

## **Five Year Financial Projections**

On March 4, 2009, a Five-Year Financial Outlook was presented as part of the 2009/10 Proposed Budget. Since then we have seen some improvements in the national economy, however, we are still experiencing the effects of the economic downturn, particularly in property tax revenues, investments and program participation. Many government entities are facing financial distress, with increased costs outpacing revenue growth. Increases in employee compensation are soaring because of skyrocketing employer-provided health care and poor investment performance last year for pension plans.

### **Future Budget Challenges**

The District is facing several challenges now and in upcoming budget years regarding ongoing management and maintenance. Although the District is well-positioned financially to meet these challenges, care must be taken to ensure that the District remains in a strong financial position to address these areas. Some of the challenges include:

- The key to continued future financial health for the District is sound planning. This includes conservative revenue projections for future years, modest growth in programs that meet public demand when funds are available, exploration and, where appropriate, pursuit of non-tax revenue resources, careful monitoring and managing of expenses, reducing inefficient and non-essential building assets, and maintaining the fund balance goals set by the board.
- The District must continue the strong, on-going preventative maintenance and infrastructure replacement program. District staff continue to work together to provide a blueprint for needed capital improvements that will be updated and incorporated into the Capital Improvement Plan on a yearly basis. This approach will allow the District to have greater focus on staging and scheduling projects to ensure maximum affordability within budget constraints.
- The District will continue to have the ongoing challenge of planning for capital replacements and community center upgrades in the future while maintaining and operating the District's existing facilities in the first class manner that residents of Arlington Heights deserve and expect. This will be an ongoing challenge as the master planning process for the community centers continues.

### **Fund Balances**

The Park District has a fund balance policy that establishes appropriate level of reserves for each fund. The General Fund's fund balance establishes unassigned unrestricted reserves equal to 25% of budget, with an informal goal of 40%. These reserve levels are monitored to ensure that they are maintained. Other funds have assigned fund balance goals that will be maintained for fiscal sustainability. The fund balances are maintained to avoid cash flow interruptions; provide for unanticipated expenditures or emergencies of a non-recurring nature; meet unexpected increases in service delivery costs; and maintain the District's current Aaa Moody's rating.

In April 2010, Moody's Investors Service upgraded the Park District's bond rating to Aaa. The Aaa rating (highest rating available) will allow Arlington Heights Park District to issue debt at the lowest possible interest rate as the organization has proven itself to be among the top tier of local governments in terms of financial strength, both in Illinois and nationally. Arlington Heights Park District joins a select number of high performing park districts at the Aaa rating level.

## **Revenue Projections**

Revenue estimates were generated by determining what was needed annually to provide the quality of services and programs projected. Property tax revenues are a significant percentage of the Park District's operating revenue. Currently tax revenues provide 55% of the operating budget. Property taxes are not expected to increase significantly over the next five years. The amounts projected reflect the Park District limit in tax revenues and limitation of non-referendum bonding power.

The Park District is operating under a property tax cap in effect since 1995. The tax cap limited the aggregate extension of the tax levy for park districts in Cook County to 5% the first year, and 5% or the CPI, whichever is less for subsequent years. The Park District continues to grow and develop even under the tax cap. This is a reflection of strong program demand and prudent resource management. The General and Recreation Funds have shown positive fund growth over the past few years.

The Park District abated a portion of its Debt Service levy in order to achieve a 0% tax levy increase for the 2008 levy. As a result, \$600,000 in capital projects was delayed. Property tax revenues for Tax Cap Funds increased because they were levied at the full 4.1% (December 2007 CPI increase) over the previous year's extensions. Despite the current difficult economic climate, the Park District experienced improved overall financial performance for fiscal year ended 2009 due to an increase in property tax revenues in the Tax Cap Funds and various cost savings.

For 2010/11, the Park District is predicting a more challenging year with inflationary pressures and further cost containment, with revenue negatively impacted by the weakened real estate market and overall economic volatility. The December 2008 CPI increase was .1%, providing virtually no increase in the 2009 levy. Apparent increases in the 2009/10 and 2010/11 property taxes overall occur because of the way the taxes are collected. Half of the 2007 levy and half of the 2008 are reflected in the fiscal year 2009/10 property tax.

## **Expenditure Projections**

The Park District is committed to providing all its services and operations in a responsive, efficient, and cost-effective manner while retaining the high level of services it provides. Capital expenditures are prioritized and evaluated based upon their effect upon operational costs.

From 2000-2005, the Arlington Heights Park District began experiencing significant increases in its group health insurance expenses. A number of cost-cutting efforts were put in place, including plan design changes, increases in office co-pays, and increases to deductibles and out-of-pocket maximums. Despite these efforts, and coupled with several high-cost chronic illnesses that negatively impacted renewal rates, the Park District began a proactive initiative to strategically manage and reduce its group health insurance expenditures. For the past five years health insurance costs have increased an average of 1.1% per year. The strategy has helped the Park District slow the growth of its group health insurance expenditures by reducing fiscal year expenditures to levels seen in fiscal year 2001-02. This is expected to increase to 15-25% for 2010

## Predicting Long Term Needs

The Five-Year Financial Outlook represents a continuing effort to analyze the Park District's long-term fiscal condition based upon a reasonable set of economic and operational assumptions. The forecast is not a prediction of what will occur. It is an approximate view of what could occur in the future based on the assumption of maintaining a constant service budget. The five-year financial projections do not constitute a multi-year fiscal plan, but they are the first and major building block in preparing long-term budget plans. The first step in this process involved an attempt to forecast a constant service level of expenditures using 2009/10 as the base year.

### Arlington Heights Park District Five-Year Financial Forecast

	Estimated		Projected			
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Property Taxes	\$ 13,574,991	13,932,738	14,308,922	14,695,263	15,092,035	15,499,520
Fees, Charges, & Other Revenue	10,103,681	10,507,234	10,775,003	11,050,505	11,333,976	11,625,663
Total Revenue	\$ 23,678,672	24,439,972	25,083,925	25,745,767	26,426,011	27,125,183
Total Expense	21,746,286	24,169,431	25,438,061	25,962,293	27,008,097	28,141,257
Net Surplus (Deficit)	\$ 1,932,387	270,541	(354,136)	(216,525)	(582,086)	(1,016,074)
Est. Fund Balance - Beg. of Year	\$ 14,010,400	15,109,421	15,379,962	14,184,604	12,923,925	10,724,177
Est. Fund Balance - End of Year	\$ 15,109,421	15,379,962	14,184,604	12,923,925	10,724,177	9,708,103