



**METROPOLITAN WATER RECLAMATION DISTRICT
OF GREATER CHICAGO
FY2005 TENTATIVE BUDGET**

Analysis and Recommendations

Prepared By
The Civic Federation
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EXECUTIVE SUMMARY

The Metropolitan Water Reclamation District of Greater Chicago (MWRD) proposes a Tentative FY2005 Budget of \$945.8 million. The budget includes an \$11.8 million, or 2.9%, property tax increase.¹

The Civic Federation offers the following **key findings** on the MWRD's finances based on our analysis of its FY2005 budget and FY2003 audited financial statements:

- The total FY2005 Tentative Budget is an increase of 7.2% over the FY2004 Adjusted Budget. This is a \$63 million increase from \$882 million to \$946 million.
- The property tax levy for all funds will increase 2.9%, or \$11.8 million, over FY2004. This is the second year in a row that the MWRD has levied significantly less than the maximum allowable under the tax cap law. The District estimates that the maximum levy allowable for FY2005 is 4.8%, or \$19.5 million.
- Corporate Fund appropriations will increase 4.3%, or \$13 million, due to increased employee costs and scheduled maintenance projects.
- Twenty-six vacant positions will be eliminated in FY2005, reducing the total number of positions from 2,159 to 2,135.
- Corporate Fund net assets appropriable will be \$40.6 million, or 13% of Corporate Fund appropriations.
- The District's unreserved, undesignated fund balance totaled \$152 million in FY2003 for a Corporate Fund balance ratio (unreserved fund balance divided by operating expenditures) of 57.9%. This level of fund balance is considered "high" by the Civic Federation.

The Civic Federation **supports** the MWRD's Tentative FY2005 budget because:

- The MWRD has held the line on property taxes for the second year in a row, levying significantly less than the maximum allowable by law. The proposed 2.9% increase is significantly less than the maximum 4.8% increase that the District could have levied under the tax cap law. The \$11.8 million FY2005 levy is \$7.6 million less than the maximum allowable of \$19.5 million.
- The District continues to implement its long-term personnel reduction program, eliminating 26 positions in FY2005.
- The District intends to undertake a comprehensive planning process before beginning any capital projects related to its new stormwater authority (Public Act 93-1049).

The Civic Federation offers the following specific **recommendations** on ways to improve the District's revenue stream and financial management:

- The MWRD should continue in the direction taken last year and this year by **holding the line on property taxes** in years to come instead of levying up to the limit. This could be assisted by further reducing the Corporate Fund net assets appropriable to 7-10% of Corporate Fund appropriations, still well within the Government Financial Officer's Association standards.
- The MWRD should exercise restraint in levying property taxes under its new authority to manage **stormwater** in Cook County, carefully linking stormwater levy funds to long-term plans.
- The **budget document** should include a short, user-friendly executive summary with trend information on revenues, expenditures, fund balances, and personnel.
- The District should pursue **joint purchasing of health insurance** with other local governments, for a potential savings of millions of dollars annually.

¹ This analysis is based on budget figures in the General Superintendent's December 2, 2004 letter to the Board of Commissioners reporting changes to the Tentative 2005 Budget. All references to the "Tentative Budget" reflect changes noted in this letter.

INTRODUCTION

The Civic Federation recently concluded an analysis of financial issues related to the MWRD's Tentative FY2005 budget.² Based upon that analysis, we would like to offer the following comments. The full text of our analysis follows this summary and is also available on our Web site at www.civicfed.org.

As a government tax and fiscal research organization, the Civic Federation has closely monitored and commented on the fiscal health of local governments since 1894.

Issues that the Civic Federation Supports

The Civic Federation applauds the MWRD's restraint in increasing its property tax levy and its continued commitment to long-term personnel reductions. We are also encouraged by the District's plans to segregate funds from the new stormwater management property tax levy and to embark upon a comprehensive strategic planning process before beginning those projects.

Restraint in Property Tax Increase

For several years, the Federation had urged the District not to increase its property tax levy to the maximum amount allowable under property tax caps because the District's revenues were consistently and significantly exceeding its expenditures, and because the District maintained substantial fund balances and reserve funds.

The Civic Federation is **pleased that the Metropolitan Water Reclamation District chose to exercise restraint in its property tax levy increase for the second year in a row**. We applaud the District for providing some taxpayer relief by not increasing the MWRD total property tax levy up to the statutory limit (estimated at 4.8%), but instead levying a 2.9%, or \$11.9 million increase over FY2004. The \$11.8 million FY2005 levy is \$7.6 million less than the maximum allowable of \$19.5 million. In these economically challenging times, pursuing strategies such as drawing down the fund balance and economizing by continuing to reduce personnel is preferable to further burdening taxpayers.

Property taxes are inherently regressive because there is no relationship between increased assessments and a property owner's actual income. We are encouraged when governments act to mitigate the property tax burden on homeowners and businesses. The MWRD's restraint in limiting property tax increases stands in sharp contrast to several other local governments which increased property taxes this year to the maximum amount allowed instead of balancing revenue increases with spending cuts and efficiency improvements.

² This analysis is based on budget figures reported in the General Superintendent's December 2, 2004 letter to the Board of Commissioners reporting changes to the Tentative 2005 Budget. All references to the "Tentative Budget" reflect changes noted in this letter.

Continued Strategy of Personnel Reductions

In response to tax cap limitations beginning in 1995, the MWRD adopted an appropriation control program to identify positions for elimination. It is the MWRD's policy to reduce staff only by attrition. The District expects to reduce staff by 26 positions in 2005 due to retirements, dropping from 2,161 all funds positions in FY2004 to 2,135 in FY2005.

The Civic Federation applauds the District for developing and implementing its long-term strategy of reducing personnel. This is an important recognition of the need to control the single most significant governmental cost, personnel.

Civic Federation Recommendations

The Civic Federation offers several recommendations regarding ways to improve the MWRD's financial management.

Continue to Exercise Restraint in Property Tax Levy Increases

The Civic Federation encourages the MWRD to continue in the direction taken last year and this year by holding the line on property taxes in future years instead of levying to the limit allowed by law. Continuing to draw down the substantial fund balance is one way to achieve this goal. The proposed FY2005 Corporate Fund balance of \$40.6 million represents 13% of FY2005 Corporate Fund appropriations. We recommend that the District further reduce its Corporate Fund balance to 7-10% of appropriations, still well within the Government Finance Officer's Association guidelines. This would represent a reduction in the fund balance to a range between \$21.9 million to \$31.2 million. In addition, firm commitment to the District's ongoing personnel reduction program is essential to controlling costs and minimizing annual property tax levy increases.

Exercise Restraint in Levying for Stormwater Management Projects

In November 2004, Public Act 93-1049 transferred responsibility for coordinating and implementing stormwater management projects in Cook County to the MWRD. It also provided the MWRD with the authority to levy as much as an additional \$50 million a year in property taxes outside the property tax cap law.

The Civic Federation is pleased that the MWRD intends to segregate the stormwater funds in a separate fund, thus providing transparency and clarity in the use of those funds for their intended purpose. We are also encouraged that the District intends to undertake a comprehensive planning process before beginning any capital projects related to its new stormwater authority.³

We urge the District to exercise restraint in the use of its new \$50 million levy authority, and to follow its budgetary objective of making every effort to minimize property tax levy increases through the use of sound management and cost-effective operations in stormwater management.

³ Information provided by Administrative Services Manager John Farris and Management Analyst Paul Piskiewicz on December 3, 2004.

Improve Budget Format with Summary Information

The Civic Federation is encouraged that the MWRD has reduced its budget production costs by reprinting only those pages that changed between the General Superintendent's Recommended Budget and the Tentative Budget. However, more improvements could be made. Although the MWRD's annual budget contains a wealth of data and substantial narrative description, it lacks easily identifiable basic summary tables. Summary tables of key information such as revenue sources and amounts over time, fund balance reappropriations over time, appropriations by department over time, personnel by department over time, and personnel by administrative vs. non-administrative classification, should be provided at the front of the document in order to make it more user-friendly for citizens. As an example, the "Citizens' Summary" section of Cook County's annual budget provides a collection of such tables in a consistent format.

Join with Other Chicago Area Governments to Pursue Joint Purchasing of Health Insurance

To contain skyrocketing health care costs, The Civic Federation urges the MWRD to pursue the joint purchasing of health care insurance with other governments in the Chicago area. A study conducted for The Civic Federation on the feasibility of consolidated health insurance purchasing found that forming a joint insurance pool consisting of the employees of the City of Chicago, Cook County (excluding the Forest Preserve District), Chicago Park District, Chicago Transit Authority, the City Colleges of Chicago, the Chicago Public Schools and the Chicago Housing Authority could yield projected savings of \$40.1 million in the first year or \$222 million over a 5-year period.⁴ The MWRD could achieve similar benefits and savings by participating in this project.

ACKNOWLEDGEMENTS

The Civic Federation would like to commend Budget Officer Kenneth Senderak, Administrative Services Manager John Farris, Management Analyst Paul Piszkiwicz, and their staffs for their hard work in preparing this budget. We appreciate their willingness to meet with us and provide additional information.

FY2005 BUDGET HIGHLIGHTS

The Tentative FY2005 MWRD budget is \$945.8 million. This is a \$63.5 million, or 7.2% increase over the FY2004 adjusted budget of \$882.4 million. The FY2005 Tentative Budget includes the following highlights:

- A 2.9% increase in the property tax levy. This represents a \$11.8 million increase from \$406 million to \$418 million. This is the second year in a row that the MWRD has levied significantly less than the maximum allowable under the tax cap law. The District estimates that its maximum allowable for FY2005 is 4.8%, or \$19.5 million.

⁴ The Civic Federation. *Feasibility Study of Consolidated Purchasing: Chicago Public Employers*. A Study Conducted by the Segal Company. February 23, 2001.

- A 4.3%, or \$13 million, increase in Corporate Fund appropriations due to increased employee costs and scheduled maintenance projects.
- The elimination of 26 vacant positions, reducing the total number of positions from 2,159 to 2,135.
- Corporate Fund net assets appropriable will be \$40.6 million, or 13% of Corporate Fund appropriations.

FINANCIAL ISSUES AND TRENDS

This section provides summaries of key issues likely to affect the District's financial situation in the upcoming fiscal year as well as expenditure, appropriation, and revenue trends.

All Fund Appropriations: \$945.6 Million

The MWRD proposes to appropriate \$945.6 million in the FY2005 Tentative Budget. Traditionally, MWRD total appropriations differ significantly from budget year to budget year due to differences in capital projects and the timing of those projects. Sometimes revenues for capital projects become available at a date later than publication of the Tentative Budget. This year, the Tentative Budget originally called for appropriations of \$1.02 billion, but was revised downward on December 2, 2004, following the postponement of several capital projects until FY2006.⁵

With this caveat in mind, the FY2005 Tentative Budget of \$945.6 billion is an increase of \$63 million, or 7.2%, over the FY2004 adjusted budget.

Corporate Fund appropriations are projected in increase by 4.3%, or \$13 million, over FY2004. The primary sources of this increase are rising employee health care costs (\$3.6 million), cost of living increases (\$2.3 million), and increased scheduled maintenance projects in Engineering (\$2.4 million) and Maintenance & Operations (\$2.1 million).

The Construction Fund serves as a pay-as-you-go source of funding for capital projects to rehabilitate major facilities. Construction Fund appropriations will be reduced by \$9.1 million, or 14.3%, because fewer projects are currently scheduled for award in FY2005 than in FY2004.

The 18.6% increase in Capital Improvements Bond Fund appropriations for FY2005 reflects the timing of major capital projects.

⁵ General Superintendent's December 2, 2004 letter to the Board of Commissioners reporting changes to the Tentative 2005 Budget.

MWRD Major Fund Appropriations: FY2004 & FY2005				
	2004 Adj.	2005 Prop.	% change	\$ change
Corporate Fund	\$ 300,578,700	\$ 313,588,800	4.3%	\$ 13,010,100
Construction Fund	\$ 63,584,600	\$ 54,509,400	-14.3%	\$ (9,075,200)
Capital Improvements Bond Fund	\$ 299,092,800	\$ 354,739,900	18.6%	\$ 55,647,100
Retirement Fund	\$ 28,678,392	\$ 31,201,845	8.8%	\$ 2,523,453
Reserve Claim Fund	\$ 33,000,000	\$ 35,000,000	6.1%	\$ 2,000,000
Bond Redemption & Interest Fund	\$ 157,422,157	\$ 156,808,619	-0.4%	\$ (613,538)
Total Appropriations	\$ 882,356,649	\$ 945,848,564	7.2%	\$ 63,491,915

The following exhibit shows MWRD budget appropriations from FY2000 to FY2005. It compares the Tentative Budget appropriation proposed in each of those years with the final Adjusted Budget as reported in the succeeding year's budget book. Adjusted appropriations, to a certain extent, reflect the inclusion of capital project awards made after the initial release of the budget. While FY2000 and FY2001 show relatively small differences between proposed and adjusted appropriations, later years show larger differences. This is due primarily to a recent shift in budget presentation toward including more projects in Adjusted Budget figures.⁶

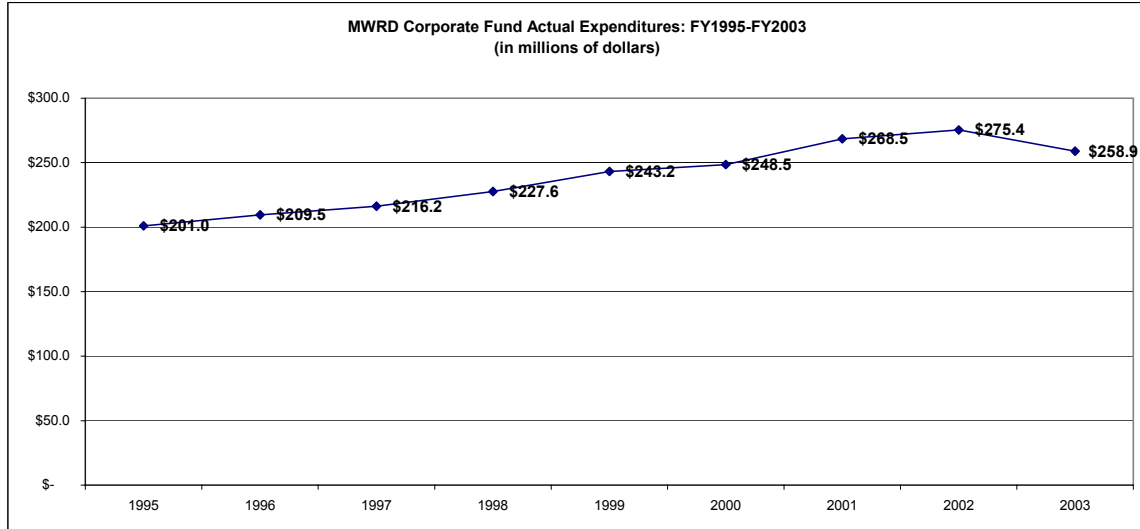
MWRD APPROPRIATIONS: FY00-FY05			
	Originally Proposed	Adjusted	Variance
FY2000	\$ 963,863,493	\$ 964,090,014	\$ 226,521
FY2001	\$ 924,196,538	\$ 975,661,391	\$ 51,464,853
FY2002	\$ 793,431,326	\$ 1,007,358,326	\$ 213,927,000
FY2003	\$ 758,497,339	\$ 919,493,798	\$ 160,996,459
FY2004	\$ 768,177,049	\$ 882,356,649	\$ 114,179,600
FY2005	\$ 945,848,564	N/A	N/A

Corporate Fund Actual Expenditures 1995-2003

Corporate Fund actual expenditures increased a total of \$58 million, or 29%, between 1995 and 2003. Corporate Fund expenditures rose steadily by roughly 4.6% until 2003, when they declined by \$16 million, or 6%, from 2002 expenditures. This decline was due to a one-time \$10 million transfer from the Corporate Fund to the Reserve Claim Fund for environmental liabilities, as well as \$6 million in pension savings resulting from Public Act 92-0599, which changed pension and early retirement programs for several local governments in 2003.⁷

⁶ Information provided by Administrative Services Manager John Farris and Management Analyst Paul Piszkievicz on December 3, 2004.

⁷ Information provided by Administrative Services Manager John Farris and Management Analyst Paul Piszkievicz on December 3, 2004.



REVENUE TRENDS

The next section of the analysis presents Corporate Fund revenue trends and property tax levy trends.

Corporate Fund Revenues up 1.4%

The net property tax levy represents 72% of the MWRD's FY2005 Corporate Fund revenues, and will increase by 3.8%, or \$7.2 million, in FY2005. The Personal Property Replacement Tax (PPRT) represents 7.2% of revenues and is expected to increase by \$1.8 million, or 10.3%, due to improvements in the economy. PPRT revenues are first used to fully fund the Retirement Fund, then the remainder is distributed to the non-debt funds in proportion to their property tax levies.⁸ User charges represent 17.3% of Corporate Fund revenues, and will remain at \$47.5 million in FY2005.

MWRD Corporate Fund Revenues: FY04 & FY05				
	FY04 adjusted	FY05 budget	% change	\$ change
Property Taxes (net)	\$ 191,550,305	\$ 198,751,946	3.8%	\$ 7,201,641
PPRT	\$ 18,040,000	\$ 19,891,000	10.3%	\$ 1,851,000
Investment Income	\$ 1,231,000	\$ 1,243,000	1.0%	\$ 12,000
Land Rentals	\$ 5,750,000	\$ 5,980,000	4.0%	\$ 230,000
User Charges	\$ 47,500,000	\$ 47,500,000	0.0%	\$ -
Other	\$ 6,958,495	\$ 1,344,054	-80.7%	\$ (5,614,441)
TOTAL	\$ 271,029,800	\$ 274,710,000	1.4%	\$ 3,680,200

Gross Property Tax Levy Increase of 2.9%

The exhibit below shows projected changes in the MWRD's major revenues for all funds between FY2004 and FY2005. The gross property tax levy will increase \$11.8 million, or 2.9% over FY2004. This is the second year in a row that the MWRD has levied significantly less than

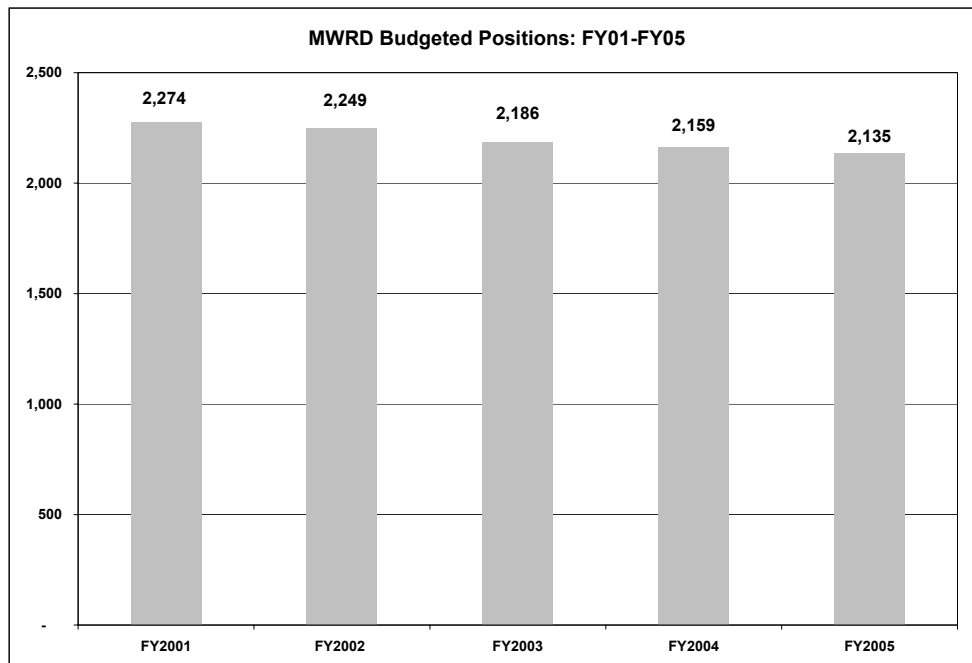
⁸Metropolitan Water Reclamation District FY2005 Tentative Budget, p. 11.

the maximum allowable under the tax cap law. The District estimates that with a projected 2005 Consumer Price Index increase of 3.3% and a 1.5% in new property, it could have levied up to a 4.8%, or \$19.5 million increase in property taxes.⁹ In FY2005, the District's aggregate levy (those funds subject to tax caps) represents 60% of its total property tax levy. The remaining 40%, or \$165 million, is levied for the Bond & Interest Fund, which is not subject to tax caps. 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.¹⁰

MWRD All Funds Selected Major Revenues: FY04-FY05				
	FY2004 est.	FY2005 bud.	% change	\$ change
Property Tax (Gross Levy)	\$ 406,253,617	\$ 418,048,353	2.9%	\$ 11,794,736
User Charges	\$ 47,500,000	\$ 48,000,000	1.1%	\$ 500,000
PPRT	\$ 25,000,000	\$ 27,000,000	8.0%	\$ 2,000,000
Investment Interest Income	\$ 14,500,000	\$ 14,700,000	1.4%	\$ 200,000
Lease Revenue	\$ 5,750,000	\$ 5,980,000	4.0%	\$ 230,000

PERSONNEL TRENDS

In response to tax cap limitations beginning in 1995, the MWRD adopted an appropriation control program to identify positions for elimination. It is the MWRD's policy to reduce staff only by attrition. The District expects to reduce staff by 26 positions in 2005 due to retirements, dropping from 2,161 all funds positions in FY2004 to 2,135 in FY2005. The goal is to reduce the workforce below 2,000 positions in the next five years.¹¹

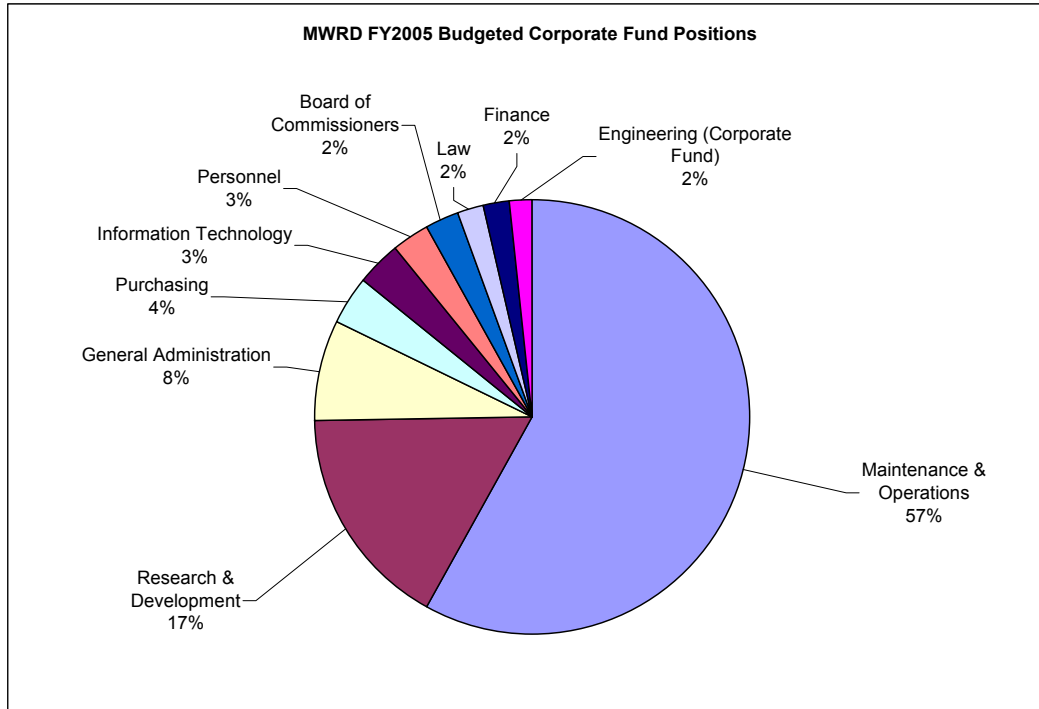


⁹ Information provided by Administrative Services Manager John Farris and Management Analyst Paul Piskiewicz on December 3, 2004.

¹⁰ Stormwater management is not included in the Tentative FY2005 Budget.

¹¹ Information provided by Administrative Services Manager John Farris and Management Analyst Paul Piskiewicz on December 3, 2004.

Nearly all of the position reductions occur in the Corporate Fund, which will decline from 1,961 to 1,937. Of the 1,937 Corporate Fund positions budgeted for FY2005, 24% are in the support areas of General Administration, Purchasing, Information Technology, Personnel, Law, Finance, and Board of Commissioners.



FUND BALANCE

The Civic Federation uses two measures of fund balance. The first, the current fund balance ratio, is intended to measure a government's ability to meet its financial obligations over time, long enough to convert illiquid assets to cash. It utilizes information from the audited financial statements. The second measure is net assets appropriable as a percentage of Corporate Fund appropriations, which is a measure of budgetary liquidity.

Current Fund Balance Ratio

The current fund balance ratio was devised by the Civic Federation to measure a government's ability to meet its financial obligations over time, long enough to convert illiquid assets to cash. It is calculated by dividing General Corporate Fund expenditures by the unreserved, undesignated fund balance in that fund. Historic trends are presented below for the MWRD for FY1999 through FY2003. Ratios over 50% are categorized as "High," 25% to 50% as "Substantial," 10% to 25% as "Adequate" and 10% or less as "Low."

The MWRD maintained a "Substantial" current fund balance ratio between FY1999 and FY2002. During that time period, the fund balance ratio averaged 43.6%. In FY2003, the ratio

rose to 57.9%, earning a rating of “High”. This was due to a dramatic 38%, or \$42 million, increase in the Corporate Fund balance in FY2003.

The MWRD notes that the unreserved, undesignated fund balance reported in its audited financial statements includes funds designated for its Corporate Working Cash Fund, which loans money to the Corporate Fund in order to bridge the one-year delay in between tax levies and tax receipts.¹²

MWRD CURRENT FUND BALANCE RATIO				
	CORPORATE FUND	CORPORATE FUND		
	Unreserved, Undesignated Fund Balance	Operating Expenditures	Ratio	Rating
1999	\$ 100,597,000	\$ 248,170,000	40.5%	Substantial
2000	\$ 115,538,000	\$ 251,995,000	45.8%	Substantial
2001	\$ 127,347,000	\$ 271,531,000	46.9%	Substantial
2002	\$ 110,564,000	\$ 268,486,000	41.2%	Substantial
2003	\$ 152,484,000	\$ 263,134,000	57.9%	High
Average	\$ 121,306,000	\$ 260,663,200	46.5%	Substantial

Source: MWRD Comprehensive Annual Financial Reports

Corporate Fund Net Assets Appropriable

One of the stated goals guiding MWRD budget development is to maintain a Corporate Fund balance of \$40 to \$45 million, or 10% to 15% of Corporate Fund appropriations.¹³ The Government Finance Officer’s Association recommends a budgetary operating fund balance of 5-15%.¹⁴ MWRD Corporate Fund net assets appropriable are budgeted at \$40.6 million for FY2005. This represents 12.9% of proposed Corporate Fund appropriations.

Since FY2001, the ratio of net assets appropriable in the Corporate Fund to Corporate Fund projected appropriations has declined from significantly from 23.3% to 12.9%.

CORPORATE FUND NET ASSETS APPROPRIABLE AS A PERCENTAGE OF CORPORATE FUND APPROPRIATIONS			
2001 as adjusted	\$ 77,700,800	\$ 332,800,000	23.3%
2002 as adjusted	\$ 59,351,000	\$ 316,578,800	18.7%
2003 as adjusted	\$ 42,813,000	\$ 290,794,300	14.7%
2004 as adjusted	\$ 40,210,000	\$ 300,578,700	13.4%
2005 budgeted	\$ 40,592,400	\$ 313,588,800	12.9%

¹² Information provided by Administrative Services Manager John Farris and Management Analyst Paul Piszkievicz on December 3, 2004.

¹³ Metropolitan Water Reclamation District FY2005 Tentative Budget, p. 2.

¹⁴ Government Finance Officers Association Recommended Practice. “Appropriate Level of Unreserved Fund Balance in the General Fund” (Adopted 2002).

DEBT TRENDS

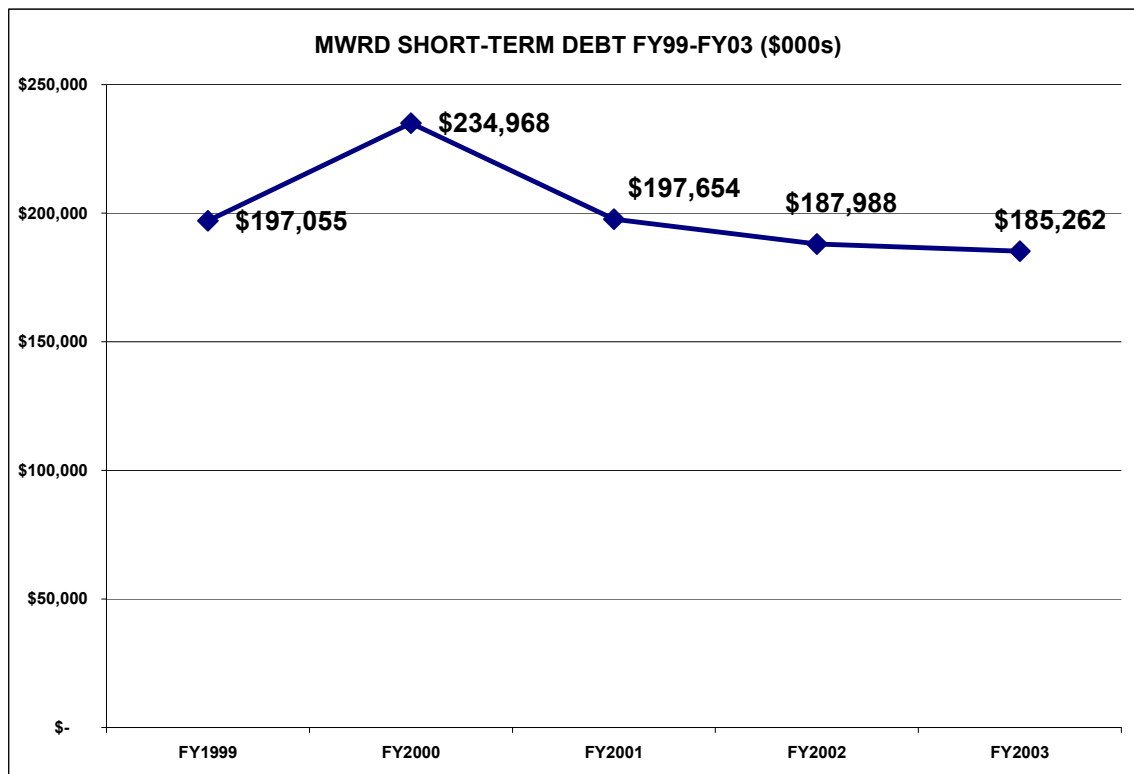
The Civic Federation has employed two measures of debt for purposes of this analysis: short-term debt trends and long-term debt per capita trends.

Short-Term Debt Trends: 1% Decline in FY2003

Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits.

Short-term debt for governmental activities includes obligations such as accounts payable, contracts payable, deposits, interest payable, interest, due to other funds, and liabilities from restricted assets. In sum, it includes all liabilities except accrued salaries and wages, accrued payroll, compensated absences and long-term debt that are reported in the General Corporate Fund.

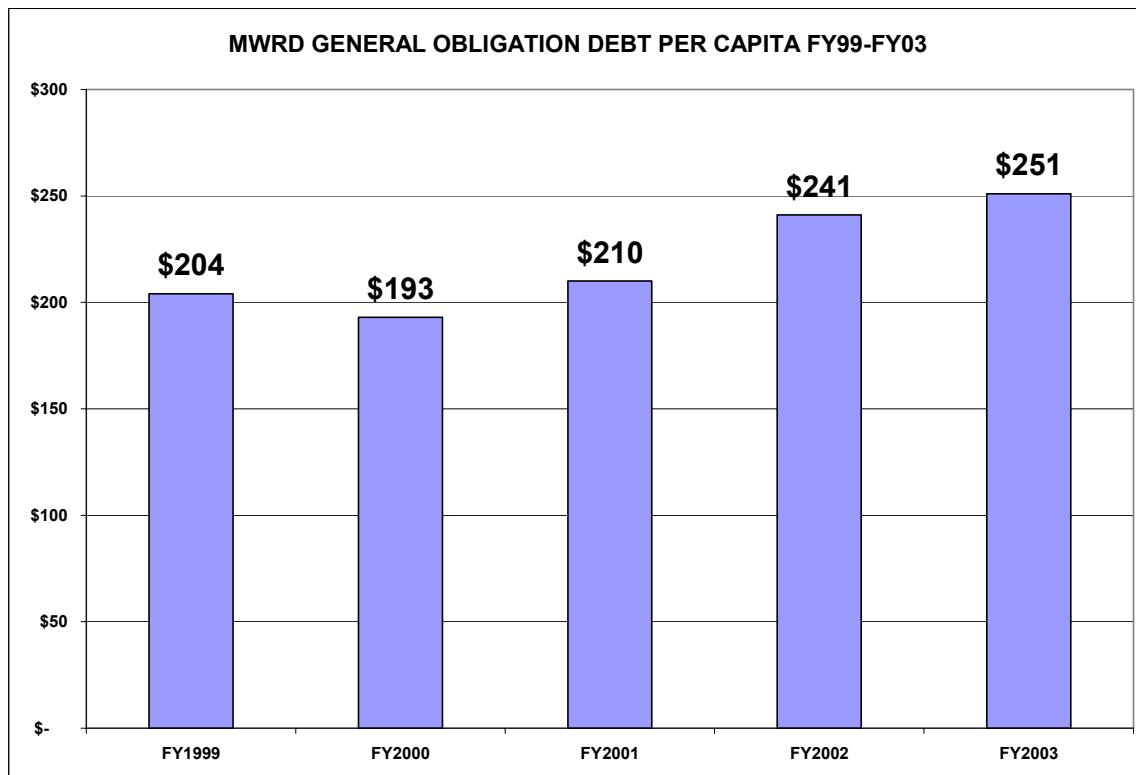
Between FY1999 and FY2003, MWRD short-term debt obligations declined by 6%, from \$197 million to \$185 million. Between FY2002 and FY2003, short-term debt decreased by 1%. This is the third year in a row that short-term debt has declined; since FY2000, it has fallen by \$49 million or 21%. These decreases are positive indicators.



General Obligation Debt Per Capita: 4% Increase in FY2003

General Obligation debt per capita is a measure of a government's ability to maintain its current financial policies. Increases over time in this indicator bear watching as a potential sign of increasing financial risk.

The total amount of MWRD General Obligation debt in FY2003 was \$1.3 billion. In FY2003, G.O. debt per capita rose by 4% from the previous fiscal year. Between FY1999 and FY2003, the MWRD's G.O. debt per capita increased by 23%, rising from \$204 to \$251. The total dollar increase during this period was \$303 million.



PENSION FUND TRENDS

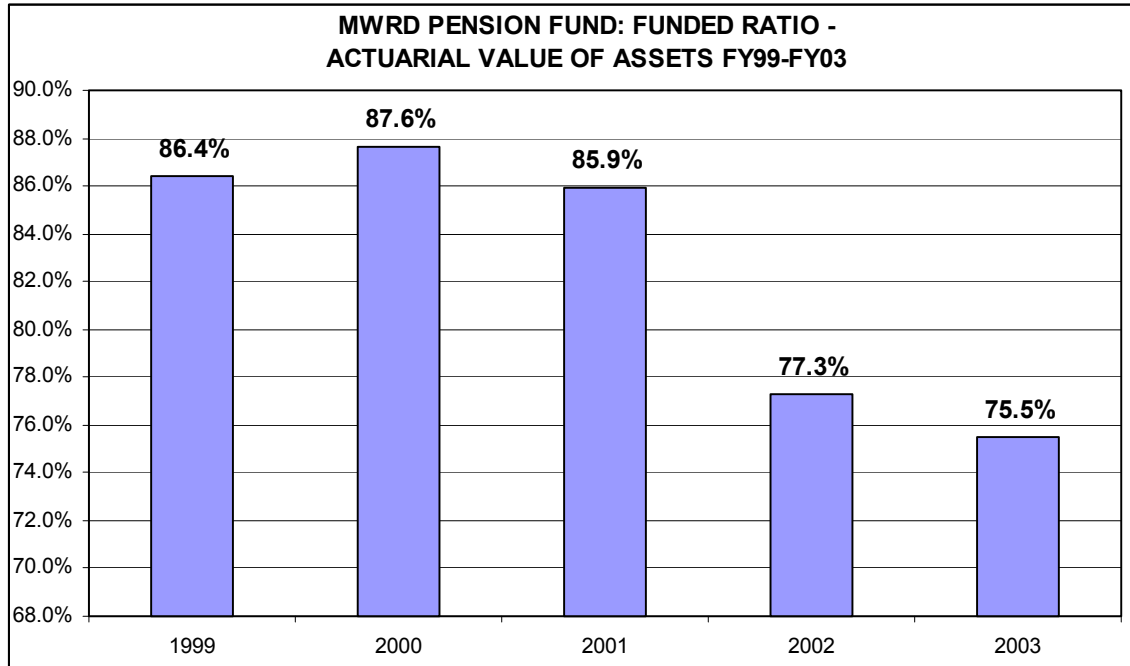
The Civic Federation used three measures to present a multi-year evaluation of the fiscal health of the MWRD's pension fund: funded ratios, the value of unfunded liabilities, and the investment rate of return.¹⁵

¹⁵ The discussion of MWRD's pension fund trends is drawn from Scott Metcalf. *Status of Local Pension Funding* (Chicago: Civic Federation, 2002).

Funded Ratio – Actuarial Value of Assets: Down from 77.3% to 75.5% in FY2003

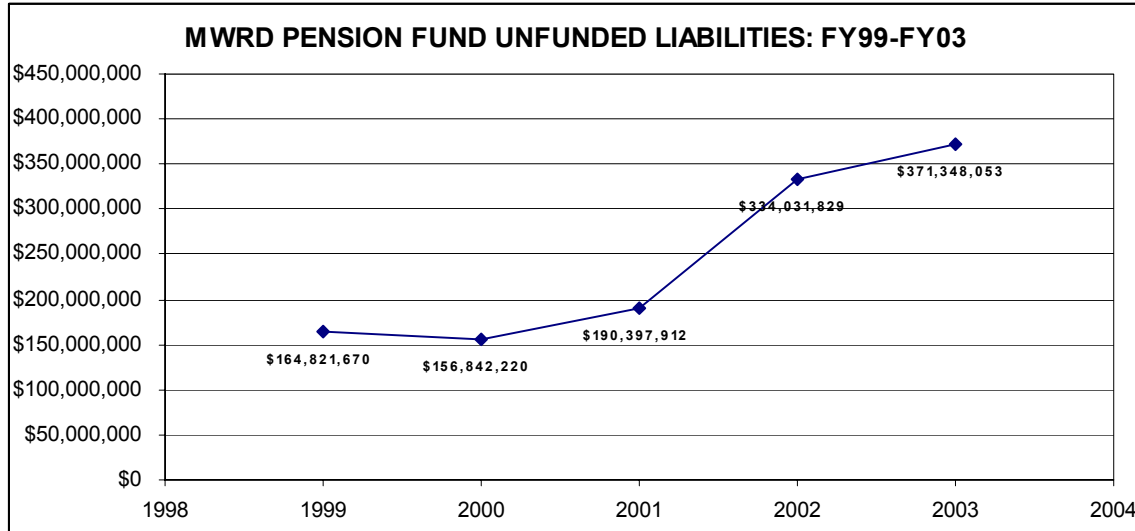
The following exhibit shows the funded ratio for the MWRD’s pension fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations.

The funded ratio for the MWRD’s pension fund averaged 82.5% from FY1999 to FY2003. The funded ratio declined 1.8% in FY2003, from 77.3% to 75.5%. A continued decline in subsequent years would raise concerns about the pension funds’ funding levels.



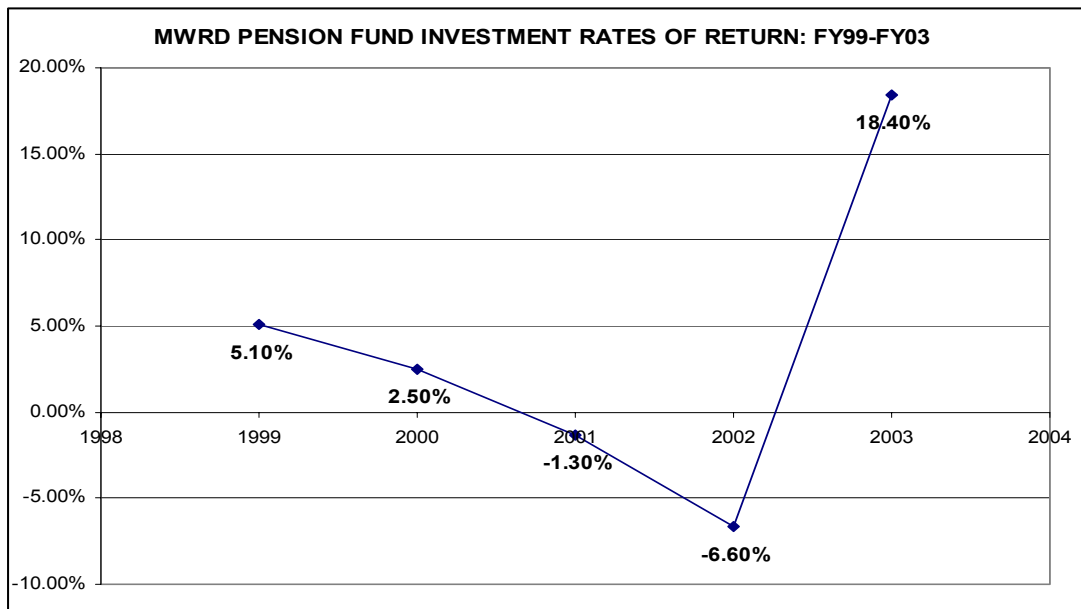
Unfunded Liabilities: Increase of 11.2%

Unfunded liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for the MWRD’s pension fund totaled approximately \$371 million in FY2003. Between FY2002 and FY2003, unfunded liabilities increased by 11.2%, or approximately \$37.3 million. Since FY1999, the pension fund has seen a 125% increase in unfunded liabilities.



Investment Rates of Return: Returns Negative in FY2002 & a Positive 18.4% in FY2003

Investment income typically provides a significant portion (over 50%) of the funding for pension funds. Thus, declines over a period of time can have a negative impact on pension assets. From FY1999 to FY2002, MWRD investment rates of return declined from 5.1% to -6.6%. From FY2002 to FY2003, however, MWRD investment rates of return have experienced a significant 2500 basis point increase from -6.6% to 18.4%. On a five-year basis, MWRD investment rates of return for FY2003 stand at 18.4%, up from 5.1% in FY1999.



CIVIC FEDERATION RECOMMENDATIONS

The Civic Federation has several recommendations regarding ways to improve the MWRD's financial management.

Continue to Exercise Restraint in Property Tax Levy Increases

The Civic Federation encourages the MWRD to continue in the direction taken last year and this year by holding the line on property taxes in years to come instead of levying to the limit. Continuing to draw down the substantial fund balance is one way to achieve this goal. The proposed FY2005 Corporate Fund balance of \$40.6 million represents 13% of FY2005 Corporate Fund appropriations. We recommend that the District further reduce its Corporate Fund balance to 7-10% of appropriations, still well within the Government Finance Officer's Association guidelines. This would represent a reduction in the fund balance to a range between \$21.9 million to \$31.2 million. In addition, firm commitment to the ongoing personnel reduction program is essential to controlling costs and minimizing the annual property tax levy.

Exercise Restraint in Levying for Stormwater Management Projects

In November 2004, Public Act 93-1049 transferred responsibility for coordinating and implementing stormwater management projects in Cook County to the MWRD. It also provided the MWRD with the authority to levy an additional \$50 million a year in property taxes outside the property tax cap law. The Civic Federation is pleased that the MWRD intends to segregate the stormwater funds in a separate fund, thus providing transparency and clarity in the use of those funds for their intended purpose. We are also encouraged that the District intends to undertake a comprehensive planning process before beginning any capital projects related to its new stormwater authority.¹⁶ We urge the District to exercise restraint in the use of its new \$50 million levy authority, and to follow its budgetary objective of making every effort to minimize the property tax levy through the use of sound management and cost-effective operations in stormwater management.

Improve Budget Format with Summary Information

The Civic Federation is encouraged that the MWRD has reduced its budget production costs by reprinting only those pages that changed between the General Superintendent's Recommended Budget and the Tentative Budget. However, more improvements could be made. Although the MWRD's annual budget contains a wealth of data and substantial narrative description, it lacks easily identifiable basic summary tables. Summary tables of key information such as revenue sources and amounts over time, fund balance reappropriations over time, appropriations by department over time, personnel by department over time, and personnel by administrative vs. non-administrative classification, should be provided at the front of the document in order to make it more user-friendly for citizens. As an example, the "Citizens' Summary" section of Cook County's annual budget provides a collection of such tables in a consistent format.

¹⁶ Information provided by Administrative Services Manager John Farris and Management Analyst Paul Piszkiwicz on December 3, 2004.

Pursue Joint Purchasing of Health Insurance

To contain skyrocketing health care costs, The Civic Federation urges the MWRD to pursue the joint purchasing of health care insurance with other governments in the Chicago area. A recent study conducted for The Civic Federation on the feasibility of consolidated health insurance purchasing found that forming a joint insurance pool consisting of the employees of the City of Chicago, Cook County (excluding the Forest Preserve District), Chicago Park District, Chicago Transit Authority, the City Colleges of Chicago, the Chicago Public Schools and the Chicago Housing Authority could yield projected savings of \$40.1 million in the first year or \$222 million over a 5-year period.¹⁷ The MWRD could achieve similar benefits and savings by participating in this project.

¹⁷ The Civic Federation. *Feasibility Study of Consolidated Purchasing: Chicago Public Employers*. A Study Conducted by the Segal Company. February 23, 2001.