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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 2015 City of Carbondale Budget for the period from May 1, 2014 through April 30, 2015. 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

FY 2014 began with a decrease in sales tax receipts of 10% for the first quarter compared to the previous years. However, the City rebounded in the third quarter to a point of only being 3% under the previous year. In the fall of 2011, the City refunded the 2004 G. O. Refunding Bonds and issued an additional \$2.8 million in debt for the construction of a new fire station, while keeping the current principal and interest amounts flat. In the winter of 2012, an additional \$600,000 was designated from the General Fund – Fund Balance to cover the balance of the cost of the construction of the new fire station. A spring 2014 completion is scheduled. In the spring of 2013, the City issued bonds to refund the 2003 G. O. Refunding Bonds and the remaining balance of the Illinois Environmental Protection Agency loan which funded the upgrade of the southeast wastewater treatment plant. Estimated Actual expenditures for FY 2014 are currently estimated to exceed the FY 2014 adjusted budget by \$26,623. Due to the estimated shortfall in revenues and overage in expenditures, the General Fund – Fund Balance is estimated to decrease by approximately \$736,569.

BUDGET SUMMARY

The FY 2015 budget represents a reversal of the losses in FY 2013 and FY 2014. Non-Bargaining employee raises of 2% across the board are provided, and health insurance benefits are unchanged. In FY2013, the City implemented changes in deductibles for employee health insurance while holding flat the premiums being shared by the City and the employees and retirees. As a result of these changes, the Employee Health Reimbursement Account continues to maintain an adequate fund balance. For FY2015, the health insurance carrier will increase the premiums charged to the City by 12% and the City is projecting it will be liable for paying \$122,221 in taxes to the federal government as part of the new national healthcare law. However, as a result of maintaining an adequate fund balance, the premiums shared by the City and the employees and retirees will again remain unchanged. This marks the 3rd consecutive year, that premiums charged to the employee and retirees have not increased.

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, this savings continued and FY2015 premiums are projected to remain 27% less than the year prior to the change.

For the first year in over a decade, home rule sales tax revenues are projected to increase by less than 1% and are being conservatively projected at 0.25% during the coming fiscal year. Revenue of \$941,148 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 2014 for April consumption. These annual increases will continue through May 2015 and will allow 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 2015 to FY 2019 Community Investment Program.

The FY 2015 Expenditure Budget for all funds totals \$50,450,791 compared to the adjusted FY 2014 Budget of \$61,934,626. The \$11,483,835 decrease in budgeted expenditures is primarily due to the refund of the 2013 General Obligation Bonds and the IEPA loan in FY 2014 as well as the completion of the new Fire Station #2 capital project.

The total revenues and other financing sources for the FY 2015 Budget are \$45,387,744 compared to the FY 2014 budgeted revenues of \$54,656,270. The decrease in revenues and other financing sources is related to bond funds received for the refund of the 2013 General Obligation Bonds and IEPA loan as well as the additional funds received to complete the Schwartz Street community investment program.

GENERAL FUND

The FY 2015 General Fund Budget has expenditures totaling \$23,916,295 compared to the FY 2014 Budget total of \$24,136,603, a decrease of \$246,931. 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 \$1,045,562.

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.

In FY 2014, a new Building Maintenance Division (40330) was created within the Public Works Department. This division provides for the maintenance and repair of all City buildings and facilities. This new division has allowed for centralized oversight of expenses and allows expenses to be aggregated for additional cost savings. Such expenses include utilities, repairs, fire suppression and extinguisher system inspection, security and fire alarm monitoring contracts and elevator contracts. Prior to the creation of this new division the department/division housed within each building was responsible for the budgeting of maintenance and repair. As a result of the creation of this division, the city has experienced a savings in operational costs.

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 will be 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 informational videos will further 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 \$2,268,207 with revenues and other financing sources totaling \$2,236,490. 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 2015 is \$2,550,863.

The Local Improvement Fund includes expenditures and other financing uses of \$1,462,910 with revenues and other financing sources totaling \$1,086,512. Projects budgeted for FY 2015 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, the City received of a \$329,950 Illinois Transportation Enhancement Grant and a \$66,466 SIU Sustainability Council grant to assist in the construction of this project. Construction on this project is expected to begin in the fall of 2014.
- Superblock sidewalk improvements.
- Schwartz Street reconstruction from Oakland to Eason.
- Design and Engineering 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 \$13,315,374, net of depreciation and non-cash credits, will be offset by revenues and other financing sources totaling \$11,239,015. During FY 2015, energy savings continue to be realized at the SEWWTP and at the NWWWTP, the City will expend approximately 6,000,000 to infrastructure improvement including emergency backup generator for a raw water pump station at Cedar lake, emergency backup generator for Sanitary Lift Stations, repairs to the NWWWTP final clarifier, the

SEWWTP concrete lagoon, Cedar Lake spillway repairs, Water Treatment Plant lagoon renovations, Crab Orchard water line improvements as a result of equipment and process changes made in the past years and a power purchase contract signed in FY 2012 with Homefield Energy. Other major highlights in the fund include the following:

- Replacement of the storage garage at the NWWWTP which was damaged by fire in FY 2012.
- Completion of the Water Storage Facility on Park Street.
- Electrical renovations and installation of a backup generation system to the raw water pump station at the Cedar Lake.
- Installation of backup generation systems at key sanitary sewer lifts stations.
- 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 \$878,159 with revenues and other financing sources totaling \$917,646. FY 2015's budgeted revenues are expected to exceed expenditures. 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 are anticipated to offset previous operating losses and establish funds for the future 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 \$409,078 with revenues totaling \$283,025. 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 adjacent to the Canadian National Railroad at an approximate cost of \$186,200 and the installation of a "Smart Allocation Kiosk" in Lots 12 & 13 (Amtrak lots) that will allow central payment and flexibility in payment options.

The Rental Properties Fund includes expenditures, less depreciation, of \$351,591 with revenues of \$151,909. In the recent year, leases with long term tenants at University City have expired or not been renewed, which will result in decreased revenues. The Illinois State Police will close the Crime Lab in June 2014; due to consolidation of services in the East St. Louis area. The loss of this tenant will result in a decrease of \$150,000 in annual rent revenue. This fund has an accumulated fund balance set aside to cover repairs to various properties which the City rents to outside agencies and governmental entities. Based upon projections of future revenues and expenses, this fund is projected to be depleted within the next four to five years unless additional tenants can be secured. 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 receive a very favorable Standard and Poor's bond rating of "AA-" on the 2013 Bonds for the refinancing of the 2003 General Obligation Issue, the refinance of the IEPA loan in the Water & Sewer fund as well as providing funds for the reconstruction of Schwartz Street. The rating saved the city thousands in interest costs over the life 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 balance to pay for increased costs.

Fund balance in the General Fund is estimated to show a slight increase at the end of FY 2015 to \$7,264,021 of which \$4,327,066 is not designated for specific purposes. The minor increase in undesignated fund balance from FY 2014 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 reduced to \$3,133 at the end of FY 2015, primarily as a result of the reconstruction of Schwartz Street.

Motor Fuel Tax Fund balance is being reduced \$203,371 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 2015 ending balance of \$8,491,784. This projected decrease in fund balance will come from funds previously set aside for future capital needs.

The Solid Waste Management Fund will show an increased fund balance, \$460,453 due to the new rate increase schedule. The Parking Fund will show a Fiscal Year 2015 ending fund balance of \$136,814.

THE FUTURE

It is more important than ever that the City live within its means. The continued deterioration of the State of Illinois' financial condition makes it very likely that assistance from the State for municipalities and social service providers will be reduced. Reduced State payments to secondary and higher education continue to affect and inhibit the recovery of the local economy. Although the rate of decline in enrollments at Southern Illinois University Carbondale has lessened, any decline results in less money in the local economy and therefore less sales tax income to the City. Rising fuel costs are and will continue to affect all City operations. This may necessitate a 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 will continue to be explored, including but not limited to the following:

- Vacant positions may be held open when possible.
- Energy audits for major buildings will be used to suggest ways to reduce energy costs.
- Installation of more energy efficient controls in FY 2012 will continue to pay dividends in FY 2015.
- Longer term contracts for purchasing electric energy and natural gas have been negotiated and will provide savings in FY 2015.
- Efforts continue 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. Over the past 10 years Firefighters and Police Pensions have seen large increases in contribution levels but significantly larger growth in liability and underfunding.

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

Renewed emphasis needs to be placed on economic development, neighborhood restoration and local business district enhancement, especially in view of the national economic downturn and increased local competition from neighboring communities. Without a strong local economy, tax revenues will not be sufficient to provide for the level of services expected by the community.

As a result of the water and sewer rate study conducted in FY2012, a 5 year rate plan has been developed which will provide sufficient funds to cover maintenance, as well as major repairs and improvements.

ACKNOWLEDGEMENTS

The preparation of the FY 2015 Budget is truly a team effort that required 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 and has resulted in a 2.33% decrease in FY 2015 and a 5% decrease in the last 2 years.

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 over whether to and how to increase revenues to offset increased expenditures in a time when overall revenues are decreasing. Their cooperation and leadership is greatly appreciated.

Respectfully submitted,

Kevin Baity
City Manager