City of CHAMPAIGN

REPORT TO CITY COUNCIL

FROM: **Steven C. Carter, City Manager**

DATE: **November 19, 2010**

SUBJECT: **FIVE-YEAR FINANCIAL FORECAST SS 2010 - 069**

A. Introduction: This report presents the Five-Year Financial Forecast, which provides a framework for fiscal decisions. Usually the primary use of the Forecast is to develop the following year's budget and determine the annual property tax levy. However, this year the Forecast also provides a framework for consideration of measures necessary to maintain a balanced budget for the current fiscal year.

B. Recommended Action: This report summarizes the Financial Forecast but does not include recommendations. Another report on this meeting's agenda (Recommended Budget Strategy for FY10/11) recommends a plan to maintain a balanced budget and adequate reserves for the current year in light of unanticipated cost increases and other factors. The report also provides a framework for consideration of related issues such as the ongoing negotiations with collective bargaining units.

C. Prior Council Action:

- Council reviewed staff's Five-Year Financial Forecast in the fall of 2009 and directed staff to use the forecast in financial planning, including development of the FY10/11 annual financial plan.
- Council adopted the FY10/11 Financial Plan (Budget) and related documents, including the Financial Policies, on June 15, 2010.

D. Summary:

- The national economy is growing slowly but a strong recovery is predicted to take some time.
- Despite prior year budget balancing measures, the City continues to face a growing gap between recurring revenues and expenditures due to rising costs and weak or stagnant revenue growth. The Forecast projects that this trend will continue for several years.
- Results of the Forecast indicate that to maintain a balanced budget in accordance with the Financial Policies, the City will have to implement budget balancing measures estimated at \$1.2 in recurring measures and \$600,000 in one-time measures for the current fiscal year. An additional, \$1.4 in recurring measures and \$1.1 in one-time measures for next fiscal year is needed.

- A financial forecast is not a financial plan. The second fiscal report on the November 23 Council Meeting Agenda outlines a plan to maintain a balanced budget for the current fiscal year. Staff refers to this outline as a budget strategy.

E. Background:

1. Economic Environment. The national economy has grown for several fiscal quarters but the rate of growth is slow. As a result, the level of economic activity and number of people employed is well below the level prior to the recent recession. The effects of current economic conditions are clear nationally, on the citizens of Champaign, and on the City's finances. The majority of economists seem to believe that strong recovery could take some time. Unfortunately the factors of greatest importance to most people, including jobs and stable housing prices, often lag behind the early months of economic recovery. The same is true for local government revenues, which tend to lag behind economic trends. The U.S. Bureau of Labor Statistics reported that national "nonfarm payroll employment" increased by 151,000 in October, but the unemployment rate was unchanged at 9.6 percent. Since December 2009, nonfarm payroll employment has risen by 874,000 (http://www.bls.gov/news.release/empsit.nr0.htm). While this is a step in the right direction, national unemployment has exceeded 9 percent for a 17 month stretch.

At the State level, the economy continues to contract but at a lower rate than in previous months. The State's economy clearly affects the City's citizens as well as the City government. As the need to take action to balance the State's budget becomes more urgent, so do proposed measures that could negatively affect the City's finances. These include a decrease in revenues shared with municipalities and possible reductions in University funding. The latter would negatively affect City revenues in addition to having obvious negative effects on the University's employees and on its capacity to carry out its educational, research, and service objectives.

2. Impact of Economic Downturn on Champaign's Finances. As Council recalls, last year's Five-Year Financial Forecast projected a General Operating Fund deficit of up to $2.5 million for this fiscal year, and Council adopted balancing measures for the FY10/11 budget to eliminate that gap. Unfortunately the City ended last fiscal year with a lower fund balance than projected because revenues came in slightly below projections and expenditures were several hundred thousand dollars over budget, largely due to expenditures for overtime in the Fire Department and lower savings than anticipated. As a result the City began the fiscal year with a General Fund balance below the 10% target in the fiscal policies adopted by the City Council.

In addition, the City continues to face a growing gap between rising costs and slow growth in revenues despite budget-balancing measures (mostly expenditure reductions) of close to $9 million over the last several years. If the City continues on the current path an additional gap of $1.87 million will occur in the current fiscal year. This gap drives a need for rapid implementation of additional expenditure reductions and/or revenue increases.

3. Structural Fiscal Problem. The City's budget difficulties have two broad components. The first is weak revenue growth due to the national and state economies. This problem is known as "cyclical" because it results from the current economic cycle. The second component is referred to as a "structural" problem, meaning that expenditure growth exceeds revenue growth in most economic cycles, including most good ones. The reasons for this are many, but some key factors include:

a. Many of the City's taxes are based on older economic factors and technologies, so governments tax an increasingly smaller portion of economic activity. For example, the City receives tax revenue on landline telephone service, which has been flat in recent years, but cannot tax internet service. Use of newer technologies is not only increasing, but to some extent has replaced older technologies (e.g., use of Skype instead of traditional telephone services). Unfortunately the City has very limited authority to correct this problem and must rely on the State and Federal governments to take action.
b. Stagnation of some revenues could be reduced by changes to City financial policies and practices. In particular, the City could increase fees more regularly, consistent with increased service costs. (The City currently does this to a limited extent.) However, the success of some such actions is limited by economic factors. For example, a certain level of parking fee increases might reduce use of City parking facilities and actually result in lower revenues.
c. The City's control of personnel costs is limited under State law. The State mandates the levels of pension benefits (the most costly benefit) for all employees. Public safety pension benefits have increased periodically for decades with no State funding. Health insurance has been increasing at three times the rate of inflation. Salaries and all other benefits for public safety employees are subject to binding arbitration.
d. Increases in wages and other employee compensation have historically exceeded general inflation in both the public and private sectors. For that reason, a fiscal gap develops, even when revenues keep up with inflation, unless productivity increases offset wage increases to some extent. This problem is compounded by the fact that 1) personnel expenses comprise a large portion of the City's costs and 2) State law regarding collective bargaining, and other factors such as the desire to offer competitive compensation to attract well-qualified employees, limits the City's ability to limit compensation increases.
e. As a "center city," many of the services that Champaign provides are used by non-residents who contribute to some but not all of the City's revenues. For some time the population of non-resident customers has increased disproportionately to City residents, who contribute to all of the City's revenues through taxes and fees.

4. Cyclical Fiscal Problem. The current economy results in stagnant or low-growth revenue barring a tax increase. Trends for the City's largest revenue sources are as follows:

a. **Sales tax** revenue has grown an average of 4% per year since FY88/89. However, in the last ten years the average increase has dropped to 1.4%, mainly due to the recession in 2001 and the much deeper recession that began in late 2007. Fortunately the City has experienced a slight increase in this revenue stream in recent months. For the 6 months ending June 2010 sales tax revenue had increased by 1% over the preceding 6 months, and the rate of increase has picked up slightly since then. While this is a step in the right direction, the increase is not enough to sustain the higher growth in expenditures.

b. **Property tax** revenues tend to be more stable than sales and income tax revenues. However, the slowdown in the housing market and its effect on property valuations, combined with little new construction, has reduced current property tax revenue growth and expectations for near-term growth. This is a significant change from the recession in 2001, when building activity and property values remained strong. That resulted in steady property tax growth that offset declines in other revenues to some extent.

c. **Income tax** revenue that the State shares with local governments is the City's third largest revenue source. During the last recession this revenue declined and stagnated over three years. Unfortunately extended stagnation is expected again, as staff projects this revenue to remain flat for the FY10/11 collections over FY09/10 actuals following significant declines that year.

5. Prior Year's Budget Balancing Measures. Staff has implemented the many budget balancing measures (primarily expenditure reductions) enacted by Council in prior years. However, all staffing reductions have been implemented through attrition with the exception of a few temporary positions. Most of the position reductions have taken effect, but several positions are still staffed (or are funded with higher salaries than planned for the future) because the employees in the positions have not left the City's employment. As a result, the City incurs significant costs for "one-time expenditures" each year for positions scheduled for elimination. Carrying the one-time costs contributes to the decline in the General Operating Fund's balance.

The chart below shows City staffing from FY06/07 to present. This shows an overall reduction in the workforce even with the 4.750 full time equivalent (FTE) "attrition positions" included in the authorized levels. Also, 7.500 FTE's approved for the current fiscal year (FY10/11) are one-time positions with specific end dates beyond this fiscal year, and this year's authorized staffing levels include 14.395 positions that are unfunded or vacant positions with hiring actions frozen.

City Staffing History – FY06/07 to Present
(Per Salary and Staffing Ordinance)

AUTHORIZED FULL TIME EQUIVALENTS (ALL FUNDS)	FY06/07	FY07/08	FY08/09	FY09/10	FY10/11 ADOPTED
CITY STAFF (excluding METCAD and Library)	467.199	472.949	475.399	467.860	463.338
METCAD	31.000	33.000	35.000	35.500	37.000
LIBRARY	81.275	81.975	82.475	82.475	82.475
TOTAL	579.474	587.924	592.874	585.835	582.813

6. Process of Developing the Five-Year Forecast. Staff analyzed expenditures and revenues in the General Operating Fund in detail, factoring in expected new expenditures and revenues over the next five years. Staff looked at some of the most volatile revenue and expenditure components more closely to develop what-if analyses showing the impact of changes in assumptions on the City's bottom line. Unfortunately, due to the extent of the negative forecast, the "what-ifs" do not include many positive scenarios.

Known and anticipated increases in employee compensation accounts for a large portion of the projected operating deficit for the current fiscal year if corrective action is not taken. The current year budget includes no across-the-board wage increases in hopes that the City's employee bargaining units would forego such increases in light of the City's fiscal position. Unfortunately negotiations with the bargaining units, which are still ongoing, have not led to that result. The City Council does not have ultimate control over wage levels for police and fire employees because State law requires binding arbitration if the parties cannot reach a negotiated agreement.

In addition, increases in employee benefits far outpace the rate of inflation and revenue growth. Staff anticipates a double-digit increase in this year's property tax levies for the Police and Firefighters' pension funds and a 9% increase in the employee health insurance contract when it renews in March 2011.

7. Forecast Summary. The Five-Year Financial Forecast is provided as Attachment A to this report. The forecast presents significant challenges, as recurring expenditures are projected to exceed recurring revenues throughout the forecast period, barring corrective action or reversal of some of the major trends forecasted. To maintain a balanced budget in accordance with the City's Financial Policies, the City will have to implement budget balancing measures estimated at $1.2 in recurring measures and $600,000 in one-time measures for the current fiscal year. An additional, $1.4 in recurring measures and $1.1 in one-time measures for next fiscal year (FY11/12) is needed. However, a financial forecast is not a financial plan. The budget strategy discussed in the second fiscal report on the November 23 Council Meeting Agenda outlines a plan to maintain a balanced budget for the current fiscal year.

8. Grant and Legislative Funding. City staff has aggressively sought funding from grants and legislative initiatives. Grant opportunities increased significantly with passage of the American Reinvestment and Recovery Act (Federal stimulus bill) and the State of Illinois capital funding bill. Over the past year these programs have largely mitigated the decrease in capital funding from City revenue sources and have provided needed funds for other services such as neighborhood stabilization. However, funding from these Federal and State programs is temporary. Attachment B shows the status of all funds for which the City has applied and funds that the City sought, on its own or in cooperation with other entities (e.g., University of Illinois). Together, these efforts have garnered funding commitments of $51.2 million.

F. Community Input: Public comment will be solicited at the upcoming Study Session, and citizens may contact Council Members or staff with input prior to the meeting. Council will continue to discuss and take action on the City's fiscal position during the next few months, providing other opportunities for public input this matter.

G. Staffing Impact: Most work on this report was completed by Finance Department staff, but members of the Planning Department also contributed to this effort. In particular, they prepared projections of construction activity as a component of estimated increases in taxable property valuations. Overall staff hours on the forecast are estimated at 175.

Prepared by:	Reviewed by:
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Attachments: A. Five-Year Financial Forecast
B. Grant and Legislative Funding

ATTACHMENT A

City of CHAMPAIGN

Five-Year Financial Forecast

November, 2010

Index

Objective of the Forecast

The five-year financial forecast evaluates the City's future financial condition as a framework for decision-making. This is intended to allow the City Council to make decisions about the annual budget, and City Council Goals, in the context of the City's anticipated ability to fund those programs.

Development of the Forecast

Because it is not practical to develop line item detail for the entire forecast period, staff focuses its efforts on some specific items, forecasting the remainder on a gross level.

In terms of expenditures, personnel expenditures were broken into salaries, group medical and life insurance, Federal Insurance Contributions Act (FICA), Illinois Municipal Retirement Fund (IMRF), police pension, and fire pension. Non-personnel expenditures were broken into major expenditure categories: commodities and capital, contractual, and interfund transfers. Most interfund transfers were forecast at a detail level, since these are highly variable from year-to-year. Also, agency disbursements, such as property tax reimbursements to outlying townships, were analyzed separately. These expenditures are driven primarily by changes in economic indicators and their impact on expenditures.

On the revenue side, sales, income and property tax, utility and telecommunications taxes, and interfund transfers were forecast in detail because of their size relative to the General Operating Fund budget. Other revenues were grouped into broad categories, such as "permits", which includes ten separate line items corresponding to various types of permits. Investment income is based on a formula applied to the expected fund balance and current earnings rates.

The Five-Year Financial Forecast intends to indicate trends; therefore, staff feels that as long as the assumptions are consistent and kept in reasonable relationship to one another, assumptions developed internally (rather than assumptions developed by private economists) serve the City's purposes well. Staff developed the assumptions based on review of national, state, and local economic information, experience, existing contracts, and other information.

This year the economic situation appears to be clearer than in recent years. The national economy has grown steadily although at a relatively low rate for several fiscal quarters, allaying fears of a "double-dip" recession. Nevertheless, specific predictions of fiscal information are always difficult, so staff has prepared what-if analyses of several more volatile factors such as sales tax and pension costs.

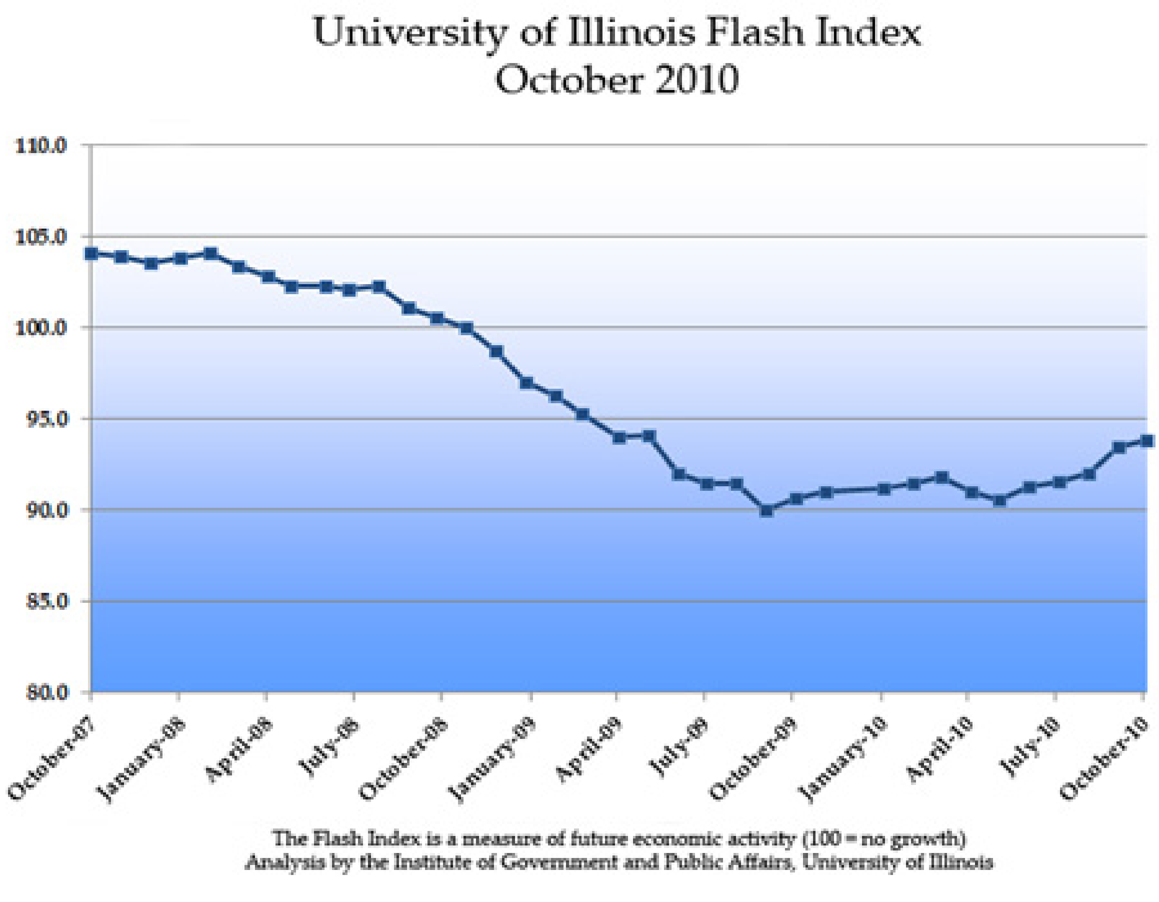
The forecast includes the following sections:

- Economic Outlook - Brief summary of the current economic situation
- Underlying Assumptions - List of the key assumptions that underlie much of the forecast
- Forecast Summary
- Expenditure and revenue analysis - assumptions for individual revenues and expenditures including some "What-if" Analyses
- Conclusion

Economic Outlook

As noted above, the national economy has grown for the past few fiscal quarters and fears of another recession have abated although still linger. The real estate market has stopped its freefall but has yet to recover. Unemployment is a major concern on the local and national level.

The University of Illinois Flash Index rose to 93.8 in October, up slightly from the September reading of 93.5. "The Flash Index's performance in recent months is consistent with the national pattern of slow recovery from the recent recession," said economist J. Fred Giertz (Institute of Government and Public Affairs). In recent decades the Illinois economy has tended to lag behind the rest of the country in recovering from recessions. In addition to the negative effects of a weak state economy on revenues that the City receives directly from taxpayers, concerns remain that the state will reduce revenues that the state shares with local governments, particularly Income Tax, the City's third largest revenue.



Key Underlying Assumptions

The following table summarizes the key indicators used to develop the financial forecasts:

Most Likely	FY2010/11	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Inflation	2.00%	3.00%	3.50%	3.50%	3.50%	3.50%
Sales Tax Growth	1.53%	2.00%	2.25%	2.50%	3.00%	3.00%
EAV Growth	0.40%	1.48%	1.89%	2.18%	2.78%	2.89%
Federal Funds Rate	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%
Per Capita Income Growth	(0.90%)	0.50%	1.00%	1.50%	2.00%	2.50%
Health Insurance Cost Increase	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
Police Pension Fund Increase	10.07%	11.50%	12.00%	12.00%	12.00%	8.00%
Fire Pension Fund Increase	8.95%	11.49%	9.69%	8.06%	8.00%	8.00%
IMRF Increase	11.46%	11.78%	11.81%	12.05%	11.92%	11.64%

Inflation has been low over the past several months and likely will remain low until the economy recovers fully. In the long term staff expects an inflation rate of 3.50% for the later years of the forecast period. The Federal Funds Rate is expected to range from 0.25% to 0.50% through FY2010/11, and then gradually increase by 0.25% annually for the remainder of the forecast period. Employee wages assumptions are not included above due to ongoing contract negotiations with the City's largest collective bargaining units.

Staff expects the City's two major revenues, Sales Tax and Income Tax, to grow very slowly during the current economic slowdown. Health insurance cost increases are based on experience and indications from the industry and providers. The most recent projections provided to the City show an increase around 9% in the coming year.

Forecast Summary

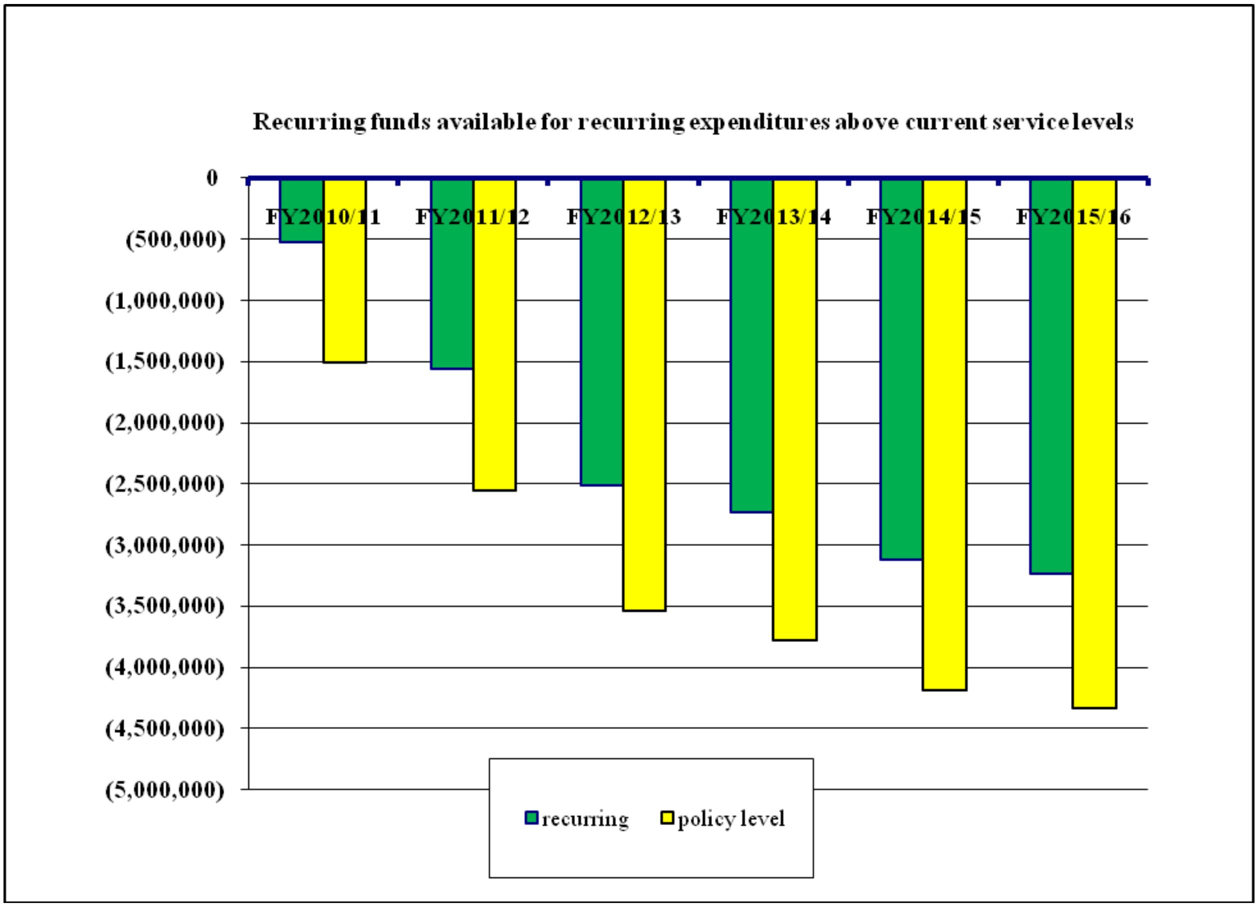
For the forecast itself, staff used the above assumptions to analyze revenues and expenditures and then made adjustments for expected known changes. Since the forecast includes more assumptions than known events, it is by nature uncertain. Also, the outcome of the forecast for a given year depends on the outcome of previous years, so a small variation in the first year may cause a significant difference for the last year. The result is that the uncertainty increases further into the forecast period.

The forecast is compared to the City's policy of maintaining recurring expenditures at 98.5% of recurring revenues. (The City Council approved an exception to this policy regarding recurring revenues and expenditures for this year's budget (FY10/11), allowing budgeting recurring expenditures at 99% of recurring revenues.) The City continues to face a growing gap between rising costs and slow growth in revenues. The outcome of the forecast shows that assuming the same service levels, within the range of likely outcomes, recurring expenditures exceed this policy limit for the forecast period.

The City has already implemented budget-balancing measures of close to $9 million over the last several years. Based upon the five year forecast, the City expects to face a current year budget gap. This is largely due to costs, particularly those associated with wages and benefits, increasing faster than revenues. Since June 2010 the entire City organization has participated in a "Budget Contingency Planning" process to review services to find opportunities for cost savings and efficiencies to continue both the City's quality services and financial strength.

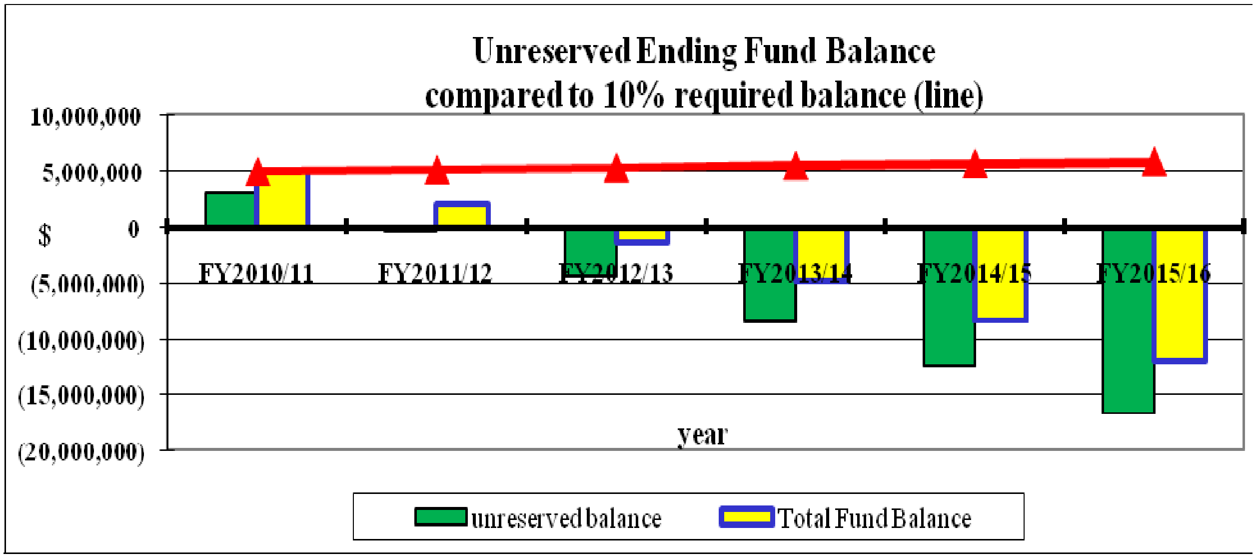
Results of the forecast show that to balance the budget in accordance with the 99% guideline this year and 98.5% in future years, the City will have to implement budget balancing measures estimated at $1.2 in recurring measures and $600,000 in one-time measures for the current fiscal year and $1.4 in recurring measures and $1.1 in one-time measures for next fiscal year.

The outcome of the forecast at the 98.5% level shows that assuming the same service levels, within the range of likely outcomes, the recurring expenditures exceed this policy limit for the remainder of the forecast period as well. The following chart shows the difference between recurring revenues and expenditures at the 98.5% policy level and the 100% level when looking at the most likely scenario for various assumptions in this forecast.



The chart shows that projected actual recurring expenditures will exceed recurring revenues for the current fiscal year, even ignoring the 1% cushion anticipated in the adopted budget. In following years, expenditures at existing service levels continue to outgrow the limit and total revenues. This is caused in part by a structural deficit, meaning that recurring expenditures are growing faster than recurring revenues even when the economy is growing. For a number of years, City costs have been growing at a rate that exceeds revenue growth, and the economic downturn has magnified the problem (called a “cyclical deficit”) even though the City has been making adjustments in recent years to address this problem. These factors result in a budget deficit that continues to grow over time as exhibited above.

As a result of expenditures outpacing revenues, even despite past budget-balancing measures, the City's unreserved General Fund Balance fell below the 10% policy level at the end of last year. This decline is confirmed by the preliminary results of the City's annual financial report and audit, which show the fund balance declining by $5 million in FY09/10 following a $2 million drop the prior fiscal year. The forecast also shows that the fund balance will decline significantly unless the City takes corrective actions.



Detailed Expenditure and Revenue Analysis

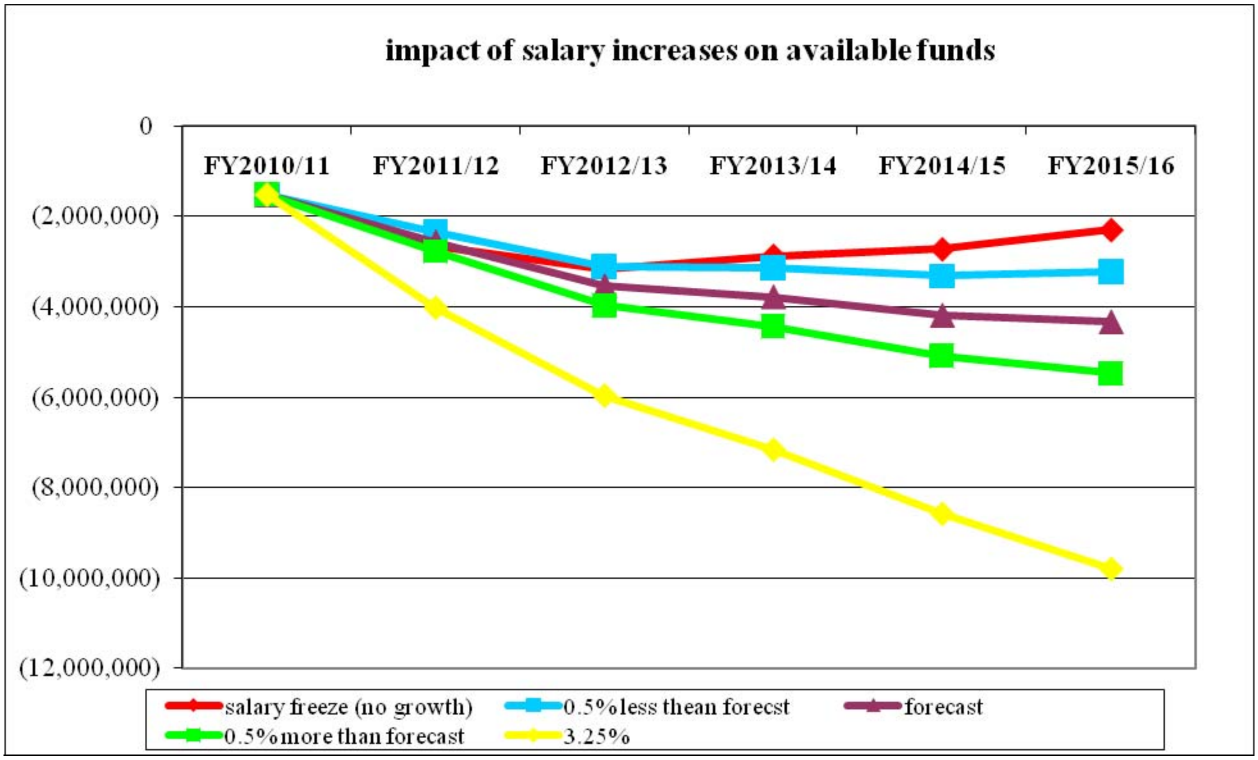
Note: all analyses are based on the 98.5% policy level for recurring expenditures.

Expenditures

Salaries

Personnel expenditures (including pensions and other benefits) represent approximately 65% of General Operating expenditures and are growing at a faster rate than other expenditures. Staff projected low across-the-board wage increases for the next few years, and overall employee compensation will increase even further due to large increases anticipated in health insurance and pension costs.

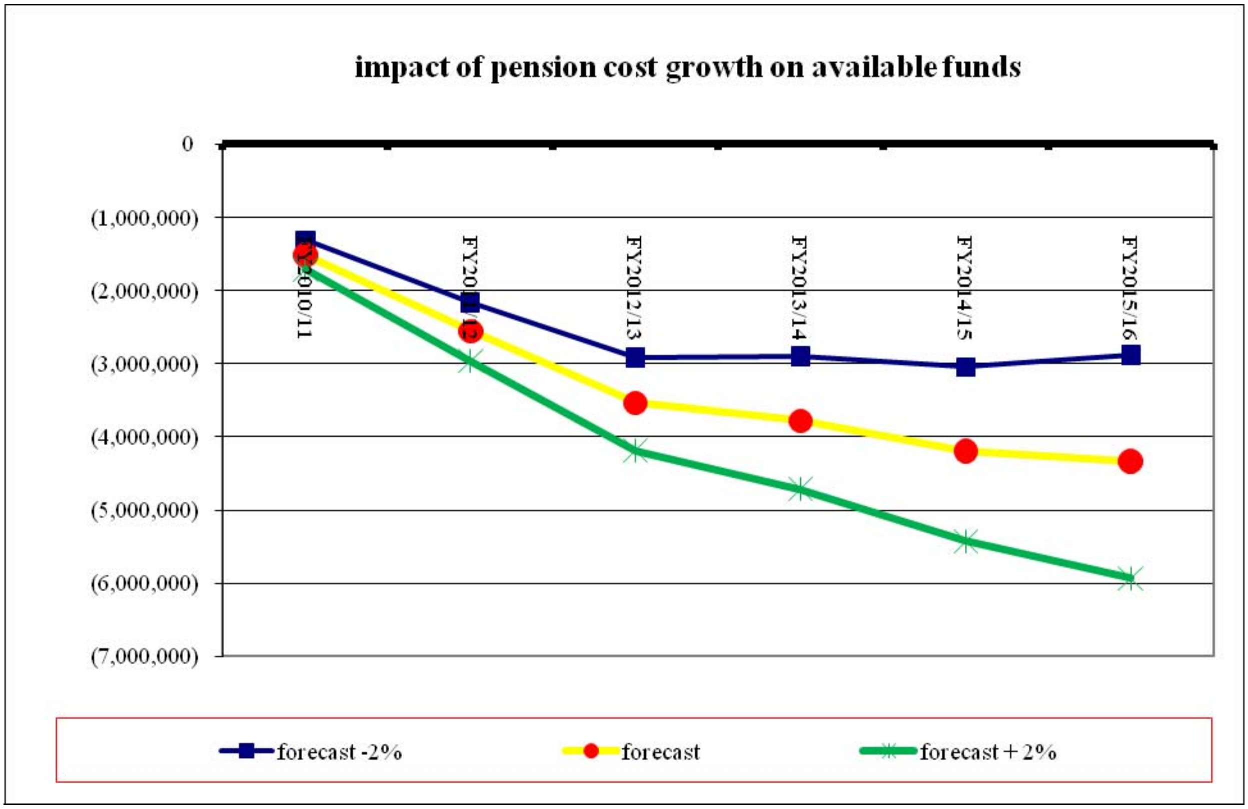
The following chart shows how changes in the assumptions affect the outcome of the overall forecast.



Pensions

Fire and Police pension expenditures have been a major concern in recent years as the City's contribution requirements have increased significantly, largely due to repeated increases in benefits granted by the State but not funded. The recent significant declines in stock market values have decreased the value of pension asset as well. The City anticipates increasing the tax levies for public safety pension cost by about 13%, and expects continued significant increases in pension funding requirements for at least the next few years. The decline in asset values affected all three of the pension funds in which City employees participate, but the impact on the fund covering all employees other than public safety personnel (IMRF) has a much less significant impact on the City's budget because the City's funding obligations are much less than for the Police and Fire Pension Funds due to IMRF's lower benefit levels.

The following chart shows how slower and faster growth in pension costs would affect the overall projections.



Health Insurance

Health insurance costs continue to increase significantly. Staff expects an increase of about 9.0% effective March 1, 2011 for existing plans, and this percent increase carries forward for the remainder of the forecast period. Health insurance costs represent about 5% of total personnel expenditures, but that figure grows each year. The City has experienced favorable results, both with respect to employee health care services and costs, from the decision to offer only an HMO plan beginning in 2009. Unfortunately, most health care experts do not believe that the Federal health insurance legislation enacted earlier this year will result in decreased health care costs.

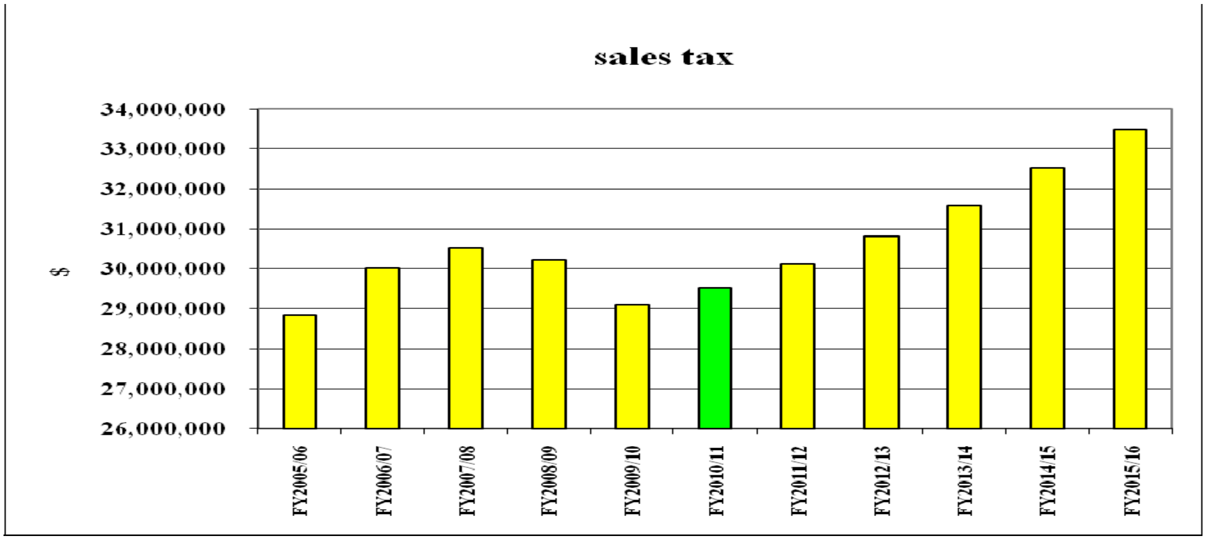
Non-Personnel Expenditures

Some non-personnel costs are forecasted to increase with the rate of inflation (such as commodities) or the overall cost index (calculated as an average of all growth rates, weighted in proportion to the overall costs for each category). These costs include transfers to other funds where personnel costs would be part of the cost. Transfers for capital improvement expenditures are projected to change with the construction cost index.

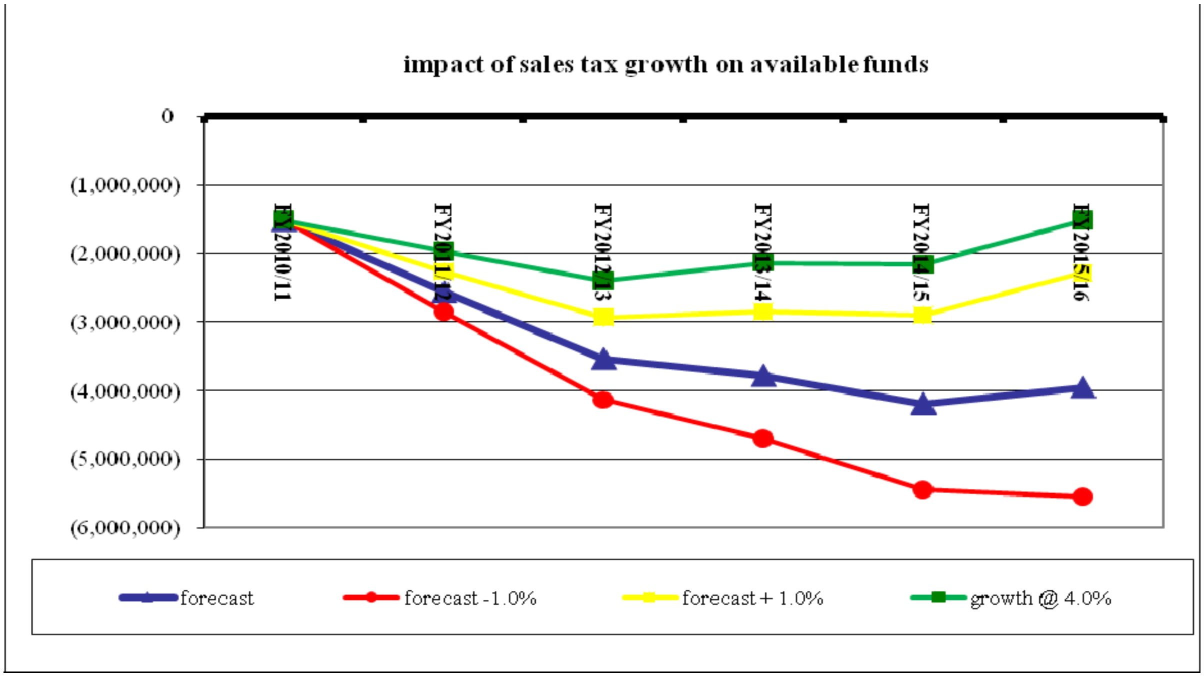
Revenues

Sales Tax

Along with other municipalities, the City has experienced a significant decline in sales tax receipts; however, this revenue source is showing positive growth during the first quarter of the current fiscal year. Sales tax projections are based on slow growth and the current year projection shows a 1.5% or $446,000 increase over last year's actuals. Although this is a move in the right direction, the growth is not significant enough to cover the rate of increase in expenditures as discussed above. Historically, since FY88/89, sales tax revenue has grown about 4% a year on average. However, in the last ten years alone, the average increase has dropped to 1.4%. Every 1% represents approximately $300,000. The following chart shows that staff does not expect the rate of sales tax growth to return to pre-recession levels during this forecast period.

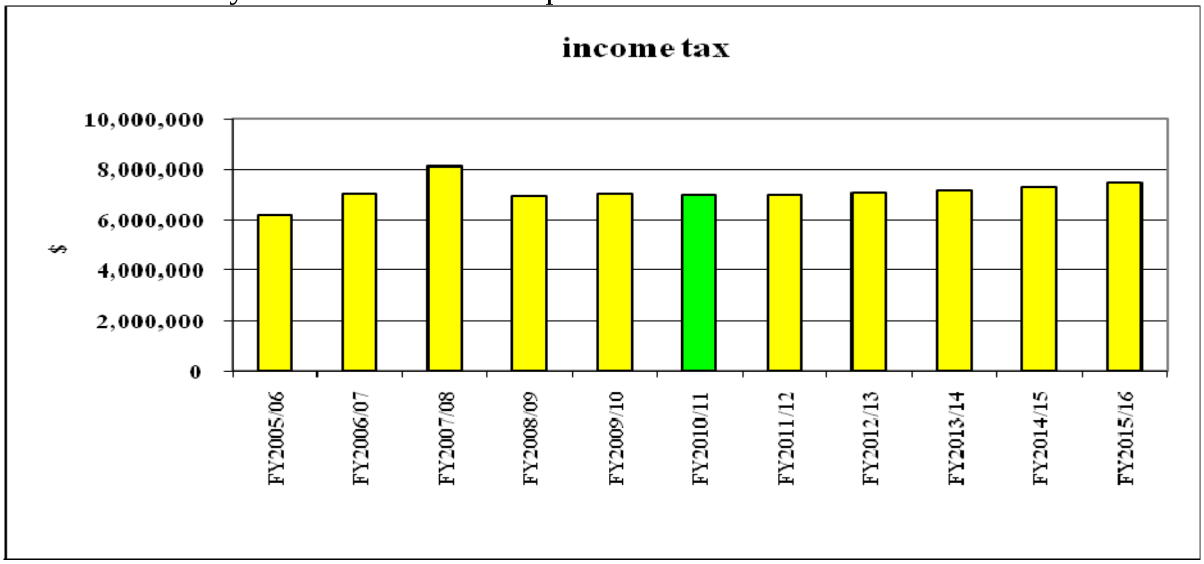


Since sales tax represents almost half of all recurring revenues in the General Operating Fund, a change of just 1% has a significant impact on available funds. The following chart shows how change in growth can affect City's available funds.

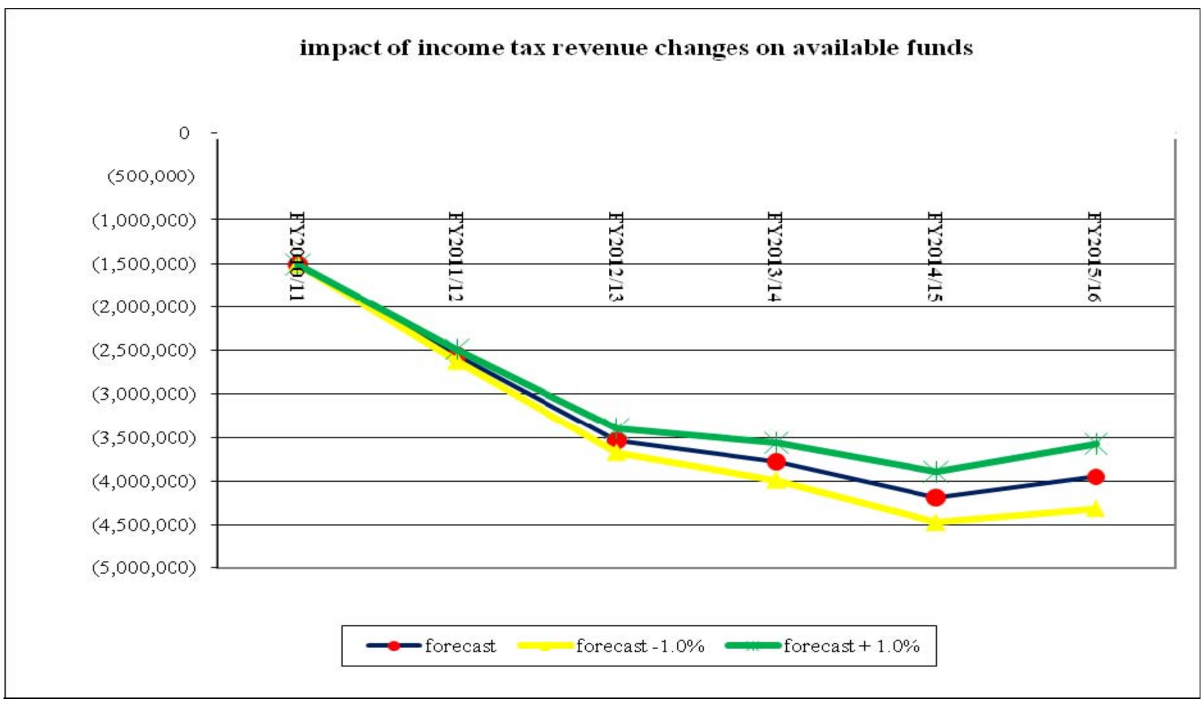


Income Tax

Delayed payment from the State of Illinois caused the final quarter of Income tax receipts for FY09/10 actuals to be received in the current year. However, for year to year comparison to remain intact, the final quarter payment has been recorded in the FY09/10 actuals instead of in the current year. Therefore, the FY09/10 actuals will not equal the audited year end figure. Projections for Income tax are flat compared to last year's adjusted actual and have very slow growth for the remaining forecast years. Staff does not expect this revenue to return to pre-recession levels by the end of the forecast period as shown on this chart.



The following chart shows the impact of slower or faster growth in income tax on the City's available funds. Since this revenue represents smaller portion of the revenues, its impact is not as dramatic as the sales tax.

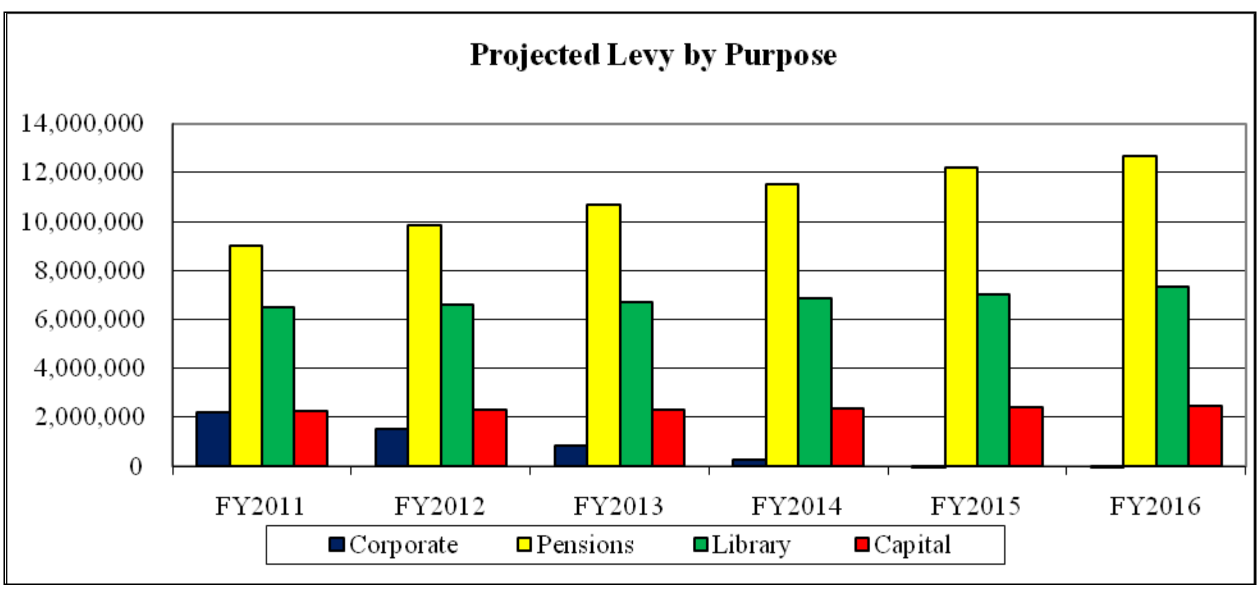


Property Tax

Property tax is the second largest revenue source for the General Operating Fund, representing about 17% of total recurring revenues. In recent years, the City experienced healthy growth in total property value due to new construction, annexation, and appreciating property values. Unfortunately, EAV growth slowed down dramatically as a result of the significant decline in the housing market and the decline in value of existing properties. Staff expects very slow EAV growth over the next few years. City planning and economic development staff reviewed expected growth through annexation and new construction, including soliciting input from developers. The responses from the developers are very pessimistic for the near future. In addition, staff discussed expectations for property valuations with the Township Assessor, who expects the value of existing properties to grow minimally, if at all, over the next few years.

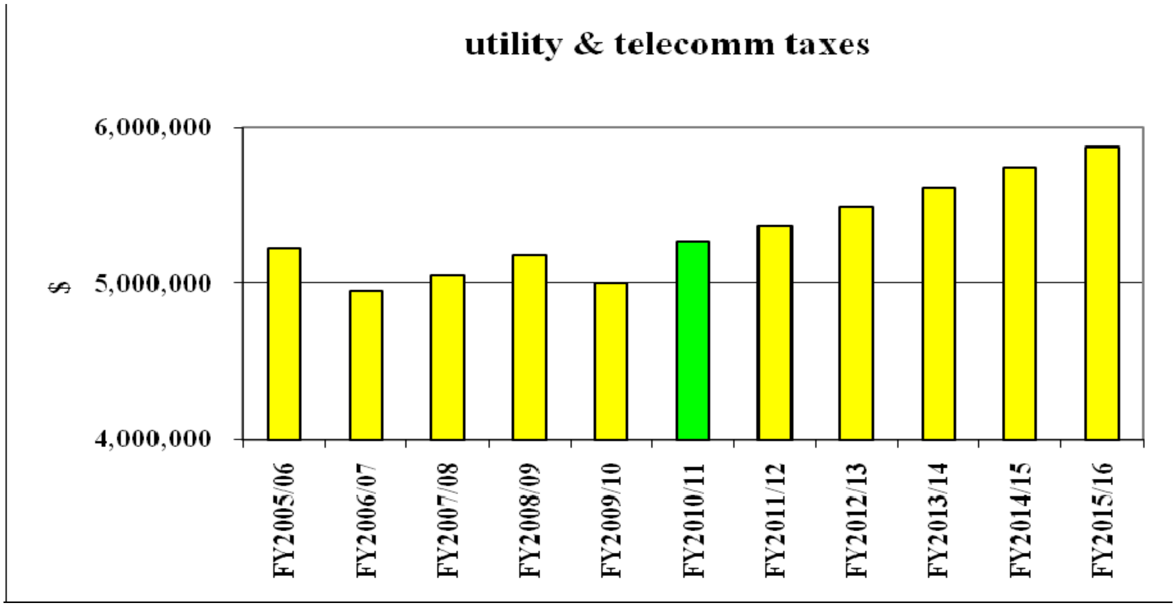
The City's Financial Policies specify how levy dollars are allocated. The policies allocate revenues initially to "base levy requirements" are met and provide direction on how any revenue above the base levy would be allocated. The "base levy" needs reflect State mandates, agreement(s) into which the City has entered, and other Council policies. Any funds that remain after providing for base needs could be allocated to "additional" purposes. Due to the slow growth in the tax levy and high growth in pensions, staff anticipates the portion available for the General Fund will fall well below the "base level for this year's tax levy and continuing to decline significantly over the next few years. In accordance with the Financial Policies, staff's analysis assumes continuation of the most recent property tax rate, which was 1.2942 for the most recent levy.

The following chart shows the projected levy for various purposes. It shows that the pension levies grow quickly while the Library and Capital levies grow more slowly consistent with the slow growth in EAV (for the Library) or the construction cost index (for Capital). As a result of these increases, the amount of property tax revenue available for general services (the "Corporate" levy) diminishes to a negative amount by the last two years of the forecast period. Since the City cannot actually levy a negative amount, the City would have to either 1) increase the levy to meet the funding requirements, 2) revise the city's financial policies to allow for lower funding thresholds, or 3) find alternative revenue sources to cover the gap between the funding need and the levy amount.



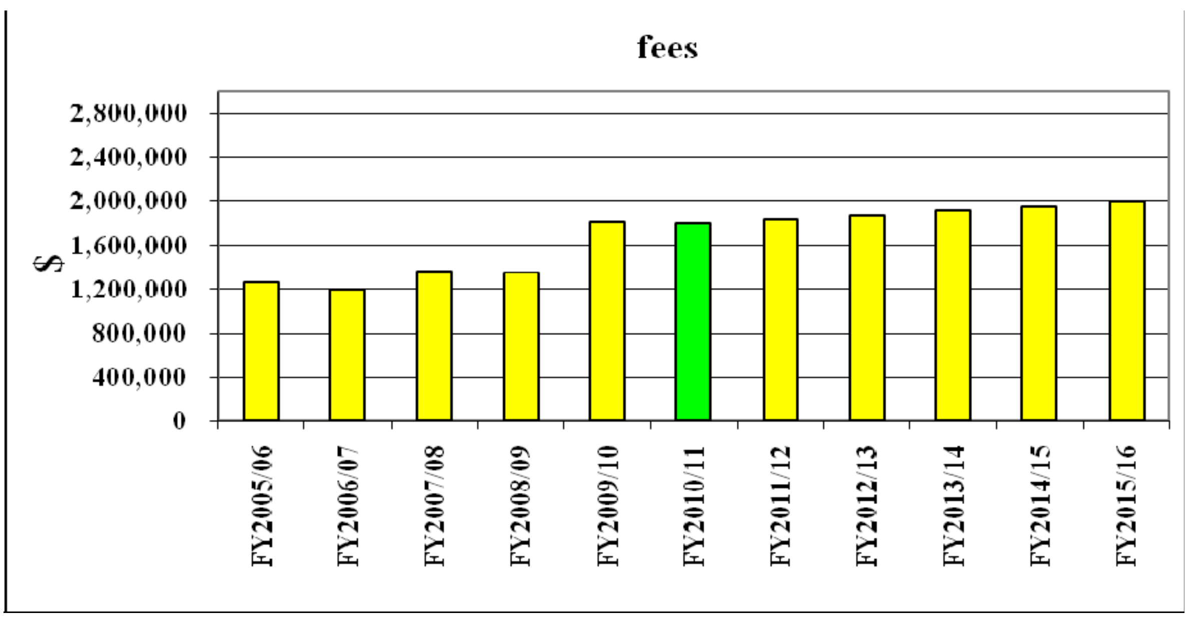
Utility & Telecommunciations Taxes

Utility tax projections are based on individual projections for gas, electric, and water utility taxes, which are based on long-term trends. In the current year, receipts are running higher than budget excluding the Telecommunications Tax. These utility taxes are expected to grow with inflation. Telecommunication Tax revenues are coming in below budget, and staff projects slow growth over the remaining forecast period.



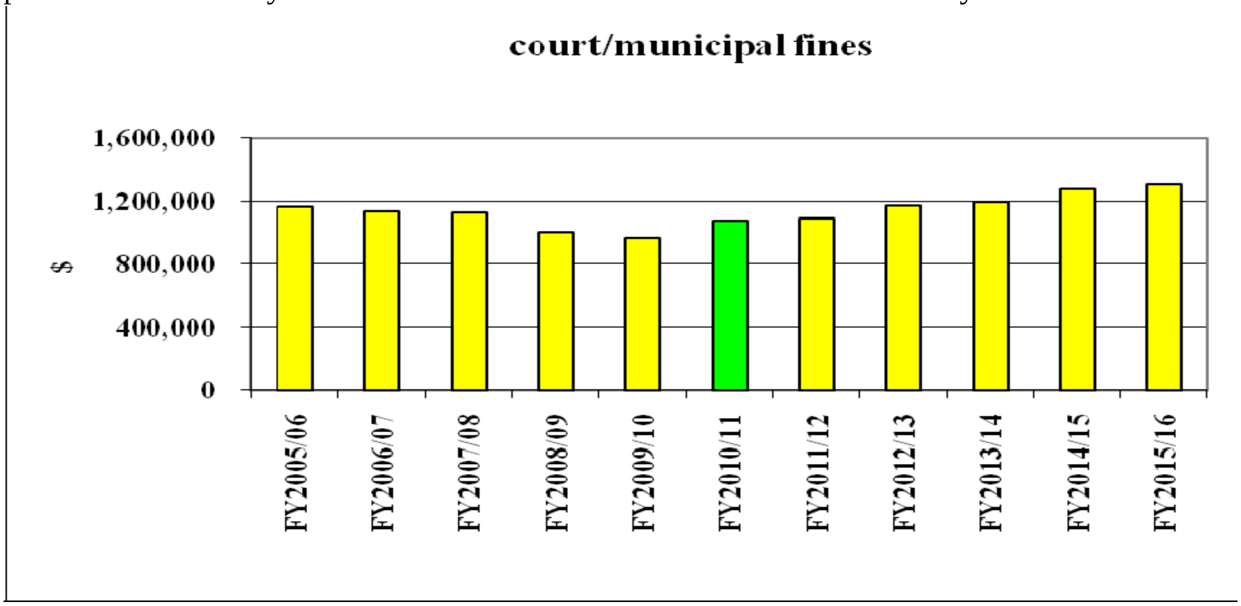
Fees

The City derives fees , from a variety of sources including the University Fire Protection Agreement, and utility rights-of-way agreements, and permits. Fees are projected to remain flat (compared to last year's actuals) in the current year. Growth in development fees and public safety fees is shown at 3%.



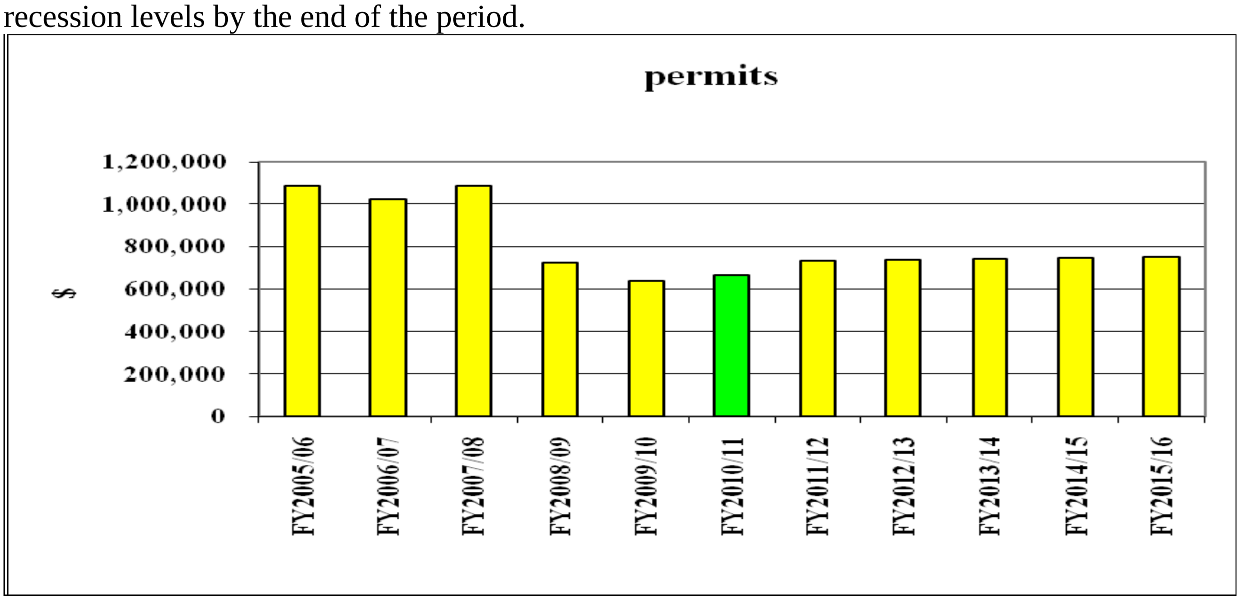
Court & Municipal Fines

The court and municipal fines projection, which reflects police activities, is projected at 14.5% or $135,000 over budget for the current year. About half of the increased revenue can be atributed to the municipal towing fee instituted during FY09/10 and will have a full year of enforcement during FY10/11. Growth beyond the current fiscal year is projected at 2% annually, plus 5% in alternate years to account for fine increases called for in the City Code.



Permit Fees

The vast portion of revenue in this category comes from development permits. Most of that is permits for construction of new buildings and additions, but also includes other permits including signs and demolition. (The category does not include parking permits, which go solely to the Parking Fund.) These revenues decreased significantly in FY08/09 and have further declined into FY09/10. Although building activity is not expected to increase in the next few years, staff projects some increase in revenue over time due to the building permit fee increase instituted by Council in FY07/08 . Even with the increase, this revenue is not expected to return to pre-recession levels by the end of the period.



Projections for Other Revenues

- Other taxes (e.g., Hotel-Motel) grow by 3% annually.
- Fines grow by 1% annually.
- Licenses and registrations grow by 2% annually.
- Reimbursements and Intergovernmental Revenues grow by the rate of inflation.
- Interfund transfers grow based on the weighted average cost increase for all expenditure categories.

  a. City Council did not approve a new cable franchise agreement during the current year. The City had anticipated that agreement would provide $200,000 for cable equipment needs. The current year projection has been reduced in the Capital Equipment Replacement Fund transfer.

- Interest and Investment Income is 0.5% over the projected Federal Funds Rate.

Conclusion

The forecast shows that even with $9 million in budget balancing measures in the prior years, challenges still exist in the fiscal outlook. The City needs to keep its expenditures in check and monitor revenues for any further declines. The City's largest exenditure component is personnel costs and within that component, costs of health insurance and pensions are hard to control. This puts more pressure on the City to limit wage increases. The City is facing a systemic problem in that the rate of increase for revenues is far below the rate of increase in expenditures. In FY10/11, the use of the City's financial safegaurds became necessary as budget balancing measures, as the Council adopted a budget with recurring expenditures at 99.0% of recurring revenues (0.5% less than the financial policy of 98.5%) and used the rainy day fund to help restore the unreserved fund balance in the General Fund. Other safeguards still exist such as reserves for specific projects that can be delayed if their use is necessary to help the City adjust to unanticipated adverse fiscal circumstances. The five year forecast is structured to bring the City back in line with the 98.5% financial policy but does not restore the $500,000 rainy day fund.

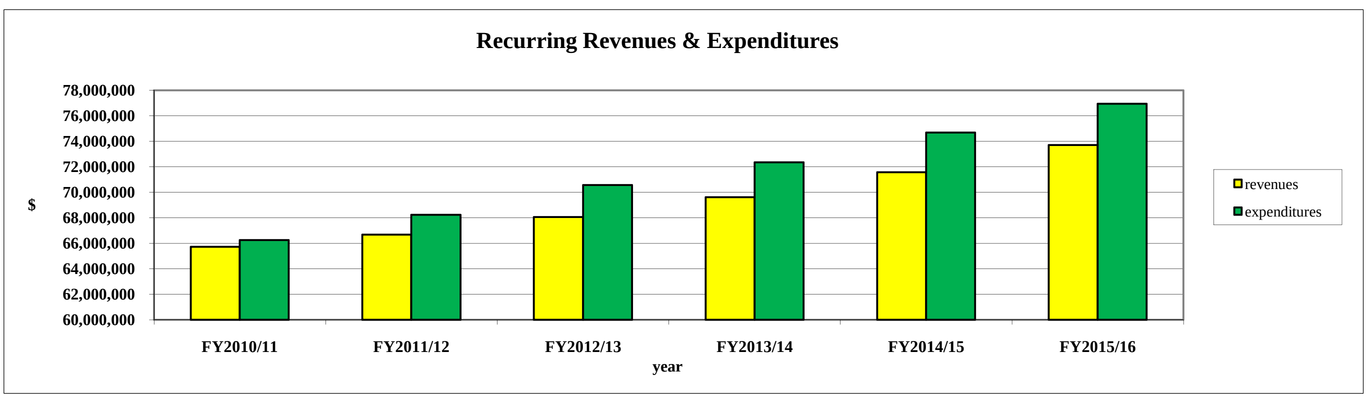
The validity of the projections for the later years of the forecast must be considered, as the uncertainty of the forecast increases significantly with the length of the period predicted. The environment that affects the City's financial situation changes continually, and several factors might make the future completely different than expected, for better or worse. This year, uncertainty includes the effect of measures taken by the Federal government to stimulate more rapid economic growth and the effect of State budget-balancing measures on City revenues and/or services. Also, as the what-if analyses show, the overall financial trend can be impacted from one year to another by a change in one variable, let alone several factors moving in the same direction.

Despite these caveats, this Financial Forecast provides a useful tool for developing a budget strategy for mid-year adjustments in the current year and for developing the budget for next fiscal year.

Attachment A

Summary Five-Year Financial Forecast
Most Likely

	FY2009/10 actual unaudited	FY2010/11 budget	FY2010/11 projection	FY2011/12 forecast	FY2012/13 forecast	FY2013/14 forecast	FY2014/15 forecast	FY2015/16 forecast
recurring revenues and expenditures								
recurring revenues								
sales tax - state, local and use tax	29,089,126	28,962,164	29,535,461	30,126,170	30,804,009	31,574,109	32,521,333	33,496,973
income tax[1]	7,021,885	6,499,850	6,958,965	6,993,760	7,063,697	7,169,653	7,313,046	7,495,872
property tax (incl. Police/Fire pensions)	11,173,839	11,418,113	11,189,664	11,355,819	11,570,656	11,823,202	12,152,188	12,638,276
utility / telecom taxes	5,001,270	5,184,736	5,264,700	5,369,692	5,490,784	5,615,445	5,743,794	5,875,954
fees	1,820,867	1,825,925	1,809,933	1,841,799	1,878,120	1,915,276	1,953,289	1,992,180
court / municipal fines	957,773	934,335	1,070,025	1,091,426	1,168,917	1,192,295	1,276,948	1,302,487
hotel/motel tax	1,429,293	1,439,243	1,432,995	1,475,985	1,520,265	1,565,873	1,612,849	1,661,234
other taxes (food & bev & misc)	583,429	618,659	536,990	553,099	569,692	586,783	604,387	622,518
fines	21,130	29,000	43,246	43,678	44,115	44,556	45,002	45,452
permits	638,144	801,169	668,174	734,155	737,724	741,506	745,522	749,794
license & registrations	464,375	422,000	422,000	430,440	439,049	447,830	456,786	465,922
reimbursements / intergovernmental	1,081,281	1,017,700	1,017,700	1,073,718	1,149,528	1,149,528	1,189,761	1,231,403
library debt payment (library operating fund)	252,135	252,135	252,135	247,038	240,243	228,256	210,678	195,998
interfund transfers	4,448,474	5,206,331	5,246,331	5,213,534	5,376,035	5,551,898	5,740,072	5,937,196
interest & investment income[2]	197,180	286,000	271,807	135,904	0	0	0	0
total recurring revenues	**64,180,198**	**64,897,360**	**65,720,127**	**66,686,217**	**68,052,832**	**69,606,209**	**71,565,654**	**73,711,258**
% growth				1.47%	2.05%	2.28%	2.82%	3.00%
recurring expenditures								
personnel:								
salaries	35,725,119	28,738,058	30,039,403	30,197,368	30,757,689	31,372,843	32,000,300	32,640,306
group medical & life insurance		3,417,820	3,517,820	3,834,424	4,179,522	4,555,679	4,965,690	5,263,631
fica & imrf		2,690,013	2,477,592	2,736,991	2,802,792	2,815,121	2,767,499	2,878,199
reserve for 27th pay period		110,728	110,728	128,562	131,958	135,467	138,928	142,595
police pension		3,704,794	3,392,908	3,783,231	4,237,219	4,745,685	5,315,167	5,740,381
fire pension		3,484,133	3,190,727	3,557,346	3,902,150	4,216,624	4,342,763	4,690,184
salaries and benefits total	*35,725,119*	*42,145,546*	*42,729,178*	*44,237,923*	*46,011,331*	*47,841,420*	*49,530,348*	*51,355,296*
commodities and capital	1,831,328	1,693,336	1,693,336	1,744,136	1,805,181	1,868,362	1,933,755	2,001,436
contractual	5,570,724	5,265,410	5,775,115	5,734,361	5,687,665	5,672,387	5,658,055	5,649,210
inter-fund transfers (excluding pensions)	23,065,589	15,441,027	16,046,319	16,525,755	17,064,575	16,960,638	17,559,634	17,935,693
total recurring expenditures	**66,192,760**	**64,545,319**	**66,243,948**	**68,242,174**	**70,568,752**	**72,342,807**	**74,681,791**	**76,941,635**
% growth				3.02%	3.41%	2.51%	3.23%	3.03%
98.5% of recurring revenue[3]	63,217,495	63,923,900	64,734,325	65,685,924	67,032,039	68,562,116	70,492,169	72,605,590
available for recurring expenditures	**(2,975,265)**	**(621,419)**	**(1,509,623)**	**(2,556,251)**	**(3,536,713)**	**(3,780,691)**	**(4,189,622)**	**(4,336,046)**
Rec. Revenues Less Expenditures	(2,012,562)	352,041	(523,821)	(1,555,958)	(2,515,920)	(2,736,598)	(3,116,137)	(3,230,377)



The figures and graph above show that recurring expenditures are projected to exceed recurring revenues throughout the five-year forecast, which in turn exceeds the Council policy limit of recurring expenditures being budgeted at 98.5% of recurring revenues. This chart shows the City is facing a structural imbalance in all years of the forecast.

Footnotes:

1) Delayed payment from the State of Illinois caused the final quarter of Income tax receipts for FY09/10 actual unaudited to be received in the current year. However, for year to year comparison to remain in tact, the final quarter payment has been recorded in the FY09/10 actuals instead of in the current year. Therefore, the FY09/10 actuals will not equal the audited year end figure.

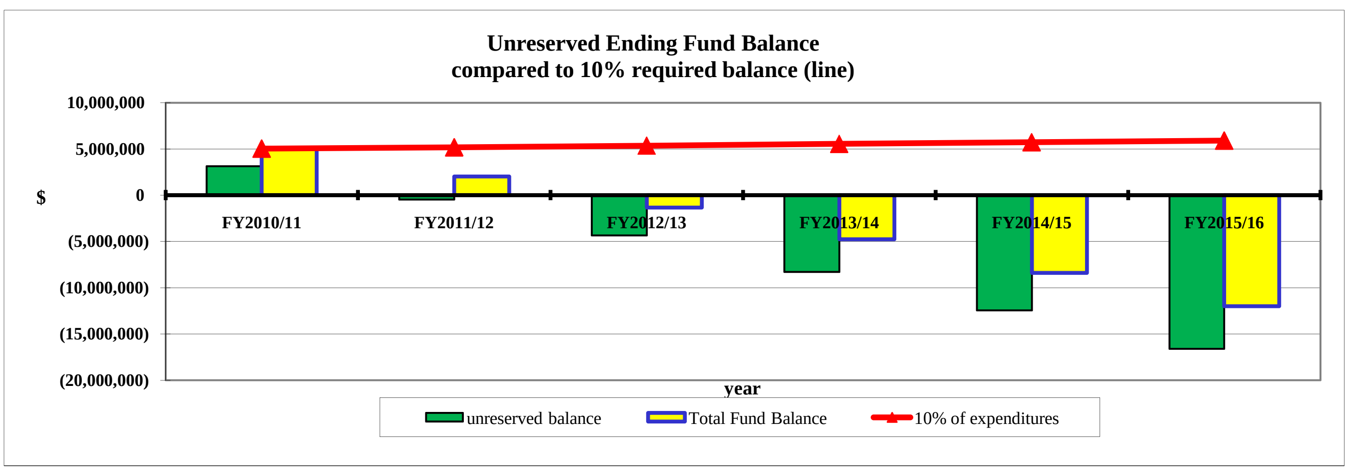
2) Due to a negative fund balance in the out years, interest income is zero. However, as the deficit is corrected in the earlier years, there will be a positive effect on the interest income.

3) The FY10/11 budget recurring expenditures were adopted at a 99% of recurring revenues as a budget balancing measure. Also, staff correction of expenditures of $324,487 included as one time when they should be recurring such as the iHotel incentive of $165,000 and misc. grants.

Summary Five-Year Financial Forecast
Most Likely

Attachment A

	FY2009/10 actual unaudited	FY2010/11 budget	FY2010/11 projection	FY2011/12 forecast	FY2012/13 forecast	FY2013/14 forecast	FY2014/15 forecast	FY2015/16 forecast
one-time revenues and expenditures								
one-time revenues								
STEP fines		40,000	40,000					
Miscellaneous Grants		664,713	664,713					
1X Transfers		1,281,368	1,081,368					
total one-time revenues		1,986,081	1,786,081					
one-time expenditures								
agency disbursements & reserves		438,500	529,500	548,750	337,000	314,100	142,110	132,717
inter-fund transfers		1,000,000	1,047,960	750,000	250,000	250,000	250,000	250,000
other activities		1,917,734	1,917,734					
prior year encumbrances			532,635					
one-time positions		643,027	643,027	399,425	399,425	263,562	263,562	131,781
total one-time expenditures		3,999,261	4,670,856	1,698,175	986,425	827,662	655,672	514,498
net of one-time revenues and expenditures		(2,013,180)	(2,884,775)	(1,698,175)	(986,425)	(827,662)	(655,672)	(514,498)
summary of financial position								
beginning fund balance		7,880,080	8,444,473	5,146,605	2,021,034	(1,349,354)	(4,778,146)	(8,411,027)
total revenues		66,883,441	67,506,208	66,686,217	68,052,832	69,606,209	71,565,654	73,711,258
total expenditures		68,433,852	70,804,076	69,811,788	71,423,219	73,035,002	75,198,535	77,313,538
total revenues less expenditures		(1,550,411)	(3,297,868)	(3,125,571)	(3,370,387)	(3,428,792)	(3,632,881)	(3,602,279)
anticipated "underspending"		0	0	0	0	0	0	0
ending fund balance projection		6,329,669	5,146,605	2,021,034	(1,349,354)	(4,778,146)	(8,411,027)	(12,013,306)
reserve for 27th pay period		554,935	554,935	683,497	848,141	1,011,001	1,183,013	1,366,329
city facilities		979,581	979,581	1,313,012	1,653,276	2,001,307	2,359,136	2,727,692
other reserves		467,000	467,000	500,000	500,000	500,000	500,000	500,000
total reserves		2,001,516	2,001,516	2,496,509	3,001,417	3,512,309	4,042,149	4,594,021
unreserved ending fund balance		4,328,153	3,145,089	(475,475)	(4,350,771)	(8,290,455)	(12,453,176)	(16,607,328)
% of expenditures not incl. transfers[4] (approximate)		9.66%	6.67%	-1.05%	-9.46%	-17.69%	-26.09%	-34.10%



The projections shown above indicate that barring no changes to current service levels, the unreserved ending fund balance will be depleted by FY12/13 which negative balances thereafter.

	FY2009/10 actual unaudited	FY2010/11 budget	FY2010/11 projection	FY2011/12 forecast	FY2012/13 forecast	FY2013/14 forecast	FY2014/15 forecast	FY2015/16 forecast
10% contingency (of expenditures not incl. Tfrs.)			5,019,763	5,171,642	5,350,418	5,538,217	5,712,216	5,900,594
1x funds available			(1,874,674)	(5,647,117)	(9,701,188)	(13,828,671)	(18,165,392)	(22,507,922)
99% of recurring revenue	63,538,396	64,248,386	65,062,925	66,019,355	67,372,303	68,910,147	70,849,998	72,974,146
available for recurring expenditures	(2,654,364)	(296,933)	(1,181,023)	(2,222,820)	(3,196,448)	(3,432,660)	(3,831,794)	(3,967,489)

Footnotes:

4) The unreserved fund balance is less than 10% for the FY10/11 Adopted Budget column due to the accounting of rebudgets from the FY09/10 budget year.

City of Champaign Grant List **ATTACHMENT B**

Name of Grant	Awarding Agency	Grant Amt Requested	Status	Awarded Amount	CB #	Grant Manager
Public Works Grants						
** EECBG Grant -- Energy Grant	Federal Department of Energy	$ 763,200.00	Awarded	$ 763,200.00		T Legner/M Hannan
** ARRA Federal Stimulus -- First St.	Federal Highway Administration	$ 750,000.00	Awarded	$ 750,000.00		Chris Sokolowski
** ARRA Federal Stimulus -- Kirby Ave (Mattis to Prospect overlay)	Federal Highway Administration	$ 939,790.00	Awarded	$ 939,790.00		Dave Clark
IDOT Emergency Repair Project -- Mattis Avenue (Anthony to Olympian) Overlay	Illinois Department of Transportation	$ 550,000.00	Awarded	$ 550,000.00		Dave Clark
Fourth Street Highway Safety Improvement Program (HSIP) -- Fourth St. (Green to Armory)	Illinois Department of Transportation	$ 1,066,500.00	Awarded	$ 1,066,500.00		Chris Sokolowski
Illinois Recycling Grants Program - Traditional Recyclables	Illinois Department of Commerce	$ 60,000.00	Awarded	$ 60,000.00	2010-066	Angela Adams
Multi-Family Recycling Containers	& Economic Opportunity					
Federal Earmark -- 4th Street Extension Design	Federal Highway Administration	$ 533,520.00	Awarded	$ 533,520.00		Chris Sokolowski
Illinois Capital Bill Funding (U of I Research Park Infrastructure)	Illinois Department of Transportation	$ 6,316,050.00	Awarded	$ 6,316,050.00		Chris Sokolowski
Federal Earmark -- Curtis Road (Wynstone to Wesley)	Federal Highway Administration	$ 5,600,000.00	Awarded	$ 5,600,000.00		Dave Clark
Illinois Capital Bill Funding (Olympian Drive -- Apollo to US Rte 45)	Illinois Department of Transportation	$ 5,000,000.00	Awarded	$ 5,000,000.00		Urbana/Dave Clark
Sanitary Sewer Extension & Lining (Kenwood/Jackson)	Illinois Environmental Protection Agency	$ 530,600.00	Pending			Dennis Schmidt
Il Capital Bill Funding (Jobs Now--Staley Rd)	Illinois Department of Transportation	$ 326,804.00	Awarded	$ 326,804.00		Dave Clark
Windsor Road Complete Street Extension	Il Transportation Enhancement Program	$ 1,980,300.00	Denied			
Police Grants						
COPS Secure our Schools (in conjunction with Unit 4)	U. S. Department of Justice	$ 10,950.00	Awarded	$ 10,950.00		Jim Clark
** Equipment/Training/Software for internet crimes against children	U. S. Department of Justice	$ 62,000.00	Awarded	$ 62,000.00		Joe Gallo
Bulletproof Vest Partnership	U. S. Department of Justice	$ 15,075.00	Awarded	$ 15,075.00		Jim Clark
Underage Drinking Grant	Il Dept of Human Services	$ 11,392.00	Awarded	$ 11,392.00		Jim Clark
** Problem-oriented policing training	Il Criminal Justice Info Authority	$ 9,573.00	Awarded	$ 9,573.00		Jim Clark
** Intelligence Led Policing program	Il Criminal Justice Info Authority	$ 136,233.00	Awarded	$ 136,101.00	2010-158	Jim Clark
** Crash Reporting	Illinois Department of Transportation	$ 38,041.20	Awarded	$ 38,041.20		Brad Yohnka
2007 Citizen Corps Second Chance Grant	Illinois Emergency Mgmt Agency	$ 5,000.00	Awarded	$ 5,000.00		Jim Clark
2008 Citizen Corps Grant	Illinois Emergency Mgmt Agency	$ 6,000.00	Awarded	$ 6,000.00		Jim Clark
2009 Citizen Corps Grant	Illinois Emergency Mgmt Agency	$ 5,500.00	Awarded	$ 5,500.00		Jim Clark
2010 Citizen Corps Grant	Illinois Emergency Mgmt Agency	$ 5,500.00	Pending			Jim Clark
Tracview -- scanner for putting accident reports on the internet	??	$ 1,000.00	Awarded	$ 1,000.00		Jim Clark
Edward Byrne Memorial Justice Assistance Grant	U. S. Department of Justice	$ 145,685.00	Awarded	$ 145,685.00		Jim Clark
Project Safe Neighborhoods	Il Criminal Justice Info Authority	$ 12,000.00	Pending			Jim Clark

City of Champaign Grant List **ATTACHMENT B**

Name of Grant	Awarding Agency	Grant Amt Requested	Status	Awarded Amount	CB #	Grant Manager
Fire Grants						
** Replace stations 3 and 4	ARRA Station Construction Grant	$ 7,837,965.00	Denied			
Regional Request for EOC software	Assistance to FF Grant (AFG)	$ 138,600.00	Pending			
2 complete sets hydraulic extrication eq.	AFG Grant	$ 101,080.00	Denied			
Rapid Extriction tool sets (3)	Illinois OSFM Small equipment grant	$ 27,500.00	Denied			
Regional Request - Credentialing (savoy hosts)	AFG Regional Grant	$ 56,800.00	Denied			
Annual Emergency Management Grant	Illinois Emergency Mgmt Agency	$ 30,435.00	Awarded	$ 30,435.00		Steve Clarkson
Information Technologies Grants						
** Infrastructure for UC2B	NTIA	$ 31,200,000.00	Awarded	$ 26,034,776.00	2010-035	Fred Halenar
Neighborhood Services Grants						
CDBG Entitlement Grant	Dept of Housing & Urban Dev	$ 765,761.00	Awarded	$ 765,761.00		
entitlement	Dept of Housing & Urban Dev	$ 204,801.00	Awarded	$ 204,801.00		
HOME grant	Dept of Housing & Urban Dev	$ 370,419.00	Awarded	$ 370,419.00		
** Neighborhood Stabilization Program	State of Il-Dept of Human Svcs	$ 1,395,000.00	Awarded	$ 1,395,000.00	2010-037	
Affordable Housing Program	Federal Home Loan Bank of Chicago	$ 60,000.00	Awarded	$ 60,000.00		
** ARRA funds						
TOTAL		**$ 80,871,633.80**		**$ 51,213,373.20**		