# METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO FY2006 TENTATIVE BUDGET

**Analysis and Recommendations**

**Prepared By**
**The Civic Federation**
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## EXECUTIVE SUMMARY

The Metropolitan Water Reclamation District of Greater Chicago (MWRD) proposes a Tentative FY2006 Budget of $1.0 billion. The budget includes a property tax levy reduction of nearly $4.4 million from the adjusted FY2005 budget.

The Civic Federation **supports** the Metropolitan Water Reclamation District's FY2006 budget of $1.0 billion. We believe that it is a fiscally responsible proposal for addressing the District's budget priorities in the forthcoming year. Our support is in recognition of the District's emphasis on exercising fiscal restraint by decreasing the property tax levy and containing personnel costs through a strategic plan of staff reductions and increased employee healthcare contributions.

The Civic Federation offers the following **key findings** on the MWRD's finances based on our analysis of its FY2006 budget and FY2004 audited financial statements:

- The total FY2006 Tentative Budget is an increase of 4.1% over the FY2005 Adjusted Budget. This is a $39.3 million increase from $955.9 million to $1.0 billion.
- Corporate Fund appropriations will increase by 1.0%, or $3.2 million, due primarily to increased personnel costs. This represents an increase from $313.5 million to $316.8 million.
- The gross property tax levy will be **reduced** by 1.1 % from the FY2005 Adjusted Budget. This is a $4.4 million reduction from $410.7 million to $406.3 million. The reduction is largely due to a $18.7 million decrease in the debt service levy because outstanding debt is being retired, and several State Revolving Fund loans have accumulated sufficient resources to make future payments.
- Thirty-six full-time equivalent positions will be eliminated in FY2006, reducing the total number of positions from 2,143 to 2,107.
- Corporate Fund net assets appropriable will be $53.2 million, or 16.8% of Corporate Fund appropriations. However, $23.1 million of that amount will not be appropriated and be set aside in a nonappropriated contingency fund.

The Civic Federation **supports** the MWRD's Tentative FY2006 budget because:

- The District has decided to reduce the gross property tax levy by 1.1% or $4.4 million from the adjusted FY2005 budget. This action will give taxpayers some relief at a time when far too other governments are raising regressive real estate taxes on homeowners and businesses as much as they are legally allowed.
- The District has been one of the few local governments to not only recognize that personnel costs are one of the biggest and fastest growing cost drivers of a public budget, but to actually develop and implement a strategic plan to do something about it. **We commend the District administration for its multi-year effort to control personnel costs by reducing 36 staff positions this year and total staff to 2,000 positions in four years.** The District is also requiring staggered increases in employee contributions over time to moderate the rate of growth for health insurance.

The Civic Federation offers the following **recommendation** on a way to improve the District's revenue stream and financial management:

- The MWRD should consider working with other governments to cooperatively purchase electricity, fuel and other commodities. Given the large increases in electricity that will likely result from deregulation in a few years and continuing increases in fuel, joint purchasing efforts could be financially beneficial to the District. Many of the Chicago area governments, including the City of Chicago, County of Cook, and Chicago Park District, have experienced significant savings as a result of jointly purchasing employee prescription drugs, and may be pursuing other joint purchasing ventures.

## OVERVIEW

The Civic Federation recently concluded an analysis of financial issues related to the MWRD's Revised Tentative FY2006 budget.[1] The full text of our analysis follows this summary and is also available on our Web site at www.civicfed.org.

The Civic Federation **supports** the Metropolitan Water Reclamation District's FY2006 Tentative budget of $1.0 billion. We believe that it is a prudent and responsible proposal for addressing the District's budget priorities in the forthcoming year. Our support is in recognition of the District's emphasis on exercising restraint with property taxes and containing personnel costs through a strategic plan of staff reductions.

We are particularly impressed with the District's decision to **reduce** the gross property tax levy by 1.1% or $4.4 million from FY2005. This action will give taxpayers relief at a time when far too other governments are raising regressive real estate taxes on homeowners and businesses as much as they are legally allowed.

The District has been one of the few local governments to not only recognize that personnel costs are one of the biggest and fastest growing cost drivers of a public budget, but to actually develop and implement a strategic plan to something about it. We commend the District administration for its multi-year effort to control personnel costs by reducing staff levels to 2,000 in four years and to require staggered increases in employee contributions over time to the rapidly rising cost of health insurance. Other governments in the region would be well advised to study the District's efforts and follow suit.

Decrease in Property Tax Levy

For many years, the Civic Federation urged the District not to increase its property tax levy to the maximum amount allowable under property tax caps because the District's revenues were consistently and significantly exceeding its expenditures, and because the District maintained substantial fund balances and reserve funds. In FY2004 and FY2005, the MWRD prudently chose to exercise restraint and not increase property taxes up to the maximum amount permitted. This year, it will take a further step and actually **reduce** the FY2006 levy.

The reduction in FY2006 is due primarily to an $18.7 million decrease in the non-capped debt service levy. Overall, the total levy will fall by 1.1% from the adjusted FY2005 budget. Reducing the total amount of a government levy is a rare occasion and a testament to prudent financial management at the District. We commend the District for taking this course of action.

The District has also shown restraint by not levying the maximum amount allowable under the Property Tax Levy Limitation Law.[2] Although the District projects that it could raise the total

[1] This analysis is based on the MWRD Revised 2006 Tentative Budget December 1, 2005, received from the District on December 2, 2005.
[2] The Property Tax Extension Limitation Law, commonly called "PTELL" or "tax caps", limits a taxing body's annual property tax extension increase to 5% or the rate of inflation, whichever is less (35 ILCS 200/18-185 through

levy for its capped funds by 5.0%, or $12.6 million in 2006, it will only increase the levy by 3.7%, or $9.2 million.[3]

Long-Term Strategy of Containing Personnel Costs

The Civic Federation once again applauds the District for continuing to implement its long-term strategy of containing personnel costs by strategically reducing headcount and controlling healthcare costs.

The District expects to reduce staff by 36 positions in FY2006 due to retirements, reducing the total workforce from 2,143 to 2,107. In four years, the workforce will be brought to 2,000 positions or less. This headcount reduction policy reflects an appropriation control strategy adopted in 1995 in response to implementation of the tax cap law in Cook County tax cap. This program strategically identifies vacant positions for elimination that open up each year due to retirement or other factors. Concurrently, the District has attempted to moderate the fast rising rate of growth in health insurance costs which in FY2006 alone are expected to increase by $2.6 million or 7.4% to $37.7 million. The strategy adopted by the District has been to provide for staggered increase in employee contributions over time, the method used extensively in the private sector. Employee contributions rose from 7% to 9% in October 2005 and will rise to 10% in July 2006 and 11% in July 2007. Deductibles and co-payments will also increase over time.[4]

The Civic Federation **salutes** the MWRD for taking both of these important personnel control measures. They are a model for other local governments struggling with rapidly increasing personal service expenditures.

## FY2006 BUDGET HIGHLIGHTS

The MWRD proposes to appropriate just over $1.0 billion in FY2006. This is a $39.3 million, 4.1% increase from the FY2005 appropriation of $955.9 million. The FY2006 Tentative Budget includes the following highlights:

- The Corporate Fund, which is approximately 32% of the budget, will be increased by 1.0%, from $313.5 million to $316.8 million.

- The gross property tax levy will be **reduced** by 1.1% from the adjusted FY2005 adjusted budget. This is a $4.4 million reduction from $410.7 million to $406.3 million. The reduction is largely due to an $18.7 million decrease in the portion of the levy reserved for debt service because outstanding debt is being retired, and several State Revolving Fund loans have accumulated sufficient resources to make future payments.[5]

35 ILCS 200/18-245). However, the value of new properties is exempted from the tax cap calculation, thus allowing for a greater total extension. For details see http://www.revenue.state.il.us/LocalGovernment/PropertyTax/ptell.htm.

[3] Information provided by MWRD Budget Office, December 1, 2005.

[4] MWRD FY2006Tentative Budget Supplement, p. 6.

[5] MWRD FY2006 Tentative Budget Supplement, p. 3.

- The number of full-time equivalent (FTE) positions is projected to **decline** by 36 positions or 1.7% in FY2006. This will be a decrease from 2,143 to 2,107 FTEs. Since FY1997, the District has cut its workforce by 5.9% or 132 positions. It is the MWRD's official policy to reduce the workforce below 2,000 positions in the next four years.

## ACKNOWLEDGMENTS

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

## APPROPRIATIONS

The MWRD proposes to appropriate $1.0 billion in its Revised 2006 Tentative Budget. This is a 4.1%, $39.3 million increase from the FY2005 adjusted budget of $969.1 million.

It is important to note that MWRD total appropriations often differ significantly from budget year to budget year due to differences in capital projects and the timing of those projects. Sometimes revenues for capital projects become available at a date later than publication of the Tentative Budget.

Corporate Fund appropriations in FY2006 are projected in increase by 1.0%, or $3.2 million, over FY2005. The increase is due primarily to increased energy costs, a $3.6 million increase in health care costs and employee cost of living salary increases of approximately $2.3 million.[6]

The Construction Fund, which serves as a pay-as-you-go source of funding for capital projects to rehabilitate major facilities, will be reduced by $5.4 million, or 10.0%, because fewer projects are currently scheduled for award in FY2006 than the previous year.

The 9.7% increase in Capital Improvements Bond Fund appropriations for FY2006 reflects the timing of major capital projects.

| MWRD Major Fund Appropriations: FY2005 & FY2006 | | | | |
|---|---|---|---|---|
| | 2005 Adj. | 2006Budg. | $ CHG | % CHG |
| Corporate Fund | $ 313,588,800 | $ 316,828,900 | $ 3,240,100 | 1.0% |
| Construction Fund | $ 54,509,400 | $ 49,034,600 | $ (5,474,800) | -10.0% |
| Capital Improvements Bond Fund | $ 354,739,900 | $ 389,058,800 | $ 34,318,900 | 9.7% |
| Stormwater Fund | $ 10,085,300 | $ 24,497,500 | $ 14,412,200 | 142.9% |
| Retirement Fund | $ 31,201,845 | $ 26,032,732 | $ (5,169,113) | -16.6% |
| Reserve Claim Fund | $ 35,000,000 | $ 41,700,000 | $ 6,700,000 | 19.1% |
| Bond Redemption & Interest Fund | $ 170,008,619 | $ 161,282,481 | $ (8,726,138) | -5.1% |
| **Total Appropriations** | **$ 969,133,864** | **$ 1,008,435,013** | **$ 39,301,149** | **4.1%** |

Source: MWRD Revised 2006 Tentative Budget, p. 9.

[6] MWRD FY2006 General Superintendent's Recommendation, p. 15.

The following exhibit shows MWRD budget appropriations from FY2001 to FY2006. It compares the Tentative Budget appropriation proposed in each of those years with the final Adjusted Budget as reported in the succeeding year's budget book. Adjusted appropriations, to a certain extent, reflect the inclusion of capital project awards made after the initial release of the budget. While FY2001 and FY2005 show relatively small differences between proposed and adjusted appropriations, other years show larger differences. The FY2005 variance can be explained by the supplemental appropriation of $10.0 million in funds for the Stormwater Management program after the budget was originally approved.[7]

| MWRD APPROPRIATIONS: FY01-06 | | | |
|---|---|---|---|
| | Tentative | Adjusted | Variance |
| **FY2001** | $ 924,196,538 | $ 975,661,391 | $ 51,464,853 |
| **FY2002** | $ 793,431,326 | $ 1,007,358,326 | $ 213,927,000 |
| **FY2003** | $ 758,497,339 | $ 919,493,798 | $ 160,996,459 |
| **FY2004** | $ 768,177,049 | $ 882,356,649 | $ 114,179,600 |
| **FY2005** | $ 945,848,564 | $ 955,933,864 | $ 10,085,300 |
| **FY2006** | $ 1,000,557,313 | N/A | N/A |

Source: MWRD Tentative Budgets

## REVENUES

This portion of the analysis presents trend information about FY2006 MWRD Corporate Fund and major All Fund revenues.

### Corporate Fund Resources

Corporate Fund resources will increase in FY2006 from the FY2005 budget by 1.6%, increasing from $334.2 million to $339.5 million. However, because $23.1 million will not be appropriated and will be set aside as a reserve fund, the total amount of resources available in FY2006 will be $316.4 million; this is a 5.3% decrease from the amount of resources available in FY2005. Some key resource changes include:

- The net Corporate Fund property tax levy, which represents 65.1% of Corporate Fund revenues, will rise by 3.6% from $198.7 million to $206.0 million.

- The Personal Property Replacement Tax (PPRT), which is a corporate income tax, is expected to represent 7.6% of revenues and increase by nearly 21% from FY2005. The District projects such a robust increase because of the recent upturn in the Illinois economy. PPRT revenues are first used to fully fund the Retirement Fund then the remainder is distributed to the non-debt funds in proportion to their property tax levies.[8]

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[7] Information provided by MWRD Budget Office, December 1, 2005.
[8] Metropolitan Water Reclamation District FY2006 Tentative Budget, p. 11.

- User charges will represent 14.7% of Corporate Fund revenues in FY2006. Revenues from user fees will increase by 4.7% in FY2006, rising from $44.5 million to $46.6 million.

- Net assets appropriable, that is fund balance, will be $53.2 million in FY2006. Of that amount, a total of $23.1 million will not be appropriated and used as a reserve fund. Until FY2004, all net assets appropriable were reappropriated as revenue for the forthcoming year. Since then, a portion has not been appropriated in order to provide for a Corporate Fund balance.

| MWRD CORPORATE FUND REVENUES: FY2005 & FY2006 | | | | |
|---|---|---|---|---|
| **RESOURCE** | **FY2005 Est** | **FY2006 Budget** | **$ CHG** | **% CHG** |
| Property Taxes (net) | $ 198,751,900 | $ 206,027,500 | $ 7,275,600 | 3.7% |
| PPRT | $ 21,806,100 | $ 24,000,000 | $ 2,193,900 | 10.1% |
| Property & Service Charges | $ 12,084,000 | $ 12,331,000 | $ 247,000 | 2.0% |
| User Charges | $ 44,500,000 | $ 46,600,000 | $ 2,100,000 | 4.7% |
| Other | $ 24,684,200 | $ 2,249,000 | $(22,435,200) | -90.9% |
| Net Assets Apopropriable | $ 38,438,700 | $ 53,204,900 | $ 14,766,200 | 38.4% |
| Working Cash Borrowings Adjustment | $ (5,998,000) | $ (4,427,500) | $ 1,570,500 | -26.2% |
| **Total** | **$ 334,266,900** | **$ 339,984,900** | **$ 5,718,000** | **1.7%** |
| | | | | |
| Non-Appropriated Fund Balance | $ - | $ (23,156,000) | …. | … |
| | | | | |
| **Total Resources Available** | **$ 334,266,900** | **$ 316,828,900** | **$(17,438,000)** | **-5.2%** |

Sources: FY2006 General Superintendents Recommendations, p. 71 & FY2006 Revised Tenative Budget, p. 11.

## Major Revenues for All Funds

The exhibit below shows projected changes in selected MWRD major revenues for all funds between FY2005 and FY2006. The gross property tax levy will decrease by approximately $4.4 million or 1.1% from the FY2005 adjusted budget. User charges are expected to increase by 4.4%, from $45.0 million to $47.0 million. The largest increase will come in Personal Property Replacement Taxes revenues, which will rise by 13.2% or $3.0 million.

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| MWRD All Funds Selected Major Revenues: FY05-FY06 | | | | |
|---|---|---|---|---|
| | **FY2005 Adj.** | **FY2006 Budg.** | **$ CHG** | **% CHG** |
| **Property Tax (Gross Levy)** | $ 410,744,250 | $ 406,354,477 | $(4,389,773) | -1.1% |
| **User Charges** | $ 45,000,000 | $ 47,000,000 | $ 2,000,000 | 4.4% |
| **PPRT** | $ 23,438,300 | $ 26,535,000 | $ 3,096,700 | 13.2% |
| **Investment Interest Income** | $ 19,800,000 | $ 20,500,000 | $ 700,000 | 3.5% |
| **Lease Revenue** | $ 6,280,000 | $ 6,500,000 | $ 220,000 | 3.5% |

Source: Provided by MWRD Budget Office, December 1 and 2, 2005.

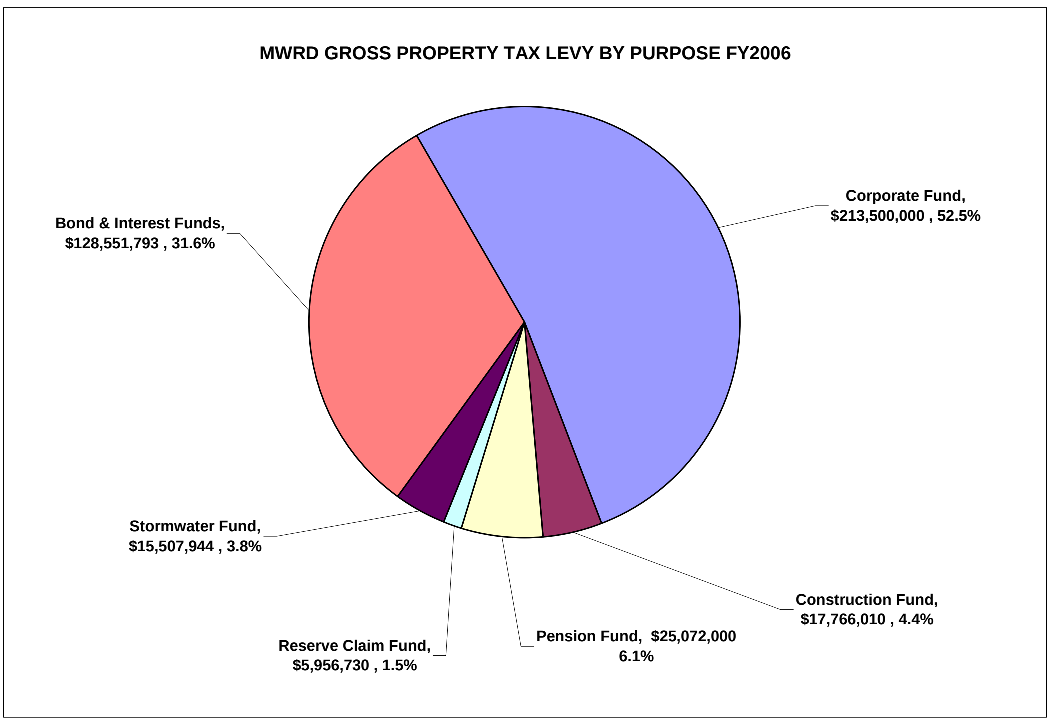
## Property Tax Levy

In FY2006, 64.5% of the MWRD property tax levy will be levied for funds that are subject to the tax cap law, which limits annual increases to 5% or the rate of inflation, whichever is less. The remaining 35.5%, or $144.0 million, is levied for the Bond and Interest Fund and the Stormwater

Management Fund, which are not subject to tax caps.[9] The Stormwater management levy will increase by 48.4% or from $10.4 million to $15.5 million in FY2006, the largest single increase in the various levy funds. The Bond and Interest levy, reserved for debt service, will decline by 12.7% or approximately $18.7 million because outstanding debt is being retired, and several State Revolving Fund loans have accumulated sufficient resources to make future payments.[10] This represents a decline from $147.2 million to $128.5 million.

| MWRD Gross Property Tax Levy: FY2005 & FY2006 | | | | |
|---|---|---|---|---|
| | FY2005 Adj | FY2006 Budg. | $ CHG | % CHG |
| Corporate Fund | $ 205,960,566 | $ 213,500,000 | $ 7,539,434 | 3.7% |
| Construction Fund | $ 17,940,062 | $ 17,766,010 | $ (174,052) | -1.0% |
| Stormwater Fund | $ 10,451,088 | $ 15,507,944 | $ 5,056,856 | 48.4% |
| Pension Fund | $ 23,598,000 | $ 25,072,000 | $ 1,474,000 | 6.2% |
| Reserve Claim Fund | $ 5,513,331 | $ 5,956,730 | $ 443,399 | 8.0% |
| Bond & Interest Funds | $ 147,281,203 | $ 128,551,793 | $ (18,729,410) | -12.7% |
| **TOTAL** | **$ 410,744,250** | **$ 406,354,477** | **$ (4,389,773)** | **-1.1%** |

The next exhibit shows the distribution of property tax dollars among the MWRD's various funds in FY2006. The Corporate Fund and Bond and Interest Funds together will consume 84.1% of the total District's levy.




[9] The November 2004 passage of Public Act 93-1049 authorizes the MWRD to levy an additional $50 million in non-capped funds for stormwater management in Cook County.
[10] MWRD FY2006 Tentative Budget, p. 3.

## FUND BALANCE

One of the stated goals guiding MWRD budget development is to maintain a long-term Corporate Fund balance of $40 to $45 million, or 10% to 15% of Corporate Fund appropriations.[11] The Government Finance Officer's Association recommends a budgetary operating fund balance of 5-15%.[12]

The MWRD Corporate Fund balance, or net assets appropriable, is budgeted at $53.2 million in FY2006 or 16.8% of proposed Corporate Fund appropriations. Since FY2001, the ratio of net assets appropriable in the Corporate Fund to Corporate Fund projected appropriations has declined from 23.3% to 16.8%.

| CORPORATE FUND NET ASSETS APPROPRIABLE AS A PERCENTAGE OF CORPORATE FUND APPROPRIATIONS | | | |
|---|---|---|---|
| Fiscal Year | Net Assets Appropriable | Corporate Fund Appropriations | Ratio |
| 2001 | $ 77,700,800 | $ 332,800,000 | 23.3% |
| 2002 | $ 59,351,000 | $ 316,578,800 | 18.7% |
| 2003 | $ 42,813,000 | $ 290,794,300 | 14.7% |
| 2004 | $ 42,325,600 | $ 300,578,700 | 14.1% |
| 2005 est. | $ 43,123,600 | $ 334,266,900 | 12.9% |
| 2006 budgeted | $ 53,204,900 | $ 316,828,900 | 16.8% |

### Non-Appropriated Corporate Fund Balance

Beginning in FY2005, the District began to designate a portion of the net assets appropriable as a non-appropriated or unreserved fund balance. These funds are available for contingencies. In FY2004, $4.2 million or 1.3% of the Corporate Fund appropriation was provided for contingencies. In FY2006, $23.1 million or 7.3% of projected appropriations will be set aside. The District projects that the forthcoming deregulation of energy prices and an increasing amount of property tax refunds will impose significant budgetary pressures in a few years. The increased amount of fund balance reserved for future use is an effort to provide for these contingencies.[13]

## PERSONNEL

The number of full-time equivalent (FTE) positions is projected to decline by 36 positions or 1.7% in FY2006. This will be a decrease from 2,143 to 2,107 FTEs. Since FY1997, the District has cut its workforce by 5.9% or 132 positions. It is the MWRD's official policy to reduce the workforce below 2,000 positions in the next four years.[14] This is being accomplished by attrition.

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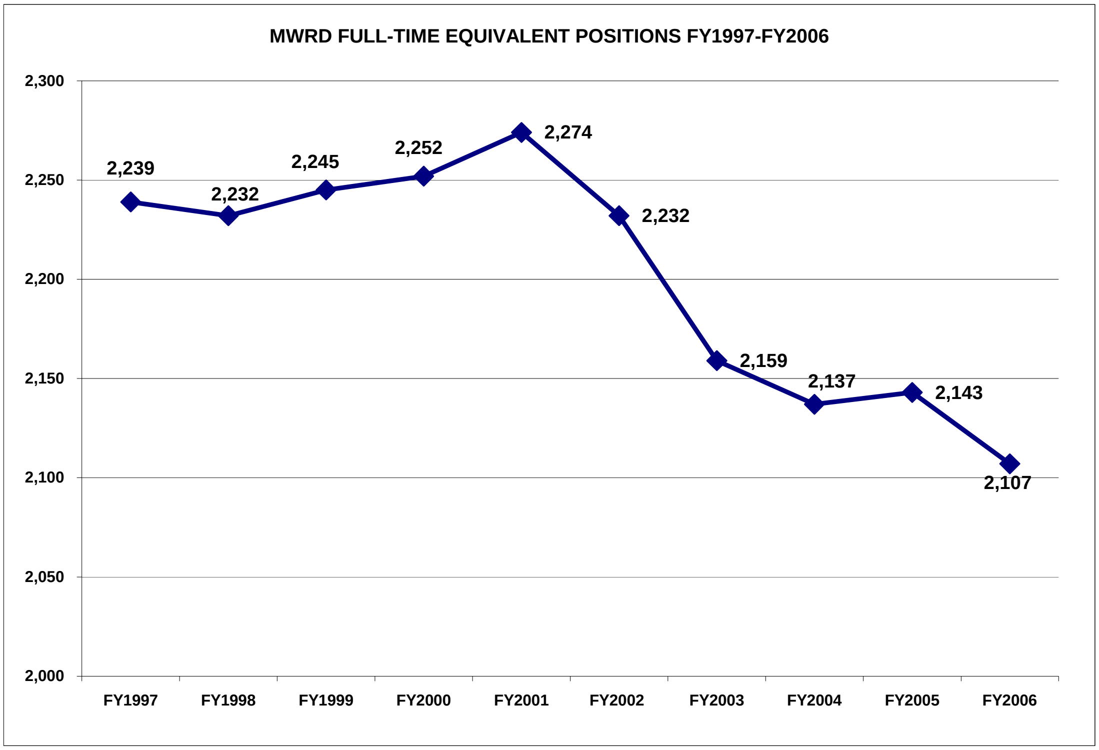
[11] MWRD FY2006 Tentative Budget, p. 15.
[12] Government Finance Officers Association Recommended Practice. "Appropriate Level of Unreserved Fund Balance in the General Fund" (Adopted 2002).
[13] Information provided by MWRD Budget staff, December 1, 2005.
[14] Information provided by Administrative Services Manager John Farris and Management Analyst Paul Piszkiewicz on December 3, 2004.




Almost 90% of District employees are funded with Corporate Fund dollars. Between FY2005 and FY2006, the number of Corporate Fund FTEs will decline by 3.4% or 65 positions. Fifty-three of the positions reduced are in Maintenance and Operations.

| MWRD CORPORATE FUND FTES: FY2005 & FY2006 | | | | |
|---|---|---|---|---|
| | **FY05** | **FY06** | **CHG** | **% CHG** |
| Maintenance & Operations | 1,124 | 1,071 | (53) | -4.7% |
| Research & Development | 321 | 317 | (4) | -1.2% |
| General Administration | 146 | 145 | (1) | -0.7% |
| Purchasing | 71 | 70 | (1) | -1.4% |
| Information Technology | 64 | 63 | (1) | -1.6% |
| Personnel | 56 | 53 | (3) | -5.4% |
| Law | 41 | 41 | - | 0.0% |
| Board of Commissioners | 38 | 38 | - | 0.0% |
| Finance | 35 | 35 | - | 0.0% |
| Engineering (Corporate Fund) | 33 | 32 | (1) | -3.0% |
| Treasury | 8 | 7 | (1) | -12.5% |
| **TOTAL** | **1,937** | **1,872** | **(65)** | **-3.4%** |

### Personal Service Appropriations

The exhibit below shows personal service appropriations in FY2005 and FY2006. Some of the highlights include:

- The appropriation for regular employee salaries, which averaged approximately 55% of all appropriations, will increase by 2.0%, reflecting cost of living increases. This represents an increase of $2.9 million from $151.0 million to $154.0 million.

- Health and life insurance premium costs are expected to rise by 7.4%, from $35.1 million to $37.7 million. The District has attempted to contain rising healthcare costs by providing for staggered increases in employee contributions over time. They rose from 7% to 9% in October 2005 and will rise to 10% in July 2006 and 11% in July 2007. Deductibles and co-payments will also increase over time.[15]

- Contractual services, which represent 23.2% of the personal services appropriation in FY2006, will decline by 10.0%, from $72.4 million to $65.1 million.

| Personal Service Appropriations: All Funds FY2005-FY2006 | | | | |
|---|---|---|---|---|
| | FY2005 Adj. | FY2006 Budg. | $ CHG | % CHG |
| Salaries of Regular Employees* | $ 151,076,000 | $ 154,041,200 | $ 2,965,200 | 2.0% |
| Contractual Services | $ 72,465,522 | $ 65,187,400 | $ (7,278,122) | -10.0% |
| Health & Life Insurance Premiums | $ 35,102,500 | $ 37,702,200 | $ 2,599,700 | 7.4% |
| Employee Claims | $ 8,110,000 | $ 10,110,000 | $ 2,000,000 | 24.7% |
| Compensation Plan Adjustments | $ 7,395,600 | $ 7,945,600 | $ 550,000 | 7.4% |
| Other Employee Personal Services** | $ 3,453,200 | $ 3,025,800 | $ (427,400) | -12.4% |
| Social Security & Medicare Contributions | $ 1,680,000 | $ 1,764,000 | $ 84,000 | 5.0% |
| **TOTAL** | **$ 279,282,822** | **$ 279,776,200** | **$ 493,378** | **0.2%** |

Source: Provided by MWRD Budget Office, December 1, 2005.
* Includes FY2006 Salary Adjustments
** Includes Tuition, Training, Nonbudgeted Salaries

## DEBT TRENDS

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

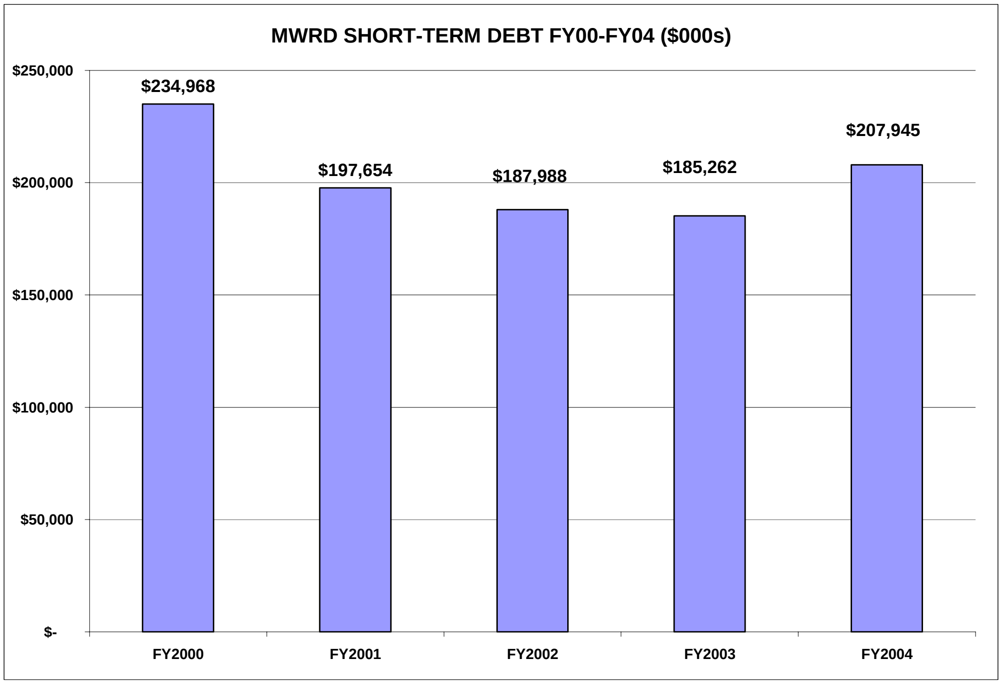
### Short-Term Debt Trends

Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits. Short-term debt for MWRD general governmental activities includes obligations such as accounts payable, contracts payable, deposits, interest payable, interest, due to other funds, and liabilities from restricted

[15] MWRD FY2006 Tentative Budget Supplement, p. 6.

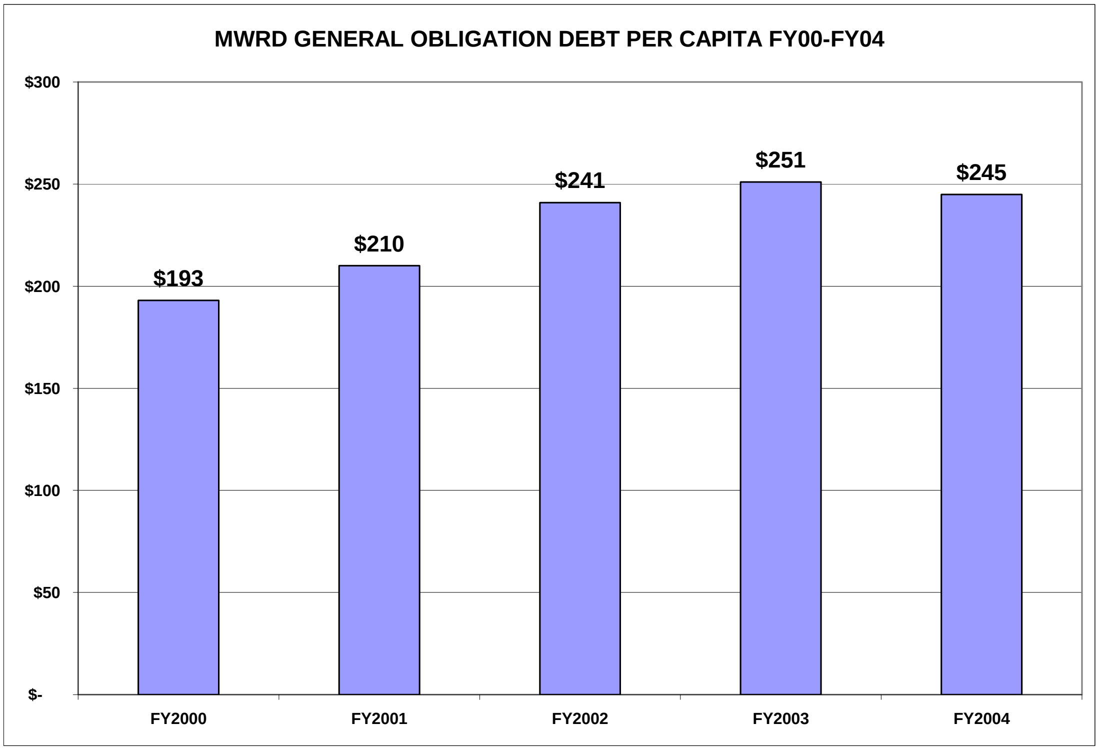
assets. In sum, it includes all liabilities except accrued salaries and wages, accrued payroll, compensated absences and long-term debt that are reported in the General Corporate Fund.

Between FY2000 and FY2004, MWRD short-term debt obligations rose by 12.2%, from $185.2 million to $207.9 million. This is the first increase after three years of declines. Since FY2000, short-term debt has fallen by $27.0 million or 11.5%.




## General Obligation Debt Per Capita

General Obligation debt per capita is a measure of a government's ability to maintain its current financial policies. Increases over time in this indicator bear watching as a potential sign of increasing financial risk. The total amount of MWRD General Obligation debt in FY2004 was $1.3 billion. In FY2004, G.O. debt per capita declined by 2.4% from the previous fiscal year. Between FY2000 and FY2004, the MWRD's G.O. debt per capita increased by 26.9%, rising from $193 to $245. The total dollar increase during this period was $289.0 million.

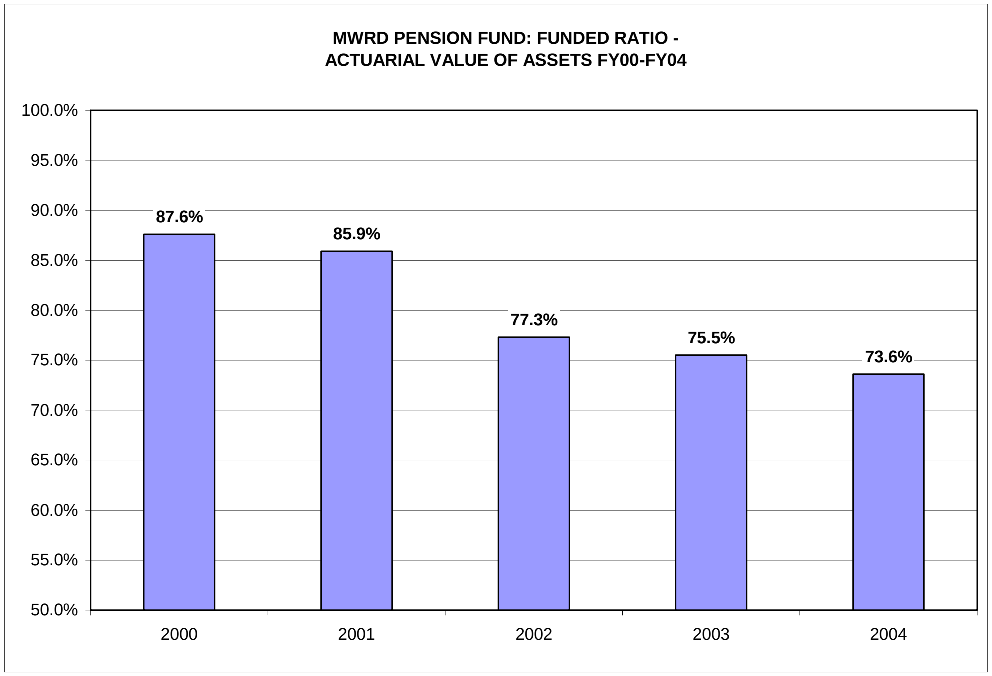



## PENSION FUND TRENDS

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

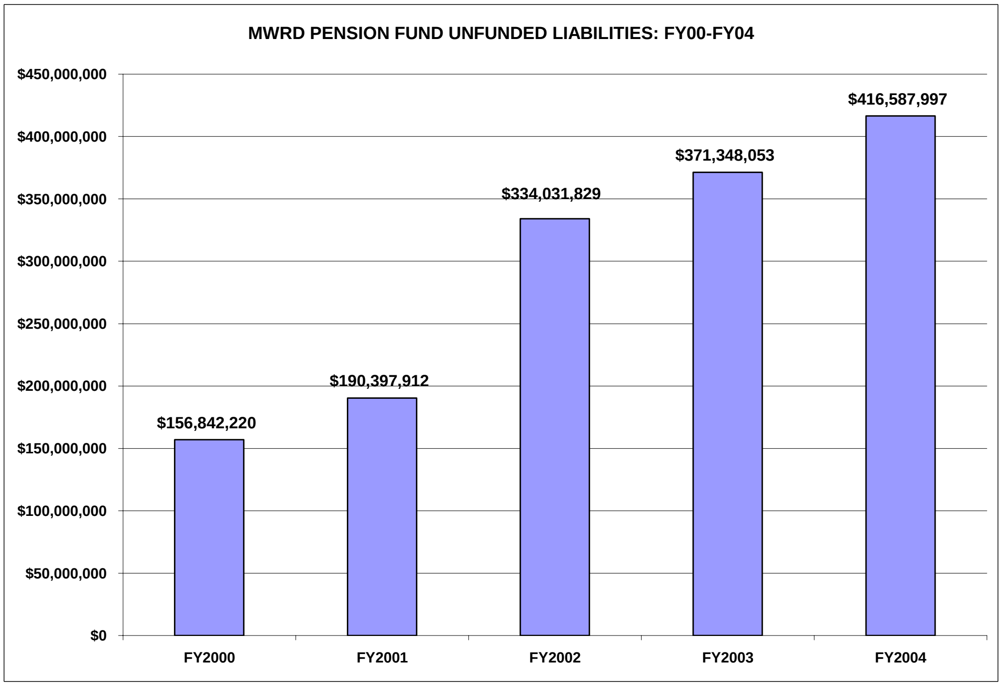
### Funded Ratio – Actuarial Value of Assets

The following exhibit shows the funded ratio for the MWRD's pension fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations. The funded ratio declined in FY2004, from 75.5% to 73.6%. Since FY2000, it has declined from a robust 87.6%. A continued decline in subsequent years would raise concerns about the pension funds' funding levels.



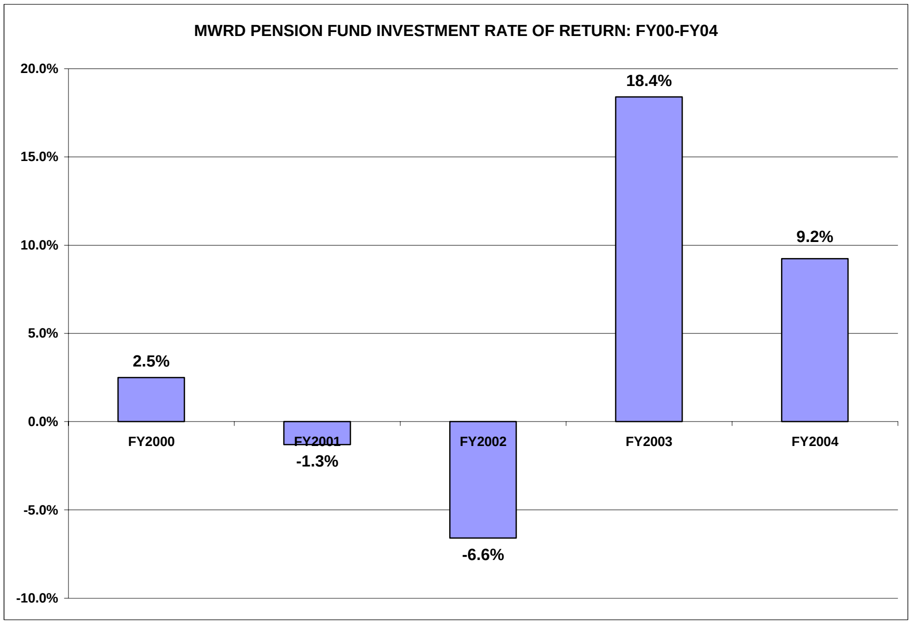

## Unfunded Liabilities

Unfunded liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for the MWRD's pension fund totaled approximately $416.5 million in FY2004, up from $371.3 million the previous fiscal year. Between FY2000 and FY2004, unfunded liabilities rose by 165.6% or $259.7 million.



**Investment Rates of Return**

Investment income typically provides a significant portion (over 50%) of the funding for pension funds. Thus, declines over a period of time can have a negative impact on pension assets. From FY2000 to FY2004, MWRD investment rates of return increased from 2.5% to 9.2%. However, from FY2000 to FY2002, investment rates of return were negative, falling to a low of 6.6% in the latter year. These declines were due in large part to the economic downturn and resulting losses in equity investments. Since FY2002, investment returns have been positive, reflecting the economic recovery.




**CIVIC FEDERATION RECOMMENDATION**

The Civic Federation has in the past has encouraged the MWRD to join with other local governments in the joint purchasing of health insurance and other services. The MWRD has not yet joined with the City of Chicago, County of Cook, Chicago Park District and other governments which are currently jointly purchasing employee prescription drugs at a significant savings. We continue to encourage the MWRD to pursue such opportunities and we broaden our recommendation of possible savings opportunities to include fuel, electricity and other commodities.

The Civic Federation has long championed alternative service delivery mechanisms as a way to improve efficiency and reduce the costs of government operations. The joint purchasing of supplies and services is an important alternative service delivery method. Given the coming large increases in electricity that will likely result from deregulation in a few years and continuing increases in fuel, we urge the MWRD to work with other governments to cooperatively purchase these and other commodities.