The Civic Federation

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METROPOLITAN WATER RECLAMATION DISTRICT FY2018 TENTATIVE BUDGET:

Analysis and Recommendations

December 7, 2017

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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 FY2018 Tentative Budget proposed by the Metropolitan Water Reclamation District of Greater Chicago (MWRD). The FY2018 Tentative Budget of approximately $1.13 billion is a 0.4%, or $4.8 million, decrease from the FY2017 adjusted budget of $1.14 billion.

The FY2018 budget proposal continues to make increased contributions to the pension fund and retiree healthcare trust fund. These contributions have started to reverse the downward financial trajectory of the pension fund and will make retirees' healthcare benefits more financially secure and affordable for taxpayers. The Tentative Budget plans to increase the District's contribution to the pension fund by 12.7% from FY2017. The District will also contribute $5.0 million in FY2018 to a trust fund for future retiree health benefits, which the Districts plans to continue each year through 2026.

As in past years, the MWRD will control operating expenses, keeping Corporate Fund spending flat, and will maintain financial safeguards including substantial reserves to cover shortfalls or financial emergencies, which have contributed to the District's high credit ratings.

While the District's financial stewardship is noteworthy, the Civic Federation shares several of the MWRD's concerns: the District's heavy reliance on property taxes while balancing the competing needs for property tax revenue among operations, pension funding and pay-as-you-go construction funding; its shared property tax base with other Chicago local governments that have high pension and debt burdens and that have significantly increased their property tax levies; and ongoing litigation on pension reforms in Illinois that leave an open question as to whether the MWRD's employee contribution increases could be challenged legally.

The Civic Federation encourages the District to continue to manage its property tax levy and expenditure growth, and to streamline the budget proposal into one budget book that includes all amendments made to the Executive Director's Recommendations and the Tentative Budget prior to approval by the Board of Commissioners.

The Civic Federation offers the following **key findings** from the FY2018 Tentative Budget:

- Total proposed spending in the FY2018 Tentative Budget is $1.13 billion, which is a 0.4%, or $4.8 million, decrease from the FY2017 adjusted budget of $1.14 billion. The decrease is due to lower spending on major capital and infrastructure projects based on normal fluctuations in project scheduling;
- Corporate Fund spending will remain flat at $366.6 million, which is 0.6%, or $2.3 million, lower than the FY2017 Corporate Fund adjusted appropriation of $368.9 million. Over the five-year period from FY2014 to FY2018, Corporate Fund spending will decrease by 7.3% or $28.8 million;
- The five-year capital budget for FY2018-FY2022 totals approximately $1.0 billion, with proposed spending in FY2018 at $170.2 million. The request for total capital spending authorization on project costs in FY2017 is $278.4 million;
- The MWRD will decrease position count in FY2018 by 74 full-time equivalent (FTE) positions to 1,968 FTE positions, which is a 3.6% decrease from 2,042 FTE positions

budgeted in FY2017. Since FY2009 the District has decreased its workforce by 7.2% or 153 FTE positions, from 2,121 to 1,968;

- The MWRD's total gross property tax levy for all funds proposed in the FY2018 Tentative Budget is $620.7 million, which is a 4.3%, or $25.7 million, increase from the FY2017 adjusted budget. This includes both tax-capped and non-tax-capped funds. The total Aggregate Levy for the District's tax-capped operating funds is proposed at $329.7 million, which is a 3.2%, or $10.1 million increase from the adjusted FY2017 levy of $319.5 million;
- The MWRD will contribute $89.6 million to its Retirement Fund (pension fund) in FY2018, which is an increase of $10.1 million, or 12.7%, from the $79.5 million contribution in FY2017;
- The pension fund's unfunded actuarial accrued liabilities, or the dollar value of accrued liabilities not covered by the actuarial value of assets, rose over a ten-year period from $538.3 million in FY2007 to $1.1 billion in FY2016;
- The pension fund's actuarial value funded ratio, which is a measure of the pension liabilities covered by assets, declined from 70.0% in FY2007 to 56.2% in FY2016; and
- Between FY2012 and FY2016, the District's total long-term debt increased by 17.2% from $2.7 billion to $3.2 billion.[1]

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

- Keeping Corporate Fund spending flat;
- Increasing the District's employer contributions to the pension fund;
- The District's funding plan for Other Post Employment Benefits (OPEB);
- Maintaining a high level of reserves;
- Reducing workers compensation claims; and
- Holding study sessions open to the public on the budget.

The Civic Federation has the following **concerns** about the FY2018 proposed budget:

- The financial strain on the Corporate Fund due to competing needs within the aggregate property tax levy;
- The unsettled legal status of pension reforms in Illinois; and
- The District's shared property tax base with other Chicago-area local governments with large pension and debt liabilities.

The Civic Federation offers the following **recommendations** to the MWRD:

- Work on a sustainability plan for the aggregate property tax levy; and
- Streamline the budget process by releasing one final budget proposal that includes all amendments made to Executive Director's Recommendations and the Tentative Budget.

[1] Long-term debt in this calculation includes general obligation debt, converted bond anticipation notes, deferred premiums, bond anticipation notes and capital leases.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the FY2018 Tentative Budget proposed by the Metropolitan Water Reclamation District of Greater Chicago (MWRD). The FY2018 Tentative Budget of approximately $1.13 billion is a 0.4%, or $4.8 million, decrease from the FY2017 adjusted budget of $1.14 billion.

The FY2018 budget proposal continues to make increased contributions to the pension fund and retiree healthcare trust fund. These contributions have started to reverse the downward financial trajectory of the pension fund and will make retirees' healthcare benefits more financially secure and affordable for taxpayers. The Tentative Budget plans to increase the District's contribution to the pension fund by 12.7% from FY2017. The District will also contribute $5.0 million in FY2018 to a trust fund for future retiree health benefits, which the Districts plans to continue each year through 2026.

As in past years, the MWRD will control operating expenses, keeping Corporate Fund spending flat, and will maintain financial safeguards including substantial reserves to cover shortfalls or financial emergencies, which have contributed to the District's high credit ratings.

While the District's financial stewardship is noteworthy, the Civic Federation shares several of the MWRD's concerns: the District's heavy reliance on property taxes while balancing the competing needs for property tax revenue among operations, pension funding and pay-as-you-go construction funding; its shared property tax base with other Chicago local governments that have high pension and debt burdens and that have significantly increased their property tax levies; and ongoing litigation on pension reforms in Illinois that leave an open question as to whether the MWRD's employee contribution increases could be challenged legally.

The Civic Federation encourages the District to continue to manage its property tax levy and expenditure growth, and to streamline the budget proposal into one budget book that includes all amendments made to the Executive Director's Recommendations and the Tentative Budget prior to approval by the Board of Commissioners.

Issues the Civic Federation Supports

The Civic Federation **supports** the following initiatives contained in the MWRD FY2018 Tentative Budget.

Keeping Corporate Fund Spending Flat

The Civic Federation commends the MWRD for continuing to control Corporate Fund expenditures. The Corporate Fund is the MWRD's general operating fund, which accounts for revenue and expenditures for general administration, monitoring and research, procurement, information technology, human resources, maintenance and operations, law, finance and engineering. The Corporate Fund makes up the largest portion of the District's overall expenditures at 32.2%. The FY2018 Tentative Budget proposes Corporate Fund spending of $366.6 million, which is a decrease of $2.3 million from $367.1 million in FY2017. In the five year period from FY2014 to FY2018, Corporate Fund expenditures are projected to have decreased by $28.8 million or 7.3%.

Since FY2009 the District has decreased its workforce by 7.2% or 153 FTE positions, from 2,121 to 1,968. Significant staffing reductions in FY2011 and FY2012 were part of a five-year plan aimed at restructuring the District to ensure financial stability going forward.[2] The Tentative Budget anticipates a reduction of 70 FTE positions in FY2018 from FY2017. Additionally, keeping Corporate Fund spending flat has allowed the District to increase funding for the pension fund and Other Post Employment Benefits (retiree healthcare).

Pension Funding Increases

The Civic Federation continues to support the MWRD's plan to make employer contributions to the District's employee pension fund at a level above the actuarially determined contribution. The District adopted a pension funding policy in October 2014 with the goal of making annual contributions to the fund large enough to increase the funded ratio of the pension fund to 100% by 2050, instead of the statutory 90% funded ratio by 2050 that was imposed by a 2012 pension funding law. The 2012 law increased both the District's employer and Tier 1 employee contributions to the fund.

The Tentative FY2018 Budget appropriation to the Retirement Fund is $89.6 million, which is an increase of $10.1 million, or 12.7% from the FY2017 adjusted budget.[3] In contrast to some other governments, the MWRD has the statutory authority to make contributions to its pension fund that are higher than those identified in State statute. In FY2016, which is the year of the Retirement Fund's most recent financial reports, the MWRD contributed $15.7 million more to the pension fund than the actuarially determined contribution amount.

The pension fund's funded ratio dropped from 70.0% in FY2007 to 50.4% in FY2012,[4] but the MWRD's higher pension contributions beginning in 2012 started to reverse the downward financial trajectory. As of the end of FY2016, the pension fund had a funded ratio of 56.2%.[5] According to the District, actuarial projections in 2014 showed the new funding policy will achieve 100% funding in the late 2030s, before the goal year of 2050.[6] The Civic Federation has long recommended that local governments fully fund their pension obligations and praises the MWRD for proactively securing the State legislation and resources necessary to make such funding possible.

Funding Plan for Other Post Employment Benefits

The Civic Federation supports the District's continued efforts to make additional payments to its Other Post Employment Benefits fund. The MWRD created a Trust Fund for the future payment of Other Post Employment Benefits (OPEB) liabilities in 2007 that would allow the District to prefund retiree health benefits and eventually transition away from pay-as-you-go funding. When fully funded, the OPEB Trust Fund will subsidize healthcare for retirees. After the Trust reached

[2] MWRD FY2018 Executive Director's Recommendations, p. 55.
[3] MWRD FY2018 Tentative Budget, p. 8.
[4] MWRD FY2018 Executive Director's Recommendations, p. 552.
[5] MWRD FY2018 Executive Director's Recommendations, p. 552.
[6] Information provided by the MWRD, December 8, 2014.

a 50% funding level in 2014, exceeding the policy's target,[7] the Board of Commissioners adopted an updated funding policy for the OPEB fund on October 2, 2014 to reach a 100% funding level in twelve years with a $5 million per year contribution starting in FY2015.[8]

As of December 31, 2016 the District's contributions totaled $122.4 million.[9] The funded ratio of the OPEB Trust Fund was 52.1% as of December 31, 2015.[10] The District is planning to contribute $5.0 million to the OPEB Trust Fund from the Corporate Fund in FY2018 and each year through 2026. Voluntarily funding retiree health benefits is prudent given ongoing litigation and uncertainty in the degree to which such benefits are protected by the Illinois Constitution.

Maintaining High Level of Reserves

The MWRD has consistently maintained a high level of operating reserves within the Corporate Fund, the District's general operating fund. This is prudent because reserves provide liquidity to cover short-term liabilities such as short-term debt and payments owed to vendors or employees. The District is budgeting to set aside $101.1 million of Corporate Fund appropriations as reserves in FY2018, which is 27.6% of operating expenditures. The District holds a policy to maintain reserves of at least 12-15% of Corporate Fund expenditures, or between $44.0 and $55.0 million, which it has exceeded over the past seven years. The level of reserves is also well above the best practice standard recommended by the Government Finance Officers Association of two months of operating expenditures. The District says it plans to maintain reserves that are higher than its stated policy over the next several years in order to minimize increases in the property tax levy and provide for unexpected shortfalls.[11]

The MWRD also maintains a Working Cash Fund financed through transfers of surpluses in other funds, which enables the District to cover Corporate Fund expenses during periods when anticipated property tax revenues have not yet been collected. This Working Cash Fund allows the District to avoid short-term borrowing through tax anticipation notes (TANs), which is a costly practice utilized by other local governments.

The Civic Federations supports the MWRD in maintaining these financial safeguards because they will serve to protect the MWRD and taxpayers in the event of financial shortfalls and uncertainties.

Reduced Number of Workers Compensation Claims

The MWRD has significantly reduced the cost associated with workers' compensation claims by implementing safety training programs. The District reports that the safety education and enforcement program has decreased expenditures for workers compensation claims over the past several years and that they are expected to remain low and stable.[12] The number of workers compensation claims filed each year has decreased from about 150 claims in 2013 to about 80

[7] MWRD FY2015 Executive Director's Recommendations, p. 1.
[8] MWRD FY2018 Executive Director's Recommendations, p. 29.
[9] MWRD FY2018 Executive Director's Budget Recommendations, p. 10.
[10] MWRD FY2016 Comprehensive Annual Financial Report, p. 94.
[11] MWRD FY2018 Executive Director's Recommendations, p. 18.
[12] MWRD FY2018 Executive Director's Budget Recommendations, p. 60.

claims in 2017.[13] The incurred costs of those claims has also decreased from about $4 million in 2013 to about $1 million for the first nine months of 2017. However, the District notes that the actual expenditures for employee claims has been approximately $4 million and is expected to remain around the same level because of past claims that still need to be paid out and because claims incurred in one year are not necessarily paid out in the same year.

The District pays for employee workers compensation claims from its Reserve Claim Fund, which is the District's self-insurance fund to provide coverage for both employee claims and for general claims and emergency repairs. The District maintains a high Reserve Claim Fund of about $30 million in order to cover any claims. While the District only spends a portion of the Reserve Claim Fund appropriation each year, it serves as a safeguard in case of a large or unexpected emergency claim. The District spent $4.8 million of the $30.2 million Reserve Claim Fund appropriation in FY2016, the most recent year with actual expenditure data.[14]

Practice of Holding Budget Study Sessions

As part of the MWRD's annual budget process, the District holds a study session on the budget, during which the executive director and other finance staff present information about the proposed budget to the Board of Commissioners. These meetings are open to the public and live-streamed, and videos and presentation materials are posted online.[15] This year the MWRD held three study sessions on the budget as well as the Capital Improvement Program and resource recovery. The study session on the Capital Improvement Program took the place of the usual capital budget hearing. As a supplement to regular board meetings or public hearings, the study sessions allow for both Board members and members of the public to ask questions about the budget. These informative sessions improve the transparency of the MWRD's budget process and help provide stakeholders with an understanding of the District's financial position. We encourage the District to continue to hold informational study sessions on the budget and other related topics as appropriate, as well as hold public hearings on the operating budget and capital budget.

Civic Federation Concerns

The Civic Federation has the following **concerns** about issues contained in the MWRD's FY2018 Tentative Budget.

Fiscal Strain on Corporate Fund

As stated above, the Civic Federation commends the MWRD for controlling Corporate Fund expenditures over the past several years. However, the Civic Federation also shares the District's concern about the fiscal strain placed on the Corporate Fund revenues as the District maintains its commitments to funding pensions and OPEB. The additional pension and OPEB funding priorities require the District to balance available property tax revenue within the District's Aggregate Levy. The Aggregate Levy includes four funds that are tax-capped by the rate of inflation growth or 5.0%, whichever is less: Corporate Fund, Construction Fund, Retirement

[13] Information provided by the MWRD, November 30, 2017. The 2017 figure is for the first 9 months of 2017.
[14] MWRD FY2018 Executive Director's Budget Recommendations, p. 545.
[15] All MWRD meeting information is available at https://mwrd.legistar.com/Calendar.aspx.

Fund, and Reserve Claim Fund. Low inflation has limited the property tax revenue generated for these funds.

According to the FY2018 Executive Director's Recommendations, 67.3% of the District's total appropriations are supported by property taxes.[16] Because the MWRD relies heavily on property taxes, the District will need to continue to balance its property tax levy with alternative revenue sources and controlling costs going forward.

Unsettled Legal Status of Pension Reform in Illinois

The MWRD has acknowledged the possibility of a legal court challenge to the District's pension funding reforms passed in Public Act 97-0894. While the MWRD's legislation has not experienced any legal challenges since the reforms were passed into law in 2012, challenges to other Illinois pension reforms create uncertainty because of the MWRD's changes to contributions made by Tier 1 employees into the MWRD pension fund.

In 2016 pension funding and benefit reform legislation for the City of Chicago's Municipal and Laborers' Funds (Public Act 98-0641) was struck down as unconstitutional by the Illinois Supreme Court. In 2015 the Court also struck down the State of Illinois' pension funding and benefit reforms (Public Act 98-0599). Funding and benefit reforms that were passed in 2014 for the Chicago Park District Pension Fund currently are being litigated in the Cook County Circuit Court.[17]

While the MWRD's pension legislation did not impact retiree benefits, as did the Chicago and the Chicago Park District pension reform bills, the MWRD's reforms increased employee and employer contributions without adjusting pension benefit accruals or automatic annual increases to annuities. A footnote in the Illinois Supreme Court's ruling on *Jones v. Municipal Employees' Annuity and Benefit Fund of Chicago,* 2016 IL 119618, makes note of the fact that under Public Act 98-0641, City of Chicago employees who participate in the Municipal and Laborers' Funds were required to contribute more for their reduced benefits. The Court decided it did not need to consider the additional impact of the increased contributions, but it did make a point of raising the issue.[18]

The MWRD says staff are working on alternative plans in the event of a legal challenge.[19] This is a prudent step, and the Civic Federation encourages the MWRD to continue to consider scenarios in the event of a pension court challenge.[20]

Shared Property Tax Base with Other Local Governments

The MWRD shares an overlapping property tax base with several other local governments including the City of Chicago, Cook County, Chicago Public Schools, Chicago Park District and

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[16] MWRD FY2018 Executive Director's Recommendations, p. 70.
[17] *Biedron et al. v. Park Employees' and Retirement Board Employees' Annuity and Benefit Fund et al.* Case No. 2015 CH 14869.
[18] *Jones v. Municipal Employees' Annuity and Benefit Fund of Chicago,* 2016 IL 119618, Footnote number 5, p. 9.
[19] Information provided by the MWRD, November 30, 2017.
[20] Information provided by the MWRD, November 30, 2017.

the Cook County Forest Preserve District. This means that decisions made by those governments related to property taxation and long-term debt that increase the burden on taxpayers also impact the MWRD's ability to access its property tax base. The City of Chicago and Chicago Public Schools have implemented substantial property tax increases in recent years. It is likely that additional property tax increases will take place in future years as a means to address the large unfunded pension obligations of many of these local governments.

While the MWRD's property tax levy makes up only approximately 6% of the total Chicago property tax distribution, the shared tax base is a challenge the MWRD faces especially as it affects the District's credit rating. The MWRD maintains high credit ratings, with a AAA rating from Fitch Ratings since 2001, which is the highest rating possible, and an AA+ rating from Standard & Poor's (S&P) since May 2016. But the most recent downgrade to the MWRD's credit rating by Moody's Investors Services in July 2015 and Standard & Poor's in May 2016 attributed the downgrades to the impact of combined unfunded pension obligations and the debt burden placed on the entire Cook County property tax base by several major governmental entities.[21]

While the MWRD cannot control the decisions made by other Chicago-area local governments, the District should continue to maintain its credit rating by improving the funding level of the MWRD's pension fund and limiting its level of long-term debt.

Civic Federation Recommendations

The Civic Federation has the following **recommendations** for the MWRD.

Work On a Sustainability Plan for the Aggregate Tax Levy

The MWRD has four funds that make up the Aggregate Tax Levy: Corporate Fund, Construction Fund, Retirement Fund, and Reserve Claim Fund. Property tax revenue is the primary funding source for these funds. As the MWRD acknowledges, these funds face revenue challenges because all four funds are subject to the property tax extension limitation law (PTELL) or "tax caps," which limits total annual increases to 5.0% or the rate of inflation, whichever is less. In recent years, inflation has been fairly low. The District expects inflation growth of 2.5% in FY2018. Over the next five years, the District forecasts that it will increase its aggregate levy up to the cap through 2022. For the Corporate Fund, this is a projected annual increase of 2.7%.

The Civic Federation acknowledges that the MWRD has kept its Corporate Fund spending flat and that contributions to the Retirement Fund will level out in FY2019 after the four years of contribution increases leading up to FY2018. But the District will continue to face expenditure pressures, and inflation increases could end up being lower than projected. In a low inflationary environment, the property tax levy can only provide limited additional revenue while the District has many competing uses of its aggregate levy. The Civic Federation encourages the District to

[21] Moody's Investors Service, "Rating Action: Moody's downgrades Met Water Reclamation District, IL to Aa2 from Aa1; outlook stable," July 6, 2015. Available at https://www.moodys.com/research/Moodys-downgrades-Met-Water-Reclamation-District-IL-to-Aa2-from--PR_329579. S&P Global RatingsDirect, "Summary: Metropolitan Water Reclamation District of Greater Chicago; General Obligation," May 26, 2016. Available at https://www.mwrd.org/irj/go/km/docs/documents/MWRD/internet/Departments/Treasury/docs/Ratings/SP.pdf.

manage its property tax levy growth and expenditure growth. The Federation recommends that the District formulate a plan for how the aggregate property tax levy will be split among several competing uses – day-to-day operations, pension funding and pay-as-you-go capital project funding.

Streamline Budget Approval Process Using One Budget Book

The MWRD produces three versions of its budget which include, in order of release, the Executive Director's Recommendations, the Tentative Budget and the Adopted Budget (also referred to as the As Adopted and Amended budget document, or Final Budget). Within these three budget documents are the following financial figures:

- *Proposed appropriations* – appropriations as proposed in the Executive Director's Recommendations;
- *Tentative appropriations* – appropriations approved by the Board of Commissioners based on recommendations from the Committee on Budget and Employment hearings regarding the Executive Director's Recommendations (BF-19 changes);[22]
- *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* – appropriations as adjusted through September 30;
- *Estimated expenditures* – year-end estimated expenditures; and
- *Actual expenditures* – audited expenditures, available in the budget documents.

The Tentative Budget reflects changes to the Executive Director's Recommendations recommended by the Board's Committee on Budget and Employment pursuant to departmental hearings. The Civic Federation recognizes the improvements the MWRD has made to the Tentative Budget by providing additional explanation of changes made between the Executive Director's Recommendations and the Tentative Budget. We also recognize that the MWRD's budgeting process allows for maximum stakeholder input by allowing for a thorough revision process and holding study sessions and public hearings on the proposed budget.

However, additional amendments are often made to the Tentative Budget, which are presented as the final version of the proposed budget. The ultimate version of the budget approved by the Board of Commissioners should be given sufficient time for public scrutiny and should be presented in one comprehensive budget document. But because further revisions can be made to the Tentative Budget, the version of the budget adopted by the Board of Commissioners is often given the least amount of time for review.

The changes between the Tentative Budget and the version of the budget that gets adopted by the Board are often substantial. For example, the FY2016 adopted budget was $34.0 million higher than the Tentative Budget. These variances are discussed further in the Appendix on page 56.

[22] BF is an abbreviation for Budget Forms and is a term typically used internally by MWRD staff and Board of Commissioners to identify different versions of the budget.

The Civic Federation recommends that the MWRD produce one final proposed budget book that reconciles all of the amendments made to the Executive Director's Recommendations and the Tentative Budget, which would serve as the official budget proposal before being adopted by the Board of Commissioners. The MWRD should ensure that sufficient time (at least two weeks) is allotted for review of the final proposed budget book. Producing one final budget book as the proposed budget for adoption would greatly improve the transparency and user-friendliness of the budget approval process.

ACKNOWLEDGEMENTS

The Civic Federation would like to express our appreciation to Executive Director David St. Pierre, Budget Officer Shellie Riedle and Administrative Services Officer Eileen McElligott for their work preparing the FY2018 budget, providing us with a budget briefing and answering our questions.

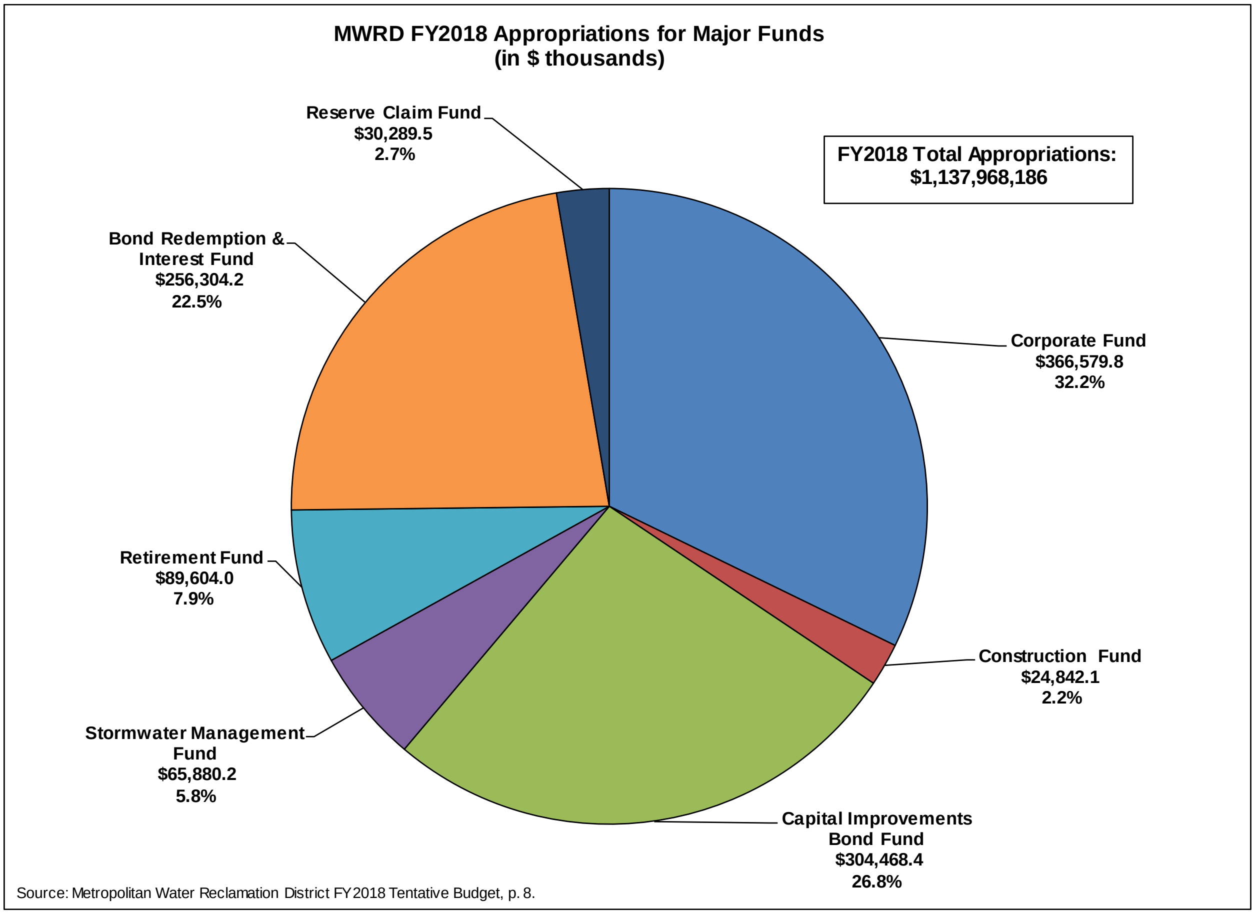
APPROPRIATIONS

This section examines the MWRD's distribution of proposed appropriations for FY2018 by fund, and provides a two-year and five-year trend comparison of appropriations from FY2014 through FY2018. The Civic Federation compares the MWRD's FY2018 tentative appropriations to the FY2017 adopted appropriations and actual expenditures from FY2014-FY2016. For a description of the District's budgeting process and a comparison of the changes made to appropriations throughout the MWRD budget process, see Appendix A.

Appropriations by Major Fund

The District proposes total appropriations of $1.13 billion in its FY2018 Tentative Budget. This is a 0.4%, or $4.8 million, decrease from the FY2017 adjusted budget of $1.14 billion. The decrease is driven largely by lower spending on major capital and infrastructure projects based on regular fluctuations in project schedules.

The following chart shows the distribution of proposed FY2018 appropriations by the funds used to account for expenditures. The Corporate Fund, which is the District's general operating fund, makes up the largest portion of expenditures at 32.2% or $366.6 million. Corporate Fund expenditures include general administration, monitoring and research, procurement, information technology, human resources, maintenance and operations, law, finance and engineering. The Capital Improvements Bond Fund and Construction Fund make up the District's capital funds and account for major infrastructure investments and capital assets. Together, these constitute 28.9% of total appropriations. The third largest appropriations category is the Bond Redemption and Interest Fund, which makes up 22.5% of appropriations. This category accounts for payments of principal and interest of bonds issued by the District. The Reserve Claim Fund, Retirement Fund and Stormwater Management Fund make up the remaining 16.3% of appropriations. The Reserve Claim Fund is the District's self-insurance fund, and will constitute 2.7% of appropriations in FY2018. The Stormwater Management Fund accounts for stormwater management expenses and will make up 5.8% of appropriations. The Retirement Fund is the District's pension trust fund and will account for 7.9% of appropriations.



The following table shows appropriations trends from FY2014 through FY2018 for all major funds. The numbers presented are actual expenditures from FY2014-FY2016, FY2017 adjusted appropriations and FY2018 tentative appropriations. Appropriations in each fund are described further below.

The Corporate Fund is used for operational and general expenditures and is primarily funded by property taxes. In FY2018 Corporate Fund appropriations of $366.6 million are projected to decline by 0.6%, or $2.3 million from the FY2017 adjusted appropriation of $368.9 million. The Corporate Fund also includes a working cash fund, which is used to provide short-term financing to the Corporate Fund. Because property taxes levied in one year are not collected until the following year, the District requires short-term financing in the form of temporary loans to the Corporate Fund to cover expenses before tax revenues are collected.[23] State statute allows loans in the amount of up to 100% of the property tax levy plus personal property replacement tax revenue. The District plans to allocate a loan equal to 95% of available funds in FY2018, which is $254.4 million.[24]

[23] MWRD FY2018 Executive Director's Recommendations, p. 83.
[24] MWRD FY2018 Executive Director's Recommendations, p. 83.

The Construction Fund serves as a pay-as-you-go funding source for capital projects that rehabilitate aged or less effective infrastructure and have a useful life of less than 20 years.[25] These capital projects are financed by a property tax levy sufficient to pay for project costs as they are constructed. Proposed FY2018 appropriations from the Construction Fund will decrease by 27.9%, or $9.6 million, from the prior year to $24.8 million due to the timing of awarded capital projects.

The Capital Improvements Bond Fund accounts for spending on major infrastructural improvements with useful lives longer than 20 years which are financed by long-term debt, federal and state grants and loans from the Environmental Protection Agency and the State Revolving Loan Fund.[26] The FY2018 appropriation for the Capital Improvements Bond Fund is $304.5 million, which is a decrease of $50.2 million, or 14.1%, from the FY2017 adjusted appropriation. The decrease reflects the Fund's regular annual fluctuation according to the scheduled awards of major projects and projects carried forward from the prior year.[27] The FY2018 appropriation is based on the scheduled award of $237.4 million in projects and $41.0 million for studies and professional services to support construction activities.[28]

The Stormwater Management Fund is used to appropriate funds for projects that protect the safety of Cook County residents and minimize flood damage and erosion.[29] The Stormwater Management Fund is funded by tax levies and other revenue used for stormwater management activities in Cook County and some areas outside Cook County.[30] The FY2018 proposed appropriation for stormwater management will increase by 43.8%, or $20.1 million, from $45.8 million in FY2017 to $65.9 million in FY2018.

The Retirement Fund of the District provides funding for District employees' pension benefits. The District funds the Retirement Fund contributions through a property tax levy, personal property replacement tax revenue and investment income. The MWRD's annual property tax levy is set by State statute at a rate up to 4.19 times the employee contribution to the retirement program from two years prior. The District also has a policy to contribute the 4.19 multiplier amount to the Retirement Fund unless the multiplier exceeds the amount available from the property tax levy and a smaller contribution will still fund the pension system to 100% by 2050. The FY2018 appropriation for the Retirement Fund is $89.6 million, an increase of $10.1 million, or 12.7%, from $79.5 million in FY2017.

The Bond Redemption and Interest Fund is a series of subfunds that account for the property tax revenue and other revenues, primarily interest on investments, used to pay for the principal and interest of bonds issued by the District.[31] The FY2018 appropriation for the Bond Redemption and Interest Fund is $256.3 million, which is an increase of 12.0%, or $27.5 million, from FY2017 adjusted appropriations of $228.8 million.

[25] MWRD FY2018 Executive Director's Recommendations, p. 20.
[26] MWRD FY2018 Executive Director's Recommendations, p. 20.
[27] MWRD FY2018 Executive Director's Recommendations, p. 20.
[28] MWRD FY2018 Executive Director's Recommendations, p. 20.
[29] MWRD FY2018 Executive Director's Recommendations, p. 18.
[30] MWRD FY2018 Executive Director's Recommendations, pp. 17 and 18.
[31] MWRD FY2018 Executive Director's Recommendations, p. 95.

The Reserve Claim Fund is a self-insurance fund used to accumulate funds for a variety of claims including employee claims, environmental remediation costs that cannot be recovered from tenants and catastrophic failure of District operational infrastructure. The Fund is financed primarily through an annual property tax levy of one-half cent per $100 of the last known equalized assessed valuation (EAV). As described further below, the Board has adopted a policy 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 one-half cent in FY2018.[32] Appropriations for the Reserve Claim Fund will decrease by 1.1%, or nearly $330,000, to $30.3 million in FY2018.

In a five-year comparison of the actual expenditures and proposed appropriations between FY2014 and FY2018, total spending will decrease by 6.7%, or $81.7 million. When comparing actual expenditures to proposed appropriations, it is helpful to exclude the Reserve Claim Fund since this appropriation is much larger than what is anticipated to actually be spent. Excluding the Reserve Claim Fund, appropriations will decrease by 4.2%, or $48.0 million, from $1.16 billion in FY2014 to $1.10 billion in FY2018. The decline reflects a 21.2% decrease in appropriations for the Capital Improvements Bond Fund from $386.2 million in FY2014 to $304.5 million in FY2017 and a 53.4% decrease in the Construction Fund from $53.3 million in FY2014 to $24.8 million in FY2018. Over the five years, the Corporate Fund also will decrease by 7.3% from $395.3 million in FY2014 to $366.6 million in FY2018. However, the Stormwater Management Fund, Retirement Fund and Bond Redemption & Interest Fund will all increase over the five-year period by $15.0 million (29.4%), $14.6 million (19.5%) and $61.4 million (31.5%), respectively.

MWRD Major Fund Appropriations:
FY2014-FY2018
(in $ thousands)

	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Adopted	FY2018 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 395,345	$ 358,995	$ 366,261	$ 368,926	$ 366,580	$ (2,346)	-0.6%	$ (28,765)	-7.3%
Construction Fund	$ 53,306	$ 37,911	$ 36,614	$ 34,450	$ 24,842	$ (9,608)	-27.9%	$ (28,464)	-53.4%
Capital Improvements Bond Fund*	$ 386,208	$ 453,073	$ 483,765	$ 354,626	$ 304,468	$ (50,157)	-14.1%	$ (81,740)	-21.2%
Stormwater Management Fund	$ 50,907	$ 46,589	$ 40,501	$ 45,800	$ 65,880	$ 20,080	43.8%	$ 14,973	29.4%
Retirement Fund	$ 74,984	$ 61,654	$ 70,772	$ 79,505	$ 89,604	$ 10,099	12.7%	$ 14,620	19.5%
Bond Redemption & Interest Fund	$ 194,906	$ 214,526	$ 216,047	$ 228,826	$ 256,304	$ 27,478	12.0%	$ 61,399	31.5%
Sub-Total	**$1,155,656**	**$1,172,747**	**$ 1,213,960**	**$ 1,112,133**	**$ 1,107,679**	**$ (4,454)**	**-0.4%**	**$ (47,977)**	**-4.2%**
Reserve Claim Fund	$ 64,000	$ 30,700	$ 30,176	$ 30,617	$ 30,290	$ (328)	-1.1%	$ (33,711)	-52.7%
Total	**$1,219,656**	**$1,203,447**	**$ 1,244,136**	**$ 1,142,750**	**$ 1,137,968**	**$ (4,782)**	**-0.4%**	**$ (81,688)**	**-6.7%**

*Prior year obligations for the Capital Improvements Bond Fund are included in the Appropriation for Liabilities.
Source: MWRD Final Budgets, FY2016-FY2017 and FY2018 Tentative Budget, p. 8.

Reserve Claim Fund

The MWRD Board of Commissioners maintains a Reserve Claim Fund to cover emergency repairs and claims against the District. The Fund is financed by a tax levy set in State statute of up to 0.05% of the last known equalized assessed valuation (EAV) whenever economically feasible.[33] This is the maximum level permitted by statute and is calculated by a tax levy of 0.5 cents per $100 of EAV. Each year the MWRD appropriates the Fund's available fund balance plus new revenue.[34] The maximum tax levy allowed for this purpose is $70.4 million in FY2018.

32 MWRD FY2018 Executive Director's Recommendations, p. 95.
33 MWRD FY2018 Executive Director's Recommendations, p. 24.
34 MWRD FY2018 Executive Director's Recommendations, p. 21.

However, the District has not levied to the maximum limit since 2015. The appropriation for FY2018 is $30.3 million but actual expenditures are estimated to be only $6.0 million. The District states that the full appropriation for the Reserve Claim Fund is not designed to be spent during any one budget year, and is held to settle potential claims or lawsuits the District may encounter.[35]

As is shown in the table below, the District appropriated the full levy amount allowed in FY2013 and FY2014, $62.0 million and $64.0 million respectively. In FY2013 the District only spent 8.1% of the appropriation. However, a settlement of $44.7 million paid in 2014 increased the actual expenditure that year, and decreased the appropriation for the following year to $30.7 million in FY2015. The Reserve Claim Fund appropriations in FY2015 through FY2018 remain near $30 million, while actual expenditures constitute between approximately 16% and 32% of the full appropriations.

MWRD Reserve Claim Fund: FY2014-FY2018

	Appropriation	Actual Expenditure	Ratio
FY2013	$ 62,000,000	$ 5,000,000	8.1%
FY2014	$ 64,000,000	$ 44,700,000	69.8%
FY2015	$ 30,700,000	$ 5,900,000	19.2%
FY2016	$ 30,200,000	$ 4,800,000	15.9%
FY2017*	$ 30,600,000	$ 9,600,000	31.4%
FY2018**	$ 30,300,000	$ 6,000,000	19.8%

*Adjusted appropriation for FY2017.

**Proposed appropriation for FY2018.

Source: MWRD FY2018 Executive Director's Recommendations, p. 545.

RESOURCES

This section presents trend information for the MWRD Corporate Fund resources and property tax levy for all funds between FY2014 and FY2018. The FY2018 Tentative Budget proposes total revenue of $1.14 billion for all funds. Approximately 67.3% of the MWRD's appropriations are funded by property taxes.[36]

The MWRD's budget is heavily supported by property tax revenue. It is important to note that revenue from property taxes levied in FY2018 will not be received until the following year. Because property tax revenues are received the year after they are levied, the MWRD maintains Working Cash Funds for the Corporate, Construction and Stormwater Management Funds to make temporary loans to their respective funds in anticipation of tax collections.[37] The budget does not account for 2018 tax revenue for the Retirement, Reserve Claim and Bond and Interest Funds. Revenue for those funds will be reflected in next year's budget as part of "net assets appropriable."[38] The MWRD attributes this to its cash-based budgeting for revenues, as required under state statute. Because the levy for tax year 2018 is not collected until 2019, the revenue is

[35] MWRD FY2018 Executive Director's Recommendations, p. 545.
[36] MWRD FY2018 Executive Director's Recommendations, p. 71.
[37] MWRD FY2018 Executive Director's Recommendations, p. 71.
[38] MWRD FY2018 Executive Director's Recommendations, pp. 71-72.

not available for FY2018 if budgeted on a cash basis. Many other local units issue tax anticipation notes to bridge tax collection timing gaps through borrowing. There are no working cash funds for the Retirement, Reserve Claim or Bond and Interest Funds.

Corporate Fund Resources

In this section, the Civic Federation compares the MWRD's Corporate Fund resources as proposed in the FY2018 Tentative Budget compared to FY2017 amended resources and actual resources from FY2014-FY2016. Amended resources, or the final budget figures, are used rather than year-end estimates since they represent official data approved by the governing board. It is important to note that the FY2018 Tentative Budget resources are subject to change because the MWRD goes through a budget amendment process before finalizing and approving the proposed budget.

The Corporate Fund is the MWRD's general operating fund and accounts for all day-to-day operations. The District anticipates $366.6 million in Corporate Fund revenue in FY2018 compared to $367.0 million in FY2017. Property tax revenue for the Corporate Fund is projected to be $239.3 million in FY2018, a 10.7%, or $23.2 million, increase from $216.1 million in FY2017. Property taxes will constitute 72.2% of total revenue for the Corporate Fund in FY2018.

User charges will represent 13.9% of Corporate Fund revenues in FY2018 and are expected to decrease from the prior year by $1.0 million, or 2.1%, to $46.0 million in FY2018. User charges are paid by large industrial and government users based on the volume and strength of effluent discharged. Revenue from user charges is affected by the economic conditions (for food processing and chemical industries) and by weather conditions (for government operated airports and water filtration facilities).[39]

The Corporate Fund receives personal property replacement tax (PPRT), which is an additional corporate income tax collected by the State and disbursed to local governments. PPRT revenue is expected to increase by $1.7 million, or 9.3% in FY2018 to $19.9 million. The District also receives revenue from land rentals and service charges. Property and Service Charge revenue is expected to increase from FY2017 by $2.5 million, or 12.6%, to $22.4 million in FY2018.

Investment Income is expected to increase from $600,000 in FY2017 to $1.3 million in FY2018 due to slight growth in short-term interest rates.[40] Other revenues, which include revenues generated from the TIF Differential Fee, Impact Fee and miscellaneous revenues, are projected to decrease by $8.8 million, or 60.3%, from $14.6 million in FY2017 to $5.8 million in FY2018. The reason for the decrease in the other revenues category is attributed to the MWRD's estimate of City of Chicago TIF surplus, which the MWRD budgeted conservatively before the City of Chicago announced the surplus levels for 2018. After the release of the City of Chicago budget, the MWRD anticipates that TIF surplus will actually be $9.5 million, bringing the other revenues total to $13.3 million.[41]

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[39] MWRD FY2018 Executive Director's Recommendations, p. 83.
[40] MWRD FY2018 Executive Director's Recommendations, p. 83.
[41] Information provided by the MWRD on December 5, 2017.

The District estimates that it will generate $1.6 million in resource recovery revenue from phosphorus recovery in FY2018. The District budgeted revenue of $4.0 million for the first year of resource recovery in FY2017, but the District adjusted its revenue estimate and anticipates that it will only actually generate in $150,000 in resource recovery revenue in FY2017. The significant adjustment was due to lower than anticipated participation in the District's Exceptional Quality (EQ) Biosolids yard waste program and problems with the phosphorous recovery system at the Stickney Water Reclamation Plant.[42] The District expects that the phosphorous recovery system will be back on track in FY2018 to generate an estimated $1.6 million.

In addition to revenues, the District plans to utilize several other resources in the FY2018 budget. The District will appropriate a $4.2 million equity transfer from the Capital Improvement Bond Fund's Build America Bonds subsidy that will supplement the Corporate Fund.[43] The District also has Corporate Fund net assets, which serve as a savings account, of which $132.0 available for appropriating. The District plans to hold $101.1 million of those reserves for its Corporate Fund budget reserve, leaving $30.9 million of net assets for use in the FY2018 budget.[44]

Over the five-year period from FY2014 through FY2018, Corporate Fund revenue is expected to increase by 6.5%, or $20.2 million, from $311.3 million in FY2014 to $331.5 million in FY2018. Total resources are expected to decrease by 24.3%, or $117.4 million. During this five-year period, the net property tax levy allocated to the Corporate Fund will increase by $17.3 million or 7.8%. Appropriated net assets will decrease significantly from $172.8 million in FY2014 to nearly $35.1 million in FY2018, a decline of $137.7 million, or 79.7%, which has increased the District's budget reserve.

Over the five-year period, user charges will increase by 3.0% from $44.7 million in FY2014 to $46.0 million in FY2018. PPRT will increase by 6.7% from $18.6 million in FY2014 to $19.9

[42] Information provided by the MWRD on December 5, 2017.
[43] MWRD FY2018 Executive Director's Recommendations, p. 83.
[44] 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.

million in FY2018. Property and service charges revenue will increase by 25.3% from $17.9 million in FY2014 to $22.4 million in FY2018.

Corporate Fund Resources: FY2014-FY2018 (in $ thousands)									
Resource	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Amended	FY2018 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Property Taxes (net)	$221,950	$219,244	$ 218,196	$ 216,108	$ 239,287	$ 23,179	10.7%	$ 17,337	7.8%
User Charges	$ 44,665	$ 48,177	$ 44,487	$ 47,000	$ 46,000	$ (1,000)	-2.1%	$ 1,335	3.0%
PPRT	$ 18,608	$ 20,102	$ 24,676	$ 18,164	$ 19,850	$ 1,686	9.3%	$ 1,241	6.7%
Property & Service Charges	$ 17,881	$ 22,975	$ 22,699	$ 19,900	$ 22,400	$ 2,500	12.6%	$ 4,519	25.3%
Investment Income	$ 2,031	$ 1,003	$ 1,021	$ 600	$ 1,300	$ 700	116.7%	$ (731)	-36.0%
Other*	$ 10,473	$ 12,205	$ 13,879	$ 14,593	$ 5,794	$ (8,799)	-60.3%	$ (4,679)	-44.7%
Resource Recovery	$ -	$ -	$ -	$ 4,000	$ 1,600	$ (2,400)	-60.0%	$ 1,600	
Working Cash Borrowings Adjustment	$ (4,358)	$ (4,446)	$ (4,671)	$ (4,272)	$ (4,737)	$ (465)	10.9%	$ (379)	8.7%
Total Revenues	**$311,250**	**$319,259**	**$ 320,286**	**$ 316,093**	**$ 331,494**	**$ 15,401**	**4.9%**	**$ 20,244**	**6.5%**
Net Assets Appropriable	$163,334	$142,060	$ 145,889	$ 135,931	$ 132,029	$ (3,902)	-2.9%	$ (31,305)	-19.2%
Equity Transfer	$ -	$ -	$ -	$ 6,000	$ 4,200	$ (1,800)	-30.0%	$ 4,200	
Adjustments for Receipts	$ 9,433	$ 17,608	$ 11,315	$ -	$ -	$ -		$ (9,433)	-100.0%
Budget Reserve	$ -	$ -	$ -	$ (90,962)	$(101,143)	$ (10,181)	11.2%	$(101,143)	
Subtotal - Appropriated Net Assets	**$172,767**	**$159,668**	**$ 157,204**	**$ 50,969**	**$ 35,086**	$ (15,883)	-31.2%	$(137,681)	-79.7%
Total Resources	**$484,017**	**$478,927**	**$ 477,490**	**$ 367,062**	**$ 366,580**	**$ (482)**	**-0.1%**	**$(117,437)**	**-24.3%**

*Other includes TIF Differential Fee, Impact Fee and Miscellaneous. Note: Some differences from the budget books may occur due to rounding.

Source: MWRD FY2016 Amended Budget Book, pp. 76 and 78; FY2017 Final Budget, p. 76; FY2018 Executive Director's Recommendations, p. 76; and FY2018 Tentative Budget p. 13.

Property Tax Levy

The MWRD's total gross property tax levy proposed for FY2018 is $620.7 million for all funds. The MWRD accounts for a 3.5% annual estimated loss in property tax collections in its net levy. Revenue from property taxes levied in 2018 will be collected in 2019. The tax levy figures discussed in this section are based on the MWRD's Tentative FY2018 Budget. However, these figures are subject to change through amendments made to the Tentative Budget before final tax levy figures are approved by the District's Board of Commissioners.

The MWRD has an "Aggregate Levy," which consists of four funds: Corporate Fund, Construction Fund, Retirement Fund and Reserve Claim Fund. These funds are all subject to the property tax extension limitation law (PTELL) or "tax caps," which limits total annual increases to 5.0% or the rate of inflation, whichever is less. The total levy for the aggregate funds proposed in the Tentative Budget for FY2018 is $329.7 million, which is a 3.2%, or $10.1 million increase from the adjusted FY2017 levy of $319.5 million. The increase is based on a 0.7% levy increase from new property and development and a 2.5% increase under PTELL based on inflation.[45] The 2.5% increase is projected to be the maximum allowable levy under State Statute. If inflation is less than the District's projection, the Cook County Clerk reduces the MWRD levy so that it is in compliance with the tax cap. The District has directed the Cook County Clerk to make such a reduction only in the Construction Fund.[46]

The Corporate Fund levy proposed in the FY2018 Tentative Budget is $248.0 million, which is an increase of $24.0 million, or 10.7%, from FY2017. The Construction Fund levy of $4.2 million represents a decrease of $12.8 million, or 75.3% from the prior year.

The Retirement Fund levy of $71.5 million represents a $1.9 million, or 2.6%, decrease compared to FY2017. The Retirement Fund levy and subsequent appropriation is based on a

[45] MWRD FY2018 Budget Recommendations, pp. 57 and 70.
[46] MWRD FY2018 Budget Recommendations, p. 57.

statutory formula that ties employer pension contributions to employee pension contributions made two years prior.[47] The Retirement Fund is also funded by PPRT revenue and investment income.

The Reserve Claim Fund levy of $6.0 million is a $100,000, or 1.7%, increase over the prior year. The Reserve Claim Fund levy will increase because the District is levying the maximum amount allowed under State statute with the goal of reaching its statutorily authorized limit of $70.4 million to protect the District against a catastrophic infrastructure failure or large claims.[48]

The remaining 46.9%, or $291.0 million, of the District's total property tax levy is for the Bond and Interest and Stormwater Management Funds, which are not subject to tax caps.[49] The FY2018 Stormwater Management levy is projected to increase by $6.9 million, or 17.1%, from the prior year. The Bond and Interest levy, which is reserved for debt service, is projected to increase by $9.3 million, or 4.0%, over FY2017.

Over the past five years, the portions of property tax revenues allocated to the four Aggregate funds subject to PTELL tax caps have fluctuated. Property tax revenues for the Retirement Fund increased significantly from $50.5 million in FY2014 to $71.5 million in FY2018, an increase of 41.6%. The increase for the Retirement Fund is the result of a change in the pension multiplier from 2.19 to a maximum of 4.19 with the implementation of Public Act 97-0894. The law 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.[50] The Corporate Fund levy increased by 7.8% over the five year period from $230.0 million in FY2014 to $248.0 million in FY02018.

Over the five-year period, the levy for the Stormwater Management Fund increased by 127.7% from $21.0 million in FY2014 to $47.8 million in FY2018. The Bond and Interest Funds levy increased by 11.4% from $218.3 million to $243.2 million.

Metropolitan Water Reclamation District
Gross Property Tax Levy: FY2014-FY2018
(in $ thousands)

	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Adjusted	FY2018 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 230,000	$ 227,660	$ 226,109	$ 223,946	$ 247,966	$ 24,020	10.7%	$ 17,966	7.8%
Construction Fund	$ 17,400	$ 15,197	$ 13,278	$ 16,270	$ 4,200	$ (12,070)	-74.2%	$ (13,200)	-75.9%
Retirement Fund	$ 50,531	$ 58,004	$ 65,161	$ 73,438	$ 71,534	$ (1,904)	-2.6%	$ 21,003	41.6%
Reserve Claim Fund	$ 3,000	$ 5,700	$ 5,800	$ 5,900	$ 6,000	$ 100	1.7%	$ 3,000	100.0%
Subtotal Tax Capped Funds	**$ 300,931**	**$ 306,561**	**$ 310,349**	**$ 319,554**	**$ 329,700**	**$ 10,146**	**3.2%**	**$ 28,769**	**9.6%**
Stormwater Management Fund	$ 21,000	$ 24,050	$ 34,250	$ 40,856	$ 47,826	$ 6,970	17.1%	$ 26,826	127.7%
Bond & Interest Funds	$ 218,319	$ 224,488	$ 232,963	$ 233,887	$ 243,211	$ 9,324	4.0%	$ 24,892	11.4%
Total	**$ 540,250**	**$ 555,098**	**$ 577,562**	**$ 594,297**	**$ 620,737**	**$ 26,440**	**4.4%**	**$ 80,487**	**14.9%**

Source: MWRD FY2016 Final Budget, p. 44; FY2017 Final Budget, p. 44; and FY2018 Tentative Budget, p. 8.

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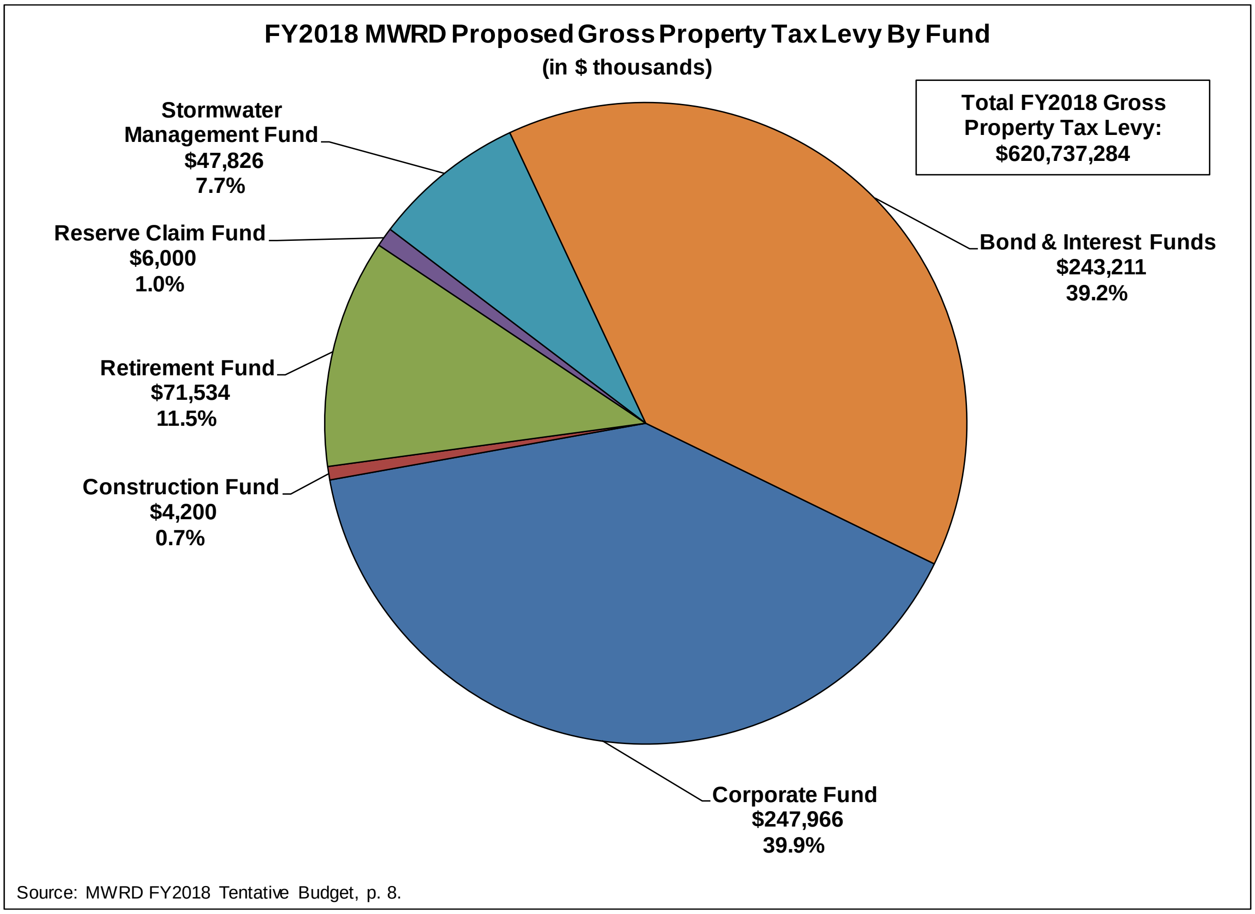
47 MWRD FY2018 Executive Director's Recommendations, p. 21.
48 MWRD FY2018 Executive Director's Recommendations, p. 21.
49 The November 2004 passage of Public Act 93-1049 authorizes the MWRD to levy an additional $50 million in non-capped funds for stormwater management in Cook County.
50 MWRD FY2018 Executive Director's Recommendations, p. 21.

The next exhibit shows the distribution of property tax dollars among the MWRD's various funds in FY2018. Together the Corporate Fund and Bond and Interest Funds will consume 79.1% of the District's total levy.



The MWRD Board of Commissioners has a policy of adopting total tax levies that do not increase by more than 5.0% over the prior year (excluding the Stormwater Management Fund). The District also has 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.[51] In FY2018 the property tax abatement is projected to be nearly $6.0 million.[52]

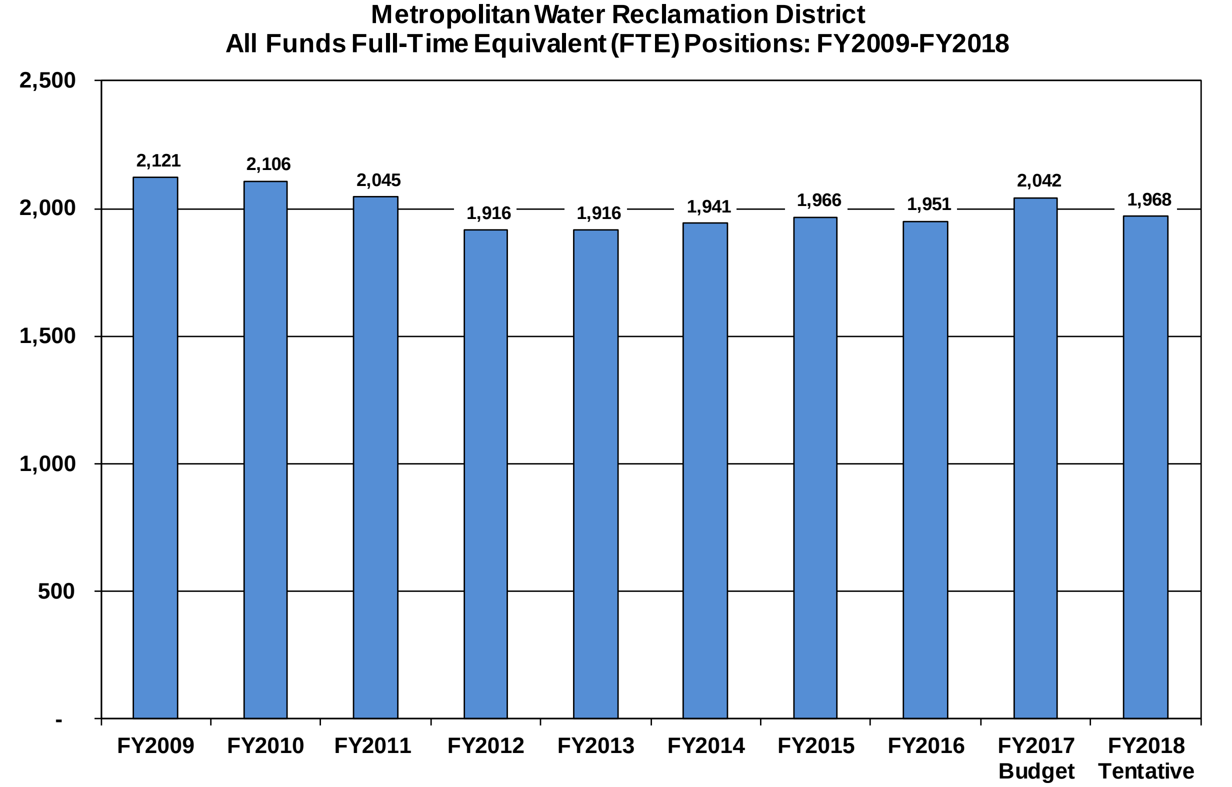
PERSONNEL

The following section provides an analysis of the Metropolitan Water Reclamation District's full-time equivalent (FTE) positions and personnel appropriations for all funds. Prior to the FY2015 budget, the District referred to position counts and headcounts in its budget documents. Even though the District has only full-time employees, the change in terminology helps

[51] MWRD FY2018 Executive Director's Recommendations, p. 24.
[52] MWRD FY2018 Tentative Budget, p. 8.

observers understand what kind of data the budget shows and allows for a more accurate comparison across years and between governments.

The number of FTE positions for all funds at the District is projected to decrease by 74 FTE positions to 1,968 FTE positions in FY2018. This is a 3.6% decrease from 2,042 FTE positions budgeted in FY2017. The majority of the decrease is in FTE positions paid from the Corporate Fund. Since FY2009 the District has decreased its workforce by 7.2% or 153 FTE positions, from 2,121 to 1,968. Significant staffing reductions in FY2011 and FY2012 were part of a five-year plan aimed at restructuring the District to ensure financial stability going forward.[53] Increases in staffing in FY2014 and FY2015 were due to new and continuing initiatives tied to the Strategic Business Plan.[54] The increase in staffing in FY2017 was due to the District expanding its apprenticeship program during FY2017 and then reducing the number of apprentices in FY2018 due to changes in the apprenticeship program.[55]



Source: MWRD FY2018 Tentative Budget, p. 11; and FY2018 Executive Directors Budget Recommendations, p. 55.

The following chart displays the number of FTE positions for all funds between FY2014 and FY2018. Since FY2014, approximately 97.1% of District employees have been funded through the Corporate Fund. Between FY2017 and FY2018 the number of Corporate Fund FTE positions will decrease by 3.6%, or 72 FTE positions. The majority of the decline in FTE positions in FY2018 is in the Human Resources department due to the District making changes to its

[53] MWRD FY2018 Executive Director's Recommendations, p. 55.
[54] MWRD FY2018 Executive Director's Recommendations, p. 55.
[55] MWRD FY2018 Executive Director's Recommendations, p. 55.

apprenticeship program.[56] The Maintenance & Operations Department will see a decline of 19 FTEs in FY2018. The remaining departments funded by the Corporate Fund will remain relatively flat, over the two-year period.

Over the five-year period beginning FY2014, Corporate Fund positions will increase by 1.2%, or 23 FTE positions. Departmental positions funded by the Corporate Fund have either seen modest increases or stayed relatively flat, with the exception of Maintenance & Operations, which will decline by 42 FTEs, or 4.4%, Monitoring & Research, which will increase by 9.8%, or 28 FTE positions and Human Resources, which will increase by 31.9% or 22 FTE positions.

Metropolitan Water Reclamation District
All Funds Full-Time Equivalent Positions: FY2014-FY2018

	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Budgeted	FY2018 Tentative	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Corporate Fund									
Maintenance & Operations	945	952	923	922	903	-19	-2.1%	-42	-4.4%
Monitoring & Research	287	296	305	309	315	6	1.9%	28	9.8%
General Administration	113	118	121	123	121	-2	-1.6%	8	7.1%
Procurement & Materials	61	63	62	63	63	0	0.0%	2	3.3%
Information Technology	69	63	64	75	73	-2	-2.7%	4	5.8%
Human Resources	69	74	73	141	91	-50	-35.5%	22	31.9%
Law	35	37	36	38	37	-1	-2.6%	2	5.7%
Board of Commissioners	37	37	38	38	38	0	0.0%	1	2.7%
Finance	29	29	28	28	28	0	0.0%	-1	-3.4%
Engineering (Corporate Fund)	243	242	242	246	242	-4	-1.6%	-1	-0.4%
Total Corporate Fund	**1,888**	**1,911**	**1,892**	**1,983**	**1,911**	**-72**	**-3.6%**	**23**	**1.2%**
Stormwater Management Fund	53	55	59	59	57	-2	-3.4%	4	7.5%
Total	**1,941**	**1,966**	**1,951**	**2,042**	**1,968**	**-74**	**-3.6%**	**27**	**1.4%**

Source: MWRD FY2016 Final Budget, p. 55; FY2017 Amended Budget, p. 56; and FY2018 Tentative Budget, p. 11; and FY2018 Executive Director's Recommended Budget, pp. 54-55.

Personal Services Appropriations

The exhibit below shows the FY2018 personal service appropriations proposed in the FY2018 Executive Director's Recommended Budget compared to the adjusted personal services appropriations for FY2017 and actual appropriations from FY2014 through FY2016.

Over the two-year period between FY2017 and FY2018 total personal services appropriations will decrease by $336,000 or 0.1%. The proposed appropriation for salaries of regular employees, which constitutes 73.6% of all personal services appropriations in FY2018, will decrease by 0.4%, or $777,000, to $191.9 million in FY2018 from FY2017 adjusted appropriations of $192.7 million. Health and life insurance premiums are estimated to decline by 0.5%, or $239,000 over the two-year period.

Over the five-year period beginning in FY2014 salaries of regular employees will increase by 12.1%, or $20.8 million. During the same time period, appropriations for health and life insurance premiums will decline by 21.0%, or $12.5 million, from $59.5 million in FY2014 to $47.0 million in FY2018. The decline in health and life insurance premiums is based on the District's strategy to contain long-term health care benefit costs.[57]

The actual expenditures in FY2014-FY2016 for employee claims, which are Workers' Compensation claims, averaged about $4 million. The appropriations for employee claims in FY2017 and FY2018 are much higher, at $8.1 million and $10.1 million respectively. The

[56] MWRD FY2018 Executive Director's Recommendations, pp. 14 and 55.
[57] MWRD FY2018 Executive Director's Recommendations, p. 58.

increase in the employee claims in FY2017 and FY2018 is because the District budgets a portion of its Reserve Claim Fund even if that portion is more than the actual amount needed to pay for employee claims, so appropriations often are higher than actual expenditures. It is also important to note that payments for employee claims do not necessarily occur the same year the claim is filed, so while the appropriation for employee claims has increased from FY2014 to FY2018, the number of claims filed each year has decreased and the actual expenditures on employee claims has remained fairly level.[58]

Other employee personal services, which include tuition, training, non-budget salaries and relief workers, will increase $747,000, or 53.9%, over the five-year period. This is due to the District's Business Strategic Plan, which continues to invest in employee development.

MWRD All Funds Personal Services Appropriations: FY2014-FY2018
(in $ thousands)

	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Adjusted	FY2018 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries of Regular Employees	$ 171,105	$ 175,466	$ 179,394	$ 192,669	$ 191,892	$ (777)	-0.4%	$ 20,787	12.1%
Health & Life Insurance Premiums*	$ 59,521	$ 44,709	$ 43,695	$ 47,261	$ 47,023	$ (239)	-0.5%	$ (12,499)	-21.0%
Employee Claims	$ 3,618	$ 4,137	$ 4,713	$ 8,060	$ 10,060	$ 2,000	24.8%	$ 6,442	178.0%
Compensation Plan Adjustments	$ 6,905	$ 7,683	$ 7,037	$ 7,938	$ 6,723	$ (1,214)	-15.3%	$ (182)	-2.6%
Other Employee Personal Services**	$ 1,386	$ 1,408	$ 1,232	$ 2,319	$ 2,133	$ (185)	-8.0%	$ 747	53.9%
Social Security & Medicare Contributions	$ 2,428	$ 2,631	$ 2,605	$ 2,767	$ 2,846	$ 80	2.9%	$ 419	17.2%
Total	**$ 244,963**	**$ 236,035**	**$ 238,676**	**$ 261,014**	**$ 260,678**	**$ (336)**	**-0.1%**	**$ 15,714**	**6.4%**

Note: Effective January 1, 2016, professional services were reclassified as contractual services rather than personal services.
* Includes Other Postemployment Benefits (OPEB) Distribution
** Includes Tuition, Training, Non-budgeted Salaries.
Source: MWRD FY2016 Final Budget, p. 56; FY2017 Final Budget, p. 57; and FY2018 Executive Director's Budget Recommendations, p. 55.

The exhibit below compares actual personal services appropriations from FY2014 through FY2016 with FY2017 adjusted appropriations and FY2018 Tentative Budget appropriations by fund and by department. The MWRD uses encumbrance accounting in the budgeting process for all funds, where appropriations for the Corporate Stormwater Management Claim, Construction, Retirement and Bond & Interest Funds lapse at the end of the year. However, appropriations for the Capital Improvement Bond Fund are calculated using a full encumbrance accounting process meaning that the appropriations lapse at the end of the year to the extent of the unencumbered balance. Thus, the analysis of personal service appropriations by department includes adjustments that carry forward the open value of contracts from the prior year in the Capital Improvement Bond Fund.[59] As such, the total appropriations for FY2018 may differ from the summary above.

The total appropriation for personal services in the Corporate Fund will decrease by $2.4 million, or 1.0%, below FY2017 adjusted budget figures, and by $336,000, or 0.1% district-wide primarily due a reduction in staffing at the District.

Over the five-year period between FY2014 and FY2018, total personal services appropriations district-wide have decreased by $11.9 million, or 4.4%. During the same time period, Corporate

[58] Information provided by the MWRD Budget Office, December 4, 2017.
[59] MWRD FY2018 Executive Director's Recommendations, pp. 69-70.

Fund personal services appropriations will increase to $244.1 million. This is a 0.8%, or $1.9 million, increase since FY2014.

Metropolitan Water Reclamation District
All Funds Personal Services Appropriations by Department: FY2014-FY2018
(in $ thousands)

	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Adjusted	FY2018 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund									
Maintenance & Operations	$ 88,220	$ 89,182	$ 90,919	$ 94,147	$ 93,652	$ (496)	-0.5%	$ 5,432	6.2%
Monitoring & Research	$ 24,228	$ 25,445	$ 26,390	$ 28,877	$ 29,899	$ 1,023	3.5%	$ 5,671	23.4%
General Administration	$ 10,662	$ 10,997	$ 10,880	$ 12,053	$ 11,732	$ (321)	-2.7%	$ 1,070	10.0%
Procurement & Materials Management	$ 4,894	$ 5,142	$ 5,184	$ 5,780	$ 5,714	$ (67)	-1.2%	$ 819	16.7%
Information Technology	$ 7,581	$ 7,601	$ 7,125	$ 9,018	$ 8,736	$ (281)	-3.1%	$ 1,155	15.2%
Human Resources	$ 68,723	$ 54,575	$ 49,961	$ 55,589	$ 54,292	$ (1,297)	-2.3%	$ (14,430)	-21.0%
Law	$ 5,968	$ 5,168	$ 4,815	$ 5,268	$ 5,224	$ (43)	-0.8%	$ (744)	-12.5%
Board of Commissioners	$ 3,658	$ 3,606	$ 3,908	$ 4,189	$ 4,207	$ 18	0.4%	$ 549	15.0%
Finance	$ 3,280	$ 3,346	$ 3,240	$ 3,270	$ 3,272	$ 1	0.0%	$ (9)	-0.3%
Engineering	$ 24,987	$ 25,426	$ 25,491	$ 28,292	$ 27,368	$ (924)	-3.3%	$ 2,381	9.5%
Sub-Total Corporate Fund	**$ 242,202**	**$ 230,487**	**$ 227,912**	**$ 246,482**	**$ 244,095**	**$ (2,388)**	**-1.0%**	**$ 1,893**	**0.8%**
Construction Fund	$ 2,653	$ 2,798	$ -	$ -	$ -	$ -	-	$ (2,653)	-100.0%
Capital Improvement Bond Fund	$ 13,960	$ 9,371	$ -	$ -	$ -	$ -	-	$ (13,960)	-100.0%
Stormwater Management Fund	$ 10,173	$ 14,863	$ 6,090	$ 6,531	$ 6,583	$ 52	0.8%	$ (3,590)	-35.3%
Reserve Claim Fund	$ 3,594	$ 4,100	$ 4,674	$ 8,000	$ 10,000	$ 2,000	25.0%	$ 6,406	178.2%
Total	**$ 272,582**	**$ 261,618**	**$ 238,676**	**$ 261,014**	**$ 260,678**	**$ (336)**	**-0.1%**	**$ (11,904)**	**-4.4%**

Note: The analysis of personal service appropriations by department includes adjustments that carry forward the open value of contracts from the prior year in the Capital Improvement Bond Fund. As such, the total appropriations for FY2017 and FY2018 may differ from the All Funds Personal Services Appropriations chart.
Source: MWRD Tentative Budget, FY2016-FY2017; and FY2018 Tentative Budget, pp. 22-62.

NON-APPROPRIATED CORPORATE FUND RESERVES

This section reviews the MWRD's Corporate Fund fund balance based on the net assets available for future use as stated in the District's adopted, or final, budget for each past fiscal year and the tentative budget for the upcoming fiscal year. Assets available for future use are estimated for the start (January 1) of the fiscal year,[60] and serve as the District's reserves to be used in case of a revenue shortfall.

The MWRD has had a fund balance policy of maintaining 12.0% to 15.0% of expenditures, or between $44.0 million and $55.0 million, in unreserved Corporate Fund fund balance since 2009.[61] The fund balance is made up of net assets set aside each year as a non-appropriated or unreserved fund balance that is available for contingencies. The District intends to maintain a fund balance higher than that range over the next few years in order to minimize the property tax levy and to handle possible unexpected revenue shortfalls.[62] The District is budgeting a total of $101.1 million in Corporate Fund assets as budgetary reserves in FY2018,[63] which is 27.6% of projected expenditures.

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."[64] This two month standard, which equals approximately

[60] For example, assets available for future use as found in the FY2017 Tentative Budget are estimated for January 1, 2017.
[61] MWRD FY2018 Executive Director's Recommendations, p. 24.
[62] MWRD FY2018 Executive Director's Recommendations, p. 18.
[63] MWRD FY2018 Tentative Budget, p. 13.
[64] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2015).

17% of expenditures, also provides a good benchmark for large special-purpose governments like the MWRD. For the past several years, the District has maintained significantly higher reserves than the GFOA's recommendation and the District's own Corporate Fund reserves policy of 12-15%.

The table below shows the MWRD's Corporate Fund fund balance as a percentage of Corporate Fund expenditures over the ten year period from FY2009 to FY2018. From FY2009 through FY2011, the District's fund balance was around 5%, which was well below 12.0% of operating expenditures and therefore did not meet the MWRD's own standard. In FY2012 the District's Corporate Fund fund balance increased from a fund balance ratio of 5.8% of operating expenditures in FY2011 to 18.0% of operating expenditures or $61.1 million, bringing the fund balance ratio in line with MWRD's fund balance policy and the GFOA standard. In FY2013 the fund balance rose to $107.9 million, or 28.1% of operating expenditures, its highest level in the ten year period. In FY2014 the Corporate Fund fund balance ratio declined to 14.8%, primarily due to the District's strategic plan to transfer $30.0 million from the Corporate Fund to the District's Retirement Fund.[65] The fund balance ratio increased in FY2015 to 26.9% of operating expenditures and has remained near or above 25% since then. The District anticipates that the FY2018 fund balance ratio will be 27.6% at the start of FY2018.

MWRD Corporate Fund Fund Balance: FY2009-FY2018 (in $ millions)

	Assets Available for Future Use / Budget Reserve	Corporate Fund Expenditures	Ratio
FY2009	$ 20.8	$ 395.0	5.3%
FY2010	$ 19.0	$ 354.5	5.4%
FY2011	$ 19.8	$ 341.1	5.8%
FY2012	$ 61.1	$ 339.4	18.0%
FY2013	$ 107.9	$ 383.6	28.1%
FY2014	$ 58.6	$ 395.3	14.8%
FY2015	$ 96.7	$ 359.0	26.9%
FY2016	$ 100.1	$ 366.3	27.3%
FY2017	$ 89.1	$ 368.9	24.2%
FY2018*	$ 101.1	$ 366.6	27.6%

*FY2018 figures are the proposed Corporate Fund assets available for future use and proposed appropriations.

Sources: MWRD Adopted Budgets, FY2009-FY2018, Summaries of Net Assets Appropriable - All Funds and Comparative Statements of Appropriations and Tax Levies - All Funds; and FY2018 Tentative Budget, p. 13.

65 Information provided by the MWRD, December 10, 2013.

PENSION FUND

The Civic Federation analyzes four indicators of the fiscal health of the MWRD pension fund: funded ratios, unfunded actuarial accrued liabilities, investment rate of return and annual required employer contributions. This section presents multi-year data for those indicators and describes the MWRD pension benefits. There is also a discussion of the Fund's liabilities as reported according to accounting standards required by Governmental Accounting Standards Board Statements No. 67 and 68 (GASB 67 and 68). Unless otherwise stated, the numbers used in this chapter are statutorily required numbers used for funding purposes.

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.[66] Plan benefits and contribution amounts can only be amended through State legislation.[67] The MWRD is the only sanitary district in Illinois whose employees do not participate in the statewide Illinois Municipal Retirement Fund.

The MWRD pension fund is governed by a seven-member Board of Trustees. As prescribed in State statute, four members are elected by the employees and three members are appointed by the MWRD Board of Commissioners. One of the appointed members must be a retiree appointed with the approval of the pension fund Board of Trustees.[68]

In FY2016 there were 1,843 active members of the pension fund and 2,394 beneficiaries, for a ratio of 0.77 active member for every beneficiary. This ratio has fallen from 0.88 in FY2007 as the number of active members has declined and the number of beneficiaries has risen. A decline in the ratio of active employees to retirees can create fiscal stress for a mature, underfunded pension fund like the MWRD Retirement Fund because it means there are fewer dollars in

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[66] MWRD Retirement Fund FY2016 Comprehensive Annual Financial Report, p. 34.
[67] 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.
[68] MWRD Retirement Fund FY2016 Comprehensive Annual Financial Report, p. 34 and 40 ILCS 5/13-701.

employee contributions going into the fund and more in annuity payments flowing out of the fund.

MWRD Pension Fund Membership: FY2007-FY2016			
Fiscal Year	**Active Employees**	**Beneficiaries**	**Ratio of Active to Beneficiary**
FY2007	2,002	2,276	0.88
FY2008	2,052	2,272	0.90
FY2009	2,082	2,252	0.92
FY2010	2,024	2,248	0.90
FY2011	1,888	2,328	0.81
FY2012	1,856	2,317	0.80
FY2013	1,858	2,329	0.80
FY2014	1,873	2,343	0.80
FY2015	1,846	2,359	0.78
FY2016	1,843	2,394	0.77
Ten-Year Change	**-159**	**118**	**-0.1**
Ten-Year % Change	**-7.9%**	**5.2%**	**-12.5%**

Source: MWRD Retirement Fund Comprehensive Annual Financial Reports, FY2007-FY2016.

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.[69] This report refers to "Tier 1 employees" as those persons hired before the effective date of Public Act 96-0889 and "Tier 2 employees" as those persons hired on or after January 1, 2011.

Over time these benefit changes will slowly reduce liabilities from what they would have been as new employees are hired and fewer members remain in the old benefit tier. However, this change did not affect the MWRD pension contributions under the State statute at the time requiring the MWRD contributions to be a fixed multiple of 2.19 times employee contributions made two years prior. The next section discusses changes made to employer and employee contributions by Public Act 97-0894.

Tier 1 employees are eligible for full retirement benefits once they reach age 60 and have at least five years of employment at the District or age 55 with 30 years of service. The amount of retirement annuity is 2.2% of final average salary multiplied by years of service for the first 20 years of service and 2.4% for each year in excess of 20. Final average salary is the highest average annual salary for any 52 consecutive bi-weekly pay periods (i.e., roughly two years) within the last ten years of service. The maximum annuity amount is 80% of final average salary. 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 the MWRD Commissioners.[70]

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[69] A "trailer bill" to correct technical problems with Public Act 96-0889 was enacted in December 2010 as Public Act 96-1490.
[70] See 40 ILCS 5/13-314 and MWRD Retirement Fund FY2016 Comprehensive Annual Financial Report, p. 37.

The following table compares Tier 1 benefits to Tier 2 benefits enacted in Public Act 96-0889. The major changes are the increase in full retirement age from 60 to 67 and early retirement age from 55 to 62; the reduction of final average salary from the highest two-year average to the highest eight-year average; the $106,800 cap on final average salary; and the reduction of the automatic increase from 3.0% compounded to the lesser of 3.0% or one half of the increase in Consumer Price Index (CPI) calculated as simple interest.

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

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

**There is also an enhanced annuity available to District Commissioners. See MWRD Retirement Fund FY2016 Comprehensive Annual Financial Report, p. 37.

Note: New Hires are prohibited from simultaneously receiving a salary and a pension from any public employers covered by the State Pension Code ("double-dipping").

Sources: MWRD Retirement Fund FY2016 Comprehensive Annual Financial Report, p. 95-100 and Public Acts 96-0889 and 96-1490.

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

Pension Contributions

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

In fall of 2011, the MWRD Retirement Fund Board of Trustees proposed the pension funding reforms with support from the Board of Commissioners. The changes were introduced in the Illinois General Assembly as House Bill 4513 by Representative Elaine Nekritz in January 2012, passed by the Illinois House in March 2012 and by the Senate on May 31, 2012 and were signed into law by Governor Pat Quinn in August 2012.

The first funding reform increases employee pension contributions for members who first became participants in the MWRD or a reciprocal fund before January 1, 2011. As noted in the previous section, pension benefits are more generous for members of this group, known as "Tier 1," so they are required to pay increased contributions, while Tier 2 members, who have lesser benefit levels, will not provide increased contributions.

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

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

Source: Public Act 97-0894.

The second funding reform in P.A. 97-0894 increases the District's contribution to the pension fund. The District's contribution prior to fiscal year 2013 was set in State statute as a multiple of the total employee contribution made two years previously. The statute required that the MWRD levy a property tax not to exceed 2.19 times what employees contributed two years prior.[71] This multiple was not automatically adjusted to meet the funding needs of the pension plans. Over the past ten years, insufficient employer contributions are responsible for $265.9 million of the nearly $1.1 billion unfunded liability.[72]

Under the revised the MWRD pension statute, the District was required to increase its tax levy multiple to an amount calculated by the actuary to be sufficient to bring the total assets of the MWRD Retirement Fund up to 90% of the total actuarial liabilities of the Fund in 2050. Beginning with the 2013 tax levy (payable in 2014), and each year thereafter, the MWRD annually levies a tax that will be sufficient to meet the annual required contribution by the Fund, but shall not exceed an amount equal to the total employee contributions two years prior multiplied by 4.19. That is, the MWRD will be required to fund its pensions at a level consistent with their actuarial needs, so long as those needs do not exceed 4.19 times employee contributions two years prior. The amount the District must contribute to the fund will not decrease once the fund reaches 90% funded.

Due to timing issues with the Cook County property tax system, the MWRD did not receive the increased pension levy authorized by P.A. 97-0894 until 2014. However, the MWRD increased its FY2012 and FY2013 contributions before it was required to do so by transferring $30.0 million in interest income to the Retirement Fund appropriation. Unlike other area local governments that are not allowed to contribute more or less than the statutory multiplier to their pension funds, the MWRD is allowed to transfer interest earned on any of its moneys to its pension fund under Public Act 95-0891.[73] The MWRD projected that for FY2014 the 4.19 multiple was going to be insufficient for the actuarial needs of the fund under the new funding schedule to reach 90% funded in 2050. Therefore, it made an additional contribution of $12.0 million beyond the multiple of what was contributed by employees two years previous in order to meet the actuarial needs of the fund. [74] The total FY2014 budgeted employer contribution to the fund was $75.0 million.[75]

The total FY2015 contribution was budgeted at nearly $61.7 million, a decrease of $13.3 million, or 17.8%, from the FY2014 adjusted budget. This is because the District did not make an additional interest income transfer from other funds in FY2015.[76] The MWRD Board of Commissioners adopted a new pension funding policy in October 2014 at the recommendation of the Retirement Fund actuary and Retirement Fund Board.[77] The new policy requires the District to make contributions to the pension fund at the maximum 4.19 multiplier while giving some flexibility to fall back to a lower multiplier that will still fund the pension to 100% by 2050.

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[71] 40 ILCS 5/13-503. Employee contributions to optional additional benefits made after January 1, 2003 are multiplied by 1.0.
[72] MWRD Retirement Fund FY2016 Comprehensive Annual Financial Report, p. 101.
[73] MWRD FY2015 Executive Director's Recommendations, p. 20.
[74] MWRD FY2015 Executive Director's Recommendations, p. 97.
[75] MWRD FY2015 Executive Director's Recommendations, p. 511.
[76] MWRD FY2015 Executive Director's Recommendations, p. 93.
[77] MWRD, "Metropolitan Water Reclamation District of Greater Chicago Funding Policy, Recommended by the Retirement Fund Board of Trustees: August 27, 2014," Approved October 2, 2014. Available at http://mwrd.legistar.com/LegislationDetail.aspx?ID=1913568&GUID=52585D4D-38C0-4242-9052-5BE5120D371D&Options=&Search=.

According to the District, actuarial projections show the new funding policy will achieve 100% funding in the late 2030s, before the goal year of 2050.[78] The FY2018 contribution from the property tax is projected at $71.5 million and the total appropriation will be $89.6 million.[79]

Funded Ratio

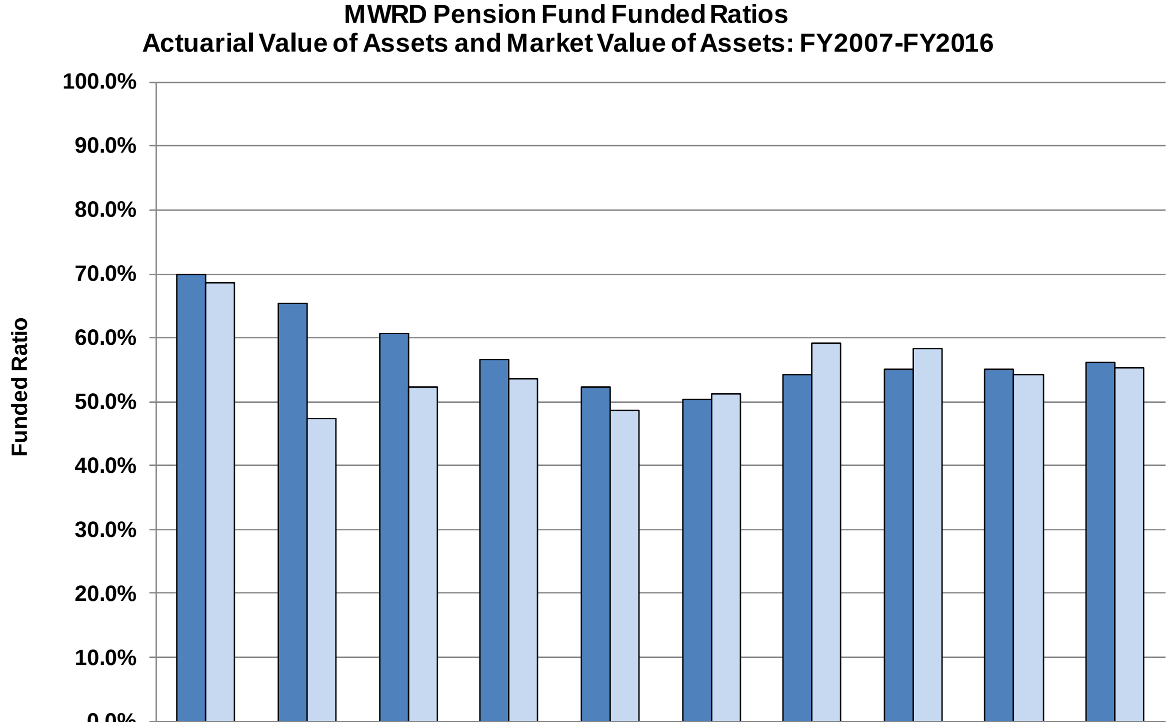
This report uses two measurements of pension plan funded ratio: the actuarial value of assets measurement and the market value of assets measurement. These ratios show the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations. The optimum situation for any pension fund is to be fully funded, with 100% of accrued liabilities covered by assets. There is no *official* industry standard or best practice for an acceptable funded ratio other than 100%.

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.[80] The market value of assets measurement presents the ratio of assets to liabilities by recognizing investments only at current market value. Market value funded ratios are more volatile than actuarial funded ratios due to the smoothing effect of actuarial value. However, market value funded ratios represent how much money is actually available at the time of measurement to cover actuarial accrued liabilities.

The following exhibit shows the actuarial and market value funded ratios for the MWRD's pension fund over the last ten years. The actuarial value funded ratio fell from a high of 70.0% in FY2007 to 50.4% in FY2012 before increasing to 56.2% in FY2016. The market value funded ratio fell from a high of 68.6% in FY2007 to a low of 47.4% in FY2008 before rebounding slightly to 53.6% in FY2010, dropping again to 48.6% in FY2011 and fluctuating over the next

[78] Information provided by the MWRD, December 8, 2014.
[79] MWRD FY2018 Executive Director's Recommendations, p. 21.
[80] For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2012*, October 2, 2014.

several years. The market value funded ratio increased to 55.4% in FY2016 due to high investment returns.



	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Actuarial Value	70.0%	65.4%	60.7%	56.5%	52.2%	50.4%	54.1%	55.0%	55.2%	56.2%
Market Value	68.6%	47.4%	52.3%	53.6%	48.6%	51.1%	59.2%	58.3%	54.3%	55.4%

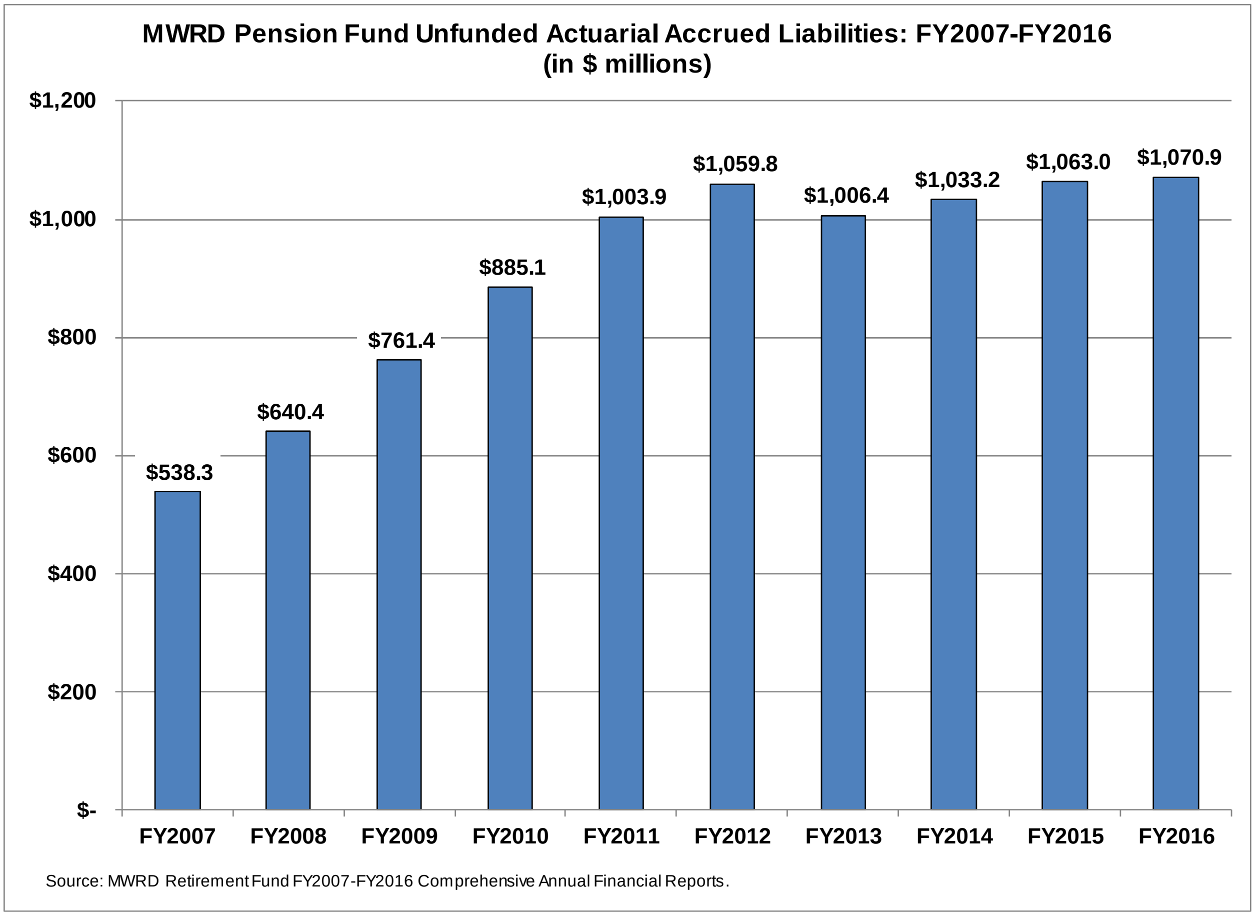
Source: Civic Federation calculations based on FY2007-FY2016 MWRD Retirement Fund Comprehensive Annual Financial Reports.

Unfunded Actuarial Accrued Liability

Unfunded actuarial accrued liability (UAAL) is the dollar value of accrued liabilities not covered by the actuarial value of assets. As shown in the exhibit below, the unfunded liability for the MWRD pension fund totaled approximately $1.1 billion in FY2016, up from $538.3 million in FY2007.

The largest contributor to the growth in unfunded liabilities between FY2007 and FY2016 was employer contributions that were $265.9 million less than the annual normal cost plus interest on the UAAL. The second largest contributor was investment returns failing to meet the 7.75%

expected rate of return or 7.5% rate of return in FY2014 and after. This added $235.4 million to the UAAL.[81]

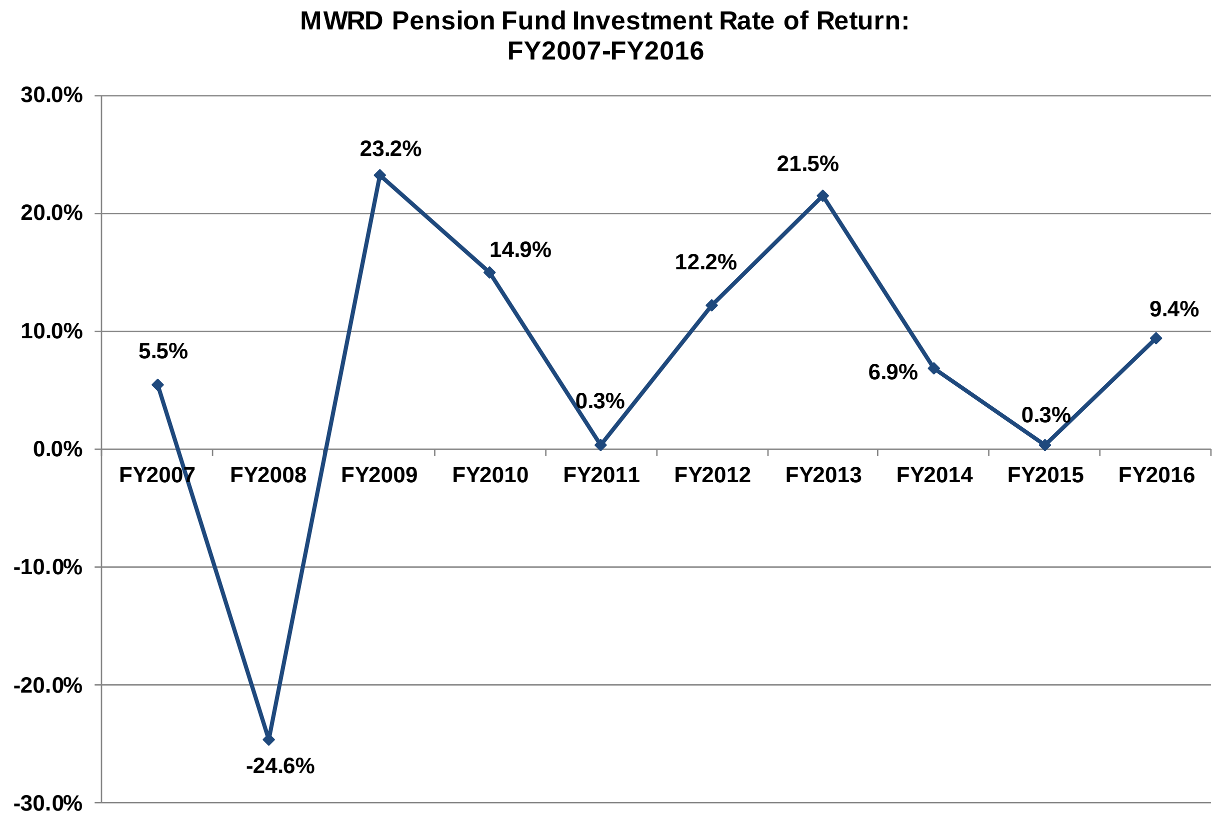


Investment Rates of Return

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 FY2007 and FY2016 the MWRD pension fund's average annual rate of return was 6.9%.[82]

[81] MWRD Retirement Fund FY2016 Comprehensive Annual Financial Report, p. 101.
[82] 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.

Returns ranged from a low of -24.6% in FY2008, corresponding with the crisis in the financial markets, to a high of 23.2% in FY2009. Returns were 9.4% in FY2016.



Source: Civic Federation calculation based on MWRD Retirement Fund FY2007-FY2016 Comprehensive Annual Financial Reports.

Pension Liabilities and Actuarially Determined Employer Contribution as Reported Under Governmental Accounting Standards Board Statements Number 67 and 68

In 2012 the Governmental Accounting Standards Board (GASB) issued new accounting and financial reporting standards for public pension plans and for governments, Statements 67 and 68. According to GASB, the new standards were intended to "improve the way state and local governments report their pension liabilities and expenses, resulting in a more faithful representation of the full impact of these obligations."[83] Among other disclosures, pension funds and governments are required to report total pension liability, fiduciary net position, net pension liability, pension expense and actuarially determined contribution (ADC), which are calculated on a different basis from previous GASB 25 and 27 pension disclosure requirements. Both pension funds and governments must also disclose additional information about pensions in the notes to the financial statements and in required supplementary information sections. It is important to note that GASB intended to separate pension reporting from pension funding. Thus, the numbers reported according to GASB 67 and 68 standards are not used to determine how

[83] Governmental Accounting Standards Board, Pension Standards for State and Local Governments. Available at: http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176163528472.

much a government must contribute to its pensions. They are a reporting, NOT a funding requirement. The MWRD and other governments will continue to use traditional public pension accounting methods to determine funding requirements. However, as the GASB 67 and 68 numbers can provide important new ways to understand a fund's sustainability, the Federation will address them here.

The MWRD Retirement Fund began reporting according to GASB 67 in its FY2014 CAFR and actuarial valuations. The District itself began reporting according to GASB 68 in its FY2015 financial statements.

The total pension liability, fiduciary net position, net pension liability and ADC[84] are all calculated on a different basis both from what used to be required by GASB and from the traditional public pension actuarial basis.

Total Pension Liability – This number is similar in concept to the actuarial accrued liability (AAL) discussed above, but is NOT the same. The actuarial cost method and discount rate (among other things) are different. All plans are required to use:

- Entry age normal actuarial cost method and level percent of payroll. The MWRD Fund also uses the entry age normal method for statutory reporting and funding purposes.
- A single blended discount rate, instead of basing the discount rate only on projected investment earnings. The discount rate is used to calculate the present value of the future obligations of a pension fund. The discount rate has an inverse relationship to actuarial liabilities, such that a lower discount rate will result in higher liabilities.
    - If a government is projected to have enough assets to cover its projected benefit payments to current and inactive employees, it can use the expected return on investments as its discount rate.
    - If a government is projected to reach a crossover point beyond which projected assets are insufficient to cover projected benefit payments, then a blended discount rate must be used. Benefit payments projected to be made from that point forward are discounted using a high-quality municipal bond interest rate. The blended rate is a single equivalent rate that reflects the investment rate of return and the high-quality municipal bond interest rate.
    - The MWRD Retirement Fund was not projected to reach the crossover point, so its GASB 67 and 68 reporting is discounted at the full 7.5% assumed rate of return.

Fiduciary Net Position – This number is essentially the market value of assets in the pension plan as of the end of the fiscal year, not the assets as calculated on an actuarially smoothed basis under previous reporting requirements. The MWRD Fund uses smoothed actuarial value of assets to determine statutory employer contribution requirements.

Net Pension Liability – This number is similar in concept to the unfunded actuarial accrued liability, but again it is NOT the same. It is the difference between the Total Pension Liability and the Fiduciary Net Position of the fund. Governments are required to report the Net

[84] Other differences and newly reported numbers are not central to the discussion here.

Pension Liability in their Statements of Net Position in their financial statements, according to GASB 68.

Actuarially Determined Contribution (ADC) – Another change from previous standards is that funds are no longer required to report an Annual Required Contribution (ARC) based on standards promulgated by GASB. Instead, the funds calculate an Actuarially Determined Contribution or ADC that reflects their own funding plan, unless that funding scheme does not follow actuarial standards of practice. Then the fund must report an ADC that is calculated according to actuarial standards of practice. It is again important to emphasize that the ADC is a reporting and not a funding requirement. See the discussion below for a summary of how the basis for calculating the MWRD Fund ADC relates to the ARC.

Difference Between the ADC and ARC

Depending on the employer's funding plan, a pension fund's ADC may be very similar to the previously reported ARC. The chart below summarizes the main assumptions behind the MWRD Retirement Fund calculations of ADC and ARC. The Retirement Fund uses a 40-year closed amortization period, of which 34 years were left as of December 31, 2016. For ARC reporting, the Fund used to use a 30-year open amortization period. An open amortization period remains the same every year (e.g., each valuation amortizes UAAL over 30 years), while a closed amortization period declines as each year passes (e.g., successive valuations amortize at 30 years, 29 years, 28 years, etc.). The 40-year closed amortization on a level percent of payroll basis is the funding schedule laid out in state statute. The 100% funding goal instead of 90% outlined in state statute follows the District's funding policy adopted in 2014.

The ADC uses the actuarially calculated UAAL number instead of the GASB 67 net pension liability number, which also makes it similar to the ARC. Additionally, the ADC need not follow the GASB 67 and 68 requirement of using the market value of assets. The MWRD Fund uses a five-year smoothed valuation of assets.

Calculation of the Actuarially Determined Contribution (ADC) vs the Annual Required Contribution (ARC)

	ADC (FY2014 and After)	ARC (FY2013 and Earlier)
Amortization Period	40-year closed (34 years remaining)	30-year open
Amortization Method	Level % of Payroll	Level % of Payroll
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Value of Assets	5-year smoothed	5-year smoothed
Investment Rate of Return	7.50%	7.50%

Source: Metropolitan Water Reclamation District Pension Fund FY2016 and FY2011 Actuarial Valuations.

Because the ADC and ARC are calculated on a similar basis, the Civic Federation will continue to analyze the trend of the difference between the reported ADC/ARC and the statutorily required employer contribution the MWRD must make under state law.

The following table compares the ARC to the actual MWRD contribution over the last ten years. Between FY2007 and FY2011, the gap between the employer contribution and the ARC grew from $12.9 million to $32.0 million. The difference between the ARC and the employer contribution diminished to $9.7 million in FY2012 because the MWRD made an additional contribution to the pension fund in FY2012 beyond the statutory contribution of $28.5 million by transferring nearly $30.0 million in interest income to the Retirement Fund appropriation, as allowed under Public Act 95-0891. The District contributed more than the ARC/ADC in FY2013-FY2016 due to both the increase in the amount it was allowed to levy for pensions under the provisions of Public Act 97-0894 described above, additional contributions of $30.0 million in FY2013 and $12.0 million in FY2014 also made under the provisions of P.A. 95-0891 and addition contributions made according to its updated 2014 pension funding policy. The cumulative ten-year difference between the ADC/ARC and the actual employer contribution is $80.1 million.

Expressing ADC/ARC as a percent of payroll provides a sense of scale and affordability. In FY2007 the ARC was 29.6% of payroll while the actual employer contribution was 17.6% of payroll. In FY2016 the pension ADC was 35.4% of payroll while the actual employer contribution was 43.9% of payroll. Tier 1 employees contributed 12.0% of salary to the pension fund in FY2016 and Tier 2 employees contributed 9.0% of salary.

MWRD Pension Fund Schedule of Employer Contributions
As Computed for GASB Statements No. 25 & 67: FY2007-FY2016

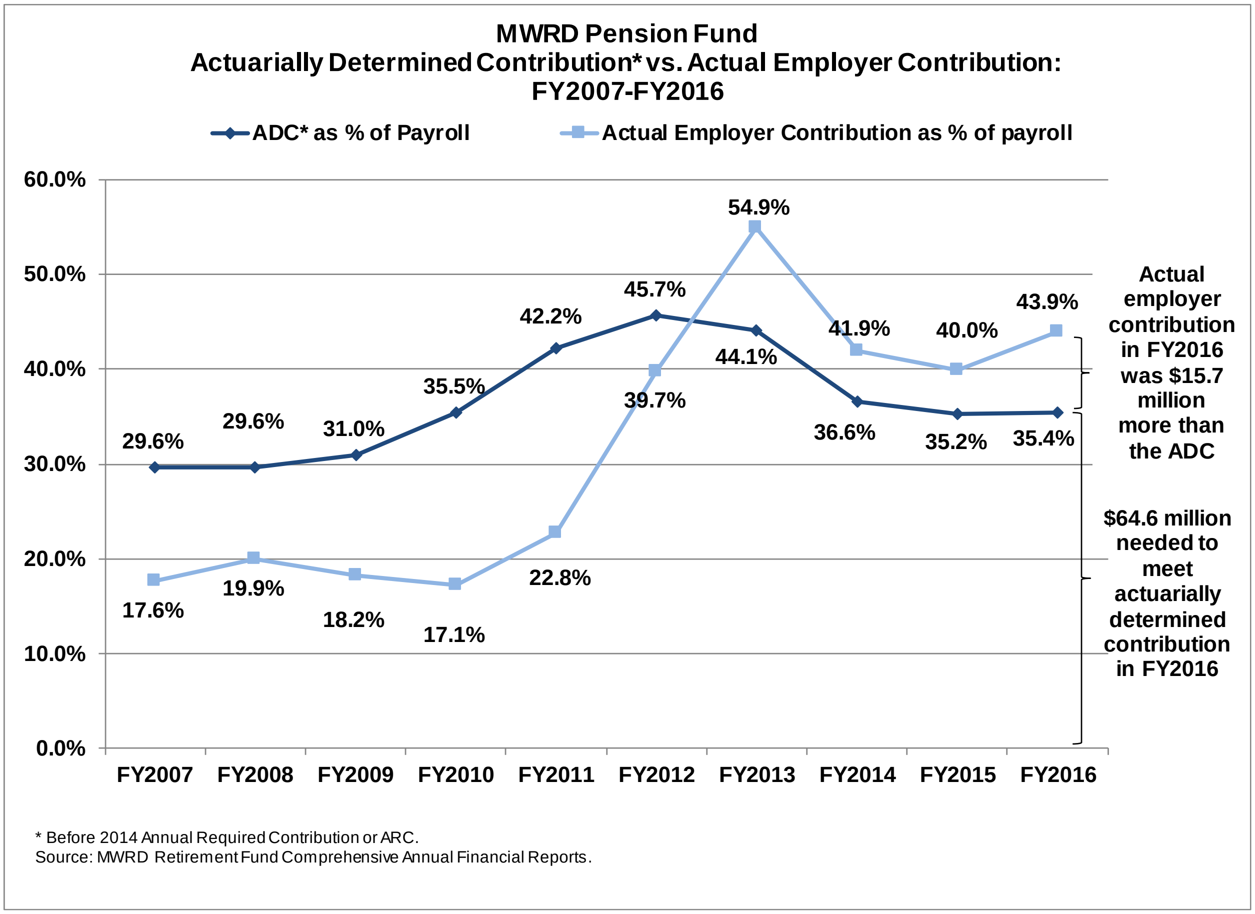
Fiscal Year	Employer Actuarially Determined Contribution* (1)	Actual Employer Contribution (2)	Shortfall (1-2)	% of ADC* Contributed	Payroll	ADC* as % of Payroll	Actual Employer Contribution as % of payroll
2007	$ 47,090,445	$ 27,947,096	$ 19,143,349	59.3%	$ 158,831,772	29.6%	17.6%
2008	$ 49,758,238	$ 33,406,819	$ 16,351,419	67.1%	$ 167,865,254	29.6%	19.9%
2009	$ 54,790,175	$ 32,153,874	$ 22,636,301	58.7%	$ 176,915,399	31.0%	18.2%
2010	$ 61,872,925	$ 29,917,793	$ 31,955,132	48.4%	$ 174,485,734	35.5%	17.1%
2011	$ 69,393,171	$ 37,379,137	$ 32,014,034	53.9%	$ 164,275,424	42.2%	22.8%
2012	$ 74,828,844	$ 65,097,835	$ 9,731,009	87.0%	$ 163,816,934	45.7%	39.7%
2013	$ 74,774,148	$ 92,944,381	$ (18,170,233)	124.3%	$ 169,375,857	44.1%	54.9%
2014	$ 64,477,662	$ 73,906,168	$ (9,428,506)	114.6%	$ 176,183,941	36.6%	41.9%
2015	$ 62,603,576	$ 71,041,361	$ (8,437,785)	113.5%	$ 177,792,309	35.2%	40.0%
2016	$ 64,596,066	$ 80,259,713	$ (15,663,647)	124.2%	$ 182,640,163	35.4%	43.9%

* Before 2014 Annual Required Contribution or ARC.
Source: MWRD Retirement Fund Comprehensive Annual Financial Reports.

The graph below illustrates the difference between the ARC as a percent of payroll and the actual employer contribution as a percent of payroll. The spread between the two amounts grew from a 12.1 percentage point shortfall in FY2007 to a 19.5 percentage point shortfall in FY2011 before dropping to a 5.9 percentage point shortfall in FY2012 and changing to a surplus of 10.7 percentage points[85] in FY2013 and 8.6 percentage points in FY2016. The District, therefore, in FY2016 funded the pension plan at $15.7 million more than a level that would both cover normal cost and amortize the unfunded liability over the remaining 34 years of the closed 40-year amortization period. However, it is important to note that the employer contribution fell short of

[85] Note: Differences may occur due to rounding.

the normal cost plus interest on the unfunded liability which means it contributed to an increase in the UAAL.[86]



MWRD Retirement Fund Reported Liabilities Under GASB Statements Number 67 and 68

The following table shows the MWRD Fund financial reporting under GASB 67 and 68. Fiduciary Net Position as a percentage of Total Pension Liabilities is analogous to a funded ratio as calculated under actuarial standards. In contrast to other Chicago-area governments, the MWRD Fund's pension liability reporting under GASB 67 and 68 is not significantly different from its statutorily reported numbers calculated on an actuarial basis. The reason is that projected assets are forecast to be sufficient to cover projected benefit payments and therefore the full expected rate of return on assets can be used as a discount rate. Other local governments have been projected to reach such a crossover point beyond which projected benefit payments will

[86] MWRD Retirement Fund FY2016 Comprehensive Annual Financial Report, p. 101.

exceed assets and therefore must use a lower discount rate, which results in higher present values for liabilities and net pension liabilities.[87]

MWRD Retirement Fund GASB 67 Reporting: FY2013-FY2016					
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Fiduciary Net Position as a Percentage of Total Pension Liability	Actuarially Determined Contribution
FY2013	$ 2,213,191,717	$ 1,298,613,827	$ 914,577,890	58.68%	$ 74,774,148
FY2014	$ 2,285,095,580	$ 1,337,795,620	$ 947,299,960	58.54%	$ 64,477,662
FY2015	$ 2,359,766,327	$ 1,286,653,498	$ 1,073,112,829	54.52%	$ 62,603,576
FY2016	$ 2,432,163,441	$ 1,352,598,383	$ 1,079,565,058	55.61%	$ 64,596,066
Four-Year Change	**$ 218,971,724**	**$ 53,984,556**	**$ 164,987,168**		**$ (10,178,082)**
Four-Year % Change	**9.89%**	**4.16%**	**18.04%**		**-13.61%**

Source: FY2013-FY2016 MWRD Retirement Fund CAFRs.

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 the MWRD the authority to establish the OPEB trust. The Civic Federation supported the creation of this trust fund and has urged the General Assembly to allow other governments to do the same.

Prior to a change in funding policy in 2014, funding parameters for the Trust were:

- A 50-year period over which to reach a 50% funded ratio;
- $10 million in 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.[88]

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.[89] 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 $50.0 million total contributed through 2011. The District contributed $22.0 million for FY2012.[90] The FY2013 and FY2014 contributions were $20.0

[87] For more on discount rates and how they impact measurements of the present value of liabilities, read the Civic Federation blog: https://www.civicfed.org/iifs/blog/state-pension-liabilities-rise-due-lower-expected-investment-returns and https://www.civicfed.org/civic-federation/blog/local-government-pension-funds-lower-their-expected-investment-rates-return-fy.
[88] MWRD FY2014 Executive Director's Recommendations, p. 13.
[89] MWRD FY2009 Comprehensive Annual Financial Report, p. 41.
[90] MWRD FY2012 Comprehensive Annual Financial Report, p. 85.

million and the FY2015, FY2016, FY2017 and budgeted FY2018 contributions are $5.0 million.[91]

The Trust Fund reached 50% funded in FY2013, well ahead of the policy target date of 2050. The Board of Commissioners adopted a new policy for the OPEB fund in 2014, making a commitment to reach 100% funding over the next 12 years.[92]

According to a policy implemented by the MWRD Board of Commissioners, retiree contributions will rise by 2.5% each year until the total portion of the premium paid by retirees reaches 50%. Retirees currently contribute 37.5% of the premium and the MWRD contributes 62.5%.[93] As of December 31, 2016, there were 2,775 retirees and beneficiaries receiving health care coverage.[94]

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, 2015. The actuarial accrued liability computed for the MWRD OPEB trust in the 2015 valuation was $286.6 million. The trust had assets actuarially valued at $149.3 million, resulting in unfunded liabilities of $137.3 million and a 52.1% funded ratio for FY2015. The increase in the actuarial accrued liability was mostly due to changes in assumptions and retiree census.[95]

MWRD OPEB Funded Status: FY2007-FY2016
(in $ millions)

	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Actuarial Accrued Liability	$ 442.7	$ 526.5	$ 526.5	$ 526.5	$ 394.7	$ 394.7	$ 260.4	$ 260.4	$ 286.6	$ 286.6
Actuarial Value of Assets	$ 25.0	$ 47.8	$ 47.9	$ 47.9	$ 55.0	$ 55.0	$ 120.9	$ 120.9	$ 149.3	$ 149.3
Unfunded Actuarial Accrued Liability	$ 417.7	$ 478.7	$ 478.6	$ 478.6	$ 339.7	$ 339.7	$ 139.5	$ 139.5	$ 137.3	$ 137.3
Funded Ratio	5.7%	9.1%	9.1%	9.1%	13.9%	13.9%	46.4%	46.4%	52.1%	52.1%

Source: MWRD FY2007-FY2016 Comprehensive Annual Financial Reports.

[91] MWRD FY2018 Executive Director's Recommendations, p. 10.
[92] MWRD FY2018 Executive Director's Recommendations, p. 10.
[93] MWRD FY2016 Comprehensive Annual Financial Report, p. 94.
[94] MWRD FY2016 Comprehensive Annual Financial Report, p. 93.
[95] MWRD December 31, 2015 Actuarial Valuation of Retiree Health Care Benefits under GASB 43, p. 14.

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 the MWRD employees, but have not yet been paid or recorded in the District's accounts;
- *Bid Deposits Payable*: Bid deposits held by the MWRD that must be repaid within a year; and
- *Due to Pension Trust Fund:* These are payables due for the outstanding amount of contributions to the MWRD pension plan required for the fiscal year reported in the CAFR.[96]
- *Accrued Interest Payable*: Interest that is payable and has been recognized but has not yet been paid. This may include amounts accumulated on bonds since the last interest payment up to, but not including, the settlement date.

In FY2016 the District reported an 0.1%, or $178,000 million, increase in short-term liabilities from the previous year. Accounts payable decreased by $10.3 million or 11.5% during this period.

Between FY2012 and FY2016, short-term liabilities increased by $47.1 million, or 36.6%. This was a rise from $128.5 million to $175.5 million. Most of the five-year increase was due to the $47.4 million increase in amounts due to the MWRD pension trust fund.

Metropolitan Water Reclamation District FY2012-FY2016 Short-Term Liabilities in the Governmental Funds (in $ thousands)

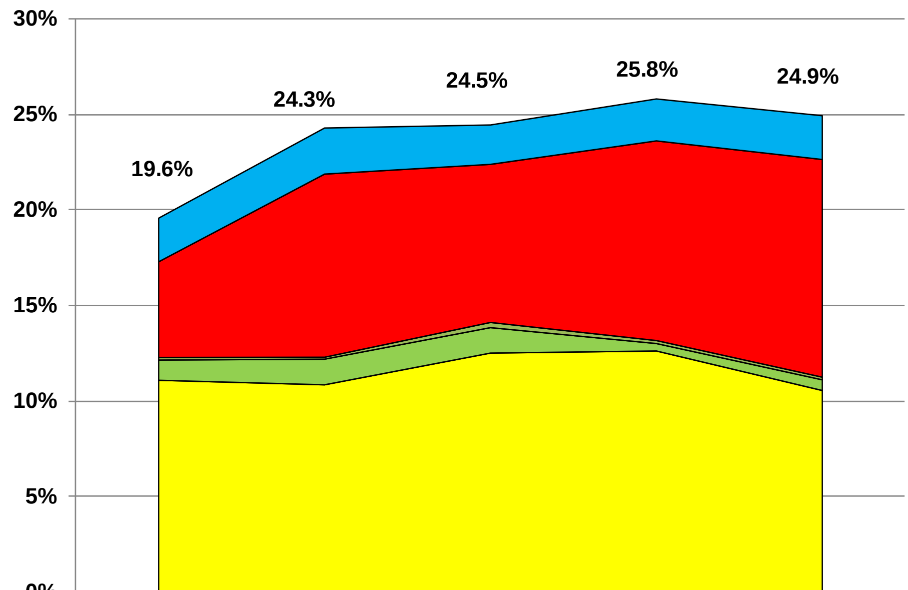
Type	FY2012	FY2013	FY2014	FY2015	FY2016	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Accounts Payable	$ 72,699	$ 63,977	$ 82,517	$ 85,643	$ 74,185	$ (11,458)	-13.4%	$ 1,486	2.0%
Accrued Payroll	$ 6,958	$ 7,930	$ 8,802	$ 2,650	$ 3,933	$ 1,283	48.4%	$ (3,025)	-43.5%
Bid Deposits	$ 885	$ 599	$ 1,786	$ 1,067	$ 981	$ (86)	-8.1%	$ 96	10.8%
Due to Pension Trust Fund	$ 32,903	$ 56,638	$ 54,678	$ 71,041	$ 80,259	$ 9,218	13.0%	$ 47,356	143.9%
Accrued Interest Payable	$ 15,007	$ 14,247	$ 13,623	$ 14,924	$ 16,145	$ 1,221	8.2%	$ 1,138	7.6%
Total	**$ 128,452**	**$ 143,391**	**$ 161,406**	**$ 175,325**	**$ 175,503**	**$ 178**	**0.1%**	**$ 47,051**	**36.6%**

Source: MWRD FY2012-FY2016 Comprehensive Annual Financial Reports.

[96] MWRD FY2016 Comprehensive Annual Financial Report, pp. 105-106.

Higher levels of current liabilities in a government's operating funds at the end of the year as a percentage of net operating revenues may be a warning sign of possible future financial difficulties.[97] This indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. The MWRD had an increase in short-term liabilities compared to total operating revenue between FY2012 and FY2015, with short-term liabilities rising significantly from 19.6% to 25.8%. Much of the increase was due to large sums of payables for the pension trust fund, The ratio dipped slightly to 24.9% in FY2016.

Metropolitan Water Reclamation District Short-Term Liabilities as % of Operating Revenues in the Governmental Funds: FY2012-FY2016



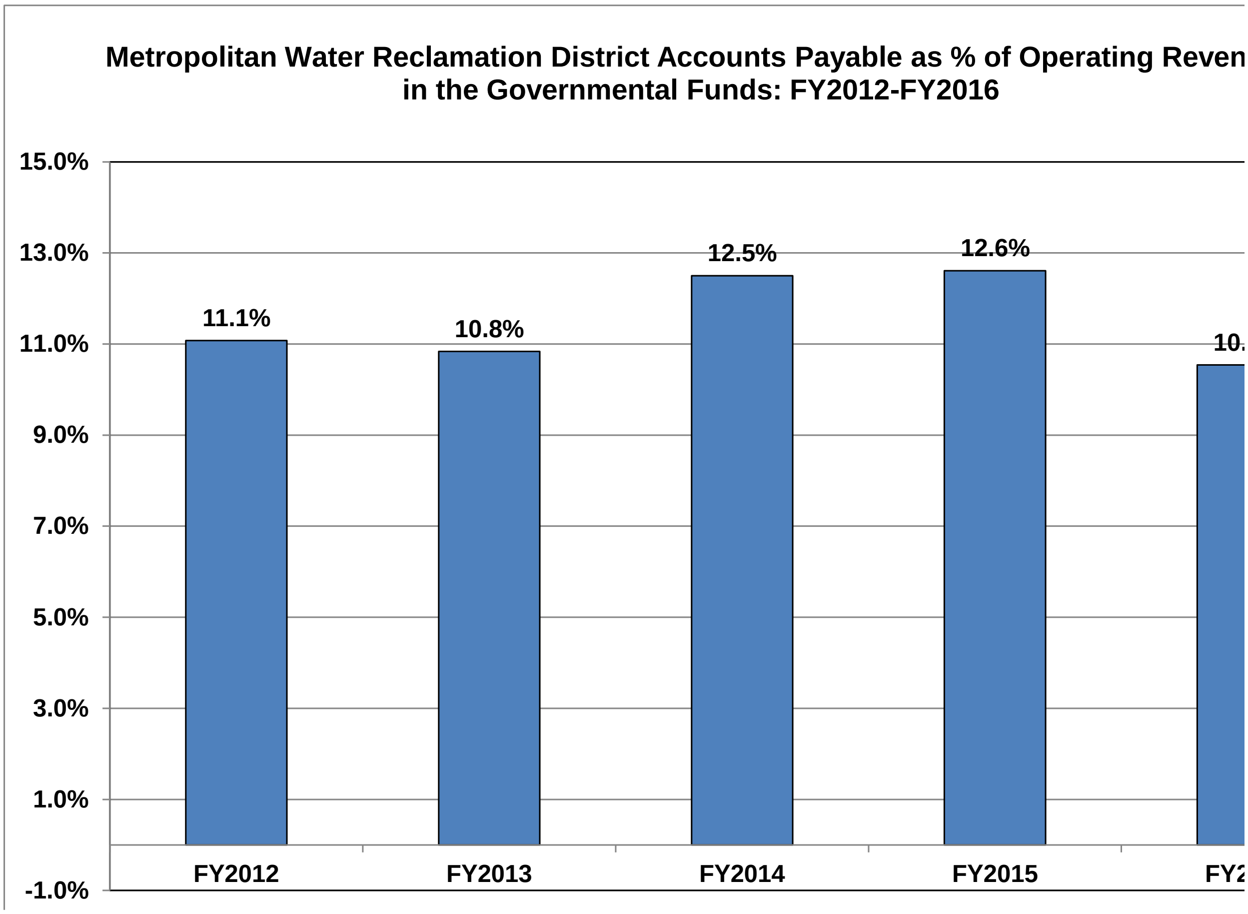
	FY2012	FY2013	FY2014	FY2015	FY2016
Accrued Interest Payable	2.3%	2.4%	2.1%	2.2%	2.3%
Due to Pension Trust Fund	5.0%	9.6%	8.3%	10.5%	11.4%
Bid Deposits	0.1%	0.1%	0.3%	0.2%	0.1%
Accrued Payroll	1.1%	1.3%	1.3%	0.4%	0.6%
Accounts Payable	11.1%	10.8%	12.5%	12.6%	10.5%

Source: MWRD FY2012-FY2016 Comprehensive Annual Financial Reports.

[97] Operating funds are those funds used to account for general operations: the General Fund, Special Revenue Funds and the Debt Service Fund. See Karl Nollenberger, Sanford Groves and Maureen G. Valente, *Evaluating Financial Condition: A Handbook for Local Government* (International City/County Management Association, 2003), pp. 77 and 169.

Accounts Payable

Rising amounts of accounts payable passed from one year to the next may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. The District's accounts payable as a percentage of operating revenue were relatively steady between FY2012 and FY2016. Over the five years of this review, the accounts payable ratio averaged 11.5%.



Current Ratio

The current ratio is a measure of liquidity. The ratio is calculated by dividing current assets by current liabilities. 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.[98]

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

[98] 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;
- *Prepaid insurance*: This involves payments made in advance for insurance plan services or coverage.[99]

  Receivables: Monetary obligations owed to the government including property taxes and interest on loans;
- *Inventories*: Materials, supplies, and repair parts which extend the life of the District's treatment facilities; and
- *Restricted cash*: Cash and investments set aside pursuant to real estate escrow and intergovernmental agreements.[100]

The MWRD's current ratio was 8.1 in FY2016, the most recent year for which data are available. In the past five years, the District's current ratio averaged 8.7, which is far above the preferred benchmark of 2.0, and thus demonstrates a healthy level of liquidity. From FY2012 to FY2016, the current ratio fell from 11.2 to 8.1, a 27.5% decrease. The reason for the ratio decrease is that assets decreased by a $13.9 million at the same time liabilities increased by nearly $47.1 million.

Metropolitan Water Reclamation District FY2012-FY2016 Current Ratio in the Governmental Funds (in $ thousands)

	FY2012	FY2013	FY2014	FY2015	FY2016	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Current Assets									
Cash	$ 26,080	$ 64,496	$ 57,273	$ 173,701	$ 35,461	$ (138,240)	-79.6%	$ 9,381	36.0%
Certificates of Deposit	$ 57,211	$ 77,316	$ 25,111	$ 23,631	$ 172,874	$ 149,243	631.6%	$ 115,663	202.2%
Investments	$ 803,692	$ 579,933	$ 481,318	$ 518,124	$ 503,838	$ (14,286)	-2.8%	$(299,854)	-37.3%
Prepaid Insurance	$ -	$ 2,391	$ 2,143	$ 2,137	$ 2,118	$ (19)	-0.9%	$ 2,118	---
Taxes Receivable, net	$ 486,227	$ 503,911	$ 527,258	$ 542,073	$ 557,898	$ 15,825	2.9%	$ 71,671	14.7%
Other Receivables, net	$ 18,752	$ 31,656	$ 38,961	$ 50,986	$ 111,555	$ 60,569	118.8%	$ 92,803	494.9%
Inventories	$ 39,467	$ 40,136	$ 39,586	$ 37,623	$ 35,502	$ (2,121)	-5.6%	$ (3,965)	-10.0%
Restricted cash	$ 2,018	$ 1,425	$ 1,409	$ 1,405	$ 285	$ (1,120)	-79.7%	$ (1,733)	-85.9%
Total Current Assets	**$ 1,433,447**	**$ 1,301,264**	**$ 1,173,059**	**$ 1,349,680**	**$ 1,419,531**	**$ 69,851**	**5.2%**	**$ (13,916)**	**-1.0%**
Current Liabilities									
Accounts Payable	$ 72,699	$ 63,977	$ 82,517	$ 85,643	$ 74,185	$ (11,458)	-13.4%	$ 1,486	2.0%
Accrued Payroll	$ 6,958	$ 7,930	$ 8,802	$ 2,650	$ 3,933	$ 1,283	48.4%	$ (3,025)	-43.5%
Bid Deposits	$ 885	$ 599	$ 1,786	$ 1,067	$ 981	$ (86)	-8.1%	$ 96	10.8%
Due to Pension Trust Fund	$ 32,903	$ 56,638	$ 54,678	$ 71,041	$ 80,259	$ 9,218	13.0%	$ 47,356	143.9%
Accrued Interest Payable	$ 15,007	$ 14,247	$ 13,623	$ 14,924	$ 16,145	$ 1,221	8.2%	$ 1,138	7.6%
Total Current Liabilities	**$ 128,452**	**$ 143,391**	**$ 161,406**	**$ 175,325**	**$ 175,503**	**$ 178**	**0.1%**	**$ 47,051**	**36.6%**
Current Ratio	**11.2**	**9.1**	**7.3**	**7.7**	**8.1**				

Source: MWRD FY2012-FY2016 Comprehensive Annual Financial Reports.

[99] Investopedia, "Prepaid expense," at https://www.investopedia.com/terms/p/prepaidexpense.asp.
[100] MWRD FY2016 Comprehensive Annual Financial Report, p. 69.

LONG-TERM LIABILITIES

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

Long-Term Liabilities

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

- *Compensated absences*: Liabilities owed for employees' time off with pay for vacations, holidays and sick days;
- *Claims and judgments*: Liabilities owed as a result of claims for tort liability and property judgments; and
- *Net pension and other post employment benefits obligations (NPO)*: the cumulative difference (as of the effective date of GASB Statement 27) between the annual pension cost and the employer's contributions to the plan. This includes the pension liability at transition (beginning pension liability) and excludes short-term differences and unpaid contributions that have been converted to pension-related debt. Net Other Post Employment Benefit (OPEB) liabilities are the cumulative difference (as of the effective date of GASB Statement 45) between the annual OPEB (employee health insurance) cost and the employer's contributions to its OPEB plan.
- *Net Pension Liability*: Beginning in FY2015, the MWRD reports 100% of the net pension liabilities of its four municipal pension funds in the Statement of Net Position to comply with GASB Statement Number 68 requirements. Previously, this liability was reported in the Statement of Net Position as a Net Pension Obligation or NPO (see description above). As a result of the reporting change for pensions involved in implementing GASB 68, the amount of MWRD long-term liabilities **reported** have increased substantially. This is because it reflects a more holistic approach to measuring the liabilities of the government, which the previous NPO pension measurement did not. The amount owed by the MWRD to its pension fund has not significantly changed. It is only being reported more transparently.[101] The FY2015 CAFR includes a restatement of net pension liabilities for FY2014 to reflect the reporting requirement change.

[101] MWRD FY2016 Comprehensive Annual Financial Report, p. 48.

Between FY2015 and FY2016 total long-term liabilities rose by 7.3%, or $292.6 million. In the five-year period between FY2012 and FY2016, total long-term liabilities rose by 44.2%, increasing from nearly $3.0 billion to $4.3 billion. This was an increase of $1.3 billion.

In this same five-year period, long-term debt increased by 17.2%. This was an increase of $465.4 million, from $2.7 billion to $3.2 billion. Long-term debt was primarily incurred through general obligation bonds, bond anticipation notes and capital leases. From FY2015 to FY2016, total long-term debt rose by 6.3%, or $187.8 million.

Other long-term liabilities, which include claims and judgments, net pension and OPEB liabilities and compensated absences, rose by 287.8% between FY2012 and FY2016. This was a $857.8 million increase from $298.0 million to nearly $1.2 billion.

The single largest increase in long-term liabilities between FY2012 and FY2016 was for net pension liabilities. This obligation was reported to rise by 789.4% or $952.5 million. As noted above, this did not represent a new, large increase in liabilities. Rather, it was due to the new pension liability reporting requirements of GASB Statement No. 68, which presented a more transparent approach to measuring these liabilities than the previous approach.

Metropolitan Water Reclamation District Long-Term Liabilities: FY2012-FY2016
(in $ thousands)

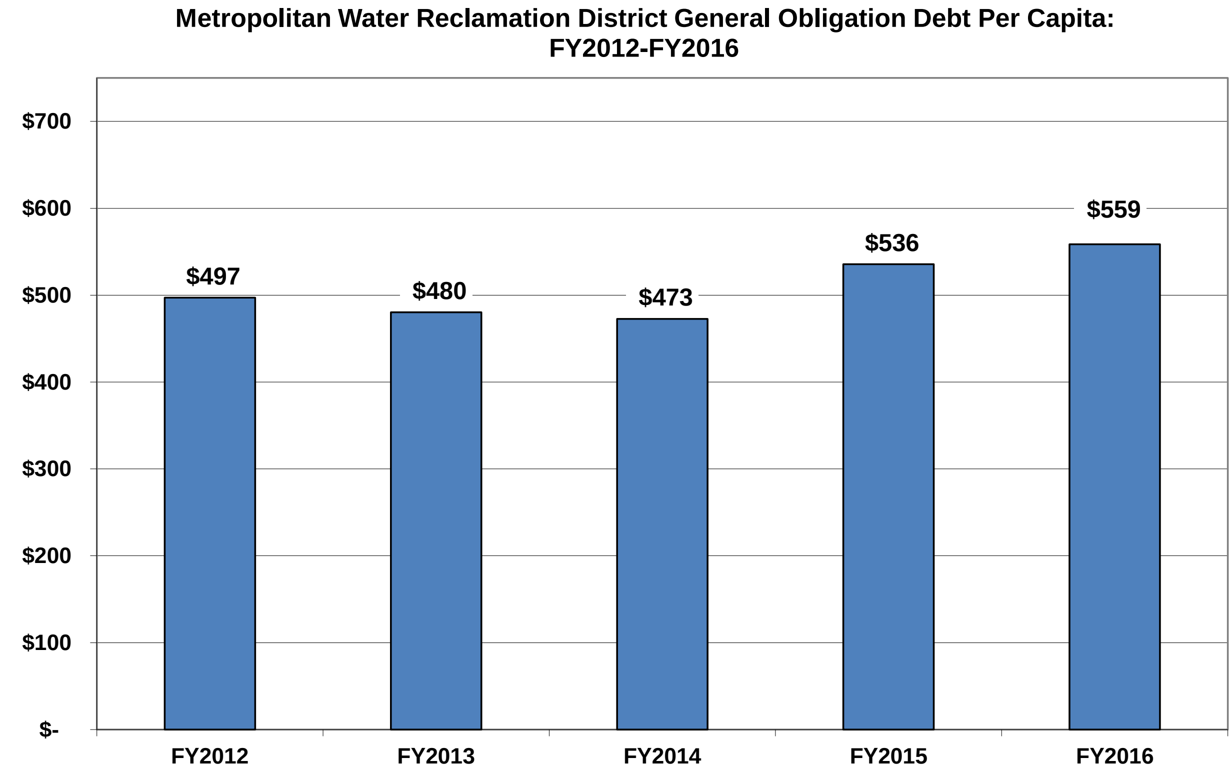
Long-Term Liabilities	FY2012	FY2013	FY2014	FY2015	FY2016	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
General Obligation Debt	$ 1,896,371	$ 1,857,731	$ 1,816,796	$ 1,983,806	$ 1,963,045	$ (20,761)	-1.0%	$ 66,674	3.5%
Converted Bond Anticipation Notes	$ 619,005	$ 624,242	$ 605,824	$ 671,559	$ 806,563	$ 135,004	20.1%	$ 187,558	30.3%
Bond Anticipation Notes	$ 44,527	$ 35,809	$ 90,460	$ 161,697	$ 157,390	$ (4,307)	---	$ 112,863	---
Subtotal General Obligation Debt	**$ 2,559,903**	**$ 2,517,782**	**$ 2,513,080**	**$ 2,817,062**	**$ 2,926,998**	**$ 109,936**	**3.9%**	**$ 367,095**	**14.3%**
Deferred Premiums	$ 88,610	$ 83,026	$ 78,165	$ 115,423	$ 195,674	$ 80,251	69.5%	$ 107,064	120.8%
Subtotal Bonds Payable, Net	**$ 2,648,513**	**$ 2,600,808**	**$ 2,591,245**	**$ 2,932,485**	**$ 3,122,672**	**$ 190,187**	**6.5%**	$ 474,159	17.9%
Capital Leases	$ 49,837	$ 47,795	$ 45,653	$ 43,405	$ 41,047	$ (2,358)	-5.4%	$ (8,790)	-
Subtotal Long-Term Debt	**$ 2,698,350**	**$ 2,648,603**	**$ 2,636,898**	**$ 2,975,890**	**$ 3,163,719**	**$ 187,829**	**6.3%**	**$ 465,369**	**17.2%**
Claims and Judgments	$ 79,597	$ 77,996	$ 35,668	$ 53,570	$ 40,236	$ (13,334)	-24.9%	$ (39,361)	-49.5%
Compensated Absences	$ 28,356	$ 27,627	$ 27,564	$ 25,153	$ 24,486	$ (667)	-2.7%	$ (3,870)	-13.6%
Net OPEB Liability	$ 69,425	$ 49,858	$ 30,409	$ 25,001	$ 17,993	$ (7,008)	-28.0%	$ (51,432)	-74.1%
Net Pension Liability*	$ 120,651	$ 105,193	$ 914,578	$ 947,300	$ 1,073,113	$ 125,813	13.3%	$ 952,462	789.4%
Subtotal Other Long-Term Liabilities	**$ 298,029**	**$ 260,674**	**$ 1,008,219**	**$ 1,051,024**	**$ 1,155,828**	$ 104,804	**10.0%**	**$ 857,799**	**287.8%**
Total Long-Term Liabilities	**$ 2,996,379**	**$ 2,909,277**	**$ 3,645,117**	**$ 4,026,914**	**$ 4,319,547**	**$ 292,633**	**7.3%**	**$ 1,323,168**	**44.2%**

* Reported as net pension obligation FY2012 and FY2013.

Source: MWRD FY2012-FY2016 Comprehensive Annual Financial Reports. Net pension liability for FY2014 restated in FY2015.

General Obligation Debt Per Capita

A common ratio used by rating agencies and other public finance analysts to evaluate long-term debt trends is tax-supported general obligation debt per capita. This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements. Increases over time bear watching as they could be a potential sign of financial risk. Between FY2012 and FY2012 the MWRD's long-term General Obligation debt per capita amounts increased from $497 to $559. This represents a 12.4% increase.



Source: MWRD FY2012-FY2016 Comprehensive Annual Financial Reports.

Debt Service Appropriations as a Percentage of Total Appropriations

The ratio of debt service expenditures as a percentage of total expenditures is frequently used by rating agencies to assess debt burden. The rating agencies consider a debt burden high if this ratio is between 15% and 20%.[102] The debt service to total appropriations ratio for the MWRD between FY2014 and projected FY2018 will increase from 16.0% to 22.5%. While the ratio over time is high, averaging 18.7%, it is important to note that the MWRD is a government with large ongoing capital expenses due to its mission of wastewater and stormwater management.

Metropolitan Water Reclamation District Debt Service Appropriations as a Percentage of Total Appropriations: FY2014-FY2018 (in $ millions)

	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 As Adjusted	FY2018 Tentative
Debt Service Appropriations	$194.9	$214.5	$216.0	$228.8	$256.3
Total Appropriations	$1,219.7	$1,203.4	$1,244.1	$1,142.7	$1,137.9
Debt Service as a % of Total Appropriations	**16.0%**	**17.8%**	**17.4%**	**20.0%**	**22.5%**

Source: MWRD FY2018 Tentative Budget, p. 8.

BOND RATINGS

The MWRD has the following current bond ratings, as of November 2017:

- Moody's Investors Service – Aa2 (since 2015);
- Fitch – AAA (since 2001); and
- Standard & Poor's – AA+ (since 2016).[103]

In May 2016 Standard & Poor's downgraded the MWRD's credit rating from AAA to AA+ with a stable outlook. The reason for the downgrade was concern over the growing financial impact of the pension and debt liabilities of the overlapping governments reliant on the same property tax base.[104]

In July 2015 Moody's Investors Services downgraded the MWRD credit rating from Aa1 to Aa2. The downgrade was due to the pressure on the tax base from the significant pension and debt liabilities for many of the major governmental entities in Cook County.[105]

[102] Standard & Poor's, Public Finance Criteria 2007, p. 64. See also Moody's, General Obligation Bonds Issued by U.S. Local Governments, October 2009, p. 27.
[103] MWRD FY2018 Executive Director's Recommendations, p. 3.
[104] Jennifer Boyd. Standard and Poor's Global Ratings. "Metropolitan Water Reclamation District of Greater Chicago; General Obligation," May 26, 2016.
[105] MWRD FY2016 Executive Director's Recommendations, pp. 27-28.

In August 2013, Moody's Investors Service downgraded its rating on MWRD general obligation unlimited and limited tax break bonds to Aa1 from Aaa, with a negative outlook. The reasons given for the downgrade were twofold:

- Concerns over the District's significant and growing unfunded pension obligations; and
- The significant debt burden and pension liabilities of the governments in the Chicagoland region that share an overlapping property tax base, including the MWRD, City of Chicago, Chicago Public Schools, Chicago Park District, Cook County and the Cook County Forest Preserve District.[106]

CAPITAL BUDGET

The MWRD annually updates and appropriates funding for projects in a five-year capital improvement plan (CIP). The FY2018-FY2022 CIP proposes approximately $1.0 billion in funding for a variety of projects. The first year of the new CIP will be the FY2018 capital budget, proposed at $170.2 million.

The exhibit below shows both how spending will be allocated among the different types of MWRD capital projects in the CIP and how those projects will be funded. It is presented in the budget terms of projected cash disbursements, not total project costs.

The largest category of spending, 30.9% of all capital spending, or $321.9 million, will be earmarked for Stormwater Management. Approximately 27.9%, or $290.2 million, of the total will be used for Water Reclamation and Solids Management projects. The Tunnel and Reservoir Plan (TARP) is projected to receive approximately 21.6%, or $225.0 million, while Replacement of existing facilities will use 15.5%, or $161.4 million. Finally, 4.1%, or $42.8 million, will be used for the District's Collection Facilities.

The majority of funding for the MWRD capital program comes from capital improvement bonds, which are expected to constitute 67.0% of all funding between FY2018 and FY2022, or nearly

[106] Moody's Investors Service, "Rating Action: Moody's downgrades Metropolitan Water Reclamation District, IL to Aa1; outlook negative," August 27, 2013.

$697.8 million. The remaining funding will consist of pay-as-you-go funding from the Stormwater and Construction Funds.[107]

Metropolitan Water Reclamation District Five-Year Capital Spending: FY2018-FY2022 - Estimated Cash Disbursements (in $ millions)							
	FY2018	FY2019	FY2020	FY2021	FY2022	Five-Year Total	% of Five-Year Total
Capital Spending by Category							
Water Reclamation & Solids Management	$ 69.6	$ 51.8	$ 61.7	$ 51.9	$ 55.2	$ 290.2	27.9%
Replacement of Facilities	$ 37.4	$ 33.2	$ 38.9	$ 20.9	$ 31.0	$ 161.4	15.5%
Collection Facilities	$ 4.1	$ 7.9	$ 6.8	$ 14.3	$ 9.7	$ 42.8	4.1%
Stormwater Management	$ 31.3	$ 100.1	$ 99.8	$ 18.1	$ 72.6	$ 321.9	30.9%
Tunnel & Reservoir Plan	$ 27.8	$ 23.6	$ 20.7	$ 103.6	$ 49.3	$ 225.0	21.6%
Total Spending	**$ 170.2**	**$ 216.6**	**$ 227.9**	**$ 208.8**	**$ 217.8**	**$ 1,041.3**	**100.0%**
Capital Funding Sources							
Stormwater Fund	$ 31.3	$ 100.1	$ 99.8	$ 18.1	$ 72.7	$ 322.0	30.9%
Construction Fund	$ 9.6	$ 6.2	$ 2.1	$ 0.6	$ 3.0	$ 21.5	2.1%
Capital Improvements Bond Fund	$ 129.3	$ 110.3	$ 126.0	$ 190.1	$ 142.1	$ 697.8	67.0%
Total Funding	**$ 170.2**	**$ 216.6**	**$ 227.9**	**$ 208.8**	**$ 217.8**	**$ 1,041.3**	**100.0%**

*Note: Totals may not match due to rounding.

Source: MWRD FY2018 Executive Director's Recommendations, p. 341.

New Capital Spending Requests

The MWRD's request for new capital spending authorization for total project costs in FY2018 totals approximately $278.4 million. This is a 21.5% decrease in new capital appropriations from FY2017 adopted appropriations. The amount of proposed new capital spending for FY2018 differs from the amount proposed for FY2018 in the five-year capital budget. New capital spending pertains to total projects costs over time while the capital budget details what the District plans to spend each year, which does not always match the total cost of capital projects, as is the case in FY2018.

Metropolitan Water Reclamation District Proposed New Capital Spending: FY2017 and FY2018 (in $ thousands)				
Project Type	FY2017 Final Budget	FY2018 Proposed Budget	$ Change	% Change
Treatment Facilities	$ 4,900	$ 38,460	$ 33,560	684.9%
Collection Facilities	$ 6,930	$ 40,168	$ 33,238	479.6%
Solids Processing & Disposal	$ 41,500	$ 21,271	$ (20,229)	-48.7%
Flood & Pollution Control	$ 213,414	$ 140,893	$ (72,521)	-34.0%
Flood-Prone Property Acquisition Program	$ 6,088	$ -	$ (6,088)	-100.0%
Land and Right of Way Acquistion Cost	$ 12,515	$ 1,750	$ (10,765)	-86.0%
Project Suport	$ 69,278	$ 35,886	$ (33,392)	-48.2%
Total	**$ 354,625**	**$ 278,428**	**$ (76,197)**	**-21.5%**

Sources: MWRD FY2017 Final Adopted Budget, p. 488 and FY2018 Executive Director's Recommendations, p. 492.

[107] MWRD FY2018 Executive Director's Recommendations, p. 341.

Capital Improvement Plan

According to best practices for capital budgeting, a complete capital improvement plan (CIP) includes the following elements:[108]

- A comprehensive inventory of all government-owned assets, with description of useful life and current condition;
- A narrative description of the CIP process including how criteria for projects were determined and whether materials and meetings were made available to the public;
- A five-year summary list of all projects and expenditures by project that includes funding sources per project;
- Criteria for projects to earn funding in the capital budget including a description of an objective and needs-based prioritization process;
- Publicly available list of project rankings based on the criteria and prioritization process;
- Information about the impact of capital spending on the annual operating budget of each project;
- Annual updates on actual costs and changes in scope as projects progress;
- Brief narrative descriptions of individual projects, including the purpose, need, history, and current status of each project; and
- An expected timeframe for completing each project and a plan for fulfilling overall capital priorities.

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

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

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

Metropolitan Water Reclamation District Capital Improvement Plan Checklist	
Does the government prepare a formal capital improvement plan?	Yes
How often is the CIP updated?	Annually
Does the capital improvement plan include:	
• *A narrative description of the CIP process?*	Yes[109]
• *A five-year summary list of projects and expenditures by project as well as funding sources per project?*	Yes
• *Information about the impact and amount of capital spending on the annual operating budget for each project?*	Yes
• *Brief narrative descriptions of individual projects, including the purpose, need, history, and current status of each project?*	Yes
• *The time frame for fulfilling capital projects?*	Yes
Are projects ranked and/or selected according to a formal prioritization or needs assessment process?	Yes, but information is not provided about the prioritization methods used.
Is the capital improvement plan made publicly available for review by elected officials and citizens?	
• *Is the CIP published in the budget or a separate document?*	The CIP is included in the annual budget.
• *Is the CIP available on the Web?*	Yes, as part of the budget.
Are there opportunities for stakeholders to provide input into the CIP?	
• *Is there stakeholder participation on a CIP advisory or priority setting committee?*	No. Projects are identified based on asset management audits. Project selection and prioritization are completed by internal interdepartmental review panel.[110]
• *Does the governing body hold a formal public hearing at which stakeholders may testify?*	MWRD held a budget session on June 1, 2017 that was focused on the capital budget.[111]
• *Is the public permitted at least ten working days to review the CIP prior to a public hearing?*	Yes, as part of the budget.
Is the CIP formally approved by the governing body of the government?	It is approved with the budget.
Is the CIP integrated into a long term financial plan?	Yes

[109] MWRD FY2018 Executive Director's Recommendations, p. 339.
[110] MWRD FY2018 Executive Director's Recommendations, p. 339.
[111] Information provided by the MWRD Budget Office, December 4, 2017.

APPENDIX A

MWRD Budget Process

The MWRD's budget process differs from the budget processes of other local area governments. The MWRD produces several 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). After releasing the Executive Director's Recommendations the District holds departmental hearings and makes revisions, which are found in the Tentative Budget. Within the three budget documents are the following financial figures:

- *Proposed appropriations* – appropriations as proposed in the Executive Director's Recommendations;
- *Tentative appropriations* – appropriations approved by the Board of Commissioners based on recommendations from the Committee on Budget and Employment hearings regarding the Executive Director's Recommendations (BF-19 changes);[112]
- *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* – appropriations as adjusted through September 30;
- *Estimated expenditures* – year-end estimated expenditures; and
- *Actual expenditures* – audited expenditures, available in the budget documents.

MWRD appropriations often vary significantly from budget year to budget year, depending on the number and scale of capital projects that the District undertakes and the timing of funding required for completion of different phases of multi-year projects. Revenues for capital projects often become available only after the budget's adoption. For these reasons, the Civic Federation compares the MWRD's tentative appropriations to the adjusted appropriations from the previous year, and when available, actual expenditures from previous years in the budget analysis.

The following table shows the MWRD appropriations from FY2013 to FY2017 for all funds, providing a comparison between the tentative budgets, adopted budgets, adjusted budgets and actual expenditures. As of the writing of this analysis, the District has only released the FY2018 Executive Director's Recommendations and the FY2018 Tentative Budget. Because the adopted,

[112] BF is an abbreviation for Budget Forms and is a term typically used internally by MWRD staff and Board of Commissioners to identify different versions of the budget.

adjusted and actual figures for FY2018 are not yet available, FY2018 appropriations are not included.

MWRD Appropriations - Tentative, Adopted, Adjusted and Actual: FY2013-FY2017				
	Tentative	Adopted	Adjusted	Actual
FY2013	$ 1,118,964,609	$ 1,152,384,409	$ 1,155,064,990	$ 1,155,064,990
FY2014	$ 1,200,721,914	$ 1,219,656,114	$ 1,219,656,083	$ 1,219,656,114
FY2015	$ 1,252,258,300	$ 1,205,422,581	$ 1,203,447,239	$ 1,203,447,201
FY2016	$ 1,210,182,530	$ 1,244,135,730	$ 1,244,135,730	$ 1,244,135,730
FY2017*	$ 1,132,429,875	$ 1,142,749,813	$ 1,142,749,813	$ -

*Note: FY2017 actual figures are not yet available.

Source: MWRD Tentative and Final Budgets, FY2012-FY2016 and MWRD FY2017 Executive Director's Recommendations, p. 8.

The next table provides the variance between the various budget figures shown in the table above comparing the four types of appropriations for FY2013 through FY2017. The comparisons include: tentative vs. adopted, tentative vs. adjusted, tentative vs. actual, adopted vs. adjusted, adopted vs. actual and adjusted vs. actual. Examining the difference between the four budgets demonstrates that the largest variance occurs between the tentative and adopted, adjusted and actual budget figures, but little variance occurs after the appropriations are adjusted. No variance occurred between the adjusted and actual appropriations in FY2013, FY2016 and FY2017, and a small variance occurred between the adjusted and actual appropriations in FY2014 and FY2015. Large variances occurred between the Tentative Budget and Adopted budgets.

MWRD Appropriations Comparison of Tentative, Adopted and Actual: FY2013-FY2017						
	Variance: Tentative vs. Adopted	Variance: Tentative vs. Adjusted	Variance: Tentative vs. Actual	Variance: Adopted vs. Adjusted	Variance: Adopted vs. Actual	Variance: Adjusted vs. Actual
FY2013	$ 33,419,800	$ 36,100,381	$ 36,100,381	$ 2,680,581	$ 2,680,581	$ -
FY2014	$ 18,934,200	$ 18,934,169	$ 18,934,200	$ (31)	$ -	$ 31
FY2015	$ (46,835,719)	$ (48,811,061)	$ (48,811,099)	$ (1,975,342)	$ (1,975,380)	$ (38)
FY2016	$ 33,953,200	$ -	$ 33,953,200	$ -	$ -	$ -
FY2017*	$ 10,319,938	$ -	$ -	$ -	$ -	$ -

*Note: FY2017 actual figures are not yet available.

Source: MWRD Tentative and Final Budgets, FY2012-FY2016 and MWRD FY2017 Executive Director's Recommendations, p. 42.