FINANCIAL AND BUDGETARY POLICIES

Current and long-range financial stability through a balanced budget as defined in the glossary is essential to enable the City to meet the other goals identified in this Budget and to continue to provide a high level of municipal services to residents and businesses. The Finance Department will work to maintain these fiscal policies by careful and frequent monitoring of expenditures and revenue sources. Prudent investment of reserves, in compliance with State policies and regulations, will be followed to maximize returns. New revenue sources will be reviewed to determine the need for adjustment to cover the costs of providing service. To maintain the desired level of financial stability, the following financial policies shall guide fiscal decision making:

FUND EQUITY BALANCE

Fund balance is the monetary difference between a fund's assets and liabilities. Other terms used are fund equity and net assets. In the private sector, the terms net worth, owner's equity, stockholders' equity and retained earnings are used. The monetary amount of the fund equity account is not just the amount of cash and investments on hand at any given time; it also includes other liquid assets such as accounts receivable, inventories and prepaid expenses that are offset by current amounts owed (liabilities) such as accounts payable and accrued payroll.

Fund balance is generally subdivided into reserved and unreserved accounts for most major funds. Reserved fund balance consists of portions of the total fund balance that may be legally restricted to a specific use, such as "fund balance reserved for debt service." Unreserved fund balance may be subdivided into designated and un-designated accounts. Designated fund balance accounts are generally used by management for a future financial resource such as the need for equipment replacements or community investments. Un-designated portions of the unreserved fund balance represent expendable available financial resources that could be used during the current fiscal year for the following:

1. Working capital requirement

2. Major emergency expenditures and unfunded by the State of Illinois and the Federal Government

3. Revenue shortfalls due to economic down turn or changes in other governmental units' allocation of revenue to the City of Carbondale

4. Transfers to the Community Investment Funds or other one-time major expenditures

The City's financial policy of maintaining adequate un-designated fund equity accounts has been formulated to meet the above criteria.

The **General Fund** minimum un-designated fund balance is based on the equivalent of three months of the current fiscal year's sales and service tax revenues. The General Fund's major source of revenue comes from the 1 % Sales Tax and the 2.5% Home Rule Sales Tax. Effective July 1, 1999, the Home Rule Sales Tax was increased ¼ %, bringing the tax rate to 1% in order to provide for the City's annual grant to Carbondale Community High School District. The funds will be used by the District to pay a portion of their bonds annual debt service for the new community school facility. During FY 2008, the City Council approved an increase of an additional ½ % Home Rule Sales Tax which became effective January 1, 2008 that resulted in a rate of 1.5%. Of this increase, ¼ % is designated to pass through to Southern Illinois University in an amount not to exceed one million dollars annually over a period of twenty years. These funds will be used to assist the University in the payment of costs associated with the Saluki Way project. The remaining portion of the ¼ % Home Rule Sales Tax increase is retained by the City of Carbondale to be used in funding General Fund operations. During FY 2010, the City Council approved an increase of an additional ½ percent Home Rule Sales Tax which became effective July 1, 2010. This increase brings the Home Rule Sales Tax to 2.0 percent. This additional increase will be used in part to pay debt service on a General Obligation Bond issued during FY 2011 to pay for the construction of a new police station. During FY 2014, the City Council approved an additional ¼ % Home Rule Sales Tax to compensate for revenue shortfalls. The increase became effective July 1, 2014. This has a 3 year sunset provision. This process was repeated in FY 2015, ¼ % effective July 1, 2015, but with no sunset provision. The State of Illinois collects these taxes and remits to the City three months after the retail sale is made. Other service taxes such as Electric Utility Tax are received by the City generally two months after the revenue is generated.

FINANCIAL AND BUDGETARY POLICIES

The following table illustrates the difference between the un-designated and minimum un-designated fund balance. The FY 2015 Budgeted difference is unfavorable in the amount of $189,423. The unfavorable variance is based upon the estimated financial transactions for both the remainder of FY 2015 and all of FY 2016.

The Summary Statements at the beginning of the General Fund budget section of this document shows the comparison of the FY 2015 amended Authorized Budget to the Estimated Actual FY 2015 revenues, expenditures and changes in the fund balance. One can see that the amended FY 2015 revenue budget of $25,525,681 is estimated to be $25,525,080; a decrease of $601. The Statement of Revenues and Other Financing Sources shows the detail of these changes in the General Fund's revenue accounts. The original or Authorized FY 2015 Expenditure Budget in the amount of $24,147,008 shows the Estimated Actual figure of $23,257,796, a decrease of $889,212. The Statement of Expenditures and Other Financing uses provide the detail at the department and division levels of the variances between the original Authorized Budget and the Estimated Actual for FY 2015. The decrease in estimated revenue of $601 and the decrease in estimated expenditures of $889,212 reflect a net increase to the fund balance of $888,611. The increase in fund balance for Estimated Actual 2015 compared to Authorized Budgeted 2015 are over budgeted expenses across the board and an increase in expenses in numerous categories.

General Fund	**Actual FY 2014**	**Authorized Budget FY 2015**	**Estimated Actual FY 2015**	**Budget FY 2016**
Total Fund Balance, Beginning May 1	7,972,482	7,728,796	7,728,796	8,046,791
Increase (Decrease) in Fund Balance	(243,686)	(327,616)	335,995	9,469
Total Fund Balance, Ending April 30	7,728,796	7,401,180	8,064,791	8,074,260
(Less) Non-Spendable	816,820	735,915	741,724	769,555
(Less) Restricted	484,860	445,608	721,141	843,370
(Less) Committed	1,778,730	1,754,782	1,774,165	1,801,462
(Less) Assigned	3,950	650	650	650
(Less) Un-Assigned	4,644,436	4,464,225	4,827,111	4,659,223
Minimum Un-designated Fund Balance	4,380556	4,595,890	4,671,163	4,848,645
Difference - Favorable (Unfavorable)	263,550	(131,665)	155,948	(189,422)

The **Motor Fuel Tax Fund** minimum fund balance policy is the equivalent of three months of the current fiscal year's operating and maintenance expenditures. Excess funds above the minimum amount are allocated for street and traffic signal community investment projects. During FY 2015, there were no CIP and replacement expenditures. Estimated Actual Operating and maintenance expenditures estimated to be $414,092. For FY 2016, CIP expenditures projected to be $505,000 (80% funded by grant) and operating and maintenance expenditures are projected to be $514,000.

Motor Fuel Tax Fund	**Actual FY 2014**	**Authorized Budget FY 2015**	**Estimated Actual FY 2015**	**Budget FY 2016**
Total Fund Balance, Beginning May 1	1,220,546	1,342,307	1,342,307	1,385,443
Increase (Decrease) in Fund Balance	121,761	(203,371)	43,136	400,561
Total Fund Balance, Ending April 30	1,342,307	1,138,936	1,385,443	984,882
(Less) Designated & Reserved	-0-	-0-	-0-	-0-
Un-designated Fund Balance	1,342,307	1,138,936	1,385,443	984,882
Minimum Un-designated Fund Balance	164,108	249,687	216,023	241,003
Difference - Favorable (Unfavorable)	1,178,199	889,249	1,169,420	743,879

The **Debt Service Fund, Tax Increment Fund** and the **Community Investment Project Funds** of the governmental funds do not have an un-designated fund balance policy. The beginning and ending fund balance for these funds are considered reserved or designated for use during the current year and for the next fiscal year. The fund balance amounts in the Community Investment Project Funds sometime vary considerably due to the various capital projects that are scheduled over the next five fiscal years.

The **Waterworks and Sewerage Fund** minimum un-designated fund equity balance is based on the equivalent of one-twelfth of the current year's total expenditures of the operating divisions. This fund is a proprietary enterprise fund type which is operated similar to a private sector business. Fund balance is the term used for governmental fund types. In order to have consistency in the City's budget, the term "Fund Balance" is modified for the enterprise funds and is titled as "Working Fund Balance." An explanation of this modification is included in the Financial Structure narrative under the heading "Basis of Accounting and Budgeting" of this document. The designated and reserved portion of the total fund equity balance consists of the balance required in the Debt Service account and the Community Investments and Replacement Account at the end of the fiscal year. The amount in the Unreserved Working Fund Balance is the Operating Account. The summary statement at the beginning of the fund's budget section of this document provides more detail of the working fund balance accounts.
The operating division expenditures do not include the transfers to the Bond Debt Account or the Community Investment and Replacement Account.

The Bond Debt Account receives its funds from cash transfers from the Operating Account derived from the revenues of the system. The Community Investment and Replacement Account receive its funds from cash transfers from the Operating Account, grants, property owner contributions and bond issue proceeds.

The FY 2015 ending un-designated working fund balance has been budgeted to equal one-twelfth of the budgeted operating expenditures. This allows for the maximum amount of cash to be transferred during the fiscal year to the Community Investments and Replacement Account after the required transfers to the Debt Service Account.

Waterworks and Sewerage Fund	**Actual FY 2014**	**Authorized Budget FY 2015**	**Estimated Actual FY 2015**	**Budget FY 2016**
Total Working Fund Balance, Beginning May 1	7,225,930	7,001,658	7,001,658	9,967,240
Increase (Decrease) in Fund Balance	(242,272)	(2,100,996)	(2,965,582)	(3,128,821)
Total Working Fund Balance, Ending April 30	7,001,658	4,900,662	9,967,240	6,838,419
(Less) Designated & Reserved	-0-	-0-	-0-	-0-
Un-designated Working Fund Balance	7,001,658	4,900,662	9,967,240	6,838,419
Minimum Un-designated Working Fund Balance	1,577,727	1,272,602	1,130,429	1,364,389
Difference - Favorable (Unfavorable)	5,423,931	3,628,060	8,836,811	5,474,030

The minimum un-designated working fund balance for the **Parking System Operations Fund** is based on two months of the fund's total current year expenditures. The difference in Estimated Actual vs Budgeted Fund Balance represents a 32% increase in revenue from parking fines.

Parking System Operations Fund	**Actual FY 2014**	**Authorized Budget FY 2015**	**Estimated Actual FY 2015**	**Budget FY 2016**
Total Working Fund Balance, Beginning May 1	190,300	308,024	308,024	374,372
Increase (Decrease) in Fund Balance	117,724	(126,053)	66,348	(100,901)
Total Working Fund Balance, Ending April 30	308,024	181,971	374,372	273,471
(Less) Designated & Reserved	-0-	-0-	-0-	-0-
Un-designated Working Fund Balance	308,024	181,971	374,372	273,471
Minimum Un-designated Working Fund Balance	46,126	79,453	44,820	74,611
Difference - Favorable (Unfavorable)	261,898	102,518	329,552	198,860

The **Solid Waste Management Fund's** policy for working fund balance is formulated to provide sufficient funds for major equipment replacements in future years. Beginning with FY 2001, one-half of the fund's annual revenues are designated for future equipment replacement such as compactor trucks and recycling vehicles. There is no policy for a minimum un-designated balance for this fund.

Solid Waste Management Fund	**Actual FY 2014**	**Authorized Budget FY 2015**	**Estimated Actual FY 2015**	**Budget FY 2016**
Total Working Fund Balance, Beginning May 1	328,601	455,193	455,193	484,727
Increase (Decrease) in Fund Balance	126,592	23,662	29,534	(106,478)
Total Working Fund Balance, Ending April 30	455,193	478,855	484,727	378,249
(Less) Designated & Reserved	439,721	450,911	450,952	456,783
Un-designated Working Fund Balance	15,472	27,945	33,775	(78,534)
Minimum Un-designated Working Fund Balance	-0-	-0-	-0-	-0-
Difference - Favorable (Unfavorable)	15,472	27,945	33,775	(78,534)

The **Rental Properties Fund's** minimum un-designated working balance is based on the equivalent of three months of the current year's operating and maintenance expenses. The decrease in the working fund balance at the end of FY 2013 and beyond reflects the decreased revenue because of the sales of certain properties, and inability to find tenants for vacant properties.

Rental Properties Fund	**Actual FY 2014**	**Authorized Budget FY 2015**	**Estimated Actual FY 2015**	**Budget FY 2016**
Total Working Fund Balance, Beginning May 1	1,140,253	1,146,866	1,146,866	770,157
Increase (Decrease) in Fund Balance	6,613	(362,182)	(376,714)	(477,323)
Total Working Fund Balance, Ending April 30	1,146,866	784,684	770,157	292,834
(Less) Designated & Reserved	-0-	-0-	-0-	-0-
Un-designated Working Fund Balance	1,146,866	784,684	770,157	292,834
Minimum Un-designated Working Fund Balance	98,932	141,781	137,363	150,816
Difference - Favorable (Unfavorable)	1,047,934	642,903	632,794	142,018

DEBT MANAGEMENT

The City will confine long-term borrowing to capital improvements that cannot be financed from current revenues. Since the City is a home rule municipality, there is no legal debt margin nor is an election required to issue debt. The term of bonds and loans issued will not exceed the expected useful life of the acquired capital assets. The issuance of debt is necessary at times to meet community growth needs. The City realizes that too much debt service will reduce the use of current revenues for day-to-day operations and have a detrimental effect for services provided to its citizens. In order to prevent the over issuance of debt, the City has set a policy guideline for the General Fund. The General Fund guideline is set at 15% percent of the Sales and Service (Utility) Tax revenues. The limit for FY 2016 calculates to $2,909,187 (Sales and Service Tax revenues $19,394,579 x 15% percent = $2,909,187). Transfers from the General Fund to the Debt Service Fund for General Obligation Bond debt totals $1,506,289 for FY 2016.

In addition, debt service expenditures projected by the General Fund for FY 2016 related to bank loans is $171,569. The total debt service requirements for FY 2016 projected for the General Fund is $1,677,858. This results in a favorable difference of $1,231,329 as related to the policy limit of $2,909,187. The bank loans referenced above consist of property and equipment to carry out services within the community. Details of all debt can be referenced on the Master Debt Service Schedule, Page 375 through Page 378 of this document.

Debt Service - General Fund	**Actual FY 2014**	**Authorized Budget FY 2015**	**Estimated Actual FY 2015**	**Budget FY 2016**
Debt Service - GOB's	1,334,447	1,506,289	1,506,289	1,506,289
Debt Service - Bank Loans	164,367	187,797	189,574	171,569
Total Debt Service	1,498,814	1,694,086	1,695,863	1,677,858
Debt Service - Policy Limit	2,628,334	2,757,534	2,802,696	2,909,187
Difference - Favorable (Unfavorable)	1,129,520	1,063,448	1,106,833	1,231,329

In addition, the City recognizes the need that certain other taxing districts, which have limited sources of revenues, need greater reliance on property tax levies to finance their operations and capital needs.

Although the City issues General Obligation Bonds in the past it limited its annual property tax levy to an amount not to exceed $236,250 for the principal and interest payments on the bonds. This level was set by precedent over the past several years.

The excess above the debt service tax levy policy level was transferred from the General Fund to the Debt Service Fund for the annual requirements. Beginning in FY 2004, the City discontinued the Property Tax Levy requiring that all debt service be transferred from the General Fund.

An expenditure of $5,000 or greater, for a depreciable asset, is considered a capital expenditure. Major capital outlay items such as fire fighting vehicles, dump trucks and ancillary buildings are generally financed by obtaining competitive bids from the local financial institutions. Since these major capital equipment and vehicle items are planned for replacement on a cycled schedule the debt service expenditure is included in the respective division budgets. A capital outlay schedule for all divisions, as well as a master debt service schedule, is included in the Supplemental Section of this document, beginning on page 374.

REVENUE MANAGEMENT

The City will estimate its annual revenues by an objective analytical process.

All major revenue sources will be reviewed by the Finance Department on a quarterly basis and revisions, if any, will be reported to the City Council. Each year the Finance Department will project revenues for the next five years. Each existing and potential revenue source will be reexamined annually.

Fees and user charges for each enterprise fund will be set at a level that fully supports the total direct cost of the activity. The City will attempt to establish all user charges and fees for the governmental funds at a level related to the cost of providing the service.

EXPENDITURE MANAGEMENT

The City will pay for all current operating expenditures with current revenues. The City will avoid budgetary procedure's that balance current expenditures at the expense of meeting future years' expenses, such as postponing expenditures and accruing future years' revenues.

Planning and budgeting of major expenditures will be based upon a priority setting process that is designed to narrow the range from a list of desirable expenditures to financially feasible expenditures.

Each year the Finance Department will update expenditure projections for the next five years. Projections will include estimated operating costs, capital outlays, debt service, and community program expenditures, beginning on page 394.