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9/24/2009

The Honorable Mayor

Margaret Hornady

Administration and Directors

Jeff Pederson – City Administrator

RaNae Edwards – City Clerk

Troy Hughes – Fire Chief

Steve Lamken – Police Chief

Gary R. Mader – Utilities Director

Mary Lou Brown – Finance Director

Steve A. Fosselman – Library Director

Craig A. Lewis – Building Department Director

Steve J. Paustian – Parks and Recreation Director

Jon Rosenlund – Emergency Management Director

Steven P. Riehle – Public Works Director

Brenda Sutherland – Human Resources Director

Dale Shotkoski – City Attorney

Chad Nabity – Planning Director

September 29, 2009

Honorable Mayor and City Council

Provided for your information, and for the use of City personnel and the citizens of Grand Island, is the adopted budget for the City of Grand Island for FY 2009-2010.

Following the adoption in September of the 2008-2009 Budget, a project was initiated that had the goal of producing information that illustrates pertinent trends in City finance that would be useful in formulating future budgets and fiscal policies. In December, the City Council was presented with the Financial Trend Monitoring System. That presentation highlighted several major fiscal/financial trends that had developed over the previous ten years, including gradual declines in recent years in the unrestricted General Fund balance as well as in annual revenue of the General Fund that is available for financing of capital projects. Additionally, the trend analysis illustrated the fact that sales tax revenue has not been sufficient to fund inflationary growth in General Fund spending after meeting the mandated commitments for project funding as well as replacement of revenues formerly generated by property taxes. Several key indicators also pointed to the fact that current programs in the General Fund could not be sustained with existing revenue levels, and that debt financing would be required to sustain a responsible level of capital improvement projects for facilities that are associated with General Fund programs.

Grand Island is a growing community, and City government becomes impacted in many ways as the physical size of the City grows and increased population puts more demand upon services. The City is fortunate to have a highly competent team of management professionals, and a workforce that is dedicated to quality service delivery. With a number of public facility construction and expansion projects completed over the past few years, City facilities are generally in good shape. The need to plan for a new Fleet Services Facility persists, and the site that the City formerly purchased for a prospective State Fire Training Center will now be evaluated for suitability for Fleet Services. Funding for the renovation or replacement of Lincoln Park Pool was not included in the Budget, and the discussion on the future of that facility will continue.

While Grand Island has been less impacted by the economic downturn than most cities in the nation, sales tax revenue for the current fiscal year is basically flat as compared to 2007-2008. This occurrence, while not insignificant, adds to a challenge that already existed with respect to available revenue for the General Fund and for the Capital Improvements Fund. The projected flattening of sales tax revenue triggered several administrative constraints on spending in 2009 that will continue in 2010, including restrictions on travel, a wait period of hiring for open positions, and a requirement for adherence to line item spending with exceptions only with the approval of the City Administrator.

A Budget Focus Retreat for Department Directors was held on March 25, during which the financial picture for the budget preparation was analyzed. Subsequent to that Retreat, Department Directors were required to undertake two rounds of review of current-year appropriations in order to identify opportunities to make reductions. These efforts resulted in a cumulative total of \$1,190,000 in reduction to authorized spending for the 2008 - 2009 Fiscal Year. One effect of the reductions was to increase the

beginning cash balance in the General Fund for the 2009 - 2010 Fiscal Year. An additional measure taken during this period was a complete review of cost allocation from General Fund support departments to all of the City utility operations.

This Budget retains existing program and service levels while limiting funding for personnel additions to only those deemed to be critical. Commensurate with that, personnel additions for General Fund funding include one dispatcher in the Communications Department as well as four new Police Officers. The Fire Department was authorized to submit application for grant-funding for six Firefighters. Successful grant funding for any of these positions will obligate the City to fully fund the position(s) for a minimum of one-year after grant funding runs out. Funding for Capital Improvements is relatively modest and a number of projects have been deferred for future funding consideration.

Two measures will be taken that will provide revenue to the General Fund sufficient to maintain cash reserves near the level of \$4.2 million, which represents approximately 12.3% of the annual General Fund operating budget. An increase in property tax of \$694,996 is included, which would require a mill-levy adjustment from 25 cents to 27.25 cents. Additionally, this Budget includes a General Obligation Bond sale of \$2 million to provide approximately 41% of the revenue necessary to fund the proposed Capital Improvement Program. It is anticipated that the City will need to look more to debt financing for capital improvements in upcoming years in order to accomplish necessary infrastructure, public works, and recreational facilities maintenance, replacement and expansion.

The Electric, Water and Waste-Water utilities will each undertake significant facilities and systems upgrades in 2009-2010. The Electric Utility plans several system improvements totaling \$3.5 million in distribution improvements and \$4 million for substation upgrades. Together with significant upgrades to the Platte Generating Station, the municipal electric utility continues to reinvest in its ability to continue to provide an abundant supply of reliable energy to the community.

The City Council has given approval to a new capital improvements plan for the wastewater utility that will reinvest approximately \$50 million into the combined collection/treatment system over the next 5-7 years. Work on a new two-stage anaerobic digester system will begin in this budget year, and is expected to be completed the following budget year. Funding of \$725,000 is included as the City's contribution to continued work on the Northwest Drainage Project, which is amongst a total of \$1.7 million proposed to be spent on drainage projects in the new budget year.

Two capital projects related to the relocation of the Nebraska State Fair to Grand Island are included in the proposed budget. The amount of \$200,000 is earmarked for construction of strategic turning lanes on portions of Stolley Park Road between Locust and Stuhr Road streets. Additionally, \$1.3 million is budgeted for Phase 1 of the Veterans Athletic Complex which is being constructed to replace athletic facilities lost at Fonner Park due to requirements for vehicle parking. Monies for this project will be repaid to the General Fund through annual proceeds from the food/beverage Occupation Tax.

Fiscal Summary

The total 2009 - 2010 budget is \$160,435,743. This is \$7,124,146 or 4.6% more than the \$153,311,597 in the 2008 - 2009 budget. Following is a summary of the appropriations for each of the fund groups contained in the 2009 - 2010 Budget:

General Fund	\$37,457,482
Permanent Funds	\$0
Special Revenue Funds	\$7,442,956
Debt Service Fund	\$1,633,346
Capital Projects Fund	\$4,477,040
Special Assessments Fund	\$0
Enterprise Funds	\$96,399,811
Internal Service Fund	\$9,687,465
Agency Fund	\$1,087,075
Trust Fund	\$2,250,568

Property Taxes

The property tax requirement for the 2009 - 2010 budget year is \$6,406,867 or 12.2% more than the 2008 - 2009 requirement of \$5,711,871. The City of Grand Island valuation for 2009 is \$2,351,143,887; therefore, the property tax levy for the 2009-10 budget year is \$.2725 per \$100 of valuation, which is an increase of 9% from 2008-09.

User Fees

A great deal of scrutiny has taken place on User Fees to assure proper revenue for the departments that collect fees for their services. In reviewing the various fee based departments, some deficiencies were identified and are addressed in the 2009 - 2010 budget. There are adjustments to fees planned to offset increased cost of operation, regulation, and demand regarding the building, administration, ambulance, humane society, shooting park, cemetery, aquatics, planning, wastewater, water and electric activities. This revenue source will continue to be reviewed for possible adjustment in City cost-recovery policies for services and programs with a definable customer base.

Compensation, Benefits, and Staffing

Compensation

In order to keep salaries competitive, comparable and in accordance with agreed upon contracts, the following salary adjustments are included in the 2009 - 2010 budget:

Non-union employees	3.5% (Survey-based)
IBEW-Utilities-Finance	3.75%
IBEW-Wastewater	3.5%
FOP	3.5%
AFSCME	4.0%
IAFF	3.5%
New IBEW Union	4.0%

Benefits

The administration of the city's health insurance was moved to Mutual of Omaha, now Coventry, three years ago, which held our costs in check. Favorable claims experience

over the past two years, combined with a soft market, created a very favorable climate for seeking proposals for a new Third Party Administrator and Reinsurance Underwriter. The Employee Insurance Committee is presently formulating a recommendation for new contracts that is expected to result in no cost increase to the City for employee health/dental insurance for the next budget year. Employee contribution to the cost of dependent health insurance will, however, increase by 1% beginning in October of 2010.

Cash Balance

It is extremely important to maintain cash balances in the city budget to assure cash flow strength, promote prudent spending and to have adequate reserves in case of an emergency. Grand Island's conservative approach to budgeting and spending has allowed for proper levels of cash balance over the last decade. However, the increase in revenue sources has not kept up with rising personnel and operating costs, and the City has become over-reliant on non-sustainable sources of revenue to balance revenues with expenditures. With this budget, the City has identified 12.5% as the guideline for the reserve balance for the General Fund and, as a result, the use of cash reserves to balance operational expenses will be reduced.

The 2009 - 2010 budget includes \$44,800,585 as a cash balance in all funds and \$4,180,504 in the General Fund. The projected cash balance in 2008 - 2009 is \$62,649,427 for all funds and \$5,771,557 for the General Fund only. As stated earlier, this amount falls within the mid-range of the "best practices" recommendation of 10-15%.

½ % Sales Tax

On May 11, 2004 the voters passed a ½ % city sales tax that was to be used for property tax relief and to build capital improvements. This year it is projected that we will collect \$4.5m from this sales tax. About \$2.3m will be placed in the General Fund to offset property taxes. The remaining \$2.2m will be used to pay a portion of the debt costs for the following projects:

- | | | |
|---------------------------------------|----|---------|
| • Debt Service Library | \$ | 835,000 |
| • Debt Service Law Enforcement Center | \$ | 861,063 |
| • Heartland Events Center | \$ | 572,000 |

Notable Projects/Expenditures

Following is a list of notable projects/expenditures that have been included in the 2009 - 2010 budget:

General Fund

- \$750,000 is included to fund economic development activities as determined by the city's LB 840 plan
- Lease payments for the Heartland Events Center are included in the amount of \$572,000
- \$835,000 is included to fund the lease payments for the Library expansion project
- \$450,000 is budgeted in the Street Department for repair of concrete streets

- \$111,700 is included in the Police Department budget to continue to contract with Hall County for use of the computerized law enforcement management system
- The Street Department budget includes a replacement Street Sweeper for \$168,000, an Aerial Lift Truck for \$125,000, and a Dump Truck for \$84,950

Equipment Replacement Fund

- \$180,000 is budgeted to replace an ambulance that was totaled in an accident

Capital Improvement Fund

- There is \$200,000 for Stolley Park Road turn lanes
- The city's contribution to the Moore's Creek flood control project is included for \$250,000
- \$725,000 is allocated for continued support of the Northwest Drainage Project
- The CCC to Wood River drainage project is budgeted for \$382,500
- \$115,000 is budgeted to update the City's Comprehensive Drainage Plan

Enterprise Funds

- The Solid Waste Department is including a wheel loader for \$230,000, semi-tractor for \$110,000, transfer trailer for \$80,000, truck maintenance building for \$80,000, excavator for \$90,000 and re-permitting of \$135,000
- There are projects to keep up with growth in the Electric Department including \$1,200,000 in materials to expand the overhead distribution system; \$1,500,000 in materials to expand the underground distribution system; and \$4,000,000 to pay for additional distribution substations
- The Water Department includes \$550,000 for water main replacement and \$250,000 for new water main districts
- The Water Department is also planning for trunk line expansions of \$650,000 and \$275,000 for Pine St./Kimball St. Reservoir work
- The Sewer Department plans to precede with aerobic digester improvements for \$7,850,000, concrete paving to a storage facility for \$45,000, machinery and equipment of \$207,650, lift station #7 improvements of \$150,000, sewer rehabilitation of St. Patrick Avenue for \$350,000, future sewer districts of \$250,000, upgrade SCADA system for \$609,000, install new mechanism primaries for \$1,050,000 and hydrogen sulfide controls for \$250,000
- The Golf Course plans to purchase \$48,000 in airifiers and a seeder for \$13,000

Acknowledgments

As expected, the City of Grand Island Budget can not be balanced without an increase in property taxes to maintain the current program of services to the citizens. We commend the Department Directors who oversee General Fund Departments for their diligence in identifying cost-cutting opportunities where they existed. We do believe that present staffing levels are appropriate to the demands for service that the City is presently fulfilling.

Future decisions to eliminate or reduce programs may produce opportunities to lower costs associated with staffing. The City has embarked upon a substantive process of "Prioritization" that will assist in determining the present and future value of City programs for consideration for future budgetary allocation.

We would like to thank everyone who contributed to the many difficult decisions that went into this Proposed Budget. Several individuals played key roles in the process

of information generation, budget formatting, and data-entry. In particular, we recognize the efforts of Paul Briseno, Jaye Monter, and Yolanda Rayburn.

Finally, we would like to thank the City Council for its policy direction and support. We look forward to working together for another successful year on behalf of the citizens of Grand Island.

Respectfully Submitted,

Jeff Pederson, City Administrator

Mary Lou Brown, Finance Director