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November 17, 2009

MEMORANDUM

To: Members of the City Council
From: Brad Cole, Mayor
Regards: Budget Planning Discussion

At the September 22, 2009 meeting of the City Council, information was presented by the City Manager that outlined upcoming fiscal year budget projections and further outlined anticipated budget shortfalls. The information was shared again at the October 6, 2009 meeting of the City Council, with discussion and input coming from both the general public and Council members.

Two issues are at the root of the anticipated budget shortfalls. First, a decrease in revenues is being experienced by communities all across the nation; Carbondale is no exception. Due to the slow-down of the national economy and the reduction in many private sector jobs, consumer spending and retail sales are in decline and the associated tax collection is in equal decline. Second, expenditures for mandated programs and services are increasing. Major increases in pension contributions (caused partly by substantial losses in investment portfolios), health insurance costs and other unfunded mandates are complicating local government budget planning processes.

Staffing reductions and capital investments have been delayed to bridge previous gaps in the budget and should be remembered as we keep working through other ideas. That is to say, significant cuts in some areas have already been implemented, such as hiring freezes, furlough days in all departments (excluding Police, Fire and selected Public Works employees), across the board departmental budget cuts, position eliminations, and the creation of operating efficiencies.

In order to honor our mutual commitments to provide for the health, safety and welfare of the community, while also providing a stable, positive and competitive workplace for our employees, we must consider all options necessary to guaranteeing the long-term financial well-being of the City of Carbondale. Some of the options may not be favorable or are not preferable given a perfect world scenario, but it is fair to note that we are not living within a perfect world scenario at this time.

Public discussion and input is critical to the implementation of any successful plan for the use of public funds and it is hoped that productive conversations can include meaningful suggestions that address the big picture nature of our current concerns.

Provided below are numerous options that I present for consideration:

Option A: Do nothing and hope the problems resolve themselves. This would drain and deplete our financial reserves and place severe hardship on the City's ability to manage unforeseen or emergency needs. This option is obviously not realistic and exists only in the fantasy lands of Springfield and Washington.

Option B: Accept the City Manager's original proposal (see attached), which includes making administrative adjustments and personnel changes, and reinstates the City's property tax levy for municipal government purposes.

The implementation of the property tax brings a steady source of revenue, which we have foregone for the past seven fiscal years, but also creates a possible impediment to investment and development, particularly in the effort to attract residential housing growth and commercial/industrial developments. The proposed property tax extension would generate approximately (or just slightly less than) \$1,300,000 annually.

Option C: Accept the City Manager's original proposal, which includes making administrative adjustments and personnel changes, but – in lieu of reinstating the City's property tax levy – adopt an increase in the municipal Home Rule sales tax.

The current sales tax rate in Carbondale is 7.75%. This includes 5.00% designated for the State of Illinois, 0.25% designated for Jackson County, 1.00% designated for the City of Carbondale, and 1.50% identified as a Home Rule tax (does not apply to motor vehicles) designated for the City of Carbondale.

The Home Rule portion of the sales tax can be increased in increments of 0.25%, and each 0.25% would currently generate approximately (or just slightly more than) \$1,000,000 annually. The resulting applicable sales tax rate would then be 8.00%.

A 0.25% increase in the sales tax would generate approximately \$300,000 less in annual revenues than would the property tax levy mentioned in Option B. Therefore, other accommodations would have to be made to offset the revenue differential.

This option also includes a staffing reduction of six positions, taken from three departments (Development Services, Finance, and Public Works). Salary and benefits for the six positions total \$346,233. Total savings would be reduced somewhat by unemployment compensation and one-time vacation/sick-leave payouts. This reduction in staffing would result in reduced services to the general public.

Option D: This option is similar to Option C and accepts the majority of the City Manager's original proposal, with the sales tax amendment. However, instead of eliminating six positions spread throughout the organization, this alternative includes privatization of the City's refuse collection and recycling programs.

This option would result in a staffing reduction of up to six positions. Those individuals could be hired by the private provider that assumes the service. While the refuse and recycling programs are operated by the City as an enterprise fund and, therefore, not funded by the General Fund, sale of assets (\$100,000) and the liquidation of accounts (\$175,000) within the division would create a one-time positive cash flow transfer to the General Fund. Annual franchise fees, charged to the private service provider, would also generate on-going General Fund revenue. Additional savings would be realized in reduced worker's compensation, healthcare and general liability insurance costs for future years.

It is anticipated that this option would result in \$275,000 in one-time funds; on-going, annual franchise fees would be negotiated on top of that. Long-term savings for the City would also be created and the total number of City employees would be reduced. The privatization of these services would be a policy change from the City's current position of providing refuse and recycling collection, but it would not be inconsistent with what many other local communities, and countless others across the nation, have done to handle recycling, waste disposal and waste management issues.

Option E: Considering the economic climate and the general desire to not raise taxes of any kind, this option provides for a major shift in City priorities and offers a policy change that could provide significant and immediate benefits.

This option assumes no increase in either the property tax or the sales tax, and it proposes the complete privatization of the City's water treatment, water distribution and sewage collection services.

The City currently operates one water treatment plant and two waste water treatment plants. It is estimated that the current value of those assets, combined with the long-term value of the income generated by both services, could create a one-time positive cash flow of (or possibly more than) \$42,000,000.

Private water and sewer providers have been operating in Illinois for many years and the acquisition of locally-owned municipal water and sewer operations is becoming an attractive means by which many communities can address multiple issues, not the least of which are needed investments in aging infrastructure and woeful financial situations. Some other Illinois communities (shown with their population) that have private water and/or sewer operations are: Alton (30,504), Belleville (43,920), Cairo (3,632), Champaign (75,254), Danville (33,904), Granite City (31,301), Kankakee (27,491), Manteno (8,146), Pekin (33,857), Peoria (118,135), Pontiac (11,864), and Quincy (40,366).

An infusion of roughly \$42,000,000 into the City's coffers would allow for several critical financial concerns to be immediately resolved. First, all remaining debt in the water and sewer divisions would be paid off (\$10,983,637). Second, all unfunded pension obligations would be paid in full (Police: \$8,354,689; Fire: \$7,183,660; IMRF: \$7,172,475; SLEP: \$518,086) and the pensions would be 100%-fully-funded. This would also reduce our annual contributions into those same funds by 65%, leaving annual contributions to be at 35% of the current level for funding in future years. Third, future building projects for both the new police station (\$7,800,000) and fire station (\$2,675,000) would be paid for in cash, without incurring any long-term bonded debt. Fourth, liquidation of funds currently held in the water and sewer accounts would create a one-time positive cash flow transfer of approximately \$2,741,108 into the General Fund.

By fully funding all pension systems, the City's annual pension contributions would be reduced by 65% (according to actuarial estimates). This would provide for a savings of approximately \$1,509,170 annually, based on the latest known contribution requirements from the General Fund (Police: \$1,024,800; Fire \$642,000; IMRF: \$655,000; for a total of \$2,321,800 x 65% = \$1,509,170) that would be required for future years. Other IMRF contributions that are not paid for by the General Fund would be reduced, but would not show as a reduction to the General Fund.

Payment in-full for the police and fire stations currently in design would also eliminate the need for bonded indebtedness, and would reduce annual General Fund expenditures by at least \$474,000, which is budgeted in upcoming years to pay for the police station construction bonds.

A summary analysis of the financial costs-to-benefits is estimated as follows:

\$ 42,000,000	Privatization and sale of water and sewer operations
<u>\$ 2,741,108</u>	Transfer of water and sewer funds assets
\$ 44,741,108	Total Revenue to the General Fund
\$ 10,983,637	Repayment of water and sewer funds debt
\$ 8,354,689	Fully-fund the Police Pension Fund
\$ 7,183,660	Fully-fund the Fire Pension Fund
\$ 7,172,475	Fully-fund the Illinois Municipal Retirement Fund
\$ 518,086	Fully-fund the SLEP Law Enforcement Pension Fund
\$ 7,800,000	Construction of the new police station
<u>\$ 2,675,000</u>	Construction of the new fire station
\$ 44,687,547	Total Expenditures/Investments
\$ 44,741,108	Revenue
<u>\$ 44,687,547</u>	Expenditures/Investments
\$ 53,561	Net Balance to the General Fund

A summary analysis of the annual savings (compared to amounts previously budgeted) is estimated as follows:

\$ 1,509,170	65% savings in current pension contributions
<u>\$ 474,000</u>	Debt service savings for police station construction
\$ 1,983,170	Total Annual General Fund Savings

The annual General Fund savings would assume no new tax collections and would begin to build reserve funds again, such as those that were depleted in response to the May 8, 2009 severe storm event. Additional savings would also be realized in reduced worker's compensation, healthcare and general liability insurance costs for future years.

Because the funds for the construction of both the new police station and the new fire station would be provided upfront, and with the associated savings to the General Fund for not having to supply debt service payments every year, the City Council could be in a position to then decrease the Home Rule sales tax rate that was increased in 2008 to generate funds for the public safety buildings. The 0.25% increase that was adopted to pay for the public safety buildings would no longer be necessary and could be removed. This would decrease the amount of revenue coming into the General Fund, by approximately \$1,000,000, but it would be off-set by the remaining savings as outlined above.

Theoretically, if \$1,983,170 can be saved every year, then \$1,000,000 could be reduced from revenues and there would still remain a net gain (through savings) of \$983,170 to the General Fund. The effective sales tax rate would then be reduced from 7.75% to 7.50%.

Those individuals employed in the water and sewer divisions could be hired by the private provider that assumes the service and those hires would be attached as a condition of the sale. Maintaining salary levels could also be a requirement, however it could be expected that benefit packages would change. There would be no change in the ownership or operation of Cedar Lake as the source for the region's water.

It would also be expected that water and sewer rates would increase for the City's customer base. Needed investments in infrastructure and currently lower-than-average rates will also require increases to be implemented by the City, even if no change is made in the operations. However, a private service provider would likely increase rates higher than would the City, since they would not have the indirect subsidy of other City resources to offset the water and sewer operations. A moratorium on rate increases for some period of years could be built into any proposal, as a condition of the sale. Any increases in rates would have to be approved by the Illinois Commerce Commission.

The City would likely lose some flexibility and control over the water and sewer systems, if this option is approved. Water quality would still be monitored by the Illinois Environmental Protection Agency and similar, other safeguards would remain unchanged. Testing and reporting requirements would be the same as under current conditions.

Option F: This option accounts for no increase in either the property tax or the sales tax, but it assumes that the entire amount of the resulting budget deficit could be contained by position eliminations within the City government's workforce. This option does not include the privatization of any City services, but rather the elimination of some services due to the elimination of so many employees.

To reach the requisite \$1,300,000 threshold for balance, it would be necessary for the City to eliminate a minimum of twenty-one (21) full-time positions. Reductions would come from all units of the City, excluding Police and Fire, and would include consolidating and possibly eliminating whole departments.

Total savings would be reduced somewhat by unemployment compensation and one-time vacation/sick-leave payouts. The reduction in this staffing would result in noticeably reduced services to the general public and the remaining work load would be very difficult for existing staff to absorb.

In conclusion, the current state of affairs within all levels of government calls for open and upfront conversations about options that must be weighed for balancing future budgets. The options presented here are varied, but they focus on addressing the big picture nature of our concerns. It may be that none of the options is desirable, yet something must be done and action must be taken to maintain the long-term financial stability of the City. Additional, minor cuts or revisions can be found in any budget, but the dollar amounts of those snips and trims do not match the enormity or complexity of the actual issues we face, and we must guard against losing sight of pending concerns and their imposing scale.

Major policy changes must be considered, which will result in increased taxes, decreased expenditures, privatization of services or some combination of the three. While discussion of these options may touch sensitive nerves, the elected City Council would be derelict if it did not at least review them as part of a comprehensive discussion on the budget. And, whether in good times or bad times, we can not always look to raising taxes when trying to meet financial needs.

Taxes are a part of everyday life (and even death), but they should not be allowed to increase simply for the sake of feeding the government. It is often stated that the easiest money to spend is someone else's money. That's what taxes are. Taxes should be diligently applied to providing for necessary services such as public safety, they should support the development and maintenance of public ways and infrastructure, and taxes can be used as a means to gather funds for investment in worthwhile causes that will benefit the community at-large (either through capital projects or otherwise).


The decision to increase taxes is never easy. The decision to cut services or eliminate personnel positions is equally uneasy, if not more so.

I offer these thoughts and options. Direction from the City Council is requested.

Request for City Council Action

Date: October 6, 2009

Agenda Section: General Business No. 6	Originating Department: City Manager's Office
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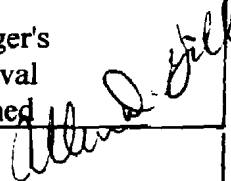
Item: Further Discussion of Budget Planning for FY 2011 and FY 2012 No. 6.4	Approved: 
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Background:

At the September 22, 2009 City Council Meeting, Council was presented with proposed budget planning for Fiscal Years 2011 and 2012. Council requested that the budget planning discussion be continued at the October 6, 2009 City Council Meeting.

Recommended Action:

Council is requested to continue discussion and consensus is requested for proposed budget planning for Fiscal Years 2011 and 2012.

Engineering Approval Obtained	Finance Approval Obtained	Legal Approval Obtained	Approval Obtained	Manager's Approval Obtained 
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Council Action: _____ Motion by: _____ 2nd by: _____ to: _____

Request for City Council Action

Date: September 22, 2009

Agenda Section: General Business No. 6	Originating Department: City Manager
Item: Discussion of Budget Planning for FY 2011 and FY 2012 No. 6.3	

Overview

Budget projections for the next two fiscal years (FY 2011 and 2012) show that the City could incur over \$5 million in deficits during these periods if current budgetary policies and practices remain unchanged. It is strongly recommended that changes be made now to anticipate and reduce these operating deficits. This will require a combination of revenue enhancements and expenditure reductions. Many changes have been made already in the City's operating budget, but more must be done as costs continue to escalate much faster than tax revenues.

A major contributor to this cost escalation is funding for pensions and workers' compensation premiums. These costs are mandated by the state so the City has little control over them. During the last five years, total General Fund costs for workers' compensation, Illinois Municipal Retirement Fund (IMRF), Police Pension Fund, and Fire Pension Fund have increased by more than \$1 Million, or 68.5%, as shown in the following table. (Police Pension Fund contributions for FY 2011 are already known to increase approximately 26%, from \$808,304 to \$1,024,800.) Health insurance premiums during that same period increased by nearly \$.5 Million. The total General Fund cost of these benefits alone for FY 2010 is over \$4 Million.

**City of Carbondale Five Year
Pension and Employee Benefit Cost Increase
(General Fund Only)**

	FY 2005	FY 2010	Increase	%Incr.
Fire Pension	\$414,213	\$608,146	\$193,933	46.82%
Police Pension	\$583,388	\$808,304	\$224,916	38.55%
IMRF Pension	\$268,233	\$654,512	\$386,279	144.01%
Workers Comp.	\$230,016	\$450,792	\$220,776	95.98%
Total	<u>\$1,495,850</u>	<u>\$2,521,754</u>	<u>\$1,025,904</u>	<u>68.58%</u>
Health Insurance	\$1,061,065	\$1,519,248	\$458,183	43.18%

Engineering Approval Obtained	Finance Approval Obtained	Legal Approval Obtained	Approval Obtained	Manager's Approval Obtained
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Council Action: _____ Motion By: _____ 2nd by: _____ to: _____

Expenditure reductions over the next two years include elimination of across-the-board raises for employees (except for those included in ongoing labor contracts), postponing capital purchases, postponing construction of the new Police Headquarters, reducing future Police Headquarters debt service by using the newly-enacted Build America Bonds, reduction of funding for community organizations, and elimination of two staff positions. Closure of the Eurma C. Hayes Child Care Center will net savings to the City during the coming years. No further employee furlough days are anticipated.

Two middle management positions are proposed for elimination: a Deputy Police Chief position and the Community Relations Officer position. A reorganization of Police Department command staff will include a return to the practice of having one Deputy Chief, as was the practice until about 10 years ago. Also, a simpler Department certification program will be pursued, freeing staff time for other duties. Community Relations Officer duties will be redistributed. Affirmative Action/Equal Employment Opportunity duties will be shifted to the Human Resources Office, which has experienced a reduction in workload as a result of the Child Care Center closure. Assistance will now be provided by an outside contractor who will provide objective analysis of data on employee hiring, promotion and discipline, and comparisons to regional labor availability data not previously available. New Human Resources software will automate much of the data collection process previously done by hand. Reduced funding for community organizations will further reduce the work of monitoring their performance, and this workload can be absorbed by other support staff.

Implementation

Most of the budgetary changes recommended are intended to be effective with the new fiscal year, so formal action will be taken as part of the budget adoption process. Staff work on the FY 2011 budget will start in January, and agreement on necessary changes now will greatly simplify the budget preparation process. Imposition of the City property tax levy, however, must be acted upon this fall. In order to fully comprehend the need for the property tax, it is necessary to grasp the magnitude of the fiscal problem facing the City and show how the property tax fits into a larger package of budgetary measures.

Recommended Action

Council consensus is requested for proposed budget planning for Fiscal Years 2011 and 2012.

POSSIBLE BUDGET ADJUSTMENTS TO GENERAL FUND

	original proposed budget FY 2011	adjustments	ADJUSTED proposed BUDGET FY 2011	original proposed budget FY 2012	adjustments	ADJUSTED proposed BUDGET FY 2012
REVENUES	\$20,751,576	\$1,347,500	\$22,099,076	\$21,097,999	\$1,466,685	\$22,564,684
EXPENDITURES	\$22,151,224	-\$614,260	\$21,536,964	\$23,301,935	-\$1,385,279	\$21,916,656
NET RESULTS	-\$1,399,648	\$1,961,760	\$562,112	-\$2,203,936	\$2,851,964	\$648,028
TRANSFER OUT	-\$1,697,288	\$730,988	-\$966,300	-\$1,684,473	\$314,175	-\$1,370,298
TRANSFER IN	\$25,000	\$0	\$25,000	\$25,000	\$0	\$25,000
LOAN PROCEEDS	\$382,000	\$0	\$382,000	\$618,000	-\$355,000	\$263,000
NET RESULT TO FUND BALANCE	-\$2,689,936	\$2,692,748	\$2,812	-\$3,245,409	\$2,811,139	-\$434,270
FUND BAL BEGINNING YEAR	\$7,386,609		\$7,386,609	\$4,696,673		\$7,389,421
FUND BAL. END YEAR	\$4,696,673		\$7,389,421	\$1,451,264		\$6,955,151

Fiscal Year 2011 Budget Adjustment Items
September 2009

- 1. Increase revenues \$1,290,000 for property tax levy and \$57,500 for additional increased sales tax revenue estimates**

The property tax levy would not be abated for calendar year 2010; this is the estimated maximum that could be levied. This will help fund the City's pension obligations. Municipal and Home Rule sales tax estimates have been increased by .5% over the original proposed FY 2011 budget. Original projections were for zero growth in sales tax, but it now appears that a slightly more optimistic estimate can be made.

- 2. Reduce expenditures \$329,563 by restricting employee raises**

Non-union, Plumbers Union (expiring contract), and Telecommunicators FOP Union (new union) employees would receive 0% across the board and 0% merit raises on 5/1/10. These employees have been receiving an average of 3% across-the-board plus 1% or 2% merit raises in recent years. Other existing contracts would be honored (3% FOP, IAFF, and Teamsters; these contracts expire on 4/30/11). No furlough days are anticipated for any City employees in FY 2011.

- 3. Reduce expenditures \$95,913 for Police Department accreditation and command reorganization**

The City will switch Police Department accreditation from the national Commission on Accreditation of Law Enforcement Agencies (CALEA) to the Illinois Law Enforcement Accreditation Program (ILEAP). This reduces direct expenses and frees up staff time for street patrol due to less paper work. One Deputy Chief position will be eliminated effective April 30, 2010. A reorganization of Police Department command staff will include a return to the practice of having one Deputy Chief, as was the practice until about 10 years ago. This change is administrative in nature and will have no impact on street patrol operations.

- 4. Reduce expenditures for Community Services by \$100,000**

The City currently subsidizes numerous community agencies and organizations. Specific reductions will be announced later.

- 5. Reduce expenditures \$78,283 by eliminating position of Community Relations Officer**

The primary duties of this position are to implement Affirmative Action and Equal Employment Opportunity (AA/EEO) plans and to monitor and assist community organizations funded by the city. This position would be eliminated through three means: outsourcing of data collection and processing for Affirmative Action/EEO compliance (already in place); re-assigning of AA/EEO duties to the Human Resources Department, which has experienced decreased workload due to Child Care Center closure; and reduction in community organization funding to be administered. An outside contractor has already been secured to provide objective analysis of AA/EEO data on employee hiring, promotion and discipline, and comparisons to regional labor availability data not previously available. New Human Resources software will automate much of the data collection process previously done manually by the Community Relations Officer. Reduced funding for community organizations will further reduce the work of monitoring their performance, and this workload can be absorbed by other support staff. AA/EEO duties are a natural fit for the Human Resources Office, which is administered by the Administrative Services Director, who previously held the position of Community Relations Officer.

- 6. Reduce expenditures \$30,000 for training**

Staff is pursuing an offer of free diversity training from an organization in Chicago that has been funded to provide such services to cities. This would be done in cooperation with a group of Southern Illinois communities.

- 7. Reduce expenditures \$10,000 for home conversion program**

Applications for this program have slowed, so less need is anticipated. However, staff does not propose to eliminate the program entirely. Additional funds may be transferred later if demand increases.

9. Reduce expenditures \$114,175 for transfers to debt service - Police Station Bonds

First payments on the Police Headquarters bonds will be due in FY 2012, if the bonds are issued in the spring of 2010 as planned. Build America Bonds will reduce interest costs from the amount originally anticipated. Build America Bonds (BAB) are a new type of municipal bond authorized by the American Recovery and Reinvestment Act of 2009. These are taxable bonds, with the federal government underwriting a fixed portion of the interest cost to the issuing municipality. The taxable nature of these bonds has made them very popular due to the higher interest rate paid to purchasers. Their popularity has driven the net cost to the issuers below the cost of tax free bonds, resulting in a net savings to the issuing municipality.

10. Reduce expenditures \$100,000 for transfers by postponing Green Space Development Program
(Same as FY 2011 item 10)

11. Increase expenditures \$63,000 for general liability and workers' comp insurance
(Same as FY 2011 item 11)

12. Reduce capital expenditures and loan proceeds by \$355,000 by postponing purchase of a new fire truck
This capital item was scheduled for purchase in 2012 but can be postponed until 2015. The purchase was to be financed by a capital loan, so postponement of the purchase also postpones the need for the loan.