FY 2016 Budget Five Year Projections
All City Funds
FY 2016 through FY 2020

GENERAL FUND:

In past years the City's five year projections have been a look into the future to view needs and possibilities. The last two year's 5 year projections, however, point out what are dangerous trends which; if not acted upon, could bring about a situation that will produce growing deficits and a negative general fund balance in the foreseeable future. In its simplest terms, the City's main economic driver Southern Illinois University has been shrinking both in enrollment and employment. At best, this says that Sales tax revenues, the largest source of revenue for the general fund, would be flat. In addition, two past ¼% increases are subject to "Sun Setting" provisions which will take place in 2018 reducing revenue, by $1.8 million per year. This will be further discussed below in KEY ASSUMPTIONS. This potential revenue drop, coupled with expenses that continue to increase, many of which are out of the City's control, can only lead to one long term conclusion, funds will be exhausted at some point.

KEY ASSUMPTIONS: (General Fund):

It is critical to mention that these projections do not reflect any decrease in support SIU receives from the State. It is widely held that some level of decrease will take place. If this takes place it would likely have an effect on employment and spending levels at the University and the overall economic activity in the City.

As mentioned above, Home Rule sales tax was seen two ¼% increases in rate. Both of those increases were set to have an expiration date in 2018. The projections included assume the city <u>will not</u> reinstate them.

The City receives a per capita share of State Income Tax collected. The Governor is attempting to reduce the City's share by 50%. A 15% reduction is what has been assumed here.

The City's public safety pension contributions are projected to increase 10% each year. Our actuary tells us that changes in the funding percentage requirement and a change in mortality tables could cause the requirement to increase by as much as 30%.

A 5% increase in the property tax levy to help fund Public Safety Pension Contributions is assumed.

An 8% annual increase in health care insurance is consistent with increases in recent past. These figures assume that employee and retiree contributions will increase at the same rate as City contributions/premiums.

A 6% annual increase in workers compensation and casualty experience is assumed.

There is slightly more than $400 thousand budgeted for "special projects" in 2016 but nothing currently projected beyond that.

These are the major assumptions for the five year projections. The balance of increases have been generally between 0 and 2%.

If the assumptions here are realized, remembering that there are some significant downside risks, and the City continues to operate in its current mode, it will experience a seven figure deficit in the General Fund in 2018 growing to over 3 million in 2020. The result would be a negative balance of about $2.6 million in its Unassigned Fund Balance. These are the funds not dedicated to existing commitments. Also funds would not have been provided for development beyond FY2016.

What operating and funding alternatives are available to improve this situation?

Sales Taxes- Reinstitute one or both of the ¼% increases which are Sun Setting in 2018. This could bring in between $1 million and $1.8 million in additional revenue.

Real Estate Tax Levy: Consider increasing the levy to cover more of the Public Safety Pension burden. Over the past 10 years or more these pension costs have been the most important factor in the City's eroded financial position.

Health Insurance: This City has done a great deal over the last 3 years to keep these costs in line. If they continue to grow the City must consider changes in coverage and/or increased contribution on the part of its employees.

City Services: De-emphasis/curtailment of services that do not pass a cost benefit test.

Creative Management: There are instances where historical practices and procedures inhibit productivity enhancing changes. They need to be set aside or changed to encourage new and more efficient thinking.

This does not paint a very encouraging picture as far as the General Fund is concerned. However, it is clear that plans need to developed and actions taken. The longer actions wait, the more demanding and urgent they will have to be.

OTHER FUNDS:

Water, Sewer, Trash and Parking funds are assumed to increase their rates at 3% per year for FY2017 and beyond. This should be sufficient to cover the increased costs of operation as well as major maintenance, repairs and capital improvements without erosion of fund balances.