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MWRD REDUCES BURDEN ON TAXPAYERS, EARNS CIVIC FEDERATION SUPPORT FOR FY2009 BUDGET

(CHICAGO) The Civic Federation will announce its **support** for the FY2009 Metropolitan Water Reclamation District of Greater Chicago budget at a public hearing today, citing the district's reduction of its property tax levy, sound financial planning, and consistently transparent and comprehensive budget document. The Federation's analysis, including full findings and recommendations on the $1.6 billion spending plan will be available today on our website, www.civicfed.org.

The MWRD's tentative budget is a fiscally responsible plan that minimizes the burden on property taxpayers through long-term financial planning and personnel cost containment. The MWRD will **reduce** its gross property tax levy by $13.8 million or 3.3% over FY2008. "The Civic Federation is pleased the district is being responsive to the great financial stress residential and business taxpayers are experiencing during this recession," said Laurence Msall, president of the Civic Federation.

Year after year, the MWRD sets the example for Chicago area governments by producing a thorough, well-organized budget document. The Civic Federation commends the district for responding to the Federation's past recommendations for improvements to the budget document by including additional data. The district has also made efforts to pursue pension funding alternatives and increase employer contributions in line with Civic Federation recommendations. The enactment of Public Act 95-0891 grants the MWRD Board of Commissioners the authority to transfer interest earned on any of its moneys to its pension fund. This action is a good step in the direction toward improving the fiscal health of the MWRD Pension Fund.

However, the Federation retains some concerns about the long-term viability of the district's pension fund. The fund has experienced a 45% increase in unfunded liabilities in the past five years and will no doubt experience further distress as recent investment losses are calculated. In 2008, the fund added two additional trustees, an appointed retiree and an elective active employee, to its Board of Trustees. Of the now seven-member board, five members represent employee or retiree interests and only two represent management. The growing tilt toward employee and retiree members on the board raises questions about how objective the board can be in its work. The proper role of a pension board is to safeguard a pension fund's assets and oversee the effective administration of benefits. Thus, it is important to balance the interests of employees and retirees with the interests of the taxpayers who ultimately pay for pension benefits.

The Civic Federation urges the MWRD to seek reform of its pension fund governing board to balance stakeholder interests by seeking independent voices, such as a citizen representative. Given the current dire economic outlook, the Civic Federation further urges the district to pursue legislation that would require pension board members to undergo orientation and ongoing training on financial and ethics topics that will allow them to address difficult and complex investment issues.

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.

METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO FY2009 TENTATIVE BUDGET

Analysis and Recommendations

Prepared By
The Civic Federation
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EXECUTIVE SUMMARY

The Civic Federation **supports** the Metropolitan Water Reclamation District's (MWRD) FY2009 Tentative Budget of $1.6 billion. This budget is a fiscally reasonable plan that minimizes the burden on property taxpayers through long-term planning and personnel cost containment. However, the Civic Federation has concerns regarding the future of the District's pension fund and recommends that the District undertake both pension benefit and board composition reforms to ensure the fund's viability in the years ahead.

The Civic Federation **supports** MWRD's Tentative FY2009 budget for the following reasons:

- The MWRD will **reduce** its gross property tax levy by $13.8 million or 3.3%, from $426.2 million in FY2008 to $412.3 million in FY2009.
- The recent enactment of Public Act 95-0891 grants authority to the MWRD Board of Commissioners to transfer interest earned on any moneys to the MWRD pension fund. This is a positive step toward greater employer contributions to the fund.
- The MWRD demonstrates sound financial planning techniques in the development and implementation of annual and long-range fiscal plans, including use of five-year financial forecasts and the creation of a trust fund for its retiree health care obligations.
- The District has produced a transparent and comprehensive budget document that clearly outlines its finances and financial policies in a manner that can be understood by stakeholders.

The Civic Federation offers the following **key findings** on MWRD's finances based on our analysis of its FY2009 budget:

- The MWRD proposes to appropriate $1.6 billion in its FY2009 tentative budget. This is a 15.4%, $217.5 million increase from the FY2008 adjusted budget of $1.4 million.
- Corporate Fund appropriations are projected to decline by 0.5% or $2.2 million, from $397.2 million in FY2008 to $395.0 million in FY2009.
- The gross property tax levy will decrease by 3.3% to $412.3 million. Of this amount, 68.7% will be levied for funds subject to the tax cap law, which limits annual increases to the lesser of 5% or the rate of inflation. The remaining 31.3%, or $130.0 million, will be levied for the Bond and Interest Fund and the Stormwater Fund, both of which are not subject to tax caps.
- The number of full-time equivalent positions is projected to increase by 22 positions from 2,109 to 2,131. Two positions will be added to the Stormwater Management Fund and 14 engineering positions will be added to the Capital Improvements. Bond Fund to implement treatment facility master plans. Six positions will be added to the Corporate Fund.
- Total personal service appropriations are decreasing by 27.7% over FY2008 adjusted appropriated amounts, in large part due to a decrease in contractual expenses.

The Civic Federation offers the following **recommendations** on how to improve the fiscal health of the District, particularly its pension fund:

- We urge the MWRD to seek reform of their pension fund Board governing structure to better balance employee, employer, and taxpayer interests.

- The District should create a two-tiered benefit system in which existing and new employees receive different retirement benefits in order to curb the growth of pension liabilities.
- To control costs, annual annuity increases for new hires should be fixed at the projected Consumer Price Index or 3%, whichever is less.
- Employer contributions to the pension fund should be linked to the actuarially calculated health of the fund, rather than based on a multiple of employee contributions two years prior. Future budget documents should clarify property tax revenues as a percentage of total revenues to be appropriated, and the personal services summary from the General Superintendent's Budget Recommendation should be updated in the Tentative Budget document.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the Metropolitan Water Reclamation District's (MWRD) FY2009 Tentative Budget of $1.6 billion. This budget is a fiscally reasonable plan that minimizes the burden on property taxpayers through long-term planning and personnel cost containment. The budget document itself is both clear and concise, providing the public with a thorough explanation of the District's policies and plans.

However, the Civic Federation is concerned about the future of the District's pension fund. Between FY2003 and FY2007 the unfunded liability of the District's pension fund has increased by 45.0%. The current funded ratio for the pension fund is 70.0% and given the recent economic downturn it is reasonable to expect that this ratio will decrease in the coming years. The Federation is concerned that the MWRD is not effectively addressing the growing liabilities and decreasing funding for its pension fund. We recommend that the District undertake both pension benefit and board composition reforms to ensure the fund's viability in the years ahead.

Issues the Civic Federation Supports

The reasons for the Civic Federation's support of the MWRD's FY2009 budget are explained in detail below.

Reduction of Property Tax Levy for FY2009

The MWRD will **reduce** its gross property tax levy by $13.8 million or 3.3%, from $426.2 million in FY2008 to $412.3 million in FY2009. The gross property tax levy includes amounts levied for both tax capped funds (Corporate, Retirement, Construction & Development, Reserve Claims) and non-tax capped funds (Bonds & Interest, Stormwater Management). While increases in the levy for the Corporate Fund, Construction Fund and Retirement fund will total $11.4 million, decreases in the Bond Redemption and Interest Fund, Stormwater Management Fund and Reserve Claim Fund will total $25.2 million.

We commend the MWRD for reducing its property tax levy at a time of great financial stress for residents and businesses in the District.

Recent Change to Pension Fund Appropriation Authority

The recent enactment of Public Act 95-0891 grants authority to the MWRD Board of Commissioners to transfer interest earned on any moneys to the MWRD pension fund.[1] Last year The Civic Federation encouraged the MWRD to pursue pension funding alternatives that would improve the Fund's fiscal health, specifically citing the need for increases in employer contributions. We are pleased to see that P.A. 95-0891 takes a step toward this goal and we encourage further reform efforts to ensure the future fiscal health of this fund.

Use and Disclosure of Long-Term Planning Techniques

The MWRD is 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:

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

The MWRD has also demonstrated fiscal leadership in creating a trust fund in order to begin saving for the future payment of other post employment benefits (OPEB) liabilities. The Board of Commissioners established the trust in 2007 with a policy target of reaching a 50% funded ratio in 50 years, and requiring a $10 million contribution from the Corporate Fund in each of the first five years. The trust was actually seeded with $15 million upon its creation in 2007, and an additional $10 million was added during FY2007 for a total of $25 million in the first year. In FY2008, the District contributed $22 million. The contributions in excess of the policy target of $10 million were made possible by transfers of surpluses in other funds. A $10 million contribution is budgeted for FY2009, per the Board policy.[2]

Transparent and Comprehensive Budget Document

The MWRD has produced a thorough, well-organized budget document. In years past the Civic Federation has made recommendations for improvements to the annual budget document and the MWRD has responded by including additional data. Extensive narrative sections that explain finance data, diagrams explaining how to read charts included in the budget book, a detailed overview of the MWRD's functions, trend data, and detailed information on departmental goals and measurable outcomes all result in a user-friendly document. The Civic Federation commends the District for producing a transparent and comprehensive budget document that clearly outlines its finances and financial policies in a manner that can be understood by all stakeholders.

[1] MWRD FY2009 General Superintendent's Recommendation, p.448.
[2] MWRD FY2009 General Superintendent's Recommendation, p.18.

Civic Federation Concerns

The Civic Federation has two chief concerns regarding the MWRD pension fund, both of which are explained below.

Appointment of a New Employee and Retiree Trustee to Pension Fund Board

In 2008 the MWRD Pension Fund added two additional trustees, an appointed retiree and an elected active employee, to its Board of Trustees.[3] This raises the total number of trustees to seven members, four of whom are active employees. In previous years the Federation has cautioned the MWRD about the objectivity of the Board given the large proportion of employee and retiree interests represented on the Board, in addition to implementing education, training or experience requirements for board members.

The addition of two more Board members, without any type of education or experience requirements and who represent such interests, increases our concerns as to whether this Board properly represents the interests of everyone involved. Taxpayers who fund the retirement benefits also have a stake in the Fund that should be properly represented, and the Civic Federation encourages the MWRD to seek more balanced and informed representation on the Board.

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 FY2007, the last year for which complete data are available, the Pension Fund's unfunded liabilities rose to $538.3 million, up from $371.3 million five years prior in FY2003. This was a 45.0% or $166.9 million increase. Correspondingly, the funded ratio declined from 75.5% to 70.0% over the same five-year period.

Shortfalls in employer contributions have significantly contributed to the increase in unfunded liabilities and the decrease in funded ratio. State statute requires that MWRD levy a property tax equivalent to 2.19 times the employee contributions made two years prior. This amount is unrelated to the actuarially required contribution (ARC) for funding normal cost plus the amortization of the unfunded liability. The ARC payment would have been $47.0 million in FY2007, approximately $19.1 million more than the District's actual $27.9 million contribution.

While the Federation is encouraged that Public Act 95-091 allows for the transfer of earned interest to the pension fund, we urge the District to take greater steps to improve the health of the pension fund. Given the recent economic turmoil and resulting market downturn, the retirement fund will continue to face funding challenges and this could make significant funding reforms necessary sooner rather than later.

[3] Public Act 95-0923 (2008).

CIVIC FEDERATION RECOMMENDATIONS

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

Implement Comprehensive Pension Reform

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

MWRD Pension Fund Governance Reform

Beginning in 2008 the MWRD pension fund is now governed by a seven-member Board of Trustees that includes four active employees, two representatives from management and one appointed retired employee.[4] The proper role of a pension board is to safeguard the fund's assets and oversee the effective administration of benefits. The Civic Federation believes it is important to balance the interests of the employees and retirees who receive retirement benefits and the taxpayers who ultimately pay for pension benefits. The employer, employees, retirees, and taxpayers all have stake in the management of the fund. However, the growing tilt toward employees and retirees on the MWRD Retirement Fund Board raises questions about how objective the Board can be in its work. In our view, a pension board should:

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

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

Establish a Two-Tiered Pension 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 fact that the funded ratio will

[4] MWRD FY2009 General Superintendent's Recommendation, p. 448.

almost certainly be below 70.0% in the near future, this is a reasonable approach that the District should undertake.

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

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

Prohibit Benefit Increases Unless the Plan is Over 90% Funded

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

Require that Employer Contributions Relate to Funding Levels

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

Add Property Tax and Personal Services Content in Future Budget Documents

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

First, the FY2009 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 FY2009, only 2009 levy revenues available for use in that year. Levy revenues available from 2008 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 FY2009. 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 how much of the District's overall revenues come from property taxes.

Second, the Civic Federation commends the MWRD for streamlining the production of budget books by reprinting only selected pages of the General Superintendent's Recommendation in the Tentative Budget. The Tentative Budget reflects changes recommended by the Board's Committee on Budget and Employment pursuant to departmental hearings. However, the Personal Service Appropriations summary from the General Superintendent's Recommendation 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 be included in the Tentative Budget for the Board and public to review.

ACKNOWLEDGEMENTS

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

APPROPRIATIONS

The MWRD proposes to appropriate $1.6 billion in its 2009 Tentative Budget. This is a 15.4%, or $217.5 million increase from the FY2008 Adjusted Budget of $1.4 billion.

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

The following exhibit shows MWRD budget appropriations from FY2004 to FY2008. 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.

MWRD Appropriations Tentative v. Adjusted: FY2004 - FY2008			
	Tentative	Adjusted	Variance
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
FY2008	$ 1,428,240,815	$ 1,408,118,570	$ (20,122,245)

Source: MWRD Budgets FY2005-FY2009.

In FY2009 Corporate Fund appropriations, which are used for operational and general expenditures, are projected to decrease by 0.5% or $2.2 million. The primary reason for this decrease is a reduction of the OPEB contribution from $22 million in 2008 to the policy level of $10 million in 2009. The Board's policy for funding the OPEB Trust requires a $10 million contribution from the Corporate Fund each year from 2007 to 2011. Larger contributions were made in 2007 and 2008 due to project deferrals and the transfer of surpluses in other funds.[5] The $10 million decrease in the OPEB Trust Fund appropriation is offset by increased energy, fuel and commodities costs.[6] The Corporate Fund also includes a working cash fund whose sole purpose is to make temporary loans to the Corporate Fund in anticipation of tax collections.

The Construction Fund serves as a pay-as-you-go funding source for capital projects that rehabilitate aged or less effective infrastructure. Capital projects paid for through this fund have a useful life of less than 20 years or a value of less than $1.0 million, and are financed by a tax levy sufficient to pay for project costs as they are constructed. Construction Fund FY2009 appropriations include re-appropriations for prior year projects still under construction. In FY2009 the Construction Fund will increase by $3.4 million or 10.6%. The increase reflects costs for both ongoing projects and projects that are expected to be awarded in 2009.[7] Thus, eliminating the ne

The Capital Improvements Bond Fund is for major infrastructure 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 25.5%, or $189.5 million, increase in Capital Improvements Bond Fund appropriations for FY2009 reflects the timing of the award of major projects, as well as carry over appropriations for prior year projects that have not been completed. This fund fluctuates from year-to-year based upon the scheduled award of major projects.[8]

Stormwater Management Fund appropriations will fall by 3.2% or $1.1 million FY2009. The decrease is primarily attributable to the suspension of negotiations between the MWRD and the Lake County Forest Preserve District regarding an expansion of Buffalo Creek.[9]

Appropriations for the Reserve Claim Fund will increase by 12.6%, or $7.0 million. The Reserve Claim Fund is a self-insurance fund for a variety of claims including employee claims,

[5] MWRD FY2009 General Superintendent's Recommendation, p. 18.
[6] MWRD FY2009 General Superintendent's Recommendation, p. 89.
[7] MWRD FY2009 General Superintendent's Recommendation, p. 95.
[8] MWRD FY2009 General Superintendent's Recommendation, p. 95.
[9] MWRD FY2009 General Superintendent's Recommendation, p. 429.

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 $78.0 million. In FY2009 Reserve Claim Fund appropriations are increasing by $7.0 million or 12.6% for the purpose of moving the fund towards the maximum fund balance allowable under state law.[10]

MWRD Major Fund Appropriations: FY2008 Adjusted & FY2009 Budget				
	2008 Adjusted	2009 Budget	$ Change	% Change
Corporate Fund	$ 397,186,600	$ 395,002,600	$ (2,184,000)	-0.5%
Construction Fund	$ 32,160,100	$ 35,583,800	$ 3,423,700	10.6%
Capital Improvements Bond Fund*	$ 743,350,100	$ 932,866,800	$ 189,516,700	25.5%
Stormwater Fund	$ 34,924,000	$ 33,807,000	$ (1,117,000)	-3.2%
Retirement Fund	$ 30,371,534	$ 31,385,921	$ 1,014,387	3.3%
Reserve Claim Fund	$ 55,500,000	$ 62,500,000	$ 7,000,000	12.6%
Bond Redemption & Interest Fund	$ 114,626,236	$ 134,447,869	$ 19,821,633	17.3%
Total	**$ 1,408,118,570**	**$ 1,625,593,990**	**$ 217,475,420**	**15.4%**

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

Source: MWRD 2009 Tentative Budget, p. 15, and 2009 Tentative Budget Amendment, p.1.

The next exhibit shows MWRD appropriations by fund for FY2005 and FY2009. Overall, appropriations will increase by 70.1%, from $955.9 million to $1.6 billion. The largest dollar increase will be in the Capital Improvement Bond Fund, which will rise from $578.1 million in FY2005 to $932.9 million five years later. The increase is mainly attributable to a change in scope of some projects, as well as the completion of deferred projects from previous years.[11] The Stormwater Fund, which was created in 2005, will increase by 235.2% over the five-year period reviewed from $10.0 million to $33.8 million, reflecting the ramping up of regional stormwater plans and projects.

MWRD Major Fund Appropriations: FY2005 Adjusted & FY2009 Budget				
	2005 Adjusted	2009 Budget	$ Change	% Change
Corporate Fund	$ 313,588,800	$ 395,002,600	$ 81,413,800	26.0%
Construction Fund	$ 54,509,400	$ 35,583,800	$ (18,925,600)	-34.7%
Capital Improvements Bond Fund*	$ 354,739,900	$ 932,866,800	$ 578,126,900	163.0%
Stormwater Fund	$ 10,085,300	$ 33,807,000	$ 23,721,700	235.2%
Retirement Fund	$ 31,201,845	$ 31,385,921	$ 184,076	0.6%
Reserve Claim Fund	$ 35,000,000	$ 62,500,000	$ 27,500,000	78.6%
Bond Redemption & Interest Fund	$ 156,808,619	$ 134,447,869	$ (22,360,750)	-14.3%
Total	**$ 955,933,864**	**$ 1,625,593,990**	**$ 669,660,126**	**70.1%**

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

Sources: MWRD 2006 Budget, p. 40, 2009 Tentative Budget, p. 15, 2009 Tentative Budget Amendment, p. 1.

[10] MWRD FY2009 General Superintendent's Recommendation, p. 101.
[11] Amendment to the FY2009 Tentative MWRD Budget, p. 1.

RESOURCES

This portion of the analysis presents trend information about FY2009 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 FY2009, only 2009 levy revenues available for use in that year. Levy revenues from 2008 that are to be used in FY2009 are included in the category “Net Assets Appropriable” which encompasses all revenues carried over from the previous fiscal year.

Corporate Fund Resources

FY2009 Corporate Fund resources will decrease by 0.6% from FY2008 budgeted levels, dropping from $397.3 million to $395.0 million. Some key resource changes include:

- The net Corporate Fund property tax levy, which constitutes 71.8% of available Corporate Fund revenues, will rise by 1.2%, from $230.9 million to $233.6 million.

- The Personal Property Replacement Tax (PPRT), which is a corporate income tax, is expected to constitute 7.9% of available resources and will decrease by $0.2 million or 0.9%, from PPRT revenues in FY2008. PPRT revenues are first used to fully fund the pension fund. Any remainder is distributed to the non-debt funds in proportion to their property tax levies.

- User charges will represent 15.1% of available Corporate Fund resources in FY2009. Revenues from user fees will increase by $1.0 million, or 2.1% in FY2009, rising from $48.0 million to $49.0 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 decrease by 14.9% or $3.0 million in FY2009 and will constitute 5.2% of the Corporate Fund’s available resources.

- The Corporate Fund’s appropriable net assets (total fund balance) will be $81.7 million in FY2009. Approximately $12.0 million of that fund balance will not be appropriated, but will be saved as a contingency fund instead. Until 2004 all net assets appropriable were re-appropriated as resources for the following year. Since then, a portion of those assets has not been re-appropriated in order to provide for a Corporate Fund balance.

MWRD Corporate Fund Resources: FY2008 & FY2009				
Resource	**FY2008 Budg.**	**FY2009 Budg.**	**$ Change**	**% Change**
Property Taxes (net)	$ 230,887,600	$ 233,556,100	$ 2,668,500	1.2%
PPRT	$ 26,002,200	$ 25,780,000	$ (222,200)	-0.9%
Property & Service Charges	$ 20,000,500	$ 17,028,000	$ (2,972,500)	-14.9%
User Charges	$ 48,000,000	$ 49,000,000	$ 1,000,000	2.1%
Other	$ 4,024,000	$ 4,846,000	$ 822,000	20.4%
Net Assets Appropriable	$ 112,819,800	$ 81,683,100	$ (31,136,700)	-27.6%
Working Cash Borrowings Adjustment	$ (4,889,800)	$ (4,936,100)	$ (46,300)	0.9%
Net Assets Available for Future Use	$ (39,579,300)	$ (11,954,500)	$ 27,624,800	-69.8%
Total	**$ 397,265,000**	**$ 395,002,600**	**$ (2,262,400)**	**-0.6%**

Sources: MWRD FY2008 Tentative Budget, p. 13, and FY2009 Tentative Budget p. 19

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 17.5%, from $198.8 million to $233.6 million;
- Property and service charges, which include income from land rentals, agricultural products, and investments, will increase by 184.7%, from nearly $6.0 million to $17.0 million; and
- Personal property replacement tax revenues will rise by 29.6% from $19.8 million to $25.8 million.

MWRD Corporate Fund Resources: FY2005 & FY2009				
Resource	**FY2005 Budg.**	**FY2009 Budg.**	**$ Change**	**% Change**
Property Taxes (net)	$ 198,751,946	$ 233,556,100	$ 34,804,154	17.5%
PPRT	$ 19,891,000	$ 25,780,000	$ 5,889,000	29.6%
Property & Service Charges	$ 5,980,000	$ 17,028,000	$ 11,048,000	184.7%
User Charges	$ 47,500,000	$ 49,000,000	$ 1,500,000	3.2%
Other	$ 1,344,054	$ 4,846,000	$ 3,501,946	260.6%
Net Assets Appropriable	$ -	$ 81,683,100	$ 81,683,100	100.0%
Investment Income	$ 1,243,000	$ (4,936,100)	$ (6,179,100)	-497.1%
Working Cash Borrowings Adjustment	$ -	$ (11,954,500)	$ (11,954,500)	100.0%
Total	**$ 274,710,000**	**$ 395,002,600**	**$ 120,292,600**	**43.8%**

Sources: MWRD FY2005 Tentative Budget, p. 11, and FY2009 Tentative Budget, p. 19.

Property Tax Levy

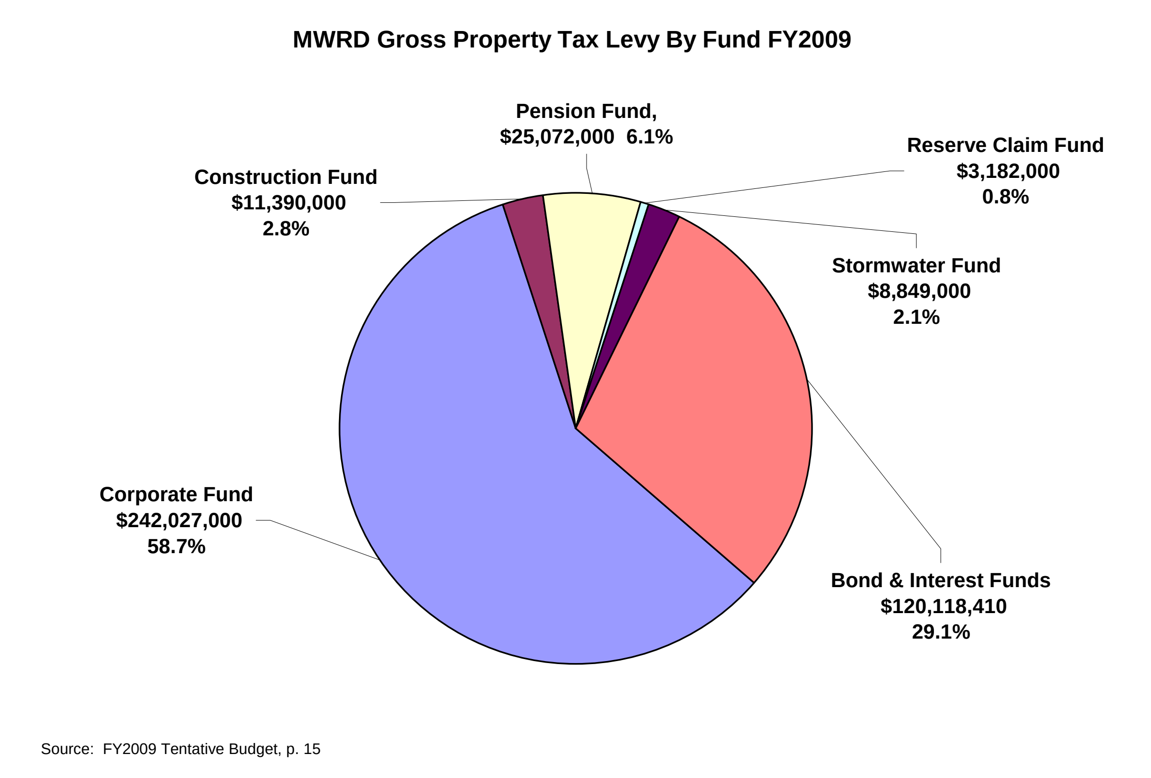
In FY2009 the MWRD's gross property tax levy will decrease by 3.3% to $412.3 million. Of this $412.3 million, 68.7%, or $283.4 million will be levied for funds that are subject to the tax cap law, which limits annual increases to 5.0% or the rate of inflation, whichever is less. The remaining 31.3%, or $129.0 million, is levied for the Bond and Interest Fund and the Stormwater Management Fund, which are not subject to tax caps.[12] The FY2009 Stormwater Management levy will decrease by 41.8% or $6.4 million. The Bond and Interest levy, reserved for debt service, will decline by 13.6% or $18.8 million. The Construction Fund levy will increase by 100.0% to nearly $11.4 million over FY2008, when there was no Construction Fund tax levy.[13]

[12] 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.
[13] MWRD FY2009 General Superintendent's Recommendations, p. 23

MWRD Gross Property Tax Levy: FY2008 & FY2009				
	FY2008 Adj.	FY2009 Budg.	$ Change	% Change
Corporate Fund	$ 239,261,800	$ 242,027,000	$ 2,765,200	1.2%
Construction Fund	$ -	$ 11,390,000	$ 11,390,000	100.0%
Pension Fund	$ 25,664,500	$ 26,751,300	$ 1,086,800	4.2%
Reserve Claim Fund	$ 7,073,432	$ 3,182,000	$ (3,891,432)	-55.0%
Stormwater Fund	$ 15,211,800	$ 8,849,000	$ (6,362,800)	-41.8%
Bond & Interest Funds	$ 138,960,584	$ 120,118,410	$ (18,842,174)	-13.6%
TOTAL	**$ 426,172,116**	**$ 412,317,710**	**$ (13,854,406)**	**-3.3%**

Source: MWRD FY2009 Tentative Budget, p. 15

The next exhibit shows the distribution of property tax dollars among the MWRD's various funds in FY2009. The Corporate Fund and Bond and Interest Funds together will consume 87.8% of the District's total levy.

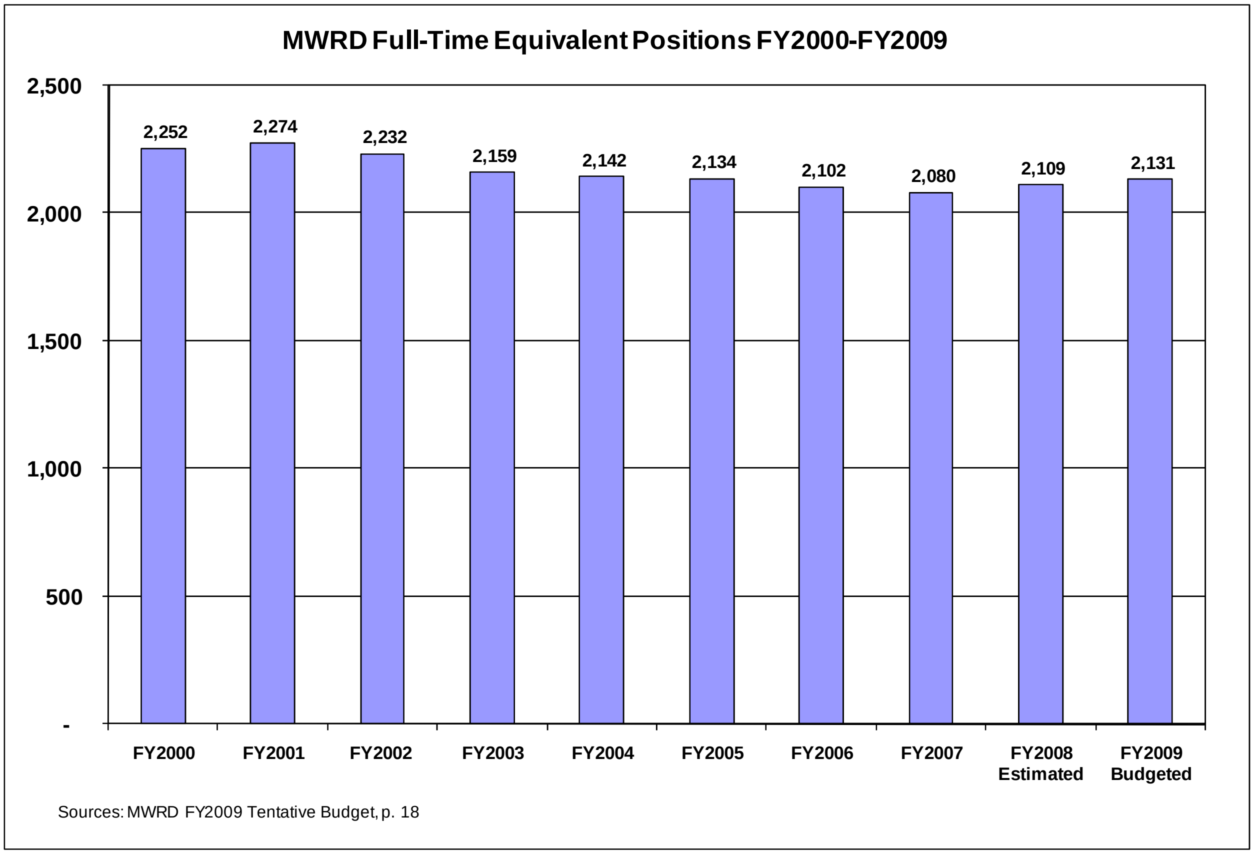


The MWRD Board of Commissioners has a policy of adopting tax levies that do not increase by more than 5.0% over the prior year (excluding the Stormwater Management Fund). A related tax levy policy is in place for the Bond & Interest Funds. When investment income in the Bond & Interest Funds exceeds the amount necessary for paying the principal and interest over the next twelve months, the Bond & Interest property tax levy is abated.[14]

[14] MWRD FY2009 General Superintendent's Recommendation, p. 31.

PERSONNEL

The number of full-time equivalent (FTE) positions is projected to increase by 22 positions in FY2009, an increase from 2,109 to 2,131 FTEs. Two positions will be added to the Stormwater Management Fund and 14 engineering positions will be added to the Capital Improvements Bond Fund to implement Master Plans for the District's treatment facilities.[15] Six positions will be also be added to the Corporate Fund, including five police officers and one maintenance and operations employee. It is important to note, however, that six positions will be eliminated in the near future to compensate for the additional Corporate Fund positions.[16] Since FY2000 the District has cut its workforce by 5.8% or 131 positions. The District's five-year financial forecast shows an anticipated reduction of positions to 2,074 in 2013.[17]



Over 86% of District employees are funded with Corporate Fund dollars. Between FY2008 and FY2009 the number of Corporate Fund FTEs will increase by 6 FTEs to 1,846. Five of the eight additional employees for the General Administration line item are police officers. Eight

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[15] MWRD FY2009 Tentative Budget, p. 18 and General Superintendent's Recommendation, p. 361.
[16] Communication between the Civic Federation and Eileen McElligott, Administrative Services Manager for the MWRD, December 8, 2008.
[17] MWRD FY2009 General Superintendent's Recommendation, p. 69.

positions were crosshatched for elimination once they become vacant to compensate for these new positions.[18]

MWRD Corporate Fund Full-Time Equivalents: FY2008 & FY2009				
	FY2008	FY2009	# Change	% Change
Maintenance & Operations	1,045	1,046	1	0.1%
Research & Development	309	308	-1	-0.3%
General Administration	138	146	8	5.8%
Purchasing	70	70	0	0.0%
Information Technology	72	72	0	0.0%
Personnel	54	54	0	0.0%
Law	40	40	0	0.0%
Board of Commissioners	38	38	0	0.0%
Finance	33	31	-2	-6.1%
Engineering (Corporate Fund)	34	34	0	0.0%
Treasury	7	7	0	0.0%
Total	**1,840**	**1,846**	**6**	**0.3%**

Source MWRD FY2009 Tentative Budget, p. 18

Personal Service Appropriations

This exhibit below shows adjusted personal service appropriations for FY2008 and budgeted appropriations for FY2009. The appropriation for regular employee salaries, which constitutes 56.1% of all personal service appropriations, will increase by 3.7%, reflecting cost of living increases. This represents an increase of approximately $6.0 million from $165.5 million to $171.7 million. Appropriations for health and life insurance premium costs will decrease by 18.4%, from $57.8 million to $47.2 million. This decrease is attributable to an increase in OPEB trust fund contributions during FY2008, including a $7.0 million transfer of surplus earned investment interest from the Capital Improvements Bond Fund.[19] Appropriations for contractual services will decrease by $113.3 million, from $175.8 million to $62.5 million. The reduction is due to the award of Bond Funded multi-year consultant contracts that were fully encumbered in 2008.[20]

[18] Personal communication between the Civic Federation and Eileen McElligott, Administrative Services Manager for the MWRD, December 8, 2008.
[19] MWRD FY2009 General Superintendent's Recommendation, p. 12.
[20] MWRD FY2009 Tentative Budget, p. 61

Personal Service Appropriations: All Funds FY2008 & FY2009				
	FY2008 Adjusted	FY2009 Budg.	$ Change	% Change
Salaries of Regular Employees*	$ 165,484,150	$ 171,561,700	$ 6,077,550	3.7%
Contractual Services	$ 175,805,905	$ 62,486,680	$ (113,319,225)	-64.5%
Health & Life Insurance Premiums***	$ 57,844,935	$ 47,229,400	$ (10,615,535)	-18.4%
Employee Claims	$ 10,110,000	$ 10,600,000	$ 490,000	4.8%
Compensation Plan Adjustments	$ 7,445,200	$ 7,715,320	$ 270,120	3.6%
Other Employee Personal Services**	$ 3,701,000	$ 3,870,300	$ 169,300	4.6%
Social Security & Medicare Contributions	$ 2,103,000	$ 2,205,000	$ 102,000	4.9%
Total	**$ 422,494,190**	**$ 305,668,400**	**$ (116,825,790)**	**-27.7%**

Source: MWRD FY2009 Tentative Budget, p. 61.
* Includes FY2008 Salary Adjustments
** Includes Tuition, Training, Nonbudgeted Salaries, and Relief Workers
*** 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.[21] Beginning in 2004, 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.[22] This amount corresponds to an unreserved fund balance.

In FY2005 $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 was reduced to $46.6 million or 12.0% of the Corporate Fund appropriation.

In FY2009 nearly $12.0 million of the 2008 ending fund balance, which is projected to total $81.7 million, will be set aside for contingencies.[23] This amount equals 3.0% of the total corporate fund appropriation of $395.0 million for FY2009. The Government Finance Officers Association (GFOA) recommends that governments maintain a reserve fund of 5% to 15% of operating revenues or expenditures.[24] The MWRD's reserve fund amount is not within the GFOA recommendation, nor is it within the District's stated goal of maintaining a $45-$55 million unreserved corporate fund balance. However, the District does plan to increase the reserve amount throughout the upcoming fiscal year to achieve their funding goal.[25]

The Civic Federation is concerned, however, with the relatively small amount of funds being set aside for the non-appropriated corporate fund balance in FY2009. The Federation will monitor this situation to ensure additional funding is provided for this purpose throughout the upcoming fiscal year.

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[21] MWRD FY2009 General Superintendent's Recommendation, p. 22.
[22] MWRD FY2009 General Superintendent's Recommendation, p. 17.
[23] MWRD FY2009 General Superintendent's Recommendation, p. 22, and FY2009 Tentative Budget, p. 19.
[24] Government Finance Officers Association Recommended Practice. "Appropriate Level of Unreserved Fund Balance in the General Fund" (Adopted 2002).
[25] Communication between the Civic Federation and Eileen McElligott, Administrative Services Manager for the MWRD, December 4, 2008.

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.[26] 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 and FY2009. However, the MWRD does expect economically sensitive revenues, such as the investment income and personal property replacement tax income, to decrease and will refrain from appropriating a portion of the projected net assets to maintain a fiscally responsible fund balance.[27]

DEBT TRENDS

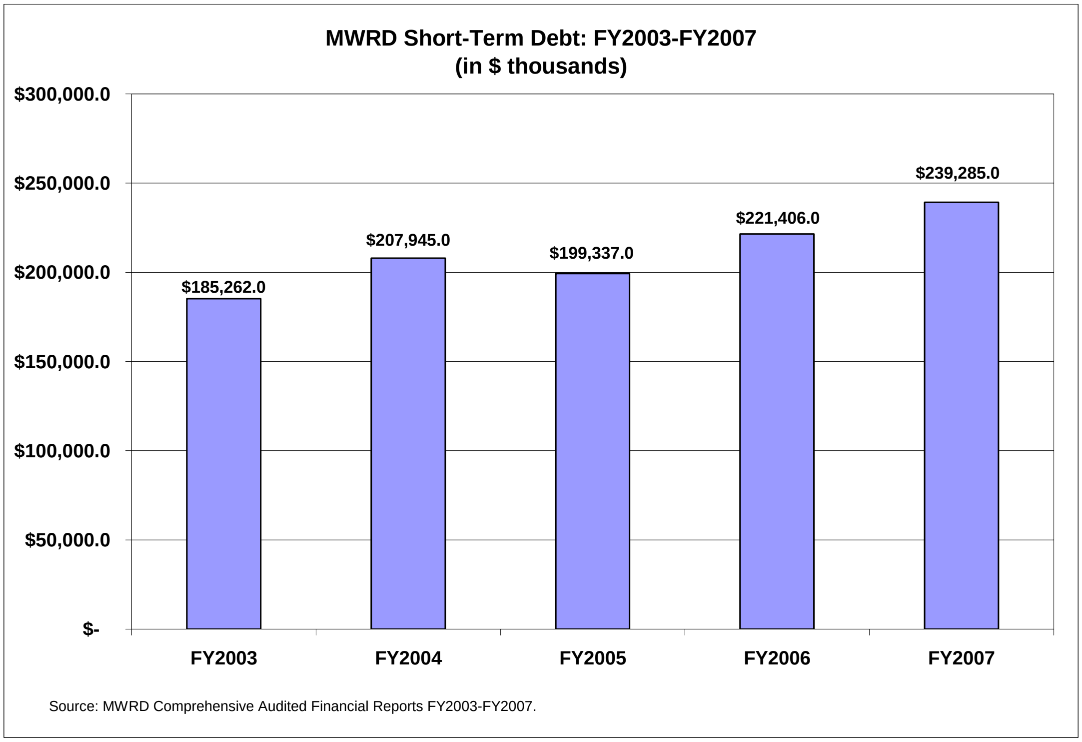
The Civic Federation has employed two measures of debt for the purposes of this analysis: short-term debt trends and long-term debt per capita trends.

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 Corporate Fund except accrued salaries and wages, accrued payroll, compensated absences and long-term debt.

Between FY2003 and FY2007 MWRD's short-term debt obligations rose by 29.2%, from $185.3 million to $239.3 million. Short-term debt rose by 20.0% or approximately $39.9 million between FY2005 and FY2007. Future increases may bear watching.

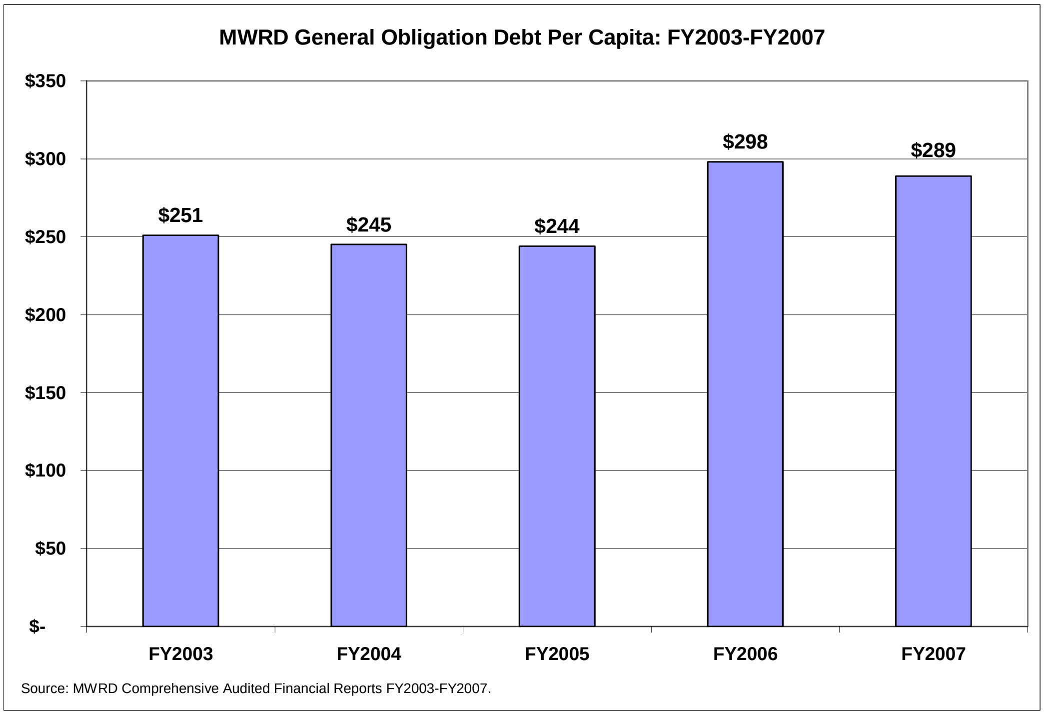
[26] MWRD FY2007 Tentative Budget, pp. 6-7.
[27] MWRD FY2009 Budget, p. 64.



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 FY2007 was $1.5 billion. In that year G.O. debt per capita decreased by 3.1% from the previous fiscal year. This reflects a total decrease in G.O. debt of $49.3 million. Between FY2003 and FY2007, the total dollar increase was $202.8 million. During the same five-year period, the MWRD's G.O. debt per capita increased by 14.9%, rising from $251 to $289.

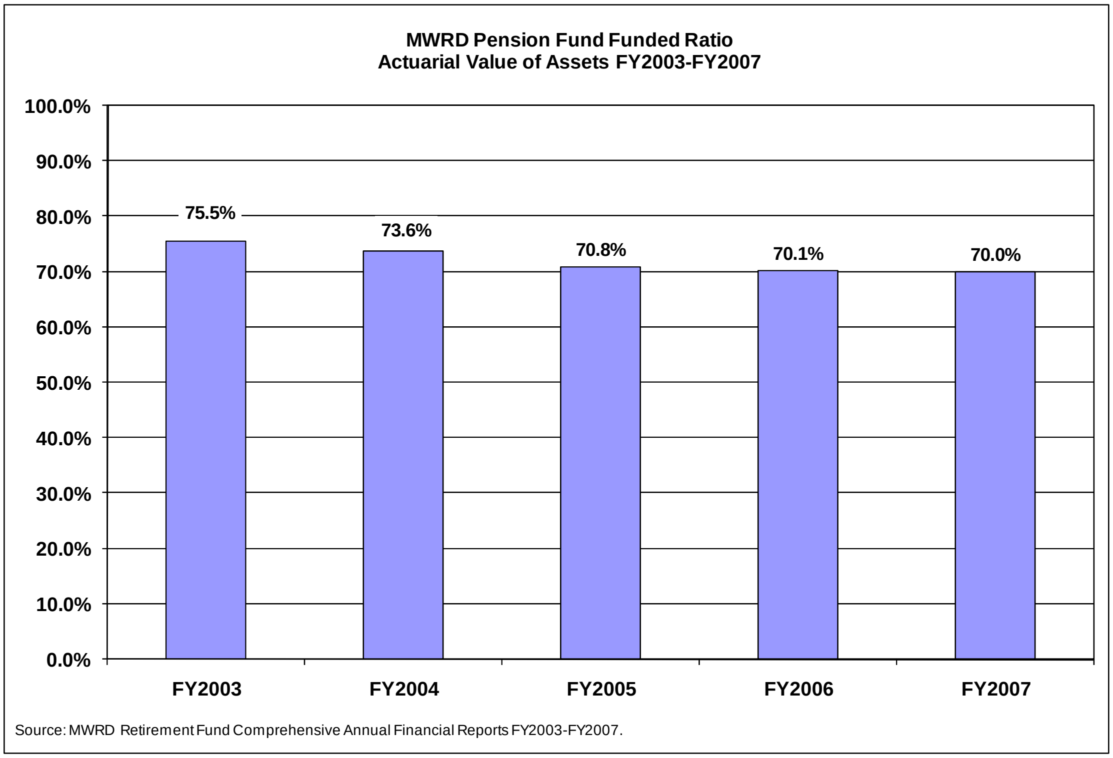


PENSION FUND TRENDS

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

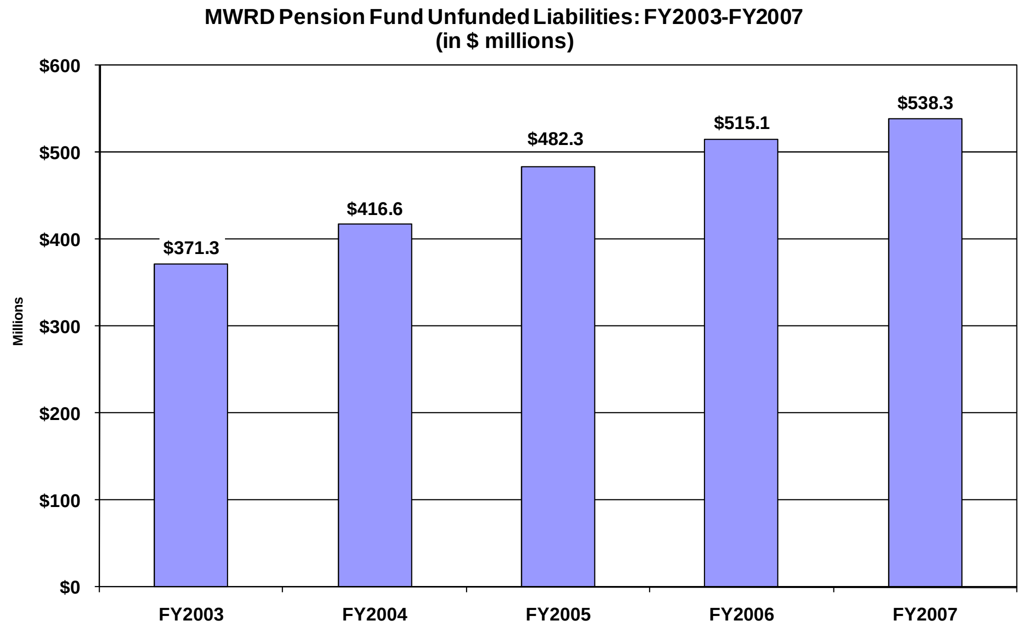
The following exhibit shows the funded ratio for the MWRD's pension fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations. Since FY2003, the funded ratio has declined every year, falling from 75.5% to 70.0%. 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 $538.3 million in FY2007, up from $515.1 million the previous fiscal year. Between FY2003 and FY2007, unfunded liabilities rose by 45.0% or $166.9 million. Shortfalls in employer contributions have significantly contributed to this increase. State statute requires that the MWRD levy a property tax equivalent to 2.19 times the employee contributions made two years prior. This amount is unrelated to the actuarially required contribution (ARC) for funding normal cost plus the amortization of the unfunded liability. The ARC payment would have been $47.0 million in FY2007, approximately $19.1 million more than the District's actual $27.9 million contribution.[28]

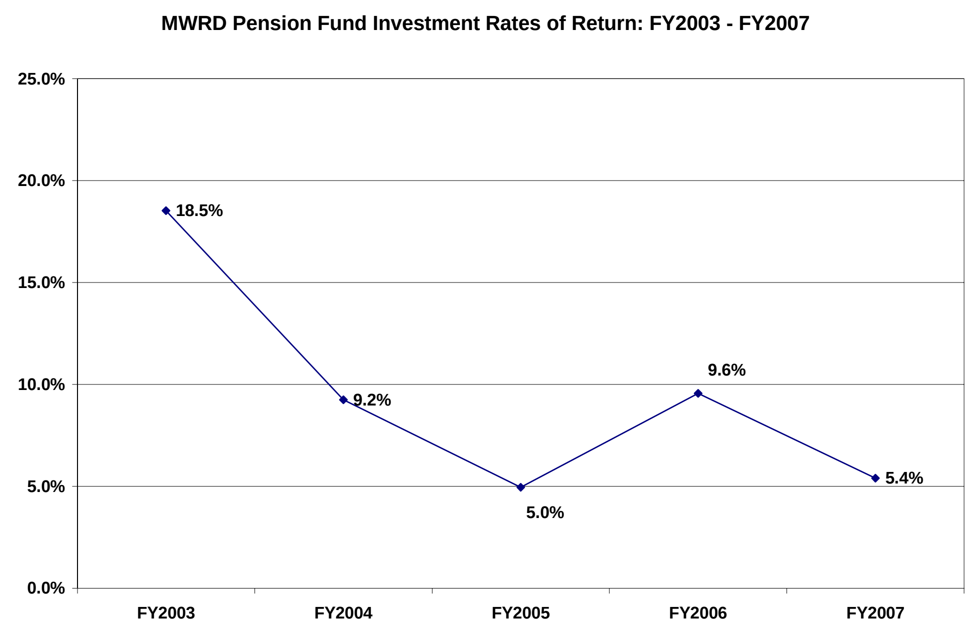
[28] *MWRD Retirement Fund Financial Report*, December 31, 2007 and 2006, p. 4.



Source: MWRD Retirement Fund Comprehensive Annual Financial Reports FY2003-FY2007.

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 FY2003 to FY2007, MWRD investment rates of return fell from 18.5% to just 5.4%. Between FY2005 and FY2006, there was a large uptick in investment returns from 5.0% to 9.6%; however, that trend was reversed the following year and is expected to drop significantly in 2008 due to the recession.



Source: MWRD Retirement Fund Comprehensive Annual Financial Reports, FY2003-FY2007.