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CIVIC FEDERATION: CONDITIONAL SUPPORT FOR TENTATIVE FY2012 MWRD BUDGET PROPOSAL

(CHICAGO) The Civic Federation announced today that it offers conditional support for the proposed tentative FY2012 Metropolitan Water Reclamation District of Greater Chicago (MWRD) budget of \$1.0 billion. The full 41-page analysis is available at civicfed.org.

“While the Federation supports many aspects of the budget, including reductions in operational and personnel expenditures and proposed pension reforms, the District plans to increase its property tax levy to the maximum for the second straight year and will not comply with its own fund balance policy,” said Laurence Msall, president of the Civic Federation. “Therefore, our full support for the budget is conditional upon 1) the District increasing its budgeted fund balance to comply with its own policy of reserving 12-15% of Corporate Fund appropriations for contingencies and 2) the Board of Commissioners’ strong advocacy for the passage of proposed pension funding reforms during the upcoming spring legislative session in Springfield.”

The proposed tentative budget will increase by \$8.6 million or 0.8% from FY2011, though operational spending will decrease by 0.7% or \$2.3 million. The District will budget only \$31.7 million or 9.4% of the Corporate Fund appropriation of \$338.8 million as its unreserved fund balance. The estimated year-end fund balance in FY2011 is \$73.0 million or 22.8% of that year’s Corporate Fund appropriation. The District’s own policy, adopted by the Board of Commissioners in 2006, is to maintain a fund balance level of between 12% and 15% of appropriations for contingencies. While the District intends to increase the budgeted fund balance by the end of the year by not spending its entire appropriation for FY2012, this plan does not appear in the budget book and is therefore not a transparent adherence to MWRD fund balance policy.

The District proposes to increase its property tax levy to the maximum amount allowable under State law for the second year in a row. The proposed increase to tax-capped funds in the budget is 3.4%, which will bring in \$202.4 million of the District’s total levy increase of \$496.9 million. At a time of financial hardship for many residents, other local governments in the Chicago area have chosen to minimize the burden they impose on taxpayers by freezing their levies or increasing them by less than the maximum amount. The Federation encourages the MWRD to look for further cost-cutting measures and explore alternative methods of increasing revenue.

The Federation’s analysis found that the District plans to increase its contribution to the employee pension fund by nearly \$30 million above the statutory contribution of \$28.5 million by transferring interest income to the Retirement Fund. The MWRD is allowed to transfer interest income to its funds that are “most in need” thanks to 2008

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legislation promoted by the District and supported by the Civic Federation. This is a good step toward improving the fiscal health of the MWRD Retirement Fund, which has a funded ratio of only 56.5%, down from 85.9% ten years ago.

The Retirement Fund Board of Trustees, with support from the Board of Commissioners, has also proposed two significant reforms to the District's pension funding. They have not yet been introduced in the Illinois General Assembly. The proposed changes would help rectify past underfunding of the MWRD pension fund by increasing contributions by employees hired before January 1, 2011 and increasing employer contributions to meet the annual required contribution calculated by the fund's actuary. The Federation applauds the MWRD for moving to stabilize the health of its retirement fund, but warns that even if its legislation is approved by the State of Illinois, reductions in benefits not yet earned by current employees may be necessary.

The Civic Federation supports the District's moves to reduce personnel costs by 6.2%, including reductions in staffing levels of 7.2%. Since FY2003 the District has reduced staffing by 237 or 11.0%. The reductions to staffing in FY2012 mark the second year of a five-year plan to reduce personnel spending due to revenue constraints. The MWRD is also a local leader in using and making its long-range planning tools publicly available. It follows best practices in creating five-year financial forecasts and develops comprehensive capital improvement plans. The Federation commends the District for its forward-thinking efforts.

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The Civic Federation is an independent, non-partisan government research organization founded in 1894. The Federation's membership includes business and professional leaders from a wide range of Chicago area corporations, professional service firms and institutions. For more information, please visit the Federation's website at www.civicfed.org.