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CIVIC FEDERATION SUPPORTS LONG-SIGHTED MWRD BUDGET

Citing a combination of exemplary long-range planning and restraint in its property tax levy, the Civic Federation announced its **support** for the Metropolitan Water Reclamation District's tentative FY2008 budget of $1.4 billion. The Federation's complete budget analysis, including detailed findings and recommendations, will be available Wednesday, December 12, 2007 on our website, www.civicfed.org.

The MWRD proposes a fiscally responsible budget that controls costs and minimizes the burden on property taxpayers. In contrast to many other governments in Cook County, the MWRD's proposed property tax increase for its tax capped funds is only 0.9%, well below the limit imposed by state law. The district can hold the line on property tax increases because it contains personnel costs through a long-term personnel expense control plan. The plan includes reductions in workforce as well as increased employee contributions to the cost of health insurance. While total personnel costs will increase by 4.8%, health and life insurance costs will rise by only 2.8%. "The Civic Federation congratulates the MWRD for recognizing that personnel costs, the single largest expenditure in public budgets, must be controlled on a long-term basis," said Civic Federation Vice President and Research Director Lise Valentine.

The MWRD continues to take a leadership role among governments in the Chicago region by not only using long-range planning tools and techniques, but also making those plans publicly available in the budget. The MWRD provides a capital improvement plan and makes five-year financial forecasts for revenues, expenditures, and personnel. Such forward thinking led the district to create one of the first other post employment benefits (OPEB) trust funds in Illinois. The trust will allow the district to begin saving to pay for future retirees' health care and other benefits. By planning for the future, the MWRD is able to fulfill its stated goal of minimizing the tax burden it places on the homeowners and businesses of Cook County.

The Civic Federation's major concern with the budget is the continued steady decline in the fiscal health of the MWRD Retirement Fund. Between FY2002 and FY2006, the funded ratio of the pension fund fell from 77.3% to 70.1%. A funded ratio under 80% is a cause for concern because it signals that a government may not be able to fulfill the promises it has made to its current and future retirees. The decline in funding levels for the district's pensions can be attributed in large part to shortfalls in employer contributions. The MWRD's statutorily required payments into the pension fund are not related to funding levels, but to what employees contributed two years earlier. The Civic Federation was pleased to see the MWRD recognize the pension funding problem in its FY2008 budget and that it is also analyzing funding alternatives. The Federation recommends that the district seek legislation in Springfield that would link employer contributions to funding levels and control growth of unfunded liabilities by prohibiting benefit enhancements unless the Retirement Fund is over 90% funded and reducing benefits for new employees.

The Civic Federation is an independent, non-partisan government research organization founded in 1894. The Federation's membership includes business and professional leaders from a wide range of Chicago area corporations, professional service firms and institutions.

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METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO FY2008 TENTATIVE BUDGET

Analysis and Recommendations

Prepared By
The Civic Federation
December 12, 2007

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EXECUTIVE SUMMARY

The Civic Federation **supports** the Metropolitan Water Reclamation District's FY2008 Tentative budget of $1.4 billion. This budget is a fiscally responsible financial plan that minimizes the burden on property taxpayers and continues the District's strong tradition of incorporating rational principles for containing personnel costs and implementing long-term planning.

The Civic Federation **supports** the MWRD's Tentative FY2008 budget for the following reasons:

- In FY2008, the MWRD will increase the property tax levy for its tax capped funds by 0.9% or $2.3 million, from $269.6 million to $271.9 million. This is an increase far below the rate of inflation, which averaged 2.6% between January and October 2007.
- The MWRD continues to contain personnel costs as part of its long-term personnel expense cost control plan. Total personal service costs will rise by 4.8% or from nearly $159.2 million in FY2007 to $166.8 million in FY2008. Appropriations for health and life insurance premium costs, often a key driver of government budgets, will rise by only 2.8%, from $49.8 million to $51.2 million. The District plans to reduce its total number of FTEs from 2,108 to 2,046 positions over the next four years.
- The MWRD remains exemplary among Chicago area governments for utilizing long-range planning tools and techniques and for making information about those plans publicly available in its Budget Book. These plans include five-year financial forecasts for revenues, expenditures, and personnel; a detailed Capital Improvement Plan; and the establishment of a Trust Fund to fund Other Post Employment Benefit liabilities and costs.

The Civic Federation offers the following **key findings** on the MWRD's finances based on our analysis of its FY2008 budget:

- The MWRD proposes to appropriate $1.4 billion in its 2008 Tentative Budget. This is a 39.6%, or $405.1 million increase from the FY2007 Adjusted Budget of $1.02 billion. This large increase is primarily a reflection of a $344.6 million carry over of unexpended funds in the Capital Improvements Bond Fund.
- Corporate Fund appropriations are projected to increase by 7.7%, or $27.9 million. This is an increase from $362.3 million in FY2007 to $390.1 million in FY2008.
- The gross property tax levy will increase by 3.0% in FY2008, to $428.8 million. Of this amount, 63.4% 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 36.6%, or $156.8 million, will be levied for the Bond and Interest Fund and the Stormwater Management Fund, both of which are not subject to tax caps.
- The number of full-time equivalent (FTE) positions is projected to increase by 14 positions or 0.7% in FY2008, an increase from 2,094 to 2,108 FTEs.
- The appropriation for regular employee salaries, which constitutes 52.0% of all personal service appropriations, will increase by 4.8%, reflecting cost of living increases. This represents an increase of $7.6 million from nearly $159.2 million in FY2007 to $166.8 million in FY2008.
- Appropriations for health and life insurance premium costs will rise by 2.8%, from $49.8 million to $51.2 million.

- The FY2008 non-appropriated fund balance amount will be $46.6 million or 12.0% of the Corporate Fund appropriation.

The Civic Federation has the following **concern** about the MWRD's long term financial health:
- In FY2006, the last year for which complete data are available, the funded ratio of the MWRD Retirement Fund dropped to 70.1%, a decline from 77.3% in FY2002. Unfunded liabilities in FY2006 rose to $515.1 million, up from $334.0 million five years prior. This represents a 54.2% or $181.0 million increase. The continued decline in the financial health of the MWRD Retirement Fund is troubling and steps must be taken soon to reverse the trend.

The Civic Federation offers the following **recommendations** on how to improve the fiscal health and transparency of MWRD budget documents:
- The MWRD should immediately seek legislation in Springfield authorizing the District to implement measures to control pension costs. These measures should include: reducing benefits for new employees; fixing annual annuity increases for new hires at the projected Consumer Price Index or 3%, whichever is less; prohibiting benefit increases unless the Retirement Plan is over 90% funded; and requiring that employer contributions be related to funding levels rather than set by arbitrary multipliers.
- The All Funds Revenue table in the Budget Book should be revised to include the total amount of property tax revenues to be used by the District in FY2008, regardless of the year in which those taxes were levied.
- The Service Efforts and Accomplishments information in the Budget Book should be strengthened by including specific goals and narratives to help explain the Measurable Activity data.

OVERVIEW

The Civic Federation **supports** the Metropolitan Water Reclamation District's FY2008 Tentative budget of $1.4 billion. This budget is a fiscally responsible financial plan that minimizes the burden on residential and business property taxpayers and continues the District's strong tradition of incorporating rational principles for containing personnel costs and implementing long-term planning.

Reasons for Civic Federation Support

The reasons for the Civic Federation's support of the MWRD's FY2008 budget are explained in detail below.

Property Tax Levy Increase Below Rate of Inflation

In FY2008 the MWRD will increase the property tax levy for its tax capped funds by 0.9% or $2.3 million, from $269.6 million in FY2007 to $271.9 million in FY2008.[1] The tax cap law

[1] The tax cap law or the Property Tax Extension Limitation Law, 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 35 ILCS 200/18-245). However, the value of new properties is exempted from the tax cap calculation, thus allowing for a greater

limits increases in these funds to no more than the rate of inflation. As the average inflation rate for January through October 2007 was 2.6%, the MWRD's proposed levy increase is far below the rate of inflation.

Overall, the gross property tax levy, which includes amounts levied for the non-tax capped funds, will increase by 3.0%, rising from $416.3 million to $428.8 million. This increase is due in large part to an increase in the amount levied for stormwater management purposes from $3.9 million in FY2007 to $15.2 million in FY2008.

At a time when far too many governments in the Chicago region have proposed huge new tax increases, the District has taken a more responsible course in limiting the size of its property tax increase. The Civic Federation **commends** the MWRD for fulfilling its stated objective to "make every effort to minimize the tax levy through the use of sound management and cost-effective operations."[2]

Containing Personnel Costs

In FY2008, the MWRD will continue to contain personnel costs as part of its long-term personnel expense cost control plan that proposes targeted future personnel reductions and has increased employee contributions to health insurance premiums from 7% in 2005 to 11% by July 2007.[3]

In FY2008, total personal service costs for salaries and benefits will rise by 4.8%, from nearly $159.2 million in FY2007 to $166.8 million in FY2008. Appropriations for health and life insurance premium costs, often a key driver of local government budgets, will rise by only 2.8%, from $49.8 million to $51.2 million.

The MWRD full-time workforce will increase slightly in FY2008, rising from 2,094 to 2,108 FTEs. Despite this increase, the District plans to reduce the total number of FTEs to 2,046 positions over the next four years.[4]

The Civic Federation **congratulates** the MWRD for recognizing that personnel costs must be monitored and controlled over the long term. Holding the line on these costs is a critical step in relieving spending pressure and is a testament to the MWRD's prudent fiscal management.

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total extension. For details see http://www.revenue.state.il.us/LocalGovernment/PropertyTax/ptell.htm.The tax cap law limits increases in the property tax levy for certain governmental funds to 5% or the rate of inflation, whichever is less. The MWRD's funds subject to the limitation of the tax cap law are the Corporate, Construction, Pension and Reserve Claim Funds. The Bond and Interest and Stormwater Funds are not capped.

[2] MWRD FY2008 General Superintendent's Recommendation, p. 26.

[3] MWRD FY2008 General Superintendent's Recommendation, p. 23.

[4] MWRD FY2008 General Superintendent's Budget, p. 61.

Use and Disclosure of Long Range Planning Tools and Techniques

The MWRD remains exemplary among Chicago area governments for utilizing long-range planning tools and techniques. The District also is praiseworthy for making information about its plans publicly available in the Budget Book. These tools include:

1) Five-year financial forecasts for revenues, expenditures, and personnel; and

2) A Capital Improvement Plan that includes narrative descriptions of capital projects, justifications for projects and descriptions of their impact, project costs, maps that show project locations, line item analyses of appropriations and expenditures, and an analysis of projects' personnel requirements.

The MWRD has also demonstrated sound fiscal leadership in creating a Trust Fund in order to begin saving for the future payment of other post employment benefits (OPEB) liabilities. Fifteen million dollars were initially placed in the Trust Fund in FY2007 and another $15 million will be reserved in FY2008. The District also has pledged to attempt to add $10 million more to the Trust from FY2007 surplus funds.[5]

The Civic Federation applauds the MWRD Board and staff for taking a leadership position in utilizing sound fiscal planning techniques in the development and implementation of annual fiscal plans.

Budget Format Improvement

In previous years, the Civic Federation has called for the inclusion of a table in the Budget Book showing the aggregated personnel expenditures for All Funds by category. We are very pleased that the District has responded affirmatively and included such a table in the FY2008 General Superintendent's Recommendations.[6] This information is a significant addition which will improve readers' understanding of the District's efforts to control personnel costs.

Civic Federation Concern: Financial Status of Pension Fund

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

In FY2006, the last year for which complete data are available, the Pension Fund's unfunded liabilities rose to $515.1 million, up from $334.0 million five years prior (FY2002). This was a 54.2% or $181.0 million increase. Correspondingly, the funded ratio declined from 77.3% to 70.1% over a five-year period.

Shortfalls in employer contributions have significantly contributed to the increase in unfunded liabilities and the decrease in funded ratio. State statute requires that MWRD levy a property tax

[5] Information provided by Eileen McElligott, Acting Administrative Services Manager, December 7 2007.
[6] We would note that the corrected version of the table should be uploaded to the Web version of the FY2008 General Superintendent's Recommendations.

equivalent to a multiple of the employee contributions made two years prior. This amount is unrelated to the actuarially required contribution (ARC) for funding normal cost plus the amortization of the unfunded liability. The ARC payment would have been $47.3 million in FY2006, approximately $12.9 million more than the District's actual $34.4 million contribution.

The lingering effects of the market downturn in 2001-2002 have also increased the unfunded liability. Lower than expected investment returns are responsible for $188.3 million of the total $393.4 million increase in unfunded liabilities over the last ten years. However, $65.4 million of those unfunded liabilities are attributed to benefit enhancements and $64.7 million to insufficient employer contributions.[7] While market declines are responsible for the biggest increases in liabilities, benefit enhancements and inadequate contributions have played a major role.

The Civic Federation is pleased that the MWRD recognizes the pension funding problem in its FY2008 Budget and is conducting an analysis of pension funding alternatives that would improve the Fund's fiscal health. Most options considered will require increases in employer contributions.[8] We hope that the District will propose specific legislative changes to achieve this goal. We offer recommendations in the last part of this analysis that would also limit benefits in the future.

ACKNOWLEDGMENTS

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

APPROPRIATIONS

The MWRD proposes to appropriate $1.4 billion in its 2008 Tentative Budget. This is a 39.6%, or $405.1 million increase from the FY2007 Adjusted Budget of $1.02 billion. This large increase is primarily a reflection of a $344.6 million carry over of unexpended funds in the Capital Improvements Bond Fund.

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

[7] MWRD Retirement Fund Comprehensive Annual Financial Report for the Year Ending December 31, 2006, p. 62.
[8] MWRD FY2008 General Superintendent's Recommendation, p. 7.

The following exhibit shows MWRD budget appropriations from FY2003 to FY2007. It compares the Tentative Budget appropriations proposed in each of those years with the final Adjusted Budget as reported in the succeeding year's budget book. Adjusted appropriations include capital project awards made after the initial release of the budget, among other changes. While FY2003 and FY2004 show relatively large differences between proposed and adjusted appropriations, FY2005 through FY2007 show smaller differences.

MWRD APPROPRIATIONS: FY2003 - FY2007			
	Tentative	**Adjusted**	**Variance**
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	$ 1,038,840,599	$ 38,283,286
FY2007	$ 968,775,832	$ 1,023,147,811	$ 54,371,979

Source: MWRD Tentative Budgets FY2003 - FY2008

In FY2008 Corporate Fund appropriations are projected to increase by 7.7% or $27.9 million. Approximately one third of this increase, $9.0 million, will fund additional staff and equipment for the execution of the MWRD's Information Technology Strategic Plan (ITSP). This is a five-year phased plan that will include thirty projects to update and improve District-wide information management and business process automation.[9] The FY2008 Corporate Fund increase also includes $5.1 million in engineering projects that must be completed in preparation for Master Plan initiatives. Master Plans developed in 2004 and 2006 reviewed processes at the District's treatment plans and recommended improvements that would reduce maintenance costs and increase efficiency with regard to manpower and energy.[10] An additional $4.5 million is appropriated in the Corporate Fund for equipment purchases in the Research & Development and Maintenance & Operations departments.[11]

The Construction Fund serves as a pay-as-you-go funding source for capital projects that rehabilitate aged or less effective infrastructure. Capital projects paid for through this fund have a useful life of less than 20 years or a value of less than $1 million, and are financed by a tax levy sufficient to pay for project costs as they are constructed. Construction Fund FY2008 appropriations include reappropriations for prior year projects still under construction. In FY2008 the Construction Fund will be reduced by $10.5 million or 24.6%. This reduction is due to 2007 expenditures being lower than appropriations.

The Capital Improvements Bond Fund is for major infrastructural improvements whose useful life is longer than 20 years and which are financed by long-term debt, Federal and State grants, or State Revolving Fund loans. The 113.9%, or $395.8 million increase in Capital Improvements Bond Fund appropriations for FY2008 reflects the timing of the award of major projects, as well as carry over appropriations for prior year projects that have not been completed.[12]

[9] MWRD FY2008 General Superintendent's Recommendation, p. 202.
[10] MWRD FY2008 General Superintendent's Recommendation, p. 5.
[11] MWRD FY2008 General Superintendent's Recommendation, p. 17.
[12] MWRD FY2008 General Superintendent's Recommendation, p. 18.

Stormwater Management Fund appropriations will rise by 42.5% or $10.4 million FY2008. This rise is due to ongoing watershed studies, expanded small stream clean up activities, and waterway facilities projects. 2008 initiatives in the stormwater fund will include implementation of a Rain Garden Demonstration Program at public high schools, a Permeable Pavement Pilot Study at the Stickney treatment plant, and an expanded Public Information Program.[13]

Appropriations for the Reserve Claim Fund will increase 10.2%, or $6.0 million. The Reserve Claim Fund is a self-insurance fund for a variety of claims including employee claims, environmental remediation costs that cannot be recovered from tenants, and catastrophic failure of District operational infrastructure. The Board has adopted a policy of striving to finance the Reserve Claim Fund at the maximum level permitted by state statue, which is 0.05% of Equalized Assessed Value, or approximately $70.7 million.

MWRD Major Fund Appropriations: FY2007 & FY2008				
	2007 Adj.	2008 Budg.	$ Change	% Change
Corporate Fund	$ 362,323,300	$ 390,186,600	$ 27,863,300	7.7%
Construction Fund	$ 42,630,500	$ 32,160,100	$ (10,470,400)	-24.6%
Capital Improvements Bond Fund*	$ 347,446,100	$ 743,295,100	$ 395,849,000	113.9%
Stormwater Fund	$ 24,499,600	$ 34,924,000	$ 10,424,400	42.5%
Retirement Fund	$ 30,889,770	$ 30,581,134	$ (308,636)	-1.0%
Reserve Claim Fund	$ 56,705,500	$ 62,500,000	$ 5,794,500	10.2%
Bond Redemption & Interest Fund	$ 158,653,041	$ 134,593,881	$ (24,059,160)	-15.2%
Total Appropriations	**$ 1,023,147,811**	**$ 1,428,240,815**	**$ 405,093,004**	**39.6%**

*Capital Improvements Bond Fund includes appropriations for prior year obligations.
Source: MWRD BF-20 Budget Form Dated December 5, 2007.

The next exhibit shows MWRD appropriations by fund for FY2004 and FY2008. Overall, appropriations will increase by 61.9%, from $882.4 million to $1.4 billion. The biggest increase will be in the Capital Improvement Bond Fund, which will rise from $299.1 million in FY2004 to $743.3 million five years later. Much of this increase reflects the large increase in Capital Improvement Bond Fund appropriations between FY2007 and FY2008. The Corporate Fund will increase by 29.8% over the five year period reviewed.

MWRD Appropriations by Fund: FY2004 & FY2008				
	2004 Adj.	2008 Budg.	$ Change	% Change
Corporate Fund	$ 300,578,700	$ 390,186,600	$ 89,607,900	29.8%
Construction Fund	$ 63,584,600	$ 32,160,100	$ (31,424,500)	-49.4%
Capital Improvements Bond Fund*	$ 299,092,800	$ 743,295,100	$ 444,202,300	148.5%
Stormwater Fund	$ -	$ 34,924,000	$ 34,924,000	100.0%
Retirement Fund	$ 28,678,392	$ 30,581,134	$ 1,902,742	6.6%
Reserve Claim Fund	$ 33,000,000	$ 62,500,000	$ 29,500,000	89.4%
Bond Redemption & Interest Fund	$ 157,422,157	$ 134,593,881	$ (22,828,276)	-14.5%
Total Appropriations	**$ 882,356,649**	**$ 1,428,240,815**	**$ 545,884,166**	**61.9%**

*Capital Improvements Bond Fund includes appropriations for prior year obligations.
Source: MWRD BF-20 Budget Form Dated December 5, 2007 and FY2004 Tentative Budget, p. 40.

[13] MWRD FY2008 General Superintendent's Recommendation, p. 409.

RESOURCES

This portion of the analysis presents trend information about FY2008 MWRD Corporate Fund resources. We have not presented All Fund resource information because the budget does not provide the total amount of property tax revenues available for use in FY2008, only 2008 levy revenues available for use in that year. Levy revenues from 2007 that are to be used in FY2008 are included in the category "Net Assets Appropriable" which encompasses all revenues carried over from the previous fiscal year.

Corporate Fund Resources

FY2008 Corporate Fund resources will increase by 12.2% over FY2007 budgeted levels, rising from $347.9 million to $390.2 million. Some key resource changes include:

- The net Corporate Fund property tax levy, which constitutes 59.2% of available Corporate Fund revenues, will rise by 2.7%, from $224.9 million to $230.9 million.

- The Personal Property Replacement Tax (PPRT), which is a corporate income tax, is expected to constitute 6.7% of available resources and will increase by 11.0%, or $2.6 million, from PPRT revenues in FY2007. PPRT revenues are first used to fully fund the Retirement Fund. Any remainder is distributed to the non-debt funds in proportion to their property tax levies.

- User charges will represent 12.3% of available Corporate Fund resources in FY2008. Revenues from user fees will increase by 0.8% in FY2008, rising from $47.6 million to $48.0 million. User charges are paid by large industrial and government users based on volume and strength of effluent discharged.

- Property and Service Charges, which includes land rentals and other revenues, will increase by 16.2% or $2.8 million in FY2008 and will constitute 5.1% of the Corporate Fund's available resources. This increase is primarily attributable to increased land rental revenues.[14]

- The Corporate Fund's appropriable net assets (total fund balance) will be $112.8 million in FY2008. Approximately $46.7 million of that fund balance will not be appropriated, but will be saved as a contingency fund instead. Until FY2004, all net assets appropriable were reappropriated as resources for the following year. Since then, a portion of those assets has not been reappropriated in order to provide for a Corporate Fund balance.

[14] MWRD FY2008 General Superintendent's Recommendation, p. 81.

MWRD Corporate Fund Resources FY2007 & FY2008				
	FY2007 Budj.	FY2008 Budg.	$ Change	% Change
Property Taxes (net)	$ 224,907,700	$ 230,887,600	$ 5,979,900	2.7%
PPRT	$ 23,421,000	$ 26,002,200	$ 2,581,200	11.0%
Property & Service Charges	$ 17,209,000	$ 20,000,500	$ 2,791,500	16.2%
User Charges	$ 47,600,000	$ 48,000,000	$ 400,000	0.8%
Other	$ 1,849,000	$ 4,024,000	$ 2,175,000	117.6%
Net Assets Apopropriable	$ 94,460,100	$ 112,819,800	$ 18,359,700	19.4%
Working Cash Borrowings Adjustment	$ (4,628,700)	$ (4,889,800)	$ (261,100)	5.6%
Total	**$ 404,818,100**	**$ 436,844,300**	**$ 32,026,200**	**7.9%**
Non-Appropriated Fund Balance	$ (56,959,700)	$ (46,657,700)	$ 10,302,000	-18.1%
Total Resources Available	**$ 347,858,400**	**$ 390,186,600**	**$ 42,328,200**	**12.2%**

Sources: FY2007 Tenative Budget, p. 13, and FY2008 Tentative Budget, p. 13.

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

- Net property tax revenues will rise by 19.4%, from $193.4 million to $230.9 million.
- User charges will increase only slightly, by 2.0%.
- Property and service charges, which include income from land rentals, agricultural products, and investments, will increase by 196.3%, from $6.8 million to $20.0 million.
- Personal property replacement tax revenues will rise by 64.8% from $15.8 million to $26.0 million.

MWRD Corporate Fund Resources: FY2004 & FY2008				
RESOURCE	FY2004 Budg.	FY2008 Budg.	$ Change	% Change
Property Taxes (net)	$ 193,441,000	$ 230,887,600	$ 37,446,600	19.4%
PPRT	$ 15,778,000	$ 26,002,200	$ 10,224,200	64.8%
Property & Service Charges	$ 6,750,000	$ 20,000,500	$ 13,250,500	196.3%
User Charges	$ 47,040,000	$ 48,000,000	$ 960,000	2.0%
Other	$ 3,700,000	$ 4,024,000	$ 324,000	8.8%
Net Assets Apopropriable	$ 41,497,000	$ 112,819,800	$ 71,322,800	171.9%
Working Cash Borrowings Adjustment	$ -	$ (4,889,800)	$ (4,889,800)	….
Total	**$ 308,206,000**	**$ 436,844,300**	**$ 128,638,300**	**41.7%**
Non-Appropriated Fund Balance	$ (9,437,000)	$ (46,657,700)	$ (37,220,700)	394.4%
Total Resources Available	**$ 298,769,000**	**$ 390,186,600**	**$ 91,417,600**	**30.6%**

Sources: FY2004 Tentative Budget, p. 60 & FY2008 Tentative Budget, p. 13.

Property Tax Levy

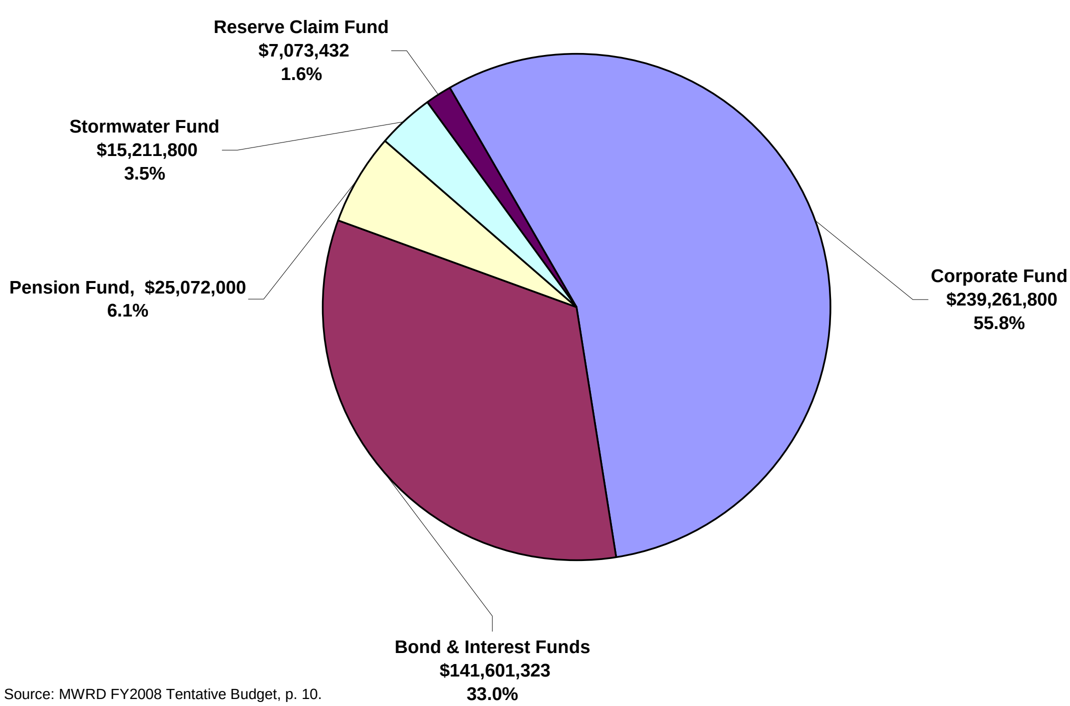
In FY2008 the MWRD's gross property tax levy will increase by 3.0% to $428.8 million. Of this $428.8 million, 63.4% will be levied for funds that are subject to the tax cap law, which limits annual increases to 5% or the rate of inflation, whichever is less. The remaining 36.6%, or $156.8 million, is levied for the Bond and Interest Fund and the Stormwater Management Fund, which are not subject to tax caps.[15] The FY2008 Stormwater Management levy will increase by 285.9% to $15.2 million. This increase restores the Fund levy close to the 2006 level of $15.5 million. The Bond and Interest levy, reserved for debt service, will decline by 0.9% or $1.2 million. No property taxes will be levied in the Construction Fund for 2008.

MWRD Gross Property Tax Levy: FY2007 & FY2008				
	FY2007 Adj.	FY2008 Budg.	$ Change	% Change
Corporate Fund	$ 233,065,000	$ 239,261,800	$ 6,196,800	2.7%
Construction Fund	$ 5,181,347	$ -	$ (5,181,347)	-100.0%
Pension Fund	$ 24,843,316	$ 25,664,500	$ 821,184	3.3%
Reserve Claim Fund	$ 6,529,346	$ 7,073,432	$ 544,086	8.3%
Stormwater Fund	$ 3,941,762	$ 15,211,800	$ 11,270,038	285.9%
Bond & Interest Funds	$ 142,830,343	$ 141,601,323	$ (1,229,020)	-0.9%
TOTAL	**$ 416,391,114**	**$ 428,812,855**	**$ 12,421,741**	**3.0%**

Source: MWRD FY2008 Tentative Budget, p. 10.

The next exhibit shows the distribution of property tax dollars among the MWRD's various funds in FY2008. The Corporate Fund and Bond and Interest Funds together will consume 88.8% of the District's total levy.

MWRD Gross Property Tax Levy By Fund FY2008



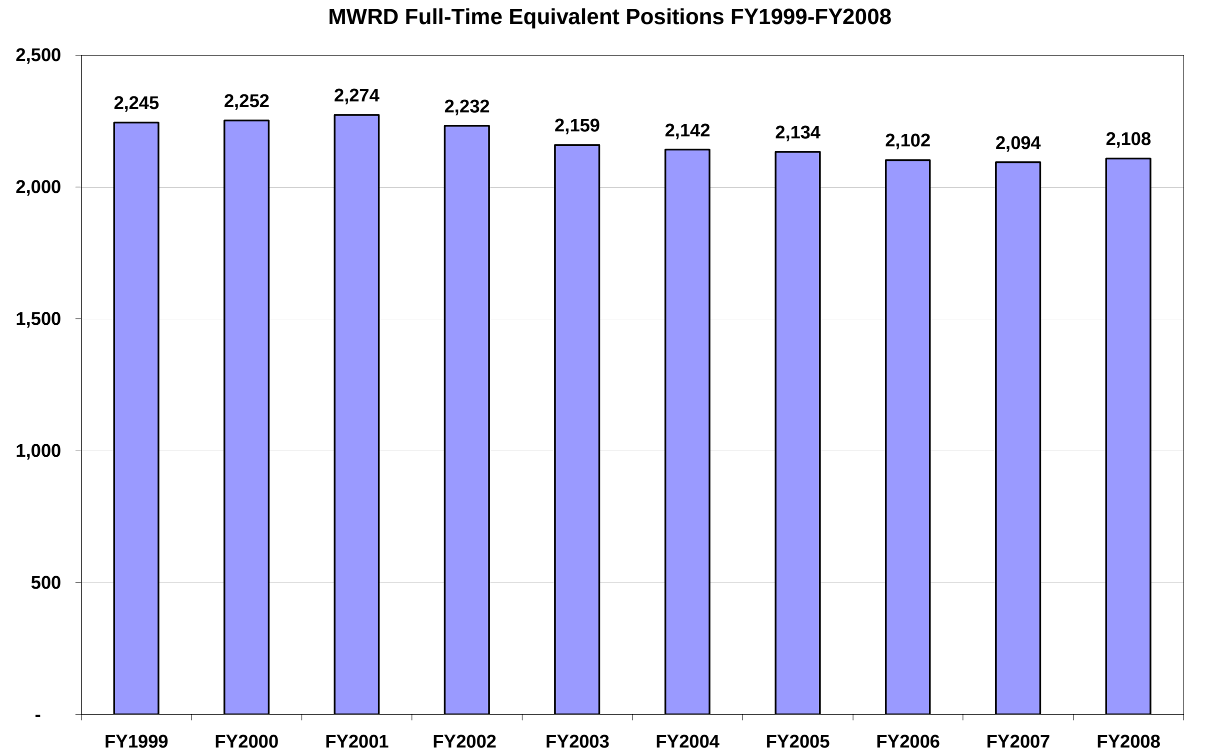
Source: MWRD FY2008 Tentative Budget, p. 10.

15 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.

The MWRD Board of Commissioners has a policy of adopting tax levies that do not increase by more than 5% over the prior year (excluding the Stormwater Management Fund). A related tax levy policy is in place for the Bond & Interest Funds. When investment income in the Bond & Interest Funds exceeds the amount necessary for paying the principal and interest over the next twelve months, the Bond & Interest property tax levy is abated.[16]

PERSONNEL

The number of full-time equivalent (FTE) positions is projected to increase by 14 positions or 0.7% in FY2008, an increase from 2,094 to 2,108 FTEs. Since FY1999, the District has cut its workforce by 6.1% or 137 positions. The MWRD intends to reduce the total number of FTEs to 2,046 positions over the next four years.[17] This reduction is being accomplished by attrition.



Note: Positions are actual through 2006, estimated for 2007 and budgeted for 2008.
Source: MWRD FY2008 General Superintendent's Recommendation p. 53 and BF-20 Budget Form dated December 5, 2007.

Over 87% of District employees are funded with Corporate Fund dollars. Between FY2007 and FY2008, the number of Corporate Fund FTEs will decline by 0.1% or one position. There will be position reductions in General Administration (6), Research and Development (2) and Finance (1) and increases in Information Technology (6), Personnel (1) and Engineering (1).

[16] MWRD FY2008 General Superintendent's Recommendation, p. 25.
[17] MWRD FY2008 General Superintendent's Recommendation, p. 61.

MWRD Corporate Fund Full-Time Equivalents: FY2007 & FY2008				
	FY2007	FY2008	# change	% change
Maintenance & Operations	1,044	1,044	0	0.0%
Research & Development	311	309	-2	-0.6%
General Administration	144	138	-6	-4.2%
Purchasing	70	70	0	0.0%
Information Technology	66	72	6	9.1%
Personnel	53	54	1	1.9%
Law	40	40	0	0.0%
Board of Commissioners	38	38	0	0.0%
Finance	34	33	-1	-2.9%
Engineering (Corporate Fund)	33	34	1	3.0%
Treasury	7	7	0	0.0%
TOTAL	**1,840**	**1,839**	**-1**	**-0.1%**

Source: MWRD BF-20 Budget Form Dated December 5, 2007.

Personal Service Appropriations

This exhibit below shows personal service appropriations in FY2007 and FY2008. The appropriation for regular employee salaries, which constitutes 52.0% of all personal service appropriations, will increase by 4.8%, reflecting cost of living increases. This represents an increase of $7.7 million from nearly $159.2 million to $166.9 million. Appropriations for health and life insurance premium costs will rise by 2.8%, from $49.9 million to $51.2 million.

Personal Service Appropriations: All Funds FY2007 & FY2008				
	FY2007 Adj.	FY2008 Budg.	$ change	% change
Salaries of Regular Employees*	$ 159,191,750	$ 166,879,700	$ 7,687,950	4.8%
Contractual Services	$ 146,087,055	$ 77,971,100	$ (68,115,955)	-46.6%
Health & Life Insurance Premiums***	$ 49,876,635	$ 51,249,800	$ 1,373,165	2.8%
Employee Claims	$ 10,110,000	$ 12,100,000	$ 1,990,000	19.7%
Compensation Plan Adjustments	$ 8,261,750	$ 7,016,900	$ (1,244,850)	-15.1%
Other Employee Personal Services**	$ 3,289,600	$ 3,517,000	$ 227,400	6.9%
Social Security & Medicare Contributions	$ 1,852,200	$ 1,950,000	$ 97,800	5.3%
TOTAL	**$ 378,668,990**	**$ 320,684,500**	**$ (57,984,490)**	**-15.3%**

Source: Provided by MWRD Budget Office, November 29, 2007.
* Includes FY2008 Salary Adjustments
** Includes Tuition, Training, Nonbudgeted Salaries
*** Includes OPEB distribution

NON-APPROPRIATED CORPORATE FUND BALANCE

One of the stated goals guiding MWRD budget development is to maintain a long-term unreserved Corporate Fund balance of $45 to $55 million, or 12% to 15% of Corporate Fund appropriations.[18] Beginning in FY2005, the District began to designate a portion of the net assets appropriable as a non-appropriated or unreserved fund balance that would be available for contingencies. This amount corresponds to an unreserved fund balance.

[18] MWRD FY2008 General Superintendent's Recommendation, p. 25.

In FY2004, $4.6 million or 1.4% of the Corporate Fund appropriation was provided for contingencies. In FY2006, $23.1 million or 7.3% of projected appropriations was set aside. In FY2007, 16.4% or $56.9 million was designated as non-appropriated Corporate Fund balance. The FY2008 non-appropriated fund balance will be reduced to $46.6 million or 12.0% of the Corporate Fund appropriation. The Government Finance Officers Association (GFOA) recommends that governments maintain a reserve fund of 5% to 15% of operating revenues or expenditures. [19] The MWRD's reserve fund amount is within the GFOA recommendation.

The FY2007 non-appropriated Corporate Fund balance was increased substantially because of a concerns over the possible convergence of four events: 1) increased prices for electricity and natural gas due to utility deregulation; 2) costs associated with the opening of the Stickney pelletizer facility; 3) the need to set aside funding for District OPEB liabilities; and 4) the likelihood of long delays in real estate tax payments because of the high volume of appeals following the City of Chicago's property reassessment.[20] Operational changes that were made in anticipation of these events led to actual expenses related to the first three items being lower than originally anticipated. Therefore, the unreserved fund balance has been lowered for FY2008.

DEBT TRENDS

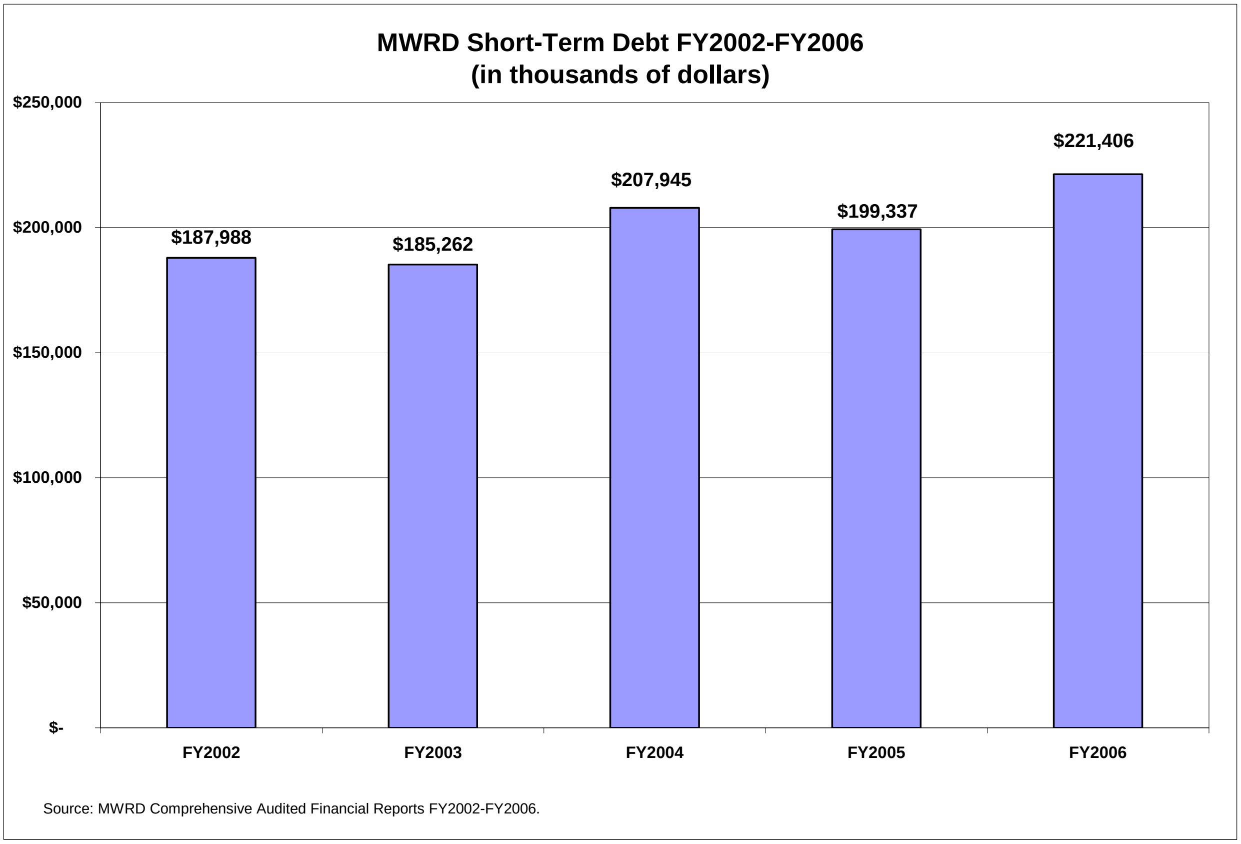
The Civic Federation has employed two measures of debt for the purposes of this analysis: short-term debt trends and long-term debt per capita trends.

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

Between FY2002 and FY2006, MWRD's short-term debt obligations rose by 17.8%, from $188.0 million to $221.4 million. Short-term debt rose by 11.1% or $22.0 million between FY2005 and FY2006. Future increases bear watching.

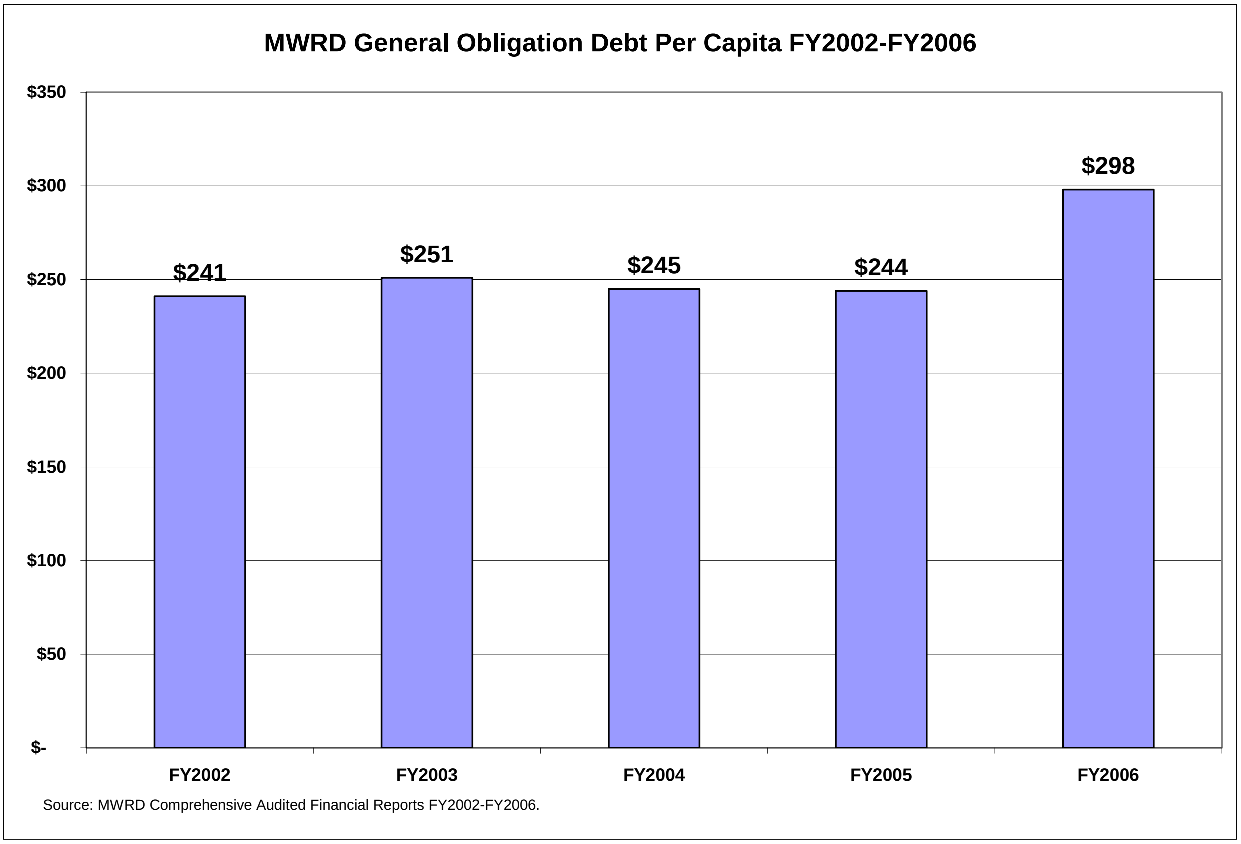
[19] Government Finance Officers Association Recommended Practice. "Appropriate Level of Unreserved Fund Balance in the General Fund" (Adopted 2002).
[20] *MWRD FY2007 Tentative Budget*, pp. 6-7.



Long-Term Debt Per Capita

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

The total amount of MWRD General Obligation debt in FY2006 was $1.6 billion. In that year G.O. debt per capita increased by 22.1% from the previous fiscal year. This reflects a total increase in G.O. debt of $293.0 million. Between FY2002 and FY2006, the total dollar increase was $317.5 million. During the same five-year period, the MWRD's G.O. debt per capita increased by 23.7%, rising from $241 to $298.

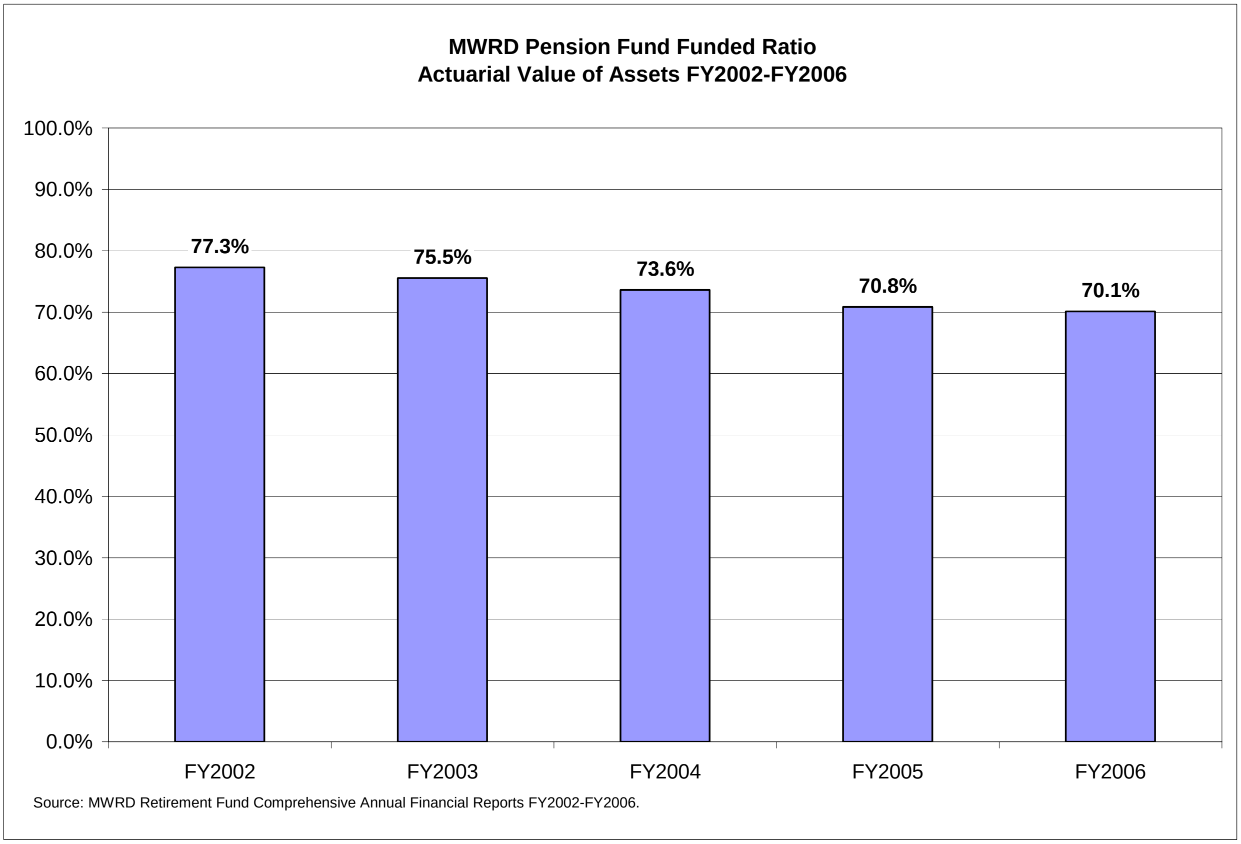


PENSION FUND TRENDS

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. A comparison of ten local government pension funds, including the MWRD's, can be found in the Civic Federation's annual Status of Local Pensions reports.

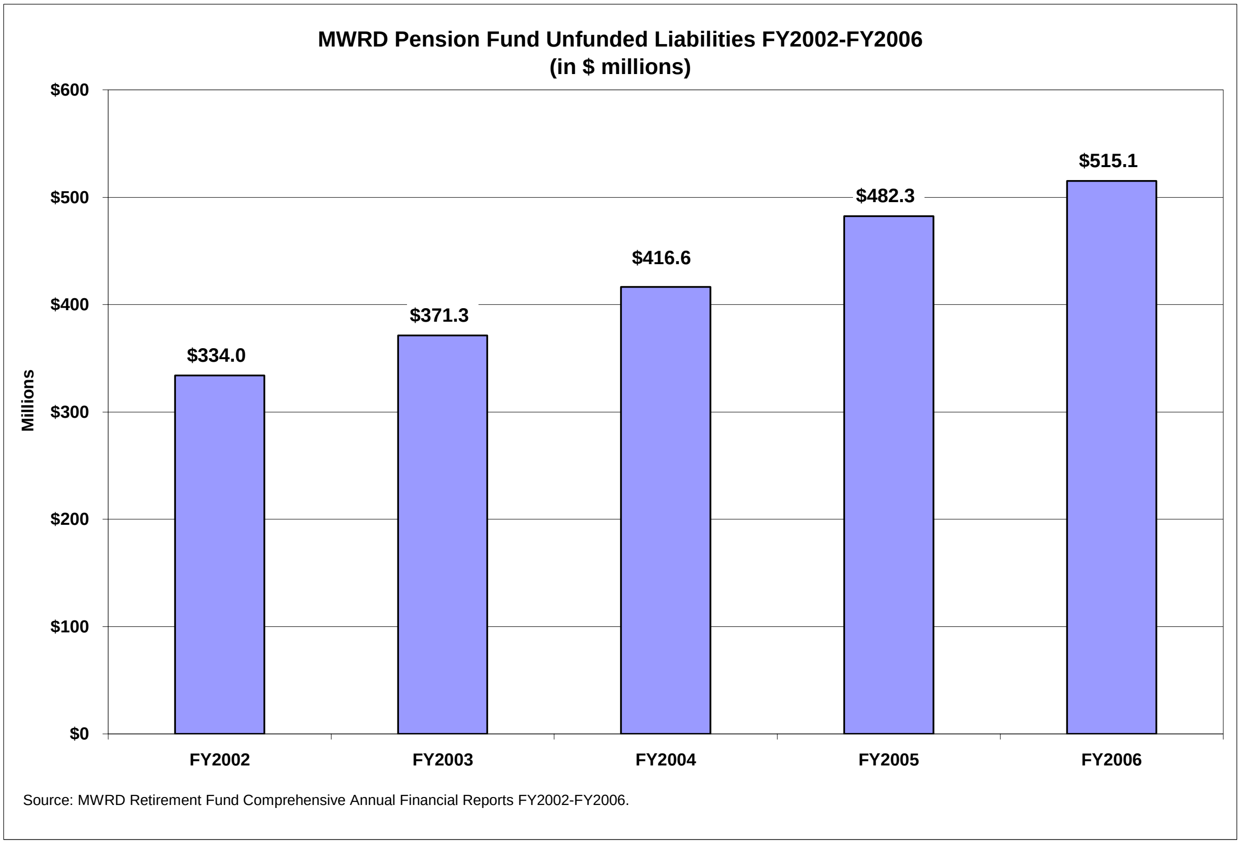
Funded Ratio – Actuarial Value of Assets

The following exhibit shows the funded ratio for the MWRD's pension fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations. The MWRD's funded ratio declined again in FY2006, from 70.8% to 70.1%. Since FY2002, it has declined steadily every year. This continued decline is a cause for concern.



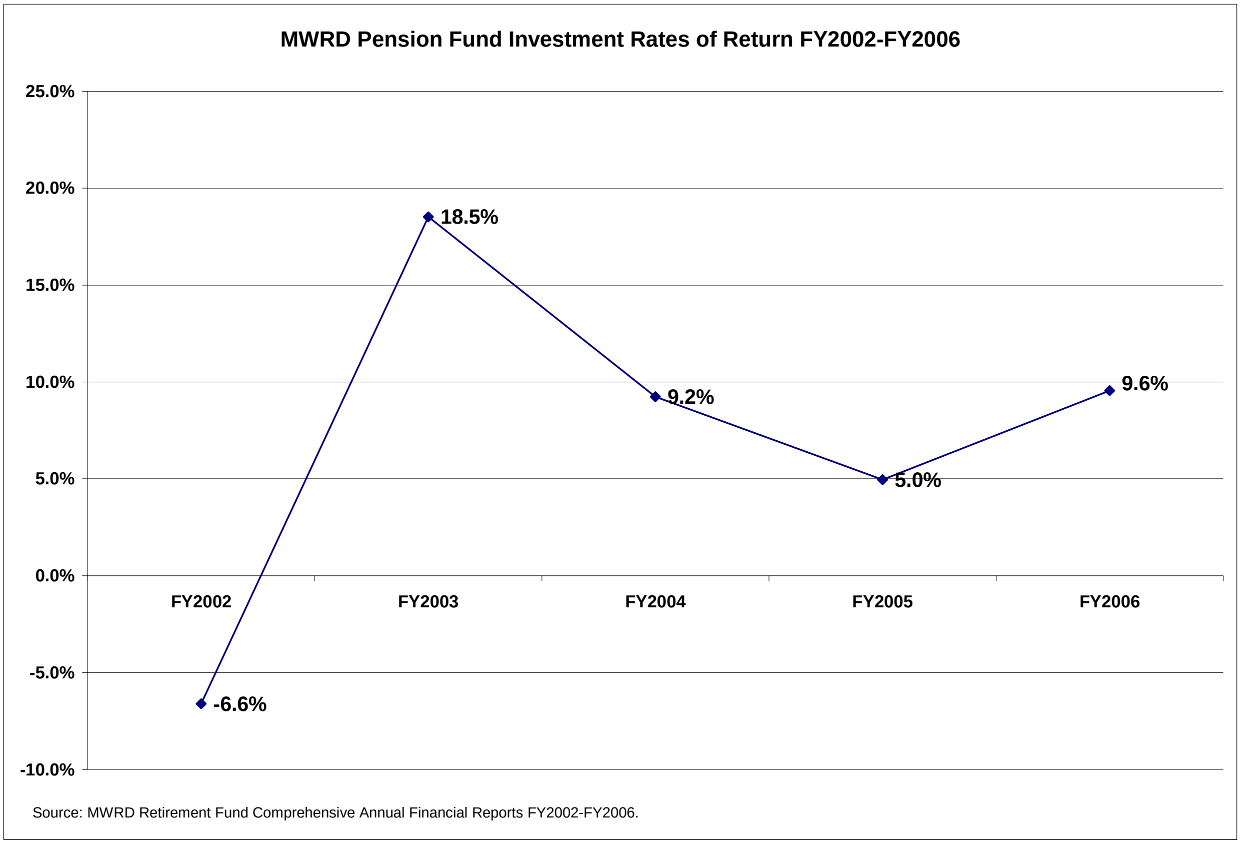
Unfunded Liabilities

Unfunded liabilities are the dollar value of pension liabilities not covered by assets. The exhibit below shows that unfunded liabilities for the MWRD's pension fund totaled approximately $515.1 million in FY2006, up from $482.3 million the previous fiscal year. Between FY2002 and FY2006, unfunded liabilities rose by 54.2% or $181.0 million. Shortfalls in employer contributions have significantly contributed to this increase. State statute requires that the MWRD levy a property tax equivalent to a multiple of the employee contributions made two years prior. This amount is unrelated to the actuarially required contribution (ARC) for funding normal cost plus the amortization of the unfunded liability. The ARC payment would have been $47.3 million in FY2006, approximately $12.9 million more than the District's actual $34.4 million contribution. The lingering effects of the market downturn in 2001-2002 also increased the unfunded liability.



Investment Rates of Return

Investment income typically provides a significant portion of the funding for pension funds. Thus, declines over time negatively impact pension assets. From FY2002 to FY2006, MWRD investment rates of return ranged from a low of -6.6% in FY2002 to a high of 18.5% in FY2003. In FY2006, the rate of return rose to 9.6%, up from 5.0 % the previous fiscal year.



CIVIC FEDERATION RECOMMENDATIONS

The Civic Federation offers several recommendations on ways to improve the MWRD's financial management.

Implement Comprehensive Pension Benefit Reform

The Civic Federation offers the following recommendations on ways in which the MWRD could improve the long-term financial health of its Pension Fund. These measures would require General Assembly authorization. We strongly urge the District to seek such approval as soon as possible.

Establish a Two-Tiered System

Although the pension benefits for current public employees and retirees are guaranteed by the Illinois Constitution, benefit levels can be reduced for new employees. Reducing benefits for new employees would mean the creation of a two-tiered benefit system in which existing and new employees receive different retirement benefits. Given the rising cost of pension benefits, this is a reasonable approach that the District should undertake.

Annuity Increases for New Hires Should be Fixed at the Lesser of 3% or CPI

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

Prohibit Benefit Increases Unless the Plan is Over 90% Funded

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

Require that Employer Contributions Relate to Funding Levels

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

MWRD Retirement Fund Governance Reform

The MWRD Retirement Fund is governed by a five-member Board of Trustees that includes three active employees and two representatives from management.[21] The proper role of a pension board is to safeguard the fund's assets and to balance the interests of the employees and retirees who receive benefits and the taxpayers who pay for pension benefits. The employer, employees, retirees, and taxpayers all have an interest in the management of the fund. However, the tilt toward employees and retirees on the MWRD Retirement Fund Board raises questions about how objective the Board can be in its work. In our view, a pension board should:

- Balance employee and management representation;
- Have a tripartite structure that includes citizen representation on pension boards;

[21] Civic Federation, *Recommendations to Reform Public Pension Boards of Trustees in Illinois* (February 13, 2006), www.civicfed.org.

- Include financial experts; and
- Require financial training for non-experts.

We urge the MWRD to seek reform of the MWRD Retirement Fund Board governing structure to ensure a greater balance of interests.

Provide Complete Property Tax Revenue Information in Budget Book

The MWRD FY2008 Budget Book contains a summary of budgeted All Funds revenues in the section entitled "Financial Statements by Fund." Unfortunately, the table does not provide the total amount of property tax revenues available for use in FY2008, only 2008 levy revenues available for use in that year. Levy revenues from 2007 are included in the category "Net Assets Appropriable". While this presentation is technically correct, it does not provide the public with a clear understanding of the total amount of property tax revenues to be used by the District in FY2008. Therefore, we urge the District to show the total amount of property tax revenues available for use in each fiscal year, either by presenting an aggregate property tax revenue figure or separating out prior year property tax revenues from the net assets appropriable figure. The inclusion of this information would improve the Budget Book by giving stakeholders a clearer sense of the MWRD's overall financial picture.

Improve SEA with More Measurable Activity Information

The Civic Federation commends the MWRD for developing and publishing performance measures for its departmental programs. The performance measures follow the Service Efforts and Accomplishments guidelines suggested by the Governmental Accounting Standards Board (GASB) and include outcome measures, a series of metrics that many governments decline to use and/or publish. For each department, the District provides objectives by priority, measurable goals and measurable activity information. The measurable activities include three years of performance measures for efficiency and effectiveness. Unfortunately, not each measure is clearly linked to a stated goal and there is no narrative discussion explaining the significance of the measurement outcomes. This makes it difficult to assess whether the goals have been met or progress made. The Civic Federation recommends that the SEA reporting be strengthened by including specific goals and narratives to explain the Measurable Activity data.