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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 2017 City of Carbondale Budget for the period beginning May 1, 2016, and ending April 30, 2017. 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, interfund transfers and fund balance amounts. The proposed budget also contains materials that explain each of the funds and departments listed including summary charts, graphs, and information on fund accounting. We hope that this information is helpful in understanding the purpose of each fund and department so that you better understand how each budgeted line item will be utilized. Additional information and financial documentation are available upon request.

This budget aligns with the City's mission of providing quality services while remaining fiscally responsible. Each fund and department provides unique goals and specific examples of the programs and services that will be provided with the funds appropriated.

BACKGROUND

The FY 2016 budget year could best be described as a period of uncertainty. Ongoing delays to pass a State of Illinois budget affected SIU and a number of state funded agencies in Carbondale and the southern Illinois region. To defend against potential State funding reductions, the City approached the FY 2016 budget preparation more conservatively than in previous years and reduced revenue projections. Throughout the year, open positions were left unfilled and consolidated when possible and non-essential expenditures were deferred. Around mid-year, the State released most of the revenues that were owed and the City is currently up to date with all State revenues. Through a combination of spending reductions and an increase in the amount of State revenues received, the City will complete the FY 2016 budget year under budget. The disciplined approach that began in FY 2016 will be extended through the FY 2017 budget year and as a result, the City is expected to realize an increase in General Fund balance at year end.

Preceding the FY 2017 budget preparation process, the City Council attended a retreat on January 6th and 7th, 2016. The purpose of the retreat was to develop a vision for the current City Council and to establish key policy goals to work towards over the next three to four years. The adopted goals include the desire

to become a more welcoming community, to enhance the City's curb appeal, to increase marketing efforts, to strengthen connections with SIU, to revitalize residential neighborhoods and to be fiscally responsible, among others. Following the City Council's leadership, Staff has integrated many of Council's goals into programs and services listed in the FY 2017 budget.

BUDGET SUMMARY

The FY 2017 budget represents the third consecutive year of positive fund balance growth in the General Fund as the fund balance is expected to increase by \$251,054. All union contracts were finalized this year and have been negotiated through FY 2018. A salary increase of 2.25% for all non-bargaining unit employees is included in the FY 2017 budget.

In FY 2017, the City's insurance broker notified the City that an increase of 27.4% was projected by the insurance carrier, Blue Cross/Blue Shield. In an effort to control costs, City staff initiated a request for proposals in January, 2016 to explore health insurance options. Following a formal interview process, City staff agreed to continue utilizing Blue Cross/Blue Shield but elected to make a change in our broker of record. Staff has worked with the new broker to reduce costs and expects to realize an increase in healthcare premiums of approximately 18%. The FY 2017 budget includes a 7.5% increase in employee healthcare costs while the remainder of the increase will be paid through the Health Insurance Reimbursement Fund.

The State of Illinois will be in its 10th month without a budget when the FY 2017 budget is adopted. The most important part of the State budget that affects Carbondale and the southern Illinois region is higher education. In the 2016 "State of the State" address, Governor Bruce Rauner proposed a 20% decrease in higher education funding from the FY 2015 levels. A decrease of this proportion would result in a loss of over \$22.8 million in revenue to the Carbondale campus alone. This is in addition to SIU's self-imposed budget cuts of nearly 10% during the FY 2016 budget year in preparation for expected State reductions. In response to the Governor's proposal, SIU administration has outlined potential layoffs that include over 180 employees and the cancellation of over 400 classes, should SIU receive such drastic cuts. The uncertainty that the budget impasse is creating has affected student recruitment and SIU is projecting a potential 3% decline in enrollment for the fall 2017 semester which amounts to 519 students. Considering that SIU is the City's biggest economic driver, losses to enrollment will certainly affect future sales tax revenue. Accordingly, the FY 2017 budget includes a \$100,000 decrease in sales tax revenues from FY 2016.

During the 2016 truth-in-taxation hearing, the City Council approved a real estate tax levy in the amount of \$1,035,289 which will provide partial funding for public safety pension costs. This year's levy was equal to the 2015 real estate tax levy and resulted in no additional revenue being required from property owners in Carbondale.

Capital projects planned for the coming year include the continuation of the sidewalk improvement program, the construction of a new bikeway/pedestrian path downtown, exterior improvements to the Civic Center and the design and construction of a new roundabout at the intersection of Grand Avenue and Lewis Lane. These and other capital projects are described in the FY 2017 to FY 2021 Community Investment Program.

The FY 2017 Expenditure Budget for all funds totals \$56,050,665 compared to the FY 2016 Budget of \$53,862,867. The \$2,187,798 increase in budgeted expenditures is primarily due to increases in the community investment program in the Water and Sewer Funds.

The total revenues and other financing sources for the FY 2017 Budget are \$48,074,807 compared to the FY 2016 budgeted revenues of \$47,403,004. The increase in revenues and other financing sources is primarily related to a variance in budget projections for FY 2016 that included a 15% decrease in LGDF funds. While Governor Rauner had originally proposed a 50% reduction in LGDF funds in FY 2016, and without certainty of what the final reduction would be, the City forecast a 15% reduction to allow some flexibility in last year's budget. The FY 2017 budget does not anticipate these reductions. This increase is shown in the revenues in the General Fund.

GENERAL FUND

The FY 2017 General Fund budget has expenditures totaling \$26,379,022 compared to the FY 2016 budget total of \$26,135,059, an increase of \$243,963. The increase in total expenditures is due solely to a \$343,299 increase in pension costs for Police and Fire employees. Excluding the pension cost increases, the FY 2017 expenditures were reduced by a total of \$99,336 compared to the FY 2016 budget. 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 \$485,548.

A total of \$1,609,690 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.
- The City will complete a management review of City-wide operations that will make recommendations on appropriate staffing levels and efficiency of City processes.
- The City will provide a budget for special events, particularly the 2017 eclipse that expects to result in over 50,000 visitors to Carbondale.
- The City will create a Public Relations/Marketing position to provide consistent communication among City departments and the public. The position will also provide media relations and social media marketing.
- The City will revamp the current website and include websites for Police and Fire that will be more user-friendly and more easily navigable. The City will also be creating videos that highlight City programs and services while also helping to better market Carbondale.
- The Public Works department will hire two SIU interns in the Engineering and Administration division to oversee the Cedar Lake Sediment and Nutrient Load Reduction Project and to assist with GIS mapping.

- 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. New programs to incentivize prospective homeowners to buy Carbondale homes or existing homeowners to enhance the exteriors of their homes will be initiated.
- Increases in health insurance and worker's compensation premiums costs are spread throughout the General Fund.

OTHER GOVERNMENTAL FUNDS

The Debt Services Fund includes expenditures of \$2,396,601 with revenues and other financing sources totaling \$2,374,753. 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 2017 is \$2,491,196.

The Local Improvement Fund includes expenditures and other financing uses of \$2,099,250 with revenues and other financing sources totaling \$1,815,283. Projects budgeted for FY 2017 include 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.
- Bridge maintenance and rehabilitation at the Pleasant Hill Road overpass.
- Funds have been set aside for development of open spaces in the City, with priority being given to the construction of a Phase 1 bicycle-pedestrian path from Town Square to Mill Street 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.
- City Hall/Civic Center Exterior improvements.
- 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 as the lake provides the City's drinking water supply. A past issue with this fund is that system depreciation had 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. Due to the additional funds made available by the revised rate structure, capital reinvestment has exceeded depreciation in FY 2015 and FY 2016, and is budgeted to exceed it once again in FY 2017.

In FY 2017, Water and Sewer expenditures of \$16,137,313, net of depreciation and non-cash credits, will be offset by revenues totaling \$11,746,900. During FY 2017, the City will expend approximately \$8,300,000 for infrastructure improvements including renovations of the Cedar Lake pump stations, sediment and nutrient load reduction projects at Cedar Lake and upgrades at the Northwest Wastewater Treatment Plant (NWWWTP) for nutrient removal. Other major highlights in the fund include the following:

- Oakland Avenue water main replacement
- Feeder water main replacements throughout the City
- Replacement of the bar screen on the grit chamber at the NWWWTP
- River vault renovations at NWWWTP
- Water Treatment Plant lagoon renovations and clearwell painting
- Water plant filter rehabilitation
- 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 \$957,200 with revenues and other financing sources totaling \$928,514. FY 2017 budgeted expenditures are expected to exceed revenues primarily due to increases in debt service on capital equipment and the purchase of recycling trailers to provide more aesthetically pleasing equipment in residential neighborhoods. 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 \$398,332 with revenues totaling \$276,376. In FY 2017, the City will design the expansion of the new parking lot located in the 700 block of South Illinois Avenue adjacent to the Canadian National Railroad and improvements to the Interfaith

Center parking lot at an approximate cost of \$147,460. The City will also design the improvements of parking lot #19 on Washington Street adjacent to Veteran's Plaza.

The Rental Properties Fund includes expenditures, less depreciation, of \$528,902 with revenues of \$75,052. In the last few years, leases with long-term tenants at University City have expired, or not been renewed, which has resulted in decreased revenues. This fund has an accumulated FY2016 ending Fund Balance of \$634,390 which is set aside to cover repairs to various properties that the City rents to outside agencies and governmental entities. It is projected the FY2017 ending Fund Balance will be \$180,540. The decline in fund balance is due to the planned construction of a new storage building. Based on projections of future revenues and expenses, this fund is projected to be depleted by the end of FY2018. 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 of dollars 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 2017 to \$8,889,955 of which \$5,504,610 is not designated for specific purposes.

Fund balance in the Local Improvement Fund is expected to decrease \$283,967 at the end of FY 2017, primarily as a result of an increase in funding to CIP projects.

Motor Fuel Tax Fund balance is being reduced \$256,458 resulting from transfers to the Debt Service Fund for debt service on the street overlay program and anticipated additional street repairs.

Waterworks and Sewerage Fund balances are within ranges established by City policy with an estimated FY 2017 ending balance of \$5,388,815. The 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 FY2017 ending balance of \$429,497 primarily due to debt service costs and the purchase of additional recycling trailers.

The Parking Fund will show a Fiscal Year 2017 ending fund balance of \$32,014. The decline in fund balance is due to the construction of improvements to the parking lot near the Interfaith Center in FY 2017.

THE FUTURE

It is of vital importance that the City continues to live within its means. Continued uncertainty from the State of Illinois and the inability of State government leaders to compromise on budget matters imposes great risks to public institutions which comprise a majority of the economy in southern Illinois. Specifically, with the ongoing risk of budget cuts from the State, SIU will have an increasingly more difficult time maintaining or growing enrollment which has a direct economic impact on Carbondale's financial security.

Ongoing cost increases to healthcare and public safety pensions present other important challenges to the City. The City's actuaries forecast future pension costs escalating at a rate much higher than City revenues are expected to grow. Healthcare costs are following similar trends and collectively these costs will become unsustainable at some point in the near future. This will require a continued review of City services and may require changes in the delivery and offerings of some services that the public currently expects.

A number of cost containment measures have been implemented including:

- Vacant positions being held open and the consolidation of positions when possible
- Reducing non-mandatory travel
- Energy audits for major buildings and building modifications being used to reduce energy costs
- Delaying maintenance and repairs to buildings

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

- Continue to evaluate staffing levels and reduce or consolidate positions when appropriate
- Continue to reduce costs for non-essential services
- Explore opportunities to contract non-essential services
- Continue to evaluate healthcare options and make adjustments that require greater employee participation
- Aggressively pursue grant opportunities to provide revenue to supplement programs
- Continue to evaluate options to increase revenue to the City

The City will complete an organizational management review in FY 2017 that could provide valuable feedback in how the City delivers services. The City should continue to be open to new ideas and management strategies that may provide efficiencies that also reduce costs.

The City is in the process of completing a new Downtown Plan and has several major projects in the planning process including a new downtown hotel and a new multimodal transportation facility downtown. In addition, the City Council has indicated that they would like to see a renewed focus on marketing the City and enhancing the City's curb appeal so the community can become more attractive to residents and visitors. As the southern Illinois region's retail center, the projects and priorities mentioned present opportunities for the City to draw more people to town, expand its tax base and enhance its entertainment offerings. Collectively these successes could help counteract the threats created by the State of Illinois and help Carbondale become a more diversified economy.

Finally, the City of Carbondale staff is highly trained, well-educated and dedicated. With continued City Council guidance and an ongoing emphasis on aligning Council visions and goals with City staff's action plans, there is tremendous opportunity to overcome many of the challenges presented.

ACKNOWLEDGEMENTS

The preparation of the FY 2017 Budget is truly a team effort that requires the participation of many employees throughout all departments and divisions of the City. Their dedication and hard work highlight the quality of the City's workforce. In response to many of the fiscal challenges that have been mentioned, City staff approached this year's budget with a keen eye for cost savings and proactively initiated cost savings measures and staffing reductions and consolidations. Staff's diligence combined with direction set forth by the City Council, the FY 2017 budget addresses many of Council's goals while also remaining fiscally responsible.

Special thanks and recognition go to the Finance Department staff for their efforts in the budget preparation process, in particular, Finance Director Jeff Davis. 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 every department head and 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 considerable policy direction during the January Council retreat and during City Council meetings to discuss the FY 2017 budget. Their cooperation and leadership is greatly appreciated.

Respectfully submitted,

Gary Williams
Interim City Manager