# County of Champaign, Illinois

# Five Year Financial Forecast
# Fiscal Years 2020 to 2024

# Introduction

March 2020 and final 2019 revenue and expenditure reports were unavailable until April 14, 2020, providing a limited amount of time to prepare this Forecast. The COVID-19 pandemic has added an additional challenge to the preparation of the Forecast. Increased expenditures related to the pandemic response are reimbursable by FEMA public assistance at 75% if eligible. Because those costs are unknown at this time, and largely reimbursable, they are not incorporated in forecasted expenditures. The State's Stay-At-Home Executive Order is currently in place from March 21 through April 30, 2020. Uncertain at the time of this writing is whether the order will be further extended. Nonetheless, revenue declines are imminent and have been taken into consideration with the preparation of the Forecast.

Due to time constraints and additional financial responsibilities related to COVID-19 Emergency Operations, management of FEMA public assistance funding, and the untimeliness of essential information required to prepare this document; the Forecast is presented at a higher level and with less detail than previous Forecasts.

**Financial Rating**
In June 2019, Moody's Investor's Service affirmed Champaign County's Aa2 rating citing its large and diverse tax base and modest debt burden. Above average pension burden was listed as a credit challenge, and factors that could lead to a downgrade were narrowed fund balance or liquidity, contraction of the county's tax base or weakening of resident income, and significant growth in debt or pension burden.

On April 22, 2020, Moody's downgraded the State of Illinois' outlook to "Negative" citing the probable effects of the coronavirus pandemic, including reduced tax collections and anticipated pension investment losses, which are expected to affect Illinois more so than to other states given its current fiscal condition.

**Strategic Plan**
The County Board approved a 6-Year Strategic Plan at its July 2019 meeting.
http://www.co.champaign.il.us/CountyBoard/CB/2019/190718_Meeting/190718%20handouts.pdf

**Critical Issues**
Sheriff's Office and Downtown Correctional Center
Per a 2015 Facilities Condition Report, this facility is categorized as poor. The 0-5-year Deferred Maintenance Backlog (DMB) is $2.9 million, and the 5-25-year DMB is just under $9 million. Building conditions have further deteriorated since the 2015 study, and it is essential for the County to resume discussions regarding a plan for the facility.

**Opportunities**
There are current negotiations regarding the location of a 150MW solar farm in the unincorporated area of Champaign County. Per information provided by the developer, the project is expected to generate $3.6 million in estimated annual local spending and $737,000 in recurring property tax revenue for nine jurisdictions including Champaign County government. The anticipated Zoning Permit fee of $193,050 would also be paid to the County; however, is not included as revenue in the FY2020 Budget.

**Property Tax Base**

For tax year 2019, payable in FY2020, the County anticipated receiving $35.27 million in property tax revenue. Application of the Property Tax Extension Limitation Law (PTELL) resulted in an extension calculation of $35.21 million.

| Tax Levy Year | Fiscal Year | EAV | % Increase/ Decrease | Tax Rate/$100 of EAV | Property Tax Extension | Levy Growth |
|---|---|---|---|---|---|---|
| **2008** | **2009** | $3,485,212,304 | 5.7% | 0.7426 | $ 26,000,871 | 7.1% |
| **2009** | **2010** | $3,537,653,786 | 1.5% | 0.7487 | $ 26,607,976 | 2.3% |
| **2010** | **2011** | $3,561,497,476 | 0.7% | 0.7688 | $ 27,506,700 | 3.4% |
| **2011** | **2012** | $3,546,623,981 | -0.4% | 0.7841 | $ 27,911,272 | 1.5% |
| **2012** | **2013** | $3,532,086,251 | -0.4% | 0.8138 | $ 28,832,637 | 3.3% |
| **2013** | **2014** | $3,479,591,533 | -1.5% | 0.8511 | $ 29,700,112 | 3.0% |
| **2014** | **2015** | $3,532,923,580 | 1.5% | 0.8255 | $ 30,580,132 | 3.0% |
| **2015** | **2016** | $3,600,615,388 | 1.9% | 0.8322 | $ 31,281,287 | 2.3% |
| **2016** | **2017** | $3,806,286,018 | 5.7% | 0.8458 | $ 32,245,372 | 3.1% |
| **2017** | **2018** | $3,972,464,264 | 4.4% | 0.8481 | $ 33,737,737 | 4.6% |
| **2018** | **2019** | $4,132,219,001 | 4.0% | 0.8157 | $ * 33,487,090 | *-0.7% |
| **2019** | **2020** | $4,299,867,692 | 4.1% | 0.8189 | $ 35,211,617 | 5.1% |

*Nursing Home bonds were defeased in 2019, resulting in a reduction in the Tax Year 2018 levy.

In 2020, the Sixth Judicial Court ruled in favor of Carle Foundation regarding the property tax exemption case for parcels in its main campus for tax years 2005-2011. The County's portion of the court ordered refund was $1.48 million. Following consultation with the County's outside auditor, the payment for the liability must be treated as a reduction in property tax revenues (for each levy), rather than an expenditure. The General Fund Forecast reflects its revenue reduction in FY2020. Future potential liability is not incorporated in the Forecast.

# General Fund

## Forecast Assumptions

In addition to the aforementioned revenue uncertainties, there are additional unknown factors at the time the Forecast is prepared such as future health insurance rates, IMRF rates, and legislative actions resulting in revenue impacts. The Forecast is presented by summary of revenue and expenditure categories and is based on current economic conditions, historical performance, and anticipated trends in revenues and expenditures at the time of preparation.

The financial impact of the pandemic is largely unknown. Unfortunately, the recently approved federal "COVID-19 3.5" relief package did not include additional funding for local governments. The initial proposal incorporated loss of revenue as a COVID-19 related expense. There are ongoing discussions at the federal level regarding fiscal relief for lost revenues, and it is anticipated this will be addressed in the next relief package. Absent relief for lost revenues, in addition to adjusted FY2020 revenue projections, the following revenues were adjusted down 20%, which <u>at this time is anticipated to be a worse-case scenario</u>.

| | | |
|---|---|---|
| One-Cent sales tax | Quarter-cent sales tax | Use tax |
| Income tax | Video Gaming tax | Personal Prop. Replacement tax |
| Court Fees and Fines | Event Security | Jail Booking-In Fees |

The County has limited control over most of its revenue sources, and two-thirds of General Fund expenditures are for personnel costs. Therefore, considering the County's already lean workforce, expenditure reductions are challenging. Additionally, the County has increased its much-needed investment in facilities and technology over the past two years, which has put growing pressure on General Fund revenues.

## Major Revenues

**Property Taxes**

As in previous years, there are continued conversations as well as proposed legislation at the State level regarding property tax reform. Legislative changes that reduce the County's most stable revenue source, already restricted by PTELL, would be detrimental. The Consumer Price Index (CPI) increase for taxes levied in 2020, payable in FY2021 is 2.3%. This is the highest CPI since revenue year 2009. In addition to inflationary increases, new growth added to the tax rolls allows for the capture of additional property tax revenue. As stated previously, FY2020 property tax revenues are reduced by the amount due in the Carle Foundation ruling, which is a negative revenue impact of $549,532 for the General Fund.

**State Shared Revenues**

**2020 Census**

Some County revenues, including Income and Use tax, are dictated on a per capita basis. The unincorporated population, based on the 2010 Census, is 32,255. An increase or decrease in population based on the 2020 Census will impact per capita revenue streams.

**Income Tax**

In FY2019, there were thirteen Income tax distributions posted to the fiscal year in order to align Use tax and Income tax deposits, which are released by State Comptroller at the same time. Additionally, Income tax revenues came in greater than budgeted due to a strong stock market and federal tax law changes. The 5% cut to Income tax revenues is still in place. Year-to-date cuts to this tax stream implemented by the State have cost the County $622,052. In his FY2021 Budget Address, the Governor stated the current 5% cut would be increased to 10% effective July 1, 2020, and held in reserve until January 1, 2021, unless the proposed graduated income tax was approved by voters. If approved the reserve would be released in a lump sum payment and the cut would remain at 5%. If not approved, the reserve would be retained by the State and the 10% cut would continue.

**Sales Taxes**

Level the Playing Field legislation, originally effective July 1, 2020, will now commence January 1, 2021. State and locally imposed sales taxes will be collected where a product is delivered and will have a positive impact on sales tax revenues.

**New Revenue: Cannabis Sales**

At the time of the FY2020 budget preparation, the County imposed Cannabis Sales Tax was to be implemented by the Department of Revenue on April 1; however, the state extended implementation to July 1. The County did not budget for this revenue; therefore, receipt of this tax will help mitigate shortfalls in other sales tax revenue streams. Forecasted projections are based on information received from Champaign and Urbana, adjusted for our fiscal year.

**Revenue Impact: One-Cent Sales**

For FY2019 the County's top ten filers based on the County's 1.00% share of sales tax, remitted a total of $830,443, making up 60% of total collections for the one-cent tax. Historically, there have been fluctuations in this revenue stream as the loss, addition, or operational changes of a top filer can significantly affect revenues. The collection months of November and December 2019, and January 2020 reflected a notable revenue decline. An Allocation Remittance Report requested from IDOR for this period confirms a decrease in sales for one of the top filers.

**State Reimbursement**

This revenue is predominantly received from the Administrative Office of Illinois Courts (AOIC) for partial salary reimbursement for juvenile and court services officers. The timing of reimbursement can have an impact on the budget, as it did in FY2019. We started the year with a six-month delay in reimbursement; however, ended the year with a five-month delay. Therefore, revenues recorded to FY2019 were greater than budgeted. If AOIC is consistent with disbursements and does not cut the County's allocation for the second half of the year, FY2020 revenues are projected to come in as budgeted.

**Charges for Services, Fees and Fines**

The extended closure of the Courthouse will negatively impact fee and fine revenues. Additionally, an Administrative Order issued by Presiding Judge Difanis extended payment due dates between March 16 and April 30, 2020, for multiple court-ordered fees and fines for 180 days without penalty, interest or late charges.

## Expenditures

**Personnel**

Sixty-seven percent of the FY2020 General Fund Budget is personnel costs, which includes wages, health and life insurance. The County's health insurance rates for 2021 are unknown at this time and are difficult to forecast as they are based on multiple factors including the composition of the risk pool, increasing cost of medical services and prescription drugs, administrative fees, claims history, and legislative and regulatory changes. For the purposes of this Forecast projected increases are 5% year over year. The County is currently negotiating Fraternal Order of Police (FOP) contracts for 2020-2022.

### Commodities

Forty-five percent of the FY2020 commodities budget is for the purchase of real estate transfer tax stamps. There is a direct correlation to “Revenue Stamps” revenue and “Purchase Document Stamps” expenditure as the Recorder collects a tax through the sale of stamps, and remits 2/3 of the tax to the State.

### Services

The largest single expenditure line in the services category is for Medical, Dental, and Mental Health Services, which represents 14% of total services expenditures. The second and third largest expenditures are for electricity and METCAD contributions, which are 10% and 8% respectively.

### Capital

The FY2020 Budget includes $145,000 for patrol vehicles, and $483,140 for replacing the County’s election tabulators. The County Clerk has estimated the cost of replacing Voter Assistance Terminals (VAT) is $352,175. The Forecast includes the VAT replacement in FY2021; however, there have been discussions with the County Clerk’s Office to try and identify alternate funding sources for the VAT replacement.

### Transfers

Beginning in FY2019, the County began increasing its investment in facilities and technology resulting in increased contributions to the Capital Asset Replacement Fund (CARF). The forecasted transfers to the CARF include funding for planned facilities projects, equipment and technology scheduled for replacement in each forecast year, charges for software already in place, and replacing the County’s legacy financial system. The forecasted transfers do not include additional projects identified in future fiscal years per the County’s Technology Plan.

| General Fund | Unaudited FY2019 | Budget FY2020 | Projected FY2020 | Forecasted FY2021 | Forecasted FY2022 | Forecasted FY2023 | Forecasted FY2024 |
|---|---|---|---|---|---|---|---|
| Local Taxes | 13,082,149 | 13,971,656 | 12,844,363 | 13,900,275 | 14,426,348 | 14,973,464 | 15,542,465 |
| Licenses and Permits | 1,583,797 | 1,651,008 | 1,580,868 | 1,580,868 | 1,580,868 | 1,580,868 | 1,580,868 |
| Intergovernmental Revenue | 598,772 | 508,782 | 527,341 | 523,809 | 523,809 | 523,809 | 523,809 |
| State Shared Revenue | 15,280,834 | 15,374,552 | 13,082,154 | 13,760,802 | 14,126,756 | 14,508,003 | 14,905,379 |
| Local Government Revenue | 657,818 | 744,141 | 780,398 | 756,540 | 782,897 | 810,252 | 838,646 |
| Government Reimbursement | 709,870 | 626,046 | 598,919 | 640,319 | 654,356 | 668,813 | 683,704 |
| Charges for Services, Fees and Fines | 4,825,263 | 4,691,384 | 3,979,284 | 4,691,384 | 4,691,384 | 4,691,384 | 4,691,384 |
| Miscellaneous | 1,433,479 | 1,437,727 | 1,381,261 | 1,396,975 | 1,413,002 | 1,429,350 | 1,446,026 |
| Interfund Transfers and Reimbursement | 6,770,527 | 1,777,898 | 1,706,292 | 1,652,304 | 1,675,340 | 1,699,090 | 1,723,582 |
| Other Financing Sources (Refunding) | 865,000 | - | - | - | - | - | - |
| **Total Revenue** | **45,807,509** | **40,783,194** | **36,480,880** | **38,903,276** | **39,874,760** | **40,885,033** | **41,935,863** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Personnel | 25,786,913 | 26,810,459 | 26,572,982 | 27,676,028 | 28,570,626 | 29,495,279 | 30,451,047 |
| Commodities | 2,133,976 | 2,225,285 | 2,211,200 | 2,246,876 | 2,268,955 | 2,291,535 | 2,314,626 |
| Services | 6,835,108 | 7,723,854 | 7,356,245 | 7,835,960 | 7,987,792 | 8,143,536 | 8,303,300 |
| Capital | 344,089 | 628,140 | 568,140 | 497,175 | 145,000 | 145,000 | 145,000 |
| Transfers | 1,973,102 | 2,725,129 | 2,725,129 | 3,096,124 | 2,956,286 | 2,850,096 | 3,066,141 |
| Debt | 4,896,031 | 195,655 | 181,567 | 182,250 | 184,276 | 181,212 | 183,150 |
| **Total Expenditure** | **41,969,219** | **40,308,522** | **39,615,263** | **41,534,413** | **42,112,935** | **43,106,658** | **44,463,264** |
| **Revenue/Expenditure Difference** | **3,838,290** | | **(3,134,383)** | **(2,631,137)** | **(2,238,175)** | **(2,221,625)** | **(2,527,401)** |
| **Fund Balance (unaudited)** | **7,048,959** | | **3,914,576** | **1,283,439** | **(954,736)** | **(3,176,361)** | **(5,703,762)** |
| **Fund Balance as a % of Expenditure** | **16.8%** | | **9.9%** | **3.1%** | **-2.3%** | **-7.4%** | **-12.8%** |

### FY2019 Fund Balance

The May 2019 Budget Projection report presented to the County Board in June, forecasted a $6.5 million fund balance at the end of 2019. The unaudited ending FY2019 fund balance is expected to be $7 million, or 16.8% of total expenditures. Per County Financial Policies, the General Fund balance recommendation is 12.5% of expenditures with a target of 16.7%. Several factors contributed to the increased 2019 fund balance following a $3.2 million fund balance at the end of FY2018.

- In the last quarter of FY2018, the County transferred $1.98 million to the Nursing Home Fund allowing it to pay for outstanding accounts payable balances prior to the sale of the Home in 2019. The General Fund subsequently issued a Promissory Note for cash flow purposes. Following the sale, proceeds were used to repay the General Fund, thereby restoring the $1.98 million impact to its fund balance and allowing the Promissory Note to be redeemed.
- The FY2019 Budget included $282,000 for the Nursing Home debt service; however, the redemption of bonds following the Home's sale relieved the County of the 2019 payments.
- Major revenue impacts included the early distribution of one month of AOIC reimbursement, significant increases over IDOR projected Personal Property Replacement tax revenues, significant one-time increases in Income tax revenues due to a strong stock market and federal tax law changes, and thirteen Income tax distributions posted to the fiscal year in order to align Use tax and Income tax, which are released by State Comptroller at the same time.
- Underspending predominantly in personnel costs and services.

### Outstanding Loan

There remains a $1 million loan on the General Fund balance sheet that is owed from the Nursing Home Fund. It is recommended the County act in FY2021 to remove this loan from the balance sheet.

### Current FY2020 Budget Recommendation

At the April Department Heads meeting, Elected Officials and Department Heads were asked to make good faith efforts to reduce spending, restrict commodities and services to essential only expenditures, and maintain vacant positions not critical to departmental operations. It is recommended that capital projects not already underway be deferred, and budgeted expenditures for Capital Asset Replacement Fund items be evaluated on a case-by-case basis.

# Capital Asset Replacement Fund (CARF)

The facility, equipment and technology needs of the County's General Fund departments are mostly financed through this fund. Funding for CARF comes predominantly from the General and Public Safety Sales Tax fund transfers. The growing need for investment in facilities and technology continues to put pressure on both the General Fund and Public Safety Sales Tax Fund; thereby impacting the availability of those revenues for other purposes.

**Facilities Capital Plan**

http://www.co.champaign.il.us/CountyBoard/Budgets/2020Budget/Final/Pages/capitalfacilitiesplan.pdf

The plan was approved by the County Board in 2018. Fiscal Year 2021 will be the third year of the ten-year plan. Funding required for facility projects scheduled in 2021 is $2.19 million.

| Facility | Facilities Plan Projects Identified in 2021 | Cost |
|---|---|---|
| Animal Control | Add whole building AC | $150,000 |
| Brookens | Replace POD 400 roof | $250,000 |
| Courthouse | Replace boilers (2) | $300,000 |
| Garages | Install oil interceptors (5) | $250,000 |
| JDC | Replace water heaters (2), window sealant/paint, exterior lights | $135,000 |
| Satellite Jail | Foundation joint repair, drainage tile, replace ballasted roof (1996) | $1,100,000 |

**Technology Plan**

http://www.co.champaign.il.us/CountyBoard/Budgets/2020Budget/Final/Pages/technologyplan.pdf

The plan was approved by the County Board in 2019, with 2021 being year two of the six-year plan. New projects identified in 2021 total $940,000 with phone and network system upgrades being the costliest.

| System | Technology Plan Projects Identified in 2021 | Cost |
|---|---|---|
| Network Upgrades | Upgrade to single-mode fiber to support increased bandwidth needs for VoIP phones and video conferencing | $500,000 |
| Phone System Upgrade | Current system is obsolete technology with limited functionality | $200,000 |
| Animal Control/Shelter | Current system is on the AS/400 | $40,000 |
| Courtroom Recording | Needs periodically updated in conjunction with State of Illinois | $150,000 |
| Video Hearing (Arraignment) | Current platform acquired in 2012 system is used 364 days/year for adult arraignment and juvenile hearings | $50,000 |

# Public Safety Sales Tax (PSST) Fund

This tax does not apply to titled or registered tangible personal property (such as vehicles, watercraft, aircraft, trailers, and mobile homes) and qualifying food, drugs and medical appliances. The State of Illinois collects a fee (presently 1.5%) on PSST revenue, which has cost the County $214,000 since inception through the end of 2019. Level the Playing Field legislation, approved in 2019, will allow for this locally imposed tax to be collected at the point where the product is delivered beginning January 1, 2021 (deferred from the original effective date of July 1, 2020). This is expected to have a positive impact on revenue.

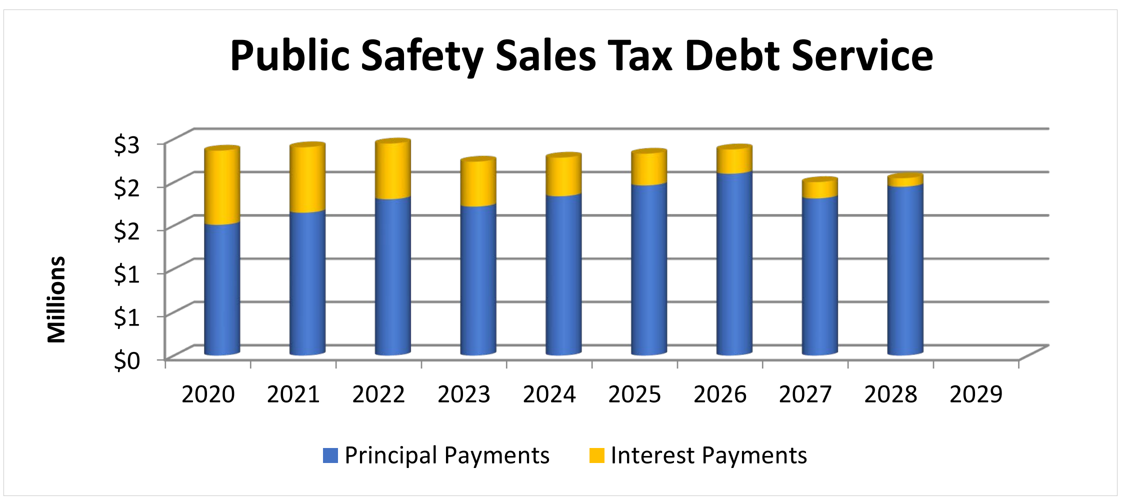
**Revenue**

The financial impact of the COVID-19 pandemic is largely unknown at present. Revenue projections for FY2020 are forecasted to reflect a decrease of 20%, which at this time is anticipated to be a worse-case scenario. The three- five- and ten-year average growth for this tax is 1.3%, 0.7%, and 1.4% respectively.

| Public Safety Sales Tax | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 Budget | 2020 Projected |
|---|---|---|---|---|---|---|---|
| Tax Revenue | $4,699,781 | $4,678,090 | $4,733,219 | $4,894,772 | $4,864,386 | 4,910,625 | $3,928,500 |
| Change | -0.2% | -0.5% | 1.2% | 3.4% | -0.6% | 0.9% | -20% |

**Expenditure**

Debt service is the largest fund expenditure, with 48% of budgeted revenues funding the County's three outstanding alternate revenue bond payments in FY2020.




| Maturity | Issue |
|---|---|
| FY2022 | 1999 bonds issued to construct the Juvenile Detention Center (JDC), and addition/remodel of the Courthouse. Principal payments on the 2014 bonds ensue in 2023; thereby minimizing the capacity to use the relief for other purposes. |
| FY2026 | 2016 bonds refunded the Courthouse exterior renovation and clock tower restoration. |
| FY2028 | 2014 bonds refunded the Courthouse and JDC bonds. |

Justice system technology and software is partially paid from the PSST fund, including the Jail Management System (JMS), Civil Processing and Business Office Software (Softcode), Digital Evidence Management Storage (DEMS), and appropriation for half of the Enterprise Resource Planning (ERP) system. Per the County's IT Plan, systems listed for replacement in 2021 and 2022 that qualify for PSST funding include:

Courtroom Recording | Video Hearing Arraignment | AS/400 replacement
Justice Case Management | Area Records Management System (ARMS)

*The Court Administrator has inquired about engaging a consulting firm in FY2021 to perform a needs assessment for replacing the Justice Case Management system. A funding source for this system, anticipated to cost up to $15 million per the County's IT Plan, has not been identified.*

Public safety facility general maintenance and utilities, and part of the County's METCAD costs are paid with PSST funds. Programs and positions funded include Re-entry, Youth Assessment Center, Specialty-Courts Coordinator and Jail Classification Lieutenant.

**Forecast Projections**

| | Revenue (incl. interest) | Debt Service | Software & Technology | Facilities & METCAD | Programs & Positions | Rev/Exp Difference |
|---|---|---|---|---|---|---|
| FY2020 | $3,948,193 | $2,367,710 | $705,946 | $1,418,011 | $502,958 | *($1,046,432) |
| FY2021 | $3,999,272 | $2,407,361 | **$731,716 | $1,405,651 | $461,696 | **($1,007,152) |
| FY2022 | $4,051,530 | $2,450,283 | **$708,734 | $1,423,821 | $469,601 | **($1,000,909) |
| FY2023 | $4,107,947 | $2,241,058 | $682,882 | $1,442,534 | $477,700 | ($736,227) |
| FY2024 | $4,169,567 | $2,287,392 | $652,221 | $1,461,810 | $485,996 | ($717,852) |

* The FY2020 Budget was originally prepared with a ($44,000) rev/exp difference due to the receipt of a previously pledged donation that was deposited in FY2019. The donation for the Courthouse Clock and Bell Tower was used to defray the debt service issued for the restoration project. Receipt of an additional previously pledged $400,000 donation is anticipated soon; however, is not budgeted. If received it would reduce the revenue to expenditure deficit projected in FY2020.

**Does not include funding for the systems previously listed for replacement in 2021 and 2022.

**Fund Balance**

The unaudited PSST fund balance at the end of FY2019 is $2.6 million. Alternate revenue bonds require 1.25 times debt service coverage. The County utilizes fund balance for the additional quarter coverage, which is $592,000 in FY2020. Additionally, the General Fund has historically relied on the PSST fund for interfund borrowing during the first half of the fiscal year while waiting on the receipt of property revenues.

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4/22/2020