

Town of



Normal

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***Financial Trend and Condition Report***

***Fiscal Year 2016-17***

*Prepared by the Town of Normal Finance Department  
Normal, Illinois 61761*

# FY 2016-17 TREND AND CONDITION

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# FY 2016-17 TREND EVALUATION

## ***EXECUTIVE SUMMARY***

The 2016-17 Financial Trend and Condition report is intended to provide a historical perspective on a variety of issues that impact the financial condition of the Town of Normal. This report focuses on six categories of indicators that provide an insight into the financial stability of the Town, with a particular emphasis on the General Fund. Overall, there are 36 indicators analyzed in this report. Each indicator is described according to its impact on the financial health of the Town. In order for trends to be illustrated, a historical perspective on each indicator is provided. Finally, each indicator is given a rating of (P)ositive, (N)egative or (U)nclassified.

Each category of indicators is intended to describe an economic or fiscal condition that either directly or indirectly impacts the financial stability of the Town. The categories of indicators, along with a brief summary of the findings and changes to the reports, are listed below.

### **Overall Results for Trend Information**

<b>Fiscal Year</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
<b>Positive Ratings</b>	24	26	21	19
<b>Negative Ratings</b>	5	4	7	9
<b>Unclassified</b>	8	8	6	6
<b>Total Ratings</b>	37	38	34	34

**Community Growth**

<b>Description</b> (P = Positive, N = Negative, U = Unclassified)	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>Page</b>
Assessed Property Value	N	P	P	P	6
Construction Building Permits	P	N	N	P	7
Average Home Sales Price	P	P	P	P	8
Airport Usage	N	N	N	N	9
Amtrak Usage	P	P	P	N	10
Unemployment Rate	N	P	P	P	11
County Workforce	N/A	N	P	N	12

The community growth indicators were generally steady. Assessed value had the highest increase since 2009. Construction permits were consistent compared to last year and fall in line with the 10-year average of 1,000 permits a year. Average home prices for new homes had a very minimal growth and existing home prices dropped slightly.

Airport ridership has continued to be below our expectations, however ridership stayed flat compared to 2015. Amtrak ridership also had a decrease this past year, which is likely the result of disruption in service due to construction of the high speed rail program.

Unemployment rates have decreased across the state and the nation, including the Town’s unemployment rate. The Town has the lowest rate in the region. The County’s workforce decreased which may be a reflection of the State’s economic status.

**Revenue**

<b>Description</b> (P = Positive, N = Negative, U = Unclassified)	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>Page</b>
Town Revenue Sources	U	U	U	U	13
State Income Tax	P	P	P	N	14
Property Tax Rates	P	P	P	P	15
Property Tax Rates - Normal and Community	P	P	P	P	16
Property Tax Rates - Municipality Rate Comparison	P	P	P	P	17
Property Tax Rates - Community Rate Comparison	P	P	P	P	18
Utility Tax Revenue	N	N	N	N	19
Utility Tax Revenue - Dollar Change	U	U	U	U	20

State and Local Sales Tax Revenue	N	P	P	N	21
Sales Tax Percent of General Fund	P	P	P	P	22
Sales Tax by Type	U	U	U	U	23
Food and Beverage Tax	P	P	P	P	24

The Town's revenue sources continue to remain relatively diverse. State income tax experienced a large decrease, some of which was expected but is certainly an indication of uncertain wage growth in the State. The Town's property tax remains the lowest among the eight largest downstate cities and our community rate is among the lowest. Utility tax continues to decline and staff does not have any expectations that this revenue source will grow in the future. The local sales tax revenue was significantly higher due to having a full year of the increased 1% local sales tax rate; however total sales have declined which we can see more clearly when analyzing the state sales tax. Food and beverage tax revenue had a small increase compared to 2015-16, however we expect higher growth next year when a new restaurant opens.

### Expenditure

Description (P = Positive, N = Negative, U = Unclassified)	2013-14	2014-15	2015-16	2016-17	Page
Town Expenditures by Type	U	U	U	U	25
Police Pension Benefit Cost	U	U	U	U	26
Fire Pension Benefit Cost	U	U	U	U	27
Personnel Costs as a Percentage of Total Expenditures	P	P	P	P	28

Public Safety (31.1%) accounts for the largest amount of expenditures in the governmental fund in FY2017. Public safety represents expenditure activity for the Police, Fire and Inspections Departments.

### Debt Service

Description (P = Positive, N = Negative, U = Unclassified)	2013-14	2014-15	2015-16	2016-17	Page
Overlapping Debt as a Percent of Assessed Value	P	P	P	P	29
Total Debt Outstanding	P	P	P	P	30
Long-Term Debt as a Percent of Assessed Value	P	P	N	P	31

The Overlapping Debt as a Percent of Assessed Value decreased from 2016, due to principal pay off. The Town's Long-Term Debt decreased from \$92.2 million to \$90.5 million. The savings from the 2007 bond refunding helped lower the outstanding balance, along with principal payments.

**Balance Sheet**

<b>Description</b> (P = Positive, N = Negative, U = Unclassified)	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>Page</b>
General Fund Cash Balance	P	P	P	P	32
General Fund Balance	P	P	P	P	33
Police Pension Funding Levels	P	P	N	N	34
Fire Pension Funding Levels	P	P	N	N	35
IMRF Funding Levels	P	P	P	P	36
Water Fund Summary	P	P	P	P	37
Sewer Fund Summary	P	P	N	N	38
Health Insurance Fund Balance	P	P	P	P	39

General Fund cash increased from the previous year’s ending balance due to receivables collected during the year. Additional cash was generated due to carryover funds that have been re-budgeted in the new fiscal year. IMRF pension funding levels remain stable, however, Police and Fire levels continue to decrease. This decrease is troubling and largely the result of the continued lack of a meaningful investment return from the market. Pension funds are primarily funded through investment earnings and without a meaningful return from the market or a significant increase in employee or employer contributions to the plans, pension funding levels will continue to decrease.

The Water Fund continues to have a steady financial position. The Sewer Fund remains solvent, but without the recent rate increase would have no financial flexibility to manage even a minor infrastructure need or a meaningful capital management plan in the future. The rate increase in 2017-18 will help put the Sewer Fund in a better financial position.

The Health and Dental Insurance Fund balance had a challenging year and ended with a sizable decrease in fund balance. This drop was the result of significant increases in prescription drug utilization. The fund can absorb this drop due to its strong reserves and will likely recover given future plan and rate changes.



**Overall Results of Fiscal Strategy Review – Positive Outlook – with caution**

This section of the report provides a forward-looking review of the Town’s major fiscal operations and how they align with management’s financial strategies.

<b>Financial Strategies</b>	<b>Rating</b>	<b>Page</b>
General Fund Operating Reserves	Positive Outlook – With Caution	40
Vehicle and Equipment Reserves	Positive Outlook – With Caution	41
Contingency Funding	Negative Outlook	41
Debt Management Capacity	Positive Outlook	42
Debt Management Coverage	Positive Outlook	42
Health Insurance Reserve	Positive Outlook – With Caution	43
Water Fund Operating Reserves	Positive Outlook – With Caution	44
Water Capital Fund Reserves	Positive Outlook – With Caution	44
Sewer Fund Operating Reserves	Positive Outlook – With Caution	45
Sewer Capital Fund Reserves	Positive Outlook – With Caution	45

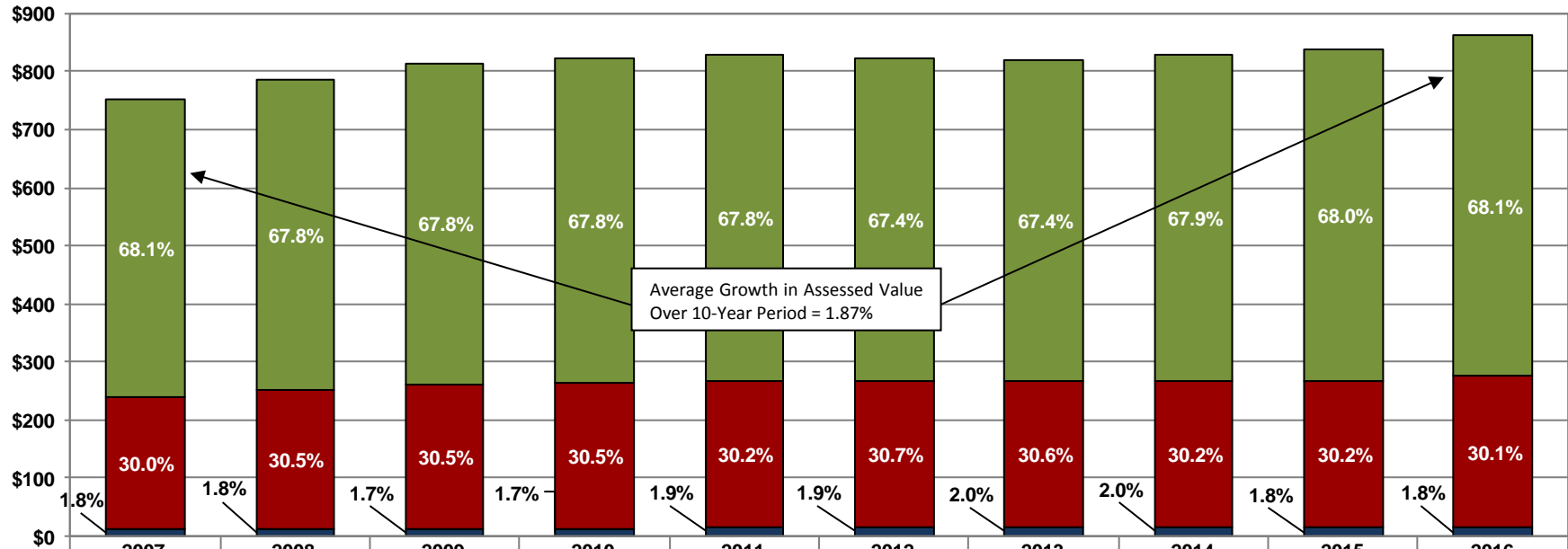
The financial strategies have consistently met their targets in the past. This year we are seeing that a few of the strategies pose problems in the future. Monitoring all of the financial strategies will help us find solutions to our funding issues before there is a crisis. Staff will be prudent in spending and keep an eye on the needs of the community. This year we have added financial strategies for water and sewer funds

The remaining report provides detailed information for all indicators.

# ASSESSED PROPERTY VALUE

(Tax Year)

In Millions



Average Growth in Assessed Value Over 10-Year Period = 1.87%

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Percent Change	4.8%	4.4%	3.9%	0.9%	1.0%	-1.1%	-0.2%	1.0%	1.0%	3.1%
Total	\$751.30	\$784.52	\$814.77	\$822.14	\$830.45	\$821.69	\$820.00	\$828.56	\$836.86	\$862.54

■ All Other

■ Commercial

■ Residential

## INDICATOR DISCUSSION

Property within Normal is assessed by the Township at 33 1/3% of fair market value.

## RATING: POSITIVE

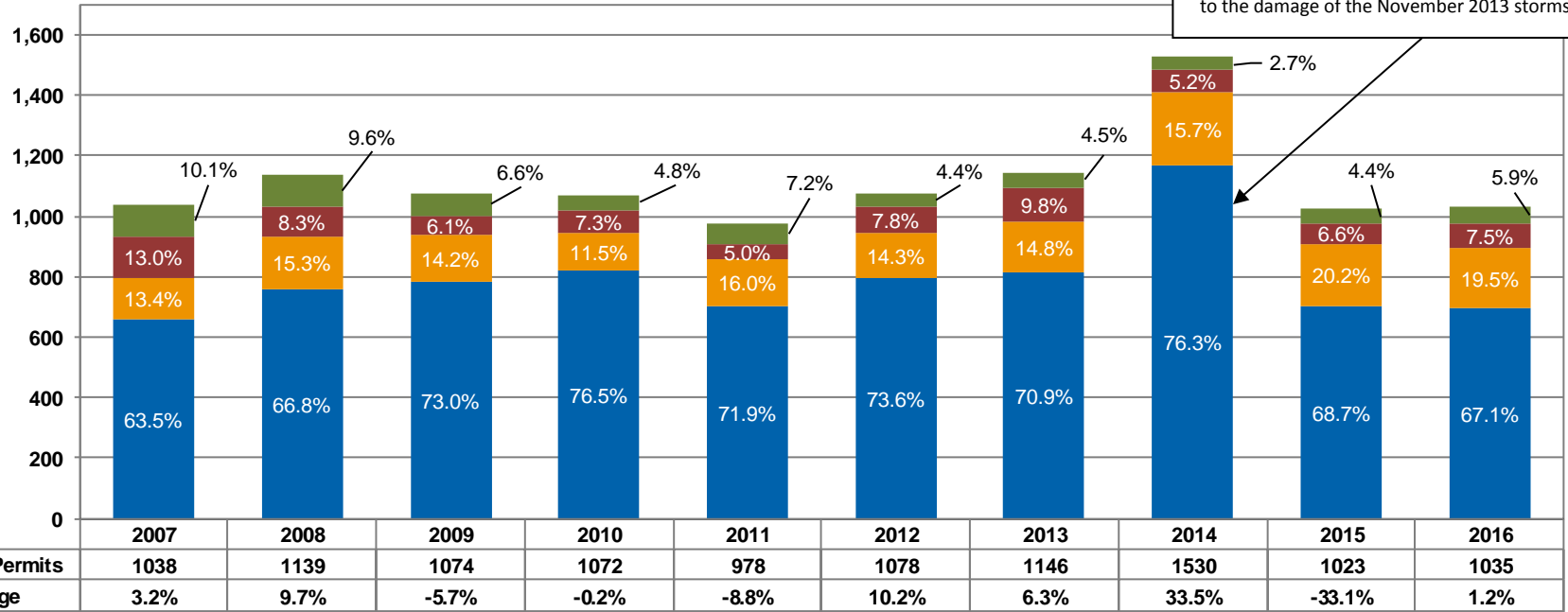
Staff preference is for an Equalized Assessed Value (EAV) growth of at least 3% annually to help generate sufficient property tax to offset increases in expenditures. 2016 is the first year since 2009 that the EAV has reached our bench mark of 3% growth.

# CONSTRUCTION BUILDING PERMITS

(Calendar Year)

Average permits over 10-year period = 1,111

Large spike in remodeling activity was from roofing permits, total of 809, which was related to the damage of the November 2013 storms.



■ Residential Remodel

■ Commercial Remodel

■ Single Family Homes

■ All Other

## INDICATOR DISCUSSION

One indication of a growing community is the number of building permits issued annually. The chart above reports construction permits which include activity for new single family, commercial and residential remodeling projects.

## RATING: POSITIVE – WITH CAUTION

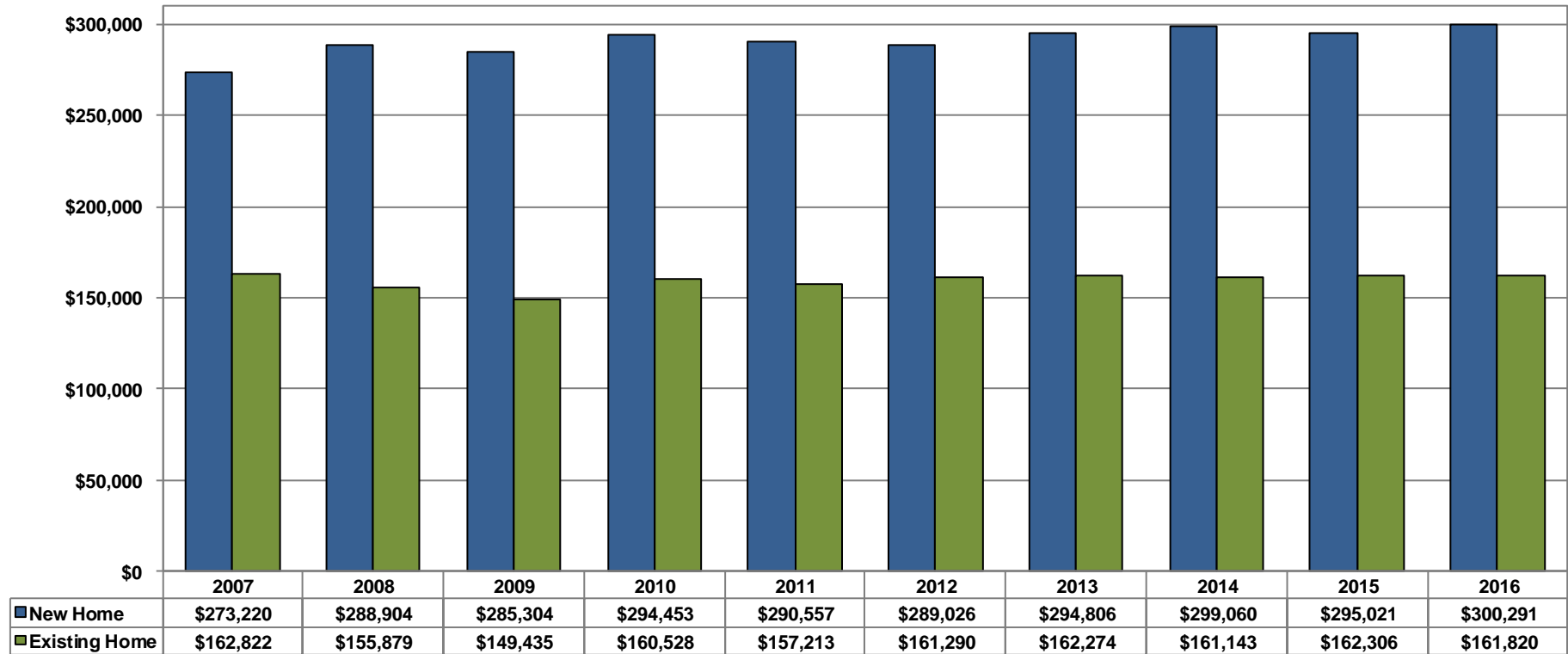
The Town saw a slight growth in construction permits which is positive for our community growth. The number of permits issued in 2016 was just below the 10-year average so we believe construction may be moving in a positive direction.

# AVERAGE HOME PRICES

(Calendar Year)

**Average Growth Over 10 Years**  
 New Home Prices = 0.9%  
 Existing Home Prices = 1.1%

**2015 vs. 2016 Values**  
 New Home Prices = 1.8%  
 Existing Home Prices = -0.3%



## INDICATOR DISCUSSION

This indicator illustrates the average sales price of new and existing homes in the Bloomington/Normal area.

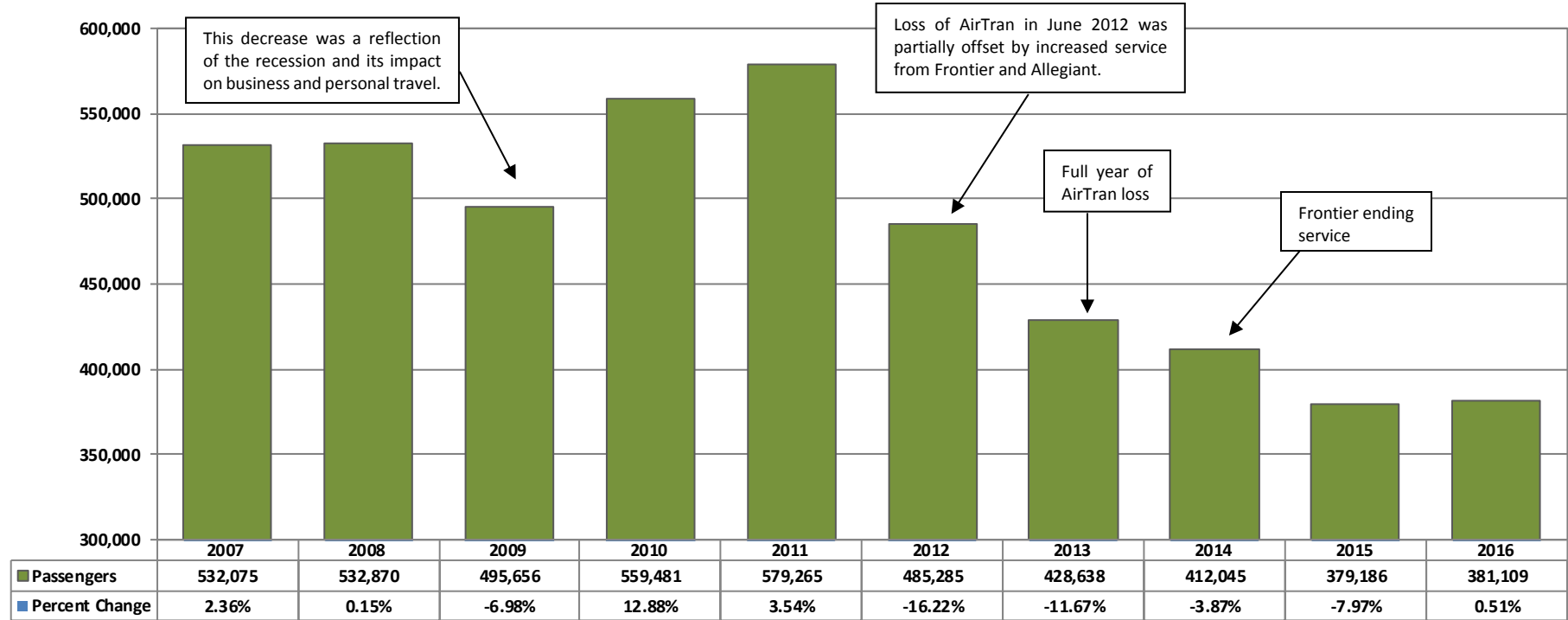
## RATING: POSITIVE – WITH CAUTION

Since 2007, housing prices have fluctuated slightly but remain fairly stable. We expect that this indicator will continue to be flat or have relatively modest increase over the next 2 to 3 years.

# AIRPORT USAGE

## History of Passenger Activity

(Calendar Year)



### INDICATOR DISCUSSION

An indirect indication of local community vitality can be found within the historical passenger records of the Central Illinois Regional Airport. Consistent passenger growth is reflective of a strong underlying economic base within the local community and the greater market area. Conversely, a decline in growth could be viewed as an economic warning sign.

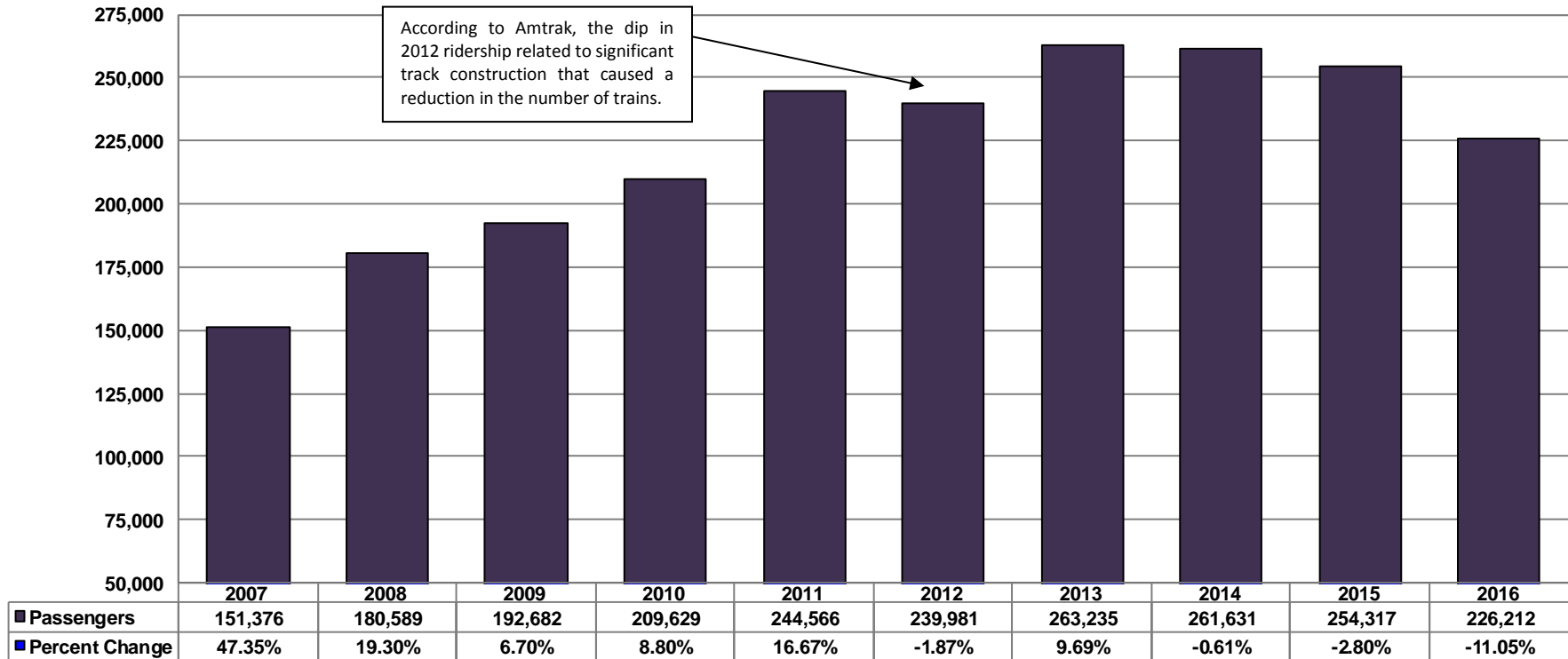
### RATING: NEGATIVE

After four years of consecutive decreases in passenger activity the airport experienced its first ridership increase since 2011. The increase was very small, but perhaps indicates that the passenger activity has finally settled and hopefully will start to grow. Staff still considers the rating as negative as one year of slight growth against a back drop of significant decreases in the previous years is not enough to modify the rating. However, it certainly is a promising sign which hopefully continues in the future.

# AMTRAK USAGE

## History of Ridership Activity

(Calendar Year)



### INDICATOR DISCUSSION

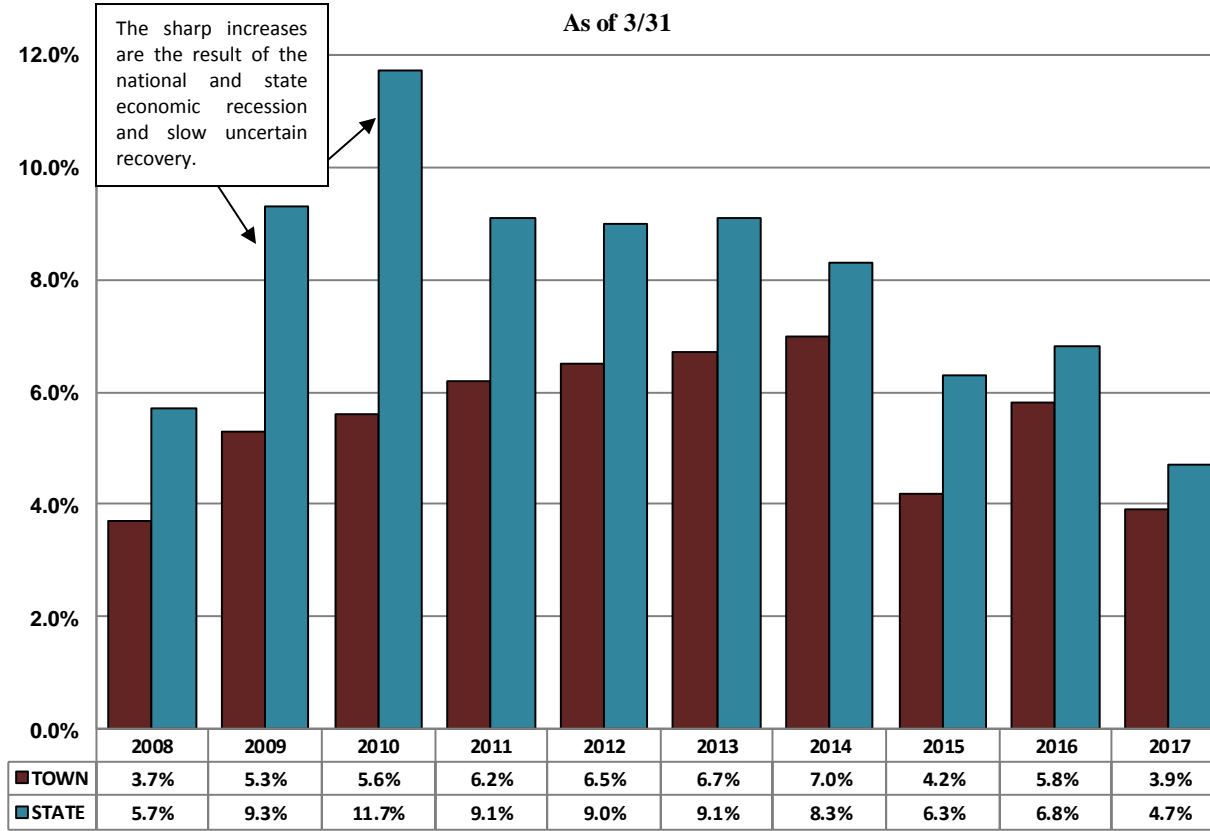
An indirect indication of local community vitality can be found within the historical passenger records of the Amtrak usage. Consistent passenger growth is reflective of a strong underlying economic base within the local community and the greater market area. Conversely, a decline in growth could be viewed as an economic warning sign.

### RATING: NEGATIVE

There has been decreases in Amtrak ridership the past few years. Staff attributes most of this to service disruptions associated with construction of the high-speed rail. An additional factor likely includes the State's poor economic condition. We expect a substantial increase in Amtrak ridership and continued growth in this mode of travel for the community once the high-speed rail program is completed and fully implemented.

# UNEMPLOYMENT RATE

As of 3/31



Municipality	Rates		
	2017	2016	Change
Normal	3.9%	5.8%	-1.9%
Bloomington	4.2%	6.0%	-1.8%
Champaign	4.3%	5.7%	-1.4%
Urbana	4.3%	5.7%	-1.4%
Springfield	4.6%	6.1%	-1.5%
Galesburg	5.5%	7.5%	-2.0%
Peoria	6.2%	7.9%	-1.7%
Decatur	6.2%	8.4%	-2.2%
Illinois	4.7%	6.8%	-2.1%
United States	4.5%	5.0%	-0.5%

## INDICATOR DISCUSSION

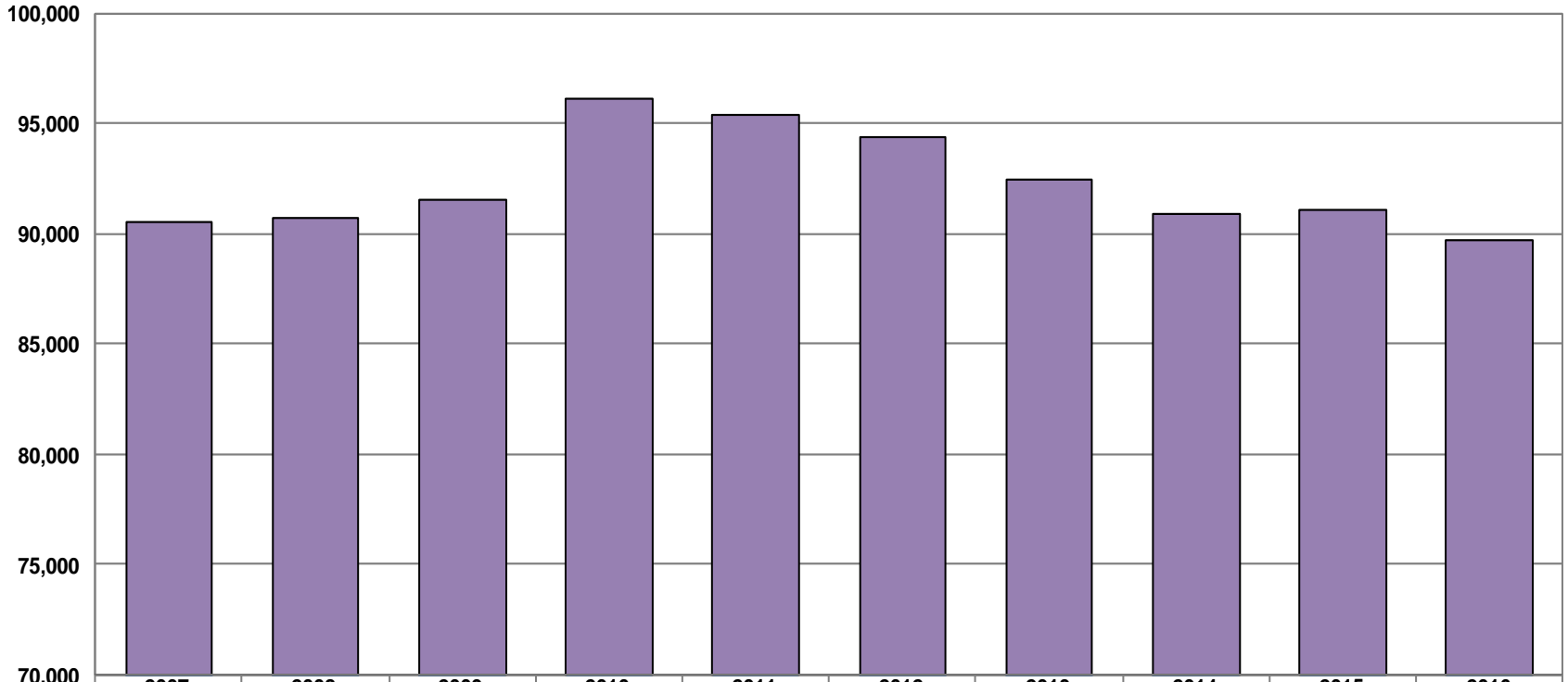
Changes in the unemployment rate are one measure of the Town's activity in its business sector and the general economic health of the community. A healthy business sector will provide funding for city services through sales, utility and property taxes. The data presented above is obtained from the Illinois Department of Labor.

## RATING: POSITIVE

The Town, along with other local governments in the region, experienced a decrease in its unemployment rate as compared to the prior year. The Town is the lowest among the eight largest downstate communities in Central Illinois (south of I-80).

# COUNTY WORKFORCE

(Calendar Year)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
County Work Force	90,552	90,748	91,493	96,144	95,403	94,394	92,480	90,929	91,110	89,679
Percent Change	1.95%	0.22%	0.82%	5.08%	-0.77%	-1.06%	-2.03%	-1.68%	0.20%	-1.57%

## INDICATOR DISCUSSION

The Illinois Department of Employment Security (IDES) identifies the workforce, or labor force, as all working-age individuals (16+) who are either employed or unemployed but available and actively looking for work.

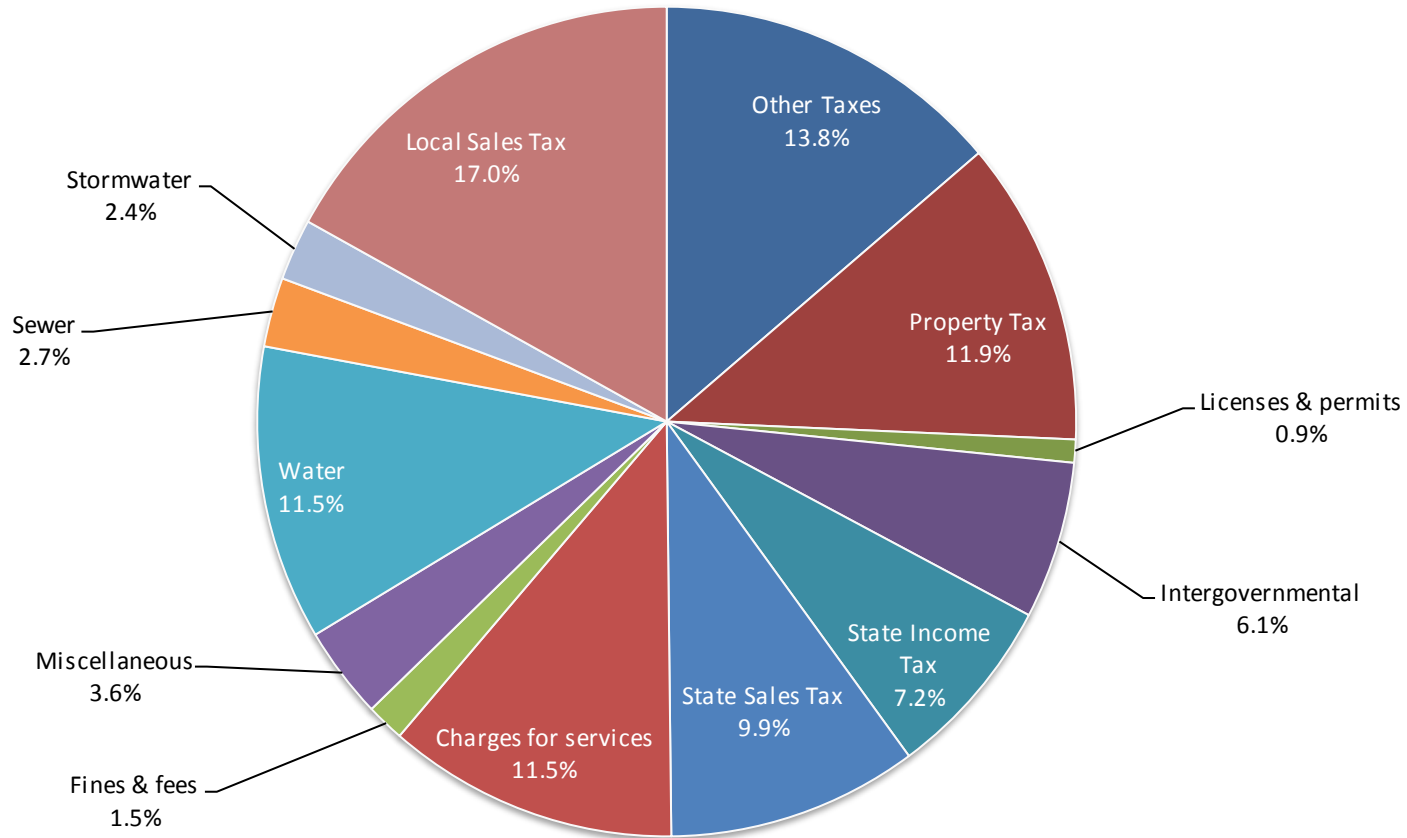
## RATING: NEGATIVE

During 2016, McLean County experienced the smallest workforce in 10 years. The largest drop in employment was in the healthcare industry, at OSF and Advocate/BroMenn.



# TOWN REVENUE SOURCES

## FY2017 - \$87,044,967



**INDICATOR DISCUSSION**

The purpose of the pie chart is to present a summary of revenue sources for the Town as a whole.

All Town funds are included except for Health Insurance, Library, Police Pension, and Fire Pension funds.

**UNCLASSIFIED – FOR INFORMATION ONLY**

This chart is considered informative in nature and is intended to convey a general understanding of the revenue sources.

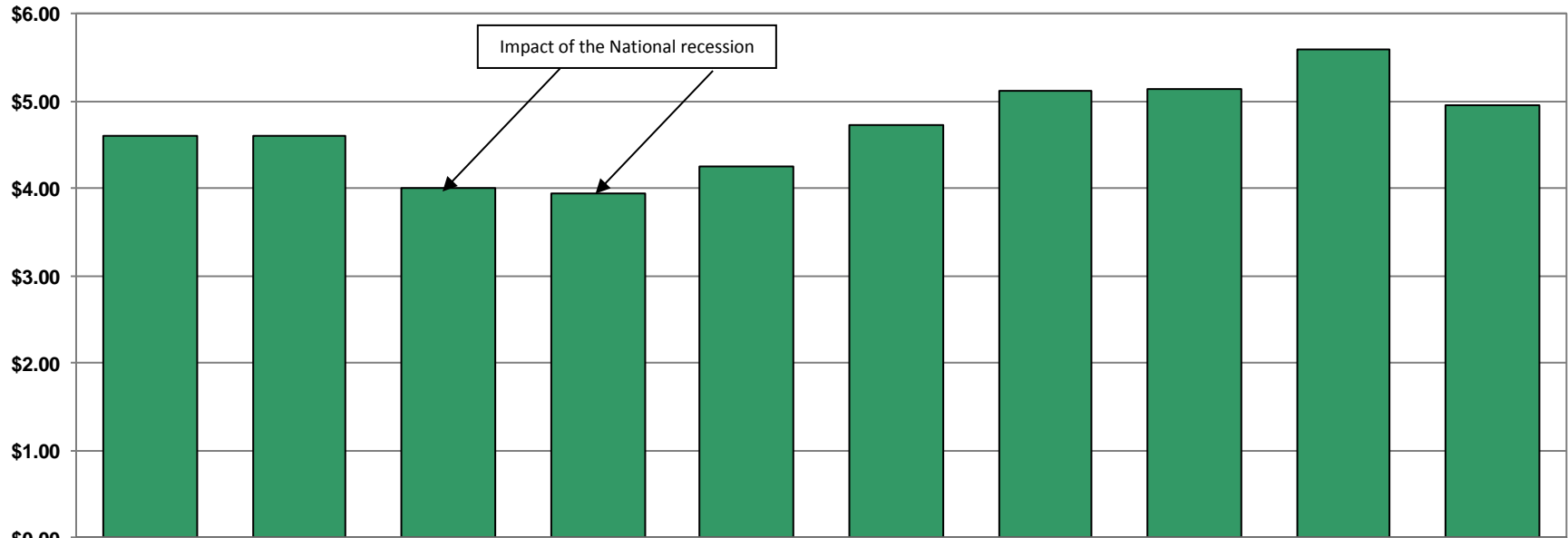
- Other Taxes – Food & Beverage Tax, Utility Tax, and all other Town imposed taxes
- Intergovernmental – Replacement Tax and State Grants
- Charges for services – Parks & Recreation activities, Parking Tickets, Refuse Fees, Ambulance Fees

# STATE INCOME TAX REVENUE

## History of Growth

(Fiscal Year)

In Millions



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
State Income Tax	4.60	4.60	4.01	3.94	4.26	4.73	5.12	5.14	5.59	4.96
Percent Change	9.6%	0.1%	-12.8%	-1.8%	8.1%	11.1%	8.1%	0.5%	8.8%	-11.3%

### INDICATOR DISCUSSION

The State shares income tax with municipalities based on a statutory formula. Since 2010, the State has modified the tax rate and distribution formula twice (2011 and 2015). With each tax rate change, the State modifies the municipalities' distribution formula to keep the distribution neutral to the tax rate change. Therefore, any changes in income tax revenue is the direct result of individual and business income levels. Consequently, this revenue reacts very quickly to changes in the economy. Any economic downturn or upswing is felt immediately in this revenue source.

### RATING: NEGATIVE

The 8.8% growth in 2016 was caused by the State transitioning to a new distribution formula. This new formula caused a "one-time" spike in tax collections for 2016. Given the "spike" in 2016, staff was expecting a drop in 2017, however the actual decrease was more than anticipated.

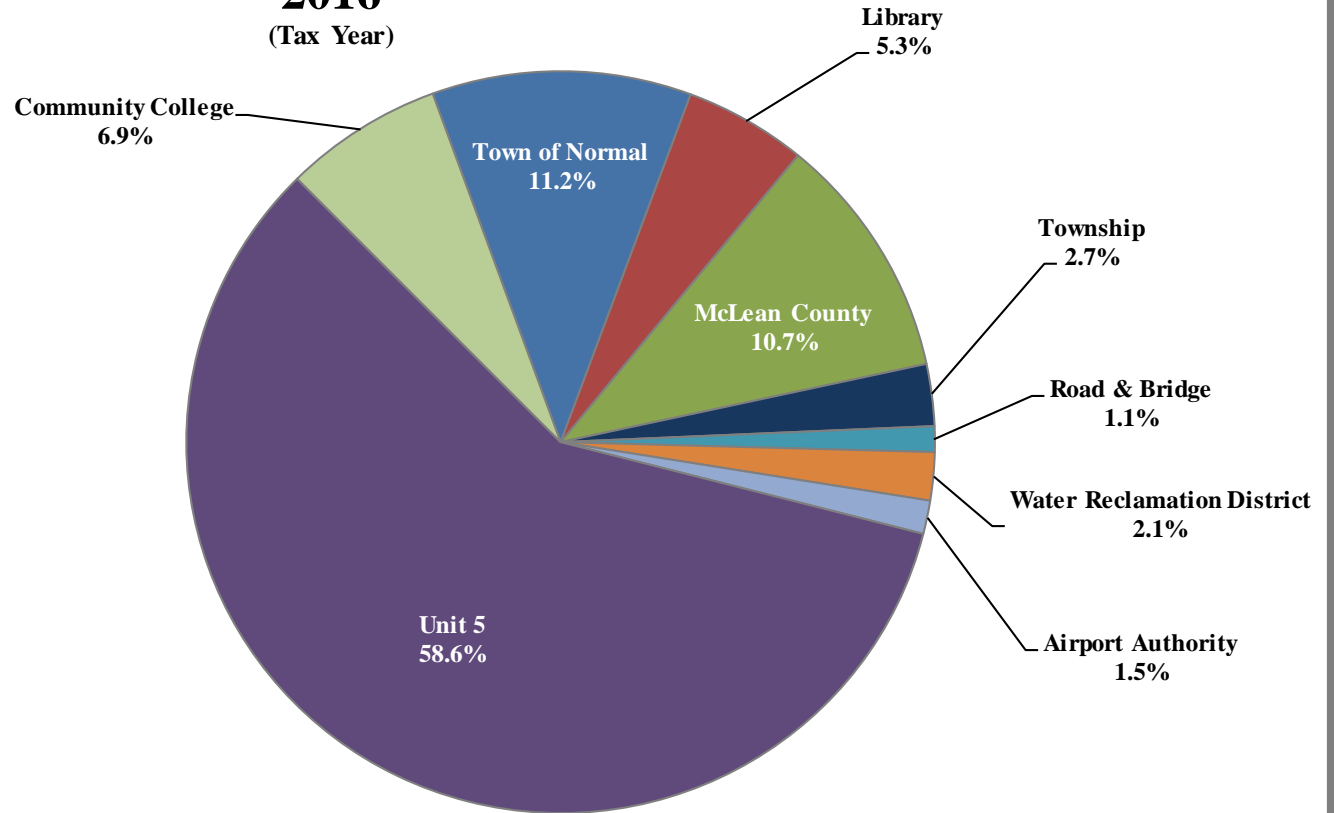
We are not expecting much growth in this revenue source due to the negative trend in workforce, changes in tax regulations and the State's continued economic uncertainty.

### History of the Town's Percentage of the Community Tax Rate

Tax Year 2006	10.4%
Tax Year 2007	10.0%
Tax Year 2008	9.9%
Tax Year 2009	10.2%
Tax Year 2010	10.0%
Tax Year 2011	9.8%
Tax Year 2012	9.5%
Tax Year 2013	10.7%
Tax Year 2014	10.9%
Tax Year 2015	10.8%
Tax Year 2016	11.2%

## PROPERTY TAX RATE DISTRIBUTION

**2016**  
(Tax Year)



#### INDICATOR DISCUSSION

The purpose of the pie chart above is to present a visual picture of local government units that utilize the property tax levy. Normal has no direct control over other governmental taxing units; however, development decisions made by Normal and Bloomington indirectly affect other governmental unit requests for property tax dollars.

#### RATING: POSITIVE

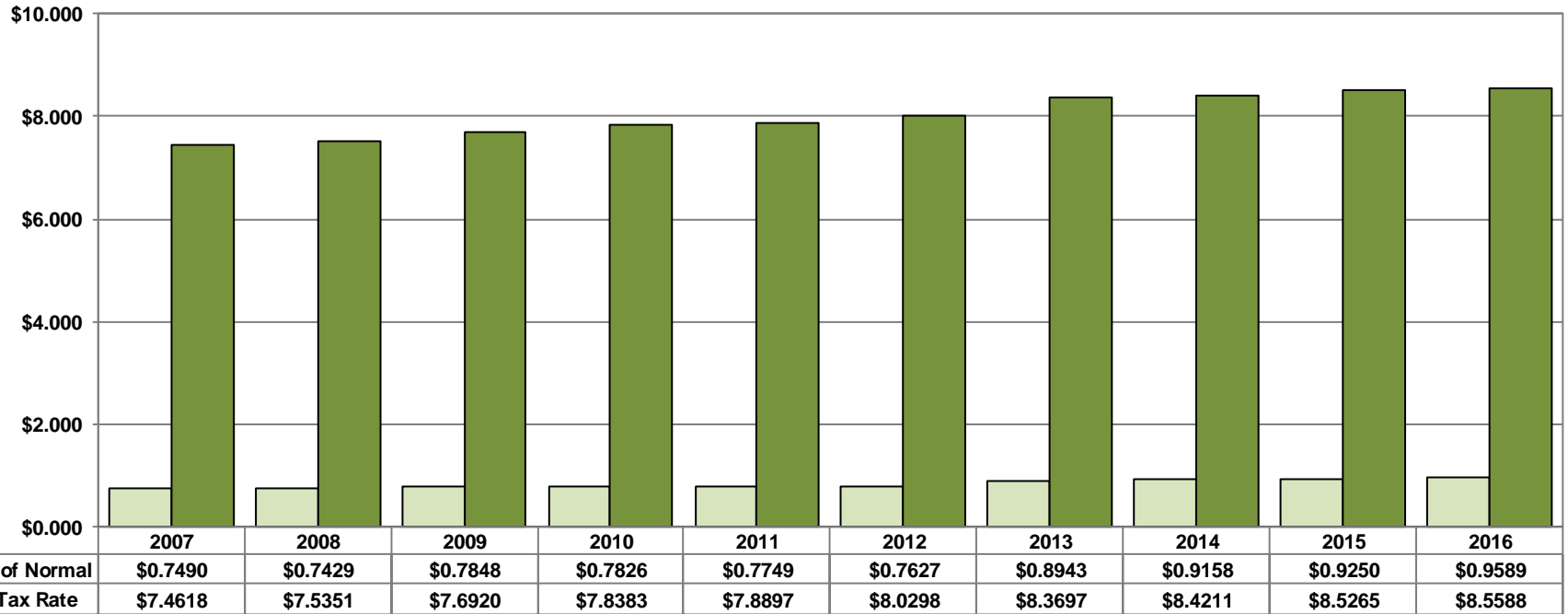
The rating is classified as positive due to the Town's relatively small percentage (11.2%) of the total property tax dollars levied. Normal has little ability to significantly control short-term property tax rates. Other taxing bodies that levy a property tax on Normal residents do not require approval from the Town of Normal.

# PROPERTY TAX RATES

## Town of Normal and Community

### Per \$100 of Assessed Value

(Tax Year)



#### INDICATOR DISCUSSION

The pie chart on the preceding page reports the various units of government that collectively make up the total community tax rate. The Town of Normal rate reported above includes the General and Pension Fund property tax levies, and does not include the Normal Public Library levy. Decisions related to tax levies must take into consideration the total community tax rate including all overlapping governmental units. From a fiscal perspective, a dramatic increase in tax rates can be an indication of problems in other revenue sources or unexpected expenditure needs.

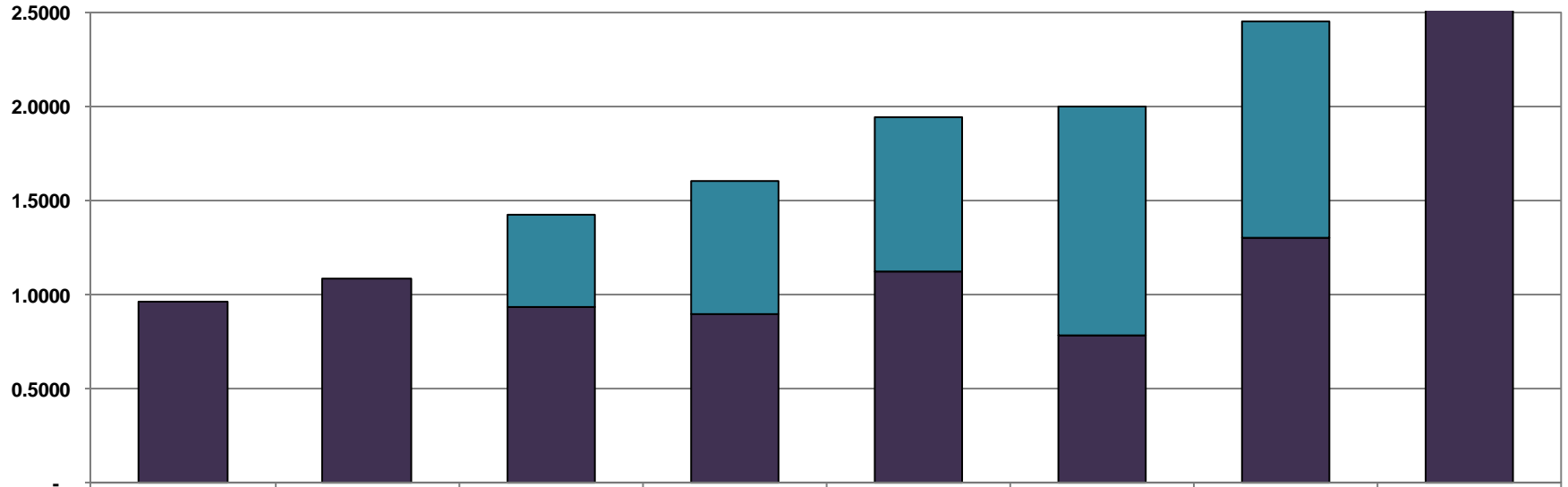
#### RATING: POSITIVE

The Town's tax rate continues to be the lowest property tax rate among the eight largest downstate cities.

Careful management of the tax levy and spending helps keep the tax rate as low as possible. The overall community tax rate increased this year by 3 cents, which was mostly attributable to Heartland Community College.

# MUNICIPAL PROPERTY TAX RATE COMPARISON

Rate per \$100 of Assessed Value



	Normal	Bloomington	Springfield	Champaign	Peoria	Urbana	Decatur	Galesburg
City+Parks	0.9589	1.0836	1.4245	1.6079	1.9454	2.0036	2.4567	2.8991
Parks Rate	-	-	0.4860	0.7149	0.8243	1.2214	1.1505	-
Municipal Rate	0.9589	1.0836	0.9385	0.8930	1.1211	0.7822	1.3062	2.8991

## INDICATOR DISCUSSION

The above graph compares the Town's individual property tax rate to the rates in the seven largest downstate (south of I-80) cities in Central Illinois.

## RATING: POSITIVE

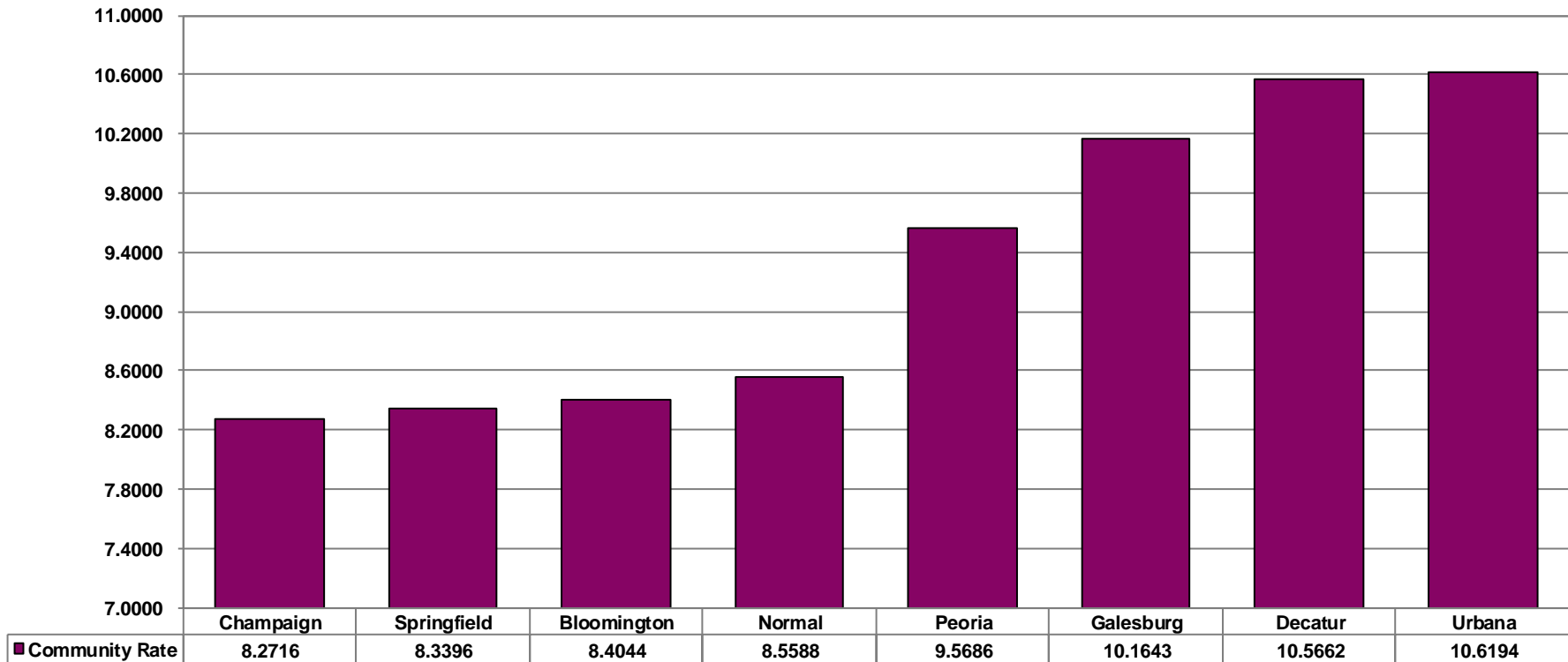
The Town of Normal municipal property tax rate is the lowest of all the cities presented above. Years of consistent effort are required to reach this low property tax rate. The tax levy of .9589 supports the following expenditure obligations:

- Pension funding for Town Police and Fire eligible personnel
- Pension funding for non-union Town employees through the Illinois Municipal Retirement Fund (IMRF) pension plan
- Social Security and Medicare obligations
- Core Town Operations

Springfield, Champaign, Urbana, Peoria and Decatur all have parks and recreation operations that are funded through a separate taxing district. The graph above has combined the park districts (blue portion of the graph) with the appropriate city for an accurate tax rate comparison between cities with a park district and cities that provide those services without a separate tax levy.

# COMMUNITY PROPERTY TAX RATE COMPARISON

Rate per \$100 of Assessed Value



## INDICATOR DISCUSSION

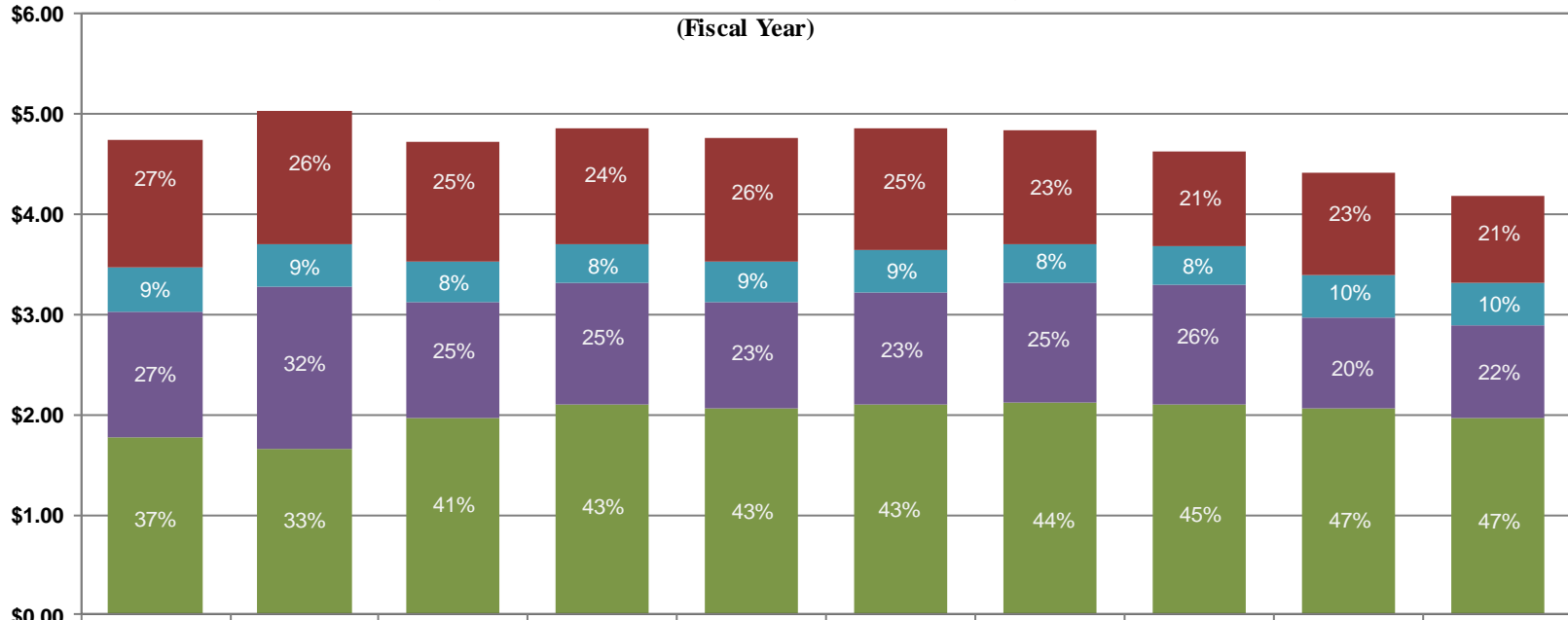
The above graph compares the community property tax rate for Normal to the rates in the seven largest downstate (south of I-80) cities in Central Illinois. The community tax rate is the total tax rate of all government districts that assess a property tax within the municipality. For the Town of Normal other significant districts are Unit 5, McLean County, Heartland Community College and the Normal Library. This comparison allows community leaders and residents to compare their overall community property tax rate with the rates in the largest cities in Central Illinois.

## RATING: POSITIVE

The Town of Normal's community property tax rate is among the lowest in comparison to other communities.

# UTILITY TAX REVENUE

In Millions



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Utility Tax Rev.	\$4.75	\$5.03	\$4.73	\$4.86	\$4.76	\$4.86	\$4.84	\$4.63	\$4.41	\$4.19
Percent Change	4.1%	5.9%	-6.0%	2.9%	-2.1%	2.1%	-0.3%	-4.4%	-4.6%	-5.2%

■ Telephone      ■ Cable TV      ■ Gas      ■ Electricity

## INDICATOR DISCUSSION

The utility tax is charged on electricity, telephone, cable TV and gas. This indicator illustrates the distribution of tax contributions by utilities. The heavy reliance of weather-sensitive utilities often explains the sporadic changes in utility taxes collected from year-to-year.

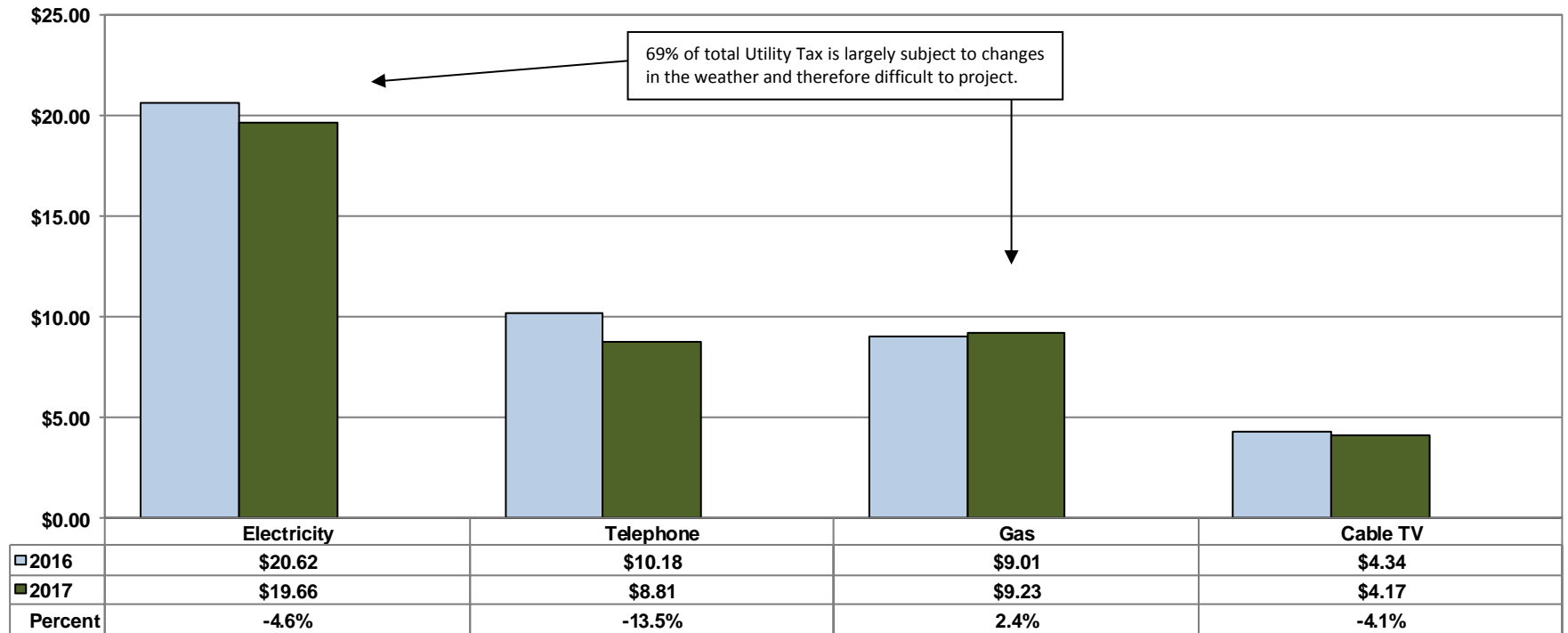
## RATING: NEGATIVE

Mild winters and summers can impact this revenue in any given year, but there are other fundamental changes creating a steady and sustained downward pressure on this revenue stream. For electricity and gas, consumption is decreasing due to more efficient heating and cooling systems. Telephone is down given the shift away from land lines to cell phones and cable is down due to consumers switching their entertainment viewing from traditional cable networks to a variety of other media options.

# UTILITY TAX REVENUE

## Dollar Change from FY2016 to FY2017

In Hundred Thousands



### INDICATOR DISCUSSION

The purpose of this graph is to show the source of overall changes in utility tax revenue. Identification of where changes occur aids in projecting future year revenues as well as how consumer use may be changing in the future.

### UNCLASSIFIED – FOR INFORMATION ONLY

This indicator is educational in nature, and therefore, is given an unclassified rating.

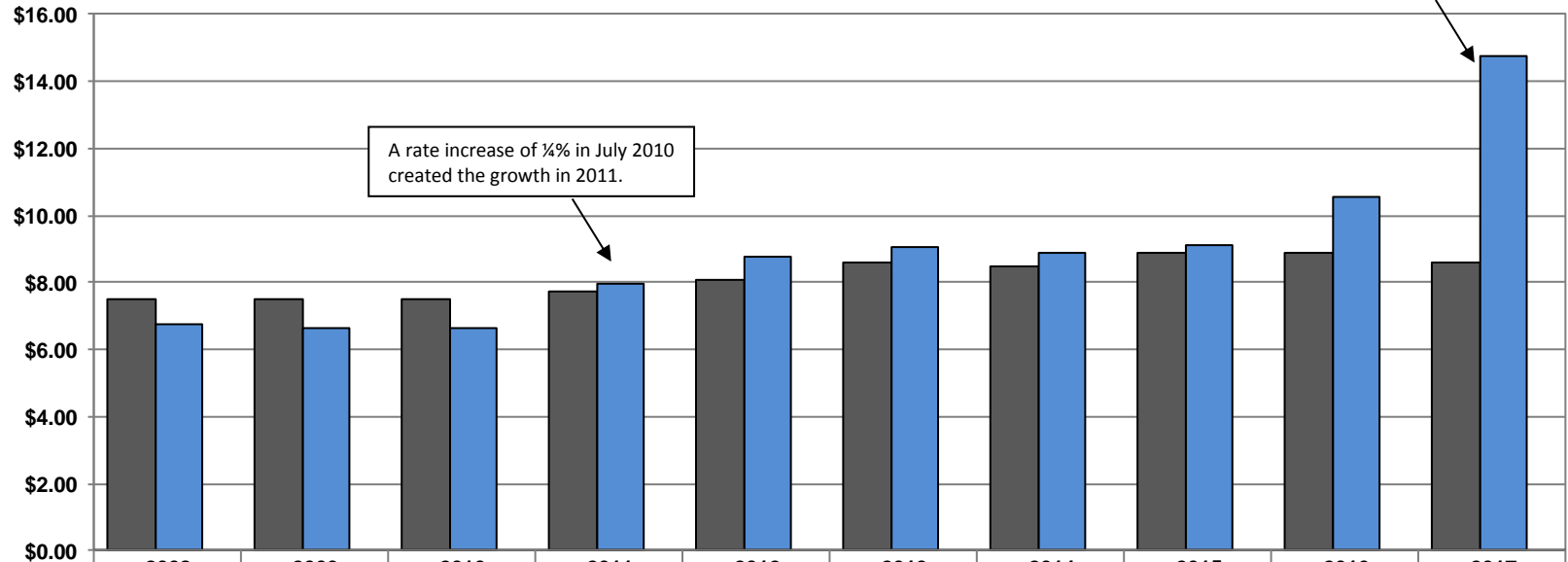


**10-year average growth**  
 State Sales Tax: 1.8%  
 Local Sales Tax: 9.2%

# STATE & LOCAL SALES TAX

(Fiscal Year)

In Millions



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
■ State Sales Tax Revenue	\$7.52	\$7.49	\$7.49	\$7.71	\$8.06	\$8.58	\$8.51	\$8.89	\$8.87	\$8.59
State Sales Percent Change	4.0%	-0.4%	-0.1%	3.0%	4.5%	6.5%	-0.9%	4.5%	-0.2%	-3.2%
■ Local Sales Tax Revenue	\$6.78	\$6.62	\$6.63	\$7.98	\$8.76	\$9.04	\$8.90	\$9.10	\$10.59	\$14.76
Local Sales Percent Change	4.7%	-2.3%	0.2%	20.3%	9.7%	3.2%	-1.5%	2.3%	16.3%	39.4%

## INDICATOR DISCUSSION

This graph reports both the 1% state sales tax and 2.5% local sales tax revenue. The tax is paid by customers shopping within the Town of Normal. These taxes are assessed on purchased items with the exception of vehicles and groceries which are exempt from the local (2.5%) sales tax.

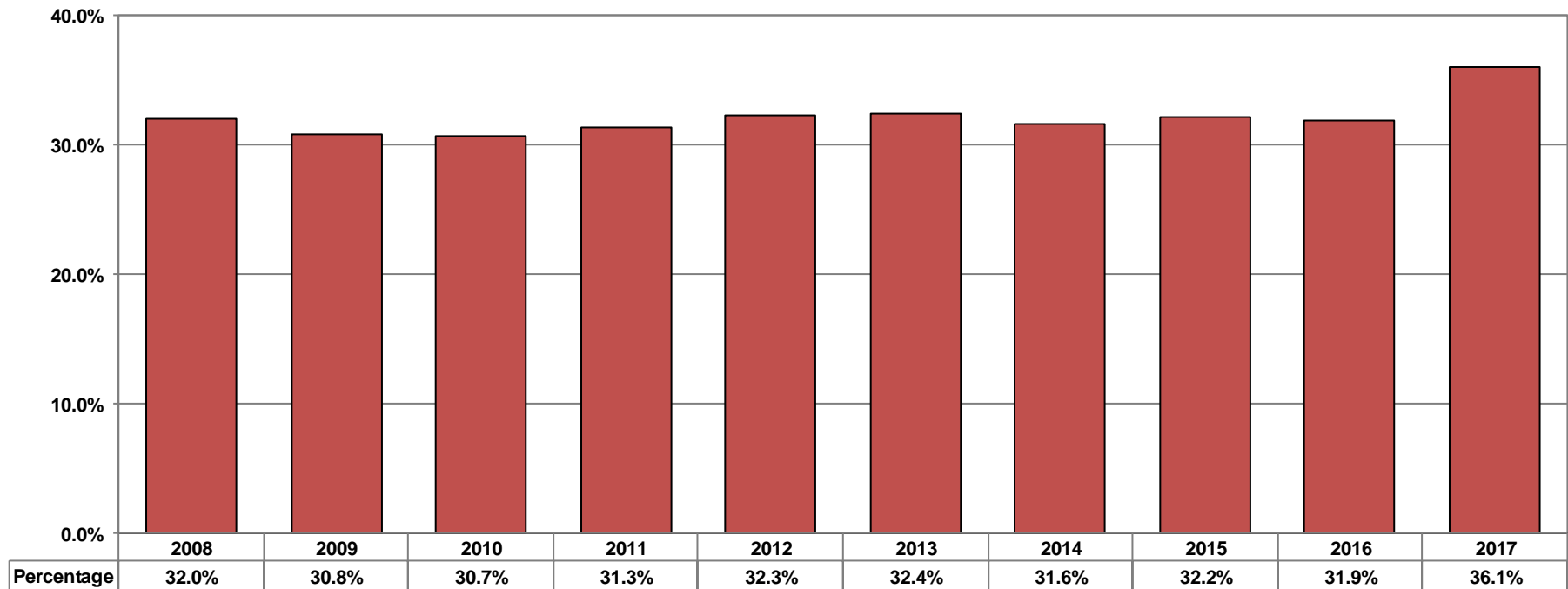
## RATING: NEGATIVE

Sales tax revenue is the largest, most critical source of revenue for the General Fund. If we remove the impact of the rate increase (1/1/2016) the Town has experienced a decrease in both Local and State sale taxes for the past two years. Given the change in buying patterns for consumers (online shopping) and continued uncertainty in the State's economy, we are not expecting to see significant growth in sales tax revenues. Additionally, the Town will receive less Local Sales tax starting with October collections due to the State's decision to charge all local governments a 2% collection fee.

## STATE & LOCAL SALES TAX

### As a Percentage of Total General Fund Revenue

(Fiscal Year)



#### **INDICATOR DISCUSSION**

Dependence on sales tax can result in unexpected fluctuations in revenue generated by changes in the local, state and national economic conditions. This graph identifies how overall dependence has varied. The state 1% and local 2.50% taxes are both collected monthly by the State of Illinois. The local 2.50% tax base excludes food, drug and titled items such as automobiles, which are included in the state 1% tax.

#### **RATING: POSITIVE – WITH CAUTION**

Over the 10 years presented, sales tax as a percent of all General Fund revenue has averaged 32%. It is fiscally prudent to keep the Town's revenue mix appropriately balanced and diverse within the General Fund. In general, this means the municipality should avoid an over reliance on any one type of revenue source (greater than 1/3 of all revenue).

**Type/Description**

**General Merchandise**

*Department and Variety stores*

**Food, Drinking & Eating Establishments**

*Grocery stores, meat/fish/fruit/vegetable markets, restaurants*

**Drugs & Miscellaneous Retail**

*Drug and liquor stores, sporting goods and bicycle shops, book, jewelry, hobby and toy stores*

**Auto**

*New and used car dealers, auto and supply stores, gasoline service stations, boat dealers, recreational vehicle dealers and motorcycle dealers*

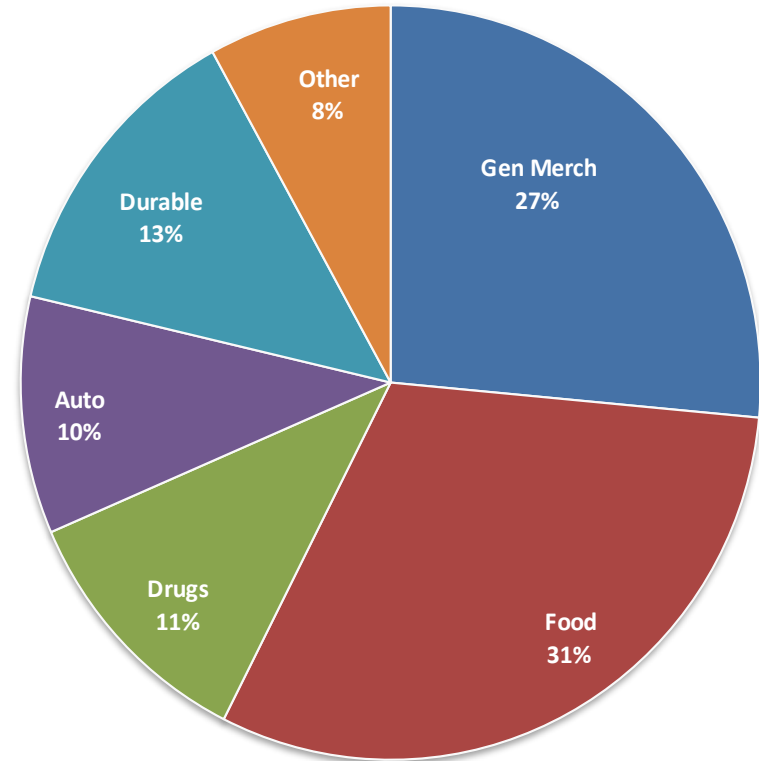
**Durable Goods**

*Lumber, building and hardware stores, furniture stores, floor covering stores, drapery and upholstery stores, household appliance stores and electronic stores*

**Other**

*Apparel, agriculture, and manufactured goods*

**State Sales Tax By Type**



**INDICATOR DISCUSSION**

The purpose of this graph is to illustrate the sources of sales tax revenue received by the Town of Normal. The figures reported above reflect the category percentage of the total 1% state sales tax collected.

**UNCLASSIFIED – FOR INFORMATION ONLY**

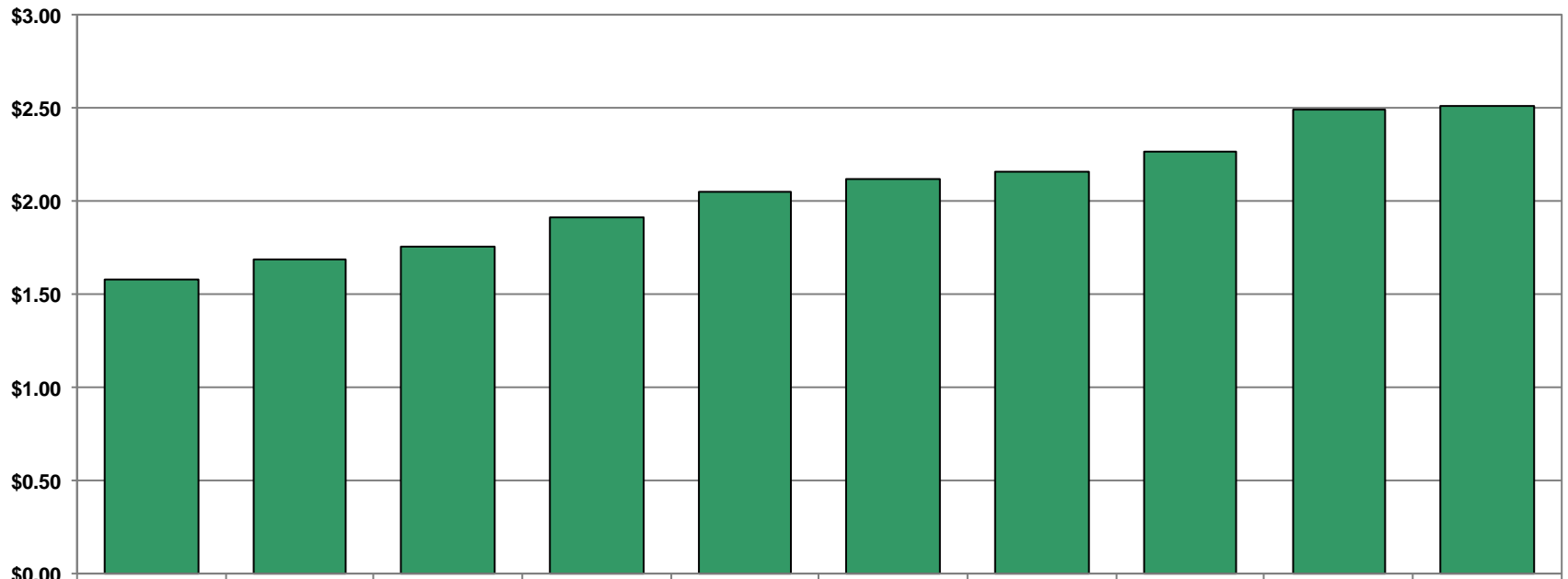
This indicator is for educational purposes and is not intended to reflect the stability of the sales tax revenue in future years.

# FOOD & BEVERAGE TAX REVENUE

## History of Growth

(Fiscal Year)

In Millions



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Food and Beverage	\$1.58	\$1.69	\$1.76	\$1.91	\$2.05	\$2.12	\$2.16	\$2.27	\$2.49	\$2.51
Percent Change	7.80%	6.94%	4.07%	8.83%	7.24%	3.41%	1.54%	5.43%	9.60%	0.89%

### INDICATOR DISCUSSION

This 2% tax applies to all prepared food and beverage items intended for immediate consumption. The tax was implemented in January 2003 by both the City of Bloomington and Town of Normal. The City of Bloomington collects this tax for both cities and then remits to Normal its share of this revenue.

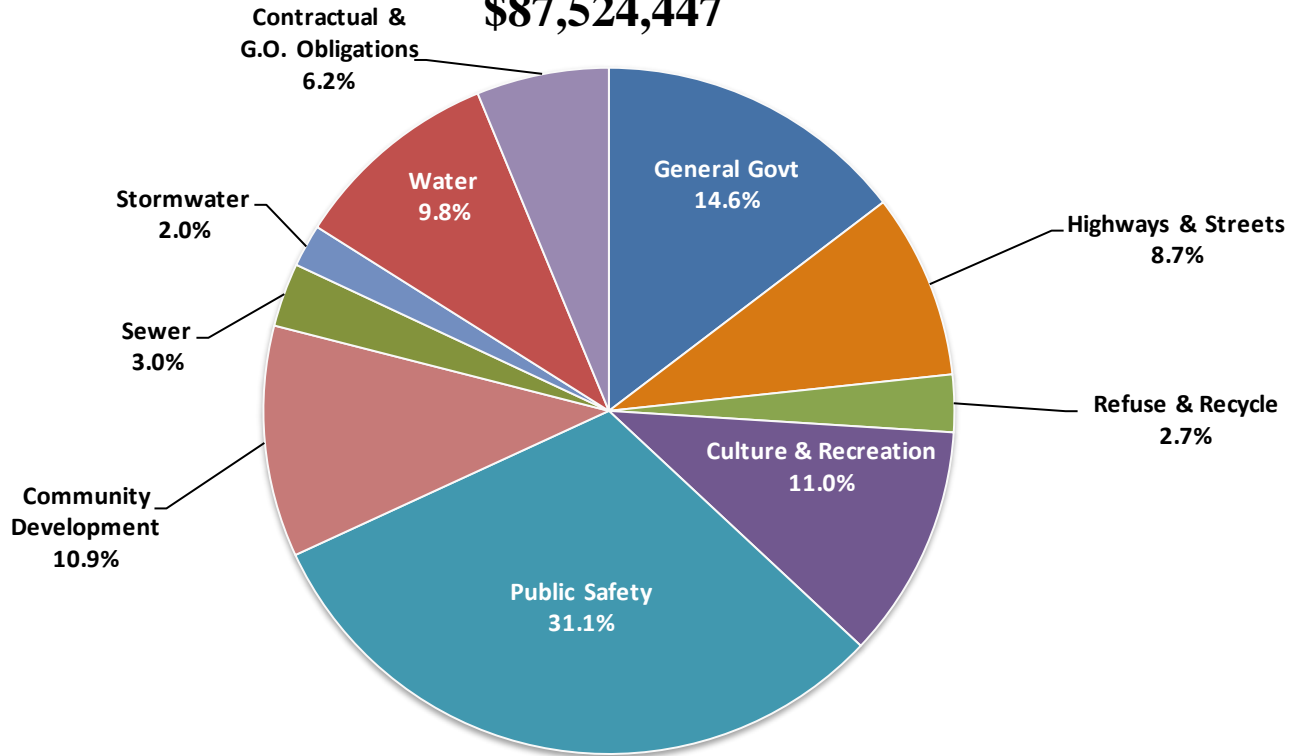
### RATING: POSITIVE – WITH CAUTION

The restaurant sector continues to generate steady growth. The large increase in 2016 was due to new restaurants opening within the Town. Staff expects another increase in 2018 due to new restaurant offers.

# TOWN EXPENDITURES

## By Type - FY2017

**\$87,524,447**



### INDICATOR DISCUSSION

The pie chart above is presented for informational purposes and illustrates the FY2017 allocation of financial resources between major spending categories.

All Town funds are included except for Health Insurance, Library, Police Pension and Fire Pension funds.

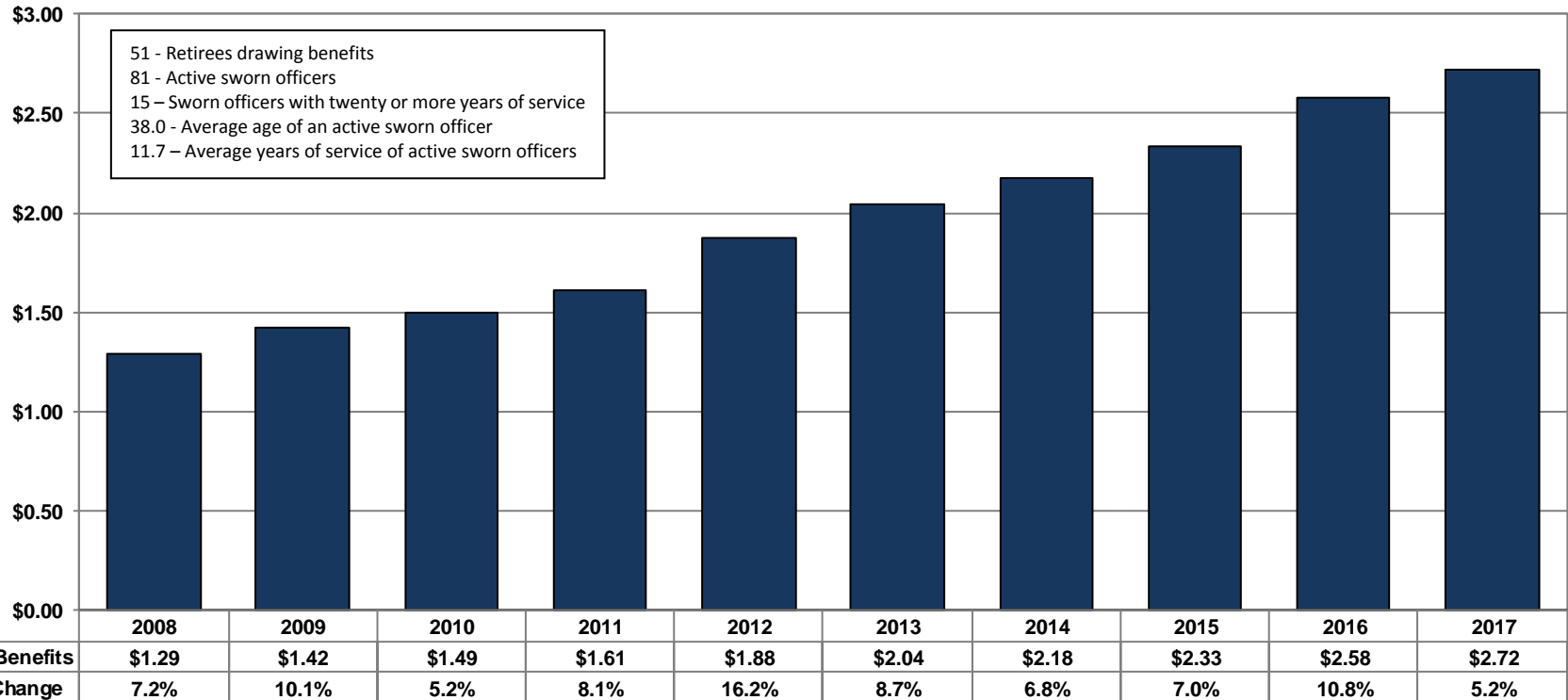
### UNCLASSIFIED – FOR INFORMATION ONLY

#### Major Categories

- Public Safety - Police, Fire and Inspections
- Highways & Streets - Public Works, Engineering and Road & Bridge
- Culture and Recreation - Parks and Recreation activities
- Community Development - Uptown renewal & Fire Station
- General Government – Contractual payments & internal support services

# POLICE PENSION BENEFIT COST

In Millions



51 - Retirees drawing benefits  
 81 - Active sworn officers  
 15 - Sworn officers with twenty or more years of service  
 38.0 - Average age of an active sworn officer  
 11.7 - Average years of service of active sworn officers

## INDICATOR DISCUSSION

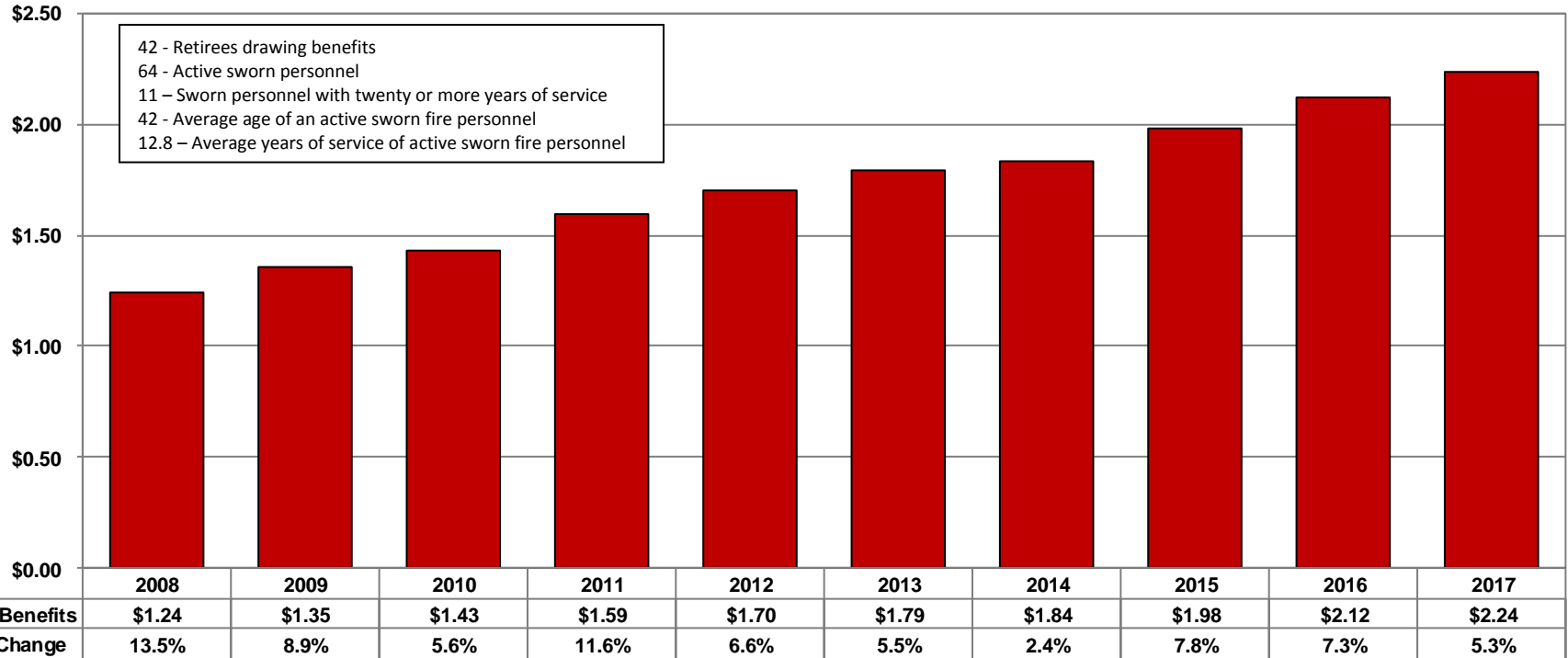
Police pension benefits are mandated by the State of Illinois. The Town is obligated to fund the pension system as determined by the State but the Town has no control over the pension benefit levels.

## UNCLASSIFIED – FOR INFORMATION ONLY

Total benefits paid are expected to continue to accelerate in the future. Staff considers this trend educational in nature primarily because these costs are a function of State mandated benefit levels over which the Town has no authority to control.

# FIRE PENSION BENEFIT COST

In Millions



42 - Retirees drawing benefits  
 64 - Active sworn personnel  
 11 - Sworn personnel with twenty or more years of service  
 42 - Average age of an active sworn fire personnel  
 12.8 - Average years of service of active sworn fire personnel

## INDICATOR DISCUSSION

Fire pension benefits are mandated by the State of Illinois. The Town is obligated to fund the pension system as determined by the State but the Town has no control over the pension benefit levels.

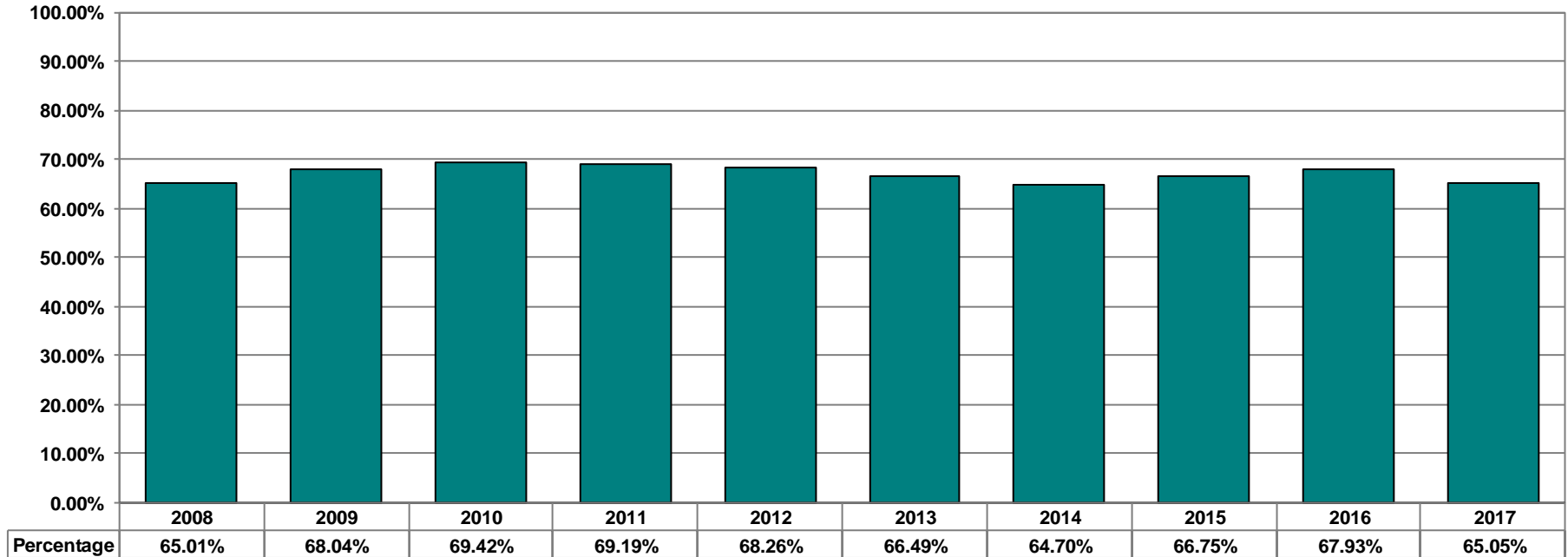
## UNCLASSIFIED – FOR INFORMATION ONLY

Total benefits paid are expected to continue to accelerate in the future. Staff considers this trend educational in nature primarily because these costs are a function of State mandated benefit levels over which the Town has no authority to control.

# PERSONNEL COSTS

## Percent of Total Expenditures

(Fiscal Year)



### INDICATOR DISCUSSION

Personnel costs are the primary component of total General Fund expenditures. Fluctuations in the percentage reported above may also be reflective of new programs or services offered by the Town. These costs are difficult to decrease in the short run and will normally continue to increase over time as service demands in the community increase. Increases can be offset by the Town's ability to meet service demands with improved technologies. Personnel costs (as a percent of total expenditures) can also increase as a result of non-personnel cost reductions.

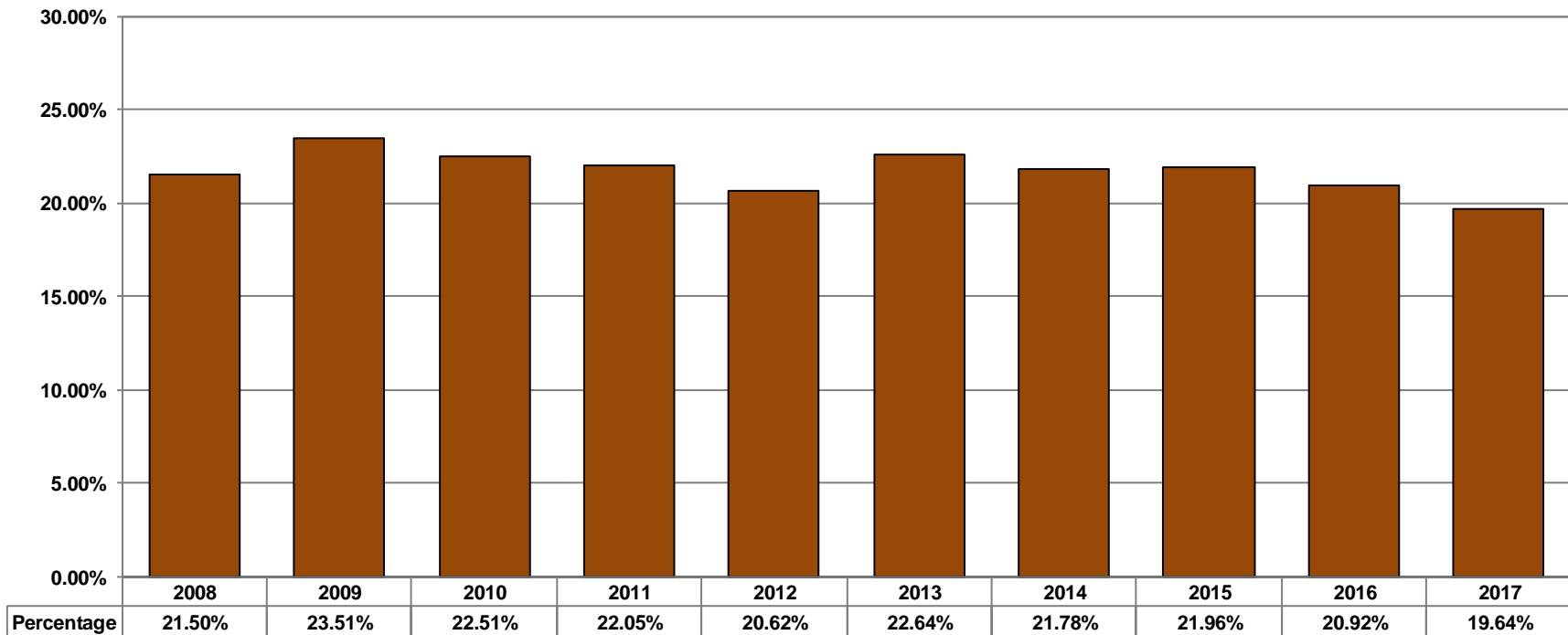
### RATING: POSITIVE

The ability of the Town to take advantage of new technology will impact future trends in this indicator. Personnel cost is a major component of Town services, and management will continue to seek ways to leverage technology in an effort to keep labor cost low.



# OVERLAPPING DEBT

## As a Percentage of Assessed Value



### INDICATOR DISCUSSION

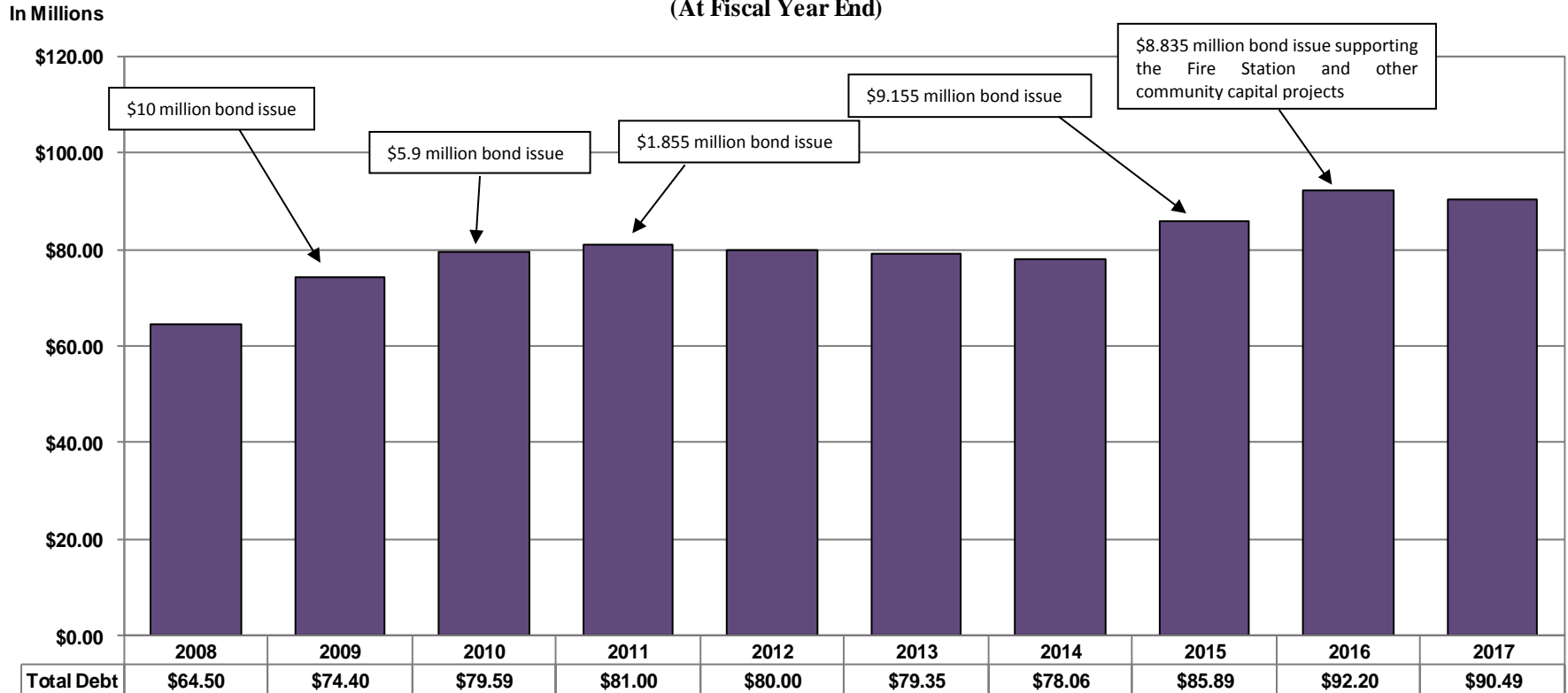
Overlapping debt consists of Normal's net direct bonded debt (including debt supported by Water and Sewer Funds) and the debt of other governmental units within Normal, including Unit 5 School District, McLean County, the Water Reclamation District, Heartland Community College and the Airport Authority.

### RATING: POSITIVE

The total overlapping debt decreased from \$175.0 million in FY2016 to \$169.4 million in FY2017. The decrease in the overlapping debt was due to the annual payments made by the overlapping districts in FY2017.

# TOTAL DEBT OUTSTANDING

(At Fiscal Year End)



## INDICATOR DISCUSSION

This indicator reports the total debt outstanding of the Town. Most of the debt shown relates to the Uptown redevelopment program and is supported by the Council designated revenue sources of tax incremental financing property tax, water and sewer funds, motor fuel tax, and a portion of local sales tax, hotel motel tax and food and beverage tax.

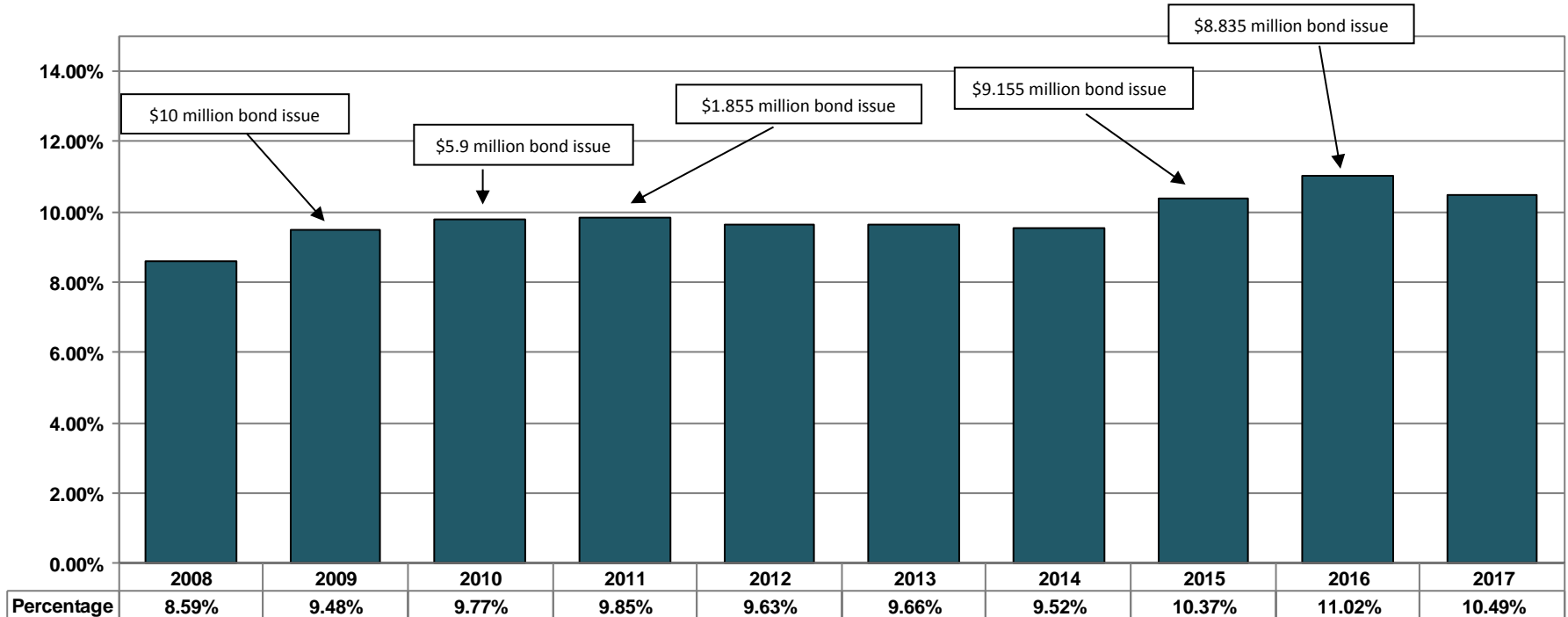
## RATING: POSITIVE

The Town has a long practice of utilizing debt financings to leverage economic activity and core public needs. All the debt issues have been well timed and well planned. When appropriate, the Town has refunded bonds to take advantage of lower market rates and continues to monitor and maintain our debt obligations with a sophisticated debt model. This model helps the Town ensure a well-funded and a sustainable bond program for current bond issues and any future financing needs the Town plans to execute.

# LONG-TERM DEBT

## As a Percentage of Assessed Value

(Fiscal Year)



### INDICATOR DISCUSSION

This graph examines the Town’s long-term debt (as a percentage of assessed valuation), which the Town has pledged its “full faith and credit” to repayment. The graph does not include debt of overlapping governmental jurisdictions.

The use of the debt presented in the chart has been for the Uptown development and has helped maintain a vibrant local economy.

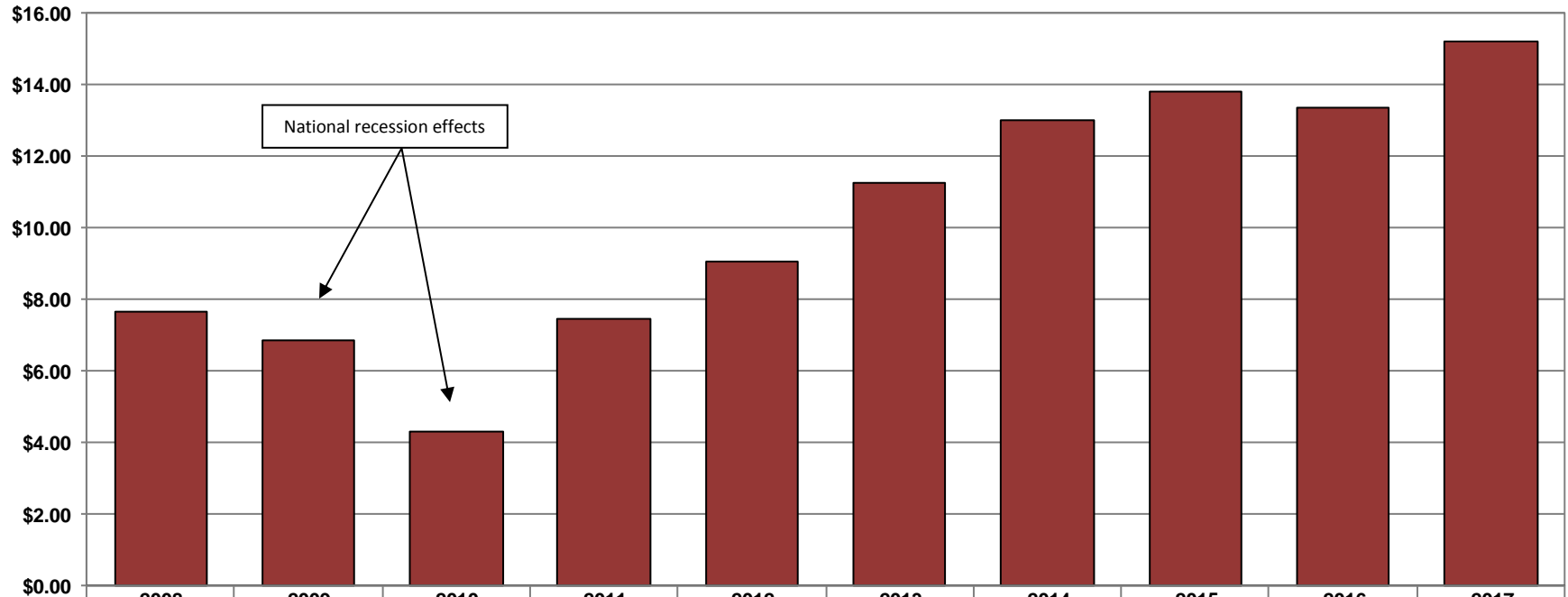
### RATING: POSITIVE – WITH CAUTION

Staff considers a debt amount of near 10% (as compared to assessed value) to be a general debt benchmark. The Town has been slightly above this benchmark for the past three fiscal years. However, staff are comfortable with the Town’s debt level and remain confident in our capacity to manage the Town’s debt obligations. This is evidenced by the favorable coverage ratios (see page 42) and the Town’s AAA bond rating.

# GENERAL FUND CASH BALANCE

(Fiscal Year)

In Millions



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Cash & Invest	\$7.668	\$6.833	\$4.315	\$7.451	\$9.038	\$11.250	\$13.009	\$13.786	\$13.359	\$15.230
Percent Change	18.1%	-10.9%	-36.8%	72.7%	21.3%	24.5%	15.6%	6.0%	-3.1%	14.0%

## INDICATOR DISCUSSION

The data presented above has been taken from the year-end General Fund balance sheet.

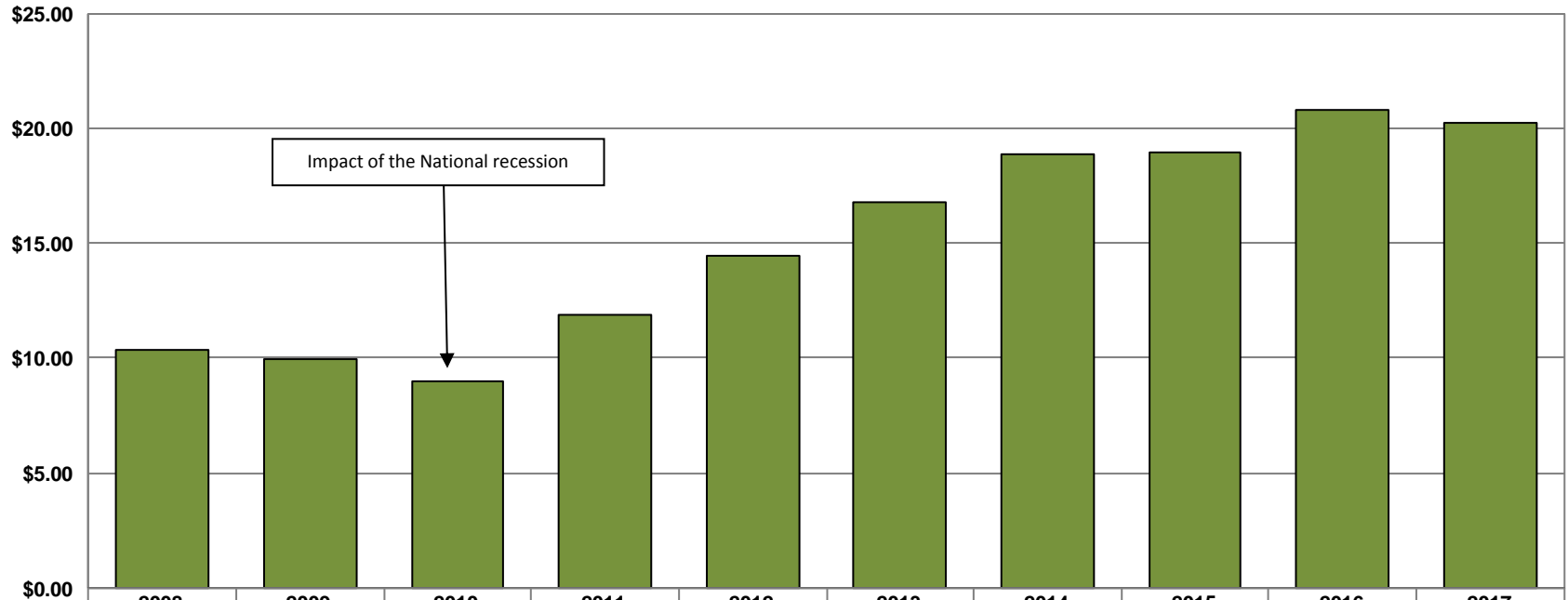
## RATING: POSITIVE

There was a slight dip in 2016 that was caused by a large receivable balance, which was collected in 2017.

# GENERAL FUND BALANCE

(Fiscal Year)

In Millions



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
■ Fund Balance	\$10.32	\$9.98	\$8.98	\$11.86	\$14.43	\$16.81	\$18.88	\$18.94	\$20.82	\$20.22
Percentage Change	5.23%	-3.29%	-10.00%	32.09%	21.60%	16.53%	12.34%	0.28%	9.96%	-2.90%

### INDICATOR DISCUSSION

The General Fund is reported at year-end on a modified accrual basis of accounting. This means that expenditures are recognized when a liability obligation for payment exists. Revenues are recognized when earned.

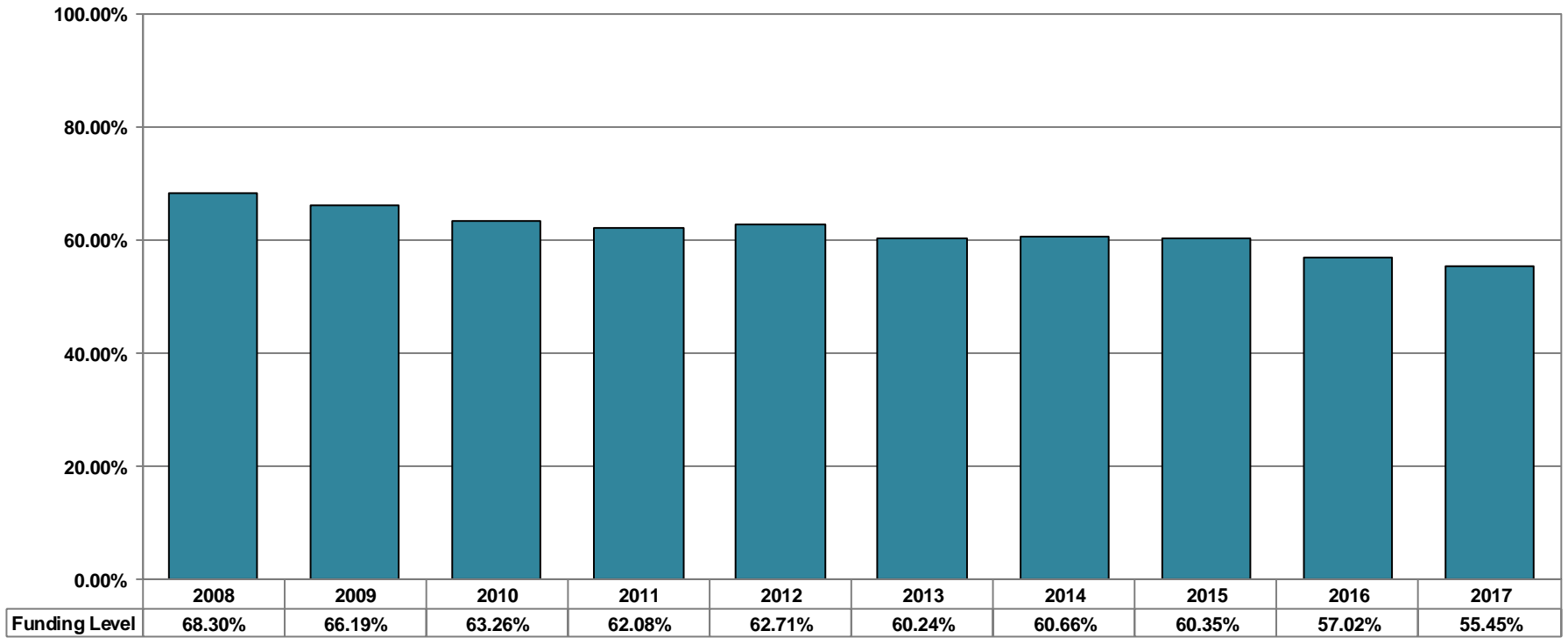
### RATING: POSITIVE – WITH CAUTION

The fund balance is currently in a good position; however, the slight decrease was driven by the poor performance in state and local sales tax and income tax. This indicator was rated positive with caution given the potential stagnant growth in revenues.

# POLICE PENSION PLAN

## Funding Levels

(Fiscal Year)



### INDICATOR DISCUSSION

According to State law (effective 1/1/2011), all Illinois police pension funds must be 90% funded by the year 2040. An upward sloping trend indicates improved financial stability of the fund. It is the Town's goal and funding policy to reach 100% by 2040.

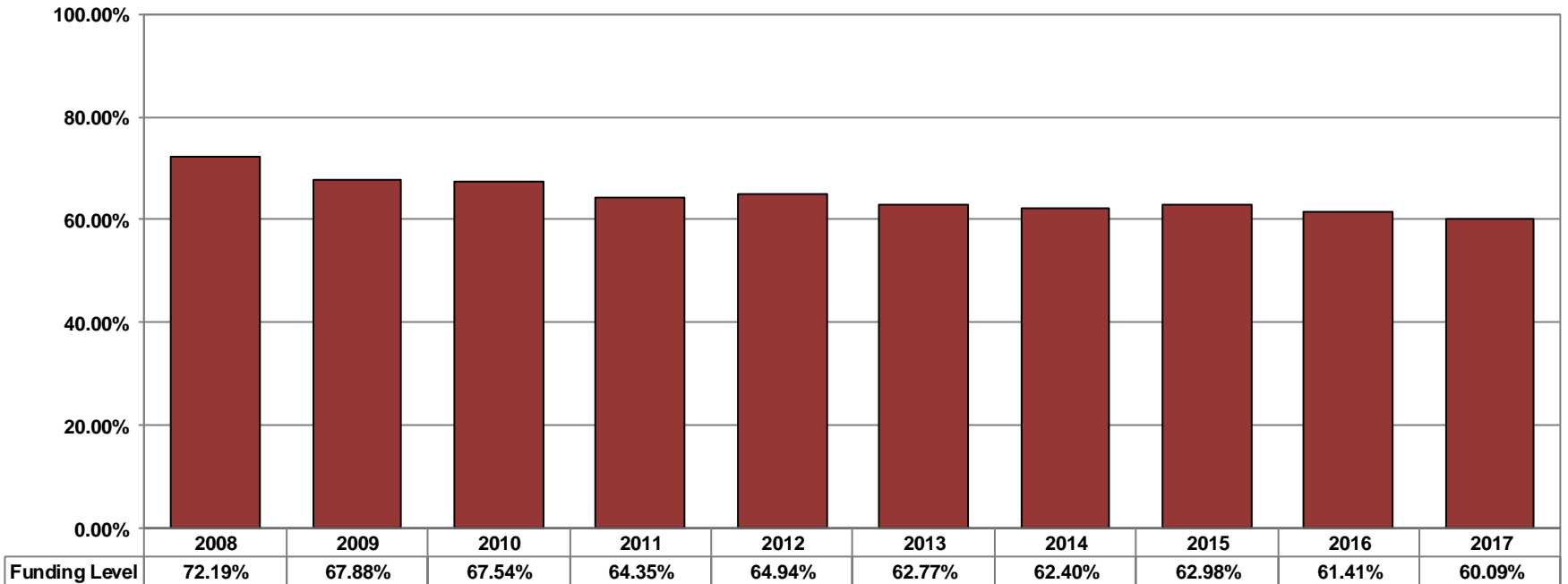
### RATING: NEGATIVE

The Town, like many municipalities, continues to see decreasing funding levels in its public safety pensions. This decrease is primarily due to lower than expected investment earnings. Staff expected the investment returns to be more consistent with the 6.75% assumption used in the actuarial valuation. However, market performance has continued to be below that assumption and it is likely the investment returns will not achieve the 6.75% assumption.

# FIRE PENSION PLAN

## Funding Levels

(Fiscal Year)



### INDICATOR DISCUSSION

According to State law (effective 1/1/2011), all Illinois fire pension funds must be 90% funded by the year 2040. An upward sloping trend indicates improved financial stability of the fund. It is the Town's goal and funding policy to reach 100% by 2040.

### RATING: NEGATIVE

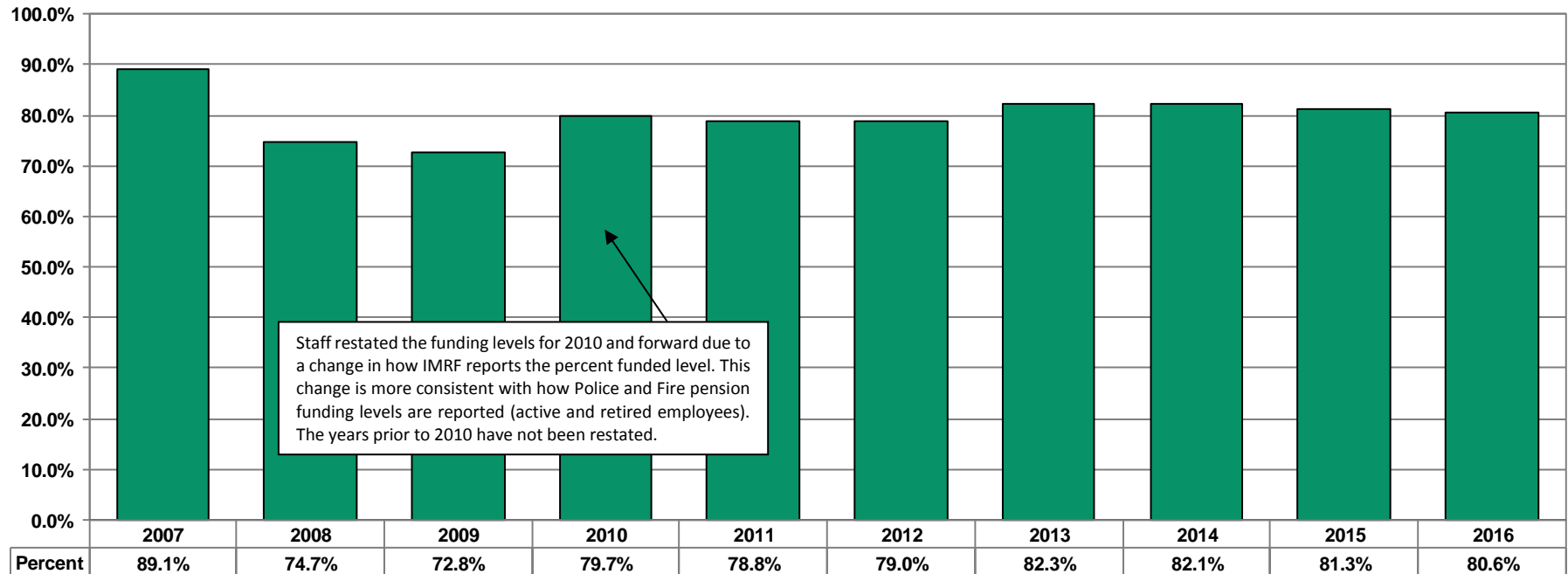
The Town, like many municipalities, continues to see decreasing funding levels in its public safety pensions. This decrease is primarily due to lower than expected investment earnings. Staff expected the investment returns to be more consistent with the 6.75% assumption used in the actuarial valuation. However, market performance has continued to be below that assumption and it is likely the investment returns will not achieve the 6.75% assumption.

# IMRF

(Illinois Municipal Retirement Fund)

## Funding Levels

(Calendar Year)



### INDICATOR DISCUSSION

Pension funding to IMRF supports the pension plans for all non-contract employees (Town employees not covered under the police or fire collective bargaining agreement).

The graph above summarizes the changes in IMRF funding levels that have occurred over time. The IMRF contribution levels are actuarially determined by a private firm employed by the IMRF Board. All active IMRF employees contribute 4.5% of their total earnings. The employer rate established by the IMRF Board varies from year-to-year.

### RATING: POSITIVE – WITH CAUTION

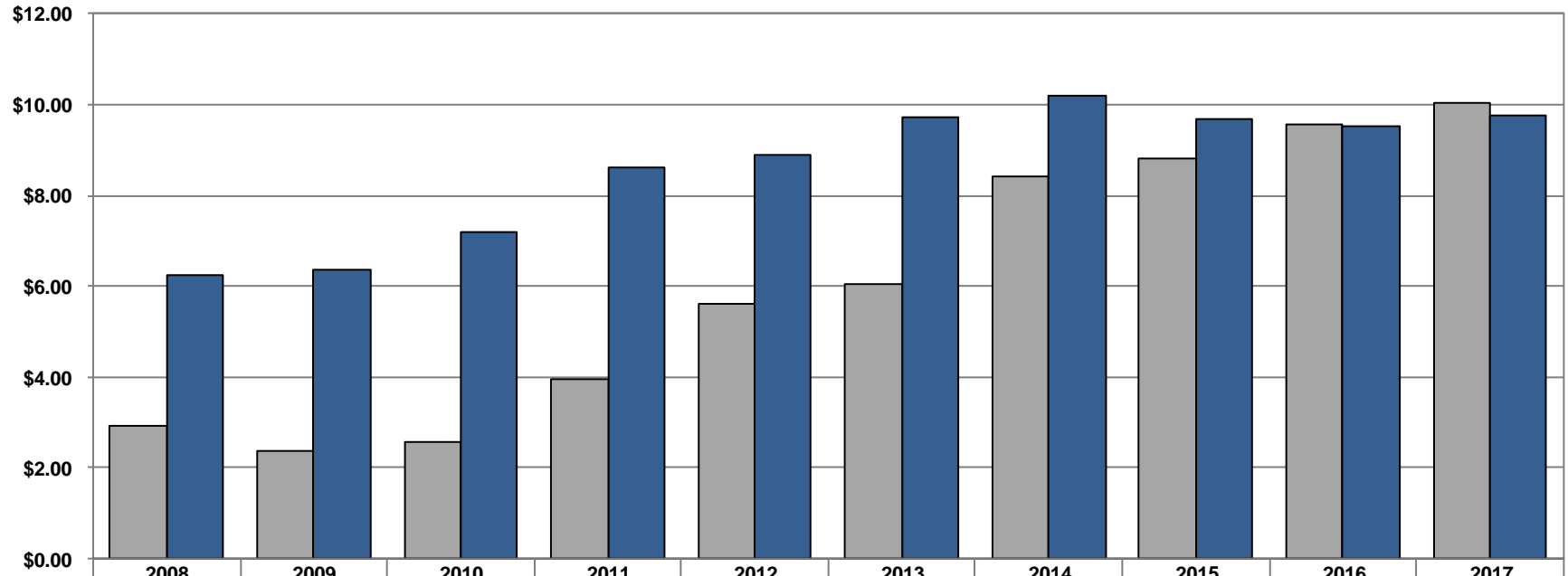
The IMRF pension program continues to be well funded.



# WATER FUND

(Fiscal Year)

In Millions



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
□ Cash & Invest	\$2.93	\$2.36	\$2.56	\$3.94	\$5.60	\$6.04	\$8.43	\$8.80	\$9.58	\$10.02
■ Revenue	\$6.23	\$6.37	\$7.20	\$8.61	\$8.91	\$9.74	\$10.20	\$9.67	\$9.52	\$9.75

## INDICATOR DISCUSSION

The Cash and Investments category includes both operations and funds reserved for vehicle and equipment replacement. A trend of decreasing revenue or cash can be interpreted as a warning indicator for financial troubles in the fund. The combination of a decline in both categories would be a very clear indication of instability and potential future hardships.

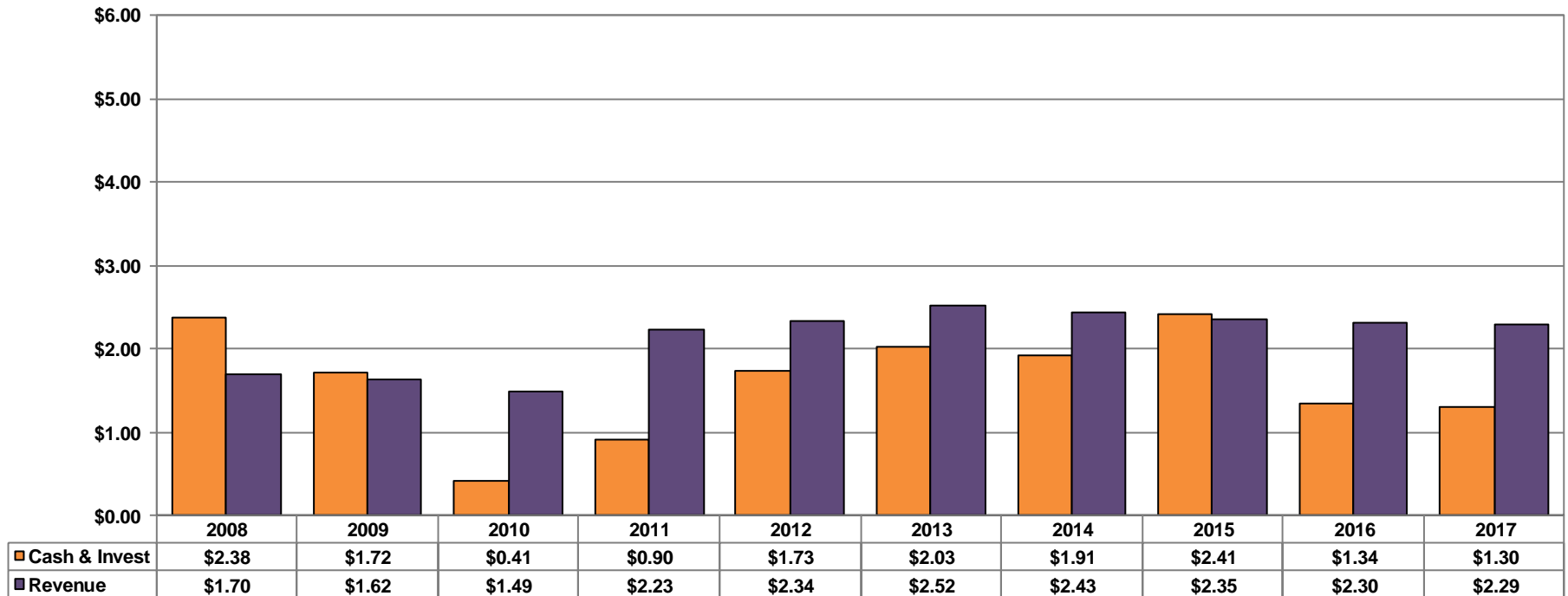
## RATING: POSITIVE

The Water Fund's financial position remains strong, both for operational needs and capital infrastructure projects. Revenues have remained stationary the past few years. Council approved a 2% rate increase for FY2017-18 which will help ensure the operations long-term financial stability. Staff will continue to monitor the Water Fund and recommend adjustments, as needed, to ensure the fund remains in a strong financial position. These future rate adjustments will likely be small.

# SEWER FUND

(Fiscal Year)

In Millions



## INDICATOR DISCUSSION

The Cash and Investments category includes both operations and funds reserved for vehicle and equipment replacement. A trend of either decreasing revenue or cash can be interpreted as a warning sign for financial troubles in the fund. The combination of a decline in both categories would be a very clear indication of instability and potential future hardships.

## RATING: NEGATIVE

The Sewer Fund's financial position has been solvent, but well below a fiscal position that will sufficiently meet the systems operational and capital needs. The recently adopted sewer study and corresponding rate increase for the next six fiscal years will improve the balances in this fund, and make funds available for vital capital infrastructure needs.

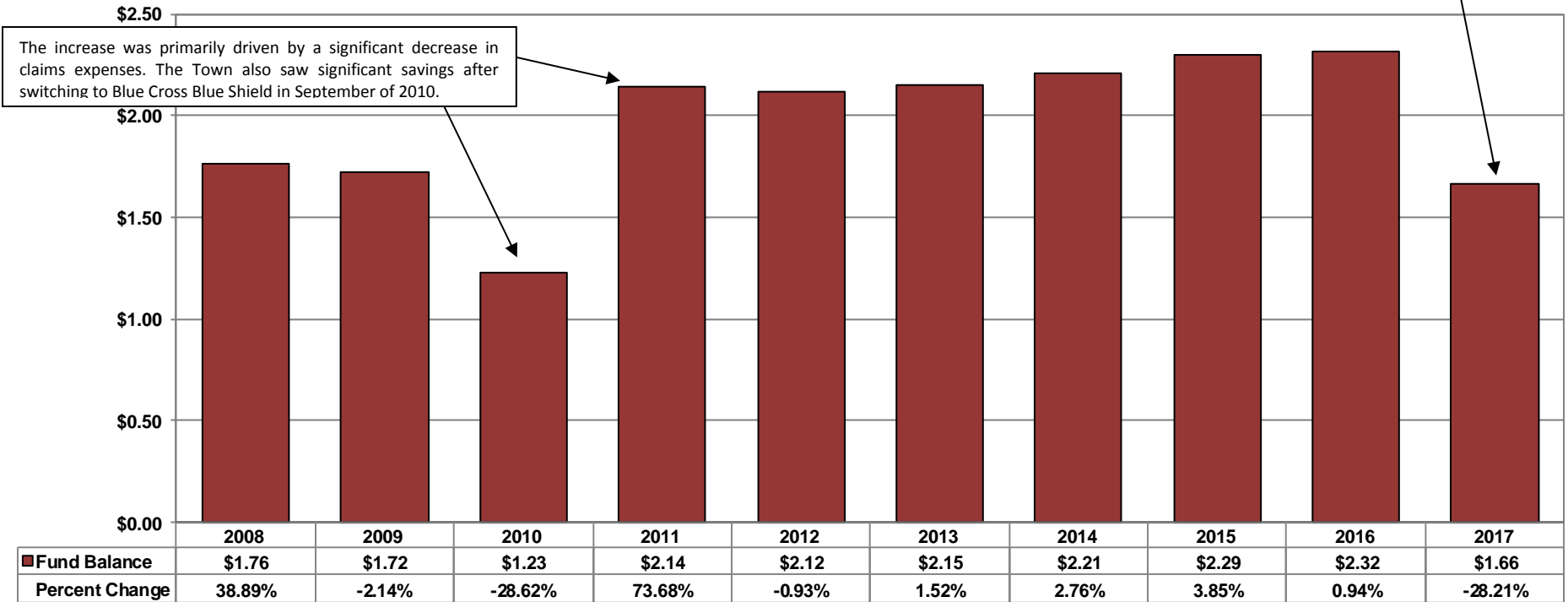
# Health & Dental Insurance Fund

## Fund Balance

(Fiscal Year)

In Millions

The decrease was caused primarily from prescription costs associated with the plan.



### INDICATOR DISCUSSION

The Town of Normal provides health and dental insurance through a self-funded plan. The Health Insurance Fund is classified as an Internal Service Fund and derives its revenue from Town and employee contributions.

### RATING: POSITIVE – WITH CAUTION

The Town has seen a sharp increase in prescription drug utilization, including specialty drugs that significantly increased claim costs. Such changes in utilization are unfortunately an unpredictable reality of the health care environment. Staff continues to monitor the fund closely due to the uncertainty of healthcare costs and the general volatility in the industry. Such expense fluctuations are expected and a primary reason for why the Town maintains a strong reserve level in the fund.

# Financial Strategies

## General Fund Operating Reserves – Positive Outlook – with Caution

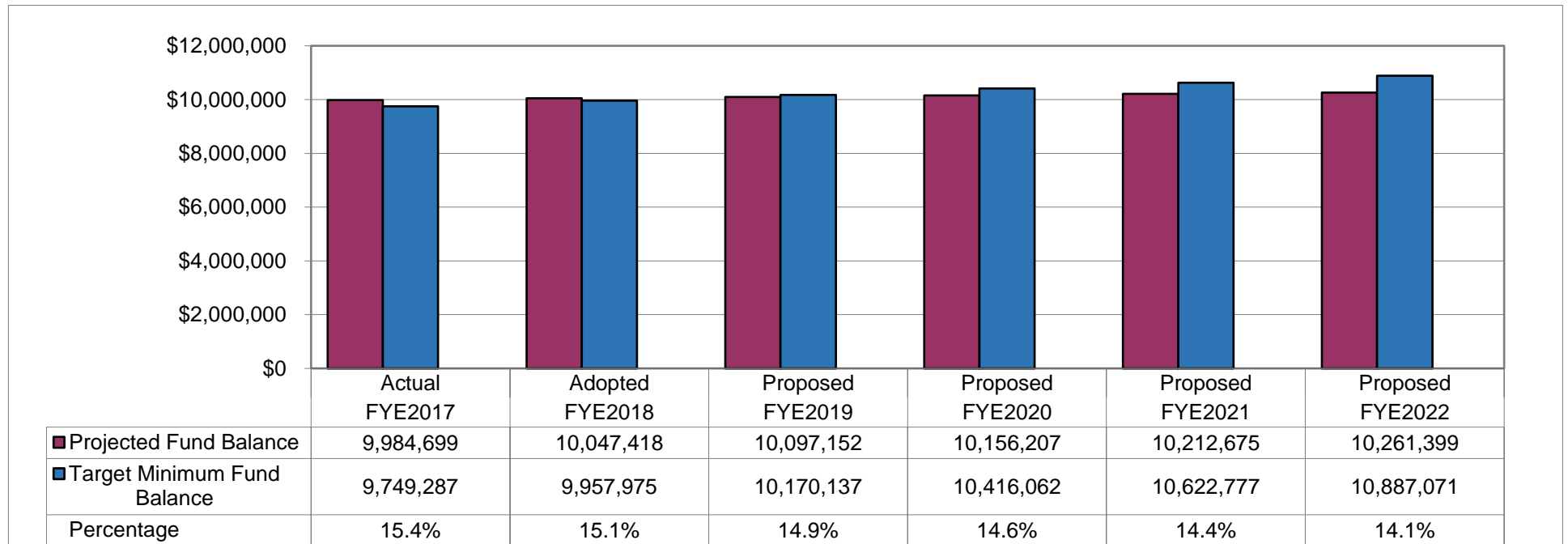
Management Strategy: Maintain a projected 15% fund balance for all budget years presented in the 5-year budget.

Operating reserves are an essential fiscal policy for any local government. An adequate fund balance in the General Fund helps:

- Provide a resource to manage through negative economic conditions or events
- Maintain working capital for paying bills in a timely manner
- Finance cash flow needs and avoid short-term borrowing given seasonal revenue streams
- Provide for unanticipated needs
- Provide resources to take advantage of unexpected opportunities
- Provide a key indicator of fiscal health for rating agency reviews

### Measuring the General Fund Operating Reserve

As part of the budget planning process, Finance calculates the fund balance for budgetary purposes (spendable fund balance) as the year ending cash balance less current liabilities. This projection of General Fund balance takes into account the FY2016-17 results and projections from the approved budget for FY2017-18.



**Vehicle and Equipment Reserves – Positive Outlook with Caution**

Management Strategy: Maintain the Vehicle and Equipment reserve fund balance at 110% of the average spending for the most current projected five year budget plan.

The Vehicle and Equipment reserve fund is used to accumulate resources to fund the replacement of the Town’s vehicle and equipment needs. It is essentially an extension of the General Fund and, by management practice, funds are set aside each year to pay for vehicle and equipment replacement needs. The necessary fund balance or reserve level that should be maintained is a function of management judgment and the anticipated replacement costs of various vehicles and equipment.

Fiscal Year	Planned Spending	Planned Fund Balance	Above/(Below)
FY 2017-18	2,328,023	4,106,299	867,877
FY 2018-19	3,198,787	3,899,783	661,361
FY 2019-20	3,745,150	3,425,345	186,923
FY 2020-21	3,424,890	2,655,771	(582,651)
FY 2021-22	2,023,250	2,731,050	(507,372)
Average	2,944,020		
110%	3,238,422		

**Contingency Funding – Negative Outlook**

Management strategy: Maintain an annual contingency amount equal to or above 1% of General Fund expenditures.

The Town frequently utilizes its contingency funds for unexpected needs and/or opportunities and it is management’s practice to maintain an annual contingency fund equal to or above 1% of planned General Fund expenditures. This financial strategy is slightly skewed due to the fact that the Town has not allocated the additional 1% sales tax in the future budget years. The increase in projected sales tax revenue is budgeted in the contingency account until the Council allocates the revenue to projects.

Fiscal Year		Expenditures	Management Strategy	Current Planned
FYE2017	Actual	57,083,239	1.3%	\$750,000
FYE2018	Proposed	66,386,497	0.3%	\$168,615
FYE2019	Proposed	67,800,913	1.8%	\$1,254,130
FYE2020	Proposed	69,440,411	0.0%	\$400
FYE2021	Proposed	70,818,511	0.0%	\$0
FYE2022	Proposed	72,580,471	0.2%	\$113,805

**Debt Management Capacity – Positive Outlook**

Management Strategy for Capacity: Keep current and projected annual debt service payments at or below 10% of General Fund annual revenue.

Fiscal Year	Total General Fund Rev	Net Debt Service Payment	Debt Payment/Gen Rev
FYE17	64,759,030	5,216,549	8.1%
FYE18	66,449,216	5,559,474	8.4%
FYE19	67,850,647	5,502,546	8.1%
FYE20	69,499,466	5,720,239	8.2%
FYE21	70,874,979	5,989,938	8.5%
FYE22	72,629,195	5,992,992	8.3%

This strategy serves only as a general guideline, as specific situations/circumstances will impact the amount of debt the Town is willing to issue and each debt issue decision must be considered on a case by case basis.

**Debt Management Coverage – Positive Outlook**

Management Strategy: Maintain funding at or above the stated coverage ratios. These ratios are 1.00 for annual revenue to annual debt service and 1.25 for annual revenue plus carry forward reserves to annual debt service.

Coverage ratio (1) compares the projected annual revenue made available for debt service to the projected annual debt service payment. A coverage ratio of 1.0 means the Town’s dedicated revenue for a specific year equals the planned debt service.

Coverage ratio (2) compares the projected annual revenue plus carry-forward reserves available for debt service to the projected annual debt service payment. Specific targets are set for both coverage ratios. These ratios are based on the debt program as adopted in the FY2016-17 Budget.

Fiscal Year	(1) Rev/Exp	(2) Rev +
	1.00	Bal/Exp 1.25
FYE17	1.08	1.65
FYE18	0.90	1.50
FYE19	1.04	1.46
FYE20	1.03	1.32
FYE21	1.02	1.26
FYE22	1.06	1.25

**Health Insurance Reserve – Positive Outlook with Caution**

Management Strategy: Maintain a reserve balance equal to the four highest expense months from the most recently closed fiscal year. The reserve level will change year to year, given changes in expenditure activity. If expenditure activity trends upward, the needed reserve level will automatically trend upward as well. This ensures the Town’s needed level of reserves remain consistent with expenditure activity levels. During the 2016-17 fiscal year, the health insurance fund took a big hit. Fortunately, staff was monitoring the issues and has already reacted to decrease in reserves. With the changes to the plan in the near future, we expect the fund reserves to restore themselves.

This is a conservative approach to establishing prudent reserve levels, but staff feels it is appropriate for the following reasons:

- Small employee base – adds potential for significant swings in expected claims
- Older employee base – adds potential for higher than usual claim expense
- Provides for smoothing out spikes in premium charges
- Provides flexibility to manage premium increases
- Provides flexibility to manage benefit increases

Below is our calculation of the reserve as well as projections from the adopted FY2016-17 budget.

	Proposed	Proposed	Proposed	Proposed	Proposed
Line Item	FY2018	FY2019	FY2020	FY2021	FY2022
Beginning Fund Balance	1,662,758	1,590,058	1,602,973	1,611,003	1,681,423
Revenue	6,149,040	6,556,605	6,917,720	7,299,160	7,702,030
Expenditures	6,221,740	6,543,690	6,909,690	7,228,740	7,565,270
Ending Fund Balance	1,590,058	1,602,973	1,611,003	1,681,423	1,818,183
Target Balance	2,287,826	2,467,268	2,605,266	2,725,562	2,852,450

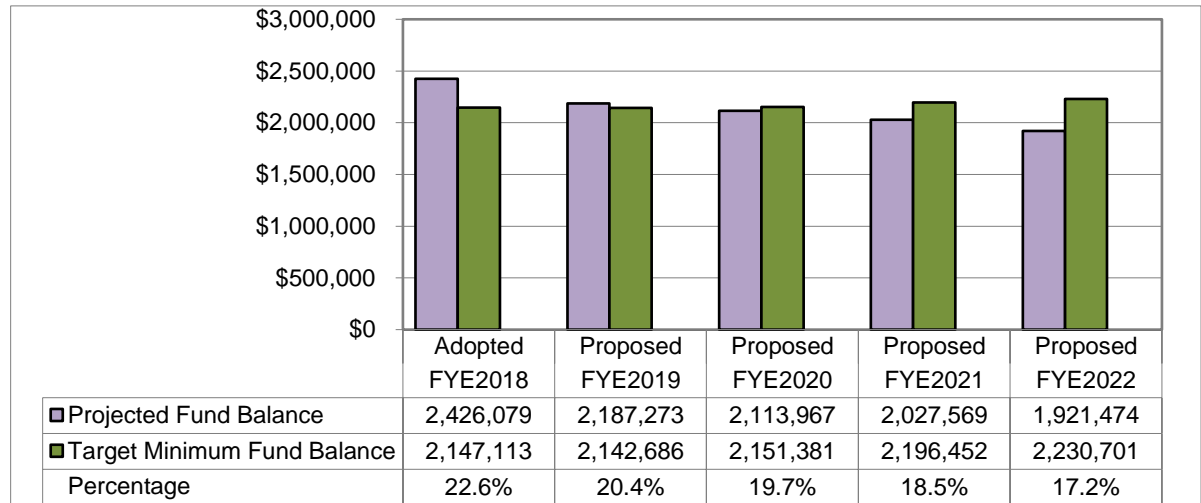
2016-17		
Month	Monthly Spending	Min Balance
April	462,575	
May	502,759	
June	474,533	
July	446,555	
August	576,674	576,674
September	561,705	561,705
October	464,481	
November	471,661	
December	557,984	557,984
January	474,723	
February	591,463	591,463
March	482,663	
Total	6,067,775	2,287,826

### Water Fund Operating Reserves – Positive Outlook – with Caution

Management Strategy: Maintain a projected 20% fund balance for all budget years presented in the 5-year budget.

Operating reserves are an essential fiscal policy for any local government. An adequate fund balance in the Water Operating Fund helps:

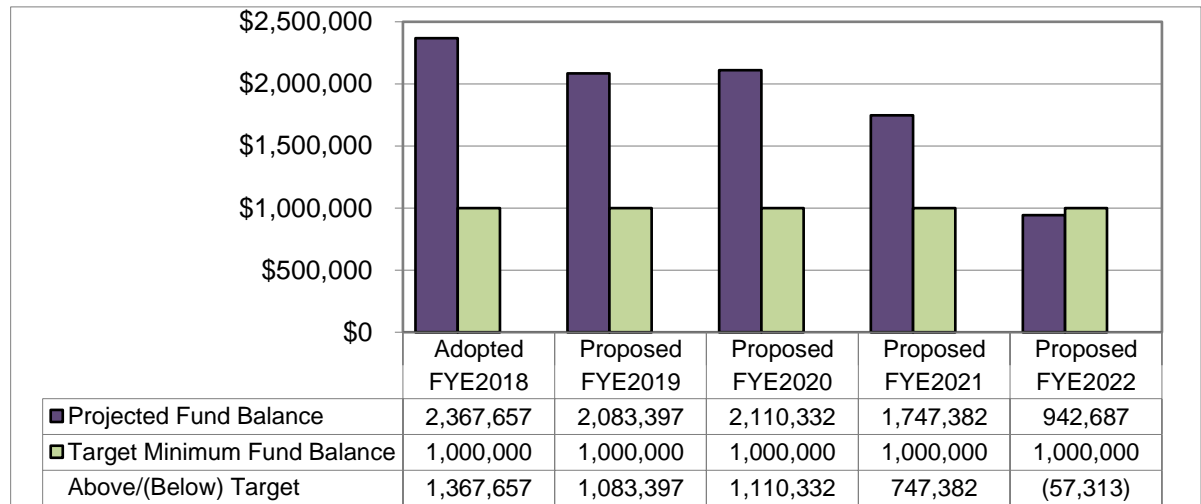
- Provide a resource to manage through negative economic conditions or events
- Maintain working capital for paying bills in a timely manner
- Finance cash flow needs and avoid short-term borrowing
- Provide for unanticipated needs
- Provide resources to take advantage of unexpected opportunities
- Provide key indicator of fiscal health for rating agency reviews



### Water Capital Fund Reserves – Positive Outlook – with Caution

Management Strategy: Maintain a fund balance of \$1.0 million for all budget years presented in the 5-year budget.

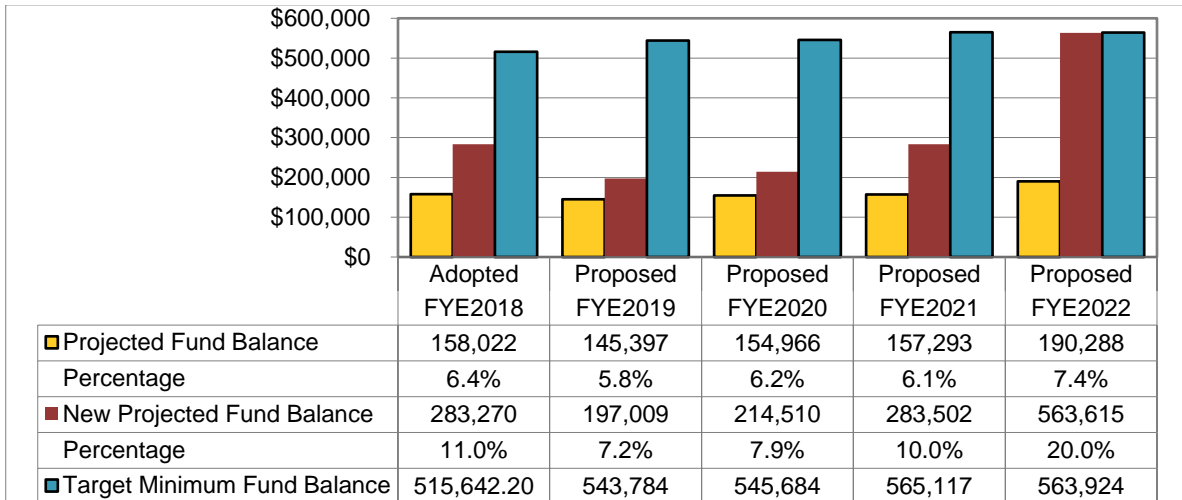
Capital reserves provide a necessary cushion to changing market prices of major repairs, as well as unexpected capital needs.





### Sewer Fund Operating Reserves – Positive Outlook – with Caution

Management Strategy: Maintain a projected 20% fund balance for all budget years presented in the 5-year budget.

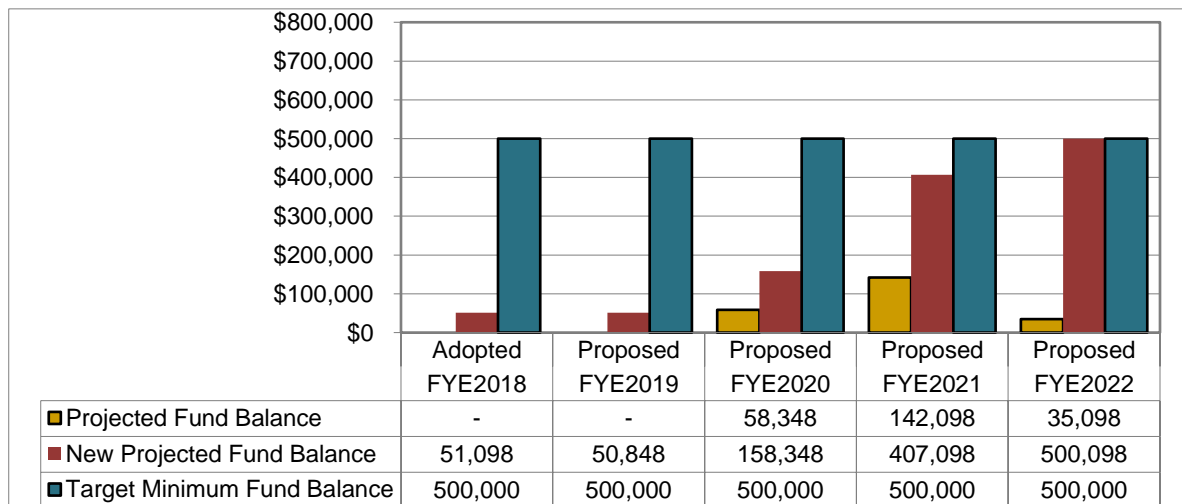


Operating reserves are an essential fiscal policy for any local government. An adequate fund balance in the Sewer Operating Fund helps:

- Provide a resource to manage through negative economic conditions or events
- Maintain working capital for paying bills in a timely manner
- Finance cash flow needs and avoid short-term borrowing
- Provide for unanticipated needs
- Provide resources to take advantage of unexpected opportunities
- Provide key indicator of fiscal health for rating agency reviews

### Sewer Capital Fund Reserves – Positive Outlook – with Caution

Management Strategy: Maintain a fund balance of \$500,000 for all budget years presented in the 5-year budget.



Capital reserves provide a necessary cushion to changing market prices of major repairs, as well as unexpected capital needs.

Council recently passed a multi-year rate increase which will significantly improve the health of the Sewer Capital Fund. The reserves in the Sewer Capital fund were nearly non-existent, but with the rate increases staff estimates the Sewer Capital Fund will meet the financial strategy goal by FY2021-22

## Summary

We hope this report has provided the reader with a better understanding of the Town's historical financial activity as well as the overall fiscal outlook for the future. If you have any questions or would like to see more detail, please contact the Finance Department at 309-454-9516.

