The Civic Federation
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METROPOLITAN WATER RECLAMATION DISTRICT FY2010 BUDGET:

Analysis and Recommendations

December 9, 2009

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

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EXECUTIVE SUMMARY

The Civic Federation **supports** the FY2010 Metropolitan Water Reclamation District's FY2010 Tentative Budget of nearly $1.7 billion. The tentative budget across all funds is a $28.8 million, or 1.8%, increase over final adjusted FY2009 appropriations. The District's Corporate Fund budget, however, will decrease by 9.5% or $37.5 million from final FY2009 appropriations of $395.0 million to proposed FY2010 appropriations of $357.5 million.

The District is also proposing to increase its property tax levy for FY2010, but the net amount available for Corporate Fund appropriations will only increase $1.2 million or 0.5%. This restrained increase to the District's annual property tax levy, while not desirable, is reasonable as it is combined with a 9.5% appropriation decrease for its Corporate Fund, reductions in staffing levels and a projected decline in economically-sensitive revenues.

The Civic Federation offers the following **key findings** from the FY2010 Tentative Budget:

- The MWRD FY2010 Tentative Budget will total nearly $1.7 billion and is a $28.8 million or 1.8% increase over final adjusted FY2009 appropriations;
- The District is projecting a decrease in staffing levels in FY2010, falling from FY2009 estimated staffing level of 2,131 to 2,113 in FY2010 for a decrease of 18 positions or 0.8%;
- In FY2010 personal service appropriations will decrease by $8.7 million or 2.7%, falling from $317.9 million to $309.2 million;
- In FY2010 the District will set aside $23.0 million as a non-appropriated corporate fund balance. This amount equals 6.4% of the total FY2010 corporate fund appropriation of $357.3 million and is larger than the FY2009 appropriated fund balance;
- In FY2008 the pension fund's unfunded liabilities rose to $640.4 million, up from $416.6 million five years prior in FY2004. This was a 53.7% or $223.9 million increase; and
- The funded ratio for pensions declined from 73.6% to 65.4% over the same five-year period.

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

- Developing a task force to address pension underfunding;
- Replenishing its non-appropriated corporate fund balance;
- Reducing staffing levels and controlling personnel costs;
- Utilizing and publishing long-term financial and capital improvement planning techniques; and
- Producing a transparent and comprehensive budget document.

However, the Civic Federation has **concerns** about the FY2010 proposed budget including:

- Maintaining a pension fund that shows signs declining fiscal health including increasing unfunded liabilities, a declining pension fund ratio and shortfalls in employer contributions; and
- Increasing the FY2010 property tax levy.

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

- Implementing comprehensive pension reform through reforming MWRD's pension fund governance, establishing a two-tiered pension system, fixing annuity increases for new hires at the less of 3.0% or CPI, prohibiting benefit increases unless the plan is over 90% funded, and requiring that employer contributions relate to funding levels;
- Adhere to the OPEB trust funding schedule for FY2009;
- Consider adopting a formal procurement policy for all professional service contracts; and
- Adding property tax and personal services content to future budget documents.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the Metropolitan Water Reclamation District's FY2010 tentative budget of nearly $1.7 billion, which is a $28.8 million or 1.8% increase over final adjusted FY2009 appropriations. The District's Corporate Fund budget, however, will decrease by 9.5% or $37.5 million from final FY2009 appropriations of $395.0 million to proposed FY2010 appropriations of $357.5 million.

The District is proposing to increase its property tax levy for FY2010 by 2.1% or $9.6 million across all funds. The net amount of property taxes available for Corporate Fund appropriations will only increase $1.2 million or 0.5%. While not desirable, the proposed increase is reasonable as it is combined with a 9.5% or $37.5 million decrease in Corporate Fund appropriations, reduced staffing levels and a projected decline in economically-sensitive revenues.

Reflecting the need to reduce spending, the District is projecting a decrease in staffing levels in FY2010, falling from the FY2009 estimated staffing level of 2,131 to 2,113 in FY2010 for a decrease of 18 positions or 0.8%. In FY2010 the District is also projecting a decrease in personal service appropriations. Between FY2009 adjusted appropriations and FY2010 projected appropriations, District personnel expenditures will decrease by $8.7 million or 2.7%, falling from $317.9 million to $309.2 million.

This year the District has begun to address its increasing pension liabilities by appointing a task force to address pension funding concerns and develop a plan to increase the funded ratio of the MWRD Retirement Fund while maintaining a fair and competitive benefit plan for District employees.[1]

The Civic Federation supports the District's efforts to reform its employee pension fund. We caution the District, however, that substantial changes may be necessary to stem growing pension liabilities. The Federation recommends that the District pursue employer contribution, employee benefit and board governance pension reforms going forward.

ISSUES THE CIVIC FEDERATION SUPPORTS

The Civic Federation supports the following issues contained in the MWRD FY2010 tentative budget.

Developing a Task Force to Address Pension Underfunding

As a result of rising unfunded pension liabilities and a decline in the pension funded ratio the District is proposing to take steps in FY2010 to implement pension reform. The Board of Commissioners is beginning the process of appointing a task force to address the pension concerns and develop a plan to increase the funded ratio of the MWRD Retirement Fund while maintaining a fair and competitive benefit plan for District employees.[2]

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

The Civic Federation commends the District for addressing its unfunded pension liability before it further deteriorates. As noted in the recommendations section of this report, we believe a balanced approach of increased employer contributions, employee benefit reform and governance reform will create a fair and responsible retirement system for both District employees and taxpayers.

Replenishing Non-Appropriated Corporate Fund Balance

In FY2009 the District's proposed non-appropriated corporate fund balance of $12.0 million, or 3.0% of the Corporate Fund appropriation, did not meet the Government Finance Officers Association (GFOA) recommended goal of between 5% and 15% of corporate fund appropriations.

Recently the GFOA updated its best practice on unreserved general fund balances to recommend that general purpose governments maintain at a minimum an unrestricted general fund balance of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. This amounts to 16.7% of either general fund operating revenues or regular general fund operating expenditures.[3]

In FY2010 the District will set aside $23.0 million as a non-appropriated corporate fund balance. This amount equals 6.4% of the total FY2010 corporate fund appropriation of $357.3 million and is larger than the FY2009 appropriated fund balance.

This amount, however, falls short of both the new GFOA fund balance policy and the District's own policy of maintaining $45 million to $55 million in non-appropriated, unreserved corporate funds. However, this is true if the calculation is made after the proposed FY2010 non-appropriated Corporate Fund draw down to $23.0 million. District is proposing this draw down on its reserves to offset projected declines in revenue.

The Federation supports the District for setting aside a greater amount of funds for contingencies in FY2010, which as the District notes, "balances the competing imperatives of minimizing the annual levy and providing for unexpected shortfalls in revenue."[4] However, we also encourage the District to continue to work towards meeting the new GFOA fund balance policy, as well as its own planning goal of setting aside between $45 million and $55 million after any upcoming fund balance appropriation.

Reducing Staffing Levels and Controlling Personnel Costs

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

[3] See Government Finance Officers Association website at www.gfoa.org/downloads/AppropriateLevelUnrestrictedFundBalanceGeneralFund_BestPractice.pdf (last visited on December 8, 2009).
[4] MWRD FY2010 Executive Director's Recommendations, p. 20.

years. In its FY2010 Tentative Budget the MWRD projected that it would reduce the total number of positions to 2,062 positions over the next four years via attrition.[5]

Since FY1997 the District has reduced its FTE staffing level from 2,239 positions to 2,113 positions, a decrease of 126 FTE positions or 5.6%. The District is projecting a decrease of 18 positions between FY2009 estimated staffing level of 2,131 and projected FY2010 staffing level of 2,113.

Following the reduction in staffing levels, in FY2010 the District is also projecting a decrease in personal service appropriations. Between FY2009 adjusted appropriations and FY2010 projected appropriations, District personnel expenditures will decrease by $8.7 million or 2.7%, falling from $317.9 million to $309.2 million.

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

Utilizing and Publishing Long-Term Planning Techniques

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

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

The MWRD has also demonstrated fiscal leadership in creating a trust fund in order to begin saving for the future payment of other post employment benefits (OPEB) liabilities. The Board of Commissioners established the trust in 2007 with a policy target of reaching a 50% funded ratio in 50 years, and requiring a $10 million contribution from the Corporate Fund in each of the first five years.

The Civic Federation commends the District for its forward-thinking efforts in both developing, and making publicly available, long-term financial forecasts and creating the OPEB trust to ensure adequate funds are available for the District's retiree health care liabilities.

Producing a Transparent and Comprehensive Budget Document

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

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[5] MWRD FY2010 Executive Director's Recommendations, pp. 29 and 69.

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

CIVIC FEDERATION CONCERNS

The Civic Federation has the following concerns regarding the MWRD FY2010 Tentative Budget.

Declining Financial Health of Pension Fund

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

In FY2008, the last year for which complete data are available, the pension fund's unfunded liabilities rose to $640.4 million, up from $416.6 million five years prior in FY2004. This was a 53.7% or $223.9 million increase. Correspondingly, the funded ratio declined from 73.6% to 65.4% over the same five-year period.

Shortfalls in employer contributions have significantly contributed to the increase in unfunded liabilities and the decrease in funded ratio. State statute requires that MWRD levy a property tax equivalent to 2.19 times the employee contributions made two years prior. This amount is unrelated to the actuarially required contribution (ARC) for funding normal cost plus the amortization of the unfunded liability. The ARC payment would have been $60.3 million in FY2008, approximately $26.9 million more than the District's actual $33.4 million contribution.

While the Federation is encouraged that the District is in the process of creating a task force to address how it will meet its pension obligations, we urge the District to take greater steps to improve the health of the pension fund. Given the recent economic turmoil and resulting market downturn, the retirement fund will continue to face financial challenges and this could make significant reforms necessary sooner rather than later.

Increase in Property Tax Levy for FY2010

The District is proposing to increase its property tax levy for FY2010 by 2.1% or $9.6 million across all funds. The net amount of property taxes available for Corporate Fund appropriations will only increase $1.2 million or 0.5%. The MWRD estimates that the maximum projected increase for the property tax capped funds would be 3.5%. However, the budget FY2010 proposes a property tax increase that does not go to the maximum amount allowed and instead increases the tax capped levy by 2.0%.[6]

While not desirable, the proposed increase is reasonable as it does not go to the maximum projected amount and is combined with a 9.5% decrease in Corporate Fund expenditures over FY2009 adjusted appropriations, reduced staffing levels and a decline in economically-sensitive revenues.

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[6] MWRD FY2010 Executive Director's Recommendations, p. 15.

CIVIC FEDERATION RECOMMENDATIONS

The Civic Federation offers the following recommendations on ways to improve the MWRD's fiscal health, particularly that of its pension fund.

Implement Comprehensive Pension Reform

The following recommendations on ways to improve the long-term financial health of the MWRD pension fund would require General Assembly authorization. We strongly urge the District to seek such approval as soon as possible.

Establish a Two-Tiered Pension System

Although the pension benefits for current public employees and retirees are protected by the Illinois Constitution, benefit levels can be reduced for new employees. Reducing benefits for new employees would mean the creation of a two-tiered benefit system in which existing and new employees receive different retirement benefits. Given the fact that the funded ratio may fall below 60.0% in the near future, this is a reasonable approach that the District should undertake.

Annuity Increases for New Hires Should Be Fixed at the Lesser of 3.0% or CPI

Currently, MWRD pension fund beneficiaries receive 3% annual cost of living increases. However, this rate can and often does exceed the rate of inflation. To control costs, annual annuity increases for new hires should be fixed at the projected Consumer Price Index or 3%, whichever is less.

Prohibit Benefit Increases Unless the Plan is Over 90% Funded

Benefit enhancements are a major source of increased liabilities for pension funds. The Civic Federation recommends that no new retirement benefit enhancements be granted unless the pension fund is over 90% funded. A healthy pension fund (one that is over 90% funded) should be permitted to grant benefit enhancements only if employer and/or employee contributions are increased sufficiently to fully fund the enhancements. Any benefit enhancement granted should also expire after five years, subject to renewal. The Civic Federation urges the MWRD to request these legislative changes from the General Assembly in order to control pension costs and shore up the health of the fund.

Require that Employer Contributions Relate to Funding Levels

The MWRD employer contributions are determined by a multiplier that is not tied to the fund's funded ratio. The MWRD's multiplier is set by state statute at 2.19 times the total employee contribution made two years prior, except for employee contributions to optional additional benefits made after January 1, 2003, which are multiplied by 1.00. Unfortunately, meeting this statutory funding requirement does not ensure that the MWRD will provide sufficient resources to keep its pension fund financially healthy. The Civic Federation believes that, at a minimum, employer contributions should be tied to funded ratios so that additional contributions are required whenever the ratio drops below a given level. Linking pension contributions to actuarially required contribution (ARC) levels would be an even more effective way of guaranteeing the pension fund's financial health.

MWRD Pension Fund Governance Reform

Beginning in 2008 the MWRD pension fund is now governed by a seven-member Board of Trustees that includes four active employees, two representatives from management and one appointed retired employee.[7] The proper role of a pension board is to safeguard the fund's assets and oversee the effective administration of benefits. The Civic Federation believes it is important to balance the interests of the employees and retirees who receive retirement benefits and the taxpayers who ultimately pay for pension benefits. The employer, employees, retirees, and taxpayers all have stake in the management of the fund. However, the growing tilt toward employees and retirees on the MWRD Retirement Fund Board raises questions about how objective the Board can be in its work. In our view, a pension board should:

- Balance employee and management representation;
- Have a tripartite structure that includes citizen representation on pension boards;
- Include financial experts; and
- Require financial training for non-experts.

We urge the MWRD to seek reform of the pension fund board governing structure that would provide more balanced stakeholder representation by, for example, subtracting one employee representative and adding one management and at least one citizen representative who is not a member of the fund but is appointed by the MWRD Board of Commissioners and has relevant financial expertise. We also recommend that the District seek legislation to require orientation training and ongoing continuing education for pension trustees so that they may make well-informed decisions on the complex financial issues they face. Topics should include investment, actuarial soundness, ethics, fiduciary responsibility, and benefit administration.

Adhere to OPEB Trust Funding Schedule for FY2009

On July 13, 2006 the Board of Commissioners established an irrevocable trust for funding the District's future other post employment benefit (OPEB) liability. The District set forth an initial funding plan that included a $10.0 million contribution to the fund for the first five years beginning in 2007 from the Corporate Fund.[8]

In 2007 the District made an initial contribution of $15.0 million to the OPEB trust. An additional $10.0 million was subsequently contributed 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. The contribution for FY2009 will be determined at the close of the fiscal year.[9]

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[7] MWRD FY2009 General Superintendent's Recommendation, p. 448.
[8] MWRD FY2010 Executive Director's Recommendations, p. 8.
[9] MWRD FY2010 Executive Director's Recommendations, p. 9.

The Civic Federation recommends that the District make the full $10.0 million contribution that is scheduled for FY2009. As with pre-funding a pension plan, OPEB pre-funding is less expensive in the long run because accumulated interest earnings may be used to reduce future contributions. Furthermore, when facing pre-funding issues, policy makers should take into consideration intergenerational equity. Intergenerational, or interperiod, equity is defined as ensuring that current-year taxpayers provide adequate resources to pay for the cost of current-year services.[10] By not making annual appropriations that will reasonably cover the future OPEB costs for current employees, the District will push current personnel costs onto future generations.

Consider Adopting a Formal Procurement Policy for All Professional Service Contracts

On December 3, 2009 the MWRD Board voted to renew a contract for professional federal lobbying services. According to Illinois statute the District is not required to enter into a competitive bidding process to acquire professional services.[11]

The Federation recommends that the District adopt a formal procurement policy for its professional services contracts as this may result in future cost savings for the District. A procurement model the District may look to is set forth by the American Bar Association.[12]

Add Property Tax and Personal Services Content in Future Budget Documents

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

First, the FY2010 budget book contains a summary of budgeted All Funds revenues in the section entitled "Financial Statements by Fund." Unfortunately, the table does not provide the total amount of property tax revenues available for use in FY2010, only 2009 levy revenues available for use in that year. Levy revenues available from 2009 are included in the category "Net Assets Appropriable". While this presentation is technically correct, it does not provide the public with a clear understanding of the total amount of property tax revenues to be used by the District in FY2010.

We urge the District to show the total amount of property tax revenues available for use in each fiscal year, either by presenting an aggregate property tax revenue figure or separating out prior year property tax revenues from the net assets appropriable figure. The inclusion of this information would improve the budget book by giving stakeholders a clearer sense of how much of the District's overall revenues come from property taxes.

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[10] "Interperiod Equity and What It Means to You, " Governmental Accounting Standards Board June 2009 Newsletter at http://www.gasb.org/newsletter/inter-period_equity_june2009.html (last visited on November 11, 2009).
[11] 70 ILCS 2605/11.4.
[12] American Bar Association website at http://meetings.abanet.org/webupload/commupload/PC500500/relatedresources/2Updates_Incorporated_into_2000_Model_Procurement_Code.pdf (last visited on December 8, 2009).

Second, the Civic Federation commends the MWRD for streamlining the production of budget books by reprinting only selected pages of the Executive Director's Recommendation in the Tentative Budget. The Tentative Budget reflects changes recommended by the Board's Committee on Budget and Employment pursuant to departmental hearings. However, the Personal Service Appropriations summary from the Executive Director's Recommendation book, as presented on page 61, is not revised and reprinted in the Tentative Budget book. Personal services represent a substantial portion of the District's budget and the Civic Federation recommends that this important summary information be included in the Tentative Budget for the Board and public to review.

ACKNOWLEDGEMENTS

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

APPROPRIATIONS

The MWRD proposes to appropriate nearly $1.7 billion in its 2010 Tentative Budget.[13] This is a 1.8%, or $28.8 million, increase over the FY2009 Adjusted Budget of $1.6 billion.

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

The following exhibit shows MWRD budget appropriations from FY2005 to FY2009. It compares the Tentative Budget appropriations proposed in each of those years with the final Adjusted Budget as reported in the succeeding year's budget book. Adjusted appropriations include capital project awards made after the initial release of the budget, among other changes.

[13] MWRD FY2010 Executive Director's Recommendations, p. 19.

MWRD Appropriations Tentative v. Adjusted: FY2005 - FY2009			
	Tentative	**Adjusted**	**Variance**
FY2005	$ 945,848,564	$ 955,933,864	$ 10,085,300
FY2006	$ 1,000,557,313	$ 1,038,840,599	$ 38,283,286
FY2007	$ 968,775,832	$ 1,023,147,811	$ 54,371,979
FY2008	$ 1,428,240,815	$ 1,408,118,570	$ (20,122,245)
FY2009	$ 1,625,593,990	$ 1,630,596,983	$ 5,002,993

Source: MWRD Budgets FY2006-FY2010.

In FY2010 Corporate Fund appropriations, which are used for operational and general expenditures, are projected to decrease by 9.5% or $37.5 million from the FY2009 adjusted budget. This spending cutback is due to reduced revenues as a result of the economic downturn.[14] The Corporate Fund also includes a working cash fund whose sole purpose is to make temporary loans to the Corporate Fund in anticipation of tax collections. This practice is an alternative to issuing tax anticipation notes (TANs) to cover expenses before tax revenues are collected.

The Construction Fund serves as a pay-as-you-go funding source for capital projects that rehabilitate aged or less effective infrastructure. Capital projects paid for through this fund have a useful life of less than 20 years or a value of less than $1.0 million, and are financed by a tax levy sufficient to pay for project costs as they are constructed. Construction Fund FY2010 appropriations include re-appropriations for prior year projects still under construction. In FY2010 the Construction Fund will decrease by $8.4 million, or 23.5%. The decrease reflects the anticipated expenditures for existing projects and appropriations required to fund projects with 2010 award dates.[15] The District will appropriate for one new project for a total cost of $1.0 million in FY2010, as opposed to FY2009 when the District budgeted for five new projects totaling $5.8 million.[16] Construction fund appropriations for salaries, support and projects under construction will also decrease from FY2009 appropriations for $29.8 million to $26.9 million in FY2010.[17]

The Capital Improvements Bond Fund is for major infrastructural improvements whose useful life is longer than 20 years and which are financed by long-term debt, Federal and State grants, or State Revolving Fund loans. The 4.6%, or $42.9 million, increase in Capital Improvements Bond Fund appropriations for FY2010 reflects the timing of the award of major projects, as well as carry over appropriations for prior year projects that have not been completed. This increase is also due to an additional $202.0 million appropriation for a TARP project at Thornton Reservoir.[18] This fund fluctuates from year-to-year based upon the scheduled award of major projects.[19]

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[14] MWRD FY2010 Executive Director's Recommendations, p. 89.
[15] MWRD FY2010 Executive Director's Recommendations, p. 95.
[16] MWRD FY2010 Executive Director's Recommendations, p. 21.
[17] MWRD FY2010 Executive Director's Recommendations, p. 21.
[18] MWRD Board of Commissioners 12.10. 09 Special Meeting Agenda Packet at http://mwrd.legistar.com/MeetingDetail.aspx?ID=90351&GUID=525E8C72-009E-41F4-9439-C59228DC774B&Search= (last visited on December 8, 2009).
[19] MWRD FY2010 Executive Director's Recommendations, p. 95.

Stormwater Management Fund appropriations will increase by 18.3% or $6.2 million FY2010. Appropriations for the Reserve Claim Fund will decrease 6.7%, or $4.5 million. The decrease is primarily attributable to the anticipated completion of three of the six Detailed Watershed Plans (DWPs) in 2009 and expected initiation of the Stormwater Fund Capital Improvement Program (CIP).[20]

The Reserve Claim Fund is a self-insurance fund for a variety of claims including employee claims, environmental remediation costs that cannot be recovered from tenants and catastrophic failure of District operational infrastructure. The Board has adopted a policy of striving to finance the Reserve Claim Fund at the maximum level permitted by state statue, which is 0.05% of Equalized Assessed Value, or approximately $85.0 million.[21] In FY2010 Reserve Claim Fund appropriations are decreasing by $4.5 million or 6.7%. The District will break from its traditional practice of funding this fund to the maximum due to the effects of the economic downturn.[22]

MWRD Major Fund Appropriations: FY2009 Adjusted & FY2010 Budget				
	2009 Adjusted	2010 Budget	$ Change	% Change
Corporate Fund	$ 395,002,600	$ 357,520,700	$ (37,481,900)	-9.5%
Construction Fund	$ 35,583,800	$ 27,220,000	$ (8,363,800)	-23.5%
Capital Improvements Bond Fund*	$ 932,866,800	$ 975,761,600	$ 42,894,800	4.6%
Stormwater Fund	$ 33,807,000	$ 40,000,000	$ 6,193,000	18.3%
Retirement Fund	$ 31,385,921	$ 32,766,924	$ 1,381,003	4.4%
Reserve Claim Fund	$ 67,500,000	$ 63,000,000	$ (4,500,000)	-6.7%
Bond Redemption & Interest Fund	$ 134,450,862	$ 163,120,429	$ 28,669,567	21.3%
Total	**$1,630,596,983**	**$1,659,389,653**	**$ 28,792,670**	**1.8%**

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

Source: MWRD FY2010 Budget, p. 19; MWRD Board of Commissioners 12.10.09 Special Meeting Agenda Packet.

The next exhibit shows MWRD appropriations by fund for FY2006 and FY2010. Overall, appropriations will increase by 59.7%, from $1.0 billion to nearly $1.7 billion. The largest dollar increase will be in the Capital Improvement Bond Fund, which will rise from $389.1 million in FY2006 to $975.8 million in FY2010. The Stormwater Fund will increase by 63.3% over the five-year period reviewed. The Construction Fund will decrease by 44.5% between FY2006 and FY2010.

[20] MWRD FY2010 Executive Director's Recommendations, p. 436.
[21] MWRD FY2010 Executive Director's Recommendations, p. 101.
[22] MWRD FY2010 Executive Director's Recommendations, p. 101.

MWRD Major Fund Appropriations: FY2006 Adjusted & FY2010 Budget				
	2006 Adjusted	2010 Budget	$ Change	% Change
Corporate Fund	$ 316,828,900	$ 357,520,700	$ 40,691,800	12.8%
Construction Fund	$ 49,034,600	$ 27,220,000	$ (21,814,600)	-44.5%
Capital Improvements Bond Fund*	$ 389,058,800	$ 975,761,600	$ 586,702,800	150.8%
Stormwater Fund	$ 24,497,500	$ 40,000,000	$ 15,502,500	63.3%
Retirement Fund	$ 26,032,732	$ 32,766,924	$ 6,734,192	25.9%
Reserve Claim Fund	$ 41,700,000	$ 63,000,000	$ 21,300,000	51.1%
Bond Redemption & Interest Fund	$ 191,688,067	$ 163,120,429	$ (28,567,638)	-14.9%
Total	**$1,038,840,599**	**$1,659,389,653**	**$ 620,549,054**	**59.7%**

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

Source: MWRD FY2007 Tentative Budget, p. 10; FY2010 Budget, p. 19; MWRD Board of Commissioners 12.10.09 Special Meeting Agenda Packet.

RESOURCES

This portion of the analysis presents trend information about FY2010 MWRD Corporate Fund resources. We have not presented All Fund resource information because the budget does not provide the total amount of property tax revenues available for use in FY2010, only 2010 levy revenues available for use in that year and not 2009 levy funds. Levy revenues from 2009 that are to be used in FY2010 are included in the category "Net Assets Appropriable" which encompasses all revenues carried over from the previous fiscal year.[23]

Corporate Fund Resources

FY2010 Corporate Fund resources will decrease by 9.5% from FY2009 budgeted levels, declining from $395.0 million to $357.3 million. Some key resource changes include:

- The District's 2010 net Corporate Fund property tax levy, which constitutes 65.7% of available Corporate Fund revenues, will increase by $1.2 million, or 0.5%. Net property tax revenues reflect loss in collection of taxes, Property Tax Appeals Board (PTAB) decisions, Circuit Court decisions, and other tax refunds.
- The Personal Property Replacement Tax (PPRT), which is a corporate income tax, is expected to decline by $8.7 million, or 33.9%. PPRT revenues are first used to fully fund the Retirement Fund. Any remainder is distributed to the non-debt funds in proportion to their property tax levies;
- User charges will represent 12.6% of available Corporate Fund resources in FY2010. Revenues from user fees will decrease by $4.0 million, or 8.2% in FY2010. User charges are paid by large industrial and government users based on volume and strength of effluent discharged;
- Property and Service Charges, which includes land rentals and other revenues, will decrease by 20.3% or $3.5 million in FY2010 and will constitute 3.8% of the Corporate Fund's available resources;[24] and

[23] MWRD FY2010 Executive Director's Recommendations, p. 77.
[24] MWRD FY2010 Executive Director's Recommendations, pp. 77 and 235.

- The Corporate Fund's appropriable net assets (total fund balance) will be $70.7 million in FY2010. Approximately $47.7 million of that fund balance will be appropriated to fund FY2010 expenditures.[25] The remaining $23.0 million will be set aside as the non-appropriated corporate fund balance.[26] Until FY2004, all net assets appropriable were re-appropriated as resources for the following year. Since then, a portion of those assets has not been re-appropriated in order to provide for a Corporate Fund balance.

MWRD Corporate Fund Resources: FY2009 & FY2010				
Resource	**FY2009 Budget**	**FY2010 Budget**	**$ Change**	**% Change**
Property Taxes (net)	$ 233,556,100	$ 234,714,100	$ 1,158,000	0.5%
Net Assets Appropriable	$ 81,683,100	$ 70,720,100	$ (10,963,000)	-13.4%
User Charges	$ 49,000,000	$ 45,000,000	$ (4,000,000)	-8.2%
PPRT	$ 25,780,000	$ 17,044,000	$ (8,736,000)	-33.9%
Property & Service Charges	$ 17,028,000	$ 13,572,000	$ (3,456,000)	-20.3%
Other	$ 4,846,000	$ 3,844,000	$ (1,002,000)	-20.7%
Working Cash Borrowings Adjustment	$ (4,936,100)	$ (4,558,100)	$ 378,000	-7.7%
Total	**$ 406,957,100**	**$ 380,336,100**	**$ (26,621,000)**	**-6.5%**
Non-Appropriated Fund Balance	$ (11,954,500)	$ (23,015,400)	$ (11,060,900)	92.5%
Total	**$ 395,002,600**	**$ 357,320,700**	**$ (37,681,900)**	**-9.5%**

Sources: MWRD FY2009 Tentative Budget p. 19; FY2010 Budget, p. 80.

The five-year trend in MWRD Corporate Fund revenues is presented in the next exhibit. Some highlights include:

- Other revenues, which include resources from miscellaneous sources and the District's TIF Differential Fee and Impact Fee, will increase by 70.9%, or $1.5 million;
- Net assets appropriable will increase by 31.4%, or $16.9 million;
- Net property tax revenues will rise by 13.9%, from $206.0 million to $234.7 million;
- Property and service charges, which include income from land rentals, agricultural products, and investments, will increase by 10.1%, from $12.3 million to $13.6 million; and
- Personal property replacement tax revenues will decline by 29.0% from $24.0 million to $17.0 million.

[25] MWRD FY2010 Executive Director's Recommendations, p. 20.
[26] MWRD FY2010 Executive Director's Recommendations, p. 89.

MWRD Major Fund Appropriations: FY2006 Adjusted & FY2010 Budget				
	2006 Adjusted	2010 Budget	$ Change	% Change
Corporate Fund	$ 316,828,900	$ 357,320,700	$ 40,491,800	12.8%
Construction Fund	$ 49,034,600	$ 27,220,000	$ (21,814,600)	-44.5%
Capital Improvements Bond Fund*	$ 389,058,800	$ 695,198,600	$ 306,139,800	78.7%
Stormwater Fund	$ 24,497,500	$ 40,000,000	$ 15,502,500	63.3%
Retirement Fund	$ 26,032,732	$ 32,766,924	$ 6,734,192	25.9%
Reserve Claim Fund	$ 41,700,000	$ 63,000,000	$ 21,300,000	51.1%
Bond Redemption & Interest Fund	$ 191,688,067	$ 163,120,429	$ (28,567,638)	-14.9%
Total	**$ 1,038,840,599**	**$ 1,378,626,653**	**$ 339,786,054**	**32.7%**

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

Source: MWRD FY2007 Tentative Budget, p. 10; FY2010 Budget, p. 19.

Property Tax Levy

In FY2010 the MWRD's gross property tax levy will increase by 2.1% to $461.2 million. Figures for the gross property tax levy do not reflect loss in collections, Property Tax Appeals Board (PTAB) decisions, Circuit Court decisions and other tax refunds.[27] Of this $461.2 million, 60.8%, or $280.5 million will be levied for funds that are subject to the tax cap law, which limits annual increases to 5.0% or the rate of inflation, whichever is less.

The MWRD estimates that the effective inflation rate will be 1.8% to 2.5% for the upcoming year. It is also estimating an additional 1.0% increase that will be available for new property. Therefore the maximum projected increase for the capped funds would be 3.5%, whereas the budget proposes an increase of only 2.0% in the tax-capped funds.[28]

The remaining 39.2%, or $180.6 million, is levied for the Bond and Interest Fund and the Stormwater Management Fund, which are not subject to tax caps.[29] The FY2010 Stormwater Management levy will increase by 172.3%, or $15.3 million. This increase is expected because of the completion of three of six Detailed Watershed Plans in 2009 and expected initiation of the Stormwater Fund Capital Improvement Program.[30] The Reserve Claim Fund will decrease by 38.7%, or $1.2 million. The Bond and Interest levy, reserved for debt service, will decline by 6.7%, or $11.2 million.

[27] MWRD FY2010 Executive Director's Recommendations, p. 64

[28] MWRD FY2010 Executive Director's Recommendations, p. 15.

[29] 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.

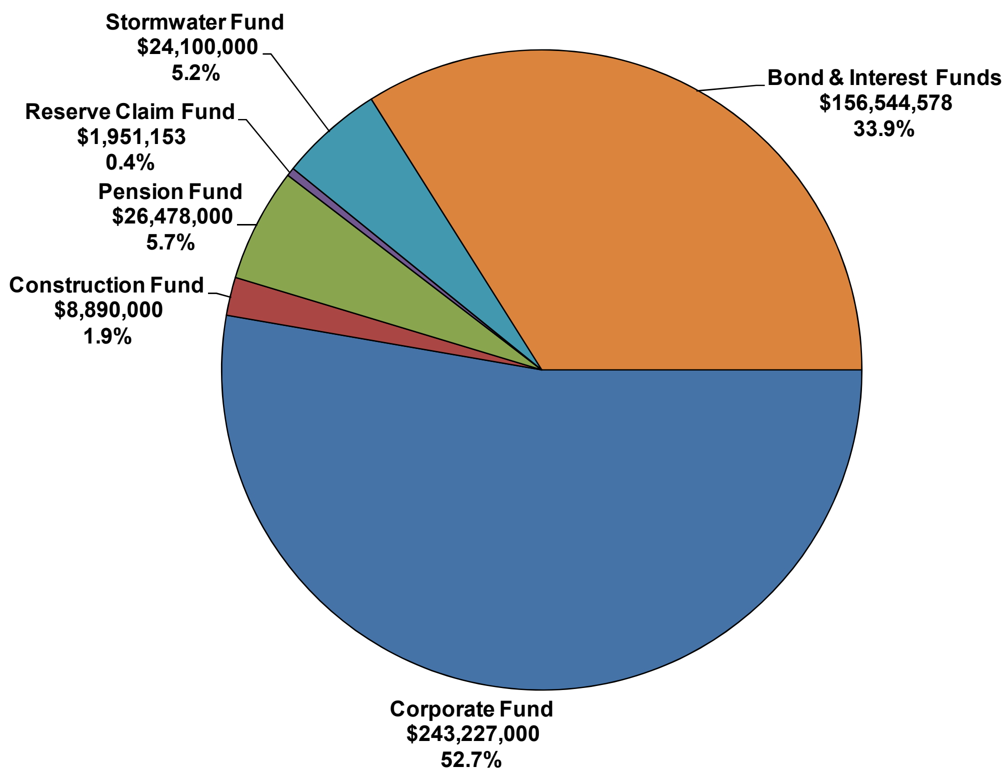
[30] MWRD FY2010 Executive Director's Recommendations, p. 433.

MWRD Gross Property Tax Levy: FY2009 & FY2010				
	FY2009 Adjusted	FY2010 Budget	$ Change	% Change
Corporate Fund	$ 236,027,000	$ 243,227,000	$ 7,200,000	3.1%
Construction Fund	$ 9,090,000	$ 8,890,000	$ (200,000)	-2.2%
Pension Fund	$ 26,751,300	$ 26,478,000	$ (273,300)	-1.0%
Reserve Claim Fund	$ 3,182,000	$ 1,951,153	$ (1,230,847)	-38.7%
Stormwater Fund	$ 8,849,000	$ 24,100,000	$ 15,251,000	172.3%
Bond & Interest Funds	$ 167,720,232	$ 156,544,578	$ (11,175,654)	-6.7%
TOTAL	**$ 451,619,532**	**$ 461,190,731**	**$ 9,571,199**	**2.1%**

Source: MWRD FY2010 Budget, p. 19.

The next exhibit shows the distribution of property tax dollars among the MWRD's various funds in FY2010. The Corporate Fund and Bond and Interest Funds together will consume 86.7% of the District's total levy.

MWRD Gross Property Tax Levy By Fund: FY2010



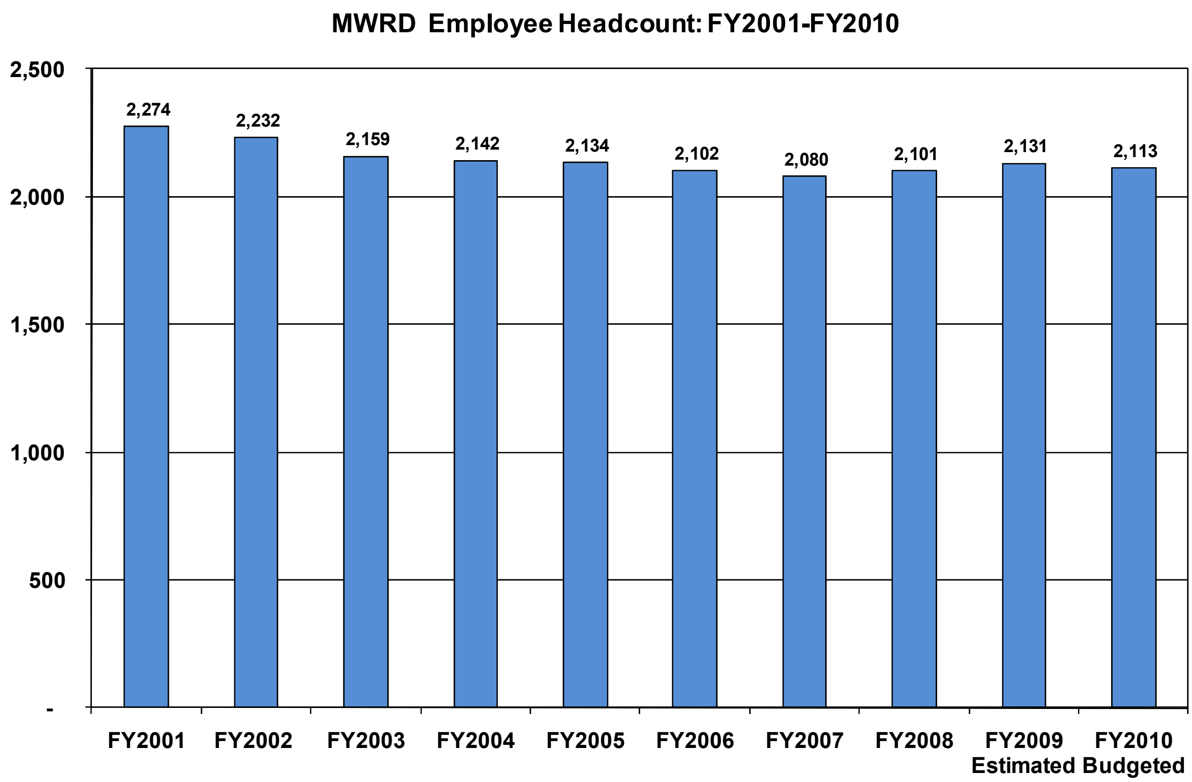
Source: MWRD FY2010 Budget, p. 19.

The MWRD Board of Commissioners has a policy of adopting tax levies that do not increase by more than 5% over the prior year (excluding the Stormwater Management Fund). A related tax levy policy is in place for the Bond & Interest Funds. When investment income in the Bond & Interest Funds exceeds the amount necessary for paying the principal and interest over the next twelve months, the Bond & Interest property tax levy is abated.[31]

[31] MWRD FY2010 Executive Director's Recommendations, p. 32.

PERSONNEL

The number of positions at the District is projected to decrease by 18 positions, or 0.8% in FY2010, a decrease from 2,131 positions in FY2009 to 2,113 positions. Since FY2001 the District has cut its workforce by 7.1% or 161 positions. In its FY2010 Tentative Budget the MWRD projected that it would reduce the total number of positions to 2,062 positions over the next four years via attrition.[32]



Source: MWRD FY2010 Tentative Budget, p. 13; MWRD Budgets FY2001-2008.

Over 86% of District employees are funded with Corporate Fund dollars. Between FY2009 and FY2010 the number of Corporate Fund positions will decrease by 0.7% or thirteen positions. There will be position reductions in Maintenance & Operations (4), Information Technology (1) and Human Resources (8). Employee headcount in remaining departments will remain flat.

[32] MWRD FY2010 Executive Director's Recommendations, pp. 29 and 69.

MWRD Corporate Fund Employee Headcount: FY2009 & FY2010				
	FY2009 Adjusted	FY2010 Budget	# Change	% Change
Maintenance & Operations	1,046	1,041	-5	-0.5%
Research & Development	308	308	0	0.0%
General Administration	146	141	-5	-3.4%
Purchasing	70	70	0	0.0%
Information Technology	72	71	-1	-1.4%
Human Resources	54	46	-8	-14.8%
Law	40	40	0	0.0%
Board of Commissioners*	38	38	0	0.0%
Finance	31	31	0	0.0%
Engineering (Corporate Fund)	34	34	0	0.0%
Treasury	7	7	0	0.0%
Total	**1,846**	**1,827**	**-19**	**-1.0%**

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

Source: MWRD FY2010 Budget, pp. 60 and 114 and Tentative Budget, p. 13.

Personal Service Appropriations

This exhibit below shows adjusted personal service appropriations for FY2009 and budgeted appropriations for FY2010. The appropriation for regular employee salaries, which constitutes 57.7% of all personal service appropriations, will increase by 4.2%, reflecting cost of living increases. This represents an increase of nearly $7.3 million from $171.1 million to $178.3 million. Appropriations for health and life insurance premium costs will increase by 1.7%, from $47.2 million to $48.0 million. Appropriations for contractual services will decrease by $15.3 million, from $73.6 million to $58.4 million.

Personal Service Appropriations: All Funds FY2009 & FY2010				
	FY2009 Adjusted	FY2010 Budget	$ Change	% Change
Salaries of Regular Employees*	$ 171,081,400	$ 178,349,500	$ 7,268,100	4.2%
Contractual Services	$ 73,644,800	$ 58,391,400	$ (15,253,400)	-20.7%
Health & Life Insurance Premiums**	$ 47,229,400	$ 48,042,700	$ 813,300	1.7%
Employee Claims	$ 12,100,000	$ 12,100,000	$ -	0.0%
Compensation Plan Adjustments	$ 7,907,400	$ 8,131,300	$ 223,900	2.8%
Other Employee Personal Services***	$ 3,718,700	$ 1,761,100	$ (1,957,600)	-52.6%
Social Security & Medicare Contributions	$ 2,205,000	$ 2,400,000	$ 195,000	8.8%
Total	**$ 317,886,700**	**$ 309,176,000**	**$ (8,710,700)**	**-2.7%**

Source: MWRD FY2010 Budget, p. 61.
* Includes FY2010 Salary Adjustments
** Includes OPEB distribution
*** Includes Tuition, Training, Nonbudgeted Salaries, and Relief Workers

NON-APPROPRIATED CORPORATE FUND BALANCE

One of the stated goals guiding MWRD budget development is to maintain a long-term unreserved Corporate Fund balance of $45 to $55 million.[33] Beginning in 2004, the District began to designate a portion of the net assets appropriable as a non-appropriated or unreserved

[33] MWRD FY2010 Executive Director's Recommendations, p. 20.

fund balance that would be available for contingencies.[34] This amount corresponds to an unreserved fund balance.

The unreserved corporate balance has been maintained as follows:

- In FY2005 $4.6 million, or 1.4% of the Corporate Fund appropriation was set aside for contingencies;
- In FY2006 $23.1 million, or 7.3% of projected appropriations was set aside;
- In FY2007 16.4%, or $56.9 million was designated as non-appropriated Corporate Fund balance;
- In FY2008 the non-appropriated fund balance was reduced to $46.6 million, or 12.0% of the Corporate Fund appropriation; and
- In FY2009 the District budgeted for a non-appropriated Corporate Fund Balance of $12.0 million, or 3.0% of the Corporate Fund appropriations.

In FY2010 $23.0 million of the 2009 ending fund balance, which is projected to total $70.7 million, will be set aside for contingencies.[35] This amount equals 6.4% of the total corporate fund appropriation of $357.3 million for FY2010. The Government Finance Officers Association (GFOA) recommends that general purpose governments maintain at a minimum an unrestricted general fund balance of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. This amounts to 16.7% of either general fund operating revenues or regular general fund operating expenditures. MWRD's proposed non-appropriated fund balance for FY2010 does not meet the GFOA recommendation or fall within the District's stated goal of maintaining a $45 to $55 million unreserved corporate fund balance.

This situation is an improvement over FY2009, when the proposed budget's non-appropriated corporate fund balance of $12.0 million, or 3.0% of the Corporate Fund appropriation, did not meet the former GFOA recommendation of maintaining an unreserved fund balance of 5% to 15% of corporate fund appropriations or the District's goal. In order to address this issue, the District planned to increase the reserve amount throughout FY2009 to achieve their funding goal.[36]

CAPITAL BUDGET

In addition to its operating budget, the MWRD also annually updates and appropriates funding for projects in its current $3.5 billion ten-year capital program.[37] The current capital program runs from FY2005 through FY2014. As part of the District's capital planning process, it publicizes a comprehensive list of ongoing projects and new proposed projects for the next five years along with funding sources. The MWRD effectively manages its limited capital resources

[34] MWRD FY2010 Executive Director's Recommendation, p. 15.
[35] MWRD FY2010 Executive Director's Recommendations, pp. 20 and 89.
[36] Communication between the Civic Federation and Eileen McElligott, Administrative Services Manager for the MWRD, December 4, 2008.
[37] The District has proposed to amended its appropriation for its Capital Improvements Bond Fund at a Special Board Meeting on December 10, 2009. If the amendments are approved and once the budget document is updated, the Federation will make any necessary revisions to this section.

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

The majority of funding for the capital program comes from capital improvement bonds, which make up 96% of the remaining five years of funding, or $2.4 billion. Corporate funds and other grant funds are used for pay-as you-go projects. Building and maintaining the District's water treatment and solids management facilities is the largest capital-spending category – totaling 54.9% of the total capital budget, or $1.4 billion over the next five years. The following chart shows the estimated annual cash disbursements for the five-year capital spending plan and sources of funding.

MWRD Five-Year Capital Spending FY2010-FY2014 (in $ millions)							
Type	**FY2010**	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**Total**	**% of Total**
Water Reclamation & Solids Management	$ 195.8	$ 284.0	$ 339.2	$ 278.4	$ 257.1	$ 1,354.5	54.9%
Replacement Facilities	$ 75.5	$ 59.3	$ 26.8	$ 18.2	$ 14.5	$ 194.2	7.9%
Collection Facilities	$ 87.1	$ 69.1	$ 76.6	$ 113.0	$ 66.6	$ 412.5	16.7%
Stormwater Management	$ 9.0	$ 2.2	$ 13.0	$ 29.0	$ 33.0	$ 86.2	3.5%
Tunnel & Reservoir Plan	$ 90.2	$ 96.0	$ 96.3	$ 105.6	$ 31.8	$ 419.7	17.0%
Total Spending	**$ 457.6**	**$ 510.6**	**$ 551.9**	**$ 544.1**	**$ 402.9**	**$ 2,467.2**	**100.0%**
Funding Source							
Stormwater Fund	$ 9.0	$ 2.2	$ 13.0	$ 29.0	$ 33.0	$ 86.2	3.5%
Construction Fund	$ 7.9	$ 4.2	$ 1.1	$ -	$ -	$ 13.3	0.5%
Bond Fund	$ 440.7	$ 504.2	$ 537.8	$ 515.1	$ 369.9	$ 2,367.7	96.0%
Total Funding	**$ 457.6**	**$ 510.6**	**$ 551.9**	**$ 544.1**	**$ 402.9**	**$ 2,467.2**	**100.0%**

Source: MWRD Recommended Executive Budget FY2010, p. 368.

The MWRD's request for new spending authorization in FY2010 totals $722.4 million. This is a 25.4% decrease in the new capital appropriation in FY2009, which totaled $968.5 million. The following graph shows the use total new appropriations for capital investments by type of project for FY2010 compared to FY2009.

MWRD Proposed New Capital Spending FY2010 compared to FY2009 (in $ millions)				
Project Type	**FY2009**	**FY2010**	**$ Change**	**% Change**
Treatment Facilities	$ 164.9	$142.6	$ (22.3)	-13.5%
Collection Facilities	$ 77.2	$57.7	$ (19.5)	-25.3%
Solids Processing & Disposal	$ 203.3	$208.1	$ 4.8	2.4%
Flood & Pollution Control	$ 332.5	$121.9	$ (210.6)	-63.3%
Construction Fund	$ 7.7	$2.1	$ (5.6)	-72.7%
Land Cost	$ 1.3	$0.7	$ (0.7)	-50.0%
Project Support	$ 181.6	$189.3	$ 7.7	4.2%
Total	**$ 968.5**	**$722.4**	**$ (246.2)**	**-25.4%**

Source: MWRD Recommended Executive Budget FY2010, p. 369.
MWRD Final Adopted Budget FY2009, p. 344.

The capital budget includes an appropriation for Project Support, which among other costs funds payroll and benefits for 34 full-time employees out of the 236 employees in the MWRD Engineering Department. The number of employees funded in the Capital Budget has not increased since FY2008, when it increased from 33 to 34. In FY2005, the number of employees funded though the capital budget was also went up from 32 to 33. Despite not increasing staffing levels for the department in FY2010, the MWRD predicts a need for additional staffing in the near future to handle the increase in workload associated with completion and approval of a new master plan for all major treatment facilities.[38] Project Support funding also includes spending for construction services such as materials, concrete and soil testing.

SHORT-TERM LIABILITIES

Short-term liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll and other current liabilities. The Metropolitan Water Reclamation District did not issue direct short-term debt in FY2008 but did include the following short-term liabilities in the table of net assets as reported in its annual Comprehensive Annual Financial Report (CAFR) over the past five years:

- Accounts Payable: unpaid bills owed to vendors for goods and services carried over from the previous fiscal year;
- Accrued Payroll: employee compensation, related payroll taxes and benefits that have been earned by MWRD employees but have not yet been paid or recorded in the District's accounts;
- Deposits Payable: bid deposits held by the MWRD that must be repaid within a year;
- Claims Payable: judgments and other claims payable by the District in the next fiscal year[39];
- Accrued Benefits: compensated absences for employees that are due within one year[40];
- Deferred & Unearned Revenue: restricted revenues uncollected or unavailable to pay current liabilities;
- Accrued Interest: interest that is either payable or receivable and has been recognized but not yet paid or received. This may include amounts accumulated on bonds since the last interest payment up to, but not including, the settlement date.

In FY2008, the District reported a slight increase in short-term liabilities over FY2007, increasing $6.8 million, or 7.1%. Since FY2004, short-term liabilities overall have increased by $34.5 million or 51.3%. The following chart shows short-term liabilities by category and the percent change between FY2004 and FY2008.

[38] MWRD Recommended Executive Budget FY2010, p. 363.
[39] MWRD reports Claims Payable due in the next fiscal year as part of its Long-term Debt in the statement of net assets included in its Comprehensive Annual Financial Reports, however the amount due within one year are short-term reductions in total net assets and is detailed in Note 11.
[40] MWRD reports Compensated Absences due in the next fiscal year as part of its Long-term Debt in the statement of net assets included in its Comprehensive Annual Financial Reports, however the amount due within one year are short-term reductions in total net assets and is detailed in Note 11.

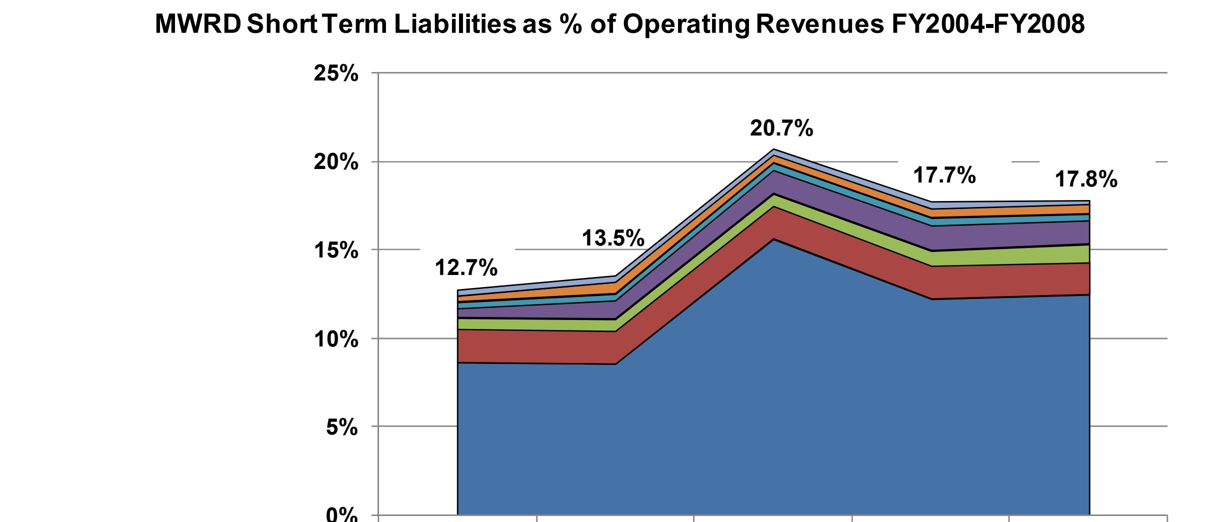
Metropolitan Water Reclamation District Short-Term Liabilities FY2004-FY2008 (in $ thousands)							
Type	FY2004	FY2005	FY2006	FY2007	FY2008	5-year Change	5-year % Change
Accounts Payable	$ 45,811	$ 44,852	$ 85,207	$ 65,721	$ 71,588	$ 25,777	56.3%
Accrued Payroll	$ 3,332	$ 3,518	$ 3,739	$ 4,519	$ 5,936	$ 2,604	78.2%
Deposits Payable	$ 1,626	$ 3,297	$ 2,421	$ 2,667	$ 3,035	$ 1,409	86.7%
Claims Payable	$ 2,842	$ 5,511	$ 7,082	$ 7,571	$ 7,550	$ 4,708	165.7%
Accrued Benefits	$ 1,777	$ 1,895	$ 1,916	$ 2,168	$ 1,243	$ (534)	-30.1%
Deferred & Unearned Revenue	$ 1,857	$ 1,914	$ 2,266	$ 2,325	$ 2,098	$ 241	13.0%
Accrued Interest	$ 10,088	$ 9,793	$ 10,216	$ 10,121	$ 10,392	$ 304	3.0%
Total	**$ 67,333**	**$ 70,780**	**$ 112,847**	**$ 95,092**	**$ 101,842**	**$ 34,509**	**51.3%**

Source: Metropolitan Water Reclamation District CAFR FY2004-FY2008

Increasing current liabilities in a government's operating funds at the end of the year as a percentage of net operating revenues may be a warning sign of possible future financial difficulties.[41] This indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. The MWRD has shown downward trend in short-term liabilities compared to total operating revenue between FY2006 and FY2008 from 20.7% to 17.8%. However the five year trend in the ration of operating revenues to short-liabilities has increased from 12.7% to 17.8% or 5.1 percentage points.

The increase in this ratio has been primarily driven by a spike in accounts payable that outpaced revenue increases in over the past five years. The following graph shows the five-year trend in the District's short-term liabilities as a percentage of operating funds by category.

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

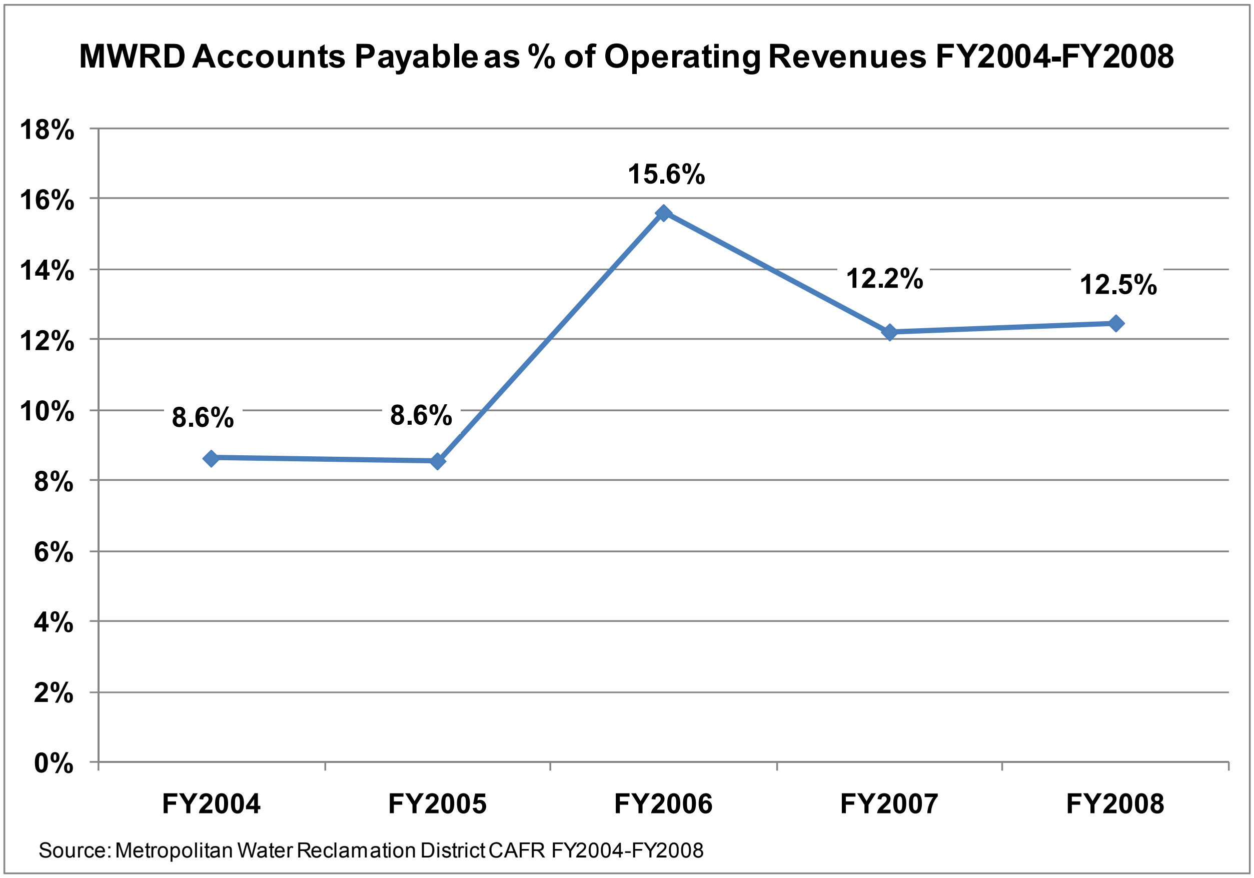


	FY2004	FY2005	FY2006	FY2007	FY2008
Accrued Benefits	0.3%	0.4%	0.4%	0.4%	0.2%
Deposits Payable	0.3%	0.6%	0.4%	0.5%	0.5%
Deferred & Unearned Revenue	0.4%	0.4%	0.4%	0.4%	0.4%
Claims Payable	0.5%	1.1%	1.3%	1.4%	1.3%
Accrued Payroll	0.6%	0.7%	0.7%	0.8%	1.0%
Accrued Interest	1.9%	1.9%	1.9%	1.9%	1.8%
Accounts Payable	8.6%	8.6%	15.6%	12.2%	12.5%

Source: Metropolitan Water Reclamation District CAFR FY2004-FY2008

Accounts Payable

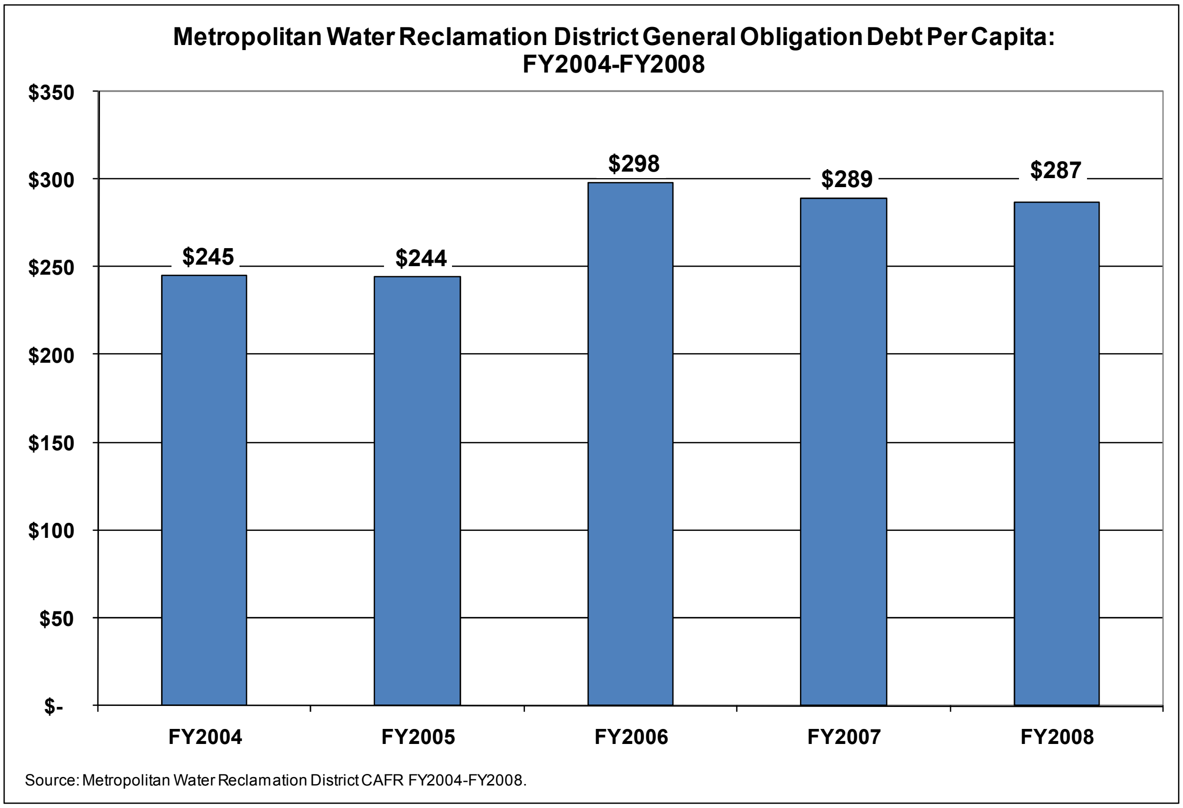
Over time, rising amounts of accounts payable passed from one year to the next may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. The District's accounts payable increased sharply from FY2005 to FY2006, by $40.3 million or 89.8%. This compares to a total operating revenue increase of only $21.4 million from FY2005 to FY2006, or a 4.1%. This imbalance led to an increase in the ratio of accounts payable to operating revenues from 8.6% in FY2005 to 15.6% in FY2006. Although the ratio declined in subsequent years – dropping to 12.2% in FY2007 and holding mostly steady in FY2008 at 12.5% – the overall five-year trend shows an increase of 3.9 percentage points. Increased accounts payable compared to revenues can indicate a government's inability to match its expenses to available funds and warrants watching for future fiscal instability. The graph below shows the five-year trend in accounts payable compared to operating revenues for the MWRD.



LONG-TERM DEBT PER CAPITA

The MWRD's long-term debt is primarily General Obligation (GO) debt. GO debt per capita is a measure of a government's ability to maintain its current financial policies. Increases over time bear watching as a potential sign of increasing financial risk.

The total amount of MWRD General Obligation debt in FY2008 was $1.5 billion. In that year GO debt per capita decreased by $11.2 million or 0.7% from the previous fiscal year. Between FY2004 and FY2008, the total dollar increase was $226.3 million. During the same five-year period, the MWRD's long-term GO debt per capita increased by 17.1%, rising from $251 to $287. The following chart shows the change in debt per capita over the past five years.

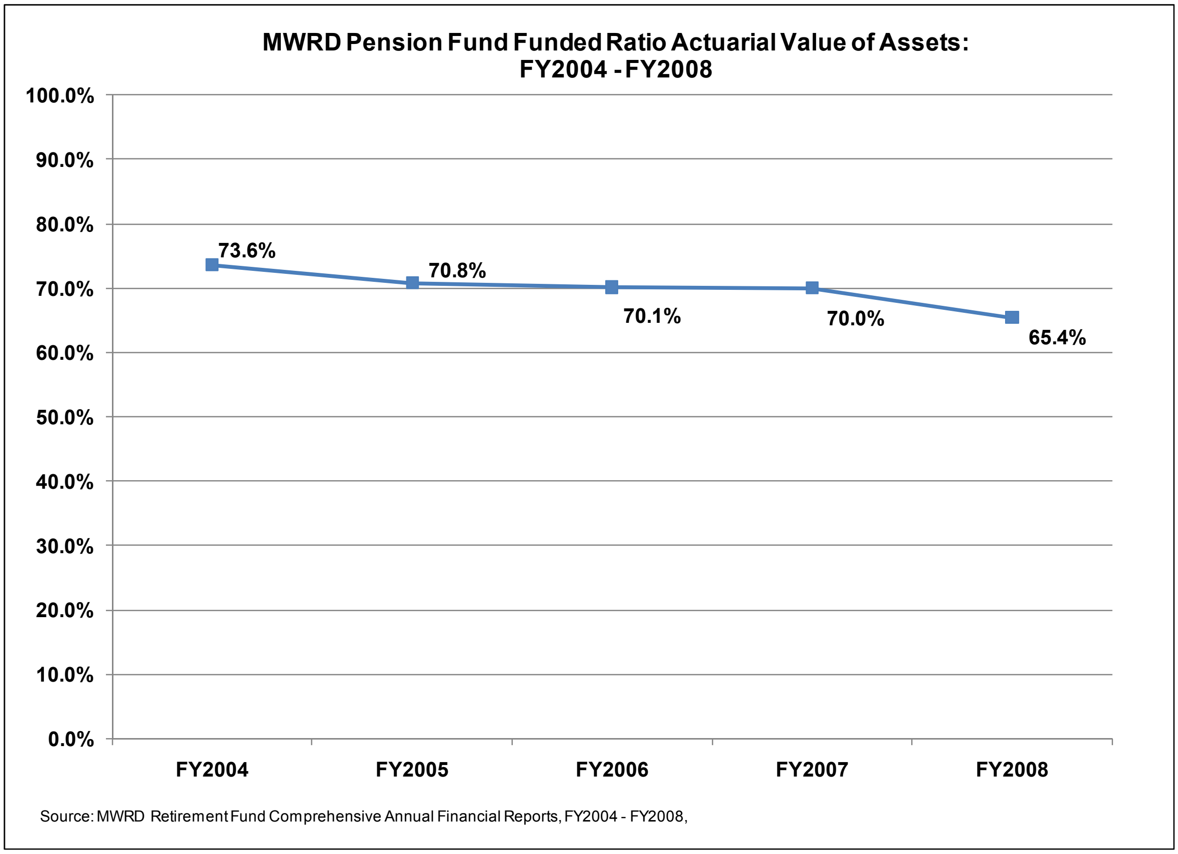


PENSION FUND TRENDS

The Civic Federation used three measures to present a multi-year evaluation of the fiscal health of the MWRD's pension fund: funded ratio, the value of unfunded liabilities, and the investment rate of return. A comparison of ten local government pension funds, including the MWRD's, can be found in the Civic Federation's annual Status of Local Pensions reports.

Funded Ratio – Actuarial Value of Assets

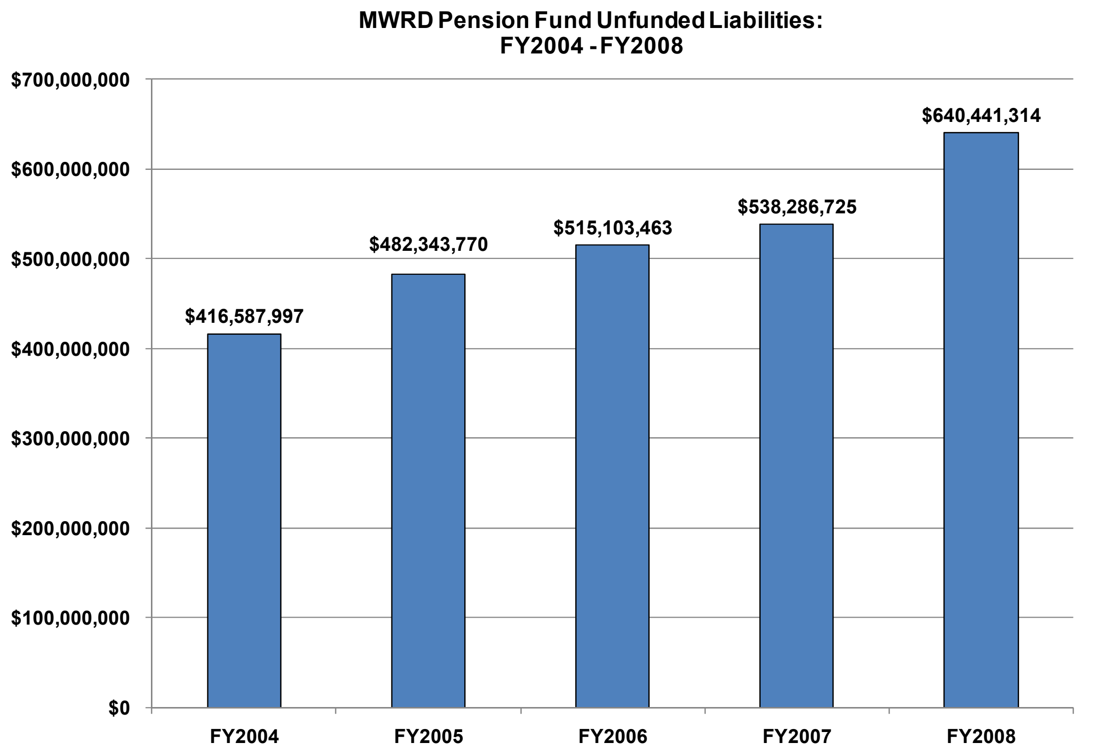
The following exhibit shows the funded ratio for the MWRD's pension fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations. Since FY2004, the funded ratio has declined every year, falling from 73.6% to 65.4%. This continued decline is a cause for concern.



Unfunded Liabilities

Unfunded liabilities are the dollar value of pension liabilities not covered by assets. The exhibit below shows that unfunded liabilities for the MWRD's pension fund totaled approximately $640.4 million in FY2008, up from $538.3 million the previous fiscal year. Between FY2004 and FY2008, unfunded liabilities rose by 53.7% or $223.9 million. Shortfalls in employer contributions have significantly contributed to this increase. State statute requires that the MWRD levy a property tax equivalent to a multiple of the employee contributions made two years prior. This amount is unrelated to the actuarially required contribution (ARC) for funding normal cost plus the amortization of the unfunded liability. The ARC payment would have been $60.3 million in FY2008, approximately $26.9 million more than the District's actual $33.4 million contribution.[42]

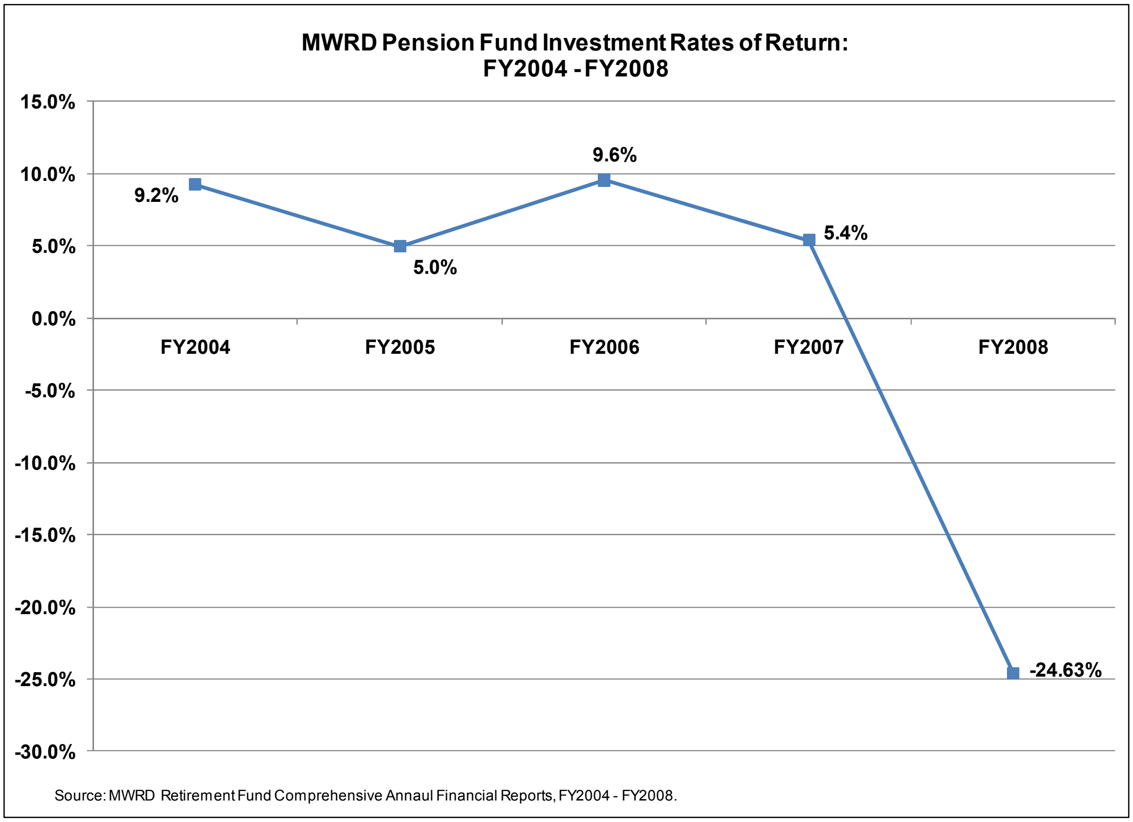
[42] MWRD Retirement Fund Comprehensive Annual Financial Report, December 31, 2008, p. 70.



Source: MWRD Retirement Fund Comprehensive Annual Financial Reports, FY2004 - FY2008.

Investment Rates of Return

Investment income typically provides a significant portion of the funding for pension funds. Thus, declines over time negatively impact pension assets. From FY2004 to FY2008 MWRD investment rates of return fell from 9.2% to -24.6%. Between FY2005 and FY2006, there was a large uptick in investment returns from 5.0% to 9.6%; however, that trend was reversed the following year and continued to fall as a result of the ensuing economic recession.



OTHER POST EMPLOYMENT BENEFITS

On July 13, 2006 the Board of Commissioners established an irrevocable trust for funding the District's future other post employment benefit (OPEB) liability. Funding parameters were also established, including a 50% funded target level and 50 years to reach the funding goal, along with conservative investment strategy. To achieve this goal, the District set forth an initial funding plan that included a $10.0 million contribution to the fund for the first five years beginning in 2007 from the Corporate Fund.[43]

In 2007 the District made an initial contribution of $15.0 million to the OPEB trust. An additional $10.0 million was subsequently contributed 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. The contribution for FY2009 will be determined at the close of the fiscal year.[44]

The District estimates that its OPEB liability is $443.0 million, as noted in its FY2008 Comprehensive Annual Financial Report.

[43] MWRD FY2010 Executive Director's Recommendations, p. 8.
[44] MWRD FY2010 Executive Director's Recommendations, p. 9.