

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 $\frac{1}{4}$ %, 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 $\frac{1}{2}$ % Home Rule Sales Tax which became effective January 1, 2008 that resulted in a rate of 1.5%. Of this increase, $\frac{1}{4}$ % 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 $\frac{1}{4}$ % 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 $\frac{1}{2}$ 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 that was issued during FY 2011 to pay for the construction of a new police station. During FY 2014, the City Council approved an additional $\frac{1}{4}$ % 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, $\frac{1}{4}$ % 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.

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The following table illustrates the difference between the un-designated and minimum un-designated fund balance. The FY 2017 Budgeted difference is favorable in the amount of \$636,983. The favorable variance is based upon the estimated financial transactions for both the remainder of FY 2016 and all of FY 2017.

The Summary Statements at the beginning of the General Fund budget section of this document shows the comparison of the FY 2016 amended Authorized Budget to the Estimated Actual FY 2016 revenues, expenditures and changes in the fund balance. One can see that the amended FY 2016 revenue budget of \$26,119,528 is estimated to be \$26,561,620; an increase of \$442,092. 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 2016 Expenditure Budget in the amount of \$25,231,192 shows the Estimated Actual figure of \$24,165,297, a decrease of \$1,065,895. 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 2016. The increase in estimated revenue of \$442,092 and the decrease in estimated expenditures of \$1,065,895 reflect a net increase to the fund balance of \$1,507,987. The increase in fund balance for Estimated Actual 2016 compared to Authorized Budgeted 2016 is due to expenditures coming in under the budgeted amounts and revenues exceeding their estimates in select instances. Receipts for Illinois State Income Tax was the major contributor with its revenues estimated to come in \$562,900 over the budget.

General Fund	Actual FY 2015	Authorized Budget FY 2016	Estimated Actual FY 2016	Budget FY 2017
Total Fund Balance, Beginning May 1	7,728,796	8,058,867	8,058,867	8,638,901
Increase (Decrease) in Fund Balance	330,071	(692,953)	580,034	251,054
Total Fund Balance, Ending April 30	8,058,867	7,365,914	8,638,901	8,889,955
(Less) Non-Spendable	775,163	769,555	733,790	761,000
(Less) Restricted	623,830	843,370	712,079	939,064
(Less) Committed	1,772,930	1,801,462	1,646,198	1,684,577
(Less) Assigned	650	650	704	704
Unassigned	4,886,294	3,950,877	5,446,130	5,504,610
Minimum Un-designated Fund Balance	4,642,897	4,848,645	4,850,552	4,867,627
Difference - Favorable (Unfavorable)	243,397	(897,768)	595,578	636,983

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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 2016, there were estimated to be \$1,028,480 CIP and replacement expenditures. Estimated Actual Operating and maintenance expenditures estimated to be \$426,409. For FY 2017, CIP expenditures are projected to be \$61,600 with operating and maintenance expenditures projected to be \$496,523.

Motor Fuel Tax Fund	Actual FY 2015	Authorized Budget FY 2016	Estimated Actual FY 2016	Budget FY 2017
Total Fund Balance, Beginning May 1	1,342,308	1,343,558	1,343,558	1,055,000
Increase (Decrease) in Fund Balance	1,250	(400,561)	(288,558)	(256,458)
Total Fund Balance, Ending April 30	1,343,558	942,997	1,055,000	798,542
(Less) Designated & Reserved	-0-	-0-	-0-	-0-
Un-designated Fund Balance	1,343,558	942,997	1,055,000	798,542
Minimum Un-designated Fund Balance	111,306	128,503	106,602	124,131
Difference - Favorable (Unfavorable)	1,232,252	814,495	948,398	674,411

The **Debt Service Fund, Tax Increment Funds** and the **Community Investment Project Funds** of the governmental funds do not have un-designated fund balance policies. 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.

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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 2017 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 2015	Authorized Budget FY 2016	Estimated Actual FY 2016	Budget FY 2017
Total Working Fund Balance, Beginning May 1	7,001,658	6,342,927	9,778,564	5,388,151
Increase (Decrease) in Fund Balance	3,943,590	(4,602,321)	(1,166,684)	(4,390,413)
Total Working Fund Balance, Ending April 30	10,945,248	6,342,927	9,778,564	5,388,151
(Less) Designated & Reserved	-0-	-0-	-0-	-0-
Un-designated Working Fund Balance	845,575	844,137	672,066	727,029
Minimum Un-designated Working Fund Balance	707,213	693,715	672,066	727,029
Difference - Favorable (Unfavorable)	138,362	150,422	-0-	-0-

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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.

Parking System Operations Fund	Actual FY 2015	Authorized Budget FY 2016	Estimated Actual FY 2016	Budget FY 2017
Total Working Fund Balance, Beginning May 1	308,024	363,211	363,211	153,970
Increase (Decrease) in Fund Balance	55,187	(280,901)	(209,241)	(121,956)
Total Working Fund Balance, Ending April 30	363,211	82,310	153,970	32,014
(Less) Designated & Reserved	-0-	-0-	-0-	-0-
Un-designated Working Fund Balance	363,211	82,310	153,970	32,014
Minimum Un-designated Working Fund Balance	45,535	104,612	104,481	77,662
Difference - Favorable (Unfavorable)	317,676	(22,302)	49,489	(45,648)

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 2015	Authorized Budget FY 2016	Estimated Actual FY 2016	Budget FY 2017
Total Working Fund Balance, Beginning May 1	455,193	495,151	495,151	458,183
Increase (Decrease) in Fund Balance	39,958	(106,478)	(36,968)	(28,686)
Total Working Fund Balance, Ending April 30	495,151	388,673	458,183	428,497
(Less) Designated & Reserved	453,402	456,783	464,257	464,257
Un-designated Working Fund Balance	41,750	(68,110)	(6,074)	(34,760)
Minimum Un-designated Working Fund Balance	-0-	-0-	-0-	-0-
Difference - Favorable (Unfavorable)	41,750	(68,110)	(6,074)	(34,760)

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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 2015	Authorized Budget FY 2016	Estimated Actual FY 2016	Budget FY 2017
Total Working Fund Balance, Beginning May 1	1,146,866	838,157	838,157	634,390
Increase (Decrease) in Fund Balance	(308,709)	(477,323)	(203,767)	(453,850)
Total Working Fund Balance, Ending April 30	838,157	360,834	634,390	180,540
(Less) Designated & Reserved	-0-	-0-	-0-	-0-
Un-designated Working Fund Balance	838,157	360,834	634,390	180,540
Minimum Un-designated Working Fund Balance	130,150	150,816	83,555	145,484
Difference - Favorable (Unfavorable)	708,007	210,018	550,835	35,057

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 2017 calculates to \$2,920,576 (Sales

and Service Tax revenues \$19,470,508 x 15% percent = \$2,920,576). Transfers from the General Fund to the Debt Service Fund for General Obligation Bond debt totals \$1,509,690 for FY 2017.

In addition, debt service expenditures projected by the General Fund for FY 2017 related to bank loans is \$168,684. The total debt service requirements for FY 2017 projected for the General Fund is \$1,678,374. This results in a favorable difference of \$1,242,202 as related to the policy limit of \$2,920,576. 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 376 through Page 379 of this document.

Debt Service - General Fund	Actual FY 2015	Authorized Budget FY 2016	Estimated Actual FY 2016	Budget FY 2017
Debt Service - GOB's	1,506,289	1,506,289	1,506,289	1,509,690
Debt Service - Bank Loans	229,644	204,271	204,271	168,684
Total Debt Service	1,735,933	1,710,560	1,710,560	1,678,374
Debt Service - Policy Limit	2,785,738	2,909,187	2,910,331	2,920,576
Difference - Favorable (Unfavorable)	1,049,805	1,198,627	1,199,771	1,242,202

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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 395.