City of CHAMPAIGN

Financial Forecast

November 2015

Index

Objective of the Forecast

The Financial Forecast (FF) evaluates the City's future fiscal status as a starting point for decision-making in the General Fund. This is intended to allow City Council to make decisions and provide direction about the annual budget, and City Council Goals in the context of the City's anticipated ability to fund those programs deemed critical, essential, good governance, and quality of life. The General Fund supports most day to day operations of the City such as police, fire, and most public works operations.

Overview of Methods Used to Develop the Forecast

Because it is not practical to develop line item detail for the entire forecast period, staff estimates certain revenues and expenditures individually, forecasting the remainder in several large categories.

In forecasting expenditures, personnel costs are broken into salaries, group medical and life insurance, Federal Insurance Contributions Act (FICA), and the three pension systems in which City employees participate (Police Pension, Fire Pension, and the Illinois Municipal Retirement Fund (IMRF)). Non-personnel expenditures are broken into the following categories: commodities and capital, contractual, and inter-fund transfers. An inter-fund transfer is a transfer made from one fund to another to reimburse or pay for specific services rendered, or to more generally support the activities of another fund such as the Parking Fund paying for administrative services (Finance, Legal, etc) provided by the General Fund at a lower cost than obtaining those services commercially, and solely for each fund. Most inter-fund transfers are forecast at a detail level as these are highly variable from year-to-year. Finally, agency disbursements, such as property tax reimbursements to outlying townships, are analyzed separately. These expenditures are driven primarily by changes in economic indicators and their impact on expenditures.

On the revenue side, staff forecasts sales, income and property tax, utility and telecommunications taxes, and interfund transfers individually due to their size relative to the overall General Fund sources of funds. Other revenues are grouped into broad categories, such as "permits", which includes ten separate line items corresponding to various types of permits. Investment income is based on a formula applied to the projected fund balance and current earnings rates.

Forecasts beyond a year or so are difficult to make accurately, and few economists will conduct them. Therefore, inclusion of later years in the Financial Forecast intends to indicate trends rather than specific figures. Therefore, staff feels that as long as the assumptions are consistent and kept in reasonable relationship to one another, the forecast provides valuable information. Also, staff has found that assumptions developed internally (rather than by private economists) serve the City's purposes well. Staff developed the assumptions based on review of national, state, and local economic information, experience, existing contracts, and other information. Staff adjusts the general assumptions based on known and anticipated factors. Since the forecast includes more assumptions than known factors, it is by nature informed speculation. Also, the outcome of the forecast for a given year depends on the outcome of previous years, so a small variation in the first year may cause a significant difference for the out year. The result is that the uncertainty increases further into the forecast period, thus necessitating constant monitoring and reporting.

Introduction

While most economic indicators appear to add some stability and clarity due to sustained growth, uncertainty can be found at home. The national economy has grown steadily for several fiscal quarters (although at a relatively low rate) and the City's rate of sales tax growth has increased similarly when measured in nominal (today's dollar) terms. However, when measured in constant dollars, some care needs to be employed in the evaluation. Nevertheless, specific predictions of fiscal information are always difficult, so staff has prepared "What-if" charts of several more volatile factors such as sales tax and pension costs.

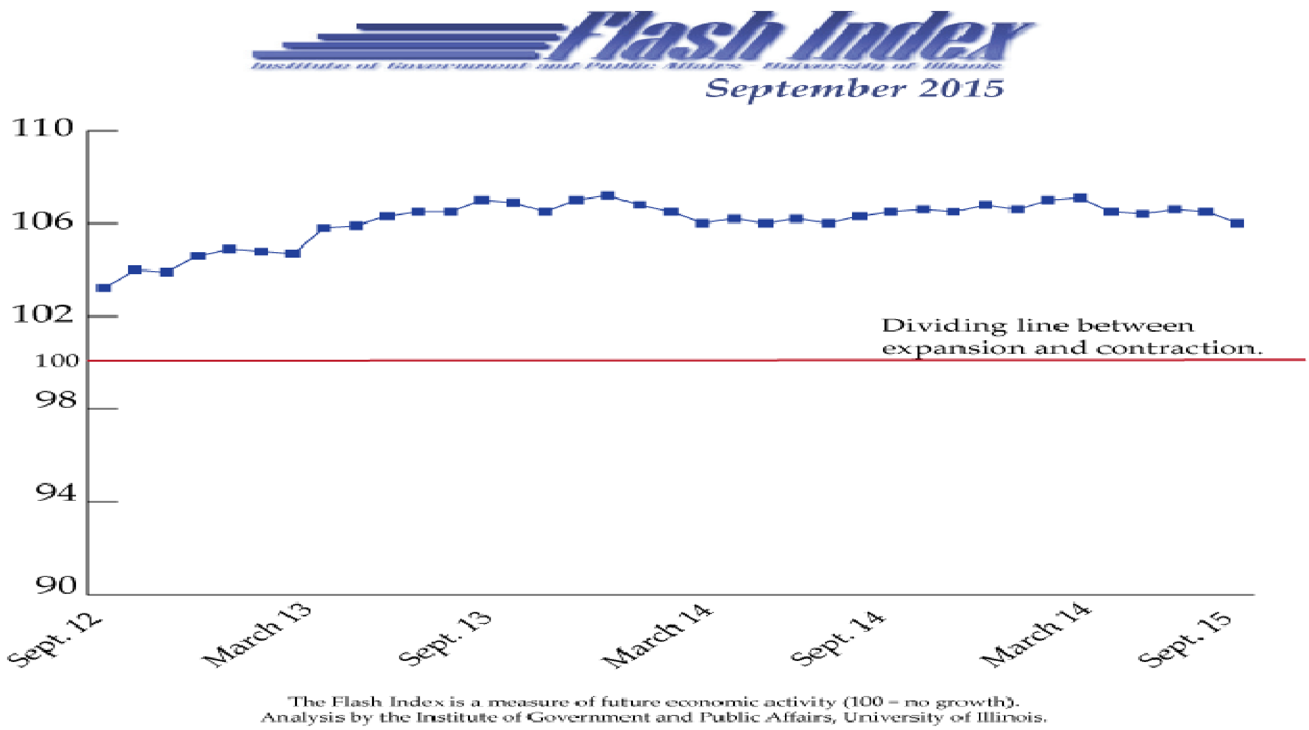
The forecast includes the following sections:

- Economic Outlook - Brief summary of the current economic situation
- Underlying Assumptions - List of the key assumptions that underlie much of the forecast
- Forecast Summary
- Expenditure and Revenue Analysis - assumptions for individual revenues and expenditures including some "What-if" charts
- Conclusion

Economic Outlook

As noted above, the national economy has held steady for the past few fiscal quarters and fears of another recession have abated. The real estate market has stopped its freefall and is showing signs of recovery. Unemployment rates at all levels (National, State and City) have been trending down. The August 2015 unemployment rate for the City was 4.9%, 5.6% at the State and 5.1% at the national level.

The University of Illinois Flash Index shows continued growth in the State's economy. The index continues to show expansion in Illinois since May 2013 with a reading between 106.0 and 107.2 monthly. As noted on the graph below, the dividing line at 100 is the line between an expanding or contracting economy. However, in recent decades, the Illinois economy has tended to lag behind the rest of the country in recovering from recessions and the current budget impasse has blurred the State's economic picture.



Key Underlying Assumptions

The following table summarizes the key indicators used to develop the financial forecasts:

Recurring Cost Information	**FY2015/16**	**FY2016/17**	**FY2017/18**	**FY2018/19**
Inflation	2.1%	2.2%	2.4%	2.5%
Sales Tax Growth	4.4%	2.1%	2.4%	2.4%
EAV Growth (fiscal year)	3.8%	4.7%	3.3%	2.0%
Per Capita Income Growth	1.1%	0.9%	0.9%	0.9%
Health Insurance Cost Increase	3.1%	7.5%	7.5%	7.5%
Police Pension Fund Increase (decrease) [a]	8.7%	2.9%	(22.3%)	9.6%
Fire Pension Fund Increase (decrease) [a]	2.4%	1.6%	(9.9%)	9.6%
IMRF Pension Fund Decrease	(2.8%)	(3.2%)	(3.5%)	(3.1%)

a) Police and Fire Pensions recurring growth is reduced by shifting a portion of the 2020 unfunded liability from recurring to one-time funding.

Inflation has been low over the past several months and will likely remain low until the economy recovers fully. In the long term, staff expects the rate of inflation to remain relatively low and increase 0.20% in FY2017/18. Inflation is used in the projection of City expenditures on commodities and contractual items. The assessed value of taxable property is a key factor in determining property tax revenues. Existing property values have increased slowly. There are several large-scale multi-use developments currently or in the near future under construction. These developments are expected to be added at full value to the 2016 and 2017 levies and substantially increase the assessed value of taxable property. New development is forecasted to increase overall taxable property growth by 4% in FY2016/17 and 5% in FY2017/18. Staff expects income tax revenue to grow slowly but steadily over the forecast and on pace with estimated population growth. Sales tax revenues are estimated to grow at a healthier rate. FY2016/17 is the first full year of the sales tax 0.25% rate increase in receipts. Without the 0.25% increase, growth in sales tax would be at 2.1%. Additionally, the forecast assumes all State funding owed to the City will be paid within the year promised.

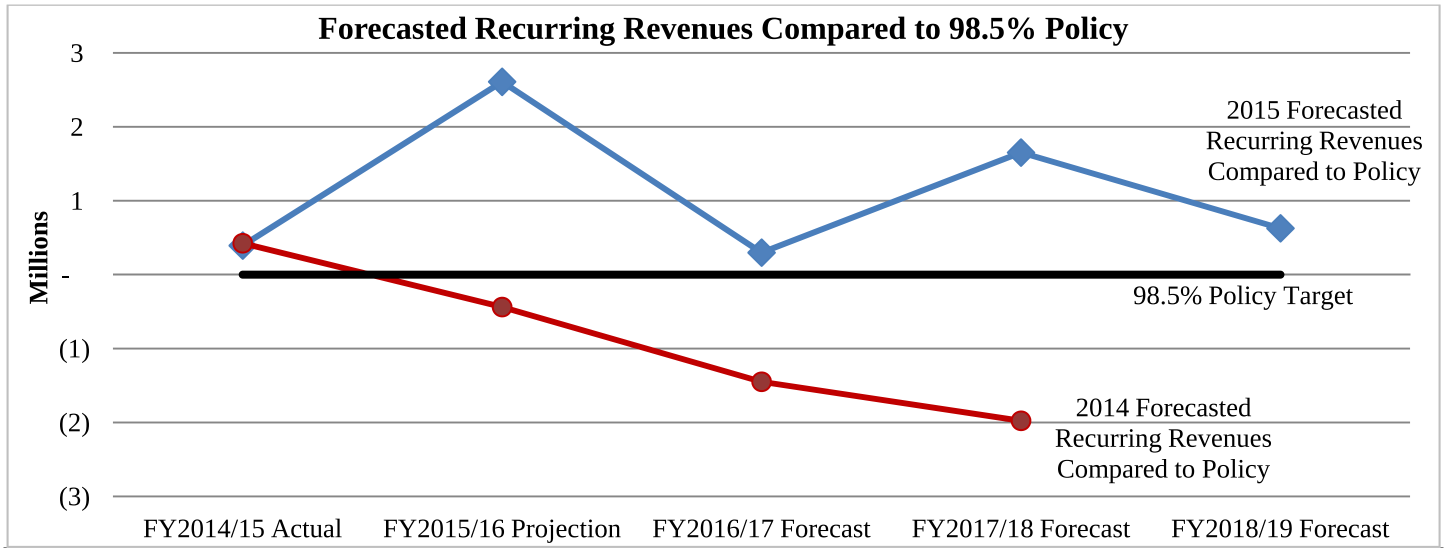
Health insurance cost increases are based on experience and indications from the industry and providers. For the upcoming health insurance renewal year (March 2016 to February 2017), the forecast projects the City to have an increase around 7.50% annually for the entire forecast. However, the City was successful in bringing the March 2015 renewal increase down to 0.96% and would take steps to bring the March 2016 renewal increase in below 7.50%. Beginning FY2017/18, the City's 2020 unfunded Police and Fire pension obligations are shifted from recurring to one-time expenditures creating available recurring funding in those future years (SS 2014-021; CB 2014-085). Employee wage assumptions are based on current bargaining unit contracts but are not included in the above assumptions due to upcoming contract negotiations with three of the City's collective bargaining units. The non-bargaining unit members' wages are projected equitably with the collective bargaining units' assumptions.

Forecast Summary

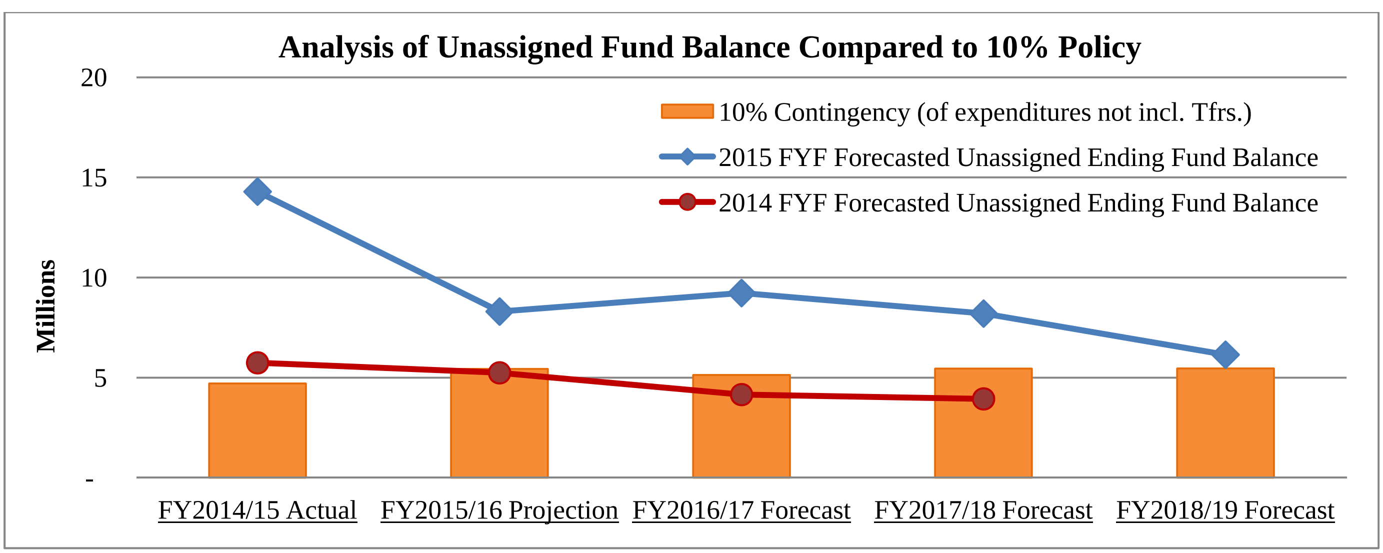
A major benefit of a financial forecast is to compare its results to the City's policy of budgeting recurring expenditures at 98.5% of recurring revenues and entering each fiscal year with an unassigned balance of 10% for the General Fund. The forecast projects that the City will exceed these targets for the current fiscal year (FY2015/16) and for FY2016/17 as well. Staff bases that projection on the anticipation that the City will budget the amounts needed to maintain the current level of recurring services with very moderate additions to recurring services, if any. The forecast also assumes receipt of all State of Illinois funding within the year promised. Unfortunately, the City continues to face a long-term financial gap because costs increase at a rate greater than revenue growth, referred to as a structural imbalance.

The chart below depicts the forecasted effect of the structural imbalance on future recurring expenditures and revenues. The blue line shows positive results for the entire period of the 2015 Forecast, with recurring revenues exceeding the City's policy limits on recurring expenditures. However, the overall trend is downward. The red line shows the results of the 2014 Forecast, which showed the City failing short its financial targets for FY2015/16 if corrected action was not taken. Council took such actions in the adopted budget for this year. In addition, the City contained cost increases more successfully than anticipated, and revenues exceeded expectations.

FY2014/15 year-end revenues were slightly over budget by $160,000, and expenditures were under budget by $3.6 million, resulting in an increase in the year-end fund balance. The additional balances resulted in the City beginning the current year (FY2015/16) with greater balances than anticipated. Due to those amounts, and prudent budget management, the forecast anticipates recurring expenditures at 98.5% of recurring revenues target or better throughout the forecast period.



The chart shows the positive impact of budget-balancing measures taken by Council in the prior and current years. Similarly, the unassigned fund balance is projected to remain above the 10% policy level through the forecast, as shown on the following graph. However, the trends anticipate that the fund balance will continue to decline and a potential for budget balancing measures the years beyond this forecast.

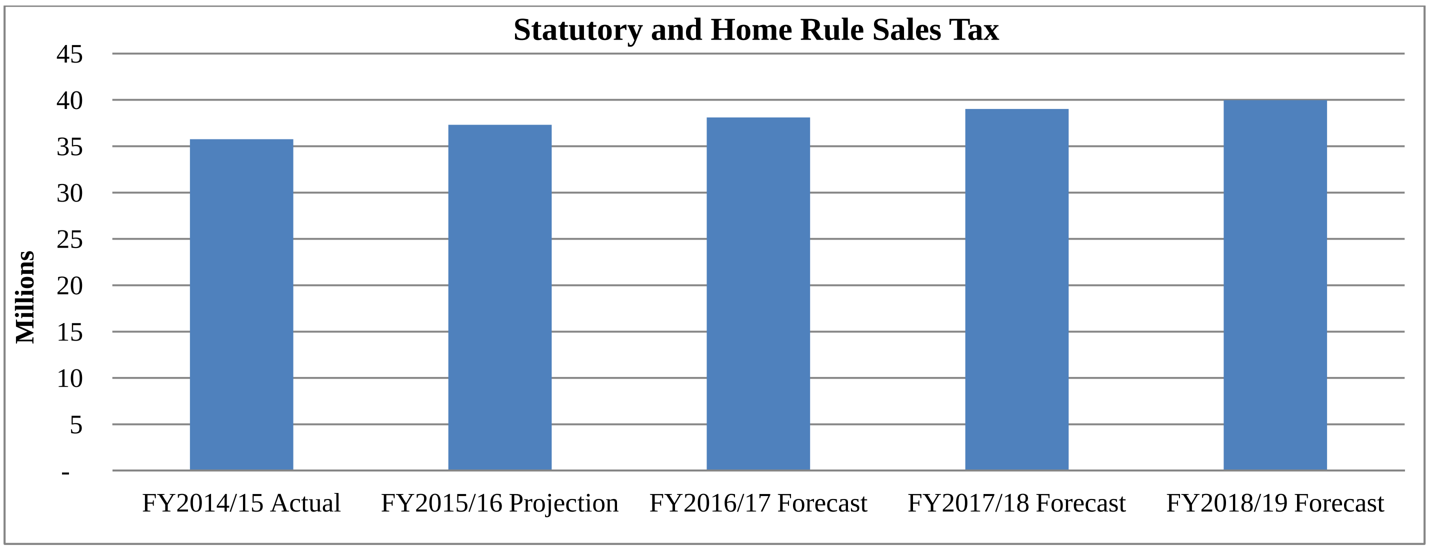


Detailed Revenue Analysis and Expenditures

Revenues

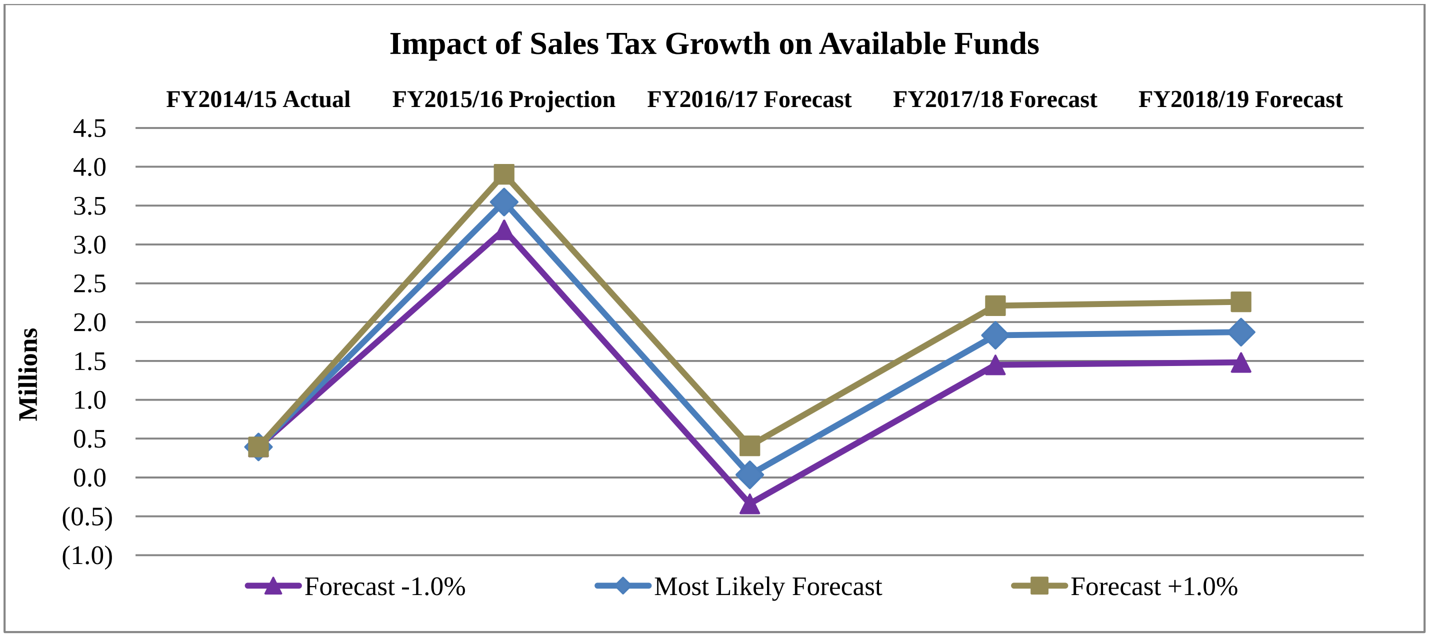
Sales Tax

Along with other municipalities, the City experienced a significant decline in sales tax receipts in 2010, but this revenue source has shown mainly positive growth since FY2010/11. Sales tax projections are based on continuation of current moderate growth. FY2016/17 is the first full year of receipts for the home rule sales tax rate increase. The FY2015/16 projection is 2.1% compared to the FY2013/14 actuals excluding the increase from the tax rate increase of 0.25% effective January 1, 2014. Although FY2015/16 projection and future year forecasted increases are moving in the right direction, the growth is not significant enough to keep pace with the rate of increase in expenditures. Historically, since FY1988/89, sales tax revenue has grown about 4% a year on average. However, in the last ten years the average increase has dropped to 2.0%. Every 1% represents approximately $360,000. The following chart shows sales tax projections over the life of the FF.



It is important to note that the home rule sales tax increase was implemented to restore recurring services including six full-time officers at $688,086 and an additional $45,000 in police overtime funding and $461,490 for the operation of both fire companies full-time at Fire Station 4. These other major funding priorities were on a one-time basis only (permanent pavement patching and other capital improvements, economic development activities, pension funding, and for Library operations.) Beginning in FY2015/16, the additional funding (0.25% sales tax increase revenue minus Police and Fire recurring funding) is included as part of the recurring revenues available for existing recurring expenditures.

Since sales tax represents almost half of all recurring revenues in the General Operating Fund, a change of just 1% has a significant impact on available funds. The “What-if” chart on the next page shows how change in growth can affect the General Fund’s available funds.



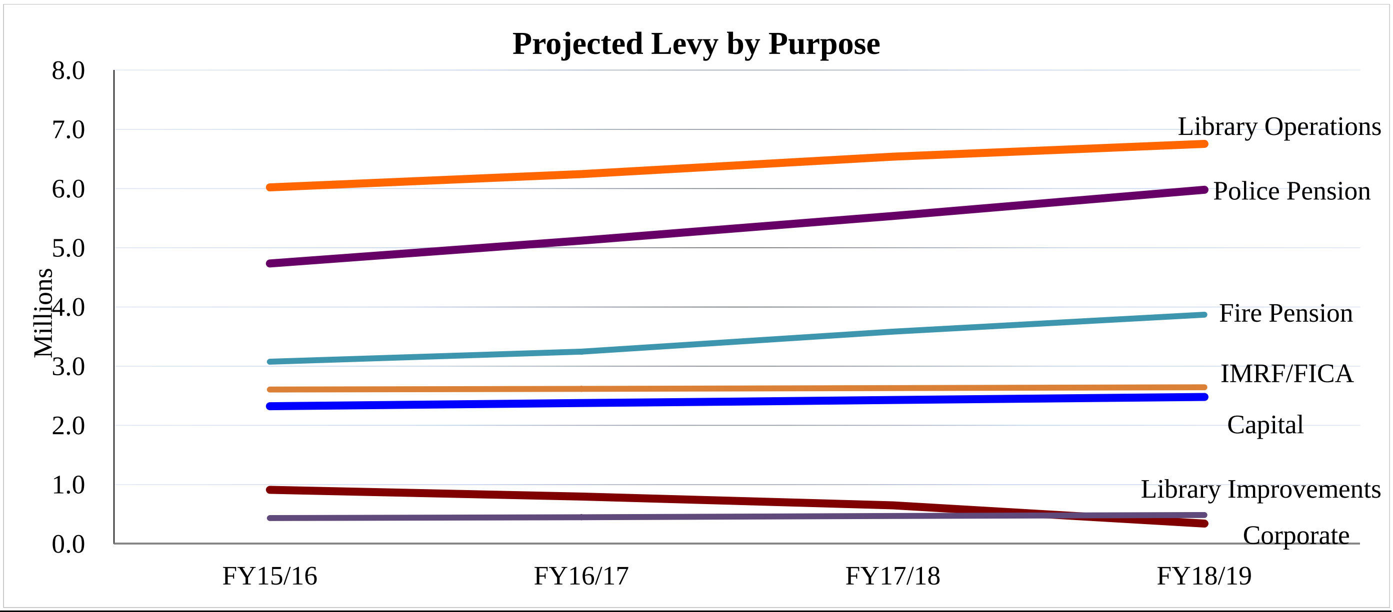
Property Tax

Property tax is the second largest revenue source for the General Fund, representing about 15% of total recurring revenues. In recent years, the City experienced healthy growth in total property value due to new construction, annexation, and appreciating property values. Unfortunately, growth in the equalized assessed value of taxable property (EAV) slowed down dramatically as a result of the significant decline in the housing market and the decline in value of existing properties. The EAV declined by 0.94% for the 2012 levy and the 2013 levy declined by 1.2%. A shift occurred with the 2014 levy and the EAV increased 1.5% over the 2013 levy.

EAV is based on property valuations for the past three years. The 2015 estimated EAV continues to indicate stabilization of current properties and increases in new construction. Beginning with the 2016 levy, staff expects significant growth in the EAV when most of the current construction is expected to be at full taxable value. The City's building permits have started to climb. The 2014 calendar year ended at $243.4 million, $103.4 million above the 2013 calendar year. Year to date through September 2015 is at $120.7 million and is on pace to be higher than the 2013 calendar year.

The City's Financial Policies specify how levy dollars are allocated, placing a higher priority on funding pensions, Library Operations and Improvements, and the Capital Improvement levy. As pension obligations increase more than EAV, staff anticipates the portion available for the General Fund will fall below the "base level" for this year's tax levy and continue to decline over the next year. The 2015 recommended tax levy keeps the same overall rate as the 2014 extended levy (1.3152). This results in an anticipated decrease of $23,642 for the General Fund (Corporate levy).

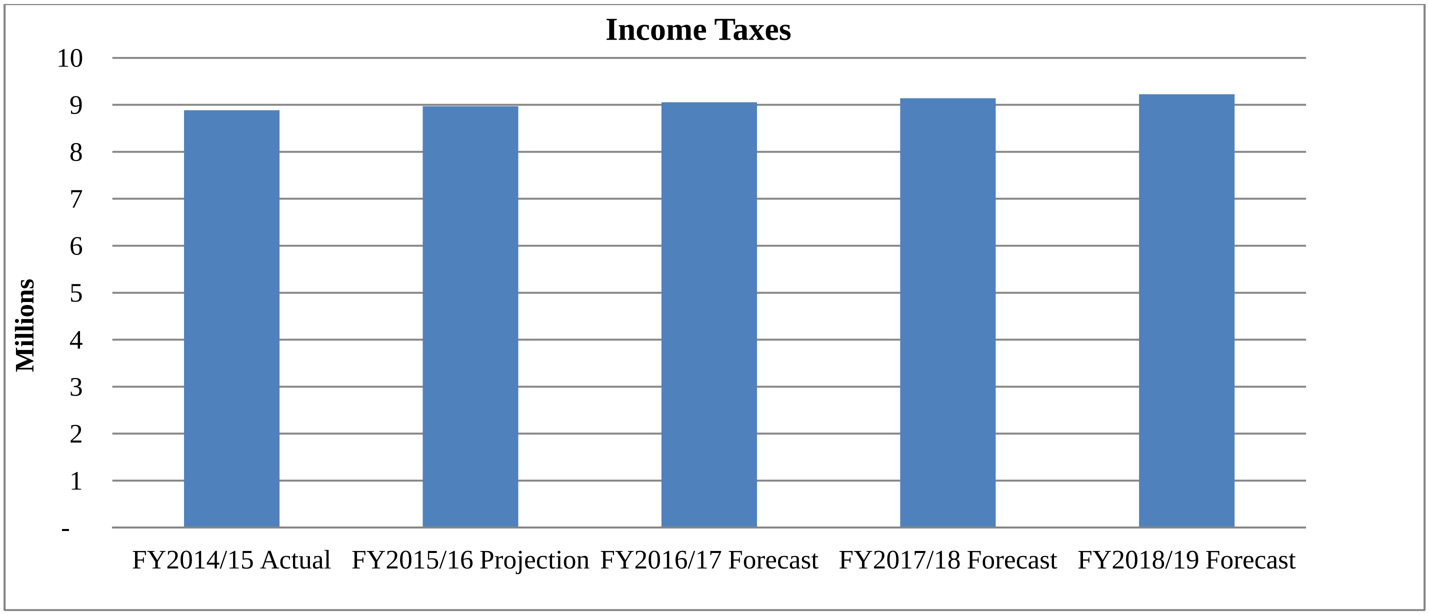
The chart on the following page shows the projected levy for various purposes at the same rate as 2014 extended levy. It shows that the pension levies grow quickly while the levies for Library Operations, Library Improvements, and Capital Improvement grow slowly consistent with the slow growth in EAV (for the Library) and the construction cost index (for Capital). Although there is significant growth estimated in the 2016 levy, the General Fund (the "Corporate" levy) allocation continues to decline.



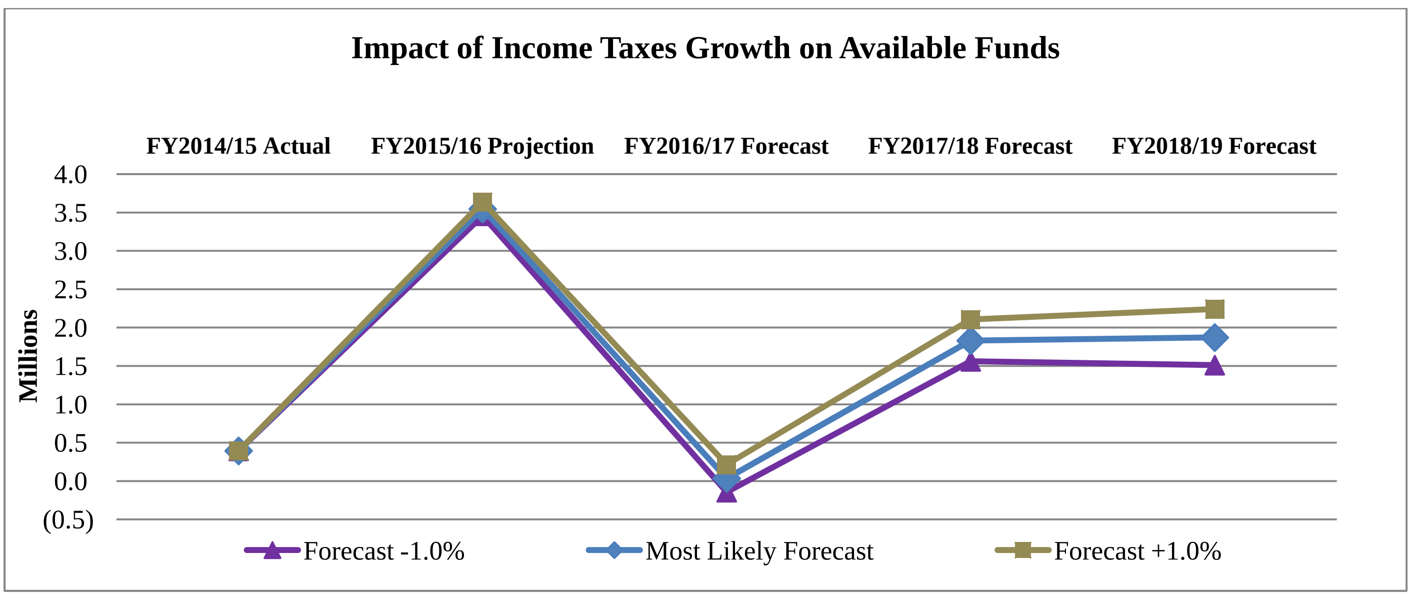
Income Taxes

Revenues for income tax is based on the most recent (September 2015) monthly revenue report prepared by Finance staff and are in line with the Illinois Municipal League estimates. Projections for income tax for FY2015/16 year-end are $99.0 per capita (81,055 population from 2010 U.S. Census), which is $1.07 per capita more than the FY2014/15 actuals. The remainder of the forecast has income tax revenues increasing by 0.9%, which is consistent with staff's population growth estimates. Income Tax is collected by the State and distributed to local municipalities based on a formula. Currently the formula has been under discussion at the State level. These projections assume the total amount for the City will not be affected with any tax rate changes at the State level.

Personal property replacement tax (PPRT) is the tax imposed by the State's General Assembly to replace revenue lost by the City of Champaign because of the abolition of ad valorem personal property taxes by the State of Illinois. The State Department of Revenue provides an estimated revenue amount for this tax annually and the FY2015/16 estimate shows a 0.2% decrease over the prior year. Beginning with the FY2015/16 budget, the State of Illinois reduced the local governments' share to include funding for court reporters in the State budget. The State's budget woes have not subsided and there is a real threat that there will be more budget balancing measures that would add more parties to the PPRT funding formula. Staff projected PPRT revenues in line with estimate population growth at 0.9% annually over the life of the forecast.

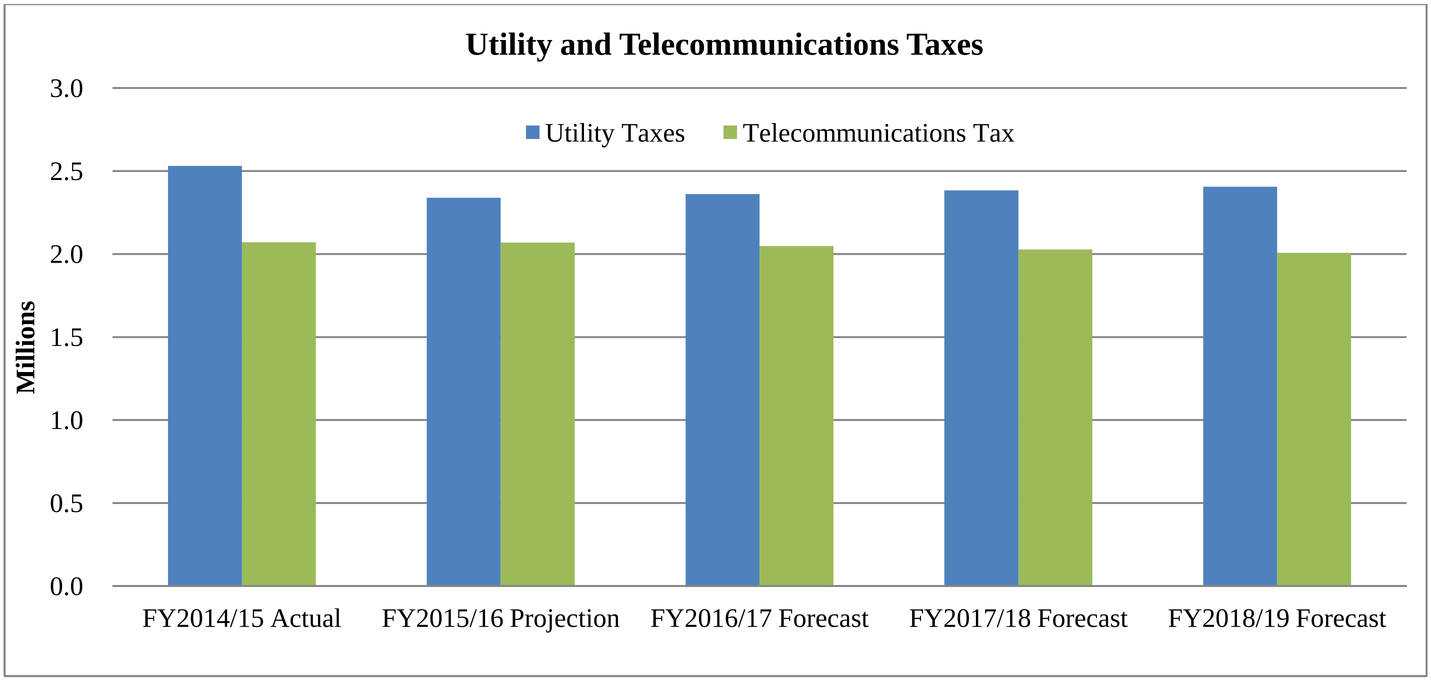


The “What-if” chart below shows the impact of slower or faster growth in income tax revenue on the City’s available funds. Since this revenue is not as great as sales tax revenues, its impact is not as dramatic on the General Fund.



Utility & Telecommunications Taxes

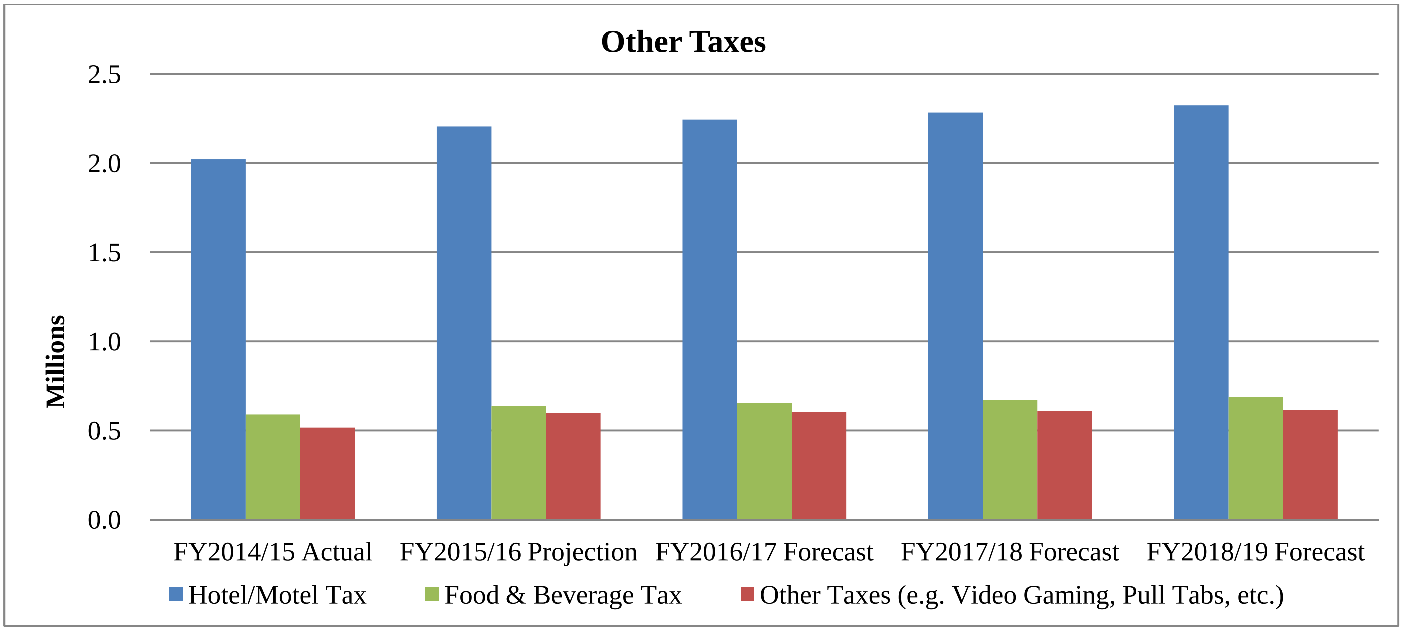
Utility tax projections are based on individual projections for gas, electric, and water utility taxes, which are based on long-term trends. For FY2014/15 actuals, there is a significant decrease in the telecommunications tax as a result of a federal class action lawsuit. The State of Illinois had to refund prior year collections for taxes collected on transactions that were deemed not taxable under the telecommunications tax. This resulted in an 11% reduction in collections for the City. FY2015/16 shows a decline in telecommunications and electric use for an overall projected 4.2% decrease. For the future years, telecommunications tax is projected to continue declining by 1% and offsets the overall minimal increase in electric, gas, and water taxes. The continued decrease in the telecommunciations tax is based on a decreased demand on land line phones and a higher demand on cell phone packages where the additional phone costs in the package are significanly reduced.



Other Taxes

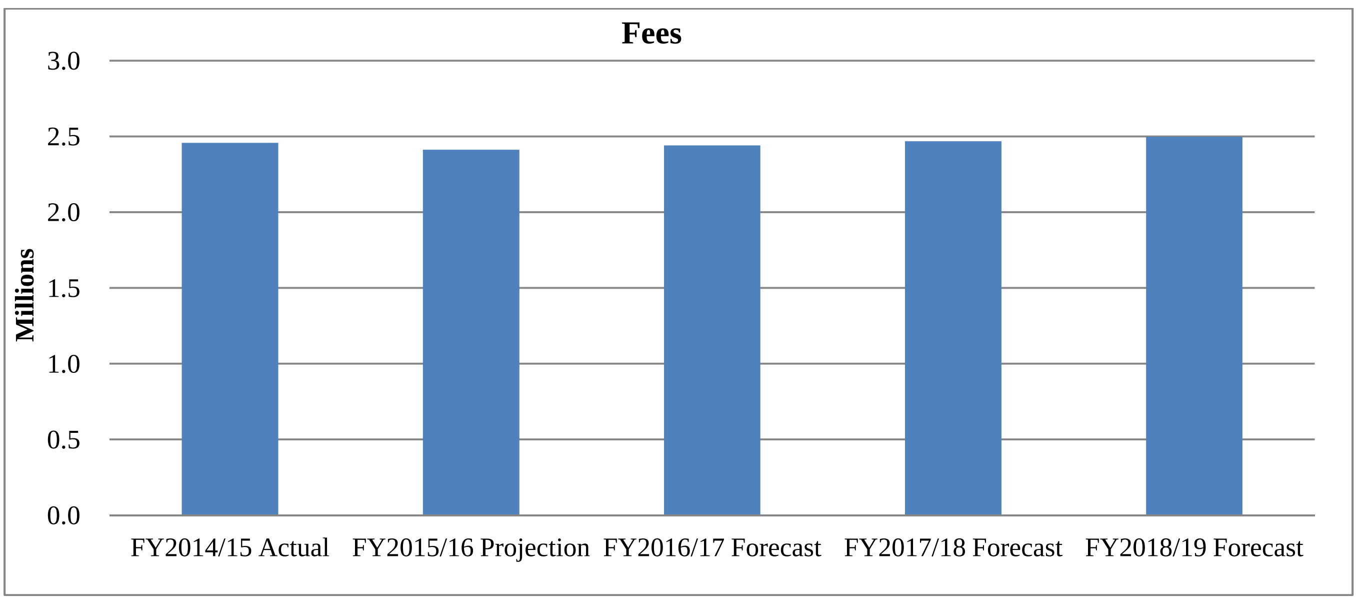
The majority of the other taxes is hotel/motel and food & beverage taxes. These taxes are being shown together since the assumptions influencing the growth in the taxes are the same for this forecast. Both taxes have been increasing at a better pace than most other revenues since additional seasonal events bring in more visitors to the City, and two new hotels opened in 2014 and 2015 respectively. Significant revenue growth occurred in FY2014/15 for both taxes. Hotel/Motel tax increased 11.7% and food and beverage tax increased 5.4% above the FY2013/14 actuals. However, some of the increase for both taxes is offset by development agreements that extend past the end of the forecast period. These development agreements are important because of the added economic diversification these developments provide to the City. Staff projects FY2015/16 will also have significant increases of 9.1% for hotel/motel tax and 8.2% for food and beverage tax. Starting in FY2016/17, staff projects level increases at 1.8% for hotel/motel tax and 2.5% for food and beverage tax.

The State of Illinois enacted the Video Gaming Act, which taxes wagering activities. The State distributes approximately 17% of the tax collected back to the municipality in which the establishment resides in. September 2012 was the first month of collections and the City of Champaign did not have any establishments with video gaming machines. Gradually, establishments within City limits have added machines. October 2012, the City's share of the revenue was $170 with two establishments. As of September 2015, the City has thirty-nine locations participating and the City's revenue share was $47,625. The FY2016/17 projection is based on collections from August 2014 to August 2015 at an average of $43,000 per month. Eventually, the video gaming market will reach its ceiling, and therefore staff has projected future annual growth at 1%.



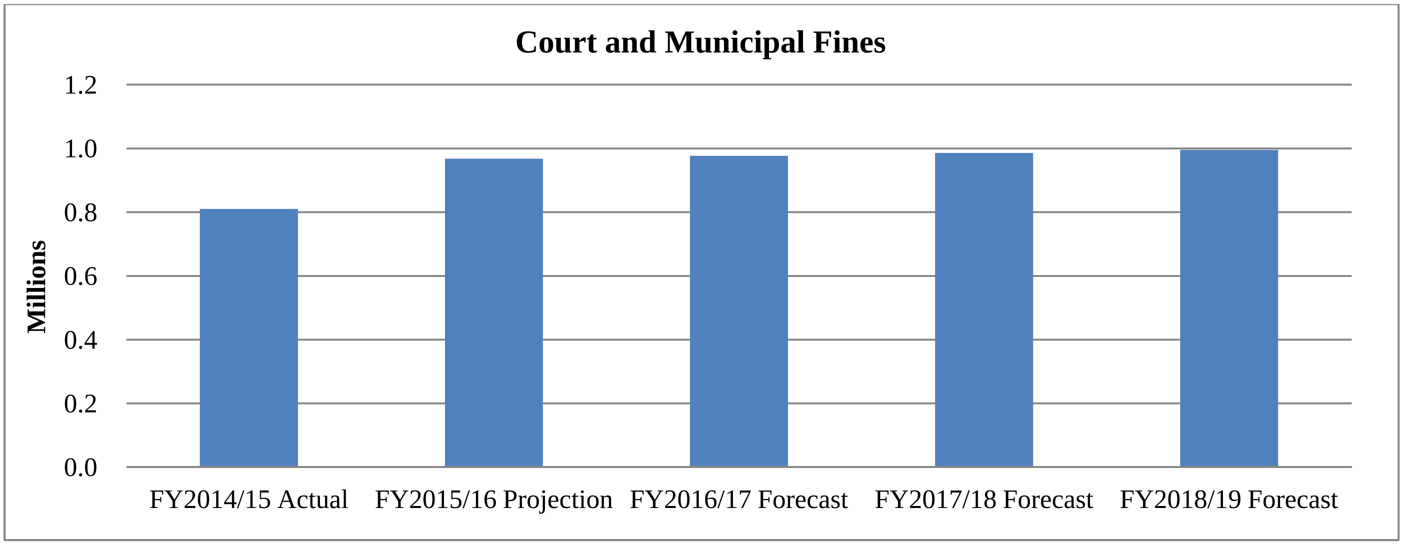
Fees

The City derives fees from a variety of sources including public safety fees, the University Fire Protection Agreement, utility rights-of-way agreements, and permits. For the General Fund, franchise fees yield the greatest source of growth. Fees for the current year are projected to decrease from last year's levels due to lower franchise fee collections. In future years, growth in fees is shown at 1.0%.



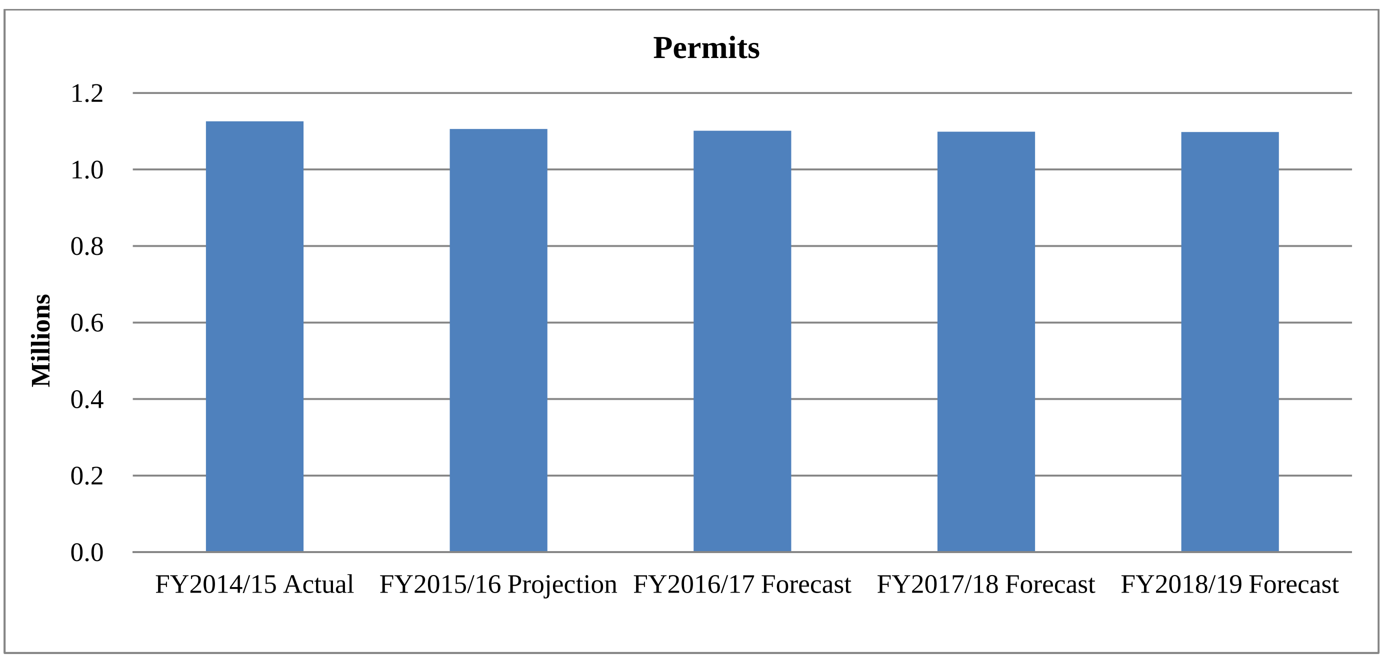
Court & Municipal Fines

Court and municipal fines, which reflect police activities, are projected to increase $157,462 over last year's unaudited actuals. Since there is unpredictability in this revenue and a historical trend of ups and downs, a slight inecrease is projected for FY2016/17 and the future years at 0.9% annually.



Permit Fees

The vast portion of revenue in this category comes from development permits. Most of that is permits for construction of new buildings and additions, but also includes other permits such as signs and demolition. (The category does not include parking permits, which go solely to the Parking Fund.) The City's building permits have started to climb. The 2014 calendar year ended at $243.4 million, $103.4 million above the 2013 calendar year. Year to date through September 2015 is at $120.7 million and is on pace to be higher than the 2013 calendar year. Building permit revenue is projected to decrease by 6.1% or $31,739. This revenue projection indicates a return to normal development and reflects the anticipated completion of the multiple large scale projects. This new base permit revenue amount is held virtually constant throughout the remainder of the forecast.



Projections for Other Revenues

- Fines, Licences and Registrations are virtually flat for future years.
- Recurring Reimbursements and Intergovernmental Revenues grow by approximetly half the rate of inflation. Grants are shown as one-time funding.
- Interfund transfers grow based on the weighted average cost increase for all expenditure categories.
- Interest and Investment Income is projected to grow 1% annually.

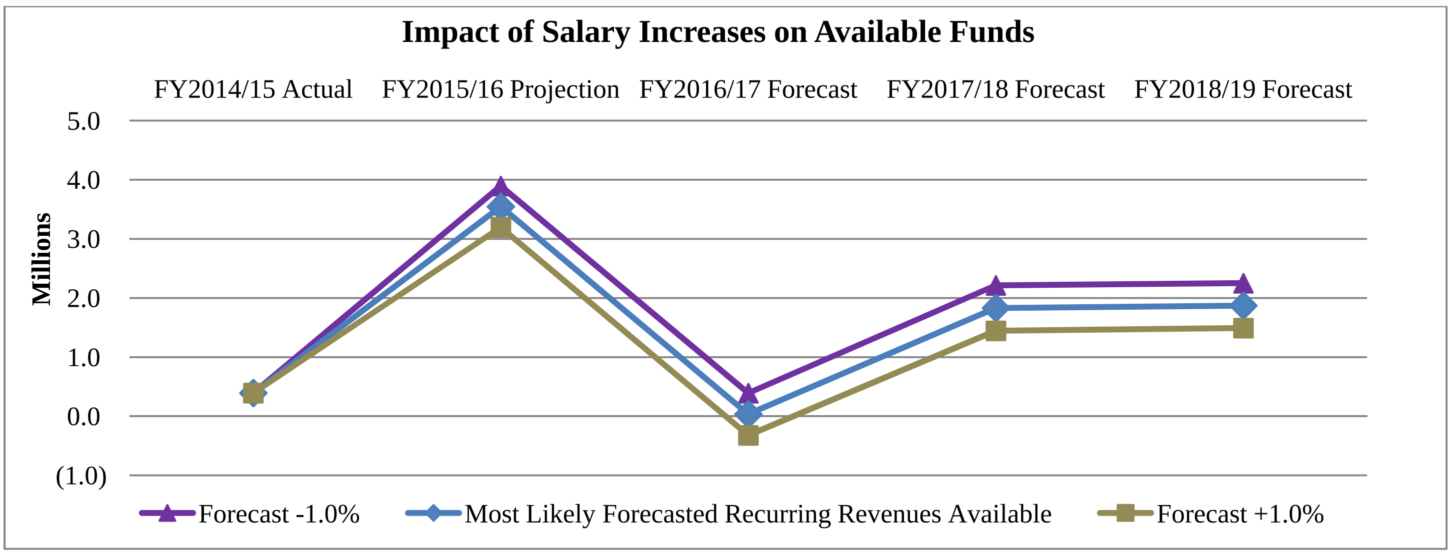
Expenditures

Note: all analyses are based on the 98.5% policy level for recurring expenditures.

Salaries

Personnel expenditures (including pensions and other benefits) represent approximately 67% of General Fund recurring expenditures and are growing at a faster rate than other expenditures. The rate of employee wage increases has moderated compared to prior years but remains higher than projected revenue growth. In addition, overall employee compensation will increase even further due to large increases anticipated in health insurance and pension costs.

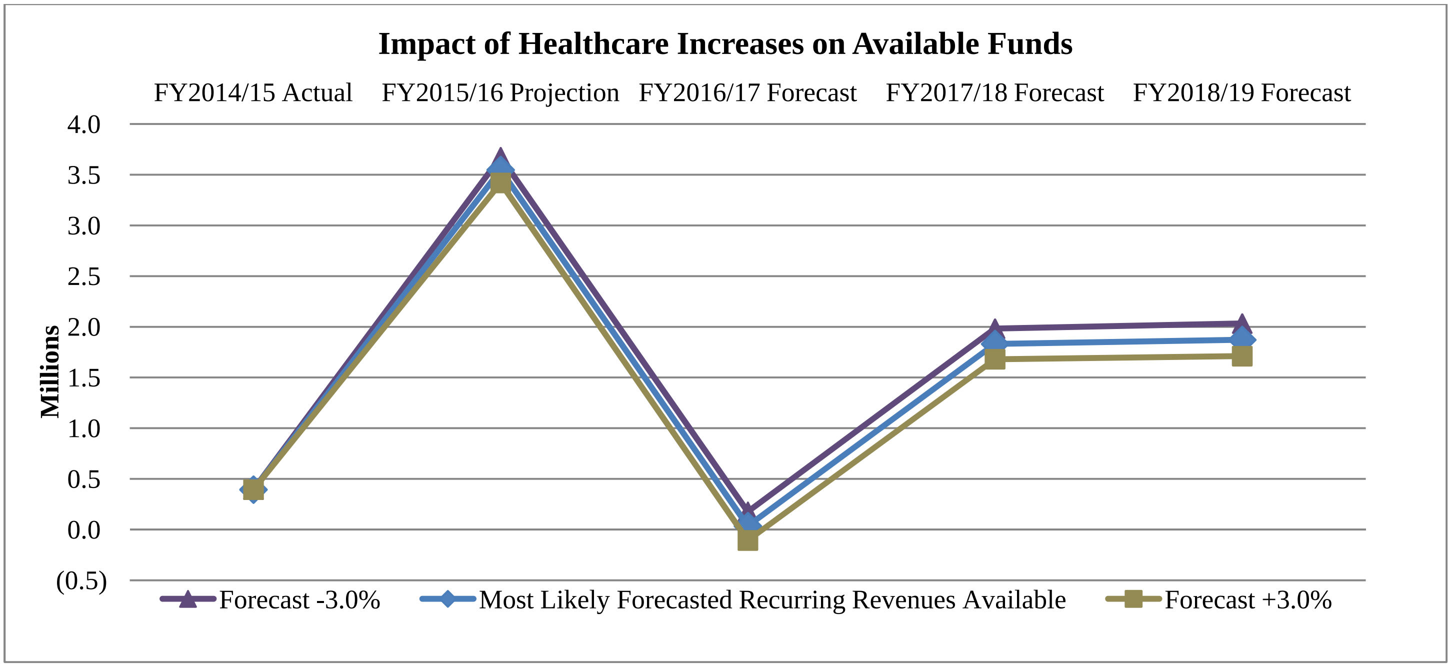
The "What-if" chart below shows how changing the assumed rate of growth by +/- 1% for salaries affects the outcome of the overall General Fund forecast.



Health Insurance

Health insurance costs represent about 9.0% of total personnel expenditures, but historically that figure grows each year. Starting with the March 1, 2016 plan year, the health insurance costs are projected to increase 7.50% and this carries forward for the remainder of the forecast period. However, a 7.50% base increase is a reduction to projections in the 2013 FF of 8.25% for the out years. The lower projection is based on actual claims experience for the City and the lower than estimated costs of national health care reform.

The "What-if" chart on the following page shows how changing the assumed rate of growth for healthcare by +/- 3% affects the outcome of the overall General Fund forecast.



Pensions

Fire and Police pension expenditures have been a major concern for many years, as the City's required contribution has increased significantly. The primary reasons are repeated benefits increases mandated by the State, but not funded, as well as investment returns falling short of the assumed rate of return as experienced with stock market values in 2007 and 2008. Annual increases in Police and Fire pension costs exceed City revenue increases, and the City now pays about 50 cents in pension contributions for each $1 of pay to public safety employees. Pension cost increases for other City employees are moderate due to rare benefit increases.

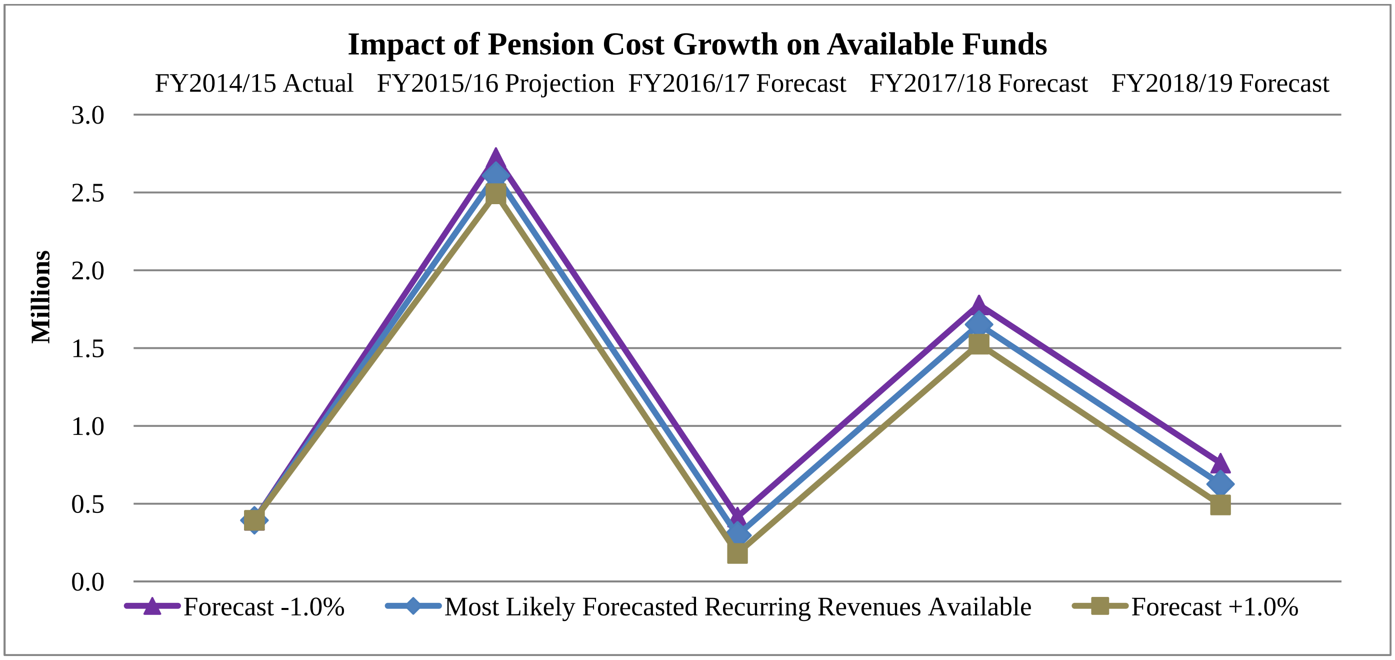
In May 2014, City Council approved a change to the City's Police and Fire pension funding policy. For actuarial valuations prior to 2013, the City continues to amortize unfunded liabilities of the Police and Fire Pensions aggressively through 2020. (About one-third of the Fire Pension's unfunded amount is amortized through 2029.) Council adopted two changes to the pension funding policy beginning with the valuations for 2013. The amortization period for any new unfunded liability will be amortized over a 15 year period. For example, any unfunded liability for the July 1, 2013 plan year would be amortized through 2028. That amortization date will not change for unfunded liabilities accumulated in 2013 regardless of future investment earnings or other events.

Second, the method of calculating the amortization payments was revised. New unfunded liabilities of the Firefighters' Pension Fund will be amortized on the "percent of inflation" method rather than the current "flat dollar amount" method. The new policy did not change the amortization of the current unfunded liabilities of the Police and Firefighters' Pension Funds. Further information on the recent policy revision is located in the May 2, 2014 Pension Funding Policy Report to Council (SS 2014-021). FY2017/18 shows the first sign of the change in the Police and Fire pension funding policy. Expenditures that are five years or less are treated as one-time expenditures. Beginning with FY2017/18, a portion of the 2020 pension funding obligation has shifted to one-time expenditures.

The Illinois Municipal Retirement Fund covers employees other than public safety personnel. Recent market improvements have reduced the overall percentage the City pays for IMRF funding and the funding rate continues to decrease slightly over the forecast period. Even with planned decreases in the funding rate, the impact on the City's budget is not significant because the City's pension costs are much less for personnel who participate in IMRF. This is primarily because IMRF has much lower benefit levels than the Police and Fire

Pension Funds, and the State has rarely increased benefits. Additionally, IMRF has, on average, met its investment return assumptions over a long period.

The following "What-if" chart shows how changing the assumed rate of growth +/- 1% in pension costs would affect the overall General Fund projections.



Non-Personnel Expenditures

Some non-personnel costs are forecasted to increase with the rate of inflation (such as commodities) or the overall cost index (calculated as an average of all growth rates, weighted in proportion to the overall costs for each category). These costs include transfers to other funds where personnel costs would be part of the cost such as the Parking Fund paying for administrative services (Finance, Legal, etc) provided by the General Fund at a lower cost than obtaining those services solely for each fund. Transfers for capital improvement expenditures are projected to change with the construction cost index. Further information on the total costs for the non-personnel expenditures are shown on Exhibit 1 – Summary of the Financial Forecast and assumption detail is located on Exhibit 2 – 2015 Financial Forecast Assumptions.

Conclusion

The Financial Forecast evaluates the City's future financial condition as a framework for decision-making in the General Fund. This is intended to allow City Council to make decisions about the annual budget, and City Council Goals, in the context of the City's anticipated ability to fund those programs. The General Fund supports most day to day operations of the City such as police, fire, and most public works operations.

The validity of the projections for the later years of the forecast are tentative since the uncertainty of the forecast increases significantly with the length of the period predicted. The environment that affects the City's financial situation changes continually, and several factors might make the future completely different than expected, for better or worse. This year, uncertainty includes the effect of measures taken by the Federal government to stimulate more rapid economic growth and the effect of State budget-balancing measures on City revenues and/or services. Finally, as the "what-if" charts in the forecast show, the overall financial trend can be impacted from one year to another by a change in one variable, let alone several factors moving in the same direction. Despite these caveats, this Financial Forecast provides a useful tool for developing a budget strategy for the next fiscal year budget. Fortunately, the City has built some safeguards into its financial planning, including budgeting recurring expenditures at 98.5% of recurring revenues, so the City has time to deal with the financial challenges in an orderly and thoughtful manner.

The forecast projects that, assuming the same services are funded on a recurring basis in the current year budget, the City will meet financial policy targets for the current fiscal year. If all of the assumptions are correct and services remain unchanged, FY2016/17 will also meet the financial policy targets. Although overshadowed in this forecast by the pension funding policy change, the City continues to face a gap between costs increasing at a rate that outpaces revenue growth over the long term. However, the size of the gap between projected revenues and expenditures has decreased from prior financial forecasts due to the tough decisions City Council has made recently.

The Forecast is an early look at the financial landscape prior to beginning the next year's budget process. The inputs to the current forecast are at a high level to provide an overall trend indicating what happens if no corrective measures are taken. The budget strategy is then formulated to address any downward trend(s) in the current forecast or the next fiscal year. Based on Council's direction on the budget strategy, Administration will recommend a balanced budget within fiscal targets.

The first step in preparing the FY2016/17 budget begins with setting a strategy, and the staff recommended budget strategy is to:

a) Direct staff to prepare the proposed budget consistent with the City's financial policies and service levels currently funded on a recurring basis.
   - The City has many safeguards in place through conservative financial policies adopted by City Council, careful planning, and swift actions based on constant monitoring of the fiscal outlook. These safeguards have helped the City avoid the drastic, emergency cuts required by some units of government. Even after adoption of the budget, staff continues to use the safeguards and recommends keeping these policies in place for the FY2016/17 proposed budget.

b) Establish a $2.0 million fund balance reserve pending State of Illinois budget decisions.
   - The Financial Forecast assumes all State revenues are received within the year promised. Already four months into FY2015/16, the State has not yet adopted a budget. The anticipated General Fund reserve amount is based on the two General Fund revenues, Video Gaming and State Use Tax, coming in as expected and within assumption levels. These two revenues are currently held at the State level and are approximately $2 million in the FY2015/16 budget. If the State adopts a budget that reduces these revenues, this reserve can help mitigate the impact of the State cuts.

c) Adopt the overall 2015 property tax levy at the same rate as the 2014 extended levy (1.3152).
   - The City's Financial Policies specify how levy dollars are allocated, placing a higher priority on funding pensions, Library Operations and Improvements, and the Capital Improvement levy. Due to the growth in pension expenditures, staff anticipates the portion available for the General Fund will fall below the "base level" for this year's tax levy and will continue to decline over the next year. Since the 2015 tax levy is estimated with keeping the same overall rate as the 2014 extended levy (1.3152), the General Fund (Corporate levy) would decrease by $23,642. By keeping the same rate, there should be no increase in City taxes paid by the vast majority of property owners. Staff anticipates that the overall equalized assessed valuation (EAV) will increase significantly with the 2016 levy when multiple large scale developments will be completed. Further information on the estimated property tax levy can be found in the Study Session Report to Council – Proposed 2015 Property Tax Levy (SS 2015-054) presented on November 3, 2015.

Next, the FY2016/17 proposed budget will be presented to Council in May 2016. The proposed budget will have more detailed budget estimates and more months of revenue data that will help the Administration recommend a proposed budget within the financial policy targets. Since employee compensation including health and pension benefits contribute the most to the growth in expenditures, the Administration will take proactive steps to recommend actions that will help contract growth in this area. The Administration will continue steps to further manage or mitigate future increases in health insurance and pension costs. The results of contract negotiations with three of the City's bargaining units could also change from the forecast assumptions. The FY2016/17 budget will reflect actual experiences in place of the projections used in the forecast. These experiences could be positive or negative and would be reflected in the following year's forecast. The FY2016/17 adopted budget will then become the foundation for the 2016 forecast.