

## FINANCIAL PLANNING — THE KEY TO THE FUTURE

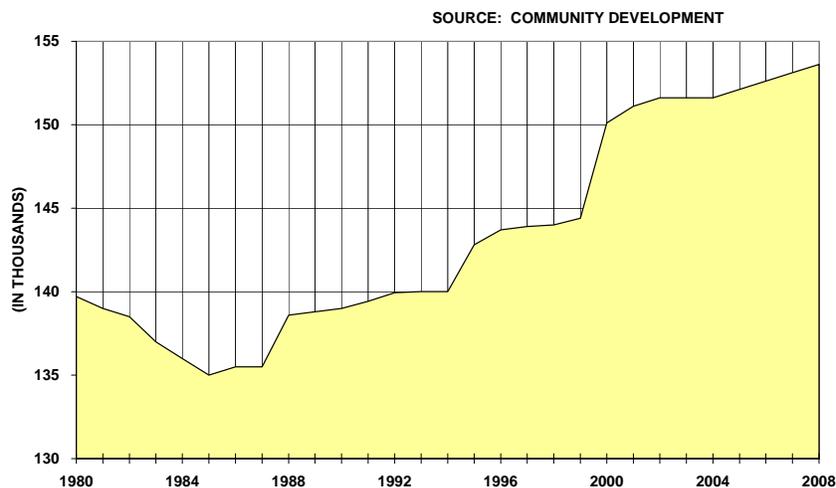
Beginning in 1984 with the General Fund, the City incorporated long-term financial planning into its budget cycle. In 1989, the planning process was expanded to incorporate the balance of the City's budget. Each year the budget staff updates selected trends and the five-year forecast. In conjunction 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.

Since their inception, 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. In addition, the planning process has provided policy makers with the opportunity to view the possible future and temper today's decisions accordingly.

### SELECTED TRENDS

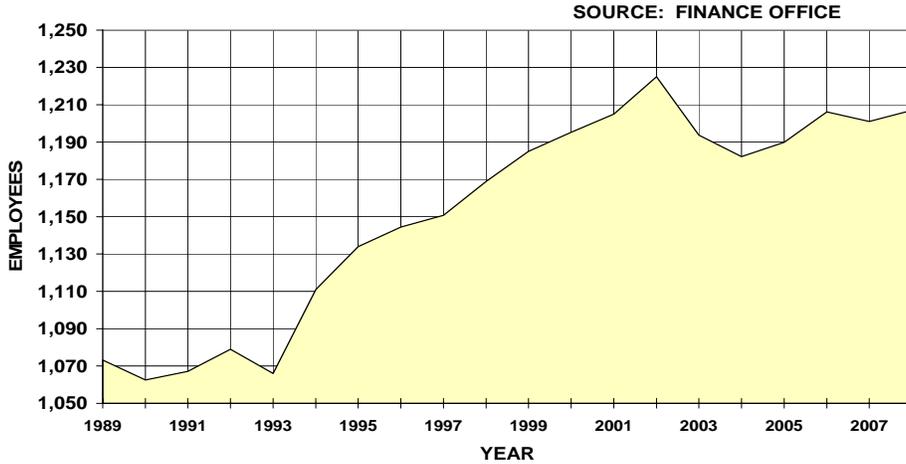
One key to the financial planning process is gathering information about trends that affect the City's financial future. One set of trends the City continually examines is demographics such as population, jobs, and unemployment. The 2000 census of 150,115 was 10,699 (7.7%) greater than the 1990 census of 139,416. The population is expected to increase gradually over the next few years. The transformation of the local economy, the City's ongoing annexation program, and the selection of Rockford as a choice of residence for Chicago suburbanites contribute to the City's increasing population.

#### CITY OF ROCKFORD, ILLINOIS POPULATION FROM 1980



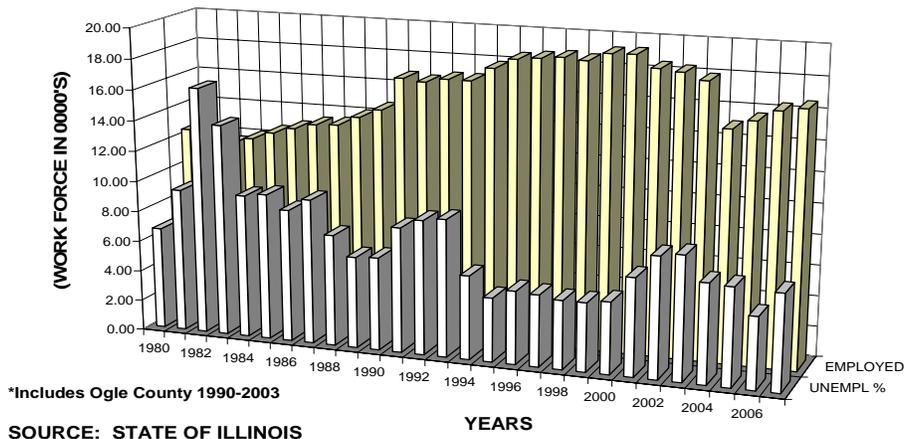
During the 1980's, the City took steps to keep the ratio of its employees and population in proportion. Since then, the City has maintained a constant ratio of employees per thousand residents. This ratio should continue to remain stable in the future as both the population and the City work force incrementally increase.

**CITY OF ROCKFORD, ILLINOIS  
MUNICIPAL EMPLOYMENT 1989-2008**



Although the City continues to attain an increasing population, the last few years have been difficult for the manufacturing industry. 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. The local economy, in the near future, should expand and improve due to the growing influence of the Chicago metropolitan area.

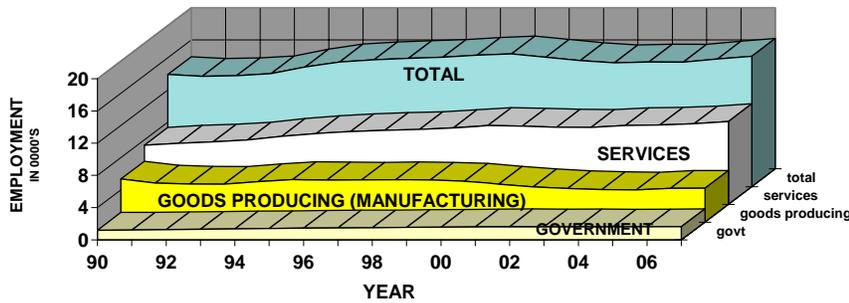
**CITY OF ROCKFORD, ILLINOIS  
JOBS AND UNEMPLOYMENT SINCE 1980  
IN THE ROCKFORD MSA\***



Employment in the Rockford MSA for December 2007 was approximately 161,600, a 3,300 increase from 2006. 42,200 jobs were in goods producing, 102,800 in private service-providing positions, and 15,900 in government positions. Growth from the prior year was 0.2% for goods producing, 2.9% for private service-providing, and 1.8% for government sector. As the manufacturing sector of the employment base has had a steady decline over the past several years, the marginal increase in goods-producing employment for 2007 may be indicative of local industries' economic revival. The service-providing sector of the employment base expanded

40% between 1990 and 2007 while the manufacturing employment in the Rockford MSA has decreased 21%. Overall, total employment increased 16.2% from 1990 to 2007.

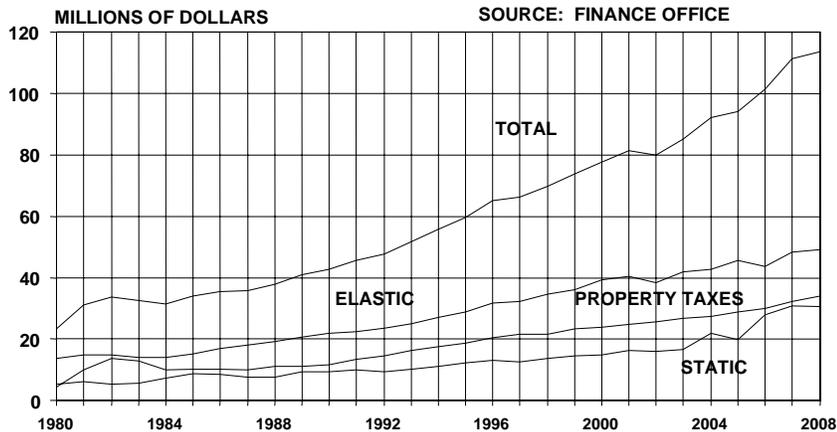
**CITY OF ROCKFORD, ILLINOIS  
NON-AGRICULTURAL EMPLOYMENT HISTORY IN THE  
ROCKFORD MSA 1990-2007**



SOURCE: STATE OF ILLINOIS

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.

**CITY OF ROCKFORD, ILLINOIS  
GENERAL FUND REVENUE SOURCE COMPOSITION  
YEARS FROM 1980**



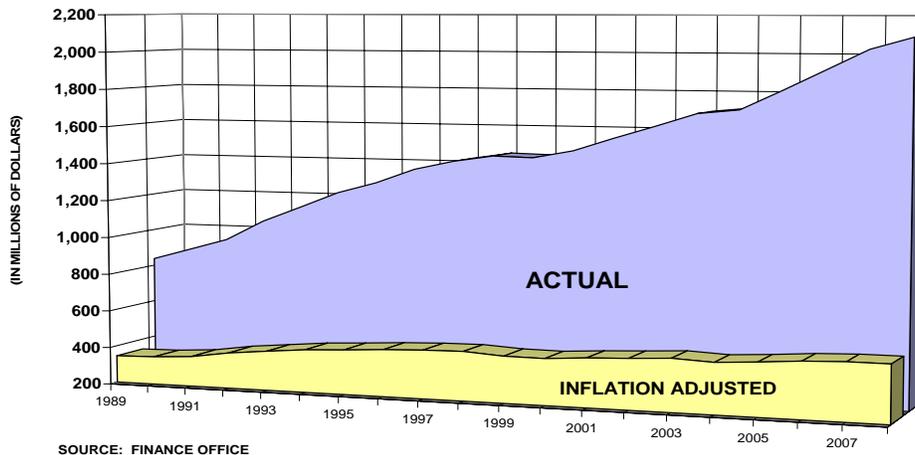
SOURCE: FINANCE OFFICE

An economic expansion or recession would have a greater effect on elastic revenues than on the other two types. The General Fund Revenue Source Composition Graph illustrates this point well. Property tax rates, controlled by elected officials, were flat until the early 1980's when they were increased for several years. After a home rule referendum in 1984 in which voters imposed certain tax rate limitations, property tax rates have decreased and remained relatively

stable ever since. Increases in property tax revenue are a result of growth in the tax base and debt service expenditures approved by referendum.

Elastic revenues increase throughout the period illustrating their ability to grow with the economy. 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.

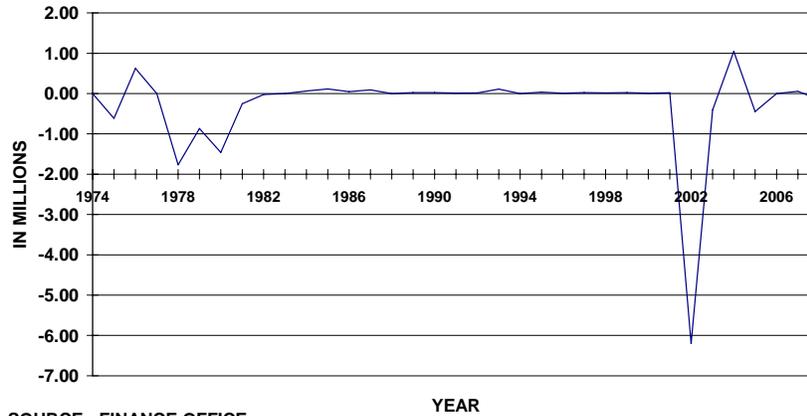
**CITY OF ROCKFORD, ILLINOIS  
EQUALIZED ASSESSED VALUATION  
1974-2008**



For 2008, Rockford's equalized assessed valuation (EAV) is estimated to grow by \$61.4 million (3.0%). 2007 growth was \$107.0 million (5.6%). New growth (annexations and new construction) added \$54.1 million (2.8%) while existing growth increased \$52.9 million (2.7%).

The City has been successfully achieving fiscal management goals since 1981, following the development and implementation of responsive and proactive financial policies. However, the last few years have been more challenging because of lower than anticipated elastic revenues as a result of the slowing economy. After planned and actual budget deficits in the late 1970's, the City has adopted balanced General Fund budgets for 23 of the last 26 years. As a result of current economic conditions, City operations and expenses have been curtailed to avoid deficit spending.

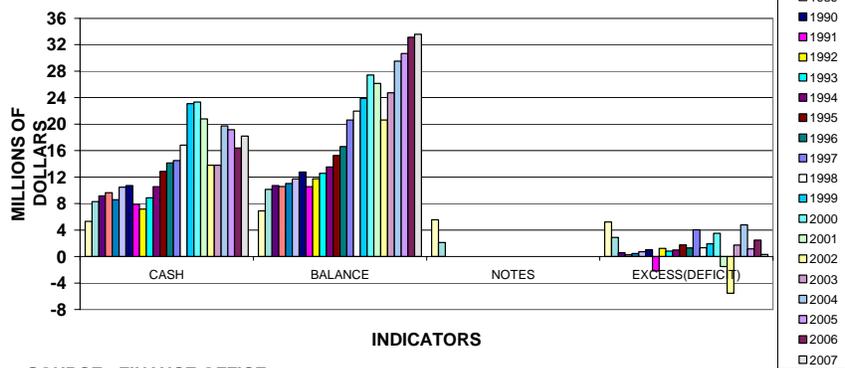
**CITY OF ROCKFORD, ILLINOIS  
GENERAL FUND BUDGET EXCESS (DEFICIT) OF  
REVENUES OVER EXPENDITURES  
YEARS FROM 1974**



SOURCE: FINANCE OFFICE

Added together, these year end surpluses have improved the cash and fund balances of the General Fund from negative to positive. Due to the last minute addition of a second fire ambulance by the Council, 2008 is not a balanced budget year (-\$154,000). 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.

**CITY OF ROCKFORD, ILLINOIS  
SELECTED YEAR END FINANCIAL INDICATORS  
GENERAL FUND 1984-2007**



SOURCE: FINANCE OFFICE

The financial trends discussed in this section provide the financial advisory group and 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.

## 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)	3.0	25.8
Uncollectible Factor	1.0	
Sales and Other Taxes	2.0-4.0	30.9
Cable TV, Gas Licenses	0-2.0	2.1
State Income Tax	4.0	12.2
State Replacement Tax	0.0	6.4
Inspections	3.0	1.4
Federal/State/County	0.0	3.6
All Other	0.0	7.7
Service Reimbursements	3.0-5.0	5.9
Tax Levy Reimbursements	3.0	4.0

## EXPENDITURES

All Salary & Wage Compensation (Percent)	3.0 - 4.0
Fringe Benefits	0.0 – 10.0
Contracts, Supplies, and Other Expense	3.0
Interest Expense	1.0
Capital Expense	5.0

## 2009-2013 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) (In 000's)</u>	<u>Percent of Total Budget</u>	<u>Cash Policy Test (70% Minimum)</u>
2009	(2,320)	-2.0	47
2010	(2,942)	-2.4	38
2011	(3,643)	-2.9	28
2012	(4,423)	-3.3	21
2013	(6,072)	-4.4	6

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

Property taxes in Illinois are levied during a budget year but are not collected until the following year after the money has already been spent. At that time, they are collected in two payments, June and September. As will be discussed in the next section, Cash Management, this tax timing issue and the timing issue with State shared revenues require sufficient cash to be on hand to finance operations. If the City does not have sufficient cash reserves, it will have to borrow from outside sources.

While home rule cities simply have one levy for all purposes, non-home rule cities such as Rockford have specific purpose levies. Some of these levies, for example, for retirement purposes, are unlimited; others have specific rate limitations that apply, i.e., corporate (43.75 cents/\$100 EAV), police protection (60), fire protection (60), street (10), sanitation (10), library (60), and library maintenance (2), for specific levies. If a levy divided by the final EAV exceeds the rate limitation, then the County Clerk will reduce that specific levy.

For budget years 1997 and thereafter, voters in Winnebago County approved tax caps for all units of government including the City of Rockford. The tax cap law (Property Tax Extension Limitation Law) can be defined as limiting the proposed budget year's property tax extension increase to the lesser of the consumer price index (CPI) or five percent plus the new money generated by new construction and annexations. While rate limitations are specific to individual levies, tax caps are applied to the overall tax levy extension, excepting referendum approved debt service. Thus, an individual levy could be affected by its rate limitation and the overall City extension could be impacted by tax caps.

For 2008, the estimated property tax revenue loss due to tax caps is \$1,323,000. For the 2009 – 2013 planning period, tax cap losses occur annually and range from \$600,000 to \$978,000.

The 2008 operating tax rate is expected to increase marginally while the debt service rate will decrease. Property tax dollar growth will occur due to new construction and annexations as well as from the dollars generated from the CPI formula. Property tax revenue will increase moderately due to statutes, local economic conditions, and increased annexations into the City. The long term will see the City begin to rely more on user fees as well as making certain service reductions.

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.

If this does not occur, then the City's cash policy test, required to be 70% of the General Fund tax levies and tax reimbursements in order for the City to avoid borrowing, will decrease. This would require the City to find alternative cash flow sources either from other city funds or the outside. In either case, this would be an additional expense requiring additional dollars or decreased services.

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.