LONG-RANGE FINANCIAL PLAN

In 2016, the County adopted a Facilities Action Plan based on the Facilities Condition Assessment completed in 2015. Key findings recognize the County's need to significantly increase its annual maintenance investment from $532,000 to an average of $3 million. A copy of the plan is included in the Supplemental Information section of the budget.

A forward-looking approach to planning for the replacement of technology, vehicles, furnishings and office equipment was implemented during the FY2018 budget process. Historically, only the upcoming fiscal year was analyzed and funded in the County's Capital Asset Replacement Fund. An analysis of the General Fund's capital equipment and technology needs over the next five fiscal years (excluding the facilities investment referred to above) will require annual funding averaging $630,000. The Capital Asset Replacement Fund summary budget, 105-000, provides additional information.

The County's Strategic Planning Committee continues to meet in order to revise the County's current plan. Following adoption of the Strategic Plan, the County will pursue development of a long-range financial plan. In April, administration presented Champaign County's Five-Year Financial Forecast to the County Board for fiscal years 2017 through 2021.

Five-Year Financial Forecast

Executive Summary

Our five-year financial forecast for Champaign County encompasses the fiscal years 2017 through 2021. The forecast relies on estimates of revenue and expenditure based upon analysis of prior budgets, local historical trends, and statewide or national projections of economic factors.

Champaign County continues to be buffeted by a torrent of financial headwinds that are in some cases outside of its control. We have seen how the delays in Medicaid reimbursements for the county nursing home have created a cash flow crisis jeopardizing not only its survival, but also creating a nearly $1 million hole in countywide finances with the potential for several million dollars in additional liabilities. Payments for other state-funded services such as child support enforcement or court services have been erratic or are many months behind schedule. Slow recovery in Illinois employment and the economy overall have translated into depressed growth of sales and income tax revenues. Of even greater concern for revenues are potential actions in Springfield to deal with the state budget gap. Proposed property tax freezes that would likely be a necessary tradeoff to enact an income tax hike would devastate the ability of the County to respond to increased demands to fund expenditures.

On the expenditure side, department heads have exercised restraint in developing their budget requests for several years. Commodities and services have been squeezed relentlessly, which is why we recommended a flat budget for these categories in FY 2017. Health insurance coverage, a primary benefit of County employment, is reaching a point of unaffordability with yearly double-digit increases in premiums resulting from the implementation of the Affordable Care Act. Although wage demands have been modest and have been partially offset by increased employee contributions towards health care costs, provisions for wages and fringe benefits comprise 70% of the county government's General Fund expenditures. Deferred maintenance expenses that have been underfunded by approximately $2.5 million annually as well as technology replacements are looming problems that must be addressed. The County faces the prospect of making tough choices of the public services that must be reduced or eliminated to maintain a balanced budget.

Environmental Factors

There are several external environmental factors that can impact County finances. These include the rate of inflation, employment opportunities and income growth, state government's budget woes, and real estate prices.

After an extended period of very low inflation, rates edged upward in 2016. The Federal Open Market Committee (FOMC) of the Federal Reserve Bank is predicting a steady rate of inflation of approximately 2.0% annually for the next five years, with a range of 1.7 to 2.0% for 2017. The Illinois Department of Revenue is using an official figure of a 2.1% increase in the Consumer Price Index (CPI) for levy calculations controlled by the Property Tax Extension Limitation Law (PTELL). This factor will allow for growth in the county levy.

FOMC is also projecting moderate expansion in the national economy, with Gross Domestic Product estimates for the long-term in a range of 1.8 to 2.0% annually. Faster growth is expected however in 2017, with rates in a range of 1.9 to 2.3%. Unemployment nationally is forecast to be within a range of 4.7 to 5.0% over the next several years. Unfortunately, the outlook in Illinois is worse according to Rick Mattoon, Senior Economist and Economic Advisor at the Federal Reserve Bank of Chicago. In January 2017, he noted that Illinois has continued to lag the nation and the rest of the Midwest during the recession and recovery, with job growth being about 20% of what is being seen in surrounding states. The University of Illinois' Institute of Government and Public Affairs (IGPA) is projecting only incremental growth for Champaign County employment, with about 400-500 new positions expected over the course of the coming year. Statewide underperformance in jobs does not bode well for growth in personal income tax revenues as they are calculated on a per capita basis. Fiscal years 2014 and 2015 showed growth, but FY2016 was down 8.5%, and the first three months of FY2017 are down 11.8% relative to the first quarter of 2016. Low inflation and employment stability supports a thesis for continued modest growth in sales and use taxes.

Additionally, Mr. Mattoon also commented about the fundamental problems with state finances that impact local government. These include:

- Two years without a full year state budget;
- A credit rating is that is the worst in the nation (160 basis points above triple A);
- Structural budget deficit (i.e. expenditures exceed revenues) since 2001;
- Accounts payable of $10 billion; and
- Legacy liabilities including pensions of $174 billion.

Potential solutions to these problems are complex and require several simultaneous actions (cuts to discretionary spending, increase in personal and corporate income taxes, expanded income and sales tax bases, etc.) if the budget gap is to be closed within ten years. Such solutions also don't account for dealing with the existing bill backlog so the likelihood of seeing any major improvements in the state's fiscal condition during the forecast period is low.

The County has seen the direct effects of the disarray in state finances. Reimbursements for state-funded programs such as child support enforcement or court services have been erratic or are many months behind schedule. Medicaid application processing delays require the county to finance patient care until the state finally catches up on its obligations, creating cash flow problems that also result in shortfalls in reimbursing County expenditures made on behalf of the nursing home.

One bright spot is in the county real estate market. The Champaign County Association of Realtors reports that 2017 thus far has shown continued strength in home sale prices, with the average price in February at $163,961, up 9.4% from $149,898 in February 2016. The median sale price was up 11.5% year-over-year at $145,000. According to Dr. Lawrence Yun, Senior Economist and Senior Vice-President of Research for the National Association of Realtors, interest in buying a home is at the highest level seen since the Great Recession. IGPA forecasts continuous growth of median prices in 2017 within a narrower and slightly smaller range compared with 2016. On a year-over-year basis, these gains will range from 2.1% to 6.9% for Illinois. Property taxes make up about one-third of General Fund revenues and are the second largest source of money after state-shared receipts. An improved trend in real estate sales will have a positive impact on assessed valuations and associated tax revenues in the near-term. However, real estate prices tend to follow the rate of inflation over the long-term so caution is warranted to avoid overly optimistic projections.

GENERAL FUND

Key Assumptions

Infrastructure Expenditures Require Debt Issuance. Critical facilities needs ($4.2 million for roof replacements; $750,000 for demolition of old nursing home; $3 million for Sheriff's Office relocation and renovation) and the enterprise resource planning (ERP) system replacement ($1.8 million) will require debt issuance for expenses exceeding available recurring revenues.

Health Insurance Premium Increases of 12% Annually. The increasing cost of health insurance is anticipated to put significant pressure on the General Fund. The county initially received a 51% premium increase for FY2017, although negotiations resulted in an actual increase of 11.6%. The premium for FY2018 is unknown at this time. Based on plan changes in 2017 which increased the employee deductible by $500, improvement in claims in 2016 and continued efforts to negotiate increases in employee premium contributions, the forecast reflects a budgeted increase of 12%.

Property Tax Revenues Grow Modestly. The CPI for revenue year 2017 is 2.1%. Equalized Assessed Valuation for RY2017 will not be available until August. Levy growth for FY2018 is projected at 2.6% assuming the legislature does not enact a property tax freeze. As it did in RY2016, the county should consider preparing the RY2017 levy to capture new growth revenue in the event of a favorable ruling in the hospital property tax case. This forecast excludes any new growth revenue associated with the hospital properties.

State-shared Revenue Performance Remains Flat to Slightly Positive. State-shared revenue is the number one contributor to General Fund receipts. In FY2016 the county experienced funding delays for salary reimbursement and support enforcement contracts. Additionally, the fiscal condition of the State of Illinois is a likely contributor to declining income tax revenue and flat to slightly positive sales tax performance. Implementation of the Illinois Department of Revenue's new accounting software has impaired the ability of the county to accurately forecast state shared revenues. IDOR has given very little explanation regarding the altered revenue receipt patterns. Furthermore, the county continues to await the department's plan for the recapture of misallocated Personal Property Replacement Taxes; total liability is approximately $122,000.

Income tax revenue is believed to be overstated by $98,000 in FY2017. State forecasts indicate that income tax receipts necessitate a major downward revision. Income tax and state reimbursement are forecasted as flat for FY2019-FY2021. We have assumed that reimbursement formulas will not deteriorate over the forecast period.

The 1-Cent and ¼-Cent sales tax are forecasted to reflect moderate growth in FY2017-FY2021. Following declining and flat revenues in FY2015, growth in FY2016 was 2% and 0.7% respectively. Over the past six months, the 1-Cent has reflected positive growth; however, the ¼-Cent continues to show volatility. This forecast conservatively projects growth for these taxes to be 1.2% (1-Cent) and 1% (¼-Cent).

Criminal Justice Reform and Fines and Bond Forfeitures Revenues. In FY2016 there was a $212,000 drop, or 23% decline, in this revenue stream. Further research indicates that this is likely the result of local changes to policing and adjudication practices. The forecast assumes flat growth in FY2017-FY2021; however, further deterioration in revenues is possible. The Governor's Office and the General Assembly have been considering criminal justice reform proposals that could negatively impact this revenue stream.

Nursing Home and General Fund Financial Impact. Debt service reimbursement for the general obligation bond for remediation work on the nursing home did not occur in FY2016 and is assumed to not occur in FY2017, although it is likely that the sale of the home would allow for eventual reimbursement. The forecast anticipates reimbursement in fiscal years 2018-2021 enabled through funds generated from the sale of the home and possible early debt retirement. Payment for General Fund services provided to the Nursing Home did not occur in FY2016 and is not projected in the 2017-2021 forecast.

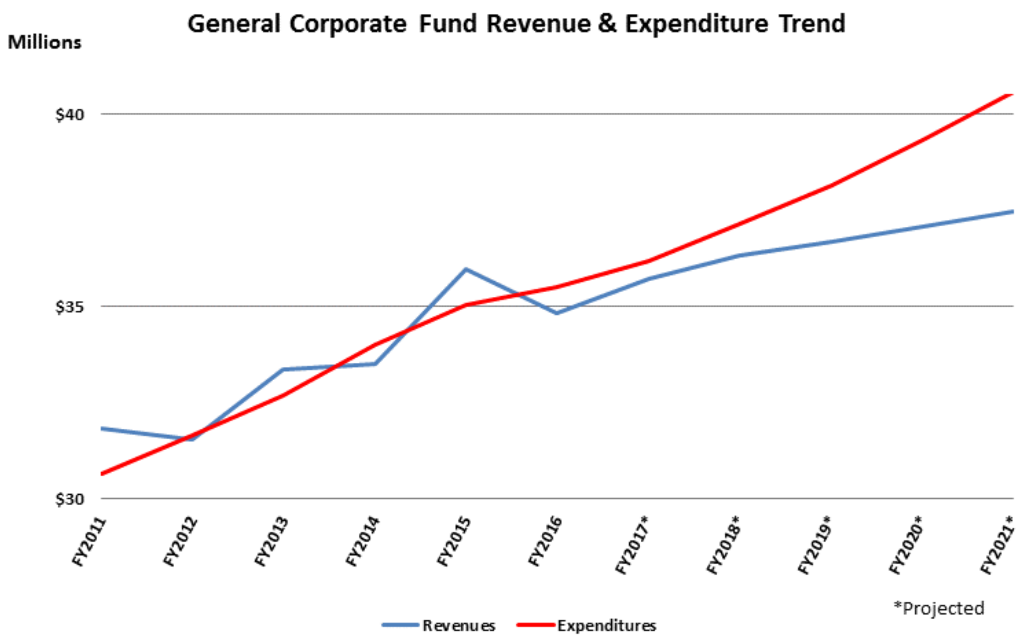
In September 2016, the General Fund loaned the Nursing Home $282,802 for replacement of the boiler system. The twelve-month loan principal balance has been reduced by $56,000 due to a Department of Commerce and Economic Opportunity (DCEO) grant received by the county. It is expected that the home will be unable to pay the outstanding loan in September; therefore, the County Board must choose to either extend or forgive the loan. Forecast assumptions reflect an extension of the loan in order to avoid any impact to the General Fund balance.

No New Unfunded Mandates or Restrictions on Revenue. The major concern for local government presently is the possibility of a property tax freeze. Many such proposals are currently on the legislative docket in the General Assembly; however, a freeze would likely be tied to an increase in state income tax rates. As always, the legislature may create obligations for local government without providing any corresponding revenue. Last year for example, the Illinois Supreme Court overturned a statute that included increases in county-paid juror compensation rates. The removal of this unfunded mandate resulted in a net reduction of nearly $182,000 in recurring costs for the FY2017 budget. However, a revised version of this statute or similar initiatives of the General Assembly could arise at any time, placing additional, unexpected burdens upon the county's General Fund.

Adjudication of the Hospital Property Tax Case. The county expects any ruling in this case to sustain the county's position on tax exemptions. However, if the courts rule against us, it could require Champaign County to return previously collected taxes to Carle Foundation Hospital and Presence Covenant Medical Center. The potential General Fund liability is approximately $808,000. The county has reserved $294,000 from a distribution of TIF surplus funds to partially offset this liability.

General Fund Conclusion

Revenue to Expenditure Deficit. Restricted and underperforming revenues, growing expenditures, state budget uncertainty, and short-term sustainability of the Nursing Home will make it vital but increasingly difficult for the county to align expenses to revenues. The following chart reflects the assumptions previously stated, and clearly indicates a pattern of expenditure growth that exceeds revenue growth. It should be noted that accurately forecasting revenues and expenditures beyond FY2018 is difficult and meant to reflect trends rather than exact amounts.



This graph of General Fund revenues and expenditures shows that after FY2017, a structural budget deficit emerges as growth in revenues is unable to meet growth in expenditures. The primary driver of the deficit is the uncontained increase of health insurance premiums but is also due in part to wage increases.

Fund Balance Projections. The county ended FY2016 with an unaudited fund balance of 12.9% of expenditure fund balance, which complies with the county's financial policies. The FY2017 budget was prepared with an anticipated revenue to expenditure deficit of $150,000 for capital expenditures associated with ADA improvements. This fiscal year, the fund balance will be impacted by the establishment of a separate fund for Foreclosure Mediation Services. Foreclosure mediation fees of $52,000 are included in the General Fund balance. Due to reporting requirements, a separate fund will be established for these services at the request of the Circuit Court and with the approval of the Auditor's Office.

Based on the previously described budget transfer and revised revenue and expenditure projections, including unreimbursed debt service, the FY2017 revenue to expenditure deficit is projected to be $452,644, which positions the fund balance at 11.3% of FY2017 expenditures. Fulfillment of the debt service reimbursement and payment for General Fund services provided to the Nursing Home would improve the fund balance position bringing it to approximately 12.4% of expenditures. Based on forecast assumptions, failure to achieve balanced budgets will cause continued deterioration of the fund balance in fiscal years 2018-2021 as reflected in the following table.

	FY2017	FY2018	FY2019	FY2020	FY2021

	FY2017	FY2018	FY2019	FY2020	FY2021
Revenues	$ 35,724,771	$ 36,336,791	$ 36,703,391	$ 37,085,082	$ 37,474,123
Expenditures	$ 36,177,414	$ 37,164,268	$ 38,168,568	$ 39,344,702	$ 40,588,428
Rev./Exp. Difference	*$ (452,644)*	*$ (827,477)*	*$ (1,465,177)*	*$ (2,259,620)*	*$ (3,114,306)*
Projected Fund Bal.	$4,091,691	$3,264,214	$1,799,038	($460,582)	($3,574,888)
Fund Balance	**11.3%**	**8.8%**	**4.7%**	**-1.2%**	**-8.8%**

PUBLIC SAFETY SALES TAX FUND
Key Assumptions

Modest Revenue Growth. FY2015 and FY2016 exhibited flat to slightly declining revenues for this ¼-Cent tax which is not collected on the sale of registered vehicles. Fiscal years 2010-2014 averaged growth in the 2% range while five and ten-year averages reflect 1% growth. FY2017 revenues may be slightly overstated; however, a revenue positive budget, expenditure savings for a refunded bond, and elimination of maintenance fees for unutilized justice system technology should offset any loss of revenue. The forecast projects 0.75% growth.

Debt Service. The county has five public safety sales tax alternate revenue bonds which will be paid in full by the end of FY2028. In FY2016 the county refunded Series 2007A generating annual savings over the life of the issue. A final payment for Series 2000 will be made in FY2017 freeing up approximately $1.2 million in public safety sales tax funds in FY2018. Due to debt service growth accumulating to $140,000 over the following four fiscal years, the county should cautiously structure utilization of this available revenue to ensure adequate funds to fulfill the debt service obligations.

Expenditures and Board Approved Initiatives. Per ordinances adopted by the County Board in 1998 and subsequently revised in 2003, this tax revenue supports public safety related programming, justice system technology, and partial funding for the annual maintenance costs of public safety buildings.

In FY2018, approximately $1.2 million becomes available due to a maturing bond issue. These funds will provide the county with an opportunity to address the deferred maintenance needs of public safety buildings and implement technology improvements. Eligible projects would include the relocation of the Sheriff to a renovated portion of the ILEAS building, required roof replacements at the County Courthouse and Adult Detention Center, and partial funding for the Enterprise Resource Planning (ERP) system replacement.

Final Thoughts

This financial forecast shows that a growing gap between revenues and expenditures is very likely in consideration of the current economic environment coupled with the dysfunction in state government and its impact upon shared revenues.

As with many governmental entities, Champaign County has addressed its budgetary challenges in recent years through fiscal conservatism and restraint upon growth of commodities and services expenditures to maintain compliance with County financial policies. Unfortunately, in view of the emerging structural deficit, this strategy appears to have reached the point of insufficiency to maintain the necessary alignment between revenues and expenditures that will keep the county government on a sound financial footing.

In moving forward, it will be necessary to take a hard look at the services provided by Champaign County and establish a prioritization for those services to determine appropriate funding levels within the constraints of our financial capacity. The cooperation of department heads and elected officials will be vital to achieving the most beneficial outcome from the decision-making process. The County Administrator budget recommendations that are forthcoming will provide some suggested actions to be taken that will offer a reasoned approach to determining these priorities.