To Chairman C. Pius Weibel and Honorable Members of the Champaign County Board:

We present for your consideration and approval the Champaign County, Illinois governmental budget for fiscal year 2018, beginning January 1 and ending December 31. The budget complies with Resolution Number 9964 establishing the FY2018 budget process, pursuant to Illinois Compiled Statutes (55 ILCS 5/6-1001). The consolidated county budget states revenue of $131,443,548 and expenditure of $129,690,091 and is in compliance with relevant Champaign County financial policies.

This transmittal letter offers an executive summary and overview of the budget document, which includes comprehensive, detailed information about the budget's relationship to County Board policy, the operational elements of county government, and how the financial planning needs of the county have been addressed.

Budget Document Overview

The Champaign County budget document is divided into nine sections:

- Introduction. Champaign County's background and economic environment affecting the construction of the annual budget are discussed here. Includes a brief instructional guide to use of the budget document, and Champaign County Board policy and process information.

- Budget Summary. Contains key highlights of the fiscal year 2018 budget.

- General Fund. The General Fund is the primary government fund that encompasses operations for virtually all of Champaign County's statutorily-required functions. Special Revenue Fund budgets related to elected officials with General Fund operations are included immediately after their corresponding section of the General Fund budget.

- Special Revenue Funds. Champaign County has forty-seven special revenue funds.

- RPC Funds. The Champaign County Regional Planning Commission (RPC) manages five special revenue funds that encompass over 125 individual department budgets.

- Joint Venture Fund. Champaign County is the lead agency for the Champaign County GIS Consortium, a joint venture fund financially supported by seven government entities: Champaign County; City of Champaign; City of Urbana; University of Illinois; Village of Rantoul; Village of Mahomet; Village of Savoy.

- Debt Management and Capital Projects Funds. Includes County's debt service and capital projects funds, and discusses financial details, revenue sources, debt structure, and relevant project status.

- Proprietary Funds. Includes the Champaign County Nursing Home enterprise fund, and the Self-Funded Insurance internal service fund.

- Supplemental Information. Includes miscellaneous information including budget ordinances, property tax distribution, personnel budgets and salary schedules, and a terms glossary.

Budget Organization

The Champaign County budget is organized into components using the concept of a fund. A fund is a self-balancing accounting entity with revenues and expenditures segregated for the purpose of carrying out specific programs in accordance with County policies and applicable state and federal laws.

All funds contain at least one department budget, a group of expenditures that provides for the accomplishment of a specific program or purpose. Each department overview includes the following narrative elements:

- Mission statement. This is a formal statement of purpose that captures the goals and values of the department or fund;
- Budget highlights. The highlights note trends that may be occurring with the budget with respect to revenue or expenditure, and underlying factors having an impact on budget characteristics;
- Organizational chart and personnel headcount, with associated cost per capita data (for General Fund departments, headcount and expense per capita information are included in the General Fund Summary);
- Line-by-line budget. Includes a statement of revenue and expenditure with prior year actual, current year original budget and projected results, and future year budget figures. Revenue includes tax, government shared revenue, fee, and fine sources; expenditure includes personnel, commodity, and service costs;
- Alignment to County Board goals. Every department or fund overview has an explanation as to how their particular functions align with specific elements within the County Board's strategic plan;

- Objectives and performance indicators. These are a series of tangible, measureable operational objectives with quantitative performance criteria delineated for evaluation purposes.

Strategic Planning

The County Board's Strategic Planning Committee began deliberations earlier in 2017 to develop and update to the County's plan. While we do not have an officially adopted plan at this time, we will be using the draft plan as a framework to guide the FY2018 departmental and fund details presented in this budget document.

The four primary goals of the Plan may be summarized as follows:

- Goal 1: Champaign County is a high performing, open and transparent local government organization.

- Goal 2: Champaign County maintains high quality public facilities and highways and provides a safe rural transportation system and infrastructure.

- Goal 3: Champaign County promotes a safe, just and healthy community.

- Goal 4: Champaign County is a county that supports balanced, planned growth to balance economic growth with preservation of our natural resources.

Part of the committee discussion has pointed to the need for a long-term financial plan. This has been an outstanding issue for some time. In FY2016 the County adopted a detailed facilities action plan that incorporated expert recommendations and data regarding the maintenance and construction needs for its $160 million investment in buildings over the next ten years.

Since that time, we have made limited progress on amending financial policy goals to better align with GFOA recommendations. The County has also focused on urgent issues that will have a long-term financial impact, such as the future of the nursing home and the downtown Sheriff's office and jail facility. However, the County lacks a detailed technology roadmap nor does it have an asset replacement plan. These would be useful references to inform the development of a long-term financial plan and should be pursued.

Economic Environment

The outlook for U.S. economic conditions has been generally favorable with stable growth and moderate inflation predicted over the next few years. Unfortunately, Illinois local governments will be challenged by a number of detrimental factors. Ongoing dysfunction in the Illinois General Assembly has created a large backlog of unpaid bills. These continue to impact state finances and the ability to satisfy in a timely manner those obligations due to Champaign County. Furthermore, economizing measures are reducing important revenue streams, such as the new 2% collection service fee imposed by the Illinois Department of Revenue, impacting Public Safety Sales Tax receipts. In addition, a one-time 10% cut in income tax allocations through the Local Government Distributive Fund will result in a loss of $316,000 to Champaign County. State agencies continue to impose mandates that require counties to perform new enforcement activities without any additional revenue to offset staffing costs. Less tangible but no less painful are the challenges to economic development when potential candidates interested in locating businesses in Champaign County are disinclined to deal with the chaos in Springfield.

Economic indicators continue to improve although Illinois numbers lag neighboring states. Illinois' unemployment rate declined to 5.0% as of August 2017, improving from 5.8% in August 2016. Champaign-Urbana unemployment fell to 4.6% as compared with 5.2% in the year-ago period (Source: U.S. Department of Labor, https://www.bls.gov/eag/eag.il_champaign_msa.htm). The Consumer Price Index (CPI-U) as of September 2017 has increased at a moderate pace of 2.2% year-over-year (Source: U.S. Department of Labor, http://www.bls.gov/cpi/home.htm).

The Champaign County Association of Realtors reported median home prices rose 2.8% year-to-date through August 2017, with a decline of 2% in sales volume compared to the same period last year. (Source: http://www.champaigncountyassociationofrealtors.com/News/TabId/101/ArtMID/469/ArticleID/279/Champaign-County-Home-Sales-Slow-in-August.aspx). Market strength continues to bolster growth of the county's equalized assessed valuation (EAV), which stands at $3.98 billion for revenue year 2017, representing year-over-year growth at a robust 4. 61% rate. Growth in property tax revenues however is constrained by the Illinois Property Tax Extension Limitation Law (PTELL, also known as tax caps). With the official increase in the CPI scheduled at 2.1% for PTELL calculation purposes, property tax revenue growth is still very healthy in 2018 compared with previous years. The effect of PTELL will be discussed later in the Budget Summary section of this document.

Revenues and Expenditures

FY2018 revenue for all county funds is budgeted at $131,443,548 and reflects an increase of $5,480,293 (4.4%) over the original FY2017 budget. Property taxes are the main contributor to revenue growth, along with prospective one-time revenue from a contemplated sale of the county nursing home, and additional revenues due from exempt hospital properties returning to the tax base. However, should the properties remain exempt and/or if the nursing home is not sold, it will reduce revenues significantly.

FY2018 expenditure for all county funds is budgeted at $129,690,091 and reflects an increase of $2,480,532 (1.9%) over the original FY2017 budget. Services expenditures total $41,570,264, an increase of 6.8% over the FY2017 budget. Personnel expenditures decreased 3.1% to $64,247,222. Capital expenditures decline by 14.6% to $5,658,686.

The FY2018 budget is a balanced budget per Champaign County's financial policies. The $1,753,457 surplus of revenue to expenditure is due largely to two events that are not certain to occur. One-time gains resulting from a contemplated sale of the county nursing home would generate proceeds of $$2.95 million in excess of expected debt repayments, services, and transaction costs. The budget also includes $964,358 in revenue generated as currently exempt hospital properties return to the tax base. Should either of these events not occur, budget amendments would be necessary to keep the budget in compliance with financial policies.

In the General Fund, we anticipate $37,259,883 in revenue exceeding expenditures of $36,775,795. However, the revenue includes approximately $474,119 in property tax revenue related to the levy for currently exempt hospital property. Without the addition of those properties to the tax base, revenue would be reduced to $36,785,764 or a surplus of only $9,969. Based upon projected 2017 numbers, budgeted revenue growth continues at a modest 1.3% with increases in property tax (up $646,166 or 5.4% YOY) lifted by an active real estate market being offset by declines in fees and fines (down $433,154 or -8.6% YOY) and state-shared revenue (down $102,754 -0.6% YOY). As in previous years, fees and fines continues its downward slope in FY2018, a result of changes in public policy and law enforcement ticketing practices. Meanwhile, expenditures have been constrained to 1.0% growth overall.

The County Board resolution authorizing the FY2018 budget process requested that elected officials and staff strategize and collaborate to eliminate or reduce a large anticipated revenue-to-expenditure deficit. County departments have shown an ability over the past two years to keep commodity and service expenditures below budgeted levels in most cases. The FY2018 General Fund budget reflects a decrease of $157,560 or -1.4% for non-personnel costs. A one-time capital expenditure of $387,000 is allotted for replacement of the Sheriff's mobile and portable radios to be funded through Public Safety Sales Tax revenues newly available following the retirement of one of the associated bonds.

Financial Concerns

Champaign County faces several concerns that could affect finances to varying degrees. We have attempted to highlight the most significant issues that have such potential to result in a detrimental impact.

Nursing Home decision. Champaign County is at a pivotal moment with a pending decision on the future of the County Nursing Home. Voters gave feedback to the County Board through two referenda held in April 2017. These referenda rejected any additional levy authority for the home, and also authorized the County Board to consider options to sell the home. Subsequent to that vote, the County engaged a broker to provide marketing services for a proposed Request for Proposals (RFP) to seek bids to purchase the home. Decisions related to the RFP are now before the Board for their consideration.

The impact of this enterprise on current and future county finances cannot be overstated. Total debts to the County and to other home vendors exceeds $4 million. The uncertainty over the future of the operation has also resulted in continued declines in patient census that have impacted revenues. In July 2017, the County made a change in the management of the home, replacing long-time operator Management Performance Associates with SAK Management of Northfield, Illinois. This move has resulted in a number of positive changes at the home that have trimmed the cost structure while improving patient care. However, while losses have lessened, revenue increases to pay down the accumulated debts have yet to materialize and some vendors have not received payments in more than one year. Vendors have begun to make immediate demands that the nursing home address its aged accounts payable. Payment arrangements have placed increased pressure on home finances with the County making further cash infusions to sustain operations.

Consequently, the County must decide to either separate the home from governmental ownership, or develop a plan to cut portions of the General Fund departments to generate sufficient savings for debt reduction and home support. The County Administrator's Office as well as the nursing home management company have estimated the minimum recovery period to be about three years, implying that required cost reductions will be approximately $1.3 million annually assuming no further improvements in home revenue. The size and scope of the necessary downsizing cannot be achieved without significant reductions to staffing and service delivery in General Fund departments.

Lack of funds for capital improvement and facilities maintenance. As in FY2017, the FY2018 budget does not include sufficient funding for capital replacement and facilities maintenance. Based upon a facilities condition assessment completed in 2015, the County estimates that it is underfunding facilities deferred maintenance by approximately $2.5 million annually. In 2016, the County Board's Facilities Committee advanced a facilities action plan to address needs over twelve years. Unfortunately, a quarter-cent facilities sales tax that would have generated over $4.5 million annually to fulfill needs was rejected by voters in 2016. However, if the County successfully executes a separation of the nursing home, excess proceeds and new revenue streams might become available to fund facility maintenance and construction, and to also restore fund levels in the General Fund and Capital Asset Replacement Fund (CARF). Full funding for CARF has not been accomplished since 2008; a nursing home transaction that reached the proposed minimum bid would allow for up to $2 million in proceeds to go to CARF while maintaining a GFOA-recommended 16.7% General Fund reserve balance.

State budget uncertainty. For the first time in three years, the State of Illinois has adopted a budget for the entire state fiscal year. However, it is unknown if the discord in the General Assembly will create another budget impasse over the SFY2019 budget that begins on July 1, 2018. Such a scenario could again create payment delays and reductions impacting funding for county services operated on behalf of the state. This includes Medicaid reimbursements for nursing home residents, child support enforcement operations, and probation and court services staff paid through grants from the Administrative Office of the Illinois Courts (AOIC).

The General Assembly also took action that created negative results for state-shared revenues. The Illinois Department of Revenue began imposition of a 2% service fee on collections of certain sales taxes. This will result in a loss of approximately $48,000 in FY2017, and $96,000 in FY2018. The state also implemented a one-year 10% reduction in income tax receipt distributions. This reduction in Local Government Distributive Funds (LGDF) will result in a loss to Champaign County of $316,000 during State Fiscal Year 2018. Although the state is supposed to accelerate its payments of LGDF by making fourteen payments instead of the normal twelve, this still represents a considerable loss of funds. It is hoped that the reduction will not be continued after the current state fiscal year.

Declining AOIC funding. In FY2015, the Administrative Office of the Illinois Courts (AOIC) increased funding levels for supported positions within the Court Services Department. Since that time, funding percentages have continued to decrease, with an additional loss of $58,000 for county fiscal year 2018. The Probation and Court Services Department has been able to fill the gap with a transfer of fee revenues, but this is not a sustainable solution if the reimbursements continue their decline.

Employee health care costs. Health care costs remain a significant contributor to overall employee benefit expenditures. The County experienced improvement in its claims data that allowed it to achieve a health insurance contract that increased premiums by only 2.7% for FY2018 and also restored the Preferred Provider Organization (PPO) plan benefits that the County has historically enjoyed. However, this also included a shift in insurer from long-time incumbent Health Alliance to BlueCross BlueShield of Illinois. This decision did have some negative implications as some employees have providers that will not be in-network in FY2018. Furthermore, the environment for health care insurers is highly volatile with uncertainty about policy direction from the federal government. The likelihood of significant increases in future premiums cannot be ignored. Therefore, the collaborative work put forth by the joint Labor Management Health Insurance Committee is vitally important to ensuring that health insurance remains affordable for both employees and the County. Without the ability to consider alternative carriers and plans, it is impossible for the County to manage its health care costs.

Illinois Supreme Court ruling on hospital tax exemptions. Ongoing developments in the court system mean there will be continued uncertainty in 2018 regarding charitable property tax exemptions for Carle Foundation Hospital and Presence Covenant Medical Center. If the ruling favors the hospitals' position, this could adversely affect county finances by requiring return of previously collected taxes. The potential liability is approximately $2.6 million. The county has reserved $946,063 from a surplus TIF distribution that is recorded as a liability and can be used as an offset, reducing the net potential liability to approximately $1.65 million. However, the County is proposing a levy that incorporates the hospital properties as new construction in order to capture the growth should a favorable ruling be made in the courts. If the ruling is not forthcoming prior to the closure of the tax books in March 2018, the County Clerk will automatically reduce the levy to the maximum allowed under PTELL.

ADA facility remediation expenses. The county has largely completed its ADA compliance activities required under an agreement with the U.S. Department of Justice. Funding for work required at the downtown Sheriff's office and jail is included in the FY2018 budget. However, if the County Board can develop a suitable and timely plan for replacement of this facility, it may be possible to reallocate those funds for necessary design work for a new Sheriff's office and/or necessary improvements for the Satellite Jail building.

Personal property replacement tax recapture. We reported last year that due to an error made by the Illinois Department of Revenue in the collection formula of the personal property replacement tax, the county received an overpayment of approximately $121,000. It was previously announced that this amount would be recaptured by the state; however, it has since been determined that the recapture will not be implemented as previously planned.

Acknowledgements

Achieving a balanced budget was a very challenging task just as it has been in past years. Without the continued support of our county elected officials, department heads, and County Board members, this positive result would not have been possible. Their flexibility and willingness to make sacrifices allowed us to close a projected budget deficit of $837,000 that grew even larger with subsequent reductions in state-shared revenues.

We wish to thank our staff members providing timely assistance throughout the development of the budget: Bill Simmering, Business Applications Developer; Andy Rhodes, Information Technology Director; Evelyn Boatz, Budget and Human Resource Specialist; Kathleen Oldrey, Planner II; Tammy Asplund, Executive Assistant to the County Administrator; and Kay Rhodes, Administrative Assistant.

On behalf of our officials and staff, we are pleased to present to you the fiscal year 2018 budget for the County of Champaign, Illinois.

Respectfully submitted,

Richard S. Snider	Tami Ogden
County Administrator	Deputy County Administrator of Finance