

**MINUTES OF SPECIAL SESSION
FISCAL YEAR 2011-12 BUDGET DISCUSSION
HIGHLAND CITY COUNCIL
MONDAY, MARCH 28, 2011**

Mayor Michaelis called the Special Session to order at 6:00pm. Council members present were Schwarz, Bardill, Bellm and Zobrist. Others in attendance were City Manager Mark Latham, Directors Cook and Rusteberg, Director Library Angela Kim, Asst. Director of Finance Kelly Korte; Steve Ferguson, Tracey Robinson, Council Candidate Nicholaides and City Clerk Bellm.

Finance Director Sharon Rusteberg went over a few minor changes made to the overall budget. Under General Administration we took \$20,000 out for the streetscape study; transferring \$100,000 to reserves. We had the chairs for the Council Chambers in the budget for the next fiscal year; however, since we have them now, we will be transferring that amount into reserves. In the Ambulance budget, we had the cost of the stretchers; however, we have purchased those already, because they were in such bad condition. In the 004 account, under Miscellaneous you will see these transfers into reserves.

Electric

Director Cook summarized, under Electric, the largest projects will be moving and retrofitting two Caterpillar generators into a building and retrofitting to maintain IEPA air quality standards, continue maintenance to system, and adding lighting to peripheral routes. As far as Fiber to the Premises (FTTP), we have completed Phase I and will begin construction of Phase II. Our goal is to serve 500 subscribers by the end of the next fiscal year (April 2012). We have set aside \$1.6M for engineering and moving of CAT generators into the Power Plant building. Under Distribution, we have budgeted \$75,000 for transformers; \$50,000, new electric lines; \$20,000, electric poles; \$28,000, peripheral light poles; and, \$170,000 for the digger truck, that was planned in this year's budget.

Mayor Michaelis inquired the electric department is running with one less person this year. Director Cook stated we would have one less person at the Power Plant and transfer more meter reading duties to the one plant operator. City Manager Latham reported one member of Street & Alley has transferred to the electric department. Street & Alley will be back to same level of they had two years ago, prior to taking in the cemetery sexton. The City of Highland receives between \$500,000 - \$600,000 per year from the IMEA in credits to have the generators ready and available to run when the agency needs them. In order to maintain the credits, we must keep the generators EPA compliant. Over the contract with IMEA, that totals over \$12M. Councilwoman Bellm expressed just having the generators available for us is a good thing for us.

Councilman Schwarz inquired about the performance measurement 'Operating income per KWH will exceed .006.' Is that something we can control? Assistant Director of Finance Kelly Korte explained it is net income after operating costs, so we control it somewhat based upon controlling our costs. Director Cook reported are going to review charges for new connections and pole re-attachment fees to cover all related costs.

Fiber to the Premises (FTTP)

Steve Ferguson, Fiber Operations Manager, reported we currently have thirty live units out there, and another 30-40 companies committed. We are trying to install as quickly as possible. Our goal is to be serving 100 by June. Right now, we are testing the phones and anticipate hooking up phone systems in the next month. We anticipate being able to do television hook up by June 1. A ribbon-cutting ceremony will be held April 21. We have invited over 200 dignitaries and associates from Southern Illinois invited. There will be a ceremony beginning at 11:00am, followed by recognition of dignitaries, lunch, and an open house. We hope to show video of the channels, provide video conferencing with the phone service, and have internet access available. Mayor Michaelis inquired about parking for the event. Steve reported we have received permission to use Poplar Junction's parking lot and plan to have flaggers to assist with crossing Poplar Street. City Manager Latham reported we plan to acknowledge members of the Connect Highland group for their efforts, at this event.

Director Cook stated, with regards to the budget, we have done our best estimate. Director Rusteberg pointed out, in the first year, the electric department will have to help fund the debt. After the second year, we should be in the black. Councilwoman Bellm asked if there are any changes, from the original plan, as to where Phase II will build. Director Cook stated, right now, we plan to stay about the same. It may change to target new areas where we feel the take rate may be higher. Councilman Schwarz inquired the live takes are all businesses. Steve replied yes, because we do not have video available yet; therefore, we marketed to businesses. Councilwoman Bellm asked if the channel line up is still in the works. Director Cook reported it is 98% done.

Miscellaneous Funds

Library

Angela Kim, Director of Louis Latzer Memorial Public Library pointed out that all of the annual statistics have increased. I fully anticipate the statistics, that I put compile each May, will surpass the 2010 figures reported. We are on the list of those waiting for fiber hookup, which will be a huge resource. Director Kim thanked the council and city staff for their support this past year. She reported that we are officially dry. At this point, we are seeking different grants for accessibility improvements and working on funding for new landscaping. We do have a grant for e-books and we are working on making those selections. Rotary has been gracious enough to matched a \$10,000 anonymous donation that we received last year, in addition to providing manpower to tear up the old carpet and do other tasks to help with the remodeling of the children's library. Staff is working to get our summer reading program geared up. The budget for the upcoming fiscal year does not change much. Our income is primarily the taxes received. It was a decision from the board to give staff a 2% increase. If we get the grant money, and need to adjust the budget, we will.

Mayor Michaelis asked how many people are on staff at the library. Director Kim stated I am the only full-time staff member. We have twelve part-time staff members that work any where from 17 hours to 70 hours in a two-week period. We try to let staff work their own schedule, as much as possible. Sean Riggs and Kathy Kessler are the top two in hours, typically. Sean does a lot of the website and computer projects. Councilman Schwarz asked how much would be required for the matching grant. Director Kim responded I asked for the full amount of \$125,000. If we get the full amount, we would approach local organizations for funds, the board could decide to do a fundraiser or take out a loan backed by some of the CDs in the trust fund. Director Kim added it has been very helpful to be interacting more with the city staff.

Councilwoman Zobrist noted the amount received by those outside of city limits has dropped. Director Kim explained membership rates for a household are based off the property tax value that is taken from the county's website and calculated to the tax rate. It is more economical for those that live in a small home or a trailer. However, for some, at the higher end, they feel they can go to other places and purchase books for less cost per year. The board evaluates this each year and votes on how to establish those rates. We had a large turnover on the board, this past year, so I do not know if it will remain the same or not.

General Administration

Director Rusteberg reviewed budgeted use of hotel/motel tax revenue in the upcoming financial year, is what the council generally approves: \$1,000, Gun Show; \$500, Swap Meet; \$1,000, Highland Speedway; \$1,500, Korte Rec Center marketing; \$5,000, Tourism Bureau of Southwestern Illinois; \$8,000, Art in the Park; \$5,000, Farmers' Market; and the balance of \$13,500 for the 175th Anniversary celebration. \$5,000 is budgeted in the current year for the 175th Anniversary. The fireworks display is going through the Highland Area Community Foundation. We did pay the deposit, and there may be some small expenses. Councilman Schwarz inquired if hotel/motel tax revenue is typically around the same amount each year. Director Rusteberg reported it has been around \$60,000 for several years. The Highland Chamber of Commerce receives \$24,000 for the promotional work they do with PB&J, the Christmas Parade and in general, leaving ~\$36,000 to distribute.

Director Rusteberg reported the city property and equipment reserves are shown under miscellaneous funds. Street & Alley sets aside funds into this, as they are not a separate entity, as water, sewer and electric. Account 006 shows the projected revenue of \$75,000 in TIF funds. We will use those funds to handle storm drainage. The goal is to get enough funds in there to bond for improvements to drainage in that area. 0.25% of sales in water and sewer go towards funding economic incentives.

The police pension fund is a fiduciary fund. Director Rusteberg reported we may not have Dennis Bellm going back onto the pension fund board. His term is up for renewal, and in order for him to serve another term, it requires him to take 16 credit hours. Anyone new going on will have to take 30 credit hours. That is a lot to ask for someone working full-time and/or actively running a business. Mayor Michaelis asked is it possible to provide some compensation for their time away from their jobs. City Manager Latham pointed out that our fund is fully funded and in good shape, which cannot be said for some communities.

Director Rusteberg reported IMRF went up about 10% last year. Liability insurance is based upon our history as well. Solid Waste is one rate and it remains the same for the next four years. \$40,000 from Solid Waste goes into Street & Alley for alley repairs and \$118,000 to General Administration for coordination, billing and collection duties. As the cemetery gets money, they are paying back the fund for property purchased last year. They owe about \$85,000. A trust fund allows use of the interest to hire youth to come in and repair headstones.

Assistant Director of Finance Kelly Korte reviewed key points of the proposed budget: A 6% increase in O&M expenditures, coupled with a 4% increase in operating revenues. \$1.3M is transferred into reserves, which is 36% increase over the prior year. The next section is a historical overview of at least five years worth of data on different points. There is also the performance budget summary. With O&M expense increasing 6%, we are staying within 85% of revenue, at 82%. \$37,765,264 is the projected revenues for FY 2011-2012. This is up from the current budget projection of \$35,900,456. Expenses are \$26,884,479 from \$25,296,494. Director Rusteberg pointed out expenses will exceed net revenue by \$783,417, with several large projects such as Fiber to the Premise and roadway improvements. Remaining balance on total debt service, as of May 1, 2011, will be \$29,314,734. Director Rusteberg pointed out, in 004, where it shows amounts set into reserves for property and equipment for different funds, you will see \$1.7M that is set aside as a three-month catastrophic operating fund, which is our policy, as a city, to keep on hand. At the last budget meeting, we briefly discussed the need to find funding for improvements to the sewer lines. To do everything we want to do with the lines, it would cost an ~\$20M. We are trying to figure out how to phase it, until 2018, when there is a bond issue going off. The City of Belleville recently got \$82M in IEPA bonding for sewer improvements. That type of bonding is about 2% lower than going out for a General Obligation Bond.

City Manager Latham reported a lot of things are going on at the state level that may impact the budget, with regards to the amount of taxes returned to communities. About \$850,000, in general funds could be cut and they are discussions to possibly eliminate TIF districts. Councilman Schwarz asked what percentage of property taxes goes towards streets. Director Rusteberg reported the city receives ~16% of property taxes; the school is ~60%. 1.25% of sales tax goes to Non-Home Rule Tax for streets. City Manager Latham reported no property tax goes directly to Street & Alley; they do get a small portion of the state income tax. The police department gets the most from state income tax, at ~\$500,000 per year. Councilwoman Bellm expressed Staff does a tremendous job and it really shows they care. If the state makes cuts, it is going to hurt, but not as bad as

in some communities. We are fortunate to be in the financial position we are. Director Rusteberg stated we have good direction from Mark. City Manager Latham pointed out we have less employees then we had in 2006, if you take the newly created fiber department out.

Councilwoman Bellm made a motion to adjourn; seconded by Councilman Bardill. All council members voted aye, none nay. Motion carried. 7:07pm.

Joseph Michaelis, Mayor

Barbara Bellm, City Clerk