City of CHAMPAIGN

REPORT TO THE CITY COUNCIL

FROM: **Steven C. Carter, City Manager**

DATE: **July 1, 2012**

SUBJECT: **Financial Plan for Fiscal Year 2012/13: Investing in the Future**

Introduction

The Financial Plan establishes the direction for all City government programs and services for the coming fiscal year. It represents the synthesis of Council guidance and staff recommendations on how to best accomplish Council goals and respond to community needs in accordance with available resources, established policies, and sound administrative practices. Review and approval of the Financial Plan is one of the City Council's most important roles.

Prior years' decisions in developing the Financial Plan were difficult, as the City has adopted approximately $17.7 million in budget balancing measures since FY2008/09. Most of the measures were expenditure reductions. This process included downsizing that culminated in FY 2011/12 with the elimination of all remaining positions approved for reduction through attrition in prior years, as well as additional positions eliminated through a voluntary separation incentive program. These staff reductions required many departments to implement significant reorganizations to continue delivering high levels of service with reduced staff and resources.

Many signs point to an economic recovery at the national, state, and local levels, evidenced most clearly by modest increases in the City's sales tax receipts. Many other revenues have stabilized, but unfortunately the assessed value of taxable property has declined. Property tax revenue was temporarily insulated from the economic downturn as the calculation of taxable property uses a three year averaging of property values pursuant to state law. For the 2009 and 2010 levies the assessed value of taxable property was virtually flat, but for the 2011 levy the value decreased by 1%. The budget for FY2012/13 reflects these revenue realities and requires some tightening of expenditures to balance the budget structurally and achieve the following goals:

- Provide a high level of service to the community and make good progress on achieving the Council's vision and goals.
- Operate a lean organization as a result of hiring excellent employees and conducting necessary belt tightening over the past few years.
- Deliver high value to the community in a cost-effective and efficient manner. The City's budgets and service plans maintain a good balance between operating and

capital needs, as well as between basic services and administrative support and oversight.

Fortunately, due to measures approved by Council to date, the FY2012/13 budget includes fewer reductions than in recent years. Also, the projected General Fund balance for the end of this fiscal year is greater than what was anticipated when reductions were made last year. The higher than anticipated fund balance is a carry-over from last year, which resulted from unexpected one-time revenues from the State and actual expenditures coming in less than budget.

These factors allow the adopted budget to restore a portion of the one-time reductions taken in prior years and meet some new high-priority needs for one-time funding. In addition, the City Council has recently adopted revenues that will make a significant difference in the City's ability to address drainage and street improvement needs. For these reasons, the theme of this year's budget message is Investing in the Future.

Safeguards for Fiscal Stability

The City has many safeguards in place through conservative fiscal policies adopted by City Council, careful planning, and swift actions based on constant monitoring of the fiscal outlook. These safeguards have helped the City avoid the drastic, emergency cuts required by some units of government. Even after adoption of the budget, staff continues using the safeguards. These include:

a. Budgeting Recurring Expenditures at 98.5% of Recurring Revenues: The 1.5% difference serves as a buffer that protects the City from the need to cut services if revenues fall slightly under projections. It also allows the City a bit more time to make reductions if necessary. The adopted budget has expenditures at 98.6% of revenues, which is 0.1% greater than policy. This variance from policy is recommended to reduce the need for revenue increases or additional budget reductions. Since this is a slight variance, the risk caused by the reduced buffer is small and is outweighed by the benefits to residents and other recipients of City services.

b. Ongoing Revenue Monitoring during the Year: Staff analyzes receipts of major revenues and prepares new revenue projections every month. This allows the City to start addressing revenue shortfalls immediately when such trends materialize.

c. Reserves: City policy calls for an unreserved General Operating fund balance at a minimum of 10% of operating expenditures, not including transfers. Fund balance is also reserved for certain expenditures expected in the future. These reserves allow additional time for careful examination and planning in the event of a significant revenue shortfall, and provide contingency funds in the event of a natural disaster or other unforeseen funding need. For the FY2012/13 adopted budget, the unreserved General Fund balance is 10.12% or $4.5 million, slightly above the minimum policy level.

d. Long Term Financial Forecasting: Annually, the City prepares the Five-Year Financial Forecast to get a perspective on the long-term fiscal outlook and to identify trends. This is done in the fall before work begins on the following year's budget. This allows the City Council to provide direction on a budget strategy that addresses issues identified in the forecast. For example, if revenues are expected to grow faster in the short term but slow down in later years, the City might not commit all recurring available under the guidelines of the City's Financial Policy.

Economic Setting and Revenue Outlook

The national and local economies have been growing consistently for more than a year. However, the pace of growth in economic output will likely continue to be slow so the positive effects on job growth, household income, real estate prices, construction, and retail sales will be modest.

Closer to home, the Illinois state economy is improving but at a lower rate than most other states. The University of Illinois Flash Index has slowly climbed to 102.7 for June 2012. This is positive since a reading above 100 indicates an expanding economy. Any reading below 100 indicates a contracting economy which has been the case for the past three and a half years with a record 26-year low of 90.0 in September 2009. With a 0.7 increase over May 2012, the index has continued to improve since May 2010. The pre-recession high was 107.4 in April 2007.

Although the flash index is a positive indicator, it is important to remember that Illinois still lags in other indicators. Currently the State's unemployment rate is 8.7% while the nation's is 8.2%. According to Fred Giertz, who compiles the flash index for the University of Illinois' Institute of Government and Public Affairs, "It will likely be at least a year or two before unemployment rates in the 6 percent range are achieved."

The local economy has struggled, but not as badly as many due to the stability provided by the University of Illinois and the two regional health care providers, the conservative business practices by most local lenders (which avoided the "boom" that resulted in "bust"), and other factors. The University also affects the city's unemployment rate. Annually, the summer months starting in June, the unemployment rate increases and this year is no exception with June at 9.1%. However, Champaign's unemployment rate for the second quarter (April, May, and June) is 7.7%, which is lower than the National rate of 8.2% and the State's rate of 8.7% for the same quarter. Additionally, some business closings, a drop in construction activity, and a decrease of the value of taxable property indicate weak economic growth.

The City has diversified its revenue sources somewhat in recent years, so stagnation or decline of some revenues is sometimes mitigated by strength in others. The sales tax, which is most susceptible among the City's major revenues to any economic downturn, remains the largest revenue resource for the City. This revenue has shown some signs of progress, with growth of 2.8% for FY 2011/12 over FY 2010/11. Also, this is the second year of steady sales tax revenue growth greater than 2% annually. The positive results in sales tax is somewhat offset by the decline in property values that affect the City property tax levy. Staff projects sales tax revenue to grow in FY2012/13.

During the beginning of the economic downturn the City's property tax levy provided good revenue growth. Because the equalized assessed value of taxable property (EAV) is based on the prior three years' valuations, robust growth leading up to the recession resulted in higher assessed values early in the economic downturn. The 2009 levy, however, increased just 0.5% over the 2008 levy and growth was virtually flat for the 2010 levy at 0.1%.

For the 2011 levy (collected in calendar 2012), the EAV declined 1%. The City Council adopted the same amount of property taxes as the 2010 levy year. Therefore, while property tax revenues won't fall, there will be no increase to match increased costs. Moreover, due to increased pension funding costs, property tax revenue to the General Fund will decline by about $400,000. The General Fund supports the City's core services including Police, Fire, and Public Works. The Library Operating Fund is also impacted by the decline in assessed valuation of property because property tax revenue comprises approximately 90% of its total revenue. Overall, staff projects that the City's 11 major revenues for FY2011/12 will end the fiscal year 3.5% above FY2010/11 actual receipts. That figure includes one-time revenues, so the increase in recurring revenue is lower.

Prior Year's Budget Balancing Measures

The City Council has adopted a policy of adopting structurally sound, sustainable budgets where recurring revenues exceed recurring expenditures and the General Fund has a 10% reserve that can be used for any unforeseen event because it is not dedicated to a specific purpose. Given weak and/or declining revenues beginning in FY2008/09, Council has adopted close to $17.1 million in budget balancing measures (primarily expenditure reductions) to achieve budgets consistent with these policies. These included significant reductions in funding for transportation systems, but Council restored most of that funding by adopting a Local Motor Fuel Tax with projected annual revenues of $1.5 million. In addition, adoption of the Stormwater Management fee will significantly accelerate completion of needed drainage improvements.

The greatest impact on services has been felt from personnel reductions. The recommended staffing ordinance for FY2012/13 reflects the results of a multi-year process of budget reductions that led to significant position eliminations. Since FY2008/09, the City has eliminated 34 full-time equivalent positions (FTE's) on a recurring basis and has not funded 6 additional FTE's for an indeterminate period, for a total recurring staff reduction of 40 FTE's. In many instances departments streamlined and reorganized operations to more effectively deliver services with fewer staff and resources. The Library is still holding positions open since its main funding source, property tax, has been stagnant in recent years and will decline slightly this year.

Initially these reductions impacted Administrative departments and the Public Works Department most significantly, but the need for further budget reductions resulted in significant reductions in the Police Department. The Fire Department cut several positions as well, mostly in the Building Safety activity. The City has continued to investigate possible outside funding for services. The Planning Department has been successful in seeking outside funding for certain services. These include having the City's Tax Increment Finance Districts pay for 1.000 FTE Planner II ($80,996), and providing services to the Champaign School District Unit 4 which pays the City for planning services equivalent to 0.400 FTE Planner II position ($30,000). Also, the Energy and Efficiency grant is funding 1.000 FTE Planner II ($80,996) position to create the City's Sustainability Plan.

Despite these reductions, the City continues to focus on the goals adopted by the City Council and make progress on Council's key initiatives. These include several storm water projects, the Urbana-Champaign Big Broadband project (UC2B), and municipal aggregation to lower electric utility costs for residents and small businesses.

Budget Strategy and Overview

The City's Five-Year Forecast in October 2011 showed that the mid-year FY2010/11 budget-balancing measures resulted in a balanced budget for that fiscal year. The Forecast projected a balanced budget for FY2011/12 as well. Unfortunately the projection for FY2012/13 and beyond presents further challenges, as expenditures are projected to exceed revenues throughout the forecast period. To keep expenditures in accordance with the City's policy limit, the Council approved a budget strategy that consisted of General Fund budget balancing measures estimated at $914,677 for FY2012/13.

Budget development is guided by fiscal policies that include keeping recurring expenditures at or below at 98.5% of recurring revenues and maintaining a minimum unrestricted General Fund balance of 10% of expenditures not including transfers. Council directed staff to use the following strategy to close the projected General Fund budget gap compared to policy:

- $350,000 from expenditure reductions,
- $565,000 from revenues (primarily property tax, as explained below), and
- new services or restoration of prior cuts would be funded with new revenues.

Due to the decline in the City's EAV, a large decline in property tax revenues to the General fund represented a significant portion of the projected fiscal gap. The Financial Policies state that when estimating property tax revenues, staff should assume that Council will levy property taxes in an amount that will maintain the same tax rate as the prior year. If a given tax rate is maintained, taxes will go up or down in accordance with changes in the equalized assessed value of taxable property. In accordance with Council's policy, the financial forecast projected property tax revenues declining in accordance with the decline in assessed values.

To address a portion of the revenue solution, Council adopted an overall property tax levy and capital improvements levy at the same dollar amounts as in 2010, resulting in an overall City tax rate of 1.3084. The City's tax rate for 2010 was 1.2942. Council's decision on the property tax levy increased revenue to the General Fund by $465,393 over the amount that would have been received using a target tax rate of 1.2942. That increase provided the vast majority of the revenue required under the budget strategy described above, and reduced the projected fiscal gap by half without a tax increase.

Staff analyzes revenues carefully before making projections for the budget, and budgets on the conservative side. However, making projections requires a number of assumptions, and many things can change throughout the year. As discussed above, the City has several fiscal policies and practices to buffer against unexpected events and to become aware of adverse financial conditions that might require budget adjustments.

Summary of Budget-Balancing Measures

The proposed budget presented to City Council in May 2012 met all but one of the established financial policies. The financial policies target recurring expenditures budgeted at 98.5% of recurring revenues. The 1.5% difference serves as a buffer that protects the City from the need to cut services if revenues fall slightly under projections. It also allows the City a bit more time to make reductions if necessary. The proposed budget has expenditures at 98.6% of revenues, which is 0.1% great than this policy. Council has indicated that this variance from policy was acceptable because it is small and it reduces the need for revenue increases or additional budget reductions. Fortunately, due to small changes, the adopted budget is at the 98.5% level established in the financial policies.

The adopted budget includes expenditure reductions of $331,653 in recurring costs and $60,449 in one-time costs from all City departments. This includes a reduction of 0.50 FTE's and not funding three police officer and three firefighter positions that have not been funded since FY2009/10. These positions will be funded through grants, if possible. Two budget reductions that affect staffing are described below.

The reductions include reducing the Deputy Police Chief for Professional Standards position to the Lieutenant level. One of the primary responsibilities of this position is to investigate citizen complaints. This position had previously been staffed by a Lieutenant until it was upgraded to a Deputy Chief during the Department's reorganization in 2007. The Department is currently determining how administrative responsibilities will be assigned between the two remaining Deputy Chiefs; however, the ability of this position to investigate citizen complaints and enforce professional standards will not be inhibited by the reduction in rank.

The budget also includes staffing changes in the Information Technologies (IT) Department by eliminating the Assistant Director position and adding a technical position. This provides an opportunity to adjust tasks and workloads impacted by the rapidly changing technological landscape. The Administration will examine the tasks currently being performed by IT staff and the technology services needed by end users in order to do their jobs as well as possible. This examination will also consider technologies that the City Administration and Council see as particularly important to priority services, including Council Goals.

Supplemental Budget Requests (SBR)

The SBRs are larger than in recent years and are focused on emergency services and one-time requests that either restore some of the one-time budget balancing measures taken in prior years or enhance City services. The opportunity to add funding to certain areas is mainly due to one-time balancing measures taken in FY2011/12 to rebuild the General Fund balance, unanticipated one-time revenues, and expenditures falling short of projections last year. The total budget for expenditures on SBRs is $2,813,778 for all funds, with recurring expenses of $304,740 and one-time expenses totaling $2,509,038. These figures cover all of the SBR s for all funds. These figures represent net expenditures for the City but do not represent deficit funding. Most of the one-time expenditures will be taken from the unanticipated level of the General Fund balance, while most of the recurring SBRs are offset by revenues such as grant funding and reductions in other areas. Significant SBRs are as follows:

1) Transfer to Capital Improvements Fund from the General Fund to restore a portion of prior year budget reductions - $750,000
2) Funding for future 800 MHz radio replacement for Police, Fire, and Public Works for continued reliability and interoperability functions - $508,190 ($101,638 recurring and $406,552 one-time)
3) Transfer to Library's Capital Fund from General Fund to help pay for replacement of the worn carpeting and to reupholster furniture - $250,000 one-time
4) Economic Development funding to restore a portion of prior year budget reductions - $200,000 one-time
5) METCAD User Fee increase to support 911 call center functions for Police and Fire - $142,201 recurring
6) Summer Youth Employment Program - $100,000 ($20,000 recurring Administration costs and $80,000 one-time for youth placement)

The following table summarizes the SBRs by fund:

Fund	**Recurring**	**One-Time**	**Total**
General Fund	$232,361	$2,388,355	$2,620,716
Environmental Services Fund	72,379	$9,236	$81,615
Parking Fund	$0	$11,814	$11,814
Stormwater Management Fund	$0	$10,714	$10,714
Motor Fuel Tax Fund	$0	$24,640	$24,640
Library Operating Fund	$0	$64,279	$64,279
Total All Funds	**$304,740**	**$2,509,038**	**$2,813,778**

Capital Improvements

Annually, the ten-year Capital Improvements Plan (CIP) is updated to reflect adjustments to annual maintenance projects, new revenue and cost estimates, add projects required by contractual obligations, and prioritize proposed new projects regarding their importance to the ongoing maintenance, rehabilitation and expansion of the City's infrastructure for the next ten years. The budget year of the CIP (FY2012/13) includes approximately $36 million in capital expenditures. The key projects are as follows:

- Annual Parking Lot Maintenance
- Annual Sanitary Sewer Rehabilitation
- Annual Channel Maintenance
- Annual Storm Sewer Rehabilitation
- Washington Street West Drainage Improvements (design and Robinson Court demo)
- South Fourth Street Extension (0587)
- Staley Road Improvements (0557)
- Market Street Improvements (0609)
- Fire Station 3 Land Acquisition (0314)
- Town Center Boulevard Safety Improvements (0481)
- Mattis Avenue Overlay (Windsor to Savoy) (0561 & 0602)
- Widening the Windsor Road Bridge Approaches at I-57

- North Fourth Street Extension (0455)
- Bristol Park Neighborhood Plan Implementation (0641)
- Downtown Civic Plaza (0619)
- Marshall Street Improvements (0618)
- Green Street Streetscape and street improvements from First to Fourth Streets (0507)
- Debt Service for capital improvement and economic development projects including Boneyard Creek improvements, John and Washington Street storm sewers, sanitary sewer expansion and rehabilitation projects, downtown parking deck, Olympian Drive extension into the Clearview Development, main library building, and redevelopment of the former Burnham Hospital site.

Earlier this fiscal year, Council approved a four cent per gallon Local Motor Fuel Tax. Road improvements are a "key project" under the Council Goal "Our City is Fiscally Responsible." The enactment of this revenue will restore 75% of the recurring transportation funding eliminated during prior fiscal years as budget balancing measures. A separate fund was established to manage the proceeds of the four cent per gallon Local Motor Fuel Tax (LMFT). Per Council direction at the time of adoption, two thirds of the proceeds of the LMFT will be directed to arterial street improvements and one third to street reconstruction city-wide. The Ten Year Street Improvement Plan, a part of the Capital Improvements Plan, will guide the expenditures programmed in this fund. This Plan shall be reviewed and adopted by Council annually through the capital improvement planning process. On or before May 1, 2022, an evaluation of the continuing need for this funding will be conducted. Such evaluation will consider the available revenues for street improvements, the backlog of arterial street improvement needs, and the backlog of street reconstruction and maintenance needs.

Additionally, at the April 17, 2012, Council adopted a Stormwater Utility Fee, a user fee based on impervious area. Staff estimates the fee will generate an additional $3.2M annually for the Stormwater Management Fund. The fee for single family and duplex properties, and condos, will be $4.94 per month for parcels with less than 6,000 square feet (ft^2) of impervious area, $10.55 per month for parcels with 6,001 to 8,000 ft^2 of impervious area, and $13.64 per month for parcels with over 8,000 ft^2 of impervious area. The fee for all other properties will be $5.24 per month for 3,478 ft^2 of impervious area.

The City entered into a billing agreement with Urbana & Champaign Sanitary District (UCSD) under which the UCSD will include, as a separate line item on its bill, the City's Stormwater Utility Fee. Over the next year, City staff and an engineering firm, AMEC Earth and Environmental, Inc., will develop the billing database, billing procedures, public education for the Stormwater Utility Fee implementation, and a Stormwater Credit and Incentive Manual for Council review. The fee revenues have been incorporated into the adopted budget and CIP. Staff will propose adding specific projects to the CIP and budget at a future Council meeting.

As a result of the adoption of the Local Motor Fuel Tax and the adoption of a Stormwater Utility Fee, much progress will be made on reducing the backlog of unfunded or underfunded projects over time. However, a number of important projects remain unfunded or underfunded. Some of the factors contributing to this are: annexation of substandard infrastructure, existing policy that does not require developer contributions to the cost of all major infrastructure (e.g. arterial streets), faster expansion of the urban boundaries in recent years than in the past, deferred maintenance of infrastructure (especially for systems of which the City assumed ownership, such as the Boneyard Creek), and the impact of unfunded mandates from both the State and Federal governments. Some of the most significant needs on the unfunded and underfunded project list include:

1) Funding for new City facilities, in particular, a new Fire Station 3 to facilitate its relocation consistent with the Fire Station Location Study, and a new Public Works Facility.
2) Funding for improvements to existing arterial street intersections to meet the demands of increasing traffic. As the City continues to grow, traffic increases occur at existing intersections. Unless these intersections are improved in some fashion, they will typically become high accident locations. Several intersections have been identified as needing improvement but have remained unfunded due to the high cost. Examples include Bradley Avenue and Staley Road ($3.5 million), Kirby Avenue and State Street ($2.3 million), Bradley and McKinley Avenues ($250,000), and Kirby Avenue and Crescent Drive ($250,000).
3) Funding for projects to fully implement the recommendations of the Campus Area Transportation Study. Unfunded recommendations on the Champaign side of the University District are estimated to cost $17 million. A share of this cost would be the responsibility of the University of Illinois.
4) A number of projects and needs identified in infrastructure master plans are unfunded or have been delayed beyond the ideal construction time including bridge replacement, traffic signals, and sidewalk replacement. In addition, the Neighborhood Infrastructure Repair Program is still underfunded as compared to total need.
5) Funds to fill sidewalk gaps on arterial streets at a cost of approximately $2 million.

Including these additional capital needs in the CIP would require one or a combination of the following approaches:

1) adjustments to the priorities in the existing CIP (which would require delaying projects currently in the Plan);
2) increased transfers from the General Fund to capital funds (which does not appear feasible without further increasing overall City revenues);
3) identification of new or expanded funding sources;
4) changes to standards for City infrastructure to reduce its cost; and/or
5) extensive phasing of recommended projects over a 20-30 year time frame.

Reserves

In the Comprehensive Annual Financial Report for last fiscal year, staff implemented a new accounting standard regarding the naming of fund balances. Most fund balances must be designated in certain ways (e.g., “committed”) based on the legal authority that restricts use of the balances. Staff has now incorporated those name conventions into the adopted budget. The names chosen for the adopted budget are consistent with the financial policies previously adopted by Council.

The FY2012/13 General Operating Fund budget includes the following reserves:

- $4.69 million unassigned General Fund reserve, which is 10% of expenditures, not including transfers.
- $602,253 committed balances for the City Facility Reserve.
- $769,222 committed balances for the 27th pay date. (The City pays its employees bi-weekly which means 26 pay dates most years and 27 about every eleven years.)

Financial Summary

The proposed budget for FY2012/13 totaled $105.0 million excluding interfund transfers. The adopted budget, excluding interfund transfers, is $111.3 million. The $6.3 million difference reflects $6.4 million in "rebudgeted" expenditures due to projects or purchases planned for this fiscal year that will not be fully completed until next fiscal year, offset by $0.1 million in reductions resulting from updated information. Other revisions to FY2012/13 proposed budget are minimal.

Revenues for FY2012/13 are expected to total $98.6 million, excluding transfers. FY2012/13 expenditures for the General Fund, which supports most basic municipal services, are $73.2 million including supplemental budget requests and rebudgets. General Fund revenues are budgeted at $68.5 million.

Expenditures not funded by new revenue will be funded through expenditure of fund balances. The budget includes spending down a portion of the General Fund balance as discussed above, but the budget also includes spend-down in other funds. This includes Equipment Replacement Funds, which are generally structured so that their revenues are relatively level each year while their expenditures fluctuate annually based on equipment replacement schedules. For example, a ladder truck is scheduled for replacement in FY2012/13. The General Fund transferred a set amount annually to the Vehicle Replacement Fund (VHF) for replacement of the ladder truck over the life of the vehicle. Replacing the ladder truck next fiscal year will cause the VHF to spend more than it will receive and the VHF fund balance will decline. The City finances many other costs without issuing debt by saving up for expenditures when needed.

The financial plan shows a General Fund balance of about $6.1 million. This includes an unrestricted fund balance of 10% or $4.69 million, which represents about one month of General Fund expenditures, as well as designated reserves of $769,222 for the 27th pay date and $620,253 for the City Facilities. The total for all funds is about $90.5 million of which $58.9 million is reserved for the Firefighters' Pension Fund. The following table summarizes revenues, expenditures, and reserves for all funds:

Revenues & Expenditures	General Operating	All Funds[1]
Beginning Balance	$ 10,693,002	$ 97,546,565
Revenues	$ 68,542,793	$ 104,229,082
Available Resources	$ 79,235,795	$ 201,775,647
Expenditures	$ 73,159,379	$ 111,259,621
Reserves		
Pension Reserves[2]	$ -	$ 58,909,260
Other Reserves & Balances[3]	$ 6,076,416	$ 31,606,766
Total Reserves & Balances	$ 6,076,416	$ 90,516,026

(1) Not including interfund transfers to avoid double counting

(2) This includes Firefighters Pension reserves only, as the accounting for the Police Pension Fund is done by a private firm

(3) Other reserves and balances are restricted or committed due to Council policy, Federal law or State law

Similar to the General Fund, other funds' reserves serve a variety of purposes. The particular purposes depend on the fund type. Reserves in operating funds such as the General Fund bolster resources for revenue shortfalls or other unanticipated events. Total reserves for operating funds (excluding the General Fund) and Library funds are $5,897,730.

Internal Service Funds and Equipment Funds provide services or equipment to other City funds such as the Vehicle Replacement Fund discussed above. The reserves in these funds are planned for future purchases, and eliminate undue fluctuation in expenditures from the funds providing the source of funds. For example, the funding method for the ladder truck replacement described above avoids a spike in expenditures to the General Fund. An expenditure for the entire cost of the ladder truck in one year would require the General Fund to use its reserves, cut expenditures, and/or find additional revenues to pay for the vehicle. Total reserves for all Internal Services funds are $4,449,131 and Equipment Replacement funds' reserves are $4,474,773.

Community Improvement funds are dedicated to capital projects and community development. The City typically uses a "pay as you go" policy for capital project funding similar to funding for major equipment replacement. The practice requires that the money for capital projects be reserved prior to beginning the project. This limits the total cost of the projects since borrowing funds would add debt issuance and interest costs. For large projects, these additional costs could pay for another smaller project to be completed instead. "Pay as you go" financing also allows for more flexibility if another priority arises, a project costs much more than the estimate in the capital plan, or revenues differ from estimates significantly.

Some of the fund balances at the present time reflect unusual circumstances. Recently the State transferred jurisdiction of Market Street and Staley Road to the City. The State provided funding of $8 million that the City plans to spend to improve these roads.

Staley Road improvements will begin this summer and improving Market Street is in the FY2012/13 capital plan. As another example, the Urban Renewal Fund has built up reserves during the past few years to fund the Bristol Park Neighborhood revitalization. The total amount of reserves for all Community Improvement funds is $5,671,421.

The Debt Service funds have reserves of $5,037,295. Setting aside funds to pay debt service, in advance of the payments, is necessary to avoid property tax levies to pay the debt service. The budget also shows reserves of $58,909,260 for the Firefighters Pension Fund because the City provides accounting services to the Fund. Reserves are not shown for the Police Pension Fund because the Police Pension Board has chosen to use the services of a private accounting firm.

Finally, a major portion of annual property tax revenue is received shortly before the end of each fiscal year. As a result, the balance for several funds spike at the end of each year but are spent down over the following months.

Conclusion

The adopted budget preserves critical services with an emphasis on protecting the public's safety; it is balanced, and it meets all of the City's financial policies.

In addition, the City will continue to explore other strategies to address the long-term issue of expenditures increasing faster than revenues. These include two key initiatives adopted by Council as part of its Council Goals: exploring outsourcing services and increasing intergovernmental cooperation.

Acknowledgments

I want to acknowledge the capable and hard work of many staff members from all City departments who worked to develop the proposed Financial Plan, and in particular, members of the City's Budget Review Team and Capital Improvements Review Team. Special thanks go to all City staff for thinking outside the box and providing important suggestions that made a balanced budget possible.

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