The Civic Federation

Research * Information * Action * Est. 1894

METROPOLITAN WATER RECLAMATION DISTRICT FY2019 TENTATIVE BUDGET:

Analysis and Recommendations

December 6, 2018

The Civic Federation ● 10 N. Dearborn Street ● Chicago, IL 60602 ● civicfed.org

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.

Table of Contents

EXECUTIVE SUMMARY

The Civic Federation **supports** the Metropolitan Water Reclamation District of Greater Chicago's (MWRD) proposed FY2019 Tentative Budget of $1.09 billion.

The District continues a proactive and sustainable plan to fund the MWRD Retirement Fund annually at a level that is projected to reach 100% funding by 2050. The District also plans to continue contributing $5.0 million annually to a trust fund for future retiree health benefits until it is fully funded in 2026. The District also follows several other best financial practices including a strong capital improvement plan, a five-year financial forecast, maintaining high general operating reserves, using working cash funds rather than short-term borrowing when awaiting property tax revenue and holding study sessions on the budget and capital improvement plan.

While the Civic Federation fully supports the District's pension funding plan, the Federation remains concerned about the potential effect a court challenge to the MWRD's pension reform law could have on the funded status of the pension fund. As a precautionary step, the Civic Federation urges the District to work with the Retirement Fund to evaluate the possible impact of a partial or full reversal of its pension funding reform law and publicly release the findings on how this could affect the Retirement Fund's funded status as well as the District's budget.

The Civic Federation also continues to share the District's concern about its reliance on the property tax as a funding source while sharing a tax base with several other Chicago area local governments, several of which will likely increase their levies to address significant pension liabilities. The MWRD plans to increase its aggregate levy (which funds day-to-day operations, pay-as-you-go construction and pensions) annually to the maximum under the Property Tax Extension Limitation Law, which is the level of inflation. The District also plans to increase its Stormwater Management Fund levy by an average of 8.5% annually over the next five years as the District continues to address flooding issues. The Civic Federation encourages the District to develop a plan that details how and when each of its property tax levies will reach a stable point when the projected automatic increases are no longer necessary.

Finally, the Civic Federation recommends that the MWRD incorporate all changes to the proposed budget, including any amendments made subsequent to release of the Tentative Budget, and allow sufficient time for the final proposal's review before being adopted by the Board of Commissioners.

The Civic Federation offers the following **key findings** from the FY2019 Tentative Budget:

- The District proposes to appropriate $1.09 billion in its FY2019 Tentative Budget which is a 5.1%, or $59.1 million, decrease from the FY2018 adjusted budget of $1.15 billion. The decrease is due to the timing of funding for capital projects;
- Corporate Fund spending is projected to increase by 1.8%, or $6.7 million from the FY2018 adjusted appropriation of $370.2 million to $376.9 million in FY2019;
- The MWRD's total gross property tax levy proposed for FY2019 is $640.6 million for all funds. This represents an increase of $19.3 million, or 3.1%, from the prior year;

- The District’s aggregate levy for four funds that are subject to the property tax extension limitation law (PTELL), or “tax caps,” is proposed to be $341.2 million in FY2019, an $11.5 million increase from the FY2018 levy of $327.7 million. This represents an increase of 3.5% from the prior year, consisting of a 0.5% levy increase from new property and development and a 3.0% increase based on the level of inflation;
- The proposed property tax levy for the Stormwater Management Fund in FY2019 of $52.9 million represents an increase of $5.1 million, or 10.7%, from the prior year. The Bond and Interest levy of $246.5 million, which is used for debt service payments, is projected to increase by $2.7 million, or 1.1%, over FY2018;
- The number of Full-Time Equivalent (FTE) positions for all funds at the District is projected to increase in FY2019 by a net of seven positions, to 1,973 total FTE positions. Over the ten-year period from FY2010 to FY2019, the number of FTE positions has decreased by 6.3%, or 133 FTE positions, from 2,106 to 1,973;
- The District proposes an increase to the Stormwater Management Fund appropriation in FY2019 by 39.4%, or $25.8 million, from $65.6 million in FY2018 to $91.4 million in FY2019. This increase is in line with the District’s plan to address flooding issues through the full implementation of the Watershed Management Ordinance. The District is also transferring 27 FTE positions from the Corporate Fund to the Stormwater Management Fund as part of this initiative;
- Spending on personal services across all funds is projected to increase in FY2019 by 1.9% from the prior year. Spending on employee salaries will increase by 2.2% to $197.8 million in FY2019;
- The MWRD will contribute $87.3 million to the Retirement Fund in FY2019, down slightly from $89.6 million in FY2018. The Retirement Fund contribution is based on a multiplier calculation of 4.19 times the employee contribution made to the pension fund two years prior;
- The actuarial value funded ratio of the pension fund was 58.3% as of FY2017, down from 65.4% ten years prior in FY2008, but up from a low of 50.4% in FY2012;
- The unfunded liability of the MWRD pension fund totaled $1.0 billion in in FY2017, up from $640.4 million in FY2008;
- The MWRD’s long-term debt increased by 1.6%, or $51.3 million between FY2016 and FY2017. Over the five-year period from FY2013 to FY2016, long-term debt increased by 21.4%, or $566.4 million, from $2.6 billion to $3.2 billion; and
- The MWRD proposes a five-year Capital Improvement Program (CIP) of $923.5 million for FY2019 through FY2023. The FY2019 capital budget is proposed at $144.7 million. The largest category of capital spending in the CIP, 46.2%, or $426.9 million, will be earmarked for Stormwater Management.

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

- Improvements to the MWRD pension fund’s financial status as a result of a proactive and sustainable funding plan;
- Continuing to make contributions to the other post employment benefits trust fund;
- Keeping energy costs flat through FY2023; and
- Continuing to follow several financial best practices including:
    - Maintaining high general operating reserves;

    - Utilizing working cash funds rather than costly short-term borrowing to bridge property tax revenue receipts;
    - Strong capital improvement planning process;
    - Five-year financial forecast; and
    - Holding public study sessions on the annual budget and capital program.

The Civic Federation has the following **concerns** that could impact the MWRD's financial position:

- The potential effect of a challenge to the MWRD's 2012 pension reform law; and
- The District's shared property tax base with other local governments with significant financial challenges.

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

- Incorporate all changes and amendments to the budget proposal into one budget document before being presented for approval by the Board of Commissioners;
- Work with the Retirement Fund to release an evaluation of the possible impact of a partial or full reversal of its pension funding reform law and identify actions the District would take to address the impact; and
- Work on a property tax levy stabilization plan.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the Metropolitan Water Reclamation District of Greater Chicago's (MWRD) proposed FY2019 Tentative Budget of $1.09 billion.

The District continues on a proactive and sustainable plan to fund the MWRD Retirement Fund annually at a level that is projected to reach 100% funding by 2050. The District also plans to continue contributing $5.0 million annually to a trust fund for future retiree health benefits until it is fully funded in 2026. The District also follows several other best financial practices including a strong capital improvement plan, a five-year financial forecast, maintaining high general operating reserves, using working cash funds rather than short-term borrowing when awaiting property tax revenue and holding study sessions on the budget and capital improvement plan.

While the Civic Federation fully supports the District's pension funding plan, the Federation remains concerned about the potential effect a court challenge to the MWRD's pension reform law could have on the funded status of the pension fund. As a precautionary step, the Civic Federation urges the District to work with the Retirement Fund to evaluate the possible impact of a partial or full reversal of its pension funding reform law and publicly release the findings on how this could affect the Retirement Fund's funded status as well as the District's budget.

The Civic Federation also continues to share the District's concern about its reliance on the property tax as a funding source while sharing a tax base with several other Chicago area local governments, several of which will likely increase their levies to address significant pension liabilities. The MWRD plans to increase its aggregate levy (which funds day-to-day operations, pay-as-you-go construction and pensions) annually to the maximum under the Property Tax Extension Limitation Law, which is the level of inflation. The District also plans to increase its Stormwater Management Fund levy by an average of 8.5% annually over the next five years as the District continues to address flooding issues. The Civic Federation encourages the District to develop a plan that details how and when each of its property tax levies will reach a stable point when the projected automatic increases are no longer necessary.

Finally, the Civic Federation recommends that the MWRD incorporate all changes to the proposed budget, including any amendments made subsequent to release of the Tentative Budget, and allow sufficient time for the final proposal's review before being adopted by the Board of Commissioners.

Issues the Civic Federation Supports

The Civic Federation **supports** the following initiatives contained in the MWRD FY2019 Tentative Budget.

Improvements to Pension Fund Financial Status Due to Sustainable Funding Plan

The Civic Federation continues to support the MWRD's proactive approach to funding its Retirement Fund (pension fund) at a level higher than the actuarially determined contribution amount. Changes to the funding policies for the MWRD Retirement Fund in recent years have resulted in improvements of the funded status of the pension fund.

Pension funding reforms enacted in 2012 through Public Act 97-0894 required increases in the employee contributions made by Tier 1 employees (those hired before January 1, 2011) and in employer contributions made by the MWRD. The employee contribution increases were phased in over three years, increasing from a rate of 9.0% of salary to 12.0% of salary. The employer contribution increased from a multiple of 2.19 times the total employee contribution made two years prior 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, but not to exceed a multiple of 4.19 times the total employee contributions two years prior. Additionally, the MWRD, unlike other area local governments, is allowed to contribute more than the statutory multiplier of 4.19 to its pension fund from interest income.[1]

In addition to the statutory reforms, the MWRD Board of Commissioners adopted a new pension funding policy in 2014 based on recommendations of the Retirement Fund actuary to increase the MWRD Retirement Fund's funded ratio to 100% by FY2050.[2] The 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.

The District has contributed an amount above the actuarially determined contribution amount since FY2013. The increased funding from both employees and the MWRD has contributed to a reversal of the downward financial trajectory of the Fund. Following many years of decline, the actuarial value funded status of the pension fund has increased from 50.4% in FY2012 to 58.3% as of FY2017, the most recent year for which data are available.

The Civic Federation supported the District's 2012 statutory pension funding reforms and the MWRD Board's 2014 policy as a more actuarially sound funding structure than the statutory goal of 90%, and continues to support these policy changes and increased contributions. The Civic Federation has long recommended that local governments fully fund their pension obligations and praises the MWRD's forward thinking in securing the State legislation and resources necessary to make such funding possible. The District's pension funding demonstrates a proactive effort to improve the funding levels for employees' retirement benefits and reduce some of the uncertainty that has contributed to other governments' low bond ratings.

---

[1] Public Act 95-0891.

[2] MWRD Presentation: Review of New Accounting Requirements for Pension (GASB 67/68) and Proposed Pension Funding Policy, presented September 18, 2014.

Contributions to the Other Post Employment Benefits Trust Fund

The Civic Federation continues to support the District's plan to make additional payments to its other post employment benefits (OPEB) trust fund with a goal of reaching 100% funding by FY2026. After contributing a total of $112.0 million to the OPEB trust fund between FY2007 and FY2014, the District began contributing $5 million per year in FY2015 and plans to continue doing so until FY2026, at which point the OPEB fund is projected to be fully funded.[3]

The OPEB trust fund was established in 2007, and since then the funded ratio of the fund has increased from 9.1% in FY2008 to 63.2% funded in FY2017. Cumulative contributions to the fund as of December 31, 2017 totaled $127.4 million.

The creation of the OPEB trust fund allows the District to prefund retiree health benefits and eventually transition away from providing an annual subsidy for retiree healthcare benefits out of the annual budget. The Civic Federation commends the MWRD on its forward-thinking approach to funding retiree healthcare benefits because it will save taxpayer money and provide a more sustainable benefit to retirees over the long-run.

Projected Flat Energy Costs through FY2023

The District's FY2019 budget and five-year financial forecast projects that energy expenditures will remain at the same level from FY2019 through FY2023 at approximately $40 million annually. Energy expenditures increased slightly between FY2014 and FY2019. The District says it is able to maintain stable energy costs over the next five years by locking in favorable rates.[4] The Civic Federation supports the District's efforts to control costs in all budgetary spending, and particularly on energy as highlighted in this year's budget.

Continued Adherence to Financial Best Practices

The MWRD continues to follow several financial best practices as described below.

Maintaining High Reserves

The MWRD has consistently maintained a high level of operating reserves within the Corporate Fund, which is the District's general operating fund. These general operating reserves provide liquidity to cover contingencies. The District's policy is to maintain reserves of at least 12-15% of Corporate Fund expenditures, but the MWRD's budget says the District plans to maintain reserves that are higher than this level over the next few years in order to minimize increases in the property tax levy and handle possible unexpected revenue shortfalls.[5] The District is budgeting a total of $131.3 million in Corporate Fund assets as budgetary reserves in FY2019,[6] which is 34.8% of projected FY2019 expenditures. This is well above the District's target as well as the best practice standard recommended by the Government Finance Officers Association of two months of operating expenditures, or approximately 17.0%.

[3] Information provided by the MWRD on November 27, 2018.
[4] Information provided by the MWRD on November 27, 2018.
[5] MWRD FY2019 Executive Director's Recommendations, p. 19.
[6] MWRD FY2019 BF-19, All Funds Summary of Revenue, Expenditures and Net Assets Appropriable.

Utilizing Working Cash Funds Rather Than Short-Term Borrowing

The MWRD maintains a Corporate Working Cash Fund that 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 that some other local governments use if they have no budgetary or working cash reserves.

Capital Planning

The MWRD continues to meet almost all of the best practice guidelines for capital planning set by the Government Finance Officers Association. The District develops a five-year Capital Improvement Program (CIP), which is updated on an annual basis and includes project detail and five-year projections of anticipated expenditures. Compared to other local government CIPs reviewed by the Civic Federation, the MWRD most closely follows best practice standards. 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, as well as a brief description of the CIP process. Projects are identified and ranked using a formal needs-based prioritization process. The Civic Federation commends the District on its exemplary capital budgeting process and the level of information made publicly available. However, we encourage the District to improve the CIP further by disclosing the prioritization process in the CIP document.

Five-Year Financial Forecast

The District publishes a five-year financial forecast for all funds within each annual budget. The forecast includes strong narrative detail on assumptions and projections and provides revenue and appropriation projections over a five-year period. Producing a publicly-shared multi-year forecast is one of the key recommendations of the Government Finance Officers Association as part of a local government's long-term financial planning process.

Holding Budget Study Sessions

As part of the MWRD's annual budget process, the District holds study sessions on the Executive Director's Budget Recommendation and on the Capital Improvement Plan. These meetings are open to the public, live-streamed, and videos and presentation materials are posted online.[7] These meetings allow for staff to give presentations, for the Board of Commissioners to ask questions about the operating and capital budget, and for members of the public to voice their opinions 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. Additionally, the District holds an annual public hearing on the Tentative Budget to receive public comments about the budget proposal.

[7] All MWRD meeting information is available at https://mwrd.legistar.com/Calendar.aspx.

Civic Federation Concerns

The Civic Federation has the following **concerns** about issues related to the MWRD's FY2019 finances.

Potential Effect of a Challenge to the MWRD Pension Reform Law

The Civic Federation remains concerned about possible challenges to the MWRD's 2012 pension funding reforms passed in Public Act 97-0894. The Federation strongly supported the increases to employee and employer contributions into the MWRD Retirement Fund, which have already improved its funding status, but the litigation experiences of other Chicago area pension funds have left the MWRD's reforms susceptible to a challenge in court.

The most recent Chicago-area development in pension reform litigation is at the Chicago Park District. The Park District's pension reforms were implemented in 2014 through Public Act 98-0622, which included both changes to retiree benefits and increases in employer and employee contributions. The Park District's reforms were challenged in Cook County Circuit Court in 2015.[8] The legislation was declared unconstitutional in its entirety on March 1, 2018 by a Circuit Court Judge.[9] An Agreed Order entered on March 21, 2018 required the Park District Pension Fund to refund to current employees the higher pension contributions they have made since 2015 with interest. It also required the District to reduce its property tax levy back to the statutory multiplier amount in place prior to the pension reform law. Although the Fund was allowed the keep the higher contributions received from the District to date, the Pension Fund's actuary projects that because of Public Act 98-0622 being declared unconstitutional, the fund will run out of money within 10 years, or in 2027.

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.[10] While the MWRD's pension legislation did not impact retiree benefits as the Chicago Park District pension reform legislation did, the MWRD's reforms increased employee and employer contributions. The Circuit Court ruling on the Park District pension reforms raises questions about whether the MWRD could experience a challenge to its increased employee contributions and therefore the constitutionality of the entire legislation.

Given that the District has been following rating agencies' guidance in focusing on stabilizing the financial condition of its post-employment benefits in order to maintain its high bond ratings and minimize borrowing costs, any uncertainty with regard to the legal status of the MWRD's funding schedule could be harmful.

---

[8] *Biedron et al. v. Park Employees' and Retirement Board Employees' Annuity and Benefit Fund et al.* Case No. 2015 CH 14869.

[9] *Biedron v. Park Employees' and Retirement Board Employees' Annuity and Benefit Fund*, No. 15 CH 14869 Memorandum and Order (Cook County Cir. Ct. 2015).

[10] There have also been several other challenges to pension reform legislation. 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).

Shared Property Tax Base with Local Governments with Significant Financial Challenges

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 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 property tax base. The City of Chicago and Chicago Public Schools have implemented substantial property tax increases in recent years. It is likely that several of these local governments will increase their property tax levies in future years as a means to address their large unfunded pension and other obligations. This issue is of concern given that the District is so heavily reliant on the property tax as its primary source of revenue. According to the District's FY2019 budget, 71.4% of appropriations are supported by property taxes.

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.[11]

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 offers the following **recommendations** to the MWRD.

Adjust Budget Proposal Process

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 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;

[11] 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.

- *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);[12]
- *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 Metropolitan Water Reclamation District Act (70 ILCS 2605) directs the Executive Director to submit a proposed budget to the Board and directs the Board of Trustees to consider the budget estimates and to make any revisions desired, so long as the total proposed expenditures do not exceed the total estimated financing sources. The Board must adopt the budget before the beginning of the budget year on January 1. The adopted budget becomes the appropriation ordinance. Another board meeting may be held before the beginning of the budget year and within five days of the adoption of the appropriation ordinance to amend the appropriation ordinance.

While 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, further adjustments to the budget process should be made to make the proposed budget more transparent. After the Tentative Budget is released, additional amendments are often made, which are released publicly and adopted by the Board of Commissioners on the same day. This results in the least amount of time being dedicated to review of the final proposed version of the budget.

The changes between the Tentative Budget and the version of the budget that gets adopted by the Board are often substantial, in the range of tens of millions of dollars. These variances are discussed further in the Appendix on page 56.

The key change the Civic Federation would like to see made to the budget process is the inclusion of all anticipated amendments into the Tentative Budget with sufficient time for review before it appears for adoption before the Board of Commissioners.

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. The Civic Federation encourages the District to pursue any needed

[12] 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.

changes to the Metropolitan Water Reclamation District Act that would be necessary to enable this policy change.

Evaluate the Possible Impact of a Reversal of the District's Pension Funding Reforms

The Civic Federation believes that it would be prudent for the District to evaluate how the possible reversal of its pension funding law would affect the funded status of the MWRD Retirement Fund and lay out a plan describing what the District would do if the increased employee contributions were to be reversed.

The District's 2012 pension funding reform law included increased employee and employer contributions, which were developed to improve the MWRD Retirement Fund's fiscal sustainability. However, if those funding reforms are challenged in court and repealed, the District's plan to increase funding to 100% by 2050 would likely be in jeopardy. The Federation therefore recommends that the District work with the Retirement Fund to release an evaluation of the possible impact of a partial or full reversal of its pension funding reform law and identify actions the District would take to address the impact.

Work On a Sustainability Plan for the Property Tax Levy

As noted in the concern above, the District is heavily reliant on property taxes as a primary source of funding, and the MWRD's property tax base is shared by many other Chicago area local governments that also rely heavily on property taxes. Additionally, the four funds that make up the MWRD's Aggregate Tax Levy (Corporate Fund, Construction Fund, Retirement Fund, and Reserve Claim Fund) 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. The District has been increasing its levy to the maximum level allowable under PTELL, and plans to continue taxing to the inflation cap. The District projects annual increases to the aggregate levy of 3.5% over the next five years.

The District's Stormwater Management Fund is not subject to PTELL, so the District can increase its property tax levy to support that fund beyond the level of inflation. The District is planning to increase the Stormwater Management Fund property tax levy by 10.7%, or $5.1 million, in FY2019 to $52.9 million from $47.8 million the prior year. The District projects that it will increase its Stormwater Management levy by an average of 8.5% per year over the next five years as the District continues to address flooding issues.

The Civic Federation acknowledges that the MWRD has kept its Corporate Fund spending relatively flat and that contributions to the Retirement Fund are leveling out beginning in FY2019 after the four years of contribution increases. But the District will continue to face expenditure pressures, and inflation increases could end up being lower than projected. The Civic Federation questions the sustainability of making automatic annual increases to the aggregate levy and planned increases in the Stormwater Management Levy in perpetuity.

The Civic Federation recommends that the District formulate a stabilization plan for its stormwater management levy and its aggregate property tax levy split among day-to-day operations, pension funding and pay-as-you-go capital project funding, which should articulate how and when the property tax levies will reach a stable point when automatic increases are no longer necessary.

ACKNOWLEDGEMENTS

The Civic Federation would like to express our appreciation to Budget Officer Shellie Riedle, Administrative Services Officer Eileen McElligott and Supervising Budget and Management Analyst Sylvia Lopatka for their work preparing the FY2019 budget, providing us with a budget briefing and answering our questions.

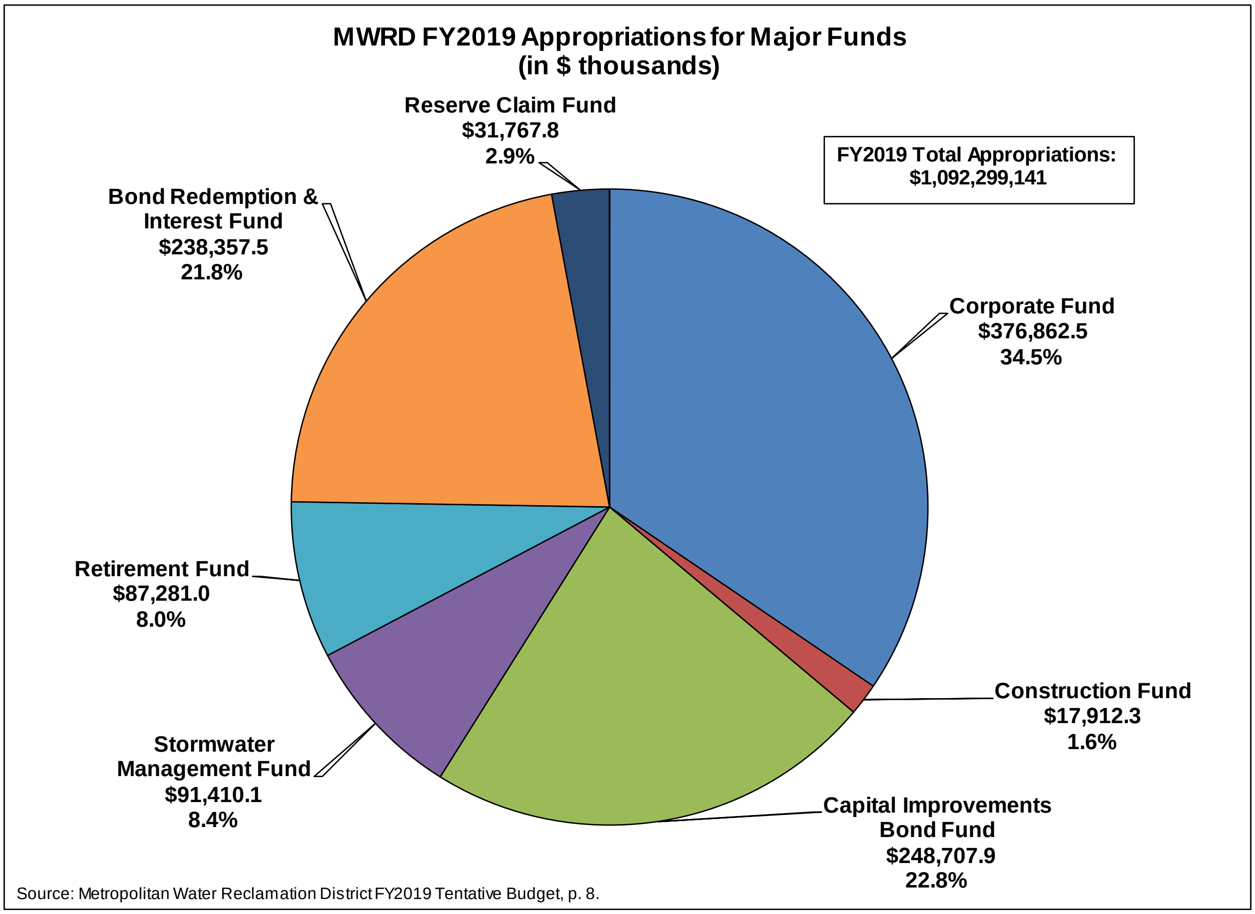
APPROPRIATIONS

This section examines the MWRD's distribution of proposed appropriations for FY2019 by fund, and provides a two-year and five-year trend comparison of appropriations from FY2015 through FY2019. The Civic Federation compares the MWRD's FY2019 tentative appropriations to the FY2018 amended appropriations and actual expenditures from FY2015-FY2017. 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 $1.09 billion in its FY2019 Tentative Budget. This is a 5.1%, or $59.1 million, decrease from the FY2018 adjusted budget of $1.15 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 FY2019 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 34.5% or $376.9 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 24.4% of total appropriations. The third largest appropriations category is the Bond Redemption and Interest Fund, which makes up 21.8%, or $238.4 million, of total 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 19.3% of appropriations. The Reserve Claim Fund is the District's self-insurance fund, and will constitute 2.9% of appropriations in FY2019. The Stormwater Management Fund accounts for stormwater management expenses and will make up 8.4% of appropriations. The Retirement Fund is the District's pension trust fund and will account for 8.0% of appropriations.



Two- and Five-Year Appropriations by Fund

The following table shows appropriations trends from FY2015 through FY2019 for all major funds. The numbers presented are actual expenditures from FY2015-FY2017, FY2018 adjusted appropriations and FY2019 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 FY2019 Corporate Fund appropriations of $376.9 million are projected to increase by 1.8%, or $6.7 million from the FY2018 adjusted appropriation of $370.2 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.[13] State statute allows loans in the amount of up to 100% of the property tax levy plus personal property replacement

[13] MWRD FY2019 Executive Director's Recommendations, p. 85.

tax revenue. The District plans to allocate a loan from the working cash fund equal to 95% of available funds in FY2019, which is $256.1 million.[14]

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.[15] These capital projects are financed by a property tax levy sufficient to pay for project costs as they are constructed. Proposed FY2019 appropriations from the Construction Fund will decrease by 31.3%, or $8.2 million, from the prior year to $17.9 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.[16] The FY2019 appropriation for the Capital Improvements Bond Fund is $248.7 million, which is a decrease of $64.3 million, or 20.5%, from the FY2018 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.[17] The FY2019 appropriation is based on the scheduled award of $202.4 million in projects and $34.0 million for studies and professional services to support construction activities.[18]

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.[19] 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.[20] The FY2019 proposed appropriation for stormwater management will increase by 39.4%, or $25.8 million, from $65.6 million in FY2018 to $91.4 million in FY2019. This is a planned increase to address flooding issues with full implementation of the watershed management ordinance [21]

[14] MWRD FY2019 Executive Director's Recommendations, p. 85.
[15] MWRD FY2019 Executive Director's Recommendations, p. 21.
[16] MWRD FY2019 Executive Director's Recommendations, p. 21.
[17] MWRD FY2019 Executive Director's Recommendations, p. 21.
[18] MWRD FY2019 Executive Director's Recommendations, p. 21.
[19] MWRD FY2019 Executive Director's Recommendations, p. 20.
[20] MWRD FY2019 Executive Director's Recommendations, pp. 19-20.
[21] MWRD FY2019 Budget Study Session, November 1, 2019.

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 FY2019 appropriation for the Retirement Fund is $87.3 million, a decrease of $2.3 million, or 2.6%, from $89.6 million in FY2018.

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.[22] The FY2019 appropriation for the Bond Redemption and Interest Fund is $238.4 million, which is a decrease of 7.1%, or $18.2 million, from FY2018 adjusted appropriations of $256.6 million.

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 FY2019.[23] Appropriations for the Reserve Claim Fund will increase by 4.9%, or nearly $1.5 million, to $31.8 million in FY2019.

In a five-year comparison of the actual appropriations and proposed appropriations between FY2015 and FY2019, total spending will decrease by 9.2% or $111.1 million. The decline reflects a 45.1% decrease in appropriations for the Capital Improvements Bond Fund from $453.1 million in FY2015 to $248.7 million in FY2019 and a 52.8% decrease in the Construction Fund from $37.9 million in FY2015 to $17.9 million in FY2019. The decline is partially offset by increases in the other funds examined over this five-year period.

MWRD Major Fund Appropriations: FY2015-FY2019 (in $ thousands)

	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Adjusted	FY2019 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 358,995	$ 366,261	$ 368,926	$ 370,209	$ 376,863	$ 6,653	1.8%	$ 17,867	5.0%
Construction Fund	$ 37,911	$ 36,614	$ 34,450	$ 26,081	$ 17,912	$ (8,168)	-31.3%	$ (19,998)	-52.8%
Capital Improvements Bond Fund*	$ 453,073	$ 483,765	$ 354,626	$ 312,983	$ 248,708	$ (64,275)	-20.5%	$ (204,365)	-45.1%
Stormwater Management Fund	$ 46,589	$ 40,501	$ 45,800	$ 65,581	$ 91,410	$ 25,829	39.4%	$ 44,821	96.2%
Retirement Fund	$ 61,654	$ 70,772	$ 79,505	$ 89,604	$ 87,281	$ (2,323)	-2.6%	$ 25,627	41.6%
Bond Redemption & Interest Fund	$ 214,526	$ 216,047	$ 228,826	$ 256,604	$ 238,358	$ (18,247)	-7.1%	$ 23,832	11.1%
Sub-Total	**$1,172,747**	**$ 1,213,960**	**$ 1,112,133**	**$ 1,121,062**	**$ 1,060,531**	**$ (60,531)**	**-5.4%**	**$ (112,216)**	**-9.6%**
Reserve Claim Fund	$ 30,700	$ 30,176	$ 30,617	$ 30,290	$ 31,768	$ 1,478	4.9%	$ 1,068	3.5%
Total	**$1,203,447**	**$ 1,244,136**	**$ 1,142,750**	**$ 1,151,351**	**$ 1,092,299**	**$ (59,052)**	**-5.1%**	**$ (111,148)**	**-9.2%**

*Prior year obligations for the Capital Improvements Bond Fund are included in the Appropriation for Liabilities.

Source: MWRD Final Budgets, FY2015-FY2018 and FY2019 Tentative Budget, p. 8.

[22] MWRD FY2019 Executive Director's Recommendations, p. 98.
[23] MWRD FY2019 Executive Director's Recommendations, p. 98.

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.[24] This is the maximum level permitted by statute and is calculated by a tax levy of $0.5 per $100 of EAV. Each year in order to fund emergencies and settle large claims the MWRD appropriates the Fund's available fund balance plus new revenue.[25] The 2018 year-end fund balance is $26.9 million and $1.5 million in new revenue. The maximum tax levy allowed for this purpose is projected to be $74.0 million in FY2019. However, the District has not levied to the maximum limit since 2015. The appropriation for FY2019 is $31.8 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.[26]

As is shown in the table below, the Reserve Claim Fund appropriations in FY2015 through FY2019 have hovered around $30 million, while actual expenditures during those years only constitute between approximately 16% and 22.5% of the full appropriations.

MWRD Reserve Claim Fund: FY2015-FY2019			
	Appropriation	Actual Expenditure	Ratio
FY2015	$ 30,700,000	$ 5,900,000	19.2%
FY2016	$ 30,200,000	$ 4,800,000	15.9%
FY2017	$ 30,600,000	$ 6,900,000	22.5%
FY2018*	$ 30,300,000	$ 5,600,000	18.5%
FY2019**	$ 31,800,000	$ 6,000,000	18.9%

*Adjusted appropriation for FY2018. FY2018 actual expenditure is estimated.

**Proposed appropriation for FY2019. FY2019 actual expenditure is projected.

Source: MWRD FY2019 Executive Director's Recommendations, pp. 542-543.

RESOURCES

This section presents trend information for the MWRD Corporate Fund resources and the property tax levy for all funds between FY2015 and FY2019. The MWRD's FY2019 Tentative Budget proposes total resources of $1.1 billion for all funds.

The MWRD's budget is heavily supported by property tax revenue, with 71.4% of the FY2019 proposed budget funded by property taxes.[27] It is important to note that revenue from property taxes levied in FY2019 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.[28] Revenue for those funds will be

[24] MWRD FY2019 Executive Director's Recommendations, p. 26.
[25] MWRD FY2019 Executive Director's Recommendations, p. 542.
[26] MWRD FY2019 Executive Director's Recommendations, p. 542.
[27] MWRD FY2019 Executive Director's Recommendations, p. 71.
[28] MWRD FY2019 Executive Director's Recommendations, p. 71.

reflected in next year's budget as part of "net assets appropriable." The MWRD attributes this to its cash-based budgeting for revenues, as required under state statute. Because the levy for tax year 2019 is not collected until 2020, the revenue is not available for FY2019 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 FY2019 Tentative Budget to FY2018 adjusted resources and actual resources from FY2015 to FY2017. 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 FY2019 Tentative Budget resources are subject to change because the MWRD goes through a budget amendment process before finalizing and approving the proposed budget. A full explanation of the District's budget process is provided in the Appendix.

The Corporate Fund is the MWRD's general operating fund and accounts for all day-to-day operations. The District anticipates a total of $341.3 million in Corporate Fund revenue in FY2019 compared to $331.9 million in FY2018. This excludes other resources such as net assets and fund transfers. Property tax revenue for the Corporate Fund is projected to be $245.7 million in FY2019, a 5.9%, or $13.6 million, increase from $232.1 million in FY2018. Property taxes will constitute 72.0% of total Corporate Fund revenue in FY2019.

User charges will represent 13.5% of Corporate Fund revenues in FY2019 and are expected to remain level with prior year at $46.0 million. User charges are paid by large industrial and government users to recover the District's operations, maintenance and replacement costs proportional to users' sewer discharges.[29] The major categories of payers include chemical manufacturing, food processing and government services. 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).[30]

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 decrease by $4.9 million, or 24.4%, from $19.9 million in FY2018 to $15.0 million in FY2019. The decrease is primarily due to the State of Illinois allocating more PPRT revenue to community colleges starting in FY2018, leaving less to be allocated to local governments.[31]

The District also receives revenue from land rentals and service charges. Property and Service Charge revenue is expected to decrease from the prior year by $900,000, or 4.0%, to $21.5 million in FY2019.

[29] MWRD FY2019 Executive Director's Recommendations, p. 25.
[30] MWRD FY2019 Executive Director's Recommendations, p. 85.
[31] MWRD FY2019 Executive Director's Recommendations, p. 85.

Investment Income is expected to increase from $1.3 million in FY2018 to $2.6 million in FY2019, which is an increase of 100.0%. The increase is due to increases in short-term interest rates in 2018 and 2019 following several years of relatively stable but low interest rates.[32] Other revenues, which include revenues generated from the TIF Differential Fee, Impact Fee and miscellaneous revenues, are projected to increase by $1.2 million, or 9.0%, from $13.3 million in FY2018 to $14.5 million in FY2019. The TIF Differential Fee is based on the portion of the Tax Increment Financing (TIF) surplus declared by the City of Chicago from expiring TIF districts that the MWRD receives. The MWRD estimates that it will receive $9.5 million in City of Chicago TIF surplus in FY2019.[33]

The District estimates that it will generate $600,000 in resource recovery revenue from phosphorus recovery in FY2019. The District budgeted revenue of $4.0 million for the first year of resource recovery in FY2017, but adjusted its revenue estimate to $150,000 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.[34] In FY2018 the District budgeted for $1.6 million in resource recovery revenue, but ongoing setbacks with the phosphorous recovery initiative at the Stickney plant in FY2018 resulted in revenue falling short of the original $1.6 million projections.[35] The District expects actual revenue in FY2018 to be $600,000.

In addition to the revenues discussed above, the District plans to utilize several other resources in the FY2019 budget. The District will appropriate a $4.2 million equity transfer from the Capital Improvement Bond Fund's accumulated interest income, which can be used for any Corporate Fund purpose, to supplement the Corporate Fund. The District also has Corporate Fund net assets, which serve as a savings account, of which $131.3 million is available for appropriating. The District plans to hold $99.9 million of those reserves for its Corporate Fund budget reserve, leaving $31.4 million of net assets for use in the FY2019 budget.[36]

Over the five-year period from FY2015 through FY2019, Corporate Fund revenue is expected to increase by 6.9%, or $22.0 million, from $319.3 million in FY2015 to $341.3 million in FY2019. Total resources are expected to decrease by 21.3%, or $102.1 million. During this five-year period, the net property tax levy allocated to the Corporate Fund will increase by $26.4 million or 12.1%. Total appropriated net assets will decrease from $159.7 million in FY2015 to $35.6 million in FY2019, a decline of $124.1 million, or 77.7%, which has increased the District's budget reserve.

Over the five-year period, user charges will decrease by 4.5% from $48.2 million in FY2015 to $46.0 million in FY2019. PPRT will decrease by 25.4% from $20.1 million in FY2015 to $15.0

[32] MWRD FY2019 Executive Director's Recommendations, p. 85.
[33] MWRD FY2019 Executive Director's Recommendations, p. 85.
[34] Information provided by the MWRD on December 5, 2017.
[35] Information provided by the MWRD on November 27, 2018.
[36] 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 FY2019. Property and service charges revenue will decrease by 6.4% from $23.0 million in FY2015 to $21.5 million in FY2019.

Metropolitan Water Reclamation District
Corporate Fund Resources: FY2015-FY2019
(in $ thousands)

Resource	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Amended	FY2019 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Property Taxes (net)	$219,244	$ 218,196	$ 216,956	$ 232,050	$ 245,664	$ 13,615	5.9%	$ 26,420	12.1%
User Charges	$ 48,177	$ 44,487	$ 53,252	$ 46,000	$ 46,000	$ -	0.0%	$ (2,177)	-4.5%
PPRT	$ 20,102	$ 24,676	$ 18,164	$ 19,850	$ 15,000	$ (4,850)	-24.4%	$ (5,102)	-25.4%
Property & Service Charges	$ 22,975	$ 22,699	$ 21,779	$ 22,400	$ 21,500	$ (900)	-4.0%	$ (1,475)	-6.4%
Investment Income	$ 1,003	$ 1,021	$ 1,523	$ 1,300	$ 2,600	$ 1,300	100.0%	$ 1,597	159.1%
Other*	$ 12,205	$ 13,879	$ 19,179	$ 13,294	$ 14,496	$ 1,202	9.0%	$ 2,291	18.8%
Resource Recovery	$ -	$ -	$ -	$ 1,600	$ 600	$ (1,000)	-62.5%	$ 600	N/A
Working Cash Borrowings Adjustment	$ (4,446)	$ (4,671)	$ (4,272)	$ (4,599)	$ (4,564)	$ 35	-0.8%	$ (118)	2.7%
Total Revenues	**$319,259**	**$ 320,286**	**$ 326,582**	**$ 331,894**	**$ 341,296**	**$ 9,402**	**2.8%**	**$ 22,037**	**6.9%**
Net Assets Appropriable	$142,060	$ 145,889	$ 142,062	$ 137,376	$ 131,297	$ (6,080)	-4.4%	$ (10,764)	-7.6%
Equity Transfer	$ -	$ -	$ 6,000	$ 4,200	$ 4,200	$ -	0.0%	$ 4,200	N/A
Adjustments for Receipts	$ 17,608	$ 11,315	$ 7,255	$ -	$ -	$ -	N/A	$ (17,608)	N/A
Budget Reserve	$ -	$ -	$ -	$(103,261)	$ (99,930)	$ 3,331	-3.2%	$ (99,930)	N/A
Subtotal - Appropriated Net Assets	**$159,668**	**$ 157,204**	**$ 155,316**	**$ 38,315**	**$ 35,567**	$ (2,749)	-7.2%	$(124,102)	-77.7%
Total Resources	**$478,927**	**$ 477,490**	**$ 481,898**	**$ 370,209**	**$ 376,863**	**$ 6,653**	**1.8%**	**$(102,065)**	**-21.3%**

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

Source: MWRD FY2017 Final Budget, p. 76; FY2018 Final Budget, pp. 76 and 78; FY2019 Executive Director's Budget Recommendations, p. 78; and FY2019 Tentative Budget, p. 12.

Property Tax Levy

The MWRD's total gross property tax levy proposed for FY2019 is $640.6 million for all funds. The MWRD accounts for a 3.5% annual estimated loss in property tax collections in its net levy, which is not reflected in this section. Revenue from property taxes levied in 2019 will be collected in 2020. The tax levy figures discussed in this section are based on the MWRD's Tentative FY2019 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 FY2019 is $341.2 million, which is a 3.5%, or $11.5 million increase from the adjusted FY2018 levy of $329.7 million. The increase is based on a 0.5% levy increase from new property and development and a 3.0% increase under PTELL based on inflation.[37] The 3.0% 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.[38]

The Corporate Fund levy proposed in the FY2019 Tentative Budget is $254.6 million, which is an increase of $14.1 million, or 5.9%, from FY2018.

The Construction Fund levy of $7.6 million represents a decrease of $4.1 million, or 35.0% from the prior year.

[37] MWRD FY2019 Executive Director's Recommendations, p. 72.
[38] MWRD FY2019 Executive Director's Recommendations, p. 59.

The Retirement Fund levy of $71.6 million is nearly flat from the prior year. The Retirement Fund levy and subsequent appropriation is based on a statutory formula that ties employer pension contributions to employee pension contributions of 4.19 times the employee contributions made two years prior.[39] The Retirement Fund is also funded by PPRT revenue and investment income.

The Reserve Claim Fund levy of $7.5 million is a $1.5 million, or 25.0%, 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.[40]

The four tax-capped funds that constitute the Aggregate Levy make up 53.3% of the District's total property tax levy. The remaining 46.7% 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.[41] The FY2019 proposed Stormwater Management levy of $52.9 million represents an increase of $5.1 million, or 10.7%, from the prior year. The Bond and Interest levy of $246.5 million, which is reserved for debt service payments, is projected to increase by $2.7 million, or 1.1%, over FY2018.

Over the past five years, the portion of property tax revenues allocated to each of the four Aggregate funds subject to PTELL tax caps has fluctuated. In FY2019 property tax resources are being shifted from the Construction Fund levy to the Corporate Fund and Reserve Claim Fund levies. Over the five-year period from FY2015 to FY2019, the Corporate Fund levy will increase by 11.8% and the Reserve Claim Fund levy will increase by 31.6%, while the Construction Fund levy will decrease by 50.0%.

The Retirement Fund levy has increased from $58.0 million in FY2015 to $71.6 million in FY2019, an increase of 23.4%. 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.[42]

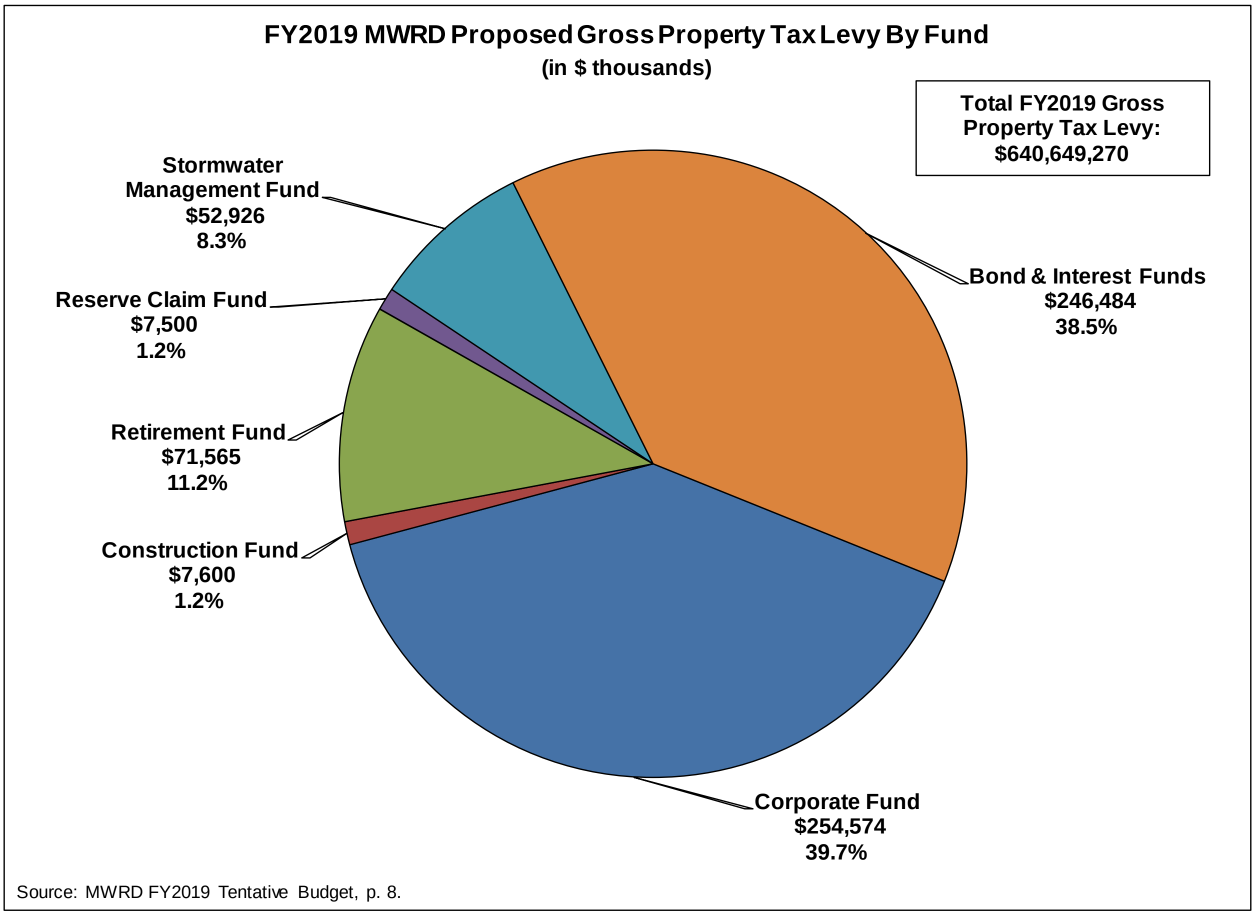
Over the five-year period, the levy for the Stormwater Management Fund has increased by 120.1% from $24.1 million in FY2015 to $52.9 million in FY2019. The Bond and Interest Funds levy has increased by 9.8% from $224.5 million to $246.5 million. The total change in the District's levy for all funds between FY2015 and FY2019 is an increase of $85.6 million or 15.4%.

[39] MWRD FY2019 Executive Director's Recommendations, p. 98.
[40] MWRD FY2019 Executive Director's Recommendations, p. 22.
[41] 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.
[42] MWRD FY2019 Executive Director's Recommendations, p. 22.

Metropolitan Water Reclamation District Gross Property Tax Levy: FY2015-FY2019 (in $ thousands)									
	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Adjusted	FY2019 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund	$ 227,660	$ 226,743	$ 224,825	$ 240,466	$ 254,574	$ 14,108	5.9%	$ 26,914	11.8%
Construction Fund	$ 15,197	$ 13,785	$ 17,000	$ 11,700	$ 7,600	$ (4,100)	-35.0%	$ (7,597)	-50.0%
Retirement Fund	$ 58,004	$ 65,161	$ 73,438	$ 71,534	$ 71,565	$ 31	0.0%	$ 13,561	23.4%
Reserve Claim Fund	$ 5,700	$ 5,800	$ 5,900	$ 6,000	$ 7,500	$ 1,500	25.0%	$ 1,800	31.6%
Subtotal Tax Capped Funds	**$ 306,561**	**$ 311,489**	**$ 321,163**	**$ 329,700**	**$ 341,240**	**$ 11,540**	**3.5%**	**$ 34,679**	**11.3%**
Stormwater Management Fund	$ 24,050	$ 34,250	$ 40,856	$ 47,826	$ 52,926	$ 5,100	10.7%	$ 28,876	120.1%
Bond & Interest Funds	$ 224,488	$ 225,715	$ 232,751	$ 243,792	$ 246,484	$ 2,692	1.1%	$ 21,996	9.8%
Total	**$ 555,098**	**$ 571,454**	**$ 594,770**	**$ 621,318**	**$ 640,649**	**$ 19,332**	**3.1%**	**$ 85,551**	**15.4%**

Source: MWRD FY2017 Final Budget, p. 44; FY2018 Final Budget, p. 44; FY2019 Tentative Budget, p. 8.

The next exhibit shows the distribution of property tax dollars among the MWRD's various funds in FY2019. The Corporate Fund will account for 39.7% of the District's total levy. Together the Bond and Interest Funds and Stormwater Management Fund will represent 46.8% of the District's total levy.



The District 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.[43] In FY2019 the property tax abatement is projected to be $6.2 million.[44]

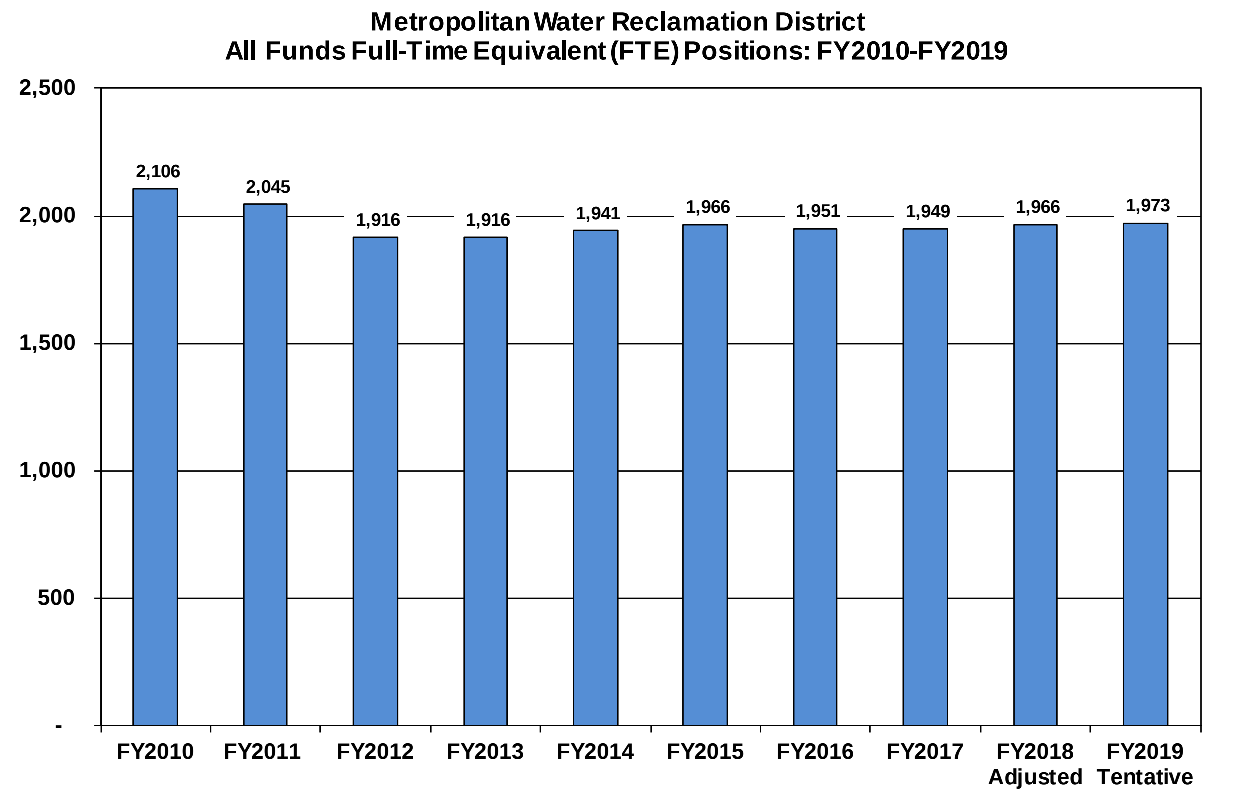
PERSONNEL

The following section provides an analysis of the Metropolitan Water Reclamation District's full-time equivalent (FTE) positions and personnel appropriations for all funds between FY2010 and FY2019. Prior to the FY2015 budget, the District referred to FTEs as position counts and headcounts in its budget documents. Even though the District has only full-time employees, the change in terminology helps observers understand what kind of data the budget shows and allows for a more accurate comparison across years and between governments.

Between FY2018 and FY2019 the number of FTE positions for all funds at the District is projected to increase by a net of 7 FTE positions, or 0.4%, from 1,966 FTE positions to 1,973 FTE positions. Since FY2010 the District's workforce will decline by 6.3%, or 133 FTE positions, from 2,106 to 1,973. 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.[45] Increases in staffing in FY2014 and FY2015 were due to new and continuing initiatives tied to the Strategic Business Plan.[46] The increase in staffing in FY2018 was due to

[43] MWRD FY2019 Executive Director's Recommendations, p. 26.
[44] MWRD FY2019 Tentative Budget, p. 8.
[45] MWRD FY2019 Executive Director's Recommendations, p. 57.
[46] MWRD FY2019 Executive Director's Recommendations, p. 57.

the District expanding its internship and apprenticeship program.[47] The increase in FY2019 is due to the District reassessing the staffing needs in the Maintenance & Operations Department.[48]



Source: MWRD FY2018 Final Budget, p. 57; and FY2019 Executive Directors Budget Recommendations, p. 56.

The following table displays the number of FTE positions for all funds between FY2015 and FY2019. Since FY2015, approximately 96.8% of District employees have been funded through the Corporate Fund. Between FY2018 and FY2019 the number of Corporate Fund FTE positions will decrease by 1.0%, or 20 FTE positions. The majority of the decline in FTE positions in FY2019 is in the Engineering Department within the Corporate Fund due to the District transferring out 27 FTE positions to the Stormwater Management Fund.[49] The Monitoring & Research Department will also decline by 10 FTEs over the two-year period. However, the decrease in the Corporate Fund is offset by an increase of 17 FTEs within the Maintenance & Operations Department. The remaining departments funded by the Corporate Fund will remain relatively flat, over the two-year period.

Over the five-year period beginning in FY2015, total Corporate Fund positions will decrease by 1.2%, or 22 FTE positions. The Human Resources Department will see the largest number and percentage increase in FTEs over the five-year period, rising by 19 FTEs or 25.7%. Information Technology will see an increase of 11 FTEs or 17.5%. The Maintenance & Operations Department and Engineering Department will both see large declines in FTEs, dropping by 31

[47] MWRD FY2019 Executive Director's Recommendations, p. 57.
[48] MWRD FY2019 Executive Director's Recommendations, p. 57.
[49] MWRD FY2019 Executive Director's Recommendations, p. 312.

and 30 FTEs, respectively. FTEs in the Stormwater Management Fund will increase by 29 FTEs, or 52.7% over the five-year period. The increase is primarily due to the transfer of the 27 FTE positions from the Engineering Department within the Corporate Fund to the Stormwater Management Fund as part of a planned full implementation of the watershed management ordinance in FY2019.[50]

Metropolitan Water Reclamation District All Funds Full-Time Equivalent Positions: FY2015-FY2019									
	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Adjusted	FY2019 Tentative	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Corporate Fund									
Maintenance & Operations	952	923	921	904	921	17	1.9%	-31	-3.3%
Monitoring & Research	296	305	305	312	302	-10	-3.2%	6	2.0%
General Administration	118	121	122	121	119	-2	-1.7%	1	0.8%
Procurement & Materials	63	62	60	63	63	0	0.0%	0	0.0%
Information Technology	63	64	68	73	74	1	1.4%	11	17.5%
Human Resources	74	73	71	91	93	2	2.2%	19	25.7%
Law	37	36	36	37	40	3	8.1%	3	8.1%
Board of Commissioners	37	38	37	38	38	0	0.0%	1	2.7%
Finance	29	28	28	28	27	-1	-3.6%	-2	-6.9%
Engineering (Corporate Fund)	242	242	242	242	212	-30	-12.4%	-30	-12.4%
Total Corporate Fund	**1,911**	**1,892**	**1,890**	**1,909**	**1,889**	**-20**	**-1.0%**	**-22**	**-1.2%**
Stormwater Management Fund	55	59	59	57	84	27	47.4%	29	52.7%
Total	**1,966**	**1,951**	**1,949**	**1,966**	**1,973**	**7**	**0.4%**	**7**	**0.4%**

Source: MWRD FY2017 Amended Budget, p. 56; FY2018 Amended Budget, p. 56; and FY2019 Executive Director's Recommended Budget, p. 56.

Personal Services Appropriations

The exhibit below shows the FY2019 personal service appropriations proposed in the FY2019 Executive Director's Recommended Budget compared to the adjusted personal services appropriations for FY2018 and actual appropriations from FY2015 through FY2017.

Over the two-year period between FY2018 and FY2019 total personal services appropriations will increase by $4.9 million or 1.9%. The proposed appropriation for salaries of regular employees, which constitutes 73.7% of all personal services appropriations in FY2019, will increase by 2.2%, or $4.3 million, to $197.8 million in FY2019 from FY2018 adjusted appropriations of $193.5 million. Health and life insurance premiums are estimated to increase by 1.4%, or $675,000 over the two-year period. Social Security and Medicare Contributions are also expected to increase over the two-year period, rising by 2.9% or $84,000. The remaining personal services appropriations will see declines ranging from $14,000 to $77,000.

Over the five-year period beginning in FY2015 salaries of regular employees will increase by 12.7% or $22.3 million. During the same time period, appropriations for health and life insurance premiums will also increase, rising by 6.7%, or $3.0 million, from $44.7 million in FY2015 to $47.7 million in FY2019. The District has implemented a number of initiatives to better manage health benefit costs.[51]

The actual expenditures in FY2015-FY2017 for employee claims, which are Workers' Compensation claims, averaged about $4.4 million. The appropriations for employee claims in FY2018 and FY2019 are much higher, at $10.1 million. The increase in the employee claims in FY2018 and FY2019 is attributable to the District budgeting a portion of its Reserve Claim Fund

[50] MWRD FY2019 Budget Study Session, November 1, 2019.
[51] MWRD FY2019 Executive Director's Recommendations, p. 57.

even if that portion is more than the actual amount needed to pay for employee claims. Thus 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 appropriations for employee claims have increased from FY2015 to FY2019, the number of claims filed each year has decreased and the actual expenditures on employee claims has remained fairly level.[52]

Other employee personal services, which include tuition, training, non-budget salaries and relief workers, will increase $659,000, or 46.8%, 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: FY2015-FY2019
(in $ thousands)

	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Adjusted	FY2019 Tentative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries of Regular Employees	$ 175,466	$ 179,394	$ 181,002	$ 193,464	$ 197,789	$ 4,324	2.2%	$ 22,323	12.7%
Health & Life Insurance Premiums*	$ 44,709	$ 43,695	$ 43,403	$ 47,009	$ 47,683	$ 675	1.4%	$ 2,974	6.7%
Employee Claims	$ 4,137	$ 4,713	$ 4,256	$ 10,074	$ 10,060	$ (14)	-0.1%	$ 5,923	143.2%
Compensation Plan Adjustments	$ 7,683	$ 7,037	$ 7,394	$ 7,934	$ 7,864	$ (70)	-0.9%	$ 181	2.4%
Other Employee Personal Services**	$ 1,408	$ 1,232	$ 1,771	$ 2,145	$ 2,068	$ (77)	-3.6%	$ 659	46.8%
Social Security & Medicare Contributions	$ 2,631	$ 2,605	$ 2,679	$ 2,846	$ 2,930	$ 84	2.9%	$ 298	11.3%
Total	**$ 236,035**	**$ 238,676**	**$ 240,504**	**$ 263,473**	**$ 268,394**	**$ 4,921**	**1.9%**	**$ 32,359**	**13.7%**

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 FY2017 Final Budget, p. 57; FY2018 Final Budget, p. 55; FY2019 Executive Director's Recommended Budget, p. 57.

The exhibit below compares actual personal services appropriations from FY2015 through FY2017 with FY2018 adjusted appropriations and FY2019 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, Reserve Claim, Construction, Retirement and Bond Redemption & 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.[53] As such, the total appropriations for FY2018 may differ from the summary above.

The total appropriation for personal services in the Corporate Fund will increase by $1.8 million, or 0.7%, above FY2018 adjusted budget figures, and by $4.9 million, or 1.9% district-wide.

[52] Information provided by the MWRD Budget Office, December 4, 2017.
[53] MWRD FY2019 Executive Director's Recommendations, p. 71.

Over the five-year period between FY2015 and FY2019, total personal services appropriations district-wide have increased by $6.8 million, or 2.6%. During the same time period, Corporate Fund personal services appropriations will increase by 7.9%, or $18.1 million, since FY2015.

Metropolitan Water Reclamation District
All Funds Personal Services Appropriations by Department: FY2015-FY2019
(in $ thousands)

	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Tentative	FY2019 Tenative	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Corporate Fund									
Maintenance & Operations	$ 89,182	$ 90,919	$ 91,271	$ 95,179	$ 98,051	$ 2,871	3.0%	$ 8,869	9.9%
Monitoring & Research	$ 25,445	$ 26,390	$ 27,399	$ 30,151	$ 29,325	$ (826)	-2.7%	$ 3,880	15.3%
General Administration	$ 10,997	$ 10,880	$ 11,234	$ 11,661	$ 12,980	$ 1,320	11.3%	$ 1,984	18.0%
Procurement & Materials Management	$ 5,142	$ 5,184	$ 5,254	$ 5,797	$ 5,845	$ 48	0.8%	$ 703	13.7%
Information Technology	$ 7,601	$ 7,125	$ 7,827	$ 8,855	$ 8,906	$ 51	0.6%	$ 1,305	17.2%
Human Resources	$ 54,575	$ 49,961	$ 49,680	$ 54,412	$ 55,097	$ 684	1.3%	$ 522	1.0%
Law	$ 5,168	$ 4,815	$ 4,873	$ 5,309	$ 5,719	$ 410	7.7%	$ 551	10.7%
Board of Commissioners	$ 3,606	$ 3,908	$ 3,835	$ 4,249	$ 4,313	$ 64	1.5%	$ 707	19.6%
Finance	$ 3,346	$ 3,240	$ 3,146	$ 3,335	$ 3,289	$ (46)	-1.4%	$ (57)	-1.7%
Engineering	$ 25,426	$ 25,491	$ 25,685	$ 27,840	$ 25,076	$ (2,764)	-9.9%	$ (350)	-1.4%
Sub-Total Corporate Fund	**$ 230,487**	**$ 227,912**	**$ 230,204**	**$ 246,789**	**$ 248,602**	**$ 1,812**	**0.7%**	**$ 18,115**	**7.9%**
Construction Fund	$ 2,798	$ -	$ -	$ -	$ -	$ -	-	$ (2,798)	-100.0%
Capital Improvement Bond Fund	$ 9,371	$ -	$ -	$ -	$ -	$ -	-	$ (9,371)	-100.0%
Stormwater Management Fund	$ 14,863	$ 6,090	$ 6,066	$ 6,684	$ 9,792	$ 3,109	46.5%	$ (5,071)	-34.1%
Reserve Claim Fund	$ 4,100	$ 4,674	$ 4,234	$ 10,000	$ 10,000	$ -	0.0%	$ 5,900	143.9%
Total	**$ 261,618**	**$ 238,676**	**$ 240,504**	**$ 263,473**	**$ 268,394**	**$ 4,921**	**1.9%**	**$ 6,776**	**2.6%**

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, FY2017-FY2018; and FY2019 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, and serve as the District's reserves to be used in case of a revenue shortfall throughout the fiscal year.

The MWRD has had a policy of maintaining an unreserved fund balance of 12.0% to 15.0% of Corporate Fund expenditures since 2009.[54] 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. Based on Corporate Fund expenditures of $376.9 million budgeted in FY2019, the 12-15% range would equal a fund balance level between $45.2 million and $56.5 million. 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.[55] The District is budgeting a total of $131.3 million in Corporate Fund assets as budgetary reserves in FY2019,[56] which is 34.8% of projected FY2019 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."[57] This two month standard, which equals approximately

---

[54] MWRD FY2019 Executive Director's Recommendations, p. 26.
[55] MWRD FY2019 Executive Director's Recommendations, p. 19.
[56] MWRD FY2019 BF-19, All Funds Summary of Revenue, Expenditures and Net Assets Appropriable.
[57] 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 FY2010 to FY2019. In FY2010 and FY2011, the District's fund balance was between 5% and 6.0%, 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 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, before falling to 14.8% in FY2014 due primarily to the District's strategic plan to transfer $30.0 million from the Corporate Fund to the District's Retirement Fund.[58] Since then the Corporate Fund fund balance ratio has increased and remained near or above 25%. The District anticipates that the FY2019 fund balance ratio will be 34.8%, its highest level in the ten-year period.

MWRD Corporate Fund Fund Balance: FY2010-FY2019 (in $ millions)

	Assets Available for Future Use / Budget Reserve	Corporate Fund Expenditures	Ratio
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	$ 103.3	$ 370.2	27.9%
FY2019*	$ 131.3	$ 376.9	34.8%

*FY2019 figures are the proposed Corporate Fund assets available for future use and proposed appropriations.
Sources: MWRD Adopted Budgets, FY2010-FY2018, Summaries of Net Assets Appropriable - All Funds and Comparative Statements of Appropriations and Tax Levies - All Funds; and FY2019 Tentative Budget, All Funds Summary of Revenue, Expenditures, and Net Assets Appropriable.

[58] 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.[59] Plan benefits and contribution amounts can only be amended through State legislation.[60] 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.[61]

In FY2017 there were 1,835 active members of the pension fund and 2,408 beneficiaries, for a ratio of 0.76 active member for every beneficiary. This ratio has fallen from 0.92 in FY2009 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

---

[59] MWRD Retirement Fund FY2017 Comprehensive Annual Financial Report, p. 34.

[60] 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.

[61] MWRD Retirement Fund FY2017 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: FY2008-FY2017			
Fiscal Year	**Active Employees**	**Beneficiaries**	**Ratio of Active to Beneficiary**
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
FY2017	1,835	2,408	0.76
Ten-Year Change	**-217**	**136**	**-0.1**
Ten-Year % Change	**-10.6%**	**6.0%**	**-15.6%**

Source: MWRD Retirement Fund Comprehensive Annual Financial Reports, FY2008-FY2017.

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.[62] 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.[63]

[62] A "trailer bill" to correct technical problems with Public Act 96-0889 was enacted in December 2010 as Public Act 96-1490.
[63] See 40 ILCS 5/13-314 and MWRD Retirement Fund FY2017 Comprehensive Annual Financial Report, p. 36-37.

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 FY2017 Comprehensive Annual Financial Report, p. 27

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 FY2017 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, do not provide increased contributions.

As shown in the following table, the increases were 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.[64] This multiple was not automatically adjusted to meet the funding needs of the pension plans. Over the

[64] 40 ILCS 5/13-503. Employee contributions to optional additional benefits made after January 1, 2003 are multiplied by 1.0.

past ten years, insufficient employer contributions are responsible for $236.8 million of the $503.4 million growth in the unfunded liability.[65]

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.[66] 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. [67] The total FY2014 budgeted employer contribution to the fund was $75.0 million.[68]

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.[69] 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.[70] The 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. The FY2019 contribution from the property tax is projected at $71.6 million and the total appropriation will be $87.3 million.[71]

---

[65] MWRD Retirement Fund FY2017 Comprehensive Annual Financial Report, p. 101.
[66] MWRD FY2015 Executive Director's Recommendations, p. 20.
[67] MWRD FY2015 Executive Director's Recommendations, p. 97.
[68] MWRD FY2015 Executive Director's Recommendations, p. 511.
[69] MWRD FY2015 Executive Director's Recommendations, p. 93.
[70] 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=.
[71] MWRD FY2019 Executive Director's Recommendations, p. 98.

Funded Ratio

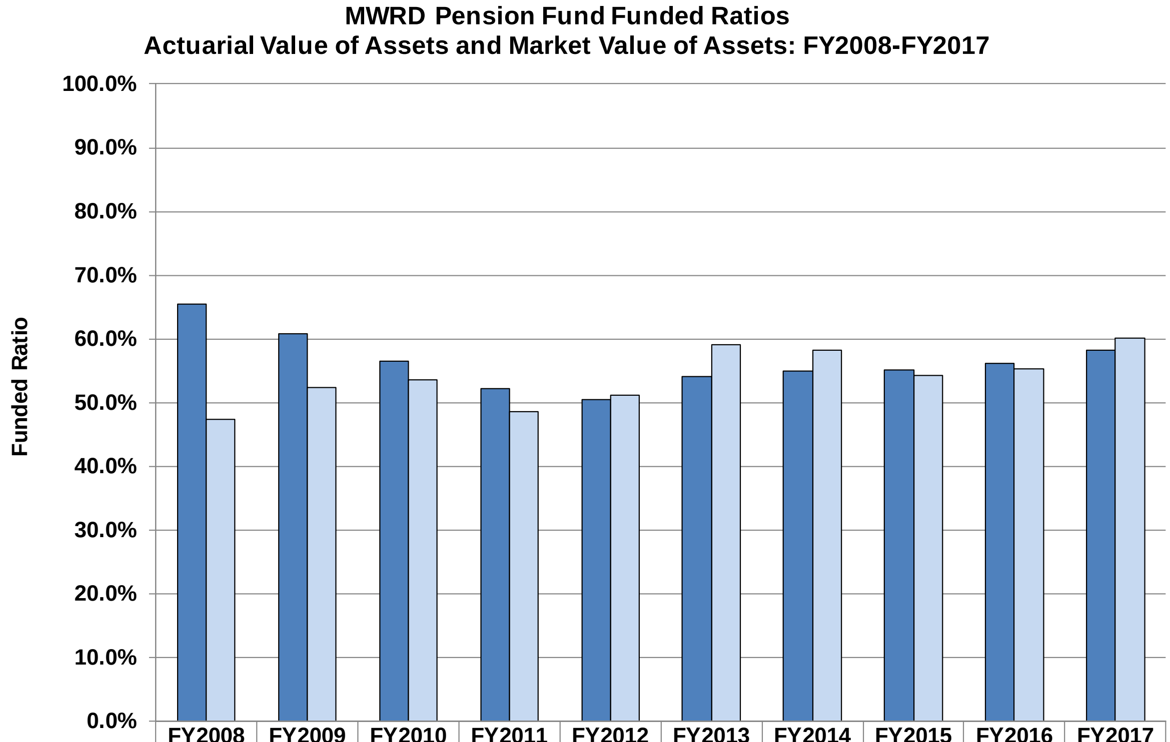
This report uses two measurements of pension plan funded ratio: the actuarial value of assets measurement and the market value of assets measurement. These ratios show the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting 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.[72] 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 65.4% in FY2008 to 50.4% in FY2012 before increasing to 58.3% in FY2017. The market value funded

[72] For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2012*, October 2, 2014.

ratio has generally climbed from a low of 47.4% in FY2008 to 60.1% in FY2017, reflecting investment returns and more sufficient employer contributions starting in FY2012.



	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Actuarial Value	65.4%	60.7%	56.5%	52.2%	50.4%	54.1%	55.0%	55.2%	56.2%	58.3%
Market Value	47.4%	52.3%	53.6%	48.6%	51.1%	59.2%	58.3%	54.3%	55.4%	60.1%

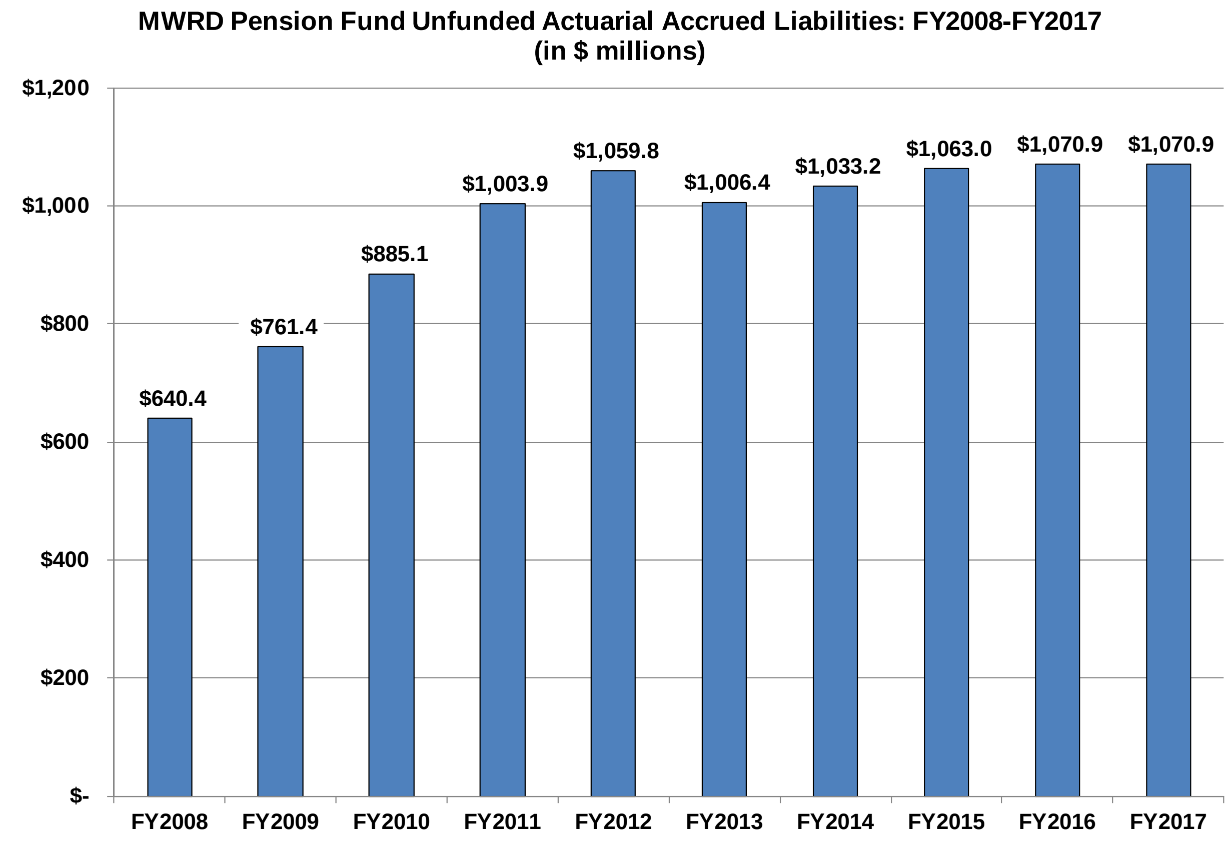
Source: Civic Federation calculations based on FY2008-FY2017 MWRD Retirement Fund Comprehensive Annual Financial Reports.

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 FY2017, up from $640.4 million in FY2008.

The largest contributor to the growth in unfunded liabilities between FY2008 and FY2017 was employer contributions that were $236.8 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 $216.9 million to the UAAL.[73]



Source: MWRD Retirement Fund FY2008-FY2017 Comprehensive Annual Financial Reports.

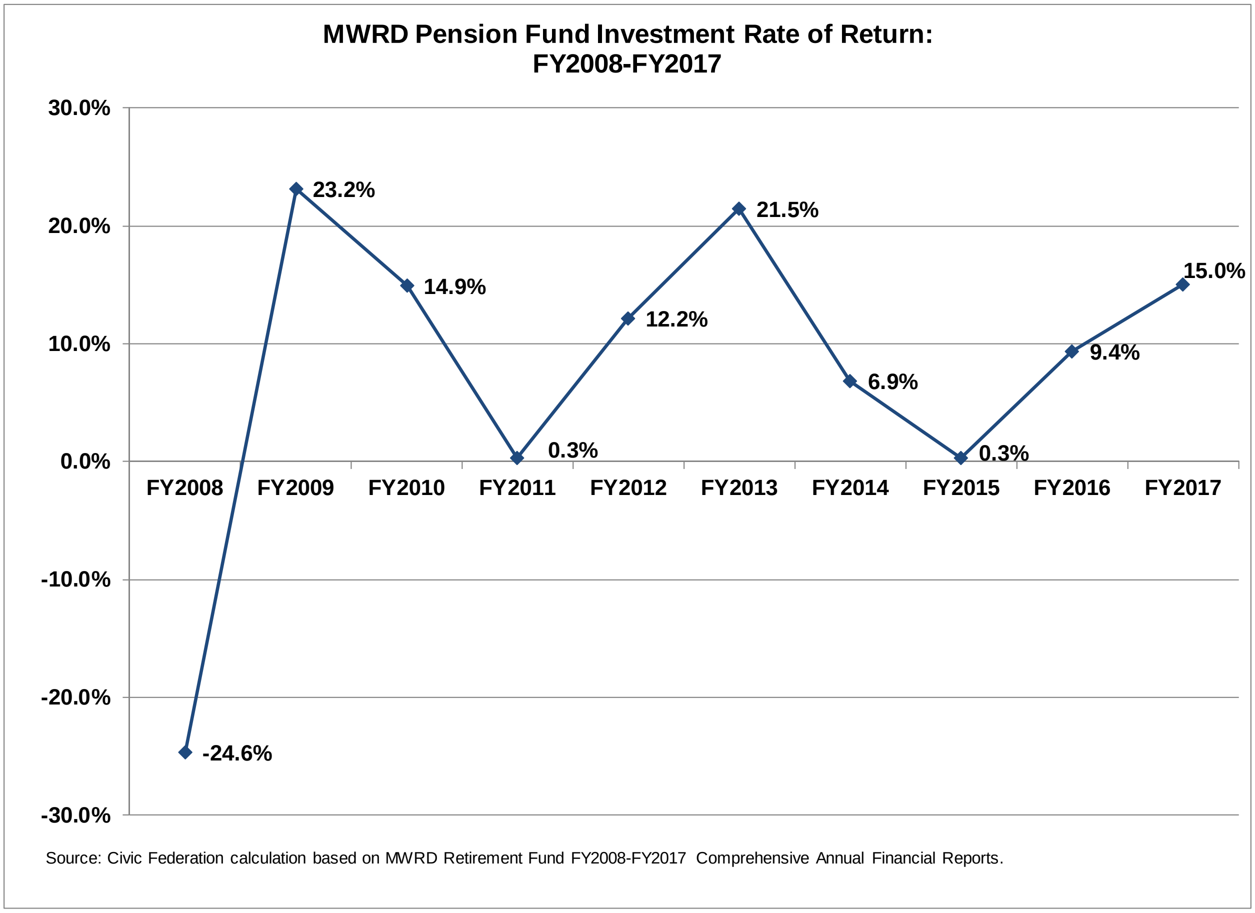
Investment Rates of Return

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 FY2008 and FY2017 the MWRD pension fund's average annual rate of return was 7.9%.[74]

[73] MWRD Retirement Fund FY2017 Comprehensive Annual Financial Report, p. 101.

[74] 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 15.0% in FY2017.



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."[75] 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

[75] 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[76] 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

[76] 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 33 years were left as of December 31, 2017. 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 (33 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 FY2017 and FY2011 Actuarial Valuations.

Because the ADC and ARC are calculated on a similar basis, the Civic Federation continues 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 FY2008 and FY2011, the gap between the employer contribution and the ARC grew from $16.3 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-FY2017 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 $36.8 million.

Expressing ADC/ARC as a percent of payroll provides a sense of scale and affordability. In FY2008 the ARC was 29.6% of payroll while the actual employer contribution was 19.9% of payroll. In FY2017 the pension ADC was 35.6% of payroll while the actual employer contribution was 48.7% of payroll. Tier 1 employees contributed 12.0% of salary to the pension fund in FY2017 and Tier 2 employees contributed 9.0% of salary.

MWRD Pension Fund Schedule of Employer Contributions
As Computed for GASB Statements No. 25 & 67: FY2008-FY2017

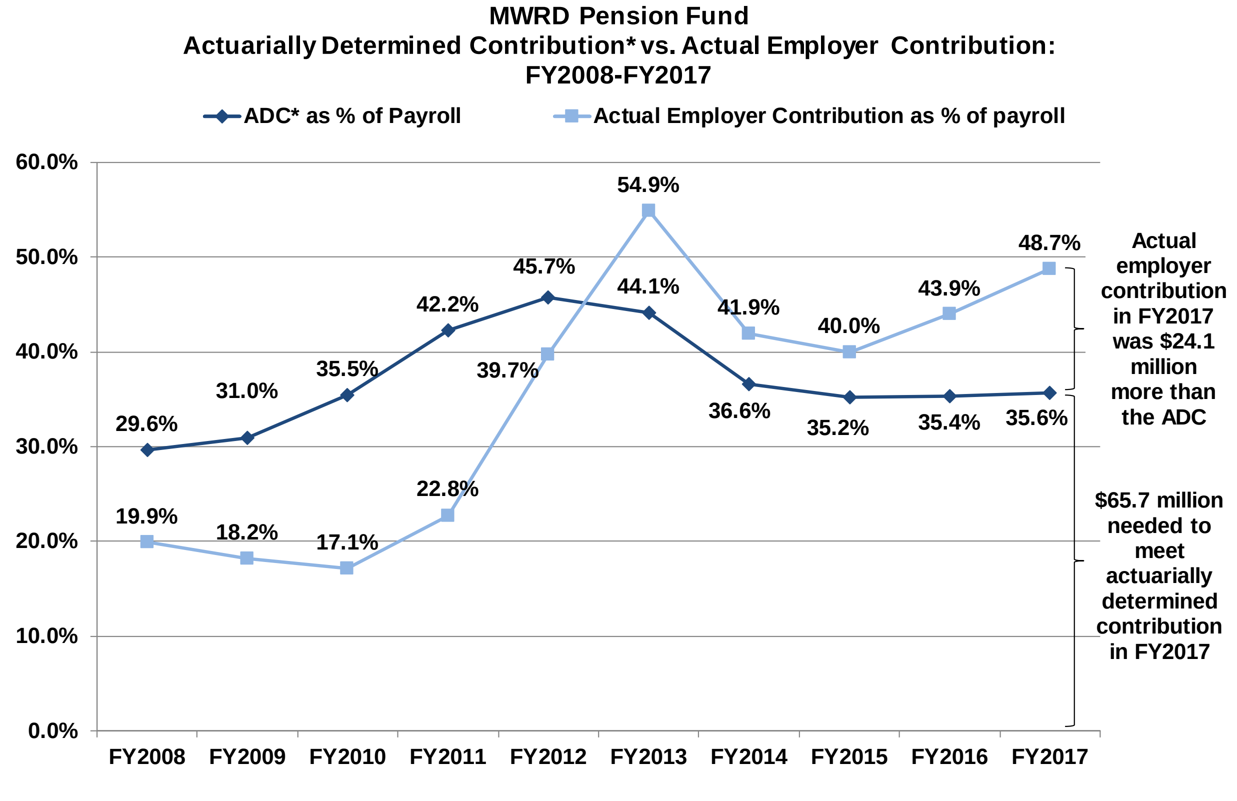
Fiscal Year	Employer Actuarially Determined Contribution* (1)	Actual Employer Contribution (2)	Shortfall (1-2)	% of ADC* Contributed	Payroll	ADC* as % of Payroll	Actual Employer Contribution as % of payroll
2008	$ 49,758,238	$ 33,406,819	$ 16,351,419	67.1%	$ 167,865,254	29.6%	19.9%
2009	$ 54,790,175	$ 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%
2017	$ 65,727,912	$ 89,858,224	$ (24,130,312)	136.7%	$ 184,385,188	35.6%	48.7%

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

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 9.7 percentage point shortfall in FY2008 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[77] in FY2013 and 13.1 percentage points in FY2017. The District, therefore, in FY2017 funded the pension plan at $24.1 million more than a level that would both cover normal cost and amortize the unfunded liability over the remaining 33 years of the closed 40-year amortization period. However, it is important to note that the employer contribution fell just

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

short of the normal cost plus interest on the unfunded liability which means it contributed $154,718 to the UAAL.[78]



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

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

[78] MWRD Retirement Fund FY2017 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.[79]

MWRD Retirement Fund GASB 67 Reporting: FY2013-FY2017					
	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
FY2017	$ 2,486,868,107	$ 1,501,793,976	$ 985,074,131	60.39%	$ 65,727,912
Five-Year Change	**$ 273,676,390**	**$ 203,180,149**	**$ 70,496,241**		**$ (9,046,236)**
Five-Year % Change	**12.37%**	**15.65%**	**7.71%**		**-12.10%**

Source: FY2013-FY2017 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.[80]

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.[81] 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

[79] 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.
[80] MWRD FY2014 Executive Director's Recommendations, p. 13.
[81] MWRD FY2009 Comprehensive Annual Financial Report, p. 41.

contributed $22.0 million for FY2012.[82] The FY2013 and FY2014 contributions were $20.0 million and each of the FY2015, FY2016, FY2017, FY2018 and budgeted FY2019 contributions are $5.0 million.[83]

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.[84]

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 39.0% of the premium and the MWRD contributes 61.0%.[85] As of December 31, 2017, there were 2,797 retirees and beneficiaries receiving health care coverage.[86]

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, 2017. The actuarial accrued liability computed for the MWRD OPEB trust in the 2017 valuation was $308.7 million. The trust had assets actuarially valued at $195.2 million, resulting in unfunded liabilities of $113.5 million and a 63.2% funded ratio for FY2017. The increase in the actuarial accrued liability was mostly due to changes in assumptions.[87]

MWRD OPEB Funded Status: FY2008-FY2017
(in $ millions)

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Actuarial Accrued Liability	$ 526.5	$ 526.5	$ 526.5	$ 394.7	$ 394.7	$ 260.4	$ 260.4	$ 286.6	$ 286.6	$ 308.7
Actuarial Value of Assets	$ 47.8	$ 47.9	$ 47.9	$ 55.0	$ 55.0	$ 120.9	$ 120.9	$ 149.3	$ 149.3	$ 195.2
Unfunded Actuarial Accrued Liability	$ 478.7	$ 478.6	$ 478.6	$ 339.7	$ 339.7	$ 139.5	$ 139.5	$ 137.3	$ 137.3	$ 113.5
Funded Ratio	9.1%	9.1%	9.1%	13.9%	13.9%	46.4%	46.4%	52.1%	52.1%	63.2%

Source: MWRD FY2008-FY2017 Comprehensive Annual Financial Reports.

[82] MWRD FY2012 Comprehensive Annual Financial Report, p. 85.
[83] MWRD FY2019 Executive Director's Recommendations, p. 10.
[84] MWRD FY2019 Executive Director's Recommendations, p. 10.
[85] MWRD FY2017 Comprehensive Annual Financial Report, p. 100.
[86] MWRD FY2017 Comprehensive Annual Financial Report, p. 99.
[87] MWRD OPEB Benefits Program, Actuarial Valuation as of December 31, 2017, p. 15.

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;[88]and
- *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 FY2017 the District reported a 7.1%, or $12.4 million, increase in total short-term liabilities from the previous year. Accounts payable increased by $3.3 million or 4.4% during this period.

Between FY2013 and FY2017, short-term liabilities increased by $44.5 million, or 31.1%. This was a rise from $143.4 million to $187.9 million. Much of the five-year increase was due to the $33.2 million increase in amounts due to the MWRD pension trust fund.

Metropolitan Water Reclamation District FY2013-FY2017 Short-Term Liabilities in the Governmental Funds (in $ thousands)									
Type	FY2013	FY2014	FY2015	FY2016	FY2017	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Accounts Payable	$ 63,977	$ 82,517	$ 85,643	$ 74,185	$ 77,464	$ 3,279	4.4%	$ 13,487	21.1%
Accrued Payroll	$ 7,930	$ 8,802	$ 2,650	$ 3,933	$ 3,964	$ 31	0.8%	$ (3,966)	-50.0%
Bid Deposits	$ 599	$ 1,786	$ 1,067	$ 981	$ 738	$ (243)	-24.8%	$ 139	23.2%
Due to Pension Trust Fund	$ 56,638	$ 54,678	$ 71,041	$ 80,259	$ 89,858	$ 9,599	12.0%	$ 33,220	58.7%
Accrued Interest Payable	$ 14,247	$ 13,623	$ 14,924	$ 16,145	$ 15,899	$ (246)	-1.5%	$ 1,652	11.6%
Total	**$ 143,391**	**$ 161,406**	**$ 175,325**	**$ 175,503**	**$ 187,923**	**$ 12,420**	**7.1%**	**$ 44,532**	**31.1%**

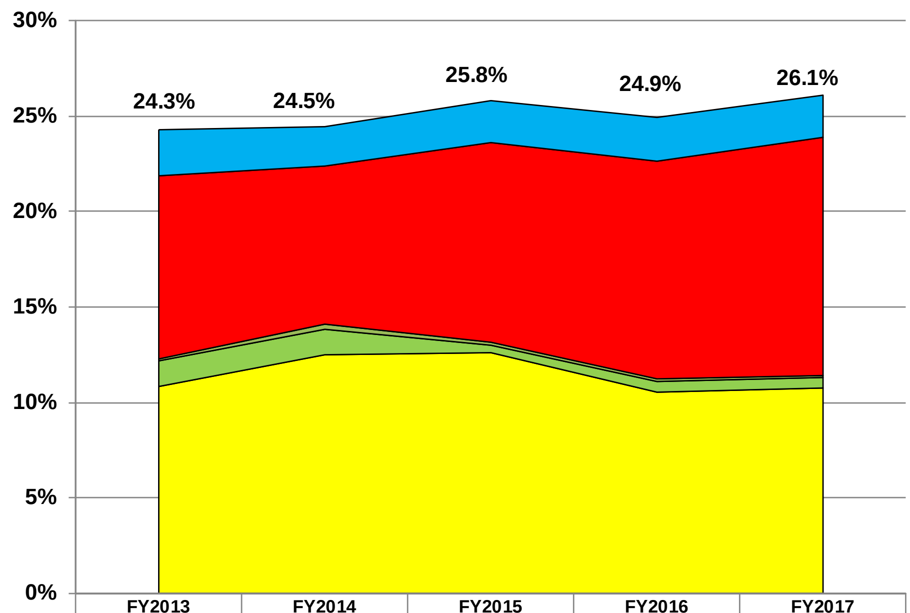
Source: MWRD FY2013-FY2017 Comprehensive Annual Financial Reports.

[88] MWRD FY2017 Comprehensive Annual Financial Report, pp. 111-112.

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.[89] This indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency, which is 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 a slight increase in short-term liabilities as a percentage of total operating revenue between FY2013 and FY2017, rising from 24.3% to 26.1%. The average ratio over the five year period reviewed was 25.1%. Much of the increase over time was due to large sums of payables for the pension trust fund.

Metropolitan Water Reclamation District Short-Term Liabilities as % of Operating Revenues in the Governmental Funds: FY2013-FY2017



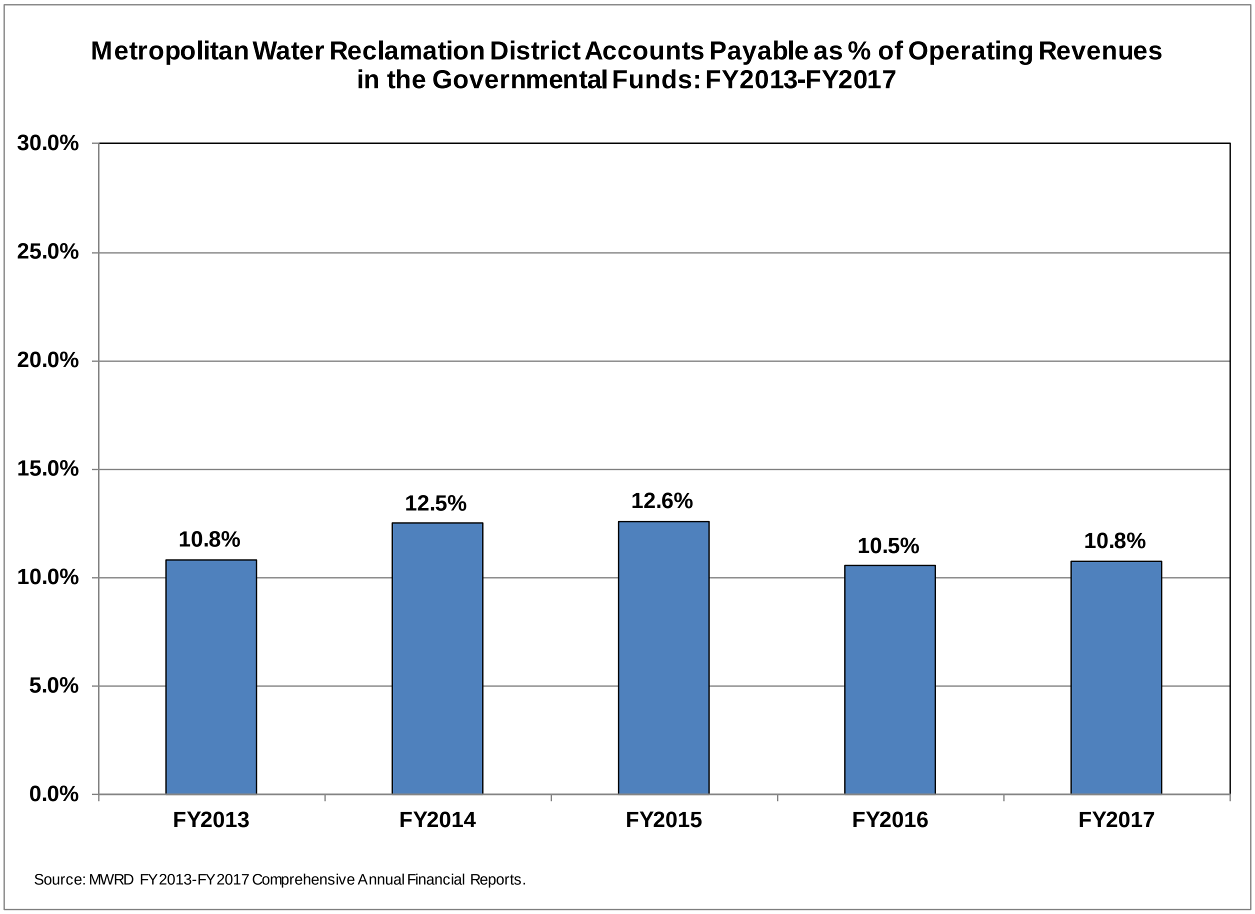
	FY2013	FY2014	FY2015	FY2016	FY2017
Accrued Interest Payable	2.4%	2.1%	2.2%	2.3%	2.2%
Due to Pension Trust Fund	9.6%	8.3%	10.5%	11.4%	12.5%
Bid Deposits	0.1%	0.3%	0.2%	0.1%	0.1%
Accrued Payroll	1.3%	1.3%	0.4%	0.6%	0.6%
Accounts Payable	10.8%	12.5%	12.6%	10.5%	10.8%

Source: MWRD FY2013-FY2017 Comprehensive Annual Financial Reports.

89 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 FY2013 and FY2017. 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.[90]

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

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

- *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;[91]
- *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.[92]

The MWRD's current ratio was 7.5 in FY2017, the most recent year for which data are available. In the past five years, the District's current ratio averaged 7.9, which is far above the preferred benchmark of 2.0, and thus demonstrates a very strong level of liquidity. From FY2013 to FY2017, the current ratio fell from 9.1 to 7.5, a 17.6% decrease. The reason for the ratio is that liabilities over the five-year period rose at a faster rate (31.1%) than assets (8.0%), causing the decrease.

Metropolitan Water Reclamation District FY2013-FY2017 Current Ratio in the Governmental Funds (in $ thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Current Assets									
Cash	$ 64,496	$ 57,273	$ 173,701	$ 35,461	$ 49,010	$ 13,549	38.2%	$ (15,486)	-24.0%
Certificates of Deposit	$ 77,316	$ 25,111	$ 23,631	$ 172,874	$ 212,220	$ 39,346	22.8%	$ 134,904	174.5%
Investments	$ 579,933	$ 481,318	$ 518,124	$ 503,838	$ 476,476	$ (27,362)	-5.4%	$(103,457)	-17.8%
Prepaid Insurance	$ 2,391	$ 2,143	$ 2,137	$ 2,118	$ 4,180	$ 2,062	97.4%	$ 1,789	---
Taxes Receivable, net	$ 503,911	$ 527,258	$ 542,073	$ 557,898	$ 576,550	$ 18,652	3.3%	$ 72,639	14.4%
Other Receivables, net	$ 31,656	$ 38,961	$ 50,986	$ 111,555	$ 51,842	$ (59,713)	-53.5%	$ 20,186	63.8%
Inventories	$ 40,136	$ 39,586	$ 37,623	$ 35,502	$ 34,787	$ (715)	-2.0%	$ (5,349)	-13.3%
Restricted cash	$ 1,425	$ 1,409	$ 1,405	$ 285	$ 527	$ 242	84.9%	$ (898)	-63.0%
Total Current Assets	**$ 1,301,264**	**$ 1,173,059**	**$ 1,349,680**	**$ 1,419,531**	**$ 1,405,592**	**$ (13,939)**	**-1.0%**	**$ 104,328**	**8.0%**
Current Liabilities									
Accounts Payable	$ 63,977	$ 82,517	$ 85,643	$ 74,185	$ 77,464	$ 3,279	4.4%	$ 13,487	21.1%
Accrued Payroll	$ 7,930	$ 8,802	$ 2,650	$ 3,933	$ 3,964	$ 31	0.8%	$ (3,966)	-50.0%
Bid Deposits	$ 599	$ 1,786	$ 1,067	$ 981	$ 738	$ (243)	-24.8%	$ 139	23.2%
Due to Pension Trust Fund	$ 56,638	$ 54,678	$ 71,041	$ 80,259	$ 89,858	$ 9,599	12.0%	$ 33,220	58.7%
Accrued Interest Payable	$ 14,247	$ 13,623	$ 14,924	$ 16,145	$ 15,899	$ (246)	-1.5%	$ 1,652	11.6%
Total Current Liabilities	**$ 143,391**	**$ 161,406**	**$ 175,325**	**$ 175,503**	**$ 187,923**	**$ 12,420**	**7.1%**	**$ 44,532**	**31.1%**
Current Ratio	**9.1**	**7.3**	**7.7**	**8.1**	**7.5**				

Source: MWRD FY2013-FY2017 Comprehensive Annual Financial Reports.

[91] Investopedia, "Prepaid expense," at https://www.investopedia.com/terms/p/prepaidexpense.asp.
[92] MWRD FY2017 Comprehensive Annual Financial Report, p. 73.

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;
- *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; and
- *Net Pension Liability*: Since 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.[93] The FY2015 CAFR included a restatement of net pension liabilities for FY2014 to reflect the reporting requirement change.

Between FY2016 and FY2017 total long-term liabilities rose by 0.9%, or $39.8 million. In the five-year period between FY2013 and FY2017, total long-term liabilities rose by 49.8%, increasing from $2.9 billion to nearly $4.4 billion. This was an increase of almost $1.5 billion.

Over the five-year period, long-term debt increased by 21.4%. This was an increase of $566.4 million, from $2.6 billion to $3.2 billion. Long-term debt was primarily incurred through general obligation bonds, bond anticipation notes and capital leases. From FY2016 to FY2017, total long-term debt rose by 1.6%, or $51.3 million.

[93] MWRD FY2017 Comprehensive Annual Financial Report, p. 51.

Other long-term liabilities, which include claims and judgments, net pension and OPEB liabilities and compensated absences, rose by 339.0% between FY2013 and FY2017. This was a $883.7 million increase from $260.7 million to $1.1 billion.

The single largest increase in long-term liabilities between FY2013 and FY2017 was for net pension liabilities. This obligation was reported to rise by 926.3% or $974.4 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: FY2013-FY2017 (in $ thousands)									
Long-Term Liabilities	**FY2013**	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**Two-Year $ Change**	**Two-Year % Change**	**Five-Year $ Change**	**Five-Year % Change**
General Obligation Debt	$ 1,857,731	$ 1,816,796	$ 1,983,806	$ 1,963,045	$ 1,910,355	$ (52,690)	-2.7%	$ 52,624	2.8%
Converted Bond Anticipation Notes	$ 624,242	$ 605,824	$ 671,559	$ 806,563	$ 787,312	$ (19,251)	-2.4%	$ 163,070	26.1%
Bond Anticipation Notes	$ 35,809	$ 90,460	$ 161,697	$ 157,390	$ 296,529	$ 139,139	---	$ 260,720	---
Subtotal General Obligation Debt	**$ 2,517,782**	**$ 2,513,080**	**$ 2,817,062**	**$ 2,926,998**	**$ 2,994,196**	**$ 67,198**	**2.3%**	**$ 476,414**	**18.9%**
Deferred Premiums	$ 83,026	$ 78,165	$ 115,423	$ 195,674	$ 182,248	$ (13,426)	-6.9%	$ 99,222	119.5%
Subtotal Bonds Payable, Net	**$ 2,600,808**	**$ 2,591,245**	**$ 2,932,485**	**$ 3,122,672**	**$ 3,176,444**	**$ 53,772**	**1.7%**	$ 575,636	22.1%
Capital Leases	$ 47,795	$ 45,653	$ 43,405	$ 41,047	$ 38,574	$ (2,473)	-6.0%	$ (9,221)	-
Subtotal Long-Term Debt	**$ 2,648,603**	**$ 2,636,898**	**$ 2,975,890**	**$ 3,163,719**	**$ 3,215,018**	**$ 51,299**	**1.6%**	**$ 566,415**	**21.4%**
Claims and Judgments	$ 77,996	$ 35,668	$ 53,570	$ 40,236	$ 30,669	$ (9,567)	-23.8%	$ (47,327)	-60.7%
Compensated Absences	$ 27,627	$ 27,564	$ 25,153	$ 24,486	$ 22,811	$ (1,675)	-6.8%	$ (4,816)	-17.4%
Net OPEB Liability	$ 49,858	$ 30,409	$ 25,001	$ 17,993	$ 11,312	$ (6,681)	-37.1%	$ (38,546)	-77.3%
Net Pension Liability*	$ 105,193	$ 914,578	$ 947,300	$ 1,073,113	$ 1,079,566	$ 6,453	0.6%	$ 974,373	926.3%
Subtotal Other Long-Term Liabilities	**$ 260,674**	**$ 1,008,219**	**$ 1,051,024**	**$ 1,155,828**	**$ 1,144,358**	$ (11,470)	**-1.0%**	**$ 883,684**	**339.0%**
Total Long-Term Liabilities	**$ 2,909,277**	**$ 3,645,117**	**$ 4,026,914**	**$ 4,319,547**	**$ 4,359,376**	**$ 39,829**	**0.9%**	**$ 1,450,099**	**49.8%**

* Reported as net pension obligation in FY2013.

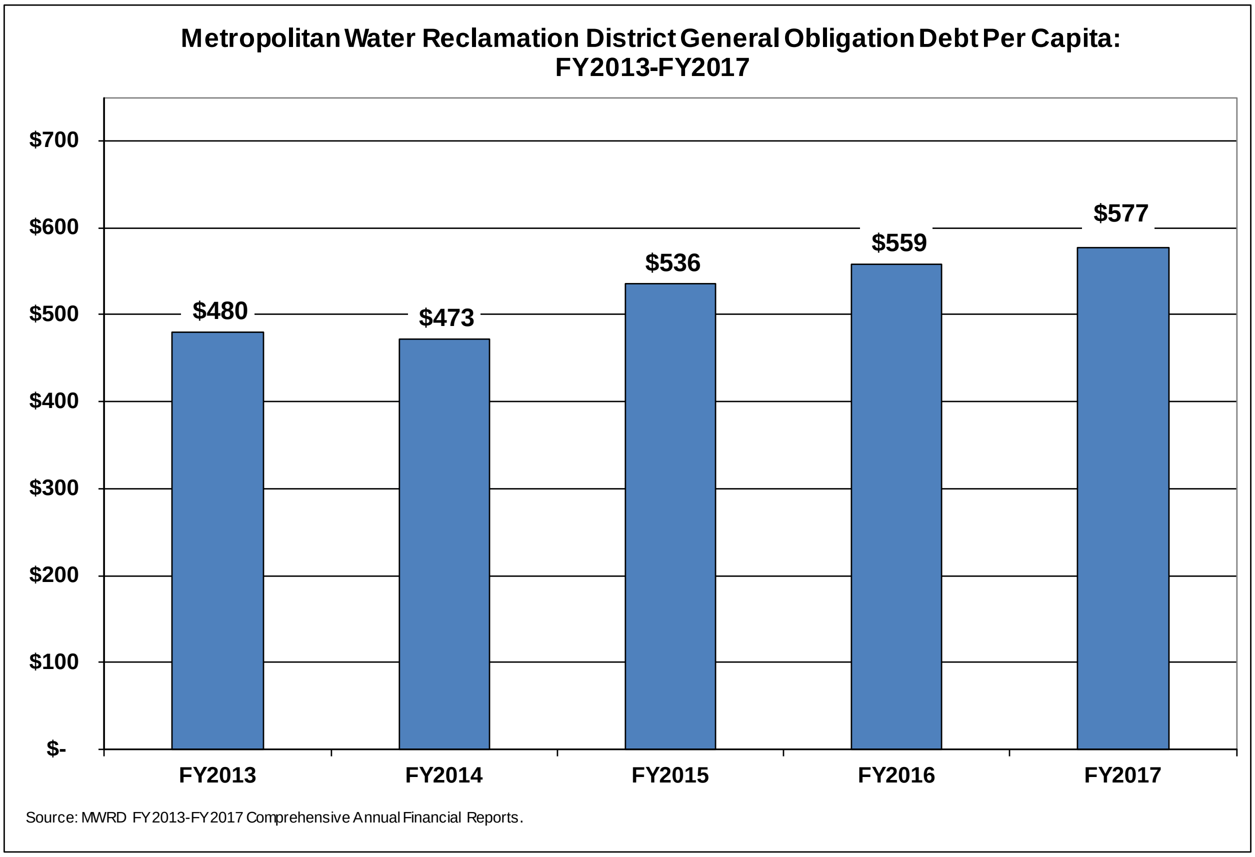
Source: MWRD FY2013-FY2017 Comprehensive Annual Financial Reports. Net pension liability for FY2014 restated in FY2015.

General Obligation Debt Per Capita

The tax-supported general obligation debt per capita ratio reflects the concept that the entire population of a jurisdiction benefits from infrastructure improvements. It is a ratio commonly used by rating agencies and other public finance analysts to evaluate long-term debt trends.

This analysis takes the total long-term debt amount reported in the MWRD's audited financial statements and divides it by the population of the District. Increases over time bear watching as they could be a sign of potential financial risk.

Between FY2013 and FY2017 the MWRD's long-term general obligation debt per capita amounts increased from $480 to $577. This represents a 20.1% increase. Over this period, MWRD general obligation debt per capita averaged $525. Between FY2014 and FY2017, the ratio rose by 22.1%, from $473 to $577. This steady rate of increase bears watching in future years.



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%.[94]

The ratio of debt service to total appropriations ratio for the MWRD between FY2015 and the projected FY2019 budget will increase from 17.8% to 21.8%. While the ratio over time is high,

[94] 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.

averaging 19.9%, 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: FY2015-FY2019 (in $ millions)					
	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Adjusted	FY2019 Tentative
Debt Service Appropriations	$ 214.5	$ 216.0	$ 228.8	$ 256.3	$ 238.4
Total Appropriations	$ 1,203.4	$ 1,244.1	$ 1,142.7	$ 1,151.0	$ 1,092.3
Debt Service as a % of Total Appropriations	**17.8%**	**17.4%**	**20.0%**	**22.3%**	**21.8%**

Source: MWRD FY2019 Tentative Budget, p. 8.

BOND RATINGS

The MWRD has the following current bond ratings, as of November 2018:

- Moody's Investors Service – Aa2 (since 2015);
- Fitch – AAA (since 2001); and
- Standard & Poor's – AA+ (since 2016).[95]

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.[96]

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.[97]

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.[98]

[95] MWRD FY2019 Executive Director's Recommendations, p. 3 and Official Statement of the Metropolitan Water Reclamation District of Greater Chicago $426,260,000 General Obligation Bonds, June 7, 2016, p. 1.
[96] Jennifer Boyd. Standard and Poor's Global Ratings. "Metropolitan Water Reclamation District of Greater Chicago; General Obligation," May 26, 2016.
[97] MWRD FY2016 Executive Director's Recommendations, pp. 27-28.
[98] Moody's Investors Service, "Rating Action: Moody's downgrades Metropolitan Water Reclamation District, IL to Aa1; outlook negative," August 27, 2013.

CAPITAL BUDGET

The MWRD annually updates and appropriates funding for projects in a five-year capital improvement plan (CIP). The FY2019-FY2023 CIP proposes approximately $923.5 million in funding for a variety of projects. The first year of the new CIP will be the FY2019 capital budget, proposed at $144.7 million.

The table 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 table shows that:

- The largest category of spending, 46.2% of all capital spending, or $426.9 million, will be earmarked for Stormwater Management;
- Approximately 21.9%, or $201.8 million, of the total amount will be used for Water Reclamation and Solids Management projects;
- Replacement of existing facilities will use 14.4% of all funds, or $133.1 million;
- Roughly 10.7%, or $99.2 million, will be used for the District's Collection Facilities; and
- The Tunnel and Reservoir Plan (TARP) is projected to receive approximately 6.8%, or $62.4 million.

The great majority of funding for the MWRD capital program comes from capital improvement bonds, which are expected to constitute 75.9% of all funding between FY2019 and FY2023, or $701.2 million. The remaining funding will consist of pay-as-you-go funding from the Stormwater and Construction Funds.[99]

Metropolitan Water Reclamation District Five-Year Capital Spending: FY2019-FY2023 - Estimated Cash Disbursements (in $ millions)

	FY2019	FY2020	FY2021	FY2022	FY2023	Five-Year Total	% of Five-Year Total
Capital Spending by Category							
Water Reclamation & Solids Management	$ 24.0	$ 45.3	$ 34.7	$ 57.5	$ 40.4	$ 201.8	21.9%
Replacement of Facilities	$ 18.7	$ 40.2	$ 24.9	$ 24.8	$ 24.6	$ 133.1	14.4%
Collection Facilities	$ 7.2	$ 11.4	$ 46.9	$ 13.9	$ 19.8	$ 99.2	10.7%
Stormwater Management	$ 75.8	$ 106.3	$ 96.0	$ 71.4	$ 77.4	$ 426.9	46.2%
Tunnel & Reservoir Plan	$ 19.0	$ 26.7	$ 14.1	$ 1.6	$ 1.0	$ 62.4	6.8%
Total Spending	**$ 144.7**	**$ 229.9**	**$ 216.6**	**$ 169.2**	**$ 163.2**	**$ 923.5**	**100.0%**
Capital Funding Sources							
Stormwater Fund	$ 30.9	$ 50.7	$ 43.2	$ 25.0	$ 37.5	$ 187.3	20.3%
Construction Fund	$ 7.5	$ 8.2	$ 5.3	$ 7.0	$ 7.0	$ 34.9	3.8%
Capital Improvements Bond Fund	$ 106.3	$ 170.9	$ 168.1	$ 137.2	$ 118.7	$ 701.2	75.9%
Total Funding	**$ 144.7**	**$ 229.9**	**$ 216.6**	**$ 169.2**	**$ 163.2**	**$ 923.5**	**100.0%**

*Note: Totals may not match due to rounding.

Source: MWRD FY2019 Executive Director's Recommendations, p. 334.

[99] MWRD FY2019 Executive Director's Recommendations, p. 334.

New Capital Spending Requests

The MWRD's request for new capital spending authorization for total project costs in FY2019 is approximately $236.4 million. This is a 24.5% decrease in new capital appropriations from FY2018 adopted appropriations. The amount of proposed new capital spending for FY2019 differs from the amount proposed for FY2019 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 FY2019.

Metropolitan Water Reclamation District Proposed New Capital Spending: FY2018 and FY2019 (in $ thousands)				
Project Type	**FY2018 Final Budget**	**FY2019 Proposed Budget**	**$ Change**	**% Change**
Treatment Facilities	$ 54,698	$ 40,553	$ (14,145)	-25.9%
Collection Facilities	$ 41,058	$ 37,250	$ (3,808)	-9.3%
Solids Processing & Disposal	$ 31,267	$ 42,577	$ 11,310	36.2%
Flood & Pollution Control	$ 143,203	$ 78,584	$ (64,619)	-45.1%
Land and Right of Way Acquistion Cost	$ 1,750	$ 2,050	$ 300	17.1%
Project Suport	$ 41,007	$ 35,418	$ (5,589)	-13.6%
Total	**$ 312,983**	**$ 236,432**	**$ (76,551)**	**-24.5%**

Sources: MWRD FY2018 Final Adopted Budget, p. 512 and FY2019 Executive Director's Recommendations, p. 457.

Capital Improvement Plan

According to best practices for capital budgeting, a complete capital improvement plan (CIP) includes the following elements:[100]

- 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. However, the prioritization process is not described in the CIP document. Also, the prioritization process is internal and does not include input from external stakeholders.

---

[100] 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[101]
• *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.[102]
• *Does the governing body hold a formal public hearing at which stakeholders may testify?*	Yes. MWRD held a budget session on September 6, 2018 that was focused on the capital budget.[103]
• *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

[101] MWRD FY2019 Executive Director's Recommendations, p. 331.
[102] MWRD FY2019 Executive Director's Recommendations, p. 331.
[103] Information provided by the MWRD Budget Office, November 23, 2018.

APPENDIX A

MWRD Budget Process

The MWRD's budget process differs from the budget processes of other area local 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 and Amended 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);[104]
- *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.

Because these budget figures can vary, we address the difference between the various appropriations over a five-year period in this section.

The following table shows the MWRD appropriations from FY2014 to FY2018 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 FY2019 Executive Director's Recommendations and the FY2019 Tentative Budget. Because the adopted, adjusted and actual figures for FY2019 are not yet available, FY2019 appropriations are not

[104] 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.

included. FY2018 actual figures are also not yet available because the District's 2018 fiscal year is still in process as of the writing of this analysis.

MWRD Appropriations - Tentative, Adopted, Adjusted and Actual: FY2014-FY2018				
	Tentative	Adopted	Adjusted	Actual
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	$ 1,142,749,813
FY2018*	$ 1,137,968,186	$ 1,151,051,387	$ 1,151,051,387	$ -

*Note: FY2018 actual figures are not yet available.
Source: MWRD Tentative and Final Budgets, FY2014-FY2017; MWRD FY2018 Executive Director's Recommendations, p. 42; FY2018 Tentative Budget, p. 8; and FY2019 Executive Director's Recommendations, p. 44.

The next table provides the variance between the budget figures shown in the table above comparing the four types of appropriations for FY2014 through FY2018. 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 budget and the adopted, adjusted and actual budget figures, but little variance occurs after the appropriations are adopted by the Board of Commissioners. A large variance occurred between the adopted budget and adjusted budget in FY2015. In all other years reviewed, little to no variance occurred between the adopted and adjusted budgets or between the adopted budget and actual appropriations.

MWRD Appropriations Comparison of Tentative, Adopted and Actual: FY2014-FY2018						
	Variance: Tentative vs. Adopted	Variance: Tentative vs. Adjusted	Variance: Tentative vs. Actual	Variance: Adopted vs. Adjusted	Variance: Adopted vs. Actual	Variance: Adjusted vs. Actual
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	$ 33,953,200	$ -	$ -	$ -
FY2017	$ 10,319,938	$ 10,319,938	$ 10,319,938	$ -	$ -	$ -
FY2018*	$ 13,083,201	$ 13,083,201	$ (1,137,968,186)	$ -	$ -	$ -

*Note: FY2018 actual figures are not yet available.
Source: MWRD Tentative and Final Budgets, FY2014-FY2017; MWRD FY2018 Executive Director's Recommendations, p. 42; FY2018 Tentative Budget, p. 8; and FY2019 Executive Director's Recommendations, p. 44.