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Honorable Mayor
Members of the City Council
City of Carbondale

Mayor and Members of the City Council:

Attached is the proposed Fiscal Year 2014 City of Carbondale Budget for the period from May 1, 2013 through April 30, 2014. This budget message presents an overview of the budget and the overall financial condition of the City. The budget is presented as a collection of separate funds, each of which consists of a self-contained set of revenues, expenditures, inter-fund transfers, and fund balance amounts. The budget document itself contains explanatory material about each of the funds and departments listed, as well as information on fund accounting and summary charts and graphs. It is hoped that this information is helpful in understanding the nature of the funds and departments and the purposes for which the amounts are appropriated. Additional detailed information and financial documentation are available upon request.

This budget continues the City's mission of providing quality services within the limits of fiscal responsibility. Specific goals are stated for each fund and department, giving specific examples of the programs and services to be provided with the funds appropriated.

BACKGROUND

FY 2013 continued a modest turnaround for the City of Carbondale compared to the previous few years and the City was able to come in under the budgeted expenditures. In the fall of 2011, the City refunded the 2004 G. O. Refunding Bonds and issued an additional \$2.8 million in debt for the construction of a new fire station, while keeping the current principal and interest amounts flat. In the winter of 2012, an additional \$600,000 was designated from the General Fund – Fund Balance to cover the balance of the cost of the construction of the new fire station. A fall 2013 completion is scheduled. In the spring of 2013, the City issued bonds to refund the 2003 G. O. Refunding Bonds and the remaining balance of the Illinois Environmental Protection Agency loan which funded the upgrade of the southeast wastewater treatment plant.

BUDGET SUMMARY

The FY 2014 budget represents a continuation of the gains made in FY 2013. Employee raises of 3% across the board are provided, and health insurance benefits are unchanged. In FY2013, the City implemented changes in deductibles for employee health insurance while holding flat the premiums being shared by the City and the employees and retirees. As a result of these changes, a portion of the savings

realized in the Employee Health Reimbursement Account is being used to provide a 10% decrease in the premiums paid by the City and the employees and retirees and to fund 100% of the cost of providing the employee only portion of dental and vision insurance.

In FY2013, the City changed its general liability, general property and worker's compensation insurance carrier and realized a savings of just over \$500,000. This savings was offset by a \$432,500 increase in police pension costs.

Sales tax revenues are projected to increase by 1.0% during the coming fiscal year. Revenue of \$851,136 will come from the municipal property tax levy, which will provide partial funding for public safety pension costs. The Water and Sewer rate structure was completely revised in FY 2012 with scheduled increases of 4.8% for Water and 12.5% for Sewer effective May 2013 for April consumption. These annual increases will continue through May 2015 and will allow the City to increase the level of replacement of aging water & sewer lines as well as fund other capital items.

Capital projects planned for the coming year include the continuation of the sidewalk improvement program and a set-aside of \$100,000 for future open space projects. The latter is a commitment made by the City when the Home Rule Sales Tax was increased for capital projects in 2008. These and other capital projects are described in the FY 2014 to FY 2018 Community Investment Program.

The FY 2014 Expenditure Budget for all funds totals \$50,759,808 compared to the adjusted FY 2013 Budget of \$55,173,289. The decrease in budgeted expenditures is primarily due to a one-time transfer of funds from the General Fund – Fund Balance to the Local Improvement Fund for the new Fire Station costs, refunding of the 2003 G. O. Refunding Bonds and decreases in the expected Capital Improvement Program costs due to ongoing work of Phase 2 of the new Water Storage Facility.

The total revenues and other financing sources for the FY 2014 Budget are \$46,065,473 compared to the FY 2013 budgeted revenues of \$45,564,933. The increase in revenues and other financing sources is related to the change in the Water & Sewer rate structure and increased rates for service. Most of the excess of expenditures over revenues is attributable to depreciation, which is a non-cash expenditure and the continued expenditure of the 2011 G. O Bonds for the new Fire Station.

GENERAL FUND

The FY 2014 General Fund Budget has expenditures totaling \$23,441,870 compared to the FY 2013 Budget total of \$23,407,965. The General Fund provides for basic City services including Police, Fire, Economic Development, Development Services, General Government, Administrative Services and portions of Public Works. General Fund revenues are expected to decrease by \$12,497.

In addition, a total of \$1,434,447 is to be transferred from the General Fund to other City Funds, including \$1,334,447 to the Debt Service Fund (for bond payments), and \$100,000 to the Local Improvement Fund for capital projects and contractual street repairs.

In FY 2014, a new Building Maintenance Division (40330) is being added to the Public Works Department. This division will provide for the maintenance and repair of all City buildings and facilities.

This new division will allow for centralized oversight of expenses and allow expenses to be aggregated for additional cost savings. Such expenses will include utilities, repairs, fire suppression and extinguisher system inspection, security and fire alarm monitoring contracts and elevator contracts. Prior to the creation of this new division the department/division housed within each building was responsible for the budgeting of maintenance and repair. As a result, the expenses in other division budgets will be reduced and aggregated into this new budget.

Other major cost items in the General Fund include the following:

- Purchase of a new Class A Pumper (fire truck). This will be financed with a loan from a local bank.
- Creation of a new Neighborhood Inspector Coordinator position for the direct supervision and evaluation of the six Neighborhood Inspectors and one part-time Weed Inspector.
- Creation of a new Assistant to the City Manager position to oversee contracts with the City funded Agencies & Organizations and oversees special projects.
- Additional funds for employee retirement benefits are budgeted to reduce the outstanding liability for police pension personnel.
- Electric power costs have declined and are expected to remain steady through the contract with Ameren Energy Marketing.
- The City web site will be updated and refreshed as a mechanism for marketing the City to visitors, business prospects, and students, as well as providing services to residents. The addition of informational videos will further enhance the web site.
- The Police Department will continue numerous grant-supported programs related to domestic violence prevention, crime victims' assistance, targeted traffic enforcement, and child safety seat assistance. The Department will continue its pro-active approach to law enforcement through participation in the Family Violence Task Force, the Healthy Communities Coalition, Study Circles Continuing the Dialogue, and the Mayor's Intervention Task Force.
- The Police Department will continue the Community Service Officer Program that will allow high school and college students an opportunity to be introduced into the Carbondale Police Department and the law enforcement profession with the potential of becoming future Carbondale Police Officers. In particular, minority students are given an opportunity to discover their interest in the law enforcement profession.
- The Fire Department will continue its fire hydrant testing program, smoke detector replacement program, plus coordination of emergency management services for the City, including continued training in the National Incident Management System (NIMS) for all management and supervisory personnel.
- Grants for housing rehabilitation and weatherization will continue to be provided.
- Reductions in employer funded health insurance costs are spread throughout the General Fund in addition to reductions in general liability, general property and worker's compensation premiums.

OTHER GOVERNMENTAL FUNDS

The Debt Services Fund includes expenditures of \$2,256,913 with revenues and other financing sources totaling \$2,089,862. The other financing sources include fund transfers from the General Fund, Motor Fuel Tax Fund and the Local Improvement Fund. The projected Ending Fund Balance for FY 2014 is \$2,582,496.

The Local Improvement Fund includes expenditures and other financing uses of \$3,195,184 with revenues and other financing sources totaling \$1,035,714. Projects budgeted for FY 2014 includes the following:

- Street construction projects including reconstruction and patching of various streets as necessary.
- The sidewalk improvement program will continue the City's commitment to providing a more walkable community.
- Funds have been set aside for development of open spaces in the City, with priority being given to the construction of a bicycle-pedestrian path from Grand Avenue to the Town Square along former railroad right-of-way. In FY2013, the City received of a \$329,950 Illinois Transportation Enhancement Grant and a \$66,466 SIU Sustainability Council grant to assist in the construction of this project.
- Funding has been provided for construction of the new Fire Station Number 2. A groundbreaking was held in February 2013 and construction is scheduled to be complete in the fall of 2013.

WATER AND SEWER FUND

The Waterworks and Sewerage Fund includes revenues and expenditures related to water treatment and distribution, and wastewater collection and treatment. In addition, Cedar Lake maintenance and operation is included here, as the lake constitutes the City's drinking water supply. A major issue with this fund is that system depreciation has been accumulating at a much faster rate than capital reinvestment in the system. This has been well documented in past financial reports. A detailed study of water and sewer rates, operating costs and capital improvement costs was completed in FY 2012. This report required considerable study and discussion, and was the basis of the revised Water & Sewer rate structure that went into effect May 1, 2012.

Water and Sewer expenditures of \$13,114,600, net of depreciation and non-cash credits, will be offset by revenues and other financing sources totaling \$12,872,298. Energy savings continue to be realized at the Southeast Wastewater Treatment Plant and at the Northwest Wastewater Treatment Plant as a result of equipment and process changes made in the past years and the new power purchase contract signed in FY 2012 with Ameren Energy Marketing. Other major highlights in the fund include the following:

- Improvements will continue in the former Crab Orchard Water District area.
- Replacement of the storage garage at the NWWWTP which was damaged by fire in FY 2012.
- Continued work on Phase 2 of the Water Storage Facility

- Electrical renovations and installation of a backup generation system to the raw water pump station at the Cedar Lake.
- Installation of backup generation systems at key sanitary sewer lifts stations.
- A sanitary sewer infiltration study to determine the major locations of storm water inflow and corrective action needed.

SOLID WASTE MANAGEMENT FUND

The Solid Waste Management Fund includes expenditures, less depreciation, of \$864,294 with revenues and other financing sources totaling \$885,750. FY 2014's budgeted revenues are expected to exceed expenditures. In 2009, recycling service was expanded to include all paper products. This has resulted in an increase in citizen participation in the recycling program and an increase of 79% in the volume of materials collected. Rate increases passed by the City Council in September and October 2011 are anticipated to offset previous operating losses and establish funds for the future replacement of equipment used in the Solid Waste and Recycling programs. Further examination of the City's ordinances and procedures will occur in the coming years to determine if the City should establish a roll out system of collection or if a further reduction in the amount of waste that will be picked up during the scheduled pick-up is warranted.

OTHER ENTERPRISE FUNDS

The Parking System Fund includes expenditures, less depreciation, of \$213,181 with revenues totaling \$220,560. Recent improvements include the installation of more secure collection boxes for parking meters.

The Rental Properties Fund includes expenditures, less depreciation, of \$398,855 with revenues of \$323,647. In the recent year, leases with long term tenants at University City have expired or not been renewed, which will result in decreased revenues. This fund has an accumulated fund balance set aside to cover repairs to various properties which the City rents to outside agencies and governmental entities. Based upon projections of future revenues and expenses, this fund is projected to be depleted within the next five-seven years unless additional tenants can be secured. Staff will begin evaluating the University City facilities and prepare recommendations for their long-range use or possible demolition to allow for future redevelopment.

FUND BALANCES

The maintenance of adequate fund balances is necessary for sound fiscal operation of the City, and it is also necessary to maintain the City's favorable bond ratings. A slight downgrade in bond rating can cost the City a great deal in additional interest costs over the life of a bond issue. The City was fortunate to receive a very favorable Standard and Poor's bond rating of "AA-" on the 2011 Bonds for the refinancing of the 2004 Issue and the new Fire Station. The rating saved the city thousands in interest costs over the life of the bonds. The bond rating report specifically cited the City's strong fund balances as one reason

for the favorable rating. This makes it even more important that the City continue to operate within its means and avoid the temptation to use fund balance to pay for increased costs.

Fund balance in the General Fund is estimated to show a slight increase at the end of FY 2014 to \$8,027,216 of which \$5,430,627 is not designated for specific purposes. The minor decrease in undesignated fund balance from FY 2013 is due to estimated increases in designated and restricted revenues and year ending balances.

Fund balance in the Local Improvement Fund is estimated to be reduced to \$96,922 at the end of FY 2014, primarily as a result of the construction of the new Fire Station.

Motor Fuel Tax Fund balance is being reduced on account of debt service on the street overlay program, and anticipated additional street repairs.

Waterworks and Sewerage Fund balances are within established City policy with an estimated FY 2014 ending balance of \$6,792,442. This projected decrease in fund balance will come from funds previously set aside for future capital needs.

The Solid Waste Management Fund will show an increased fund balance, \$335,098 due to the new rate increase schedule. The Parking Fund will show a Fiscal Year 2013 ending fund balance of \$168,812.

THE FUTURE

It is more important than ever that the City live within its means. The continued deterioration of the State of Illinois' financial condition makes it very likely that assistance from the State for municipalities and social service providers will be reduced. Reduced State payments to secondary and higher education continue to affect and inhibit the recovery of the local economy. Although the rate of decline in enrollments at Southern Illinois University Carbondale has lessened, any decline results in less money in the local economy and therefore less sales tax income to the City. Rising fuel costs are and will continue to affect all City operations. This may necessitate a review of the city's services and possible changes in the delivery of some services that the public has come to expect. A variety of cost containment measures will continue to be explored, including but not limited to the following:

- Vacant positions may be held open when possible.
- Energy audits for major buildings will be used to suggest ways to reduce energy costs.
- Installation of more energy efficient controls in FY 2012 will continue to pay dividends in FY 2014.
- Longer term contracts for purchasing electric energy have been negotiated and will provide savings in FY 2014.
- Efforts continue to reverse the growth of Workers' Compensation claims through better accident investigation, increased emphasis on employee safety, and more aggressive use of second medical opinions.
- The City will continue to pursue all available grants to fund public services and capital projects.

As noted earlier, pension costs will continue to present problems. Over the past 10 years Firefighters and Police Pensions have seen large increases in contribution levels but significantly larger growth in liability and underfunding. The FY 2014 budget includes an amount to be spent for a special study of future funding requirements and possible actions.

Employee health insurance coverage will be a continuing concern for the City, as national debate continues over recent health care regulations.

Renewed emphasis needs to be placed on economic development, neighborhood restoration and local business district enhancement, especially in view of the national economic downturn and increased local competition from neighboring communities. Without a strong local economy, tax revenues will not be sufficient to provide for the level of services expected by the community.

As a result of the water and sewer rate study conducted in FY2012, a new 5 year rate plan has been developed which will provide sufficient funds to cover maintenance, as well as major repairs and improvements.

Construction of a new Fire Station is underway with a scheduled completion for fall of 2013.

ACKNOWLEDGEMENTS

The preparation of the FY 2014 Budget is truly a team effort that required the participation of many employees in all departments and divisions of the City. Their dedication and hard work exemplify the quality workforce in the City serving the citizens of Carbondale.

Special thanks and recognition go to the Finance Department staff for their efforts in the budget preparation process. Information Systems Specialist Donna Butcher provided the coordination among departments and edited the budget document itself. The development of the Community Investment Program Budget required considerable time and work by the Public Works Engineering Division staff, especially Public Works Director Sean Henry and Administrative Assistant Mary Runion. The contributions of all those involved are invaluable and are reflected in the outstanding quality of the budget document.

The Mayor and City Council also played a major role in the preparation of this budget. The Mayor and City Council provided policy direction throughout the budget preparation process. Their cooperation and leadership is greatly appreciated.

Respectfully submitted,

Kevin Baity
City Manager