THE BOND BUYER
Tuesday, December 8, 2015 | as of 10:26 AM ET
Regional News

MWRD of Chicago Budget Praised

by Yvette Shields
DEC 7, 2015 4:54pm ET

CHICAGO – The Metropolitan Water Reclamation District of Greater Chicago's proposed $1.21 billion budget has won a key endorsement.

The Chicago Civic Federation said in a Dec. 3 analysis the budget is reasonable and maintains ample reserves and praised the district for continuing to be fiscally responsible in providing proper funding for pensions and prefunding retiree health benefits.

The proposed budget relies on the maximum property tax increase allowed under state law for the third year in a row, with the total levy increasing by 3.3%, or $18.5 million, to $577.8 million. The budget marks a 1.5% increase over fiscal 2015 spending levels and includes an extra contribution to the district's retirement fund beyond what is required under state law.

The federation praised the district's long-term planning, especially given the struggles of overlapping governments that rely on the same tax base including Chicago, Cook County, and the Chicago schools, all struggling under massive pension burdens.

"The Civic Federation has long recommended that all governments develop long-term financial and strategic plans," said president Laurence Msall. "Focusing only on short-term budget decisions can have adverse long-term impacts, as has been amply demonstrated with the multiplicity of public pension crises around Illinois."

The federation remains concerned that the district's 2012 pension fund overhaul could still face a legal challenge. Reforms adopted by Chicago and its park district that cut benefits have been challenged with the fate of Chicago's changes pending before the Illinois Supreme Court. The MWRD overhaul did not cut benefits but it did raise employee contributions which could be challenged.

"The district's focus on stabilizing the financial condition of its post-employment benefits has been a key part of the MWRD's strategy to maintain its high bond ratings and minimize borrowing costs," the federation wrote. "Therefore, the Civic Federation urges the district to evaluate the possible impact of a partial or full reversal of its pension funding reform law and incorporate those findings into its five-year financial forecast."

The district's current plan puts it on a path to achieve 100% funding by 2050.

Moody's Investors Service in a recent report said the district's strong financials and independent governance are key strengths that have staved off the credit hits suffered by Chicago and other local governments.

Like Chicago and its sister agencies, the district is saddled with a substantial pension burden but its underlying strengths and its success in adopting reforms have kept its rating in high-grade territory. Moody's rates the district Aa2.

Moody's said the district's adjusted net pension liability, a calculation Moody's uses to assess the health of a government's pension system, is $2.1 billion and represents a 3.1 multiple of operating fund revenues.

MWRD closed fiscal 2014 with operating fund reserves of $357 million, or a strong 54% of operating fund revenues. In fiscal 2014, 84% of operating fund revenues came from property taxes, with a more modest 11% coming from charges for services.

The district's nearly $3 billion of general obligation debt carries top marks from Fitch Ratings and Standard & Poor's. Moody's was not asked to rate the district's last sale.
