The Civic Federation

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METROPOLITAN WATER RECLAMATION DISTRICT FY2015 TENTATIVE BUDGET:

Analysis and Recommendations

December 10, 2014

The Civic Federation ● 177 N. State Street ● Chicago IL 60601 ● 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) FY2015 Tentative Budget of nearly $1.3 billion. The budget is a $32.6 million, or 2.7%, increase[1] from amended FY2014 appropriations of approximately $1.2 billion.

The Federation commends the MWRD for continuing to use long-term financial planning through five-year financial forecasting and a Strategic Business Plan to guide its operations and future projects. The District's adherence to its fund balance policy and maintenance of a substantial budget reserve in its Corporate Fund is also praiseworthy.

The Federation also commends the good fiscal stewardship employed by the District in the creation and sufficient funding of its retiree healthcare trust. Through additional contributions in FY2011-FY2014, the Trust reached a 50% funding level in 2014. This funding level exceeds the District's initial target date to reach 50% funding by 41 years.

The Civic Federation is encouraged by the MWRD's newly adopted pension funding policy that targets a 100% funded ratio by 2050. The Civic Federation supports the MWRD's new funding goal as more actuarially sound than the previous goal of 90%. The Fund's actuary projects the new policy will result in 100% funding 10 or more years before the goal year. In addition to the new funding policy, the Federation also encourages the District to continue to make additional contributions from interest on other funds as allowed under P.A. 95-0891 when available.

The Civic Federation offers the following **key findings** from the FY2015 Tentative Budget:

- The MWRD FY2014 Tentative Budget will total nearly $1.3 billion and is a 2.7%, or $32.6 million, increase over the FY2014 amended budget of approximately $1.2 billion;
- Corporate Fund appropriations will decrease by 3.2%, or $12.6 million, to $382.8 million in FY2015 from the FY2014 amended budget of $395.3 million;
- In FY2015 the MWRD's total net property tax levy will increase by 3.7%, or $19.8 million, to $560.0 million from the FY2014 amended budget, this total includes both non-tax-capped funds and those limited to a maximum annual increase of 5.0% or the rate of inflation, whichever is less.
- The overall levy for tax-capped funds will increase by the statutory maximum of 2.1%, or $6.5 million, and the Stormwater Management levy will increase by $3.1 million, or 14.5%, while the Bond and Interest levy, reserved for debt service, will increase by $10.3 million or 4.7%.;
- The District is increasing staffing levels by 14 FTE positions to 1,975 FTE positions in FY2015. This is a 0.7% increase from 1,961 FTE positions budgeted in FY2014;
- District appropriations for salaries will increase by 3.4%, or $6.0 million, to $182.8 million in FY2015 from FY2014 adjusted appropriations;

[1] MWRD appropriations often vary significantly from budget year to budget year, depending on the number and scale of capital projects that the District undertakes and the timing of funding required to complete different phases of multi-year projects.

- In FY2015 the District will set aside $69.3 million as budget reserve or non-appropriated Corporate Fund fund balance. This amount is equivalent to 18.1% of the total FY2015 Corporate Fund appropriation of $382.8 million;
- In FY2013 the pension fund's unfunded actuarial accrued liabilities fell to $1.00 billion from $1.05 billion in FY2012, but rose from $416.6 million ten years prior in FY2004;
- The actuarial value funded ratio for the District's pension fund declined from 73.6% to 54.1% over the same ten-year period;
- Between FY2009 and FY2013, short-term liabilities decreased by $52.9 million or 37.9%;
- Over the same five-year period, the District's total long-term liabilities rose by 29.3%, increasing from $2.2 billion to nearly $2.9 billion; and
- The MWRD's five-year capital budget for FY2015-FY2019 is approximately $1.3 billion, and the amount budgeted for FY2015 is $232.0 million.

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

- Utilizing and publishing long-term planning techniques;
- Exceeding funding policy requirement for OPEB trust and amending the funding policy;
- Adopting pension funding policy to achieve 100% funded by 2050; and
- Maintaining substantial reserves.

The Civic Federation has the following **caution** about the FY2015 proposed budget:

- After two 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 FY2015, the Civic Federation cautions against automatic property tax increases.

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

- Provide greater detail on new pension funding plan and its impact on the budget; and
- Improve tentative budget document.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the Metropolitan Water Reclamation District's (MWRD) FY2015 Tentative Budget of nearly $1.3 billion. The budget is a $32.6 million, or 2.7%, increase[2] from amended FY2014 appropriations of approximately $1.2 billion.

The Federation commends the MWRD for continuing to use long-term financial planning through five-year financial forecasting and a Strategic Business Plan to guide its operations and future projects. The District's adherence to its fund balance policy and maintenance of a substantial reserve in its Corporate Fund is also praiseworthy.

The Federation also commends the good fiscal stewardship employed by the District in the creation and sufficient funding of its retiree healthcare trust. Through additional contributions in FY2011-FY2014, the Trust reached a 50% funding level in 2014. This funding level exceeds the District's initial target date to reach 50% funding by 41 years.

The Civic Federation is encouraged by the MWRD's newly adopted pension funding policy that targets a 100% funded ratio by 2050. The Civic Federation supports the MWRD's new funding goal as more actuarially sound than the previous goal of 90%. The Fund's actuary projects the new policy will result in 100% funding 10 or more years before the goal year. In addition to the new funding policy, the Federation also encourages the District to continue to make additional contributions from interest on other funds as allowed under P.A. 95-0891 when available.

Issues the Civic Federation Supports

The Civic Federation supports the following issues contained in the MWRD FY2015 Tentative Budget.

Utilizing and Publishing Long-Term Planning Techniques

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

- Five-year financial forecasts for revenues, expenditures, personnel and tax rates;
- A new Strategic Business Plan for FY2015 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 is implementing a new Strategic Business Plan that will replace the previous Strategic Business Plan that had been in place since FY2011. This new plan reflects the fiscal situation of the District, including the increase in the District's actuarial pension funding level in December 2013 after a 15-year steady erosion.[3]

[2] MWRD appropriations often vary significantly from budget year to budget year, depending on the number and scale of capital projects that the District undertakes and the timing of funding required to complete different phases of multi-year projects.
[3] MWRD FY2015 Executive Director's Recommendations, p. 1.

The new Strategic Business Plan also sets forth a plan that will allow the District to attempt 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 and phosphorus recovered through the District's normal treatment processes.[4] 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 illustrate the District's forward-thinking and good fiscal stewardship.

The Civic Federation commends the District for its planning efforts and recognizes the MWRD as a leader among northeastern Illinois local governments in producing and making public long-term plans.

Exceeding Funding Policy Requirement for OPEB Trust and Amending Funding Policy

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 from pay-as-you-go funding. The Board of Commissioners established the trust with a policy target of reaching a 50% funded ratio in 50 years and required a $10 million contribution from the Corporate Fund in each of the first five years. The trust was initially seeded with $15 million upon its creation in 2007.

Through additional contributions in the years following, the District met its goal of $50 million total contributed through 2011. The District made a $20.0 million contribution in FY2013 and a $20.0 million contribution again in FY2014.[5] At the end of FY2011, the trust was funded at 13.9%.[6] The Trust reached a 50% funding level in 2014.[7] This funding level exceeds the adopted policy target date of 2050 by 41 years. The Board adopted an updated funding policy for the OPEB fund on October 2, 2014. The funding policy was amended to include a 100% maximum funding level to be achieved in twelve years with a $5 million per year contribution staring in FY2015.[8] The policy also begins to describe how contributions for retiree health care will be paid for once the fund reaches 100% funded.

Adopting Pension Funding Policy With a Funded Ratio Goal of 100% by 2050

Following the Retirement Fund actuary's recommendations, the MWRD Board of Commissioners established a new funding policy because the minimum contribution required under P.A. 97-0894 may not be sufficient to meet that statute's funding goal of 90% by 2050. The District also took rating agency guidance that addressing the District's pension liability is essential to its rating stability. The new funding goal of the District is "to contribute annually to the Fund an amount that over time will increase the ratio of Fund assets to accrued liabilities

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[4] MWRD FY2015 Executive Director's Recommendations, pp. 2-3.
[5] MWRD FY2012 Comprehensive Annual Financial Report, p. 85 and FY2014 Executive Director's Recommendations, p. 13.
[6] For more information on the OPEB trust, see page 41 of this report.
[7] MWRD FY2015 Executive Director's Recommendations, p. 1.
[8] MWRD FY2015 Executive Director's Recommendations, p. 28.

[funded ratio] to 100% by the year 2050."[9] To achieve a 100% funded ratio, the District intends to annually contribute (1) an amount equal to the maximum employer contribution allowable under Illinois state statute, or (2) if the maximum amount exceeds the amount available for contribution from the District's tax levy in any budget year, an amount determined by the fund actuary that will exceed the minimum employer contribution required by statute and achieves a funded ratio of 100% by 2050.[10] The Civic Federation supports the MWRD's funding goal of 100% as more actuarially sound than the previous goal of 90%. In addition to the new funding policy, the Federation also encourages the District to continue to make additional contributions from interest on other funds as allowed under P.A. 95-0891 when available.

Maintaining Substantial Reserves

The Federation commends the MWRD for continuing to maintain substantial reserves in its non-appropriated Corporate Fund fund balance in FY2015. The District is budgeting to set aside $69.3 million, or 18.1% of total Corporate Fund appropriations, as budget reserve.

The MWRD has a fund balance policy of maintaining 12-15% of appropriations, or between $47 million and $59 million, in unreserved Corporate Fund fund balance as protection against uncertainty and loss.[11] In its FY2015 budget, the District states its intent to reduce its fund balance level over several years until it resides in the $46 to $57 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] 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."[13] 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. Two months of operating expenditures for the District is approximately 16.7%. The District's projected FY2015 level of net assets exceeds the GFOA recommendation and the MWRD's stated goal of maintaining a reserve of 12-15% of Corporate Fund appropriations.

Civic Federation Caution

The Civic Federation has the following caution regarding the MWRD FY2015 budget.

Projecting Maximum Increase to Property Tax Levy through 2019

The District is proposing to increase its property tax levy for FY2015. A portion of the District's levy is statutorily limited to an annual increase of 5% or the Consumer Price Index (CPI),

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[9] MWRD Presentation: Review of New Accounting Requirements for Pension (GASB 67/68) and Proposed Pension Funding Policy, presented September 18, 2014.
[10] MWRD Presentation: Review of New Accounting Requirements for Pension (GASB 67/68) and Proposed Pension Funding Policy, presented September 18, 2014.
[11] MWRD FY2014 Executive Director's Recommendations, pp. 20 and 25.
[12] MWRD FY2015 Executive Director's Recommendations, p. 17.
[13] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).

whichever is less.[14] The Civic Federation is concerned that after a maximum levy in FY2014 and proposed maximum levy in FY2015, the District's financial projection shows maximum levies for FY2016 through FY2019 as necessary to balance its budget. Overall tax levies are projected to increase by an average rate of 4.3% annually over the five-year period.[15] The FY2015 proposed budget includes a 3.7%, or $19.8 million, increase in its total gross property tax levy to $560.0 million.

Of the $560.0 million, 54.9%, or $307.4 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 2.1%, or $6.5 million, from FY2014 though the distributions of the property tax revenues will be significantly different.

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 reduction to its Corporate Fund expenditures and intent to explore alternative revenue sources such as the sale of its waste products like biosolids and phosphorus and the planned venture into alternative energy production through biogas production in the Calumet anaerobic digesters.[16] We encourage the District to continue to work to balance expenditure controls and other revenue sources with the need for broad-based property tax increases is it develops future budgets.

Civic Federation Recommendations

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

Provide Greater Detail on New Pension Funding Plan and its Impact on the Budget

The Civic Federation commends the District on its new, more actuarially sound pension funding policy that is projected by the District to achieve 100% funding by the late 2030s.[17] The Federation, however, encourages the MWRD to provide greater detail on its newly adopted pension funding plan in the budget document, especially the funding plan's impact on the budget projections in the interest of transparency and more meaningful public review and understanding of the budget.

Improve Tentative Budget Document

As part of the MWRD's budget process, the District produces multiple versions of its proposed budget, including, in order of release, the Executive Director's Recommendations and the

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[14] Property tax levies for the Bond and Interest Fund and the Stormwater Management Fund are not subject to tax caps.
[15] MWRD FY2015 Executive Director's Recommendations, p. 57.
[16] MWRD FY2015 Executive Director's Recommendations, p. 15.
[17] Information provided by MWRD staff on December 8, 2014.

Tentative 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. The Federation also acknowledges that the District highlights in gray number line items that have been updated from the Executive Director's Recommendations in the Tentative Budget. However, as the Tentative Budget does not include an updated version of the "Budget Message/Highlights" narrative, it is difficult for the reader to understand all of the changes and the reasons behind the changes that may have occurred between the different versions of the budget. Therefore, the Civic Federation recommends that the Tentative Budget include an updated "Budget Message/Highlights" section describing any changes and/or new information to the MWRD's tentative budget and reasons for the changes made.

Additionally, the Personal Services Appropriations summary from the Executive Director's Recommendations book is not revised and reprinted in the Tentative Budget book. Personal services represent a substantial portion of the District's budget and the Civic Federation recommends that this important summary information with information regarding changes be included in the Tentative Budget for the Board of Commissioners and public to review.

ACKNOWLEDGEMENTS

The Civic Federation would like to express our appreciation to Executive Director David St. Pierre, Administrative Services Manager Eileen McElligott, Budget Officer Beverly Sanders 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 $1.3 billion in its FY2015 Tentative Budget. This is a 2.7%, or $32.6 million, increase from the FY2014 adjusted budget of $1.2 billion.

MWRD Budget Process

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

- *Proposed appropriations* – appropriations as proposed in the Executive Director's Recommendations;
- *Tentative appropriations* – appropriations approved by the Board of Commissioners based on recommendations from the Committee on Budget and Employment hearings regarding the Executive Director's Recommendations (BF-19 changes);[18]
- *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* – year-end estimated appropriations; 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 tentative appropriations to the adjusted appropriations from previous years and, when available, actual expenditures from previous years.

[18] 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 following exhibit shows MWRD appropriations for all funds for the tentative budgets, adopted budgets, adjusted budgets and actual expenditures for FY2010 to FY2014. As of the writing of this analysis, the District had only released the FY2015 Executive Director's Recommendations and the FY2015 Tentative Budget.

MWRD Appropriations - Tentative, Adopted, Adjusted and Actual: FY2010-FY2014				
	Tentative	Adopted	Adjusted	Actual
FY2010	$ 1,378,626,653	$ 1,655,593,753	$ 1,655,410,779	$ 1,655,410,779
FY2011	$ 974,268,952	$ 1,030,439,078	$ 1,031,719,451	$ 1,031,719,451
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	-

Note: FY2014 actual figures are not yet available.

Source: MWRD Tentative and Adopted Budgets, FY2010-FY2014 and MWRD FY2015 Executive Director's Recommendations, p. 44.

The next exhibit compares the four types of appropriations for FY2010-FY2014. 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. However, significant variances occur between the tentative and adopted budgets.

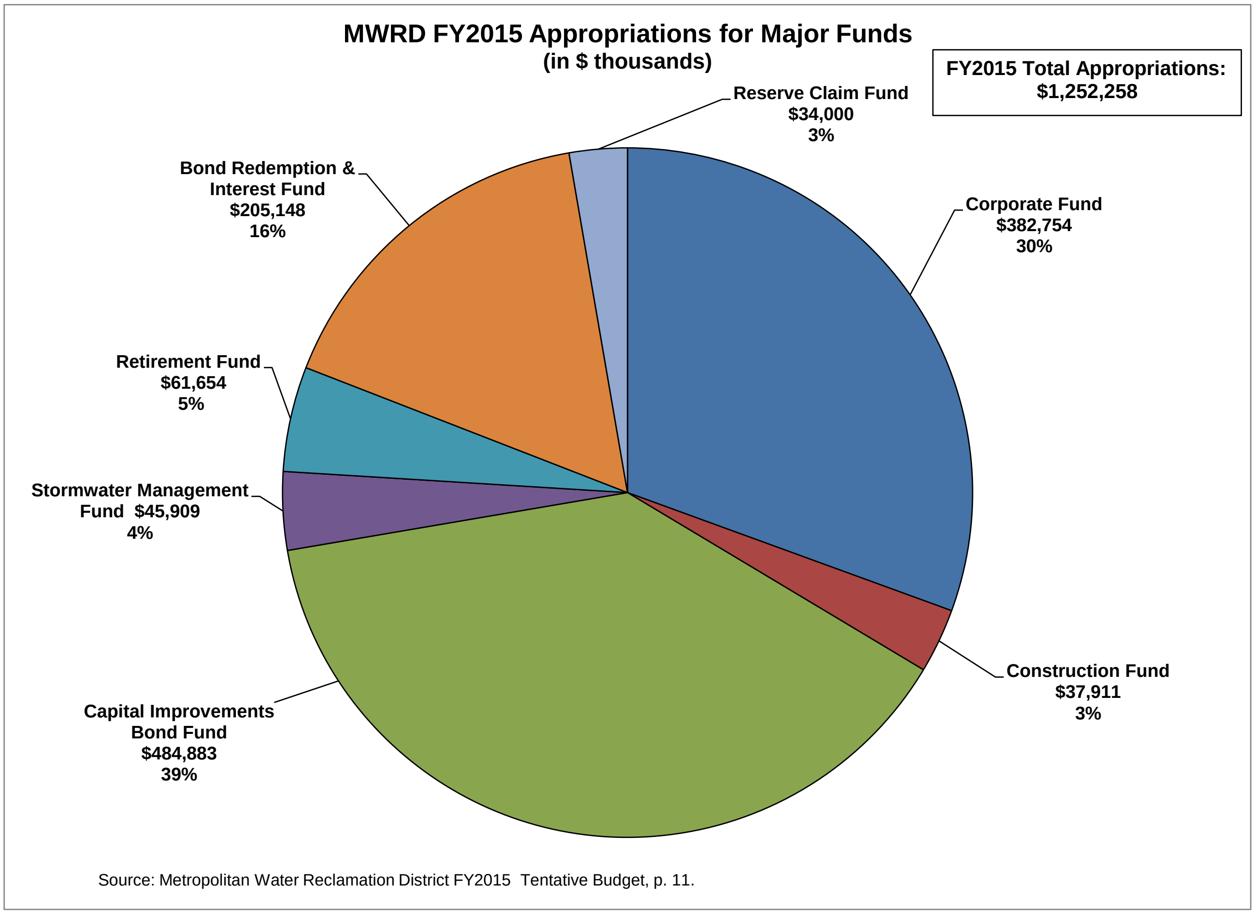
MWRD Appropriations Comparison of Tentative, Adopted and Actual: FY2010-FY2014						
	Variance: Tentative vs. Adopted	Variance: Tentative vs. Adjusted	Variance: Tentative vs. Actual	Variance: Adopted vs. Adjusted	Variance: Adopted vs. Actual	Variance: Adjusted vs. Actual
FY2010	$ 276,967,100	$ 276,784,126	$ 276,784,126	$ (182,974)	$ (182,974)	$ -
FY2011	$ 56,170,126	$ 57,450,499	$ 57,450,499	$ 1,280,373	$ 1,280,373	$ -
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	see note	$ (31)	see note	see note

Note: FY2014 actual figures are not yet available.

Source: MWRD Tentative and Adopted Budgets, FY2010-FY2014 and MWRD FY2015 Executive Director's Recommendations, p. 44.

Appropriations by Major Fund

The following chart shows FY2015 appropriations by fund. The Capital Improvements Bond Fund, Corporate Fund and Bond Redemption & Interest Fund comprise 85% of total appropriations for FY2015. The Reserve Claim Fund, Retirement Fund, Stormwater Management Fund and Construction Fund make up the remaining 15% of appropriations.



The following chart shows appropriations for major funds for FY2011-FY2013 actual, FY2014 adjusted and FY2015 tentative appropriations.

MWRD Major Fund Appropriations: FY2011-FY2015 (in $ thousands)

	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Adjusted	FY2015 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 341,093	$ 339,445	$ 383,608	$ 395,345	$ 382,754	$ (12,591)	-3.2%	$ 41,661	12.2%
Construction Fund	$ 17,700	$ 33,774	$ 40,812	$ 53,306	$ 37,911	$ (15,395)	-28.9%	$ 20,211	114.2%
Capital Improvements Bond Fund*	$ 385,052	$ 305,505	$ 349,649	$ 386,208	$ 484,883	$ 98,674	25.5%	$ 99,830	25.9%
Stormwater Management Fund	$ 39,949	$ 51,000	$ 61,251	$ 50,907	$ 45,909	$ (4,998)	-9.8%	$ 5,960	14.9%
Retirement Fund	$ 32,384	$ 64,362	$ 64,761	$ 74,984	$ 61,654	$ (13,330)	-17.8%	$ 29,270	90.4%
Bond Redemption & Interest Fund	$ 155,541	$ 185,863	$ 190,304	$ 194,906	$ 205,148	$ 10,242	5.3%	$ 49,607	31.9%
Sub-Total	**$ 971,719**	**$ 979,950**	**$1,090,384**	**$1,155,656**	**$1,218,258**	**$ 62,602**	**5.4%**	**$ 246,539**	**25.4%**
Reserve Claim Fund**	$ 60,000	$ 61,000	$ 62,000	$ 64,000	$ 34,000	$ (30,000)	-46.9%	$ (26,000)	-43.3%
Total	**$1,031,719**	**$1,040,950**	**$1,152,384**	**$1,219,656**	**$1,252,258**	**$ 32,602**	**2.7%**	**$ 220,539**	**21.4%**

*Capital Improvements Bond Fund includes appropriations for prior year obligations.
**Reserve Claim Fund includes adopted appropriations, not actual expenditures for FY2011-FY2012.
Source: MWRD Final Budgets, FY2012-FY2014 and FY2015 Tentative Budget, p. 11.

The District's Corporate Fund is used for operational and general expenditures and is primarily funded by property taxes. In FY2015 Corporate Fund appropriations are projected to decrease by 3.2%, or $12.6 million, to $382.8 million from the FY2014 adjusted appropriation of $395.3 million. The FY2015 appropriation includes $26.8 million for a community flood control program.[19] The Corporate Fund also includes a working cash fund, which is used to provide

[19] MWRD FY2015 Executive Director's Recommendations, p. 81.

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.[20] 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.

The Construction Fund serves as a pay-as-you-go funding source for capital projects that rehabilitate aged or less effective infrastructure.[21] 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.[22] In FY2015 the Construction Fund will decrease by 28.9%, or $15.4 million, to $37.9 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.[23] The FY2015 appropriation for the Capital Improvements Bond Fund is $484.9 million. The 25.5%, or $98.7 million, increase in Capital Improvements Bond Fund appropriations in FY2015 reflects the Fund's regular annual fluctuation according to the scheduled awards of major projects and projects carried forward from FY2014.[24] The FY2015 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, thirteen stormwater management projects and two solids projects.[25]

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.[26] 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.[27] Stormwater Management Fund appropriations will fall by 9.8%, or approximately $5.0 million, to $45.9 million in FY2015.

[20] MWRD FY2015 Executive Director's Recommendations, p. 81.
[21] MWRD FY2015 Executive Director's Recommendations, p. 19.
[22] MWRD FY2015 Executive Director's Recommendations, p. 19.
[23] MWRD FY2015 Executive Director's Recommendations, p. 19.
[24] MWRD FY2015 Executive Director's Recommendations, p. 20.
[25] MWRD FY2015 Executive Director's Recommendations, p. 20.
[26] MWRD FY2015 Executive Director's Recommendations, p. 10.
[27] MWRD FY2015 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.[28] 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 2015 appropriation for the Retirement Fund is $61.7 million, a decrease of $13.3 million, or 17.8%, from the 2014 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 90% 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.[29] 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.[30] 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.[31]

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.[32] It finances major projects in the Capital Improvement Program through the issuance of bonds, governmental grants and State Revolving Fund loans.[33] The FY2015 appropriation for the Bond Redemption and Interest Fund is $205.1 million. The Fund will rise by 5.3% or $10.2 million from FY2014 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 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 ½ cent in FY2015.[34]Appropriations for the Reserve Claim Fund will decrease by 46.9%, or $30.0 million, to $34.0 million in FY2015.

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[28] 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 30.
[29] 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 30 of this report.
[30] MWRD FY2014 Executive Director's Recommendations, p. 23.
[31] MWRD FY2015 Executive Director's Recommendations, p. 93.
[32] MWRD FY2015 Executive Director's Recommendations, p. 93.
[33] MWRD FY2015 Executive Director's Recommendations, p. 93.
[34] MWRD FY2015 Executive Director's Recommendations, p. 93.

In a five-year comparison of MWRD actual expenditures and proposed appropriations by fund between FY2011 and FY2015, overall spending will increase by 21.4% or $220.5 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 25.4%, or $246.5 million, from $971.7 billion in FY2011 to $1.2 billion in FY2015. Most of the increase reflects the rise in appropriations for the Capital Improvements Bond Fund, which will increase from $385.1 million in FY2011 to $484.9 million in FY2015. This is an increase of 25.9% or $99.8 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.[35]

Appropriations for the Construction Fund will increase by 114.2%, or $20.2 million, over the same five-year period. Retirement Fund appropriations will also grow significantly, by 90.4%, or $29.3 million, partially as a result of the implementation of recent pension funding reforms with the FY2014 budget.[36] Corporate Fund appropriations will rise by 12.2%, or $41.7 million, over the five-year period.

[35] MWRD FY2015 Executive Director's Recommendations, p. 24.
[36] For more information on the MWRD Retirement Fund, see page 30.

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.[37] Using the EAV of $123.4 billion for the 2013 tax levy year, the maximum accumulation is approximately $61.7 million. Each year the MWRD appropriates the Fund's available fund balance plus new revenue.[38] As is shown in the table below, between FY2011 and FY2013, the District did not expend more than 10.9% of the proposed appropriation. However, a settlement paid in 2014 decreased the FY2015 appropriation to $34.0 million. This is a decrease of $30.0 million, or 46.9%, from the 2014 Adjusted Budget.[39]

MWRD Reserve Claim Fund: FY2011-FY2015

	Proposed Appropriation	Actual Expenditure	Ratio
FY2011	$ 60,000,000	$ 3,400,000	5.7%
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	-	-

*Adjusted appropriation for FY2013.

Source: MWRD Final Budgets, FY2012-FY2014; FY2015 Executive Director's Recommendations, p. 505.

[37] MWRD FY2015 Executive Director's Recommendations, p. 24.
[38] MWRD FY2015 Executive Director's Recommendations, p. 547.
[39] MWRD FY2014 Executive Director's Recommendations, p. 24.

RESOURCES

This section presents trend information about MWRD Corporate Fund resources.

The FY2015 proposed budget includes 2015 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 2015 is not collected until 2016. Therefore the revenue is not available for FY2015 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 $27.1 million in PPRT revenue to be collected in FY2015. The PPRT revenue will consist of $20.1 million in appropriable Corporate Fund revenue and $7.0 million in appropriable Construction Fund revenue.[42]

MWRD Budget Process

As described in the Appropriations section of this report on page 12, 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). 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 FY2015 will increase by 4.1%, or $12.2 million, from $298.1 million in FY2014 to $310.3 million in FY2015. The District is additionally budgeting $72.4 million of its net assets.[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 decrease by 3.2%, or $12.6 million, between FY2014 and FY2015.

Some key revenue changes include:

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[40] MWRD FY2015 Executive Director's Recommendations, p. 71.
[41] MWRD FY2015 Executive Director's Recommendations, pp. 505-512.
[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.

- The District's FY2015 net Corporate Fund property tax levy, which constitutes 70.7% of its total revenues, will decrease by $2.7 million or 1.2%. The property tax levy will be discussed in more detail later in this section;
- User charges will represent 16.4% of Corporate Fund revenues in FY2015 and are expected to increase by $11.0 million to $51.0 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 $1.5 million or 8.0%. In FY2014 $18.6 million was allocated to the Corporate Fund. In FY2013 all PPRT revenues were 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 $2.8 million, or 19.0%, to $17.5 million in FY2015;
- Investment Income will decrease by $1.0 million, or 43.5%, to $1.3 million. The level of investment income in FY2015 reflects relatively stable short-term interest rates and fund balance resources available for investment;[46]
- Other revenues, which include revenues generated from the TIF Differential Fee and Impact Fee and miscellaneous revenues, will increase by $725,000, or 14.7%, from $4.9 million in FY2014 to $5.6 million in FY2015; and
- There is no equity transfer recommended in the FY2015 budget. In FY2011 the District approved a transfer of $8.0 million from the Corporate Working Cash Fund to the Corporate Fund. MWRD defines an equity transfer as a transfer between funds.[47]

In a five-year comparison, Corporate Fund revenue will decrease by 12.3%, or $43.4 million, from $353.8 million in FY2011 to $310.3 million in FY2015. Total resources will decrease by 9.7%, or $41.0 million. During this five-year period, the net property tax levy allocated to the Corporate Fund will decrease by $20.6 million or 8.6%. Appropriated net assets will increase from $70.0 million in FY2011 to $72.4 million in FY2015, an increase of $2.4 million or 3.5%.

Over the five-year period, user charges fluctuate significantly. The changes can be attributed to a decrease in the operations, maintenance and replacement factor of the user charge rate calculation and also unprecedented increases in assessed user charges due to high Lake Michigan turbidity in 2012 that did not recur.[48]

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[44] MWRD FY2015 Executive Director's Recommendations, p. 81.
[45] MWRD FY2015 Executive Director's Recommendations, p. 68.
[46] MWRD FY2015 Executive Director's Recommendations, p. 81.
[47] Information provided by the MWRD, November 24, 2010.
[48] Information provided by the MWRD, December 10, 2012.

MWRD Corporate Fund Resources: FY2011-FY2015 (in $ thousands)									
Resource	**FY2011 Actual**	**FY2012 Actual**	**FY2013 Actual**	**FY2014 Budgeted**	**FY2015 Tentative**	**Two-Year $ Change**	**Two-Year % Change**	**Five-Year $ Change**	**Five-Year % Change**
Property Taxes (net)	$239,803	$ 228,891	$ 216,257	$221,950	$219,244	$ (2,706)	-1.2%	$ (20,558)	-8.6%
User Charges	$ 48,314	$ 77,638	$ 53,502	$ 40,000	$ 51,000	$ 11,000	27.5%	$ 2,686	5.6%
PPRT	$ 22,649	$ 26,215	$ 23,832	$ 18,608	$ 20,102	$ 1,494	8.0%	$ (2,547)	-11.2%
Property & Service Charges	$ 15,210	$ 13,465	$ 18,204	$ 14,700	$ 17,500	$ 2,800	19.0%	$ 2,290	15.1%
Investment Income	$ 2,359	$ 2,538	$ 3,022	$ 2,300	$ 1,300	$ (1,000)	-43.5%	$ (1,059)	-44.9%
Other	$ 22,287	$ 12,555	$ 9,723	$ 4,920	$ 5,645	$ 725	14.7%	$ (16,642)	-74.7%
Equity Transfer	$ 8,000	$ -	$ -	$ -	$ -	$ -	-	$ (8,000)	-100.0%
Working Cash Borrowings Adjustment	$ (4,851)	$ (4,906)	$ (4,588)	$ (4,358)	$ (4,446)	$ (88)	2.0%	$ 406	-8.4%
Total Revenues	**$353,770**	**$ 356,396**	**$ 319,951**	**$298,120**	**$310,345**	**$ 12,225**	**4.1%**	**$ (43,425)**	**-12.3%**
Net Assets Appropriable	$ 72,251	$ 132,025	$ 192,455	$155,780	$141,734	$ (14,046)	-9.0%	$ 69,483	96.2%
Adjustments for Receipts	$ (2,270)	$ 1,707	$ 7,767	$ -		$ -	-	$ 2,270	-100.0%
Budget Reserve	$ -	$ -	$ -	$ (58,555)	$ (69,324)	$ (10,769)	18.4%	$ (69,324)	-
Subtotal - Appropriated Net Assets	**$ 69,981**	**$ 133,732**	**$ 200,221**	**$ 97,225**	**$ 72,409**	**$ (24,816)**	**-25.5%**	**$ 2,428**	**3.5%**
Total Resources	**$423,751**	**$ 490,128**	**$ 520,172**	**$395,345**	**$382,754**	**$ (12,591)**	**-3.2%**	**$ (40,997)**	**-9.7%**

Note: Other includes TIF Differential Fee and Impact Fee and Miscellaneous. Difference may occur due to rounding.
Source: MWRD FY2013 Final Budget, p. 76; FY2014 Final Budget, pp. 76 and 78; and FY2015 Tentative Budget, p. 11.

Property Tax Levy

In FY2015 the MWRD's total net property tax levy will increase by 3.7%, or $19.8 million, to $560.0 million from the FY2014 amended budget.[49] 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.[50] Of the $560.0 million, 54.9%, or $307.4 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 2.1%, or $6.5 million, from FY2014, which will be levied to maximum amount under state statute.

The Corporate Fund and Construction Fund will receive $2.8 million, or 1.2%, and $900,000, or 5.2%, less in property tax revenues, respectively. 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 $46.0 to $57.0 million range. Property tax revenues for the Retirement Fund and Reserve Claim Fund will increase by $7.5 million, or 14.8%, and $2.7 million, or 90.0%, respectively. The increase in the Retirement Fund reflects the statutory formula that ties employer pension contributions to employee pension contributions made two years prior.[51] The Reserve Claim Fund levy will increase because the District is levying the maximum amount allowed under state statute.[52]

The remaining 45.1%, or $252.6 million, of the total levy is for the Bond and Interest and Stormwater Management Funds, which are not subject to tax caps.[53] The FY2015 Stormwater Management levy will increase by $3.1 million, or 14.5%, while the Bond and Interest levy, reserved for debt service, will increase by $10.3 million or 4.7%.

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[49] The FY2015 levy is for tax year 2015, which will be collected in 2016.
[50] MWRD FY2015 Executive Director's Recommendations, p. 22 and information provided by MWRD budget staff, December 8, 2014.
[51] MWRD FY2015 Executive Director's Recommendations, p. 20.
[52] MWRD FY2015 Executive Director's Recommendations, p. 21.
[53] 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.

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 $28.2 million in FY2011 to $58.0 million in FY2015. 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.[54]

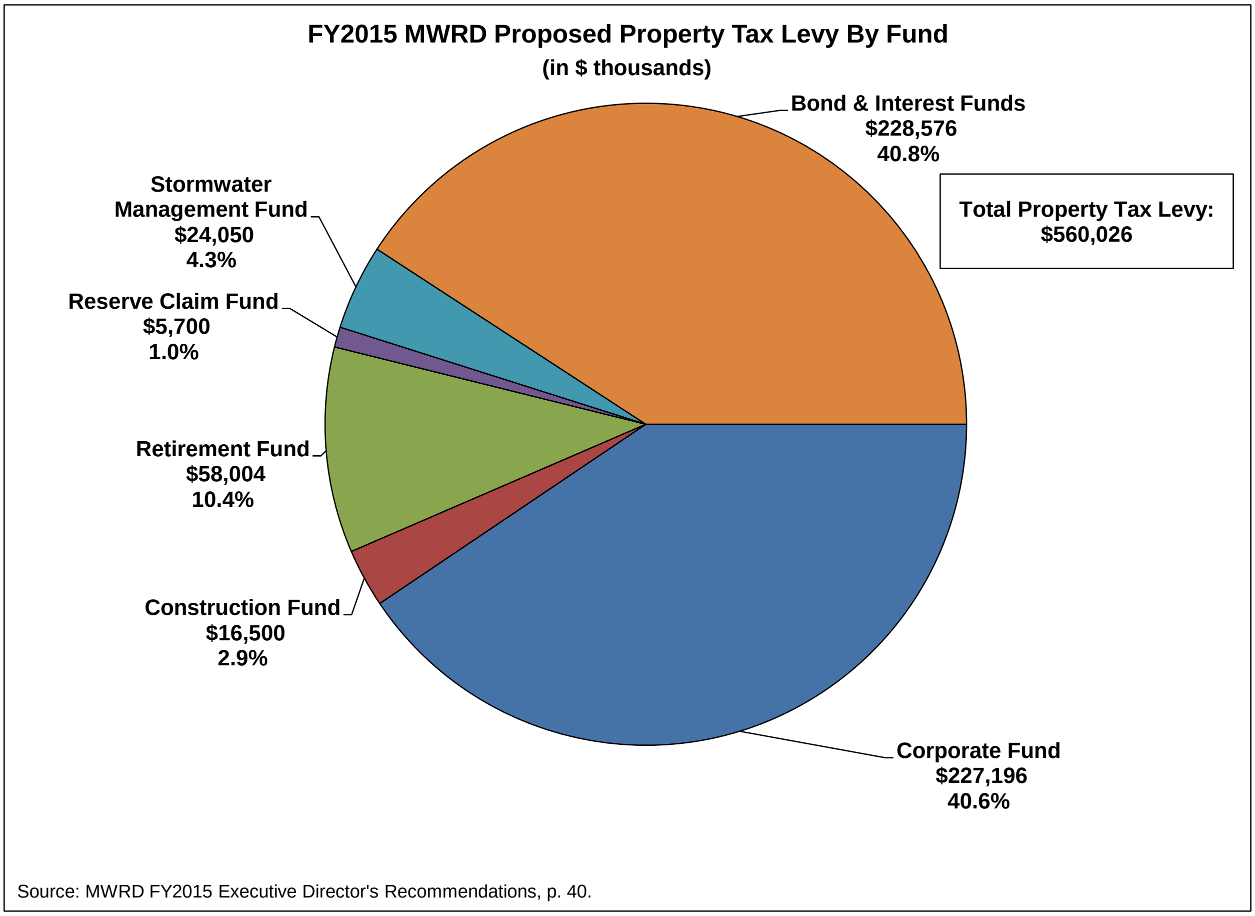
MWRD Property Tax Levy: FY2011-FY2015 (in $ thousands)

	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Amended	FY2015 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 249,828	$ 237,248	$ 224,400	$ 230,000	$ 227,196	$ (2,804)	-1.2%	$ (22,632)	-9.1%
Construction Fund	$ 1,819	$ 20,418	$ 11,079	$ 17,400	$ 16,500	$ (900)	-5.2%	$ 14,681	807.1%
Retirement Fund	$ 28,163	$ 28,490	$ 51,621	$ 50,531	$ 58,004	$ 7,473	14.8%	$ 29,841	106.0%
Reserve Claim Fund	$ 3,400	$ 6,670	$ 6,171	$ 3,000	$ 5,700	$ 2,700	90.0%	$ 2,300	67.6%
Subtotal Tax Capped Funds	**$ 283,210**	**$ 292,825**	**$ 293,271**	**$ 300,931**	**$ 307,400**	**$ 6,469**	**2.1%**	**$ 24,190**	**8.5%**
Stormwater Management Fund	$ 24,100	$ 20,000	$ 20,000	$ 21,000	$ 24,050	$ 3,050	14.5%	$ (50)	-0.2%
Bond & Interest Funds	$ 169,646	$ 180,748	$ 201,389	$ 218,325	$ 228,576	$ 10,251	4.7%	$ 58,930	34.7%
Total	**$ 476,955**	**$ 493,573**	**$ 514,659**	**$ 540,256**	**$ 560,026**	**$ 19,770**	**3.7%**	**$ 83,071**	**17.4%**

Source: MWRD FY2013 Final Budget, p. 46; FY2014 Final Budget p. 46. FY2015 Executive Director's Recommendations, p. 40.

54 MWRD FY2015 Executive Director's Recommendations, p. 510.

The next exhibit shows the distribution of property tax dollars among the MWRD's various funds in FY2015. Together the Corporate Fund and Bond and Interest Funds will consume 81.4% of the District's total levy.



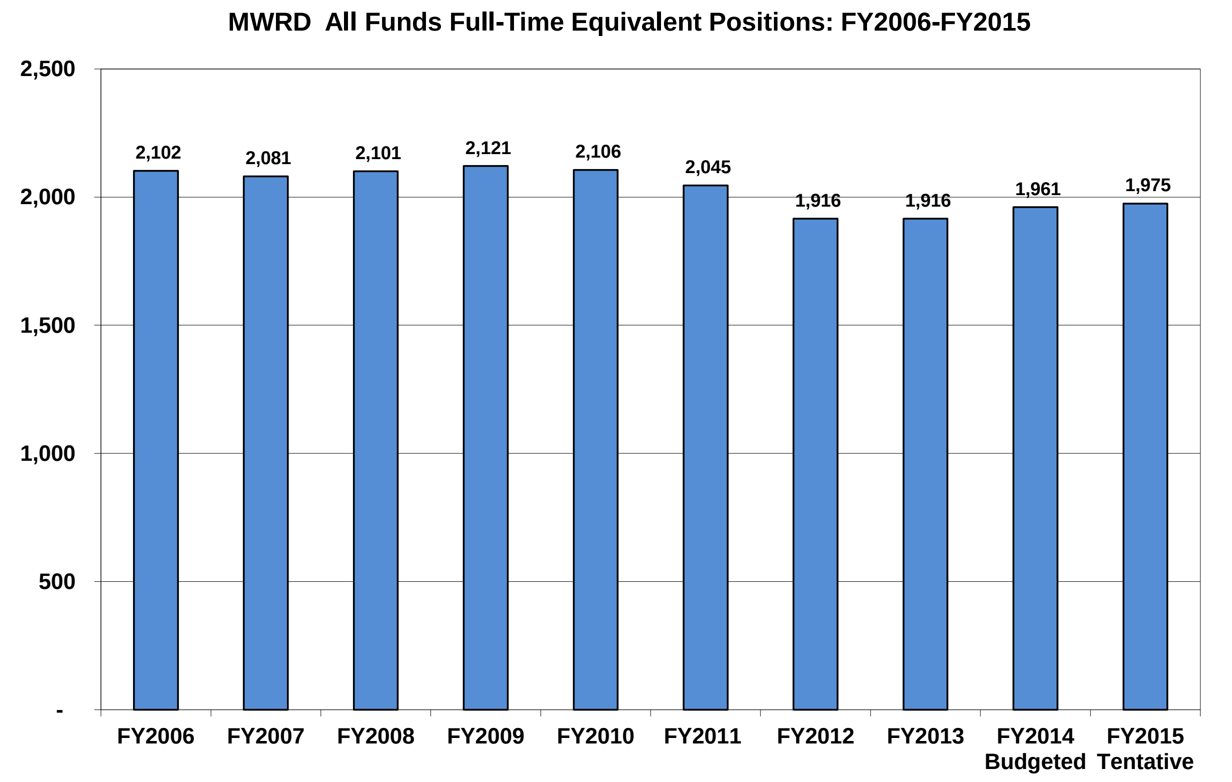
The MWRD Board of Commissioners has a policy of adopting aggregate tax levies that do not increase by more than 5.0% over the prior year (excluding the Stormwater Management Fund). There is also a policy that when investment income in the Bond and Interest Funds exceeds the amount necessary for paying the principal and interest over the next twelve months, the Bond and Interest property tax levy is abated.[55]

[55] MWRD FY2015 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. Previous to the FY2015 budget, the District referred to position counts and headcounts in its budget documents. Even though the District has only full-time employees, the change to 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 increase by 14 FTE positions to 1,975 FTE positions in FY2015. This is a 0.7% increase from 1,961 FTE positions budgeted in FY2014. The entire increase is in FTE positions paid from the Corporate Fund and offset by a small reduction in the Stormwater Management Fund. Since FY2006 the District has cut its workforce by 6.0% or 127 FTE positions.



Source: MWRD FY2015 Tentative Budget, p. 10.

The following chart displays the number of FTE positions for all funds between FY2011 and FY2015. Since FY2013, approximately 97.0% of District employees have been funded with Corporate Fund dollars. Between FY2014 and FY2015 the number of Corporate Fund FTE positions will increase by 0.9%, or 17 FTE positions.

Since FY2011 Corporate Fund positions will increase by 7.8%, or 139 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.[56] Over the five-year period beginning FY2011, other departmental positions funded by the Corporate Fund have mostly declined, with the exception of the Information Technology, Human Resources and Law departments. After modest growth to staff Master Plans[57] and new initiatives in FY2008 and FY2009, personnel reductions in FY2010 marked the beginning of a five-year plan to reduce staffing levels due to revenue constraints.[58] Significant staffing reductions in FY2011 and FY2012 were part of the five-year plan aimed at restructuring the District to ensure financial stability going forward.[59]

MWRD All Funds Full-Time Equivalent Positions: FY2011-FY2015									
	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Budgeted	FY2015 Tentative	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Corporate Fund									
Maintenance & Operations	1,024	942	943	948	948	0	0.0%	-76	-7.4%
Monitoring & Research	299	280	282	288	297	9	3.1%	-2	-0.7%
General Administration	123	112	109	113	116	3	2.7%	-7	-5.7%
Procurement & Materials	67	62	62	62	63	1	1.6%	-4	-6.0%
Information Technology	69	69	68	70	70	0	0.0%	1	1.4%
Human Resources	59	57	58	72	74	2	2.8%	15	25.4%
Law	37	37	38	36	38	2	5.6%	1	2.7%
Board of Commissioners	38	35	36	37	37	0	0.0%	-1	-2.6%
Finance	31	29	29	29	29	0	0.0%	-2	-6.5%
Engineering (Corporate Fund)	29	28	242	243	243	0	0.0%	214	737.9%
Total Corporate Fund	**1,776**	**1,651**	**1,867**	**1,898**	**1,915**	**17**	**0.9%**	**139**	**7.8%**
Construction Fund	25	21	0	0	0	0	0.0%	-25	-100.0%
Captal Improvements Bond Fund	201	196	0	0	0	0	0.0%	-201	-100.0%
Stormwater Management Fund	43	48	49	63	60	-3	-4.8%	17	39.5%
Total	**2,045**	**1,916**	**1,916**	**1,961**	**1,975**	**14**	**0.7%**	**-70**	**-3.4%**

Source: MWRD FY2013 Tentative Budget, p. 13;FY2014, p. 11; and FY2015, p. 10.

Personal Service Appropriations

The summary of personal service appropriations for all funds by spending area is not available in the FY2015 Tentative Budget. The exhibit below shows the FY2015 appropriations as proposed in the Executive Director's Recommendations compared with the adjusted personal service appropriations for FY2014 and actual appropriations for FY2011 through FY2013. The following figures therefore do not reflect the same FTE positions for FY2014 and FY2015 as the above exhibits or the rest of the analysis.

The proposed appropriation for regular employee salaries, which constitutes 63.0% of all personal service appropriations, will increase by 3.4%, or $6.0 million, to $182.8 million in FY2015 from FY2014 adjusted appropriations. Over the two-year period between FY2014 and FY2015 total personal services appropriations have decreased by $20.7 million or 6.7%. Since FY2011 salaries have increased by 12.3% or $20.1 million. The fluctuations reflect the staffing adjustments noted above, with declines in FY2011 and FY2012 and moderate growth in FY2013

[56] 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.
[57] 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.
[58] MWRD FY2012 Executive Director's Recommendations, p. 51.
[59] MWRD FY2015 Executive Director's Recommendations, p. 52.

through FY2015. Contractual services will increase by $7.3 million, or 21.7%, over the five-year period. Over the two-year period between FY2014 and FY2015 contractual services will decrease by 20.9%, or $10.8 million, due to decreases in 2014 consulting contracts for projects such as TARP.[60]

MWRD All Funds Personal Services Appropriations: FY2011-FY2015 (in $ thousands)									
	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Adjusted	FY2015 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries of Regular Employees*	$ 162,780	$ 159,769	$ 164,984	$ 176,893	$ 182,847	$ 5,954	3.4%	$ 20,067	12.3%
Contractual Services	$ 33,573	$ 32,873	$ 23,951	$ 51,654	$ 40,854	$ (10,800)	-20.9%	$ 7,281	21.7%
Health & Life Insurance Premiums**	$ 41,570	$ 57,328	$ 57,779	$ 60,197	$ 45,105	$ (15,092)	-25.1%	$ 3,535	8.5%
Employee Claims	$ 4,645	$ 4,744	$ 4,834	$ 10,100	$ 10,060	$ (40)	-0.4%	$ 5,415	116.6%
Compensation Plan Adjustments	$ 6,258	$ 6,027	$ 6,368	$ 7,444	$ 6,971	$ (473)	-6.4%	$ 713	11.4%
Other Employee Personal Services***	$ 654	$ 633	$ 1,039	$ 2,251	$ 1,749	$ (502)	-22.3%	$ 1,095	167.6%
Social Security & Medicare Contributions	$ 2,250	$ 2,223	$ 2,308	$ 2,425	$ 2,693	$ 268	11.0%	$ 443	19.7%
Total	**$ 251,729**	**$ 263,597**	**$ 261,261**	**$ 310,964**	**$ 290,279**	**$ (20,685)**	**-6.7%**	**$ 38,550**	**15.3%**

* Includes FY2015 Salary Adjustments

** Includes OPEB distribution

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

Note: The summary of personal services appropriations for all funds is not available in the FY2014 Tentative Budget.

Source: MWRD FY2013 Final Budget, p. 59; FY2014 Final Budget, p. 58; and FY2015 Executive Director's Recommendations, p. 52.

The exhibit below compares actual personal service appropriations from FY2011 through FY2013 with FY2014 adjusted appropriations and FY2015 Tentative Budget appropriations by fund and by department. The analysis of personal service appropriations by department includes adjustments that carry forward the open value of contracts from the prior year. As such, the total appropriations for FY2014 and FY2015 may differ from the summary above.

The total appropriation for personal services district-wide will decrease by $12.4 million, or 4.1%, over FY2014 adjusted budget figures. Over the two-year period between FY2014 and FY2015 personal services appropriations are decreasing primarily due to reduced funding of the Other Post-Employment Benefit Plan.[61] In 2007 the District set a 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] As part of its OPEB funding goal in 2012 the District contributed an amount calculated as a percent of payroll. In FY2014 and FY2015 the contribution amount totaled $20.0 million and $5.0 million, respectively.[63]

Since FY2011, total appropriations have increased by $37.9 million or 15.1%. Corporate Fund personal services appropriations will shrink by $13.6 million to $240.4 million, as proposed in FY2015. This reflects a 5.4% decrease over FY2014 and a 23.6% increase since FY2011. The five-year growth in the Corporate Fund is largely driven by an 869.2%, or $23.8 million, increase in the Corporate Fund's Engineering department. This is 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.[64] In addition, the Human Resources department will increase by 17.3%, or $8.1 million, since FY2011. The increase can be attributed

[60] Information provided by the MWRD, December 8, 2014.
[61] MWRD FY2015 Executive Director's Recommendations, p. 178.
[62] For more information on the MWRD OPEB Trust, see page 40.
[63] MWRD FY2015 Executive Director's Recommendations, p. 13.
[64] MWRD FY2015 Executive Director's Recommendations, p. 20.

to the implementation of a retiree health care funding strategy in FY2012 in which the District appropriated an additional $9.1 million to the other post-employment benefits (OPEB) Trust.[65]

MWRD All Funds Personal Services Appropriations by Department: FY2011-FY2015 (in $ thousands)									
	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Budgeted	FY2015 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund									
Maintenance & Operations	$ 85,963	$ 82,348	$ 85,122	$ 89,060	$ 91,466	$ 2,407	2.7%	$ 5,503	6.4%
Monitoring & Research	$ 22,680	$ 22,042	$ 22,937	$ 25,977	$ 25,755	$ (222)	-0.9%	$ 3,076	13.6%
General Administration	$ 10,491	$ 9,870	$ 10,124	$ 11,375	$ 13,405	$ 2,029	17.8%	$ 2,913	27.8%
Procurement & Materials	$ 4,912	$ 4,641	$ 4,881	$ 5,303	$ 5,285	$ (19)	-0.4%	$ 373	7.6%
Information Technology	$ 7,973	$ 7,699	$ 7,820	$ 8,624	$ 8,409	$ (215)	-2.5%	$ 436	5.5%
Human Resources	$ 47,197	$ 62,565	$ 66,111	$ 70,847	$ 55,344	$ (15,504)	-21.9%	$ 8,146	17.3%
Law	$ 6,339	$ 5,080	$ 6,167	$ 7,202	$ 6,693	$ (510)	-7.1%	$ 354	5.6%
Board of Commissioners	$ 3,283	$ 3,422	$ 3,465	$ 3,951	$ 4,043	$ 92	2.3%	$ 759	23.1%
Finance	$ 2,874	$ 3,099	$ 3,307	$ 3,443	$ 3,385	$ (59)	-1.7%	$ 511	17.8%
Engineering	$ 2,747	$ 2,860	$ 23,763	$ 28,260	$ 26,628	$ (1,632)	-5.8%	$ 23,880	869.2%
Sub-Total Corporate Fund	**$ 194,460**	**$ 203,626**	**$ 233,697**	**$ 254,042**	**$ 240,411**	**$ (13,631)**	**-5.4%**	**$ 45,951**	**23.6%**
Construction Fund	$ 4,366	$ 3,525	$ 771	$ 7,834	$ 6,542	$ (1,292)	-16.5%	$ 2,176	49.8%
Capital Improvement Bond Fund	$ 40,661	$ 41,932	$ 13,936	$ 11,250	$ 14,100	$ 2,850	25.3%	$ (26,561)	-65.3%
Stormwater Management Fund	$ 7,658	$ 9,827	$ 8,087	$ 18,934	$ 18,615	$ (319)	-1.7%	$ 10,957	143.1%
Reserve Claim Fund	$ 4,584	$ 4,688	$ 4,770	$ 10,000	$ 10,000	$ -	0.0%	$ 5,416	118.1%
Total	**$ 251,729**	**$ 263,597**	**$ 261,261**	**$ 302,060**	**$ 289,668**	**$ (12,392)**	**-4.1%**	**$ 37,939**	**15.1%**

Source: MWRD Tentative Budget, FY2013-FY2015.

[65] MWRD FY2012 Executive Director's Recommendations, pp. 179 and 181.

NON-APPROPRIATED CORPORATE FUND FUND BALANCE

This section reviews the MWRD's Corporate Fund fund balance according to the assets available for future use or budget reserve as stated in the District's adopted, or final, budget for each fiscal year.

The MWRD has a fund balance policy of maintaining 12-15% of appropriations, or between $47 million to $59 million, in unreserved Corporate Fund fund balance. 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. In FY2013 the District changed the name of net assets appropriable that have not been used as revenue for the subsequent year from "Net Assets Available for Future Use" to "Budget Reserve." 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 12-15% of appropriations, as in accordance with established fund balance policy.[66] In the FY2015 proposed budget, the District plans to increase its budget reserve slightly by $10.7 million to $69.3 million, a level the District believes will balance the competing imperatives of minimizing the annual property tax levy and providing for unexpected shortfalls in revenues.[67]

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."[68] The GFOA's recommendation is also a good benchmark for special-purpose governments like the MWRD. Two months of operating expenditures for the District is approximately 16.7%. The MWRD's projected FY2015 budget reserve of 18.1% of projected expenditures exceeds the GFOA recommendation and the District's stated goal of maintaining a reserve of 12-15% of Corporate Fund appropriations.

Between FY2009 and FY2011, the District's fund balance did not exceed 6.0% of operating expenditures, and therefore did not meet the GFOA's or the MWRD's own standard. In FY2012 the District's Corporate Fund fund balance rose to $61.1 million, or 18.0% of operating expenditures, from $19.8 million or 5.8% of operating expenditures in FY2011.

[66] MWRD FY2014 Executive Director's Recommendations, pp. 20 and 25.
[67] MWRD FY2015 Executive Director's Recommendations, p. 17.
[68] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).

In FY2013 the budget reserve rose again by $46.8 million to $107.9 million, or 28.1% of operating expenditures, its highest level in the past eight years. In FY2014 the Corporate Fund fund balance declined, in accordance with the District's strategic plan, representing 14.9% of operating expenditures. This is primarily the result of the District's transfer of $30.0 million from the Corporate Fund to the District's Retirement Fund.[69] In FY2015 the projected fund balance will rise slightly to $69.3 million or 18.1% of operating expenditures.

MWRD Budgeted Corporate Fund Fund Balance: FY2009-FY2015 (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	$ 394.3	14.9%
FY2015	$ 69.3	$ 382.8	18.1%

Sources: MWRD Adopted Budgets, FY2009-FY2014, Summaries of Net Assets Appropriable - All Funds and Comparative Statements of Appropriations and Tax Levies - All Funds; FY2015 Tentative Budget, p. 11.

[69] Information provided by the MWRD, December 10, 2013.

PENSION FUND

The Civic Federation analyzes four indicators of the fiscal health of the MWRD pension fund: funded ratios, unfunded actuarial accrued liabilities, investment rate of return and annual required employer contributions. This section presents multi-year data for those indicators and describes the MWRD pension benefits.

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.[70] Plan benefits and contribution amounts can only be amended through State legislation.[71] 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.[72]

In FY2013 there were 1,858 active members of the pension fund and 2,329 beneficiaries, for a ratio of 0.80 active member for every beneficiary. This ratio has fallen from 0.93 in FY2004 as the number of active members has declined and the number of beneficiaries has risen. This trend puts financial stress on the fund as there are fewer employees contributing to the fund and more annuity payments to make.

MWRD Pension Fund Membership: FY2004-FY2013			
Fiscal Year	Active Employees	Beneficiaries	Ratio of Active to Beneficiary
FY2004	2,051	2,206	0.93
FY2005	2,025	2,215	0.91
FY2006	1,995	2,248	0.89
FY2007	2,002	2,276	0.88
FY2008	2,052	2,272	0.90
FY2009	2,082	2,252	0.92
FY2010	2,024	2,248	0.90
FY2011	1,888	2,328	0.81
FY2012	1,856	2,317	0.80
FY2013	1,858	2,329	0.80
Ten-Year Change	**-193**	**123**	**-0.1**
Ten-Year % Change	**-9.4%**	**5.6%**	**-14.2%**

Source: MWRD Retirement Fund Comprehensive Annual Financial Reports, FY2004-FY2013.

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70 MWRD Retirement Fund FY2013 Comprehensive Annual Financial Report, p. 34.

71 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.

72 MWRD Retirement Fund FY2013 Comprehensive Annual Financial Report, p. 34 and 40 ILCS 5/13-701.

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.[73] 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 MWRD pension contributions under the state statute at the time requiring 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 60 year-old employee with 21 years of service and a $80,000 final average salary could retire with a $37,120 annuity: (20 x $80,000 x 2.2%) + (1 x $80,000 x 2.4%)= $37,120.[74] The annuity increases every year by an automatic 3.0% adjustment compounded. Employees 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 MWRD Commissioners.[75]

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

[74] The average age at time of retirement in 2013 was 60.7 years and the average years of service were 21.1 years. The average final average salary for persons retiring in 2013 with 20-25 years of service was $81,384. MWRD Retirement Fund FY2013 Comprehensive Annual Financial Report, pp. 101 and 102.

[75] See 40 ILCS 5/13-314 and MWRD Retirement Fund FY2013 Comprehensive Annual Financial Report, p. 37.

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% compounded to the lesser of 3% 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 FY2013 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 FY2013 Comprehensive Annual Financial Report, pp. 83-88 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 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.

The MWRD estimates that the one percentage point increase in employee contributions in FY2014 will increase funding to the pensions by approximately $2.0 million.[76]

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

[76] Information provided by MWRD, December 8, 2014.

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.[77] 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 $286.3 million of the nearly $1.0 billion unfunded liability.[78]

Under the revised 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 will 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.[79] 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. [80] The total FY2014 budgeted employer contribution to the fund was $75.0 million.[81]

The total FY2015 contribution is 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 will not make an additional interest income transfer from other funds in FY2015.[82] 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.[83] The new policy requires the District to make contributions to the pension fund at the 4.19 multiplier while giving some flexibility to fall back

[77] 40 ILCS 5/13-503. Employee contributions to optional additional benefits made after January 1, 2003 are multiplied by 1.0.
[78] MWRD Retirement Fund FY2013 Comprehensive Annual Financial Report, p. 89.
[79] MWRD FY2015 Executive Director's Recommendations, p. 20.
[80] MWRD FY2015 Executive Director's Recommendations, p. 97.
[81] MWRD FY2015 Executive Director's Recommendations, p. 511.
[82] MWRD FY2015 Executive Director's Recommendations, p. 93.
[83] 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 http://mwrd.legistar.com/LegislationDetail.aspx?ID=1913568&GUID=52585D4D-38C0-4242-9052-5BE5120D371D&Options=&Search=.

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.[84]

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.[85] 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 73.6% in FY2004 to 50.4% in FY2012 before increasing to 54.1% in FY2013. The market value funded ratio fell from a high of 72.9% in FY2004 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 51.1% in FY2012 and 59.2% in FY2013. 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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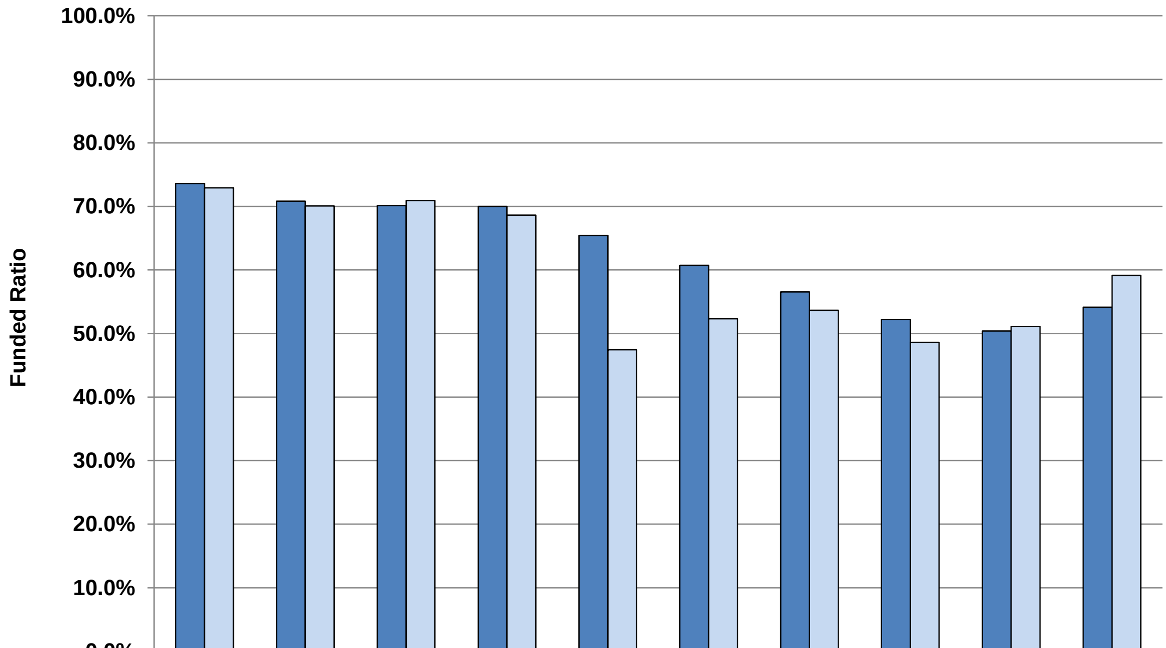
[84] Information provided by the MWRD, December 8, 2014.
[85] For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2012*, October 2, 2014.

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%.

MWRD Pension Fund Funded Ratios
Actuarial Value of Assets and Market Value of Assets: FY2004-FY2013



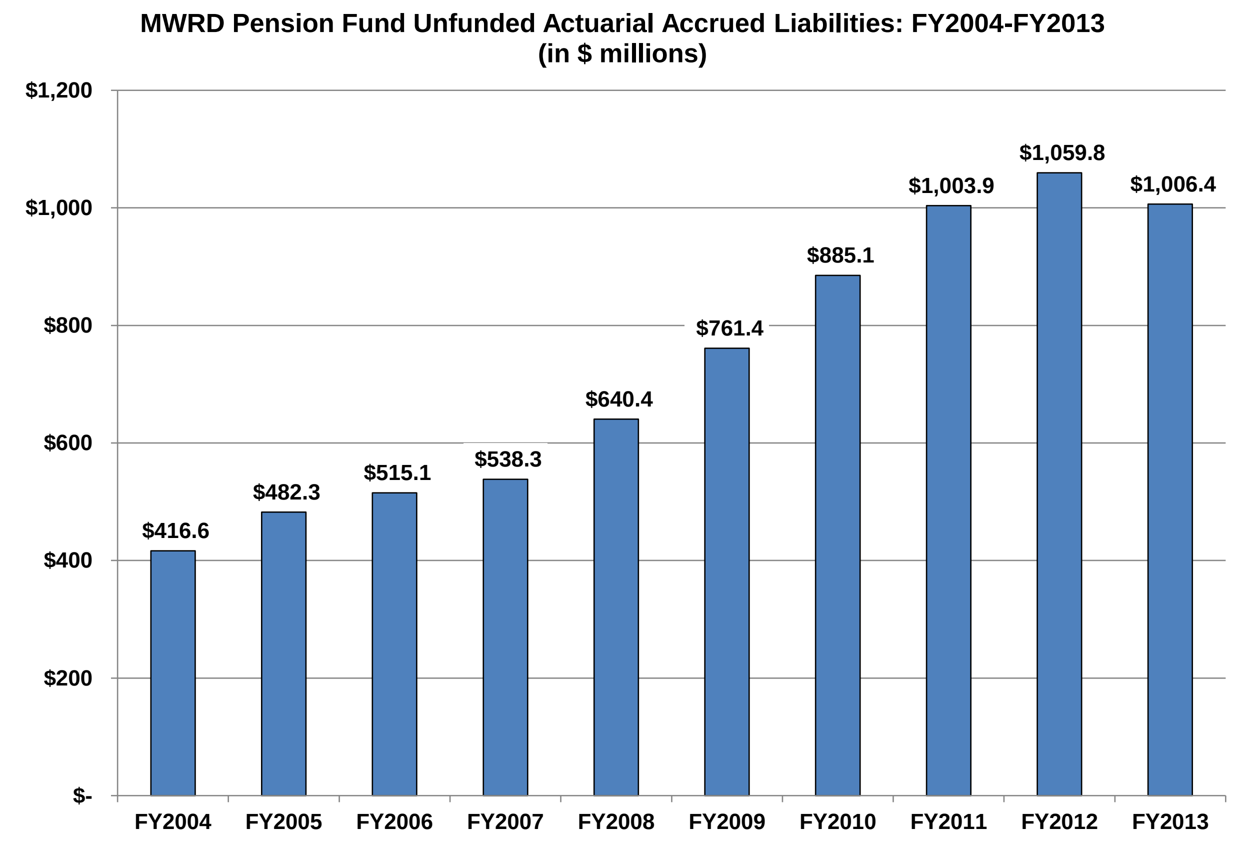
	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Actuarial Value	73.6%	70.8%	70.1%	70.0%	65.4%	60.7%	56.5%	52.2%	50.4%	54.1%
Market Value	72.9%	70.1%	70.9%	68.6%	47.4%	52.3%	53.6%	48.6%	51.1%	59.2%

Source: Civic Federation calculations based on FY2004-FY2013 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 FY2013, up from $416.6 million in FY2004.

The largest contributor to the growth in unfunded liabilities between FY2004 and FY2013 was investment returns failing to meet the 7.75% expected rate of return. This added $354.8 million to the UAAL. The second largest contributor was employer contributions that were $286.3 million less than the annual normal cost plus interest on the UAAL.[86]



Source: MWRD Retirement Fund FY2004-FY2013 Comprehensive Annual Financial Reports.

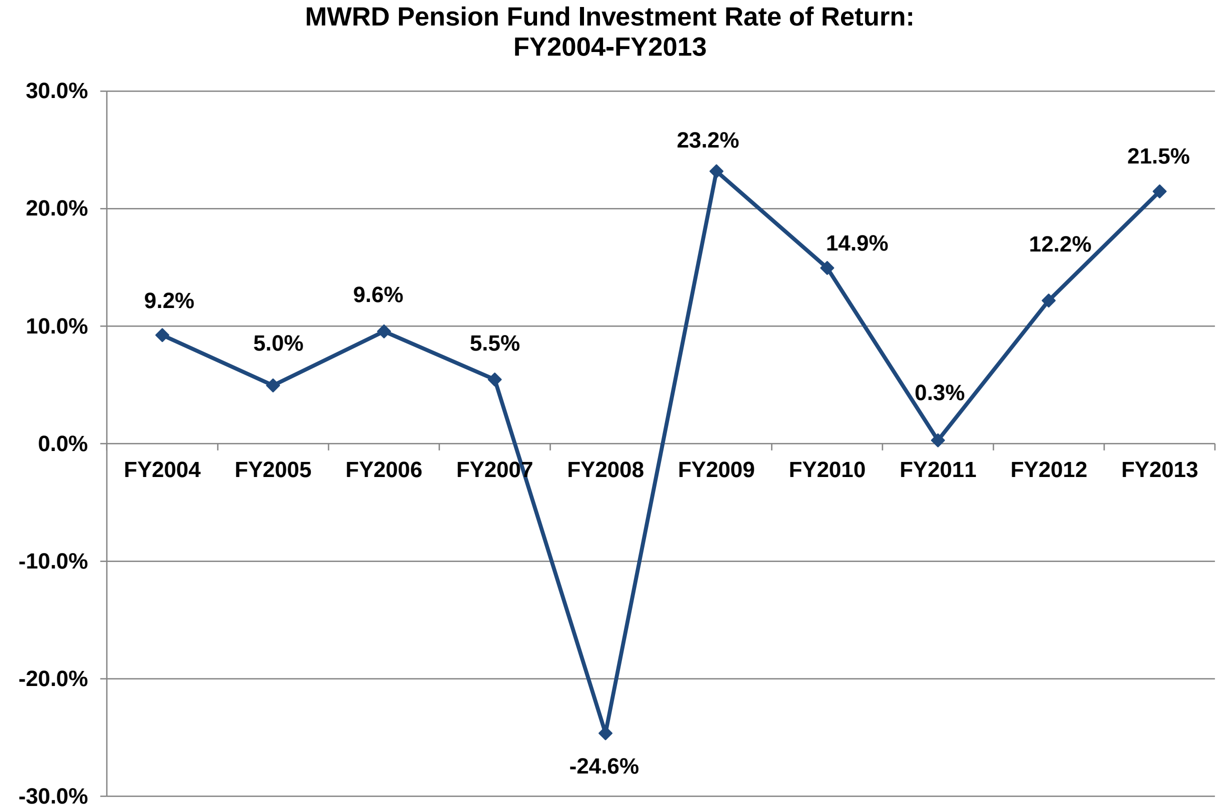
Investment Rates of Return

Investment income typically provides a significant portion of the funding for pension funds. Thus, declines over a period of time can have a negative impact on pension assets. Between FY2004 and FY2013 the MWRD pension fund's average annual rate of return was 7.7%.[87] 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

[86] MWRD Retirement Fund FY2013 Comprehensive Annual Financial Report, p. 89.

[87] 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[88] and increased to 12.2% in FY2012 and increased again to 21.5% in FY2013.



Source: Civic Federation calculation based on MWRD Retirement Fund FY2004-FY2013 Comprehensive Annual Financial Reports.

Employer Annual Required Contribution

The financial reporting requirements for public pension funds and their associated governments are set by the Governmental Accounting Standards Board (GASB). GASB standards require disclosure of an Annual Required Contribution (ARC), which is an amount equal to the sum of (1) the employer's "normal cost" of retirement benefits earned by employees in the current year and (2) the amount needed to amortize any existing unfunded accrued liability over a period of not more than 30 years.[89] Normal cost is that portion of the present value of pension plan benefits and administrative expenses which is allocated to a given valuation year and is calculated using one of six standard actuarial cost methods. Each of these methods provides a way to calculate the present value of future benefit payments owed to active employees. The methods also specify procedures for systematically allocating the present value of benefits to time periods, usually in

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[88] 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%.

[89] The ARC reporting requirement was established by GASB Statements 25 and 27. GASB Statements 67 and 68 will end the requirement for ARC disclosure. No substitute measure of a government's annual pension funding adequacy was proposed by the GASB.

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

The following table compares the ARC to the actual MWRD contribution over the last ten years. In FY2004 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 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 million also made under the provisions of P.A. 95-0891. The cumulative ten-year difference between the ARC and the actual employer contribution is $152.7 million.

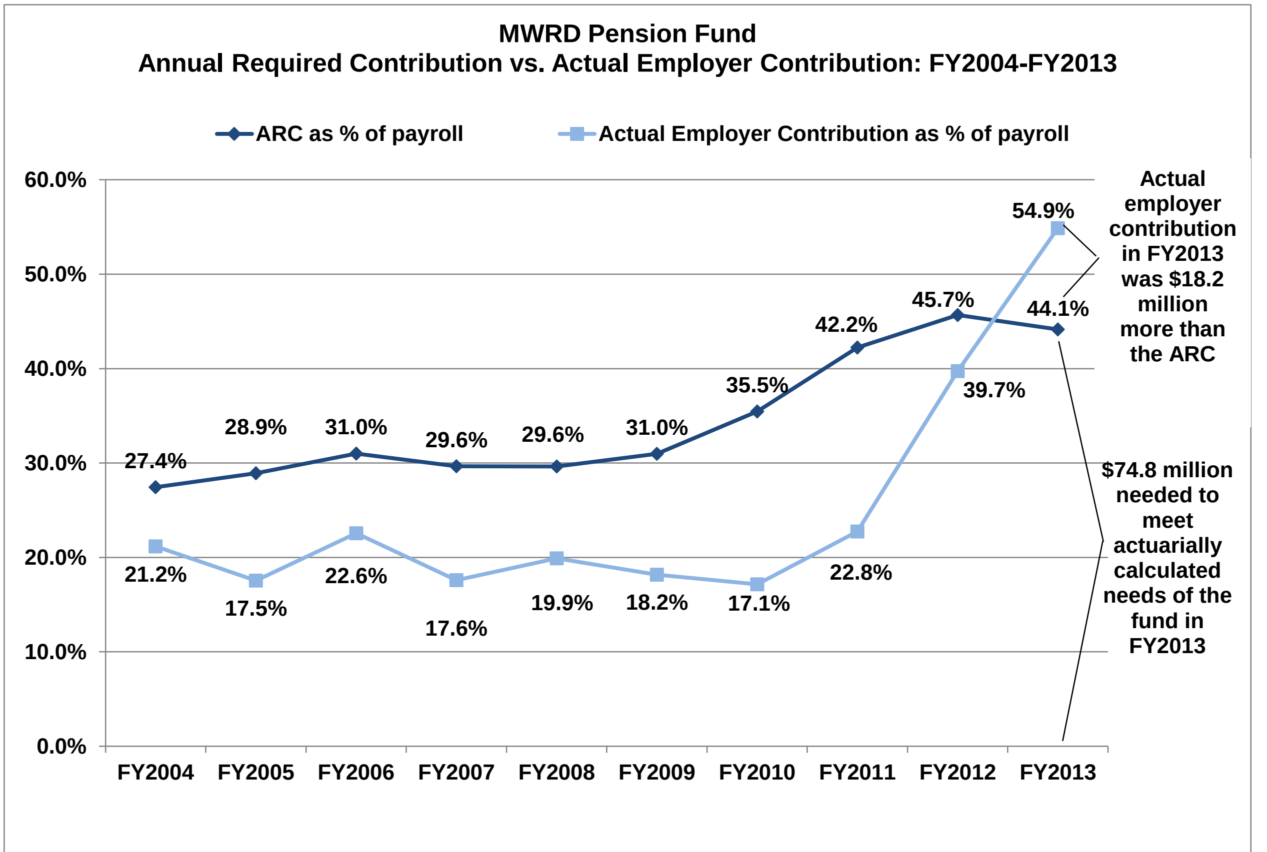
Expressing ARC as a percent of payroll provides a sense of scale and affordability. In FY2004 the ARC was 27.4% of payroll while the actual employer contribution was 21.2% of payroll. In FY2013 the pension ARC was 44.1% of payroll while the actual employer contribution was 54.9% of payroll. Tier 1 employees contributed 10.0% of salary to the pension fund in FY2013 and Tier 2 employees contributed 9.0% of salary.

MWRD Pension Fund Schedule of Employer Contributions
As Computed for GASB Statement 25: FY2004-FY2013

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
2004	$ 40,146,454	$ 30,982,232	$ 9,164,222	77.2%	$ 146,360,302	27.4%	21.2%
2005	$ 43,164,572	$ 26,174,492	$ 16,990,080	60.6%	$ 149,246,356	28.9%	17.5%
2006	$ 47,368,878	$ 34,476,332	$ 12,892,546	72.8%	$ 152,767,396	31.0%	22.6%
2007	$ 47,090,445	$ 27,947,096	$ 19,143,349	59.3%	$ 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%

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 a 6.3 percentage point shortfall in FY2004 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 in FY2013. The District, therefore, in FY2013 funded the pension plan at $18.2 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 employer contribution fell short of the normal cost plus interest on the unfunded liability which means it contributed to an increase in the UAAL that was offset by an decrease due to high investment returns in FY2013.[90]



Source: MWRD Retirement Fund Comprehensive Annual Financial Reports.

[90] MWRD Retirement Fund FY2013 Comprehensive Annual Financial Report, p. 89.

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 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 contributions from the Corporate Fund in each year from 2007-2011;
- Subsequent funding based on a percentage of payroll; and
- An initial investment allocation of 50% equities and 50% bonds.[91]

The District made an initial 2007 contribution of $15.0 million to the OPEB trust, followed by an additional $10.0 million due to surpluses in the Human Resources Department health insurance account and a deferral of projects and purchases throughout the District. In 2008 the District contributed $22.0 million to the trust. In 2008 a state statute was also passed allowing the District to transfer into the OPEB trust any interest earned on District money.[92] No contributions were made in 2009 or 2010 due to revenue constraints. In 2011 the District contributed $3.0 million, thus meeting its goal of $50 million total contributed through 2011. The District contributed $22.0 million for FY2012.[93] The FY2013 and FY2014 contributions were $20.0 million and the budgeted FY2015 contribution is $5.0 million.[94]

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.[95]

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 35.0% and the employer contribution will be 65.0%.[96] As of the last actuarial valuation in FY2013 there were 2,808 beneficiaries receiving health care coverage.[97]

OPEB Trust Funded Status

The OPEB actuarial valuations are required to be done every two years. The most recent valuation was as of December 31, 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

[91] MWRD FY2014 Executive Director's Recommendations, p. 13.
[92] MWRD FY2009 Comprehensive Annual Financial Report, p. 41.
[93] MWRD FY2012 Comprehensive Annual Financial Report, p. 85.
[94] MWRD FY2015 Executive Director's Recommendations, p. 13.
[95] MWRD FY2015 Executive Director's Recommendations, p. 1.
[96] Information at http://mwrdrf.org/retiree-information/retiree-health-insurance-information/.
[97] 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.[98]

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

Source: MWRD FY2007-FY2013 Comprehensive Annual Financial Reports.

[98] 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 MWRD employees, but have not yet been paid or recorded in the District's accounts;
- *Deposits Payable*: Bid deposits held by the MWRD that must be repaid within a year; 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 FY2013 the District reported a 9.2%, or $8.8 million decrease in short-term liabilities from the FY2012 levels. Most of the decrease is due to the $8.7 million, or 12.0%, decrease in accounts payable.

Between FY2009 and FY2013, short-term liabilities decreased by $52.9 million or 37.9%. This is a drop from $139.7 million to $86.8 million. Most of the five-year decrease is due to a decline in accounts payable, which dropped by 40.9% or $44.3 million.

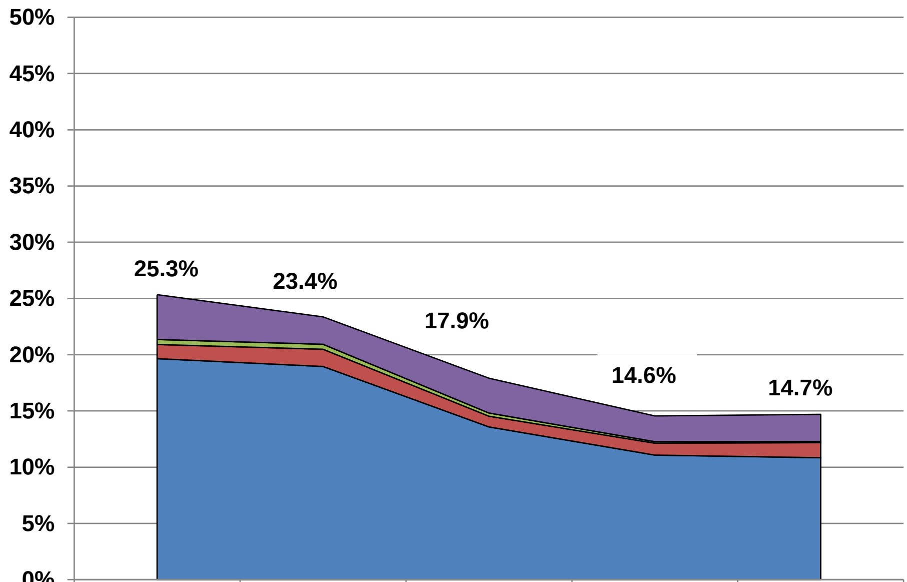
MWRD Short-Term Liabilities in the Governmental Funds: FY2009-FY2013
(in $ thousands)

Type	FY2009	FY2010	FY2011	FY2012	FY2013	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Accounts Payable	$ 108,302	$ 104,703	$ 90,522	$ 72,699	$ 63,977	$ (8,722)	-12.0%	$ (44,325)	-40.9%
Accrued Payroll	$ 6,936	$ 8,463	$ 6,350	$ 6,958	$ 7,930	$ 972	14.0%	$ 994	14.3%
Deposits Payable	$ 2,453	$ 2,435	$ 1,897	$ 885	$ 599	$ (286)	-32.3%	$ (1,854)	-75.6%
Accrued Interest Payable	$ 21,964	$ 13,468	$ 20,634	$ 15,007	$ 14,247	$ (760)	-5.1%	$ (7,717)	-35.1%
Total	**$ 139,655**	**$ 129,069**	**$ 119,403**	**$ 95,549**	**$ 86,753**	**$ (8,796)**	**-9.2%**	**$ (52,902)**	**-37.9%**

Source: MWRD Comprehensive Annual Financial Reports, FY2009-FY2013.

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.[99] 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 significant decrease in short-term liabilities compared to total operating revenue between FY2009 and FY2013, with short-term liabilities falling from 25.3% to 14.7%. The decreasing level of short-term liabilities, driven largely by decreases in both accounts payable and accrued interest payments, is an indicator of improved fiscal health.

MWRD Short-Term Liabilities as % of Operating Revenues in the Governmental Funds: FY2009-FY2013



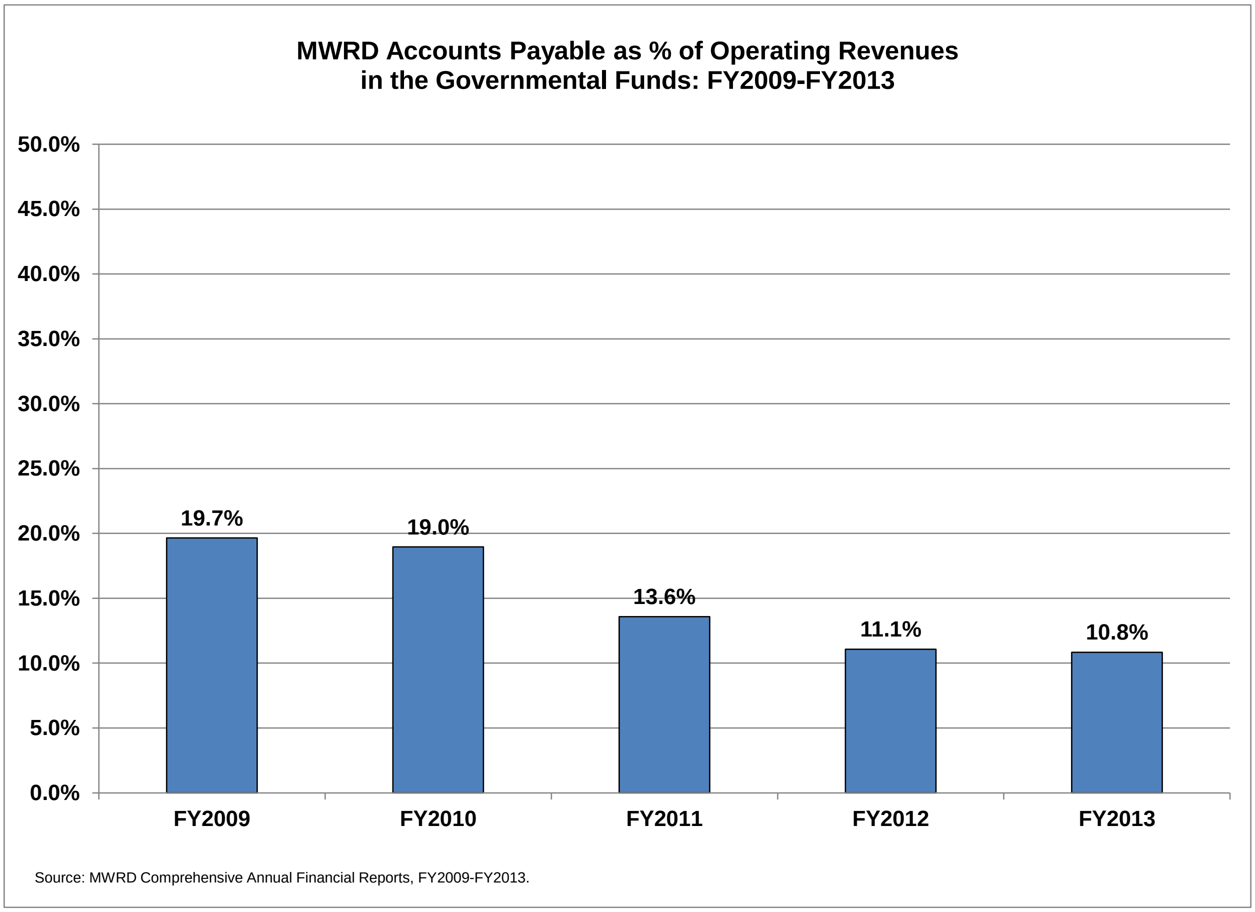
	FY2009	FY2010	FY2011	FY2012	FY2013
Accrued Interest Payable	4.0%	2.4%	3.1%	2.3%	2.4%
Deposits Payable	0.4%	0.4%	0.3%	0.1%	0.1%
Accrued Payroll	1.3%	1.5%	1.0%	1.1%	1.3%
Accounts Payable	19.7%	19.0%	13.6%	11.1%	10.8%

Source: MWRD FY2009-FY2013 Comprehensive Annual Financial Reports.

[99] 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 19.7% to 10.8% over the five years of this review. The decline is a positive trend.



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.[100]

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

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

- *Cash and cash equivalents*: Assets that are cash or can be converted into cash immediately, including petty cash, demand deposits, deposits with escrow agent and certificates of deposit;
- *Investments*: Any investments that the government has made that will expire within one year, including stocks and bonds that can be liquidated quickly;
- *Receivables*: Monetary obligations owed to the government including property taxes and interest on loans;
- *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.[101]

The MWRD's current ratio was 15.0 in FY2013, 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 FY2009 to FY2013, the current ratio rose from 10.8 to 15.0, a 39.1% increase.

MWRD Current Ratio in the Governmental Funds: FY2009-FY2013
(in $ thousands)

	FY2009	FY2010	FY2011	FY2012	FY2013	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Current Assets									
Cash	$ 53,366	$ 47,769	$ 28,258	$ 26,080	$ 64,496	$ 38,416	147.3%	$ 11,130	20.9%
Certificates of Deposit	$ 480,249	$ 103,342	$ 59,645	$ 57,211	$ 77,316	$ 20,105	35.1%	$(402,933)	-83.9%
Investments	$ 457,654	$ 515,121	$ 909,638	$ 803,692	$ 579,933	$ (223,759)	-27.8%	$ 122,279	26.7%
Taxes Receivable, net	$ 440,473	$ 449,852	$ 467,133	$ 486,227	$ 503,911	$ 17,684	3.6%	$ 63,438	14.4%
Other Receivables, net	$ 30,671	$ 79,174	$ 55,805	$ 18,752	$ 31,656	$ 12,904	68.8%	$ 985	3.2%
Inventories	$ 38,761	$ 38,924	$ 38,922	$ 39,467	$ 40,136	$ 669	1.7%	$ 1,375	3.5%
Restricted cash	$ 1,812	$ 1,815	$ 1,967	$ 2,018	$ 1,425	$ (593)	-29.4%	$ (387)	-21.4%
Total Current Assets	**$ 1,502,986**	**$ 1,235,997**	**$ 1,561,368**	**$ 1,433,447**	**$ 1,298,873**	**$ (134,574)**	**-9.4%**	**$(204,113)**	**-13.6%**
Current Liabilities									
Accounts Payable	$ 108,302	$ 104,703	$ 90,522	$ 72,699	$ 63,977	$ (8,722)	-12.0%	$ (44,325)	-40.9%
Accrued Payroll	$ 6,936	$ 8,463	$ 6,350	$ 6,958	$ 7,930	$ 972	14.0%	$ 994	14.3%
Deposits Payable	$ 2,453	$ 2,435	$ 1,897	$ 885	$ 599	$ (286)	-32.3%	$ (1,854)	-75.6%
Accrued Interest Payable	$ 21,964	$ 13,468	$ 20,634	$ 15,007	$ 14,247	$ (760)	-5.1%	$ (7,717)	-35.1%
Total Current Liabilities	**$ 139,655**	**$ 129,069**	**$ 119,403**	**$ 95,549**	**$ 86,753**	**$ (8,796)**	**-9.2%**	**$ (52,902)**	**-37.9%**
Current Ratio	**10.8**	**9.6**	**13.1**	**15.0**	**15.0**				

Source: MWRD Comprehensive Annual Financial Reports, FY2009-FY2013.

[101] MWRD FY2013 Comprehensive Annual Financial Report, p. 69-70.

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 FY2012 and FY2013 long-term liabilities fell by 2.9% or $87.1 million. In the five-year period between FY2009 and FY2013, total long-term liabilities rose by 29.3%, increasing from $2.2 billion to nearly $2.9 billion. This was an increase of $659.4 million.

In this same five-year period, long-term debt increased by 26.4%. This was an increase of $553.0 million, from $2.1 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.[102] From FY2012 to FY2013, long-term debt declined slightly by 1.8% or $49.7 million.

Other long-term liabilities, which include claims and judgments, net pension and other post employment liabilities and compensated absences, rose by 69.0% between FY2009 and FY2013. This was a $106.4 million increase from $154.2 million to $260.7 million. Nearly 60% of that increase was due to increases in net pension liabilities.

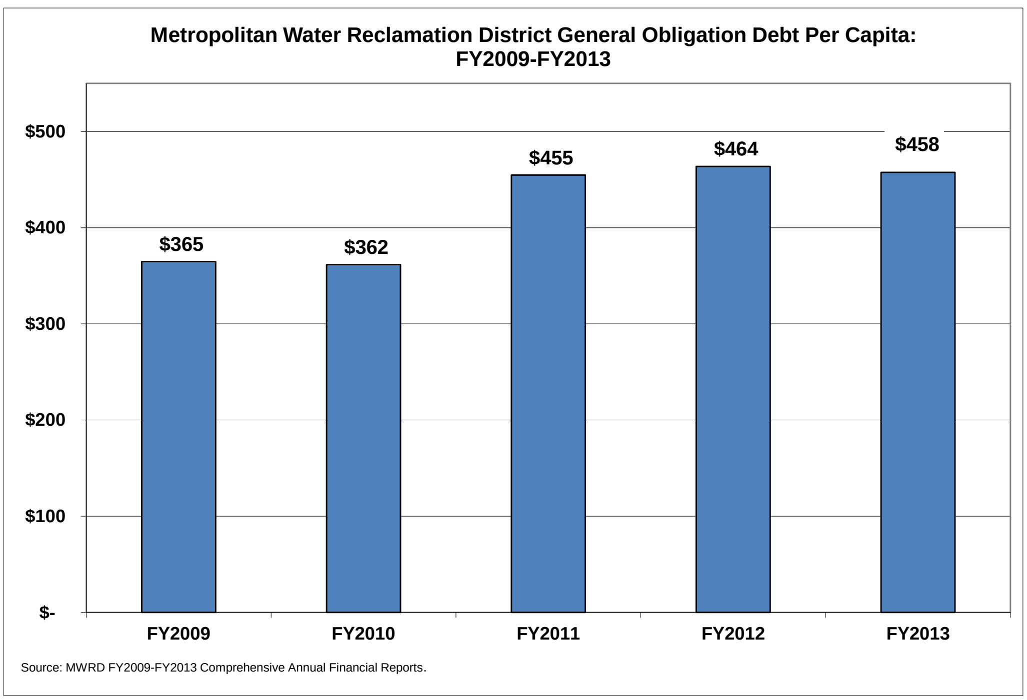
[102] MWRD FY2010 Comprehensive Annual Financial Report, p. 90.

MWRD Long-Term Liabilities: FY2009-FY2013 (in $ thousands)									
Long-Term Liabilities	**FY2009**	**FY2010**	**FY2011**	**FY2012**	**FY2013**	**Two-Year $ Change**	**Two-Year % Change**	**Five-Year $ Change**	**Five-Year % Change**
General Obligation Debt	$ 1,870,939	$ 1,811,184	$ 1,965,824	$ 1,896,371	$ 1,857,731	$ (38,640)	-2.0%	$ (13,208)	-0.7%
Converted Bond Anticipation Notes	$ 108,264	$ 150,790	$ 500,640	$ 619,005	$ 624,242	$ 5,237	0.8%	$ 515,978	476.6%
Subtotal General Obligation Debt	**$ 1,979,203**	**$ 1,961,974**	**$ 2,466,464**	**$ 2,515,376**	**$ 2,481,973**	**$ (33,403)**	**-1.3%**	**$ 502,770**	**25.4%**
Deferred Issuance Costs	$ (6,774)	$ (6,472)	$ (8,316)	$ -	$ -	$ -	---	$ 6,774	-100.0%
Deferred Premiums	$ 65,409	$ 61,532	$ 94,260	$ 88,610	$ 83,026	$ (5,584)	-6.3%	$ 17,617	26.9%
Refunding Transactions	$ (28,532)	$ (25,493)	$ (22,454)	$ -	$ -	$ -	---	$ 28,532	-100.0%
Subtotal Bonds Payable, Net	**$ 2,009,306**	**$ 1,991,541**	**$ 2,529,954**	**$ 2,603,986**	**$ 2,564,999**	**$ (38,987)**	**-1.5%**	$ 555,693	27.7%
Bond Anticipation Notes	$ 86,286	$ 196,225	$ 108,008	$ 44,527	$ 35,809	$ (8,718)	-19.6%	$ (50,477)	-58.5%
Capital Lease	$ -	$ 53,688	$ 51,784	$ 49,837	$ 47,795	$ (2,042)	-4.1%	$ 47,795	-
Subtotal Long-Term Debt	**$ 2,095,592**	**$ 2,241,454**	**$ 2,689,746**	**$ 2,698,350**	**$ 2,648,603**	**$ (49,747)**	**-1.8%**	**$ 553,011.0**	**26.4%**
Claims and Judgments	$ 38,886	$ 41,292	$ 59,857	$ 79,597	$ 77,996	$ (1,601)	-2.0%	$ 39,110	100.6%
Compensated Absences	$ 31,680	$ 29,860	$ 28,784	$ 28,356	$ 27,627	$ (729)	-2.6%	$ (4,053)	-12.8%
Net OPEB Liablity	$ 41,789	$ 66,329	$ 76,580	$ 69,425	$ 49,858	$ (19,567)	-28.2%	$ 8,069	19.3%
Net Pension Liability	$ 41,889	$ 74,786	$ 108,482	$ 120,651	$ 105,193	$ (15,458)	-12.8%	$ 63,304	151.1%
Subtotal Other Long-Term Liabilities	**$ 154,244**	**$ 212,267**	**$ 273,703**	**$ 298,029**	**$ 260,674**	**$ (37,355)**	**-12.5%**	**$ 106,430**	**69.0%**
Total Long-Term Liabilities	**$ 2,249,836**	**$ 2,453,721**	**$ 2,963,449**	**$ 2,996,379**	**$ 2,909,277**	**$ (87,102)**	**-2.9%**	**$ 659,441**	**29.3%**

Source: MWRD FY2009-FY2013 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 FY2009 and FY2013 the MWRD's long-term General Obligation debt per capita increased from $365 to $458. This represents a 25.4% 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%.[103] The debt service to total appropriations ratio for the MWRD between FY2011 and projected FY2015 decreases from 15.1% to 13.1%. While the ratio over time is high, averaging 15.7%, it is important to note that the MWRD is a government with large ongoing capital expenses due to its mission of stormwater management.

MWRD Debt Service Appropriations as a Percentage of Total Appropriations: FY2011-FY2015 (in $ millions)

	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Adjusted Approp.	FY2015 Tentative
Debt Service Appropriations	$155.5	$185.9	$193.0	$194.9	$194.9
Total Appropriations	$1,031.7	$1,040.9	$1,155.1	$1,219.7	$922
Debt Service as a % of Total Appropriations	**15.1%**	**17.9%**	**16.7%**	**16.0%**	**13.1%**

Sources: MWRD FY2013 Final Budget, p. 46; FY2014 Executive Director's Budget, p. 44 (for FY2012 Actual); FY2014 Executive Director's Budget, p. 36 (for FY2013 Actual); and FY2015 Tentative Budget, p. 12.

BOND RATINGS

The MWRD has the following current bond ratings:

- Moody's Investors Service – Aa1 (since 2013);
- Fitch – AAA (since 2001); and
- Standard & Poor's – AAA (since 2006).[104]

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.[105]

[103] 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.
[104] MWRD FY2015 Executive Director's Recommendations, p. 27.
[105] Moody's Investors Service, "Rating Action: Moody's downgrades Met 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 FY2015-FY2019 CIP proposes nearly $1.3 billion in funding for a variety of projects. The first year of the new CIP will be the FY2015 capital budget, proposed at $232.0 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, 37.3%, or $483.5 million, of the total will be used for Water Reclamation and Solids Management projects. Approximately 22.1% of all capital spending, or $286.3 million, will be earmarked for Stormwater Management. Replacement of existing facilities will use 17.1% or $221.8 million, while the Tunnel and Reservoir Plan (TARP) is projected to receive approximately 15.2% or $196.8 million. Finally, 8.2 %, or $106.3 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 90.1% of all funding between FY2015 and FY2019, or nearly $1.2 billion. The remaining funding will consist of pay-as-you-go funding from the Stormwater and Construction Funds.[106]

MWRD Five-Year Capital Spending: FY2015-FY2019 - Estimated Cash Disbursements (in $ millions)

	FY2015	FY2016	FY2017	FY2018	FY2019	Five-Year Total	% of Five-Year Total
Capital Spending by Category							
Water Reclamation & Solids Management	$ 117.1	$ 146.5	$ 99.9	$ 71.6	$ 48.4	$ 483.5	37.3%
Replacement of Facilities	$ 23.8	$ 53.3	$ 47.8	$ 52.1	$ 44.8	$ 221.8	17.1%
Collection Facilities	$ 26.6	$ 17.2	$ 22.8	$ 19.2	$ 20.5	$ 106.3	8.2%
Stormwater Management	$ 44.0	$ 69.5	$ 54.8	$ 61.5	$ 56.5	$ 286.3	22.1%
Tunnel & Reservoir Plan	$ 20.6	$ 72.2	$ 76.6	$ 17.4	$ 10.0	$ 196.8	15.2%
Total Spending	**$ 232.1**	**$ 358.7**	**$ 301.9**	**$ 221.8**	**$ 180.2**	**$ 1,294.7**	**100.0%**
Capital Funding Sources							
Stormwater Fund	$ 8.8	$ 7.8	$ 7.3	$ 7.3	$ 7.3	$ 38.5	3.0%
Construction Fund	$ 18.1	$ 25.6	$ 16.3	$ 16.0	$ 13.3	$ 89.3	6.9%
Capital Improvements Bond Fund	$ 205.1	$ 325.4	$ 278.3	$ 198.6	$ 159.7	$ 1,167.1	90.1%
Total Funding	**$ 232.0**	**$ 358.8**	**$ 301.9**	**$ 221.9**	**$ 180.3**	**$ 1,294.9**	**100.0%**

*Note: Totals may not match due to rounding.

Source: MWRD FY2015 Executive Director's Recommendations, p. 341.

[106] MWRD FY2015 Executive Director's Recommendations, p. 341.

New Capital Spending Requests

The MWRD's request for new capital spending authorization for total project costs in FY2015 totals $490.2 million. This is a 26.9% increase in new capital appropriations from FY2014 budgeted appropriations. The amount of proposed new capital spending for FY2015 differs from the amount proposed for FY2015 in the five-year capital budget. New capital spending pertains to total projects costs over time while the capital budget details what the District plans to spend each year, which does not always match the total cost of capital projects, as is the case in FY2015.

MWRD Proposed New Capital Spending: FY2014 and FY2015 (in $ thousands)				
Project Type	**FY2014 Adopted Budget**	**FY2015 Proposed Budget**	**$ Change**	**% Change**
Treatment Facilities	$ 133,500	$ 83,500	$ (50,000)	-37.5%
Collection Facilities	$ 74,000	$ 53,000	$ (21,000)	-28.4%
Solids Processing & Disposal	$ 33,000	$ 46,000	$ 13,000	39.4%
Flood & Pollution Control	$ 54,945	$ 213,349	$158,404	288.3%
Land Cost	$ 7,550	$ 10,550	$ 3,000	39.7%
Project Support	$ 83,213	$ 83,798	$ 585	0.7%
Total	**$ 386,208**	**$ 490,197**	**$103,989**	**26.9%**

Sources: MWRD FY2014 Adopted Budget, p. 491 and FY2015 Executive Director's Recommendations, p. 460.

Capital Improvement Plan

According to best practices for capital budgeting, a complete capital improvement plan (CIP) includes the following elements:[107]

- 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.

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

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

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

Metropolitan Water Reclamation District Capital Improvement Plan Checklist	
Does the government prepare a formal capital improvement plan?	Yes
How often is the CIP updated?	Annually
Does the capital improvement plan include:	
• *A narrative description of the CIP process?*	Yes[108]
• *A five-year summary list of projects and expenditures by project as well as funding sources per project?*	Yes
• *Information about the impact and amount of capital spending on the annual operating budget for each project?*	Yes
• *Brief narrative descriptions of individual projects, including the purpose, need, history, and current status of each project?*	Yes
• *The time frame for fulfilling capital projects?*	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?*	The CIP is included in the annual budget.
• *Is the CIP available on the Web?*	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?*	No. Projects are identified based on asset management audits. Project selection and prioritization completed by internal interdepartmental review panel.[109]
• *Does the governing body hold a formal public hearing at which stakeholders may testify?*	Yes, a hearing was held on October 30, 2014[110]
• *Is the public permitted at least ten working days to review the CIP prior to a public hearing?*	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 FY2015 Executive Director's Recommendation, pp. 337-463.	

[108] MWRD FY2015 Executive Director's Recommendations, p. 339.
[109] MWRD FY2015 Executive Director's Recommendations, p. 339.
[110] http://mwrd.legistar.com/MeetingDetail.aspx?ID=347335&GUID=43E5F15A-F985-4E14-B35F-F37349FF0A4E&Options=info|&Search=capital