200 South Illinois Avenue
P.O. Box 2047
Carbondale, Illinois 62902-2047
Telephone 618-549-5302
Fax 618-457-3283
www.explorecarbondale.com

March 18, 2015

Honorable Mayor
Members of the City Council
City of Carbondale

Mayor and Members of the City Council:

Attached is the proposed Fiscal Year 2016 City of Carbondale Budget for the period from May 1, 2015 through April 30, 2016. 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

As part of the FY2015 budget creation process, the City Council approved a ¼% Home Rule Sales Tax increase which took effect July 1, 2014. The increase was tied to a 2-year sunset provision. The estimated actual total sales tax revenues for FY2015 are projected to be $15,347,748. In addition, the City Council approved a 1% increase to the Hotel/Motel Privilege Tax effective May 1, 2014. During FY2015, the City refunded the 2006 Street Improvement Bonds which were issued for the 2006-2007 street overlay project. The refunding allowed the City to decrease the interest rate while keeping the total principal and term limit the same.

BUDGET SUMMARY

The FY 2016 budget represents the second year of positive fund balance growth. In early 2015, the City was notified by its health insurance carrier of significant changes in coverage that would be occurring before the end of the fiscal year and a rate increase of 35% could be expected for FY2016. A quick response by the local insurance agent and discussions by the Employee Benefits Committee resulted in a change of insurance carrier, increased coverage benefits and only slight increases in premiums. As a

result of these changes, the Employee Health Reimbursement Account continues to maintain an adequate fund balance. For FY2016, the City is projecting it will be liable for paying $102,652 in taxes to the federal government as part of the new national healthcare law. This is a reduction of $19,569 from FY2015. FY2016 will also be the first year in which City employees are required to pay a portion of their employee only insurance premium.

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. In FY2014 and FY2015, this savings continued and FY2016 premiums are projected to remain 3.7% less than the year prior to the change.

In his first State of Illinois budget address given on February 18, 2015, Governor Bruce Rauner, proposed cutting the Local Government Distributive Fund (LGDF) by 50%. The LGDF is revenue derived from the State Income Tax that is shared with local units of government on a per capita basis. For FY2016, a 50% reduction in the LGDF would equate to $1.25M in lost revenues to the City of Carbondale. As a precautionary measure, the City Council will consider an additional ¼% increase in the Home Rule Sales Tax at its March 24, 2015 meeting. If approved, it is estimated the City would realize an additional $890,000 in revenue based on 10 months of collection effective July 1, 2015. Reductions in other areas will make up the difference in LGDF losses.

Revenue of $1,035,263 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 2015 for April consumption. These annual increases have occurred since FY2013 and have allowed 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 2016 to FY 2020 Community Investment Program.

The FY 2016 Expenditure Budget for all funds totals $51,317,706 compared to the adjusted FY 2015 Budget of $48,951,608. The $2,366,098 increase in budgeted expenditures is primarily due to increases in the community investment program in the Motor Fuel Tax and Water and Sewer Funds.

The total revenues and other financing sources for the FY 2016 Budget are $44,707,843 compared to the FY 2015 budgeted revenues of $43,139,838. The increase in revenues and other financing sources is primarily related to proposed increase in the Home Rule Sales tax from 2.25% to 2.50%. This increase is shown in the increase in revenues in the General and Local Improvement Funds.

GENERAL FUND

The FY 2016 General Fund Budget has expenditures totaling $24,528,770 compared to the FY 2015 Budget total of $24,147,008, an increase of $381,762. 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 increase by $593,847.

In addition, a total of $1,606,289 is to be transferred from the General Fund to other City Funds, including $1,506,289 to the Debt Service Fund (for bond payments), and $100,000 to the Local Improvement Fund for capital projects and contractual street repairs.

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

- Funding for Agencies & Organizations.
- Additional funds for employee retirement benefits are budgeted to meet actuarial requirements.
- Electric power costs have declined and are expected to remain steady through the contract with Homefield Energy.
- The City web site is continuously 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 new informational videos will continue to 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, and Study Circles Continuing the Dialogue.
- 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.
- Increases in general liability, general property and worker's compensation premiums costs are spread throughout the General Fund.

OTHER GOVERNMENTAL FUNDS

The Debt Services Fund includes expenditures of $2,406,153 with revenues and other financing sources totaling $2,374,289. 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 2016 is $2,509,559.

The Local Improvement Fund includes expenditures and other financing uses of $1,409,750 with revenues and other financing sources totaling $1,725,400. Projects budgeted for FY 2016 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 and FY2014, the City received two grants totaling $329,950 through the Illinois Transportation Enhancement Program and a $66,466 SIU Sustainability Council grant to assist in the construction of this project. Construction on Phase 1 of 2 of this project is expected to begin in the fall of 2015.
- City Hall/Civic Center Exterior improvement.
- Design, Engineering and Construction of a roundabout for the Lewis Lane and Grand Avenue intersection. This project will receive partial funding through the Southern Illinois Metropolitan Planning Organization who oversees the federal and state funding of qualified projects within the regional planning area.

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 $14,369,468, net of depreciation and non-cash credits, will be offset by revenues and other financing sources totaling $11,240,647. During FY 2016, the City will expend approximately $7,000,000 for infrastructure improvements including an emergency backup generator for a raw water pump station at Cedar Lake, emergency backup generators for all Sanitary Lift Stations and the annual sanitary sewer rehabilitation program. Other major highlights in the fund include the following:

- Oak Street sanitary sewer replacement
- Mill Street water line replacement
- Cedar Lake spillway repairs
- Water Treatment Plant lagoon renovations and clearwell painting
- Crab Orchard water line improvements
- Sanitary sewer lift station repairs at Pinecrest and Murdale
- Continuation of 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 $1,170,044 with revenues and other financing sources totaling $1,063,566. FY 2016s budgeted expenditures are expected to exceed revenues primarily due to the purchase of a new recycling truck. 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 in the volume of materials collected. Rate increases passed by the City Council in September and October 2011 have established fund balances for the 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 $380,027 with revenues totaling $279,126. In addition to the continued installation of more secure collection boxes for parking meters, the City will construct a new parking lot located in the 700 block of South Illinois Avenue adjacent to the Canadian National Railroad at an approximate cost of $169,600 and improvements to the Interfaith Center parking lot at an approximate cost of $11,680.

The Rental Properties Fund includes expenditures, less depreciation, of $550,232 with revenues of $72,909. In the last three years, 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 FY2015 ending Fund Balance of $770,157, which is set aside to cover repairs to various properties which the City rents to outside agencies and governmental entities. It is projected the FY2016 ending Fund Balance will be $292,834. The drop in fund balance is due to the planned construction of a new storage building adjacent to Fire Station #1. Based upon projections of future revenues and expenses, this fund is projected to be depleted by the end of FY2017. Staff will continue 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 maintain a very favorable Standard and Poor's bond rating of "AA-" on the 2015 Bonds for the refinancing of the 2006 Street Improvement Bonds. The rating will save the city thousands in interest costs over the remaining two years 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 Balances to pay for increased costs.

Fund balance in the General Fund is estimated to show a slight increase at the end of FY 2016 to $8,074,260 of which $4,659,223 is not designated for specific purposes. The minor increase in

undesignated fund balance from FY 2015 is due to the estimated increases in restricted and non-spendable year ending fund balances.

Fund balance in the Local Improvement Fund is estimated to be increased to $572,646 at the end of FY 2016, primarily as a result of the dedication of 50% of the ¼% Home Rule Sales Tax increase effective July 1, 2015.

Motor Fuel Tax Fund balance is being reduced $400,561 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 2016 ending balance of $6,838,419. This projected decrease in fund balance will come from funds previously set aside for future capital needs.

The Solid Waste Management Fund will show a decreased FY2016 ending balance of $378,249 primarily due to the purchase of a new recycling truck.

The Parking Fund will show a Fiscal Year 2016 ending fund balance of $273,471.

THE FUTURE

It is more important than ever that the City live within its means. As mentioned earlier, the threat of a reduction in the Local Government Distributive Fund by the State of Illinois and well as the continued decline in the overall financial condition of the State makes it very likely that other cuts may be forth coming. Reduced State payments to social service providers, secondary and higher education continue to affect and inhibit the recovery of the local economy. Governor Rauner's proposed $44M in funding cuts to Southern Illinois University Carbondale will have a devastating effect on the economy in Carbondale as well as the region. This proposal comes after the University experienced its second consecutive year of increased enrollment compared to a number of years of decline. Those years of decline resulted in less money in the local economy and therefore several years less sales tax income to the City.

Rising costs of operations (workers' compensation and property/casualty insurance, pensions, utilities) will continue to affect all City operations. This may necessitate a continued 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 have been implemented including:

- Vacant positions being held open when possible
- Energy audits for major buildings being used to reduce energy costs
- Delaying certain equipment purchases (backhoes, dump trucks, fire trucks)
- Delaying certain repairs to buildings.

Other cost containment measures will continue to be explored, including but not limited to the following:

- Additional vacant positions may be held open when possible.

- Continued efforts 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. Former Governor Patrick Quinn, before leaving office in early 2015, signed a bill requiring local units of government to negotiate fire fighter staffing levels as part of the collective bargaining process. As with all unfunded mandates, the Act does not provide any financial contribution from the State to cover these potential increased costs or the pension obligations.

Employee health insurance coverage will be a continuing concern for the City, as the next phase of required minimum coverage and taxes on group insurance plans takes effect.

In FY2016, the City will embark on the creation of a new Downtown Master Plan to expand on the preliminary work of the Downtown Advisory Committee. The plan will serve to guide the City to continue the growth being experienced in TIF Districts #1 and #2. Continued emphasis needs to be placed on economic development, neighborhood restoration and local business district enhancement. Without a strong local economy, tax revenues will not be sufficient to provide for the level of services expected by the community.

The last annual increases recommended by the FY2012 water and sewer rate study will take effect in FY2016. Continued improvements to repair/replace the City's aging utility infrastructure will be carried out over the next five years.

ACKNOWLEDGEMENTS

The preparation of the FY 2016 Budget is truly a team effort that requires 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. At the onset of the preparation process, department heads were again directed to hold their line 200 expenditures flat and find areas to make reductions. This practice has been in place for a number of years resulting in considerable savings. For FY2016, the total line code 200 expenditures for which staff have control were again decreased by $284,808 or 3.21%. However due to increases in health and property/casualty insurance premiums and the expected cost of the Downtown Master Plan consultant the overall code 200 expenditures increased $338,029 or 3.81%.

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 and deliberated several hours during special City Council meetings held during FY2015 over whether to and how to increase revenues to offset increased expenditures and anticipated reductions in State Income Tax sharing at a time when overall revenues are decreasing. Their cooperation and leadership is greatly appreciated.

Respectfully submitted,

Kevin Baity
City Manager