

April 21, 2009

Honorable Mayor Brad Cole and
Members of the City Council
City of Carbondale

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Attached is the Fiscal Year 2010 City of Carbondale Budget for the period from May 1, 2009 through April 30, 2010 as adopted by the City Council. 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 proposed 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.

BUDGET SUMMARY

In spite of continued financial stress, this budget allows the City to continue to meet its stated commitment to provide quality public safety and utility services, while working to expand and develop the local economy. At the same time, the City will move forward on a 3-part capital program funded by Home Rule sales tax revenues, to assist with the Saluki Way project at SIUC, construct new police and fire facilities for the City, and provide additional open space development for public use.

During the 2009 fiscal year, the City experienced the impact of the economic downturn that has affected the entire country. Sales tax receipts fell short of projections, and monthly receipts began to fall below the same amounts collected in the same periods last year. Revenue from sales tax other than the Home Rule Sales Tax is projected to show an actual decrease for the coming fiscal year. Increases in Home Rule sales tax revenues are the result of a half-cent increase that went into effect in early 2008, with the revenues dedicated to specific projects. Motor fuel costs nearly doubled in the first half of the year, although they did moderate later in the year. Workers' Compensation rates and health insurance costs continued to rise. Pension costs have also continued to escalate.

Flat revenues and increasing costs created problems in the General Fund and other Governmental Funds. As a result, a number of measures were taken to keep expenditures in line with revenues; all departments were mandated to make across-the-board cuts in expenses; numerous capital projects and equipment purchases were postponed; vacant positions were left unfilled; and employee travel was restricted. These same measures have been carried over into the proposed FY 2010 budget. However, increased costs in the General Fund have required that additional expenditure reductions be made, especially in light of increases in Illinois Municipal Retirement Fund (IMRF) contribution rates.

The FY 2010 Expenditure Budget for all funds totals \$ 52,922,787 compared to the FY 2009 Budget of \$42,645,843, an increase of \$ 10,276,944. The increase in budgeted expenditures is primarily the result of an increase in budgeted capital improvement expenditures in the Local Improvement Fund and in the Waterworks and Sewerage Fund, due to some large projects. Approximately \$6.7 million is budgeted within the Local Improvement Fund for a new Police Station and a new Fire Station in FY 2010. The Waterworks and Sewerage Fund includes approximately \$4 million for a new Water Storage Facility in FY 2010.

The total revenues and other financing sources for the FY 2010 Budget are \$49,444,888 compared to the FY 2009 budgeted revenues of \$38,107,610, an increase of \$11,337,278. The increase in revenues and other financing sources is related to general obligation bonds and loans for the funding of the capital projects mentioned above.

Major budget items and developments affecting all funds include the following:

- Employee salaries and wages are expected to rise an average of 3% due to multi-year labor agreements and non-bargaining unit employee agreements.
- Health insurance benefits are now fully insured by Blue Cross; employee contributions have been reorganized to reflect actual costs for optional benefit levels; this reorganization, plus increased co-pay amounts and favorable claims experience will result in little additional cost to the City.
- Energy and fuel costs are projected to increase, although at moderate levels.
- Newly adopted electric and natural gas franchise agreements will mean that free utility service will no longer be available at certain facilities, but cash payments from AmerenCIPS will be received instead.
- Pension costs are expected to rise dramatically as pension funds seek to recover assets lost in the stock market decline.
- A number of capital projects have been included in the budget in anticipation of economic stimulus funding flowing from the federal government; if funding is not received, these projects will likely not be constructed; these items are footnoted at appropriate points in this budget; additional projects can be added later by budget amendment if funding is received.

Pension funding will present a particularly difficult challenge for the City in the next several fiscal years. City contributions to the IMRF currently total over \$700,000 each year (\$465,000 for the General Fund

alone). In addition, the City puts over \$1.4 million into its own Police and Fire Pension Funds, all of which is charged to the General Fund. IMRF investments lost approximately \$6.1 billion during FY 2009, causing the fund to drop from 100% funded to approximately 69% funded on an actuarial basis. The City has been informed that the Illinois Municipal Retirement Fund (IMRF) will raise the required employer contribution rate from 9.39% of salaries to 13.48% of salaries, reflecting an actual cost increase of approximately \$208,000 in the General Fund as compared to prior rates. This affects all employees other than Police and Fire Departments. The new rate is not mandatory until January 1, 2010, but IMRF strongly urges cities to implement the new rate as soon as possible to help offset the need for further rate increases in the future. Staff concurs with this recommendation. Similar increases are expected from the Police and Fire Pension Funds, although actuarial studies are still underway and specific dollar amounts are not available at this time. These pension increases could have a drastic, negative effect on the General Fund, and additional budget adjustments may be necessary once the actual pension rates are known.

GENERAL FUND

The Proposed FY 2010 General Fund Budget, which funds the basic City services including Police, Fire, Economic Development, Development Services, General Government, Administrative Services and portions of Public Works, totals \$20,623,170 compared to the FY 2009 General Fund Budget of \$22,247,658. This is a decrease of approximately \$1.6 million.

A total of \$1,091,331 is proposed to be transferred from the General Fund to other City Funds, including \$71,567 to the Child Care Services Fund, \$919,764 to the Debt Service Fund (for bond payments), and \$100,000 to the Local Improvement Fund for Open Space Development.

A number of expenditure reductions have been made in the General Fund to keep increasing costs in line with flat revenue streams. These reductions include the following:

- Unfilled positions will continue to remain unfilled, including a neighborhood inspector, a planner, a public information officer, and a street sweeper operator; anticipated increases in Police staffing have been postponed.
- No new General Fund capital projects are being undertaken unless funded by grants.
- Funding for Washington, D.C. lobbyists has been eliminated in favor of more frequent direct contact by City representatives.
- Only 2 replacement Police patrol cars are budgeted, rather than 4.
- Home conversion grants have been reduced from 10 to 6.
- The Summer Clean-Up Program has been eliminated.
- Fire Department purchase of computer and software have been eliminated in favor of on-line service with City Hall.
- There will be no major street repair program or sidewalk replacement program; work will be limited to preventive maintenance such as spot repairs, crack sealing, leveling, drainage repairs, and chip seal surface treatments in alleys.

In spite of the above changes, additional reductions were necessary to keep the FY 2010 budget in balance. These will impact personnel and staffing for a number of departments. These cuts will require some redistribution of work among other staff. The following paragraphs describe the proposed cuts, the anticipated savings, and the likely impact of each.

1. **Elimination of 2 maintenance positions in the Street Department.** (Salary savings: \$72,870; benefit savings: \$26,725; total savings \$99,595.) This eliminates the second street sweeper position and an additional maintenance worker position. Street sweeping will be done only for special occasions. This will also limit the number of work crews that can be assembled for maintenance operations, and could limit the number of snow plow drivers available. Other previous budget cuts have already curtailed the funding for major street, sidewalk, parking, and drainage projects. The two Street Department employees with the least seniority will be affected, and have been given the opportunity to transfer to two vacant positions in Refuse and Recycling.
2. **Elimination of 1 Fire Fighter position.** (Salary savings: \$49,384; benefit savings: \$28,381; total savings \$77,765.) The Fire Department operates with 3 shifts, each of which has traditionally had 9 fire fighters assigned to it. In recent years, one shift has had 10. This extra position will be eliminated with a retirement scheduled for May 2009. With this shift no longer benefitting from the extra person, there may be more days when off-duty personnel must be recalled on overtime to maintain minimum staffing levels.
3. **Elimination of Part-Time Law Clerk.** (Salary savings: \$13,646; benefit savings: \$1,044; total savings \$14,690.) This person has assisted the Legal Department with legal research and other work related to pending legal actions. Loss of this position will cause this workload to shift to other staff.
4. **Elimination of the Building and Neighborhood Services (BNS) Manager position.** (Salary savings: \$67,358; benefit savings: \$19,897; total savings \$87,255.) This position has reported to the Director of Development Services and supervised the Neighborhood Inspectors (rental inspections and neighborhood code enforcement), the Building Inspector (new construction and remodeling), and the Rehabilitation Specialist (grant-funded housing rehabilitation). A Neighborhood Inspections Supervisor position was added in recent years for direct control of that 6-member team. Without a BNS Manager, the BNS staff would report to the Director of Development Services. The rental inspection program will be largely unaffected, except that the Building Inspector will be called upon more often to rule on structural-related code concerns. Some duties will need to be redistributed, such as enforcement action on vacant and derelict buildings. There will be more times when a code official is not in the office to handle walk-in service requests, so clerical staff will be relied upon to assist in these cases.
5. **Implementation of an Unpaid 4-Day Furlough for Non-Essential Employees, Possibly December 28-31, 2009.** (General Fund savings, salaries and benefits: approximately \$70,000.) The week between Christmas and New Year's Day is a very light week for City business, except for utility transfers and year-end Finance Department business. During the post-Christmas week, City Hall would be minimally staffed, keeping open the Revenue Office and certain Finance Department functions. Police, Fire, Water, Sewer, and Refuse Departments would operate as usual to maintain public services. Some other personnel may be required to work that week as needed. More specific directions on this furlough will be issued later.

On the positive side, many City goals will continue to be accomplished. Highlights include the following:

- The Building and Neighborhood Services Division will continue implementing new computer software and stepped-up rental property inspections.

- Architectural and design work will continue on new police and fire facilities.
- Economic development projects are moving forward on East Main Street, West Main Street and downtown.
- The new City web site will continue to be developed as a mechanism for marketing the City to visitors, business prospects, and students, as well as providing services to residents.
- Work on an updated Comprehensive Plan for the City is expected to be completed in 2010, following over 12 months of work.
- The Police Department will continue to support projects related to domestic violence prevention, crime victims' assistance, targeted traffic enforcement, Citizens Police Academy, Drug Abuse Resistance Education (D.A.R.E.) and Gang Resistance Education and Training (G.R.E.A.T.) programs for youth, 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, Study Circles – Continuing the Dialogue, and the Mayor's Intervention Task Force.
- 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.
- The Building and Neighborhood Services Division will take an expanded and more aggressive approach to removal of dilapidated and dangerous structures, both commercial and residential.
- Agencies and organizations that will receive City funding in FY 2010 include Senior Adult Services, The Women's Center, Southern Illinois Regional Social Services' Youth Services Program, Abundant Health Resource Clinic, Good Samaritan Ministries, The Science Center, Lights Fantastic, Carbondale Community Arts, New Zion Missionary Baptist Church Summer Food Program, Carbondale Lions Club's July 4th Fireworks, Carbondale Junior Sports, SIUC Sunset Concerts, Jackson County Mass Transit District, Southern Illinois Center for a Sustainable Future, the Boys and Girls Club of Carbondale, I Can Read Program, Family Advocacy Services, Splash 'N Saturday, SIUC Saluki Express, Spirit of Attucks, and Attucks Community Services. Other organizations including NAACP and the SIU Career Preparation Program will also receive free rent for space in City buildings.

OTHER GOVERNMENTAL FUNDS

The Child Care Services Fund includes expenditures of \$555,212 and revenues and transfers from other funds of \$556,134, an increase mainly due to early childhood education grants. Grants received in FY 2009 have allowed the expansion of Early Head Start programs at the center.

The Debt Services Fund includes expenditures of \$1,694,898 with revenues and other financing sources totaling \$1,694,330. 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 2010 is \$1,589,049.

The Local Improvement Fund includes expenditures and other financing uses of \$10,553,198 with revenues and other financing sources totaling \$9,956,304. The Local Improvement Fund will rely upon fund balances, grants, and bond financing for most of the projects budgeted for FY 2010:

- New Police and Fire Facilities will proceed through the architectural design process, with construction financing to be arranged through a General Obligation Bond issue financed with Home Rule sales tax revenues. The timing of such a bond issue is uncertain due to variables such as sales tax revenue increases, interest rates, and bond market strength.
- New Open Space Development funding is provided, as committed in connection with the Home Rules Sales Tax increase for Saluki Way and Public Safety Facilities. This was to be a set-aside of \$100,000 per year for 5 years starting in FY 2010.
- Street construction projects including reconstruction of Reed Station Road and extension of Reed Station Parkway will proceed with previously designated IDOT funding and cash on hand for local matching funds.

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. Major projects included in the FY 2010 budget will help reverse this trend, and a 5% overall rate increase is requested to defray the costs of these improvements. During FY 2009, the final payment was made on the Series1992 Water and Sewer General Obligation Bonds that will free up debt service funds to help pay for new capital improvements.

Water and Sewer expenditures of \$14,523,403, net of depreciation, will be offset by revenues and other financing sources totaling \$13,910,403. Energy savings are being realized at the Southeast Wastewater Treatment Plant by adjusting the hours during which blower motors operate in the digester basins. New variable speed pump motors at the Northwest Wastewater Treatment Plant should also produce significant energy savings during the coming year. Other major highlights in the fund include the following:

- Final design and construction of a new \$4 million water tower is expected, with financing from the Illinois EPA Revolving Loan Funds.
- A storm water equalization basin is to be designed and constructed at the Northwest Wastewater Treatment Plant, along with new variable speed pumps, at a cost of approximately \$1 million, also using Illinois EPA Revolving Loan Funds.
- \$40,000 is provided in the Water and Sewer Fund for the City's Home Ownership program that provides financial incentives for the water and sewer infrastructure in new residential subdivision developments.
- Water projects for FY 2010 include the preliminary design of a Backup Water Supply; design and construction of the Water Main Relocation at Piles Fork Creek; design and construction of the City Reservoir Spillway Outlet Channel Erosion Control; continued construction of the Crab Orchard Water District Improvements; maintenance and painting of the Helen Street Water Tower; and construction of the Union Hill Road Raw Water Line Relocation.
- Cedar Lake will be the focus of a shoreline stabilization and erosion control project using state and federal grant funding through the Illinois Clean Lakes Program.
- West Mill Street water line replacement is scheduled subject to grant funds being received.
- A new truck and sewer video camera system is budgeted at a cost of \$385,000; this unit is a critical part of preventative maintenance work, identifying the location of repairs needed in problem lines.
- Funding is budgeted for a professional utility rate study which will analyze utility cost of operation, project the cost of future capital needs, allocate costs to the water and sewer divisions, and recommend rate structures to produce the required revenues; it has been many years since the City's utility rates were studied in such detail.
- Workload in the Water Plant Central Laboratory continues to increase, partly due to contractual work being done for other agencies on a fee basis; the lab maintains certification by the Illinois Environmental Protection Agency, and planned equipment replacement is necessary to maintain this certification; continued growth in contractual work may necessitate an additional staff position in the near future.

SOLID WASTE MANAGEMENT FUND

The Solid Waste Management Fund includes expenditures of \$809,375 with revenues and depreciation totaling \$701,705. The FY 2010 Budget includes the second of three annual fee increases approved in 2008. The monthly refuse fee is to increase from \$8.00 to \$8.75 effective May 1, 2009. The monthly recycling fee is to increase from \$1.50 to \$1.75 effective May 1, 2009. The recycling fee is assessed to every water bill. These increases were determined to be necessary to keep up with the increasing costs of labor, equipment and fuel. In addition, recycling service is being expanded to include all paper products.

OTHER ENTERPRISE FUNDS

The Parking System Fund includes expenditures of \$452,535 with revenues and depreciation totaling \$359,038. Parking lot paving in the 700 block of South Illinois Avenue has been carried over to FY 2010; this project is estimated to cost \$125,000. Based on established City financial policies, the Parking System Operations Fund should have a favorable minimum balance after this project is completed.

The Rental Properties Fund includes expenditures of \$765,468 with revenues and depreciation of \$874,345. 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. A recent energy audit at the Eurma C. Hayes Center recommended installation of new lighting and variable speed HVAC motors; funds are budgeted for this project. In addition, funds are budgeted for installation of new signage at the historic Carbondale Depot building and for painting the train caboose displayed at the building.

The Self Insurance Fund was dissolved at the end of FY 2008 as the City changed its Employee Health Insurance Plan from a self insured plan to a fully insured plan. The transfer of \$70,391 closes out the cash in the fund.

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 decrease in bond rating can cost the City a great deal in additional interest costs over the life of a bond issue.

Fund balance in the General Fund is estimated to show an increase at the end of FY 2009 to \$7,384,128, of which \$6,071,562 is not designated for specific purposes. By the end of FY 2010, total fund balance is projected to increase \$2,481. However, non-designated fund balance is projected to drop to \$4,608,801, which would be below the minimum of \$4,949,477 required by City policy. Fund balances set aside as restricted include next year's Saluki Way payment and the amount of liability to the SLEP Pension Fund. This makes it even more imperative 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 Local Improvement Fund will be substantially reduced in FY 2010 to pay local costs on grant-funded projects now underway. Fund balance is estimated to be \$923,938 at the end of FY 2009, but only \$327,044 by the end of FY 2010. A bond issue for public safety facilities is shown in the budget, but the timing and amount is very uncertain at this point.

Motor Fuel Tax Fund balance has dropped due to spending and debt service on the overlay program.

Fund balance in the Debt Service Fund remains fairly constant, based on upcoming bond payments; required minimum balances are being met.

Waterworks and Sewerage Fund balances are within established City policy with an estimated FY 2010 ending balance of \$2,171,075. This is down somewhat due to large capital projects. In addition, water sales last year fell short of expectations.

Other Enterprise Funds are maintaining fund balances as expected. The Solid Waste Management Fund will show a decreased fund balance due to expenses related to the new unlimited paper recycling service, but the coming fee increases should stabilize the fund by the end of FY 2011. The Parking Fund will show a drop in fund balance due to a downtown parking lot paving project. Rental Properties will continue to grow in fund balance, and the Child Care Fund is stable.

THE FUTURE

As the City and our nation enter a period of fiscal austerity and financial uncertainty, it is more important than ever that the City live within its means. This may necessitate curtailments in 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 will be held open when possible.
- Energy audits for major buildings will be used to suggest ways to reduce energy costs.
- A fleet study currently underway will suggest ways to save on operation of the City's fleet of vehicles by reducing the number of vehicles, moving to more fuel efficient vehicles, reducing the number of miles driven, and extending the useful life of vehicles.
- Staff will again be considering the possibility of purchasing energy through third-party brokers instead of directly from local utilities.
- Employees are being asked to assume a larger share of the cost of dependent health insurance coverage.
- 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. The Illinois Municipal Retirement Fund (IMRF) suffered significant losses in stock market assets and is seeking to recover those losses solely from employers through higher contribution rates. The current funded levels for the Police Pension Fund and the Firefighters Pension Fund are 76.7% and 63.2% respectively. Because the funds invest their assets in the financial markets, these funded ratios are expected to decline due to the results of the economic downturn on the investments held in the Pension Funds. It is expected that the fund's actuaries will require greater employer contributions in future years to stabilize the funded status of the Pension Funds requiring more General Fund contributions. The General Fund contributions for the 2002 calendar year levy compared to the calendar year 2007 levy increased \$209,910, or 36% for the Police Pension Fund and increased \$387,011 or 134% for the Firefighters Pension Fund. The City's current pension contributions are approximately 28% of a police officer's salary and approximately 47% of a firefighter's salary in addition to the base salary paid.

State law provides that public pension contributions may be paid by property tax levies. The City of Carbondale has been fortunate in recent years to forego the property tax levies by funding the pension

contributions with other general revenues such as sales tax. With no growth in sales tax revenues and rapid increases in pension costs, serious consideration must be given to re-instituting the local general government property tax levy to pay for the public pension contributions.

ACKNOWLEDGEMENTS

The preparation of the FY 2010 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.

Special thanks and recognition go to Finance Director Ernie Tessone and all of 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 Beth Ponce 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 throughout the budget preparation process. Their cooperation and leadership is greatly appreciated.

Respectfully submitted,

Allen D. Gill
City Manager