Champaign County, Illinois

Five Year Financial Forecast

Fiscal Years 2019 - 2023

Introduction

The Champaign County Financial Forecast projects the financial condition of the County for the current and next four fiscal years based on a number of assumptions. The Forecast focuses on the General and Public Safety Sales Tax funds and provides a context for future financial decisions and direction as the County begins the FY2020 budget process. It is difficult to accurately forecast beyond one year, and small deviations in one year can result in significant differences in later years since projections in future years are based on outcomes in previous years. 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.

Financial Rating and Outlooks

Moody's Investors Services affirmed the County's Aa2 rating in May 2018. In June 2017, the County's rating outlook was changed from no outlook to a negative outlook due to the continued operation of the Champaign County Nursing Home. The sale of the Home in April 2019, resulting in the elimination of enterprise risk and the capacity of the General Fund to work towards its fund balance target, could optimistically lead to a future rating upgrade.

The 2019 Moody's outlook for US local governments issued in December 2018 is stable based on property tax growth, with expenditure costs being predominantly driven by increases in personnel costs.[1] Moody's Forecast for Illinois indicates the State is ill prepared for a forecasted mid-2020 recession.[2] Local governments in Illinois have been affected by the State's ongoing efforts to balance its budget in part by the imposition of administrative fees, revenue diversions, and reductions to the local government portion of shared revenues. These impacts are discussed further in this document.

Strategic Plan

The Champaign County Board last updated its Strategic Plan in 2015. In February 2019, the County Board began a series of Strategic Planning Study Sessions. These meetings are scheduled to end in June, with the goal of updating the County's Strategic Plan in time to begin budgeting for fiscal year 2020.

Economic Conditions

The Illinois Department of Revenue (IDOR) is using an official figure of a 1.9% increase in the Consumer Price Index (CPI) for 2019 levy calculations under the Property Tax Extension Limitation Law (PTELL). Although consumers expect continued expansion in the near term, in March 2019, the Conference Board reported that consumer confidence has been recently volatile with the trend in confidence "softening since last summer".[3] In February 2019, the unemployment rate for Champaign County was 4.7%, an increase of 0.4% compared to February 2018, with Illinois mirroring the county's rate and the U.S. rate at a lower 4.1%.[4]

The University of Illinois Flash Index, designed to give a quick reading of the state economy, has exceeded 105 since July 2018. A reading over 100 indicates economic expansion. However, economist Fred Giertz stated in the April 1, 2019 Flash Index report, "the national economy is in an unsettled position with the slowing of the

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[1] https://www.moodys.com/research/Moodys-US-local-governments-outlook-remains-stable-on-predictable-property--PBM_1152672
[2] http://cgfa.ilga.gov/Upload/2019MoodysEconomyILForecast.pdf
[3] https://www.conference-board.org/data/consumerconfidence.cfm
[4] http://www.ides.illinois.gov/LMI/Pages/Current_Monthly_Unemployment_Rates.aspx

world economy and the expectation of slower GDP growth in 2019, well below the nearly 3 percent rate last year."[5] For the fifth consecutive year, Illinois has experienced a decline in population. With net migration in 2018 at -83,400, compared to -84,200 in 2017.[6]

A March 2019 National Association for Business Economics survey resulted in 20% of a professional panel of forecasters predicting a recession in 2019, and 35% predicting a recession by the end of 2020.[7]

Financial Challenges

The County faces many of the same financial pressures it has identified in previous years.

1. **State of Illinois**. State legislative and administrative decisions continue to impact County revenues.

    a. Income Tax. In July 2017, the state legislature imposed a "one-year," 10% reduction to Local Government Distributive Fund (LGDF) revenue, which cost the County $322,000. The cut was extended at 5% in 2018, which has cost the County an additional $100,000 in the first 8-months. In his FY2020 Operating Budget, Governor Pritzker proposed the continuation of the cut.

The State's cut to County Income Tax revenues has cost a total of $422,000 year-to-date. In his FY2020 Operating Budget, Governor Pritzker proposed the continuation of this cut.

    b. Personal Property Replacement Tax (PPRT). Although one-time deposits caused by Federal tax law changes caused this revenue stream to perform better than projected in FY2018; year-over-year revenue declines continue in part due to the State's increasing diversion of PPRT funds. Diversions have increased from $21.6 million in 2009, to $302.5 million in 2019, resulting in less revenue being distributed to local governments.

    c. State Collection Fee. The legislature implemented a 2% collection fee on the County's Public Safety Sales Tax effective July 2017. This fee was reduced to 1.5% in July 2018 and is expected to be permanent. Since its inception, the fee has diverted $152,000 in County funds that could have been used for public safety services.

    d. Cuts to State Reimbursement and Funding. The Administrative Office of Illinois Courts (AOIC) reimburses the County for a portion of Juvenile Detention and Court Security personnel costs. This reimbursement has been declining since 2015, while the County's cost of providing these services increases. In state fiscal year 2019, the cut totals $289,000, a 15.8% decrease compared to the prior fiscal year. In 2018, the County permanently lost $36,000 in state funding from the Department of Child and Family services for a parental rights attorney.

    e. Court Fees and Fines Reform. Approved by the General Assembly mid-2018, this Act streamlines, standardizes and reduces court fees and fines. The law also provides a procedure

[5] https://igpa.uillinois.edu/report/Flash-Index_Mar2019
[6] http://cgfa.ilga.gov/Upload/2019MoodysEconomyILForecast.pdf
[7] https://www.nabe.com/NABE/Surveys/Outlook_Surveys/March_2019_Outlook_Survey_Summary.aspx?WebsiteKey=91b9e16d-e6fe-4f31-a4af-02c194225c32

for requesting a full or partial waiver of criminal fees and fines based on inability to pay. Changes to criminal and civil fees are effective July 1, 2019. The Circuit Court and Circuit Clerk are working to determine the impact of the legislation on County funds.

f. Property Tax Reform. Property tax reform legislation continues to be proposed at the state level. At the time of this report there were several pieces of legislation that propose property tax extension limitation or PTELL freezes. A property tax freeze will impact County revenue because it will remove the County's ability to levy for inflation presently allowed under PTELL.

2. **Infrastructure Needs**. Deferral of infrastructure investment is something that Moody's is following at the state and local level as it could lead to a form of soft debt. The County's annual investment in facilities falls significantly short of funds recommended to keep its buildings from declining. A Facilities 10-Year Capital Plan[8] was approved in 2018 to address the backlog of deferred maintenance. In FY2019 the County increased its investment in Facilities by over $600,000. The plan calls for an additional $1 million investment in FY2020. The Sheriff's Office and downtown Correctional Center are not included in the 10-Year Capital Plan. 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. It is essential for the County to resume discussions regarding a plan for this facility.

3. **Technology Needs.** Similar to the County's Facilities Capital Plan, it would be prudent for the County to consider implementation of a Strategic Technology Plan. In FY2019, the County is moving its in-house Tax Cycle Software, Jail Management, and Sheriff's Business Office and Civil Processing software off its AS/400 system. Migration from an in-house financial system to modern financial software is critical and a priority in FY2020. A software replacement solutions for Animal Control is also imminent. Replacement of the Law Enforcement Records Management System (currently Area-wide Record Management System or ARMS) and METCAD Dispatch software will be a joint venture with other law enforcement agencies in the near future.

4. **Health Insurance Costs**. Health insurance costs continue to be a concern. The FY2019 increase was a manageable 2.0%, down from 2.7% in FY2018, and 11.6% in FY2017. The County's Labor Management Health Insurance Committee will receive initial renewal rates for FY2020 in July 2019. In 2018, the County changed its provider from Health Alliance to BlueCross BlueShield, and its plan from a Health Maintenance Organization to a Preferred Provider Organization. The 40% federal excise tax referred to as the "Cadillac tax" was deferred again in 2018 and is now set to take effect in 2022.

5. **Hospital Property Tax Exemption Case**. A case to determine the charitable property tax exemption status of hospital properties is currently before the Champaign County Circuit Court. A return of the hospital properties to the County's tax base would result in increased tax revenue when treated as new construction under the Property Tax Extension Limitation Law (PTELL). A ruling that favors the hospitals' position, could adversely affect county finances by requiring the return of previously collected taxes. The County's minimum potential liability in the event of an unfavorable ruling is $2.65 million, not including possible pre-judgement interest, for which there is $946,000 reserved within the County's fund balances.

[8] http://www.co.champaign.il.us/FacilitiesPlans/PDFS/10-Year_Capital_Facilities_Plan.pdf

News and Highlights

1. **Form of Government.** The County transitioned to the County Executive form of government in December 2018 following the November general election, when the first Champaign County Executive was elected at large.

2. **Sale of the Champaign County Nursing Home.** On April 1, 2019, the Home was officially sold and is now owned by University Rehab Real Estate, LLC and operated by University Rehabilitation Center of C-U, LLC. The County sold the Nursing Home at a final price of $11 million. Credits to the buyer in the amount of $1.34 million were negotiated as adjustments against the final sale price. Federal income tax regulations require the County to defease and redeem the outstanding tax-exempt bonds within 90-days of the sale, at an expected cost of $6.3 million. Other costs of the transaction that were paid from sale proceeds included the broker's fee, escrow holdback and escrow fees, recording fees, and employee accruals for benefit time.

3. **Tax Cycle Software.** In December 2018, the County entered into an agreement with DEVNET for property tax software to replace its in-house AS/400 based system. Property tax extension letters generated from the new system are scheduled to be distributed to local governments in late-April with property tax bills to follow in May. In FY2020, the County will add CAMA access for townships as the State's ICASS system, free CAMA software currently in use, will no longer be provided at the end of 2019.

4. **Amnesty Program**. Champaign County held its second annual Amnesty week in 2018 allowing for a waiver of collections and late fees on outstanding criminal and traffic fees and fines. Over $137,000 was collected and distributed to the County, State, and other local agencies. The amount of fees waived totaled $41,125, with 270 cases paid in full. The Circuit Clerk's Office plans to offer the program again in 2019.

General Corporate Fund

Forecast Assumptions

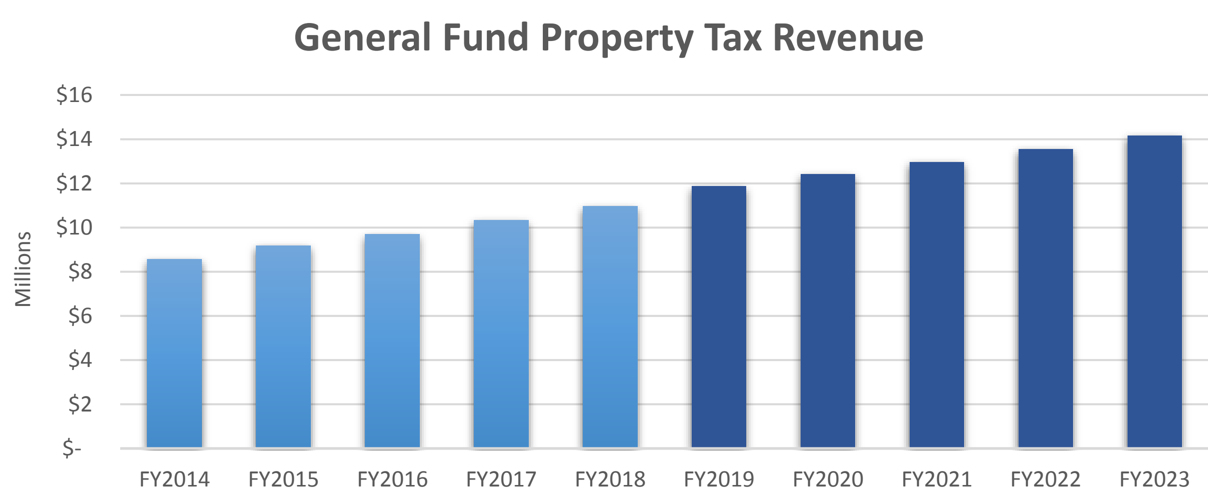
Based on the Forecast assumptions within the revenue and expenditure categories explained below, it will be necessary for the County to use current revenue to guide its spending. The County has limited control over the majority of its revenue sources, which poses a significant challenge for the County's General Fund when the cost of services, commodities and personnel expenditures continue to rise.

Department Heads and Elected Officials have continuously been willing to defer capital needs and technology upgrades, restrain commodities and services spending, and use special revenue funds for personnel and transfers to alleviate pressure on the General Fund. There will be growing pressure on General Fund revenues to cover expenditures as the County focuses on increasing its investment in facilities and technology, while also experiencing cuts to revenue passed down from the State.

Revenue

Local Taxes. Property taxes are the predominant revenue source in this category. As reflected in the chart below, the County has relied on consistent increases in property tax revenues primarily due to inflationary growth allowed under PTELL, and new property added to the tax rolls. The CPI increase for taxes levied in FY2018, paid in FY2019 is 2.1%. Due to a drop in the County's IMRF rate in FY2019, approximately $260,000 was reallocated to the General Fund; however, this reallocation will not be possible in FY2020 based on preliminary IMRF rates which reflect increases. The CPI increase for taxes levied in 2019, payable in FY2020, is 1.9%.

A change in the property tax exemption status of the hospitals could result in an increase of nearly $500,000 in recurring property tax revenue for the General Fund; although the tax liability without a change in the exemption status is estimated to be a minimum of $840,000. Other local tax revenues in this category including hotel/motel, auto rental, penalties, mobile home, and back taxes, which are projected to be flat or slightly declining.



State Shared Revenue

- **Sales Tax**
    - In FY2018, the **Quarter-Cent sales tax** exhibited strong performance at 3.6%. The five and ten-year average reflects growth of 1.6% and 1.2% respectively. In FY2019, the first two months of disbursements are -5% compared to the year-ago period. Revenue is conservatively budgeted in FY2019; however, may be overstated based on early receipts. For this reason the Forecast for the current fiscal year is projected as flat against FY2018. Future forecasted growth is 1.2%.
    - After a significant decline of 16% in FY2015, the County's **One-Cent sales tax** increased 2.7%, 17.7%, and 6.3% in fiscal years 2016 through 2018. Compared to the year-ago period, the first two months of disbursements in FY2019 are -4.1%. Information received from the IDOR for 2018 indicates the County's top ten taxpayers contribute 62% of total One-Cent sales tax revenues; therefore, the loss of one top ten payer can have a significant effect on this revenue stream exposing it to volatility. Municipal annexation of businesses also poses a risk to revenues. The five and ten-year average reflects growth of 3.7% and 3.1% respectively. The Forecast cautiously projects flat revenues in FY2019, and 2% growth in the next four fiscal years.

County's Top Ten 2018 One-Cent Sales Tax Contributors

Staley Concrete	Richards Building Supply	Illini FS
Prairie Gardens	LS Building Products	Country Arbors Nursery
Road Ranger LLC	Sport Red-Mix	Hicksgas
CIT Trucks		

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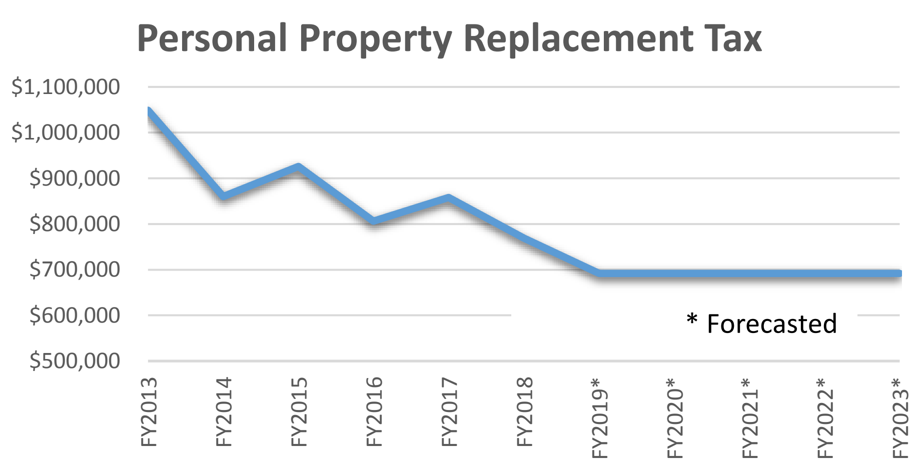
    - Consistent increases in **Use Tax** revenues since 2010 correlate to growth in e-commerce sales. While early 2019 one-cent and quarter-cent sales tax receipts reflect declines, the first use tax distribution is up 12.9%. Because of the uncertainty regarding additional use tax revenue as a result of the *Wayfair* ruling, the County did not budget additional revenue in FY2019. Data from IDOR estimates the increase associated with Wayfair is $0.13 per capita each month, translating to approximately $50,000 in increased revenue for Champaign County. The Forecast projects 8% growth in each fiscal year.

- **Personal Property Replacement Tax** revenues in FY2018 were higher than IDOR originally projected due to one-time only federal tax law changes. Even with this revenue boost, total collections were down 10%

The State's diversion of PPRT funds has increased from $21.6 million in 2009, to $302.5 million in 2019, resulting in less revenue being distributed to local governments.



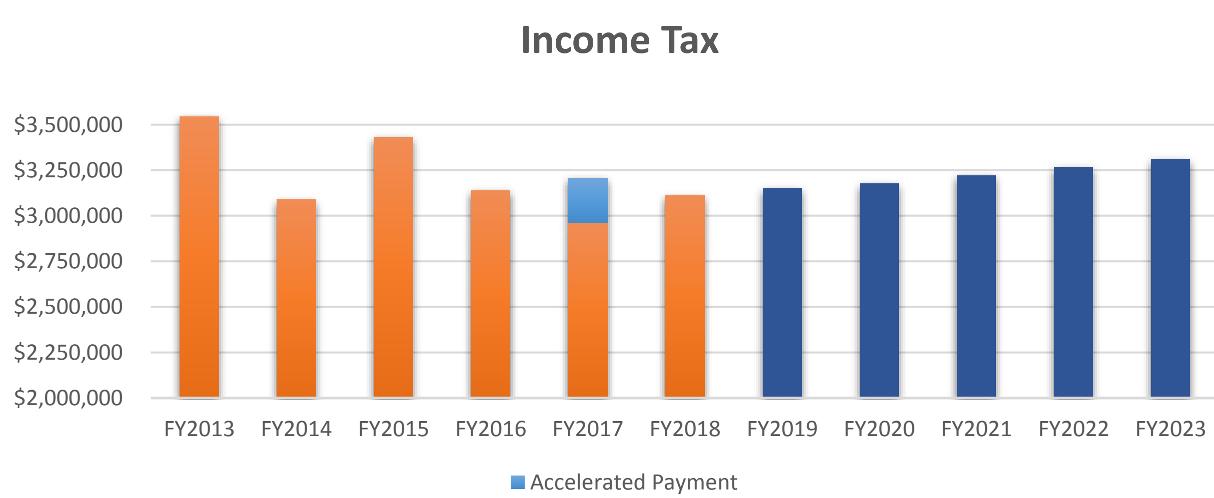
compared to the prior fiscal year. The state continues to divert revenues to cover state expenses. The diversion of PPRT funds has increased from $21.6 million in 2009, to $302.5 million in 2019, resulting in less revenue being distributed to local governments. In FY2019 revenues are expected to come in very close to budget, and fiscal years 2020 through 2023 are forecasted as flat, although continued declines are possible.

- **State Reimbursement** is predominantly for partial salary reimbursement for juvenile and court services officers. The timing of reimbursement can have an impact on the budget. Revenue in FY2018 came in $183,000 over budget due to the early distribution of AOIC funds. Inconsistency in distribution could lead to the amount of revenues posted to 2019 being less than budgeted. In FY2019, revenue is budgeted to decline due to substantial cuts. Future fiscal years are forecasted to remain flat. The Probation Services Fund increased its transfer to the General Fund in FY2019 to help offset some of the loss in revenue. The table below demonstrates the reduction in reimbursement for last four state fiscal years.

STATE FISCAL YEAR	FINAL ALLOCATION	AMOUNT OF INCREASE/DECREASE	% INCREASE/ DECREASE
2019	$1,536,922	-$288,676	-15.8%
2018	$1,825,598	-$130,980	-6.7%
2017	$1,956,578	-$27,682	-1.4%
2016	$1,984,260	-$190,528	-8.8%

- **Income Tax**. As previously stated, Income tax revenue has been significantly impacted by cuts imposed by the state legislature resulting in a loss of $422,000 in revenue year-to-date. Local governments were told the 10% cut in 2017 would be a one-time cut; however, in 2018 the legislature extended the cut at a 5% rate. Governor Pritzker's Operating Budget for state fiscal year 2020 proposes another extension of the 5% cut.

  FY2018 Income tax revenues were down from the prior fiscal year due to the accelerated payment received in FY2017. The Forecast assumes modest growth of 1.4% in FY2019 based on Illinois Municipal League projections and continuation of a 5% cut. Future fiscal years reflect estimated growth of 1.4%, also assuming a permanent cut.



Other Revenue

1. **Licenses and Permits** revenue predominantly comes through the sale of Revenue Stamps for real estate transactions. There is a direct correction between this revenue and the Purchase Document Stamp expenditure as the County must submit 2/3 of the revenue collected to the State of Illinois. A healthy real estate market resulted in stable revenues in fiscal years 2015 through 2017, with a significant increase in FY2018. According to the Recorder's Office, there were several large commercial real estate transactions in 2018 that contributed to strong revenues. At the end of February 2019, revenue stamp revenues were -22% over the same period in the prior year. Although it is still too early to tell, this revenue category may be overstated for FY2019.

2. **Charges for Services (Fees)** revenue was flat in FY2018 compared to FY2017. This category is made up of multiple revenue streams with the largest being Circuit Clerk and Recorder fees. Although small percentages of total fee revenues, zoning and subdivision and electronic home detention fees increased considerably in 2018 as a result of a number of zoning cases for proposed solar farms, and the Sheriff's Office's increased use of home confinement. The fees and fines legislation that is effective July 1, 2019, will affect this revenue stream, although as stated earlier the County is still analyzing its impact on the General and Special Revenue funds. More information will be provided at the May Finance Committee of the Whole meeting.

   Separately proposed legislation impacting Coroner fees if approved, would reduce revenues by $40,000. Current amounts charged for reports and permits are based on statute and range from $25 to $50; however, the proposed House Bill would reduce all fees to $10.

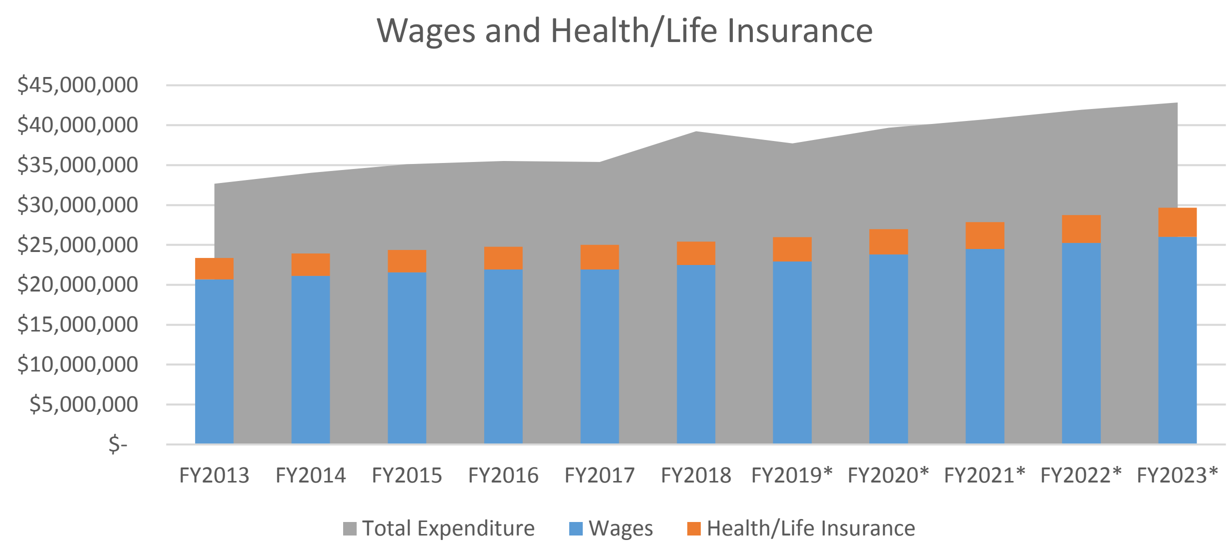
   As of March, FY2019 revenues are projected to be $365,000 less than budget, predominantly due to the unlikelihood the General Fund will receive reimbursement for services provided to the Nursing Home by County departments in prior fiscal years. Although the sale of the Home was completed in April 2019, the continued operation of the Home several months after the planned sale date further increased the Home's debt to several County funds. Additionally, the General Fund borrowed $1.98 million in the form of a Promissory Note to pay the Home's outstanding accounts payable through December 2018. Sale proceeds and revenues available after outside financial obligations are met, including bond redemption and defeasance, must first go towards paying off the Promissory Note to remove that debt from the County's Balance Sheet in addition to the outstanding $1 million General Fund loan to the Home.

3. **Fines and Forfeitures** revenue has consistently dropped since FY2014; however, rebounded in FY2018 to slightly greater than FY2016 revenue totals. According to the Circuit Clerk's Office, through FY2017, there has been a decrease in the number of cases year over year; however, it is unknown if the percentage of cases with a fine imposed has also decreased. At the time of this report FY2018 data was unavailable to determine whether there is any correlation between the total number of cases and increased revenue. It is still early in FY2019 to make informed revenue projections since there are only two months of revenue posted. The Forecast assumes FY2019 revenues will be consistent with FY2018, which is an increase of approximately $121,000 over budget. It is also uncertain what impact the fees and fines legislation previously mentioned will have on this revenue stream.

Expenditure

Personnel costs in the General Fund, including wages and insurance, accounted for 65% of General Fund expenditures in FY2018. This is a drop from 71% in FY2017, predominantly due to an increase in total expenditures resulting from Nursing Home transfers and loan forgiveness. Negotiated wage increases for FOP labor contracts, not including step increases, range from 1% to 2% in FY2019. Labor contracts for AFSCME groups are currently being negotiated.

The County has been struggling with both employee recruiting and retention, which has been communicated to the County's Labor Committee. Newly enacted minimum wage legislation will require wages to reach the new minimum of $15.00 by January 1, 2025.



*Forecasted

In FY2018, health and life insurance costs were 7.5% of total General Fund expenditures.

Health Insurance costs are driven by 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. Consequently, it is difficult to forecast premium increases for the subsequent fiscal years. Through the efforts of the County's broker and Labor Management Health Insurance Committee (LMHIC), the County has been able to utilize market competition and plan structure changes to obtain more moderate increases than initially quoted.

- FY2016 Switched from a PPO plan to an HMO plan to avoid a significant premium increase.
- FY2017 Initial quote was a 51% increase. Negotiations and an increased deductible resulted in an 11.6% increase.
- FY2018 A 2.7% increase ensued with a provider change and return to a PPO plan.
- FY2019 Increase for the current fiscal year is 2% with no plan changes.

Through labor negotiations, employees have been funding a larger portion of their health insurance premiums. In FY2018, health and life insurance costs were 7.5% of total General Fund expenditures. The FY2019 expenditure budget is flat against the FY2018 budget. This expenditure is expected to be under budget as the number of waivers in FY2019 is consistent with the prior fiscal year. The Forecast projects expenditure increases of 5% in future fiscal years.

Commodities

Forty-six percent of the FY2019 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, which are purchased from IDOR. Budgeted expenditure is 2/3 of budgeted revenue for Revenue Stamps. In FY2019, total commodities expenditure is budgeted to decline due to the decreased cost of purchasing document stamps based on the projected decreased sale of Revenue Stamps. The Forecast for future fiscal years reflects an average for postage expenditures, and moderate increases for other commodities.

Services

The largest single expenditure line in the services category is for Medical, Dental, and Mental Health Services. Following the issuance of an RFP by the Sheriff’s Office, the contractual increase for these services was 32%, which resulted in a total increase of approximately $175,000 for Corrections and the Juvenile Detention Center in FY2018. Future fiscal years reflect an estimated 3% increase for Medical, Dental and Mental Health Services and METCAD funding. The increase for other services is forecasted at 1.9% in fiscal years 2020 through 2023.

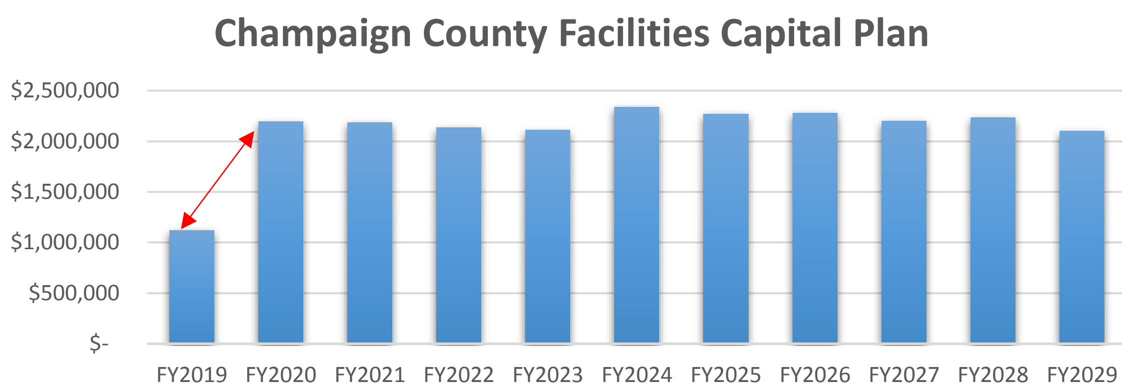
Capital

The fiscal year 2020 through 2023 Forecast includes a transfer to the Capital Asset Replacement Fund.

- Current only funding for software, vehicles and equipment scheduled for replacement in CARF includes:
    - DEVNET
    - Microsoft Licensing
    - AS/400 Cloud Backup Service
    - Antivirus software
    - Security Operations Center
    - The largest item scheduled for replacement (FY2022) is Internet Protocol Version 6 (IPv6) routing switches estimated to cost $84,000, for which there is $21,000 in reserve funding. When local entities decide to transition to IPv6 the County will need to replace its switches.

- CAMA software costs beginning in FY2020 for township assessors to utilize DEVNET (possibly a shared cost between the County and Townships).
    - The County replaced its Tax Cycle system in FY2019. Computer Assisted Mass Appraisal (CAMA) software is necessary in FY2020 for Township Assessors to complete property assessments in the County, since the State of Illinois’ free assessment system is longer available at the end of 2019. At the time of this report, it is anticipated the software and conversation costs will predominantly be the County’s responsibility, with the possibility of partial reimbursement from the townships. The full cost is estimated to be $86,000 in year one and $51,000 in year two.

- Full funding for building maintenance scheduled in the County's Facilities Capital Plan. The significant increase in the CARF transfer in FY2020, is due to the additional $1.075 million in funding required for deferred maintenance projects scheduled per the Facilities Capital Plan.



The forecasted transfer to the Capital Asset Replacement Fund does not include:

- **Funding for replacing the County's financial system (ERP)**
  - This year the County will continue planning for the necessary replacement of its legacy financial system, ERP, in order to appropriately budget for system replacement in FY2020. The current AS/400 system is forty years old and requires programming support that is no longer taught.
  - Cost estimates from a Government Finance Officers Association Business Case Report completed in April 2016, approximate the five-year cost of this system to be as much as $1.8 - $2.5 million depending on the level of services and whether the software is hosted or cloud-based.

- **Reserve funding for future fiscal years**
  - In FY2019, the County was able to reserve partial funding for items scheduled for replacement in future fiscal years. Spikes in CARF expenditures could be avoided if the County was consistently able to budget for reserve funding.

- **Funding for relocation of the Sheriff's Office and Correctional Center**

Debt

There are two debt service issues paid from the General Fund, a debt certificate issued for the Art Bartell Facility and the 2015 Issue for the Nursing Home construction project. The redemption of the 2015 Bonds following the sale of the Home relieves the General Fund of this debt obligation. The total amount included in the budget for bond redemption is $1.83 million plus issuance costs. There is also an outstanding Promissory Note for $1.98 million in the General Fund, which the County anticipates paying in FY2019.

Forecast Summary Detail

	FY2018	FY2019 Projected	FY2020 Forecast	FY2021 Forecast	FY2022 Forecast	FY2023 Forecast
Taxes	$12,142,719	$13,013,037	$13,504,761	$14,016,153	$14,548,002	$15,101,124
Licenses and Permits	$ 2,095,356	$ 1,674,585	$ 1,573,406	$ 1,573,406	$ 1,573,406	$ 1,573,406
Intergovernmental Revenue	$ 582,702	$ 482,602	$ 482,602	$ 482,602	$ 482,602	$ 482,602
State Shared Revenue	$14,519,595	$14,091,856	$14,294,080	$14,524,991	$14,764,923	$15,014,465
Local Government Revenue	$ 753,330	$ 714,228	$ 739,092	$ 764,898	$ 791,684	$ 819,489
Government Reimbursement	$ 686,058	$ 651,552	$ 673,758	$ 688,966	$ 704,630	$ 720,764
Charges for Services (Fees)	$ 3,768,111	$ 3,849,965	$ 3,849,965	$ 3,849,965	$ 3,849,965	$ 3,849,965
Fines & Bond Forfeitures	$ 755,429	$ 759,068	$ 759,068	$ 759,068	$ 759,068	$ 759,068
Miscellaneous Revenues	$ 1,331,413	$ 1,453,978	$ 1,402,571	$ 1,418,370	$ 1,434,484	$ 1,450,921
Interfund Transfers	$ 1,205,369	$ 1,905,433	$ 1,910,965	$ 1,932,114	$ 1,953,896	$ 1,976,333
Interfund Reimbursements	$ 63,403	$ 74,265	$ 75,968	$ 77,744	$ 79,595	$ 81,526
Other Financing Sources		$ 3,830,126				
Total Revenue	**$37,903,485**	**$42,500,696**	**$39,266,237**	**$40,088,277**	**$40,942,256**	**$41,829,663**
Personnel	$25,421,064	$25,965,899	$26,972,834	$27,845,644	$28,747,819	$29,680,400
Commodities	$ 2,398,625	$ 2,189,427	$ 2,152,340	$ 2,173,203	$ 2,194,527	$ 2,216,323
Services	$ 6,934,771	$ 7,088,910	$ 7,251,852	$ 7,418,828	$ 7,589,948	$ 7,765,324
Capital	$ 268,934	$ 285,464	$ 275,974	$ 275,974	$ 275,974	$ 275,974
Transfers	$ 3,756,776	$ 1,987,948	$ 2,819,626	$ 2,811,573	$ 2,894,480	$ 2,698,973
Debt	$ 471,663	$ 4,082,516	$ 194,155	$ 192,490	$ 195,290	$ 192,640
Total Expenditure	**$39,251,833**	**$41,600,165**	**$39,666,781**	**$40,717,713**	**$41,898,039**	**$42,829,634**
Revenue/Expenditure	$ (1,348,348)	$ 900,531	$ (400,544)	$ (629,436)	$ (955,783)	$ (999,970)
Projected Fund Balance	**$ 3,210,635**	**$ 4,111,166**	**$ 3,710,621**	**$ 3,081,186**	**$ 2,125,403**	**$ 1,125,432**
Fund Balance as % of Expenditure	**8.2%**	**9.9%**	**9.4%**	**7.6%**	**5.1%**	**2.6%**
Projected Fund Balance with						
Promissory Note Repayment from Nursing Home		**$ 6,153,566**	**$ 5,691,021**	**$ 5,061,586**	**$ 4,105,803**	**$ 3,105,832**
Fund Balance as % of Expenditure		**14.8%**	**14.3%**	**12.4%**	**9.8%**	**7.3%**
Gen. Fund O/S Loan due from Nursing Home		**$ 1,000,000**				
Gen. Fund O/S Promissory Note due to Bank		**$ 1,980,400**				

$307,427 of the General Fund Balance is reserved for potential property tax liability.

FY2019 - Early projections indicate revenues may exceed expenditures; however, it is still very premature in the fiscal year and there are many unknowns such as the impact of the fees and fines legislation, income tax cut extension, and whether sales tax revenues will gain momentum. Projected underspending will result in expenditure savings predominantly as a result of decreased personnel costs due to turnover, health insurance waivers, and redemption of the 2015 Bonds, eliminating that debt service obligation.

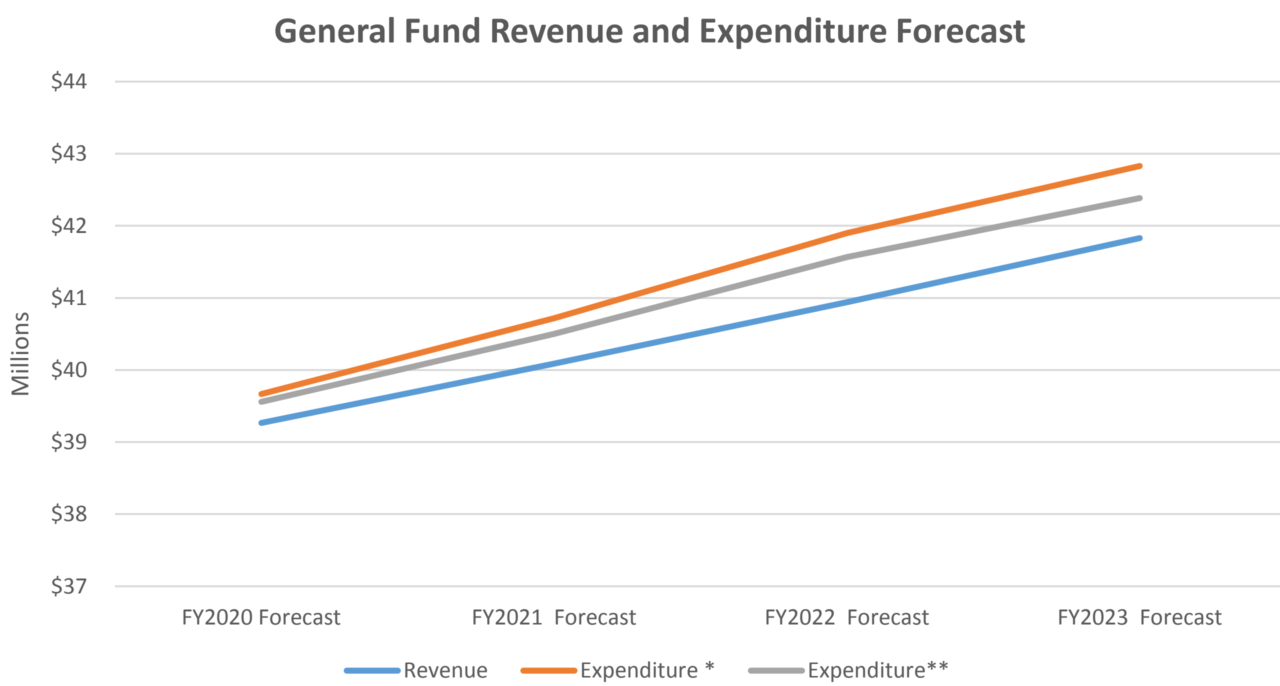
The FY2019 projection assumes State Reimbursement distributions will remain on schedule; however, the early receipt of revenue in FY2018 could result in less revenue being posted to FY2019 thereby impacting the revenue to expenditure difference by as much as $154,000.

Without reimbursement from the Nursing Home Fund for payment of the Promissory Note, the FY2019 Fund Balance projection is 9.9%. With full reimbursement from the Home, allowing Note repayment, the projected FY2019 Fund Balance is 14.8%. The County's target fund balance is 16.7%. At this time, it is recommended the County delay repaying the Note in order to monitor cash flow while the public aid pending cases are being resolved.

There remains an outstanding $1 million loan owed from the Home for the accounts payable loans extended beginning in November 2018 through March 2019. The loan does not impact the General Fund Balance; however, is recorded on the General Fund balance sheet.

FY2020-FY2023 - Forecasted revenue to expenditure deficits do not include funding for replacing the financial system.

WITHOUT CONTINUED EFFORTS TO BALANCE THE GENERAL FUND BUDGET,
A STRUCTURAL DEFICIT EMERGES AS FORECASTED EXPENDITURE GROWTH EXCEEDS REVENUE GROWTH.



*1.9% increase for commodities and services and 3% increase for gas/oil, Medical/Dental/Mental Health, and METCAD
**Flat commodities and services except a 3% increase for gas/oil, Medical/Dental/Mental Health, and METCAD

Public Safety Sales Tax Fund

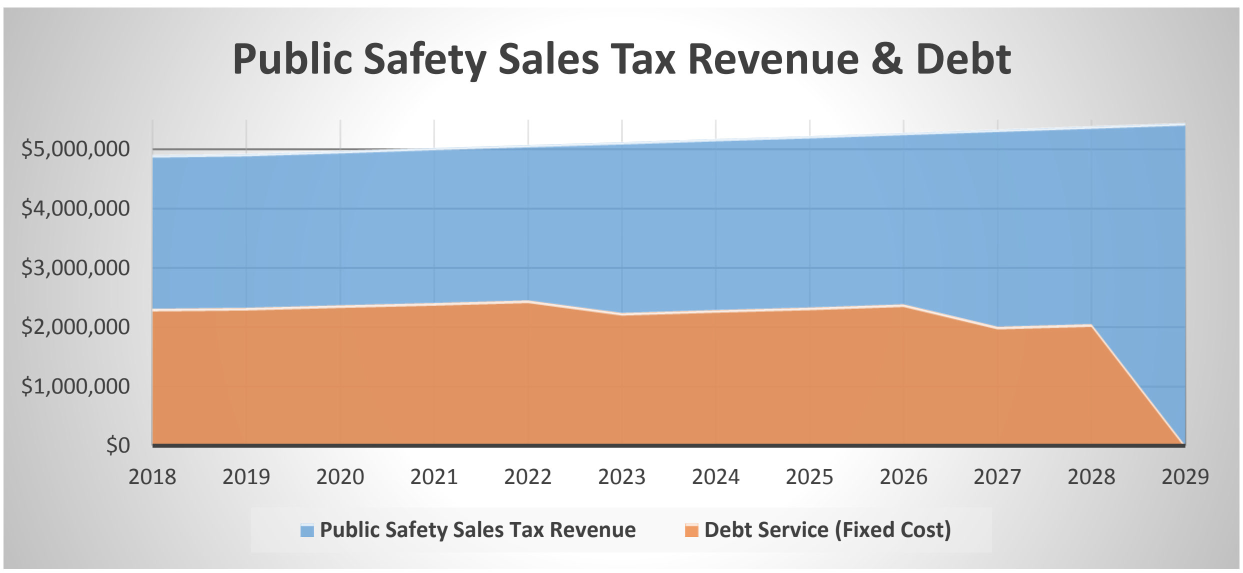
Revenue

State Administrative Fee. The 2% fee imposed by the State in July 2017, was reduced to 1.5% in July 2018, and has cost the County $151,614 in lost revenue at the time of this report.

Healthy Revenue Growth in FY2018. Following two years of slightly declining revenues in fiscal years 2015 and 2016, growth in fiscal years 2017 and 2018 was 1.2% and 3.4% respectively. The five-year and ten-year averages reflect 1.2% and 0.9% growth. FY2019 revenue is budget conservatively; however, revenues posted to the first two months of the fiscal year are -3.7% compared to the same period last year. For this reason FY2019 revenue is projected as flat against FY2018. The Forecast projects 1% growth thereafter.

Expenditure

Debt Service. In fiscal years 2019 through 2022, 47% of Public Safety Sales Tax revenue is allocated to make the principal and interest payments on the County's alternate revenue bonds. In FY2018, the County retired the 2005B Issue; however, principal payments on the 1999 Issue commenced in FY2019. Debt service obligations increase slightly each year through FY2022, and then decline by $209,000 in FY2023 following the maturity of the 1999 Issue. At the end of FY2028, the public safety sales tax alternate revenue bonds will be paid in full. The following chart shows the total debt service obligations in relation to forecasted revenues.



In fiscal years 2019 through 2022, 47% of Public Safety Sales Tax revenue is allocated to make the principal and interest payments on the County's alternate revenue bonds.

Programs.

1. **Delinquency Prevention, Intervention and Diversion.** Five percent of annual revenue is allocated towards this programming. The FY2019 budget includes $242,500 for the Youth Assessment Center (YAC). In FY2018 an additional $14,750 was contributed towards the relocation expenses of YAC. Forecasted expenditure for fiscal years 2020 through 2023 grows based on projected revenue growth.

2. **Re-Entry.** Since FY2014, the County Board has contracted with a local provider for re-entry planning, management and client services. The Forecast assumes annual funding of $100,000.

3. **Jail Classification System.** The salary and health insurance cost for the lieutenant dedicated to jail classification system oversight is appropriated at $96,672 in FY2019. Incremental increases are forecasted in future fiscal years for wage and benefit growth.

4. **Specialty Court.** In FY2019, $60,881 is appropriated for the Specialty Courts Coordinator's salary and benefits. Incremental increases are forecasted in future fiscal years for wage and benefit growth.

Justice System Technology, Equipment and Public Safety Services.

5. Partial funding for Courts Technology software maintenance (JANO) is paid from Public Safety Sales Tax funds. Software licensing and scheduled equipment replacement is appropriated as a transfer to the Capital Asset Replacement Fund (CARF). In FY2019, new SaaS for Civil Processing/Business Office and Jail Management Software (JMS) was implemented. Implementation costs for JMS will continue in FY2020, before the annual cost of the SaaS levels out in FY2021. In fiscal years 2021 through 2023, the CARF transfer projection for software licensing, SaaS, technology and equipment is approximately $378,000 on average for current funding only (no reserve funding for future fiscal years).

6. In FY2020, it will be essential for the Public Safety Sales Tax Fund to provide partial funding to replace the County's aging in-house financial system. The County has initiated Enterprise Resource Planning (ERP), and is in the processes of hiring a Project Manager with a plan for implementation in 2020.

7. Approximately 85% of the County's METCAD 9-1-1 costs are paid with Public Safety Sales Tax funds.

Public Safety Facilities Utilities and Maintenance.

8. In FY2019, $800,000 is appropriated as a transfer to the General Fund to offset the cost of public safety buildings utilities and general maintenance. The Forecast maintains the transfer at this level in future fiscal years.

Needs

Technology Investment. While the County has invested in Jail Management and Sheriff's Office software, there is an imminent need to replace and upgrade additional technology that supports the County's public safety offices such as the previously mentioned financial system. The cost of a new system is likely to be shared by multiple County funds, although predominantly an expense of the General and Public Safety Sales Tax Funds.

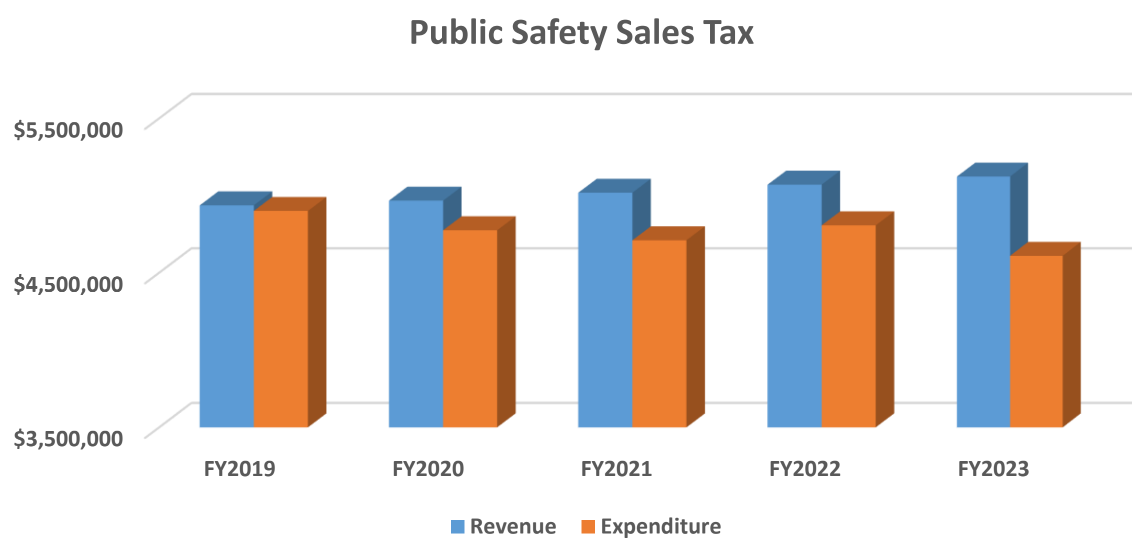
Other technology systems that will need replaced in upcoming fiscal years are the Law Enforcement Records Management System and METCAD dispatch software, which will be done in conjunction with other local entities. Per the Courts Technology Specialist, the Courts JANO system continues to provide the County with efficient and effective court management and does not need replaced at this time; however, the County has the option to move to the cloud version when the current i-Series computer is obsolete. JANO has expanded its business adding four new counties in the past two years.

The current AS/400 lease ends in October 2020, and it will be necessary to renew the lease. This cost has historically been shared between the Public Safety Sales Tax, Probation and Court Services, and Court Automation funds.

Public Safety Facilities Investment. The 2015 Facilities Condition Assessment Report assigned a "poor" Facility Condition Index (FCI) to the Adult Detention Center, Sheriff's Office/Correctional Center, Correctional Center garage and Emergency Management Agency garage. A "fair" FCI was assigned to the Emergency Operation Center, Juvenile Detention Center and Coroner's Office.

The County replaced the domestic hot water system at the Satellite Jail in FY2018, and in FY2019 is replacing the roof at the Juvenile Detention Center and overhead garage doors at the Adult Detention Center. Per the Facilities 10-Year Capital Plan, in FY2020 approximately $1 million in additional funding is required over the FY2019 level. Of the $2.2 million in planned projects scheduled for 2020, $1.6 million is for improvements at the Satellite Jail and METCAD facilities.

The Capital Plan does not include the downtown Sheriff's Office/Correctional Center, which has a significant Deferred Maintenance Backlog (DMB) and requires ADA improvements. It is essential for the County to resume discussions regarding a plan for this facility.



FISCAL YEAR	PROJECTED REVENUE TOTAL	PROJECTED EXPENDITURE TOTAL*	PROJECTED AVAILABLE FUNDS
2019	$4,936,381	$4,900,115	$36,266
2020	$4,967,129	$4,774,954	$192,175
2021	$5,018,054	$4,710,015	$308,039
2022	$5,070,342	$4,806,757	$263,585
2023	$5,122,797	$4,609,162	$513,635

In upcoming fiscal years, available funds must be prioritized to address the technology and facility needs of the County's Public Safety Offices.

*ERP Funding is not included in the Projected Expenditure Total.

Final Thoughts

The Forecast has been prepared based on conservative revenue assumptions, including modest property and sales tax growth and the extension of income tax cuts. Forecasted expenditures assume consistent growth in personnel costs and modest increases in commodities and services costs. Deviations from these assumptions will have a subsequent impact on forecasted revenues and expenditures, particularly in the later fiscal years.

The Forecast does not included funding to replace the County's financial system although this is an urgent need that can no longer be deferred and must be managed with currently available revenues. Upon issuance of an RFP, and receipt of responses, the County will have a better idea of the system cost. It is expected there will be limited Public Safety Sales Tax funds available beginning in FY2020 to partially fund the system. Unfortunately, there is a projected structural deficit within the General Fund. **Unless new revenue sources are secured, it is essential the County restrict expenditure growth to the maximum extent possible within these funds in order to ensure it has adequate financial resources for its financial system and facility needs.**

	Projected Revenue/Expenditure Differences			
Fund	**FY2020**	**FY2021**	**FY2022**	**FY2023**
General	-$400,544	-$629,436	-$955,783	-$999,970
Public Safety Sales Tax	$192,175	$308,039	$263,585	$513,635
Capacity for Additional Facility & Technology Investment	**-$208,369**	**-$321,397**	**-$692,198**	**-$486,335**

It is essential for the County Board to be cognizant of the debt it carries on the General Fund balance sheet for the $1.98 million Promissory Note and the $1 million loan to the Nursing Home.

In May, a resolution establishing the FY2020 budget process will be presented to the Finance Committee. The County Executive will provide budget instructions to Department Heads and Elected Officials in June, followed by meetings in July to begin developing the FY2020 budget. By this time, more data will be available to better analyze revenue and expenditure performance in the current fiscal year and fine tune projections for the upcoming fiscal year.

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