

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 percent Sales Tax and the 2.0 percent Home Rule Sales Tax. Effective July 1, 1999, the Home Rule Sales Tax was increased $\frac{1}{4}$ percent, 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 $\frac{1}{2}$ percent Home Rule Sales Tax which became effective January 1, 2008 that resulted in a rate of 1.5%. Of this increase, $\frac{1}{4}$ percent 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 $\frac{1}{2}$ percent 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 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 will become effective July 1, 2014. This has a 3 year sunset provision. The State of Illinois collects these taxes and remits to the City four 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 2015 Budgeted difference is unfavorable in the amount of \$268,823. The unfavorable variance is based upon the estimated financial transactions for both the remainder of FY 2014 and all of FY 2015.

The Summary Statements at the beginning of the General Fund budget section of this document shows the comparison of the FY 2014 amended Authorized Budget to the Estimated Actual FY 2014 revenues, expenditures and changes in the fund balance. One can see that the amended FY 2014 revenue budget of \$24,480,118 is estimated to be \$24,423,789; a decrease of \$56,330. 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 2014 Expenditure Budget in the amount of \$24,136,603 shows the Estimated Actual figure of \$24,163,226, a increase of \$26,623. 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 2014. The decrease in estimated revenue of \$56,330 and the increase in estimated expenditures of \$26,623 reflect a net decrease to the fund balance of \$82,953. The decrease in fund balance for Estimated Actual 2014 compared to Authorized Budgeted 2014 is an under budgeted Home Rule Sales Tax and an increase in expenses in numerous categories.

General Fund	Actual FY 2013	Authorized Budget FY 2014	Estimated Actual FY 2014	Budget FY 2015
Total Fund Balance, Beginning May 1	8,446,658	7,972,493	7,972,493	7,235,924
Excess of Revenues & Financing Sources Over (Under) Expenditures & Financing Uses	(474,165)	(682,431)	(736,569)	28,097
Total Fund Balance, Ending April 30	7,972,493	7,290,062	7,235,924	7,264,021
(Less) Non-Spendable	791,782	776,849	709,066	735,915
(Less) Restricted	313,808	321,641	392,748	445,608
(Less) Committed	1,713,369	1,762,098	1,762,910	1,754,782
(Less) Assigned	650	1,000	650	650
(Less) Un-Assigned	5,152,884	4,428,474	4,370,550	4,327,066
Minimum Un-designated Fund Balance	4,388,695	4,478,486	4,349,352	4,595,889
Difference - Favorable (Unfavorable)	764,189	(50,012)	21,198	(268,823)

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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 2014, there were no CIP and replacement expenditures. Estimated Actual Operating and maintenance expenditures were \$227,286. For FY 2015, there are no CIP expenditures projected and operating and maintenance expenditures are projected to be \$548,751.

Motor Fuel Tax Fund	Actual FY 2013	Authorized Budget FY 2014	Estimated Actual FY 2014	Budget FY 2015
Total Fund Balance, Beginning May 1	1,154,315	1,220,546	1,220,546	1,350,338
Excess of Revenues & Financing Sources Over (Under) Expenditures & Financing Uses	66,231	(271,852)	129,792	(203,371)
Total Fund Balance, Ending April 30	1,220,546	948,694	1,350,338	1,146,967
(Less) Designated & Reserved	-0-	-0-	-0-	-0-
Un-designated Fund Balance	1,220,546	948,694	1,350,338	1,146,967
Minimum Un-designated Fund Balance	169,760	224,595	169,322	247,188
Difference - Favorable (Unfavorable)	1,050,786	724,099	1,181,006	899,779

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.

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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 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 2013	Authorized Budget FY 2014	Estimated Actual FY 2014	Budget FY 2015
Total Working Fund Balance, Beginning May 1	7,034,744	7,225,930	7,225,930	10,568,143
Excess of Revenues & Financing Sources Over (Under) Expenditures & Financing Uses	191,186	(486,134)	3,342,213	(2,074,885)
Total Working Fund Balance, Ending April 30	7,225,930	6,739,796	10,568,143	8,493,258
(Less) Designated & Reserved	-0-	-0-	-0-	-0-
Un-designated Working Fund Balance	7,225,930	6,739,796	10,568,143	8,493,258
Minimum Un-designated Working Fund Balance	927,918	1,841,097	880,679	707,772
Difference - Favorable (Unfavorable)	6,298,012	4,898,699	9,687,464	7,785,486

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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. The difference in Estimated Actual vs Budgeted Fund Balance represents a 32% increase in revenue from parking fines.

Parking System Operations Fund	Actual FY 2013	Authorized Budget FY 2014	Estimated Actual FY 2014	Budget FY 2015
Total Working Fund Balance, Beginning May 1	159,321	188,188	188,188	260,755
Excess of Revenues & Financing Sources Over (Under) Expenditures & Financing Uses	28,867	(14,206)	72,567	(126,053)
Total Working Fund Balance, Ending April 30	188,188	173,982	260,755	134,702
(Less) Designated & Reserved	-0-	-0-	-0-	-0-
Un-designated Working Fund Balance	188,188	173,982	260,755	134,702
Minimum Un-designated Working Fund Balance	43,649	55,075	47,815	79,888
Difference - Favorable (Unfavorable)	144,539	118,907	212,940	54,814

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 2013	Authorized Budget FY 2014	Estimated Actual FY 2014	Budget FY 2015
Total Working Fund Balance, Beginning May 1	219,504	357,954	357,954	449,959
Excess of Revenues & Financing Sources Over (Under) Expenditures & Financing Uses	138,090	21,436	92,365	39,487
Total Working Fund Balance, Ending April 30	357,954	379,030	449,959	489,446
(Less) Designated & Reserved	429,208	442,865	446,226	458,823
Un-designated Working Fund Balance	(71,614)	(63,835)	4,093	30,983
Minimum Un-designated Working Fund Balance	-0-	-0-	-0-	-0-
Difference - Favorable (Unfavorable)	(71,614)	(63,835)	4,093	30,983

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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 reflects the decreased revenue because of the sales of certain properties.

Rental Properties Fund	Actual FY 2013	Authorized Budget FY 2014	Estimated Actual FY 2014	Budget FY 2015
Total Working Fund Balance, Beginning May 1	1,083,599	1,140,253	1,140,253	1,133,706
Excess of Revenues & Financing Sources Over (Under) Expenditures & Financing Uses	56,654	(75,860)	(6,547)	(199,682)
Total Working Fund Balance, Ending April 30	1,140,253	1,064,393	1,133,706	1,133,706
(Less) Designated & Reserved	-0-	-0-	-0-	-0-
Un-designated Working Fund Balance	1,140,253	1,064,393	1,133,706	934,024
Minimum Un-designated Working Fund Balance	108,820	94,805	83,094	87,898
Difference - Favorable (Unfavorable)	1,031,433	969,588	1,050,622	846,035

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 2014 calculates to \$2,687,091 (Sales

and Service Tax revenues \$17,913,942 x 15% percent = \$2,687,091). Transfers from the General Fund to the Debt Service Fund for General Obligation Bond debt totals \$1,334,447 for FY 2014.

In addition, debt service expenditures projected by the General Fund for FY 2014 related to bank loans is \$204,577. The total debt service requirements for FY 2014 projected for the General Fund is \$1,539,024. This results in a favorable difference of \$1,148,067 as related to the policy limit of \$2,687,091. 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 365 through Page 368 of this document.

Debt Service - General Fund	Actual FY 2013	Authorized Budget FY 2014	Estimated Actual FY 2014	Budget FY 2015
Debt Service - GOB's	1,334,447	1,334,447	1,334,447	1,491,289
Debt Service - Bank Loans	181,097	204,577	203,342	229,627
Total Debt Service	1,515,544	1,539,024	1,537,789	1,720,916
Debt Service - Policy Limit	2,633,217	2,687,091	2,609,611	2,757,534
Difference - Favorable (Unfavorable)	1,117,673	1,148,067	1,071,822	1,036,618

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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 364.

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 371.