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PURPOSE

The purpose of this plan is to establish a multi-year financial framework for this Administration. The policies and assumptions herein are to be utilized in budget and service delivery decision-making. This document provides a plan and policies, which will determine levels of services, taxing rates and the ability of the City to undertake significant building and capital improvement projects necessary to fulfill the mission of the City of Urbana. The plan contains detailed financial projections and descriptions of the purposes and uses of the City's general operating funds and special funds. It is anticipated that this plan will be updated annually and distributed in advance of the publication of the City's annual budget.

Bruce Walden, Chief Administrative Officer
Ronald Eldridge, Comptroller
April 2005

STAFF GOALS

The staff of the City of Urbana recognizes its primary mission is to effectively deliver municipal services to its citizens.

Our staff is committed to:

- Fulfilling essential public needs that citizens are generally unable to provide for themselves.
- Protecting public health, safety and welfare for present and future generations.
- Enhancing the quality of life in ways that are well planned and cost-effective.

We seek to accomplish our mission guided by the following principles:

Vision

The City of Urbana is a strong and effective government. Our staff is committed to maintaining the City's leadership status by continuing to implement long range planning strategies and innovative programs that will positively influence and shape the future growth and development of the City and positively impact the lives of our citizens.

Responsibility

Providing reliable, quality service to the public is an essential function of city staff. Therefore, it is the goal of all staff members to take a proactive and resourceful approach in the performance of their job and to take personal responsibility for the success of our City.

Mutual Understanding

The City of Urbana is a culturally diverse community. As staff it is our goal to foster an environment that recognizes the value in differences and mutual responsibility – an environment of inclusion and unity, not exclusion. The City is committed to having a workforce that reflects the community in which we serve. Each staff member's behavior should reflect the City's commitment to mutual respect, acceptance and understanding of others.

Integrity

In order to maintain effectiveness, staff recognizes the importance of maintaining a high degree of integrity. It is our goal to execute our responsibilities in an honest, polite, respectful, trustworthy and knowledgeable manner.

Creative Cooperation/Collaboration

City staff recognizes that only through working together in collaboration and cooperation with our citizens, businesses other governments and agencies can we achieve our mission. It is our goal to reach out to others to provide quality results for our community and environment.

Mutual Benefit/Safety

It is the City's goal to identify solutions, which create a safe environment for the work place and our community as a whole. Each staff member must take personal responsibility for the safety of his or her self as well as others.

Progress

It is an ongoing goal of city staff to continuously explore new and innovative ideas in an effort to better serve our community and its citizens.

January 2002

PLAN MODIFICATIONS & HIGHLIGHTS

- **State of Illinois Budget:** The current economic condition of the State budget has negatively impacted sales tax and income tax revenues over the past 5 years and created a greater level of uncertainty regarding these financial projections.

- **General Operating Funds Revenues and Expenditure Projections:** Last year, FY 03-04, general operating revenues exceeded expenses by $228,259, which was approximately $350,000 less than the previous year. Revenues (other than property tax) was only 99% of the previous year (drop of $210,790). However property tax increased 7.7%. Combined together, total revenues increased 0.7% (considerably below inflationary cost increases for expenses). For FY04-05, operating revenues are projected to increase 4.8% and property tax is estimated to increase 6.9% (adjusted for additional Carle taxes). Combined together, total revenues are projected to increase 5.3%. These revenue projections include a payment of $200,000 from the University of Illinois in lieu of utility tax previously paid thru utilities purchased from Ameron. At the date of this report, current revenue levels are supporting these budget estimates. However, it is very important to monitor these revenues very closely. Any significant negative changes may again require actions to assure a balanced budget. For FY05-06, additional partial year revenues of $250,000 have been added from new economic development projects. Expenditure levels over the last 2 years have averaged an annual increase of 4.1%. This expenditure level has been mainly fueled by employee health insurance and employee pension costs, which have been significantly higher than inflationary increases.

- **Landfill Remediation Costs:** At this time last year, the exact cost to remediate leakage at the old landfill was unknown. The net amount of $907,070 (after U/I reimbursements) was included in last year's plan. Staff is now fairly certain that net remediation costs will be $1,044,616 and this amount has been added to the City's current budget. While approximately $140,000 more expensive that last year's estimate, knowing a cost for this project removes a major uncertainly upon the financial plan. Costs for this project are reported in the General Reserve Fund.

- **Real Estate Tax Rate**: Over the last 10 years, the City has been able to reduce it's portion of the real estate tax rate from $1.54 to current $1.31, to match the City of Champaign. The difference in the overall tax rate (including school district, park district and other overlapping governments) has also been reduced from 8.93 to 8.48. Over the last 10 years, the difference between the overall tax rate paid by Urbana property owners and Champaign property owners has also been lowered (currently 10% higher, 13% higher 10 years ago). Lowering the property tax rate provides incentive for increased growth in housing starts and total assessed value. The financial projections assume that the City will maintain a $1.31 rate in the future.

- **Growth in Assessed Value**: Total property tax received is a function of the tax rate multiplied by assessed value. One of the reasons that the Cities of Champaign and Urbana have been able to maintain and lower their tax rates is recent years is growth in assessed value. Until 2 years ago, assessed value increased at a rate approximately equal to inflation. However, assessed value the last two years has averaged an annual increase of 7.6% (3% due to new construction and annexations and 4.6% increase on current properties). By maintaining the same rate, total property tax revenue has been increased the same rate as the assessed value (7.6%). This has been a major factor in allowing the City of Urbana to continue current service levels when amounts from other taxes have been stagnant or been decreasing. The City will continue efforts to increase annexation and economic development; for these efforts can increase property tax in total while reducing taxation levels on current properties.

- **Capital Improvement Plan Transfers**: The General Fund each year transfers an amount to the Capital Improvements Fund to pay for various capital improvements (streets, sewers, lighting systems, sidewalks, etc.). In FY02-03, the amount transferred was $715,770. This is in addition to the approximate $2.1million allocated to capital improvements from State M.F.T. and Sewer Benefit Tax. In FY03-04, the transfer amount was reduced to $484,300 due to budgetary constraints. However it was increased back up to $673,887 in FY04-05. Prior to the last 3 years, the general fund consistently generated additional revenues that exceeded operating expenses. This allowed the general fund to transfer additional amounts (a total of $5.6 million over an 8 year period to speed up various capital improvement projects). For example, the FY03-04 budget included an additional $1 million transfer to meet the city's commitments relating to Route 45. It is projected in FY05-06, $446,000 will be available to transfer from the General Fund. Restoring capital improvement funding to the 02-03 level adjusted for inflation should be considered a priority if additional revenues are received in future years.

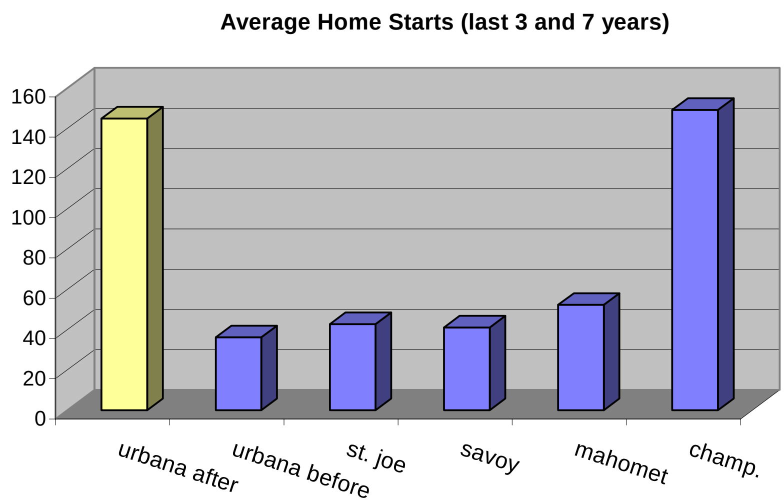
- **Economic Development Reserve Fund**: Monies in this fund are designated for future revenue enhancing economic development activities and to replace the tax base lost by University of Illinois expansion. The University paid the City the amount of $2.33 million as reimbursement for the sale of streets, alleys, and right-of-way. This fund is projected to have a balance of approximately $2 million over the next 4 years. Included in this fund is the estimated $300,000 revenue from the repayment of loans under the Fairlawn Village development agreement.

- **General Reserve Fund**: This fund is the city's savings or "rainy day" fund. It is designated to provide stability in continuing services and in maintaining stability in the level of required revenues when fluctuations are occurring in the City's financial situation and for unforeseen significant costs. The landfill remediation costs is an example of an unforeseen cost. This project cost a net total (after U/I reimb.) of $1,045,000 and is being paid for out of this fund. This fund was also used to purchase the property at 704 S. Glover for $387,000. The balance in this fund is projected to be $670,000 to $750,000 over the next 4 years. This balance is significantly below desired levels (see discussion page 27). Restoring the amount saved in the general reserve fund to approximately $2.5 million (level in 02) should also be considered a priority if additional revenues are received in future years.

- **Library Construction Funding**: At this time last year, the exact amount the project was going to cost was unknown. Also unknown was when the remaining $450,000 of state grant money would be released. Current estimate for the final project cost is $8.26 million, with the City contributing $5.4 million, the Library Foundation $2.1 million, and state grants funding $800,000. Construction of the facility is 95% complete with completion scheduled in summer 05. Bids on furniture and landscaping are still to be completed. The City was been able to fund its $5.4 million share without raising taxes because the general fund has generated revenues in excess of expenditures over the past 6 years. Each year, a portion of these revenue amounts exceeding expenditures was saved and earmarked for the Library project. The $800,000 in state grant revenues have all been received, removing a significant potential liability in last year's plan.

- **Pension Cost Increases**: All governments (including State of Illinois) have experienced significant cost increases in pension funding. Employees are living longer, the return on pension investments was devastated by the downturn in the stock market and low interest rates, and State Legislature mandating retroactive increases in benefit levels have all contributed to these cost increases. While the stock market has recovered in 2003 and 2004, it will be a number of years before the losses are completely recovered due to the method of trailing 5 year averages used to compute current liabilities in the actuarial formula. Total pension costs have increased an average 20% each of the last 3 years. Total pension costs in FY05-06 is projected to be $3.83 million. This is approximately 15% of total general operating costs of the City, 29% of direct salary costs, and 60% of the total property tax levy.

- **New Home Construction:** Prior to 2002, the City of Urbana averaged 39 new home construction starts each year. This number was considerably below Champaign (which averaged 149 home starts) and below other nearby communities (see chart to right). In an effort to encourage home construction and sales, the City Council in 2001 approved a program that consisted of a new effort to advertise, and work closely with developers and realtors to promote new-home ownership in Urbana. This effort also included a program to reimburse owners of new single-family homes the difference in property taxes between Urbana and Champaign. (currently 10%). This subsidy will reduce the property tax on these homes for five years. Since this program started, Urbana has averaged approximately 145 new home starts each of the last 4 years. The 427 homes (145 less 39 for each of 4 years) has generated an extra $3.5 million annually in property tax for Urbana taxing districts over these first 4 years. Even during the five-year initial period, these governments will receive approximately $5 in additional taxes for every $1 of city subsidy. The additional home construction is part of the increase in assessed value (above).



- **Recycling**: The City is in the fifth year of expanded curbside recycling to multi-family units. This service is being provided through a contract with a private collection company and is financed through a fee paid by the owners of the housing units which is $27/year per household. Current contracts have fixed costs for service to April 1, 2009.

- **Workers' Compensation Costs**: In 1994, the City began to self-insure its worker compensation costs. During these past ten years, claim experience has significantly improved, thus lowering costs. This program has saved $4.8 million from the amount the City would have paid in normal insurance premiums and including interest earning on the savings. When the program started, the City transferred to a special fund the amount that it would have been paying for conventional insurance and paid for all costs of the program out of this fund. In 98-99, the general fund's contribution to this fund was reduced by 50% and in 01-02 reduced an additional 25%, for a total general fund cost savings of $450,000 a year. We project that this fund will have $3 million in reserves at June 30, 2005.

- **Other Liability Claim Costs**: Starting 11/01/02, the City began self-insuring it's liability claim costs by maintaining significantly higher deductible amounts ($100,000 per claim). The savings between the new lower insurance premium costs and claim costs and the previous amounts paid have also been saved in a special fund in order to pay for any future claim costs. After 2 years, the City has saved approximately $170,000.

- **Financial Threats:** Over the past few years, the City of Urbana has been able to effectively mitigate some threats to the City's financial future. Some of the larger threats that have been effectively managed have been:

    1. Threat to remove Carle Clinic from City's assessed value.
    2. Big Grove
    3. Relocation of University Auto Park (UAP), the City's only new car retail dealer and largest sales tax producer. This new facility will be extremely important to the future financial health of the City by generating additional sales tax. Groundbreaking on the new facility is scheduled for fall of 2005.
    4. In 2002, Bergner's closed it's store in Lincoln Square, negatively affecting retail sales tax by approximately $150,000 annually. Lincoln Square management and City officials have recently finalized an agreement for re-use of the space. While not replacing previous sales tax, the revised Lincoln Square as outlined in the plan should provide an attractive and useable mix of office/retail/residential use in the downtown area.

There remains a number of financial problems that the City is in various stages of mitigation. Some of these are:

1. The City of Urbana receives approximately $8 million annually from various federal and state grants and shared revenue programs (25% of entire city budget). There is considerable uncertainty as to the impact that the slowing of the economy will have on federal and state budgets (including U/I) and what reductions may be passed along to local governments.
2. The City of Urbana is a joint participant in the Metcad joint venture which provides public safety dispatching to the community. Other members are the City of Champaign, Champaign County, and the University of Illinois. Metcad is facing two major future financial problems: (1) replacement of the radio system at an estimated cost of $7.5 million and (2) an erosion of the 911 surcharge revenues which fund the operational costs of Metcad. After studying these problems, a committee of the chief financial officers from each of these 4 jurisdictions have recommended that Metcad seek to finance the radio system and replace the 911 surcharge with a county-wide ¼% sales tax. If a county-wide sales tax is not approved by voters, Urbana will be facing a significant cost

for the radios and can contemplate a significant erosion in the 911 surcharge revenues.

3. University utility tax payments have been significantly reduced by about $250,000 per year. A phase-out has been negotiated; however, this is a recurring tax revenue loss to the general fund.

4. A continuing reduction in tax base due to University expansion.

FINANCIAL CONDITION

The overall fiscal position of the City of Urbana remains sound but has changed significantly in the last years. The underlying factors contributing to the City's financial position and to these changes, both long-term and short-term are as follows:

1. **State Budget:** In the past, the Champaign-Urbana local economy has been mainly insulated from the peaks and valleys of economic cycles due to dominance by the University of Illinois and government payrolls, agriculture and a steadily growing regional health care industry. However, the decline in the economy of the State of Illinois has resulted in the level of the state's income tax being only 85% of the amount 5 years ago. This reduction adjusted by normal inflationary increases has cost the City approximately $800,000 in annual revenues. In addition, the State in order to help solve their budgetary problems stopped paying the local share of the sales tax on photo- processing. This reduction cost an additional $120,000. There was much discussion in the State Legislature about possibly reducing the formula for sharing of state income tax with local governments. This proposal would have cost the City of Urbana would have an additional $240,000. Given the projected budgetary problems of the State of Illinois, it is possible that this proposed reduction will again be considered.

2. **Revenue Mix:** Helping Urbana is the stability in revenue mix of real estate, utility and sales taxes, user fees and government transfers. City policy is to fund basic governmental services that provide a benefit to the entire community from general revenues. A service in which a specific benefit can be measured for a specific user shall be funded from user fees and charges, if reasonable and practical. The schedule of user fees is reviewed annually and adjusted if costs warrant, also considering what other governments or private industry may charge for comparable services.

3. **Federal Funding:** As of the date of this report, federal revenue sharing programs such as Community Development Block Grant and Home have not been seriously impacted.   However, given the financial situation of the federal government, additional scrutiny of these programs is surely eminent in the future. Programs to fund additional police offers and support staff have been eliminated; partially replaced by homeland security grants, mainly for certain equipment purchases.

4. **No General Obligation Debt**: No debt service payments are being retired from general revenues. The only municipal debt is revenue-backed TIF bonds.   The City policy is to pay for capital improvement projects with available cash. The City may lend its general obligation debt guarantee to revenue-supported debt if interest costs can be reduced. Inter-fund borrowing will be considered where the borrowing may reduce costs and staff time, when the borrowing will not adversely impact other planned expenditures or needs, and when the level of reserve funds are not reduced to the point where the City's bond rating or ability to respond to unusual emergencies may be affected.

5. **Productivity**: There will be a continued strong emphasis on utilization of new technologies and innovative ideas in order to control costs and adapt to

changing municipal priorities and needs. An example of this was adoption of a 12-hour work shift in the Police Department. This created a more efficient staffing schedule that permitted more officers to be at work during periods when the public need was highest.

6. **Reserve Funds**: Sufficient funds are not available in the reserve account to deal with an unexpected loss or the effect of another landfill remediation.

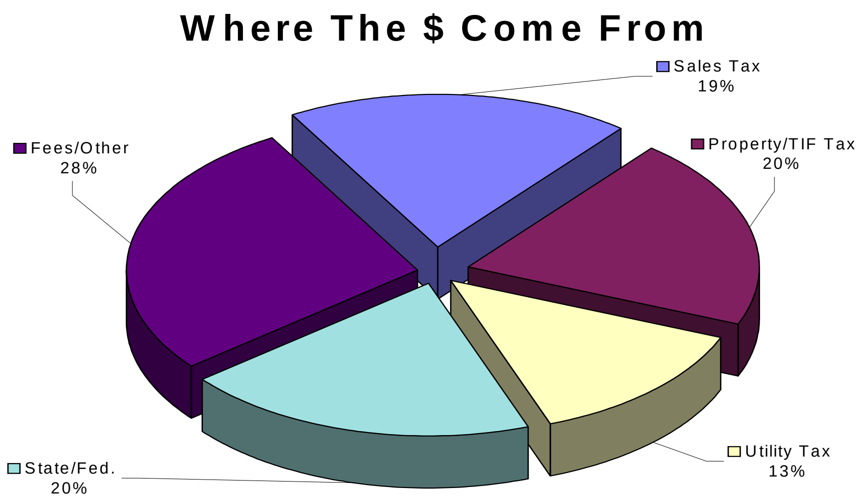
TRENDS AND INFORMATION AFFECTING FINANCIAL PLANNING

Trends in revenue growth, revenue diversification and operating costs are the basis on which multi-year financial planning assumptions are derived. The following information while largely historical is a good indicator of future financial trends.

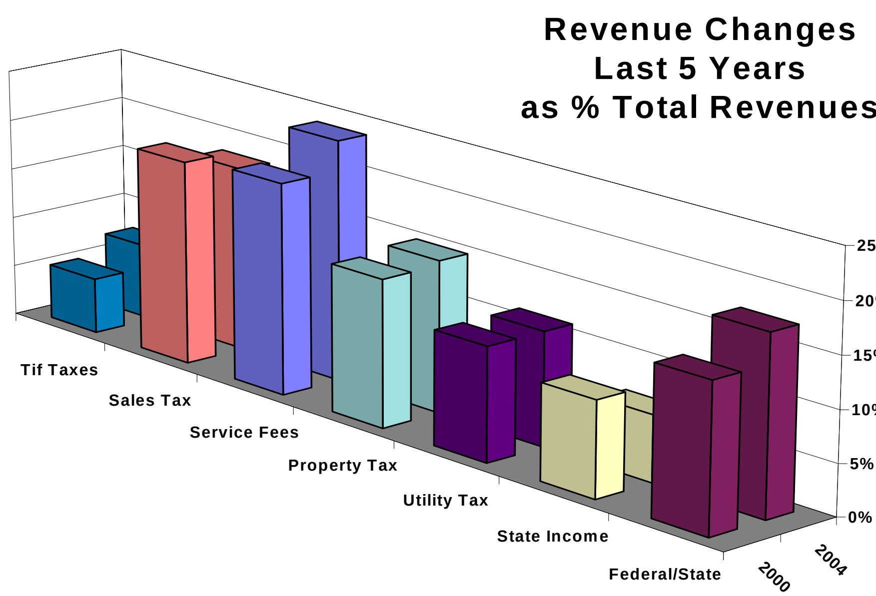
Diversity of Revenues:

It is generally held that the diversification of municipal revenue sources is positive to the extent that it provides greater stability in annual service levels and in tax rates. The City of Urbana obtains revenue from multiple sources and is not dependent on any single source of revenue to fund operations.

This diversity will help make projecting future revenues more reliable and will allow for steadier revenue growth. The chart to the right illustrates the relative relationship between revenue sources in Urbana.

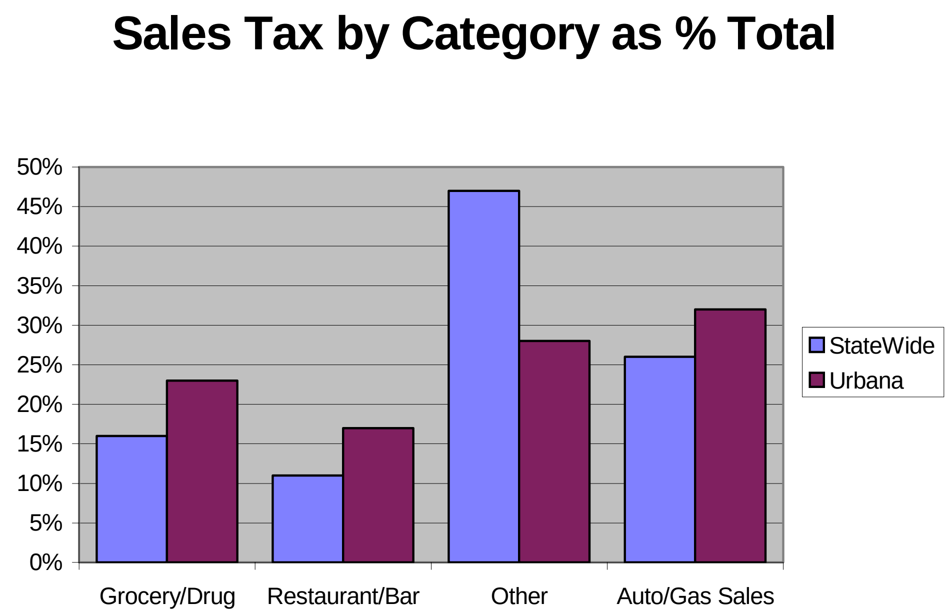


There has been very little change in the relative importance that each of these types of revenues have to the total revenues, over the past 5 years. Revenues from service fees have increased from 21% to 24%, as the public generally seems more willing to finance increased service levels with a dedicated revenue source rather than an increase in another tax. Federal/State Revenues have also increased 3% (14 to 17%). Income and Sales Taxes both have decreased 2%, reflective of the State and local economy.

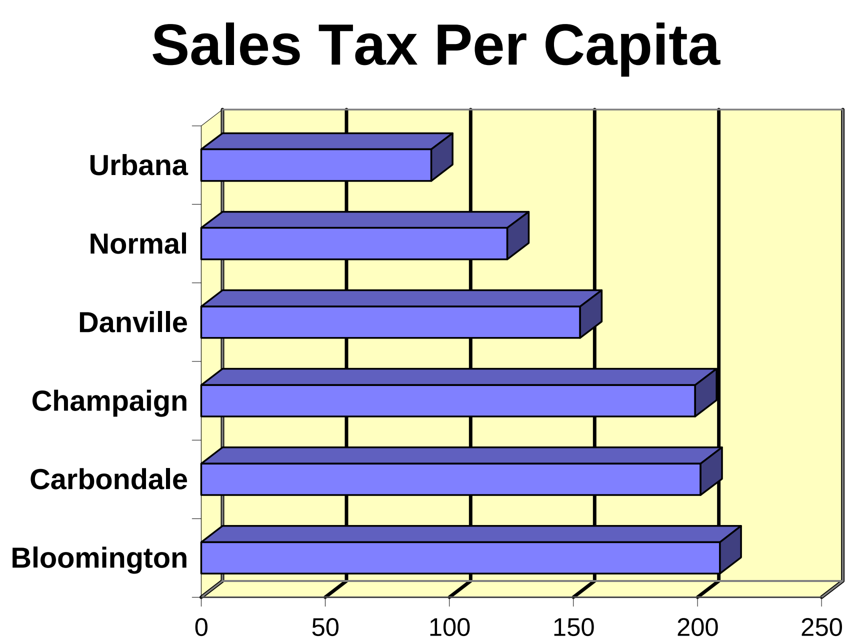


Sales taxes:

Sales tax revenue is a very important revenue source for the City of Urbana, producing 29% of the general fund operating revenues and 18% of the total annual revenues of the City. Of note is the percentage of sales tax generated from the sales of other items in Urbana as contrasted to the State average, which is illustrated in the chart below. This category includes receipts from general merchandise sales, which includes durable goods, clothing, construction materials and general retailing. For Urbana, this percentage is 28%, which is considerably lower than the State average of 47%. It is obvious that Urbana faces a challenge in producing sales tax from the 'other category'. Much of the disposable income from Urbana residents is spent in Champaign on such items.

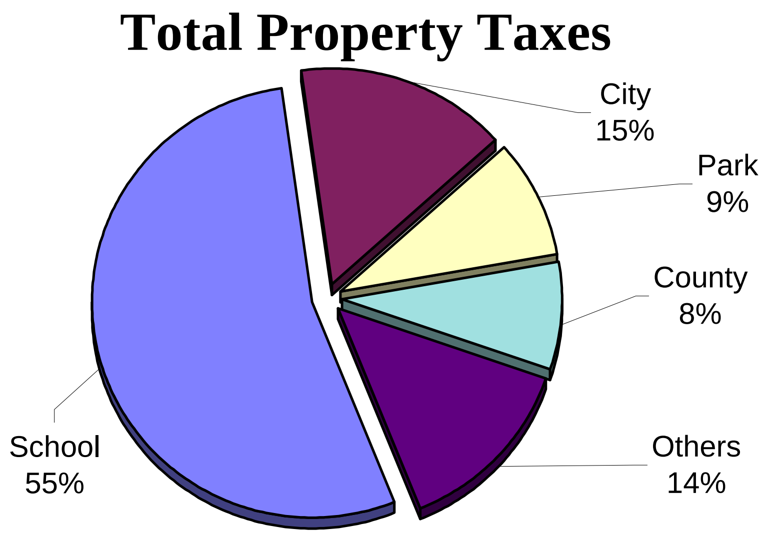


The chart to the left illustrates that Urbana is last in a comparison of taxable sales as a percent of population of selected cities in downstate Illinois. It is important for economic development planning to attempt to increase, where appropriate, the opportunities for Urbana citizens to do their retail shopping in Urbana. If Urbana were able to increase its sales tax to the average of Normal (next lowest City), the annual sales tax would increase $2.25 million, which is approximately 44% of Urbana's total property tax levy.

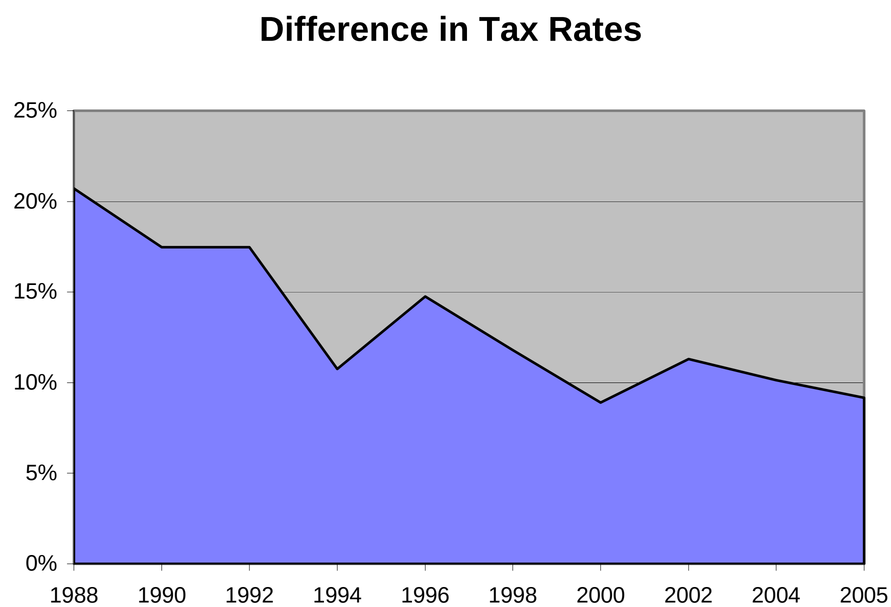


Property tax:

It is difficult for the City to have a significant impact on the total property tax bill since the City is responsible for only 15% of the total. The government that utilizes the largest share of the property tax is the School District, accounting for 55% of the total, as presented in the chart to the right.

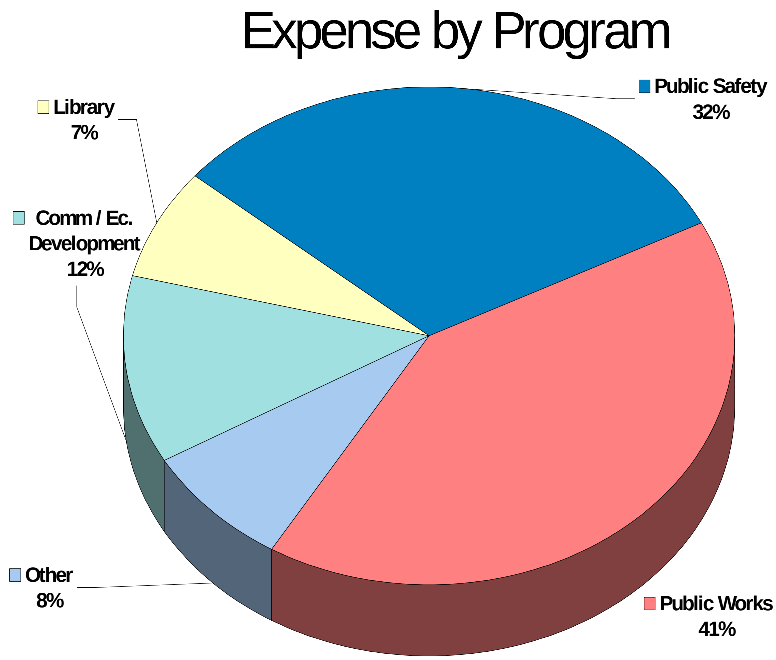


It is important to note that the difference in overall tax rates between the cities of Champaign and Urbana has been cut in half since 1988 (from 21% to 10%), as illustrated in the line chart to the right.

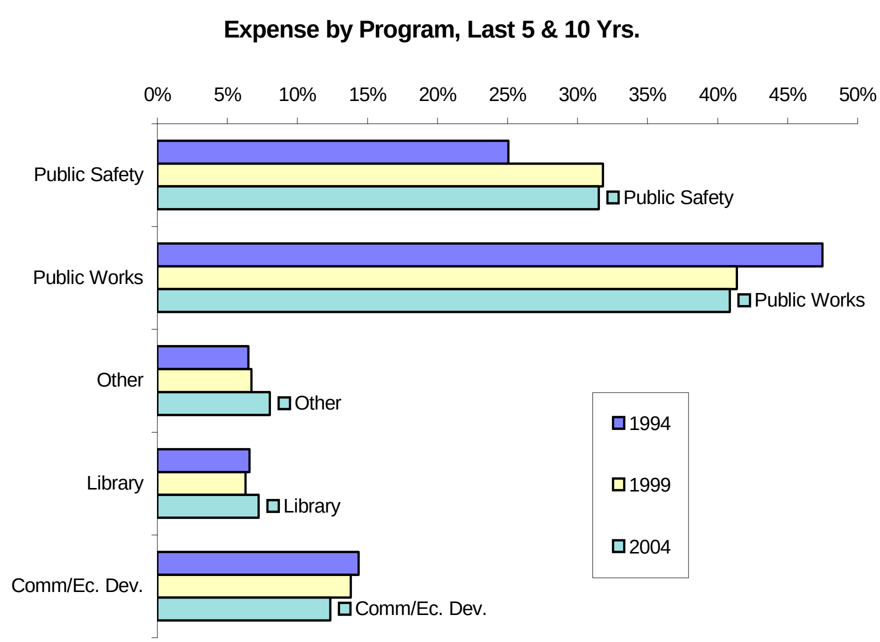


Expenses:

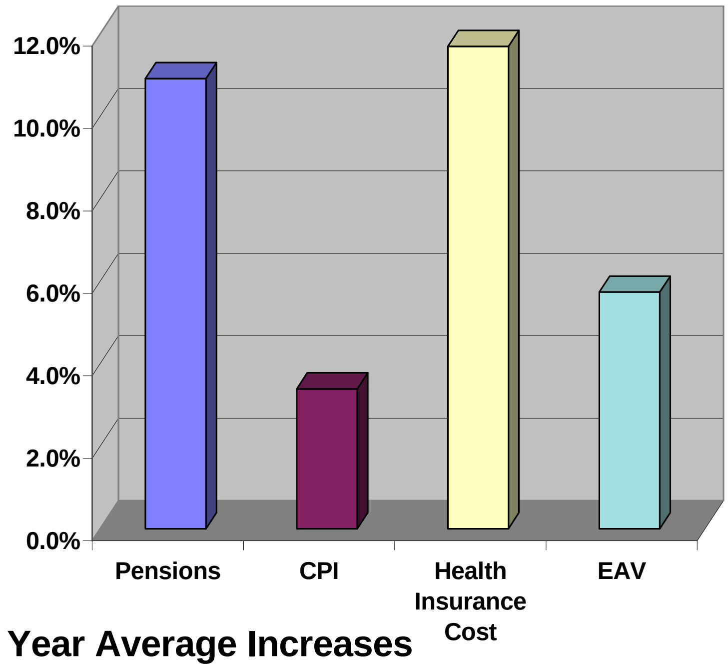
Public Works (includes capital improvements) is the largest expenditure program (41% of total) followed by Public Safety (Police and Fire) (32% of total) The pie chart to the right illustrates the current relationship of expenditures by program.



In looking at these functional percentages 5 and 10 years ago (see chart on right), they were very similar to current levels. Spending in these program areas has not decreased in actual dollars, but has decreased as a % of the total budget.



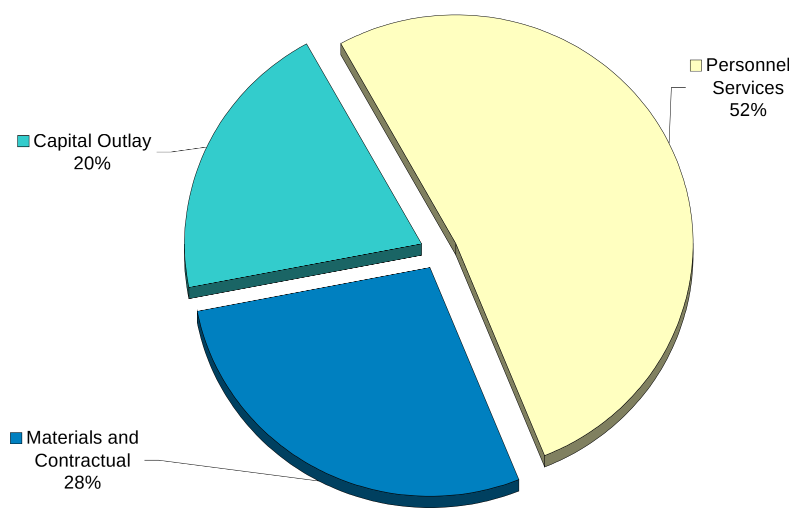
In the 1990's, the City experienced favorable rates of increase in certain major costs and EAV. However, recently these costs have risen significantly above the rate of inflation. Growth in EAV for the last 5 years has been good, averaging 5.7%; the rate of growth in the C.P.I. has remained relatively low (3.2%), the cost of health insurance has risen 11.7% each year, and pensions have risen 7.9% over this time, as highlighted in the chart on the left.



5 Year Average Increases

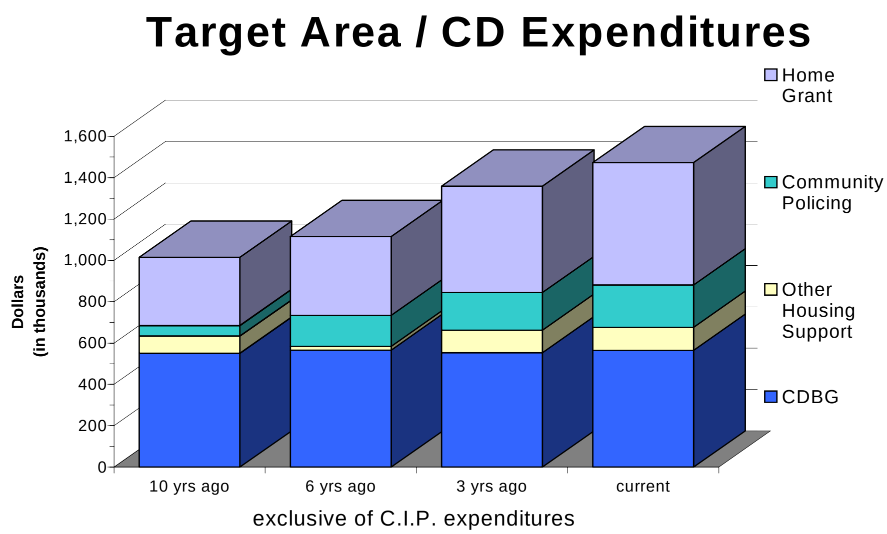
Pensions and employee insurance are especially critical to the City because 52% of the total city budget and 75% of the general operating fund budget is in the category of personnel costs.

Expense by Category



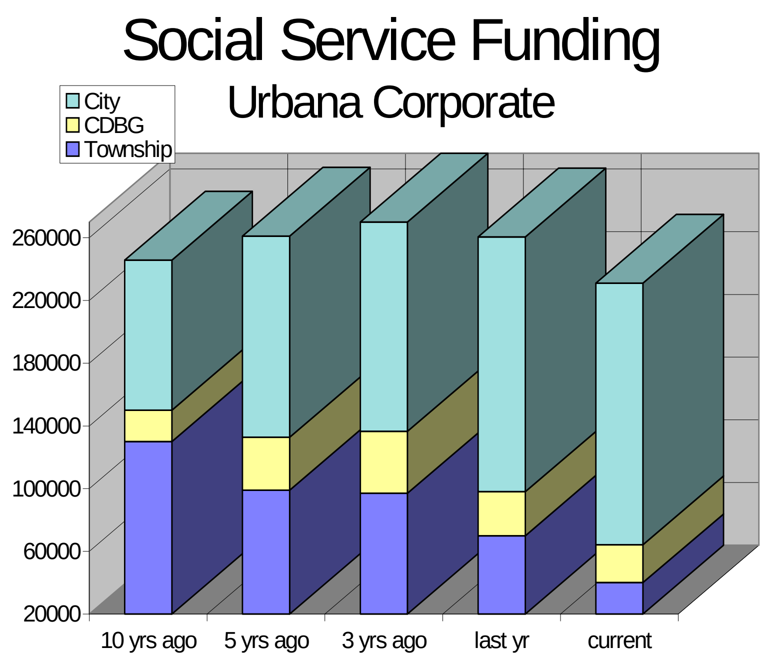
Target Area and Social Service Spending:

General funds budgeted for the target area activities has increased at a rate comparable to inflation over the last 6 years. For the most part this is accounted for in the CDBG and HOME Consortium grant proceeds, although the City has received notice that next year's allocation will be reduced 5%. The chart to the right illustrates the financial commitment to target area activities.



Social Service Spending:

While a relatively small amount of money, total social service agency spending has remained at approximately the same amount over the past 5 years, although the breakdown between the City, CDBG and Township has changed during this same time, as reflected in the chart to the right. Because the fund has a cash balance left from phasing out of the transitional housing grant, it is anticipated that social service agency funding will increase approximately 3 to 3.5%% each year over the next 2 years. The contribution from the general fund will increase 4.25%. This will allow the city contribution and the spending level to be in balance in 2007.

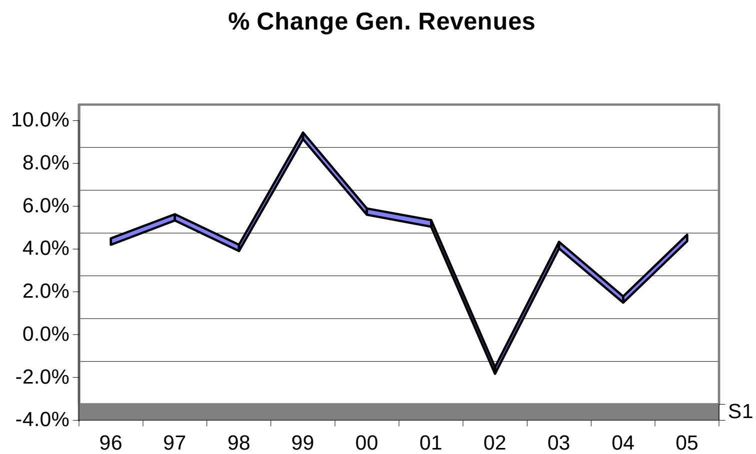


GENERAL OPERATING FUNDS

For financial planning purposes, the City includes all costs and revenues that it defines as recurring, except for those programs that have their own exclusive revenue sources (ex. Equipment Services, M.V.P.S.), as part of general operating funds. This would include those reported in the General Fund (normal departmental provided services such as police and fire safety and public works) but also includes normally recurring pension funds and library costs.

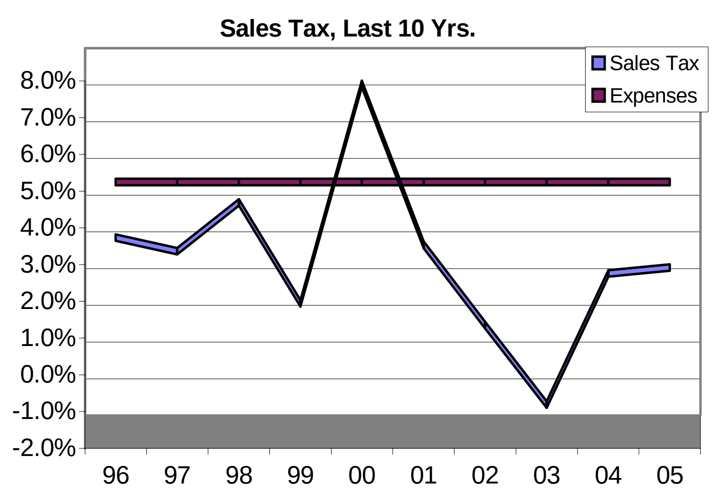
General Operating Funds Revenues

Future revenues reported in the General Fund are projected with some reasonable level of confidence but are also somewhat subject to volatility since they are dependent on the local economy (sales taxes) and dependent on the State economy (State income tax). Revenues of a non-recurring nature will be reported in the City's special funds and then may be identified to fund a non-recurring expenditure, through the budget process. The chart to the right illustrates the percentage change in general operating revenues over the past 10 years. Note that in the 3 years 99 through 01, revenues increased an annual average of 6.4% per year. However in the last 3 years, revenues have only increased an average of 1% per year (actually decreasing 2% in 02 and only increasing slightly above 1% in 04). For this current fiscal year 04-05, revenues are projected to rebound slightly to 4.0% growth.



<u>Sales Tax (28% of Total Revenues):</u>

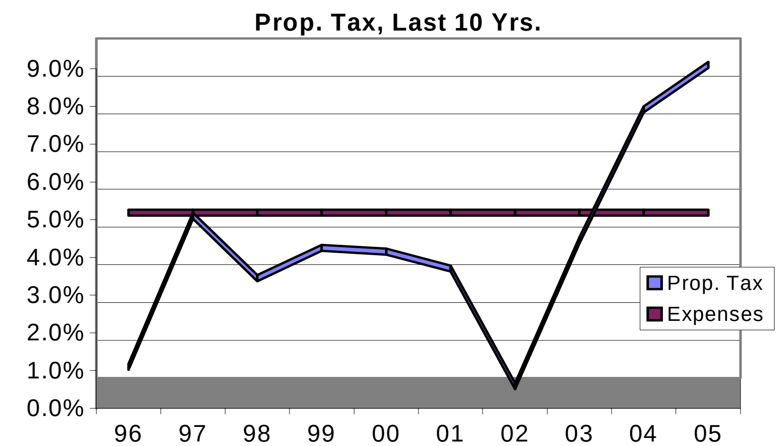
Sales tax is the largest revenue producer in the operating funds, accounting for 28% of revenues. The current sales tax rate on general retail sales in Urbana is 7.5% (State share 5.0%, County .5%, and City 2.0%). Sales tax is at virtually the exact same amount that it was three years ago. A significant factor is the closings of Bergners and Kmart. Before these closings, sales tax increased 3% over the same period. Last year, sales tax increased 4.7% before the



partial impact of the Kmart closing, which reduced this increase to 2.5%. We project sales tax for the current year to grow 2.6%. Included in these amounts are the hotel/motel tax at 5% and the City's .5% tax on sales of prepared food and beverages. Each 1% variance = $64,700.

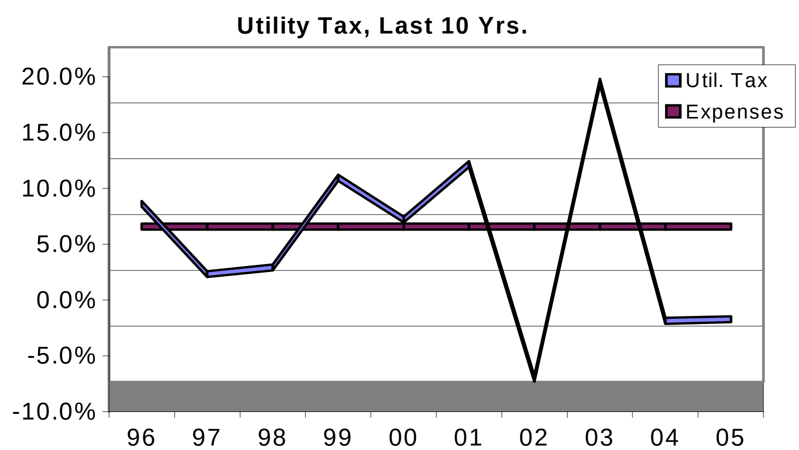
Property Tax (22% of Total Revenues):

Property tax is the second largest revenue producer and one of the few taxes that the City can control the amount it receives. Since, the City is maintaining it's property tax rate at $1.31, increases in property tax will be directly related to increases in assessed value. Assessed value increases come from inflationary changes to current property values and additions to the property inventory from new construction and annexations. To maintain the long-term financial viability of the City, it is important that property tax increase each year in amounts that are at least comparable to inflationary increases in expenses. Any increases in assessed value due to new construction and annexations will lower the amount that current property owners will pay. City programs and incentives designed to increase new construction are an important factor in this effort. Assessed value has averaged an annual increase of 5.7% over the last 3 years. Assessed value is projected to increase an average of 7% to 10% each year over the next 3 years. Each 1% variance = $62,800.



Utility Tax (20% of Total Revenues):

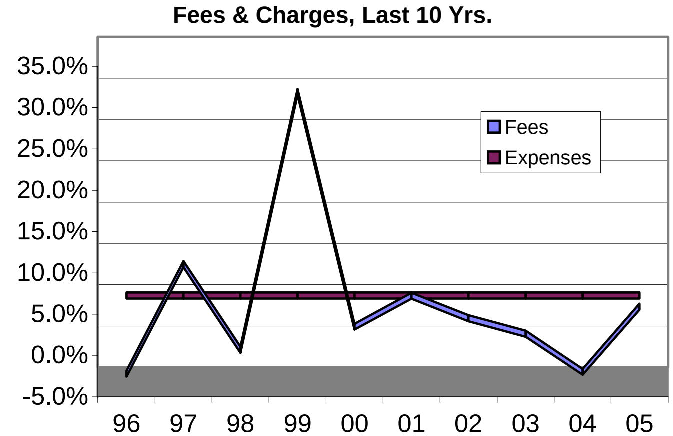
The City imposes a tax on Illinois Power and Water company bills. The tax on electricity is based on a kilowatt/hour basis, the tax on natural gas and water is 5%. Also included in this category is a 6% tax on telecommunications which is collected by the State of Illinois. Since utility tax is based on a point of sale definition, annexations and new development can impact this revenue. Utility tax has experienced wide fluctuations over the past 4 years due mainly to growth and price changes in cellular telephones, state collection of the telecommunications tax, the University of Illinois producing more of their own electricity, and changing energy prices. Utility tax has experienced a 5.0% annual average growth over the past 4 years. Utility tax is projected to



decrease 5.8% in the current year, but return to more normal annual increase of 3.5% in the near future. Each 1% variance = $40,200.

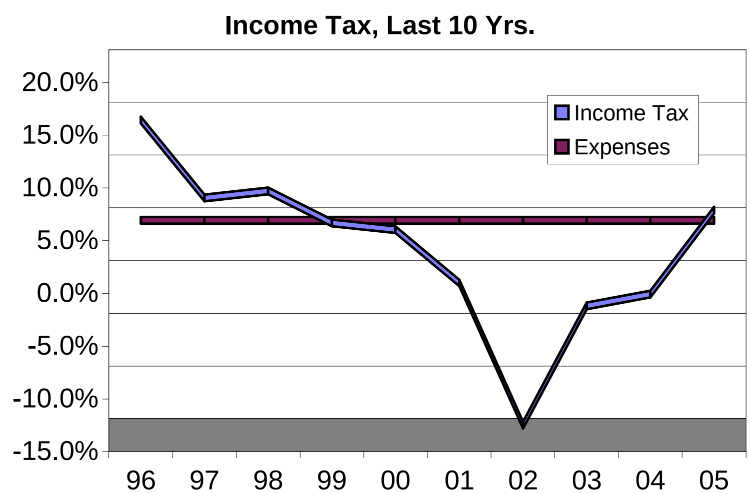
Fees, Fines, & Licenses (19% of Total Revenues):

The City charges fees for various permits, licenses, and services it provides, where it is deemed in the best interest of the public that these users pay directly for the service. Since most of these fees are controlled by the City, they can be expected to be increased annually in amounts similar to the inflationary cost of the related expenses. However, building fees can be affected by the level of building activity, interest can be affected by market fluctuations, and franchise fees can be affected by changes in State laws and regulations.   For next year three years, fees, fines and licenses are projected to achieve an annual increase of 3.5%. Each 1% variance = $43,380.



State Income Tax (11% of Total Revenues):

Ten percent of the State income tax on individuals and corporations is returned to local government on a formula based on population. Income tax is therefore very dependent on the state and national economy. State income tax is basically at the same exact amount of 8 years ago, as indicated in the chart to the right. Pojections for income tax are based on estimates provided by the Il. Dept. of Revenue. The State Legislature has recently discussed the possibility of adjusting the formula which allocates income tax, in order to help the State's finances. If these changes are enacted, it would have a significant negative impact and might possibly cost $300,000 per year. Each 1% variance = $24,900.



General Operating Funds Expenditures

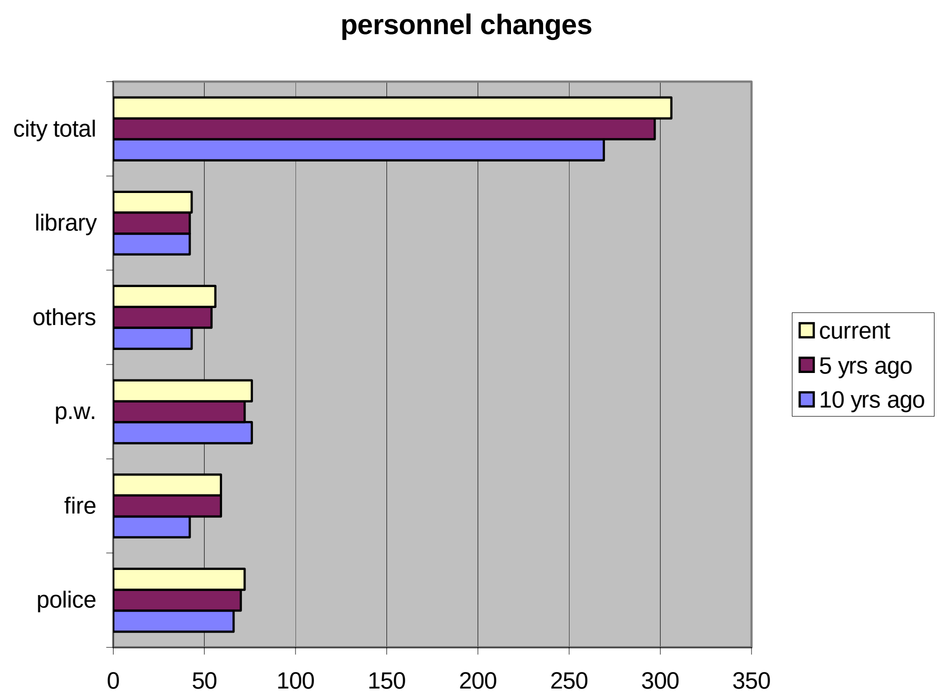
General Operating Fund Expenditures are typically those services that the public expects to receive from the City. They are largely controllable and predictable but for perhaps some unanticipated costs due to public safety overtime and snow removal overtime and salt materials in Public Works due to unusual winter weather. A significant portion of these expenditures (86%) is used to provide current services (sewer, street and traffic maintenance, fire and police safety, and library). The remaining 14% is used to build and replace infrastructure such as streets, sewers, streetlights, etc. Breaking down these expenditures by category shows that 74% are in personnel costs. Also reported in the General Fund are recurring transfers to other funds such as transfers for capital improvements, equipment replacement, etc. These transfers are required annually to maintain current service levels.

Multi-Year Financial Planning for General Operating Funds

Inherent in the City's budgetary and financial decision processes is the importance of examining the impact of these decisions in a multi-year horizon (defined as 5 years in the future). To do this, the City annually updates and publishes multi-year financial projections for the general operating funds. The following assumptions have been utilized in this multi-year financial plan.

1. **Property Tax**: The property tax rate is maintained at $1.31 per $100 EAV. This plan assumes a 9.9% growth in EAV for next year (FY05-06), 4.4% due to annexations/new construction and 5.5% growth due to inflationary impact on current property. For FY06-07, a 10.1% growth is assumed and a 6% growth in FY07-08.
2. **Pensions:** Based on actuarial needs, pension costs (Police, Fire and IMRF) increased an average of 6.9% annually over the previous 3 years. Pension costs increase proportionally with salary adjustments. In addition, costs have increased due to increased life expectancy and benefit enhancements. The State Legislature controls both benefit and funding levels. Local governments are anticipating that state employee bargaining groups will be requesting additional benefit increases in the coming months. However, local governments are actively working to keep any cost/benefit increases to a minimum amount. Declines in the stock market have a significant impact on all three pension funds, since the City by law must make up any decline in investment returns.
3. **Budget Growth**: With the opening of the Walmart store and demands from other developments and growth in southeast Urbana, it is anticipated that the City will add 2 full-time police officers in the FY05-06 budget, along with a squad car, effective November 1, 2005. With the completed construction of the new library, 1 F.T.E. custodian is proposed to be added. Because, revenues from these new developments are only estimates, it is important to limit any additional budget increases to inflationary growth until the exact amount of new revenues is determined. At that time, any other new programs and service enhancements shall receive independent evaluation. None are projected at this time.

4. **Personnel:** The number employed by the City has changed very little over the past 5 years (total increased by 9 positions to current 306 authorized F.T.E. positions), as illustrated in the chart to the right, although approximately 4 of these 9 positions were financed at least in part by special new dedicated revenues. The Police Department has added 2 officers, 1 of these were funded by federal grant monies for the first 3 years; the Public Works Department has added 4 positions (mainly reflecting increases in service area due to annexations); the Finance Department .5 positions in Information Services (funded by new dedicated revenue sources); Community Development 1.5 position in Planning; and the Library 1 position. Future personnel additions will be minimal unless a new specific revenue source is identified.



5. **Economic Development Projects**: Future net new revenues (after tax rebates and estimated transfers of current sales) from economic development projects such as Walgreen's and Walmart are factored into the projected revenue figures 50% in FY05-06 and 100% in FY06-07 plus 100% for O'Brien's in FY06-07. These are only estimates and caution must be used in adding expenditures to be paid from these revenues until actual estimates can be realistically determined.

6. **Wages and Union Contracts**: The contract with firefighter's employee unit was approved in 2001 and expires June 30, 2004. Three year agreements with the police officer's employee unit (FOP) and the City's other employee bargaining unit (AFSCME) were approved effective July 1, 2003. These agreements contained cost increases within city projections. Non-union and bargaining unit salaries beyond contract dates are not estimated to increase materially beyond the annual increase in the cost of living.

7. **Health Care Costs:** These costs account for approximately 8% of the total personnel costs (salary, benefits, and retirement) for the City. Because the local health care environment had been fairly competitive prior to 4-5 years ago, the City had been able to negotiate average annual increases lower than increases experienced nationally. However, health insurance cost has increased an average of 12% per year over the last 4 years and estimated to increase 15% next year. We estimate that health insurance costs will increase 10-12% annually in the near future, for a total 4% annual increase in wage and health care costs for the immediately known planning horizon.

Actions will be explored to reduce the rate of increases to include possible reduced benefit coverage and increased employee co-payments.

8. **Public Safety Services**: Increasing technological innovations are improving the service levels the public is demanding in the area of public safety (Police and Fire). These innovations are also increasing the cost of the equipment as squad cars, fire trucks, and other equipment becomes more computerized. The METCAD (centralized dispatching and record keeping) portion of these future expenses for equipment costs may be funded through the 911 surcharges. Assisted by a $1 million federal grant, the local law enforcement agencies that participate in METCAD were able to purchase state of the art mobile digital computers 2 years ago. Operating costs for METCAD are anticipated to increase at a rate slightly less than inflation. No additional general fund contributions are anticipated to fund the future METCAD radio project.

9. **Fees and Fines Revenue**: Fees and fines will be adjusted periodically to match inflationary costs, including the sewer benefit tax. Fines are also periodically reviewed to ensure that the cost of the fine is sufficient to meet its intended use of discouraging certain activities. It is anticipated that normal inflationary increases in these fees and charges will be put in place and new sources of revenues explored. The billing process for the City's sewer benefit tax is planned to be shifted to the U-C Sanitary District in FY05-06, with a very minor cost increase.

10. **Cable Fees**: Revenues from the 5% cable franchise fee and 2% PEG (Public, Educational, and Government) fee are assumed to increase at inflationary levels. Revenues and costs for the PEG program are accounted for in a separate fund. Projected expenses for the PEG program will not exceed the annual revenues.

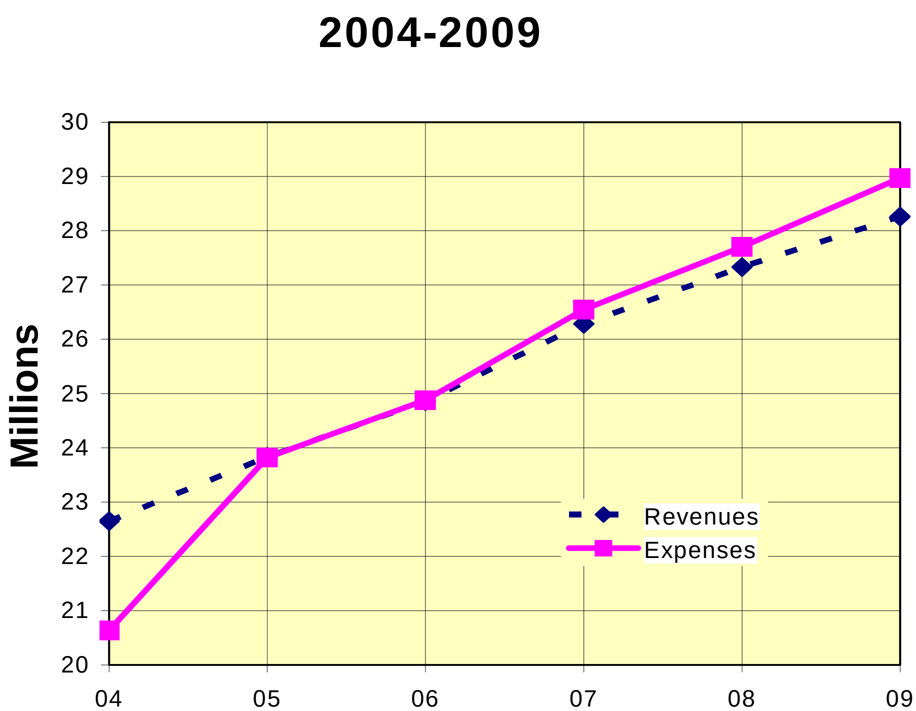
11. **Funding for Economic Development and Tourism**: Funding for the EDC and CUCVB is planned to be held to current levels with increases slightly less than inflation. Funding of the Urbana Business Association in the amount of $50,000 is included.

12. **U-Cycle:** Curbside recycling costs are funded through the City recycling tax. The single-family service was implemented in 1996 and the multi-family service in 1999. The drop-off site was closed in 1999 when the multi-family service began. The City's contracts to provide service for these programs does not expire until April 2009. The cost for the tax is $27/year per household. This amount should be sufficient to pay for costs during this period.

13. **Worker's Compensation**: Due to reduced claims costs, the annual general fund contribution to this fund has been reduced 75% since the program began in 1993 (savings of $450,000/yr.). As long as this favorable claim experience continues, an annual contribution of $160,000 from the general fund along with interest earnings will finance claim costs and all expenses, maintaining the fund at $2.9 million.

FIVE YEAR FINANCIAL OPERATING FUNDS PROJECTIONS

Based on the above outlined measures, economic activities, and assumptions, the City's 2004-05 General Operating Funds budget projects revenues to be equal to expenses. This number was $1.2 million above expenses 4 years ago. In FY05-60 revenues have been added for the projected opening of Walmart on 2/1/06 and in FY07 for the opening of O'Brien's.



The actual numbers, which depict this chart, follow:

GENERAL OPERATING FUNDS

	ACTUAL 2003-04	PROJECTED 2004-05	% CHG.	PROJECTED 2005-06	% CHG.	PROJECTED 2006-07	% CHG.	PROJECTED 2007-08	% CHG.
Normal Carryover, Prev. Year	$861,420	$ 891,570		$ 786,527		$ 814,055		$ 842,546	
Revenues /Transfers	$16,766,144	$17,426,647	3.94%	$17,776,216	2.01%	$18,623,740	3.31%	$19,605,004	3.33%
U/I Payment Lieu Utility Tax	0	150,000		150,000		0		0	
New Revenues from Walmart & O'briens	0	0		250,000		350,000		0	
Property Tax (less Carle)	5,019,338	5,366,886	6.92%	5,896,722	9.87%	6,495,008	10.15%	6,884,708	6.00%
Subtotal, Rev. & Prop. Tax & Carryover	$22,646,902	$23,835,103	5.25%	$24,859,465	4.30%	$26,282,803	5.73%	$27,332,259	3.99%
Expenses:									
Recurring Departments & Transfers	$17,381,770	$18,059,956	3.90%	$18,644,944	3.24%	$19,671,460	4.31%	$20,484,868	3.73%
Add'l Officers & Library Custodian	0	0	#DIV/0!	213,920	#DIV/0!	76,672	-64.16%	0	######
Transfer to Cap. Impr. Fund	484,300	673,887	39.15%	446,100	-33.80%	796,070	78.45%	823,932	3.50%
Pension Costs	2,598,615	3,192,700	22.86%	3,564,100	11.63%	3,873,751	8.69%	4,144,914	7.00%
Library	2,012,940	2,117,772	5.21%	2,234,590	5.52%	2,357,492	5.50%	2,487,155	5.50%
Total Expenses	$ 22,477,625	$ 24,044,315	6.97%	$ 25,103,654	4.41%	$ 26,775,446	6.66%	$ 27,940,868	4.35%
Add Unspent Amounts	$950,552	$1,010,124		$1,040,428		$1,071,640		$1,109,147	
Normal Unspent Carryover	$ (891,570)	$ (786,527)		$ (814,055)		$ (842,546)		$ (872,035)	
Revenues Over (Under) Exp.	$ 228,259	$ 14,385		$ (17,816)		$ (263,549)		$ (371,497)	
Non-Recurring Carryover Prev. Years	$ 3,220	$ 3,439		17,824		8		(263,541)	
Non-Recurring Transfers to Reserve Funds	($228,040)	$0		$0		$0		$0	
Non-Recurring Carryover	$ 3,439	$ 17,824		$ 8		$ (263,541)		$ (635,038)	

SPECIAL FUNDS WHICH SUPPORT THE GENERAL OPERATING FUND

Certain activities are reported in special funds for better accounting and reporting ease but are basically financed by transfers from the General Operating Fund or the costs of these activities can be considered of an annual recurring nature. Thus, assumptions and future financial spending in these areas may directly impact the General Operating Fund. A description and financial summary of these funds are:

Social Service Agencies:

Accounts for payments to social service agencies: Total social service agency funding is provided from three sources: (1) City General Operating Fund, (2) Community Development Block Grant, and Cunningham Township. Specific allocations will be decided prior to adoption of the annual budget. Financial details are reported in the annual budget document. Social service funding policies are:

- A single process shall be utilized for General Fund, CDBG, HOME, and Township funding decisions.
- Cunningham Township obligations will not be shifted to the City.
- The amount contributed by the City General Fund for social service agencies is anticipated to increase at normal inflationary rates.
- Urbana citizens shall be a direct beneficiary of the service with costs proportional to others served.

Due to a transfer of cash from the Transitional Housing Fund and to some agencies in the past, not spending their allocations as budgeted, this fund had $19,527 in cash at June 30, 2004. This cash has allowed the City to spend higher amounts for social services over the past few years. The current city contribution is $157,880; current social service spending is $166,860. This cash along with an inflationary increase in the annual city contribution will allow the total allocation for social service agencies to be increased approximately 3% each year until fiscal year 2006-07. At that time, all the accumulated cash will be spent and the city contribution and social service agency spending will be equal. It is then anticipated that spending and the city contribution would then go up by an inflation factor.

Equipment Services:

This fund accounts for costs of maintaining the City's fleet of vehicles and major equipment. Funding is provided by charges to each program and department based on actual maintenance costs. Costs include personnel and benefits (mechanics), parts and fuel, contractual repairs, and equipment replacement. It is anticipated that costs and charges to the city departments will increase in the future by inflationary costs of these items.

Vehicle and Equipment Replacement:

This fund sets monies aside to provide for the scheduled replacement of approximately $10 million in major equipment that is used by the city to provide services. Funding is provided by an annual charge to each department, based on replacement costs of equipment used by that department. The purpose of setting monies aside each year is to avoid significant fluctuations in taxing needs and to avoid borrowing in a year in which a large cost of making these purchases in incurred (for example, a fire ladder truck alone costs $700,000). In FY03, the inventory of equipment and estimated replacement lives was carefully reviewed and a number of equipment replacement lives were extended. This action saved approximately $210,000 annually to the General Fund, reducing the annual funding level to approximately $713,000. Any new equipment needs will be evaluated individually and material amounts will require a non-recurring transfer to make the initial purchase and also an increase in the annual funding for replacement of the new item. In the near future, any new equipment or current equipment enhancements will probably only be approved if the equipment can save long-term operating costs.

Recycling:

All ongoing recycling expenses are reported in the Recycling Fund, including costs for both the residential and multi-family U-Cycle programs (multi-family program began August of 1999). The drop-off site was closed in 1999 when the multi-family recycling pickup began. The annual costs for the recycling tax is $27/yr. A bill for this amount is mailed to all single-family residences in March of each year. Multi-family residences are billed quarterly. This amount should be sufficient to pay the costs of the service until 4/1/09, when the current collection contract expires.

Costs relating to the Champaign-Urbana Solid Waste Disposal System (CUSWDS) and the costs of the Environmental Control Program are reported in the Public Works Department of the General Fund. It is expected that CUSWDS funding will not exceed $20,000 - $30,000 per year for the next ten years (for long term groundwater monitoring and periodic erosion maintenance of the closed landfill complex) pursuant to an agreement with neighboring property owners. These costs are in addition to remediation costs to prevent leakage at the old landfill, which are reported separately in the City's General Reserve Fund.

Landscape Recycling Center:

Costs to operate the regional landscape recycling center and revenues charged are reported in a separate Landscape Recycling Center Fund. Currently, the tipping fees charged and revenue from sales is sufficient to pay for all costs including personnel, supplies, contractual costs, and equipment replacement (currently approximately $400,000). It is assumed that the Landscape Recycling Center will continue to operate on a break-even basis in the future.

Cable TV Public, Educational, and Governmental (PEG) FUND:

In 1994, the City of Urbana re-negotiated the local cable television franchise agreement with Time Warner. At that time, the City imposed a 2% franchise fee to pay for costs of operating PEG services on cable TV and began depositing these revenues into the PEG fund. Annual revenues from this 2% fee are currently $100,000. Expenditures from this budget will continue to be dedicated to staffing and equipment needed to operate Urbana's PEG channel (Urbana Public Television (UPTV). The difference between revenues from this fee and operating costs (currently $90,000) are being transferred and set aside in the City's Vehicle and Equipment Replacement Fund for replacement of current PEG equipment. These reserve monies are also earmarked for the upgrade to digital and HDTV, which the FCC is currently requiring to be completed by 2006. It is assumed that costs of providing future PEG service will not exceed revenues from the 2% franchise fee.

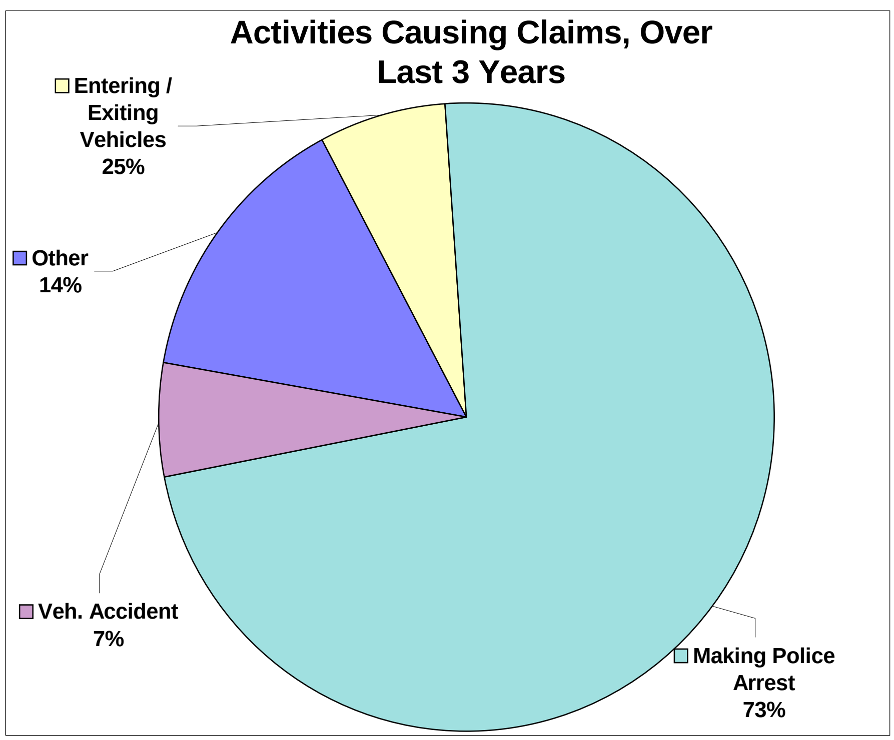
Police Records Management Fund (A.R.M.S.):

In 1996, the City of Urbana entered into an agreement with the City of Champaign and the University of Illinois to provide an integrated police computerized records management system through METCAD. The City of Urbana agreed to be the lead agency to maintain and administer this program. The three participating agencies have agreed to share costs 1/3 each with Urbana receiving 25% of the personnel costs as reimbursement for administration. This fund accounts for these costs and revenues. The majority of these annual costs ($76,000) are for personnel costs of a programmer/analyst, payroll taxes and benefits. The City of Urbana's share of these costs net of reimbursement for administration ($15,000) is reported in the Police Department budget.

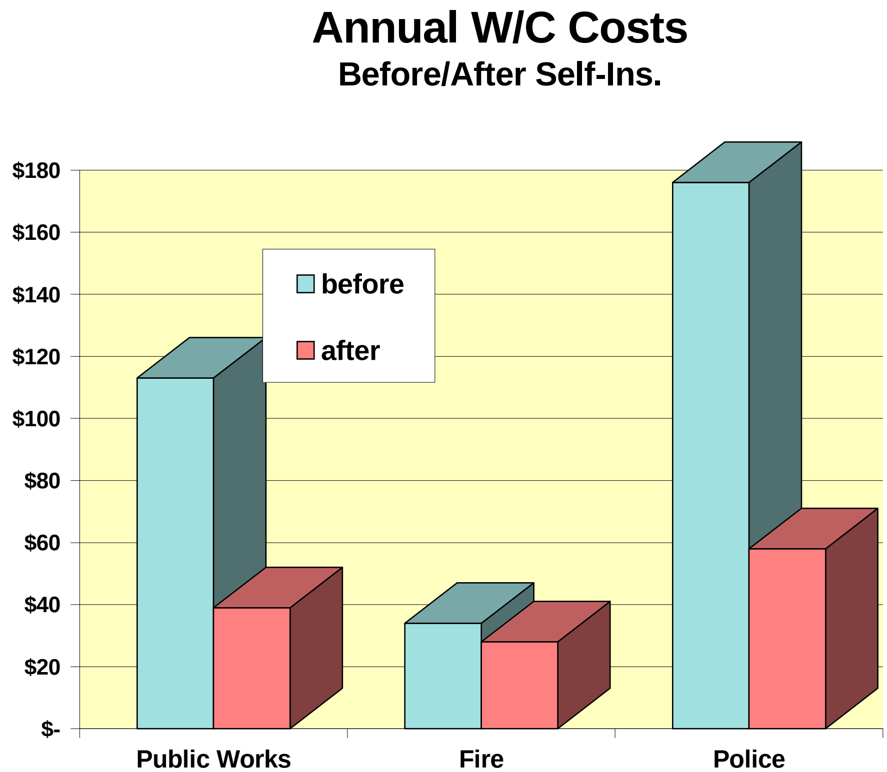
The Retained Risk Reserve Fund:

In 1994, the City created this fund to self-insure worker's compensation claim costs. In order to accumulate monies sufficient to pay for claims, the City charged programs and department budgets annually amounts equal to what the City previously paid for conventional worker's compensation insurance. Costs charged to the fund are payments made for claims, excess insurance purchased to protect the City from a catastrophic claim, administrative costs of the program, and costs for employee safety training and incentive programs. It was the goal that savings would accumulate until an amount of approximately $2.5 million was achieved. That level was reached by June 2000. Since that time, the City has reduced the amount transferred from the general fund by approximately 75%, thus saving the general fund $450,000 annually from the amount it would have paid for conventional insurance. As of the end of FY04, these savings to the General Fund have accumulated to $1.5 million. In addition, at June 30, 2004, this fund had accumulated $2.96 million dollars in savings and interest earnings to pay for any possible future large claims.

Effective November 1, 2002, the City also began to assume more risk with auto and general liability claims, changing the deductible on it's insurance coverage to $200,000 per claim and to self-insuring auto replacement coverage. Savings from this program are also being reported in this fund. Similar to worker compensation, , the City is charging programs and department budgets annual amounts equal to what the City previously paid for previous conventional insurance in order to accumulate monies sufficient to pay for the larger deductibles. At the end of two years, the City has been able to save $271,000.



Examination of claims over the last three years indicates that 73% of the costs of worker compensation claims originated from activities involved in making police arrests (usually subduing an arrestee). The Police Department and City Employee Safety Committees are concentrating their efforts to reduce claims involved with these activities.



The chart to the left illustrates the improvements made by employees in reducing claims paid out by the major departments of the City, before and after self-insuring.

OTHER SPECIAL FUNDS

Certain activities are required to be reported separately due to regulatory and administrative reasons. In addition, certain activities are reported in separate funds to provide a better accounting. Significant municipal resources are programmed within the City's Special Funds, which are organized by purpose or activity. A description and financial summary of the most significant of these funds are:

General Reserve Fund (Savings):

The City of Urbana maintains a reserve fund, called the General Reserve Fund (formerly the Tax Stabilization Fund). The purpose of the General Reserve Fund is to provide stability in delivering services or in raising revenues when fluctuations are occurring in the City's financial situation. These fluctuations are most often caused by economic changes or changes in State or Federal laws. The General Reserve Fund's balance is also dependent upon current economic development needs of the City. It is the City's policy to utilize these reserves for short to mid-term borrowing in lieu of issuing public debt for economic development projects. This is advantageous because it saves the costs involved in issuing public debt . These loans have been used to further economic development.

For these cash projection purposes all amounts of recurring revenues that exceed recurring expenditures in the general operating funds are transferred into the General Reserve Fund. Non-recurring expenditures that these monies will be spent on are also then reported in the fund. The amount that will be maintained in the General Reserve Fund in the near future will be dependent upon the payback time for the development projects that the city has and is planning on investing in the future. These projections have estimated revenues from these projects very conservatively. At June 30, 2005, the General Reserve Fund is projected to have a balance of $628,150 (after landfill remediation costs of $1.5 million over the last 2 years and the purchase of 704 Glover property at $387,000). Due to the decline in revenues in the General Fund, it is not anticipated that additional amounts will be available to transfer into the Reserve Fund in the near future. In the long-term, it is anticipated that funds will be needed to address facility needs including a possible public works facility expansion. The 704 Glover purchase should address the city's long-range need for storage facilities.

While it is illegal to run a deficit fund balance, there has been considerable debate as to an appropriate surplus level for Urbana's unreserved fund balance. There are several factors, which would indicate a limited need for a large unreserved fund balance including the stability of our local economy, revenue base and mix, the predictability of our cash flow needs and limited debt. Furthermore, some citizens subscribe to the view that local government should not raise money until it is needed and that excessive fund balances are an indication of over-taxation. In the past, taxpayers challenging the determination of appropriate reserve levels for local governments in other states have filed lawsuits.

On the other hand, Urbana in the last 2-3 years, has experienced unusual fluctuations in sales, utility, and state income tax receipts and uncertainty regarding the retention of certain businesses. The fact that revenues from the federal and state governments continue to be a significant part of Urbana total revenue base (currently 20%) is additional reason for Urbana to maintain an adequate reserve. For as these governments' budgets periodically come under tight fiscal pressures, there is always discussion and real possibility that these revenues will be reduced. It can also be argued that Urbana can "earn" net revenues over inflationary purchasing power adjustments through structured medium term investment strategies--although this is not always the case, given the interest rate environment.

Of growing concern is Urbana's reliance on large property tax payers. This fact has been impressed upon local governments and taxpayers of Urbana a few years ago when Carle announced it was considering requesting a tax-exempt status. Carle is the single largest property tax payer in the City of Urbana, accounting for 9% of the entire Urbana property tax base. The top ten property tax payers account for 24% of the tax base. In comparison, the top taxpayer in Champaign accounts for only 2% and the top ten 9% of their tax base. The result is that Urbana is almost three-times as dependent upon a very few large taxpayers. Over the past 10 years, Urbana's reliance on a few large taxpayers has almost doubled. If Urbana were to lose one of these taxpayers, the impact would be very severe. This fact supports the maintenance of reserves at a higher level than otherwise would be required.

<u>An Elected Officials Guide to Fund Balance</u>, published by the Government Finance Officers Association (GFOA) suggests "rules of thumb" to measure the adequacy of unreserved fund balance. One of these measures is 5% of annual operating expenditures. Urbana's General Operating Funds expenditures are projected in FY 04-05 to be approximately $23 million. Five percent of this figure is approximately $1.2 million. Urbana's total expenditures in all funds (including CIP, Library Trust Fund, CD, etc.) are projected to be approximately $32 million. Five percent of this figure is $1.6 million. Another approach cited by this publication is the use of one month's operating expenditures (8.3%) as an adequate unreserved fund balance for municipalities. For Urbana, one month's operating expenditures are equivalent to $1.9 million.

Of major significance in this debate is Urbana's bond rating and its relationship to our unreserved fund balance. Urbana enjoys an Aa2 bond rating from Moody's, which is considered to be very good. An unrestricted, unreserved fund balance of 10% or greater of a municipality's operating budget is the "comfort zone" for *Moody's*. For Urbana, an unreserved fund balance of $2.3 million is a minimum figure to provide the comfort level necessary (everything else being equal) to maintain an Aa2 bond rating at *Moody's*.

<u>The Financial Indicators Data Book For The Year 1990</u>, as published by the GFOA, provides some additional insight into National trends regarding unreserved and unrestricted fund balance levels for municipalities. Of the 260 cities, villages and towns applying for the GFOA Certificate of Achievement Award in 1990, with populations between 25,000 and 49,999, the median fund balance was $51 per capita. Utilizing a $51.00 per capita figure adjusted by inflation since 1990, yields an approximate $3 million unreserved fund balance for Urbana.

Because of all of the factors noted above, the City desires to maintain a balance of $3 million. This level would put Urbana in the upper quarter of certain select cities in the GFOA study. Because of the downtown in City revenues over the past few years and because of some unusual expenses (landfill remediation of $1.5 million), the City will probably not be able to achieve this level in the next 2-3 years. No other significant expenditures are programmed over the next few years.

The following table illustrates financial projections for the General Reserve Fund.

	ACTUAL 2003-04	PROJECTED 2004-05	PROJECTED 2005-06	PROJECTED 2006-07	PROJECTED 2007-08	PROJECTED 2008-09
Cash Bal., Beg. Year	$2,101,246	$1,837,050	$628,150	$671,650	$706,650	$741,050
Revenues:						
Interest/investments	$ 5,973	$ 66,000	$ 44,000	$ 50,000	$ 50,000	$ 50,000
U/I Reimb., Landfill Costs	39,544	442,877	0	0	0	0
State Land Study Grant	8,544	141,456	0	0	0	0
Transfer from Gen. Fund	148,040	0	0	0	0	0
Mortgage Bond Refinancing	502,343	0	0	0	0	0
Total Revenues	$ 704,444	$ 650,333	$ 44,000	$ 50,000	$ 50,000	$ 50,000
Expenditures:						
Non-Recurring Costs	$ 8,183	$ 402,347	$ 500	$ 15,000	$ 15,600	$ 16,224
Landfill Mitigation Costs	144,753	1,315,430	0	0	0	0
Land Study (Grant)	8,544	141,456	0	0	0	0
Transfer to Library Bldg. Fund	807,160	-	0	0	0	0
Total Expenditures	$ 968,640	$ 1,859,233	$ 500	$ 15,000	$ 15,600	$ 16,224
Cash Bal. End Year	$1,837,050	$628,150	$671,650	$706,650	$741,050	$774,826

Sales Tax Grant/Insurance Reserve Fund:

This Fund is used as the City's local match in order to receive a State grant in the TIF2 Fund. The grant is based on incremental sales tax generated. These funds came from proceeds of the sale of the Federal Courthouse land. It is projected that at June 30, 2005, all of the monies in this fund will be paid out for the local match. Given the estimated time of relocation of the University Auto Park, it is probable that TIF2 will not be eligible for significant amounts of sales tax grants after December 31, 2006. Therefore, it will be necessary to identify some capital improvement projects that are eligible to be charged to the TIF2 fund that were originally planned to be paid for from other city funds. These amounts can then be transferred to the TIF2 fund for the local match for the FY05-06 and 1/2 of the FY06-07 grant allocation.

Building Fund:

The Building Fund was established in FY 1990-91 as a mechanism to set aside funds to address facility deficiencies. This action represented the City Council policy to "pay as you go" for needed facility improvements. Expenditures from the Fund have been used for minor facility upgrades, the Public Works building addition, acquisition of the Winkelman Building, expansion of the Police Department and City Hall related improvements, and the library addition and improvement project. It is anticipated that $100,000 will be left in the fund after completion of the library construction. The Administration's strategy with respect to facility expansion includes the following policies:

1. Projects are undertaken generally on a "pay as you go" basis avoiding debt financing or fluctuations in the City's taxing needs.

2. The Administration is committed to fulfilling our A.D.A. responsibilities via accessible City facilities.

3. Given Urbana's current high property tax rate (compared to other local communities) and the relationship of this tax rate to economic development, raising the property tax rate for building expansion is to be avoided.

4. Public Works Facilities: Following completion of the Library project, the next priority will be to begin to accumulate funds to address public works facility needs, particularly as they relate to fleet service problems.

Economic Development Reserve Fund:

The main purpose of the Economic Development Reserve Fund is to provide monies whereby the City can invest in revenue-enhancing economic development activities without affecting current tax rates or operations. Many of these investments are significant enough that the City's general operating funds would not be adequate to pay for this investment. Normally, funds shall be utilized only upon projects where a five-year investment payback can be demonstrated. A portion of interest revenues accrues to the Fund in order to keep the Fund's spending power adequate with inflation. The balance of interest can be used for small expenditures that will enhance economic development such as downtown improvements or for other economic development studies, engineering assessments, etc.

The fund was established in FY 1987-88 with proceeds from the University of Illinois for the vacation of a street right-of-way in conjunction with construction of the Beckman Institute. Prior to FY 1992-93, minor expenditures from this Fund were made in support of the Frasca Airport development. In FY 1992-93, an additional $1,000,000 was transferred to this Fund in order to address the location of the federal courthouse. In 1998, the balance of the UDAG Reserve Fund ($464,088) was added.

In the past, the ED Fund loaned $400,000 to TIF 2 for Schnucks related capital improvements, $220,000 to TIF 3 for the Lincoln Mobile Home Park/Capstone relocation plan, and $1.1 million for capital improvements related to the Stone Creek Development. The final $1 million transfer to the Capital Improvements Fund for the Rt. 45 infrastructure improvements was made in 03-04 from this Fund. In 2001-02, $300,000 was budgeted for the research park incentives as per the "metro zone" agreement, These amounts have been encumbered and carried over into the current budget. The final scheduled payment from the sale of right of way to the University of Illinois was made in 03-04. These payments totaled $2,332,504. If the University chooses to purchase additional right of way, the City will receive payments for this purchase. At this time, no additional right of way is scheduled to be bought by the U/I.

In 1997, this Fund also started accounting for revenues and costs for the Farmer's Market. Revenues are expected to match expenses in these events. This fund also accounts for the Build Urbana property tax incentive program and government reimbursements. Included in this fund is the $300,000 Fairlawn Village loan repayment, expected to be received in 04-05. Following is a financial projection for the Economic Development Fund:

	ACTUAL 2003-04	PROJECTED 2004-05	PROJECTED 2005-06	PROJECTED 2006-07	PROJECTED 2007-08	PROJECTED 2008-09
FUND BAL., BEG. YEAR	$2,273,395	$2,097,366	$2,067,216	$2,045,216	$2,025,816	$2,003,791
REVENUES:						
INTEREST	$6,805	$80,000	$80,000	$80,000	$80,000	$80,000
UNIV, PAYMENT, R.O.W.	882,504	-	-	-	-	-
PROP. TAX INCENTIVE GOVT. REIMB.	63,109	128,000	200,000	230,000	250,000	300,000
FAIRVIEW DEV. INCENTIVE REPAYMENT	-	300,000	-	-	-	-
OTHER REVENUES	33,873	30,000	17,000	17,000	17,000	17,000
FARMERS MARKET FEES	37,830	38,000	38,000	39,520	41,100	42,800
TOTAL REVENUES	$1,024,121	$576,000	$335,000	$366,520	$388,100	$439,800
EXPENDITURES:						
HOUSE DEMOLITIONS	$ -	$ 30,000	$ 17,000	$ 17,000	$ 17,000	$ 17,000
PAYMENT, UNITED FUELS DEV.	-	5,000	-	-	-	-
TRANSFER TO CAP. IMPR. FUND, RT 45	1,000,000	-	-	-	-	-
REDEV. LOAN PROGRAM	35,737	84,000	37,000	31,900	31,900	31,900
OTHER DEVELOPMENT COSTS	9,341	25,400	-	-	-	-
RETAIL DEV. COSTS	-	-	10,000	10,000	10,000	10,000
OPTIONS, TITLES, ENV. ASSES.	-	-	5,000	5,000	5,000	5,000
LOAN CAP. IMPR., COLO. AVE.	-	200,000	-	-	-	-
FARMERS MARKET COSTS	36,768	36,500	38,000	39,520	41,100	42,800
METROZONE PAYMENT	19,440	-	-	-	-	-
SUNNYCREST LOAN PROGRAM	-	50,000	-	-	-	-
URBANA BUS. ALLIANCE	39,382	47,250	50,000	52,500	55,125	57,881
BUILD URBANA COSTS	59,482	128,000	200,000	230,000	250,000	300,000
TOTAL EXPENDITURES	$1,200,150	$606,150	$357,000	$385,920	$410,125	$464,581
FUND BAL., END YEAR, RESERVED FOR ECONOMIC DEVELOPMENT PROJECTS	$2,097,366	$2,067,216	$2,045,216	$2,025,816	$2,003,791	$1,979,010

TAX INCREMENT FINANCE DISTRICT SPECIAL FUNDS:

Tax Increment District #1:

TIF 1 was established in 1980, and then amended in 1986 to include the State sales tax element. In 2004, the expiration date of TIF #1 was extended to 2013. General obligation backed TIF 1 bonds in the amount of $2,600,000 were issued in 1982 for parking deck and streetscape construction. Future debt service requirements average $116,000 annually. A detailed schedule of these future debt payments is found under the TIF 1 Fund in the City budget document. At June 1, 2005, the amount of $805,000 principle will be outstanding with the last payment being made in 2013.

Major streetscape improvements have been completed in the past 4 years. Streetscape work is proposed to continue in FY 05 & 06 at three mini-park locations: northeast corner of Elm Street and Race Street, east side of Broadway Avenue mid-block between Main Street and Elm Street adjacent to the County Courthouse, and a widening of the north side sidewalk near the Springfield Avenue and Main Street merge. The beautification efforts at these locations will be consistent with existing streetscape features. The façade loan program was revised in 2002 to provide no interest loans, increase the maximum loan amount, and add a grant component. The incentive payments due and the corresponding revenues generated from the new County Plaza agreement is reflected in the estimated cash flows below.

An annual payment in surplus incremental property tax revenue is projected for each year in the estimated cash flows. The first payment of $196,660 was paid to the various taxing bodies in November 2004.

Tax Increment District #2:

TIF 2 was established in 1986 and includes a State sales tax element. The property tax portion of the TIF#2 was extended by the City Council till 2021. The State sales tax element expires in March of 2013. General Obligation backed TIF 2 revenue bonds in the amount of $2,883,000 were issued in 1990, to acquire property and construct parking around the City building complex and Lincoln Square. Future debt service requirements average $22,000 until 2013. A detailed schedule of this debt repayment schedule can be found under TIF 2 Fund in the City budget document. Assuming continued MVPS stability, it is very likely that TIF 2 revenues are sufficient to retire this debt.

With the signing of the Schnucks Redevelopment Agreement, the City committed to the construction of infrastructure and reimbursement for blight removal costs. This agreement calls for annual payments of $160,563 with the last payment in fiscal year 2014. It is probable that this development debt with Schnuck's will be refinanced in some manner before the next payment which is due in June 2005, in order to lower interest payments.

Significant streetscape improvements have been paid for in TIF#2. The façade loan program was renewed in 2002 to provide no-interest loans, a higher maximum loan amount, and the addition of a grant component. Incentive payments owed and revenues generated from the New Lincoln Square Agreement are reflected in the estimated cash projections below.

Tax Increment District #3:

TIF 3 was established in 1990. The last incremental property taxes will be received in the fall of 2013 (23 years of payments). It is a real estate tax TIF without a sales tax component. TIF 3 debt in the amount of $1,000,000 was issued in 1992, to acquire land and perform certain infrastructure improvements. A substantial portion of this debt was spent on property acquisition, new home development, mobile home relocation and redevelopment costs for blighted areas along University Avenue which allowed the development of a new Hampton Inn Hotel, restaurant site and Durst Bicycle Shop relocation agreement. The last payment on this debt was made in 2003.

In 2002, a redevelopment agreement was executed to pay a portion of redevelopment costs for two medical office buildings associated with Provena Hospital. In 2004, money has been budgeted to pay for a new pedestrian sidewalk and bikepath along Goodwin Avenue as fulfillment of an obligation in the Capstone/University Commons agreement.

The long-term health of the Fund should be very solid; however, any future TIF 3 borrowing must be evaluated carefully and be based on revenues from new projects. The cash projections and balances do not include incremental property tax from Provena Hospital, as it is uncertain when and how their tax status will be finalized. As it is probable that most of this amount may be required to be returned to Provena, it is being held in escrow until the final outcome of their tax appeal is determined.

Tax Increment District #4:

The T.I.F. Four was established in December 2001 to assist in redeveloping and paying for infrastructure needs along the N. Cunningham entryway to the City extending from the Central Business District north to beyond Interstate 74. This TIF is a real estate tax only, with the last property tax payment being received in fall of 2023. It is anticipated that significant revenue growth will occur in the near future as a result of the the O’Brien Auto Park which is scheduled to open in January 2006. Assistance will be provided to the Urbana School District with its continued efforts to offer more opportunities in technology and vocational education. Funds will also be used to assist the Urbana Park District with expansion and improvements in providing recreation and open space lands within the district. A limited redevelopment incentive loan program was approved in 2002 to encourage development of certain targeted retail uses in this corridor.

Planning Assumptions For TIF Special Funds:

TIF Fund projections are somewhat fluid based upon the rate of change over the last few years regarding the regulation of TIF Districts by the State Legislature. Likewise, many internal assumptions regarding TIF developments tend to fluctuate based upon the estimates and timing of new project revenues. At this time, however, the following assumptions and policies are made for the purposes of financial planning:

General Assumptions and Policies

1. Real Property Taxes are projected to increase at 2.5% annual inflation based on actual EAV increment for the 2004 revenue year. Estimated increases in EAV for projects obligated by redevelopment agreements or other contracts are assigned to the year when a completed project is estimated to be added to the tax base.

2. Local sales taxes and the State Sales Tax Grant are based on the previous year increment plus estimates of losses or gains for individual businesses in the prior State revenue fiscal year. The sales tax increment and therefore the State grant will probably be paid for only 6 months in fiscal year 06-07, assuming O'Brien's relocates effective January 2006. The City has the option to withdraw local sales tax contributions in any given year if the State Grant is not requested.

3. The school district's current level of dependence upon real estate tax funding will continue for the term of all TIF districts.

TIF #1 Assumptions and Policies

1. No significant structures become tax-exempt.

2. Vocational training payments to the School District will be made from TIF's 1,3 & 4.

Financial projections for TIF 1 until 2018 follow:

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Cash Bal., Beg. Year	$1,203,600	$1,310,848	$1,290,614	$1,472,901	$1,712,149	$2,010,517	$1,570,280
Revenues:							
Property Tax-Current	$616,800	$685,300	$699,006	$712,986	$727,246	$741,791	$756,627
Interest	36,108	39,325	38,718	44,187	51,364	60,316	47,108
Total Revenues	$652,908	$724,625	$737,724	$757,173	$778,610	$802,106	$803,735
Expenses:							
Surplus Payments to Govt.	$196,660	$202,560	$208,637	$214,896	$221,343	$227,983	$234,822
Marketing, Dues	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Downtown Loans	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Downtown S.S., Stratford	0	75,000	0	0	0	0	0
Prel. Eng., Race/Brdwy, Boneyard	0	75,000	0	0	0	0	0
Broadway Ave. Streetscape	0	0	0	0	0	750,000	0
Water/Walnut Impr./S.S.	0	0	0	0	0	0	0
Park District Projects	34,000	34,000	34,000	34,000	34,000	34,000	34,000
Vocational Training	75,000	75,000	75,000	75,000	75,000	75,000	75,000
Downtown S.S., Phase 7	100,000	50,000	0	0	0	0	0
County Plaza Reimb.	0	100,000	100,000	50,000	0	0	0
Debt Service	105,000	98,300	102,800	109,030	114,900	120,360	125,380
Total Expenses	$545,660	$744,860	$555,437	$517,926	$480,243	$1,242,343	$504,202
Cash Bal., End Year:							
Reserved Future Debt Service	$934,750	$836,450	$733,650	$624,620	$509,720	$389,360	$263,980
Reserved Future Projects	$376,098	$454,164	$739,251	$1,087,529	$1,500,797	$1,180,920	$1,605,833

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Cash Bal., Beg. Year	$1,869,813	$1,891,859	$2,218,646	$2,697,547	$3,199,176	$3,724,305	$4,273,728
Revenues:							
Property Tax-Current	$771,759	$787,194	$802,938	$818,997	$835,377	$852,084	$434,563
Interest	56,094	56,756	66,559	80,926	95,975	111,729	128,212
Total Revenues	$827,853	$843,950	$869,498	$899,923	$931,352	$963,814	$562,775
Expenses:							
Surplus Payments to Govt.	$241,867	$249,123	$256,597	$264,295	$272,223	$280,390	$288,802
Marketing, Dues	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Downtown Loans	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Downtown S.S., Stratford	0	0	0	0	0	0	0
Prel. Eng., Race/Brdwy, Boneya	0	0	0	0	0	0	0
Broadway Ave. Streetscape	0	0	0	0	0	0	0
Water/Walnut Impr./S.S.	300,000	0	0	0	0	0	0
Park District Projects	34,000	34,000	34,000	34,000	34,000	34,000	34,000
Vocational Training	75,000	75,000	75,000	75,000	75,000	75,000	75,000
Downtown S.S., Phase 7	0	0	0	0	0	0	0
County Plaza Reimb.	0	0	0	0	0	0	0
Debt Service	129,940	134,040	0	0	0	0	0
Total Expenses	$805,807	$517,163	$390,597	$398,295	$406,223	$414,390	$422,802
Cash Bal., End Year:							
Reserved Future Debt Service	$134,040	$0	$0	$0	$0	$0	$0
Reserved Future Projects	$1,757,819	$2,218,646	$2,697,547	$3,199,176	$3,724,305	$4,273,728	$4,413,701

TIF #2 Assumptions and Policies

Financial projections for TIF 2 until 2018 follows:

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Cash Bal., Beg. Year	$1,162,465	$1,232,496	$1,482,490	$1,863,734	$2,163,192	$1,540,412	$228,362
Revenues:							
Property Tax	$632,690	$651,671	$671,221	$691,357	$712,098	$733,461	$755,465
Add'l Prop. Tax, Linc. Square	0	0	52,804	58,980	65,340	71,900	78,640
Add'l Prop. Tax, Silver Creek	0	0	0	10,000	10,300	10,609	10,927
Add'l Prop. Tax, Stratford	0	0	0	10,000	10,300	10,609	10,927
Add'l Prop. Tax, 5 Points East	0	0	0	25,000	25,750	26,523	27,318
Add'l Prop. Tax, 5 Points West	0	0	0	0	50,000	51,500	53,045
Interest	34,874	36,975	44,475	55,912	64,896	46,212	6,851
Local Sales Tax Match	260,000	260,000	130,000	0	0	0	0
State Sales Tax Grant	332,900	332,900	166,450	0	0	0	0
Total Revenues	$1,260,464	$1,281,546	$1,064,950	$851,249	$938,684	$950,814	$943,174
Expenses:							
TIF Specialist/Benefits	$48,300	$50,232	$52,241	$54,331	$56,504	$58,764	$61,115
Marketing, Dues	61,734	12,000	12,000	12,000	12,000	12,000	12,000
Lot 25 Expansion	67,751	85,000	0	0	0	0	0
Prop. Acquisition/Development	150,000	75,000	75,000	250,000	450,000	390,000	0
Engineering & Appraisals	1,254	5,000	5,000	5,000	5,000	5,000	5,000
Lincoln Square Project	0	50,000	52,804	58,980	65,340	71,900	78,640
Cunn./Crystal Lake Signal	0	50,000	0	0	0	0	0
5 Points Development East	125,430	100,000	0	0	0	0	0
Broadway Ave. S.S., Gill	0	100,000	0	0	0	0	0
5 Points Development West	0	0	150,000	0	50,000	51,500	53,045
Stratford Prop. Improvement	97,166	0	0	0	0	0	0
Springfield Ave. Impr.	6,866	0	0	0	0	0	0
Race St. Impr.	0	0	0	0	750,000	1,000,000	0
Downtown Loans	21,000	20,000	20,000	20,000	20,000	20,000	20,000
Race/Broadway/Boneyard Impr.	0	75,000	0	0	0	0	0
Lots/Pavement Patch (Swap)	0	260,000	166,450	0	0	0	0
Boneyard Improvements	20,385	0	0	0	0	0	0
Downtown SS, Phase 4	5,817	0	0	0	0	0	0
Downtown SS, Phase 5	19,880	0	0	0	0	0	0
Downtown SS, Phase 6	11,287	0	0	0	0	0	0
Downtown SS, Phase 7	150,000	0	0	0	0	0	0
Roadway Bikepath	0	0	0	0	0	250,000	0
Broadway Ave. Streetscape	0	0	0	0	0	250,000	0
Debt Service, Reg.	243,000	19,540	20,430	21,700	22,840	23,920	24,920
Debt Service Schnuck's	160,563	129,780	129,780	129,780	129,780	129,780	129,780
Total Expenses	$1,190,433	$1,031,552	$683,705	$551,791	$1,561,464	$2,262,864	$384,500
Cash Bal., End Year:							
Reserved Future Debt Service	$1,288,950	$1,139,630	$989,420	$837,940	$685,320	$531,620	$376,920
Reserved Future Projects	($56,454)	$342,860	$874,314	$1,325,252	$855,092	($303,258)	$410,115

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Cash Bal., Beg. Year	$787,035	$633,254	$746,369	$977,374	$1,803,826	$2,679,381	$3,673,196
Revenues:							
Property Tax	$778,129	$801,473	$825,517	$850,282	$875,791	$902,065	$929,127
Add'l Prop. Tax, Linc. Square	85,600	92,740	100,120	103,624	107,251	111,005	57,445
Add'l Prop. Tax, Silver Creek	11,255	11,593	11,941	12,299	12,668	13,048	13,439
Add'l Prop. Tax, Stratford	11,255	11,593	11,941	12,299	12,668	13,048	13,439
Add'l Prop. Tax, 5 Points East	28,138	28,982	29,851	30,747	31,669	32,619	33,598
Add'l Prop. Tax, 5 Points West	54,636	56,275	57,964	59,703	61,494	63,339	65,239
Interest	23,611	18,998	22,391	29,321	54,115	147,366	202,026
Local Sales Tax Match	0	0	0	0	0	0	0
State Sales Tax Grant	0	0	0	0	0	0	0
Total Revenues	$992,624	$1,021,653	$1,059,724	$1,098,275	$1,155,655	$1,282,489	$1,314,312
Expenses:							
TIF Specialist/Benefits	$63,560	$66,102	$68,746	$71,496	$74,356	$77,330	$80,423
Marketing, Dues	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Lot 25 Expansion	0	0	0	0	0	0	0
Prop. Acquisition/Development	0	0	0	0	0	0	0
Engineering & Appraisals	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Lincoln Square Project	85,600	92,740	100,120	103,624	107,251	111,005	57,445
Cunn./Crystal Lake Signal	0	0	0	0	0	0	0
5 Points Development East	0	0	0	0	0	0	0
Broadway Ave. S.S., Gill	0	0	0	0	0	0	0
5 Points Development West	54,636	56,275	57,964	59,703	61,494	63,339	65,239
Stratford Prop. Improvement	0	0	0	0	0	0	0
Springfield Ave. Impr.	0	0	0	0	0	0	0
Race St. Impr.	0	0	0	0	0	0	0
Downtown Loans	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Race/Broadway/Boneyard Impr.	0	0	0	0	0	0	0
Lots/Pavement Patch (Swap)	0	0	0	0	0	0	0
Boneyard Improvements	750,000	500,000	500,000	0	0	0	0
Downtown SS, Phase 4	0	0	0	0	0	0	0
Downtown SS, Phase 5	0	0	0	0	0	0	0
Downtown SS, Phase 6	0	0	0	0	0	0	0
Downtown SS, Phase 7	0	0	0	0	0	0	0
Downtown SS, Phase 7	0	0	0	0	0	0	0
Downtown SS, Phase 7	0	0	0	0	0	0	0
Debt Service, Reg.	25,830	26,640	0	0	0	0	0
Debt Service Schnuck's	129,780	129,780	64,890	0	0	0	0
Total Expenses	$1,146,406	$908,537	$828,720	$271,823	$280,100	$288,673	$240,107
Cash Bal., End Year:							
Reserved Future Debt Service	$221,310	$64,890	$0	$0	$0	$0	$0
Reserved Future Projects	$411,944	$681,479	$977,374	$1,803,826	$2,679,381	$3,673,196	$4,747,402

TIF #3 Assumptions and Policies

1. It is anticipated that development on the Covenant property will provide revenues to undertake future additional projects contained in the TIF 3 Development Plan.

Financial projections for TIF 3 until 2014 follow:

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Bal., Beg. Year	$1,518,235	$1,099,052	$1,422,995	$1,266,556	$1,123,825	$917,702
Revenues:						
Property Tax	$940,460	$963,972	$988,071	$1,012,773	$1,038,092	$1,064,044
Interest	45,547	32,972	42,690	37,997	33,715	27,531
Total Revenues	$986,007	$996,943	$1,030,761	$1,050,769	$1,071,807	$1,091,575
Expenses:						
Marketing, Dues, Eng. Studies	$ 15,000	$ 12,000	$ 14,000	$ 14,000	$ 15,000	$ 15,000
Vocational Payment to School	75,000	75,000	75,000	75,000	75,000	75,000
Park St. Improvement	85,000	0	0	0	0	0
Mathews St. Impr.	0	0	500,000	500,000	0	0
Lincoln Ave. Improvement	0	0	0	0	575,000	0
King Park Playground Eq.	0	155,000	0	0	0	0
TIF Redevelopment Specialist	42,000	44,000	46,200	48,500	50,930	53,500
Capstone Impr.	3,000	50,000	50,000	0	0	0
Brick Sidewalk Impr.	120,000	40,000	0	0	0	0
Goodwin Ave. Bikepath/Recon.	823,190	0	0	0	0	0
Property Acquisition	0	0	0	300,000	300,000	0
Goodwin/Park/Romine	0	0	0	0	0	625,000
Univ. Ave. Streetscape	0	50,000	250,000	0	0	0
Corridor Prop;.Subsidy #1	73,220	73,220	73,220	73,220	73,220	73,220
Corridor Prop;.Subsidy #1	168,780	173,780	178,780	182,780	188,780	194,780
Total Expenses	$1,405,190	$673,000	$1,187,200	$1,193,500	$1,277,930	$1,036,500
Bal., End Year	$1,099,052	$1,422,995	$1,266,556	$1,123,825	$917,702	$972,777

	2010-11	2011-12	2012-13	2013-14
Bal., Beg. Year	$972,777	$1,047,405	$843,739	$983,910
Revenues:				
Property Tax	$1,090,645	$1,117,911	$1,145,859	$1,174,506
Interest	29,183	31,422	25,312	29,517
Total Revenues	$1,119,829	$1,149,334	$1,171,171	$1,204,023
Expenses:				
Marketing, Dues, Eng. Studies	$ 16,000	$ 16,000	$ 16,000	$ 16,000
Vocational Payment to School	75,000	75,000	75,000	75,000
Park St. Improvement	0	0	0	0
Mathews St. Impr.	0	0	0	0
Lincoln Ave. Improvement	0	0	0	0
King Park Playground Eq.	0	0	0	0
TIF Redevelopment Specialist	56,200	59,000	62,000	65,100
Capstone Impr.	0	0	0	0
Brick Sidewalk Impr.	0	0	0	0
Goodwin Ave. Bikepath/Recon.	0	0	0	0
Property Acquisition	0	300,000	300,000	0
Goodwin/Park/Romine	625,000	625,000	300,000	0
Univ. Ave. Streetscape	0	0	0	0
Corridor Prop;.Subsidy #1	73,220	73,220	73,220	73,220
Corridor Prop;.Subsidy #1	199,780	204,780	204,780	204,780
Total Expenses	$1,045,200	$1,353,000	$1,031,000	$434,100
Bal., End Year	$1,047,405	$843,739	$983,910	$1,753,833

TIF #4 Assumptions and Policies

1. It is anticipated that significant development will occur in the fifth year as a result of the O'Brien's Auto Park projects.

2. Financial projections for TIF4 until the year 2016 follow (TIF ends 2024):

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Bal., Beg. Year	$124,707	$101,365	$3,675	($86,858)	$45,084	$233,026
Revenues:						
Property Tax	$270,880	$277,652	$284,593	$291,708	$299,001	$306,476
Add'l Prop. Tax, O'Brien's	0	0	0	430,000	440,750	451,769
Reimb., Oakland Ave. Impr.	17,037	10,000	10,000	2,222	0	0
Interest	3,741	3,041	110	(2,606)	1,353	6,991
Transfer from TIF 2	0	0	0	0	0	0
Total Revenues	$291,658	$290,693	$294,704	$721,324	$741,103	$765,235
Expenses:						
Marketing, Dues, Eng. Studies	$ 12,000	$ 25,970	$ 12,000	$ 12,000	$ 12,000	$ 12,000
Loan Subsidy Program	20,000	20,000	20,000	20,000	20,000	20,000
Vocational Payment to School	42,700	43,981	45,300	46,659	48,059	49,501
Airport Road Improvement	0	0	0	0	0	0
Capital Improvements	0	0	0	0	0	0
Park District Projects	22,750	23,433	24,135	63,360	65,260	67,218
School District Projects	0	0	0	83,500	86,005	88,585
O'Brien's Dev. Incentives	0	80,000	50,000	155,450	158,670	162,637
O'Brien's Project Capital	0	0	153,800	158,414	163,166	168,061
Cunningham Ave. Bikepath	0	0	0	0	0	250,000
Cunningham Ave. State ROW	0	70,000	0	0	0	0
Oakland Ave. Impr.	17,550	110,000	40,000	0	0	0
O'brien Drive Extension	200,000	0	0	0	0	320,000
Site Preparation	0	15,000	40,000	50,000	0	0
	0	0	0	0	0	0
Total Expenses	$315,000	$388,384	$385,236	$589,383	$553,161	$1,138,002
Bal., End Year	$101,365	$3,675	($86,858)	$45,084	$233,026	($139,741)

TIF FOUR FUND CASH FLOW

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Bal., Beg. Year	($139,741)	($198,135)	($2,586)	$204,667	($325,879)	($616,209)
Revenues:						
Property Tax	$314,138	$321,991	$330,041	$338,292	$346,749	$355,418
Add'l Prop. Tax, O'Brien's	463,063	474,640	486,506	498,668	511,135	523,913
Reimb., Oakland Ave. Impr.	0	0	0	0	0	0
Interest	(4,192)	(5,944)	(78)	6,140	(9,776)	(18,486)
Transfer from TIF 2	0	0	0	0	0	0
Total Revenues	$773,008	$790,687	$816,469	$843,100	$848,108	$860,845
Expenses:						
Marketing, Dues, Eng. Studies	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 12,000
Loan Subsidy Program	20,000	20,000	20,000	20,000	20,000	20,000
Vocational Payment to School	50,739	52,007	53,307	54,640	56,006	57,406
Airport Road Improvement	0	0	0	750,000	500,000	500,000
Capital Improvements	0	0	0	0	0	0
Park District Projects	68,899	70,621	72,387	74,196	76,051	77,952
School District Projects	90,800	93,070	95,397	97,781	100,226	102,732
O'Brien's Dev. Incentives	166,703	170,870	175,142	179,521	184,009	188,609
O'Brien's Project Capital	172,263	176,570	180,984	185,508	190,146	194,900
Cunningham Ave. Bikepath	250,000	0	0	0	0	0
Cunningham Ave. State ROW	0	0	0	0	0	0
Oakland Ave. Impr.	0	0	0	0	0	0
O'brien Drive Extension	0	0	0	0	0	0
Site Preparation	0	0	0	0	0	0
	0	0	0	0	0	0
Total Expenses	$831,403	$595,138	$609,216	$1,373,646	$1,138,438	$1,153,599
Bal., End Year	($198,135)	($2,586)	$204,667	($325,879)	($616,209)	($908,962)

DEBT REQUIREMENTS

Currently there is no outstanding debt being retired from property taxes or general revenues. The City has only one debt issue that is being retired from TIF revenues and one from M.V.P.S. revenues (detailed below):

1. $965,000 was issued in 2005 to refinance the balance of the original 1982 TIF One issue which was used to construct parking garage and streetscape improvements and to refinance the balance of the original 1990 TIF2 issue which was used to construct parking improvements related to Lincoln Square and the Federal Courthouse. The refinancing was done to lower interest rates and future debt service payments. Average annual debt payment of $140,000 is required until the last payment in March of 2013. Debt service will be paid through future TIF 1 and TIF 2 revenues.
2. $164,712 of original $177,335 issued in 2002 (used to purchase parking Tepper building and parking lot). Average annual debt payment of $22,000 will be paid through future parking revenues, with last payment in 2017.

The City will consider the use of debt financing only for non-recurring capital improvement projects and unusual equipment purchases and when all of the following criteria are met:

- The project's useful life is equal to or greater than the term of the financing, typically 10 - 20 years.
- There is an insufficient current cash balance to pay for the project and the project is mandated by State or Federal requirements or is required to meet immediate needs.
- Debt levels will not affect the City's AA bond rating and market conditions are favorable.
- Debt service can be paid from a new dedicated revenue source or the increase in property tax or other revenue sources is considered acceptable.

MOTOR VEHICLE PARKING SYSTEM

The Motor Vehicle Parking System (MVPS) Fund accounts for all revenues and expenses of operating all parking lots, spaces and the parking garage. Meter, garage and contractual lot parking fees mainly provide revenues. Costs include operating and maintenance costs of street, lot and garage parking systems. Also reported in this Fund is debt service on the 2005 refunding bonds (previously 1994A (TIF 1) and 1994B (TIF 2) bonds), all of which were used to construct parking improvements. Transfers from the TIF 1 Fund and the TIF 2 Fund are being made in order to pay 100% of the 2005 bonds. Charges are also made to this fund and monies transferred to the General Fund to reimburse the general fund for a payment in lieu of taxes and for administrative costs.

Planning Assumptions and Policies for Motor Vehicle Parking System:

1. Lincoln Square contract revenues ($82,900/yr) pursuant to the lease are secure for the near future.
2. The City staff is continuously performing an engineering analysis on the major parking lots within the system. It is projected that approximately $1.1 million in improvements are needed over the next 2 years. After that, an annual amount of $20,000-$30,000 will be required in future years to maintain current lots. If the analysis demonstrates that more monies are needed for these improvements, this will negatively impact future cash flows.
3. The T.I.F. districts will continue to finance debt service payments on the 2005 debt issue.
4. Transfers to the General Fund for reimbursement for payment in lieu of taxes and administrative charges will increase with inflation. These transfers currently total $350,000 annually.
5. A significant increase in meter rates in the campus and N.W. area, in response to a request from the University and Champaign to make meter rates equal throughout the area was approved in 2002. However, this rate increase did not produce any significant increase in total meter revenues. Current meter and parking rates should be sufficient to maintain the system for the foreseeable future or until the point where significant capital expenditures for construction are required.
6. Each year, an annual amount of $40,000 is being set aside for future major parking garage rehabilitation. At June 30, 2004, a total of $319,376 of the ending cash balance was set aside for this purpose. A major masonry & joint rehabilitation project is budgeted in FY04-05 at a cost of approximately $360,000. Approximately every 7-8 years, this masonry & joint work will have to be performed.

Financial projections for the MVPS Fund follow:

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
CASH BAL., BEG. YEAR	$1,784,779	$1,869,175	$1,433,614	$1,379,164	$1,201,799	$1,490,387
REVENUES:						
CAMPUS METERS	$565,705	$565,700	$565,700	$565,700	$565,700	$565,700
OTHER METERS	137,905	138,000	138,000	138,000	138,000	138,000
BAGGED METER FEES	88,615	140,000	140,000	120,000	120,000	120,000
LINCOLN SQ. CONTRACT	81,492	85,400	85,400	87,962	90,601	93,319
OTHER RENTALS	74,610	74,000	74,000	74,000	74,000	74,000
PARKING GARAGE	83,413	83,000	83,000	83,000	83,000	83,000
DONATION, ART IN PARK	6,688	0	0	0	0	0
INTEREST	7,219	30,000	25,000	62,062	54,081	67,067
TRANSFER, TIF 1 DEBT	103,900	105,000	98,300	102,800	109,000	114,900
TRANSFER, TIF 2 DEBT	241,578	243,000	19,540	20,430	21,700	22,840
TOTAL REVENUES	$1,391,125	$1,464,100	$1,228,940	$1,253,954	$1,256,082	$1,278,826
EXPENSES:						
PARKING OPERATIONS	$367,271	381,241	388,820	404,373	420,548	437,370
GARAGE OPERATIONS	74,449	84,630	87,580	91,083	94,727	98,516
DEBT SERVICE BONDS	340,876	348,000	117,900	123,230	130,700	137,740
DEBT SERVICE, TEPPER	21,679	22,000	22,000	22,000	22,000	22,000
MISCELLANEOUS	3,299	3,500	3,500	3,500	3,500	3,500
COURTHOUSE/ART IN PARK	15,767	3,461	0	0	0	0
TRANSFER, GEN., P.I.L.O.T.	196,530	205,370	213,590	222,134	231,019	240,260
GARAGE RENOVATIONS	0	134,366	40,000	40,000	40,000	40,000
LOT IMPROVEMENTS/EQ.	286,858	717,093	410,000	525,000	25,000	30,000
SUBTOTAL, EXPENSES	$1,306,729	$1,899,661	$1,283,390	$1,431,320	$967,493	$1,009,385
REV. OVER (UNDER) EXP.	$84,396	($435,561)	($54,450)	($177,365)	$288,589	$269,441
CASH BAL., END YEAR:						
RESERVED, ART IN PARK	$3,461	$0	$0	$0	$0	$0
RESERVED GARAGE REHAB.	$319,376	$225,010	$225,010	$225,010	$225,010	$225,010
UNRESERVED	$1,546,338	$1,208,604	$1,154,154	$976,789	$1,265,377	$1,534,819

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
CASH BAL., BEG. YEAR	$1,759,829	$2,013,149	$2,248,464	$2,463,760	$2,656,880	$2,825,523
REVENUES:						
CAMPUS METERS	$565,700	$565,700	$565,700	$565,700	$565,700	$565,700
OTHER METERS	138,000	138,000	138,000	138,000	138,000	138,000
BAGGED METER FEES	120,000	120,000	120,000	120,000	120,000	120,000
LINCOLN SQ. CONTRACT	96,118	99,002	101,972	105,031	108,182	111,428
OTHER RENTALS	74,000	74,000	74,000	74,000	74,000	74,000
PARKING GARAGE	83,000	83,000	83,000	83,000	83,000	83,000
DONATION, ART IN PARK	0	0	0	0	0	0
INTEREST	79,192	90,592	101,181	110,869	119,560	127,149
TRANSFER, TIF 1 DEBT	120,360	125,380	129,940	134,040	0	0
TRANSFER, TIF 2 DEBT	23,920	24,920	25,830	26,640	0	0
TOTAL REVENUES	$1,300,291	$1,320,594	$1,339,623	$1,357,280	$1,208,442	$1,219,276
EXPENSES:						
PARKING OPERATIONS	454,864	473,059	491,981	511,661	532,127	553,412
GARAGE OPERATIONS	102,456	106,554	110,817	115,249	119,859	124,654
DEBT SERVICE BONDS	144,280	150,300	155,770	160,680	0	0
DEBT SERVICE, TEPPER	22,000	22,000	22,000	22,000	22,000	22,000
MISCELLANEOUS	3,500	3,500	3,500	3,500	3,500	3,500
COURTHOUSE/ART IN PARK	0	0	0	0	0	0
TRANSFER, GEN., P.I.L.O.T.	249,870	259,865	270,259	281,070	292,313	304,005
GARAGE RENOVATIONS	40,000	40,000	40,000	40,000	40,000	40,000
LOT IMPROVEMENTS/EQ.	30,000	30,000	30,000	30,000	30,000	30,000
SUBTOTAL, EXPENSES	$1,046,971	$1,085,278	$1,124,327	$1,164,160	$1,039,799	$1,077,571
REV. OVER (UNDER) EXP.	$253,320	$235,315	$215,295	$193,121	$168,643	$141,705
CASH BAL., END YEAR:						
PARKING	$0	$0	$0	$0	$0	$0
RECONSTRUCTION	$225,010	$0	$225,010	$0	$225,010	$0
UNRESERVED	$1,788,139	$2,248,464	$2,238,750	$2,656,880	$2,600,513	$2,967,228

CAPITAL IMPROVEMENT FUNDS

Resolution No. 8788-R14 adopted the City of Urbana's original long-term Capital Improvement Plan and the requirement for annual updates. Accordingly, the City publishes a separate document annually, entitled the Capital Improvement Plan (C.I.P.). This plan details a proposed priority of spending for the next 10 years to provide a planned and coordinated approach to the maintenance, replacement and construction of the City's infrastructure (lighting systems, sidewalks, curbs and gutters, traffic signals, storm sewers, streets, and sanitary sewers). Various funding policies of the City relating to Motor Fuel Tax, Sewer Benefit Tax and the Capital Improvement and Replacement Funds were also dictated by this Resolution and subsequent amendments. The priorities, projects and cash flows for the ten-year plan are established annually via the budget process.

Financing the ten-year plan involves the use of several funding sources including the Sewer Benefit Tax Fund (SBT), Motor Fuel Tax Fund (MFT), Capital Improvement and Replacement Fund (CI&R), the four Tax Increment Financing District Funds, Community Development Block Grant (CDBG) Fund, and various project-specific private, state, and federal funds and grants. Annual levels of expenditures may vary considerably from one year to the next since many of these capital improvement projects are very significant and often require that amounts be accumulated over more than a one-year period. When amounts are being accumulated, cash in these funds are growing. When the actual expenditures are made, cash will be decreasing. A brief description of the main funds follows:

- Motor Fuel Tax: State of Illinois MFT funding is generated from the State of Illinois gasoline tax and is apportioned to local governments based on population. While there is some flexibility in the use of these funds, expenditures are generally limited to street and related infrastructure construction and maintenance. The current annual amount received from MFT is $1,075,000. Since the amount of funding is based on the number of gallons of gasoline sold in the State, the annual funding amount will stay approximately the same unless the State increases the tax or in some other way contributes more cash to the program.

- Capital Improvement and Replacement: Since this fund is established and funded by a transfer from the City's general operating funds, it has no Federal or local limits on use of the monies. It is also used to produce the local match on some state and federal projects. The current annual amount received from the general fund is $766,000. It is desirable that this annual funding level will increase along with inflationary costs of the projects. The fund has also received additional contributions that should be considered non-recurring in nature from the general fund to speed up projects (see funding assumptions below). These funds were available from an excess of general operating revenues exceeding general operating expenses.

- Sewer Benefit Tax: This fund is established by the City and funded by the City's Sewer Benefit Tax on residential and commercial properties within the City. It is limited to improvements and maintenance of the City's sanitary sewer lines and storm sewers where these improvements are directly related to the sanitary system in the area. It can be assumed that this tax will increase annually at a rate similar to inflationary cost increases. An average household of 4 persons will pay approximately $45/year. The current annual amount received from the sewer benefit tax is $826,000.

- Community Development Block Grant: CDBG contributions are planned to offset target area infrastructure improvements. The amount of CDBG funding for capital improvements may fluctuate, based on Urbana's comprehensive strategy.

Planning Assumptions and Policies for Capital Improvement Plan Funds:

1. Construction cost increases due to inflation will be offset by the same increase in revenues due to inflation. Interest accrues to the funds on balances.

2. Current annual funding levels including interest and miscellaneous are $2.7 million, not including TIF and CDBG funds. This amount is adequate to maintain the City's current infrastructure according to acceptable useful lives. However, additions or major upgrades to the current infrastructure such as new roads, sewers, lighting systems, sidewalks, etc., will require additional funding or deferring currently identified projects.

3. The above amounts do not include amounts from State, Federal, other local government or private participation in projects. Most significant additions or major upgrades do receive funding from these outside sources in some degree.

4. This assumes no new major obligations to assist the City of Champaign and the University of Illinois with Boneyard Creek projects upstream.

5. Additional non-recurring transfers of approximately $5.6 million have been made from the City's General Reserve Fund over the last 8 years in order to speed up the City's lighting rehabilitation program and other improvement projects. The monies have been available because the City's general operating funds have been able to generate an excess of revenues over expenditures. Given the current revenue structure, it is doubtful that the general fund will be able to generate any excess funds in the near future.

6. No funds have been allocated toward the University of Illinois Campus Area Transportation Plan (CATS). Any funding will require either identifying a new revenue source or reprioritizing current identified projects.

7. $1.5 million has been projected for the Olympian Drive project, to be spent in FY2012-13. Additional expenditures or acceleration of the construction of Olympia Drive would significantly alter planning assumptions for these funds.

COMMUNITY DEVELOPMENT SPECIAL FUNDS:

In April 2005, the Urbana City Council adopted the Consolidated Plan for Program Years 2005-2009, which guides financial decisions regarding housing and community development fund expenditures under these funds during the five-year period beginning July 1, 2005, and ending June 30, 2009. The Consolidated Plan details the goals, objectives and policies for the expenditure of the Community Development Block Grant funds and the HOME consortium funds. The statutory goals of the programs encompassed by the Consolidated plan are as follows:

- to provide decent housing
- to provide a suitable living environment
- to expand economic opportunities.

Community Development Block Grant:

This grant allows the City to provide services to residents of the CD target area, which currently includes parts of Census Tracts 53, 54, and 55. In the 4 years from 2001 to 2004, C.D.B.G. grant funding increased each year to a high of $577,000 in 04. However, in the last 2 years, funding has decreased a total of $38,000 to the $535,000 expected in 05-06. It is always uncertain as to how the Federal Administration and Congress will choose to fund CDBG, especially given the Federal Government's current budgetary position. Any significant reduction in grant funding will result in a proportionate reduction in spending in these programs or identification of a local revenue replacement.

Only 20% of CDBG expenditures can be used for personnel and other administrative costs; 15% for public service funding, with the balance allocated for infrastructure improvements (streets, sewers, etc.), housing and public facilities. Timeliness in expenditure of funds is an important requirement, in that there can be no more than 1.5 times the City's annual grant remaining to be spent and drawn down as of May 2nd of each year (60 days prior to end of program year).

Some of the uses of C.D.B.G. funds are listed below. A more detailed listing of program objectives and uses of funds is included in the annual City budget:

1. To rehabilitate owner-occupied housing and to make accessibility modifications to both owner- and renter-occupied housing.

2. A home maintenance repair program for homeowners 62 years old or older and for homeowners with disabilities.

3. Funds are used to operate three dwelling units acquired and renovated with assistance from HUD and two additional units leased from Carle Foundation at no cost for the City's Transitional Housing Program for families with children.

4. Funds are contributed for local community social service agencies.

5. Special neighborhood cleanup programs are held in the fall and the spring in the Community Development Target Area.

6. Grants are made to non-profit neighborhood organizations to assist them in organizing and in providing services.

7. Funds are used for street and lighting improvements in target areas.

8. Funds are used to acquire property in the target area for housing construction and for elimination of blighting conditions.

9. Funds are used to maintain properties purchased through the community development program until they are needed for community development projects.

10. Funds are contributed to the Center for Women in Transition for construction of a facility to accommodate additional transitional housing for homeless women and children.

Community Development Sink Fund:

This fund was originally established to cover CDBG expenditures while awaiting receipt of entitlement drawdowns. When the Federal government automated its payment system delays in drawdowns were essentially eliminated. In recent years, this fund has been used to help fund site development, architectural services and property acquisitions in connection with the Eads at Lincoln development. With the creation of TIF 3, use of these funds for Eads at Lincoln has become less necessary. It is recommended that the Sink Fund will continue to be used for miscellaneous community development-related expenditures not otherwise eligible for funding under CDBG but that a minimum balance of $50,000 will be maintained in this Fund as a reserve for emergencies such as sudden unanticipated loss of CDBG funds. Interest revenues shall accrue to the Fund and be used to pay for any costs. At June 30, 2005, this fund is projected to have a fund balance of $85,500.

Local Housing Loan Program:

Similar to the Small Business Loan Funds, this Fund is used to account for repayment of housing rehabilitation loans originated through CDBG. Loan payments and interest earnings deposited in the Local Housing Loan Program account represent CDBG program income. This Fund's revenue is routinely transferred to CDBG for expenditure in accordance with the CDBG Annual Action Plan. It is difficult to predict revenues (and thus expenditures) in the Local Housing Loan Program since the majority of CDBG housing loans are structured as deferred payment loans with no definite repayment date.

HOME Program

The HOME Program Fund was started in 1995. HUD has approved an extension of the current program until June 30, 2007. The fund accounts for federal HOME Investment Partnerships Act funds granted to the Urbana Consortium for affordable housing activities. The Consortium currently consists of Urbana, Champaign, and unincorporated Champaign County (Rantoul participated in fy2000-01). Urbana serves as lead entity of the Consortium and is responsible for all administrative functions. The City’s share of HOME Program Fund requires a 25% general fund match (approximately $56,000). The amount of the grant for

FY2005-06 is projected to be $1,115,930 (approximately $64,000 less than 04-05). Approximately 10% of the grant is utilized for general administration of the program, 20% for community housing development organizations (CHDO's), 37% is allocated directly to the City of Champaign program, 10% is allocated directly to the Champaign County program, and 23% is allocated to the City of Urbana program.

Some of the eligible activities under the HOME Program include both owner-occupied and rental housing development, down payment assistance to homebuyers, tenant-based rental assistance, property acquisition, and site development. Federal regulations require set aside of 15% of each year's grant for exclusive use by certain private non-profit organizations known as Community Housing Development Organizations (CHDO). The Consortium currently recognizes and funds two operating CHDO's: the Homestead Corporation and the Urban League. Another CHDO, the Illinois Center for Citizen Involvement, has ceased it's participation in affordable housing projects.

Supportive Housing Program:

This fund was created in FY1996 to account for a HUD grant for expansion and continued operation of three transitional housing programs operated by three private, non-profit agencies (A Woman's Place, The Center for Women in Transition, and The Salvation Army). The City's role in this project is limited to fund management and program oversight. HUD has approved a three-year extension in the total amount of $619,550 until June 30, 2005 (approximately $206,517 spent annually)

Shelter Plus Care Program:

In 1996, HUD awarded the City $404,940 in Shelter Plus Care Funds. These Funds were used to provide tenant-based rent assistance to 15 households for five years. This program is targeted toward homeless persons with disabilities and their families/caregivers. The Housing Authority of Champaign County pursuant to a contract with the City administers the program. In 1999, the City was awarded $546,840 for a second Shelter Plus Care program serving an additional 18 households for five years until May 21, 2005. Approximately $110,000 is spent annually. The City's role in both projects is limited to fund management and program oversight. The City was also awarded a renewal of the Shelter Plus Care I grant in the amount of $132,720 for the year July 1, 2004 through June 30, 2005.

Crystal Lake Park Neighborhood Development Fund:

This fund was created in 1997 as a result of the development agreement between the City of Urbana and the Carle Foundation to improve the neighborhood and assist in homeownership. Both the Carle Foundation and the City each contributed $50,000 plus the City contributed an additional $40,000 for downpayment assistance to facilitate the sale of 12 Carle-owned dwellings. It is projected that funds remaining from the original deposits will be spent on neighborhood projects in 04-05.

Get the Lead Out Grant Fund:

In 2003, the City was awarded a non-recurring grant of $50,047 from the State of Illinois Department of Public Health to remove lead hazards from various rehabilitation projects. Final monies under this grant were spent in 03-04. The City has been notified that in April 0f 2005, additional grant monies may be available for lead hazard mitigation, but it is unknown at this date how much might be awarded to Urbana.

FHLB Affordable Housing Grant Fund:

The City participated with Busey and National City Banks in a non-recurring grant of $56,000 in 2002 from the Federal Home Loan Bank (FHLB) to provide certain owner-occupied rehabilitation programs, to provide access grants and loans, and to provide funds for the paint/siding Urbana League program. The last loan under this program was made in 04-05.

Financial Planning Policies and Assumptions for CD Special Funds:

Regarding the CD Special Funds, the following assumptions and policies have been formulated for the purposes of financial planning:

1. CD Special Funds shall not be utilized in a manner, which will provide an incentive to non-Urbana residents to locate to Urbana only in order to obtain benefits.
2. All transitional housing expenses are being accounted for in the CDBG program.
3. CDBG and HOME grant programs will continue to be funded at similar levels in the near future. Any significant reduction in funding will result in a proportionate reduction in spending in these programs or identification of a new local revenue replacement. Other programs are considered non-recurring in nature.

PENSION TRUST FUNDS:

Adequate funding of employee pension funds is an important and costly financial function for local government. Approximately $3.8 million will be spent on employee pensions next year. Under State Law, the City must accumulate monies in these pensions so that sufficient assets are available to pay retirement and disability benefits, which levels are set by state law. The three employee pension funds of the City provide a defined benefit to employees. This means that employees upon qualifying for retirement are guaranteed to receive a certain percent of their final salary, based upon their age and number of years service. Employees pay a fixed percent of their salary, which historically was designed to be approximately 1/3 of total contributions (City 2/3). Each of the funds earns interest on its assets, which are invested until needed to pay benefits. The City is required to contribute the remaining amount necessary to meet adequate funding. This amount fluctuates depending on investment return and benefit costs.

All three pension funds for the City are currently funded at a good level, although the financial position in all three are not as strong as they were 3-4 years ago. This reduction is due to the downturn in the stock market since all three of these funds have a significant portion of their assets invested in the stock market. IMRF funding can be considered to still be very good (96% funded) and at least equal to most comparable downstate cities. Fire Pension funding can also be considered to be very good (86% funded) and about equal to comparable downstate cities. Police Pension funding can be considered to be good (66% funded) and also equal to comparable downstate cities. In the past, the City (unlike the State of Illinois pensions) has deposited monies as actuarially required. Unfunding amounts come from changes in benefits or assumptions which are applied retroactively to current employees.

Since benefits are directly related as a % of final salary, funding will have to be increased each year at least equal to inflationary increases in salary. In addition, people are living longer thus increasing funding. In addition, pressure from employee groups are continually placed upon the State Legislature to approve benefit increases. These benefit increases because they are applied retroactively to all current employees that have not yet retired can be very expensive. Representatives of local governments are very reluctant to endorse any benefit changes and review these proposals very carefully to ensure that the State Legislature is aware of the cost.

A description of the City's three pension trust fund operations follows:

1. Illinois Municipal Retirement Fund: All employees that meet certain minimum hourly standards, except sworn police and fire personnel, by state law must be enrolled and participate in the Illinois Municipal Retirement Fund (IMRF). Retirement and disability benefit levels are also established by State Statute and based on a percentage of salary, age at retirement, and number of years employed with City. Employees are currently required to contribute 4.5% of their annual salary. The City is required to contribute the remaining amounts necessary to fund the system. The City's contribution for next year will be 6.71%. This is a dramatic increase from a rate of 1.94% just 2 years ago. Ten years ago, this rate was 7.9%. These fluctuations are due to unusual volatility on IMRF investments in the stock market. Representatives of the State AFSCME have asked the State Legislature to significantly increase I.M.R.F. benefits, to include providing health insurance for retirees. While this may sound like a good idea, the cost of this proposal is very

expensive. It is uncertain exactly what benefit changes will eventually be approved, but it is anticipated that the cost to the City will be increased. The City's annual expense is currently approximately $1.4 million.

2. The Police Pension Plan covers sworn police personnel. Benefits and contribution levels are established by State Statute and based on a percentage of salary. Employees are currently required to contribute 9.91% of their salary and the City is required to contribute the remaining amounts necessary to fund the system. The City's contribution is currently 42% of salaries (21% for current funding and 21% for catch-up of accrued liabilities). Accrued liabilities occur when changes in benefit levels are applied retroactively and when actuarial assumptions are changed or different from actual results. The goal of the City is to eventually reach a 90-95% funding level, contingent upon funding availability. The amount contributed increased 6.5% over last year and has averaged an annual increase of 7.6% over the last seven years. Current expense for next year is $1.4 million.

3. The Firemen's Pension Plan covers sworn fire personnel. Benefits and contribution levels are established by State Statute and based on a percentage of salary. Employees are required to contribute 9.455% of their salary and the City is required to contribute the remaining amounts necessary to fund the system. The City's contribution is currently 35% of salaries (20% considered normal cost and 15% catch-up on accrued liabilities (accrued liabilities occur when benefit changes are applied retroactively or actuarial assumptions change or are different than actual results). The City's pension requirements for the Firemen's Pension Fund are currently 86% funded. The amount funded increased 12% over last year and has averaged an annual increase of 12% over the last eight years. Current expense for next year is $1.03 million.

Pension Funding Assumptions

1. It is the City's policy to meet all current pension-funding levels with current revenues and to catch-up unfunded costs in accordance with State requirements in conjunction with prudent and accepted actuarial methods. City policy is to provide a retirement plan for employees that will provide benefits comparable to similar employees in the private sector, while at the same time recognizing that these benefit costs must compete with other financial needs of the City.

2. Our goal is to achieve a 95% funding level for all retirement liabilities (not practical to achieve 100%). The State Legislature approved a significant increase in benefits for the Police Pension Fund in 2001. Fire Pension received a similar benefit increase in 2002 and in 2004. It is assumed that over the next three years, no significant additional benefit changes will be approved, although numerous bills are being introduced annually. It is assumed that the Police and Fire Pension Fund disability experience will not be above current actuarial assumed levels. A disability experience above normal levels or an increase in benefit levels can increase funding requirements significantly. It is also assumed that returns from investments in the stock market will return to more-normal levels.

3. All costs associated with hiring additional firefighters due to the University of Illinois service contract have been and will in the future continue to be funded by revenues generated from the contract.

4. Pension funding is projected to increase 11.3% next year, 9% the following year and 7% the year after. These increases should be adequate given the financial assumptions above. However, returns from investments will have a major factor in the future.