The Civic Federation

Research * Information * Action * Est. 1894

METROPOLITAN WATER RECLAMATION DISTRICT FY2017 TENTATIVE BUDGET:

Analysis and Recommendations

December 1, 2016

The Civic Federation ● 10 N. Dearborn Street ● Chicago, IL 60602 ● civicfed.org

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

Table of Contents

EXECUTIVE SUMMARY

The Civic Federation **supports** the FY2017 Tentative Budget proposed by the Metropolitan Water Reclamation District of Greater Chicago (MWRD). The FY2017 Tentative Budget of approximately $1.13 billion is 9.0% less than the FY2016 adjusted budget of $1.24 million.[1]

With the FY2017 budget proposal, the MWRD continues to demonstrate a sensible and proactive approach to meeting its financial challenges. In FY2017 the District will continue to maintain substantial reserves and other safeguards to cover shortfalls or financial emergencies. Spending within the District's Corporate Fund, or general operating fund, will remain relatively flat from the prior year, and the District will reduce the cost of health and life insurance for employees by 3.1%. The District also maintains high credit ratings, which the District says enabled it to save $120 million on future debt service costs at its 2016 bond sale.

Over the past several years, the MWRD has committed to increasing contributions to its employee pension fund and contributing to a trust fund for future retiree healthcare benefits. Since 2013 the MWRD has contributed more to the pension fund than the actuarially determined contribution in order to make up for shortfalls in prior years. These additional contributions have begun to reverse the downward trajectory of the pension fund. In FY2017 the District will increase its contribution to the fund by 12.4% from the prior year. The District will also contribute $5.0 million in FY2017 to a trust fund for future retiree health benefits.

These achievements are not to say that the MWRD is free of challenges. As a non-home rule government, the MWRD has limited revenue flexibility and depends heavily on property taxes, including a projected maximum increase in FY2017. The District shares a property tax base with other local governments that have high pension and debt burdens, putting pressure on the tax base as a source of revenue for all the governments that access property taxes in Cook County. Like most governments, the District must control spending to balance rising personnel costs. The MWRD pension fund still has a long way to go to reach full funding. Despite these limitations, however, the MWRD has done a commendable job implementing prudent and thoughtful financial management policies that work to improve the District's long-term stability.

The Civic Federation offers the following **key findings** from the FY2017 Tentative Budget:

- Total proposed spending is $1.13 billion, which is a 9.0%, or $111.7 million, decrease from the FY2016 adjusted budget of $1.24 billion. The decrease is due to lower spending on major capital and infrastructure projects based on normal fluctuations in project scheduling;
- The five-year capital budget for FY2017-FY2021 totals approximately $1.1 billion, with proposed spending in FY2017 at $236.7 million. The request for total capital spending authorization on project costs in FY2017 is $348.0 million;
- The MWRD will decrease position count in FY2017 by 21 full-time equivalent (FTE) positions, eliminating 19 vacant positions in the Corporate Fund and two positions in the Stormwater Management Fund. This is a 1.1% reduction in FTE positions from 1,976

[1] The decrease from FY2016 is due to normal fluctuations in the project schedule for spending on major capital projects.

positions in FY2016 to 1,955 positions in FY2017. However, the District also plans to hire 35 apprentices in FY2017 through a newly proposed apprenticeship program;[2]

- In FY2017 the MWRD's total gross property tax levy will increase by 3.0%, or $17.5 million, to $595.0 million from the FY2016 adjusted budget, including both tax-capped and non-tax-capped funds;
- The MWRD will contribute $79.5 million to its Retirement Fund (pension fund) in FY2017, which is an $8.7 million, or 12.4%, increase from the prior year contribution;
- The pension fund's unfunded actuarial accrued liabilities, or the dollar value of accrued liabilities not covered by the actuarial value of assets, rose over a ten-year period from $515.1 million in FY2006 to $1.06 billion in FY2015;
- The pension fund's actuarial value funded ratio, which is a measure of the pension liabilities covered by assets, declined from 70.0% in FY2006 to 55.2% in FY2015;
- Between FY2011 and FY2015, short-term liabilities increased by $55.9 million, or 46.8%, solely due to an increase in the amount due to the pension fund. All other short-term liabilities decreased over that period; and
- Between FY2011 and FY2015, long-term debt increased by 10.6% from $2.7 billion to $3.0 billion.[3]

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

- Keeping Corporate Fund spending relatively flat;
- Utilizing prudent fiscal safeguards that include maintaining substantial operating reserve funds, a high level of liquidity to cover short-term liabilities and working cash to cover anticipated property tax revenues rather than using short-term borrowing;
- A transparent and prudent capital planning process;
- Reducing the cost of workers' compensation claims;
- Increasing contributions to the pension fund and continuing pre-funding for healthcare benefits for retirees; and
- Allowing more time between the public budget hearing and the Board of Commissioner's approval of the budget than in past years.

The Civic Federation has the following **concerns** about the FY2017 proposed budget:

- Possible court challenges to the MWRD's 2012 pension funding reform law; and
- Effects of sharing an overlapping property tax base with local governments that have large pension and debt liabilities.

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

- Evaluate the possible impact of a reversal of the District's pension funding reforms; and
- Continue to maintain generous reserves, control costs, manage long-term debt costs and strengthen the pension fund in order to protect the District's credit rating.

[2] The apprenticeship program expects to hire 70 apprentices by FY2018. The District indicates that the cost of the apprenticeship program will be neutralized through an adjustment of vacant positions.
[3] Long-term debt in this calculation includes general obligation debt, converted bond anticipation notes, deferred premiums, bond anticipation notes and capital leases.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the FY2017 Tentative Budget proposed by the Metropolitan Water Reclamation District of Greater Chicago (MWRD). The FY2017 Tentative Budget of approximately $1.13 billion is 9.0% less than the FY2016 adjusted budget of $1.24 million.[4]

With the FY2017 budget proposal, the MWRD continues to demonstrate a sensible and proactive approach to meeting its financial challenges. In FY2017 the District will continue to maintain substantial reserves and other safeguards to cover shortfalls or financial emergencies. Spending within the District's Corporate Fund, or general operating fund, will remain relatively flat from the prior year, and the District will reduce the cost of health and life insurance for employees by 3.1%. The District also maintains high credit ratings, which the District says enabled it to save $120 million on future debt service costs at its 2016 bond sale.

Over the past several years, the MWRD has committed to increasing contributions to its employee pension fund and contributing to a trust fund for future retiree healthcare benefits. Since 2013 the MWRD has contributed more to the pension fund than the actuarially determined contribution in order to make up for shortfalls in prior years. These additional contributions have begun to reverse the downward trajectory of the pension fund. In FY2017 the District will increase its contribution to the fund by 12.4% from the prior year. The District will also contribute $5.0 million in FY2017 to a trust fund for future retiree health benefits.

These achievements are not to say that the MWRD is free of challenges. As a non-home rule government, the MWRD has limited revenue flexibility and depends heavily on property taxes, including a projected maximum increase in FY2017. The District shares a property tax base with other local governments that have high pension and debt burdens, putting pressure on the tax base as a source of revenue for all the governments that access property taxes in Cook County. Like most governments, the District must control spending to balance rising personnel costs. The MWRD pension fund still has a long way to go to reach full funding. Despite these limitations, however, the MWRD has done a commendable job implementing prudent and thoughtful financial management policies that work to improve the District's long-term stability.

Issues the Civic Federation Supports

The Civic Federation **supports** the following initiatives contained in the MWRD FY2017 Tentative Budget.

Controlling Corporate Fund Costs

The Corporate Fund is the MWRD's general operating fund, which accounts for revenue and expenditures for general administration, monitoring and research, procurement, information technology, human resources, maintenance and operations, law, finance and engineering. The Corporate Fund makes up the largest portion of the District's overall expenditures at 32.4%. The FY2017 budget proposes Corporate Fund spending of $367.1 million, an increase of 0.2%, or $801,000 compared to the FY2016 adjusted budget. This is a minimal increase, and over the past

[4] The decrease from FY2016 is due to normal fluctuations in the project schedule for spending on major capital projects.

five years Corporate Fund appropriations have decreased by 4.3% from $383.6 million in FY2013.

The District is eliminating 19 vacant positions within the Corporate Fund to balance rising personnel costs,[5] and the cost of employee health benefits will decrease by 3.1% from the previous year due to cost containment strategies. We are encouraged by the District's intent to keep its Corporate Fund expenditures level and its exploration of alternative revenue sources such as the sale of its waste products in concert with its projected property tax increase.

Prudent Fiscal Safeguards

As a special purpose government with capital-intensive operations, it is important for the MWRD to maintain financial safeguards. As in the past, the District again is taking prudent steps to protect its operations and enable it to maintain its infrastructure in the context of stagnant revenue growth and increasing expenditures.

The MWRD has consistently maintained a high level of operating reserves within the Corporate Fund, the District's general operating fund. The District is budgeting to set aside $91.0 million of Corporate Fund appropriations as reserves in FY2017, which is 24.8% of operating expenditures. The District's policy is to maintain reserves of at least 12-15% of Corporate Fund expenditures, which it has adhered to over the past six years. The level of reserves is also well above the best practice standard recommended by the Government Finance Officers Association of two months of operating expenditures. The District has noted it will maintain a fund balance higher than its policy over the next several years in order to minimize increases in the property tax levy and provide for unexpected shortfalls.[6] This is prudent, given recent instability in State funding and a reduction in Personal Property Replacement Tax (PPRT) revenue due to an allocation error made by the State of Illinois. The State will recoup PPRT revenue from local governments over the next two years through lower PPRT payments.

The MWRD maintains more than sufficient liquidity to cover short-term liabilities such as short-term debt and payments owed to vendors or employees within one year. As of FY2015, the most recent audited data available, the District had enough short-term assets to cover short-term liabilities more than seven-fold. The best practice standard is a ratio of assets to liabilities of 2.0. The MWRD's ratio in FY2015 was 7.7, which demonstrates that the District held a healthy level of liquidity to cover expenses.

The MWRD also maintains a Working Cash Fund financed through transfers of surpluses in other funds, which enables the District to cover Corporate Fund expenses during periods when anticipated property tax revenues have not yet been collected. This Working Cash Fund allows the District to avoid short-term borrowing through tax anticipation notes (TANs), which is a costly practice utilized by other local governments.

---

[5] While FTE count is decreasing by 21 total positions – 19 in the Corporate Fund and 2 in the Stormwater Management Fund – it is also important to note that the District is proposing a new apprenticeship program, which would add 70 apprentice positions and is estimated to cost $1.8 million in FY2017 and $3.7 million in FY2018. The program cost would be neutralized through an adjustment of vacant positions.
[6] MWRD FY2017 Executive Director's Recommendations, p. 18.

These safeguards provide the MWRD and taxpayers with protection in the event of financial shortfalls and uncertainties.

Continued Exemplary Capital Budgeting and Planning Processes

The MWRD has long been a leader among local governments in northeastern Illinois with its long-term planning processes. There are several aspects of the District's capital and long-term planning process that the Civic Federation believes are praiseworthy:

- The District develops a best-practice five-year Capital Improvement Program (CIP), which is updated on an annual basis and includes project detail and five-year projections of anticipated expenditures;
- The District is one of the few area local governments that holds a public hearing specific to the capital plan in order for members of the public to comment on the plan;
- The District produces a Strategic Business Plan that serves as a guiding document for policy decisions and budgetary priorities and is updated annually; and
- The District publishes a five-year financial forecast for all funds within each annual budget, which includes strong narrative detail on assumptions and projections.

The Civic Federation commends the District for its consistently superior planning efforts.

Reducing Spending on Workers' Compensation Claims

The MWRD states in the FY2017 budget proposal that it is making ongoing efforts to reduce costs associated with workers' compensation claims by implementing safety training programs. Expenditures within the Reserve Claim Fund, which is the District's self-insurance fund to provide coverage for employee and general claims, are expected to decrease in FY2017 from $5.4 million in FY2016 to $5.0 million in FY2017. With the exception of a large $44.7 million settlement in 2014 unrelated to workers' compensation, the trend over the past ten years has been a reduction in claim expenditures from $7.6 million in FY2008 to $5.0 million projected in FY2017.[7] The District credits an active safety education and enforcement program with the low and stable expenditures related to Workers' Compensation claims.

Increasing Pension Contribution and Pre-Funding Other Post Employment Benefits

The District adopted a pension funding policy in October 2014 with the goal of making annual contributions to the fund large enough to increase the funded ratio of the pension fund to 100% by 2050, instead of the statutory 90% funded ratio by 2050 that was imposed by a 2012 pension funding law. The 2012 law increased both the District's employer and Tier 1 employee contributions to the fund. The FY2017 appropriation to the Retirement Fund is $79.5 million, which is an increase of $8.7 million, or 12.3% from the FY2016 adjusted budget.[8] In contrast to some other governments, the MWRD is allowed to contribute more than the statutory limit to its pension fund.

---

[7] MWRD FY2017 Executive Director's Budget Recommendations, p. 523.
[8] MWRD FY2017 Executive Director's Budget Recommendations, p. 530.

Additionally, the District consistently contributes to an Other Post Employment Benefits (OPEB) Trust Fund established in 2007. When fully funded, the OPEB Trust Fund will subsidize healthcare for retirees. By December 31, 2016 the fund's contributions will total $122.4 million and the actuarial value of assets will be $149.3 million, compared to an unfunded obligation of $137.3 as of December 31, 2015.[9] The District is planning to contribute $5.0 million to the OPEB Trust Fund from the Corporate Fund in FY2017 and will make a $5.0 million contribution each year until the trust is fully funded. Pre-funding retiree health benefits is a prudent move given uncertainty in the degree to which such benefits are protected by the Illinois Constitution.

The District's pension funding policy and contributions to the OPEB Trust Fund demonstrate a proactive effort to improve the funding levels for employees' retirement benefits and reduce some of the uncertainty that has contributed to other governments' low bond ratings.

Allowing Additional Time for Consideration of Public Comments on the Budget

During the FY2016 budget process in fall of 2015 and continuing for the FY2017 budget process in 2016, the District has allowed more time between the public hearing on the budget proposal and the Board of Commissioners meeting when the Board votes on the proposed budget. Previously, the hearing was held the day before the Board vote, whereas last year and again this year, the hearing was held a week before the vote on the budget. This allows the Board more time to consider comments made by members of the public before adoption of the budget.

[9] MWRD FY2017 Executive Director's Budget Recommendations, p. 13.

Civic Federation Concerns

The Civic Federation has the following **concerns** about issues contained in the MWRD's FY2017 Tentative Budget.

Possibility of Challenges to the MWRD Pension Reform Law

Earlier this year, pension funding and benefit reform legislation for the City of Chicago's Municipal and Laborers' Funds (Public Act 98-0641) was struck down as unconstitutional by the Illinois Supreme Court. In 2015 the Court also struck down the State of Illinois' pension funding and benefit reforms[10] (Public Act 98-0599). Funding and benefit reforms that were passed in 2014 for the Chicago Park District Pension Fund are being litigated in the Cook County Circuit Court.[11] Given all this litigation, there is a possibility that the District's 2012 pension funding reforms (Public Act 97-0894) might be challenged in court.

It is important to note here that there are large differences in the scope of the changes made by the Illinois, Chicago and the Chicago Park District pension reform bills and the MWRD's. The former changed pension benefits in addition to changing funding, while the District's reforms increased employee and employer contributions only, without adjusting pension benefit accruals or automatic annual increases to annuities. However, a footnote in the Illinois Supreme Court's ruling on *Jones v. Municipal Employees' Annuity and Benefit Fund of Chicago,* 2016 IL 119618, makes note of the fact that under Public Act 98-0641, City of Chicago employees who participate in the Municipal and Laborers' Funds were required to contribute more for their reduced benefits. The Court decided it did not need to consider the additional impact of the increased contributions, but it did make a point of raising the issue.[12]

Given that the District has been following rating agencies' guidance in focusing on stabilizing the financial condition of its post-employment benefits in order to maintain its high bond ratings and minimize borrowing costs, ongoing uncertainty with regard to the legal status of the MWRD's funding schedule could be harmful.

Effect of Overlapping Property Tax Base with Other Chicago Area Local Governments

The MWRD maintains high credit ratings, with a AAA rating from Fitch Ratings since 2001, which is the highest rating possible, and an AA+ rating from Standard & Poor's (S&P) since May 2016. The District credits its solid ratings with saving $120 million on future debt service costs at the District's 2016 bond sale, which allowed the District to take advantage of low interest rates.[13]

However, the MWRD shares an overlapping tax base with several other local governments – including the City of Chicago, Cook County, Chicago Public Schools, Chicago Park District and the Cook County Forest Preserve District. This means that decisions made by those governments

[10] *In re Pension Reform Litigation*, 2015 IL 118585. Available at http://www.illinoiscourts.gov/opinions/supremecourt/2015/118585.pdf
[11] *Biedron et al. v. Park Employees' and Retirement Board Employees' Annuity and Benefit Fund et al.* Case No. 2015 CH 14869.
[12] *Jones v. Municipal Employees' Annuity and Benefit Fund of Chicago,* 2016 IL 119618, Footnote number 5, p. 9.
[13] MWRD FY2017 Executive Director's Recommendations, p. 1.

related to property taxation and long-term debt that increase the burden on taxpayers also impacts the MWRD's ability to access its property tax base. For example, the City of Chicago and Chicago Public Schools have implemented substantial property tax increases over the past two years and all of the major Cook County property tax funded governments have high levels of unfunded pension obligations.

Moody's Investors Services downgraded the MWRD's credit rating in August 2013 from Aaa to Aa1, and again in July 2015 from Aa1 to Aa2 with a stable outlook. Moody's cited concerns over growing unfunded pension obligations and the debt burden placed on the entire Cook County tax base by several major governmental entities.[14] In May 2016 Standard & Poor's downgraded the MWRD from AAA to AA+ with a stable outlook. The reason given for the downgrade was the potential impact of the combined pension liabilities and debt of the overlapping governmental entities on the District's property tax base.[15]

Even after these downgrades the MWRD remains one of the highest-rated large government entities in Cook County. However, the downgrades to the District's credit rating reflect the challenges facing the MWRD, with debt and pension liabilities serving as the main drivers of concern. Further downgrades would cause the cost of the District's long-term debt to increase. The MWRD should work to avoid reductions to its credit rating from any of the rating agencies and possibly earn an upgrade by continuing to improve the funding level of the MWRD Retirement Fund and moderating its debt burden.

Civic Federation Recommendations

The Civic Federation has the following **recommendations** to the MWRD.

Evaluate the Possible Impact of a Reversal of the District's Pension Funding Reforms

Given the MWRD's focus on long-term planning, the Civic Federation believes that it would be helpful to employees, retirees and the public if the District were to commission an evaluation of the possible impact of a reversal of its 2012 pension funding law and release the results of the study publicly. It is crucial for all stakeholders to understand the effect that the pension funding reforms are having on the fund's future and the probable impact of an ill-considered challenge to the law.

The District's 2012 pension funding reform law included increased employee and employer contributions, which were developed to improve the MWRD Retirement Fund's fiscal sustainability. Since increased employer and employee contributions began in FY2012 and FY2013, the actuarial funded ratio of the Fund has increased steadily from 50.4% in FY2012 to 55.2% in FY2015, the most recent data available. The Fund's actuary projects that under the current funding schedule, the unfunded liability will begin to be reduced in FY2021 and the fund

---

[14] Moody's Investors Service, "Rating Action: Moody's downgrades Met Water Reclamation District, IL to Aa2 from Aa1; outlook stable," July 6, 2015. Available at https://www.moodys.com/research/Moodys-downgrades-Met-Water-Reclamation-District-IL-to-Aa2-from--PR_329579

[15] S&P Global RatingsDirect, "Summary: Metropolitan Water Reclamation District of Greater Chicago; General Obligation," May 26, 2016. Available at https://www.mwrd.org/irj/go/km/docs/documents/MWRD/internet/Departments/Treasury/docs/Ratings/SP.pdf.

will achieve 100% funding in FY2049.[16] However, if the funding reforms are challenged in court and repealed, the District's plan to increase funding to 100% by 2050 would be in jeopardy.

Continue Working to Maintain High Credit Rating

As noted above, the MWRD has some of the highest credit ratings of the large governments in Cook County. But the Federation does caution that the District may need to mitigate the effects of other local governments' taxing decisions and fiscal instability on the District's credit rating.

In its July 2015 statement, Moody's cited several steps the MWRD could take to improve its credit rating, which include moderation of the District's overlapping debt burden, reducing fixed costs including debt service and retirement liabilities and improving the financial health of District's employee pension plan.[17] In its May 2016 downgrade report, Standard & Poor's noted positive aspects of the District's financial management such as maintaining high reserves, as well as the diverse economy of the Chicago metropolitan region. S&P stated that it would consider a higher rating if the District shows improvement in its pension funding level and if the combined debt and pension liabilities of overlapping governments are contained.[18]

The Federation commends the District for taking a proactive approach to funding its retirement system, maintaining generous reserves and controlling costs. The Federation encourages the District to continue these practices as well as limiting property tax increases, managing long-term debt costs and continuing strengthen the pension fund in order to protect its credit rating.

ACKNOWLEDGEMENTS

The Civic Federation would like to express our appreciation to Executive Director David St. Pierre, Budget Officer Shellie Riedle, Administrative Services Manager Eileen McElligott and Supervising Budget and Management Analyst Sylvia Lopatka and for their hard work in preparing this budget. We greatly appreciate their willingness to provide a budget briefing and to answer our questions.

[16] Presentation provided during Study Session of the Committee on Finance, June 2, 2016. Available at http://mwrd.legistar.com/gateway.aspx?M=F&ID=5039b30c-ede7-4d3c-b137-2d562b36509d.pdf.
[17] Moody's Investors Service, "Rating Action: Moody's downgrades Met Water Reclamation District, IL to Aa2 from Aa1; outlook stable," July 6, 2015. Available at https://www.moodys.com/research/Moodys-downgrades-Met-Water-Reclamation-District-IL-to-Aa2-from--PR_329579
[18] S&P Global RatingsDirect, "Summary: Metropolitan Water Reclamation District of Greater Chicago; General Obligation," May 26, 2016. Available at https://www.mwrd.org/irj/go/km/docs/documents/MWRD/internet/Departments/Treasury/docs/Ratings/SP.pdf.

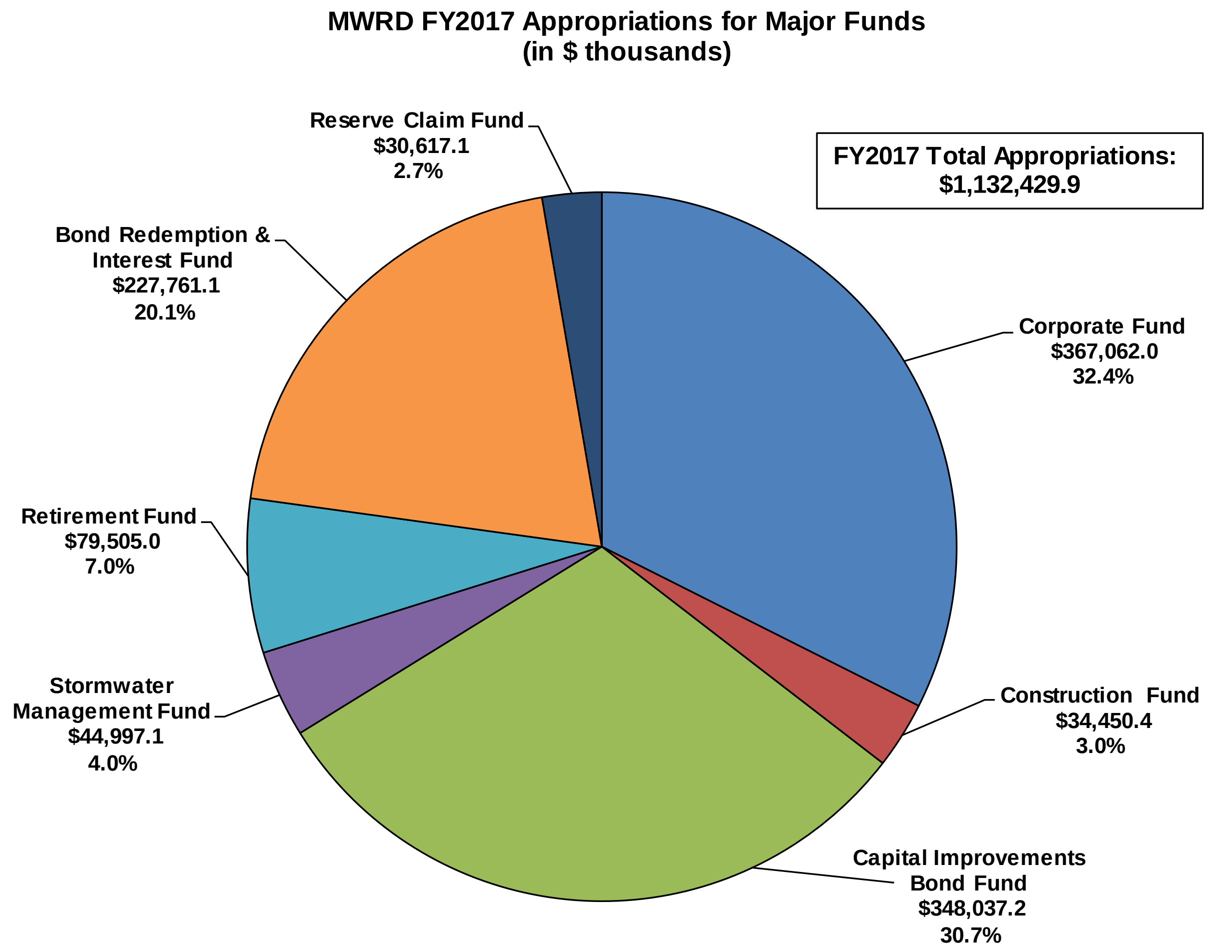
APPROPRIATIONS

The District proposes total appropriations of $1.13 billion in its FY2017 Tentative Budget. This is a 9.0%, or $111.7 million, decrease from the FY2016 adjusted budget of $1.24 billion. The decrease is driven largely by lower spending on major capital and infrastructure projects based on regular fluctuations in the project schedule.

Appropriations by Major Fund

This section examines the MWRD's distribution of proposed appropriations for FY2017 by fund, and provides a two-year and five-year trend comparison of appropriations from FY2013 through FY2017. The Civic Federation compares the MWRD's FY2017 tentative appropriations to the FY2016 adjusted year-end appropriations and actual expenditures from FY2013-FY2015. For a description of the District's budgeting process and a comparison of the changes made to appropriations throughout the MWRD budget process, see Appendix A.

The following chart shows the distribution of proposed FY2017 appropriations by the funds used to account for expenditures. The Corporate Fund, which is the District's general operating fund, makes up the largest portion of expenditures at 32.4% or $367.1 million. Corporate Fund expenditures include general administration, monitoring and research, procurement, information technology, human resources, maintenance and operations, law, finance and engineering. The Capital Improvements Bond Fund and Construction Fund make up the District's capital funds and account for major infrastructure investments and capital assets. Together, these constitute 33.7% of total appropriations. The third largest appropriations category is the Bond Redemption and Interest Fund, which makes up 20.1% of appropriations. This category accounts for payments of principal and interest of bonds issued by the District. The Reserve Claim Fund, Retirement Fund and Stormwater Management Fund make up the remaining 13.7% of appropriations. The Reserve Claim Fund is the District's self-insurance fund, and will constitute 2.7% of appropriations in FY2017. The Stormwater Management Fund accounts for stormwater management expenses and will make up 4.0% of appropriations. The Retirement Fund is the District's pension trust fund and will account for 7.0% of appropriations.



Source: Metropolitan Water Reclamation District FY2017 Tentative Budget, p. 12.

The following table shows appropriations trends from FY2013 through FY2017 for all major funds. The numbers presented are actual expenditures from FY2013-FY2015, FY2016 adjusted appropriations and FY2017 tentative appropriations. Appropriations in each fund are described further below.

MWRD Major Fund Appropriations: FY2013-FY2017 (in $ thousands)

	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Adjusted	FY2017 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$383,607.9	$395,344.7	$358,995.4	$ 366,260.7	$ 367,062.0	$ 801	0.2%	$ (16,546)	-4.3%
Construction Fund	$ 40,811.9	$ 53,306.0	$ 37,910.7	$ 36,614.4	$ 34,450.4	$ (2,164)	-5.9%	$ (6,362)	-15.6%
Capital Improvements Bond Fund*	$349,648.8	$386,208.3	$453,072.5	$ 483,764.8	$ 348,037.2	$ (135,728)	-28.1%	$ (1,612)	-0.5%
Stormwater Management Fund	$ 61,251.0	$ 50,907.4	$ 46,588.8	$ 40,500.8	$ 44,997.1	$ 4,496	11.1%	$ (16,254)	-26.5%
Retirement Fund	$ 64,761.0	$ 74,984.0	$ 61,654.0	$ 70,772.0	$ 79,505.0	$ 8,733	12.3%	$ 14,744	22.8%
Bond Redemption & Interest Fund	$190,303.8	$194,905.7	$214,525.8	$ 216,047.1	$ 227,761.1	$ 11,714	5.4%	$ 37,457	19.7%
Sub-Total	**$1,155,656**	**$1,155,656**	**$1,172,747**	**$ 1,213,960**	**$ 1,101,813**	**$ (112,147)**	**-9.2%**	**$ (53,843)**	**-4.7%**
Reserve Claim Fund	$ 62,000	$ 64,000	$ 30,700	$ 30,176	$ 30,617	$ 441	1.5%	$ (53,843)	-86.8%
Total	**$1,217,656**	**$1,219,656**	**$1,203,447**	**$ 1,244,136**	**$ 1,132,430**	**$ (111,706)**	**-9.0%**	**$ (85,226)**	**-7.0%**

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

Source: MWRD Final Budgets, FY2014-FY2016 and FY2017 Tentative Budget, p. 9.

The Corporate Fund is used for operational and general expenditures and is primarily funded by property taxes. In FY2017 Corporate Fund appropriations of $367.1 million are projected to remain fairly flat compared to the prior year, increasing by 0.2%, or $801,000 from the FY2016 adjusted appropriation of $366.3 million. The Corporate Fund also includes a working cash fund, which is used to provide short-term financing to the Corporate Fund. Because property taxes levied in one year are not collected until the following year, the District requires short-term financing in the form of temporary loans to the Corporate Fund to cover expenses before tax revenues are collected.[19] State statute allows loans in the amount of up to 100% of the property tax levy plus personal property replacement tax revenue. The District plans to allocate a loan equal to 95% of available funds in FY2017, which is $230.0 million.[20]

The Construction Fund serves as a pay-as-you-go funding source for capital projects that rehabilitate aged or less effective infrastructure and have a useful life of less than 20 years.[21] These capital projects are financed by a property tax levy sufficient to pay for project costs as they are constructed. Proposed FY2017 appropriations from the Construction Fund will decrease by 5.9%, or $2.2 million, from the prior year to $34.5 million due to the timing of awarded capital projects.

The Capital Improvements Bond Fund accounts for spending on major infrastructural improvements with useful lives longer than 20 years which are financed by long-term debt, federal and state grants and loans from the Environmental Protection Agency and the State Revolving Loan Fund.[22] The FY2017 appropriation for the Capital Improvements Bond Fund is $348.0 million, which is a decrease of $135.7 million, or 28.1%, from the FY2016 adjusted appropriation. The decrease reflects the Fund's regular annual fluctuation according to the scheduled awards of major projects and projects carried forward from FY2016.[23] The FY2017 appropriation is based on the scheduled award of $282.5 million in projects and $90.9 million for studies and professional services to support construction activities.[24]

The Stormwater Management Fund is used to appropriate funds for projects that protect the safety of Cook County residents and minimize flood damage and erosion.[25] The Stormwater Management Fund is funded by tax levies and other revenue used for stormwater management activities in Cook County and some areas outside Cook County.[26] The FY2017 proposed appropriation for stormwater management will increase by 11.1%, or $4.5 million, from $40.5 million in FY2016 to $45.0 million in FY2017.

---

[19] MWRD FY2017 Executive Director's Recommendations, p. 83.
[20] MWRD FY2017 Executive Director's Recommendations, p. 83.
[21] MWRD FY2017 Executive Director's Recommendations, p. 20.
[22] MWRD FY2017 Executive Director's Recommendations, p. 409.
[23] MWRD FY2017 Executive Director's Recommendations, p. 20.
[24] MWRD FY2017 Executive Director's Recommendations, p. 20.
[25] MWRD FY2017 Executive Director's Recommendations, p. 18.
[26] MWRD FY2017 Executive Director's Recommendations, p. 18.

The Retirement Fund of the District provides funding for District employees' pension benefits. The District funds the Retirement Fund contributions through a property tax levy, personal property replacement tax revenue and investment income. The MWRD's annual property tax levy is set by State statute at a rate up to 4.19 times the employee contribution to the retirement program from two years prior. The District also has a policy to contribute the 4.19 multiplier amount to the Retirement Fund unless the multiplier exceeds the amount available from the property tax levy and a smaller contribution will still fund the pension system to 100% by 2050. The FY2017 appropriation for the Retirement Fund is $79.5 million, an increase of $8.7 million, or 12.3%, from $70.8 million in FY2016.

The Bond Redemption and Interest Fund is a series of subfunds that account for the property tax revenue and other revenues, primarily interest on investments, used to pay for the principal and interest of bonds issued by the District.[27] The FY2017 appropriation for the Bond Redemption and Interest Fund is $227.8 million, which is an increase of 5.4%, or $11.7 million, from FY2016 adjusted appropriations.

The Reserve Claim Fund is a self-insurance fund for a variety of claims including employee claims, environmental remediation costs that cannot be recovered from tenants and catastrophic failure of District operational infrastructure. The Fund is financed primarily through an annual property tax levy of one-half cent per $100.0 of the last known equalized assessed valuation (EAV). As described further below, the Board has adopted a policy to finance the Reserve Claim Fund at the maximum level permitted by State statute and to levy at the tax rate limit. The levy will be raised by the maximum allowable one-half cent in FY2017.[28] Appropriations for the Reserve Claim Fund will increase by 1.5%, or $441,000, to $30.6 million in FY2017.

In a five-year comparison of the actual expenditures and proposed appropriations between FY2013 and FY2017, total spending will decrease by 7.0%, or $85.2 million. When comparing actual expenditures to proposed appropriations, it is helpful to exclude the Reserve Claim Fund since this appropriation is much larger than what is anticipated to actually be spent. Excluding the Reserve Claim Fund, appropriations will decrease by 4.7%, or $53.8 million, from $1.16 billion in FY2013 to $1.10 billion in FY2017. The decline reflects a 26.5% decrease in appropriations for the Stormwater Management Fund from $61.3 million in FY2013 to $45.0 million in FY2017 and a 15.6% decrease in the Construction Fund from $40.8 million in FY2013 to $34.5 million in FY2017. Over the five years, the Corporate Fund also will decrease by 4.3% from $383.6 million in FY2013 to $367.1 million in FY2017. However, Retirement Fund appropriations will increase by 22.8% and Bond Redemption and Interest Fund appropriations will increase by 19.7% over the same period.

Reserve Claim Fund

The MWRD Board of Commissioners maintains a Reserve Claim Fund to cover risks and liabilities associated with workers compensation claims and lawsuits. The Fund is financed by a tax levy set in State statute of up to 0.05% of the last known equalized assessed valuation (EAV)

[27] MWRD FY2017 Executive Director's Recommendations, p. 95.
[28] MWRD FY2017 Executive Director's Recommendations, p. 95.

whenever economically feasible.[29] This is the maximum level permitted by statute and is calculated by a tax levy of 0.5 cents per $100 of EAV. Each year the MWRD appropriates the Fund's available fund balance plus new revenue.[30] The maximum tax levy allowed for this purpose is $65.2 million in FY2017. However, the District has not levied to the maximum limit since 2015 due to the economic downturn. The appropriation for FY2017 is $30.6 million but actual expenditures are estimated to be only $5.0 million. The District states that the full appropriation for the Reserve Claim Fund is not designed to be spent during any one budget year, and is held to settle potential claims or lawsuits.[31]

As is shown in the table below, the District appropriated the full levy amount allowed in FY2013 and FY2014, $62.0 million and $64.0 million respectively. In FY2013 the District only spent 8.1% of the appropriation. However, a settlement of $44.7 million paid in 2014 increased the actual expenditure that year, and decreased the appropriation for the following year to $30.7 million in FY2015. The Reserve Claim Fund appropriations in FY2015, FY2016 and proposed in FY2017 remain near $30 million, while actual expenditures constitute only 16-19% of the full appropriations.

MWRD Reserve Claim Fund: FY2013-FY2017			
	Appropriation	Actual Expenditure	Ratio
FY2013	$ 62,000,000	$ 5,000,000	8.1%
FY2014	$ 64,000,000	$ 44,700,000	69.8%
FY2015	$ 30,700,000	$ 5,900,000	19.2%
FY2016*	$ 30,200,000	$ 5,400,000	17.9%
FY2017**	$ 30,600,000	$ 5,000,000	16.3%

*Adjusted appropriation for FY2016.

**Proposed appropriation for FY2017.

Source: MWRD FY2017 Executive Director's Recommendations, p. 523.

RESOURCES

This section presents trend information for the MWRD Corporate Fund resources and property tax levy for all funds between FY2013 and FY2017.

The FY2017 proposed budget includes 2017 tax revenue for the Corporate, Construction and Stormwater Management Funds. However, the budget does not include the 2017 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."[32] The MWRD attributes this to its cash-based budgeting for revenues, as required under state statute. The levy for tax year 2017 is not collected until 2018. Therefore the revenue is not available for FY2017 if budgeted on a cash basis. Many other local units issue tax anticipation notes to bridge tax collection timing gaps through borrowing. However, the MWRD maintains Working Cash Funds for the Corporate, Construction and Stormwater Management Funds for the sole purpose of making temporary

[29] MWRD FY2017 Executive Director's Recommendations, p. 24.
[30] MWRD FY2017 Executive Director's Recommendations, p. 24.
[31] MWRD FY2017 Executive Director's Recommendations, p. 523.
[32] MWRD FY2017 Executive Director's Recommendations, pp. 71-72.

loans to their respective funds in anticipation of tax collections. There are no working cash funds for the Retirement, Reserve Claim or Bond and Interest Funds.[33]

Personal property replacement tax (PPRT) revenue is budgeted in a similar manner to the property tax levy, although PPRT is a corporate income tax collected by the State of Illinois and distributed to local governments. The District anticipates $18.2 million in PPRT revenue to be collected in FY2017. This is a decrease of $6.5 million, or 26.4%, from the prior year primarily due to a misallocation made by the State to local taxing districts in 2014 and 2015. The State is recouping the PPRT revenue by distributing lower payments to the District over the next two years.[34]

Corporate Fund Resources

In this section, the Civic Federation compares the MWRD's proposed and tentative FY2017 Corporate Fund resources to the FY2016 amended resources and to actual resources from FY2013-FY2015. Amended resources, or the final budget figures, are used rather than year-end estimates since they represent official data approved by the governing board.

Corporate Fund revenue in FY2017 will increase by 1.0%, or $3.1 million, from $313.0 million in FY2016 to $316.1 million in FY2017. The District is additionally budgeting nearly $51.0 million of its net assets in FY2017.[35] Net assets can be thought of as the savings account for the District. When total net assets and revenues are combined, representing the District's total resources, the amount of resources being utilized will increase by 0.2%, or $801,000, between FY2016 and FY2017.

Some key revenue changes shown in the next table include:

- The District's FY2017 net Corporate Fund property tax levy, which constitutes 68.4% of its total revenues, will decrease by $2.1 million, or 1.0%. The property tax levy will be discussed in more detail later in this section;
- User charges will represent 14.9% of Corporate Fund revenues in FY2017 and are expected to decrease by $2.0 million, or 4.1%, to $47.0 million. User charges are paid by large industrial and government users based on the volume and strength of effluent discharged. Revenue from user charges is affected by the economic conditions (for food processing and chemical industries) and by weather conditions (for government operated airports and water filtration facilities);[36]
- The Corporate Fund allocation of PPRT is expected to decrease by $6.5 million, or 26.4%. In FY2015 and FY2016, the Corporate Fund received PPRT revenue of $20.1 million and $24.7 million respectively. Generally, this revenue changes in relation to the State and national economy.[37] However, in FY2017 the District's PPRT payments will be reduced because the State of Illinois miscalculated its disbursements to local

[33] MWRD FY2017 Executive Director's Recommendations, pp. 523-530.
[34] MWRD FY2017 Executive Director's Recommendations, p. 83.
[35] 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.
[36] MWRD FY2017 Executive Director's Recommendations, p. 83.
[37] MWRD FY2017 Executive Director's Recommendations, p. 22.

governments and will now recoup that money by reducing its payments to local governments over a two-year period;

- The District will appropriate a $6 million equity transfer from the Capital Improvement Bond Fund's Build America Bonds subsidy that will supplement the Corporate Fund;[38]
- Property and Service Charges, which include land rentals and other revenues, will increase by $400,000, or 2.1%, to $19.9 million in FY2017;
- Investment Income is expected to remain flat at $600,000. The level of investment income in FY2017 reflects relatively stable short-term interest rates and fund balance resources available for investment;[39] and
- Other revenues, which include revenues generated from the TIF Differential Fee, Impact Fee and miscellaneous revenues, will increase by $8.9 million, or 155.4%, from $5.7 million in FY2016 to $14.6 million in FY2017, which is primarily due to a higher than anticipated TIF surplus;[40]
- The District estimates that it will generate $4.0 million in revenue from resource recovery efforts, such as the phosphorus recovery facility and other resource recovery efforts throughout the District.

In a five-year comparison, Corporate Fund revenue will decrease by 1.2%, or $3.9 million, from nearly $320.0 million in FY2013 to $316.1 million in FY2017. Total resources will decrease by 29.4%, or $153.1 million. During this five-year period, the net property tax levy allocated to the Corporate Fund will decrease by $149,000, or 0.1%. Appropriated net assets will decrease from $200.2 million in FY2013 to nearly $51.0 million in FY2017, a decline of $149.3 million, or 74.5%, in order to increase the budget reserve.[41] Investment income will decrease by $2.4 million, or 80.1%, over the five-year period. This is due to decreases in short-term interest rates and investment balances.[42]

---

[38] MWRD FY2017 Executive Director's Recommendations, p. 83.
[39] MWRD FY2017 Executive Director's Recommendations, p. 83.
[40] MWRD FY2017 Tentative Budget, p. 6.
[41] MWRD FY2017 Executive Director's Recommendations, p. 18.
[42] MWRD FY2017 Executive Director's Budget Recommendations, p. 84.

Over the five-year period, user charges will decrease from $53.5 million in FY2013 to $47.0 million in FY2017, a decline of $6.5 million or 12.2%.

Metropolitan Water Reclamation District Corporate Fund Resources: FY2013-FY2017 (in $ thousands)									
Resource	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Amended	FY2017 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Property Taxes (net)	$ 216,257	$221,950	$219,244	$ 218,196	$ 216,108	$ (2,088)	-1.0%	$ (149)	-0.1%
User Charges	$ 53,502	$ 44,665	$ 48,177	$ 49,000	$ 47,000	$ (2,000)	-4.1%	$ (6,502)	-12.2%
PPRT	$ 23,832	$ 18,608	$ 20,102	$ 24,676	$ 18,164	$ (6,512)	-26.4%	$ (5,668)	-23.8%
Property & Service Charges	$ 18,204	$ 17,881	$ 22,975	$ 19,500	$ 19,900	$ 400	2.1%	$ 1,696	9.3%
Investment Income	$ 3,022	$ 2,031	$ 1,003	$ 600	$ 600	$ -	0.0%	$ (2,422)	-80.1%
Other	$ 9,723	$ 10,473	$ 12,205	$ 5,713	$ 14,593	$ 8,880	155.4%	$ 4,870	50.1%
Resource Recovery	$ -	$ -	$ -	$ -	$ 4,000	$ 4,000	-	$ 4,000	-
Working Cash Borrowings Adjustment	$ (4,588)	$ (4,358)	$ (4,446)	$ (4,672)	$ (4,272)	$ 400	-8.6%	$ 316	-6.9%
Total Revenues	**$ 319,951**	**$311,250**	**$319,259**	**$ 313,013**	**$ 316,093**	**$ 3,080**	**1.0%**	**$ (3,858)**	**-1.2%**
Net Assets Appropriable	$ 192,455	$163,334	$142,060	$ 153,329	$ 135,931	$ (17,398)	-11.3%	$ (56,523)	-29.4%
Equity Transfer	$ -	$ -	$ -	$ -	$ 6,000	$ 6,000	-	$ 6,000	-
Adjustments for Receipts	$ 7,767	$ 9,433	$ 17,608	$ -	$ -	$ -	-	$ (7,767)	-100.0%
Budget Reserve	$ -	$ -	$ -	$(100,081)	$ (90,962)	$ 9,119	-9.1%	$ (90,962)	-
Subtotal - Appropriated Net Assets	**$ 200,221**	**$172,767**	**$159,668**	**$ 53,248**	**$ 50,969**	$ (2,279)	-4.3%	$(149,252)	-74.5%
Total Resources	**$ 520,172**	**$484,017**	**$478,927**	**$ 366,261**	**$ 367,062**	**$ 801**	**0.2%**	**$(153,110)**	**-29.4%**

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

Source: MWRD FY2015 Final Budget, p. 78; FY2016 Amended Budget Book, pp. 76 and 78; FY2017 Executive Director's Budget Recommendations, p. 76; and FY2017 Tentative Budget Book, p 12.

Property Tax Levy

In FY2017 the MWRD's total gross property tax levy will increase by 3.0%, or $17.5 million, to $595.0 million from the FY2016 adjusted budget.[43] Figures for the gross property tax levy are reduced by a budgeted amount of 3.5% to reflect loss in collections, Property Tax Appeals Board (PTAB) decisions, Circuit Court decisions, other tax refunds, new property and expiring TIF districts to produce the net property tax expected to be collected.[44] Of the $595.0 million, 53.8%, or $320.3 million, will be levied for funds that are subject to the property tax extension limitation law (PTELL) or "tax cap," which limits total annual increases to 5.0% or the rate of inflation, whichever is less. This portion of the levy will increase by 3.2%, or $9.9 million, from FY2016, which is projected to be the maximum allowable levy under State Statute. If inflation is less than the District's projection, the Cook County Clerk reduces the MWRD levy so that it is in compliance with the tax cap. The District has directed the Cook County Clerk to make such a reduction only in the Construction Fund.[45]

The Corporate Fund will receive $2.2 million, or 1.0%, less in property tax revenues between FY2016 and FY2017. Property tax revenues for the Construction Fund, Retirement Fund and Reserve Claim Fund will increase by $3.7 million, or 28.0%, $8.3 million, or 12.7% and $100,000, or 1.7%, respectively. The increase in the Retirement Fund reflects the statutory formula that ties employer pension contributions to employee pension contributions made two years prior.[46] The Reserve Claim Fund levy will increase because the District is levying the maximum amount allowed under State statute with the goal of reaching its statutorily authorized limit of $65.2 million.[47]

[43] The FY2017 levy is for tax year 2017, which will be collected in 2018.
[44] MWRD FY2017 Executive Director's Recommendations, p. 57.
[45] MWRD FY2017 Budget Recommendations, p. 56.
[46] MWRD FY2017 Executive Director's Recommendations, p. 20.
[47] MWRD FY2017 Executive Director's Recommendations, pp. 20-21.

The remaining 46.2%, or $274.7 million, of the total levy is for the Bond and Interest and Stormwater Management Funds, which are not subject to tax caps.[48] The FY2017 Stormwater Management levy will increase by $6.6 million, or 19.3%, and the Bond and Interest levy, reserved for debt service, will increase by $924,000 or 0.4%.

Over the past five years, the portions of property tax revenues allocated to the four funds subject to PTELL have fluctuated. Property tax revenues for the Retirement Fund increased significantly from $51.6 million in FY2013 to $73.4 million in FY2017. The increase for the Retirement Fund is the result of a change in the pension multiplier from 2.19 to a maximum of 4.19 with the implementation of Public Act 97-0894. The law changed the calculation of the tax levy so that the levy would be based on the Fund's actuarially determined contribution requirement not to exceed an amount equal to employee contributions two years prior multiplied by 4.19.[49]

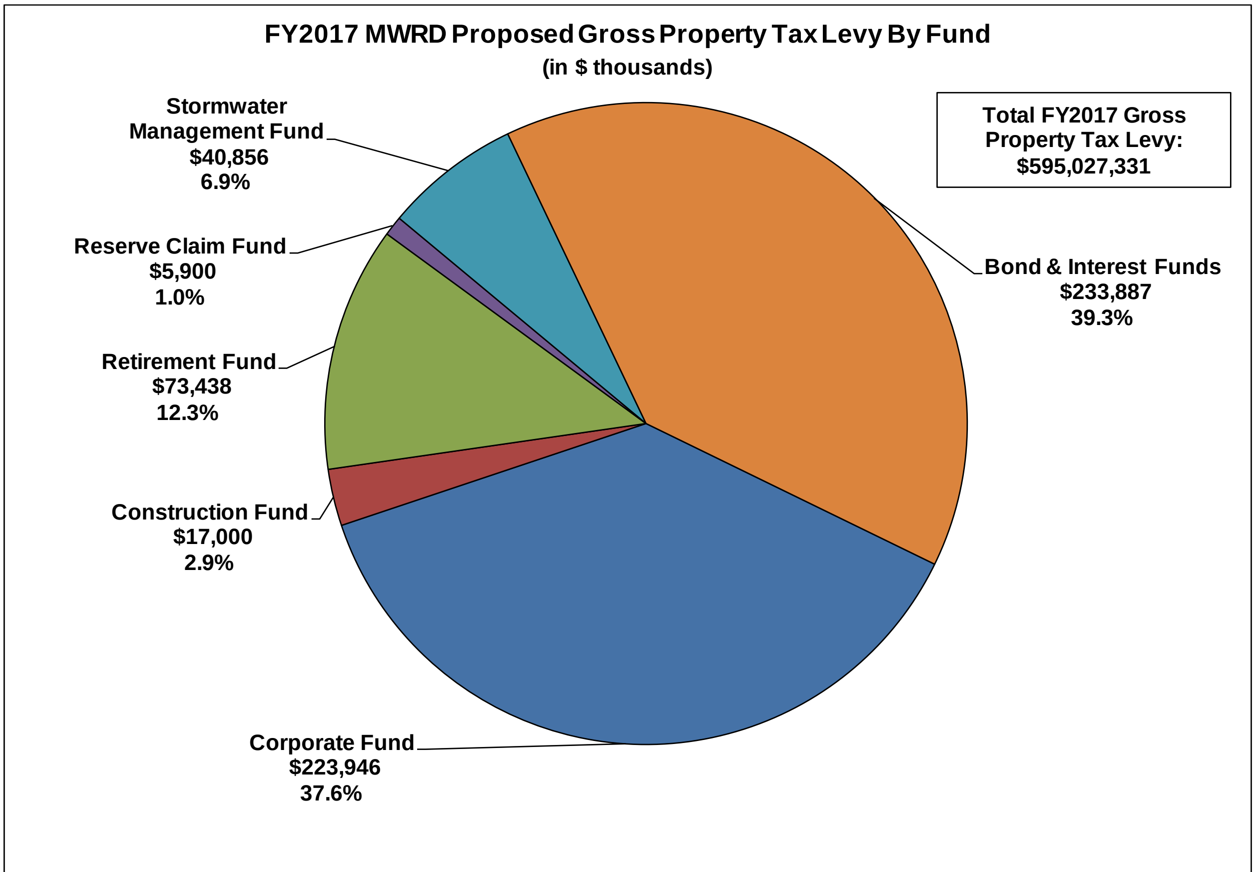
Metropolitan Water Reclamation District
Gross Property Tax Levy: FY2013-FY2017
(in $ thousands)

	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Adjusted	FY2017 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 224,400	$ 230,000	$ 227,660	$ 226,109	$ 223,946	$ (2,163)	-1.0%	$ (454)	-0.2%
Construction Fund	$ 11,079	$ 17,400	$ 15,197	$ 13,278	$ 17,000	$ 3,722	28.0%	$ 5,921	53.4%
Retirement Fund	$ 51,621	$ 50,531	$ 58,004	$ 65,161	$ 73,438	$ 8,277	12.7%	$ 21,817	42.3%
Reserve Claim Fund	$ 6,171	$ 3,000	$ 5,700	$ 5,800	$ 5,900	$ 100	1.7%	$ (271)	-4.4%
Subtotal Tax Capped Funds	**$ 293,271**	**$ 300,931**	**$ 306,561**	**$ 310,349**	**$ 320,284**	**$ 9,935**	**3.2%**	**$ 27,013**	**9.2%**
Stormwater Management Fund	$ 20,000	$ 21,000	$ 24,050	$ 34,250	$ 40,856	$ 6,606	19.3%	$ 20,856	104.3%
Bond & Interest Funds	$ 201,389	$ 218,319	$ 224,488	$ 232,963	$ 233,887	$ 924	0.4%	$ 32,498	16.1%
Total	**$ 514,659**	**$ 540,250**	**$ 555,098**	**$ 577,562**	**$ 595,027**	**$ 17,466**	**3.0%**	**$ 80,368**	**15.6%**

Source: MWRD FY2015 Final Budget p. 44. FY2016 Final Budget, p. 44; and FY2017 Tentative Budget, p. 9.

[48] 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.
[49] MWRD FY2017 Executive Director's Recommendations, p. 20.

The next exhibit shows the distribution of property tax dollars among the MWRD's various funds in FY2017. Together the Corporate Fund and Bond and Interest Funds will consume 76.9% of the District's total levy.



Source: MWRD FY2017 Tentative Budget, p. 9.

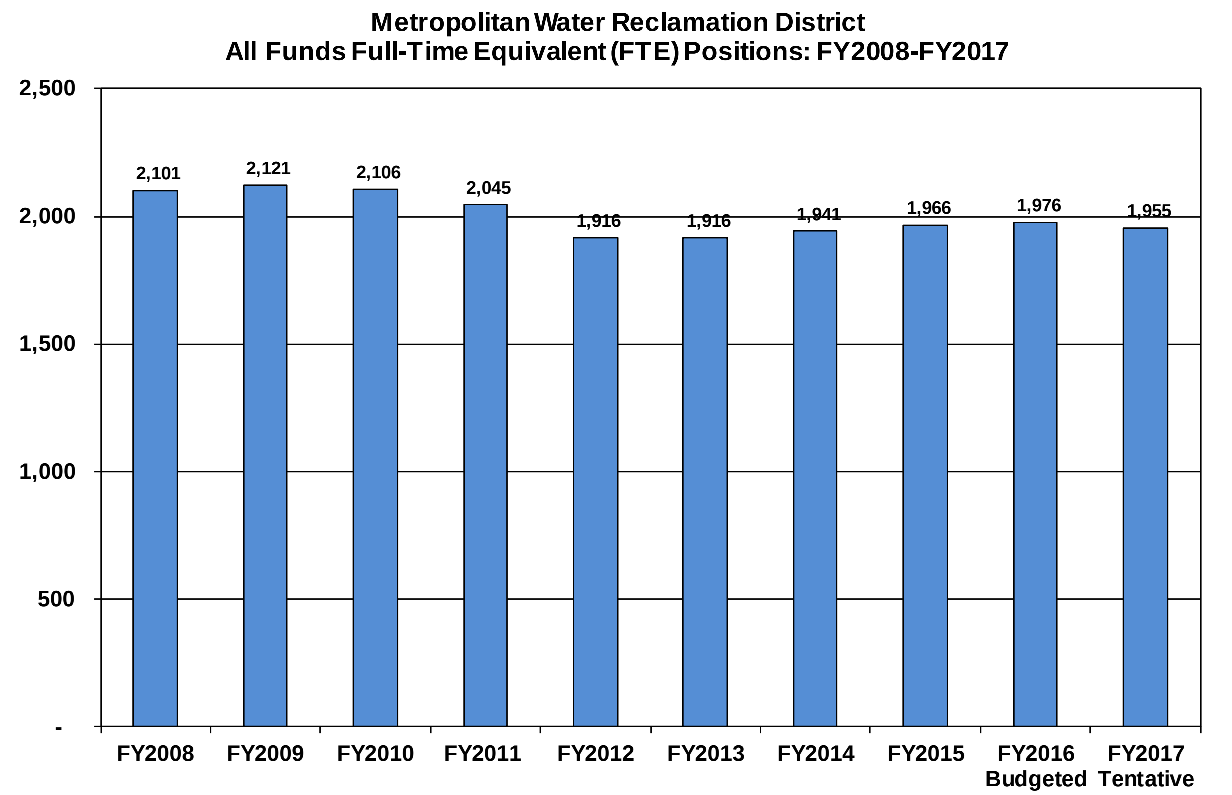
The MWRD Board of Commissioners has a policy of adopting aggregate tax levies that do not increase by more than 5.0% over the prior year (excluding the Stormwater Management Fund). There is also a policy that when investment income in the Bond and Interest Funds exceeds the amount necessary for paying the principal and interest over the next twelve months, the Bond and Interest property tax levy is abated.[50] In FY2017 the property tax abatement is projected to be nearly $6.0 million.[51]

[50] MWRD FY2017 Executive Director's Recommendations, p. 24.
[51] MWRD FY2017 Tentative Budget, p. 9.

PERSONNEL

The following section provides an analysis of the Metropolitan Water Reclamation District's full-time equivalent (FTE) positions and personnel appropriations for all funds. Prior to the FY2015 budget, the District referred to position counts and headcounts in its budget documents. Even though the District has only full-time employees, the change in terminology helps observers understand what kind of data the budget shows and allows for a more accurate comparison across years and between governments.

The number of FTE positions for all funds at the District is projected to decrease by 21 FTE positions to 1,955 FTE positions in FY2017. This is a 1.1% decrease from 1,976 FTE positions budgeted in FY2016. The majority of the decrease is in FTE positions paid from the Corporate Fund. Since FY2008 the District has decreased its workforce by 6.9% or 146 FTE positions, from 2,101 to 1,955. In addition to the proposed 1,955 FTE positions in FY2017, the District plans to amend the tentative budget to include approximately 35 new full-time FTE apprenticeship positions in FY2017.[52]



Source: MWRD FY2017 Executive Director's Budget Recommendations, p. 54.

The following chart displays the number of FTE positions for all funds between FY2013 and FY2017. Since FY2013, approximately 97.1% of District employees have been funded through the Corporate Fund. Between FY2016 and FY2017 the number of Corporate Fund FTE positions will decrease by 1.0%, or 19 FTE positions. The decline of 19 FTE positions in FY2017 is solely

[52] Information provided by MWRD Budget Staff, November 29, 2016.

due to the elimination of vacancies.[53] With the exception of the Maintenance and Operations Department, the remaining departments funded by the Corporate Fund will remain relatively flat or see a slight decline in the number of FTE positions.

Over the five-year period beginning FY2013, Corporate Fund positions will increase by 1.7%, or 31 FTE positions. Departmental positions funded by the Corporate Fund have either seen modest increases or stayed relatively flat, with the exception of Maintenance & Operations, which will decline by 35 FTEs, or 3.7% and Monitoring & Research, which will increase by 9.2%, or 26 FTE positions. Significant staffing reductions in FY2011 and FY2012 were part of the five-year plan aimed at restructuring the District to ensure financial stability going forward.[54] Increases in staffing in FY2014 and FY2015 were due to new and continuing initiatives tied to the Strategic Business Plan.[55] Although not presented in the FY2017 Executive Director's Budget Recommendation or the FY2017 Tentative Budget, the District plans to expand its apprenticeship program in FY2017 by amending the tentative budget. The apprenticeship program will include a total of 70 full-time positions by FY2018, but available funding will only equal half of those positions (35) expected to be filled in FY2017, with the appropriation being offset by adjusting vacant positions.[56]

Metropolitan Water Reclamation District
All Funds Full-Time Equivalent Positions: FY2013-FY2017

	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Budgeted	FY2017 Tentative	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Corporate Fund									
Maintenance & Operations	943	945	952	927	908	-19	-2.0%	-35	-3.7%
Monitoring & Research	282	287	296	308	308	0	0.0%	26	9.2%
General Administration	109	113	118	122	123	1	0.8%	14	12.8%
Procurement & Materials	62	61	63	63	63	0	0.0%	1	1.6%
Information Technology	68	69	63	76	75	-1	-1.3%	7	10.3%
Human Resources	58	69	74	73	71	-2	-2.7%	13	22.4%
Law	38	35	37	38	38	0	0.0%	0	0.0%
Board of Commissioners	36	37	37	38	38	0	0.0%	2	5.6%
Finance	29	29	29	28	28	0	0.0%	-1	-3.4%
Engineering (Corporate Fund)	242	243	242	244	246	2	0.8%	4	1.7%
Total Corporate Fund	**1,867**	**1,888**	**1,911**	**1,917**	**1,898**	**-19**	**-1.0%**	**31**	**1.7%**
Stormwater Management Fund	49	53	55	59	57	-2	-3.4%	8	16.3%
Total	**1,916**	**1,941**	**1,966**	**1,976**	**1,955**	**-21**	**-1.1%**	**39**	**2.0%**

Source: MWRD FY2014 Tentative Budget, p. 11; FY2015, p. 10; and FY2016, p. 12; and FY2017, p. 53.

Personal Services Appropriations

The exhibit below shows the FY2017 personal service appropriations proposed in the FY2017 Tentative Budget compared to the adjusted personal services appropriations for FY2016 and actual appropriations from FY2013 through FY2015.

Over the two-year period between FY2016 and FY2017 total personal services appropriations will increase by $1.5 million or 0.6%. The proposed appropriation for salaries of regular employees, which constitutes 73.8% of all personal services appropriations in FY2017, will increase by 1.3%, or $2.4 million, to $191.4 million in FY2017 from FY2016 adjusted appropriations of $189.0 million. Health and life insurance premiums are estimated to decline by

[53] FY2017 Budget Briefing with MWRD staff, November 22, 2016.
[54] MWRD FY2017 Executive Director's Recommendations, p. 54.
[55] MWRD FY2017 Executive Director's Recommendations, p. 54.
[56] Information provided by MWRD Budget Staff, November 29, 2016.

3.1%, or $1.5 million over the two-year period. The projected decline in health and life insurance premiums is based on a strategy to contain long-term healthcare benefit costs.[57]

Over the five-year period beginning in FY2013 salaries of regular employees will increase by 16.0%, or $26.5 million. During the same time period, appropriations for health and life insurance premiums will decline by 18.2%, or $10.5 million, from $57.8 million in FY2013 to $47.3 million in FY2017. Other employee personal services, which include tuition, training, non-budget salaries and relief workers, will increase $1.0 million, or 100.2%, over the five-year period. As part of the District's Business Strategic Plan it continues investment in employee development.

MWRD All Funds Personal Services Appropriations: FY2013-FY2017
(in $ thousands)

	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Adjusted	FY2017 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries of Regular Employees*	$ 164,984	$ 171,105	$ 175,466	$ 189,026	$ 191,446	$ 2,420	1.3%	$ 26,462	16.0%
Health & Life Insurance Premiums**	$ 57,779	$ 59,521	$ 44,709	$ 48,777	$ 47,285	$ (1,491)	-3.1%	$ (10,493)	-18.2%
Employee Claims	$ 4,834	$ 3,618	$ 4,137	$ 8,048	$ 8,060	$ 12	0.2%	$ 3,227	66.8%
Compensation Plan Adjustments	$ 6,368	$ 6,905	$ 7,683	$ 7,606	$ 7,844	$ 239	3.1%	$ 1,477	23.2%
Other Employee Personal Services***	$ 1,039	$ 1,386	$ 1,408	$ 1,762	$ 2,079	$ 317	18.0%	$ 1,041	100.2%
Social Security & Medicare Contributions	$ 2,308	$ 2,428	$ 2,631	$ 2,676	$ 2,700	$ 24	0.9%	$ 392	17.0%
Total	**$ 237,310**	**$ 244,963**	**$ 236,035**	**$ 257,894**	**$ 259,415**	**$ 1,521**	**0.6%**	**$ 22,105**	**9.3%**

Note: Effective January 1, 2016, professional services were reclassified as contractual services rather than personal services.
* Includes FY2017 Salary Adjustments.
** Includes Other Post Employment Benefits (OPEB) distribution.
*** Includes Tuition, Training, Non-Budgeted Salaries and Relief Workers.
Source: MWRD FY2015 Final Budget, p. 56; FY2016 Final Budget, p. 56; and FY2017 Executive Director's Budget Recommendations, p. 54.

The exhibit below compares actual personal services appropriations from FY2013 through FY2015 with FY2016 adjusted appropriations and FY2017 Tentative Budget appropriations by fund and by department. The MWRD uses encumbrance accounting in the budgeting process for all funds, where appropriations for the Corporate Stormwater Management Claim, Construction, Retirement and Bond & Interest Funds lapse at the end of the year. However, appropriations for the Capital Improvement Bond Fund are calculated using a full encumbrance accounting process meaning that the appropriations lapse at the end of the year to the extent of the unencumbered balance. Thus, the analysis of personal service appropriations by department includes adjustments that carry forward the open value of contracts from the prior year in the Capital Improvement Bond Fund.[58] As such, the total appropriations for FY2017 may differ from the summary above.

The total appropriation for personal services district-wide will increase by $1.5 million, or 0.6%, over FY2016 adjusted budget figures, primarily due to salary adjustments in 2017.[59]

Over the five-year period between FY2013 and FY2017, total personal services appropriations have decreased by $1.8 million, or 0.7%. During the same time period, Corporate Fund personal services appropriations will increase to $244.9 million. This reflects a 0.7%, or $1.6 million, increase over FY2016 and a 4.8%, or $11.2 million, increase since FY2013.

[57] MWRD FY2017 Executive Director's Recommendations, p. 57.
[58] MWRD FY2017 Executive Director's Recommendations, pp. 69-70.
[59] MWRD FY2017 Executive Director's Recommendations, p. 54.

Metropolitan Water Reclamation District All Funds Personal Services Appropriations by Department: FY2013-FY2017 (in $ thousands)	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Adjusted	FY2017 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund									
Maintenance & Operations	$ 85,122	$ 88,220	$ 89,182	$ 93,738	$ 93,818	$ 81	0.1%	$ 8,697	10.2%
Monitoring & Research	$ 22,937	$ 24,228	$ 25,445	$ 28,065	$ 28,637	$ 572	2.5%	$ 5,700	24.9%
General Administration	$ 10,124	$ 10,662	$ 10,997	$ 11,673	$ 13,225	$ 1,552	15.3%	$ 3,101	30.6%
Procurement & Materials Management	$ 4,881	$ 4,894	$ 5,142	$ 5,537	$ 5,747	$ 210	4.3%	$ 866	17.7%
Information Technology	$ 7,820	$ 7,581	$ 7,601	$ 9,069	$ 8,942	$ (127)	-1.6%	$ 1,122	14.3%
Human Resources	$ 66,111	$ 68,723	$ 54,575	$ 55,464	$ 53,716	$ (1,748)	-2.6%	$ (12,395)	-18.7%
Law	$ 6,167	$ 5,968	$ 5,168	$ 5,152	$ 5,307	$ 155	2.5%	$ (860)	-13.9%
Board of Commissioners	$ 3,465	$ 3,658	$ 3,606	$ 4,029	$ 4,203	$ 174	5.0%	$ 738	21.3%
Finance	$ 3,307	$ 3,280	$ 3,346	$ 3,275	$ 3,243	$ (32)	-1.0%	$ (64)	-1.9%
Engineering	$ 23,763	$ 24,987	$ 25,426	$ 27,300	$ 28,046	$ 746	3.1%	$ 4,283	18.0%
Sub-Total Corporate Fund	**$ 233,697**	**$ 242,202**	**$ 230,487**	**$ 243,301**	**$ 244,884**	**$ 1,583**	**0.7%**	**$ 11,187**	**4.8%**
Construction Fund	$ 771	$ 2,653	$ 2,798	$ -	$ -	$ -	-	$ -	-
Capital Improvement Bond Fund	$ 13,936	$ 13,960	$ 9,371	$ -	$ -	$ -	-	$ -	-
Stormwater Management Fund	$ 8,087	$ 10,173	$ 14,863	$ 6,594	$ 6,531	$ (62)	-0.8%	$ (1,556)	-19.2%
Reserve Claim Fund	$ 4,770	$ 3,594	$ 4,100	$ 8,000	$ 8,000	$ -	0.0%	$ 3,230	67.7%
Total	**$ 261,261**	**$ 272,582**	**$ 261,618**	**$ 257,894**	**$ 259,415**	**$ 1,521**	**0.6%**	**$ (1,846)**	**-0.7%**

Note: The analysis of personal service appropriations by department includes adjustments that carry forward the open value of contracts from the prior year in the Capital Improvement Bond Fund. As such, the total appropriations for FY2016 and FY2017 may differ from the All Funds Personal Services Appropriations chart.
Source: MWRD Tentative Budget, FY2015-FY2016; and FY2017 Tentative Budget, pp. 17-66.

NON-APPROPRIATED CORPORATE FUND FUND BALANCE

This section reviews the MWRD's Corporate Fund fund balance according to the net assets available for future use as stated in the District's adopted, or final, budget for each past fiscal year and the tentative budget for the upcoming fiscal year. Assets available for future use are estimated for the start (January 1) of the fiscal year,[60] and serve as the District's reserves to be used in case of a revenue shortfall.

The MWRD has had a fund balance policy of maintaining 12.0% to 15.0% of expenditures, or between $44.0 million and $55.0 million, in unreserved Corporate Fund fund balance since 2009.[61] The fund balance is made up of net assets set aside each year as a non-appropriated or unreserved fund balance that is available for contingencies. This year, the District says it intends to maintain a fund balance higher than that range over the next few years in order to offset lower Corporate Fund revenue from the property tax levy and to handle possible unexpected revenue shortfalls.[62] The District is budgeting a total of $91.0 million in Corporate Fund assets as budgetary reserves in FY2017,[63] which is 24.8% of expenditures.

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."[64] This two month standard, which equals approximately 17% of expenditures, also provides a good benchmark for special-purpose governments like the MWRD. For the past several years, the District has maintained significantly higher reserves than the GFOA's recommendation and the District's own Corporate Fund reserves policy of 12-15%.

---

[60] For example, assets available for future use as found in the FY2017 Tentative Budget are estimated for January 1, 2017.
[61] MWRD FY2017 Executive Director's Recommendations, p. 24.
[62] MWRD FY2017 Executive Director's Recommendations, p. 18.
[63] MWRD FY2017 Tentative Budget, p. 14.
[64] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2015).

The table below shows the MWRD's Corporate Fund fund balance as a percentage of Corporate Fund expenditures over the ten year period from FY2008 to FY2017. From FY2008 through FY2011, the District's fund balance was lower than 12.0% of operating expenditures, and therefore did not meet the MWRD's own standard. In FY2012 the District's Corporate Fund fund balance increased from a fund balance ratio of 5.8% of operating expenditures in FY2011 to 18.0% of operating expenditures or $61.1 million, bringing the fund balance ratio in line with MWRD's fund balance policy and the GFOA standard. In FY2013 the fund balance rose to $107.9 million, or 28.1% of operating expenditures, its highest level in the entire ten year period. In FY2014 the Corporate Fund fund balance ratio declined to 14.8%, primarily due to the District's strategic plan to transfer $30.0 million from the Corporate Fund to the District's Retirement Fund.[65] The fund balance ratio increased in FY2015 to 26.9% and again in FY2016 to 27.3% of operating expenditures. The District anticipates that fund balance will decrease to a ratio of 24.8% by the start of FY2017.

MWRD Corporate Fund Fund Balance: FY2010-FY2017 (in $ millions)			
	Assets Available for Future Use / Budget Reserve	Corporate Fund Expenditures	Ratio
FY2008	$ 39.6	$ 397.2	10.0%
FY2009	$ 20.8	$ 395.0	5.3%
FY2010	$ 19.0	$ 354.5	5.4%
FY2011	$ 19.8	$ 341.1	5.8%
FY2012	$ 61.1	$ 339.4	18.0%
FY2013	$ 107.9	$ 383.6	28.1%
FY2014	$ 58.6	$ 395.3	14.8%
FY2015	$ 96.7	$ 359.0	26.9%
FY2016	$ 100.1	$ 366.3	27.3%
FY2017*	$ 91.0	$ 367.1	24.8%

*FY2017 figures are the proposed Corporate Fund assets available for future use and proposed appropriations.
Sources: MWRD Adopted Budgets, FY2008-FY2017, Summaries of Net Assets Appropriable - All Funds and Comparative Statements of Appropriations and Tax Levies - All Funds; and FY2017 Tentative Budget, p. 12.

65 Information provided by the MWRD, December 10, 2013.

PENSION FUND

The Civic Federation analyzes four indicators of the fiscal health of the MWRD pension fund: funded ratios, unfunded actuarial accrued liabilities, investment rate of return and annual required employer contributions. This section presents multi-year data for those indicators and describes the MWRD pension benefits. There is also a discussion of the Fund's liabilities as reported according to accounting standards required by Governmental Accounting Standards Board Statements No. 67 and 68 (GASB 67 and 68). Unless otherwise stated, the numbers used in this chapter are statutorily required numbers used for funding purposes.

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.[66] Plan benefits and contribution amounts can only be amended through State legislation.[67] The MWRD is the only sanitary district in Illinois whose employees do not participate in the statewide Illinois Municipal Retirement Fund.

The MWRD pension fund is governed by a seven-member Board of Trustees. As prescribed in State statute, four members are elected by the employees and three members are appointed by the MWRD Board of Commissioners. One of the appointed members must be a retiree appointed with the approval of the pension fund Board of Trustees.[68]

In FY2015 there were 1,846 active members of the pension fund and 2,359 beneficiaries, for a ratio of 0.78 active member for every beneficiary. This ratio has fallen from 0.89 in FY2006 as the number of active members has declined and the number of beneficiaries has risen. A decline in the ratio of active employees to retirees can create fiscal stress for a mature, underfunded pension fund like the MWRD Retirement Fund because it means there are fewer dollars in

[66] MWRD Retirement Fund FY2015 Comprehensive Annual Financial Report, p. 34.
[67] 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.
[68] MWRD Retirement Fund FY2014 Comprehensive Annual Financial Report, p. 35 and 40 ILCS 5/13-701.

employee contributions going into the fund and more in annuity payments flowing out of the fund.

MWRD Pension Fund Membership: FY2006-FY2015			
Fiscal Year	Active Employees	Beneficiaries	Ratio of Active to Beneficiary
FY2006	1,995	2,248	0.89
FY2007	2,002	2,276	0.88
FY2008	2,052	2,272	0.90
FY2009	2,082	2,252	0.92
FY2010	2,024	2,248	0.90
FY2011	1,888	2,328	0.81
FY2012	1,856	2,317	0.80
FY2013	1,858	2,329	0.80
FY2014	1,873	2,343	0.80
FY2015	1,846	2,359	0.78
Ten-Year Change	**-149**	**111**	**-0.1**
Ten-Year % Change	**-7.5%**	**4.9%**	**-11.8%**

Source: MWRD Retirement Fund Comprehensive Annual Financial Reports, FY2006-FY2015.

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

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

Tier 1 employees are eligible for full retirement benefits once they reach age 60 and have at least five years of employment at the District or age 55 with 30 years of service. The amount of retirement annuity is 2.2% of final average salary multiplied by years of service for the first 20 years of service and 2.4% for each year in excess of 20. Final average salary is the highest average annual salary for any 52 consecutive bi-weekly pay periods (i.e., roughly two years) within the last ten years of service. The maximum annuity amount is 80% of final average salary. For example, a 61 year-old employee with 24 years of service and a $98,000 final average salary could retire with a $52,528 annuity: (20 x $98,000 x 2.2%) + (4 x $98,000 x 2.4%)= $52,528.[70] The annuity increases every year by an automatic 3.0% adjustment compounded. Employees

[69] A "trailer bill" to correct technical problems with Public Act 96-0889 was enacted in December 2010 as Public Act 96-1490.
[70] The average age at time of retirement in 2015 was 61.4 years and the average years of service were 24.1 years. The average final average salary for persons retiring in 2014 with 20-25 years of service was $98,208. MWRD Retirement Fund FY2015 Comprehensive Annual Financial Report, p. 109-110.

with ten years of service may retire as young as age 55 but their benefit is reduced by 0.5% for each month they are under age 60 or their years of service are less than 30. There is also an enhanced annuity formula with additional contributions available to the MWRD Commissioners.[71]

The following table compares Tier 1 benefits to Tier 2 benefits enacted in Public Act 96-0889. The major changes are the increase in full retirement age from 60 to 67 and early retirement age from 55 to 62; the reduction of final average salary from the highest two-year average to the highest eight-year average; the $106,800 cap on final average salary; and the reduction of the automatic increase from 3.0% compounded to the lesser of 3.0% or one half of the increase in Consumer Price Index (CPI) calculated as simple interest.

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

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

**There is also an enhanced annuity available to District Commissioners. See MWRD Retirement Fund FY2015 Comprehensive Annual Financial Report, p. 37.

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

Sources: MWRD Retirement Fund FY2015 Comprehensive Annual Financial Report, p. 91-96 and Public Acts 96-0889 and 96-1490.

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

Pension Contributions

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

In fall of 2011, the MWRD Retirement Fund Board of Trustees proposed the pension funding reforms with support from the Board of Commissioners. The changes were introduced in the

[71] See 40 ILCS 5/13-314 and MWRD Retirement Fund FY2015 Comprehensive Annual Financial Report, p. 37.

Illinois General Assembly as House Bill 4513 by Representative Elaine Nekritz in January 2012, passed by the Illinois House in March 2012 and by the Senate on May 31, 2012 and were signed into law by Governor Pat Quinn in August 2012.

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

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

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

Source: Public Act 97-0894.

The second funding reform in P.A. 97-0894 increases the District's contribution to the pension fund. The District's contribution prior to fiscal year 2013 was set in State statute as a multiple of the total employee contribution made two years previously. The statute required that the MWRD levy a property tax not to exceed 2.19 times what employees contributed two years prior.[72] This multiple was not automatically adjusted to meet the funding needs of the pension plans. Over the past ten years, insufficient employer contributions are responsible for $278.7 million of the nearly $1.1 billion unfunded liability.[73]

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

Due to timing issues with the Cook County property tax system, the MWRD did not receive the increased pension levy authorized by P.A. 97-0894 until 2014. However, the MWRD increased its FY2012 and FY2013 contributions before it was required to do so by transferring $30.0 million in interest income to the Retirement Fund appropriation. Unlike other area local governments that are not allowed to contribute more or less than the statutory multiplier to their pension funds, the MWRD is allowed to transfer interest earned on any of its moneys to its pension fund under Public Act 95-0891.[74] The MWRD projected that for FY2014 the 4.19 multiple was going to be insufficient for the actuarial needs of the fund under the new funding schedule to reach 90% funded in 2050. Therefore, it made an additional contribution of $12.0 million beyond the multiple of what was contributed by employees two years previous in order to meet the actuarial needs of the fund. [75] The total FY2014 budgeted employer contribution to the fund was $75.0 million.[76]

The total FY2015 contribution was budgeted at nearly $61.7 million, a decrease of $13.3 million, or 17.8%, from the FY2014 adjusted budget. This is because the District did not make an additional interest income transfer from other funds in FY2015.[77] The MWRD Board of Commissioners adopted a new pension funding policy in October 2014 at the recommendation of the Retirement Fund actuary and Retirement Fund Board.[78] The new policy requires the District

---

[72] 40 ILCS 5/13-503. Employee contributions to optional additional benefits made after January 1, 2003 are multiplied by 1.0.
[73] MWRD Retirement Fund FY2015 Comprehensive Annual Financial Report, p. 97.
[74] MWRD FY2015 Executive Director's Recommendations, p. 20.
[75] MWRD FY2015 Executive Director's Recommendations, p. 97.
[76] MWRD FY2015 Executive Director's Recommendations, p. 511.
[77] MWRD FY2015 Executive Director's Recommendations, p. 93.
[78] MWRD, "Metropolitan Water Reclamation District of Greater Chicago Funding Policy, Recommended by the Retirement Fund Board of Trustees: August 27, 2014," Approved October 2, 2014. Available at

to make contributions to the pension fund at the 4.19 multiplier while giving some flexibility to fall back to a lower multiplier that will still fund the pension to 100% by 2050. According to the District, actuarial projections show the new funding policy will achieve 100% funding in the late 2030s, before the goal year of 2050.[79] The FY2017 contribution from the property tax is projected at $73.4 million and the total appropriation will be $79.5 million.[80]

The following chart shows the difference between projected MWRD employer contributions to the Retirement Fund from 2016-2025 for the minimum amount required under state law, the GASB reporting requirement known as the actuarially determined contribution[81] and under the District's own 100% funding policy. The District's own funding plan requires contributions well in excess of the ADC and will allow the MWRD to begin reducing the unfunded liability in 2021.[82]

Projection of Employer Contribution Under District's Funding Policy (in $ millions)					
Year*	Minimum Contribution Under Pension Code	Actuarially Determined Contribution	Contibution Under District Funding Policy	District Policy Contribution $ in Excess of ADC	District Policy Contribution % in Excess of ADC
2016	$ 52.9	$ 64.6	$ 79.5	$ 14.9	123.1%
2017	$ 53.1	$ 65.2	$ 89.6	$ 24.4	137.4%
2018	$ 53.4	$ 66.1	$ 86.8	$ 20.7	131.3%
2019	$ 56.1	$ 69.3	$ 90.2	$ 20.9	130.2%
2020	$ 58.9	$ 72.7	$ 91.7	$ 19.0	126.1%
2021	$ 60.8	$ 75.0	$ 92.9	$ 17.9	123.9%
2022	$ 62.6	$ 77.5	$ 94.2	$ 16.7	121.5%
2023	$ 64.6	$ 80.0	$ 95.4	$ 15.4	119.3%
2024	$ 66.6	$ 82.6	$ 96.4	$ 13.8	116.7%
2025	$ 68.7	$ 85.4	$ 97.5	$ 12.1	114.2%
Total	**$ 597.7**	**$ 738.4**	**$ 914.2**	**$ 175.8**	**123.8%**

*Years shown are the tax levy year. The actual pension payment is made the following year after property taxes are collected.
Source: MWRD Bond Series 2016 Official Statement, June 7, 2016, p. C-4.

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

---

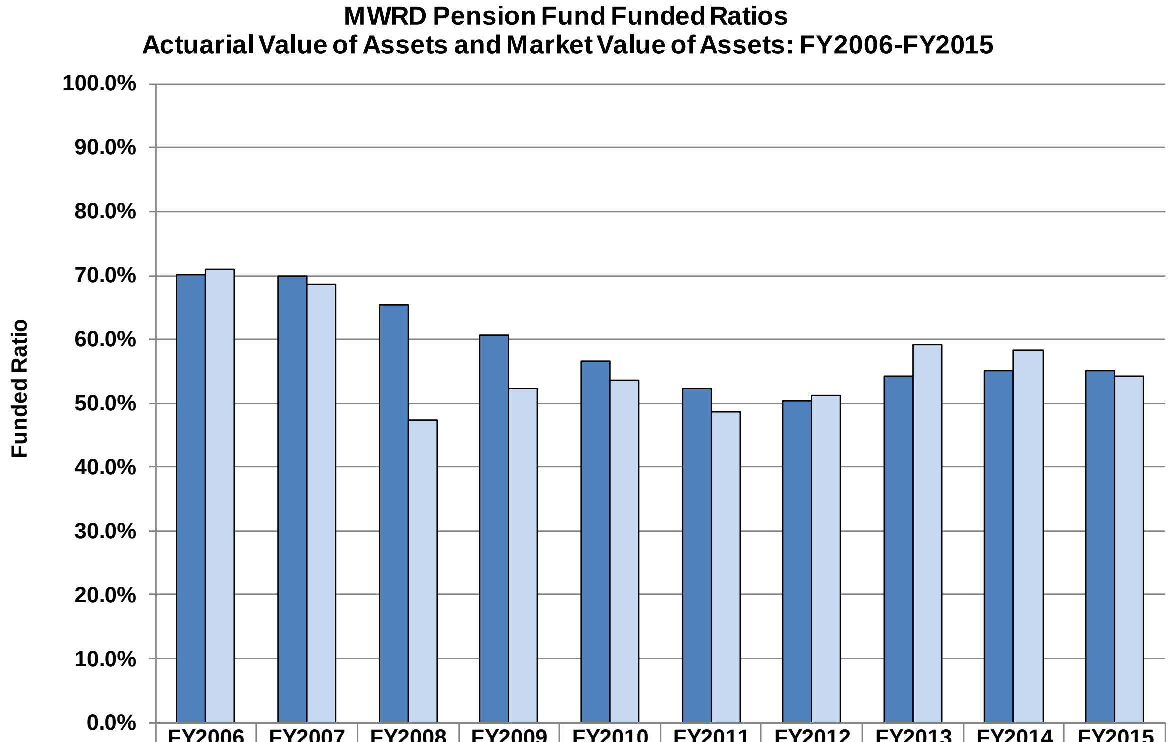
http://mwrd.legistar.com/LegislationDetail.aspx?ID=1913568&GUID=52585D4D-38C0-4242-9052-5BE5120D371D&Options=&Search=.
79 Information provided by the MWRD, December 8, 2014.
80 MWRD FY2017 Executive Director's Recommendations, p. 530.
81 See page 37 for more information about the GASB reporting requirement.
82 Presentation provided during Study Session of the Committee on Finance, June 2, 2016. Available at http://mwrd.legistar.com/gateway.aspx?M=F&ID=5039b30c-ede7-4d3c-b137-2d562b36509d.pdf.

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.[83] The market value of assets measurement presents the ratio of assets to liabilities by recognizing investments only at current market value. Market value funded ratios are more volatile than actuarial funded ratios due to the smoothing effect of actuarial value. However, market value funded ratios represent how much money is actually available at the time of measurement to cover actuarial accrued liabilities.

The following exhibit shows the actuarial and market value funded ratios for the MWRD's pension fund over the last ten years. The actuarial value funded ratio fell from a high of 70.1% in FY2006 to 50.4% in FY2012 before increasing to 55.2% in FY2015. The market value funded ratio fell from a high of 70.9% in FY2006 to a low of 47.4% in FY2008 before rebounding slightly to 53.6% in FY2010, dropping again to 48.6% in FY2011 and rising to 59.2% in FY2013

[83] For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2012,* October 2, 2014.

thanks to strong investment returns. The market value funded ratio fell to 54.3% in FY2015 due to investment returns less than assumptions.



	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Actuarial Value	70.1%	70.0%	65.4%	60.7%	56.5%	52.2%	50.4%	54.1%	55.0%	55.2%
Market Value	70.9%	68.6%	47.4%	52.3%	53.6%	48.6%	51.1%	59.2%	58.3%	54.3%

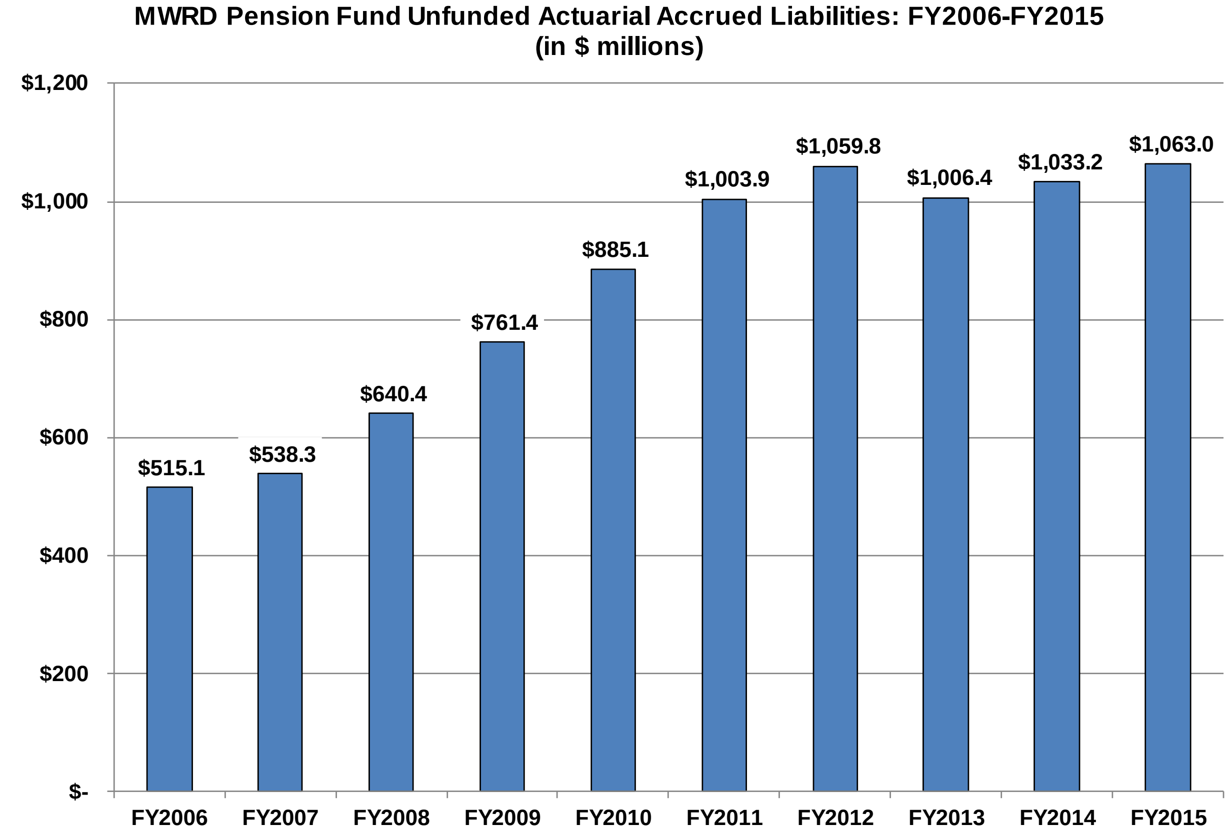
Source: Civic Federation calculations based on FY2006-FY2015 MWRD Retirement Fund Comprehensive Annual Financial Reports.

Unfunded Actuarial Accrued Liability

Unfunded actuarial accrued liability (UAAL) is the dollar value of accrued liabilities not covered by the actuarial value of assets. As shown in the exhibit below, the unfunded liability for the MWRD pension fund totaled $1.1 billion in FY2015, up from $515.1 million in FY2006.

The largest contributor to the growth in unfunded liabilities between FY2006 and FY2015 was employer contributions that were $278.7 million less than the annual normal cost plus interest on the UAAL. The second largest contributor was investment returns failing to meet the 7.75%

expected rate of return or 7.5% rate of return in FY2014 and after. This added $260.3 million to the UAAL.[84]

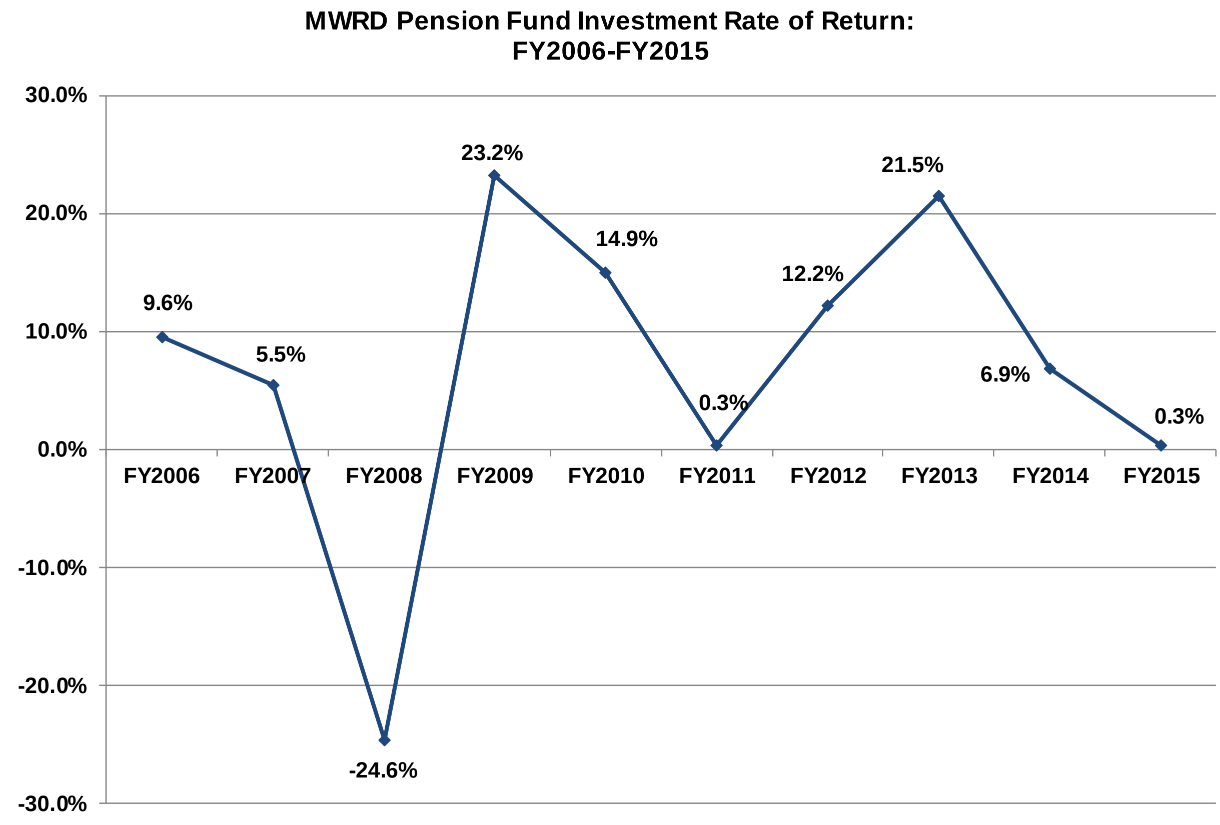


Source: MWRD Retirement Fund FY2006-FY2015 Comprehensive Annual Financial Reports.

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 FY2006 and FY2015 the MWRD pension fund's average annual rate of return was 7.0%.[85] Returns ranged from a low of -24.6% in FY2008 corresponding with the crisis in the financial markets to a high of 23.2% in FY2009. Returns were only 0.3% in FY2015, reflecting nationwide trends.

[84] MWRD Retirement Fund FY2015 Comprehensive Annual Financial Report, p. 97.
[85] The Civic Federation calculates investment rate of return using the following formula: Current Year Rate of Return = Current Year Gross Investment Income/ (0.5*(Previous Year Market Value of Assets + Current Year Market Value of Assets – Current Year Gross Investment Income)). This is not necessarily the formula used by the pension fund's actuary and investment managers, thus investment rates of return reported here may differ from those reported in a fund's actuarial statements. However, it is a standard actuarial formula. Gross investment income includes income from securities lending activities, net of borrower rebates. It does not subtract out related investment and securities lending fees, which are treated as expenses.



Source: Civic Federation calculation based on MWRD Retirement Fund FY2006-FY2015 Comprehensive Annual Financial Reports.

Pension Liabilities and Actuarially Determined Employer Contribution as Reported Under Governmental Accounting Standards Board Statements Number 67 and 68

In 2012 the Governmental Accounting Standards Board (GASB) issued new accounting and financial reporting standards for public pension plans and for governments, Statements 67 and 68. According to GASB, the new standards were intended to "improve the way state and local governments report their pension liabilities and expenses, resulting in a more faithful representation of the full impact of these obligations."[86] Among other disclosures, pension funds and governments are now required to report total pension liability, fiduciary net position, net pension liability, pension expense and actuarially determined contribution (ADC), which are calculated on a different basis from previous GASB 25 and 27 pension disclosure requirements. Both pension funds and governments must also disclose additional information about pensions in the notes to the financial statements and in required supplementary information sections. It is important to note that GASB intended to separate pension reporting from pension funding. Thus, the numbers reported according to GASB 67 and 68 standards are not used to determine how much a government must contribute to its pensions. They are a reporting, NOT a funding requirement. The MWRD and other governments will continue to use traditional public pension accounting methods to determine funding requirements. However, as the GASB 67 and 68

[86] Governmental Accounting Standards Board, Pension Standards for State and Local Governments. Available at: http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176163528472.

numbers can provide important new ways to understand a fund's sustainability, the Federation will address them here.

The MWRD Retirement Fund began reporting according to GASB 67 in its FY2014 CAFR and actuarial valuations. The District itself began reporting according to GASB 68 in its FY2015 financial statements.

The total pension liability, fiduciary net position, net pension liability and ADC[87] are all calculated on a different basis both from what used to be required by GASB and from the traditional public pension actuarial basis.

Total Pension Liability – This number is similar in concept to the actuarial accrued liability (AAL) discussed above, but is NOT the same. The actuarial cost method and discount rate (among other things) are different. All plans are required to use:

- Entry age normal actuarial cost method and level percent of payroll. The MWRD Fund also uses the entry age normal method for statutory reporting and funding purposes.
- A single blended discount rate, instead of basing the discount rate only on projected investment earnings. The discount rate is used to calculate the present value of the future obligations of a pension fund. The discount rate has an inverse relationship to actuarial liabilities, such that a lower discount rate will result in higher liabilities.
    - If a government is projected to have enough assets to cover its projected benefit payments to current and inactive employees, it can use the expected return on investments as its discount rate.
    - If a government is projected to reach a crossover point beyond which projected assets are insufficient to cover projected benefit payments, then a blended discount rate must be used. Benefit payments projected to be made from that point forward are discounted using a high-quality municipal bond interest rate. The blended rate is a single equivalent rate that reflects the investment rate of return and the high-quality municipal bond interest rate.
    - The MWRD Retirement Fund was not projected to reach the crossover point, so its GASB 67 and 68 reporting is discounted at the full 7.5% assumed rate of return.

Fiduciary Net Position – This number is essentially the market value of assets in the pension plan as of the end of the fiscal year, not the assets as calculated on an actuarially smoothed basis under previous reporting requirements. The MWRD Fund uses smoothed actuarial value of assets to determine statutory employer contribution requirements.

Net Pension Liability – This number is similar in concept to the unfunded actuarial accrued liability, but again is NOT the same. It is the difference between the Total Pension Liability and the Fiduciary Net Position of the fund. Governments are required to report the Net Pension Liability in their Statements of Net Position in their financial statements, according to GASB 68.

[87] Other differences and newly reported numbers are not central to the discussion here.

Actuarially Determined Contribution (ADC) – Another change from previous standards is that funds are no longer required to report an Annual Required Contribution (ARC) based on standards promulgated by GASB. Instead, the funds calculate an Actuarially Determined Contribution or ADC that reflects their own funding plan, unless that funding scheme does not follow actuarial standards of practice. Then the fund must report an ADC that is calculated according to actuarial standards of practice. It is again important to emphasize that the ADC is a reporting and not a funding requirement. See the discussion below for a summary of how the basis for calculating the MWRD Fund ADC relates to the ARC.

Difference Between the ADC and ARC

Depending on the employer's funding plan, a pension fund's ADC may be very similar to the previously reported ARC. The chart below summarizes the main assumptions behind the MWRD Retirement Fund calculations of ADC and ARC. The Retirement Fund uses a 40-year closed amortization period, of which 35 years were left as of December 31, 2015. For ARC reporting, the Fund used to use a 30-year open amortization period. An open amortization period remains the same every year (e.g., each valuation amortizes UAAL over 30 years), while a closed amortization period declines as each year passes (e.g., successive valuations amortize at 30 years, 29 years, 28 years, etc.). The 40-year closed amortization on a level percent of payroll basis is the funding schedule laid out in state statute. The 100% funding goal instead of 90% outlined in state statute follows the District's funding policy adopted in 2014.

The ADC uses the actuarially calculated UAAL number instead of the GASB 67 net pension liability number, which also makes it similar to the ARC. Additionally, the ADC need not follow the GASB 67 and 68 requirement of using the market value of assets. The MWRD Fund uses a five-year smoothed valuation of assets.

Calculation of the Actuarially Determined Contribution (ADC) vs the Annual Required Contribution (ARC)

	ADC (FY2014 and After)	ARC (FY2013 and Earlier)
Amortization Period	40-year closed	30-year open
Amortization Method	Level % of Payroll	Level % of Payroll
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Value of Assets	5-year smoothed	5-year smoothed
Investment Rate of Return	7.50%	7.50%

Source: Metropolitan Water Reclamation District Pension Fund FY2015 and FY2011 Actuarial Valuations.

Because the ADC and ARC are calculated on a similar basis, the Civic Federation will continue to analyze the trend of the difference between the reported ADC/ARC and the statutorily required employer contribution the MWRD must make under state law.

The following table compares the ARC to the actual MWRD contribution over the last ten years. Between FY2006 and FY2011, the gap between the employer contribution and the ARC grew from $12.9 million to $32.0 million. The difference between the ARC and the employer contribution diminished to $9.7 million in FY2012 because the MWRD made an additional contribution to the pension fund in FY2012 beyond the statutory contribution of $28.5 million by transferring nearly $30.0 million in interest income to the Retirement Fund appropriation, as allowed under Public Act 95-0891. The District contributed more than the ARC in FY2013, FY2014 and FY2015 due to both the increase in the amount it was allowed to levy for pensions under the provisions of Public Act 97-0894 described above and an additional contribution of $30.0 million in FY2013 and $12.0 million in FY2014 also made under the provisions of P.A. 95-0891. The MWRD did not make an extra contribution from outside the property tax levy in FY2015, but the $71.0 million contribution was still $8.4 million above the actuarially determined contribution. The cumulative ten-year difference between the ADC/ARC and the actual employer contribution is $108.7 million.

Expressing ADC/ARC as a percent of payroll provides a sense of scale and affordability. In FY2006 the ARC was 31.0% of payroll while the actual employer contribution was 22.6% of payroll. In FY2015 the pension ADC was 35.2% of payroll while the actual employer contribution was 40.0% of payroll. Tier 1 employees contributed 12.0% of salary to the pension fund in FY2015 and Tier 2 employees contributed 9.0% of salary.

MWRD Pension Fund Schedule of Employer Contributions
As Computed for GASB Statements No. 25 & 67: FY2006-FY2015

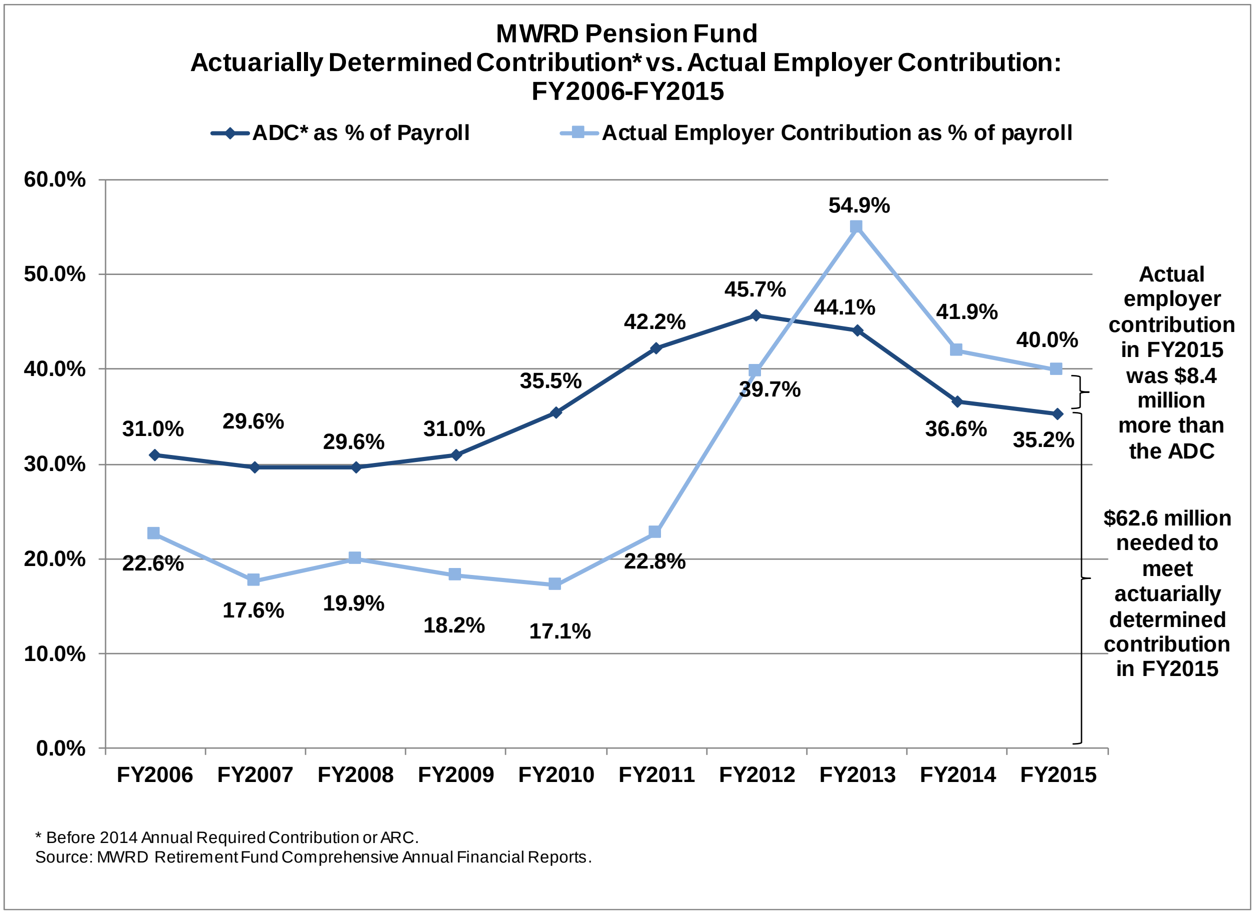
Fiscal Year	Employer Actuarially Determined Contribution* (1)	Actual Employer Contribution (2)	Shortfall (1-2)	% of ADC* Contributed	Payroll	ADC* as % of Payroll	Actual Employer Contribution as % of payroll
2006	$ 47,368,878	$ 34,476,332	$ 12,892,546	72.8%	$ 152,767,396	31.0%	22.6%
2007	$ 47,090,445	$ 27,947,096	$ 19,143,349	59.3%	$ 158,831,772	29.6%	17.6%
2008	$ 49,758,238	$ 33,406,819	$ 16,351,419	67.1%	$ 167,865,254	29.6%	19.9%
2009	$ 54,790,175	$ 32,153,874	$ 22,636,301	58.7%	$ 176,915,399	31.0%	18.2%
2010	$ 61,872,925	$ 29,917,793	$ 31,955,132	48.4%	$ 174,485,734	35.5%	17.1%
2011	$ 69,393,171	$ 37,379,137	$ 32,014,034	53.9%	$ 164,275,424	42.2%	22.8%
2012	$ 74,828,844	$ 65,097,835	$ 9,731,009	87.0%	$ 163,816,934	45.7%	39.7%
2013	$ 74,774,148	$ 92,944,381	$ (18,170,233)	124.3%	$ 169,375,857	44.1%	54.9%
2014	$ 64,477,662	$ 73,906,168	$ (9,428,506)	114.6%	$ 176,183,941	36.6%	41.9%
2015	$ 62,603,576	$ 71,041,361	$ (8,437,785)	113.5%	$ 177,792,309	35.2%	40.0%

* Before 2014 Annual Required Contribution or ARC.
Source: MWRD Retirement Fund Comprehensive Annual Financial Reports.

The graph below illustrates the difference between the ARC as a percent of payroll and the actual employer contribution as a percent of payroll. The spread between the two amounts grew from an 8.4 percentage point shortfall in FY2006 to a 19.5 percentage point shortfall in FY2011 before dropping to a 5.9 percentage point shortfall in FY2012 and to a surplus of 10.7 percentage points[88] in FY2013 and 4.7 percentage points in FY2015. The District, therefore, in FY2015 funded the pension plan at $8.4 million more than a level that would both cover normal cost and amortize the unfunded liability over the remaining 35 years of the closed 40-year amortization period. However, it is important to note that the employer contribution fell short of the normal

[88] Note: Differences may occur due to rounding.

cost plus interest on the unfunded liability which means it contributed to an increase in the UAAL.[89]



MWRD Retirement Fund Reported Liabilities Under GASB Statements Number 67 and 68

The following table shows the MWRD Fund financial reporting under GASB 67 and 68. Fiduciary Net Position as a percentage of Total Pension Liabilities is analogous to a funded ratio as calculated under actuarial standards. In contrast to other Chicago-area governments, the MWRD Fund's pension liability reporting under GASB 67 and 68 is not significantly different from its statutorily reported numbers calculated on an actuarial basis. The reason is that projected assets are forecast to be sufficient to cover projected benefit payments and therefore the full expected rate of return on assets can be used as a discount rate. Other local governments have been projected to reach such a crossover point beyond which projected benefit payments will

[89] MWRD Retirement Fund FY2015 Comprehensive Annual Financial Report, p. 97.

exceed assets and therefore must use a lower discount rate, which results in higher present values for liabilities and net pension liabilities.[90]

MWRD Retirement Fund GASB 67 Reporting: FY2013-FY2015					
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Fiduciary Net Position as a Percentage of Total Pension Liability	Actuarially Determined Contribution
FY2013	$ 2,213,191,717	$ 1,298,613,827	$ 914,577,890	58.68%	$ 74,774,148
FY2014	$ 2,285,095,580	$ 1,337,795,620	$ 947,299,960	58.54%	$ 64,477,662
FY2015	$ 2,359,766,327	$ 1,286,653,498	$ 1,073,112,829	54.52%	$ 62,603,576
Three-Year Change	$ 146,574,610	$ (11,960,329)	$ 158,534,939		$ (12,170,572)
Three-Year % Change	6.62%	-0.92%	17.33%		-16.28%

Source: FY2013, FY2014 and FY2015 MWRD Retirement Fund CAFR.

OTHER POST EMPLOYMENT BENEFITS

On July 13, 2006 the Board of Commissioners voted to create an irrevocable trust for funding the District's future other post employment benefits (OPEB) liability. Public Act 095-394, effective August 26, 2007, granted the 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.

Prior to a change in funding policy in 2014, funding parameters for the Trust were:

- A 50-year period over which to reach a 50% funded ratio;
- $10 million in contributions from the Corporate Fund in each year from 2007-2011;
- Subsequent funding based on a percentage of payroll; and
- An initial investment allocation of 50% equities and 50% bonds.[91]

The District made an initial 2007 contribution of $15.0 million to the OPEB trust, followed by an additional $10.0 million due to surpluses in the Human Resources Department health insurance account and a deferral of projects and purchases throughout the District. In 2008 the District contributed $22.0 million to the trust. In 2008 a State statute was also passed allowing the District to transfer into the OPEB trust any interest earned on District money.[92] 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 $50.0 million total contributed through 2011. The District contributed $22.0 million for FY2012.[93] The FY2013 and FY2014 contributions were $20.0 million and the FY2015 and FY2016 and budgeted FY2017 contributions are $5.0 million.[94]

[90] For more on discount rates and how they impact measurements of the present value of liabilities, read the Civic Federation blog: https://www.civicfed.org/iifs/blog/state-pension-liabilities-rise-due-lower-expected-investment-returns and https://www.civicfed.org/civic-federation/blog/local-government-pension-funds-lower-their-expected-investment-rates-return-fy.
[91] MWRD FY2014 Executive Director's Recommendations, p. 13.
[92] MWRD FY2009 Comprehensive Annual Financial Report, p. 41.
[93] MWRD FY2012 Comprehensive Annual Financial Report, p. 85.
[94] MWRD FY2017 Executive Director's Recommendations, p. 13.

The Trust Fund reached 50% funded in FY2013, well ahead of the policy target date of 2050. The Board of Commissioners adopted a new policy for the OPEB fund in 2014, making a commitment to reach 100% funding over the next 12 years.[95]

According to a policy implemented by the MWRD Board of Commissioners, retiree contributions will rise by 2.5% each year until the total portion of the premium paid by retirees reaches 50%. In FY2017 the retiree contribution rate will be 40% and the employer contribution will be 60%.[96] As of the last actuarial valuation in FY2015 there were 2,775 retirees and beneficiaries receiving health care coverage.[97]

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, 2015. The actuarial accrued liability computed for the MWRD OPEB trust in the 2015 valuation was $286.6 million. The trust had assets actuarially valued at $149.3 million, resulting in unfunded liabilities of $137.3 million and a 52.1% funded ratio for FY2015. The increase in the actuarial accrued liability and unfunded accrued liability was mostly due to changes in assumptions and retiree census.[98]

MWRD OPEB Funded Status: FY2007-FY2015 (in $ millions)									
	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Actuarial Accrued Liability	$ 442.7	$ 526.5	$ 526.5	$ 526.5	$ 394.7	$ 394.7	$ 260.4	$ 260.4	$ 286.6
Actuarial Value of Assets	$ 25.0	$ 47.8	$ 47.9	$ 47.9	$ 55.0	$ 55.0	$ 120.9	$ 120.9	$ 149.3
Unfunded Actuarial Accrued Liability	$ 417.7	$ 478.7	$ 478.6	$ 478.6	$ 339.7	$ 339.7	$ 139.5	$ 139.5	$ 137.3
Funded Ratio	5.7%	9.1%	9.1%	9.1%	13.9%	13.9%	46.4%	46.4%	52.1%

Source: MWRD FY2007-FY2015 Comprehensive Annual Financial Reports.

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 the MWRD employees, but have not yet been paid or recorded in the District's accounts;
- *Bid Deposits Payable*: Bid deposits held by the MWRD that must be repaid within a year; and

[95] MWRD FY2015 Executive Director's Recommendations, p. 1.
[96] Information at http://mwrdrf.org/retiree-information/retiree-health-insurance-information/.
[97] MWRD FY2015 Comprehensive Annual Financial Report, p. 94.
[98] MWRD December 31, 2015 Actuarial Valuation of Retiree Health Care Benefits under GASB 43, p. 14.

- *Due to Pension Trust Fund:* These are payables due for the outstanding amount of contributions to the MWRD pension plan required for the fiscal year reported in the CAFR.[99]
- *Accrued Interest Payable*: Interest that is payable and has been recognized but has not yet been paid. This may include amounts accumulated on bonds since the last interest payment up to, but not including, the settlement date.

In FY2015 the District reported an 8.6%, or $13.9 million, increase in short-term liabilities from the FY2014 levels. Most of the increase is due to the $16.4 million, or 29.9%, increase in amounts due to the MWRD pension trust fund.

Between FY2011 and FY2015, short-term liabilities increased by $55.9 million, or 46.8%. This was a rise from $119.4 million to $175.3 million. Most of the five-year increase was due to the $71.0 million increase in amounts due to the MWRD pension trust fund. All other liability categories reported decreases.

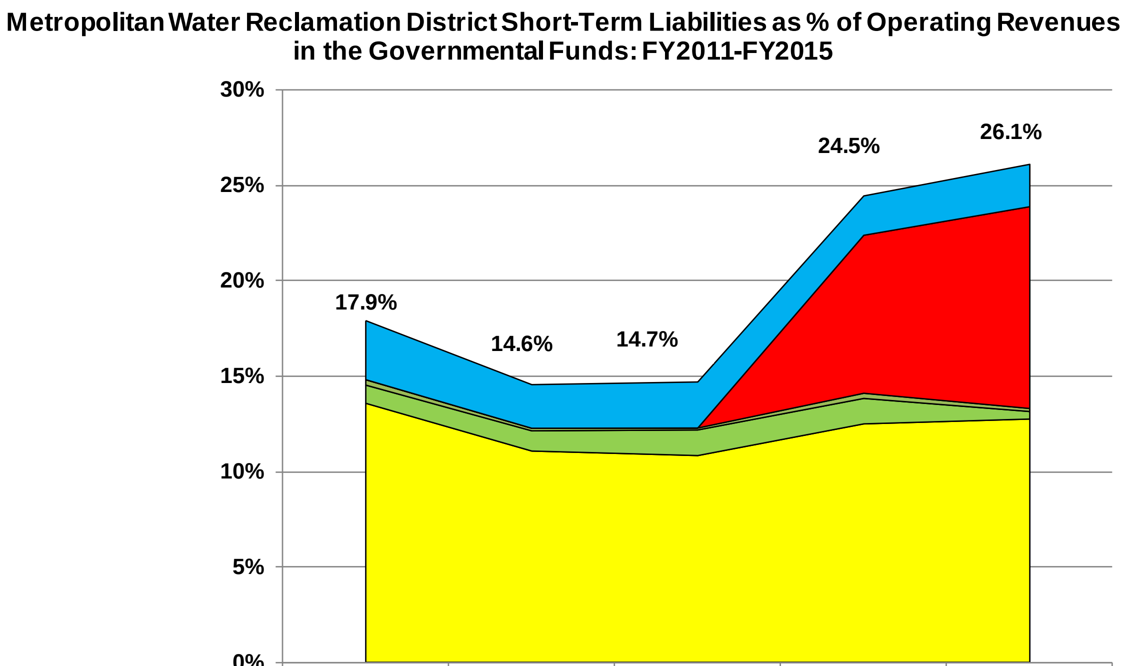
Metropolitan Water Reclamation District FY2011-FY2015 Short-Term Liabilities in the Governmental Funds (in $ thousands)

Type	FY2011	FY2012	FY2013	FY2014	FY2015	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Accounts Payable	$ 90,522	$ 72,699	$ 63,977	$ 82,517	$ 85,643	$ 3,126	3.8%	$ (4,879)	-5.4%
Accrued Payroll	$ 6,350	$ 6,958	$ 7,930	$ 8,802	$ 2,650	$ (6,152)	-69.9%	$ (3,700)	-58.3%
Bid Deposits	$ 1,897	$ 885	$ 599	$ 1,786	$ 1,067	$ (719)	-40.3%	$ (830)	-43.8%
Due to Pension Trust Fund	$ -	$ -	$ -	$ 54,678	$ 71,041	$ 16,363	29.9%	$ 71,041	---
Accrued Interest Payable	$ 20,634	$ 15,007	$ 14,247	$ 13,623	$ 14,924	$ 1,301	9.6%	$ (5,710)	-27.7%
Total	**$ 119,403**	**$ 95,549**	**$ 86,753**	**$ 161,406**	**$ 175,325**	**$ 13,919**	**8.6%**	**$ 55,922**	**46.8%**

Source: MWRD FY2011-FY2015 Comprehensive Annual Financial Reports.

[99] MWRD FY2015 Comprehensive Annual Financial Report, p. 94.

Higher levels of 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.[100] This indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. The MWRD had an increase in short-term liabilities compared to total operating revenue between FY2011 and FY2015, with short-term liabilities rising from 17.9% to 26.1%. Much of the increase was due to large sums of payables for the pension trust fund starting in FY2014.



	FY2011	FY2012	FY2013	FY2014	FY2015
Accrued Interest Payable	3.1%	2.3%	2.4%	2.1%	2.2%
Due to Pension Trust Fund	0.0%	0.0%	0.0%	8.3%	10.6%
Bid Deposits	0.3%	0.1%	0.1%	0.3%	0.2%
Accrued Payroll	1.0%	1.1%	1.3%	1.3%	0.4%
Accounts Payable	13.6%	11.1%	10.8%	12.5%	12.8%

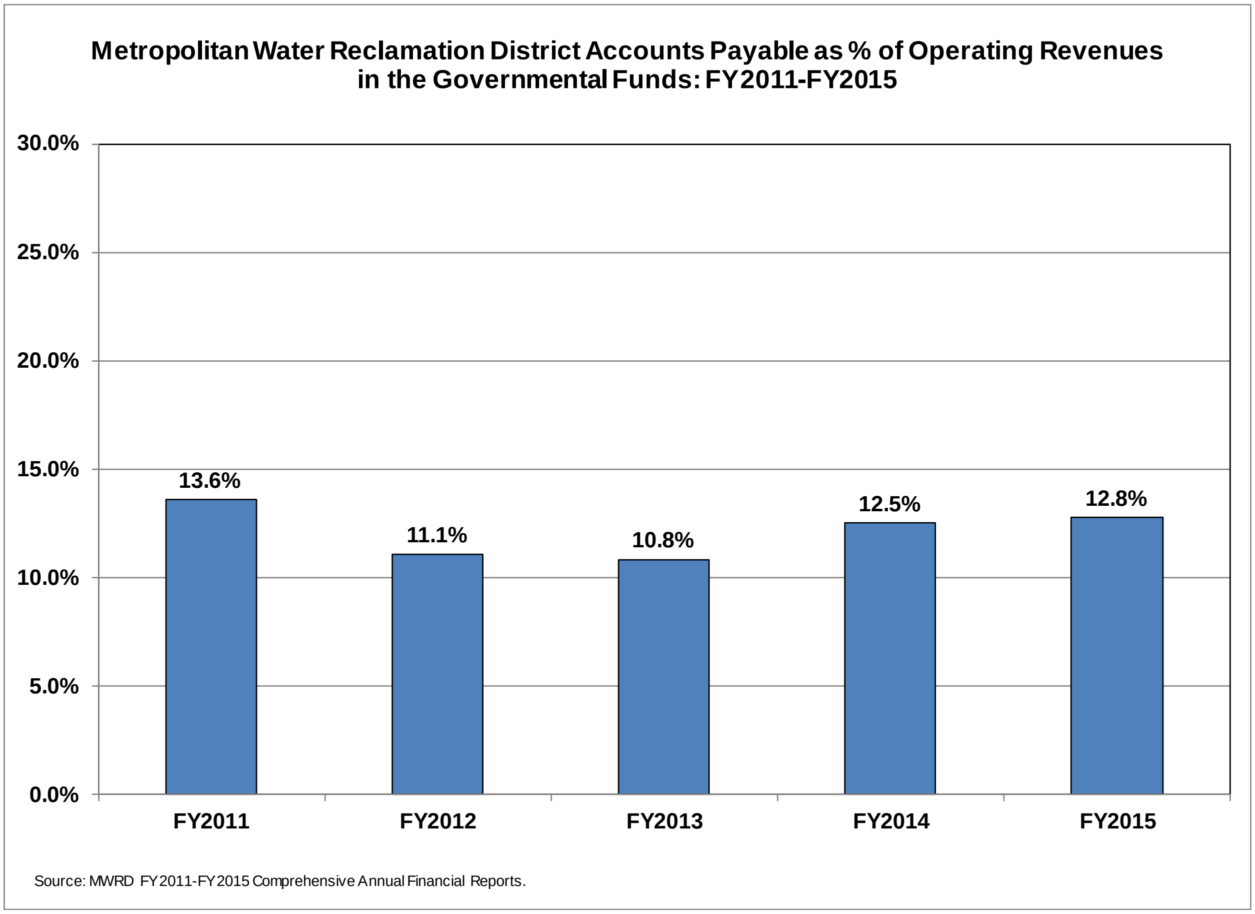
Source: MWRD FY2011-FY2015 Comprehensive Annual Financial Reports.

Accounts Payable

Rising amounts of accounts payable passed from one year to the next may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. The District's accounts payable as a percentage of operating revenue were relatively steady between FY2011 and FY2015. The ratio fell from 13.6% to 10.8% in FY2013 before rising slightly to

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

12.8% in FY2015. Over the five years of this review, the accounts payable ratio averaged 12.2%.



Current Ratio

The current ratio is a measure of liquidity. The ratio is calculated by dividing current assets by current liabilities. 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.[101]

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

- *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;

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

- *Investments*: Any investments that the government has made that will expire within one year, including stocks and bonds that can be liquidated quickly;
- *Prepaid insurance*: This involves payments made in advance for insurance plan services or coverage.[102]
  Receivables: Monetary obligations owed to the government including property taxes and interest on loans;
- *Inventories*: Materials, supplies, and repair parts which extend the life of the District's treatment facilities; and
- *Restricted cash*: Cash and investments set aside pursuant to real estate escrow and intergovernmental agreements.[103]

The MWRD's current ratio was 7.7 in FY2015, the most recent year for which data are available. In the past five years, the District's current ratio averaged 11.6, which is far above the preferred benchmark of 2.0, and thus demonstrates a healthy level of liquidity. From FY2011 to FY2015, the current ratio fell from 13.1 to 7.7, a 41.1% decrease. The reason for the ratio decrease is that assets decreased by a large $211.7 million at the same time liabilities increased by $55.9 million.

Metropolitan Water Reclamation District FY2011-FY2015 Current Ratio in the Governmental Funds (in $ thousands)

	FY2011	FY2012	FY2013	FY2014	FY2015	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Current Assets									
Cash	$ 28,258	$ 26,080	$ 64,496	$ 57,273	$ 173,701	$ 116,428	203.3%	$ 145,443	514.7%
Certificates of Deposit	$ 59,645	$ 57,211	$ 77,316	$ 25,111	$ 23,631	$ (1,480)	-5.9%	$ (36,014)	-60.4%
Investments	$ 909,638	$ 803,692	$ 579,933	$ 481,318	$ 518,124	$ 36,806	7.6%	$(391,514)	-43.0%
Prepaid Insurance	$ -	$ -	$ 2,391	$ 2,143	$ 2,137	$ (6)	-0.3%	$ 2,137	---
Taxes Receivable, net	$ 467,133	$ 486,227	$ 503,911	$ 527,258	$ 542,073	$ 14,815	2.8%	$ 74,940	16.0%
Other Receivables, net	$ 55,805	$ 18,752	$ 31,656	$ 38,961	$ 50,986	$ 12,025	30.9%	$ (4,819)	-8.6%
Inventories	$ 38,922	$ 39,467	$ 40,136	$ 39,586	$ 37,623	$ (1,963)	-5.0%	$ (1,299)	-3.3%
Restricted cash	$ 1,967	$ 2,018	$ 1,425	$ 1,409	$ 1,405	$ (4)	-0.3%	$ (562)	-28.6%
Total Current Assets	**$ 1,561,368**	**$ 1,433,447**	**$ 1,301,264**	**$ 1,173,059**	**$ 1,349,680**	**$ 176,621**	**15.1%**	**$(211,688)**	**-13.6%**
Current Liabilities									
Accounts Payable	$ 90,522	$ 72,699	$ 63,977	$ 82,517	$ 85,643	$ 3,126	3.8%	$ (4,879)	-5.4%
Accrued Payroll	$ 6,350	$ 6,958	$ 7,930	$ 8,802	$ 2,650	$ (6,152)	-69.9%	$ (3,700)	-58.3%
Bid Deposits	$ 1,897	$ 885	$ 599	$ 1,786	$ 1,067	$ (719)	-40.3%	$ (830)	-43.8%
Due to Pension Trust Fund	$ -	$ -	$ -	$ 54,678	$ 71,041	$ 16,363	29.9%	$ 71,041	---
Accrued Interest Payable	$ 20,634	$ 15,007	$ 14,247	$ 13,623	$ 14,924	$ 1,301	9.6%	$ (5,710)	-27.7%
Total Current Liabilities	**$ 119,403**	**$ 95,549**	**$ 86,753**	**$ 161,406**	**$ 175,325**	**$ 13,919**	**8.6%**	**$ 55,922**	**46.8%**
Current Ratio	**13.1**	**15.0**	**15.0**	**7.3**	**7.7**				

Source: MWRD FY2011-FY2015 Comprehensive Annual Financial Reports.

[102] Investopedia at http://www.investopedia.com/terms/p/prepaid-insurance.asp.
[103] MWRD FY2015 Comprehensive Annual Financial Report, p. 72.

LONG-TERM LIABILITIES

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

Long-Term Liabilities

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

- *Compensated absences*: Liabilities owed for employees' time off with pay for vacations, holidays and sick days;
- *Claims and judgments*: Liabilities owed as a result of claims for tort liability and property judgments; and
- *Net Pension and OPEB Liabilities*: Net pension liabilities are the cumulative difference (as of the effective date of GASB Statement 27) between the annual pension cost and the employer's contributions to the plan. This includes the pension liability at transition (beginning pension liability) and excludes short-term differences and unpaid contributions that have been converted to pension-related debt. Net Other Post Employment Benefit (OPEB) liabilities are the cumulative difference (as of the effective date of GASB Statement 45) between the annual OPEB (employee health insurance) cost and the employer's contributions to its OPEB plan.
    - Beginning in FY2015, the MWRD will report 100% of the net pension liabilities of its four municipal pension funds in the Statement of Net Position to comply with GASB Statement Number 68 requirements. Previously, this liability was reported in the Statement of Net Position as a Net Pension Obligation or NPO (see description above). As a result of the reporting change for pensions involved in implementing GASB 68, the amount of MWRD long-term liabilities **reported** will increase substantially. This is because it will reflect a more holistic approach to measuring the liabilities of the government, which the previous NPO pension measurement did not. The amount owed by the MWRD to its pension fund has not significantly changed. It is only being reported more transparently.[104] The FY2015 CAFR includes a restatement of net pension liabilities for FY2014 to reflect the reporting requirement change.

[104] MWRD FY2015 Comprehensive Annual Financial Report, p. 50.

Between FY2014 and FY2015 long-term liabilities rose by 10.5%, or $381.8 million. In the five-year period between FY2011 and FY2015, total long-term liabilities rose by 35.9%, increasing from nearly $3.0 billion to $4.0 billion. This was an increase of $1.0 billion.

In this same five-year period, long-term debt increased by 10.6%. This was an increase of $286.1 million, from $2.7 billion to $3.0 billion. Long-term debt was primarily incurred through general obligation bonds, bond anticipation notes and capital leases. From FY2014 to FY2015, total long-term debt rose by 12.9%, or $339.0 million.

Other long-term liabilities, which include claims and judgments, net pension and OPEB liabilities and compensated absences, rose by 284.0% between FY2011 and FY2015. This was a $777.3 million increase from $273.7 million to $1.1 billion.

The single largest increase in long-term liabilities between FY2011 and FY2015 was for net pension liabilities. This obligation was reported to rise by 773.2% or $838.8 million. As noted above, this did not represent a new, large increase in liabilities. Rather, it was due to the new pension liability reporting requirements of GASB Statement No. 68, which presented a more transparent approach to measuring these liabilities than the previous approach.

Metropolitan Water Reclamation District Long-Term Liabilities: FY2011-FY2015 (in $ thousands)

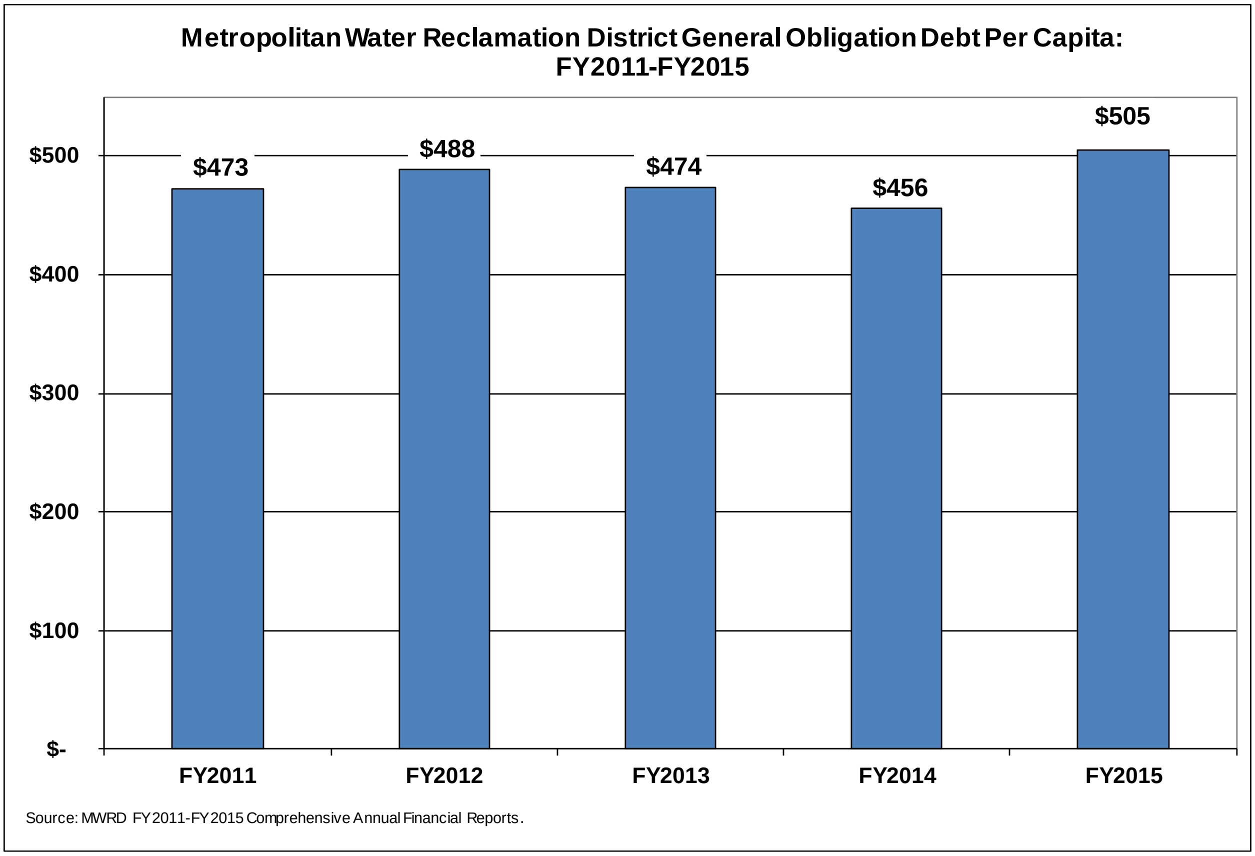
Long-Term Liabilities	FY2011	FY2012	FY2013	FY2014	FY2015	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
General Obligation Debt	$ 1,965,824	$ 1,896,371	$ 1,857,731	$ 1,816,796	$ 1,983,806	$ 167,010	9.2%	$ 17,982	0.9%
Converted Bond Anticipation Notes	$ 500,640	$ 619,005	$ 624,242	$ 605,824	$ 671,559	$ 65,735	10.9%	$ 170,919	34.1%
Subtotal General Obligation Debt	**$ 2,466,464**	**$ 2,515,376**	**$ 2,481,973**	**$ 2,422,620**	**$ 2,655,365**	**$ 232,745**	**9.6%**	**$ 188,901**	**7.7%**
Deferred Issuance Costs	$ (8,316)	$ -	$ -	$ -	$ -	$ -	---	$ 8,316	-100.0%
Deferred Premiums	$ 94,260	$ 88,610	$ 83,026	$ 78,165	$ 115,423	$ 37,258	47.7%	$ 21,163	22.5%
Refunding Transactions	$ (22,454)	$ -	$ -	$ -	$ -	$ -	---	$ 22,454	-100.0%
Subtotal Bonds Payable, Net	**$ 2,529,954**	**$ 2,603,986**	**$ 2,564,999**	**$ 2,500,785**	**$ 2,770,788**	**$ 270,003**	**10.8%**	$ 240,834	9.5%
Bond Anticipation Notes	$ 108,008	$ 44,527	$ 35,809	$ 90,460	$ 161,697	$ 71,237	78.7%	$ 53,689	49.7%
Capital Lease	$ 51,784	$ 49,837	$ 47,795	$ 45,653	$ 43,405	$ (2,248)	-4.9%	$ (8,379)	-
Subtotal Long-Term Debt	**$ 2,689,746**	**$ 2,698,350**	**$ 2,648,603**	**$ 2,636,898**	**$ 2,975,890**	**$ 338,992**	**12.9%**	**$ 286,144**	**10.6%**
Claims and Judgments	$ 59,857	$ 79,597	$ 77,996	$ 35,668	$ 53,570	$ 17,902	50.2%	$ (6,287)	-10.5%
Compensated Absences	$ 28,784	$ 28,356	$ 27,627	$ 27,564	$ 25,153	$ (2,411)	-8.7%	$ (3,631)	-12.6%
Net OPEB Liability	$ 76,580	$ 69,425	$ 49,858	$ 30,409	$ 25,001	$ (5,408)	-17.8%	$ (51,579)	-67.4%
Net Pension Liability*	$ 108,482	$ 120,651	$ 105,193	$ 914,578	$ 947,300	$ 32,722	3.6%	$ 838,818	773.2%
Subtotal Other Long-Term Liabilities	**$ 273,703**	**$ 298,029**	**$ 260,674**	**$ 1,008,219**	**$ 1,051,024**	**$ 42,805**	**4.2%**	**$ 777,321**	**284.0%**
Total Long-Term Liabilities	**$ 2,963,449**	**$ 2,996,379**	**$ 2,909,277**	**$ 3,645,117**	**$ 4,026,914**	**$ 381,797**	**10.5%**	**$ 1,063,465**	**35.9%**

* Reported as net pension obligation FY2011 to FY2013.

Source: MWRD FY2011-FY2015 Comprehensive Annual Financial Reports. Net pension liability for FY2014 restated in FY2015.

General Obligation Debt Per Capita

A common ratio used by rating agencies and other public finance analysts to evaluate long-term debt trends is tax-supported general obligation debt per capita. This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements. Increases over time bear watching as they could be a potential sign of financial risk. Between FY2011 and FY2015 the MWRD's long-term General Obligation debt per capita amounts were relatively stable, increasing from $473 to $505. This represents a 6.8% increase.



Debt Service Appropriations as a Percentage of Total Appropriations

The ratio of debt service expenditures as a percentage of total expenditures is frequently used by rating agencies to assess debt burden. The rating agencies consider a debt burden high if this ratio is between 15% and 20%.[105] The debt service to total appropriations ratio for the MWRD between FY2013 and projected FY2017 will increase from 16.7% to 20.1%. While the ratio over time is high, averaging 17.6%, it is important to note that the MWRD is a government with large ongoing capital expenses due to its mission of stormwater management.

Metropolitan Water Reclamation District Debt Service Appropriations as a Percentage of Total Appropriations: FY2013-FY2017 (in $ millions)

	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 As Adjusted	FY2017 Tentative
Debt Service Appropriations	$193.0	$194.9	$214.5	$216.0	$227.7
Total Appropriations	$1,155.1	$1,219.7	$1,203.4	$1,244.1	$1,132.4
Debt Service as a % of Total Appropriations	**16.7%**	**16.0%**	**17.8%**	**17.4%**	**20.1%**

Source: MWRD FY2017 Tentative Budget, p. 9.

BOND RATINGS

The MWRD has the following current bond ratings, as of November 2016:

- Moody's Investors Service – Aa2 (since 2015);
- Fitch – AAA (since 2001); and
- Standard & Poor's – AA+ (since 2016).[106]

In May 2016 Standard & Poor's downgraded the MWRD's credit rating from AAA to AA+ with a stable outlook. The reason for the downgrade was concern over the growing financial impact of the pension and debt liabilities of the overlapping governments reliant on the same property tax base.[107]

In July 2015 Moody's Investors Services downgraded the MWRD credit rating from Aa1 to Aa2. The downgrade was due to the pressure on the tax base from the significant pension and debt liabilities for many of the major governmental entities in Cook County.[108]

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

---

[105] 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. 27.
[106] MWRD FY2017 Executive Director's Recommendations, p. 27.
[107] Jennifer Boyd. Standard and Poor's Global Ratings. "Metropolitan Water Reclamation District of Greater Chicago; General Obligation," May 26, 2016.
[108] MWRD FY2016 Executive Director's Recommendations, pp. 27-28.

- Concerns over the District's significant and growing unfunded pension obligations; and
- The significant debt burden and pension liabilities of the governments in the Chicagoland region that share an overlapping property tax base, including the MWRD, City of Chicago, Chicago Public Schools, Chicago Park District, Cook County and the Cook County Forest Preserve District.[109]

CAPITAL BUDGET

The MWRD annually updates and appropriates funding for projects in a five-year capital improvement plan (CIP). The FY2017-FY2021 CIP proposes approximately $1.1 billion in funding for a variety of projects. The first year of the new CIP will be the FY2017 capital budget, proposed at $236.7 million.

The exhibit below shows both how spending will be allocated among the different types of MWRD capital projects in the CIP and how those projects will be funded. It is presented in the budget terms of projected cash disbursements, not total project costs.

The largest category of spending, 32.7% of all capital spending, or $357.5 million, will be earmarked for Stormwater Management. Approximately 29.9%, or $326.6 million, of the total will be used for Water Reclamation and Solids Management projects. Replacement of existing facilities will use 20.0%, or $218.7 million, while the Tunnel and Reservoir Plan (TARP) is projected to receive approximately 13.5%, or $147.9 million. Finally, 3.8%, or $41.8 million, will be used for the District's Collection Facilities.

The majority of funding for the MWRD capital program comes from capital improvement bonds, which are expected to constitute 87.8% of all funding between FY2017 and FY2021, or nearly $959.7 million. The remaining funding will consist of pay-as-you-go funding from the Stormwater and Construction Funds.[110]

Metropolitan Water Reclamation District Five-Year Capital Spending: FY2017-FY2021 - Estimated Cash Disbursements (in $ millions)

	FY2017	FY2018	FY2019	FY2020	FY2021	Five-Year Total	% of Five-Year Total
Capital Spending by Category							
Water Reclamation & Solids Management	$ 105.3	$ 66.3	$ 63.5	$ 47.3	$ 44.2	$ 326.6	29.9%
Replacement of Facilities	$ 55.9	$ 46.9	$ 42.4	$ 38.5	$ 35.0	$ 218.7	20.0%
Collection Facilities	$ 8.5	$ 3.9	$ 6.6	$ 11.7	$ 11.1	$ 41.8	3.8%
Stormwater Management	$ 12.7	$ 104.3	$ 114.6	$ 74.6	$ 51.3	$ 357.5	32.7%
Tunnel & Reservoir Plan	$ 54.3	$ 46.2	$ 36.7	$ 5.5	$ 5.2	$ 147.9	13.5%
Total Spending	**$ 236.7**	**$ 267.6**	**$ 263.8**	**$ 177.6**	**$ 146.8**	**$ 1,092.5**	**100.0%**
Capital Funding Sources							
Stormwater Fund	$ 4.0	$ 19.8	$ 30.0	$ 16.8	$ 8.5	$ 79.1	7.2%
Construction Fund	$ 20.4	$ 11.8	$ 9.3	$ 8.0	$ 4.2	$ 53.7	4.9%
Capital Improvements Bond Fund	$ 212.3	$ 235.9	$ 224.6	$ 152.9	$ 134.0	$ 959.7	87.8%
Total Funding	**$ 236.7**	**$ 267.5**	**$ 263.9**	**$ 177.7**	**$ 146.7**	**$ 1,092.5**	**100.0%**

*Note: Totals may not match due to rounding.
Source: MWRD FY2017 Executive Director's Recommendations, p. 345.

[109] Moody's Investors Service, "Rating Action: Moody's downgrades Metropolitan Water Reclamation District, IL to Aa1; outlook negative," August 27, 2013.
[110] MWRD FY2017 Executive Director's Recommendations, p. 345.

New Capital Spending Requests

The MWRD's request for new capital spending authorization for total project costs in FY2017 totals approximately $348.0 million. This is a 28.1% decrease in new capital appropriations from FY2016 adopted appropriations. The amount of proposed new capital spending for FY2017 differs from the amount proposed for FY2017 in the five-year capital budget. New capital spending pertains to total projects costs over time while the capital budget details what the District plans to spend each year, which does not always match the total cost of capital projects, as is the case in FY2017.

Metropolitan Water Reclamation District Proposed New Capital Spending: FY2016 and FY2017 (in $ thousands)				
Project Type	FY2016 Adopted Budget	FY2017 Proposed Budget	$ Change	% Change
Treatment Facilities	$ 65,000	$ 6,000	$ (59,000)	-90.8%
Collection Facilities	$ 22,124	$ 5,900	$ (16,224)	-73.3%
Solids Processing & Disposal	$ 20,400	$ 38,000	$ 17,600	86.3%
Flood & Pollution Control	$ 265,501	$ 214,814	$ (50,687)	-19.1%
Community Flood Control Program	$ 26,000	$ -	$ (26,000)	-100.0%
Land Cost	$ 10,550	$ 12,516	$ 1,966	18.6%
Project Support	$ 74,189	$ 70,807	$ (3,382)	-4.6%
Total	**$ 483,764**	**$ 348,037**	**$ (135,727)**	**-28.1%**

Sources: MWRD FY2016 Final Adopted Budget, p. 471 and FY2017 Executive Director's Recommendations, p. 460.

Capital Improvement Plan

According to best practices for capital budgeting, a complete capital improvement plan (CIP) includes the following elements:[111]

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

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

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

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

Metropolitan Water Reclamation District Capital Improvement Plan Checklist	
Does the government prepare a formal capital improvement plan?	Yes
How often is the CIP updated?	Annually
Does the capital improvement plan include: • *A narrative description of the CIP process?* • *A five-year summary list of projects and expenditures by project as well as funding sources per project?* • *Information about the impact and amount of capital spending on the annual operating budget for each project?* • *Brief narrative descriptions of individual projects, including the purpose, need, history, and current status of each project?* • *The time frame for fulfilling capital projects?*	Yes[112] Yes Yes Yes Yes
Are projects ranked and/or selected according to a formal prioritization or needs assessment process?	Yes, but information is not provided about the prioritization methods used.
Is the capital improvement plan made publicly available for review by elected officials and citizens? • *Is the CIP published in the budget or a separate document?* • *Is the CIP available on the Web?*	The CIP is included in the annual budget. Yes, as part of the budget.
Are there opportunities for stakeholders to provide input into the CIP? • *Is there stakeholder participation on a CIP advisory or priority setting committee?* • *Does the governing body hold a formal public hearing at which stakeholders may testify?* • *Is the public permitted at least ten working days to review the CIP prior to a public hearing?*	No. Projects are identified based on asset management audits. Project selection and prioritization are completed by internal interdepartmental review panel.[113] Yes, a hearing was held on October 20, 2016.[114] Yes, as part of the budget.
Is the CIP formally approved by the governing body of the government?	It is approved with the budget.
Is the CIP integrated into a long term financial plan?	Yes

[112] MWRD FY2017 Executive Director's Recommendations, p. 343.
[113] MWRD FY2017 Executive Director's Recommendations, p. 343.
[114] See https://mwrd.legistar.com/MeetingDetail.aspx?ID=509286&GUID=5FF4A8DF-7CA5-47E9-86B5-9327DECB2CA1&Options=info&Search= .

APPENDIX A

MWRD Budget Process

The MWRD's budget process differs from the budget processes of other local area governments. The MWRD produces several 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). After releasing the Executive Director's Recommendations the District holds departmental hearings and makes revisions, which are found in the Tentative Budget. Within the three budget documents are the following financial figures:

- *Proposed appropriations* – appropriations as proposed in the Executive Director's Recommendations;
- *Tentative appropriations* – appropriations approved by the Board of Commissioners based on recommendations from the Committee on Budget and Employment hearings regarding the Executive Director's Recommendations (BF-19 changes);[115]
- *Adopted appropriations* – appropriations as adopted by the Board (BF-20 changes);
- *Amended appropriations* – appropriations as amended by the Board (BF-21 changes, or Final);
- *Adjusted appropriations* – appropriations as adjusted through September 30;
- *Estimated expenditures* – year-end estimated expenditures; and
- *Actual expenditures* – audited expenditures, available in the budget documents.

MWRD appropriations often vary significantly from budget year to budget year, depending on the number and scale of capital projects that the District undertakes and the timing of funding required for completion of 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 FY2017 tentative appropriations to the adjusted appropriations from the previous year, and when available, actual expenditures from previous years.

The following table shows the MWRD appropriations from FY2012 to FY2016 for all funds, providing a comparison between the tentative budgets, adopted budgets, adjusted budgets and actual expenditures. As of the writing of this analysis, the District has only released the FY2017 Executive Director's Recommendations and the FY2017 Tentative Budget. Because the adopted,

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

adjusted and actual figures for FY2017 are not yet available, FY2017 appropriations are not included.

MWRD Appropriations - Tentative, Adopted, Adjusted and Actual: FY2012-FY2016				
	Tentative	Adopted	Adjusted	Actual
FY2012	$ 925,983,388	$ 1,040,949,849	$ 1,040,949,849	$ 1,040,949,849
FY2013	$ 1,118,964,609	$ 1,152,384,409	$ 1,155,064,990	$ 1,155,064,990
FY2014	$ 1,200,721,914	$ 1,219,656,114	$ 1,219,656,083	$ 1,219,656,114
FY2015	$ 1,252,258,300	$ 1,205,422,581	$ 1,203,447,239	$ 1,203,447,201
FY2016*	$ 1,210,182,530	$ 1,244,135,730	$ 1,244,135,730	

*Note: FY2016 actual figures are not yet available.

Source: MWRD Tentative and Final Budgets, FY2012-FY2016 and MWRD FY2017 Executive Director's Recommendations, p. 42.

The next table provides the variance between the various budget figures shown in the table above comparing the four types of appropriations for FY2012 through FY2016. The comparisons include: tentative vs. adopted, tentative vs. adjusted, tentative vs. actual, adopted vs. adjusted, adopted vs. actual and adjusted vs. actual. Examining the difference between the four budgets demonstrates that the largest variance occurs between the tentative and adopted, adjusted and actual budget figures, but little variance occurs after the appropriations are adjusted. No variance occurred between the adjusted and actual appropriations in FY2012 and FY2013 and a small variance occurred between the adjusted and actual appropriations in FY2014 and FY2015.

MWRD Appropriations Comparison of Tentative, Adopted and Actual: FY2012-FY2016						
	Variance: Tentative vs. Adopted	Variance: Tentative vs. Adjusted	Variance: Tentative vs. Actual	Variance: Adopted vs. Adjusted	Variance: Adopted vs. Actual	Variance: Adjusted vs. Actual
FY2012	$ 114,966,461	$ 114,966,461	$ 114,966,461	$ -	$ -	$ -
FY2013	$ 33,419,800	$ 36,100,381	$ 36,100,381	$ 2,680,581	$ 2,680,581	$ -
FY2014	$ 18,934,200	$ 18,934,169	$ 18,934,200	$ (31)	$ -	$ 31
FY2015	$ (46,835,719)	$ (48,811,061)	$ (48,811,099)	$ (1,975,342)	$ (1,975,380)	$ (38)
FY2016*	$ 33,953,200	$ -		$ -		

*Note: FY2016 actual figures are not yet available.

Source: MWRD Tentative and Final Budgets, FY2012-FY2016 and MWRD FY2017 Executive Director's Recommendations, p. 42.