



Lawrence J. Morrissey
Mayor
Office of the Mayor

April, 2016

Dear Citizens of the City of Rockford:

On behalf of the Rockford City Council and our dedicated staff, I am proud to present the 2016 City of Rockford Budget. Our 2016 Budget demonstrates our goal of providing the best value and best service to our residents, our businesses, and our visitors.

Our 2016 Budget continues our focus on two major themes: public safety and capital investment. Our public safety investment represents the largest portion of our budget. Through responsible fiscal management, our 2016 Budget maintains our police force at 290 sworn officers. In addition, construction of our three police district stations will commence, increasing our focus on community-oriented policing. Under the leadership of our new Police Chief, Daniel O'Shea, we will continue public safety partnerships with other local, state, and federal partners.

Thanks to the support of our citizens who approved another five-year extension to our local public infrastructure sales tax, we can also continue our historic levels of capital investment into our community, with significant investment in roads and bridges, stormwater and water systems. Our public capital investment is helping to drive significant private sector investment throughout the City, including major residential and commercial developments downtown and projects like the \$40 million AAR Maintenance & Repair facility at the Greater Rockford Airport/Rockford Global Tradepark.

Despite continued economic challenges, our City Council has guided and approved historic levels of investment in public safety and infrastructure. As a consequence, we have been able to maintain and not raise our property tax levy for the third consecutive year. Nevertheless, we will continue to deal with the challenging environment of declining property tax values which, unfortunately, drives up the property tax rate.

My administration will continue to work with the City Council and our community partners and citizens to pursue our vision of *Excellence Everywhere for Everyone*. As we work on our day-to-day operations, as well as the City's long range plans, we appreciate the support of our citizens and community-wide efforts such as *Transform Rockford*. We look forward to hearing from you this year as we strive to do together what we cannot do alone. Thank you for your support.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Lawrence J. Morrissey". The signature is stylized and fluid.

Lawrence J. Morrissey
Mayor, City of Rockford, Illinois

LJM/ss

City of Rockford, Illinois USA

BUDGET TIMELINE THE 2016 PROCESS



March 2015	Finance Department prepares preliminary budget estimates and discusses budget policies for the forthcoming year with the Mayor.
August 2015	Finance Department determines budgetary allocations. Departments receive budget packages.
August 2015	Departments complete and return budget packages to Finance Department for review.
September 2015	Public Works Department begins work on updating the five-year Capital Improvement Program.
September 2015	Finance Department reviews Department budgets and prepares a budget draft.
September 2015	Mayor's Office reviews budget and presents budget to Council.
September – December 2015	Finance Committee and Council, as Committee of Whole, hold budget hearings with City Departments. Budget discussions held throughout the following months during Finance Committee regular meetings.
December 21, 2015	Council holds State Budget Act public hearing for citizen input.
January 25, 2016	Finance Committee approves budget and submits to Council (Committee Report).
February 1, 2016	Appropriation Ordinance and 2016 Budget Committee report adopted by Council.
February 2016	Mayor submits 2016-2020 Capital Improvements Program to Council for Committee review and approval.
March 7, 2016	Council adopts 2016-2020 Capital Improvements Program.



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Executive Summary

The planning for the 2016 budget began with a retreat for elected officials and department heads in September. Elected officials were updated regularly on the status of the City's finances, specifically in regards to elastic revenues. The budget was prepared with the goals of maintaining staffing and service levels. With the above principles, we were able to strategically prioritize resources and approve a balanced budget.

Issues and Priorities in 2016

The services provided by the City are made possible by the resources entrusted to it by the citizens and businesses of Rockford. Elected officials and City staff are dedicated to using these resources to provide the community with the most efficient and effective services possible. The budget details how resources will be used to maintain and enhance the quality of existing services. Several principles have been established to guide the City during the budget process, including:

- ◆ Planning for the future, setting long-term goals, and providing a sense of direction to the community.
- ◆ Providing economic development efforts in order to retain and expand jobs and investment in the community.
- ◆ Renovating and improving City infrastructure to meet the needs and encouraging development of the commercial, industrial, and residential areas within the City.
- ◆ Providing efficient and effective City services with the resources allocated by the community.
- ◆ Actively search for additional sources of revenue to help fund the redevelopment of neighborhoods in the City of Rockford.

City officials use these objectives to guide their internal organizational decision making process. However, officials must also consider opportunities and challenges presented by the external environment during the development of the budget. Some of the issues the City will focus on in the forthcoming budget year include:

- ◆ Improving the quality of life for residents of the City's older neighborhoods.
- ◆ Investing in the downtown area and encouraging others to develop commercial and residential projects.
- ◆ Assessing City services for efficiency and possible cost saving measures.
- ◆ Continuing investments in information technology to provide improvements in the effectiveness and efficiency of City services.



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- ◆ Maintaining the City's solid financial condition.
- ◆ Maintaining a stable tax rate.
- ◆ Making incremental service adjustments to reflect changing community needs.
- ◆ Adjusting to possible reductions in shared State funds.

Challenges for the Community

While the national economy is showing signs of recovery, the local economic environment and the impact it has on the City's available revenue continues to present a challenge. The City must continue to carefully balance its priorities in order to maintain the quality of services and public infrastructure. Further stagnation in revenues will require the City to reassess the services it provides and make adjustments to maintain a balanced budget.

Financial challenges in upcoming years include fully funding capital equipment as part of the City's annual budget. The 2011 and 2012 budgets required capital equipment purchases due to equipment reaching its life expectancy. The City Council approved a vehicle leasing policy that will implement the replacement of vehicles over a four-year period for all City departments to meet the needs of the aging fleet. The vehicle leasing policy was amended to extend the vehicle replacement out an additional two years in early 2014 and extended an additional two years for 2015. The vehicle leasing policy was suspended for 2016 due to budget constraints.

The 2016 General Fund

The City of Rockford, like many other communities in Illinois and across the United States, has seen moderate growth in its sales, use, income, and replacement taxes, commonly referred to as elastic revenues. These revenue sources increased an estimated \$3.2 million, or about 6.7%, in 2015.

The 2016 budget process began with the City projecting a \$3.2 million deficit. A status-quo budget was presented in September followed by recommendations to reduce the deficit to work towards a balanced budget that would be approved by the end of 2015. The local economic environment and the impact it has on the City's available revenue continues to present a challenge.

2016 contractual and supplies expenses are the largest increase in the budget, due to necessary repairs and maintenance, as well as increasing internal service costs.

2016 fringe benefit costs make up the second largest increases in the budget, due to planned reductions in 2015 to address the budget deficit.

The City Council passed the 2016 budget in February 2016. This budget allows the City to maintain the necessary fund and cash balances as well as allowing the 2017 budget process to begin on a sound financial footing.



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Overview of the 2016 Budget

The City of Rockford is similar to many municipalities because it has limited resources to devote to the various challenges facing it. However, because Rockford is a non-home rule municipality, we have fewer options than all other cities in Illinois of any size. This was particularly apparent when preparing the budget for 2016. Resource constraints forced City officials to assess the external environment and utilize the budget development principles described above to prioritize among competing needs. The overall goal of this budget is to maintain existing services; however, City officials prioritized several projects to address the issues discussed above. Consistent with a maintenance budget, many of these priorities are a continuation of initiatives from previous years.

The Community Development Department will manage the many TIF districts the City has and their associated development projects. The Construction and Development Services Division continues to address violation of ordinances, zoning regulations, and public safety concerns and will manage a significant volume of demolition activity in 2016.

The Human Services Department continues to support programs from other areas of the City, including Drug Free, Shelter Care, Head Start and Supportive Housing.

The Police Department will address continued efforts towards geographic community policing programs, using crime data to better deploy resources and respond to potential problems while continuing to reduce overtime costs. The transition to three police stations will begin in 2016.

The Fire Department will continue to maintain certifications and accreditation requirements and expand public education activities.

The Legal Department will be the lead department in labor negotiations, code enforcement, annexation efforts, and City projects.

The Public Works Department will be aggressive in repairing and improving bridges and roads in the City, addressing forestry needs, and maintaining the city-wide vehicle leasing program.

Financial Summary

With the 2016 budget, the City was able to continue its goal of maintaining a stable operating property tax rate for citizens with declining debt service rate as a result of the 1% infrastructure sales tax referendum. The 2016 budget adopted a property tax rate of \$3.595.

In addition to financing capital improvements through sales tax revenues, the City will continue to utilize dedicated revenue streams for specific purpose projects. Examples of these projects include sanitary sewers, parking facilities, and water improvements. This allows the City to maintain a competitive tax rate, while capturing contributions from those in the community who live outside of the City but use its resources on a regular basis. Dedicated revenue streams also ensure that users pay for the services they receive.



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Operational Highlights

The City's service provision efforts are divided into five program areas including Legislative and Management, Community Development, Human Services, Public Safety, and Public Works. Each of these areas encompasses multiple departments performing specialized activities that collectively compose the functions associated with the program area.

The Legislative and Management departments provide policy direction and administrative services for the rest of the municipal organization. The departments in this area will be engaged in many projects to enhance the operational effectiveness and efficiency of the City. The Mayor's Office will continue to provide leadership and direction to City staff and policy makers. The Legal Department will be the lead department in labor negotiations, code enforcement, annexation efforts, acquisition of properties for construction projects, and City projects. The Finance Department will continue to manage the customer service center and manage the City's budget.

Several activities and projects will be occurring in the Community Development program area. The department will assist in the development of a comprehensive economic development strategy for the City and Winnebago County.

The City's Human Services Department will remain an important resource to City residents in the coming year. The Head Start program serves approximately 760 children in four different programs which include home base schooling, part day classes, students in full day classes, and family plus.

There are a variety of programs that provide assistance to economically disadvantaged families. The energy program focuses on replacing furnaces, cleaning and tuning older systems, and repairs to electrical, plumbing, and roofing. The department operates the energy assistance program that assists low-income families and individuals with their heating bills. Housing assistance, neighborhood outreach, and self-sufficiency training continue to be important programs within the Human Services Department to assist low-income neighborhoods and the City's homeless population.

Public Safety services provided by the City include police and fire protection. The Police Department is utilizing their new records management system to better analyze crime data and allocate resources. The Fire Department continues to upgrade equipment and train its firefighters to better serve the citizens of Rockford, adjusting to revised manning levels awarded in arbitration in 2013. The City is maintaining an Insurance Services Organization (ISO) fire protection rating of two, which places the City in the top one percent of the nation. A lower rating benefits residents and businesses through better rates for fire insurance.

The Public Works Department will remain proactive in meeting the needs of our citizens through the planned maintenance of our roads, right of ways, and public assets. The department will continue to implement a Capital Improvements program which will focus on improving our infrastructure through the investment and leverage of the 1% sales tax.

Conclusion



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On February 1, 2016 the City Council adopted the 2016 budget after the Finance and Personnel Committee had finished its review of the proposal. This budget is the result of considerable, careful discussion and deliberation by the City Council, the Finance and Personnel Committee, the Finance Department, and various staff members from every department who contributed to the development of departmental budget requests.



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of Rockford
Illinois**

For the Fiscal Year Beginning

January 1, 2015

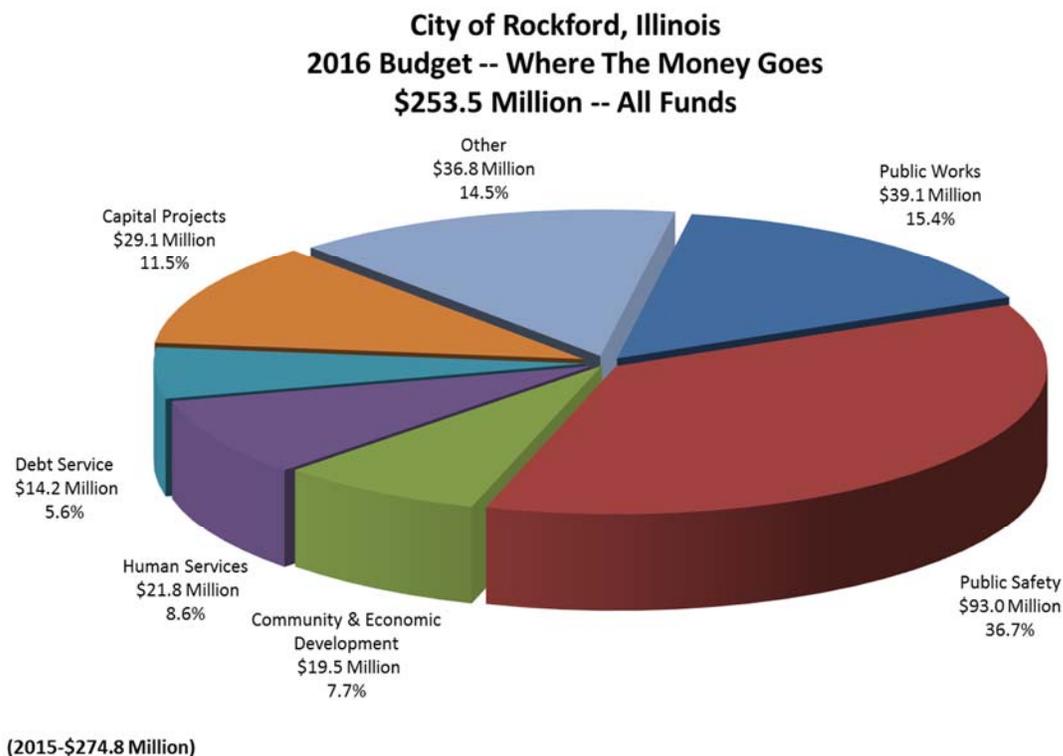
Executive Director

CITIZEN'S BUDGET HIGHLIGHTS

The City's goal in developing the 2016 budget was to continue offering citizens basic services, economic development efforts, a continuing capital improvements program, and fiscal stability. Development and adoption of this budget was premised on maintaining a level of service equivalent to 2015, making incremental improvements where possible, and continuing to comply with the limitations of the Property Tax Extension Limitation Law (Tax caps).

PROGRAM EXPENDITURES

The budget appropriation in 2016 is \$253.5 million for all funds, a decrease of \$21.3 million from the 2015 appropriation of \$274.8 million. Major program changes for 2016 include:



Community Development's appropriation decreases \$470,200 due to reductions in demolitions and property acquisitions and a decrease in health insurance rates which is offset by a 2% wage increase.

Public Safety's appropriation decreases \$147,800. Decreases are due to no planned capital vehicle purchases in 2016 offset by an increase in pension contribution expenses.

Human Services' appropriation decreases \$1.7 million from 2015. Decreases for Human Services are due to Human Services department's contractual and other expenses reduction due to expected decrease in grant funding levels at the time of preparing the budget.

The Public Works budget increases \$893,500 from the previous year's budget. Increases are due to a budgeted 2% wage increase, an increase in contracted repair costs for the Water Division and increases in internal service charges. Decreases are due to no planned vehicle purchases in 2016 and a decrease in health insurance rates.

The budget for Debt Service increases \$365,800 from 2015 to 2016 which includes lease payment costs.

The Capital Projects Fund budget for 2016 decreased \$24.4 million from the previous year. Projects in 2016 include beginning reconstruction of the Harrison Avenue corridor and completion of the Downtown Sports Complex and South Main Street reconstruction.

In the Other category, the increase of \$4.2 million is due to increases in permanent salaries, police and fire pension benefit payments and risk management contractual costs. These increases are offset by a decrease in health insurance rates and a decrease in transfer to CIP due to decreased project costs for storm water improvements.

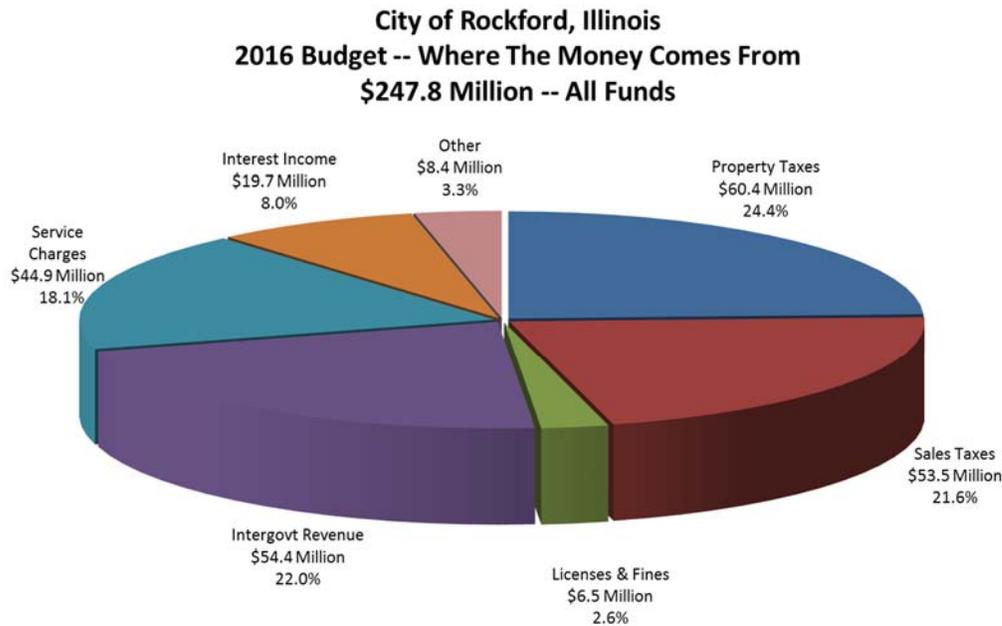
REVENUES

For 2016, the revenue budget is \$247.8 million for all funds, a decrease of \$30.4 million from 2015’s \$278.2 million.

The 2016 revenue budget emphasizes:

- A stable property tax levy.
- Continued emphasis on user fees including systematically updating the rates to keep pace with costs.
- Ongoing efforts to aggressively capture federal and state revenues.

Major revenue changes for 2016 include:



(2015 - \$278.2 Million)

Intergovernmental revenues from federal, state, and local governments are projected to decrease \$25.6 million from 2015.

Service charges increased \$2.6 million from the 2015 total of \$42.2 million.

Interest income is projected to decrease \$4.0 million.

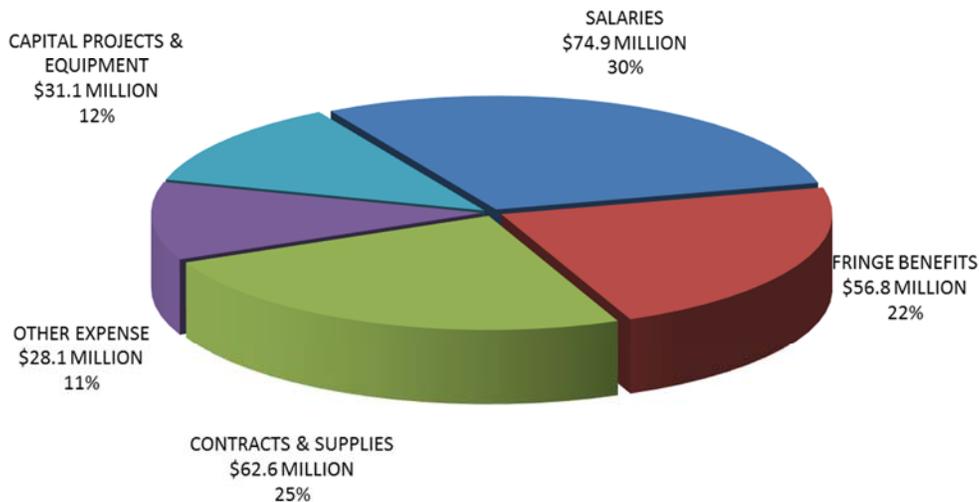
Other income is projected to decrease \$5.6 million.

ACCOUNT EXPENDITURES

The 2016 City Budget, when viewed from a line item rather than a program perspective, illustrates the fact that over sixty-five percent of the budget is attributable to personnel and infrastructure improvements. This reflects the fact that the City is a labor intensive service organization with 1,072 employees and has a considerable investment in streets, bridges, buildings, and water and sewer systems that must be maintained and renewed.

Major spending changes by account type for 2016 are:

**City of Rockford, Illinois
2016 Budget -- \$253.5 Million
All Funds Combined By Account Classification**



(2015-\$274.8 MILLION)

Salaries increased \$887,000 as a result of contract increases and a 2% wage increase.

Fringe benefits increased \$2.2 million as a direct result of increased salaries and an increase in police and fire pension contributions.

Contractual and supply accounts increased \$3.3 million. Slight increases across various departments contributed to this increase as well as an increase in internal service charges.

Capital projects and equipment decrease \$25.7 million from the 2015 budget, with decreases for funding vehicle purchases under the City’s vehicle leasing program. Projects in 2016 include beginning reconstruction of the Harrison Avenue corridor and completion of the Downtown Sports Complex and South Main Street reconstruction.

COUNCIL CHANGES TO THE BUDGET

The Council received the budget in September 2015 and referred it to the Finance Committee. The proposed budget was modified by the City Council to avoid an increase in the property tax levy, transfer funds from the sanitation fund and capital fund, an adjustment to the fee schedule and make various reductions in departmental budgets. The Committee, after holding budget hearings with departments, approved the budget on February 1, 2016.

WHAT THE 2016 BUDGET WILL COST THE TAXPAYER

The 2016 budget continues stability for the Rockford homeowner. For a homeowner with a \$100,000 home, the rate and cost for 2011 – 2015 are shown below.

Property Tax Bill (City Portion Only)
For Home With \$100,000 Market Value
2011-2015 Levy Years

<u>Year</u>	<u>Rate</u>	<u>Bill</u>
2011	2.52	689
2012	2.82	770
2013	3.08	842
2014	3.29	899
2015	3.36	918

While the rates are increasing for 2016, the increase is a reflection of decreasing equalized assessed valuations (EAV). The levies, as always under non-home rule tax rates and the property tax extension limitation law (tax caps), are limited as to increases. As EAV decreases, the tax rates rise to maintain the status quo.

The City continues to use and to selectively adjust user fees so that those who use certain services pay for them rather than passing the costs on to all taxpayers through property taxes. Through a combination of property taxes and user charges, quality city services will be offered at a reasonable cost to the residents of Rockford.

HOW TO USE THIS DOCUMENT

This budget document is intended to provide Rockford Citizens with information about 2016 City government and services.

The Table of Contents lists every subject covered in this document and its' page number. The document is organized under three major headings composed of a total of eight divider sections (Roman Numerals).

INTRODUCTORY SECTION

- I. Executive Summary
 - Citizen's Budget Highlights
 - How To Use This Document
 - The Budget Process and Document
 - Significant Budget Issues

PROGRAM SUMMARIES

- II. Legislative and Management Services
- III. Community Development Services
- IV. Human Services
- V. Public Safety Services
- VI. Public Works Services
- VII. Non-Operating Funds

SUPPORTING INFORMATION

- VIII. Supplemental Section
 - Summary Schedules
 - Financial Policies

This budget is a financial plan relating proposed City services for the year with the estimated means of financing them. The budget is prepared on a basis sufficient to accommodate accounting, legal and management requirements.

The 2016 budget is comprised of sixty-six (66) operating budgetary units. A budgetary unit can be defined as either a department, such as the Police Department, or a division of a department, such as the Street Division of the Public Works Department. A department, utilized in a managerial fashion by the City, can be by fund, such as the Library Fund or can be part of a fund, like the Fire Department in the General Fund. It also can consist of parts of the General Fund as well as other funds, such as the Community Development and Public Works Departments. An accounting fund(s) can be a department, like the 911 Communications Fund, or a division of a department, such as the Water Fund in Public Works.

Each city budgetary unit, regardless of accounting fund, is assigned to a program category, i.e., Police to Public Safety. For those readers interested in the City budget from a purely fund accounting point of view, the summary schedules in the appendix address that need as does the Revenue and Financing Changes section in

the summary's Significant Budget Issues. Revenues from a program perspective are discussed under each department.

The description of each budgetary unit and its programs is structured as follows:

Budgetary Unit Summary

- Mission Statement
- Primary Functions
- Objectives for Fiscal Year 2016
- Budget Summary (2014-2016 Expenditure and 2013-2016 Funding Analysis)
- Authorized Personnel
- Budget Highlights
- Five Year Financial Forecast
- Capital Equipment
- Performance Measures
- Operational Information

The City utilizes a cost center budget with a cost center defined as the budget for a specific service being delivered. The primary advantage of cost center budgeting is that it gives policy makers and management exact information concerning a service and its associated costs for the decision making process. The cost center provides a description of the service being provided, how it is being provided and the service unit being delivered. For example, cost centers in the Fire Department budget are categorized by function such as Ambulance or Arson Investigation. The budget for a cost center includes all costs associated with providing the particular service, labor, fringe benefit, contractual, supply, interest and capital expenditures.

Additional information on the City's fiscal affairs is available in the following documents at City Hall:

City Financial Statements
City Annual Report
City Capital Improvements Program

The Finance Department staff is also available to answer any questions citizens may have on the City's financial affairs:

City of Rockford - Finance Department
425 East State Street
Rockford, Illinois 61104
(779) 348-7470

BASIS OF BUDGETING

The City's budget is prepared on the gross, rather than net budgetary basis. In order to associate costs with services, revenues and expenditures for pensions and certain other fringe benefits are budgeted by premium or unit/percentage allocation in departments providing services and are then transferred to funds that provide for the actual expenditures.

All revenues and expenditures that result from transfers between funds are adjusted to eliminate overstatements when all funds are consolidated.

The 2015 audit is not yet complete; this document provides estimates of 2015 expenditures and revenues.

The budget for the City of Rockford general government funds (these include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds) is prepared on a modified accrual basis consistent with Generally Accepted Accounting Principles. This means that expenditures are recorded when the related fund liability (such as an outstanding purchase order) is incurred and revenue is recognized when measurable and available. Expendable trust and agency funds are also prepared on the modified accrual basis.

Enterprise Funds, Internal Service Funds, Non-expendable Trust Funds, Pension Trust Funds, and Component Units are budgeted according to accrual accounting. These funds recognize revenues in the accounting period in which they are earned and become measurable while expenses are recognized in the period they are incurred. Budgeting for these funds is also consistent with Generally Accepted Accounting Principles.

The City attempts to use Generally Accepted Accounting Principles when preparing the budget, one exception is noted: for budget purposes, Proprietary Funds expense compensated absence liabilities when paid to employees as opposed to GAAP statements which require these liabilities to be accrued as earned.

THE PROCESS, PUBLIC INVOLVEMENT, AMENDING THE BUDGET

The City's fiscal year is the calendar year and its budget cycle is an annual one. By Illinois State Statutes, the Council must pass a budget prior to the end of the first quarter of the proposed budget year. During the first quarter of the proposed budget year, if the Council has not yet adopted a new budget, departments operate under the prior year's budget. Typically, the process begins sometime in March/April and ends at some point before the beginning of the budget year.

THE 2016 PROCESS

The 2016 process began early in 2015 due to projected General Fund deficit. Hearings were held from September to December. The schedule of events is shown in the Budget Timeline on the following page.

PUBLIC INVOLVEMENT

It is the City's policy to keep citizens informed during the budget process and to seek public input. In addition to holding public hearings, the City also makes available, before and after adoption, other summary and detail information. The City's efforts are assisted by extensive media coverage (daily newspaper, four television stations and a number of radio stations).

AMENDING THE BUDGET

The State of Illinois provides two avenues for budget (Appropriation Ordinance) amendment.

The City Council, at any time after the first half of each fiscal year, by a two-thirds vote of all members, may make transfers within any department of funds appropriated for one corporate purpose to another.

During any part of the fiscal year, the Council may adopt a supplemental Appropriation Ordinance in an amount not in excess of the aggregate of any additional revenue available to the City, or estimated to be received, subsequent to the adoption of the Appropriation Ordinance for that fiscal year. Such a supplemental Appropriation Ordinance shall affect only revenue that was not available for appropriation when the annual Appropriation Ordinance was adopted.

FINANCIAL PLANNING — THE KEY TO THE FUTURE

Each year, budget staff updates selected trends and the five-year forecast. In conjunction with this, the City has from time to time used a financial task force of business and financial executives who review and discuss the trends, assumptions, and proposed forecasts. In addition, the group reviews financial policy proposals that the staff develops for Council approval.

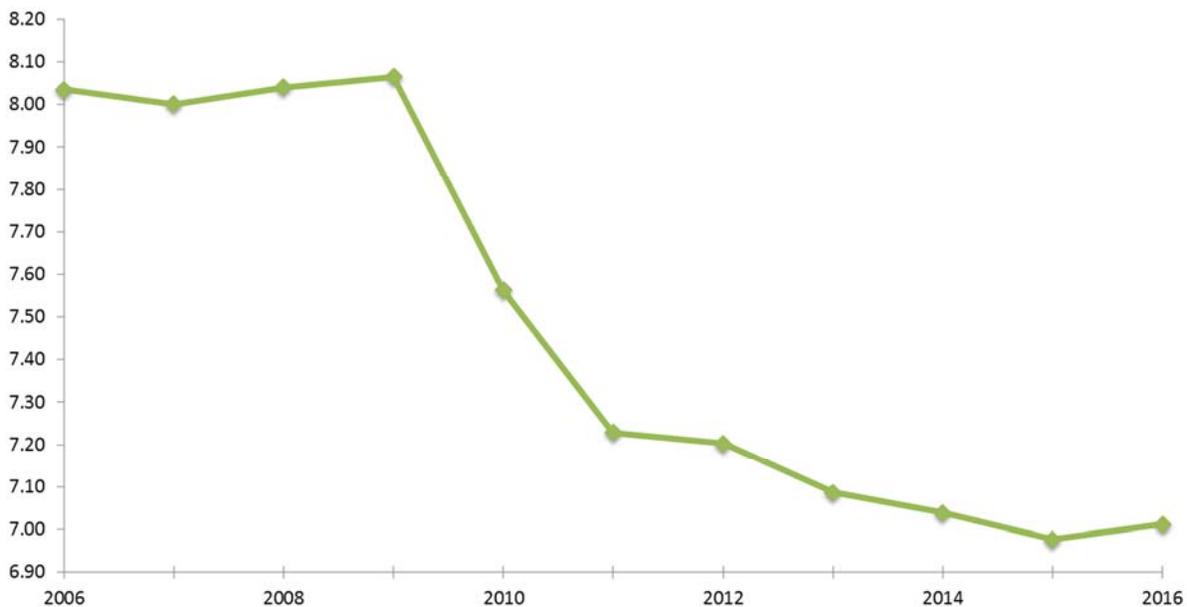
The planning process and the financial advisory group have guided the development of financial policies for budgeting, cash flow management, infrastructure improvement, and investment guidelines. The planning process, including the financial trends discussed in this section, has provided City policy makers with a sense of direction as they make decisions that affect the City's future. Examining these past trends and extrapolating them into the future gives decision-makers information that allows them to chart a direction for the City.

SELECTED TRENDS

One key to the financial planning process is gathering information about trends that affect the City's financial future. One set of trends the City continually examines is demographics such as population, jobs, and unemployment. The 2010 census of 152,871 was 2,756 (1.8%) greater than the 2000 census of 150,115. The population is expected to increase gradually over the next few years.

The City continues to keep the ratio of its employees and population in proportion. Budget deficits since 2009 have resulted in staffing reductions City-wide.

EMPLOYEES PER 1,000 RESIDENTS



2010 Census shows population at 152,871

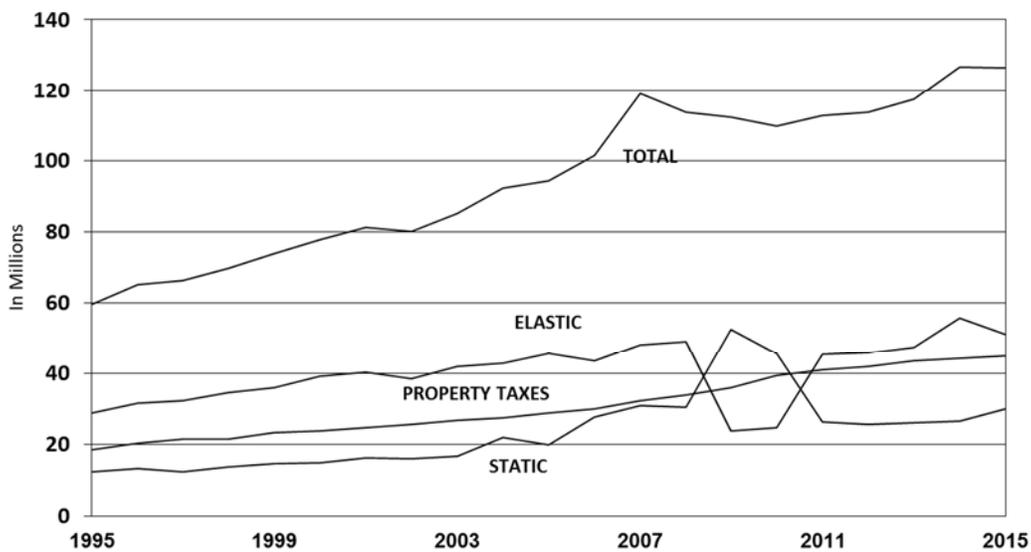
Although the City continues to attain an increasing population, the last few years have been difficult for the local economy. Unemployment in the City and County in general has been higher than state and national

averages. Strong local economic development efforts by organizations such as the Chamber of Commerce, the Rockford Area Economic Development Council, and the City of Rockford continue to recruit additional employers to help reduce the unemployment rate in the City and surrounding area.

Employment in the Rockford MSA for December 2015 was approximately 171,800, an increase of 6,400 from 2014. Overall, total employment has decreased 7.15% from 1995 to 2015.

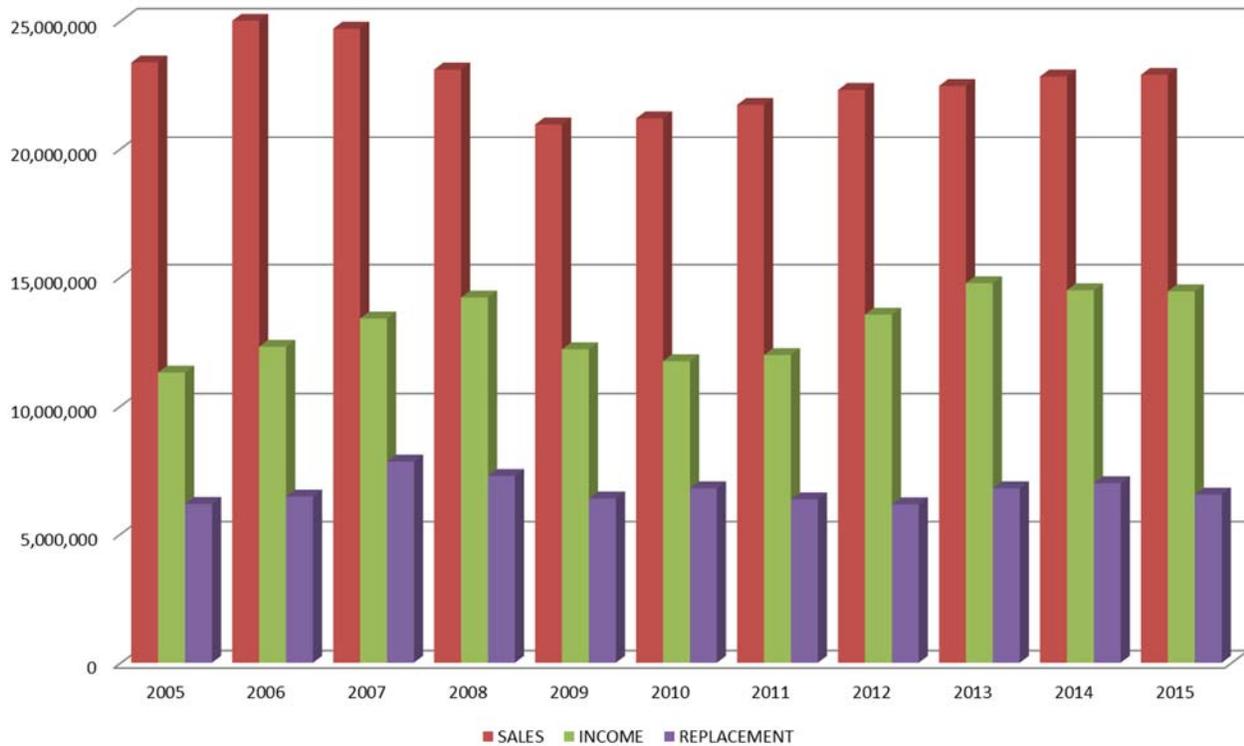
In addition to demographic trends, the City also follows revenue trends for its General Fund. All City revenues can be classified as property taxes, elastic revenues, and static revenues. Property taxes are a tax levied on real property. Elastic revenues are defined as those revenues that tend to change with economic conditions, such as sales taxes and income taxes. Static revenues, the balance, are revenues that change only by increased population and/or legislative change. Examples of these are building permits, liquor licenses and magistrate fines.

GENERAL FUND REVENUE SOURCE COMPOSITION



An economic expansion or recession would have a greater effect on elastic revenues than on the other two types. Increases in property tax revenue are a result of growth in the tax base, the consumer price index factor in the Property Tax Extension Law Limit (tax caps), and debt service expenditures approved by referendum.

MAJOR ELASTIC REVENUES SALES, INCOME AND REPLACEMENT TAX 2005-2015

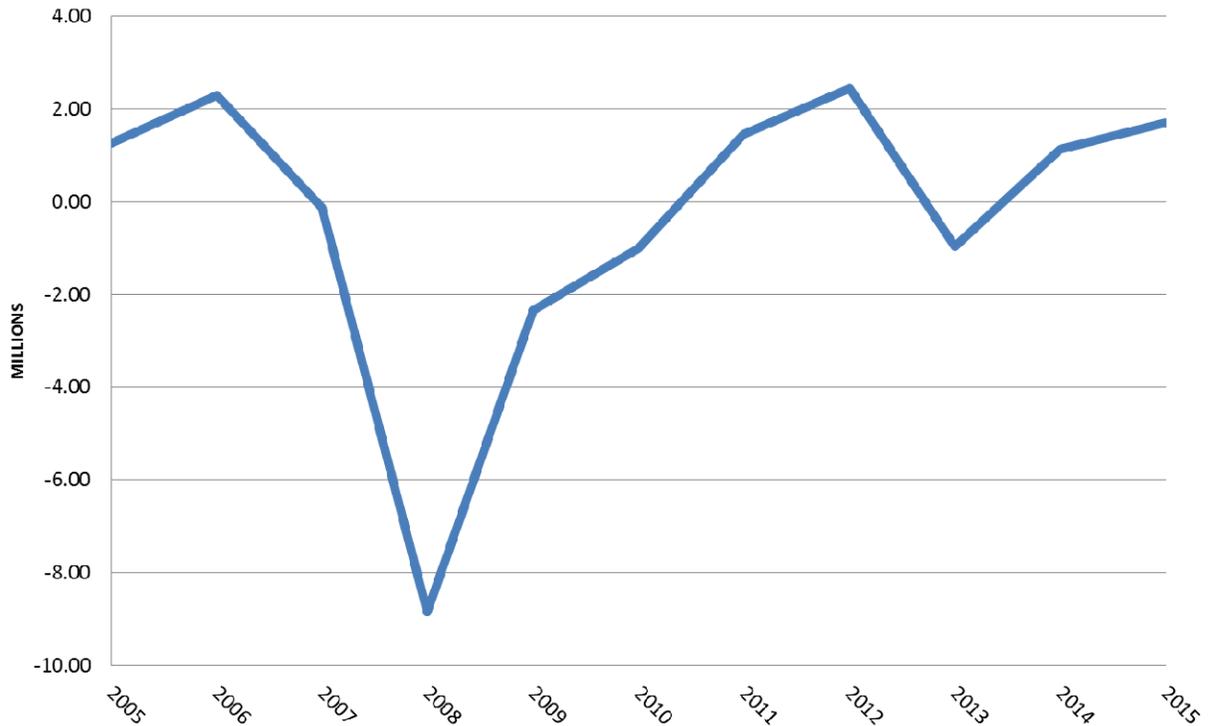


In order to maintain a well-balanced mix of revenue sources, the City needs to continue to emphasize the growth of elastic revenues as well as static revenue sources through economic maintenance and development.

Fluctuations in the housing market impact general fund revenue in a number of ways. For 2016, Rockford's equalized assessed valuation (EAV) decreased to \$1.422 billion (2%). 2015 EAV decreased \$124,000 (less than 1%). Decreases in EAV affect property taxes, both rates and levies subject to tax caps.

Recent years have been more challenging due to lower elastic revenue growth, as well as tax cap and tax rate limit on property tax revenues, as a result of the slowing economy. As a result of current economic conditions, City operations and expenses have been curtailed to avoid deficit spending.

**GENERAL FUND BUDGET
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES**



Added together, these year-end surpluses have improved the cash and fund balances of the General Fund from negative to positive. 2016 is a balanced budget year. It is the City's intention to maintain a positive cash and fund balance by limiting the short-term borrowing of funds and to continue past practices of balancing budgets, avoiding deficits, and maintaining adequate cash in the future.

ASSUMPTIONS

The City's five-year forecast for the General Fund (one-half of the City budget and the one with the most flexibility as to revenues and services) is based on certain assumptions. Certain important assumptions include:

<u>REVENUES</u>	<u>ASSUMPTION</u>	<u>PERCENT BUDGET SHARE</u>
Assessed Valuation (Percent)	0 – 2.5	30.6
Uncollectible Factor	0 – 1.0	
Sales and Other Taxes	(-2.0) – 2.0	24.8
Cable TV, Gas Licenses	0 – 5.0	2.5
State Income Tax	0 – 3.0	11.9
State Replacement Tax	0 – 3.0	5.4
Inspections	0 – 5.0	1.1
Federal/State/County	0.0	2.8
All Other	0 – 3.0	8.4
Service Reimbursements	0 – 5.0	7.8
Tax Levy Reimbursements	0 – 3.0	4.7

EXPENDITURES

All Salary & Wage Compensation (Percent)	0 – 2.0
Fringe Benefits	5.0 – 10.0
Contracts, Supplies, and Other Expense	0 – 3.0
Interest Expense	0 – 3.0
Capital Expense	0 – 10.0*

2017-2021 PLAN

These assumptions, when applied to General Fund budget estimates for future years, produce the following excesses or deficits of revenues over expenditures.

<u>Year</u>	<u>Excess (Deficit)</u> <u>(In 000's)</u>	<u>Percent of</u> <u>Total Budget</u>
2017	(3,227)	-2.5%
2018	(3,153)	-2.4%
2019	(4,252)	-3.1%
2020	(5,604)	-4.0%
2021	(7,177)	-5.1%

NOTE: For the revenue and expenditure detail supporting these, refer to the General Fund summary schedule in the Supplemental Section.

Future assumptions are set to insure that revenue production will be maximized; however, expenditures will be planned to match expected revenues.

This five-year budget forecast indicates annual deficits for the entire period. Since the City has operated with a surplus for most of the last two decades, it may be that actual revenues will again exceed budgets and departments will under expend their budgets. This scenario may eliminate these initial deficits.

While the City faces potential deficits in its newest five-year plan, the history of its past experience illustrates that, by calling attention early to possible problems, solutions are sought and, as the deficit years get nearer, the size of the problem diminishes.

The City will review operations to seek solutions to the growing deficit by addressing efficiency and effectiveness of City services.

CASH MANAGEMENT — MAXIMIZING RESOURCES

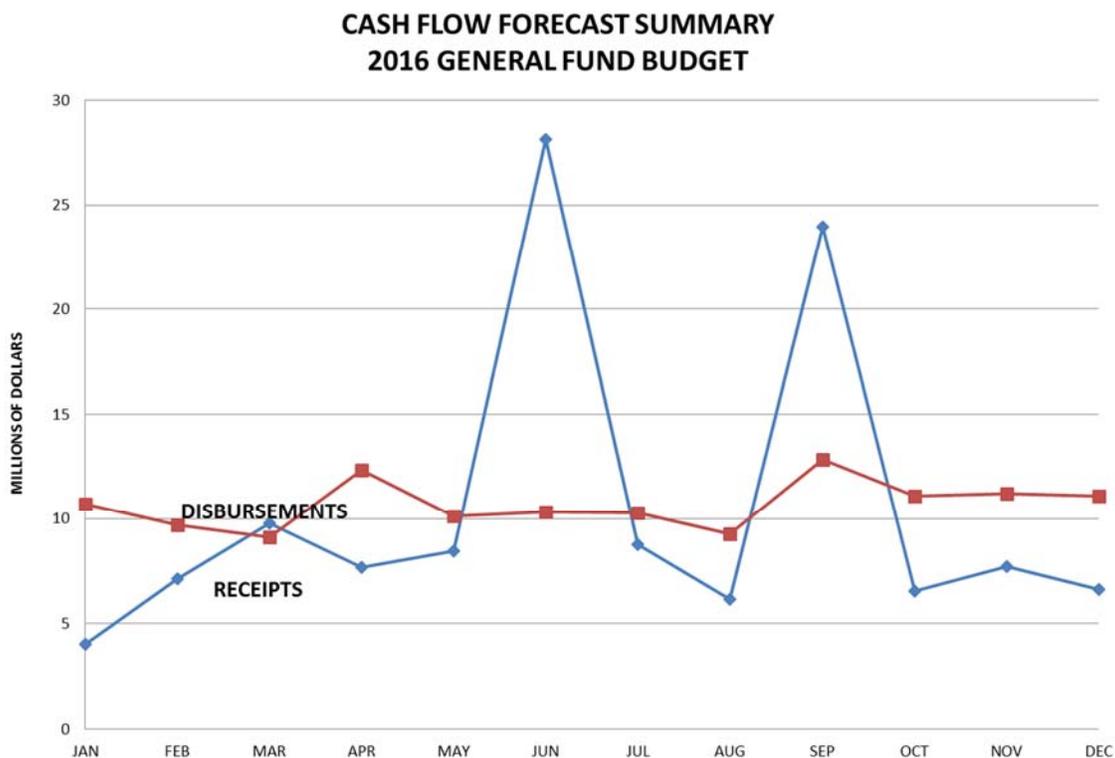
Each year the City adopts a budget. At the same time, this budget is converted into a cash budget internally to determine the cash flow for the budget year. Two revenue issues require consideration, property taxes and timing issues with shared revenues from the State. This requires the City to provide interim financing, internal or external, for certain operating funds. These funds and their percentage of revenue that is property tax are as follows.

PROPERTY TAXES AS A PERCENTAGE OF REVENUE FOR CERTAIN FUNDS

	GENERAL	LIBRARY
2012	37.0	87.1
2013	37.5	85.6
2014	41.1	85.0
2015	35.0	85.6
2016	35.8	85.8

UNDERSTANDING CASH FLOW

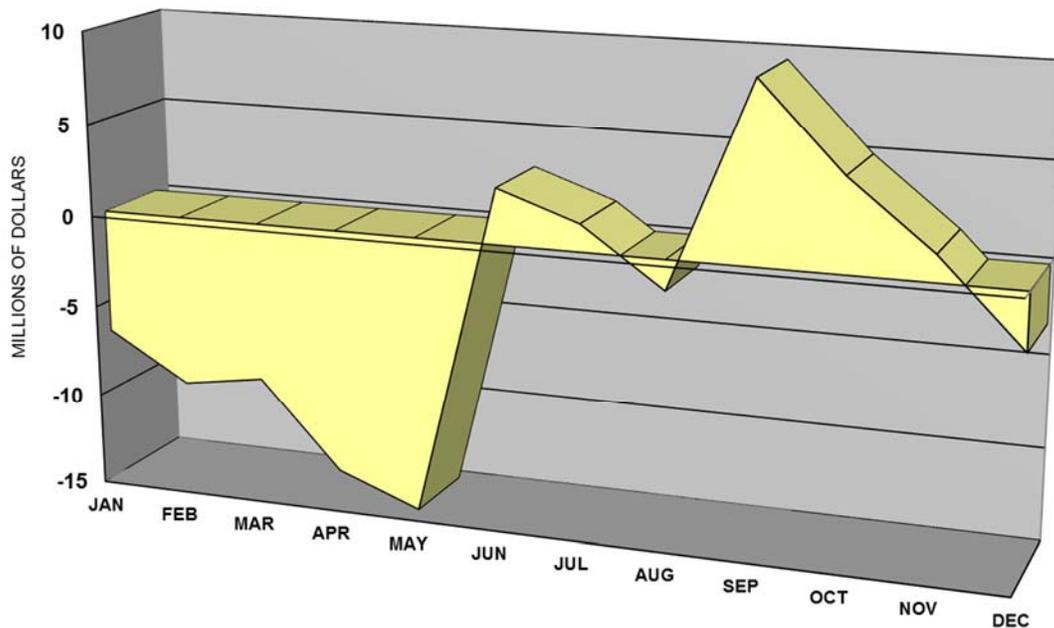
To completely understand the importance that property tax revenues have in cash management, the 2016 cash flow forecast summary for the General Fund graph is useful in illustrating the timing problem.



Illinois property taxes are collected the year after the budget for which they were authorized in two payments: June and September. As noted above, the collection of over a quarter of the fund's revenues distorts any semblance of an orderly flow of revenue that matches expenditures.

This produces a cash draw down for the first five months of a fiscal year as the monthly cumulative summary illustrates.

MONTHLY CASH FLOW SUMMARY 2016 GENERAL FUND BUDGET



For the General Fund, the 30% range for property taxes as a percentage of total fund revenues and the elastic revenue surpluses have generated sufficient cash for internal financing.

CASH POLICY REVIEW

The first City Financial Task Force recommended that the City develop balances that would allow it to accomplish two objectives:

- Reduce or eliminate the need to obtain short-term borrowing to cover operating expenses, and;
- Offset fluctuations caused by yearly excesses (deficits) of revenues over expenditures.

The current cash balance policy is:

Assure adequate cash balances are available to meet the City's anticipated disbursements. Prior to budget deliberations, the Finance Department will annually develop cash flow analysis and recommend cash balance goals at specific points in time to meet those disbursements.

For 1987, a minimum cash balance equal to 70% of those levies that support the General Fund is recommended to be in effect at the beginning of the City's fiscal year, January 1.

The Council policy for the use of above 70% excess funds is:

Those funds available in excess of the minimum cash balance may be re-appropriated for other municipal purposes by the City Council. The use of these funds should be limited to non-recurring expenditures outside of the City's operating budget. Funds may also be used for abating taxes if the City Council so approves.

CASH MANAGEMENT IN 2015

With General Fund levies increasing \$620,732 in 2015 and \$1,163,139 in 2016, cash needs have increased.

It is anticipated that excess funds, should they materialize during future years, will be used exclusively to maintain the cash policy percentage of 70%. Management of the necessary cash flow will be the primary concern in the next few years for the City as property tax caps and binding arbitration continue to affect City operations.

The City will continue to exert strong budget control and place importance on financial planning in 2016 in order to restore and maintain its cash position.

EMPLOYEES — THE CITY'S MOST IMPORTANT ASSET

The City, like most local governmental units, provides services and can therefore be classified as a labor-intensive organization. Any organization that provides services can expect a substantial portion of its budget to be allocated for personnel costs. The following chart illustrates the City's personnel costs.

	General Fund	Total City
Total Budget	\$127.8 Million	\$253.5 Million
Employees	723.1	1,071.8
Personnel Costs	\$91.2 Million	\$131.7 Million
Personnel	71.3%	52.0%
Salary	46.9%	29.6%
Fringe Benefits	24.3%	22.4%

To help contain personnel costs, the City has taken several steps in the past to economize its use of personnel while maintaining service quality. These steps include:

- eliminating inefficient or ineffective services;
- improving the method of delivery for certain services;
- contracting certain specialized and/or seasonal services to private contractors; and
- adding certain key positions.

As part of the City's budget preparation process, departments consider the aforementioned means of reducing personnel costs while maintaining service levels and quality. When departments prepare their personnel budgets, they give consideration to current and future practices in the context of the above factors. The 2016 budget was developed using these steps as guideposts to ensure that quality services are being delivered with the lowest possible personnel costs. All departments and agencies prepared budgets by analyzing their operations in light of the above factors.

EMPLOYMENT TRENDS

Since 2014, 27.7 full-time equivalent positions have been eliminated, a decrease of 0.83%, across program lines in legislative and management, public safety, community development, public works, and human services.

**CITY OF ROCKFORD, ILLINOIS
2016 BUDGET
PERSONNEL AUTHORIZATION
ALL FUNDS**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	2014-2015 INCREASE (DECREASE)	<u>2016</u>	2015-2016 INCREASE (DECREASE)
PROGRAMS AND AGENCIES						
LEGISLATIVE & MANAGEMENT						
MAYOR	4.00	4.00	4.00	0.00	4.00	0.00
LEGAL	12.00	12.00	13.00	1.00	13.00	0.00
FINANCE	36.00	36.00	36.00	0.00	36.00	0.00
INFORMATION SERVICES	4.00	4.00	4.00	0.00	5.00	1.00
HUMAN RESOURCES	<u>5.00</u>	<u>5.00</u>	<u>5.00</u>	<u>0.00</u>	<u>5.00</u>	<u>0.00</u>
LEGISLATIVE & MGMT TOTAL	<u>61.00</u>	<u>61.00</u>	<u>62.00</u>	<u>1.00</u>	<u>63.00</u>	<u>1.00</u>
COMMUNITY DEVELOPMENT						
CD ADMINISTRATION	1.50	1.50	1.50	0.00	1.50	0.00
CD CODE ENFORCEMENT	0.00	0.00	0.00	0.00	0.00	0.00
CD PLANNING	4.30	4.30	4.30	0.00	4.50	0.20
CD CONSTRUCTION SERVICES	25.20	25.20	23.20	(2.00)	25.00	1.80
CD DEVELOPMENT	<u>7.00</u>	<u>7.00</u>	<u>6.00</u>	<u>(1.00)</u>	<u>6.00</u>	<u>0.00</u>
COMM DEVELOPMENT TOTAL	<u>38.00</u>	<u>38.00</u>	<u>35.00</u>	<u>(3.00)</u>	<u>37.00</u>	<u>2.00</u>
HUMAN SERVICES						
HUMAN SERVICES	96.35	95.50	86.40	(9.10)	90.83	4.43
LIBRARY	<u>86.25</u>	<u>87.00</u>	<u>87.00</u>	<u>0.00</u>	<u>87.00</u>	<u>0.00</u>
HUMAN SERVICES TOTAL	<u>182.60</u>	<u>182.50</u>	<u>173.40</u>	<u>(9.10)</u>	<u>177.83</u>	<u>4.43</u>
PUBLIC SAFETY						
POLICE	319.00	322.50	323.00	0.50	323.00	0.00
FIRE	280.00	259.00	259.00	0.00	258.00	(1.00)
911 COMMUNICATIONS	<u>53.00</u>	<u>53.00</u>	<u>53.00</u>	<u>0.00</u>	<u>53.00</u>	<u>0.00</u>
PUBLIC SAFETY TOTAL	<u>652.00</u>	<u>634.50</u>	<u>635.00</u>	<u>0.50</u>	<u>634.00</u>	<u>(1.00)</u>
PUBLIC WORKS						
ADMINISTRATION	2.00	2.00	2.00	0.00	2.00	0.00
ENGINEERING	9.50	8.00	9.10	1.10	9.10	0.00
STREETS & SEWERS	31.00	31.00	31.00	0.00	31.00	0.00
TRAFFIC	11.00	11.00	11.00	0.00	11.00	0.00
CAPITAL PROJECT	16.50	18.00	18.90	0.90	18.90	0.00
PARKING SYSTEM	8.50	3.00	3.00	0.00	3.00	0.00
BUILDING MAINTENANCE	10.00	10.00	10.00	0.00	10.00	0.00
EQUIPMENT MAINTENANCE	9.00	9.00	9.00	0.00	9.00	0.00
CENTRAL STORES	4.00	4.00	4.00	0.00	4.00	0.00
WATER	<u>64.00</u>	<u>64.00</u>	<u>63.00</u>	<u>(1.00)</u>	<u>62.00</u>	<u>(1.00)</u>
PUBLIC WORKS TOTAL	<u>165.50</u>	<u>160.00</u>	<u>161.00</u>	<u>1.00</u>	<u>160.00</u>	<u>(1.00)</u>
TOTAL	<u>1,099.10</u>	<u>1,076.00</u>	<u>1,066.40</u>	<u>(9.60)</u>	<u>1,071.83</u>	<u>5.43</u>

Staffing for 2015 was 1,066.40 positions, a decrease of 9.60 FTE over 2014. Increases include 3.5 in Legal, Police, Engineering and Capital Projects. 13.10 eliminated from Human Services, Construction Services, Community Development, and Water.

2016 EMPLOYMENT

Staffing for the 2016 budget by program is provided in the Personnel Authorization Schedule. Employment has increased to 1,071.83 positions.

The Public Works group total FTE decreased by 1.00. The Water Division eliminated 1.00FTE for Senior Account Clerk.

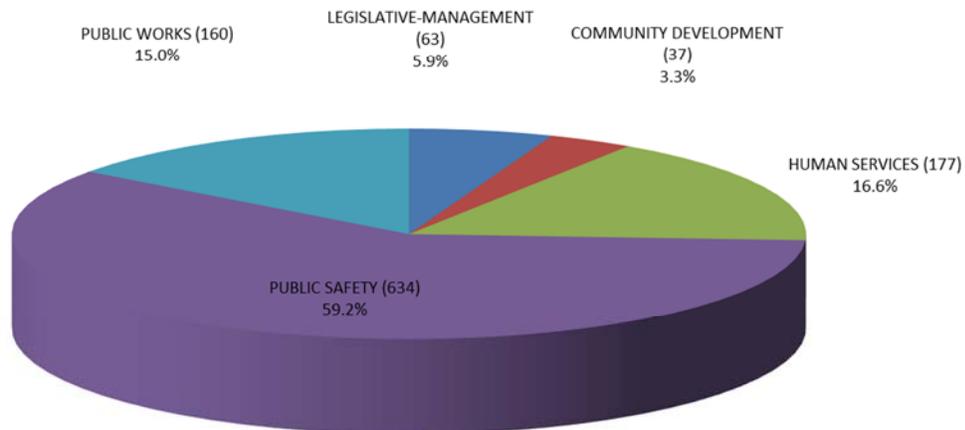
In the Public Safety group, there is a decrease of 1.00 FTE for an additional Fire Equipment Specialist.

In the Human Services group, there is an overall increase of 4.43 FTE.

The Community Development group total FTE increased by 2.00. The Construction Services Division made numerous adjustments for 1.8 FTE increase and Planning had 0.20 FTE increase.

In Legislative & Management group, there is an increase of 1.00 FTE for a Strategic Communications Manager in Information Technology Department.

CITY OF ROCKFORD, ILLINOIS 2016 BUDGET PERSONNEL AUTHORIZATION



2015 - 1,067; 2014 - 1,079; 2013- 1,099

2016 CHANGES IN COMPENSATION

The majority of the City's work force is organized into five collective bargaining units.

<u>Unit</u>	<u>Employees</u>	<u>Percentage Of Total</u>
Police Sworn	274.0	32.2%
Fire Sworn	242.0	29.6
Public Works/Clerical (AFSCME)	189.0	22.3
Community Development (AFSCME)	15.0	1.8
Human Services (AFSCME)	57.8	6.8
Library (AFSCME)	<u>62.5</u>	<u>7.3</u>
	852.3	100.0%

2012-2016 SALARY AND BENEFIT ADJUSTMENTS BY EMPLOYEE GROUP (Percentage)

<u>Year</u>	<u>Police Sworn</u>	<u>Fire Sworn</u>	<u>AFSCME</u>	<u>AFSCME B</u>	<u>Non-Represented</u>
2012	2.00	2.75	2.00	2.00	3.00
2013	2.00 – 1/1/2013 2.00 – 7/1/2013	2.50	2.00	2.00	2.00
2014	2.50	2.50	2.00	2.00	2.00
2015	Currently bargaining	Currently Bargaining	2.00	2.00	2.00
2016	Currently bargaining	Currently Bargaining	2.00	2.00	2.00

From the late 1970's to the 1980's the City paid the total cost of health insurance premiums. In 1988, the Community Development AFSCME group and the exempt employees each began contributing to their health insurance costs. In 2004, employee contributions more than doubled as an effort to control rising health insurance costs. In 2007, the City introduced a new health savings (HSA) option in addition to the traditional PPO plan for health insurance premiums. Annual premium costs for the HSA in 2016 are \$6,604 for single, \$13,208 for single plus one, and \$19,812 for family. Annual premium costs for the traditional PPO plan in 2016 are \$6,370 for single, \$12,740 for single plus one, and \$19,110 for family.

EMPLOYEE FRINGE BENEFITS

Total employee compensation includes not only salaries but also all direct fringe benefits necessary to fund a position. Fringe benefits are often not considered during compensation review and the ramifications of this hidden cost are often not realized until later budget years.

For the City, direct dollar fringe benefits average from 44.5% to 61.5% of salaries. While fringe benefits vary by employee group, the selection of Police Sworn, Fire Sworn, Finance (office), and Public Works Streets Division (field) illustrates the four typical groups.

BENEFITS AS A SALARY PERCENTAGE

<u>Benefits</u>	SWORN		NON-SWORN	
	<u>Police</u>	<u>Fire</u>	<u>Office</u>	<u>Field</u>
Pension	27.4%	33.9%	21.3%	19.0%
Worker's Comp	3.4%	6.0%	0.3%	4.3%
Health	22.5%	21.2%	24.2%	22.1%
Other	<u>1.0%</u>	<u>0.4%</u>	<u>1.2%</u>	<u>0.3%</u>
Total	54.3%	61.5%	47.0%	45.7%

AVERAGE COSTS PER BUDGETED POSITION

Salary	\$80,735	\$83,555	\$53,705	\$46,317
Fringe Benefits	<u>43,861</u>	<u>51,437</u>	<u>25,262</u>	<u>21,147</u>
Total	\$124,596	\$134,991	\$78,967	\$67,464

As shown above, 2016 fringe benefits range from 45.7 percent for field personnel to 61.5 percent for fire personnel, while average costs per position range from \$67,464 for field personnel to \$134,991 for firefighters. Costs increase primarily because of salary and pension adjustments.

In 2015, the fringe benefit range was from 44.5 percent for office personnel to 61.5 percent for fire personnel, while costs per position range from \$57,462 for field to \$134,991 for fire.

Direct fringe benefits are discussed individually in the Non-Operating Funds section of the budget.

In addition to direct fringe benefit costs, certain indirect fringe benefits, such as vacations and sick leave, may add approximately six to eight percent to the fringe benefit percentages. These costs are not, unless additional positions are budgeted to compensate for this lost time, an addition in dollars, rather they represent a loss in service units delivered. Employees, as this section illustrates, are a key component of the City's budget both in terms of delivering services to citizens and as the single largest expense.

CAPITAL EQUIPMENT AND PROJECTS

Capital equipment and projects, slated at \$29.8 million for 2016, are important elements of the City's service delivery system. Capital equipment, over \$5,000, is used by employees to deliver services such as police and fire protection to the public. Capital projects, whether streets, bridges, wells, sewers, or water mains, serve community residents by providing basic necessities for industrial, commercial, and residential needs and development.

It is City policy to avoid balancing the budget by deferring capital equipment purchases. Doing so may serve an immediate purpose but it becomes a costly deferral in the long run. Drawbacks to deferring capital equipment purchases results in acquiring assets whose lives do not match the repayment schedule, accentuating an extremely cyclical equipment replacement schedule, and sharply higher maintenance costs.

With the 2002 economic downturn, \$3.0 million in annual capital equipment spending was eliminated. Police vehicle spending of \$500,000 was augmented by a \$3.2 million 2004 bond issue for fire trucks, ambulances, and a fifteen truck snow fleet. Spending since then has been sporadic from 2004 through 2009 for Police, Fire, and Public Works was \$8.9 million or about \$1.7 million annually. Police spent \$2.7 million for cars and specialized equipment. The Fire Department spent \$3.4 million for fire trucks, specialized fire equipment, and buildings. Public Works spent \$2.8 million for vehicles and specialized equipment, with no capital expenditures for these functions from 2005 through 2007.

In late 2011, City Council approved a policy to begin replacing capital equipment with a municipal lease program. Staff formulated a four-year plan to downsize and replace the entire City fleet. The plan was extended an additional two years at the beginning of 2014, to better match expenses with projected revenue growth. 2014 saw the purchase of approximately \$4.4 million in capital equipment, with a 2016 lease obligation of \$3,759,928. Staff estimates that, once fully implemented, the leasing program will cost the City \$5 million annually in payments and reduce maintenance expenses by at least \$1 million.

In 2016, 25.0% of the budget is allocated to capital items. Capital items for the City can be divided into equipment and projects. The former can be further divided into the following categories: office equipment, which is primarily office equipment and furniture, building improvements, vehicles and operating equipment, and computer hardware and software.

The \$29,870,000 budgeted for capital equipment and projects in 2016 can be divided into five components: office equipment - \$415,723; building improvements - \$113,659; vehicles and operating equipment - \$30,000 computer software and hardware - \$219,875; and for capital projects - \$26,476,917.

Equipment Fund	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Actual Expenditures	3,784,746	3,774,495	4,080,237	3,953,045	3,871,468	3,691,343	3,064,224

The Equipment Fund has shown general reductions in maintenance expenses as a result of capital equipment purchases.

The CIP Sales Tax has given the City a higher level of capital project investment than ever. As a result of the increased investment in road resurfacing and reconstruction, the Street Division has experienced a reduction in pothole complaints and pothole patching.

POTHOLE SUMMARY					
Statistics	2012	2013	2014	2015	TOTAL
Potholes Patched	72,494	113,727	85,672	69,103	340,996
Material Cost	\$ 98,027.08	\$ 169,387.00	\$ 200,015.84	\$ 148,059.40	\$ 615,489.32
Number Pothole Requests	3,298	3,186	3,116	2,754	12,354

Office equipment of \$415,723 is allocated \$330,000 to the Election Commission and \$85,723 to the Library. The Election Commission's capital equipment dollars will go toward the purchase of express voter auto-mark equipment. The Library's capital equipment dollars will go toward upgrading current office equipment needed at numerous Library locations.

Building improvements of \$113,659 are allocated to the Main Library and various branches for carpeting and repaving parking lots. The Water Division's \$328,000 includes a variety of vehicles, operating equipment, and building improvements.

The anticipated capital purchases will replace equipment and vehicles in the existing fleet. The City expects to realize a significant reduction in service and repair costs related to maintaining aging City vehicles. With new vehicle purchases, it is expected that vehicle down time will drop significantly. This will allow for an overall fleet downsizing and increases in employee productivity.

The capital project portion, \$29.8 million (\$27.1 million capital) includes \$7.9 million in roadway improvements, \$5.9 million in neighborhood programs, \$1.8 million in highway repairs, \$3.9 million in drainage and storm water, \$2.3 million in sidewalk and multi-use paths, \$1.1 million in lighting and traffic signals, \$3.3 million in special projects and \$400,000 in project development. Ongoing projects, already funded in previous years, will continue and incur expenses in 2016 as well.

The proposed water system improvements, \$8.2 million in 2016 work, include water system operation upgrades and construction of trunk line water main.

The current program revenues for 2016 are at \$29.8 million. A local sales tax of one percent (1%) was approved for a five year period starting July 2007 and was extended by referendum for an additional five year period April 5, 2011 and for an additional five years on March 15, 2016. The local sales tax replaces the annual street bond referendum and provides \$15.0 million in revenue. State motor fuel tax revenues of \$2.4 million decrease \$780,000 over 2015.

The \$20.8 million budgeted in the capital improvements program supports the traditional transportation and drainage programs funded by sales tax, motor fuel taxes and grants. 2016 is the first year of the 2016-2020 five-year capital improvement program becoming part of the current year's budget. The capital improvements program is City Council approved and funded by a mix of revenues including bond proceeds, state taxes, local taxes, interfund transfers, and grant funds.

REVENUE AND FINANCING CHARGES

The 2016 budget estimates revenue of \$250.3 million net of inter-fund charges and transfers for all funds. As discussed in the selected trends section of Financial Planning earlier, the City classifies revenues as property taxes, elastic revenues and static revenues.

For 2016, the City assumes -3.5% - 0% growth in assessed valuation (the basis for property tax revenue), a 0-4% growth in elastic revenues, and a 0-2% increase in static revenues.

For accounting purposes, the City classifies programs and operations into the fund structure used for local governments. These funds and how they are financed are shown below.

Fund	Property Taxes	Sales Taxes	Service Charges	Licenses Fines	Intergvt Revenue	Interest Income	Bond Proceeds	Other Transfers
General Fund	X	X	X	X	X	X		X
Special Revenue	X	X	X	X	X	X		X
Debt Service	X					X		X
Capital Projects					X	X	X	X
Enterprises			X	X		X		
Internal Service	X		X		X	X		X
Pension Trust	X				X	X		

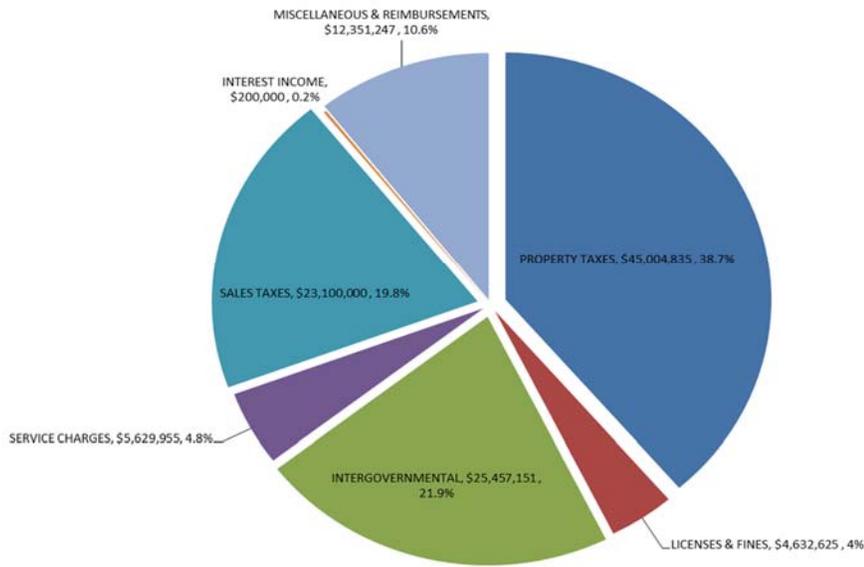
Most of these are self-explanatory. Intergovernmental revenue is income from federal, state, and other local governments. Other income and transfers are miscellaneous items, restricted receipts and transfers. Property taxes are net of accounting adjustments and projected tax cap losses.

GENERAL FUND REVENUE - (\$127,815,037)

General Fund revenues are derived from eight major sources: taxes, licenses, intergovernmental revenues, service charges, fines, interest income, transfers and other miscellaneous income.

Elastic revenues, sales and intergovernmental taxes, account for more than one-half of the fund. With property taxes included, these three sources comprise 80% of the total. The total dollar amount collected for most of these sources has increased from 2015 to 2016. The percentage of the total that each represents, property taxes, elastic revenues and static revenues, has also slightly increased from the prior year.

2016 GENERAL FUND REVENUES \$127,815,037

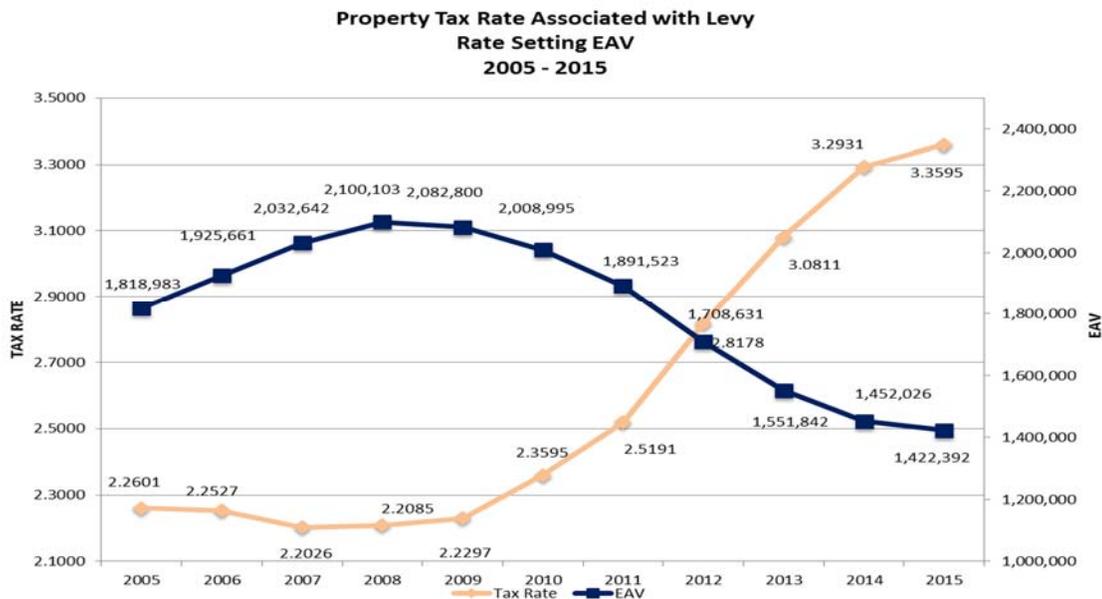


THE PROPERTY TAX

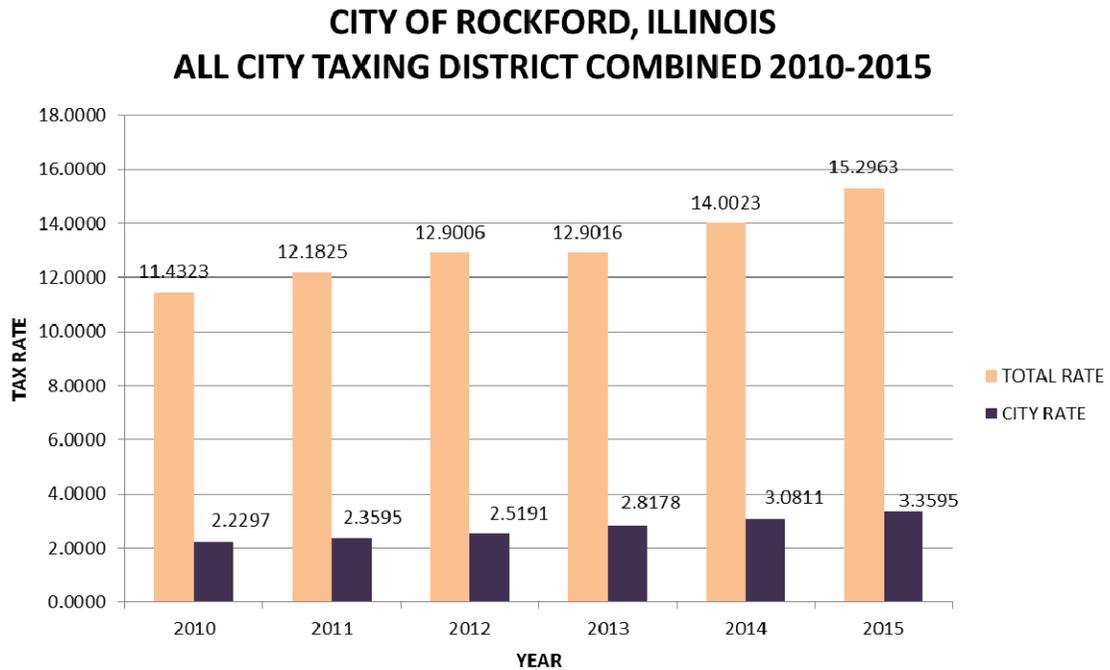
Property tax revenues are generated by multiplying equalized assessed valuation (EAV), in Illinois one-third of market value less any exemptions, by a tax rate.

2015 EAV is \$1,422,514 compared to the previous year's \$1,455,246. The drop in existing valuation was offset by estimated new construction of \$4.7 million and annexations. Increases in EAV due to annexation of new areas were \$0 in 2015. EAV change estimates will be 0% for 2016-2018.

The graph below illustrates the relationship between EAV and the property tax rate. Poor EAV performance puts pressure on the rate if levies are increased to raise revenue. Given the fact that rates are fixed for a number of levies and that the City is at the maximum for many limited levies, this has implications for future budgets.



As the All City Tax Rate Graph illustrates, tax rates for both the City and all taxing districts increased a total of 0.9797 cents in 2015. The City tax rate increased 21.2 cents. Tax rate changes for the remaining six taxing districts ranged from an increase of 55.1 cents for the school district to an increase of 1.06 cents for the township; overall, there was an increase of 76.87 cents for these units.

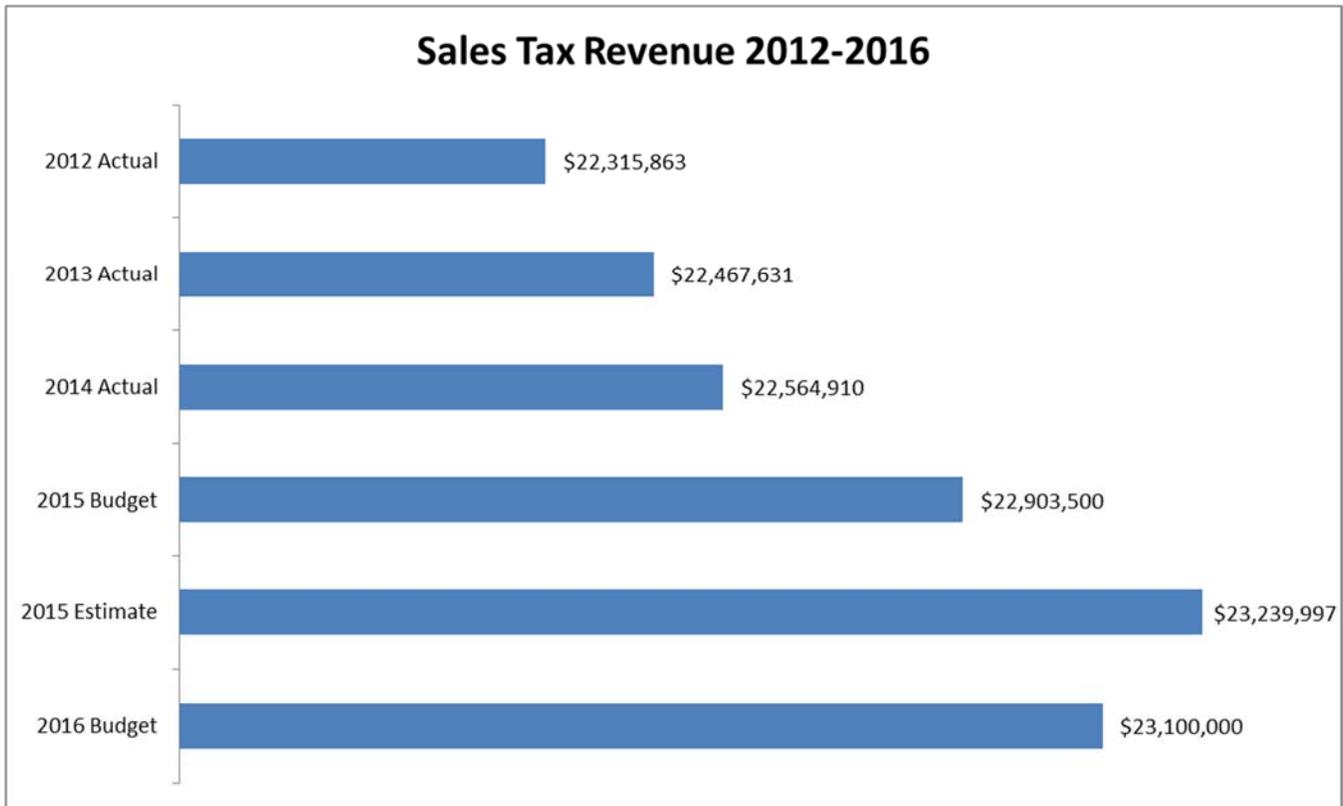


The City rate is 22% of the total rate of \$15.2963. It is the City’s goal to maintain a stable tax rate in order to remain competitive with surrounding communities and unincorporated areas in economic development and annexation efforts.

The 2015 City rate is \$3.36. \$3.18 for operations and \$0.18 for debt service. For property taxes, the City’s five year planning process takes into account the impact of both tax rate and tax cap limitation rules. With conservative budgeting and adequate reserves, these regulations can be adhered to.

THE GENERAL FUND SALES TAX

Sales tax, retailer’s occupation tax, is assessed at one percent on all sales in the municipality and is collected and distributed by the State of Illinois on a monthly basis. The 2016 budget estimates \$23,100,000 which is 0.9% (\$196,500) more than the 2015 budget (\$22,903,500). As the following graph illustrates, this elastic revenue source tends to fluctuate depending on the national and local economies as well as on local economic growth. This tax graph tends to pinpoint economic ups and downs rather well. While sales tax has increased at an average rate of better than five percent in the past, if the increase is adjusted for inflation, then this revenue source has not always held its own for the City. For the future, the City estimates two percent for both the growth and inflation rate.



The City began receiving local use tax on a statewide formula basis during 1990. This is a sales tax collected by the State on sales to Illinois residents by out of state companies. Revenues for 2014 and 2015 are \$2,870,900 and \$3,400,139 respectively. 2016 budgeted revenue is \$2,900,000.

The City receives a 6% phone tax. Revenue, \$4,382,378 for 2015 is budgeted at \$4,504,387 for 2016. The 5% water utility tax, implemented in 2003, \$1,115,799 for 2015; \$1,230,000 is budgeted for 2016.

OTHER GENERAL FUND REVENUE

License and inspection estimates have increased \$212,091 from \$4,420,534 in 2015 to \$4,632,625 in 2016. Building inspection fees in excess of \$100,000 per project are considered unusual and are not budgeted.

The 2015 estimated actual of \$4,577,883 is \$157,349 over budget, reflecting many increases and decreases in licenses issued. Primary increases occurred in CATV franchise fees (\$42,451), overweight fees (\$45,810), tobacco fees (\$26,183), and liquor fees (\$21,903).

The 2016 intergovernmental revenue budget estimate is \$25,457,151, an increase of \$237,369 from 2015's \$25,219,782. The most significant increase was the State Income Tax (\$541,801), replacement tax (\$325,211) and other government (\$150,000), offset by a decrease in Federal Government revenue (\$712,500). Due to the volatile nature of replacement taxes, a fixed growth assumption is not used; rather, annual results are analyzed.

The 2015 intergovernmental actual is estimated to exceed the original budget by \$3,304,599. Replacement taxes, a state revenue source distinguished by its instability since its inception in 1978, came in \$615,247 over estimate. This revenue source is allocated by state law to pensions as well as the Library and General Fund. The latter two funds absorb all annual gains and losses. This is perhaps the most volatile elastic revenue

source the City has and, consequently, the most difficult one to forecast. State Income Tax exceeded the estimate by \$2,093,810.

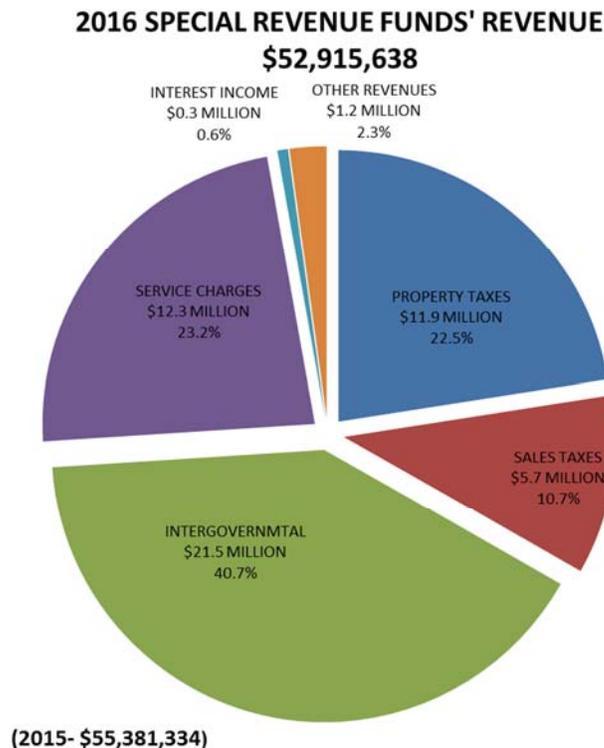
Service charges, budgeted at \$5,351,000 for 2015, have increased \$278,955 to \$5,629,955 for 2016. This is primarily due to an increase in ambulance fee revenues. The 2015 service charges estimate of \$5,655,347 was \$304,347 over budget.

General Fund fine revenue can vary depending on economic conditions. \$1,104,837 is the 2016 estimate; the 2015 actual estimate is \$1,029,228. A decrease in magistrate fines, \$100,000, offset by increase in neighborhood hearing fines, \$25,000.

Interest income, budgeted at \$100,000 for 2015, is estimated at \$200,000 for 2016. \$769,912 is estimated for 2015.

Other income for the General Fund consists of purchase of service reimbursements (indirect cost allocation) from various funds for administrative, legal, financial, and personnel services provided, various damage, abandoned property, and miscellaneous accounts. The amounts charged to other funds are increased annually to insure that they reflect actual costs. The 2015 budget and receipts were \$13,014,404 and \$11,442,724 respectively. 2016's budgeted \$12,351,247 is \$663,157 less than the prior year's budget and \$908,523 less than the actual primarily due to capital lease proceeds. Purchase of service reimbursements are increased annually to reflect increased costs.

Transfers total \$1,500,000 this year. The \$1,500,000 transfer from the Motor Fuel Tax Fund is designed to pay for street lighting. The General Fund, in turn, transfers \$1,500,000 to the Capital Projects Fund to pay for designated projects.



The City utilizes thirty-one special revenue funds. Although financing for this fund group has increased from 2015's \$55.4 million, the revenue mix has been essentially unchanged since 1985.

Motor Fuel Tax Fund - This fund is financed by shared revenue payments (\$4,503,500) from the State of Illinois on motor fuel (19 cents per gallon) for road building and maintenance purposes. 2016 interest earnings are estimated at \$10,000.

Sanitation Fund - This fund is financed by a \$252.24 annual user fee collected on the monthly water bill. In addition, the fund receives a small amount in property tax, rental income and interest earnings.

Community Development Block Grant Fund - This fund, primarily involved with economic development and neighborhood rehabilitation, is financed by federal grants (\$3,022,818). Program income is estimated at \$60,000. The 2015 carryover of prior year funds and grant authorizations is \$448,506.

Redevelopment Fund - This fund, for redevelopment purposes and Metro Center Authority subsidy payments, has four revenue sources: motel/hotel tax (1%) - \$381,000; restaurant/lounge (1%) - \$3,055,000; package liquor (1%) - \$535,000. For 2015, receipts are \$4,305,129, \$479,829 above the estimate; with restaurant/lounge coming in above estimates. This tax was originally authorized in 1978 and has been extended to 2028 to fund various projects.

Tourism-Promotion Fund - This tax, five percent on motels and hotels, was instituted in 1985 to promote tourism. It was increased from one to two percent in 1991, from two to four percent June 1997, and, for the Coronado Theater renovation project, from four to five percent July 1999.

Tax Increment Financing Districts - TIF districts receive revenues from property taxes and interest income. In TIF districts, assessment values are frozen at a certain date and the increase, and the increment in assessed values and consequently, property taxes since that date, is to be used for redevelopment purposes in the districts. Property taxes for all districts continue to grow at an incremental pace.

Retail TIFs – There are 20 Commercial Retail TIF Districts, East Side, East River, West Side #1 and #2, River District North, South Rockford, Assisted Living, West State and Kilburn, State and Central, Springfield Corners, North Main and Eddy Ave, North Main and Auburn, Main and Whitman, Seventh Street, Midtown, Broadway, State and Alpine, East State and Mulford, Auburn, and Jefferson and North 3rd Street. The primary function of the Retail Districts is to assist retail development and redevelopment the area to make the area more economically viable.

Industrial TIFs – There are seven industrial TIF Districts, Kishwaukee-Harrison #1 and #2, Preston and Central, Rockford Global Trade Park #1, #2, #3, and Global Trade Park South. The primary function of the Industrial Districts is to assist business development and redevelopment in the area to make the area more economically viable.

Residential TIFs - The six residential TIFs include Lincolnwood #1 and #2, Hope 6, Garrison School, River Oaks (Thatcher Blake River Walk), and Jackson School. The primary function of the Residential Districts is to assist in residential development and redevelopment of the area to make the area more economically viable.

Human Services - This fund is financed by two federal (\$6,298,084) and four state agencies (\$5,400,000) to provide services in Community Services, Headstart Preschool, Drug Free, Weatherization and Energy Assistance. Revenues tend to fluctuate based on grants and federal priorities.

Tuberculosis Sanitarium - Revenues are received from property taxes, user fees, and interest income. The property tax limit is \$970,000; currently the fund is at \$128,124.

Library Fund - This fund is financed by property taxes (\$7,330,000), state replacement taxes (\$755,000) fines (\$95,000), service charges and non-resident fees (\$50,500), grants (\$190,000), interest and rental income (\$60,000) and miscellaneous income (\$75,000). Of any City operating fund, the Library is most heavily dependent on the property tax as the largest source of revenue, 84.0%.

OTB Special Projects Fund - This fund, used for special projects, receives one percent of the handle from the local off-track betting parlor.

DEBT SERVICE REVENUE FUNDS - (\$15,521,024)

Debt Service Funds - These funds are funded by property taxes (\$3,616,765), tax abatements from TIF Districts, development funds, and OTB Special Projects Fund (\$5,416,267), the parking and water utilities (\$5,740,742), and sales tax (\$747,250). For further information, see Debt Service under Non-Operating Fund section.

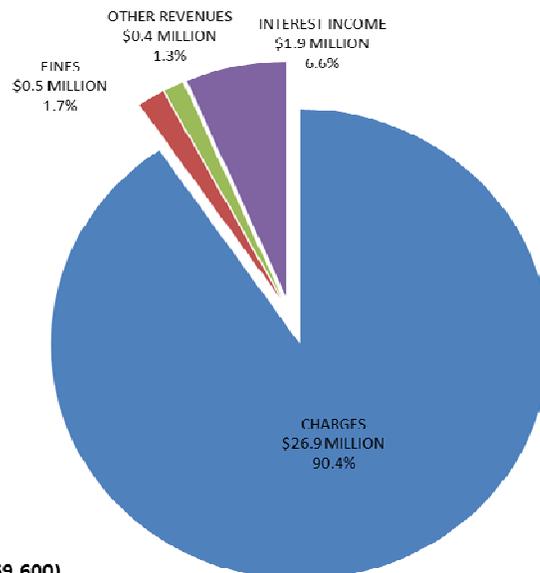
CAPITAL PROJECTS FUNDS REVENUE - (\$29,870,000)

Capital Project Funds - These funds are financed transfers from Sales Tax, Motor Fuel Tax, General, and Water Funds. For further information, see Capital Projects under the Public Works section.

ENTERPRISE FUNDS REVENUES - (\$29,787,409)

The City utilizes two enterprise funds, Water and Parking in the Public Works Department. The revenue mix has changed little from the previous year.

2016 ENTERPRISE FUNDS' REVENUES
\$29,787,409



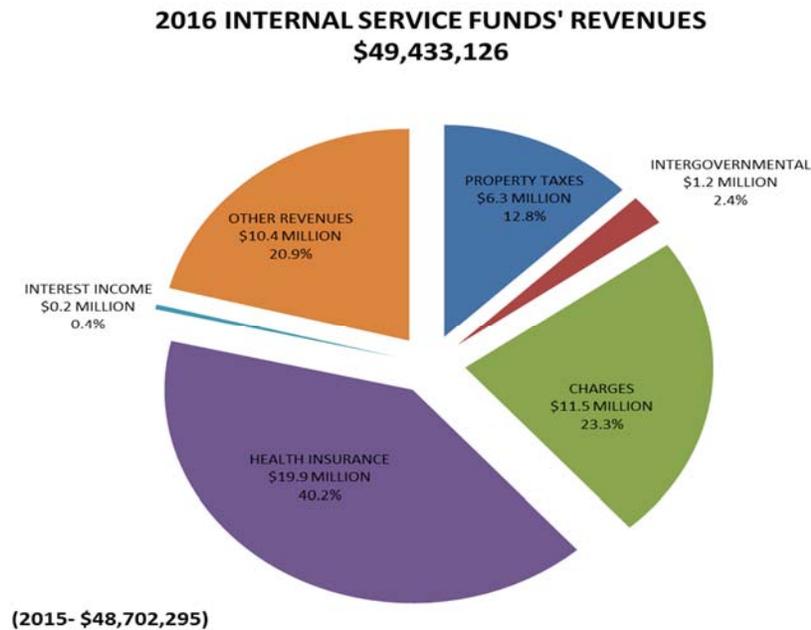
(2015- \$27,369,600)

Water Fund - This fund is financed by user fees (\$26,211,000), installations and connections (\$726,000); interest income (\$200,000), and service charges to other funds and governmental agencies (\$202,250).

Parking Fund - The Parking System is financed by fines (\$518,442), permits and fees (\$1,601,668), purchase of services (\$46,600), and interest income (\$136,449).

INTERNAL SERVICE FUNDS REVENUES - (\$49,433,126)

The City uses eleven internal service funds. While financing for this fund group has increased from 2015's \$48,702,295 budget, the revenue mix is unchanged.



Property Fund - This fund, part of the Public Works Department, provides building maintenance for City facilities.

Equipment Fund - The Public Works Department operates garage facilities for vehicle maintenance for City departments at a central location.

Central Stores Fund - This fund, part of the Public Works Department, provides centralized inventory services for the entire Department.

Information Technology Fund - This fund finances the Information Technology department, which provides IT services to the entire City.

911 Communications Fund - Providing 911 communication services to public safety departments, this fund is financed by County revenues and City General Fund purchase of services.

Illinois Municipal Retirement Fund - The revenues for this fund finance retirement benefits for eligible employees, as well as Social Security contributions. Property taxes are estimated at \$3,298,000; replacement

taxes at \$325,000; interfund transfers from non-property tax funds at \$3,475,957 and interest income at \$10,000 for 2016. The property tax rate is unlimited.

Unemployment Insurance Fund - The budget includes \$134,478 in property taxes and \$32,022 in interfund transfers from non-property tax funds, and \$9,700 in interest income. The property tax rate is unlimited.

Worker's Compensation Fund - Income for 2016 includes \$2,423,942 in property taxes, \$303,140 in interfund transfers from non-property tax funds, and \$15,000 in interest income. The property tax rate is unlimited for this purpose.

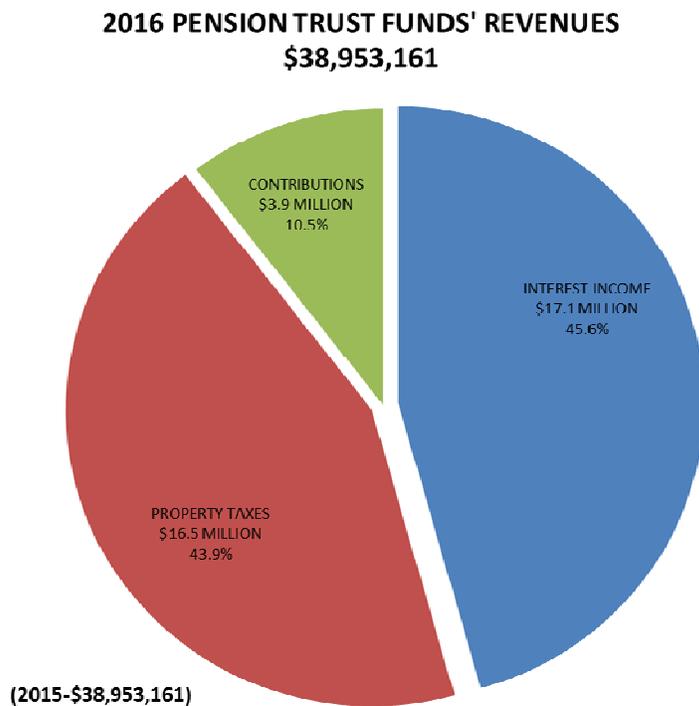
Auditing Fund - This fund is financed by property taxes (\$128,060) and interfund transfers from non-general fund units (\$63,670). The property tax rate is unlimited for this purpose.

Health Insurance Fund - The City operates a self-insured plan for active employees and retirees. The City's share of \$17,630,283 is supplemented by employees and retired employee contributions of \$2,366,999.

Risk Management Fund - This fund, used for the payment of claims, judgments, insurance premiums and general self-insured losses, is financed by an unlimited levy (\$2,945,640), departmental charges (\$1,172,460), and insurance reimbursements (\$115,000).

PENSION FUNDS REVENUES – (\$37,576,414)

The City operates local pension plans for sworn police and fire officers.



Police Pension Fund - This fund is financed by a contribution from the General Fund (property taxes, \$6,881,319 and state replacement taxes, \$1,004,250), member contributions (\$2,029,200), investment income

(\$5,350,000), and fair value appreciation (\$5,000,000). The interest rate assumption for 2016 is 7.5% (2015 Actual 0.9% earnings).

Fire Pension Fund - This fund is financed by a contribution from the General Fund (property taxes, \$7,328,157 and state replacement taxes, \$1,297,588), member contributions (\$1,885,900) and investment income (\$4,800,000), and fair value appreciation (\$2,000,000). The interest rate assumption for 2016 is 7.5% (2015 Actual 0.2% earnings).

DEPARTMENT FUNDING MATRIX

The table on the following two pages shows the funds listed in the preceding pages and the City departments that they fund. This matrix helps to illustrate how the financial structure of the City relates to the budgetary units that will be described in more detail in the rest of the budget book.

YEAR END FINANCIAL CONDITION

Fund balances for the 2016 budget year ending December 31, 2016 are deemed to be sufficient to insure a healthy financial condition for the City. Of the eighteen funds projected to have year-end deficits, none are considered to be of concern.

Certain funds are project, rather than service oriented. In these funds, the practice can be to appropriate all available funds, current plus certain future amounts, for one or more potential projects. The ten TIF districts with deficits are examples of this. The Redevelopment fund can also be included. All of these project funds should turn positive before their current legal authority ends.

The Risk Management Fund carries deficit due to incurred claim estimates that are adjusted annually. The City has a long term funding plan in place to fund future claims.

The RMAP fund has a temporary deficit due to startup costs. This will be corrected over several years. The Human Services and Parking have short term deficits which will correct. With these actions, these funds should again be in good condition.

CITY OF ROCKFORD, ILLINOIS SCHEDULE OF ANTICIPATED ENDING FUND BALANCES 2015 BUDGET

FUND	BEGINNING BALANCE 01/01/15	REVENUES	APPROPRIATION	EXCESS (DEFICIT)	ADJUSTMENTS	ENDING BALANCE 12/31/15
GENERAL-OPERATING	\$32,168,324	127,815,037	\$127,787,411	\$27,626		\$32,195,950
SPECIAL REVENUE						
MOTOR FUEL TAX	9,040,614	4,513,500	3,996,300	517,200		9,557,814
SANITATION	4,849,350	12,366,950	13,901,555	(1,534,605)		3,314,745
COMMUNITY DEVELOPMENT	833,034	3,531,324	3,526,070	5,254		838,288
REDEVELOPMENT TAX	1,288,496	4,448,000	4,968,094	(520,094)		768,402
TOURISM PROMOTION TAX	306,910	1,700,000	1,700,000	0		306,910
TAX INCREMENT DISTRICTS	(5,889,931)	4,934,722	5,737,367	(802,645)		(6,692,576)
HUMAN SERVICES	865,987	11,698,084	11,674,191	23,893		889,880
TUBERCULOSIS SANITARIUM	111,807	128,124	127,600	524		112,331
LIBRARY	8,377,947	8,492,761	8,745,500	(252,739)		8,125,208
OTB SPECIAL PROJECTS	137,000	92,300	90,000	2,300		139,300
RMAP PLANNING	(243,748)	1,009,873	995,986	13,887		(229,861)
DEBT SERVICE	10,637,585	10,257,157	19,725,203	(9,468,046)	5,563,868	6,733,407
CAPITAL PROJECT	18,915,920	29,870,000	29,870,000	0		18,915,920
ENTERPRISE						
WATER SYSTEM	133,779,197	27,339,250	25,156,321	2,182,929		135,962,126
PARKING SYSTEM	15,506,925	2,543,159	2,762,367	(219,208)		15,287,717
INTERNAL SERVICE						
PUBLIC WORKS PROPERTY	907,882	3,031,843	2,862,893	168,950		1,076,832
PUBLIC WORKS EQUIPMENT	397,342	3,418,390	3,345,306	73,084		470,426
PUBLIC WORKS CENTRAL STORES	256,709	438,150	438,148	2		256,711
911 COMMUNICATIONS	0	5,690,244	5,690,244	0		0
IMRF PENSION	34,844	7,076,276	7,098,957	(22,681)		12,163
UNEMPLOYMENT INSURANCE	223,202	177,500	166,725	10,775		233,977
WORKER'S COMPENSATION	738,994	2,742,342	2,747,150	(4,808)		734,186
AUDITING	0	190,449	191,730	(1,281)		(1,281)
RISK MANAGEMENT	(7,163,356)	4,203,644	4,169,330	34,314		(7,129,042)
INFORMATION TECHNOLOGY	1,516,239	3,856,714	3,599,815	256,899		1,773,138
HEALTH INSURANCE	6,387,768	19,997,282	21,977,900	(1,980,618)		4,407,150
PENSION						
POLICE PENSION	178,430,602	20,264,769	16,290,157	3,974,612	(7,885,569)	174,519,645
FIRE PENSION	158,574,965	17,311,645	17,092,371	219,274	(8,625,745)	150,168,494
ELIMINATIONS & ADJUSTMENTS	0	(91,369,117)	(81,570,766)	(9,798,351)	9,798,351	0
	\$526,858,095	\$247,770,372	\$264,863,925	(\$17,093,553)	(\$1,149,095)	\$552,747,960