financial Report, p. 41.
[66] MWRD FY2012 Executive Director's Recommendations, p. 7.
[67] MWRD FY2010 Comprehensive Annual Financial Report, p. 82.