

REVENUE AND FINANCING CHARGES

The 2013 budget estimates revenue of \$266.5 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 2013, 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.

<u>FUND</u>	<u>FINANCED BY</u>
General Fund	1,2,3,4,5,6,8
Special Revenue	1,2,3,4,5,6,8
Debt Service	1,6,8
Capital Projects	6,7,8
Enterprises	3,4,6
Internal Service	1,3,5,6,8
Pension Trust	1,5,6

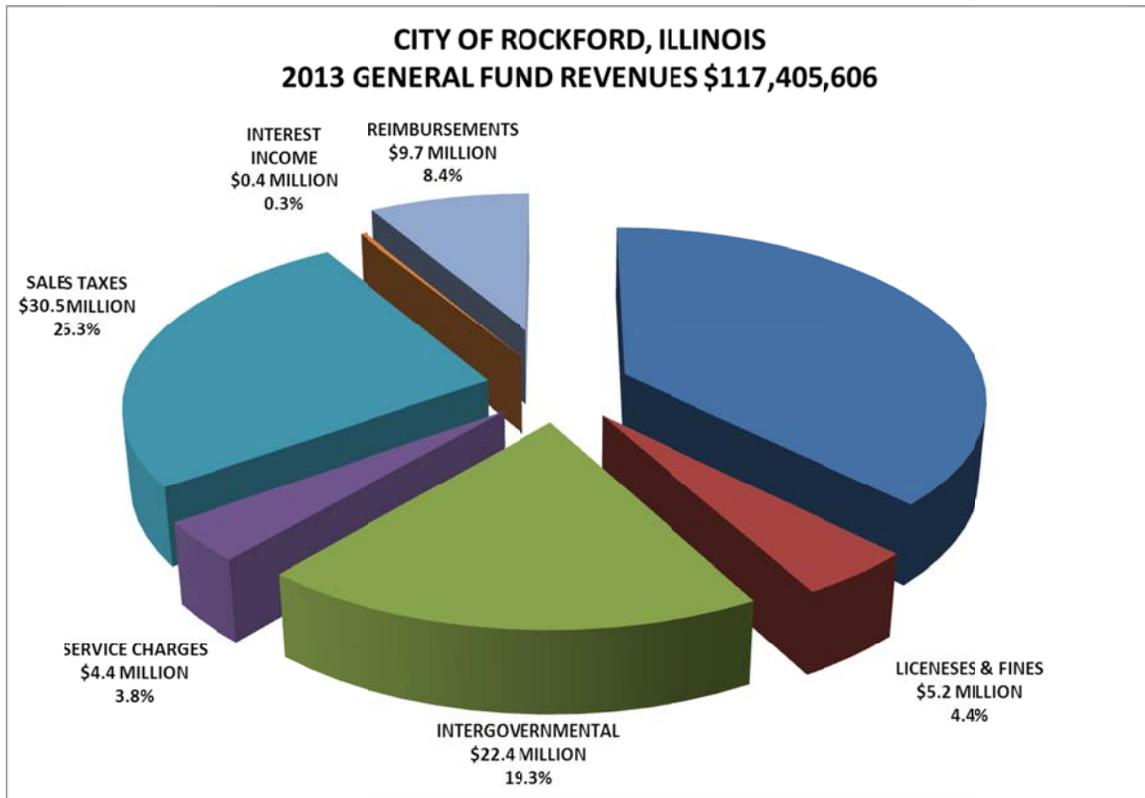
- 1 Property Taxes
- 2 Sales Taxes
- 3 Service Charges
- 4 Licenses/Fines
- 5 Intergovernmental Revenue
- 6 Interest Income
- 7 Bond Proceeds
- 8 Other/Transfers

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 - (\$117,405,606)

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 2012 to 2013. The percentage of the total that each, property taxes, elastic revenues and static revenues, represents has also slightly increased from the prior year.



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.

Estimated 2012 EAV of \$1,737,227 is yet to be certified by the County compared to the previous year's \$1,891,523. The drop in existing valuation was offset by estimated new construction of \$3.2 and no annexations.

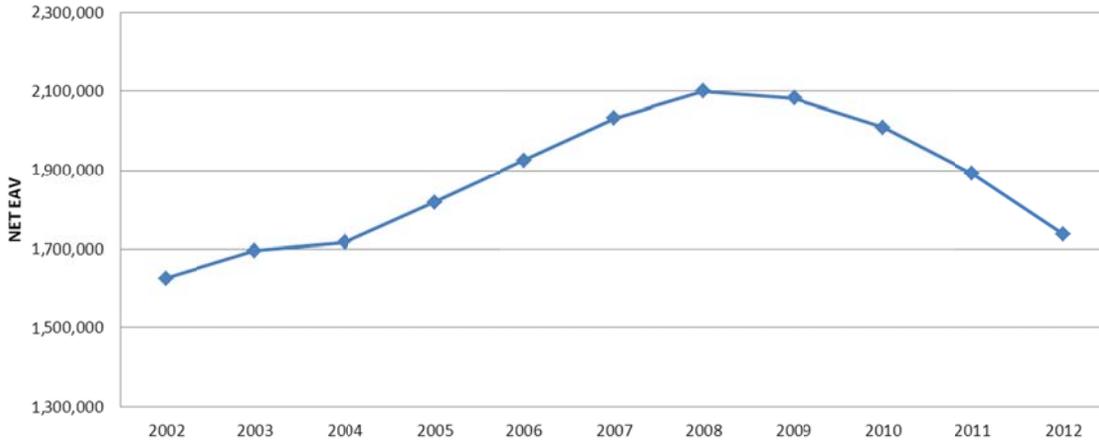
Increases in EAV due to annexation of new areas were \$3.4 million for 2008, \$0.2 million for 2009, \$0.1 million for 2010, \$0.5 million for 2011, and \$0.2 million in 2012. EAV change estimates will be -5.0% for 2011, -8.0% for 2012, and -3.0% for 2013-2016. In previous years, zero percent was used for 1999-2000, one percent was used for 2005-2009, and five percent was used for the 1991-1998 period.

Exemptions (2009 - \$367.9, 2010 - \$352.0, 2011 - \$333.6, 2012 - \$309.4) represent one out of seven dollars of valuation. The exemption process, an unfunded mandate from the State Legislature, singles out certain elements for special treatment.

The State allows homeowner exemptions at \$6,000 and the senior citizen exemption at \$4,000. Exemptions decreased \$15.9 million from 2009-2010; decreased \$14.9 million from 2010-2011.

Of the exemptions, only one, the tax increment district (\$31.7 million), serves a common community purpose and benefit by stimulating older commercial areas and producing future economic benefits. The new tax dollars exempted and diverted from other governmental units go towards paying for infrastructure and economic development efforts in the district. At the end of the district's life all tax revenues are once again distributed normally to all taxing districts.

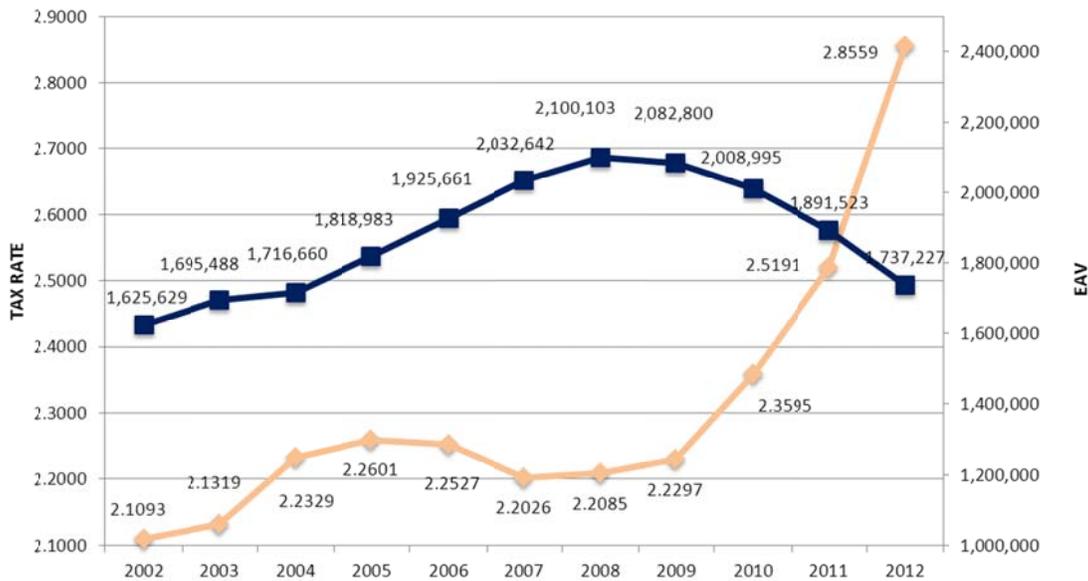
**CITY OF ROCKFORD, ILLINOIS
NET EQUALIZED ASSESSED VALUATION 2002-2012**



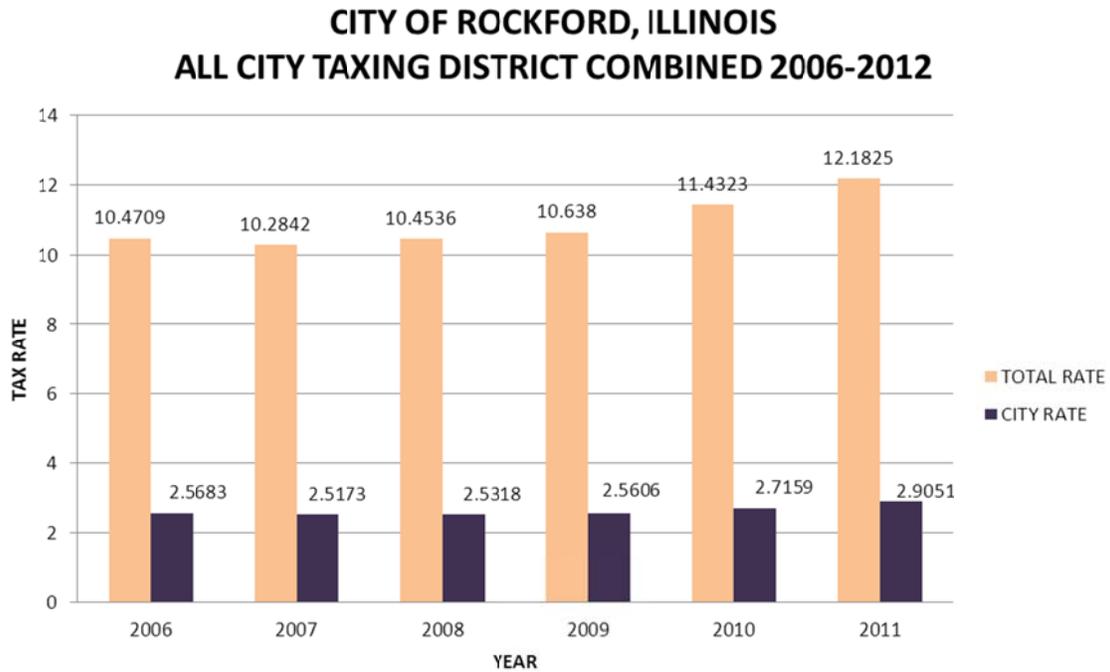
The other exemptions, homeowner (\$213.0 million), senior citizen (\$41.9 million), and all other (\$19.2 million), cause economic distortions in forcing commercial and industrial properties to pay a larger share of the total. In reality, the senior citizen exemptions are shouldered by all other assessment classes. The net effect of this is to force property tax rates up as taxing bodies attempt to recover this lost revenue. In some cases where rates are at statutory limits or tax caps are applicable, the result may be a change to other revenue sources and/or a reduction in services.

The graph below illustrates the relationships. 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.

**Property Tax Rate Associate with Levy
Rate Setting EAV**



As the All City Tax Rate Graph illustrates, tax rates for both the City and all taxing districts decreased a total of 75.0 cents in 2011. The City tax rate increased 15.9 cents. Tax rate changes for the remaining six taxing districts ranged from an increase of 43.9 cents for the school district to an increase of 0.4 cents for the township; overall, there was an increase of 56.1 cents for these units. 2012 rates are not yet finalized by the County.



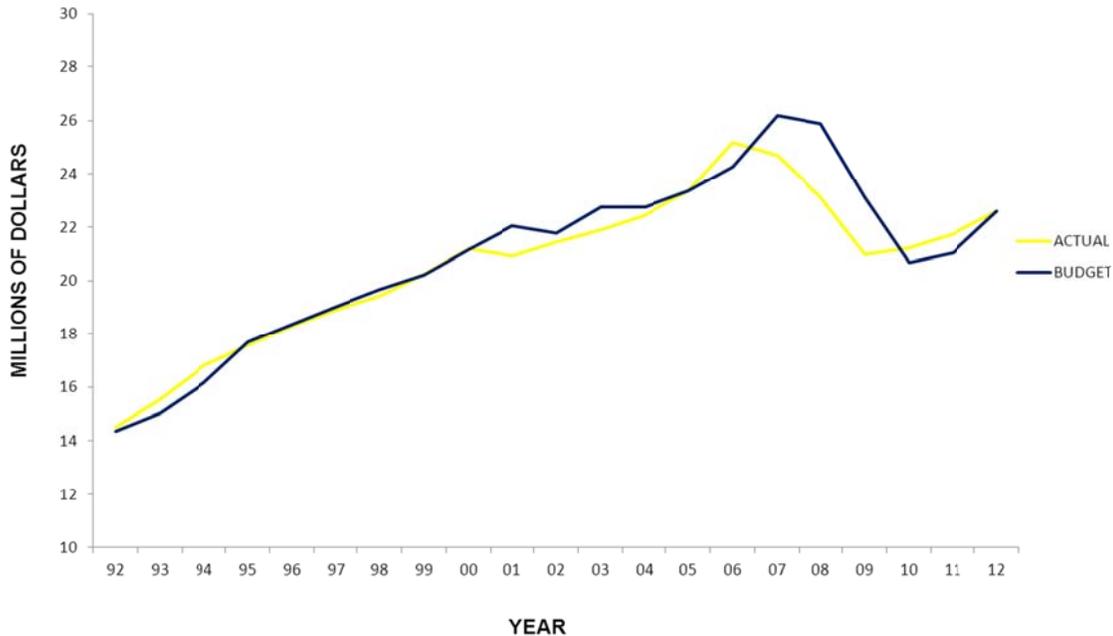
The City rate is 23.8% of the total rate of \$12.18. It is the City’s goal to maintain a stable tax rate in order to remain competitive with surrounding communities and unincorporated areas in economic development and annexation efforts.

The 2012 City rate estimate, is \$3.29. 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 2013 budget estimates \$22,603,900 which is 4.0% (\$869,400) more than the 2012 budget (\$21,721,000). 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 three percent for both the growth and inflation rate.

**CITY OF ROCKFORD, ILLINOIS
GENERAL FUND SALES TAX REVENUES
1992-2012**



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 2010, 2011, and 2012 are \$2,030,553, \$2,179,292, and \$1,890,000 respectively. 2013 budgeted revenue is \$2,173,500.

The City receives a 6% phone tax. Revenue, \$5,629,622 for 2011 and \$5,430,116 for 2012, is budgeted at \$5,126,000 for 2013. The 5% water utility tax, implemented in 2003, \$1,066,441 in 2011 and \$1,004,938 for 2012; \$1,020,000 is budgeted for 2013.

OTHER GENERAL FUND REVENUE

License and inspection estimates have increased \$291,400 from \$3,490,200 in 2012 to \$3,781,600 in 2013. Building inspection fees in excess of \$100,000 per project are considered unusual and are not budgeted.

The 2012 actual of \$4,518,069 is \$736,469 over budget, reflecting both increases and decreases in licenses issued. Primary increases occurred in building inspection fees (\$546,990), CATV Franchise fees (\$195,772), other licenses (\$77,026), and liquor license fees (\$55,616).

The 2013 intergovernmental revenue budget estimate is \$22,300,058, a increase of \$154,270 from 2012's \$22,225,790. The most significant decrease was the Federal Government revenue (\$1,210,000), offset by increase in replacement tax (\$645,788) and State Income (\$542,000). Due to the volatile nature of replacement taxes, a fixed growth assumption is not used; rather, annual results are analyzed.

The 2012 intergovernmental actual exceeded the original budget by \$3,206,654. Replacement taxes, a state revenue source distinguished by its instability since its inception in 1978, came in \$1,088,606 over estimates. 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 estimates by \$2,595,270.

Service charges, budgeted at \$4,295,000 for 2012, have increased \$119,300 to \$4,414,300 for 2013. This is primarily due to a decrease in ambulance fee revenues.

The 2012 service charges actual of \$4,650,405 was \$355,405 over budget. Decreased income from police record fees (\$18,605) was offset by increases in zoning (\$12,300) and ambulance fees (\$317,060).

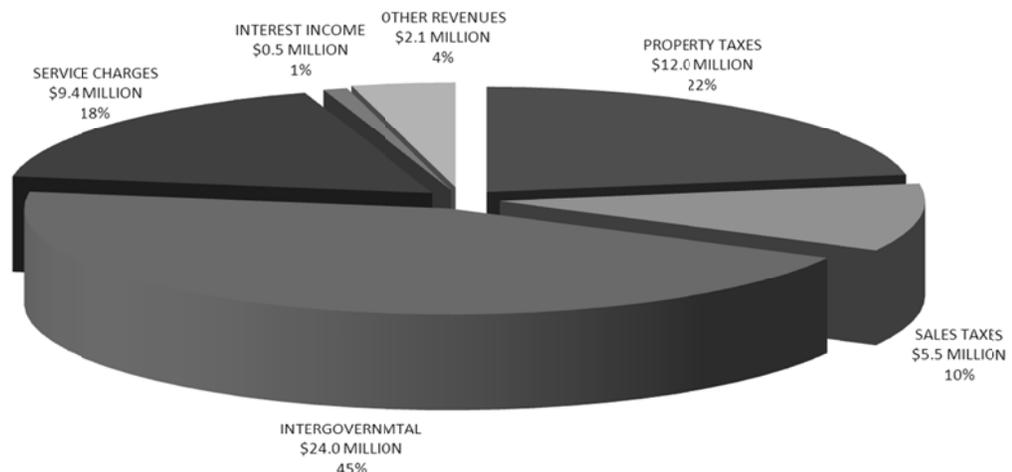
General Fund fine revenue can vary depending on economic conditions. \$1,400,000 is the 2013 estimate (2012 budget - \$1,481,000); the 2012 actual collected was \$1,546,143. A increase in magistrate fines, \$94,428, offset by decrease in code hearing fines, \$14,885, and control substance, \$30,000.

Interest income, budgeted at \$100,000 for 2012, is estimated at \$350,000 for 2013. \$296,730 was recorded for 2012.

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 2012 budget and receipts were \$8,581,940 and \$8,520,391 respectively. 2013's budgeted \$9,717,332 is \$1,135,392 more than the prior year's budget and \$1,196,941 more than the actual. Purchase of service reimbursements are increased annually to reflect increased costs.

Transfers total \$1,200,000 this year. The \$1,200,000 transfer from the Motor Fuel Tax Fund is designed to pay for street lighting. The General Fund, in turn, transfers \$1,200,000 to the Capital Projects Fund to pay for designated projects.

**CITY OF ROCKFORD, ILLINOIS
2013 SPECIAL REVENUE FUNDS' REVENUE
\$53,419,918**



(2012- \$49,161,123)

The City utilizes thirty-one special revenue funds. Although financing for this fund group has increased slightly from 2012's \$49.1, the revenue mix has been essentially unchanged since 1985.

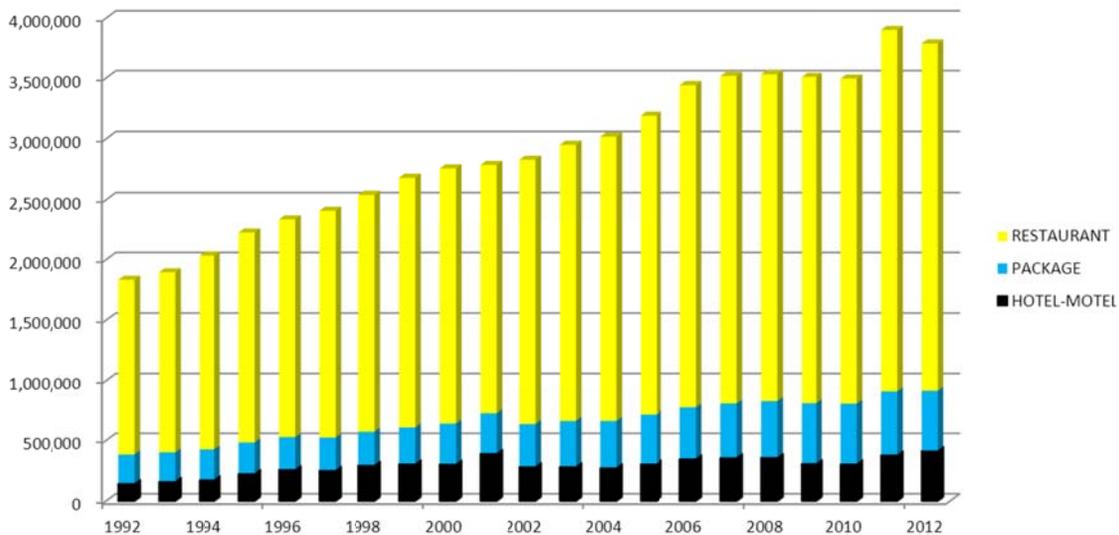
Motor Fuel Tax Fund - This fund is financed by shared revenue payments (\$4,300,000) from the State of Illinois on motor fuel (19 cents per gallon) for road building and maintenance purposes. 2013 interest earnings are estimated at \$229,000.

Sanitation Fund - This fund is financed by a \$186.00 annual user fee collected on the monthly water bill. In addition, the fund receives a small amount in 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 (\$2,974,515). Program income is estimated at \$116,500. The 2012 carryover of prior year funds and grant authorizations is \$718,416.

Redevelopment Fund - This fund, for redevelopment purposes and Metro Center Authority subsidy payments, has four revenue sources: motel/hotel tax (1%) - \$320,600; restaurant/lounge (1%) - \$2,850,000; package liquor (1%) - \$540,000. For 2012, receipts are \$3,790,123, \$168,623 above the estimate; with motel taxes coming in above estimates. This tax, authorized in 1978 and originally designed to expire in 1998, was extended to 2008 in 1990, as a result of the Coronado Theater renovation project, extended to 2018 in 1998, and, as a result of the 2007 Metro Center renovation project, extended to 2028.

**CITY OF ROCKFORD, ILLINOIS
REDEVELOPMENT SOURCES OF REVENUE 1992-2012**



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, state and local sales 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. For the East and West Side Districts, new state legislation adopted in 1986 allows new sales tax revenue that is generated within the district after a certain date to be used only for district redevelopment purposes just as the property tax increment. The East and West Side TIF's began receiving State and City sales tax revenues in 1987. Due to businesses leaving both Districts, 1992 was the last year for sales tax increments. The City did not apply this sales tax increment provision to the 7th Street District due to its strong economic condition.

East River TIF - The East River tax increment district, created in 2008, was established to aid in retail and residential development within the district.

Westside II TIF - The Westside II tax increment district, created in 2007, was established to aid in redevelopment within the district.

Lincolnwood Housing TIF - Created in 2001, this west side housing tax increment district will utilize property taxes to pay for certain improvements in order to generate affordable housing.

Lincolnwood II TIF - The Lincolnwood II tax increment district was established in 2005 to assist affordable residential development on the City's west-side.

Springfield Corners TIF - This west side housing tax increment district was established in 2002 to utilize property taxes to pay for improvements to generate affordable housing.

North Main TIF - This tax increment district was created in 2004 to aid in redevelopment within the district.

Rockford Global Trade Park TIF - The Rockford Global Trade Park tax increment district was established in 2004 to develop 6,600 acres of land surrounding the Rockford Airport.

Rockford Global Trade Park 2 TIF - The Rockford Global Trade Park tax increment district was established in 2007 to develop land surrounding the Rockford Airport.

Rockford Global Trade Park 3 TIF - The Rockford Global Trade Park tax increment district was established in 2008 to develop land surrounding the Rockford Airport.

Rockford Global Trade Park South TIF - The Rockford Global Trade Park tax increment district was established in 2012 to develop land surrounding the Rockford Airport.

Garrison TIF - The Garrison tax increment district was established in 2005 to develop the area surrounding the old Garrison school. Residential development is planned for the area.

River Oaks TIF - The River Oaks tax increment district was created in 2005 to assist river front residential development.

Hope Six TIF - The Hope Six tax increment district, created in 2006, was established to assist with residential development.

Kishwaukee Harrison 1 TIF - The Kishwaukee Harrison tax increment district, created in 2006, was established to aid in redevelopment within the district.

Kishwaukee Harrison 2 TIF - The Kishwaukee Harrison 2 tax increment district, created in 2009, was established to aid in redevelopment within the district.

Main Auburn TIF - The Main and Auburn tax increment district, created in 2006, was established to aid in redevelopment within the district.

Jackson School TIF - The Jackson School tax increment district, created in 2006, was established to aid in redevelopment within the district.

State Mulford TIF - The State and Mulford tax increment district, created in 2012, was established to aid in redevelopment within the district.

State Kilburn TIF - The State and Kilburn tax increment district, created in 2006, was established to aid in redevelopment within the district.

State Central TIF - The State and Central tax increment district, created in 2006, was established to aid in redevelopment within the district.

Preston Central TIF - The Preston and Central tax increment district, created in 2006, was established to aid in redevelopment within the district.

State Alpine TIF - The State and Alpine tax increment district, created in 2006, was established to aid in redevelopment within the district.

River North TIF - The River North tax increment district, created in 2008, was established to aid in redevelopment within the district.

Main Whitman TIF - The Main Whitman tax increment district, created in 2008, was established to aid in redevelopment within the district.

Assisted Living TIF - The Assisted Living tax increment district, created in 2008, was established to aid in redevelopment within the district.

Broadway TIF - The Broadway tax increment district, created in 2008, was established to aid in development within the district.

Jefferson North 3rd TIF - The Jefferson/North 3rd tax increment district, created in 2012, was established to aid in development within the district.

Midtown TIF - The Midtown tax increment district, created in 2008, was established to aid in redevelopment within the district.

Human Services - This fund is financed by two federal (\$5,641,765) and four state agencies (\$7,989,119) provide services in Community Services, Headstart Preschool, Drug Free, Weatherization and Energy Assistance. Revenues tend to fluctuate based on grants and federal philosophy.

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 \$168,300.

Library Fund - This fund is financed by property taxes (\$7,200,000), state replacement taxes (\$755,000) fines (\$135,180), service charges and non-resident fees (\$47,500), grants (\$155,000), interest and rental income (\$35,000) and miscellaneous income (\$80,750). 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 - (\$17,188,481)

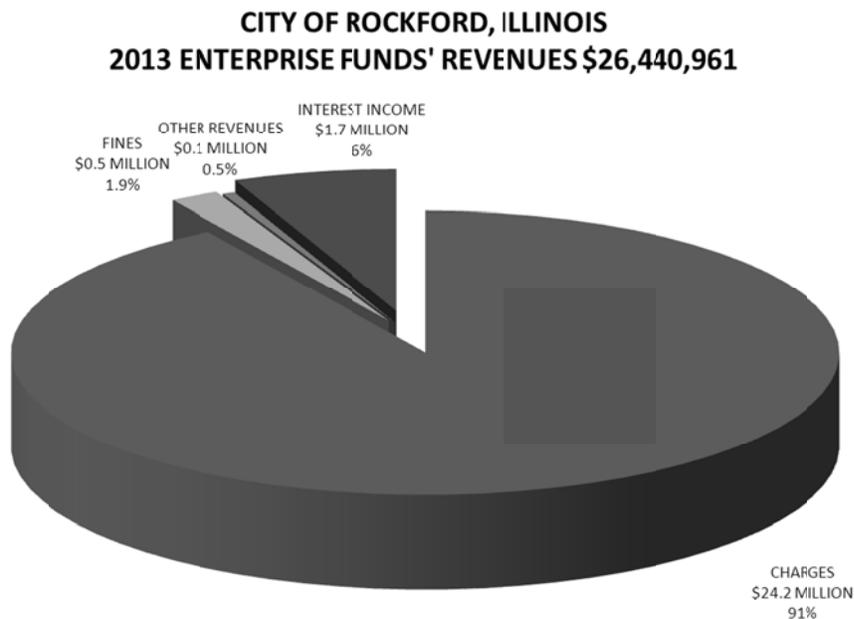
Debt Service Funds - These funds are funded by property taxes (\$4,849,256), tax abatements from TIF Districts, development funds, and OTB Special Projects Fund (\$5,437,594), the parking and water utilities (\$6,000,965), and sales tax (\$900,667). For further information, see Debt Service under Non-Operating Fund section.

CAPITAL PROJECTS FUNDS REVENUE - (\$45,935,000)

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 - (\$26,440,961)

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



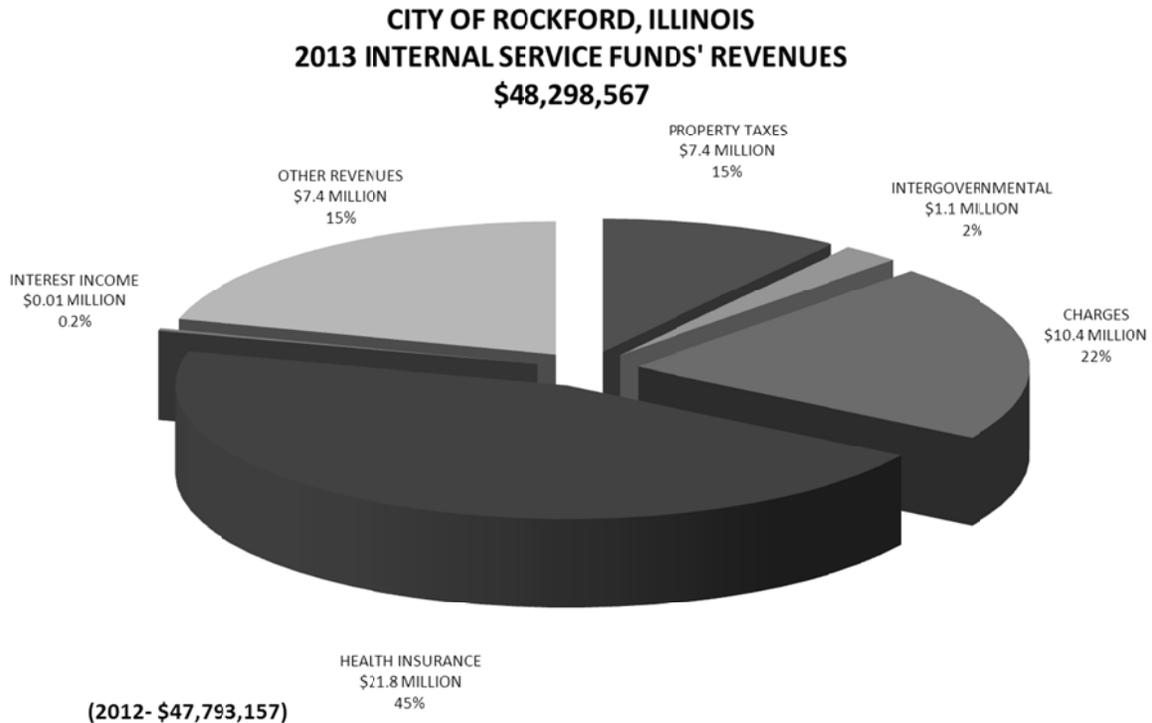
(2012- \$26,304,520)

Water Fund - This fund is financed by user fees (\$23,564,000), installations and connections (\$636,000); interest income (\$200,000), and service charges to other funds and governmental agencies (\$214,000).

Parking Fund - The Parking System is financed by fines (\$516,000), permits and fees (\$1,367,900), purchase of services (\$25,100), and interest income (\$116,700).

INTERNAL SERVICE FUNDS REVENUES - (\$48,298,567)

The City uses eleven internal service funds. While financing for this fund group has increased from 2012's \$47,793,157 budget, the revenue mix is unchanged.



Property Fund - This fund, part of the Public Works Property and Equipment Division, provides building maintenance for City Hall, the City Yards and other City facilities.

Equipment Fund - The Public Works Department operates garage facilities for vehicle maintenance for City departments and some County agencies at several locations.

Central Stores Fund - This fund, part of the Public Works Property and Equipment Division, provides centralized inventory services for the Property and Equipment Units and the Water Division.

Information Technology Fund - This fund finances the Information Technology department, which provides mainframe and microcomputer services to user departments.

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

Illinois Municipal Retirement Fund - The revenues for this fund finance the City pension as well as Social Security contributions. Property taxes are estimated at \$3,219,787; replacement taxes at \$328,700; interfund transfers from non-property tax funds at \$3,449,710 and interest income at \$10,000 for 2013. The property tax rate is unlimited.

Unemployment Insurance Fund - The budget includes \$135,297 in property taxes and \$37,760 in interfund transfers from non-property tax funds. The property tax rate is unlimited.

Worker's Compensation Fund - Income for 2013 includes \$2,401,743 in property taxes, \$277,378 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 (\$180,900) and interfund transfers from non-property tax funds (\$59,010). The property tax rate is unlimited for this purpose.

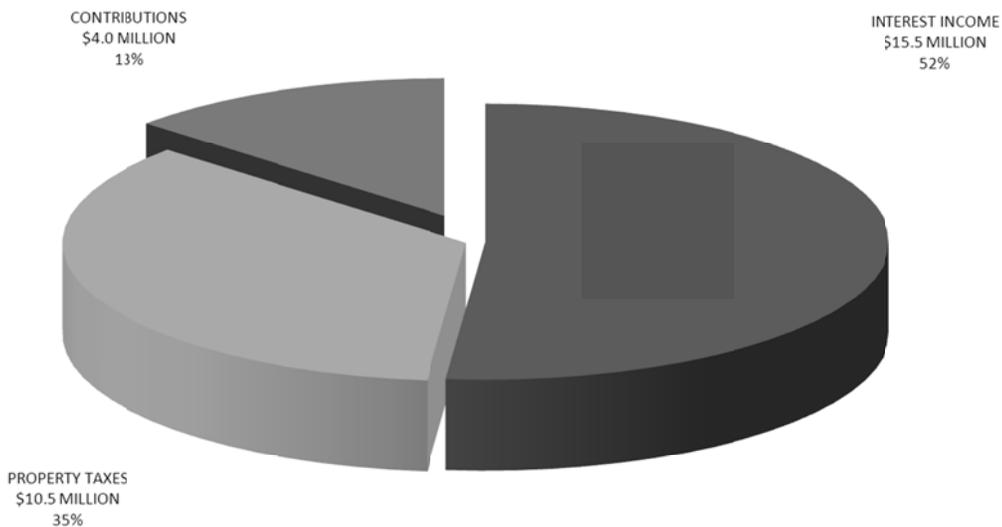
Health Insurance Fund - The City operates a self-insured plan for active employees, retirees, and several outside groups. The City's share of \$18,839,081 is supplemented by employees, retired employees, and outside agency contributions of \$3,066,755.

Risk Management Fund - This fund, used for the payment of claims, judgments and general self-insured losses, is financed by an unlimited levy (\$1,386,000), departmental charges (\$953,840), and insurance reimbursements (\$115,000).

PENSION FUNDS REVENUES – (\$29,966,033)

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

**CITY OF ROCKFORD, ILLINOIS
2013 PENSION TRUST FUNDS' REVENUES
\$29,966,033**



(2012-\$30,439,299)

Police Pension Fund - This fund is financed by a contribution from the General Fund (property taxes, \$3,673,220 and state replacement taxes, \$1,096,852), member contributions (\$2,000,800), investment income (\$3,450,000), and fair value appreciation (\$4,000,000). The interest rate assumption for 2013 is 7% (2012 Actual 9.5% earnings).

Fire Pension Fund - This fund is financed by a contribution from the General Fund (property taxes, \$4,133,879 and state replacement taxes, \$1,642,182), member contributions (\$1,969,100) and investment income (\$4,000,000), and fair value appreciation (\$4,000,000). The interest rate assumption for 2013 is 7% (2012 Actual 8.7% 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.

