The Civic Federation

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METROPOLITAN WATER RECLAMATION DISTRICT FY2016 TENTATIVE BUDGET:

Analysis and Recommendations

December 3, 2015

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.

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EXECUTIVE SUMMARY

The Civic Federation **supports** the Metropolitan Water Reclamation District's (MWRD) FY2016 Tentative Budget of approximately $1.21 billion. The proposed budget remains relatively flat with a slight 0.6%, or $6.7 million, increase from the FY2015 adjusted budget of $1.20 billion.

The District's adherence to its fund balance policy and maintenance of a substantial reserve in its Corporate Fund is fiscally responsible. The Federation commends the MWRD for continuing to maintain ample reserves in its non-appropriated Corporate Fund fund balance in FY2016. The District's projected FY2016 level of net assets of 29.6% exceeds the Government Finance Officers Association (GFOA) minimum recommendation and the MWRD's stated goal of maintaining a reserve of 12.0% to 15.0% of Corporate Fund appropriations.[1]

The Federation additionally supports the MWRD's continued use of long-term financial planning through five-year financial forecasting and its Strategic Business Plan to guide operations and future projects. The District notes that the five-year financial forecast is used for planning and directs more attention to the MWRD's financial condition beyond the next fiscal year.[2] A longer term focus is important because short-term decisions can have adverse long-term impacts. Similarly, the Strategic Business Plan reflects the fiscal situation of the District and includes policy guidelines and specifies outcome measures for the District's goals.[3]

While the MWRD's pension funding reform package that was passed in 2012 does not include changes to current or retired employees' retirement benefits, it does increase employee contributions to the fund as well as employer contributions. The Civic Federation still has some concern that the legislation might be challenged in court given recent rulings by the Illinois Supreme Court and Cook County Circuit Court on the constitutionality of other governments' pension reforms. The District's focus on stabilizing the financial condition of its post-employment benefits has been a key part of the MWRD's strategy to maintain its high bond ratings and minimize borrowing costs. Therefore, the Civic Federation urges the District to evaluate the possible impact of a partial or full reversal of its pension funding reform law and incorporate those findings into its five-year financial forecast. Such an assessment should include an examination of whether the District's plan to achieve 100% funding by 2050 would still be possible without extra employee contributions and/or the increased pension levy allowed under the 2012 law.

The Civic Federation offers the following **key findings** from the FY2016 Tentative Budget:

- The District proposes to appropriate $1.21 billion in its FY2016 Tentative Budget which is a 0.6%, or $6.7 million, increase from the FY2015 adjusted budget of $1.20 billion;
- Corporate Fund revenue in FY2016 will increase by 1.2%, or $3.7 million, from $310.3 million in FY2015 to $314.1 million in FY2016. The District is additionally budgeting $50.0 million of its net assets as resources for FY2016;

[1] MWRD FY2016 Executive Budget Director's Recommendations, p. 24.
[2] MWRD FY2016 Executive Budget Director's Recommendations, p. 56.
[3] MWRD FY2016 Executive Director's Recommendation, p. 5-8.

- In FY2016 the MWRD's total gross property tax levy will increase by 3.3%, or $18.5 million, to $577.8 million from the FY2015 amended budget;
- The District will levy 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 levy will increase by 2.0%, or $6.3 million, from FY2015, the maximum amount under State statute. The District will also levy to capture new property;
- The remaining 45.7%, or $264.2 million, of the gross property tax levy is for the Bond and Interest and Stormwater Management Funds, which are not subject to tax caps.[4] The FY2016 Stormwater Management levy will increase by $10.2 million, or 42.4%, while the Bond and Interest levy, reserved for debt service, will increase by $2.1 million, or 0.9%;
- The number of Full-Time Equivalent (FTE) positions for all funds at the District is projected to decrease by eight FTE positions to 1,974 FTE positions in FY2016. This is a 0.4% decrease from 1,982 FTE positions budgeted in FY2015;
- Between FY2015 and FY2016 total personal services appropriations across all funds will decrease by $40.6 million, or 12.1%.The proposed appropriation for regular employee salaries, which constitutes 63.5% of all personal services appropriations in FY2016, will increase by 1.8%, or $3.3 million;
- The District anticipates that total fund balance will increase by the start of FY2016 to a ratio of 29.1% and then the District will spend down approximately $50.0 million to bring the fund balance closer to between 12.0% and 15.0% of operating expenditures. The fund balance policy is meant to balance the competing imperatives of minimizing the annual property tax levy and providing for unexpected shortfalls in revenues;
- The FY2016 appropriation for the Retirement Fund is $70.8 million, an increase of $9.1 million, or 14.8%, from the FY2015 adjusted budget;
- The unfunded liability for the MWRD pension fund totaled $1.0 billion in FY2014, up from $482.3 million in FY2005;
- In FY2005 the annual required contribution (ARC) was 28.9% of payroll while the actual employer contribution was 17.5% of payroll. In FY2014 as a result of the District's pension funding reforms, the pension ARC was 39.7% of payroll while the actual employer contribution was 41.9% of payroll;
- In FY2014 the District reported a 20.2%, or $17.6 million, increase in short-term liabilities from the FY2013 levels. Most of the increase is due to the $18.5 million, or 29.0%, increase in accounts payable. Between FY2013 and FY2014 long-term liabilities fell by 2.6%, or $75.4 million; and
- The largest category of capital spending, 31.3% or $391.3 million, will be used for Water Reclamation and Solids Management projects. Approximately 25.0% of all capital spending, or $313.1 million, will be earmarked for Stormwater Management.

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

- The District's fiscally responsible practices of fully funding pensions and OPEB;

[4] 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.

- Continuing to utilize, publish and make publicly available online its long-term planning practices;
- Maintaining ample reserves; and
- Providing context for changes in the appropriations summary in the FY2016 Tentative Budget.

The Civic Federation has the following **concerns** about the FY2016 proposed budget:

- Possibility of challenges to the MWRD pension reform law; and
- After three maximum property tax increases in a row, additional maximum property tax increases are projected as being necessary to balance the MWRD's budget over the next five years. While the District faces increased cost obligations, including increased pension funding obligations, and has made efforts to cut its Corporate Fund budget in FY2016, the Civic Federation cautions against automatic property tax increases and encourages the District to explore alternative revenues and cost cutting measures.

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 include in the District's five-year financial forecast; and
- Explore the production of one consolidated budget that would be easier for the public to understand.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the Metropolitan Water Reclamation District's (MWRD) FY2016 Tentative Budget of approximately $1.21 billion. The proposed budget remains relatively flat with a slight 0.6%, or $6.7 million, increase from the FY2015 adjusted budget of $1.20 billion.

The District's adherence to its fund balance policy and maintenance of a substantial reserve in its Corporate Fund is fiscally responsible. The Federation commends the MWRD for continuing to maintain ample reserves in its non-appropriated Corporate Fund fund balance in FY2016. The District's projected FY2016 level of net assets of 29.6% exceeds the Government Finance Officers Association (GFOA) minimum recommendation and the MWRD's stated goal of maintaining a reserve of 12.0% to 15.0% of Corporate Fund appropriations.[5]

The Federation additionally supports the MWRD's continued use of long-term financial planning through five-year financial forecasting and its Strategic Business Plan to guide operations and future projects. The District notes that the five-year financial forecast is used for planning and directs more attention to the MWRD's financial condition beyond the next fiscal year.[6] A longer term focus is important because short-term decisions can have adverse long-term impacts. Similarly, the Strategic Business Plan reflects the fiscal situation of the District and includes policy guidelines and specifies outcome measures for the District's goals.[7]

While the MWRD's pension funding reform package that was passed in 2012 does not include changes to current or retired employees' retirement benefits, it does increase employee contributions to the fund as well as employer contributions. The Civic Federation still has some concern that the legislation might be challenged in court given recent rulings by the Illinois Supreme Court and Cook County Circuit Court on the constitutionality of other governments' pension reforms. The District's focus on stabilizing the financial condition of its post-employment benefits has been a key part of the MWRD's strategy to maintain its high bond ratings and minimize borrowing costs. Therefore, the Civic Federation urges the District to evaluate the possible impact of a partial or full reversal of its pension funding reform law and incorporate those findings into its five-year financial forecast. Such an assessment should include an examination of whether the District's plan to achieve 100% funding by 2050 would still be possible without extra employee contributions and/or the increased pension levy allowed under the 2012 law.

Issues the Civic Federation Supports

The Civic Federation supports the following issues contained in the MWRD FY2016 Tentative Budget.

[5] MWRD FY2016 Executive Budget Director's Recommendations, p. 24.
[6] MWRD FY2016 Executive Budget Director's Recommendations, p. 56.
[7] MWRD FY2016 Executive Director's Recommendation, p. 5-8.

The District's Fiscally Responsible Practices of Fully Funding Pensions and OPEB

Following the recommendations of the Retirement Fund actuary and ratings agencies, the MWRD Board of Commissioners established a new funding policy last year that has a goal of increasing the MWRD Retirement Fund's funded ratio to 100% by FY2050.[8] The Civic Federation supported the new goal as a more actuarially sound funding structure than the statutory goal of 90%. Unlike many other local governments, MWRD has the statutory authority to make contributions to its pension fund that are higher than those required under State statute. In FY2015 the MWRD followed through on its intention to fund at a higher level than required under P.A. 97-0894 and is planning to do so again in FY2016. The Civic Federation has long recommended that local governments fully fund their pension obligations and praises the MWRD's forward-thinking in securing the State legislation and resources necessary to make such funding possible.

The Civic Federation also supports the District's continued efforts to make additional payments to its OPEB fund. The District created a trust fund for the future payment of other post employment benefits (OPEB) liabilities in 2007. This allows the District to prefund retiree health benefits and eventually transition away from pay-as-you-go funding. The Board adopted an updated funding policy for the OPEB fund last year. The funding policy was amended to include a 100% maximum funding level to be achieved in twelve years with a $5.0 million per year contribution starting in FY2015. The District has contributed $117.4 million to the OPEB Trust fund and the District is budgeting a contribution of $5.0 million in FY2016. [9] The added uncertainty surrounding the protections afforded to public workers' retiree healthcare benefits by the Illinois Constitution after the Illinois Supreme Court's ruling on the *Kanerva*[10] case makes the MWRD's decision to prefund its OPEB obligations even more important.

Maintaining Ample Reserves

The Federation commends the MWRD for continuing to maintain ample reserves in its non-appropriated Corporate Fund fund balance in FY2016. The District is budgeting its assets available for future use and budget reserves at $105.9 million and would need to spend down $52.3 million to reach its maximum target of $55.0 million.

The MWRD has a fund balance policy of maintaining 12.0% to 15.0% of appropriations, or between $44.0 million and $55.0 million, in unreserved Corporate Fund fund balance as protection against uncertainty and loss.[11] In its FY2016 budget, the District states its intent to reduce its fund balance level over several years until it resides in the $44.0 million to $55.0 million range, a level the District believes will balance the competing imperatives of minimizing the annual property tax levy and providing for unexpected shortfalls in revenue.[12] In keeping with this goal, the FY2016 budget includes $50.0 million of fund balance as a resource. The

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[8] MWRD Presentation: Review of New Accounting Requirements for Pension (GASB 67/68) and Proposed Pension Funding Policy, presented September 18, 2014.
[9] MWRD FY2016 Executive Director's Recommendations, p. 13.
[10] For more about the *Kanerva* decision, see Civic Federation Blog, "Court Ruling on Health Insurance Could Add to State of Illinois Budget Woes," July 9, 2014. https://www.civicfed.org/iifs/blog/court-ruling-health-insurance-could-add-state-illinois-budget-woes
[11] MWRD FY2016 Executive Director's Recommendations, pp. 24.
[12] MWRD FY2016 Executive Director's Recommendations, p. 22.

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."[13] The MWRD is a special purpose, not a general purpose government, but its size and vulnerability to infrastructure failures and public safety concerns make it prudent for the District to maintain adequate reserves. The District's projected FY2016 level of net assets exceeds the GFOA recommendation and the MWRD's stated goal of maintaining a reserve of 12.0% to 15.0% of Corporate Fund appropriations.

Continuing to Utilize, Publish and Make Publicly Available Online Long-Term Planning Practices

The MWRD continues to utilize and make publicly available long-range planning tools and techniques, including:

- Five-year financial forecasts for revenues, expenditures, personnel and tax rates;
- A Strategic Business Plan for FY2016 and beyond; 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.

In FY2015 the District implemented a new Strategic Business Plan that replaced the previous Strategic Business Plan that had been in place since FY2011. The plan reflects the fiscal situation of the District and includes policy guidelines for the pension fund and other post employment benefits (OPEB) fund that have been established by the District's Board of Commissioners.[14]

The Strategic Business Plan also sets forth a plan that allows the District to capitalize on District-developed State legislation signed into law in 2014. This legislation gives the District the ability to focus on reselling resources like biosolids, energy and phosphorus recovered through the District's normal treatment processes.[15] The markets for these byproducts have the ability to become new revenue streams for the District. Due to slow anticipated growth in tax revenues, which are the main source of funding for the District, efforts to create new and innovative revenue streams is noteworthy.

Providing Context for Changes to the Appropriations Summary in the FY2016 Tentative Budget

In its FY2015 Budget analysis, the Civic Federation recommended that the MWRD include a Personal Services Appropriations summary in the Tentative Budget book. Personal services represent a substantial portion of the District's budget and the Civic Federation appreciates that this important summary information with data regarding changes are incorporated into the FY2016 Tentative Budget for the Board of Commissioners and public to review. The District

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[13] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).
[14] MWRD FY2016 Executive Director's Recommendation, p. 5-8.
[15] MWRD FY2016 Executive Director's Recommendations, pp. 2-3.

also included and contextualized changes in the Corporate Fund, Construction Fund, Capital Improvements Bond Fund and the Stormwater Management Fund between the Executive Director's proposed budget and the Tentative Budget. Together, these additions greatly assist the reader and the public in understanding the MWRD's budget.

Civic Federation Concerns

The Civic Federation has the following **concerns** about the FY2016 proposed budget.

Possibility of Challenges to the MWRD Pension Reform Law

Earlier this year, the pension reforms passed for four State of Illinois pension funds and for the City of Chicago funds were struck down as unconstitutional by the Illinois Supreme Court and Cook County Circuit Court, respectively. Unless the Illinois Supreme Court upholds the City of Chicago reforms or gives clear instructions as to what kind of pension reforms are constitutional, if any, there is a possibility that the District's adopted pension reforms might be challenged in court. It is important to note here that there are large differences in the scope of the changes made by Illinois' and the City of Chicago's pension reform legislation and the MWRD's. The former changed pension benefits, while the District's reforms increased employee and employer contributions only, without adjusting pension benefit accruals or automatic annual increases to annuities. 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.

Projecting Maximum Increases to the Property Tax Levy through 2020

The District is proposing to increase its property tax levy for FY2016. A portion of the District's levy is statutorily limited to an annual increase of 5.0% or the Consumer Price Index (CPI), whichever is less.[16] The Civic Federation has some concerns that after a maximum levy in FY2014 and FY2015 and a proposed maximum levy in FY2016, the District's financial projection shows maximum levies through FY2020 as necessary to balance its budget. Overall tax levies are projected to increase by an average rate of 2.4% annually over the five-year period.[17] The FY2016 proposed budget includes a 3.3%, or $17.8 million, increase in its total gross property tax levy, bringing the total levy to $577.8 million. Of the $577.8 million, 54.3%, or $313.6 million, will be levied for funds that are subject to tax caps. This portion of the levy will increase by 2.0%, or $6.3 million, from FY2015.

While the Civic Federation notes that the District faces significant challenges in funding its pensions and other growing costs and that the projections shown in its financial forecast might not be implemented, we caution against automatic increases to property taxes. 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.[18] The Federation

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[16] Property tax levies for the Bond and Interest Fund and the Stormwater Management Fund are not subject to tax caps.

[17] MWRD FY2016 Executive Director's Recommendations, p. 59.

[18] MWRD FY2016 Executive Director's Recommendations, p. 15.

also encourages the District to continue to work to balance expenditure controls and other revenue sources with the need for broad-based property tax increases as it develops future budgets.

Civic Federation Recommendations

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

Evaluate the Possible Impact of a Reversal of the District's Pension Funding Reforms and Include in the District's Five-Year Financial Forecast

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 incorporate an evaluation of the possible impact of a reversal of its 2012 pension funding law in its five-year budgetary projections and narrative. 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. However, if those funding reforms are challenged in court and repealed, the District's plan to increase funding to 100% by 2050 would likely be in jeopardy. The Federation therefore recommends that the District evaluate the possible impact of a partial or full reversal of its pension funding reform law and incorporate those findings into its five-year financial forecast.

Explore Production of One Consolidated Budget that Would Be Easier for the Public to Understand

The MWRD produces three versions of its budget which include, in order of release, the Executive Director's Recommendations, the Tentative Budget and the Adopted Budget (also referred to as the As Adopted and Amended budget document, or Final Budget). Within these three budget documents are the following financial figures:

- *Proposed appropriations* – appropriations as proposed in the Executive Director's Recommendations;
- *Tentative appropriations* – appropriations approved by the Board of Commissioners based on recommendations from the Committee on Budget and Employment hearings regarding the Executive Director's Recommendations (BF-19 changes);[19]
- *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.

[19] 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.

The Tentative Budget reflects changes recommended by the Board's Committee on Budget and Employment pursuant to departmental hearings.

The Civic Federation recognizes the MWRD's efforts to streamline the production of budget books by reprinting only selected pages of the Executive Director's Recommendations in the Tentative Budget and supports the additional explanation of changes made between the two documents included in this year's Tentative Budget. However, given the electronic publication means now available to the District, it should be possible to compile a full Tentative Budget document that would include all pages of the budget and publish it on the District's website, while only physically printing the digest document.

We also understand that the MWRD's budgeting process allows for maximum stakeholder input, but it can also be confusing, particularly when reconciling the three budgets. Overall, the Federation commends the District on its transparency and stakeholder involvement, but it should look for ways to create one budget book that is more user-friendly.

ACKNOWLEDGEMENTS

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

APPROPRIATIONS

The District proposes to appropriate nearly $1.21 billion in its FY2016 Tentative Budget. This is a 0.6%, or $6.7 million, increase from the FY2015 adjusted budget of $1.20 billion.

MWRD Budget Process

It is important to recognize that the MWRD's budget process differs from the budget processes of other local area governments. The MWRD produces three versions of its budget which include, in order of release, the Executive Director's Recommendations, the Tentative Budget and the Adopted Budget (also referred to as the As Adopted and Amended budget document, or Final Budget). Within these three budget documents are the following financial figures:

- *Proposed appropriations* – appropriations as proposed in the Executive Director's Recommendations;
- *Tentative appropriations* – appropriations approved by the Board of Commissioners based on recommendations from the Committee on Budget and Employment hearings regarding the Executive Director's Recommendations (BF-19 changes);[20]
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- *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 FY2016 tentative appropriations to the adjusted appropriations from previous years and, when available, actual expenditures from previous years.

The following exhibit shows the MWRD appropriations for all funds for the tentative budgets, adopted budgets, adjusted budgets and actual expenditures for FY2011 to FY2015. As of the

[20] 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.

writing of this analysis, the District had only released the FY2016 Executive Director's Recommendations and the FY2016 Tentative Budget.

MWRD Appropriations - Tentative, Adopted, Adjusted and Actual: FY2011-FY2015				
	Tentative	Adopted	Adjusted	Actual
FY2011	$ 974,268,952	$ 1,030,439,078	$ 1,031,719,451	$ 1,031,719,451
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	

*Note: FY2015 actual figures are not yet available.

Source: MWRD Tentative and Final Budgets, FY2011-FY2015 and MWRD FY2016 Executive Director's Recommendations, p. 42.

The next exhibit compares the four types of appropriations for FY2011 through FY2015. The comparisons include: tentative vs. adopted, tentative vs. adjusted, tentative vs. actual, adopted vs. adjusted, adopted vs. actual and adjusted vs. actual. In the five-year period examined, no variance occurred between the adjusted and actual appropriations, except for the minimal increase in FY2014. However, significant variances occur between the tentative and adopted budgets.

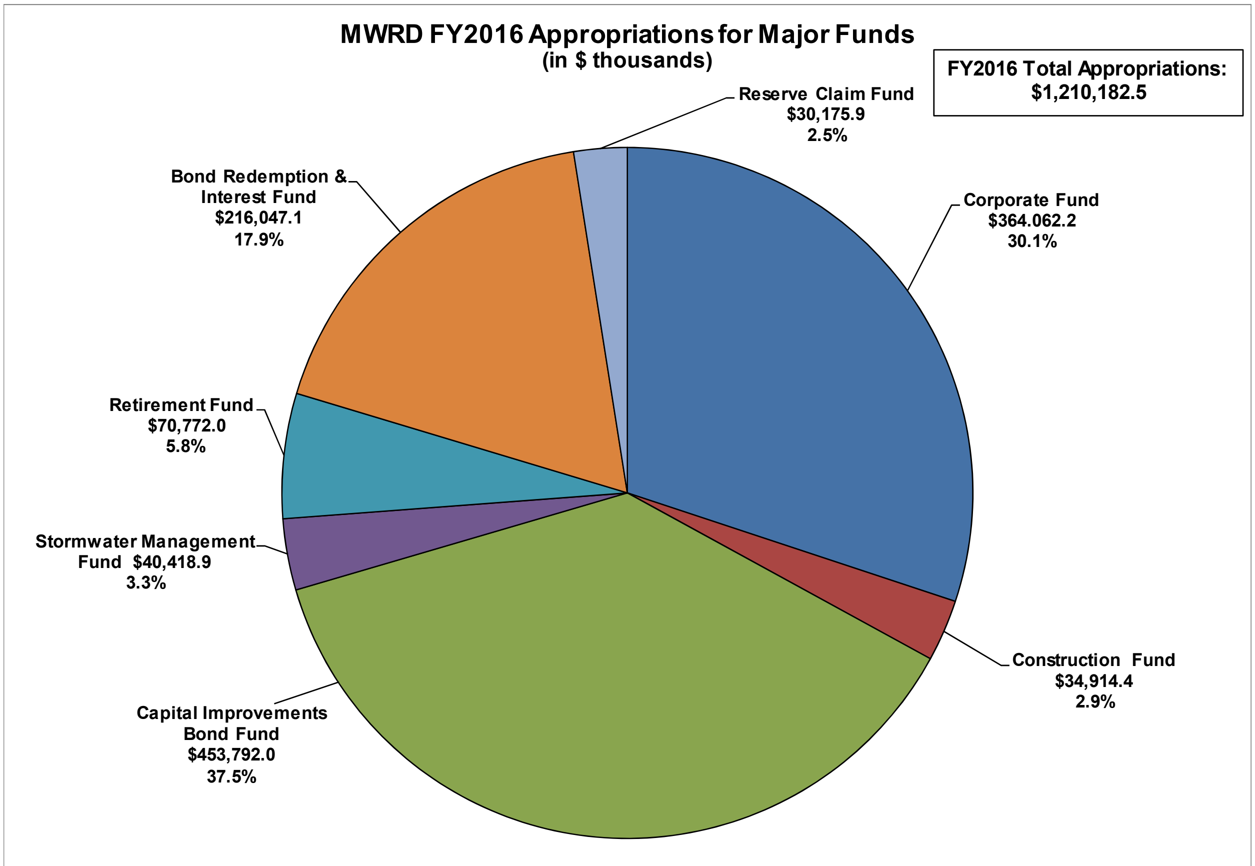
MWRD Appropriations Comparison of Tentative, Adopted and Actual: FY2011-FY2015						
	Variance: Tentative vs. Adopted	Variance: Tentative vs. Adjusted	Variance: Tentative vs. Actual	Variance: Adopted vs. Adjusted	Variance: Adopted vs. Actual	Variance: Adjusted vs. Actual
FY2011	$ 56,170,126	$ 57,450,499	$ 57,450,499	$ 1,280,373	$ 1,280,373	$ -
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)		$ (1,975,342)		

*Note: FY2015 actual figures are not yet available.

Source: MWRD Tentative and Final Budgets, FY2011-FY2015 and MWRD FY2016 Executive Director's Recommendations, p. 44.

Appropriations by Major Fund

The following chart shows FY2016 appropriations by fund. The Capital Improvements Bond Fund, Corporate Fund and Bond Redemption & Interest Fund compose 85.4% of total appropriations for FY2016. The Reserve Claim Fund, Retirement Fund, Stormwater Management Fund and Construction Fund make up the remaining 14.6% of appropriations.



Source: Metropolitan Water Reclamation District FY2016 Tentative Budget, p. 16.

The following chart shows appropriations for major funds for FY2012 through FY2014 actual, FY2015 adjusted and FY2016 tentative appropriations.

MWRD Major Fund Appropriations:
FY2012-FY2016
(in $ thousands)

	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Adjusted	FY2016 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 339,445	$ 383,608	$ 395,345	$ 358,995	$ 364,062	$ 5,067	1.4%	$ 24,617	7.3%
Construction Fund	$ 33,774	$ 40,812	$ 53,306	$ 37,911	$ 34,914	$ (2,996)	-7.9%	$ 1,140	3.4%
Capital Improvements Bond Fund*	$ 305,505	$ 349,649	$ 386,208	$ 453,073	$ 453,792	$ 720	0.2%	$ 148,287	48.5%
Stormwater Management Fund	$ 51,000	$ 61,251	$ 50,907	$ 46,589	$ 40,419	$ (6,170)	-13.2%	$ (10,581)	-20.7%
Retirement Fund	$ 64,362	$ 64,761	$ 74,984	$ 61,654	$ 70,772	$ 9,118	14.8%	$ 6,410	10.0%
Bond Redemption & Interest Fund	$ 185,863	$ 190,304	$ 194,906	$ 214,526	$ 216,047	$ 1,521	0.7%	$ 30,184	16.2%
Sub-Total	**$ 979,950**	**$1,155,656**	**$1,155,656**	**$1,172,747**	**$ 1,180,007**	**$ 7,259**	**0.6%**	**$ 200,057**	**20.4%**
Reserve Claim Fund**	$ 61,000	$ 62,000	$ 64,000	$ 30,700	$ 30,176	$ (524)	-1.7%	$ (30,824)	-50.5%
Total	**$1,040,950**	**$1,217,656**	**$1,219,656**	**$1,203,447**	**$ 1,210,183**	**$ 6,735**	**0.6%**	**$ 169,233**	**16.3%**

*Capital Improvements Bond Fund includes appropriations for prior year obligations.
**Reserve Claim Fund includes adopted appropriations, not actual expenditures for FY2012.
Source: MWRD Final Budgets, FY2013-FY2015 and FY2016 Tentative Budget, p. 11.

The District's Corporate Fund is used for operational and general expenditures and is primarily funded by property taxes. In FY2016 Corporate Fund appropriations are projected to decrease by 1.4%, or $5.1 million, to $364.1 million from the FY2015 adjusted appropriation of $359.0 million. The Corporate Fund also includes a working cash fund, which is used to provide short-term financing to the Corporate Fund. Due to the fact that property taxes levied in one year are not collected until the following year, short-term financing in the form of temporary loans to the Corporate Fund are made in anticipation of tax collections is necessary.[21] This practice is a lower cost alternative to the more common practice where governments issue tax anticipation notes (TANs) to cover expenses before tax revenues are collected and the District plans to allocate as available for loan a total of $239.3 million in FY2016.[22]

The Construction Fund serves as a pay-as-you-go funding source for capital projects that rehabilitate aged or less effective infrastructure.[23] These capital projects are financed by a property tax levy sufficient to pay for project costs as they are constructed. As the District replaces, rehabilitates and modernizes aged and less effective infrastructure, capital projects are assigned to the Construction Fund based on the nature of the project, dollar magnitude and useful life of the improvement. Capital projects paid for through this fund have a useful life of less than 20 years.[24] In FY2016 the Construction Fund will decrease by 7.9%, or $3.0 million, to $34.9 million due to the timing of awarded capital projects.

The Capital Improvements Bond Fund is for major infrastructural improvements with useful lives longer than 20 years which are financed by long-term debt, Federal and State grants or State Revolving Fund loans.[25] The FY2016 appropriation for the Capital Improvements Bond Fund is $453.8 million. The increase in the FY2016 Tentative Budget of $165.5 million in Capital Improvements Bond Fund appropriations compared to the FY2016 Executive Director's Recommendations reflects the Fund's regular annual fluctuation according to the scheduled awards of major projects and projects carried forward from FY2015.[26] The FY2016 appropriation is based on the scheduled award of numerous projects, including a Tunnel and Reservoir Project (TARP), five plant expansion and improvement projects, five facilities replacement projects, 13 stormwater management projects and two solids projects.[27]

The Stormwater Management Fund is used to appropriate funds for projects that protect the safety of Cook County residents and minimize flood damage by coordinating, planning, implementing, financing and operating regional stormwater management projects and to develop and enforce rules related to watershed development.[28] The Fund was established on January 1, 2005 and is funded by tax levies and other revenue to be used for stormwater management activities throughout all of Cook County, including areas that currently lie outside the District's boundaries.[29] Stormwater Management Fund appropriations will fall by 13.2%, or approximately $6.2 million, to $40.4 million in FY2016.

[21] MWRD FY2016 Executive Director's Recommendations, p. 83.
[22] MWRD FY2016 Executive Director's Recommendations, p. 83.
[23] MWRD FY2016 Executive Director's Recommendations, p. 19.
[24] MWRD FY2016 Executive Director's Recommendations, p. 19.
[25] MWRD FY2016 Tentative Budget, p. 6.
[26] MWRD FY2016 Executive Director's Recommendations, p. 20.
[27] MWRD FY2016 Executive Director's Recommendations, p. 20.
[28] MWRD FY2016 Executive Director's Recommendations, p. 18.
[29] MWRD FY2016 Executive Director's Recommendations, p. 18.

The Retirement Fund of the District was established under State statute to provide funding and administration for a retirement program for District employees.[30] The Fund is financed with both employee and employer contributions and investment income. The annual appropriation requests for this fund are taxes receivable from previous years' tax levies. The FY2016 appropriation for the Retirement Fund is $70.8 million, an increase of $9.1 million, or 14.8%, from the FY2015 adjusted budget.

The appropriation to the Retirement Fund is based on a statutorily required formula that bases the District levy, and subsequent appropriations, on employee contributions made in previous years. FY2014 was the first year that the MWRD's contribution to the Retirement Fund was calculated by the Fund's actuary to be sufficient to bring the total assets of the Fund up to 100% of total actuarial liabilities by 2050. According to State law, this amount will not exceed the employee contributions two years prior multiplied by 4.19. Previously, the multiplier was 2.19.[31] 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, as permitted under Public Act 95-0891.[32] In FY2013 $30.0 million was transferred from the Corporate Fund to the Retirement Fund. In 2014 an additional $12.0 million of interest income was transferred to the Retirement Fund from the original sources of the Stormwater Working Cash Fund, the Capital Improvements Bond Fund and the Bond Redemption and Interest Fund.[33]

The Bond Redemption and Interest Fund is a series of subfunds that account for the property tax levies and other revenues received to pay for the principal and interest of bonds issued by the District. The property tax levies for outstanding bond issues are collected and paid through this fund.[34] It finances major projects in the Capital Improvement Program through the issuance of bonds, governmental grants and State Revolving Fund loans.[35] The FY2016 appropriation for the Bond Redemption and Interest Fund is $216.0 million. The Fund will rise by 0.7%, or $1.5 million, from FY2015 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 of striving 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 FY2016.[36]

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[30] For more information on the District's retirement plan, including pension reforms that were signed into law in 2010 and 2012, see the pension section on page 26.
[31] In August 2012, Governor Quinn signed into law pension reforms for the MWRD Retirement Fund as Public Act 97-0894 which increases employee and employer contributions. For more information about the MWRD's recent pension reforms, see page 26 of this report.
[32] MWRD FY2014 Executive Director's Recommendations, p. 23.
[33] MWRD FY2015 Executive Director's Recommendations, p. 93 and FY2016, p. 95.
[34] MWRD FY2016 Executive Director's Recommendations, p. 95.
[35] MWRD FY2016 Executive Director's Recommendations, p. 95.
[36] MWRD FY2016 Executive Director's Recommendations, p. 95.

Appropriations for the Reserve Claim Fund will decrease by 1.7%, or $524,000, to $30.2 million in FY2016.

In a five-year comparison of the MWRD actual expenditures and proposed appropriations by fund between FY2012 and FY2016, overall spending will increase by 16.3%, or $169.2 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 be spent. Excluding the Reserve Claim Fund, appropriations will increase by 20.4%, or $200.1 million, from $980.0 million in FY2012 to $1.2 billion in FY2016. Most of the increase reflects the rise in appropriations for the Capital Improvements Bond Fund, which will increase from $305.5 million in FY2012 to $453.8 million in FY2016. This is an increase of 48.5%, or $148.3 million. This significant change reflects the Capital Improvements Bond Fund's regular annual fluctuation according to the scheduled awards of major projects and projects carried forward across multiple years.[37]

Reserve Claim Fund

The MWRD Board of Commissioners has adopted a policy of striving to finance the Reserve Claim Fund at the maximum level permitted by Illinois State statute or 0.05% of the last known equalized assessed valuation (EAV) whenever economically feasible.[38] Using the EAV of $125.7 billion for the 2014 tax levy year, the maximum accumulation is approximately $62.9 million. Each year the MWRD appropriates the Fund's available fund balance plus new revenue.[39] As is shown in the table below, between FY2012 and FY2013, the District did not expend more than 10.9% of the proposed appropriation. However, a settlement of $44.7 million paid in 2014 decreased the FY2015 proposed appropriation to $34.0 million. This is a decrease of $30.0 million, or 46.9%, from the 2014 Adjusted Budget. The District is proposing $30.2 million in appropriations for FY2016 and expenditures of $5.8 million.

MWRD Reserve Claim Fund: FY2012-FY2016

	Proposed Appropriation	Actual Expenditure	Ratio
FY2012	$ 61,000,000	$ 6,669,900	10.9%
FY2013	$ 62,000,000	$ 6,500,000	10.5%
FY2014	$ 64,000,000	$ 44,700,000	69.8%
FY2015*	$ 34,000,000	$ 6,000,000	17.6%
FY2016**	$ 30,200,000	$ 5,800,000	19.2%

*Adjusted appropriation for FY2015.

**Proposed appropriation for FY2016.

Source: MWRD Final Budgets, FY2012-FY2014; FY2016 Executive Director's Recommendations, p. 525.

37 MWRD FY2016 Executive Director's Recommendations, p. 20.
38 MWRD FY2016 Executive Director's Recommendations, p. 93.
39 MWRD FY2016 Executive Director's Recommendations, p. 547.

RESOURCES

This section presents trend information about the MWRD Corporate Fund resources.

The FY2016 proposed budget includes 2016 tax revenue for the Corporate, Construction and Stormwater Management Funds. However, the budget does not include the 2015 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."[40] The MWRD attributes this inconsistency in the budget to its cash-based budgeting practices. The levy for tax year 2016 is not collected until 2017. Therefore the revenue is not available for FY2016 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 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.[41]

Personal property replacement tax (PPRT) revenue is budgeted in a similar manner to the property tax levy, although PPRT is a corporate income tax. The District anticipates $25.8 million in PPRT revenue to be collected in FY2016. Total PPRT revenue will consist of $25.8 million in appropriable Corporate Fund revenue.[42]

MWRD Budget Process

As described in the Appropriations section of this report on page 13, the MWRD produces three versions of its budget which include, in order of release, the Executive Director's Recommendations, the Tentative Budget, the Adopted Budget and the Amended budget document, or Final Budget. The Civic Federation compares the MWRD's proposed and tentative resources to the amended resources from previous years and, when available, actual resources from previous years. Amended resources, or the final budget figures, are preferable to year-end estimates since they represent official data approved by the governing board.

Corporate Fund Resources

Corporate Fund revenue in FY2016 will increase by 1.2%, or $3.7 million, from $310.3 million in FY2015 to $314.1 million in FY2016. The District is additionally budgeting $50.0 million of its net assets in FY2016.[43] 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 1.4%, or $5.1 million, between FY2015 and FY2016.

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[40] MWRD FY2016 Executive Director's Recommendations, p. 73.
[41] MWRD FY2016 Executive Director's Recommendations, pp. 525-533.
[42] MWRD FY2015 Tentative Budget, p. 11.
[43] 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.

Some key revenue changes include:

- The District's FY2016 net Corporate Fund property tax levy, which constitutes 69.5% of its total revenues, will decrease by $1.0 million, or 0.5%. The property tax levy will be discussed in more detail later in this section;
- User charges will represent 15.6% of Corporate Fund revenues in FY2016 and are expected to decrease by $2.0 million, or 3.9%, to $49.0 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);[44]
- The Corporate Fund allocation of PPRT is expected to increase by $5.7 million, or 28.2%. In FY2014 and FY2015 $18.6 million and $20.1 million, respectively, was allocated to the Corporate Fund. Generally, this revenue changes in relation to the State and national economy;[45]
- Property and Service Charges, which includes land rentals and other revenues, will increase by $2.0 million, or 11.4%, to $19.5 million in FY2016;
- Investment Income will decrease by $700,000, or 53.8%, to $600,000. The level of investment income in FY2016 reflects relatively stable short-term interest rates and fund balance resources available for investment;[46] and
- Other revenues, which include revenues generated from the TIF Differential Fee and Impact Fee and miscellaneous revenues, will increase by $48,000, or 0.9%, from $5.6 million in FY2015 to $5.7million in FY2016.

In a five-year comparison, Corporate Fund revenue will decrease by 11.9%, or $42.3 million, from $356.4 million in FY2012 to $314.1 million in FY2016. Total resources will decrease by 25.7%, or $126.1 million. During this five-year period, the net property tax levy allocated to the Corporate Fund will decrease by $10.7 million, or 4.7%. Appropriated net assets will decrease from $133.7 million in FY2012 to $50.0 million in FY2016, a decline of $83.8 million, or 62.6%.

[44] MWRD FY2016 Executive Director's Recommendations, p. 18.
[45] MWRD FY2016 Executive Director's Recommendations, p. 22.
[46] MWRD FY2016 Executive Director's Recommendations, p. 83.

Over the five-year period, user charges will decrease from $77.6 million in FY2012 to $49.0 million in FY2016, a decline of $28.6 million, or 36.9%.

Corporate Fund Resources: FY2012-FY2016 (in $ thousands)									
Resource	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Final Budget	FY2016 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Property Taxes (net)	$ 228,891	$ 216,257	$221,950	$219,244	$ 218,196	$ (1,049)	-0.5%	$ (10,696)	-4.7%
User Charges	$ 77,638	$ 53,502	$ 44,665	$ 51,000	$ 49,000	$ (2,000)	-3.9%	$ (28,638)	-36.9%
PPRT	$ 26,215	$ 23,832	$ 18,608	$ 20,102	$ 25,776	$ 5,674	28.2%	$ (439)	-1.7%
Property & Service Charges	$ 13,465	$ 18,204	$ 17,881	$ 17,500	$ 19,500	$ 2,000	11.4%	$ 6,035	44.8%
Investment Income	$ 2,538	$ 3,022	$ 2,031	$ 1,300	$ 600	$ (700)	-53.8%	$ (1,938)	-76.4%
Other	$ 12,555	$ 9,723	$ 10,473	$ 5,645	$ 5,693	$ 48	0.9%	$ (6,862)	-54.7%
Working Cash Borrowings Adjustment	$ (4,906)	$ (4,588)	$ (4,358)	$ (4,446)	$ (4,672)	$ (226)	5.1%	$ 234	-4.8%
Total Revenues	**$ 356,396**	**$ 319,951**	**$311,250**	**$310,345**	**$ 314,093**	**$ 3,748**	**1.2%**	**$ (42,303)**	**-11.9%**
Net Assets Appropriable	$ 132,025	$ 192,455	$163,334	$145,397	$ 155,829	$ 10,432	7.2%	$ 23,804	18.0%
Adjustments for Receipts	$ 1,707	$ 7,767	$ 9,433	$ -	$ -	$ -	-	$ (1,707)	-
Budget Reserve	$ -	$ -	$ -	$ (96,747)	$(105,860)	$ (9,113)	9.4%	$(105,860)	-
Subtotal - Appropriated Net Assets	**$ 133,732**	**$ 200,221**	**$172,767**	**$ 48,650**	**$ 49,969**	$ 1,319	2.7%	$ (83,762)	-62.6%
Total Resources	**$ 490,128**	**$ 520,172**	**$484,016**	**$358,995**	**$ 364,062**	**$ 5,067**	**1.4%**	**$(126,066)**	**-25.7%**

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

Source: MWRD FY2014 Final Budget, p. 80; FY2015 Final Budget Book, pp. 76 and 78; FY2016 Executive Director's Budget, p. 76; and FY2016 Tentative Budget Book, p. 14.

Property Tax Levy

In FY2016 the MWRD's total gross property tax levy will increase by 3.3%, or $18.5 million, to $577.8 million from the FY2015 amended budget.[47] Figures for the property tax levy include 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.[48] Of the $577.8 million, 54.3%, or $313.7 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 2.0%, or $6.3 million, from FY2015, which is the maximum amount under State statute.

The Corporate Fund will receive $1.1 million, or 0.5%, less in property tax revenues between FY2015 and FY2016. The decrease in the Corporate Fund levy is due in part to the District's intent to reduce, then maintain the fund balance, or net assets appropriable for the Corporate Fund in the $44.0 to $55.0 million range, which is designed to minimize the annual levy and provide for unexpected shortfalls in revenues.[49] Property tax revenues for the Construction Fund, Retirement Fund and Reserve Claim Fund will increase by $100,000, or 0.6%, $7.2 million, or 12.3% and $100,000, or 1.8%, respectively. The increase in the Retirement Fund reflects the statutory formula that ties employer pension contributions to employee pension contributions made two years prior.[50] The Reserve Claim Fund levy will increase because the District is levying the maximum amount allowed under State statute.[51]

[47] The FY2016 levy is for tax year 2016, which will be collected in 2017.
[48] MWRD FY2016 Executive Director's Recommendations, p. 22 and information provided by MWRD budget staff, December 8, 2014.
[49] MWRD FY2016 Executive Director's Recommendations, p. 18.
[50] MWRD FY2016 Executive Director's Recommendations, p. 20.
[51] MWRD FY2016 Executive Director's Recommendations, p. 21.

The remaining 45.7%, or $264.2 million, of the total levy is for the Bond and Interest and Stormwater Management Funds, which are not subject to tax caps.[52] The FY2016 Stormwater Management levy will increase by $10.2 million, or 42.4%, while the Bond and Interest levy, reserved for debt service, will increase by $2.1 million, or 0.9%.

Over the past five years, the portions of property tax revenues allocated to funds subject to PTELL have fluctuated. Property tax revenues for the Retirement Fund increased significantly from $28.5 million in FY2012 to $65.2 million in FY2016. The increase for the Retirement Fund is the result of a change in the pension multiplier from 2.19 to 4.19 with the implementation of Public Act 97-0894. The bill 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.[53]

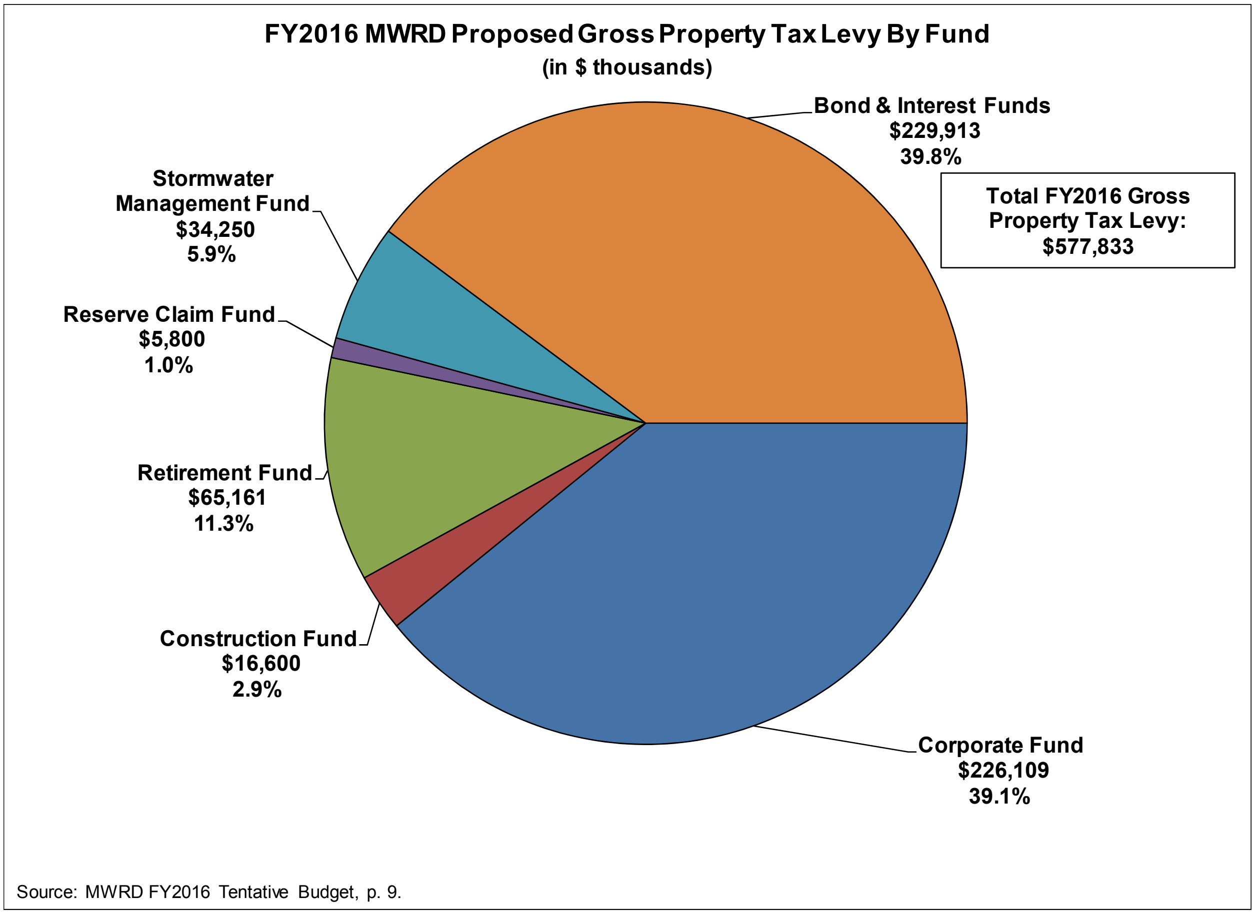
Metropolitan Water Reclamation District
Gross Property Tax Levy: FY2012-FY2016
(in $ thousands)

	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Adjusted	FY2016 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 237,248	$ 224,400	$ 230,000	$ 227,196	$ 226,109	$ (1,087)	-0.5%	$ (11,139)	-4.7%
Construction Fund	$ 20,418	$ 11,079	$ 17,400	$ 16,500	$ 16,600	$ 100	0.6%	$ (3,818)	-18.7%
Retirement Fund	$ 28,490	$ 51,621	$ 50,531	$ 58,004	$ 65,161	$ 7,157	12.3%	$ 36,672	128.7%
Reserve Claim Fund	$ 6,670	$ 6,171	$ 3,000	$ 5,700	$ 5,800	$ 100	1.8%	$ (870)	-13.0%
Subtotal Tax Capped Funds	**$ 292,825**	**$ 293,271**	**$ 300,931**	**$ 307,400**	**$ 313,671**	**$ 6,271**	**2.0%**	**$ 20,845**	**7.1%**
Stormwater Management Fund	$ 20,000	$ 20,000	$ 21,000	$ 24,050	$ 34,250	$ 10,200	42.4%	$ 14,250	71.3%
Bond & Interest Funds	$ 180,748	$ 201,389	$ 218,319	$ 227,879	$ 229,913	$ 2,033	0.9%	$ 49,165	27.2%
Total	**$ 493,573**	**$ 514,659**	**$ 540,250**	**$ 559,329**	**$ 577,833**	**$ 18,504**	**3.3%**	**$ 84,260**	**17.1%**

Source: MWRD FY2014 Final Budget p. 46. FY2015 Final Budget, p. 44; and FY2016 Tentative Budget, p. 9.

[52] 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.
[53] MWRD FY2016 Executive Director's Recommendations, p. 531.

The next exhibit shows the distribution of property tax dollars among the MWRD's various funds in FY2016. Together the Corporate Fund and Bond and Interest Funds will consume 78.9% of the District's total levy.



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.[54]

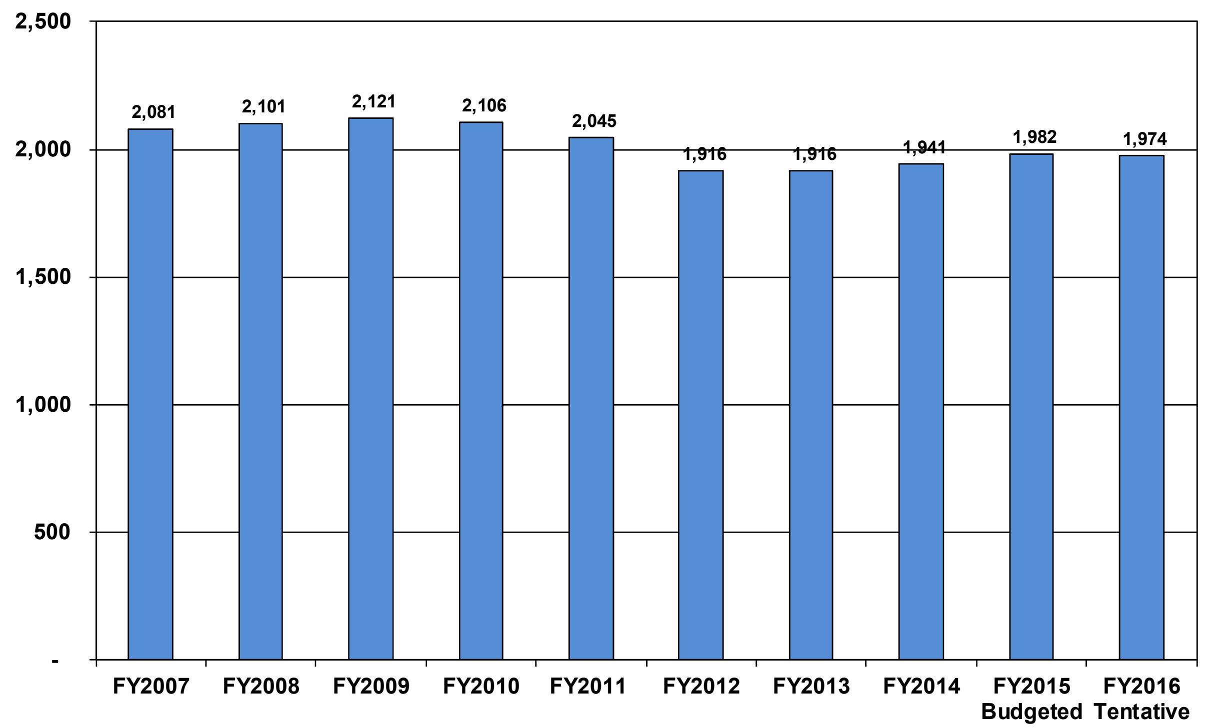
[54] MWRD FY2016 Executive Director's Recommendations, p. 24.

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 FY2016 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.

The number of FTE positions for all funds at the District is projected to decrease by eight FTE positions to 1,974 FTE positions in FY2016. This is a 0.4% decrease from 1,982 FTE positions budgeted in FY2015. The entire decrease is in FTE positions paid from the Corporate Fund. Since FY2007 the District has decreased its workforce by 5.1% or 107 FTE positions, from 2,081 to 1,974.

Metropolitan Water Reclamation District
All Funds Full-Time Equivalent (FTE) Positions: FY2007-FY2016



Source: MWRD FY2016 Tentative Budget, p. 12.

The following chart displays the number of FTE positions for all funds between FY2012 and FY2016. Since FY2013, approximately 97.0% of District employees have been funded through the Corporate Fund. Between FY2015 and FY2016 the number of Corporate Fund FTE positions will decrease by 0.4%, or eight FTE positions.

Since FY2012 Corporate Fund positions will increase by 16.0%, or 264 positions. The overall increase is due to the shift in funding of some positions, including salary and benefit expenses, from the Construction Fund and Capital Improvements Bond Fund to the Corporate Fund that occurred in FY2013. The change brought approximately 21 Construction and 196 Capital

Improvements Bond positions to the Engineering departments funded by the Corporate Fund.[55] During the same time period, other departmental positions funded by the Corporate Fund have either seen modest increases or stayed flat, with the exception of Maintenance & Operations, which will decline by 16 FTEs, or 1.7%. After modest growth to staff Master Plans[56] and new initiatives in FY2008 and 2009, personnel reductions in FY2010 marked the beginning of a five-year plan to reduce staffing levels due to revenue constraints.[57] Significant staffing reductions in FY2012 were part of the five-year plan aimed at restructuring the District to ensure financial stability going forward.[58] Increases in staffing in FY2014 and FY2015 were due to new and continuing initiatives tied to the Strategic Business Plan.[59]

Metropolitan Water Reclamation District All Funds Full-Time Equivalent Positions: FY2012-FY2016									
	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Adjusted	FY2016 Tentative	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Corporate Fund									
Maintenance & Operations	942	943	945	955	926	-29	-3.0%	-16	-1.7%
Monitoring & Research	280	282	287	297	307	10	3.4%	27	9.6%
General Administration	112	109	113	119	121	2	1.7%	9	8.0%
Procurement & Materials	62	62	61	63	63	0	0.0%	1	1.6%
Information Technology	69	68	69	70	76	6	8.6%	7	10.1%
Human Resources	57	58	69	74	73	-1	-1.4%	16	28.1%
Law	37	38	35	37	38	1	2.7%	1	2.7%
Board of Commissioners	35	36	37	37	38	1	2.7%	3	8.6%
Finance	29	29	29	29	29	0	0.0%	0	0.0%
Engineering (Corporate Fund)	28	242	243	242	244	2	0.8%	216	771.4%
Total Corporate Fund	**1,651**	**1,867**	**1,888**	**1,923**	**1,915**	**-8**	**-0.4%**	**264**	**16.0%**
Construction Fund	21	0	0	0	0	0	-	-21	-
Captal Improvements Bond Fund	196	0	0	0	0	0	-	-196	-
Stormwater Management Fund	48	49	53	59	59	0	-	11	22.9%
Total	**1,916**	**1,916**	**1,941**	**1,982**	**1,974**	**-8**	**-0.4%**	**58**	**3.0%**

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

Personal Services Appropriations

The exhibit below shows the FY2016 appropriations as proposed in the FY2016 Tentative Budget compared with the adjusted personal services appropriations for FY2015 and actual appropriations for FY2012 through FY2014.

Over the two-year period between FY2015 and FY2016 total personal services appropriations will decrease by $40.6 million or 12.1%.The proposed appropriation for regular employee salaries, which constitutes 63.5% of all personal services appropriations in FY2016, will increase by 1.8%, or $3.3 million, to $186.9 million in FY2016 from FY2015 adjusted appropriations $183.6 million. Contractual Services are decreasing by $45.0 million, or 53.6%. This decrease is attributable to decreases in employment in the Capital Improvement Bond Fund and the Stormwater Fund. Projects in these two funds are moving from the design phase to the

[55] The Executive Director's budget proposed three additional positions to be transferred to the Corporate Fund; however the Tentative Budget did not include the details of the change in positions. See MWRD FY2013 Executive Director's Budget Recommendations, p. 322.
[56] The District developed Master Plans to study and review engineering infrastructure and the treatment processes at its plants to identify efficiencies in manpower and energy and to reduce maintenance costs. See the MWRD FY2008 General Superintendent's Recommendations, p. 5.
[57] MWRD FY2016 Executive Director's Recommendations, p. 54.
[58] MWRD FY2016 Executive Director's Recommendations, p. 54.
[59] MWRD FY2016 Executive Director's Recommendations, p. 54.

construction phase, so the need for contractual services, such as designers and engineers, are no longer needed on these projects.[60]

Over the five-year period beginning FY2012 salaries have increased by 17.0%, or $27.2 million. The fluctuations reflect the staffing adjustments noted above, with declines in FY2012 and moderate growth in FY2013 through FY2016. Contractual Services will increase by $6.1 million, or 18.5%, over the five-year period.

MWRD All Funds Personal Services Appropriations: FY2012-FY2016 (in $ thousands)

	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Adjusted	FY2016 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries of Regular Employees*	$ 159,769	$ 164,984	$ 171,105	$ 183,607	$ 186,941	$ 3,335	1.8%	$ 27,172	17.0%
Contractual Services	$ 32,873	$ 23,951	$ 27,618	$ 83,985	$ 38,964	$ (45,022)	-53.6%	$ 6,091	18.5%
Health & Life Insurance Premiums**	$ 57,328	$ 57,779	$ 59,521	$ 45,105	$ 48,777	$ 3,672	8.1%	$ (8,552)	-14.9%
Employee Claims	$ 4,744	$ 4,834	$ 3,618	$ 10,060	$ 8,048	$ (2,012)	-20.0%	$ 3,304	69.6%
Compensation Plan Adjustments	$ 6,027	$ 6,368	$ 6,905	$ 7,783	$ 7,505	$ (278)	-3.6%	$ 1,478	24.5%
Other Employee Personal Services***	$ 633	$ 1,039	$ 1,386	$ 1,896	$ 1,652	$ (244)	-12.9%	$ 1,020	161.1%
Social Security & Medicare Contributions	$ 2,223	$ 2,308	$ 2,428	$ 2,693	$ 2,676	$ (17)	-0.6%	$ 453	20.4%
Total	**$ 263,597**	**$ 261,261**	**$ 272,582**	**$ 335,128**	**$ 294,563**	**$ (40,566)**	**-12.1%**	**$ 30,965**	**11.7%**

* Includes FY2016 Salary Adjustments.

** Includes Other Post Employment Benefits (OPEB) distribution.

*** Includes Tuition, Training, Non-Budgeted Salaries and Relief Workers.

Source: MWRD FY2014 Final Budget, p. 58; and FY2015 Final Budget, p. 52; and FY2016 Tentative Budget, p. 13.

The exhibit below compares actual personal services appropriations from FY2012 through FY2014 with FY2015 adjusted appropriations and FY2016 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 is 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.[61] As such, the total appropriations for FY2016 may differ from the summary above.

The total appropriation for personal services district-wide will decrease by $79.5 million, or 23.7%, over FY2015 adjusted budget figures. Over the two-year period between FY2015 and FY2016 personal services appropriations are decreasing primarily due to reductions in funding in the Construction Fund, Capital Improvement Bond Fund and Stormwater Management Fund.

The increase over the five-year period is primarily due to increased OPEB funding. In 2007 the District set an initial funding goal of contributing $10.0 million each year for the first five years for an aggregate amount of $50.0 million by the end of 2011.[62] In 2014 the Board amended the funding goal from 50% to 100% funded; reducing the remaining advanced funding period from 50 years to 12 years; and making annual payments of $5.0 million, from 2015 to 2026.[63] As part of its OPEB funding goal in 2012 the District contributed an amount calculated as a percent of

[60] Communication between MWRD and the Civic Federation, December 2, 2015.

[61] MWRD FY2016, Executive Director's Recommendations, pp. 69-70.

[62] For more information on the MWRD OPEB Trust, see page 42.

[63] MWRD FY2016 Executive Director's Recommendations, p. 13.

payroll. In FY2014 the contribution amount totaled $20.0 million and $5.0 million in FY2015 and FY2016.[64]

Over the five-year period, total appropriations have decreased by $8.0 million, or 3.0%. During the same time period, Corporate Fund personal services appropriations will increase to $241.1 million, as proposed in FY2016. This reflects a 0.3% decrease over FY2015 and an 18.4% increase since FY2012. The five-year growth in the Corporate Fund is largely driven by an 829.2%, or $23.7 million, increase in the Corporate Fund's Engineering department. This increase is primarily due to the transfer of positions from the Construction and Capital Improvement Bonds Funds to the Corporate Fund, which also transferred personnel-related costs such as health care.[65]

Metropolitan Water Reclamation District
All Funds Personal Services Appropriations by Department: FY2012-FY2016
(in $ thousands)

	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Adjusted	FY2016 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund									
Maintenance & Operations	$ 82,348	$ 85,122	$ 88,220	$ 93,314	$ 92,826	$ (488)	-0.5%	$ 10,478	12.7%
Monitoring & Research	$ 22,042	$ 22,937	$ 24,228	$ 26,355	$ 27,396	$ 1,040	3.9%	$ 5,354	24.3%
General Administration	$ 9,870	$ 10,124	$ 10,662	$ 11,630	$ 12,616	$ 986	8.5%	$ 2,746	27.8%
Procurement & Materials	$ 4,641	$ 4,881	$ 4,894	$ 5,437	$ 5,442	$ 5	0.1%	$ 800	17.2%
Information Technology	$ 7,699	$ 7,820	$ 7,581	$ 8,590	$ 8,836	$ 246	2.9%	$ 1,137	14.8%
Human Resources	$ 62,565	$ 66,111	$ 68,723	$ 55,508	$ 55,212	$ (296)	-0.5%	$ (7,353)	-11.8%
Law	$ 5,080	$ 6,167	$ 5,968	$ 6,776	$ 5,016	$ (1,760)	-26.0%	$ (64)	-1.3%
Board of Commissioners	$ 3,422	$ 3,465	$ 3,658	$ 4,104	$ 3,901	$ (203)	-4.9%	$ 479	14.0%
Finance	$ 3,099	$ 3,307	$ 3,280	$ 3,494	$ 3,256	$ (239)	-6.8%	$ 157	5.1%
Engineering	$ 2,860	$ 23,763	$ 24,987	$ 26,533	$ 26,574	$ 41	0.2%	$ 23,714	829.2%
Sub-Total Corporate Fund	**$ 203,626**	**$ 233,697**	**$ 242,202**	**$ 241,741**	**$ 241,074**	**$ (667)**	**-0.3%**	**$ 37,448**	**18.4%**
Construction Fund	$ 3,525	$ 771	$ 2,653	$ 7,994	$ -	$ (7,994)	-	$ (3,525)	-
Capital Improvement Bond Fund	$ 41,932	$ 13,936	$ 13,960	$ 54,505	$ -	$ (54,505)	-	$ (41,932)	-
Stormwater Management Fund	$ 9,827	$ 8,087	$ 10,173	$ 20,890	$ 6,525	$ (14,364)	-68.8%	$ (3,302)	-33.6%
Reserve Claim Fund	$ 4,688	$ 4,770	$ 3,594	$ 10,000	$ 8,000	$ (2,000)	-20.0%	$ 3,312	70.6%
Total	**$ 263,597**	**$ 261,261**	**$ 272,582**	**$ 335,128**	**$ 255,599**	**$ (79,529)**	**-23.7%**	**$ (7,998)**	**-3.0%**

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 FY2015 and FY2016 may differ from the All Funds Personal Services Appropriations chart.
Source: MWRD Tentative Budget, FY2014-FY2016; and FY2016 Tentative Budget, p. 67.

[64] MWRD FY2016 Executive Director's Recommendations, p. 13.
[65] MWRD FY2016 Executive Director's Recommendations, p. 20.

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 fiscal year. Assets available for future use are estimated for the start (January 1) of the fiscal year.[66] The District is budgeting a total $105.9 million in assets available for future use and budgetary reserves.

The MWRD has a fund balance policy of maintaining 12.0% to 15.0% of appropriations, or between $44.0 million and $55.0 million, in unreserved Corporate Fund fund balance.[67] Beginning in 2004, the District began to set aside a portion of the net assets available as a non-appropriated or unreserved fund balance that would be available for contingencies. With the FY2014 budget the District stated its intention to reduce its level of fund balance and then maintain it at a level equal to 12.0% to 15.0% of appropriations, in accordance with established fund balance policy so it can balance the competing imperatives of minimizing the annual property tax levy and providing for unexpected shortfalls in revenues.[68] In the FY2016 proposed budget, the District will reduce its fund balance by approximately $50.0 million in order to fund toward its maximum fund balance of $55.0 million.[69]

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."[70] The GFOA's recommendation is also a good benchmark for special-purpose governments like the MWRD. The District maintains significantly higher fund reserves than the GFOA's recommendation. The MWRD's projected FY2016 level of net assets significantly exceeds the GFOA recommendation and the District's stated goal of maintaining a reserve of 12.0% to 15.0% of Corporate Fund appropriations.

Between FY2009 and FY2011, the District's fund balance did not exceed 10.0% 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, or $19.8 million, in FY2011 to $61.1 million, or 18.0% of operating expenditures bringing the fund balance ratio in line with MWRD's fund balance policy. In FY2013 the fund balance rose by $46.8 million to $107.9 million, or 28.1% of operating expenditures, its highest level in the five year period from FY2009 through FY2013. In FY2014 the Corporate Fund fund balance ratio declined to 14.8%. This is primarily the result of the District's strategic plan to transfer $30.0 million from the Corporate Fund to the District's Retirement Fund.[71] In FY2015, the fund balance ratio increased to 26.9% of operating expenditures. The District anticipates that total fund balance will increase to a ratio of 29.1% by the start of FY2016 and the District will

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[66] For example, assets available for future use as found in the FY2016 Final Budget are estimated for January 1, 2016.
[67] MWRD FY2016 Executive Director's Recommendations, p. 18.
[68] MWRD FY2016 Executive Director's Recommendations, p. 18.
[69] MWRD FY2016 Executive Director's Recommendations, p. 24.
[70] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).
[71] Information provided by the MWRD, December 10, 2013.

spend down approximately $50.0 million to bring the fund balance to between 12.0% and 15.0% of operating expenditures.

MWRD Corporate Fund Fund Balance: FY2009-FY2016 (in $ millions)			
	Assets Available for Future Use / Budget Reserve	Corporate Fund Appropriations	Ratio
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*	$ 105.9	$ 364.1	29.1%

*Proposed Corporate Fund assets available for future use and proposed appropriations.

Sources: MWRD Adopted Budgets, FY2009-FY2015, Summaries of Net Assets Appropriable - All Funds and Comparative Statements of Appropriations and Tax Levies - All Funds; FY2016 Tentative Budget, p. 11.

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.

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.[72] Plan benefits and contribution amounts can only be amended through State legislation.[73] 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.[74]

In FY2014 there were 1,873 active members of the pension fund and 2,343 beneficiaries, for a ratio of 0.80 active member for every beneficiary. This ratio has fallen from 0.91 in FY2005 as the number of active members has declined and the number of beneficiaries has risen. This trend

[72] MWRD Retirement Fund FY2014 Comprehensive Annual Financial Report, p. 35.
[73] 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.
[74] MWRD Retirement Fund FY2014 Comprehensive Annual Financial Report, p. 35 and 40 ILCS 5/13-701.

puts financial stress on the fund as there are fewer employees contributing to the fund and more annuity payments to make.

MWRD Pension Fund Membership: FY2005-FY2014			
Fiscal Year	Active Employees	Beneficiaries	Ratio of Active to Beneficiary
FY2005	2,025	2,215	0.91
FY2006	1,995	2,248	0.89
FY2007	2,002	2,276	0.88
FY2008	2,052	2,272	0.90
FY2009	2,082	2,252	0.92
FY2010	2,024	2,248	0.90
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
Ten-Year Change	**-152**	**128**	**-0.1**
Ten-Year % Change	**-7.5%**	**5.8%**	**-12.6%**

Source: MWRD Retirement Fund Comprehensive Annual Financial Reports, FY2005-FY2014.

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.[75] 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 23 years of service and a $94,000 final average salary could retire with a $37,120 annuity: (20 x $94,000 x 2.2%) + (3 x $80,000 x 2.4%)= $47,120.[76] The annuity increases every year by an automatic 3.0% adjustment compounded. Employees

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

[76] The average age at time of retirement in 2014 was 61.7 years and the average years of service were 23.3 years. The average final average salary for persons retiring in 2014 with 20-25 years of service was $94,584. MWRD Retirement Fund FY2014 Comprehensive Annual Financial Report, pp. 105 and 106.

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.[77]

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 FY2014 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 FY2014 Comprehensive Annual Financial Report, pp. 87-92 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

[77] See 40 ILCS 5/13-314 and MWRD Retirement Fund FY2014 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.[78] 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 $286.8 million of the nearly $1.0 billion unfunded liability.[79]

Under the revised the MWRD pension statute, the District will be 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 shall levy a tax annually which will be sufficient to meet the annual required contribution by the Fund, but shall not exceed an amount equal to the total employee contributions two years prior multiplied by 4.19. 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.[80] 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. [81] The total FY2014 budgeted employer contribution to the fund was $75.0 million.[82]

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.[83] 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.[84] The new policy requires the District

[78] 40 ILCS 5/13-503. Employee contributions to optional additional benefits made after January 1, 2003 are multiplied by 1.0.
[79] MWRD Retirement Fund FY2014 Comprehensive Annual Financial Report, p. 93.
[80] MWRD FY2015 Executive Director's Recommendations, p. 20.
[81] MWRD FY2015 Executive Director's Recommendations, p. 97.
[82] MWRD FY2015 Executive Director's Recommendations, p. 511.
[83] MWRD FY2015 Executive Director's Recommendations, p. 93.
[84] 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.[85] The FY2016 contribution from the property tax is projected at $65.2 million and the total appropriation will be $70.8 million.[86]

Funded Ratio

This report uses two measurements of pension plan funded ratio: the actuarial value of assets measurement and the market value of assets measurement. These ratios show the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations.

The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses over a period of three to five years.[87] 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 70.8% in FY2005 to 50.4% in FY2012 before increasing to 55.0% in FY2014. 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 thanks to strong investment returns. The market value funded ratio in FY2014 fell slightly from the previous year because of investment returns less than assumed. The sizeable difference between FY2008 actuarial and market value funded ratios is due to the fact that FY2008 investment returns were much lower than the smoothed returns over five years.

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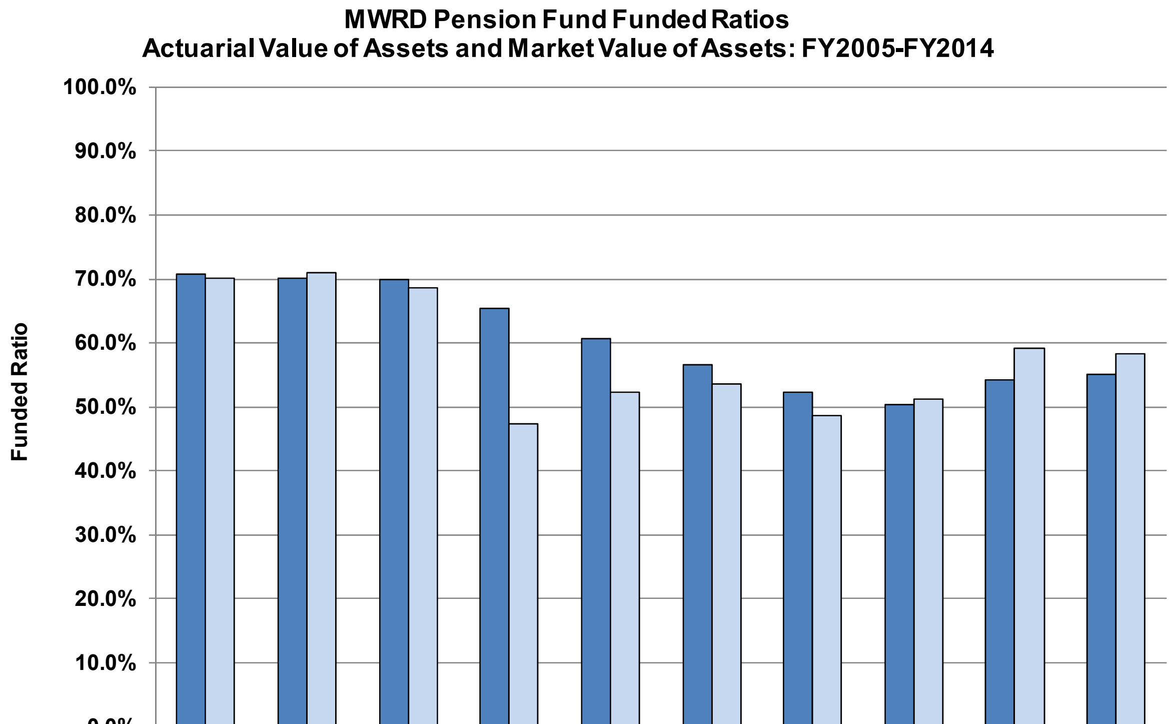
http://mwrd.legistar.com/LegislationDetail.aspx?ID=1913568&GUID=52585D4D-38C0-4242-9052-5BE5120D371D&Options=&Search=.

[85] Information provided by the MWRD, December 8, 2014.

[86] MWRD FY2015 Executive Director's Recommendations, p. 532.

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

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%.



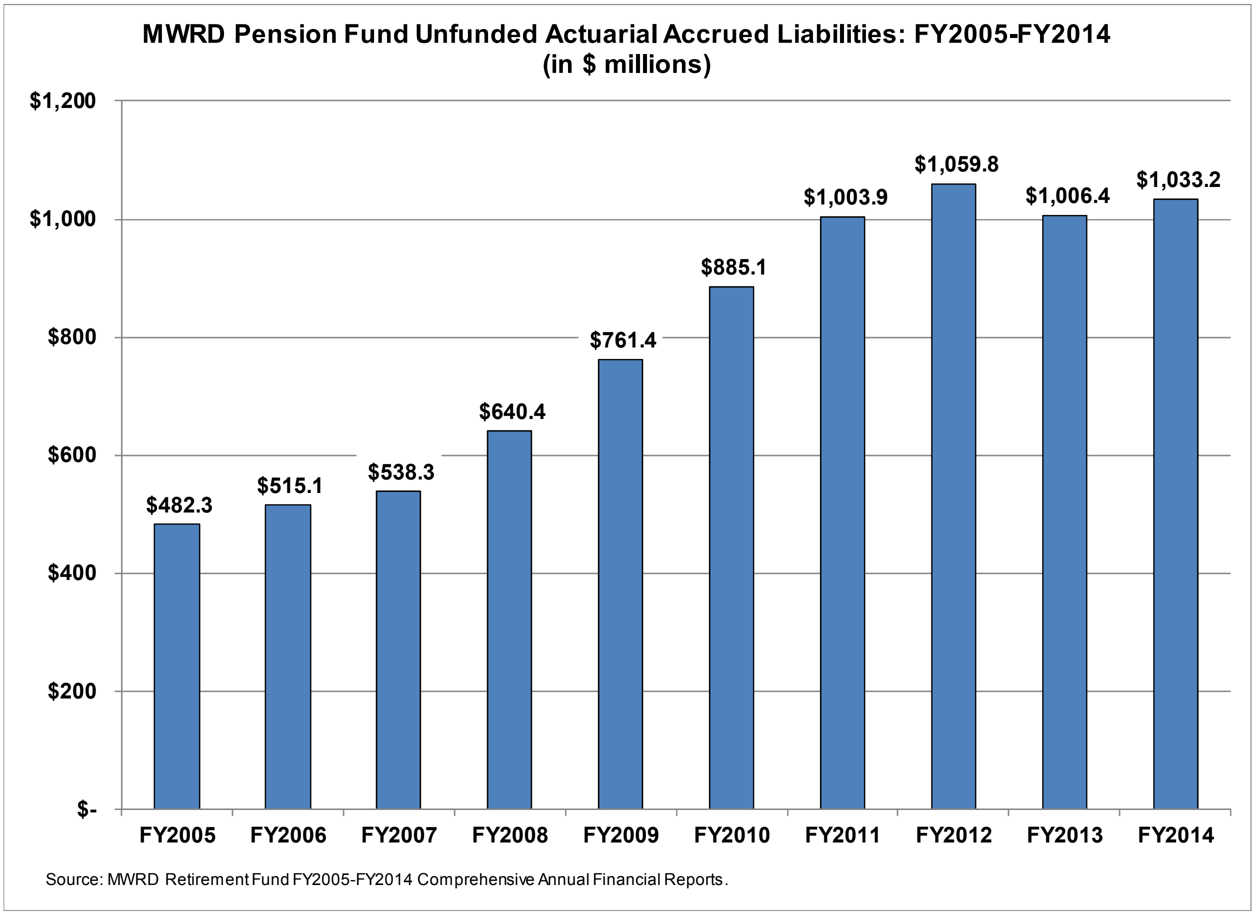
	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
Actuarial Value	70.8%	70.1%	70.0%	65.4%	60.7%	56.5%	52.2%	50.4%	54.1%	55.0%
Market Value	70.1%	70.9%	68.6%	47.4%	52.3%	53.6%	48.6%	51.1%	59.2%	58.3%

Source: Civic Federation calculations based on FY2005-FY2014 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 $1.0 billion in FY2014, up from $482.3 million in FY2005.
The largest contributor to the growth in unfunded liabilities between FY2005 and FY2014 was investment returns failing to meet the 7.75% expected rate of return or 7.5% rate of return in FY2014. This added $290.2 million to the UAAL. The second largest contributor was employer

contributions that were $286.8 million less than the annual normal cost plus interest on the UAAL.[88]



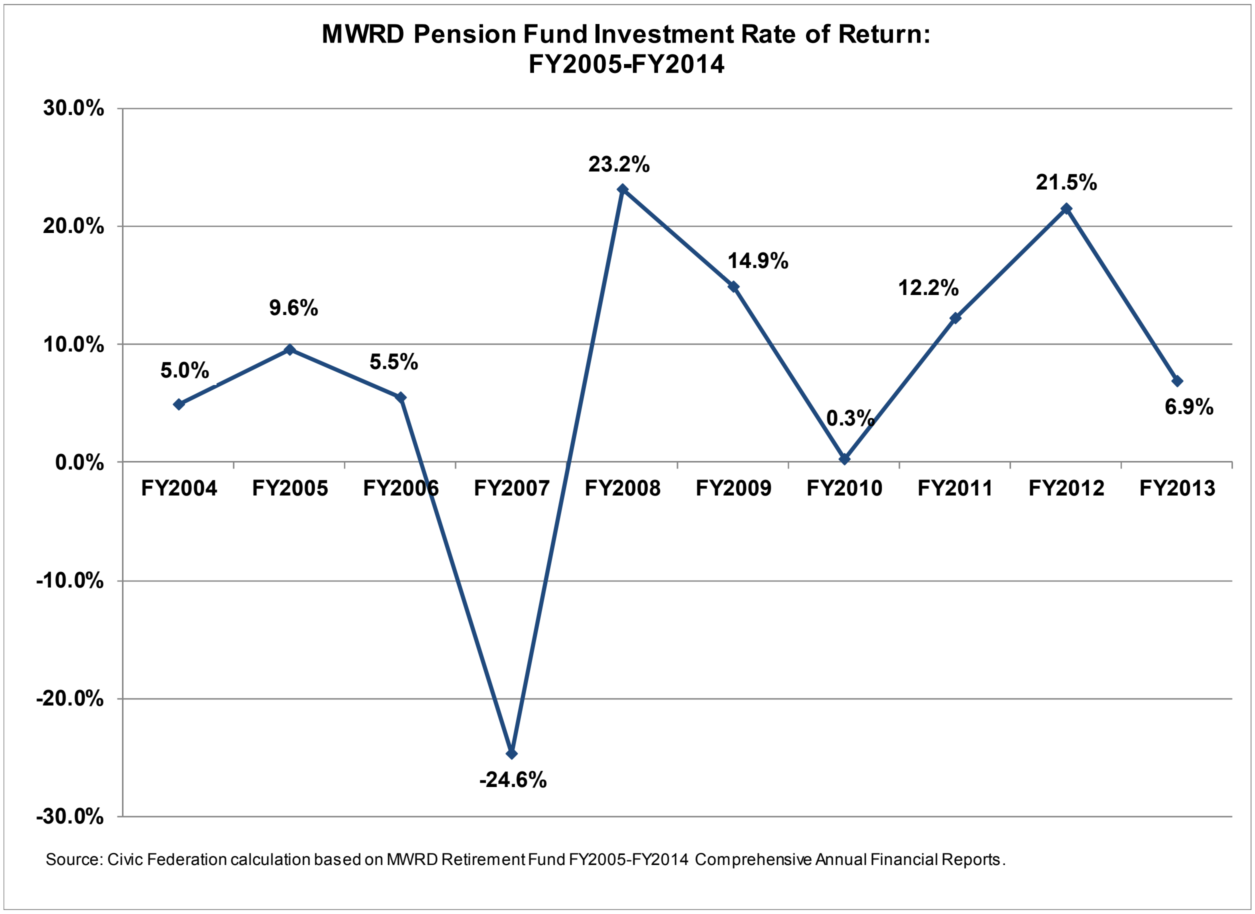
Investment Rates of Return

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 FY2005 and FY2014 the MWRD pension fund's average annual rate of return was 7.4%.[89] Returns ranged from a low of -24.6% in FY2008 corresponding with the crisis in the financial markets to high of 23.2% in FY2009. Returns declined to 0.3% in FY2011, reflecting national

[88] MWRD Retirement Fund FY2014 Comprehensive Annual Financial Report, p. 93.

[89] 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.

public pension fund trends of low investment returns for 2011[90] and increased to 12.2% in FY2012 and 21.5% in FY2013 before declining to 6.9% in FY2014.



Employer Annual Required Contribution

The financial reporting requirements for public pension funds and their associated governments are set by the Governmental Accounting Standards Board (GASB). Until the implementation of GASB Statement No. 67 with the Park District's 2014 fiscal year, the standards required disclosure of an annual required contribution (ARC), which is an amount equal to the sum of (1) the employer's "normal cost" of retirement benefits earned by employees in the current year and (2) the amount needed to amortize any existing unfunded accrued liability over a period of not more than 30 years.[91] Normal cost is the portion of the present value of pension plan benefits and administrative expenses that is allocated to a given valuation year and used to be calculated using one of six standard actuarial cost methods. GASB statements 67 and 68 limit governments and

[90] National Association of State Retirement Administrators, "NASRA Issue Brief: Public Pension Plan Investment Return Assumptions." August 2012. According to this report, the median annualized investment returns for U.S. public pension funds in 2011 was 0.8%.
[91] The ARC reporting requirement was established by GASB Statements No. 25 and 27. GASB Statements No. 67 and 68 ended the requirement for ARC disclosure for fiscal year 2014 financial statements of the fund and the fiscal year 2015 financial statement of Cook County. No widely accepted substitute measure of a government's annual pension funding adequacy has been proposed.

pension funds to one method of calculating actuarial cost for their financial statements, the entry age normal method. Any of the methods, including entry age normal, provides a way to calculate the present value of future benefit payments owed to active employees. The methods also specify procedures for systematically allocating the present value of benefits to time periods, usually in the form of the normal cost for the valuation year and the actuarial accrued liability (AAL). The actuarial accrued liability is that portion of the present value of benefits which is not covered by future normal costs.

ARC was a financial reporting requirement but not a funding requirement. The statutorily required the MWRD contributions to its pension fund are set in the State pension code. However, because paying the normal cost and amortizing the unfunded liability over a period of 30 years does represent a reasonably sound funding policy, the ARC was used by the Civic Federation as an indicator of how well a public entity was actually funding its pension plan.

Per GASB Statement No. 67, public pension funds are not required to report an ARC after their FY2013 actuarial valuations. In the FY2014 valuations, a different calculation, the Actuarially Determined Contribution (ADC), which is based on the pension plan's own actuarial funding policy (if it has one) is required to be reported. If the plan's funding policy does not conform to Actuarial Standards of Practice, then the fund is required to report an ADC that incorporates a normal cost payment and an amortization payment. The District reported its FY2014 ADC based on its funding policy under P.A. 97-0894. The ADC is entry age normal cost method with amortization based on a level percentage of payroll, closed amortization until 2050, which is somewhat similar to the ARC amortization methodology used in previous years, except that the amortization was 30-year open.[92] However, one final ARC was calculated for FY2014 in the FY2013 actuarial valuation, so that number is used in this section for comparability with previous years.

The following table compares the ARC to the actual MWRD contribution over the last ten years. In FY2005 the employer contribution was only slightly below the ARC, but it grew to a significant gap by FY2011. The difference between the ARC and the actual employer contribution grew from a $9.2 million shortfall in FY2004 to $32.0 million in FY2011. 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 and FY2014 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 cumulative ten-year difference between the ARC and the actual employer contribution is $139.6 million.

Expressing ARC as a percent of payroll provides a sense of scale and affordability. In FY2005 the ARC was 28.9% of payroll while the actual employer contribution was 17.5% of payroll. In FY2014 the pension ARC was 39.7% of payroll while the actual employer contribution was

[92] MWRD Retirement Fund FY2014 Comprehensive Annual Financial Report, p. 89

41.9% of payroll. Tier 1 employees contributed 11.0% of salary to the pension fund in FY2014 and Tier 2 employees contributed 9.0% of salary.

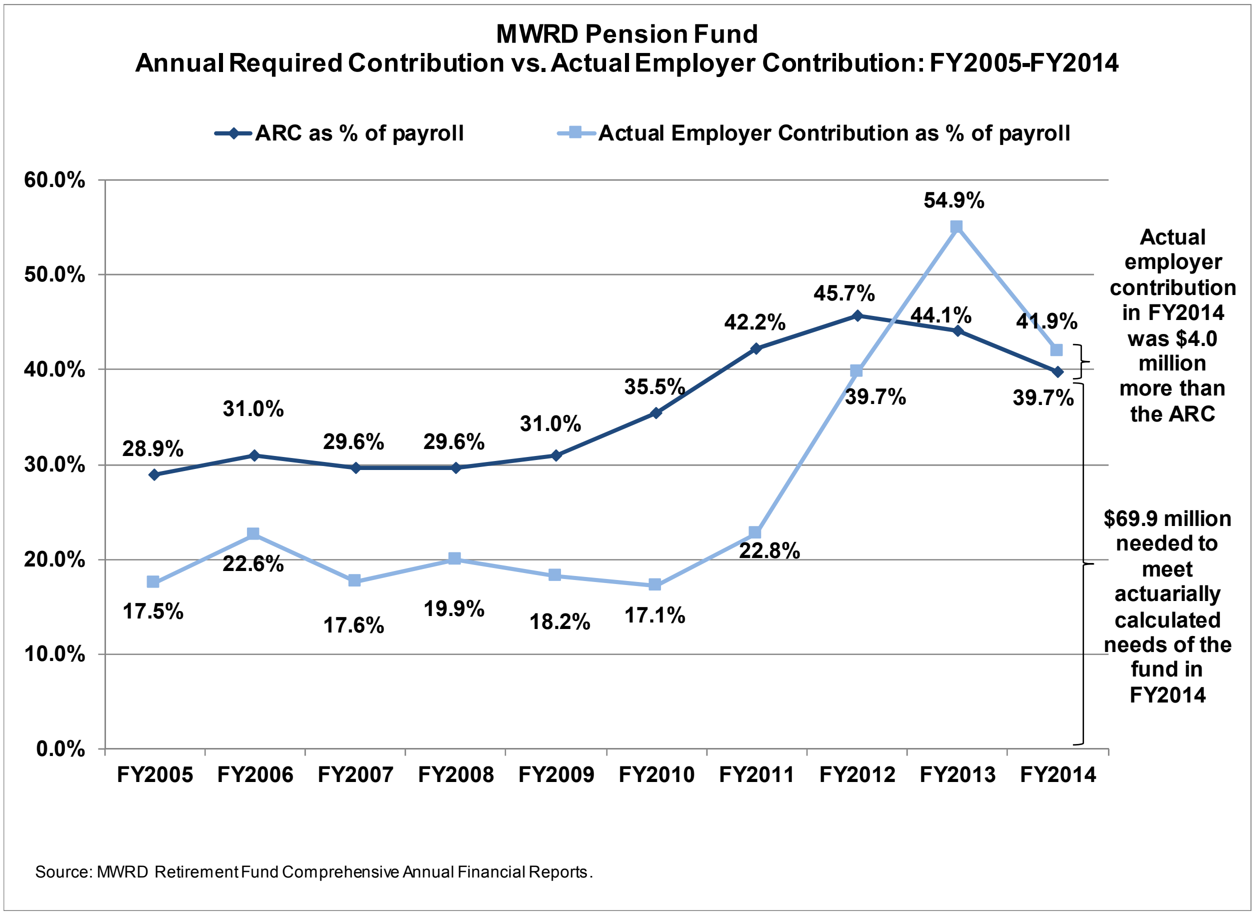
MWRD Pension Fund Schedule of Employer Contributions As Computed for GASB Statement 25: FY2005-FY2014							
Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution (2)*	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll
2005	$ 43,164,572	$ 26,174,492	$ 16,990,080	60.6%	$ 149,246,356	28.9%	17.5%
2006	$ 47,368,878	$ 34,476,332	$ 12,892,546	72.8%	$ 152,767,396	31.0%	22.6%
2007	$ 47,090,445	$ 27,947,096	$ 19,143,349	59.3%	$ 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	$ 69,924,438	$ 73,906,168	$ (3,981,730)	105.7%	$ 176,183,941	39.7%	41.9%

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 11.4 percentage point shortfall in FY2005 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[93] in FY2013 and a surplus of 2.2 percentage points in FY2014. The District, therefore, in FY2014 funded the pension plan at $4.0 million more than a level that would both cover normal cost and amortize the unfunded liability over 30 years. However, it is important to note that the

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

employer contribution fell short of the normal cost plus interest on the unfunded liability which means it contributed to an increase in the UAAL.[94]



[94] MWRD Retirement Fund FY2014 Comprehensive Annual Financial Report, p. 93.

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.[95]

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.[96] 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.[97] The FY2013 and FY2014 contributions were $20.0 million and the FY2015 and budgeted FY2016 contribution is $5.0 million.[98]

The Trust Fund reached 50% funded in FY2014, 41 years ahead of the policy target date of 2050. The Board of Commissioners adopted a new policy for the OPEB fund, making a commitment to reach 100% funding over the next 12 years.[99]

Employees do not contribute to the plan. 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 FY2015 the retiree contribution rate will be 35% and the employer contribution will be 65%.[100] As of the last actuarial valuation in FY2013 there were 2,808 beneficiaries receiving health care coverage.[101]

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, 2013. The actuarial accrued liability computed for the MWRD OPEB trust in the 2013 valuation was $260.4 million. The trust had assets actuarially valued at $120.9 million, resulting in unfunded liabilities of $139.5 million and a 46.4% funded ratio for

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[95] MWRD FY2014 Executive Director's Recommendations, p. 13.
[96] MWRD FY2009 Comprehensive Annual Financial Report, p. 41.
[97] MWRD FY2012 Comprehensive Annual Financial Report, p. 85.
[98] MWRD FY2016 Executive Director's Recommendations, p. 13.
[99] MWRD FY2015 Executive Director's Recommendations, p. 1.
[100] Information at http://mwrdrf.org/retiree-information/retiree-health-insurance-information/.
[101] MWRD FY2013 Comprehensive Annual Financial Report, p. 89.

FY2013. The reduction in the actuarial accrued liability and unfunded accrued liability was mostly due to a reduction in the assumed per capita costs of retiree health care based on recent claims experience.[102]

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

Source: MWRD FY2007-FY2014 Comprehensive Annual Financial Reports.

[102] MWRD December 31, 2013 Actuarial Valuation of Retiree Health Care Benefits under GASB 43, p. 5.

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
- *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 FY2014 the District reported a 23.0%, or nearly $20.0 million, increase in short-term liabilities from the FY2013 levels. Most of the increase is due to the $18.5 million, or 29.0%, increase in accounts payable. The increase in accounts payable was due to the following:

- Approximately $7.0 million went towards disinfection at two facilities;
- Nearly $5.5 million is contributed to the timing of health care payments;
- The District budgeted $4.0 million for construction projects; and
- The District allocated $2.0 million to intergovernmental agreements for flood control.[103]

Between FY2010 and FY2014, short-term liabilities decreased by $22.3 million, or 17.3%. This is a drop from $129.1 million to $106.7 million. Most of the five-year decrease is due to a decline in accounts payable, which dropped by 21.2%, or $22.2 million.

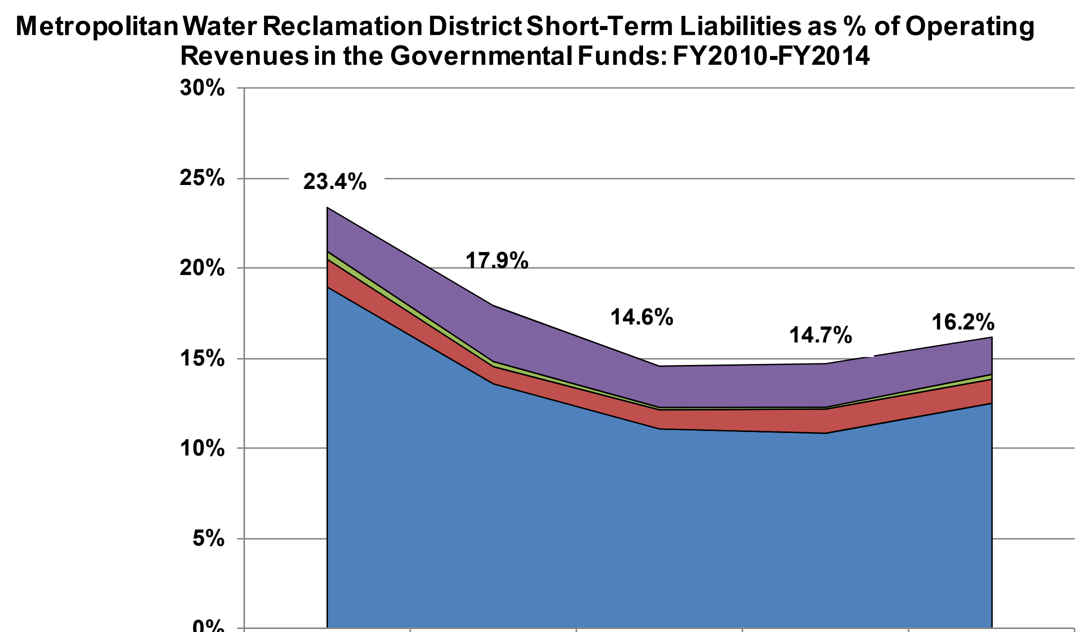
Metropolitan Water Reclamation District FY2010-FY2014 Short-Term Liabilities in the Governmental Funds (in $ thousands)

Type	FY2010	FY2011	FY2012	FY2013	FY2014	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Accounts Payable	$ 104,703	$ 90,522	$ 72,699	$ 63,977	$ 82,517	$ 18,540	29.0%	$ (22,186)	-21.2%
Accrued Payroll	$ 8,463	$ 6,350	$ 6,958	$ 7,930	$ 8,802	$ 872	11.0%	$ 339	4.0%
Bid Deposits	$ 2,435	$ 1,897	$ 885	$ 599	$ 1,786	$ 1,187	198.2%	$ (649)	-26.7%
Accrued Interest Payable	$ 13,468	$ 20,634	$ 15,007	$ 14,247	$ 13,623	$ (624)	-4.4%	$ 155	1.2%
Total	**$ 129,069**	**$ 119,403**	**$ 95,549**	**$ 86,753**	**$ 106,728**	**$ 19,975**	**23.0%**	**$ (22,341)**	**-17.3%**

Source: MWRD FY2010-FY2014 Comprehensive Annual Financial Reports.

103103 Communication between MWRD and the Civic Federation, November 25, 2016.

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.[104] 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 a decrease in short-term liabilities compared to total operating revenue between FY2010 and FY2014, with short-term liabilities falling from 23.4% to 16.2%. The ratio did, however, increase from 14.7% in FY2013 to 16.2% the next year after several years of declines. This was due primarily to an uptick in accounts payable liabilities in FY2014.



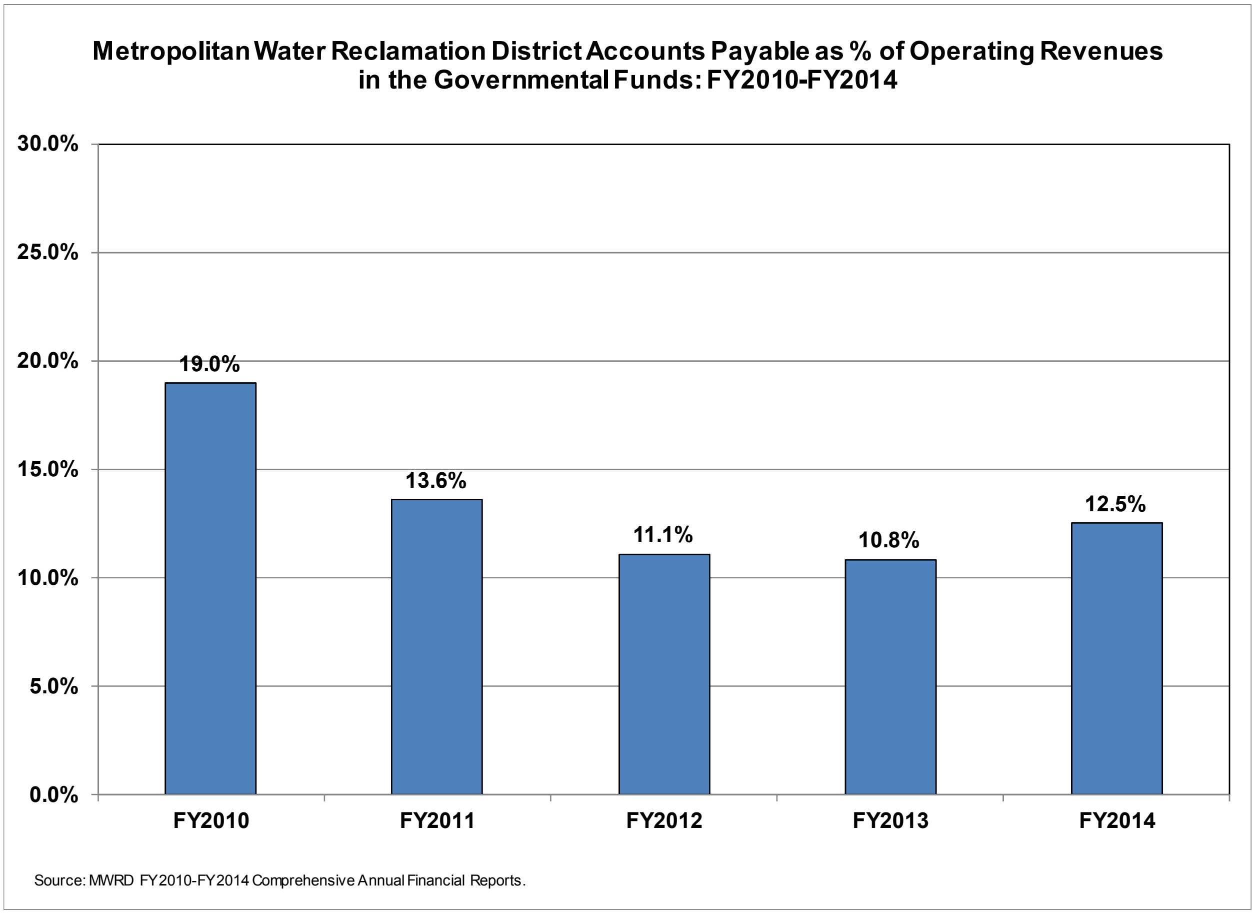
	FY2010	FY2011	FY2012	FY2013	FY2014
Accrued Interest Payable	2.4%	3.1%	2.3%	2.4%	2.1%
Bid Deposits	0.4%	0.3%	0.1%	0.1%	0.3%
Accrued Payroll	1.5%	1.0%	1.1%	1.3%	1.3%
Accounts Payable	19.0%	13.6%	11.1%	10.8%	12.5%

Source: MWRD FY2010-FY2014 Comprehensive Annual Financial Reports.

[104] 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.

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 declined from 19.0% to 12.5% over the five years of this review.



Current Ratio

The current ratio is a measure of liquidity. It assesses whether the government has enough cash and other liquid resources to meet its short-term obligations as they come due. A ratio of 1.0 means that current assets are equal to current liabilities and are sufficient to cover obligations in the near term. Generally, a government's current ratio should be close to 2.0 or higher.[105]

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

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;
- *Investments*: Any investments that the government has made that will expire within one year, including stocks and bonds that can be liquidated quickly;
- *Receivables*: Monetary obligations owed to the government including property taxes and interest on loans;
- *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.[106]

The MWRD's current ratio was 11.0 in FY2014, the most recent year for which data are available. In the past five years, the District's current ratio averaged 12.7, which is far above the preferred benchmark of 2.0, and thus demonstrates a healthy level of liquidity. From FY2010 to FY2014, the current ratio rose from 9.6 to 11.0, a 14.6% increase.

Metropolitan Water Reclamation District FY2010-FY2014 Current Ratio in the Governmental Funds (in $ thousands)									
	FY2010	FY2011	FY2012	FY2013	FY2014	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Current Assets									
Cash	$ 47,769	$ 28,258	$ 26,080	$ 64,496	$ 57,273	$ (7,223)	-11.2%	$ 9,504	19.9%
Certificates of Deposit	$ 103,342	$ 59,645	$ 57,211	$ 77,316	$ 25,111	$ (52,205)	-67.5%	$ (78,231)	-75.7%
Investments	$ 515,121	$ 909,638	$ 803,692	$ 579,933	$ 481,318	$ (98,615)	-17.0%	$ (33,803)	-6.6%
Taxes Receivable, net	$ 449,852	$ 467,133	$ 486,227	$ 503,911	$ 527,258	$ 23,347	4.6%	$ 77,406	17.2%
Other Receivables, net	$ 79,174	$ 55,805	$ 18,752	$ 31,656	$ 38,961	$ 7,305	23.1%	$ (40,213)	-50.8%
Inventories	$ 38,924	$ 38,922	$ 39,467	$ 40,136	$ 39,586	$ (550)	-1.4%	$ 662	1.7%
Restricted cash	$ 1,815	$ 1,967	$ 2,018	$ 1,425	$ 1,409	$ (16)	-1.1%	$ (406)	-22.4%
Total Current Assets	**$ 1,235,997**	**$ 1,561,368**	**$ 1,433,447**	**$ 1,298,873**	**$ 1,170,916**	**$ (127,957)**	**-9.9%**	**$ (65,081)**	**-5.3%**
Current Liabilities									
Accounts Payable	$ 104,703	$ 90,522	$ 72,699	$ 63,977	$ 82,517	$ 18,540	29.0%	$ (22,186)	-21.2%
Accrued Payroll	$ 8,463	$ 6,350	$ 6,958	$ 7,930	$ 8,802	$ 872	11.0%	$ 339	4.0%
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Accrued Interest Payable	$ 13,468	$ 20,634	$ 15,007	$ 14,247	$ 13,623	$ (624)	-4.4%	$ 155	1.2%
Total Current Liabilities	**$ 129,069**	**$ 119,403**	**$ 95,549**	**$ 86,753**	**$ 106,728**	**$ 19,975**	**23.0%**	**$ (22,341)**	**-17.3%**
Current Ratio	**9.6**	**13.1**	**15.0**	**15.0**	**11.0**				

Source: MWRD FY2010-FY2014 Comprehensive Annual Financial Reports.

[106] MWRD FY2014 Comprehensive Annual Financial Report, p. 70.

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 (NPO) 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.

Between FY2013 and FY2014 long-term liabilities fell by 2.6%, or $75.4 million. In the five-year period between FY2010 and FY2014, total long-term liabilities rose by 15.5%, increasing from $2.5 billion to nearly $2.8 billion. This was an increase of $380.2 million.

In this same five-year period, long-term debt increased by 17.6%. This was an increase of $395.4 million, from $2.2 billion to $2.6 billion. Long-term debt was primarily incurred through general obligation bonds and capital leases. In FY2010 the District entered into an agreement with a contractor to design, build, finance, own and operate a 150 dry ton per day biosolids processing facility at the Stickney plant. The cost of the facility is considered a capital lease because it will become the District's property at the end of the lease term.[107] From FY2013 to FY2014, total long-term debt declined slightly by 0.4%, or $11.7 million.

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

Other long-term liabilities, which include claims and judgments, net pension and OPEB and compensated absences, fell by 7.2% between FY2010 and FY2014. This was a $15.3 million decrease from $212.3 million to $197.0 million. The decrease was primarily due a drop in net OPEB liability of $35.9 million.

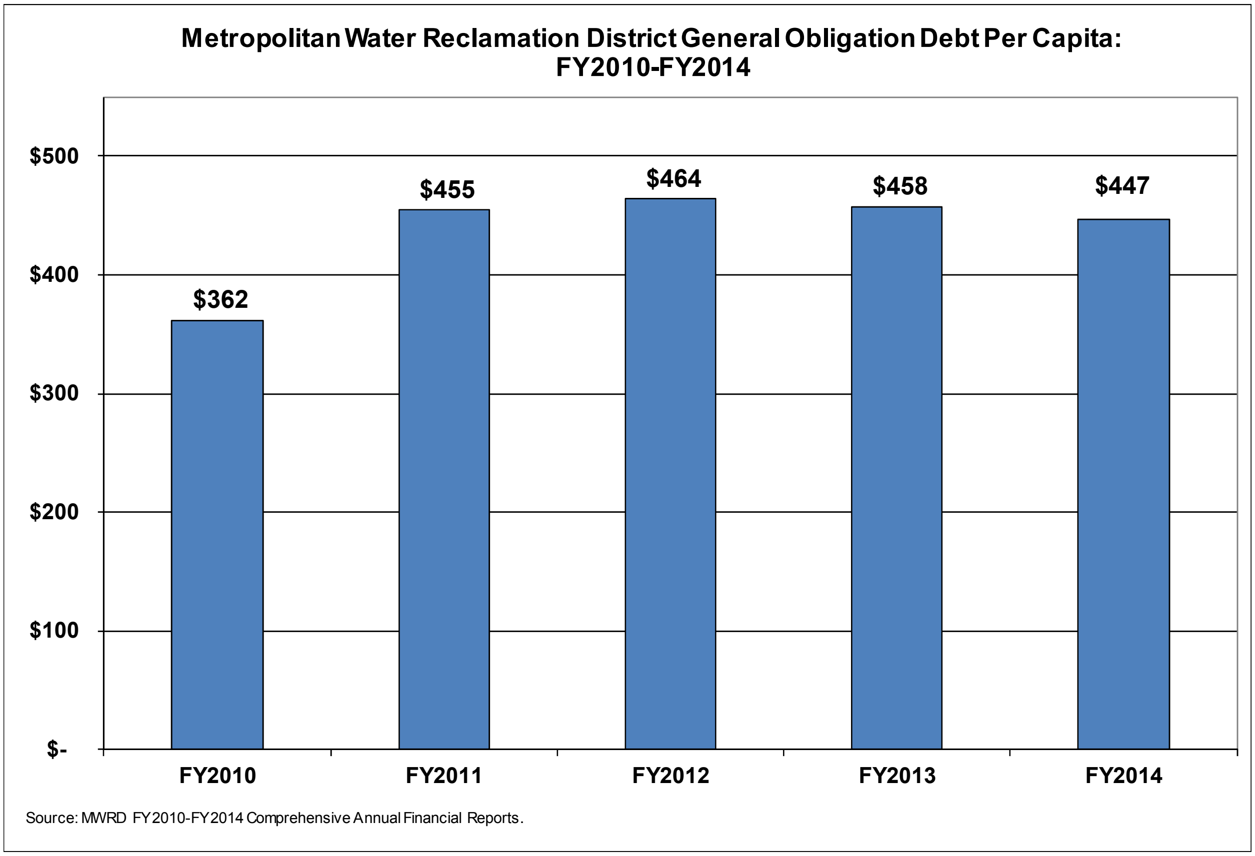
Metropolitan Water Reclamation District Long-Term Liabilities: FY2010-FY2014 (in $ thousands)									
Long-Term Liabilities	**FY2010**	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**Two-Year $ Change**	**Two-Year % Change**	**Five-Year $ Change**	**Five-Year % Change**
General Obligation Debt	$ 1,811,184	$ 1,965,824	$ 1,896,371	$ 1,857,731	$ 1,816,796	$ (40,935)	-2.2%	$ 5,612	0.3%
Converted Bond Anticipation Notes	$ 150,790	$ 500,640	$ 619,005	$ 624,242	$ 605,824	$ (18,418)	-3.0%	$ 455,034	301.8%
Subtotal General Obligation Debt	**$ 1,961,974**	**$ 2,466,464**	**$ 2,515,376**	**$ 2,481,973**	**$ 2,422,620**	**$ (59,353)**	**-2.4%**	**$ 460,646**	**23.5%**
Deferred Issuance Costs	$ (6,472)	$ (8,316)	$ -	$ -	$ -	$ -	---	$ 6,472	-100.0%
Deferred Premiums	$ 61,532	$ 94,260	$ 88,610	$ 83,026	$ 78,165	$ (4,861)	-5.9%	$ 16,633	27.0%
Refunding Transactions	$ (25,493)	$ (22,454)	$ -	$ -	$ -	$ -	---	$ 25,493	-100.0%
Subtotal Bonds Payable, Net	**$ 1,991,541**	**$ 2,529,954**	**$ 2,603,986**	**$ 2,564,999**	**$ 2,500,785**	**$ (64,214)**	**-2.5%**	$ 509,244	25.6%
Bond Anticipation Notes	$ 196,225	$ 108,008	$ 44,527	$ 35,809	$ 90,460	$ 54,651	152.6%	$ (105,765)	-53.9%
Capital Lease	$ 53,688	$ 51,784	$ 49,837	$ 47,795	$ 45,653	$ (2,142)	-4.5%	$ (8,035)	-
Subtotal Long-Term Debt	**$ 2,241,454**	**$ 2,689,746**	**$ 2,698,350**	**$ 2,648,603**	**$ 2,636,898**	**$ (11,705)**	**-0.4%**	**$ 395,444**	**17.6%**
Claims and Judgments	$ 41,292	$ 59,857	$ 79,597	$ 77,996	$ 35,668	$ (42,328)	-54.3%	$ (5,624)	-13.6%
Compensated Absences	$ 29,860	$ 28,784	$ 28,356	$ 27,627	$ 27,564	$ (63)	-0.2%	$ (2,296)	-7.7%
Net OPEB Liability	$ 66,329	$ 76,580	$ 69,425	$ 49,858	$ 30,409	$ (19,449)	-39.0%	$ (35,920)	-54.2%
Net Pension Liability	$ 74,786	$ 108,482	$ 120,651	$ 105,193	$ 103,350	$ (1,843)	-1.8%	$ 28,564	38.2%
Subtotal Other Long-Term Liabilities	**$ 212,267**	**$ 273,703**	**$ 298,029**	**$ 260,674**	**$ 196,991**	**$ (63,683)**	**-24.4%**	**$ (15,276)**	**-7.2%**
Total Long-Term Liabilities	**$ 2,453,721**	**$ 2,963,449**	**$ 2,996,379**	**$ 2,909,277**	**$ 2,833,889**	**$ (75,388)**	**-2.6%**	**$ 380,168**	**15.5%**

Source: MWRD FY2010-FY2014 Comprehensive Annual Financial Reports.

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 FY2010 and

FY2014 the MWRD's long-term General Obligation debt per capita increased from $362 to $447. This represents a 23.5% increase and could bear watching.



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%.[108] The debt service to total appropriations ratio for the MWRD between FY2012 and projected FY2016 decreases slightly from 17.9% to 17.8%. While the ratio

[108] 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.

over time is high, averaging 17.2%, 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: FY2012-FY2016 (in $ millions)					
	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Adjusted Approp.	FY2016 Tentative
Debt Service Appropriations	$185.9	$193.0	$194.9	$214.5	$216.0
Total Appropriations	$1,040.9	$1,155.1	$1,219.7	$1,203.4	$1,210.2
Debt Service as a % of Total Appropriations	**17.9%**	**16.7%**	**16.0%**	**17.8%**	**17.8%**

Source: MWRD FY2016 Tentative Budget, p. 9.

BOND RATINGS

The MWRD has the following current bond ratings:

- Moody's Investors Service – Aa2 (since 2015);
- Fitch – AAA (since 2001); and
- Standard & Poor's – AAA (since 2006).[109]

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.[110]

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:

- 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 tax base, including the MWRD, City of Chicago, Chicago Public Schools, Chicago Park District, Cook County and the Cook County Forest Preserve District.[111]

[109] MWRD FY2016 Executive Director's Recommendations, p. 28.
[110] MWRD FY2016 Executive Director's Recommendations, pp. 27-28.
[111] Moody's Investors Service, "Rating Action: Moody's downgrades Metropolitan Water Reclamation District, IL to Aa1; outlook negative," August 27, 2013.

CAPITAL BUDGET

The MWRD annually updates and appropriates funding for projects in a five-year capital improvement plan (CIP). The FY2016-FY2020 CIP proposes approximately $1.2 billion in funding for a variety of projects. The first year of the new CIP will be the FY2016 capital budget, proposed at $358.8 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, 31.3%, or $391.3 million, of the total will be used for Water Reclamation and Solids Management projects. Approximately 25.0% of all capital spending, or $313.1 million, will be earmarked for Stormwater Management. Replacement of existing facilities will use 16.8%, or $209.9 million, while the Tunnel and Reservoir Plan (TARP) is projected to receive approximately 16.0%, or $200.8 million. Finally, 10.9 %, or $136.0 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 90.2% of all funding between FY2016 and FY2020, or nearly $1.1 billion. The remaining funding will consist of pay-as-you-go funding from the Stormwater and Construction Funds.[112]

Metropolitan Water Reclamation District Five-Year Capital Spending: FY2016-FY2020 - Estimated Cash Disbursements (in $ millions)

	FY2016	FY2017	FY2018	FY2019	FY2020	Five-Year Total	% of Five-Year Total
Capital Spending by Category							
Water Reclamation & Solids Management	$ 106.0	$ 93.8	$ 92.2	$ 69.3	$ 30.0	$ 391.3	31.3%
Replacement of Facilities	$ 49.0	$ 52.6	$ 45.0	$ 33.8	$ 29.5	$ 209.9	16.8%
Collection Facilities	$ 13.0	$ 20.0	$ 27.0	$ 36.0	$ 40.0	$ 136.0	10.9%
Stormwater Management	$ 29.5	$ 112.2	$ 72.0	$ 63.4	$ 36.0	$ 313.1	25.0%
Tunnel & Reservoir Plan	$ 42.7	$ 42.1	$ 42.0	$ 47.0	$ 27.0	$ 200.8	16.0%
Total Spending	**$ 240.2**	**$ 320.7**	**$ 278.2**	**$ 249.5**	**$ 162.5**	**$ 1,251.1**	**100.0%**
Capital Funding Sources							
Stormwater Fund	$ 7.8	$ 7.3	$ 7.3	$ 7.3	$ 7.3	$ 37.0	3.0%
Construction Fund	$ 25.6	$ 16.3	$ 16.0	$ 13.3	$ 13.3	$ 84.5	6.8%
Capital Improvements Bond Fund	$ 325.4	$ 278.3	$ 198.6	$ 159.7	$ 159.7	$ 1,121.7	90.2%
Total Funding	**$ 358.8**	**$ 301.9**	**$ 221.9**	**$ 180.3**	**$ 180.3**	**$ 1,243.2**	**100.0%**

*Note: Totals may not match due to rounding.

Source: MWRD FY2016 Executive Director's Recommendations, p. 345.

New Capital Spending Requests

The MWRD's request for new capital spending authorization for total project costs in FY2016 totals $288.3 million. This is a 36.4% decrease in new capital appropriations from FY2015 budgeted appropriations. The amount of proposed new capital spending for FY2016 differs from the amount proposed for FY2016 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

[112] MWRD FY2016 Executive Director's Recommendations, p. 345.

each year, which does not always match the total cost of capital projects, as is the case in FY2016.

Metropolitan Water Reclamation District Proposed New Capital Spending: FY2015 and FY2016 (in $ thousands)				
Project Type	FY2015 Adopted Budget	FY2016 Proposed Budget	$ Change	% Change
Treatment Facilities	$ 21,500	$ 39,000	$ 17,500	81.4%
Collection Facilities	$ 53,000	$ 4,700	$ (48,300)	-91.1%
Solids Processing & Disposal	$ 16,500	$ 13,000	$ (3,500)	-21.2%
Flood & Pollution Control	$ 243,028	$ 95,282	$(147,746)	-60.8%
Community Flood Control Program	$ 26,000	$ 26,000	$ -	0.0%
Land Cost	$ 10,550	$ 10,550	$ -	0.0%
Project Support	$ 82,494	$ 99,760	$ 17,266	20.9%
Total	**$ 453,072**	**$ 288,292**	**$ (164,780)**	**-36.4%**

Sources: MWRD FY2015 Adopted Budget, p. 461 and FY2016 Executive Director's Recommendations, p. 465.

Capital Improvement Plan

According to best practices for capital budgeting, a complete capital improvement plan (CIP) includes the following elements:[113]

- 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.

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

[113] 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.

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[114] 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.[115] Yes, a hearing was held on October 29, 2015[116] 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
Source: MWRD FY2016 Executive Director's Recommendation, pp. 341-468.	

[114] MWRD FY2016 Executive Director's Recommendations, p. 343.
[115] MWRD FY2016 Executive Director's Recommendations, p. 343.
[116] Information provided by MWRD Budget Office, November 23, 2015.