The Civic Federation

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METROPOLITAN WATER RECLAMATION DISTRICT FY2013 TENTATIVE BUDGET:

Analysis and Recommendations

December 12, 2012

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The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.

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EXECUTIVE SUMMARY

The Civic Federation **supports** the Metropolitan Water Reclamation District's (MWRD) FY2013 Tentative Budget of $1.1 billion. The budget is a $78.0 million, or 7.5%, increase from adjusted FY2012 appropriations of approximately $1.0 billion. MWRD appropriations often vary significantly from budget year to budget year, depending on the number and scale of capital projects that the District undertakes and the timing of funding required to complete different phases of multi-year projects. Therefore, the increase in appropriations from the previous year is not a cause for concern.

The Civic Federation commends the MWRD on its comprehensive efforts to control personnel costs through reform of its pension fund, increasing cost-sharing for healthcare costs and reduction in staff headcount and related expenses. The Federation congratulates the MWRD on the recent passage of funding reform for its pension fund approved by the Illinois General Assembly and Governor Quinn. The District has demonstrated strong leadership and initiative in developing and advocating for pension reform and in taking action to stabilize the health of its retirement system by increasing both employee and employer contributions to the Retirement Fund.

Finally, the Federation supports the MWRD's proposal to keep the tax-capped portion of the property tax levy flat. This shows restraint as the proposed levy will not increase to the maximum amount allowed for the tax-capped funds as in the previous two budgets.

The Civic Federation offers the following **key findings** from the FY2013 Tentative Budget:

- The MWRD FY2013 Tentative Budget will total $1.1 billion and is a $78.0 million, or 7.5%, increase over the adjusted FY2012 appropriation of approximately $1.0 billion;
- Corporate Fund appropriations will increase by nearly $32.0 million, or 9.4%, to $371.4 million in FY2013 from the FY2012 adjusted appropriation of $339.4 million;
- The District is proposing to increase its gross property tax levy for FY2013 by 3.1%, or $15.5 million, to $513.7 million, including both non-tax-capped funds and those limited to a maximum annual increase to 5.0% or the rate of inflation, whichever is less. The overall levy for tax-capped funds will remain flat from FY2012, while the levy for Bond and Interest Funds will increase by 8.4%, or $15.5 million;
- The District is reducing staffing levels by eight positions to 1,914 in FY2013, which is a 0.4% decline from 1,922 positions in FY2012;
- District appropriations for personnel will decrease by $54.4 million, or 16.6%, from FY2012 levels to $272.9 million in FY2013;
- In FY2013 the District will set aside $94.4 million as non-appropriated Corporate Fund fund balance. This amount equals 25.4% of the total FY2013 Corporate Fund appropriation of $371.4 million;
- In FY2011 the pension fund's unfunded liabilities rose to $1,003.9 million, up from $334.0 million ten years prior in FY2002. This is a 200.6%, or $669.9 million, increase; and
- The actuarial value funded ratio for pensions declined from 77.3% to 52.2% over the same ten-year period.

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

- Implementing pension reform by increasing employer and employee contributions;
- Reducing staffing levels and controlling personnel costs;
- Increasing healthcare cost-sharing for retirees and employees;
- Complying with fund balance policy;
- Exercising restraint with the property tax levy for FY2013;

- Designating Tax Increment Financing (TIF) surplus from the City of Chicago to funding the District's other post employment benefits trust and other one-time uses; and
- Utilizing and publishing long-term planning techniques.

The Civic Federation has the following **concern** about the FY2013 proposed budget:

- The District does not budget the Reserve Claim Fund, its self-insurance fund, based on anticipated expenditures for claims against the District. Rather, it strives to finance the fund at the maximum level permitted by state statute, budgeting all available resources, including all available fund balance. In the past five years, the District did not expend more than 14.0% of the proposed appropriation.

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

- Budget the Reserve Claim Fund based on anticipated expenditures and a reasonable amount of contingency funds for emergencies. If the District budgeted an additional 25% above anticipated expenditures, using FY2012 adjusted expenditures, it would provide the fund with an appropriation of $7.5 million, an amount that is $54.5 million less than the FY2013 recommendation and above the average amount of actual expenditures over the past five years; and
- Improve budget documents by providing narrative descriptions of changes between the Executive Director's Recommendations and Tentative Budget and include more information on total revenue collection, personal services appropriations and staffing levels by full-time equivalent positions in the budget documents.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the Metropolitan Water Reclamation District's FY2013 Tentative Budget of $1.1 billion. The budget is a $78.0 million, or 7.5%, increase from adjusted FY2012 appropriations of approximately $1.0 billion. MWRD appropriations often vary significantly from budget year to budget year, depending on the number and scale of capital projects that the District undertakes and the timing of funding required to complete different phases of multi-year projects. Therefore, the increase in appropriations from the previous year is not a cause for concern.

The Civic Federation commends the MWRD on its comprehensive efforts to control personnel costs through reform of its pension fund, increasing cost-sharing for healthcare costs and reduction in staff headcount and related expenses. The Federation congratulates the MWRD on the recent passage of funding reform for its pension fund approved by the Illinois General Assembly and Governor Quinn. The District has demonstrated strong leadership and initiative in developing and advocating for pension reform and in taking action to stabilize the health of its retirement system by increasing both employee and employer contributions to the Retirement Fund.

Finally, the Federation supports the MWRD's proposal to keep the tax-capped portion of the property tax levy flat. This shows restraint as the proposed levy will not increase to the maximum amount allowed for the tax-capped funds as in the previous two budgets.

Issues the Civic Federation Supports

The Civic Federation supports the following issues contained in the MWRD FY2013 Tentative Budget.

Implementing Pension Reform

On August 3, 2012, Governor Quinn signed into law pension reforms for the MWRD Retirement Fund as Public Act 97-0894. The reforms increase employee and employer contributions to the District's pension fund in a commendable effort to increase the Fund's funded ratio. The Civic Federation applauds the District for taking initiative in its pursuit of these reforms and for serving as a model to other local governments with deteriorating pension funds by successfully developing and promoting a framework for pension reform. It is important to note that the reforms, as described below, do not change benefits for current employees or current retirees.

Increase in Employee Pension Contributions

The legislation increases employee pension contributions for "Tier 1" members, or members hired before January 1, 2012, by 1% per year beginning on January 1 in 2013, 2014 and 2015.[1]

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[1] Public Act 096-0889 created a two-tier benefits system with lower benefits for many Illinois public employees hired on or after January 1, 2011, including members of the MWRD Retirement Fund. The new tier of benefits includes higher retirement ages, a cap on the maximum pensionable salary and lower cost-of-living adjustments. Over time these benefit changes for new hires will slowly reduce liabilities from what they would have been as new employees are hired and fewer members remain in the old benefit tier. The designation "Tier 1 employees" refers to

Tier 1 employee contribution rates will remain at a total of 12.0% of salary until the funded level of the pension fund has reached 90%, at which time rates will return to the current level of 9%. Currently all employees contribute 9% of their salary to the Retirement Fund. Pension contributions for "Tier 2" employees, or persons hired on or after January 1, 2011, will not increase beyond the current total rate of 9% of salary because their benefits are less generous.

Increase in Tax Levy Multiple (Employer Pension Contribution)

The second part of the funding reform increases the property tax levy multiple contributed by the MWRD to an amount calculated by the actuary to be sufficient to bring the total assets of the Retirement Fund up to 90% of total actuarial liabilities of the Fund by 2050. Beginning with the FY2013 tax levy, and each year thereafter, the MWRD will levy a property tax annually which will be sufficient to meet this required contribution by the Fund, but will not exceed an amount equal to the total employee contributions two years prior multiplied by 4.19.

The current tax levy multiple is 2.19. The new reform will increase the annual tax levy to the lesser of 4.19 times employee contributions two years prior or the annual required contribution calculated by the Fund's actuary. Thus, both employees and taxpayers will have a share in improving the funded status of the MWRD Retirement Fund.

Controlling Personnel Costs

In 1995 the District adopted an appropriation control strategy in response to the implementation of the tax-cap law in Cook County. The program strategically identified vacant positions for elimination that open up each year due to retirement or other factors. The District initially set a goal of reducing its total workforce to 2,000 positions. This number was modified in subsequent years. In its FY2010 Tentative Budget, MWRD proposed to reduce the total number of positions to 2,062 positions over the next four years via attrition.[2]

Since FY2004 the District has reduced its full-time staffing level from 2,142 positions, a decrease of 228 positions, or 10.6%. The District is proposing a reduction from 1,922 in FY2012 to 1,914 in FY2013 for a decrease of eight positions, or 0.4%.

In FY2013 the District is projecting a significant decrease in personal service appropriations. Between FY2012 adjusted appropriations and FY2013 recommended appropriations, District personal service expenditures will decline by $54.4 million, or 16.6%, from $327.3 million to $272.9 million.[3]

The Civic Federation commends the District for recognizing that personnel staffing levels and associated costs must be monitored and controlled over the long term.

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persons hired before the effective date of Public Act 096-0889 and "Tier 2 employees" refers to persons hired on or after January 1, 2011.

[2] MWRD FY2010 Executive Director's Recommendations, p. 29 and 69.

[3] MWRD FY2013 Executive Director's Recommendations, p. 55. A summary of personal service appropriations is not available in the MWRD FY2013 Tentative Budget.

Increasing Healthcare Cost-Sharing for Retirees and Employees

In September 2011, the MWRD Board of Commissioners approved a policy to increase cost-sharing for employee and retiree healthcare between the District and its employees and retirees. Starting January 1, 2011, District employees contributed 13% of healthcare costs, and effective January 1, 2012, employee healthcare contributions will increase by 1 percentage point each year for ten years. At the end of the ten-year period, employees will contribute 22% of the cost of healthcare. Beginning January 1, 2012, for the next nine years, retiree contributions will increase annually by 2.5 percentage points until the premium reaches 50% at the end of the ten-year period. Not only will this save the MWRD money, but it has also reduced the District's unfunded other post employment benefit (OPEB) liability.

The Civic Federation applauds the MWRD for its conscientious evaluation of its financial practices for funding healthcare and for modernizing its policies to promote stability and sustainability in the District's healthcare coverage for employees and retirees.

Complying with Fund Balance Policy

The Federation commends the MWRD for increasing its budgeted contribution to the non-appropriated Corporate Fund fund balance in FY2013. The District is budgeting to set aside $94.4 million, or 25.4% of total Corporate Fund appropriations, as non-appropriated fund balance. This is a significant increase from the tentative budget fund balance level in FY2012.

The MWRD has a fund balance policy of maintaining 12-15% of appropriations, or between $41 million to $51 million, in unreserved Corporate Fund fund balance.[4] The Government Finance Officers Association (GFOA) recommends "at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."[5] Two months of operating expenditures for the District is approximately 16.7%. The District's projected FY2013 level of net assets exceeds the GFOA recommendation and the MWRD's stated goal of maintaining a reserve of 12-15% of Corporate Fund appropriations.

Exercising Restraint with Property Tax Levy for FY2013

The Civic Federation supports the MWRD's proposal to keep the tax-capped portion of the property tax levy flat. The District is exercising restraint as the proposed levy will not increase to the maximum amount allowed for the tax-capped funds as in the previous two budgets, even with the District's efforts to cut Corporate Fund appropriations through reductions in personnel expenses and staffing levels. The total property tax levy for FY2013 is proposed to increase by 3.1%, or $15.5 million, across all funds to $513.7 million from $498.3 million in FY2012. Therefore, while the amount levied for non-tax-capped funds is increasing, the District is holding tax-capped funds flat.

[4] MWRD FY2013 Executive Director's Recommendations, p. 19 and 26.
[5] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).

Last year the Civic Federation raised concerns about the District's decision to raise its gross property tax levy to the maximum. In FY2013 the portion of the levy subject to the tax-cap law, $293.3 million, or 57.1%, will remain flat from FY2012. The tax-cap law limits annual increases to 5.0% or the rate of inflation, whichever is less.[6] The distributions of the property tax revenues will be significantly different from FY2012 as a greater portion of the tax-capped funds will be distributed to the Retirement Fund.[7] The remaining 42.9%, or $220.4 million, of the total levy is for the Bond and Interest and Stormwater Management Funds, which are not subject to tax-caps.[8] The FY2013 Stormwater Management levy will remain flat while the Bond and Interest levy, reserved for debt service, will increase by 8.4%, or $15.5 million.

While the District is undertaking the prudent measure of reducing expenditures, we encourage the District to look for further cost-cutting measures that will minimize the burden on the District's taxpayers. We also urge the District to fully explore alternative revenue sources and cost-saving measures including the sale of its waste products, alternative energy production and joint-contracting with other local governments.

Designating TIF Surplus for OPEB and Other One-Time Uses

In its proposed budget document, the District estimates that it will receive $700,000 in surplus Tax Increment Financing (TIF) payments from the City of Chicago in FY2013. The MWRD reports that the TIF funds will be designated to fund the other post employment benefits (OPEB) trust and for other one-time uses.[9] The Civic Federation supports the District's prudent decision to not use the surplus for recurring expenditures and instead use it for funding OPEB and other needs in the District.

Utilizing and Publishing Long-Term Planning Techniques

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

- Five-year financial forecasts for revenues, expenditures and personnel;
- A Strategic Business Plan, including the 2013 update to the Plan; 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 District has also demonstrated fiscal leadership in creating and maintaining a trust fund 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

[6] See the Civic Federation, "The Cook County Property Tax Extension Process: a Primer on Levies, Tax Caps, and the Effect of Tax Increment Financing Districts," October 5, 2010. http://www.civicfed.org/civic-federation/publications/cook-county-property-tax-extension-process-primer-levies-tax-caps-and-

[7] See page 25 for more details.

[8] 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.

[9] MWRD FY2013 Executive Director's Recommendations, p. 59.

in 50 years, and requiring a $10 million contribution from the Corporate Fund in each of the first five years.

The trust was initially seeded with $15 million upon its creation in 2007, and through additional contributions in the years following, the District met its goal of $50 million total contributed through 2011. The District made a $12.4 million contribution in FY2012 and expects to contribute $20.0 million in FY2013.[10] At the end of FY2011, the trust was funded at 13.9%.[11]

The Civic Federation commends the District for its forward-thinking efforts and recognizes the MWRD as a leader amongst northeastern Illinois local governments in producing, and making publicly available, long-term plans.

Civic Federation Concerns

The Civic Federation has the following concern regarding the MWRD FY2013 budget.

Reserve Claim Fund Budgeting

The Reserve Claim Fund is the District's self-insurance fund. The District does not budget this appropriation based on anticipated expenditures. Instead, it budgets all available resources including all available fund balance and any new resources in order to fund emergencies and to settle large claims or lawsuits.[12]

From FY2009 to FY2012 the District has not expended more than 14.0% of the proposed appropriation. The largest expenditure during this period was $9.5 million in FY2009. The FY2013 recommended appropriation is $62.0 million, an increase of $1.0 million over the FY2012 proposed appropriation.

MWRD Reserve Claim Fund: FY2009-FY2013

	Proposed Appropriation	Actual Expenditure	Ratio
FY2009	$ 67,500,000	$ 9,463,800	14.0%
FY2010	$ 63,000,000	$ 6,727,900	10.7%
FY2011	$ 60,000,000	$ 6,923,400	11.5%
FY2012*	$ 61,000,000	$ 6,000,000	9.8%
FY2013	$ 62,000,000	-	-

*Adjusted expenditure for FY2012.

Source: MWRD Final Budgets, FY2011 and FY2012; FY2013 Executive Director's Recommendations and Tentative Budget.

Budgeting well in excess of anticipated expenditures makes the budget-to-actual results meaningless, making it difficult for the public to accurately evaluate the MWRD's overall budgeting and spending practices.

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[10] MWRD FY2013 Tentative Budget, p. 2 and information provided by the MWRD, December 10, 2012.
[11] For more information on the OPEB trust, see page 36 of this report.
[12] MWRD FY2012 Executive Director's Recommendations, p. 17.

Civic Federation Recommendations

The Civic Federation has several recommendations on ways to improve the Metropolitan Water Reclamation District's financial and transparency practices.

Budget the Reserve Claim Fund Based on Anticipated Expenditures

The Civic Federation recommends that the District change its current practice of budgeting all available resources in the Reserve Claim Fund and instead budget anticipated expenditures plus a reasonable amount of contingency funds for emergencies or unanticipated claims. The Board would need to be informed and approve of any additional appropriation required above a reasonable contingency. If the District budgeted an additional 25% above anticipated expenditures, using FY2012 adjusted expenditures it would provide the Reserve Claim Fund with an appropriation of $7.5 million. This is $54.5 million less than the FY2013 recommended appropriation and still above the average amount of actual expenditures over the past five years.

The Government Finance Officers Association (GFOA) views budgets not just as a legal appropriation, but as a policy document, financial plan, operations guide and communication tool.[13] A realistic appropriation for the Reserve Claim Fund will communicate a more accurate picture of the District's financial plan to the public and policy makers. The large budget for the Reserve Claim fund significantly distorts the overall total budget numbers, especially when compared to actual prior year expenditures.

In addition, this change would provide enhanced accountability. Budgeting above anticipated expenditures impacts the ability to monitor expenditures, which is a government budgeting best practice. The National Advisory Council on State and Local Budgeting recommends regular monitoring of budget-to-actual results in order to provide an early warning sign of potential problems and advises that decision makers have time to consider actions that may be needed in response. It recommends that reports on budget-to-actual results be prepared on "a routine widely-publicized basis."[14] Budgeting well in excess of anticipated expenditures makes the budget-to-actual results meaningless, and therefore removes an important control mechanism.

Improve Budget Documents

As part of the MWRD's budget process, the District produces two versions of its proposed budget: in order of release, the Executive Director's Recommendations and the Tentative Budget. The Tentative Budget reflects changes recommended by the Board's Committee on Budget and Employment pursuant to departmental hearings.

In an effort to further improve the District's overall budget process, the Civic Federation recommends that the MWRD provide additional clarity by including more narrative explanations in the Tentative Budget. The Federation also recommends that future budget documents include

[13] Government Finance Officers Association, "Awards Criteria" www.gfoa.org/downloads/BudgetCriteriaExplanations_000.pdf (Last viewed on December 12, 2010).
[14] Government Finance Officers Association "Recommended Budget Practices, National Advisory on State and Local Budgeting," http://www.gfoa.org/services/dfl/budget/RecommendedBudgetPractices.pdf (Last viewed December 2, 2010).

total anticipated revenues, an updated personal services summary from the Executive Director's Recommendations in the Tentative Budget document and that personnel data be presented according to full-time equivalent positions.

Improve Tentative Budget

The Civic Federation recognizes the MWRD's efforts to streamline the production of budget books by reprinting only selected pages of the Executive Director's Recommendations in the Tentative Budget. However, without including an updated version of the "Budget Message/Highlights" narrative, it is difficult for the reader to identify and understand all of the changes that may have occurred between the different versions of the budget. Therefore, the Civic Federation recommends that the Tentative Budget include an updated "Budget Message/Highlights" section, describing any changes and/or new information to the MWRD's proposed budget.

Include Total Revenue Collection

The FY2013 proposed budget includes the 2013 tax revenue for the Corporate Fund, Construction Fund and Stormwater Management Fund. However, the budget does not include the 2013 tax revenue for the Retirement, Reserve Claim and Bond and Interest Funds. That revenue will be reflected in next year's budget as part of "net assets appropriable."[15] MWRD attributes this inconsistency in the budget to its cash-based budgeting practices. Please see the Resources section for more details on this practice.

We urge the District to provide a clear summation of all FY2013 revenues by taking the following steps:

- Clearly note when the amount of funds budgeted for a revenue source differ from the amount that the District is estimating to collect. Currently, the budget does note the difference in the tax levies, but not PPRT;
- Include a chart that summarizes all revenues that will be collected and accounted for in the upcoming fiscal year with comparisons to the previous year actual, current year budget and proposed budget; and
- Consider budgeting the full amount of revenues anticipated to be received from the PPRT.

This information would improve the budget book by providing stakeholders with a clearer sense of how much the District anticipates in overall revenues.

Include Personal Services Content

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

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[15] MWRD FY2012 Executive Director's Recommendations, p. 70.

Provide Personnel Data by FTE Positions

In its budget documents, the MWRD currently presents personnel staffing levels according to position, or headcount, as opposed to full-time equivalent (FTE) position. The Civic Federation recommends that in future budgets the District provide personnel data according to FTE positions to increase transparency and comparability for accurately assessing staffing trends. Presenting staffing information by FTEs is a standard best practice and a common practice of other local governments in the area.

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 answer our questions.

APPROPRIATIONS

The District proposes to appropriate $1.1 billion in its FY2013 Tentative Budget. This is a 7.5%, or $78.0 million, increase from the FY2012 adjusted budget of approximately $1.0 billion.

MWRD Budget Process

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

- *Proposed appropriations* – appropriations as proposed in the Executive Director's Recommendations;
- *Tentative appropriations* – appropriations approved by the Board of Commissioners based on recommendations made at the Committee on Budget and Employment hearings held on the Executive Director's Recommendations (BF-19 changes);[16]
- *Adopted appropriations* – appropriations as adopted by the Board (BF-20 changes);
- *Amended appropriations* – appropriations as amended by the Board (BF-21 changes, or Final);
- *Adjusted appropriations* – year-end estimated appropriations; and
- *Actual expenditures* – actual expenditures, available in the Comprehensive Annual Financial Report, typically in April or May following the end of the fiscal year.

MWRD appropriations often vary significantly from budget year to budget year, depending on the number and scale of capital projects that the District undertakes and the timing of funding required to complete different phases of multi-year projects. Revenues for capital projects often become available only after the budget's adoption. For these reasons, the Civic Federation

[16] BF is an abbreviation for Budget Forms and is a term typically used internally by MWRD staff and Board of Commissioners.

compares the MWRD's proposed appropriations to the adjusted appropriations and, when available, actual expenditures from previous years.

The following exhibit shows MWRD appropriations for the tentative budgets, adopted budgets, adjusted budgets and actual expenditures for FY2008 to FY2012.

MWRD Appropriations - Tentative, Adopted, Adjusted and Actual: FY2008-FY2012

	Tentative	Adopted	Adjusted	Actual
FY2008	$ 1,377,000,215	$ 1,428,086,215	$ 1,472,660,136	$ 1,472,660,136
FY2009	$ 1,542,801,290	$ 1,630,593,990	$ 1,630,596,983	$ 1,630,596,977
FY2010	$ 1,378,626,653	$ 1,655,593,753	$ 1,655,410,779	$ 1,655,410,779
FY2011	$ 974,268,952	$ 1,030,439,078	$ 1,031,719,451	$ 1,031,719,451
FY2012	$ 925,983,388	$ 1,040,949,849	$ 1,040,949,849	-

Note: FY2012 actual figures are not yet available.

Source: MWRD Tentative and Adopted Budgets, FY2007-FY2012 and MWRD FY2013 Tentative Budget, p. 10.

The next exhibit compares the four types of appropriations for FY2008-FY2012. The comparisons include: tentative vs. adopted, tentative vs. adjusted, tentative vs. actual, adopted vs. adjusted, adopted vs. actual and adjusted vs. actual. In the five-year period examined, with the exception of a slight variance in FY2009, no variance occurred between the adjusted and actual appropriations. Almost identical variances occurred between the tentative and adjusted and actual appropriations and between the adopted and adjusted and actual appropriations. In other words, there was little or no difference in the amounts appropriated in the tentative budget, adjusted budget and actual expenditures. And similarly, there was little or no difference in the amounts appropriated when comparing the adopted budgets to the adjusted budgets and actual expenditures.

MWRD Appropriations Comparison of Tentative, Adopted and Actual: FY2008-FY2012

	Variance: Tentative vs. Adopted	Variance: Tentative vs. Adjusted	Variance: Tentative vs. Actual	Variance: Adopted vs. Adjusted	Variance: Adopted vs. Actual	Variance: Adjusted vs. Actual
FY2008	$ 51,086,000	$ 95,659,921	$ 95,659,921	$ 44,573,921	$ 44,573,921	$ -
FY2009	$ 87,792,700	$ 87,795,693	$ 87,795,687	$ 2,993	$ 2,987	$ (6)
FY2010	$ 276,967,100	$ 276,784,126	$ 276,784,126	$ (182,974)	$ (182,974)	$ -
FY2011	$ 56,170,126	$ 57,450,499	$ 57,450,499	$ 1,280,373	$ 1,280,373	$ -
FY2012	$ 114,966,461	$ 114,966,461	-	$ -	-	-

Source: MWRD Tentative and Adopted Budgets, FY2007-FY2012 and MWRD FY2013 Tentative Budget, p. 10.

Appropriations by Major Fund

As shown in the chart below, between FY2012 and FY2013, appropriations for all funds will increase. In FY2013 Corporate Fund appropriations, which are used for operational and general expenditures, are projected to increase by 9.4%, or nearly $32.0 million, to $371.4 million from FY2012 adjusted appropriations of $339.4 million. The increase is mostly due to the change in funding of salaries and benefits from the Construction Fund and Capital Improvements Bond

Fund to the Corporate Fund. The change will bring approximately 21 Construction and 196 Capital Improvements Bond positions to the Corporate Fund.[17]

The Corporate Fund also includes a working cash fund, which is intended to make temporary loans to the Corporate Fund in anticipation of tax collections.[18] This practice is a lower cost alternative to the more common practice where governments issue tax anticipation notes (TANs) to cover expenses before tax revenues are collected.

The Construction Fund serves as a pay-as-you-go funding source for capital projects that rehabilitate aged or less effective infrastructure. Capital projects paid for through this fund have a useful life of less than 20 years or a value of less than $0.5 million and are financed by a tax levy sufficient to pay for project costs as they are constructed.[19] FY2013 Construction Fund appropriations include re-appropriations for prior year projects still under construction. In FY2013 the Construction Fund will increase by 2.2%, or approximately $757,000, to $34.5 million due to increased funding for equipment and machinery and changes in the schedule for capital and construction projects.[20]

The Capital Improvements Bond Fund is for major infrastructural improvements with useful lives longer than 20 years and which are financed by long-term debt, Federal and State grants or State Revolving Fund loans. The 9.6%, or $29.2 million, increase in Capital Improvements Bond Fund appropriations in FY2013 reflects the Fund’s regular annual fluctuation according to the scheduled awards of major projects.[21]

Stormwater Management Fund appropriations will grow to $61.2 million in FY2013, an increase of 20.0%, or $10.2 million. The increase is primarily attributable to additional funding for contracted design and post-award engineering services with the completion of the District’s six Detailed Watershed Plans and beginning of the Stormwater Management Program project phase.[22]

The Retirement Fund is expected to increase slightly by 0.6%, or approximately $399,000, in FY2013. The MWRD will increase its contribution to the pension fund in FY2013 by transferring $30.0 million in interest income from the Corporate Fund to the Retirement Fund, as allowed under Public Act 95-0891.[23]

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[17] The Executive Director’s budget proposed three additional positions to be transferred to the Corporate Fund; however the Tentative Budget did not include the details of the change in positions. See MWRD Executive Director’s Budget Recommendations, p. 322 and page 21 of this report for more information.
[18] MWRD FY2013 Executive Director’s Recommendations, p. 21.
[19] MWRD FY2013 Executive Director’s Recommendations, p. 21.
[20] Information provided by the MWRD, December 10, 2012.
[21] MWRD FY2013 Executive Director’s Recommendations, p. 21 and information provided by the MWRD, December 10, 2012.
[22] MWRD FY2013 Executive Director’s Recommendations, p. 504-532 and information provided by the MWRD, December 10, 2012.
[23] MWRD FY2013 Executive Director’s Recommendations, p. 102 and information provided by the MWRD, November 14, 2012.

The Bond Redemption and Interest Fund is the District's debt service fund. It finances major projects in the Capital Improvement Program through the issuance of bonds, governmental grants and State Revolving Fund loans.[24] The Bond Redemption and Interest Fund will rise by 2.4%, or $4.4 million, from $185.9 million in FY2012 to $190.3 million in FY2013 as according to the District's debt service schedule.[25]

Appropriations for the Reserve Claim Fund will increase by 1.6%, or $1.0 million, to $62.0 million in FY2013. 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. As described further in this section, the Board has adopted a policy of striving to finance the Reserve Claim Fund at the maximum level permitted by state statute and to levy at the tax rate limit. The levy will be raised by the maximum allowable ½ cent.[26] Actual expenditures have been much less than appropriated amounts according to historical trends.

In a five-year comparison of MWRD actual expenditures and proposed appropriations by fund between FY2009 and FY2013, overall spending will fall by 31.4%, or $511.6 million. When comparing actual expenditures to proposed appropriations, it is necessary to exclude the Reserve Claim Fund since the appropriation is much larger than what is anticipated to be spent. Excluding the Reserve Claim Fund, appropriations will decline by 32.4%, or $506.1 million, from nearly $1.6 billion in FY2009 to $1.1 billion in FY2013. Most of the decline reflects budgeted appropriations in the Capital Improvements Bond Fund that are much lower than actual expenditures in prior years. Decreases of 6.0%, or $23.6 million, and 3.0%, or $1.1 million, will also occur in the Corporate and Construction Funds, respectively. The greatest percent increase will occur in the Retirement Fund as appropriations rise from $31.4 million to $64.8 million. The greatest dollar increase in appropriations will occur in the Bond Redemption and Interest Fund as appropriations grow from $134.5 million to $190.3 million. Expenses for the Stormwater Management Fund will also increase, by 81.0%, or $27.4 million, over the five-year period.

MWRD Major Fund Appropriations: FY2009-FY2013 (in $ thousands)

	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Adjusted	FY2013 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 395,003	$ 354,501	$ 341,093	$ 339,445	$ 371,432	$ 31,987	9.4%	$ (23,571)	-6.0%
Construction Fund	$ 35,584	$ 27,079	$ 17,700	$ 33,774	$ 34,531	$ 757	2.2%	$ (1,053)	-3.0%
Capital Improvements Bond Fund*	$ 932,867	$ 975,198	$ 385,052	$ 305,505	$ 334,751	$ 29,246	9.6%	$(598,116)	-64.1%
Stormwater Management Fund	$ 33,807	$ 39,929	$ 39,949	$ 51,000	$ 61,187	$ 10,187	20.0%	$ 27,380	81.0%
Retirement Fund	$ 31,386	$ 32,767	$ 32,384	$ 64,362	$ 64,761	$ 399	0.6%	$ 33,375	106.3%
Bond Redemption & Interest Fund	$ 134,451	$ 162,937	$ 155,541	$ 185,863	$ 190,304	$ 4,441	2.4%	$ 55,853	41.5%
Sub-Total	**$1,563,097**	**$1,592,411**	**$ 971,719**	**$ 979,950**	**$1,056,965**	**$ 77,015**	**7.9%**	**$(506,132)**	**-32.4%**
Reserve Claim Fund**	$ 67,500	$ 63,000	$ 60,000	$ 61,000	$ 62,000	$ 1,000	1.6%	$ (5,500)	-8.1%
Total	**$1,630,597**	**$1,655,411**	**$1,031,719**	**$1,040,950**	**$1,118,965**	**$ 78,015**	**7.5%**	**$(511,632)**	**-31.4%**

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

**Reserve Claim Fund includes actual appropriations, not actual expenditures for FY2009-FY2011.

Source: MWRD Final Budgets, FY2011-FY2012; FY2013 Executive Director's Recommendations, p. 42; and FY2013 Tentative Budget, p. 10.

24 MWRD FY2013 Executive Director's Recommendations, p. 21.

25 MWRD FY2013 Executive Director's Recommendations, p. 535-537 and information provided by the MWRD, December 10, 2012.

26 MWRD FY2013 Executive Director's Recommendations, p. 22 and 533.

Reserve Claim Fund

The MWRD Board of Commissioners has adopted a policy of striving to finance the Reserve Claim Fund at the maximum level permitted by state statute, which is 0.05% of the last known equalized assessed valuation (EAV). Using the 2010 EAV, the maximum accumulation is approximately $74.5 million.[27] Between FY2009 and FY2012 the District did not expend more than 14.0% of the proposed appropriation. Although actual expenditures for the Reserve Claim Fund have not exceeded $10.0 million, the District continues to budget appropriations equal to available resources to fund emergencies or large claims. The District is projecting expenditures to be $6.0 million, or 9.8% of the total proposed appropriation, in FY2012 as shown below.[28]

MWRD Reserve Claim Fund: FY2009-FY2013

	Proposed Appropriation	Actual Expenditure	Ratio
FY2009	$ 67,500,000	$ 9,463,800	14.0%
FY2010	$ 63,000,000	$ 6,727,900	10.7%
FY2011	$ 60,000,000	$ 6,923,400	11.5%
FY2012*	$ 61,000,000	$ 6,000,000	9.8%
FY2013	$ 62,000,000	-	-

*Adjusted expenditure for FY2012.

Source: MWRD Final Budgets, FY2011 and FY2012; FY2013 Executive Director's Recommendations and Tentative Budget.

RESOURCES

This section presents trend information about MWRD Corporate Fund resources. We do not present resource information for all funds because the budget does not provide a clear summation of total resources for the upcoming year.

The FY2013 proposed budget includes the 2013 tax revenue for the Corporate, Construction and Stormwater Management Funds. However, the budget does not include the 2013 tax revenue for the Retirement, Reserve Claim and Bond and Interest Funds. That revenue will be reflected in next year's budget as part of "net assets appropriable."[29] The MWRD attributes this inconsistency in the budget to its cash-based budgeting practices. The levy for tax year 2013 is not collected until 2014. Therefore the revenue is not available for FY2013 if budgeted on a cash basis. Many other local units issue tax anticipation notes to bridge tax collection timing gaps through borrowing. The MWRD maintains a Corporate Working Cash Fund, a Construction Working Cash Fund and a Stormwater Management Fund for the sole purpose of making temporary loans to their respective funds in anticipation of tax collections, but there are no working cash funds for the Retirement, Reserve Claim or Bond and Interest Funds. [30]

Personal property replacement tax (PPRT) revenue is budgeted in a similar manner to the property tax levy, although PPRT is a corporate income tax. The District anticipates $31.1

[27] MWRD FY2013 Executive Director's Recommendations, p. 533.
[28] MWRD FY2013 Executive Director's Recommendations, p. 534 and FY2013 Tentative Budget, p. 10.
[29] MWRD FY2013 Executive Director's Recommendations, p. 70.
[30] MWRD FY2013 Executive Director's Recommendations, p. 564.

million in PPRT revenue to be collected in FY2013.[31] The PPRT revenue will consist of $23.8 million in appropriable Corporate Fund revenue and $7.3 million in appropriable Retirement Fund revenue.

Corporate Fund Resources

Corporate Fund revenue in FY2013 will decrease by 1.2%, or $3.6 million, from $310.3 million in FY2012 to $306.7 million in FY2013. The District is budgeting $64.8 million of its net assets.[32] Net assets can be thought of as the savings account for the District. When total net assets and revenues are combined, representing the District's total resources, the amount of resources being utilized will decrease by 19.5%, or $90.0 million between 2012 and 2013.

Some key revenue changes include:

- The District's 2013 net Corporate Fund property tax levy, which constitutes 70.5% of its revenues, will decrease by $12.6 million, or 5.5%;
- User charges are 16.3% of Corporate Fund revenues in FY2013 and are expected to decrease by $15.0 million to $50.0 million. User charges are paid by large industrial and government users based on the volume and strength of effluent discharged. The decline in FY2013 can be attributed to a decrease in the operations, maintenance and replacement factor of the user charge rate calculation and also unprecedented increases in assessed user charges due to high Lake Michigan turbidity in 2012 that are not expected to recur in 2013.[33] Revenue from user charges are affected by the economic conditions (for food processing and chemical industries) and by weather conditions (government operated airports and water filtration facilities);[34]
- The Corporate Fund allocation of PPRT is expected to decline by $2.4 million, or 9.1%. This is primarily due to the State of Illinois' processing of prior year refunds.[35] PPRT revenues are first used to fund the Retirement Fund, with the remainder distributed to non-debt funds. This revenue moves in parallel to the state and national economy;[36]
- Property and Service Charges, which includes land rentals and other revenues, will increase by $20,000, or 0.1%, from FY2012 to $14.3 million in FY2013;
- Investment Income will increase by $400,000, or 13.8%, to $3.3 million. The increase reflects stable short-term interest rates and years of fund balance resources available for investment;[37]
- Other revenues, which include revenues generated from the TIF Differential Fee and Impact Fee and miscellaneous revenues, will decrease by $4.5 million, or 56.0%. The decrease is driven by a significant decline in the TIF Differential Fee and Impact Fee which decreased from $5.0 million in FY2012 to $925,000 in FY2013. The revenue

[31] MWRD FY2012 Executive Director's Recommendations, p. 19.

[32] Until FY2004, all net assets appropriable were re-appropriated as resources for the following year. Since then, a portion of those assets has not been re-appropriated in order to provide for the Corporate Fund fund balance.

[33] Information provided by the MWRD, December 10, 2012.

[34] MWRD FY2013 Executive Director's Recommendations, p. 83.

[35] MWRD FY2013 Executive Director's Recommendations, p. 83.

[36] MWRD FY2013 Executive Director's Recommendations, p. 83.

[37] MWRD FY2013 Executive Director's Recommendations, p. 83.

estimate is based on the estimate for the City of Chicago's TIF surplus, though the MWRD's final revenue estimate will likely be around $2.0 million;[38] and

- There are no equity transfers recommended in the FY2013 budget. In FY2011 the District approved to transfer $8.0 million from the Corporate Working Cash Fund to the Corporate Fund. MWRD defines an equity transfer as a transfer between funds.[39]

Since FY2009 Corporate Fund revenue will decrease by 2.0%, or $6.3 million, from $313.0 million in FY2009 to $306.7 million in FY2013. Total resources have declined by 7.8%, or $31.4 million. During this five-year period, the property tax levy has decreased by $17.3 million, or 7.4%.

MWRD Corporate Fund Resources: FY2009-FY2013
(in $ thousands)

Resource	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Estimated	FY2013 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Property Taxes (net)	$233,556	$231,800	$239,803	$ 228,891	$216,257	$ (12,635)	-5.5%	$ (17,300)	-7.4%
User Charges	$ 47,943	$ 48,367	$ 48,314	$ 65,000	$ 50,000	$ (15,000)	-23.1%	$ 2,057	4.3%
PPRT	$ 25,780	$ 17,044	$ 22,649	$ 26,215	$ 23,832	$ (2,383)	-9.1%	$ (1,949)	-7.6%
Property & Service Charges	$ 10,186	$ 13,120	$ 15,210	$ 14,282	$ 14,302	$ 20	0.1%	$ 4,116	40.4%
Investment Income	$ 1,668	$ 1,084	$ 2,359	$ 2,900	$ 3,300	$ 400	13.8%	$ 1,632	97.8%
Other	$ 10,177	$ 8,025	$ 22,287	$ 8,106	$ 3,567	$ (4,539)	-56.0%	$ (6,610)	-65.0%
Equity Transfer	$ -	$ -	$ 8,000	$ -	$ -	$ -	-	$ -	-
Working Cash Borrowings Adjustment	$ (16,336)	$ (4,544)	$ (4,851)	$ (35,106)	$ (4,588)	$ 30,518	-86.9%	$ 11,748	-71.9%
Total Revenues	**$312,974**	**$314,895**	**$353,770**	**$ 310,288**	**$306,669**	**$ (3,619)**	**-1.2%**	**$ (6,305)**	**-2.0%**
Net Assets Appropriable	$ 87,300	$ 43,153	$ 72,251	$ 123,007	$159,153	$ 36,146	29.4%	$ 71,853	82.3%
Adjustments for Receipts	$ 2,604	$ 9,596	$ (2,270)	$ 28,144	$ -	$(122,534)	-435.4%	$ (96,995)	-3724.7%
Net Assets Available for Future Use	$ -	$ -	$ -	$ -	$ (94,391)	$ 64,763	-	$ 64,763	-
Subtotal - Appropriated Net Assets	**$ 89,904**	**$ 52,749**	**$ 69,981**	**$ 151,151**	**$ 64,763**	**$ (86,388)**	**-57.2%**	**$ (25,142)**	**-28.0%**
Total Resources	**$402,878**	**$367,644**	**$423,751**	**$ 461,439**	**$371,432**	**$ (90,007)**	**-19.5%**	**$ (31,446)**	**-7.8%**

Note: Other includes TIF Differential Fee and Impact Fee and Miscellaneous. Difference may occur due to rounding.
Source: MWRD FY2011 Final Budget, p. 84; FY2012, p. 74; FY2013 Executive Director's Recommendations, p. 75; and FY2013 Tentative Budget, p. 14.

Property Tax Levy

In FY2013 the MWRD's total property tax levy will increase by 3.1%, or $15.5 million, to $513.7 million from the FY2012 adjusted budget.[40] Figures for the property tax levy include a budgeted loss of 3.5% to reflect loss in collections, Property Tax Appeals Board (PTAB) decisions, Circuit Court decisions and other tax refunds.[41] Of the $513.7 million, 57.1%, or $293.3 million, will be levied for funds that are subject to the tax cap law, which limits total annual increases to 5.0% or the rate of inflation, whichever is less. This portion of the levy will remain flat from FY2012, though the distributions of the property tax revenues will be significantly different. The Corporate Fund and Construction Fund will receive $13.1 million, or 5.5%, and $9.3 million, or 45.7%, less in property tax revenues respectively. Those property tax revenues for operating and capital expenses will be redistributed to the Retirement Fund, for an increase of $23.1 million, or 81.2%. The increase for the Retirement Fund is the result of a change in the pension multiplier from 2.19 to 4.19 with the implementation of Public Act 97-0894. The bill changed the calculation of the tax levy so that the levy would be based on the Fund's actuarially determined contribution requirement not to exceed an amount equal to employee contributions two years prior multiplied by 4.19.[42]

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38 Information provided by the MWRD, December 10, 2012.
39 Information provided by the MWRD, November 24, 2010.
40 The FY2013 levy is for tax year 2013, which will be collected in 2014.
41 MWRD FY2013 Executive Director's Recommendations, p. 18 and 24.
42 MWRD FY2013 Executive Director's Recommendations, p. 538.

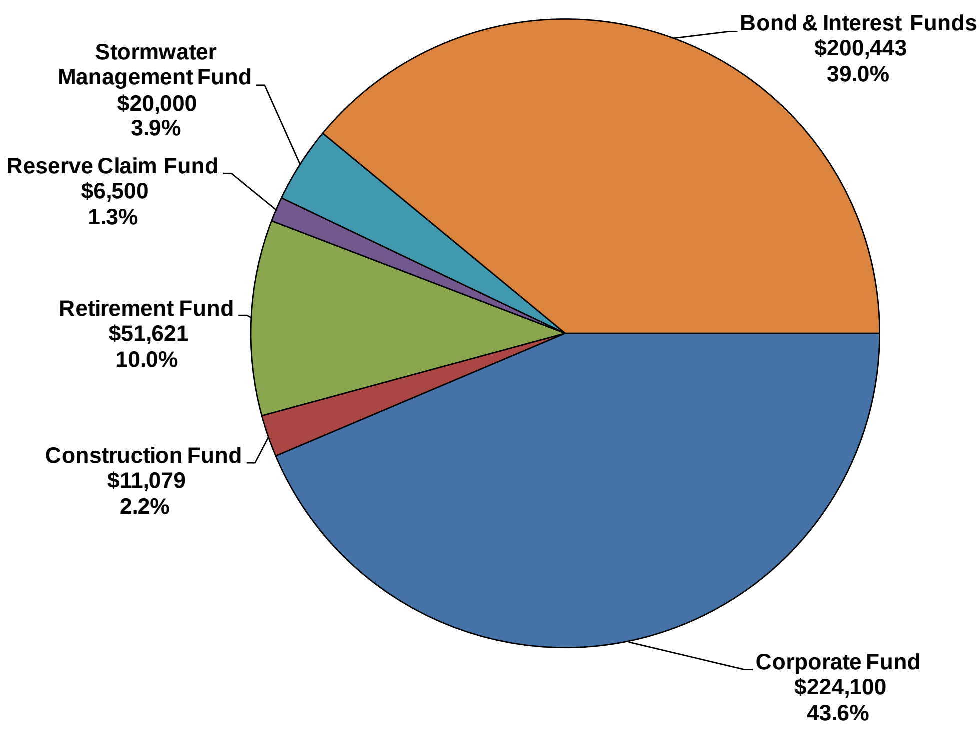
The remaining 42.9%, or $220.4 million, of the total levy is for the Bond and Interest and Stormwater Management Funds, which are not subject to tax caps.[43] The FY2013 Stormwater Management levy will remain flat while the Bond and Interest levy, reserved for debt service, will increase by 8.4%, or $15.5 million.

MWRD Property Tax Levy: FY2009-FY2013 (in $ thousands)									
	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Adjusted	FY2013 Proposed	Two-Year $ Change	Two-Year % Change	Two-Year $ Change	Two-Year % Change
Corporate Fund	$ 236,027	$ 240,059	$ 249,828	$ 237,193	$ 224,100	$ (13,093)	-5.5%	$ (11,927)	-5.1%
Construction Fund	$ 10,411	$ 8,749	$ 1,819	$ 20,418	$ 11,079	$ (9,338)	-45.7%	$ 668	6.4%
Retirement Fund	$ 26,751	$ 26,478	$ 28,163	$ 28,490	$ 51,621	$ 23,131	81.2%	$ 24,869	93.0%
Reserve Claim Fund	$ 3,182	$ 1,951	$ 3,400	$ 7,200	$ 6,500	$ (700)	-9.7%	$ 3,318	104.3%
Subtotal Tax Capped Funds	**$ 276,372**	**$ 277,237**	**$ 283,210**	**$ 293,300**	**$ 293,300**	**$ -**	**0.0%**	**$ 16,928**	**6.1%**
Stormwater Management Fund	$ 8,849	$ 24,029	$ 24,100	$ 20,000	$ 20,000	$ -	0.0%	$ 11,151	126.0%
Bond & Interest Funds	$ 169,051	$ 156,090	$ 169,646	$ 184,955	$ 200,443	$ 15,488	8.4%	$ 31,392	18.6%
Total	**$ 454,272**	**$ 457,356**	**$ 476,955**	**$ 498,255**	**$ 513,743**	**$ 15,488**	**3.1%**	**$ 59,471**	**13.1%**

Source: MWRD FY2011 Final Budget, p. 50; FY2012, p. 40; MWRD FY2013 Tentative Budget, p. 10.

The next exhibit shows the distribution of property tax dollars among the MWRD's various funds in FY2013. Together the Corporate Fund and Bond and Interest Funds will consume 82.6% of the District's total levy.

MWRD Gross Property Tax Levy By Fund: FY2013



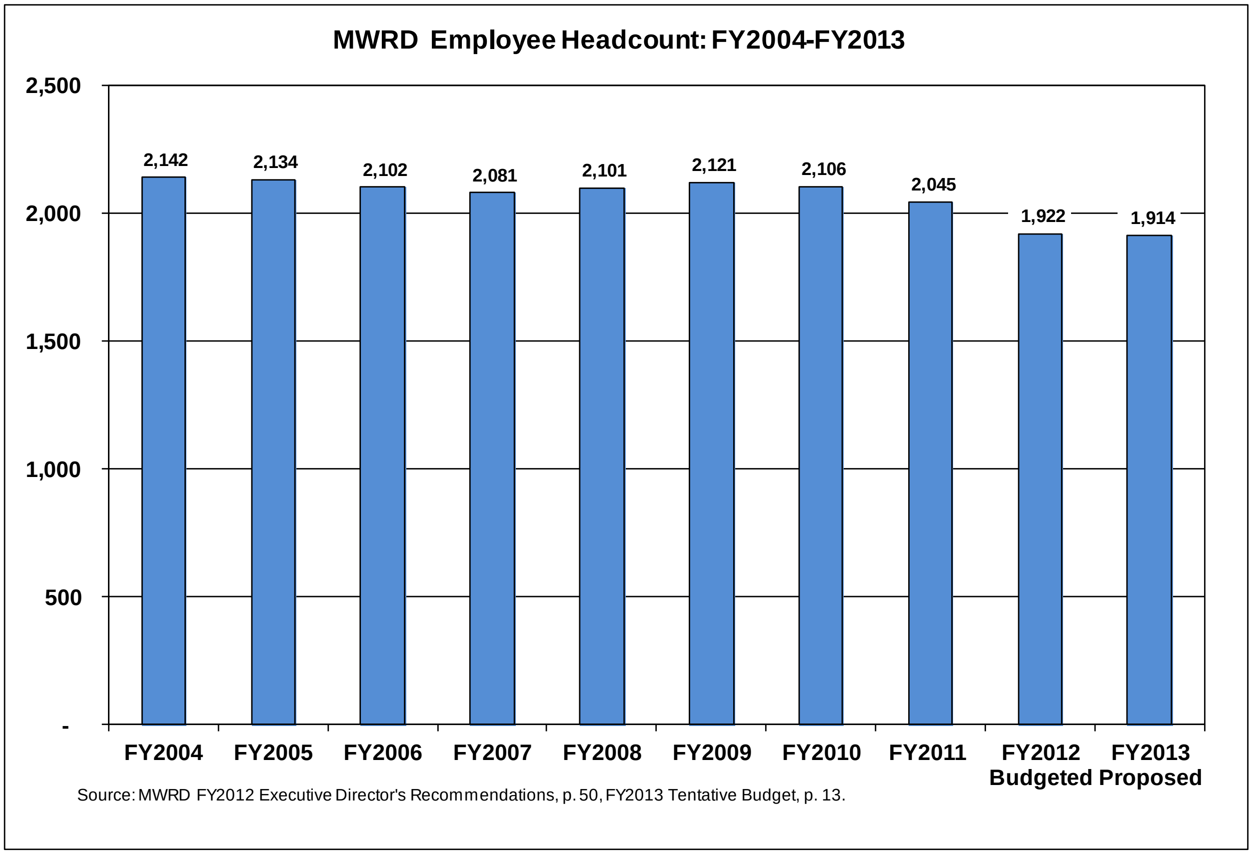
Source: MWRD FY2013 Tentative Budget, p. 10.

[43] 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 aggregate tax levies that do not increase by more than 5.0% over the prior year (excluding the Stormwater Management Fund). There is also a policy that when investment income in the Bond and Interest Funds exceeds the amount necessary for paying the principal and interest over the next twelve months, the Bond and Interest property tax levy is abated.[44]

PERSONNEL

The number of positions for all funds at the District is projected to decrease by eight positions. This is a 0.4% decline from 1,922 positions budgeted in FY2012 to 1,914 positions in FY2013. Since FY2004 the District has cut its workforce by 10.6%, or 228 positions.



Approximately 86.2% of District employees are funded with Corporate Fund dollars. Between FY2012 and FY2013 the number of Corporate Fund positions will increase by 12.6%, or 208 positions. The increase is due to the change in funding of salaries and benefits from the Construction Fund and Capital Improvements Bond Fund to the Corporate Fund. The change

[44] MWRD FY2013 Executive Director's Recommendations, p. 26.

will bring approximately 21 Construction and 196 Capital Improvements Bond positions to the Corporate Fund.[45]

Over the five year period beginning FY2009, positions funded by the Corporate Fund have increased by 24 positions, or 1.3%. Reductions in the District's operating departments, which include Maintenance & Operations, Engineering and Monitoring & Research, through FY2007 are due to the automation of manual processes, the transfer of support positions to support departments and the completion of major infrastructure projects.[46] After modest growth to staff the Master Plans and new initiatives in FY2008 and FY2009, personnel reductions in FY2010 mark the beginning of a five-year plan to reduce staffing levels due to revenue constraints.[47]

MWRD All Funds Employee Headcount: FY2009-FY2013

	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Budgeted	FY2013 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Corporate Fund									
Maintenance & Operations	1,046	1,046	1,024	943	943	0	0.0%	-103	-9.8%
Monitoring & Research	307	306	299	280	276	-4	-1.4%	-31	-10.1%
General Administration	146	123	123	114	109	-5	-4.4%	-37	-25.3%
Procurement & Materials	70	70	67	62	62	0	0.0%	-8	-11.4%
Information Technology	72	71	69	69	70	1	1.4%	-2	-2.8%
Human Resources	54	60	59	57	58	1	1.8%	4	7.4%
Law	40	40	37	37	38	1	2.7%	-2	-5.0%
Board of Commissioners	41	41	38	37	37	0	0.0%	-4	-9.8%
Finance	31	31	31	29	29	0	0.0%	-2	-6.5%
Engineering (Corporate Fund)	34	34	29	29	243	214	737.9%	209	614.7%
Total Corporate Fund	**1,841**	**1,822**	**1,776**	**1,657**	**1,865**	**208**	**12.6%**	**24**	**1.3%**
Construction Fund	45	45	25	21	0	-21	-100.0%	-45	-100.0%
Captal Improvements Bond Fund	186	189	201	196	0	-196	-100.0%	-186	-100.0%
Stormwater Management Fund	49	50	43	48	49	1	2.1%	0	0.0%
Total	**2,121**	**2,106**	**2,045**	**1,922**	**1,914**	**-8**	**-0.4%**	**-207**	**-9.8%**

Source: MWRD FY2011 Tentative Budget, p. 15; FY2012, p. 9; FY2013, p. 13.

Personal Service Appropriations

The summary of personal service appropriations for all funds is not available in the FY2013 Tentative Budget. The exhibit below shows the FY2013 appropriations as proposed in the Executive Director's Recommendations compared with the adjusted personal service appropriations for FY2012 and actual appropriations for FY2009 through FY2011. The following figures therefore do not reflect the same headcount for FY2012 and FY2013 as the above exhibits or the rest of the analysis.

The proposed appropriation for regular employee salaries, which constitutes 61.0% of all personal service appropriations, will increase by 0.6%, or $928,000, to $166.5 million in FY2013. Since FY2009 salaries have declined by 2.8%, or $4.8 million. Contractual services will also decline significantly by $12.8 million, or 24.8%, over the five-year period. The decline is due largely to an effort that started in 2012 to improve the skill sets of District trade persons by using more in-house skilled trades and less maintenance contractors.[48]

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[45] The Executive Director's budget proposed three additional positions to be transferred to the Corporate Fund; however the Tentative Budget did not include the details of the change in positions. See MWRD Executive Director's Budget Recommendations, p. 322.
[46] MWRD FY2012 Executive Director's Recommendations, p. 51.
[47] MWRD FY2012 Executive Director's Recommendations, p. 51.
[48] MWRD FY2013 Executive Director's Recommendations, p. 3.

MWRD All Funds Personal Service Appropriations: FY2009-FY2013 (in $ thousands)									
	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Adjusted	FY2013 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries of Regular Employees*	$ 171,288	$ 172,721	$ 162,780	$ 165,554	$ 166,481	$ 928	0.6%	$ (4,807)	-2.8%
Contractual Services	$ 51,877	$ 45,231	$ 33,573	$ 82,060	$ 39,028	$ (43,032)	-52.4%	$ (12,849)	-24.8%
Health & Life Insurance Premiums**	$ 38,302	$ 40,966	$ 41,570	$ 59,061	$ 46,734	$ (12,327)	-20.9%	$ 8,432	22.0%
Employee Claims	$ 5,123	$ 5,845	$ 4,645	$ 10,110	$ 10,100	$ (10)	-0.1%	$ 4,977	97.2%
Compensation Plan Adjustments	$ 6,455	$ 8,448	$ 6,258	$ 6,785	$ 6,525	$ (259)	-3.8%	$ 70	1.1%
Other Employee Personal Services***	$ 2,182	$ 999	$ 654	$ 1,254	$ 1,616	$ 361	28.8%	$ (567)	-26.0%
Social Security & Medicare Contributions	$ 2,282	$ 2,274	$ 2,250	$ 2,520	$ 2,425	$ (95)	-3.8%	$ 143	6.2%
Total	**$ 277,510**	**$ 276,483**	**$ 251,729**	**$ 327,343**	**$ 272,909**	**$ (54,434)**	**-16.6%**	**$ (4,600)**	**-1.7%**

* Includes FY2013 Salary Adjustments

** Includes OPEB distribution

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

Note: The summary of personal service appropriations for all funds is not available in the FY2013 Tentative Budget.

Source: MWRD FY2011 Final Budget, p. 63; FY2012, p. 53; MWRD FY2013 Executive Director's Budget Recommendations, p. 55.

The exhibit below compares actual personal service appropriations with FY2012 estimated appropriations and FY2013 Tentative Budget appropriations by fund and by department. The analysis of personal service appropriations by department includes adjustments that carry forward the open value of contracts from the prior year. As such, the total appropriations for FY2012 and FY2013 may differ from the summary above.

The total appropriation for personal services district-wide will increase by $23.2 million, or 12.9%, over FY2012 estimates. Since FY2009, appropriations have decreased by $74.2 million, or 26.7%. The Corporate Fund reflects a similar trend, with a $39.9 million, or 33.9%, increase over FY2012 and a $46.8 million, or 22.9%, decrease since FY2009. The two-year increase in Corporate Fund personal service appropriations is due in part to the transfer of Engineering positions from the Construction and Capital Improvement Bonds Funds.[49] Although the two-year trend reflects an increase in total personal services appropriations, the District will be significantly reducing relief workers in FY2012 and FY2013 and reducing training for employees.[50]

MWRD All Funds Personal Service Appropriations by Department: FY2009-2013 (in $ thousands)									
	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Estimated	FY2013 Tentative	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Corporate Fund									
Maintenance & Operations	$ 89,866	$ 91,223	$ 85,963	$ 6,183	$ 9,914	$ 3,731	60.3%	$ (79,952)	-89.0%
Monitoring & Research	$ 25,115	$ 25,498	$ 22,680	$ 22,585	$ 23,027	$ 443	2.0%	$ (2,087)	-8.3%
General Administration	$ 12,632	$ 10,619	$ 10,491	$ 9,661	$ 13,779	$ 4,119	42.6%	$ 1,147	9.1%
Procurement & Materials	$ 5,219	$ 5,265	$ 4,912	$ 4,897	$ 5,020	$ 122	2.5%	$ (199)	-3.8%
Information Technology	$ 11,335	$ 9,529	$ 7,973	$ 8,402	$ 8,539	$ 137	1.6%	$ (2,796)	-24.7%
Human Resources	$ 43,280	$ 46,440	$ 47,197	$ 50,439	$ 58,996	$ 8,557	17.0%	$ 15,716	36.3%
Law	$ 6,588	$ 7,381	$ 6,339	$ 5,761	$ 6,784	$ 1,024	17.8%	$ 196	3.0%
Board of Commissioners	$ 3,602	$ 3,587	$ 3,283	$ 3,327	$ 3,689	$ 362	10.9%	$ 86	2.4%
Finance	$ 3,119	$ 3,113	$ 2,874	$ 2,951	$ 3,189	$ 238	8.1%	$ 70	2.2%
Engineering	$ 3,395	$ 3,400	$ 2,747	$ 3,326	$ 24,459	$ 21,133	635.3%	$ 21,065	620.5%
Sub-Total Corporate Fund	**$ 204,151**	**$ 206,055**	**$ 194,460**	**$ 117,532**	**$ 157,396**	**$ 39,865**	**33.9%**	**$ (46,755)**	**-22.9%**
Construction Fund	$ 7,329	$ 7,089	$ 4,366	$ 4,967	$ 5,084	$ 116	2.3%	$ (2,246)	-30.6%
Capital Improvement Bonds Fund	$ 51,411	$ 47,744	$ 40,661	$ 40,829	$ 6,497	$ (34,332)	-84.1%	$ (44,915)	-87.4%
Stormwater Fund	$ 9,615	$ 9,861	$ 7,658	$ 12,767	$ 24,322	$ 11,556	90.5%	$ 14,707	153.0%
Reserve Claim Fund	$ 5,002	$ 5,733	$ 4,584	$ 4,000	$ 10,000	$ 6,000	150.0%	$ 4,998	99.9%
Total	**$ 277,510**	**$ 276,483**	**$ 251,729**	**$ 180,094**	**$ 203,298**	**$ 23,204**	**12.9%**	**$ (74,211)**	**-26.7%**

Source: MWRD Tentative Budget, FY2011-FY2013.

[49] MWRD FY2013 Executive Director's Budget Recommendations, p. 322.
[50] MWRD FY2013 Executive Director's Budget Recommendations, p. 55.

NON-APPROPRIATED CORPORATE FUND FUND BALANCE

This section reviews the MWRD's Corporate Fund fund balance according to the assets available for future use as stated in the District's adopted, or final, budget for each fiscal year. Assets available for future use are estimated for the start (January 1) of the fiscal year.[51]

The MWRD has a fund balance policy of maintaining 12-15% of appropriations, or between $41 million to $51 million, in unreserved Corporate Fund fund balance.[52] Beginning in 2004, the District began to set aside a portion of the net assets appropriable as a non-appropriated or unreserved fund balance that would be available for contingencies.[53] The FY2013 budget states that over the next few years, the District intends to reduce and then maintain the fund balance at a level equal to 12-15% of appropriations, as according to its policy.[54]

The Government Finance Officers Association (GFOA) recommends "at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."[55] The GFOA's recommendation is a good benchmark for special-purpose governments like the MWRD. Two months of operating expenditures for the District is approximately 16.7%. MWRD's projected FY2013 level of net assets exceeds the GFOA recommendation and the District's stated goal of maintaining a reserve of 12-15% of Corporate Fund appropriations.

Between FY2008 and FY2011, the District's fund balance did not exceed 10.0% of operating expenditures, and therefore did not meet the MWRD's own standard. In FY2012 the District's Corporate Fund fund balance rose by $41.3 million from a level representative of 5.8% of operating expenditures in FY2011 to $61.1 million, or 18.0% of operating expenditures.

In FY2013 the fund balance is projected to rise again by $33.3 million from FY2012 to the highest level in the past six years. The Corporate Fund fund balance is estimated to be $94.4 million, or 25.4% of operating expenditures, as of the start of the 2013 fiscal year.

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[51] For example, assets available for future use as found in the FY2012 Final Budget are estimated for January 1, 2012.
[52] MWRD FY2013 Executive Director's Recommendations, p. 19 and 26.
[53] MWRD FY2009 General Superintendent's Recommendation, p. 22.
[54] MWRD FY2013 Executive Director's Recommendations, p. 19.
[55] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).

MWRD Corporate Fund Fund Balance: FY2008-FY2013 (in $ millions)			
	Assets Available for Future Use	Corporate Fund Appropriations	
FY2008	$ 39.6	$ 397.2	10.0%
FY2009	$ 20.8	$ 395.0	5.3%
FY2010	$ 19.0	$ 354.5	5.4%
FY2011	$ 19.8	$ 341.1	5.8%
FY2012	$ 61.1	$ 339.4	18.0%
FY2013*	$ 94.4	$ 371.4	25.4%

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

Sources: MWRD Adopted Budgets, FY2007-FY2012, FY2013 Tentative Budget, p. 10 and 14, Summaries of Net Assets Appropriable - All Funds and Comparative Statements of Appropriations and Tax Levies - All Funds.

PENSION FUND

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

Plan Description

The Metropolitan Water Reclamation District Retirement Fund is a single employer defined benefit pension plan for employees of the MWRD and the Fund. It was created in 1931 by Illinois State statute to provide retirement, death and disability benefits to employees and their dependents.[56] Plan benefits and contribution amounts can only be amended through State legislation.[57] The MWRD is the only sanitary district in Illinois whose employees do not participate in the statewide Illinois Municipal Retirement Fund.

The MWRD pension fund is governed by a seven-member Board of Trustees. As prescribed in State statute, four members are elected by the employees and three members are appointed by the MWRD Board of Commissioners with the approval of the pension fund Board of Trustees. One of the appointed members must be a retiree.[58]

In FY2011 there were 1,888 active members of the pension fund and 2,328 beneficiaries, for a ratio of 0.81 active member for every beneficiary. This ratio has fallen from 0.95 in FY2002 as the number of active members has declined and the number of beneficiaries has risen. This trend puts financial stress on the fund as there are fewer employees contributing to the fund and more annuity payments to make.

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[56] MWRD Retirement Fund FY2011 Comprehensive Annual Financial Report, p. 33.
[57] The MWRD pension article is 40 ILCS 5/13, but the fund is also governed by other parts of the pension code, such as 40 ILCS 5/1-160 which defines the changes to benefits for new employees hired on or after January 1, 2011 enacted in Public Act 96-0889.
[58] MWRD Retirement Fund FY2011 Comprehensive Annual Financial Report, p. 33.

MWRD Pension Fund Membership: FY2002-FY2011			
Fiscal Year	Active Employees	Beneficiaries	Ratio of Active to Beneficiary
FY2002	2,067	2,175	0.95
FY2003	2,060	2,193	0.94
FY2004	2,051	2,206	0.93
FY2005	2,025	2,215	0.91
FY2006	1,995	2,248	0.89
FY2007	2,002	2,276	0.88
FY2008	2,052	2,272	0.90
FY2009	2,082	2,252	0.92
FY2010	2,024	2,248	0.90
FY2011	1,888	2,328	0.81
Ten-Year Change	**-179**	**153**	**-0.1**
Ten-Year % Change	**-8.7%**	**7.0%**	**-14.7%**

Source: MWRD Retirement Fund Comprehensive Annual Financial Reports, FY2002-FY2011.

Pension Benefits

Public Act 96-0889, enacted in April 2010, created a new tier of benefits for many public employees hired on or after January 1, 2011, including members of the MWRD pension fund.[59] This report will refer to "Tier 1 employees" as those persons hired before the effective date of Public Act 96-0889 and "Tier 2 employees" as those persons hired on or after January 1, 2011.[60]

Over time these benefit changes will slowly reduce liabilities from what they would have been as new employees are hired and fewer members remain in the old benefit tier. However, this change did not affect MWRD pension contributions under the state statute at the time requiring MWRD contributions to be a fixed multiple of 2.19 times employee contributions made two years prior.

Tier 1 employees are eligible for full retirement benefits once they reach age 60 and have at least five years of employment at the District or age 55 with 30 years of service. The amount of retirement annuity is 2.2% of final average salary multiplied by years of service for the first 20 years of service and 2.4% for each year in excess of 20. Final average salary is the highest average annual salary for any 52 consecutive bi-weekly pay periods (i.e., roughly two years) within the last ten years of service. The maximum annuity amount is 80% of final average salary. For example, a 60 year-old employee with 25 years of service and a $88,000 final average salary could retire with a $49,280 annuity: (20 x $88,000 x 2.2%) + (5 x $88,000 x 2.4%)= $49,280.[61] The annuity increases every year by an automatic 3.0% adjustment compounded. Employees with ten years of service may retire as young as age 55 but their benefit is reduced by 0.5% for each month they are under age 60 or their years of service are less than 30. There is also an enhanced annuity formula with additional contributions available to MWRD Commissioners.[62]

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

[60] A description of the MWRD's 2012 pension funding legislation is discussed in the next section.

[61] The average age at time of retirement in 2011 was 62.7 years and the average years of service were 27.4 years. The average final average salary for persons retiring in 2011 with 25-30 years of service was $88,404. MWRD Retirement Fund FY2011 Comprehensive Annual Financial Report, p. 101 and 102.

[62] See 40 ILCS 5/13-314 and MWRD Retirement Fund FY2011 Comprehensive Annual Financial Report, p. 85.

The following table compares Tier 1 benefits to Tier 2 benefits enacted in Public Act 96-0889. The major changes are the increase in full retirement age from 60 to 67 and early retirement age from 55 to 62; the reduction of final average salary from the highest two-year average to the highest eight-year average; the $106,800 cap on final average salary; and the reduction of the automatic increase from 3% compounded to the lesser of 3% or one half of the increase in Consumer Price Index calculated as simple interest.

Major MWRD Pension Benefit Provisions		
	Tier 1 Employees (hired before 1/1/2011)	**Tier 2 Employees (hired on or after 1/1/2011)**
Full Retirement Eligibility: Age & Service	age 60 with 5 years of service or age 55 with 30 years of service (age 50 for persons hired before June 13, 1997)	age 67 with 10 years of service
Early Retirement Eligibility: Age & Service	age 55 with 10 years of service (age 50 for persons hired before June 13, 1997)	age 62 with 10 years of service
Final Average Salary	highest average annual salary for any 52 consecutive bi-weekly pay periods within the last 10 years of service	highest average monthly salary for any 96 consecutive months within the last 10 years of service; capped at $106,800*
Annuity Formula**	2.2% of final average salary for each of the first 20 years of service, 2.4% for each year in excess of 20	
Early Retirement Formula Reduction	0.5% per month under age 60 or less than 30 years of service, whichever yields less	0.5% per month under age 67
Maximum Annuity	80% of final average salary	
Automatic Annual Increase on Retiree or Surviving Spouse Annuity	3% compounded; begins at first anniversary of retirement	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 67 or the first anniversary of retirement

*The $106,800 maximum final average salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U during the preceding 12-month calendar year.

**There is also an enhanced annuity available to District Commissioners. See MWRD Retirement Fund FY2011 Comprehensive Annual Financial Report, p. 88-86.
Note: New Hires are prohibited from simultaneously receiving a salary and a pension from any public employers covered by the State Pension Code ("double-dipping").
Sources: MWRD Retirement Fund FY2011 Comprehensive Annual Financial Report, p. 80-85 and Public Acts 96-0889 and 96-1490.

Members of the MWRD pension fund do not participate in the federal Social Security program so they are not eligible for Social Security benefits related to their District employment when they retire.

Pension Contributions

Public Act 97-0894, enacted in August 2012, increases the contributions to the pension fund by Tier 1 employees hired before January 1, 2011 and the employer contribution made by the District starting January 1, 2013.

In fall of 2011, the MWRD Retirement Fund Board of Trustees proposed the pension funding reforms with support from the Board of Commissioners. The Civic Federation applauded the MWRD for moving to stabilize the health of its retirement system, strongly encouraged the MWRD to move forward with these initiatives and urged the General Assembly to approve the eventual legislation.[63]

[63] Civic Federation, *Metropolitan Water Reclamation District FY2012 Tentative Budget: Analysis and Recommendations*, December 7, 2011, p. 7-8.

The changes were introduced in the Illinois General Assembly as House Bill 4513 by Representative Elaine Nekritz in January 2012, passed the Illinois House in March 2012 and the Senate on May 31, 2012 and was signed into law by Governor Pat Quinn in August 2012.

The first funding reform will increase employee pension contributions for members who first became participants in the MWRD or a reciprocal fund before January 1, 2011. As noted in the previous section, pension benefits are more generous for members of this group, known as "Tier 1," so they are required to pay increased contributions, while Tier 2 members, who have lesser benefit levels, will not provide increased contributions. As originally introduced, House Bill 4513 would have maintained the increased contribution levels for Tier 1 members in perpetuity. However, an amendment to the bill was approved in the House Pensions and Investments Committee that reduces employee, *but not employer*, contribution levels once the fund reaches 90% funded.[64]

As shown in the following table, the increases will be phased in over three years starting January 1, 2013. Increased contribution levels for Tier 1 members apply to the portion of the employee contribution related to the retirement annuity itself, to the annual increase (sometimes called the cost-of-living increase, or "COLA") and the surviving spouse annuity. The first pay period after the Retirement Fund reaches a 90% funded ratio, employee contributions will return to their pre-2013 levels.

[64] Public Act 97-0894. http://www.ilga.gov/legislation/billstatus.asp?DocNum=4513&GAID=11&GA=97&DocTypeID=HB&LegID=64172&SessionID=84&SpecSess=#actions

The MWRD estimates that the one percentage point increase in employee contributions in FY2013 will increase funding to the pensions by $2.0 million to $2.5 million.[65]

Employee Contributions to the MWRD Pension Fund		
	Tier 1 Employees (hired before 1/1/2011)	**Tier 2 Employees (hired on or after 1/1/2011)**
Before January 1, 2013		
Retirement Annuity	7.0%	7.0%
Annual Increase	0.5%	0.5%
Surviving Spouse Annuity	1.5%	1.5%
Total	**9.0%**	**9.0%**
January 1, 2013		
Retirement Annuity	7.5%	7.0%
Annual Increase	1.0%	0.5%
Surviving Spouse Annuity	1.5%	1.5%
Total	**10.0%**	**9.0%**
January 1, 2014		
Retirement Annuity	8.0%	7.0%
Annual Increase	1.5%	0.5%
Surviving Spouse Annuity	1.5%	1.5%
Total	**11.0%**	**9.0%**
January 1, 2015		
Retirement Annuity	8.5%	7.0%
Annual Increase	1.5%	0.5%
Surviving Spouse Annuity	2.0%	1.5%
Total	**12.0%**	**9.0%**
First Pay Period After Fund Reaches 90%		
Retirement Annuity	7.0%	7.0%
Annual Increase	0.5%	0.5%
Surviving Spouse Annuity	1.5%	1.5%
Total	**9.0%**	**9.0%**

Source: Public Act 97-0894

The second funding reform in P.A. 97-0894 will increase the District's contribution to the pension fund. The District's contribution prior to fiscal year 2013 was set in state statute as a multiple of the total employee contribution made two years previously. The statute required that the MWRD levy a property tax not to exceed the multiple amount of 2.19.[66] This multiple was not automatically adjusted to meet the funding needs of the pension plans. Over the past ten years, insufficient employer contributions have contributed $269.2 million to the $1.0 billion liability.[67]

Under the revised MWRD pension statute, the District will be required to increase its tax levy multiple to an amount calculated by the actuary to be sufficient to bring the total assets of the

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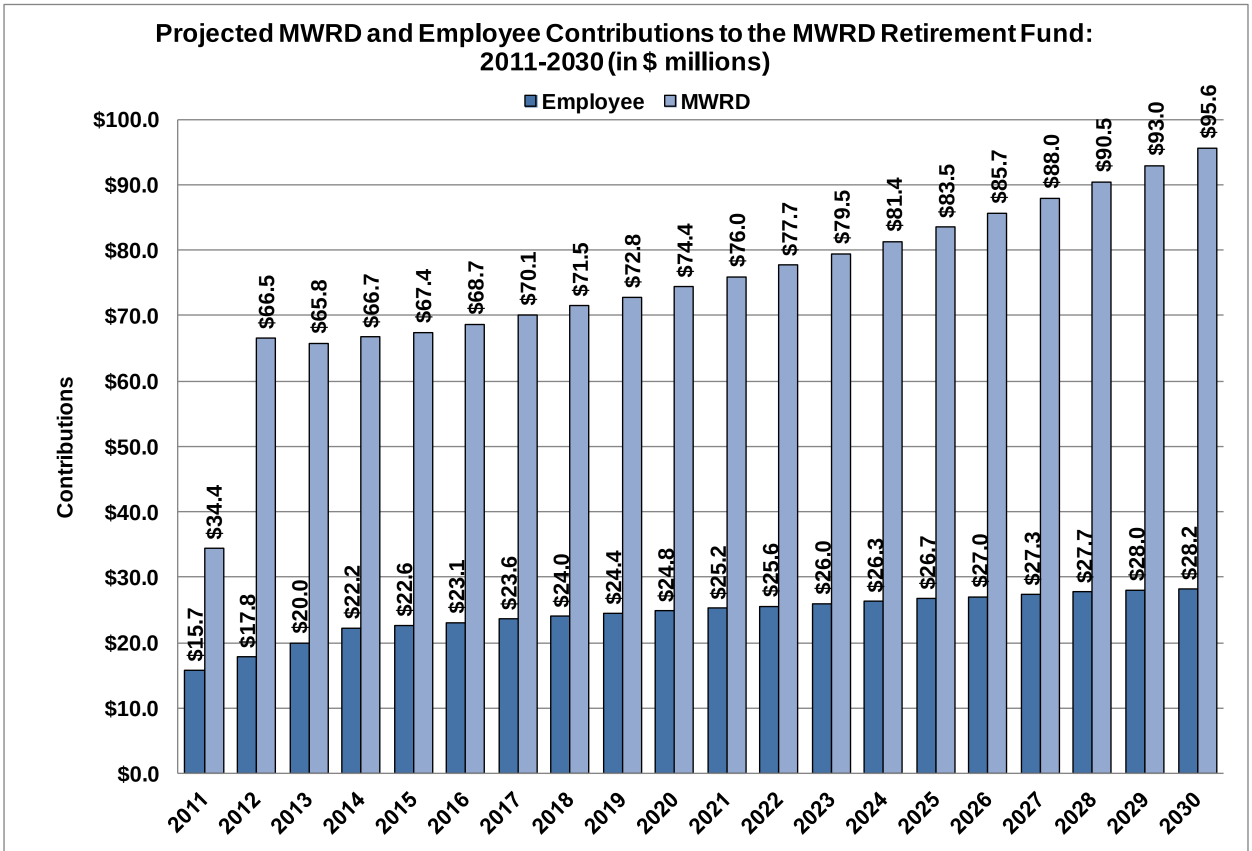
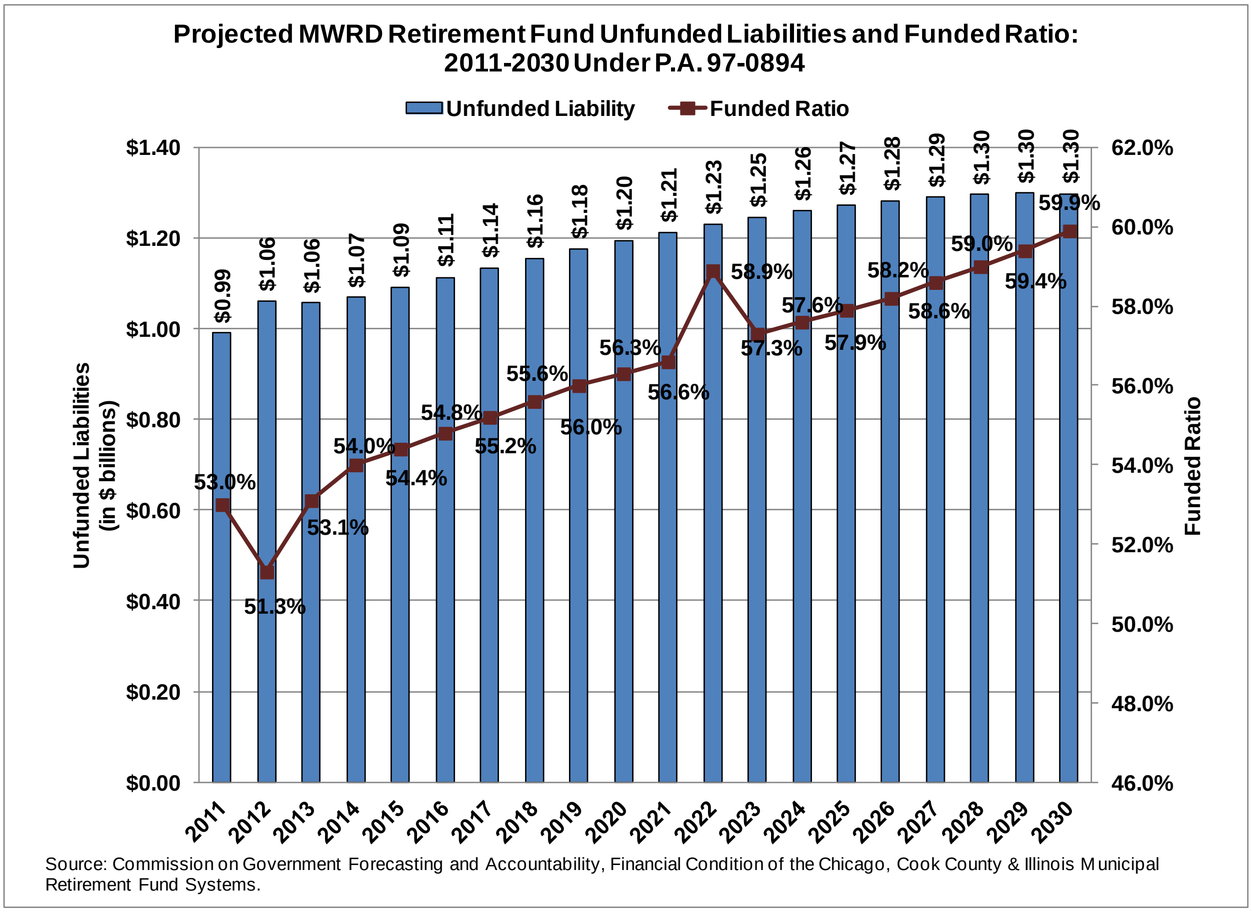
[65] Information provided by the MWRD, November 20, 2012.
[66] 40 ILCS 5/13-503. Employee contributions to optional additional benefits made after January 1, 2003 are multiplied by 1.0.
[67] MWRD Retirement Fund FY2011 Comprehensive Annual Financial Report, p. 89.

MWRD Retirement Fund up to 90% of the total actuarial liabilities of the Fund in 2050. Beginning with the 2013 tax levy, and each year thereafter, the MWRD shall levy a tax annually which will be sufficient to meet the annual required contribution by the Fund, but shall not exceed an amount equal to the total employee contributions two years prior multiplied by 4.19. That is, the MWRD will be required to fund its pensions at a level consistent with their actuarial needs rather than an arbitrary multiple of past years' employee contributions. However, the amount the District must contribute to the fund will not decrease once the fund reaches 90% funded. The following chart shows the projected MWRD and employee contributions toward the retirement fund under P.A. 97-0894 for 2011 through 2030.



Source: Commission on Government Forecasting and Accountability, Financial Condition of the Chicago, Cook County & Illinois Municipal Retirement Fund Systems.

Due to timing issues with the Cook County property tax system, the MWRD will not receive the increased pension levy authorized by P.A. 97-0894 until 2014. However, the MWRD plans to increase its FY2013 contribution before it is required to do so by transferring $30.0 million in interest income to the Retirement Fund appropriation, as allowed under Public Act 95-0891. The MWRD estimates that it will need to levy up to the 4.19 multiplier limit for fiscal years 2013 and 2014 in order to provide funding according to the schedule set out by P.A. 97-0894.[68] The impact of these changes on the funded levels of the MWRD Retirement Fund were projected by the fund actuary for the Illinois General Assembly's Commission on Government Forecasting and Accountability. The following chart shows the projected unfunded liability and funded ratio for 2011 through 2030. [69]



Funded Ratio

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

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[68] Information provided by the MWRD, November 20, 2012.
[69] Commission on Government Forecasting and Accountability, *Financial Condition of the Chicago, Cook County and Illinois Municipal Retirement Fund Systems*, December 2012, p. 78. Under P.A. 97-0894, the MWRD has until 2050 to reach 90% funding.

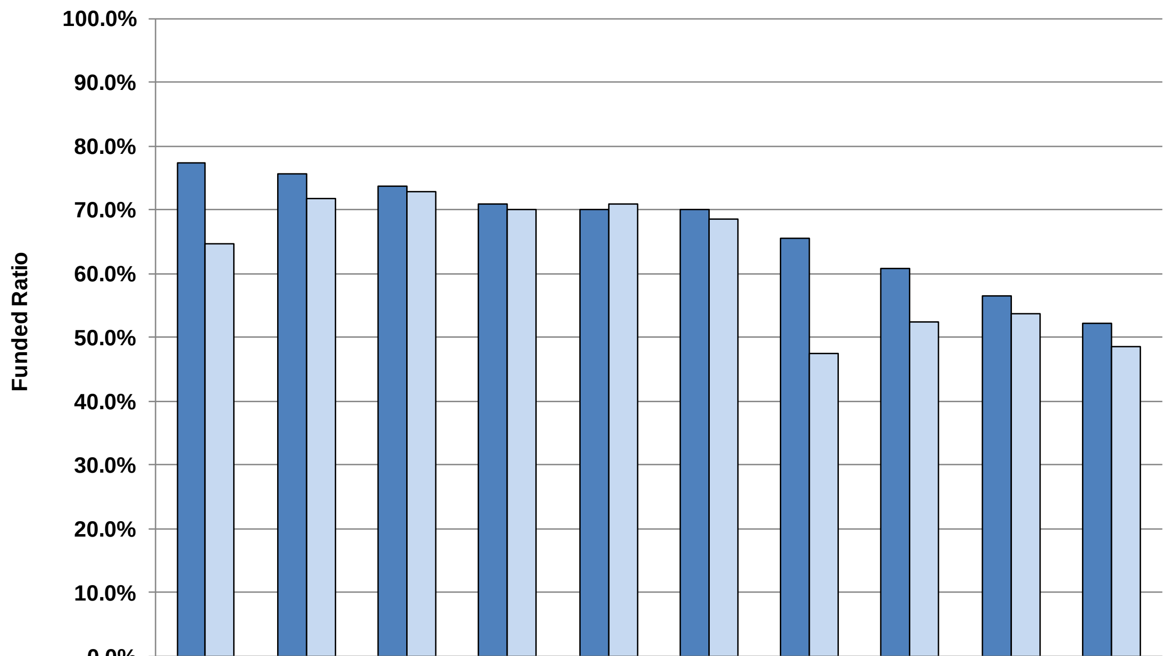
The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses over a period of three to five years.[70] The market value of assets measurement presents the ratio of assets to liabilities by recognizing investments only at current market value. Market value funded ratios are more volatile than actuarial funded ratios due to the smoothing effect of actuarial value. However, market value funded ratios represent how much money is actually available at the time of measurement to cover actuarial accrued liabilities.

The following exhibit shows the actuarial and market value funded ratios for MWRD's pension fund over the last ten years. The actuarial value funded ratio fell from a high of 77.3% in FY2002 to 52.2% in FY2011. The market value funded ratio fell from a high of 72.9% in FY2004 to a low of 47.4% in FY2008 before rebounding slightly to 53.6% in FY2010 and dropping to 48.6% in FY2011. The sizeable difference between FY2008 actuarial and market value funded ratios is due to the fact that FY2008 investment returns were much lower than the smoothed returns over five years.

[70] For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2010*, June 25, 2012.

This continued decline in funded ratio is a cause for concern. In general, a ratio below 80% is considered to be an indication that the fund is in poor health.

MWRD Pension Fund Funded Ratios Actuarial Value of Assets and Market Value of Assets: FY2002-FY2011



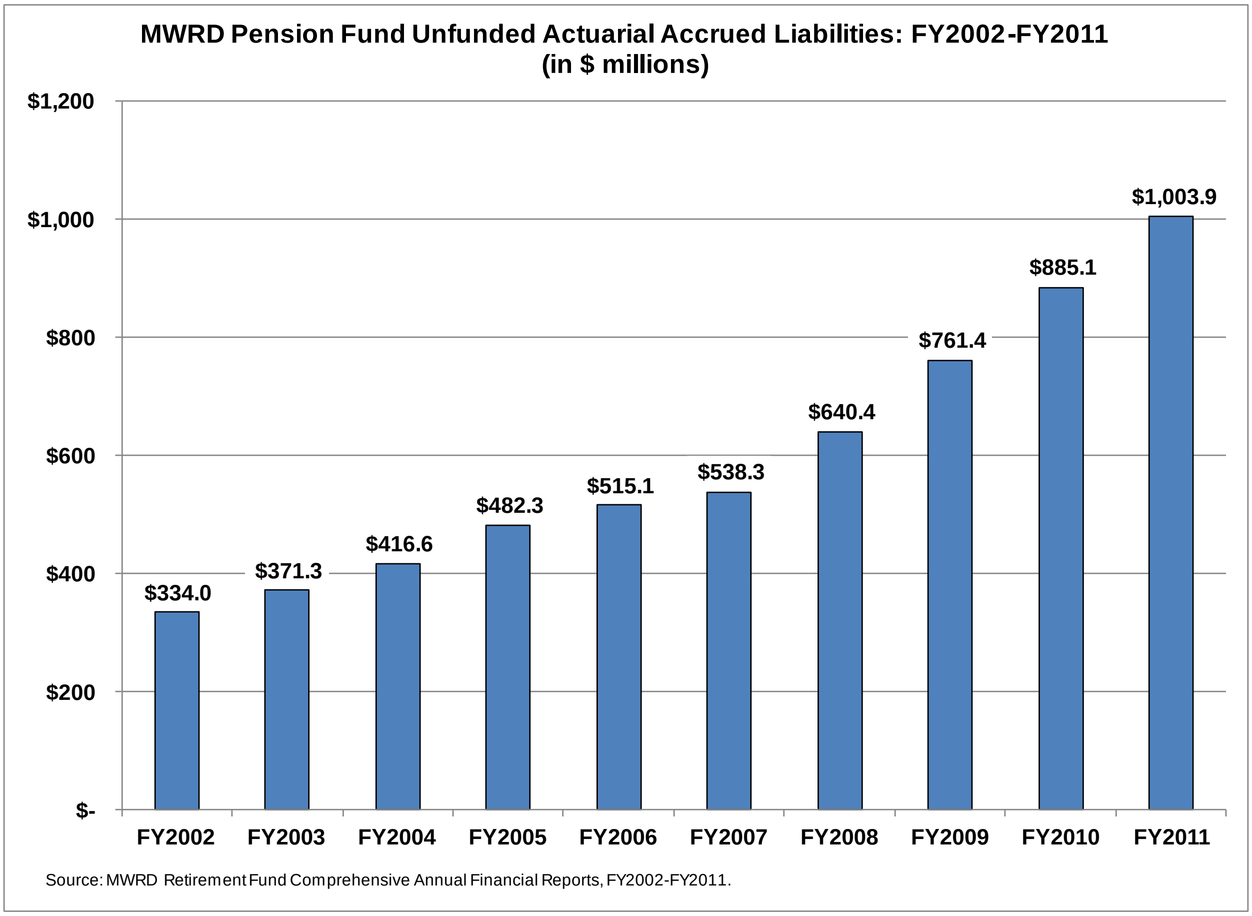
	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Actuarial Value	77.3%	75.5%	73.6%	70.8%	70.1%	70.0%	65.4%	60.7%	56.5%	52.2%
Market Value	64.6%	71.7%	72.9%	70.1%	70.9%	68.6%	47.4%	52.3%	53.6%	48.6%

Source: Civic Federation calculations based on MWRD Retirement Fund Comprehensive Annual Financial Reports, FY2002-FY2011.

Unfunded Actuarial Accrued Liability

Unfunded actuarial accrued liability (UAAL) is the dollar value of accrued liabilities not covered by the actuarial value of assets. As shown in the exhibit below, the unfunded liability for the MWRD pension fund totaled $1.0 billion in FY2011, up from $334.0 million in FY2002.

The largest contributor to the growth in unfunded liabilities between FY2002 and FY2011 was investment returns failing to meet the 7.75% expected rate of return. This added $475.8 million to the UAAL. The second largest contributor was employer contributions that were $269.2 million less than the annual normal cost plus interest on the UAAL.[71]



Investment Rates of Return

Investment income typically provides a significant portion of the funding for pension funds. Thus, declines over a period of time can have a negative impact on pension assets. Between FY2002 and FY2011 the MWRD pension fund's average annual rate of return was 5.5%.[72] Returns ranged from a low of -24.6% in FY2008 corresponding with the crisis in the financial

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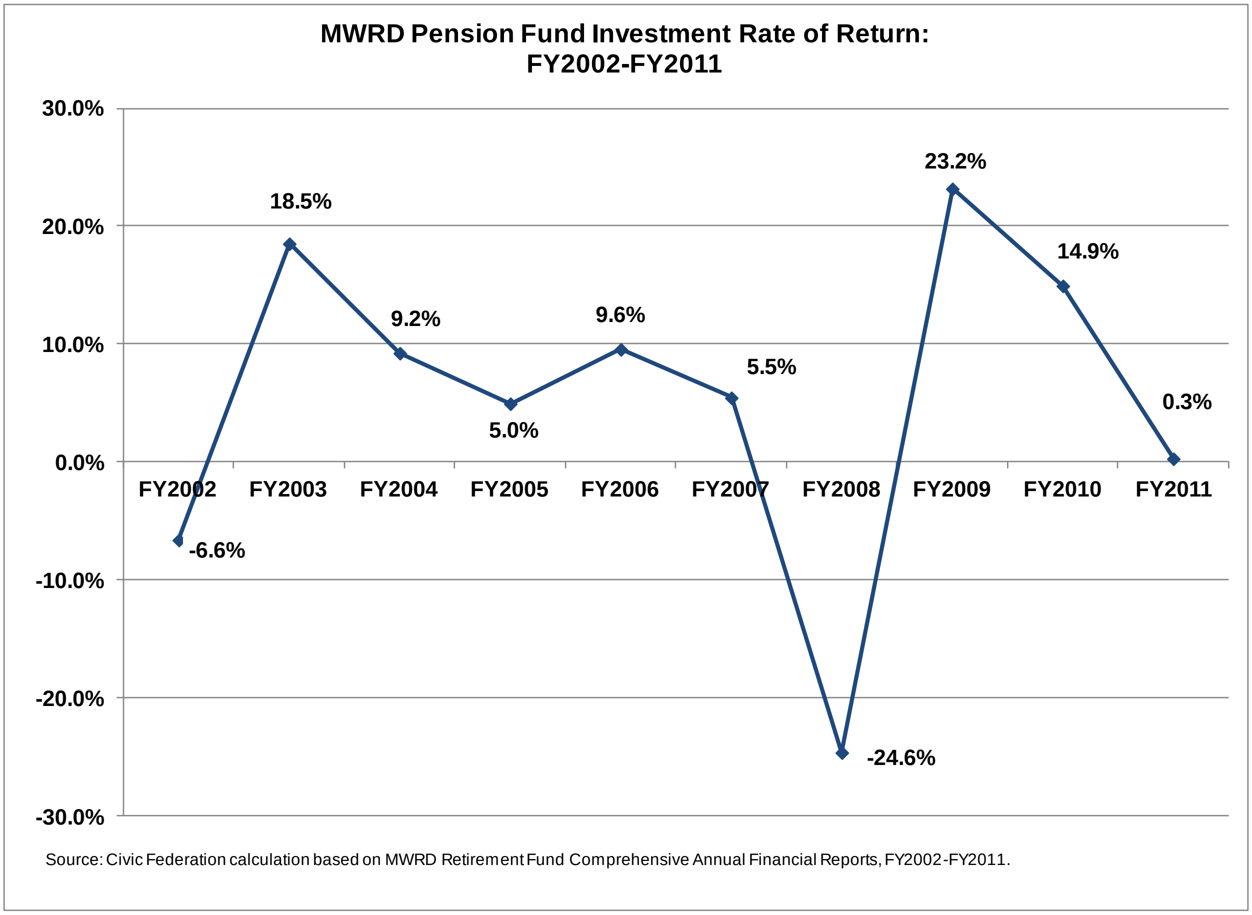
[71] MWRD Retirement Fund FY2011 Comprehensive Annual Financial Report, p. 89.

[72] The Civic Federation calculates investment rate of return using the following formula: Current Year Rate of Return = Current Year Gross Investment Income/ (0.5*(Previous Year Market Value of Assets + Current Year Market Value of Assets – Current Year Gross Investment Income)). This is not necessarily the formula used by the pension fund's actuary and investment managers, thus investment rates of return reported here may differ from those reported in a fund's actuarial statements. However, it is a standard actuarial formula. Gross investment income includes income from securities lending activities, net of borrower rebates. It does not subtract out related investment and securities lending fees, which are treated as expenses.

markets to high of 23.2% in FY2009. Returns declined to 0.3% in FY2011, reflecting national public pension fund trends of low investment returns for 2011.[73]



Employer Annual Required Contribution

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

[73] National Association of State Retirement Administrators, "NASRA Issue Brief: Public Pension Plan Investment Return Assumptions." August 2012. According to this report, the median annualized investment returns for U.S. public pension funds in 2011 was 0.8%.

actuarial accrued liability is that portion of the present value of benefits which is not covered by future normal costs.

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

The following table compares the ARC to the actual MWRD contribution over the last ten years. In FY2002 the employer contribution was only slightly below the ARC, but it has grown to a significant gap in FY2011. The difference between the ARC and the actual employer contribution grew from a $4.8 million shortfall in FY2002 to $32.0 million in FY2011. The cumulative ten-year difference between ARC and actual employer contribution is $175.2 million.

Expressing ARC as a percent of payroll provides a sense of scale and affordability. In FY2002 the ARC was 24.3% of payroll while the actual employer contribution was 20.8% of payroll. In FY2011 the pension ARC was 42.2% of payroll while the actual employer contribution was 22.8% of payroll. Employees contributed 9.0% of salary to the pension fund in FY2011.

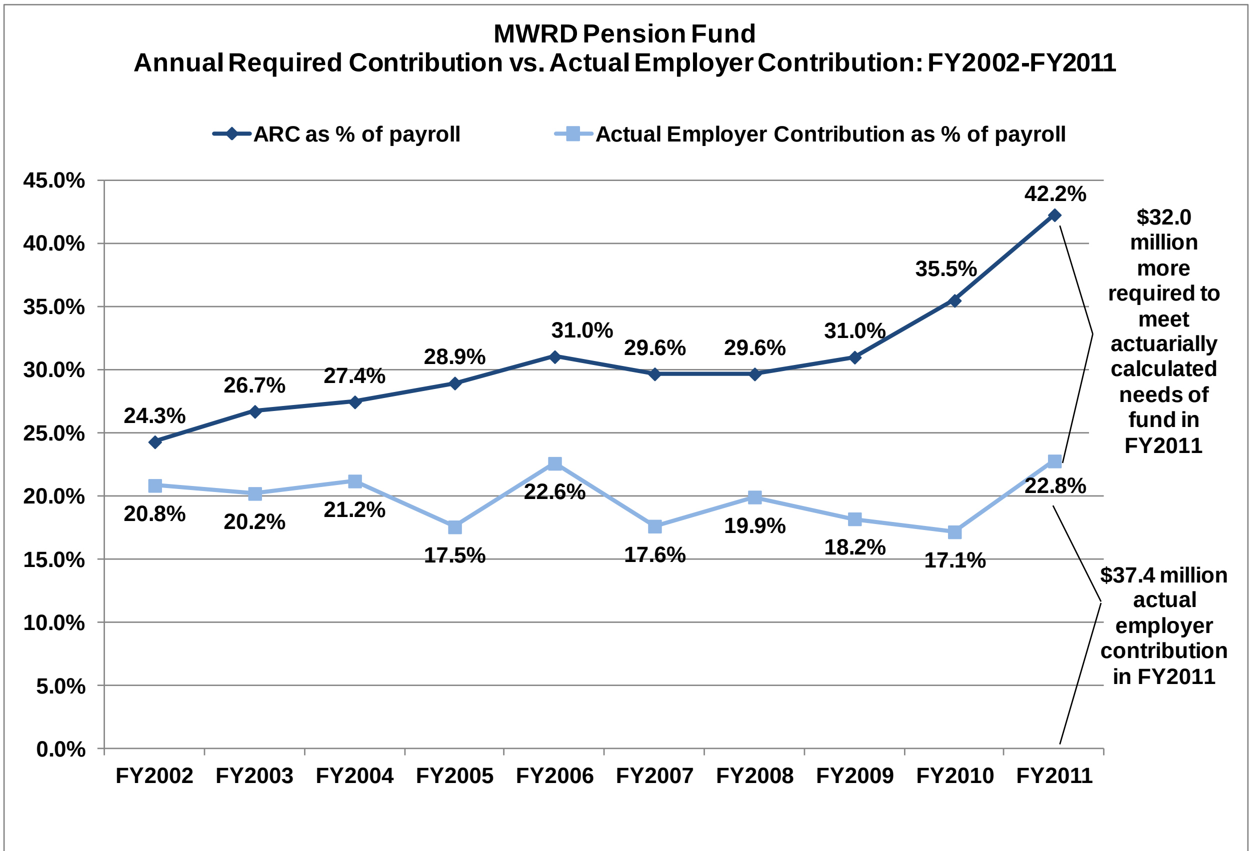
MWRD Pension Fund
Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25

Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution (2)*	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll
2002	$ 33,414,603	$ 28,662,510	$ 4,752,093	85.8%	$ 137,679,573	24.3%	20.8%
2003	$ 38,039,355	$ 28,778,648	$ 9,260,707	75.7%	$ 142,593,596	26.7%	20.2%
2004	$ 40,146,454	$ 30,982,232	$ 9,164,222	77.2%	$ 146,360,302	27.4%	21.2%
2005	$ 43,164,572	$ 26,174,492	$ 16,990,080	60.6%	$ 149,246,356	28.9%	17.5%
2006	$ 47,368,878	$ 34,476,332	$ 12,892,546	72.8%	$ 152,767,396	31.0%	22.6%
2007	$ 47,090,445	$ 27,947,096	$ 19,143,349	59.4%	$ 158,831,772	29.6%	17.6%
2008	$ 49,758,238	$ 33,406,819	$ 16,351,419	67.1%	$ 167,865,254	29.6%	19.9%
2009	$ 54,790,175	$ 32,153,874	$ 22,636,301	58.7%	$ 176,915,399	31.0%	18.2%
2010	$ 61,872,925	$ 29,917,793	$ 31,955,132	48.4%	$ 174,485,734	35.5%	17.1%
2011	$ 69,393,171	$ 37,379,137	$ 32,014,034	53.9%	$ 164,275,424	42.2%	22.8%

*A dollar amount actual employer contribution is not disclosed in the Schedule of Employer Contributions for this fund so the Employer Contributions listed in the Statement of Plan Net Assets for each year is used.

Source: MWRD Retirement Fund FY2002 Comprehensive Annual Financial Report and FY2011 Comprehensive Annual Financial Report, p. 48.

The graph below illustrates the growing gap between the ARC as a percent of payroll and the actual employer contribution as a percent of payroll. The spread between the two amounts has grown from a 3.5 percentage point shortfall in FY2002 to a 19.4 percentage point shortfall in FY2011. In other words, to fund the pension plan at a level that would both cover normal cost and amortize the unfunded liability over 30 years the District would have needed to contribute an additional 19.4% of payroll, or $32.0 million, in FY2011.



Sources: MWRD Retirement Fund Comprehensive Annual Financial Report as of December 31, 2002, p. 30; and as of December 31, 2011, p. 48.

MWRD has consistently levied and contributed its previous statutorily required amount of 2.19 times the employee contribution made two years prior. However, that amount has been less than the ARC for each of the last ten years. The pension fund actuary estimates that in order to contribute an amount sufficient to meet the ARC in FY2011, MWRD would have needed to levy property taxes equal to a tax multiple of 4.42 rather than 2.19.[74]

OTHER POST EMPLOYMENT BENEFITS

On July 13, 2006 the Board of Commissioners voted to create an irrevocable trust for funding the District's future other post employment benefits (OPEB) liability. Public Act 095-394, effective August 26, 2007, granted MWRD the authority to establish the OPEB trust. The Civic

[74] MWRD Retirement Fund FY2011 Comprehensive Annual Financial Report, p. 23.

Federation supported the creation of this trust fund and has urged the General Assembly to allow other governments to do the same.

Funding parameters for the Trust have been established, including:

- A 50-year period over which to reach a 50% funded ratio;
- $10 million contributions from the Corporate Fund in each year from 2007-2011;
- Subsequent funding based on a percentage of payroll; and
- An initial investment allocation of 50% equities and 50% bonds.[75]

The District made an initial 2007 contribution of $15.0 million to the OPEB trust, followed by an additional $10.0 million due to surpluses in the Human Resources Department health insurance account and a deferral of projects and purchases throughout the District. In 2008 the District contributed $22.0 million to the trust. In 2008 a state statute was also passed allowing the District to transfer into the OPEB trust any interest earned on District money.[76] No contributions were made in 2009 or 2010 due to revenue constraints. In 2011 the District contributed $3.0 million, thus meeting its goal of $50 million total contributed through 2011. The District contributed $12.4 million for FY2012.[77] The budget for the 2013 contribution is $20.0 million.[78]

Employees do not contribute to the plan. Retiree participants pay 27.5% of the insurance premium and the MWRD pays the remaining 72.5% of premium from the Corporate Fund annual personnel services appropriation. According to a policy implemented by the MWRD Board of Commissioners, for each of the next nine years retiree contributions will rise by 2.5% until the total portion of the premium paid by retirees reaches 50%. In FY2011 there were 2,889 beneficiaries receiving health care coverage.[79]

OPEB Trust Funded Status

The OPEB actuarial valuations are required to be done every two years. The most recent valuation was as of December 31, 2011. The actuarial accrued liability computed for the MWRD OPEB trust in the 2011 valuation was $394.7 million. The trust had assets actuarially valued at $55.0 million, resulting in unfunded liabilities of $339.7 million and a 13.9% funded ratio for FY2011. The reduction in the actuarial accrued liability and unfunded accrued liability was due to both the changes in the OPEB funding plan to increase retiree contributions to ultimately reach 50% of expected plan cost by 2021.

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[75] MWRD FY2013 Executive Director's Recommendations, p. 30.
[76] MWRD FY2009 Comprehensive Annual Financial Report, p. 41.
[77] MWRD FY2013 Tentative Budget, p. 2.
[78] Information provided by the MWRD, December 10, 2012.
[79] MWRD FY2011 Comprehensive Annual Financial Report, p. 82.

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

Source: MWRD FY2009 Comprehensive Annual Financial Report, p. 95; and FY2011, p. 99.

SHORT-TERM LIABILITIES

Short-term liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll and other current liabilities. The MWRD included the following short-term liabilities in its annual Comprehensive Annual Financial Report (CAFR) over the past five years:

- *Accounts Payable*: unpaid bills owed to vendors for goods and services carried over from the previous fiscal year;
- *Accrued Payroll*: employee compensation and related payroll taxes and benefits that have been earned by MWRD employees, but have not yet been paid or recorded in the District's accounts;
- *Deposits Payable*: bid deposits held by the MWRD that must be repaid within a year; and
- *Accrued Interest*: interest that is either payable or receivable and has been recognized but not yet paid or received. This may include amounts accumulated on bonds since the last interest payment up to, but not including, the settlement date.

In FY2011 the District reported a decrease in short-term liabilities below FY2010 levels, falling by $9.7 million, or 7.5%. Since FY2007 short-term liabilities overall have increased by $36.4 million, or 43.8%. The primary driver in the increase has been the 37.7%, or $24.8 million, five-year increase in accounts payable.

MWRD Short-Term Liabilities in the Governmental Funds: FY2007-FY2011 (in $ thousands)									
Type	FY2007	FY2008	FY2009	FY2010	FY2011	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Accounts Payable	$ 65,721	$ 71,588	$ 108,302	$ 104,703	$ 90,522	$ (14,181)	-13.5%	$ 24,801	37.7%
Accrued Payroll	$ 4,519	$ 5,936	$ 6,936	$ 8,463	$ 6,350	$ (2,113)	-25.0%	$ 1,831	40.5%
Deposits Payable	$ 2,667	$ 3,035	$ 2,453	$ 2,453	$ 1,897	$ (556)	-22.7%	$ (770)	-28.9%
Accrued Interest	$ 10,121	$ 10,392	$ 21,964	$ 13,468	$ 20,634	$ 7,166	53.2%	$ 10,513	103.9%
Total	**$ 83,028**	**$ 90,951**	**$ 139,655**	**$ 129,087**	**$ 119,403**	**$ (9,684)**	**-7.5%**	**$ 36,375**	**43.8%**

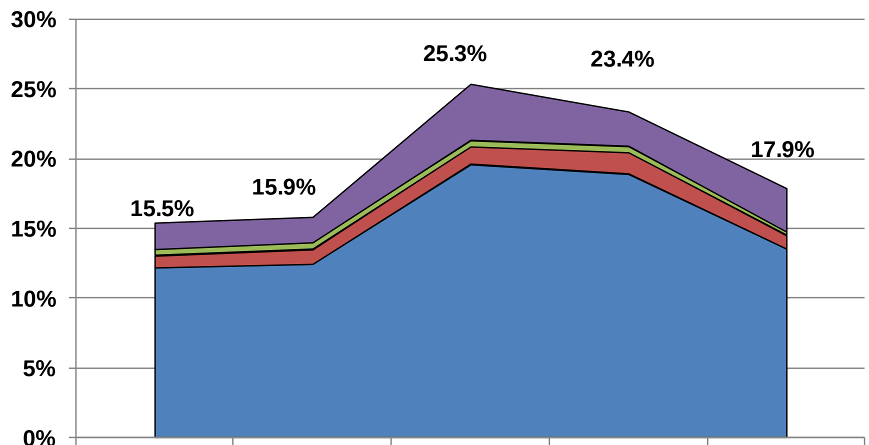
Source: MWRD Comprehensive Annual Financial Reports, FY2007-FY2011.

Increasing current liabilities in a government's operating funds at the end of the year as a percentage of net operating revenues may be a warning sign of possible future financial difficulties.[80] This indicator, developed by the International City/County Management

[80] Operating funds are those funds used to account for general operations – the General Fund, Special Revenue Funds and the Debt Service Fund. See Karl Nollenberger, Sanford Groves and Maureen G. Valente. *Evaluating*

Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. The MWRD had an increase in short-term liabilities compared to total operating revenue between FY2007 and FY2009, rising sharply from 15.5% to 25.3%. However, the ratio declined in FY2010, dropping to 23.4% and further to 17.9% in FY2011. The decreasing trend from FY2009 to FY2011 is a positive trend.

MWRD Short-Term Liabilities as % of Operating Revenues in the Governmental Funds: FY2007-FY2011



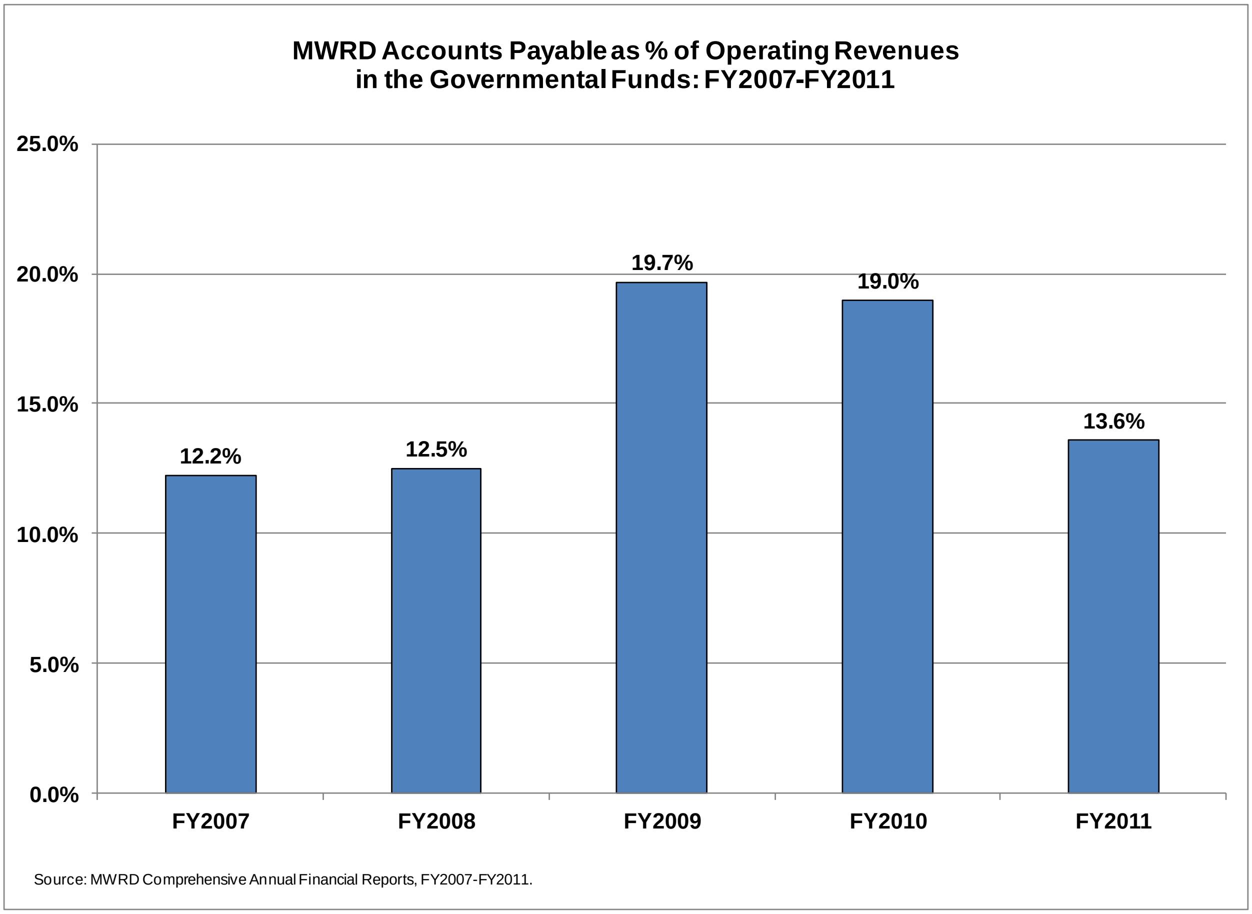
	FY2007	FY2008	FY2009	FY2010	FY2011
Accrued Interest	1.9%	1.8%	4.0%	2.4%	3.1%
Deposits Payable	0.5%	0.5%	0.4%	0.4%	0.3%
Accrued Payroll	0.8%	1.0%	1.3%	1.5%	1.0%
Accounts Payable	12.2%	12.5%	19.7%	19.0%	13.6%

Source: MWRD Comprehensive Annual Financial Reports, FY2007-FY2011.

Financial Condition: A Handbook for Local Government (International City/County Management Association, 2003), p. 77 and 169.

Accounts Payable

Over time, rising amounts of accounts payable passed from one year to the next may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. The District's accounts payable as a percentage of operating revenue rose from 12.2% to 13.6% over the five years of this review. Between FY2007 and FY2009, the ratio rose sharply from 12.2% to 19.7% before falling to 13.6% in FY2011.



Current Ratio

The current ratio is a measure of liquidity. It assesses whether the government has enough cash and other liquid resources to meet its short-term obligations as they come due. A ratio of 1.0 means that current assets are equal to current liabilities and are sufficient to cover obligations in the near term. Generally, a government's current ratio should be close to 2.0 or higher.[81]

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

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

- *Cash and cash equivalents*: assets that are cash or can be converted into cash immediately, including petty cash, demand deposits, deposits with escrow agent and certificates of deposit;
- *Investments*: any investments that the government has made that will expire within one year, including stocks and bonds that can be liquidated quickly;
- *Receivables*: monetary obligations owed to the government including property taxes and interest on loans;
- *Inventory* consists mainly of materials, supplies, and repair parts which extend the life of the District's treatment facilities; and
- *Restricted cash* represents cash and investments set aside pursuant to real estate escrow and intergovernmental agreements.[82]

The MWRD's current ratio was 13.1 in FY2011, the most recent year for which data are available. In the past five years, the District's current ratio averaged 12.4, which is far above the preferred benchmark of 2.0 and thus demonstrates a healthy level of liquidity. From FY2007 to FY2011, the current ratio decreased from 15.6 to 13.1.

MWRD Current Ratio in the Governmental Funds: FY2007-FY2011
(in $ thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Current Assets									
Cash	$ 795	$ 7,394	$ 53,366	$ 47,769	$ 28,258	$ (19,511)	-40.8%	$ 27,463	3454.5%
Certificates of Deposit	$ 193,381	$ 379,472	$ 480,249	$ 103,342	$ 59,645	$ (43,697)	-42.3%	$(133,736)	-69.2%
Investments	$ 639,099	$ 304,536	$ 457,654	$ 515,121	$ 909,638	$ 394,517	76.6%	$ 270,539	42.3%
Taxes Receivable, net	$ 407,910	$ 415,703	$ 440,473	$ 449,852	$ 467,133	$ 17,281	3.8%	$ 59,223	14.5%
Other Receivables, net	$ 12,476	$ 11,668	$ 30,671	$ 79,174	$ 55,805	$ (23,369)	-29.5%	$ 43,329	347.3%
Inventories	$ 35,787	$ 38,067	$ 38,761	$ 38,924	$ 38,922	$ (2)	0.0%	$ 3,135	8.8%
Restricted cash	$ 2,404	$ 1,878	$ 1,812	$ 1,815	$ 1,967	$ 152	8.4%	$ (437)	-18.2%
Total Current Assets	**$ 1,291,852**	**$ 1,158,718**	**$ 1,502,986**	**$ 1,235,997**	**$ 1,561,368**	**$ 325,371**	**26.3%**	**$ 269,516**	**20.9%**
Current Liabilities									
Accounts Payable	$ 65,721	$ 71,588	$ 108,302	$ 104,703	$ 90,522	$ (14,181)	-13.5%	$ 24,801	37.7%
Accrued Payroll	$ 4,519	$ 5,936	$ 6,936	$ 8,463	$ 6,350	$ (2,113)	-25.0%	$ 1,831	40.5%
Deposits Payable	$ 2,667	$ 3,035	$ 2,453	$ 2,453	$ 1,897	$ (556)	-22.7%	$ (770)	-28.9%
Accrued Interest	$ 10,121	$ 10,392	$ 21,964	$ 13,468	$ 20,634	$ 7,166	53.2%	$ 10,513	103.9%
Total Current Liabilities	**$ 83,028**	**$ 90,951**	**$ 139,655**	**$ 129,087**	**$ 119,403**	**$ (9,684)**	**-7.5%**	**$ 36,375**	**43.8%**
Current Ratio	**15.6**	**12.7**	**10.8**	**9.6**	**13.1**		**36.6%**		**-16.0%**

Source: MWRD Comprehensive Annual Financial Reports, FY2007-FY2011.

[82] MWRD FY2010 Comprehensive Annual Financial Report, p. 63.

LONG-TERM LIABILITIES

This section of the analysis examines trends in the MWRD's long-term liabilities. This includes a review of long-term debt trends and total long-term liability trends.

Long-Term Liabilities

Long-term liabilities are all of the obligations owed by a government. Increases in long-term liabilities over time could be a sign of fiscal stress. These liabilities include long-term debt as well as:

- *Compensated absences*: liabilities owed for employees' time off with pay for vacations, holidays and sick days;
- *Claims and judgments*: liabilities owed as a result of claims for tort liability and property judgments; and
- *Net Pension and OPEB Liabilities*: These are amounts needed to pay for pension and other post-employment obligations (OPEB) over time. These are not the same as the unfunded liabilities of the pension fund or OPEB obligations, which are the dollar value of pension or OPEB liabilities not covered by assets.

Between FY2007 and FY2011 all long-term liabilities rose by 82.4%, rising from $1.6 billion to nearly $3.0 billion. This represented an increase of $1.3 billion. In this same period, long-term debt increased by 71.7%. This was an increase of $1.1 billion, from nearly $1.6 billion to $2.7 billion. The long-term debt was primarily general obligation debt but also includes a capital lease obligation. In FY2010 the District entered into an agreement with a contractor to design, build, finance, own and operate a 150 dry ton per day biosolids processing facility at the Stickney plant. The cost of the facility is considered a capital lease because it will become the District's property at the end of the lease term.[83] From FY2010 to FY2011, long-term debt rose by 20.0%, or $448.3 million. Much of that increase was due to the issuance of three 2011 bond issues totaling $400.0 million: 1) $30.0 million in taxable limited tax series A general obligation capital improvement bonds; 2) $270.0 million in limited tax series B general obligation capital improvement bonds; and 3) $100.0 million in unlimited tax series C general obligation capital improvement bonds.[84]

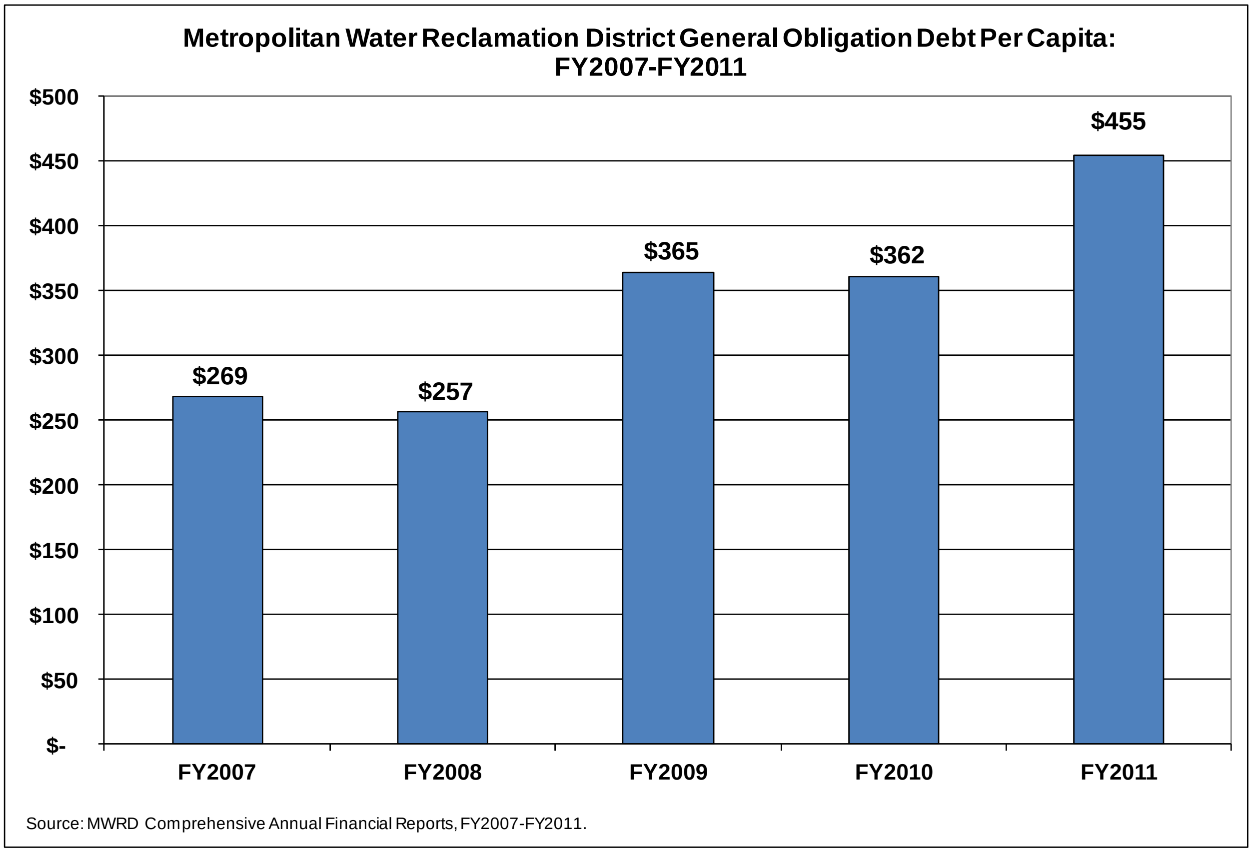
[83] MWRD FY2010 Comprehensive Annual Financial Report, p. 90.
[84] MWRD FY2010 Comprehensive Annual Financial Report, p. 87.

MWRD Long-Term Liabilities: FY2007-FY2011 (in $ thousands)									
Long-Term Liabilities	**FY2007**	**FY2008**	**FY2009**	**FY2010**	**FY2011**	**Two-Year $ Change**	**Two-Year % Change**	**Five-Year $ Change**	**Five-Year % Change**
General Obligation Debt	$ 1,456,620	$ 1,344,043	$ 1,870,939	$ 1,811,184	$ 2,148,976	$ 337,792.0	18.7%	$ 692,356.0	47.5%
Converted bond anticipation notes	$ 9,234	$ 48,656	$ 108,264	$ 150,790	$ 317,488	$ 166,698.0	110.5%	$ 308,254.0	3338.2%
Subtotal General Obligation Debt	**$ 1,465,854**	**$ 1,392,699**	**$ 1,979,203**	**$ 1,961,974**	**$ 2,466,464**	**$ 504,490.0**	**25.7%**	**$ 1,000,610.0**	**68.3%**
Deferred Issuance Costs	$ (1,313)	$ (1,142)	$ (6,774)	$ (6,472)	$ (8,316)	$ (1,844.0)	28.5%	$ (7,003.0)	533.4%
Deferred Premiums	$ 73,538	$ 69,286	$ 65,409	$ 61,532	$ 94,260	$ 32,728.0	53.2%	$ 20,722.0	28.2%
Refunding Transactions	$ (34,608)	$ (31,570)	$ (28,532)	$ (25,493)	$ (22,454)	$ 3,039.0	-11.9%	$ 12,154.0	-35.1%
Subtotal Bonds Payable, Net	**$ 1,503,471**	**$ 1,429,273**	**$ 2,009,306**	**$ 1,991,541**	**$ 2,529,954**	**$ 538,413.0**	**27.0%**	$ 1,026,483.0	68.3%
Bond Anticipation Notes	$ 63,131	$ 64,894	$ 86,286	$ 196,225	$ 108,008	$ (88,217.0)	-45.0%	$ 44,877.0	71.1%
Capital Lease	$ -	$ -	$ -	$ 53,688	$ 51,784	$ (1,904.0)	-3.5%	$ 51,784.0	-
Subtotal Long-Term Debt	**$ 1,566,602**	**$ 1,494,167**	**$ 2,095,592**	**$ 2,241,454**	**$ 2,689,746**	**$ 448,292.0**	**20.0%**	**$ 1,123,144.0**	**71.7%**
Claims and Judgments	$ 29,265	$ 30,813	$ 38,886	$ 41,292	$ 59,857	$ 18,565.0	45.0%	$ 30,592	104.5%
Compensated Absences	$ 28,551	$ 30,451	$ 31,680	$ 29,860	$ 28,784	$ (1,076.0)	-3.6%	$ 233	0.8%
Net OPEB Liablity	$ 7,405	$ 16,325	$ 41,789	$ 66,329	$ 76,580	$ 10,251.0	15.5%	$ 69,175	934.2%
Net Pension Liability	$ 2,423	$ 18,829	$ 41,889	$ 74,786	$ 108,482	$ 33,696.0	45.1%	$ 106,059	4377.2%
Subtotal Other Long-Term Liabilities	**$ 67,644**	**$ 96,418**	**$ 154,244**	**$ 212,267**	**$ 273,703**	**$ 61,436**	**28.9%**	**$ 206,059**	**304.6%**
Total Long-Term Liabilities	**$ 1,624,418**	**$ 1,555,431**	**$ 2,166,158**	**$ 2,453,721**	**$ 2,963,449**	**$ 509,728**	**20.8%**	**$ 1,339,031**	**82.4%**

Source: MWRD Comprehensive Annual Financial Reports, FY2007-FY2011.

General Obligation Debt Per Capita

A common ratio used by rating agencies and other public finance analysts to evaluate long-term debt trends is tax-supported general obligation debt per capita. This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements. Increases over time bear watching as a potential sign of increasing financial risk. Between FY2007 and FY2011, the MWRD's long-term General Obligation debt per capita increased from $269 to $455. From FY2010 to FY2011 there was a large increase of 25.7% as the debt per capita rose from $362 to $455.



Metropolitan Water Reclamation District General Obligation Debt Per Capita: FY2007-FY2011
$500
$450
$400
$350
$300
$250
$200
$150
$100
$50
$-
$269
$257
$365
$362
$455
FY2007
FY2008
FY2009
FY2010
FY2011
Source: MWRD Comprehensive Annual Financial Reports, FY2007-FY2011.

Debt Service Appropriations as a Percentage of Total Appropriations

The ratio of debt service expenditures as a percentage of total Governmental Fund expenditures is frequently used by rating agencies to assess debt burden. The rating agencies consider a debt burden high if this ratio is between 15% and 20%.[85] The debt service to total appropriations ratio for the MWRD between FY2009 and FY2013 more than doubled, rising from 8.2% to 17.0%. The ratios for FY2011 through FY2013 are high, although it is important to note that the five-year average ratio has been 13.6% and that this is a government with large ongoing capital expenses.

MWRD Debt Service Appropriations as a Percentage of Total Appropriations: FY2009-FY2013 (in $ millions)

	FY2009	FY2010	FY2011	FY2012	FY2013
Debt Service Appropriations	$134.5	$162.9	$155.5	$185.9	$190.3
Total Appropriations	$1,630.6	$1,655.4	$1,031.7	$1,040.9	$1,119.0
Debt Service as a % of Total Appropriations	**8.2%**	**9.8%**	**15.1%**	**17.9%**	**17.0%**

Note: FY2009-FY2011 figures represent actual expenditures; FY2012 figures represent adjusted appropriations; and FY2013 figures represent proposed appropriations.

Source: MWRD FY2011 Final Budget, p. 50; FY2012 Tentative Budget, p. 6; and FY2013 Tentative Budget, p. 10.

BOND RATINGS

The MWRD has the following current bond ratings:

- Moody's Investor Services – Aaa (since 2002);
- Fitch – AAA (since 2001); and
- Standard & Poor's – AAA (since 2006).[86]

CAPITAL BUDGET

The MWRD annually updates and appropriates funding for projects in a five-year capital improvement program (CIP). The FY2013-FY2017 CIP proposes nearly $1.2 billion in funding for a variety of projects. The first year of the new CIP will be the FY2013 capital budget. It is proposed to be $248.4 million. The MWRD's CIP includes a comprehensive list of ongoing projects and new proposed projects for the next five years (FY2013 to FY2017) as well as funding sources. The District manages its capital resources by means of a needs-based prioritization process that includes details regarding the total cost and timeframe for completion of all infrastructure improvements and expansions. The exhibit below shows how spending will be allocated among the different types of MWRD capital projects and how those projects will be funded. It is presented in terms of projected cash disbursements, not total project costs. The majority of spending (43.7%, or $509.4 million) will be used for Water Reclamation and Solids Management projects. Approximately 19.0% of all capital spending, or $220.9 million, will be earmarked for Replacement of Facilities; 14.7%, or $171.2 million, is earmarked for the Tunnel

[85] Standard & Poor's, Public Finance Criteria 2007, p. 64. See also Moody's, General Obligation Bonds Issued by U.S. Local Governments, October 2009, p. 18.
[86] MWRD FY2013 Executive Director's Recommendations, p. 29.

and Reservoir Plan; 12.1%, or $140.4 million, is reserved for Stormwater Management; and 10.5%, or $122.5 million, will be used for the District's Collection Facilities.

The majority of funding for the MWRD capital program comes from capital improvement bonds, which will make up 80.7% of all funding between FY2013 and FY2017, or $939.8 million. The remaining funding will consist of pay-as-you-go funding from the Stormwater and Construction Funds.

MWRD Five-Year Capital Spending FY2013-FY2017 - Estimated Cash Disbursements (in $ millions)							
	FY2013	FY2014	FY2015	FY2016	FY2017	Five YearTotal	% of Five Year Total
Capital Spending by Category							
Water Reclamation & Solids Management	$ 66.3	$ 115.8	$ 116.3	$ 101.1	$ 109.9	$ 509.4	43.7%
Replacement of Facilities	$ 63.7	$ 47.7	$ 46.4	$ 29.7	$ 33.4	$ 220.9	19.0%
Collection Facilities	$ 24.4	$ 24.9	$ 25.1	$ 32.1	$ 16.0	$ 122.5	10.5%
Stormwater Management	$ 27.8	$ 27.7	$ 23.9	$ 30.0	$ 31.0	$ 140.4	12.1%
Tunnel & Reservoir Plan	$ 66.1	$ 68.0	$ 27.1	$ 5.0	$ 5.0	$ 171.2	14.7%
Total Spending	**$ 248.3**	**$ 284.1**	**$ 238.8**	**$ 197.9**	**$ 195.3**	**$ 1,164.4**	**100.0%**
Capital Funding Source							
Stormwater Fund	$ 27.8	$ 27.7	$ 23.9	$ 30.0	$ 31.0	$ 140.4	12.1%
Construction Fund	$ 17.6	$ 16.2	$ 17.6	$ 17.3	$ 16.0	$ 84.7	7.3%
Bond Fund	$ 203.0	$ 240.2	$ 197.3	$ 151.0	$ 148.3	$ 939.8	80.7%
Total Funding	**$ 248.4**	**$ 284.1**	**$ 238.8**	**$ 198.3**	**$ 195.3**	**$ 1,164.9**	**100.0%**

Source: MWRD FY2013 Executive Director's Recommendations, p. 345.

New Capital Spending Requests

The MWRD's request for new capital spending authorization for total project costs in FY2013 totals $266.7 million. This is a 0.9% decrease in new capital appropriations from FY2012, when they totaled $269.2 million. Twelve projects are proposed in each fiscal year.[87]

MWRD Proposed New Capital Spending: FY2012 and FY2013 (in $ thousands)				
Project Type	FY2012 Executive Budget	FY2013 Executive Budget	$ Change	% Change
Treatment Facilities	$ 29,490	$ 124,100	$ 94,610	320.8%
Collection Facilities	$ 43,714	$ 21,214	$ (22,500)	-51.5%
Solids Processing & Disposal	$ 21,309	$ 18,000	$ (3,309)	-15.5%
Flood & Pollution Control	$ 23,000	$ 35,000	$ 12,000	52.2%
Construction Fund	$ 821	$ -	$ (821)	-100.0%
Land Cost	$ 550	$ 550	$ -	0.0%
Project Support	$ 150,324	$ 67,836	$ (82,488)	-54.9%
Total	**$ 269,208**	**$ 266,700**	**$ (2,508)**	**-0.9%**

Sources: MWRD FY2012 Executive Director's Recommendations, p. 355 and MWRD FY2013 Executive Director's Recommendations, p. 492.

87 MWRD FY2013 Executive Director's Recommendations, p. 492.