Financial and Budgetary Policies

Current and long-range financial stability 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 mandates by 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
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 four months of the current fiscal year's projected sales and service tax revenues. The General Fund's major source of revenue comes from the 1 percent Sales Tax and the 1.5 percent Home Rule Sales Tax. Effective July 1, 1999, the Home Rule Sales Tax was increased ¼ percent 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 percent Home Rule Sales Tax which became effective January 1, 2008. Of this increase, ¼ 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 ½ percent Home Rule Sales Tax increase will be retained by the City of Carbondale to be used in funding General Fund operations. 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.

The following table illustrates the difference between the un-designated and minimum un-designated fund balance. The FY 2010 Budgeted difference is unfavorable in the amount of ($343,157). The unfavorable variance is based upon the estimated financial transactions for both the remainder of FY 2009 and all of FY 2010. In theory, if the balance was positive, this balance at the end of FY 2010 could be transferred to the Community Investment Fund during FY 2011 for funding Community Investments. The amount of the un-designated fund balance to be used for community investments or other one-time major expenditures is based on the previous year's audited actual balance at the end of the fiscal year. Therefore, the actual favorable variance amount at fiscal year ending April 30, 2009, minus funds used during FY 2010, can be used for the FY 2011 one time expenditures or for transfers to the Community Investment Fund.

The Summary Statements at the beginning of the General Fund budget section of this document shows the comparison of the FY 2009 amended Authorized Budget to the Estimated Actual FY 2009 revenues, expenditures and changes in the fund balance. One can see that the amended FY 2009 revenue budget of $22,173,520 is estimated to be $21,660,930, a decrease of $512,590. 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 2009 Expenditure Budget in the amount of $20,737,131 shows the estimated actual figure of $19,973,108, a decrease of $764,023. The Statement of Expenditures and Other Financing uses provides the detail at the department and division levels of the variances between the original authorized budget and the estimated actual for FY 2009. The decrease in estimated revenue of $512,590 and the decrease in estimated expenditures of $764,023 reflect a net increase to the fund balance of $251,433. The increase in fund balance for estimated actual 2009 compared to authorized budgeted 2009 of $251,433 is primarily due to a reduction of expenditures. With the impact of the economic downturn on City revenues, a plan was implemented during the Fiscal Year to make reductions in capital spending and delay hiring positions that were in the budget.

General Fund	**Actual FY 2008**	**Authorized Budget FY 2009**	**Estimated Actual FY 2009**	**Budget FY 2010**
Total Fund Balance, Beginning May 1	7,042,843	7,126,301	7,126,301	7,384,128
Excess of Revenues & Financing Sources Over (Under) Expenditures & Financing Uses	83,458	(49,138)	257,827	2,481
Total Fund Balance, Ending April 30	7,126,301	7,077,163	7,384,128	7,386,609
(Less) Designated & Reserved	1,312,566	1,227,077	1,312,566	2,777,808
Un-designated Fund Balance	5,813,735	5,850,086	6,071,562	4,608,801
Minimum Un-designated Fund Balance	4,720,605	5,315,781	5,104,726	4,949,477
Difference - Favorable (Unfavorable)	1,093,130	534,305	966,836	(343,157)

The **Motor Fuel Tax Fund** minimum fund balance policy is the equivalent of three months of the current fiscal year's budgeted operating and maintenance expenditures. Excess funds above the minimum amount are allocated for street and traffic signal community investment projects. During FY 2009, there were no CIP and replacement expenditures. Operating and maintenance expenditures were approximately $311,411. For FY 2010, there are no CIP expenditures projected and operating and maintenance expenditures are projected to be $483,554.

Motor Fuel Tax Fund	Actual FY 2008	Authorized Budget FY 2009	Estimated Actual FY 2009	Budget FY 2010
Total Fund Balance, Beginning May 1	3,569,123	1,427,577	1,427,577	1,360,523
Excess of Revenues & Financing Sources Over (Under) Expenditures & Financing Uses	(2,141,546)	(174,616)	(67,054)	(238,203)
Total Fund Balance, Ending April 30	1,427,577	1,252,961	1,360,523	1,122,320
(Less) Designated & Reserved	-0-	-0-	-0-	-0-
Un-designated Fund Balance	1,427,577	1,252,961	1,360,523	1,122,320
Minimum Un-designated Fund Balance	72,203	120,980	77,853	120,888
Difference - Favorable (Unfavorable)	1,355,374	1,131,981	1,282,670	1,001,432

The minimum fund balance policy for the **Child Care Services Fund** is based on three months of the current year's total fund expenditures. The State of Illinois has reorganized its human service agencies and has caused the revenues to be reallocated to the new Illinois Department of Human Services. The result of these changes has had a negative impact on the funds received by the City for this purpose. A more detailed explanation is included in the Child Care Services Fund Section of this document. The minimum fund balance at the end of FY 2010 is projected to have an unfavorable variance of $95,675. During FY 2005, the Child Care operation was restructured and a new Child Care director was appointed. The new operation was expected to break even, with a subsidy from the General Fund by fund transfers to cover only the annual rent.

Child Care Services Fund	Actual FY 2008	Authorized Budget FY 2009	Estimated Actual FY 2009	Budget FY 2010
Total Fund Balance, Beginning May 1	15,265	42,206	42,206	42,206
Excess of Revenues & Financing Sources Over (Under) Expenditures & Financing Uses	26,941	-0-	-0-	922
Total Fund Balance, Ending April 30	42,206	42,206	42,206	43,128
(Less) Designated & Reserved	-0-	-0-	-0-	-0-
Un-designated Fund Balance	42,206	42,206	42,206	43,128
Minimum Un-designated Fund Balance	110,115	157,440	114,833	138,803
Difference - Favorable (Unfavorable)	(67,909)	(115,234)	(72,627)	(95,675)

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 portions 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 receives its funds from cash transfers from the Operating Account, grants, property owner contributions and bond issue proceeds.

The FY 2010 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 2008	Authorized Budget FY 2009	Estimated Actual FY 2009	Budget FY 2010
Total Working Fund Balance, Beginning May 1	3,571,728	3,090,233	3,090,233	2,784,075
Excess of Revenues & Financing Sources Over (Under) Expenditures & Financing Uses	(481,495)	(1,298,360)	(306,158)	(613,000)
Total Working Fund Balance, Ending April 30	3,090,233	1,791,873	2,784,075	2,171,075
(Less) Designated & Reserved	(2,329,370)	(1,095,478)	(2,226,338)	(1,507,737)
Un-designated Working Fund Balance	760,863	696,395	557,737	663,338
Minimum Un-designated Working Fund Balance	550,467	614,490	557,737	663,338
Difference - Favorable (Unfavorable)	210,396	81,905	-0-	-0-

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. During FY 2009, the Parking System Operations Fund estimated expenditures of approximately $8,000 for in house engineering costs related to a proposed parking lot. FY 2010 budget reflects a $150,000 expenditure for the construction of the new parking lot (PK0701). The ending Fund Balance for the Parking System Operations Fund for FY 2010 is projected to be $152,596.

Parking System Operations Fund	Actual FY 2008	Authorized Budget FY 2009	Estimated Actual FY 2009	Budget FY 2010
Total Working Fund Balance, Beginning May 1	164,465	177,824	177,824	246,093
Excess of Revenues & Financing Sources Over (Under) Expenditures & Financing Uses	13,359	(138,114)	68,269	(93,497)
Total Working Fund Balance, Ending April 30	177,824	39,710	246,093	152,596
(Less) Designated & Reserved	-0-	-0-	-0-	-0-
Un-designated Working Fund Balance	177,824	39,710	246,093	152,596
Minimum Un-designated Working Fund Balance	48,788	72,970	43,374	75,422
Difference - Favorable (Unfavorable)	129,036	(33,260)	202,719	77,174

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 2008	Authorized Budget FY 2009	Estimated Actual FY 2009	Budget FY 2010
Total Working Fund Balance, Beginning May 1	323,785	259,664	259,664	290,444
Excess of Revenues & Financing Sources Over (Under) Expenditures & Financing Uses	(64,121)	(33,391)	30,780	(107,670)
Total Working Fund Balance, Ending April 30	259,664	226,273	290,444	182,774
(Less) Designated & Reserved	(261,032)	(321,774)	(322,161)	(325,565)
Un-designated Working Fund Balance	(1,368)	(95,501)	(31,717)	(142,791)
Minimum Un-designated Working Fund Balance	-0-	-0-	-0-	-0-
Difference - Favorable (Unfavorable)	-0-	-0-	-0-	-0-

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 projected favorable variance at the end of FY 2010 may be allocated to needed capital improvements in future years. In order to comply with ADA standards, considerable modifications to the buildings will need to be completed in future years for preparation of replacement tenants.

Rental Properties Fund	Actual FY 2008	Authorized Budget FY 2009	Estimated Actual FY 2009	Budget FY 2010
Total Working Fund Balance, Beginning May 1	863,853	1,040,670	1,040,670	1,185,373
Excess of Revenues & Financing Sources Over (Under) Expenditures & Financing Uses	176,817	184,827	144,703	108,877
Total Working Fund Balance, Ending April 30	1,040,670	1,225,497	1,185,373	1,294,250
(Less) Designated & Reserved	-0-	-0-	-0-	-0-
Un-designated Working Fund Balance	1,040,670	1,225,497	1,185,373	1,294,250
Minimum Un-designated Working Fund Balance	165,701	177,628	178,295	191,367
Difference - Favorable (Unfavorable)	874,969	1,047,869	1,007,078	1,102,883

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 guide-line for the General Fund. The General Fund guideline is set at 15.0 percent of the Sales and Service (Utility) Tax revenues. The limit for FY 2010 calculates to $2,227,265 (Sales and Service Tax revenues $14,848,432 x 15 percent = $2,227,265). Transfers from the General Fund to the Debt Service Fund for General Obligation Bond debt totals $919,764 for FY 2010.

In addition, debt service expenditures projected by the General Fund for FY 2010 related to bank loans consist of $179,523 for principal and $62,180 for interest. The total debt service requirements for FY 2010 projected for the General Fund is $1,161,467 ($919,764 + $179,523 + $62,180). This results in a favorable difference of $1,065,798 as related to the policy limit of $2,227,265. 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 **?** through Page **?** of this document.

Debt Service - General Fund	Actual FY 2008	Authorized Budget FY 2009	Estimated Actual FY 2009	Budget FY 2010
Debt Service - GOB’s	836,407	882,548	882,548	919,764
Debt Service - Bank Loans	198,552	238,924	238,924	241,703
Total Debt Service	1,034,959	1,121,472	1,121,472	1,161,467
Debt Service - Policy Limit	2,124,272	2,392,102	2,297,127	2,227,265
Difference - Favorable (Unfavorable)	1,089,313	1,270,630	1,175,655	1,065,798

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, it limits its annual property tax levy in the amount not to exceed $236,250 for the principal and interest payments on the bonds. This level has been set by precedent over the past twenty-eight years.
The excess above the debt service tax levy policy level is 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 and the $236,250 was also 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 **?.**

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 **?.**.