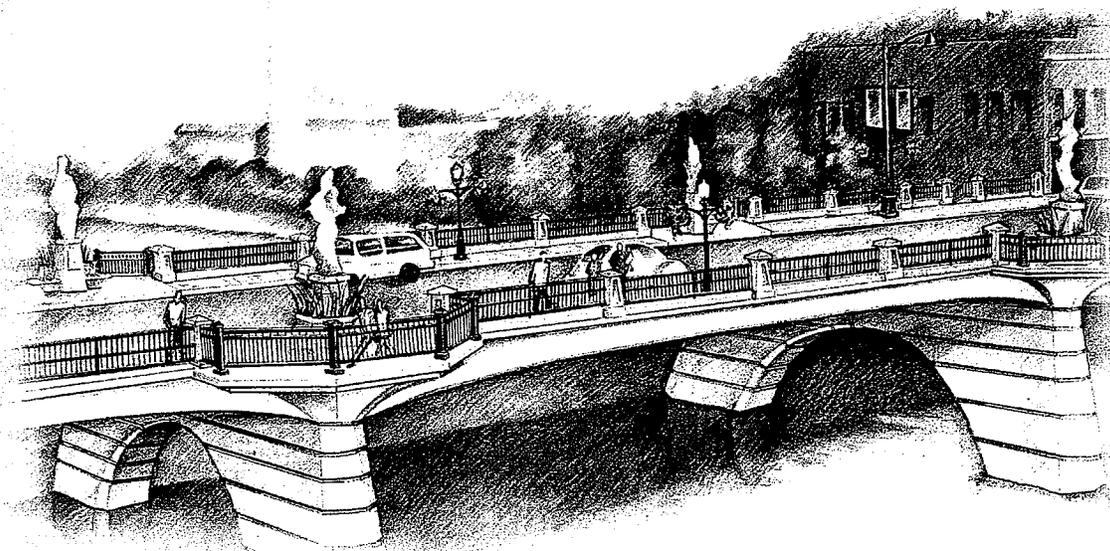


City of Batavia



*2007
Annual Budget*

City of Batavia

2007 Annual Budget



December 4, 2006

Mayor Schielke and Members of the Batavia City Council:

Attached is the proposed City of Batavia 2007 Budget. This document reflects the recommendations for use of public resources to not only maintain but also raise the quality of life in the City of Batavia. The resources are allocated to achieve the Vision adopted by the Mayor and City Council, and found herein. The budget is presented in manner which shows the government fiscal profile for the past 2 years, projects the status as of the end of 2006 as well as the projected status at the end of 2007. We have also included reference to several multi-year projects, not for approval at this time, but to give you and the community a glimpse of the direction in which we believe the community wants to head. As the community becomes larger, yet nears the end of its two decades long growth spurt, it is more usual than not to be involved in projects that are implemented over the course of several fiscal years.

This budget shows the City to be in a strong financial condition at the end of 2006, and projects it to remain so throughout 2007, with the resources to handle several large, non-recurring expenditures during this next year. As indicated in the following Finance Director's 2007 Budget Overview, even after the expenditure of funds for the Donovan Bridge, the Baptist Church, fire stations and health insurance plan rebalancing, the City's reserves at the end of 2007 will be in the 110 operating day range. This is a healthy community reserve and exceeds the generally recognized 60 operating day reserve level. Subtracting these extraordinary expenses, the 2007 budget projects revenues to exceed expenses by approximately \$500,000.

While we have discussed the notion that Batavia is nearing the "end" of growth, it is only the end of one kind of growth, the growth by annexation to the physical boundaries of the City and building upon vacant land. There are other previously developed parts of the City that are already in another phase of growth, and that is redevelopment. Redevelopment activity tends to be more complex on a per acre basis. The time and effort to deal with 30 small-business conditional zoning uses requires far more of our resources than does a typical 30 lot subdivision or 50 acre commercial development. So, it is true in only one sense that the City is "slowing down." The reality is that the City continues to move forward in many more areas.

The 2007 budget will provide for the bulk of the work on several substantial projects, some of which have been in the planning stages for a long time.

These projects include:

1. The rebuilding of the William J. Donovan Bridge across the Fox River,
2. The rebuilding of both fire stations and provision of a permanent site for ESDA,
3. The electric utility upgrade to receive electric service at a more reliable 138 kV level.
4. The completion of the acquisition of the Batavia Baptist Church, as part of the City's intentions for downtown renewal.

The budget supports attention to residential areas of the community, beyond the fire station and ESDA projects. As always, comprehensive snow plowing, street cleaning, electric, water and sewer system services are provided. In addition there is funding for maintenance of the cemeteries, detention areas and for drainage projects on the east side, which have been under pressure due to land use for several years. The budget continues to fund maintenance of existing streets and walks, and extends new walks in accord with the Council's policy to have a walkable community. The budget also continues to fund an important study of the City's sewer system and the partnership interest in the Prairie State power generation project.

The budget designates resources for downtown renewal, a top value in the community. The coming year includes the rebuilding design of the Wilson block on each side of the bridge. Plans will include provision of water services to the buildings to induce residential development there. Use of the revenues derived from the TIF Districts will support much downtown activity. The planning of the North River Street area will be done in 2007 with construction planned for 2008. Enhancements to the exterior of the Government Center, renovation of the Viet Nam Memorial, Phase 1 engineering of an additional level of the River Street Parking deck will be started, along with acquiring the first bridge sculpture, other public art, continued support for the facade program, MainStreet and Art In Your Eye exhibit the commitment of the City Government to making the heart of the City more attractive.

The budget continues the expansion of technology to aid in efficiency and raise service levels. It contains funding for a new police record management system that is being aided by a significant federal grant. Also supported is the first phase of a land use/permitting/licensing system, which may be the largest single software project the City has ever embarked upon. The program, which will be tied to the City's growing GIS system, will allow information to be obtained, decisions made and services rendered more quickly and easily. It should also ease the need for added personnel as land use and other activities continue to increase and become more complex.

The continued increase in demand for services is reflected in this year's budget by the addition of the equivalent of 1.4 additional personnel. Those positions are a full time GIS analyst, whose major duties will be to add the utility and street infrastructure to the GIS system and to aid the GIS coordinator with the continued construction of the system. The second position is a half-time engineering assistant who will help with administration of the multitude of projects being over seen by the department as well as assist with CAD work. There will be a slight reduction in hours for another engineering staff person.

While we are satisfied with sales tax revenues for 2006, we are being cautious and have made conservative projections for next year. Even with the addition of new retail stores and restaurants and the continued growth of the waste transfer station, we need to keep in mind the continuing strength and development of our surrounding areas, from which we have historically looked to for a good portion of consumers.

The budget is the culmination of the hard work of all departments in the City. Each department has its vision as to how it can best use the community's resources to provide services. Like any company or family, we must use the resources available to us wisely and the staff believes this proposed budget evidences a wise use of the resources made available by the citizens of Batavia through its Mayor and City Council.

Sincerely,

A handwritten signature in black ink, appearing to read "William R. McGrath". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

William R. McGrath
City Administrator

City of Batavia Vision Statement

Batavia is a Community that...

Engages its citizens in a spirit of volunteerism and participation.

The City of Batavia is the people who live here; therefore, it is crucial to engage the ideas, energy, involvement and perspectives of Batavia citizens in order to build toward the future.

Is self-sufficient.

People can work, live and recreate here and yet remain fully engaged with the world around us. Self-sufficiency involves creating the jobs, businesses, housing, schools, cultural and recreational opportunities to allow people to meet their needs within their own community.

Provides high-quality, reliable and affordable city services.

Citizens of Batavia benefit from the high-quality services of police and fire protection, street planning and maintenance and public utilities that provide for a safe and convenient community. These services are delivered in the most cost-effective and responsive way possible.

Preserves a strong relationship with the natural environment.

Batavia provides a balance of city amenities and abundant open spaces and natural areas and considers the environmental implications of its actions.

Fosters a small-town atmosphere of friendliness and caring.

Batavia creates a balance of small-town warmth and managed growth, with a vital downtown, historic homes and neighborhoods, ease of pedestrian access and spirit of welcome for its diverse population.

List of Officials

Honorable Jeffery D. Schielke, Mayor

City Council

Ward 1:	Garran Sparks	Jodie L. Wollnik
Ward 2:	Victor Dietz	Alan P. Wolff
Ward 3:	Cathy Barnard	Linnea C. Miller
Ward 4:	Thomas L. Schmitz	James T. Volk
Ward 5:	Eldon Frydendall	Forrest L. Nelson Jr.
Ward 6:	Robert F. Liva	Lisa Clark
Ward 7:	David J. Brown	Nancy S. Vance

City Administrator

William R. McGrath

Assist. City Administrator

Randall R. Recklaus

City Attorney

John Noble

City Clerk

M. Hannah Volk

City Treasurer

Gerald R. Miller

Department Heads

City Engineer

Noel Basquin

Director of Finance

Peggy Colby

Information Systems Coordinator

Howard Chason

Fire Chief

Bill Darin

Superintendent of Water & Sewer

John Dillon

Superintendent of Streets

Scott Haines

Director of Public Works

Gary Larsen

Administrative Assistant

Bob Popeck

Superintendent of Wastewater

Byron Ritchason

Chief of Police

Gary Schira

Director of Community Development

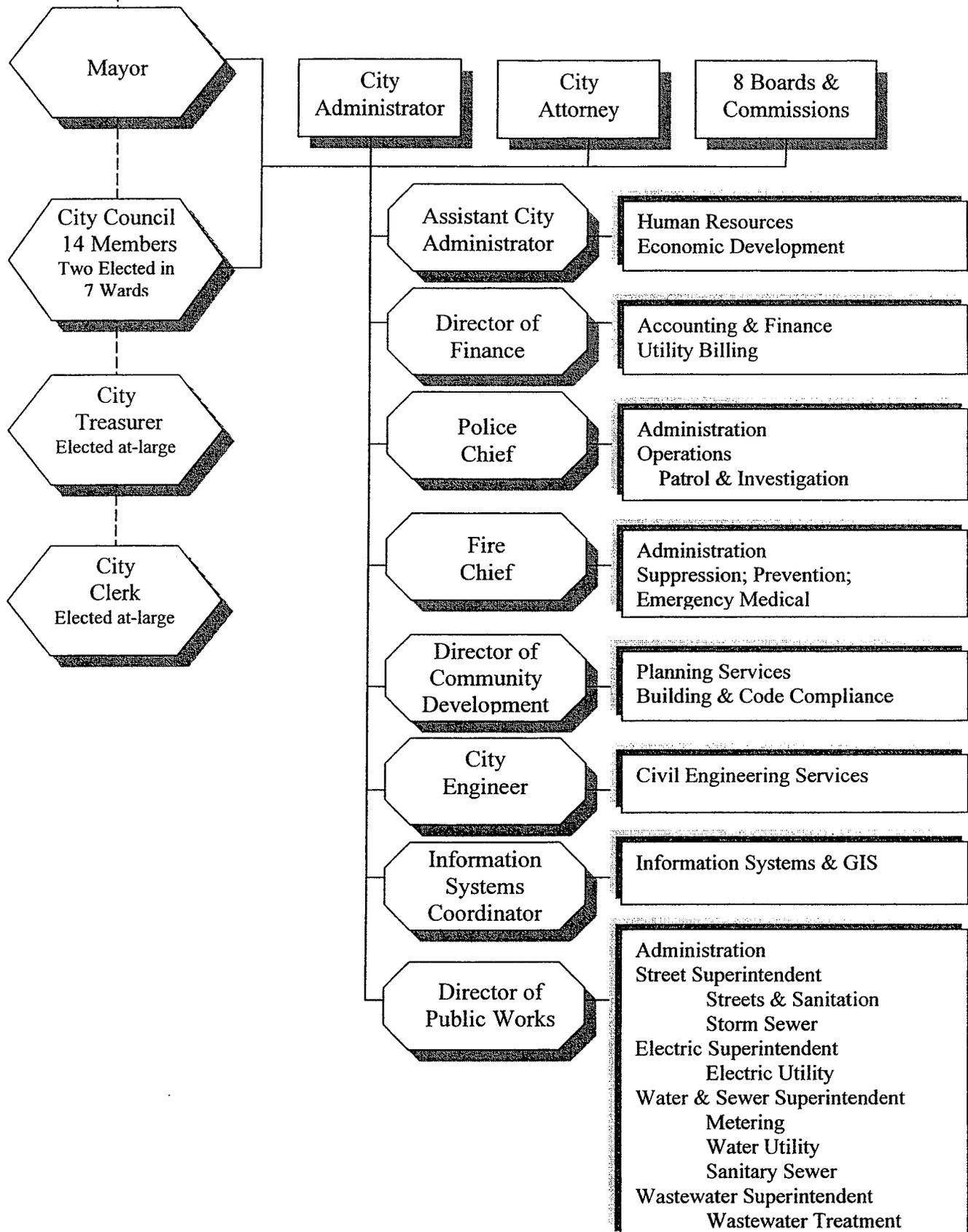
Jerry Swanson

Superintendent of Electric

Hank Vejvoda

City of Batavia Organizational Structure

Citizens of Batavia



City of Batavia

2007 Budget Summary

Total Budget	Operating	Capital	Debt	Interfund
\$121,146,120	\$62,693,364	\$47,148,388	\$5,198,217	\$6,106,151

Total by Fund	Operating	Capital	Debt	Interfund
General \$30,456,865	\$26,951,426	\$ 215,000	\$ 160,520	\$ 3,129,919
Major Capital \$19,997,624	\$ -	\$19,997,624	\$ -	\$ -
Minor Capital \$ 2,310,500	\$ -	\$ 2,310,500	\$ -	\$ -
Debt Service \$ 2,251,676	\$ -	\$ -	\$ 1,601,676	\$ 650,000
Electric \$56,242,296	\$31,355,349	\$22,953,419	\$ 1,135,844	\$ 797,684
Water \$ 5,241,744	\$ 2,261,969	\$ 1,235,000	\$ 931,821	\$ 812,954
Wastewater \$ 4,635,415	\$ 2,124,620	\$ 436,845	\$ 1,368,356	\$ 705,594
Permanent \$ 10,000	\$ -	\$ -	\$ -	\$ 10,000

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2007 Budget Overview

Following is the City of Batavia's 2007 Budget. The budget provides the legal authority for spending tax dollars. Under Illinois Budget Law, the budget must be passed before the start of the City's fiscal year, which is January 1. After the budget is passed, no increase may be made without City Council approval.

The total budget for all funds for 2007 is \$115,039,969, net of inter-fund transfers, of \$6,106,151. This total includes capital expenditures of \$47,148,388 compared to \$17,212,998 in 2006. A detailed description of Capital Projects for 2007 can be found in the Appendix. The total budget net of capital reflects an 20.1% increase over 2006 projected total expenditures for all funds.

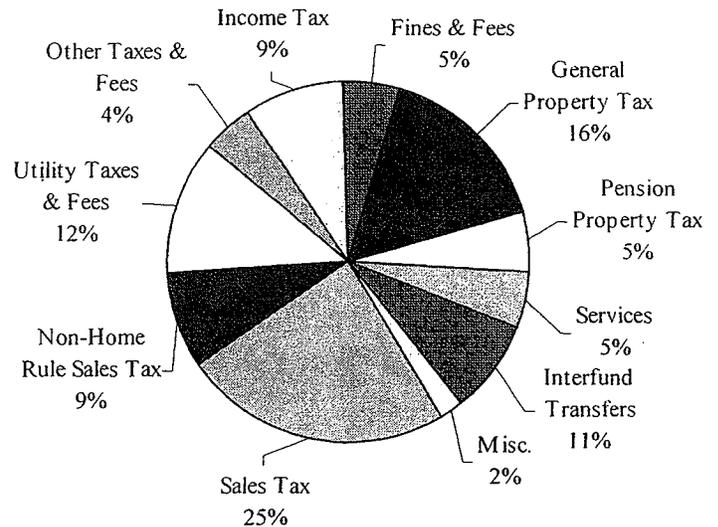
Of the overall increase, salaries are expected to increase 9.1%. The changes include normal wage increases, increases due to vacancies and new hires. Fringe benefits including pension and health insurance are expected to increase 25.0% with the majority of the increase due to health insurance. Other changes to the budget relate to changes in commodity costs, contractual obligations and debt payments.

The total budget, while informational, should not be used in assessing budgetary trends. Capital costs and financing proceeds can cause the total budget to fluctuate significantly from year to year. This budget contains both capital expenses and bond proceeds for the fire station renovations and water and electric projects. The City of Batavia budgets for the General Fund, Capital Projects, Debt Service and Electric, Water and Wastewater Utilities. The Utility or Enterprise Funds are primarily supported through user fees or rates.

General Fund

For accounting purposes the General Fund budget is comprised of General Activities, Self-Insurance and Street/MFT Activities. Review of the budget should be done at the Activity level. General Activities accounts for the day-to-day operations of the City. Services such as police and fire protection, in contrast to utilities, are financed from taxes and fees.

General Activities Revenues



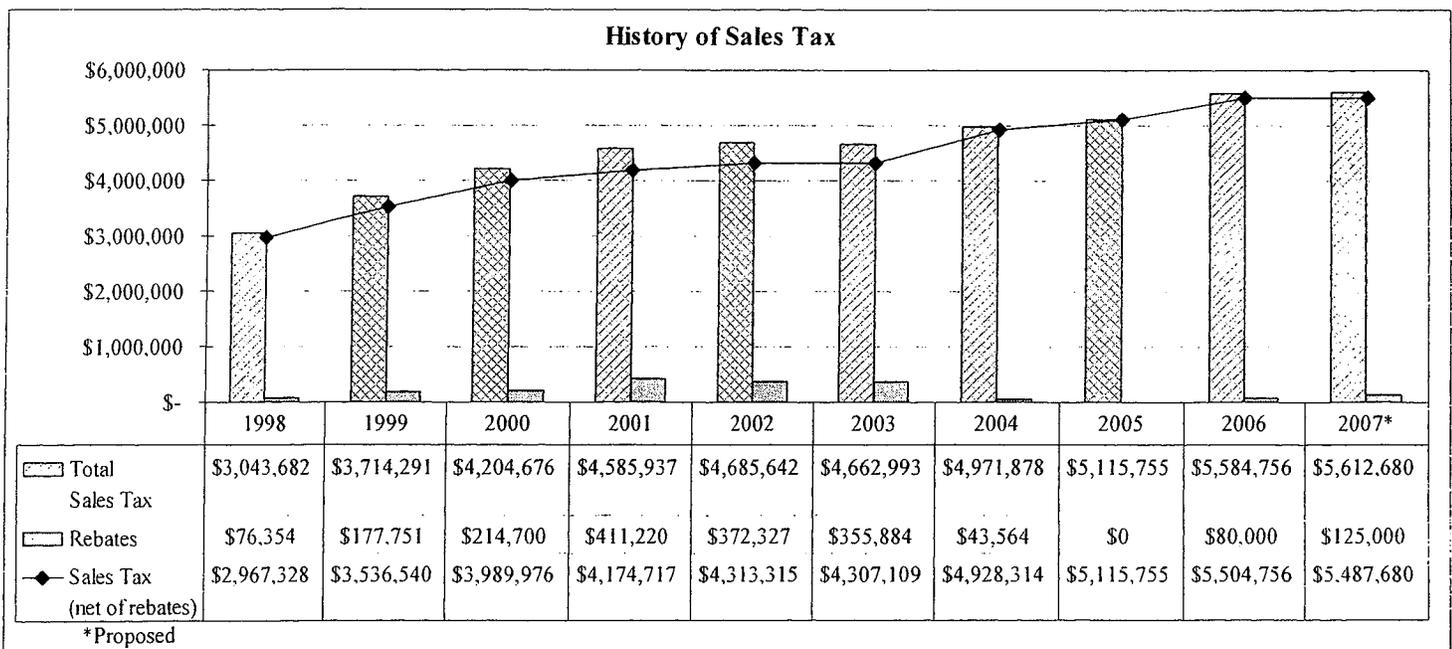
Budgeted revenues for General Activities are \$23,569,971; a 6.5% increase over 2006 estimated receipts. The majority of the increase is attributable to a full year of non-home rule sales tax and waste transfer station fees. Other increases relate to grant funds and taxes. Combined sales taxes represent 34% of revenue. Receipts for 2006 are expected to end the year slightly over budget. Although we do not receive sales tax information by store, it is assumed that this increase was a result, in part, from the opening of Wal-Mart and surrounding stores. The 2006 increase of 9.7% over 2005 provided a significant boost to

revenues. The same kind of increase is not expected for 2007. The 2007 budget includes only 0.5% projected increase in sales taxes. Some stores that generate considerable sales taxes have indicated a decrease for 2007 due to competing stores in surrounding communities. It is anticipated that the initial downturn in sales will be offset by continuing growth of customer base throughout the region providing the slight increase in revenue. Batavia will also benefit from the recent opening of a furniture store and a large appliance store. In addition, there will be new restaurants and coffee shops opening in 2007.

A 0.50% non-home rule sales tax took effect January 1, 2006 with first receipts received in April. The City's total sales tax rate on general merchandise is now 7.0%. The tax does not apply to most groceries, drugs or registered vehicles. The City receives 1.0% of the general sales tax and the full .50% of the non-home rule tax. Non-home rule tax must be used for infrastructure or property tax relief. The year is expected to end as budgeted and 2007 mirrors the budget for normal sales tax receipts.

With the City's reliance on sales tax it will be necessary for the City to maintain a strong retail base. A very real concern for Batavia is increased competition for sales as surrounding areas continue to grow and add venues to attract shoppers. An increased emphasis has been placed on economic development to foster ideas and partnerships for a diverse retail base throughout Batavia.

The economic outlook for 2007 holds the expectations that consumer spending will remain relatively strong in the Chicago metro area. The higher cost of fuel in 2006 has impacted consumer spending but not to the extent that it has in other parts of the country. The current US unemployment rate of 4.4% is higher than the Illinois rate of 4.1% and the rate for Batavia is even lower at 3.2%. The unemployment rates overall have decreased compared to one year ago, which is a positive indicator for consumer spending. The following chart displays the last ten years of sales tax along with the rebates paid. The agreement with Wal-Mart began in 2006, however, safeguards in the agreement call for minimum receipts to the City before any rebates are made ensuring a certain level of revenue to the City.



Income taxes have increased substantially in the last three years. The State provides per capita projections for this shared revenue and the receipts have exceeded that level. This increase was a welcome change after the prior three years of declining payments. The increase is partly the result of the State's tax amnesty program, which waived penalties on past due tax obligations.

The opening of the waste transfer station in December 2005 resulted in the City's first receipts for host fees in 2006. The City receives fees on waste that passes through the station on per ton basis. The first \$100,000 in fees received was paid to Kane County for reimbursement of a grant. Fees in 2006, net of the repayment, are expected to be about \$97,000 and revenue for 2007 is expected to be \$265,000.

Utility taxes have augmented general revenues for the past several years and are necessary to support general fund programs. These taxes have provided funding for general expenses and the street program. While the current rates would allow the City to increase the electric franchise fee and the water and natural gas tax by 1%, it is not proposed in this budget and there are no future plans to increase these taxes.

Even though Batavia has one of the lowest municipal property tax rates in the area these taxes account for 21% of revenues with 5% restricted for funding of the police & fire pensions. The City is reliant on these taxes to support services and has been fortunate to see increases in receipts in spite of the property tax cap. Due to the increasing tax base, revenues have increased while the rate has decreased. Once the City's growth in new construction slows down the increase in revenue will be less apparent.

Community Development is projecting building permits for new residential construction to remain the same as 2006 but revenues from commercial and industrial development are expected to be lower in 2007. There are still areas available for new residential, commercial and industrial development that should occur in the next few years.

Court fines have increased significantly in the last few years due to the additional focus of the Police Department on truck enforcement. The success of the program was aided with the purchase of portable truck scales that allow immediate weighing of the trucks.

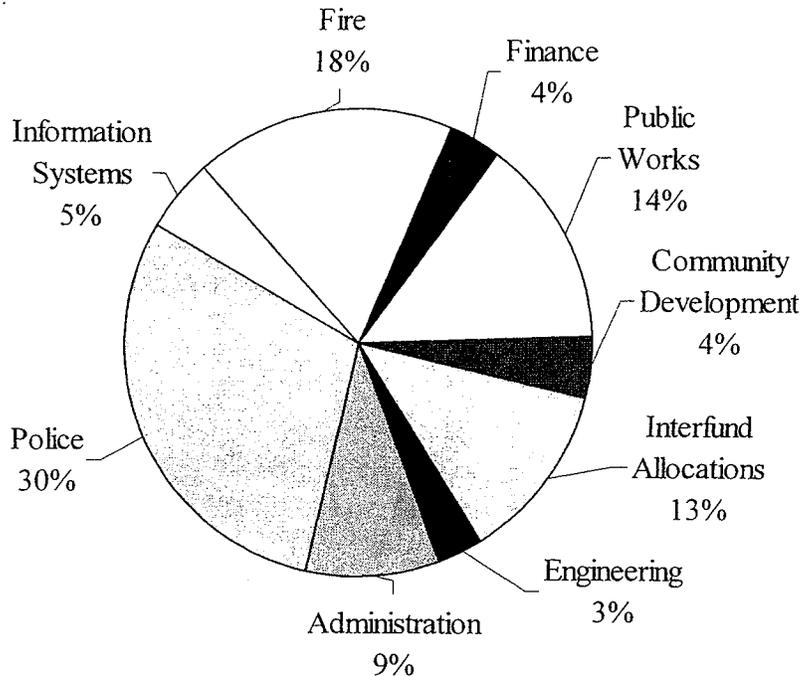
The City also benefited from increased investment income in 2006 as a result of higher interest rates. Total income is expected to be lower in 2007 due to the expectation of rate changes and the expected drawdown in reserves resulting in fewer funds available for investment.

Lastly, transfers from the City's utility funds are to reimburse General Activities for services provided to the utilities such as billing, finance, and administration. The chargeback for these services is evaluated each year to account for changes in service levels provided such as additional time spent assisting one utility over another during major projects like the recent capital water projects and the variety of projects currently underway in the electric utility, which require more time from the finance department assisting with loan funding and accounting for capital assets. The payment in lieu of taxes from the electric utility has been re-classified to an expense and revenue in all years for accounting reasons.

General Activities Expenditures

Expenditures in General Activities are budgeted at \$25,345,349. The increase over 2006 projected actual expenditures is 20.7%. This increase includes several significant one-time expenditures. The increase without these one-time expenditures would be 12.5% over 2006.

General Activities Expenditures



One Time Expenditures

There is \$215,000 budgeted for the balance of a total \$715,000 purchase of property for possible future ROW or other public use redevelopment. The exact use of the property is not certain at this time as several options are being considered.

There are two one-time transfers to capital development projects from General Activities in 2007. The first is a transfer to cover the shortfall of financing proceeds for the reconstruction of the City's two fire stations. The scope of the project and end goals for completion of the stations will require a transfer of \$792,542.

A transfer of \$428,681 will be needed to fund a portion of the bridge reconstruction. While federal funding has been secured for the bulk of the project, the City is responsible for 20% of construction costs.

In addition to these transfers, the budget includes supplemental funding for the City's self-insurance health fund. Health benefit activities have been faced with significant expenditures over the last few years and even with considerable increases in contributions by both the City and employees, it has not been sufficient to cover the shortfall. Premiums for the City's

contribution have been increased proportionately to cover the shortfall. The 2005 and 2006 plan years were difficult claim years, even with the City's excess reimbursements. Staff is hopeful that premiums for the City's side will return to a normal level in 2008 once the cash balance is stabilized. In addition to funding measures, the City is reviewing several other options to reduce the costs incurred.

The 2007 budget also includes transfers to both the Fire Capital and Public Works Capital Development Funds. Declining revenues in these funds have depleted the reserves. Funding, which comes from new developments and individual permits, has diminished as development has slowed. This budget includes the establishment of a capital replacement-funding program. The transfer of monies to these funds on an annual basis will ensure that adequate funds will be available for fleet replacement without causing undue pressure in one year.

Careful consideration and evaluation is given to all budget requests during the budget process. Requests are reviewed by the Department Head, City Administrator and Finance Director. A justification is required for all new budget items or for any increases beyond normal price increases over the prior year. Current year to date projections are also reviewed to ensure realistic projections are made.

A separate form for vehicle and equipment replacements must be filled out to evaluate the cost benefit of replacing the equipment or investing more into maintenance costs. The goal of the City is to ensure maximum useful life of all capital equipment without hindering operations. Various factors can impact replacement such as mileage, condition or outdated technology.

Personnel costs and the related benefits represent over half of the General Activities budget and for that reason any request to add personnel is thoroughly reviewed and evaluated. Options for contracting services or delaying projects are all assessed before any recommendations to add employees are included in the budget.

The growing need for services impacts the projects that can be accomplished by the same level of staff. For this reason, some projects are required to be carried over to the following year. In some instances, augmenting staff is required. The 2007 budget includes two permanent additions to staff.

The first position is a GIS technician. The implementation of GIS began in late 2004 with the hiring of a GIS Analyst. As GIS expands to meet City needs, additional resources have become necessary to keep the system current and accomplish the goals of the GIS plan. Several large infrastructure datasets are planned for incorporation in early 2007. The maintenance of the information will begin with implementation and will require adequate staff time to devote to ensuring accuracy of existing data and to incorporate new data. The new position will make the mapping of the City's utilities a key goal.

The second position is a part-time Engineering Technician. The Engineering department will be faced with many construction projects in the next few years, coupled with the management of the City's existing infrastructure. This budget provides for meeting the request of the City Staff Engineer for a slight reduction in hours and the addition of a part-time Engineering Assistant to offset the reduction and to meet the needs for additional CAD work.

The 2007 budget also includes the wages for a temporary CSO to assist with traffic management and other issues that may result during the bridge reconstruction. The priority will be to ensure adequate parking through enforcement of restrictions in the downtown. In addition there are wages budgeted in Administration for a graduate intern to provide assistance with economic development and various projects.

The increase in salaries for General Activities is 8.7% with the new and modified positions. The increase includes the recent wage analysis completed by the Human Resources Department, which established pay rates for all non-union positions through 2009. Of the City's five unions, two contracts expire at the end of 2006. Estimates for increases related to these contracts have been included in the budget. The increase in benefit costs associated with all General Activity salaries is 24.6% due to health care costs and the additional premiums needed to compensate for prior cash shortages.

Other increases to the 2007 budget include new capital purchases and replacement of equipment and vehicles. Engineering requires the addition of a vehicle to facilitate job site inspections. The Street Department has budgeted for the addition of one vehicle for the Assistant to the Superintendent and the replacement of the Superintendent's vehicle. The Fire Department will be replacing a staff vehicle with a Command Vehicle for use by the new Battalion Chiefs. While this is a General Fund expense, it is budgeted in the Fire Department Capital Development Fund.

Other increases to the General Activities budget are related to software purchases and contractual services. The Parcel Permit software project, which has been delayed for

several years, is expected to begin implementation in 2007. In addition the Police Records Management system software and grant revenue to offset part of the cost of the project is in the 2007 budget.

An expenditure of \$80,000 has been budgeted for research of the Wilson Street Corridor to study alternate routes for the flow of traffic. An evaluation of the merits of a second bridge will be included in the process. An Illinois Corridor Grant will offset the majority of the expense.

The Administration budget includes funding to support various community organizations such as Art in Your Eye and the Batavia Main Street Program. Funding has been included for the possible commission of a full census. The next census is not due until 2010 and the additional revenues would not be received until 2011. Staff will be reviewing the cost benefit and feasibility of conducting a special census in 2007 or 2008 in order to begin receiving the additional revenues earlier. The recommendation to conduct a census will only be made if the revenues will exceed costs before 2010.

The police and fire departments account for 48% of General Activities expenditures for which the majority of the expense is for personnel and related benefit costs.

The Police department includes 43 sworn officers while the Fire department employs 24 full-time and 30 paid-on-call firefighters. The increases in these budgets are the result of contract wages and obligations for contractual dispatch and ambulance service.

The fire department replaced a ladder truck in 2006 partially funded with a federal grant and plans to replace an engine in 2007. These large expenditures are made from the Fire Capital Development Fund.

The Public Works portion of the General Activities budget includes Administration and Streets and Sanitation. Public Works Administration oversees Streets and Sanitation in General Activities and all of the Utilities including Electric, Water and Wastewater. In addition to normal operations, the Street department has budgeted several projects related to drainage issues that represent carryovers from 2006. Also included is the second year of contracting services for the Brush Pickup Program. A vacancy for a laborer that was not filled in 2006 as a result of this change remains vacant in the 2007 budget as well.

Other contracts that are in the Street department are mosquito abatement, lawn mowing of all City properties and tree trimming of all parkway trees. The 2007 budget also includes a tree inventory and evaluation. While the beauty of mature trees is a benefit to the community, it also requires additional maintenance as the trees age. The Street department is responsible for the sidewalk program, which is budgeted under the Streets/MFT Activities (18-47).

Engineering includes the staffing changes mentioned earlier. It also includes a carryover from 2006 of \$50,000 for a study of the storm water overflow issue at McKee Street and Randall Road. It is expected that a significant portion of staff time will be required for the reconstruction of the Donovan (Wilson Street) Bridge, which will begin in early 2007. While the period of construction will likely result in some inconvenience to commuters, the City is taking several steps to mitigate foreseeable issues. The new bridge will provide the structural requirements needed for movement across the river but it will also be a beautiful asset for many years to come.

The Engineering department is responsible for the Street Program in Street/MFT Activities. An evaluation of all streets is nearing completion so that a replacement schedule and can be utilized for future street programs. Several projects are slated for funding in the next five years and are included in the CIP section in the Appendix. A funding method will be need to be determined before the projects are budgeted.

In addition to streets, the engineering department provides assistance to the water and wastewater departments for the evaluation and replacement of water and sanitary sewer mains. The replacement of water main along Timber Trail and water main and new sanitary sewer along Waubensee Trail are planned to begin in late 2006 with completion budgeted in 2007.

The reconstruction of both Fire Stations is currently underway. Projected expenditures for construction are budgeted in Major Capital Projects (46-46). The scope of the project changed significantly from the early planning stages as a result of a full evaluation of the department needs and the incorporation of the ESDA department and equipment. The ESDA department currently leases space for equipment since it was displaced in 2005 with the construction of the Water department booster pump station.

The fire stations should be completed in late 2007. The majority of the project is being financed from a \$10,000,000 debt issue. The balance of the project is being funded through a transfer from General Activities. As a result of this transfer and the transfer for debt service the impact to the General Activities Fund is \$1,525,000 in 2007. This project would not have been possible without the non home-rule sales tax that was implemented in 2006 since the debt will not be paid through property taxes.

The City's two self-insurance funds are used to account for the cost of the plans. The City's health insurance plan has seen dramatic increases to costs over the last few years as mentioned earlier. Increases in both the City's and the employee's contributions have not kept pace with the claims. As a result, a catch up of funding is included in the 2007 budget. The additional funding is necessary as the fund is operating at a negative cash balance. Corrective measures being taken include a new broker hired in late 2004 and a decision to bid out a new third party administrator in 2007. Another proactive step, taken in 2006, was the implementation of an employee wellness program to encourage preventive health care. These types of programs have proven effective in other health plans. This budget includes the continuation of the program.

The decision to become self-insured for worker's compensation in 2005 was made as the result of escalating premiums due to increasing payrolls and past claims. This choice has resulted in significant savings in premiums paid, even though there have been some rather serious injuries in the last two years. An independent safety consultant was hired to conduct a safety evaluation of the departments that have incurred the largest number of work related incidents in the last few years. The recommendations brought forth have been implemented and staff is hopeful that the number of accidents will be reduced in 2007.

Enterprise Funds

The Enterprise Funds of the City are the Electric, Water, and Wastewater Funds. These funds are considered self-supporting through user fees. The City strives to ensure that it provides safe, reliable utility services at fair and reasonable rates.

Electric Utility

The City transmits and distributes electricity for those within the municipal borders. Residents are fortunate to pay lower rates than those receiving power outside the City. The Electric department works diligently to ensure adequate capital maintenance and new infrastructure to maintain quality service while sustaining competitive rates. The City is currently under contract to purchase its power from Commonwealth Edison until 2007. The City will no longer be able to enter into this type of contract due to deregulation. As such, Batavia must now purchase their power through the open market. The City recently participated in a two different power auctions and has secured about 95% of the City's power needs through 2008. The increased cost of power has resulted in a need for an electric rate increase. The 2007 budget includes an 8.9% rate increase with plans for another increase of 8.9% in 2008.

In addition to the change in the means that the City secures its power is a new fee that the City will incur at the end of its contract with ComEd. The new fee is called a local distribution charge. The charge would be passed on by ComEd in order to deliver power to the City's distribution system at 34.5 kV. Since the new charge would cost over \$1,000,000 on an annual basis, City Staff began researching upgrading distribution to 138 kV. After thorough review, it was determined that this would be the most cost effective decision.

The annual debt service offset by the elimination of the local distribution charges and decreased line losses results in a positive present value analysis. Bond funding of approximately \$26 million for this project is planned for late 2006.

Major capital projects in the Electric Fund next year include completion of the 138 kV substations and transmission line. Other improvements include 12 kV distribution improvements and expansion of the McKee Street substation.

Also in the budget are further development costs of \$250,000 for to the Prairie State generation project for the participation and ownership in a mine mouth coal generating plant in Southern Illinois. It is anticipated that revenue bonds will be issued through the Northern Illinois Municipal Power Agency (NIMPA) to fund the entire endeavor. Proceeds from this issue are budgeted in 2007 for reimbursement of the total estimate of advanced costs. Costs of debt service for this project will be paid through a long-term power contract with NIMPA.

Water Utility

The nearly \$16,000,000 in capital improvements undertaken by the water utility will reach completion in 2007. The projects were necessary to bring the City into compliance for the EPA radium levels in drinking water. Radium is a natural occurring element in water and many other municipalities and water districts have been confronted with the same issues.

The City has been fortunate to obtain low interest loans from the IEPA for these projects. Five loans were approved to provide the necessary funding. The projects included a water treatment plant, a cross-town water main, a booster pump station, three deep wells and two new water towers. The City is now in compliance for radium levels throughout the City.

The 2007 budget includes completion of the wells and water towers, sandblasting and painting the existing northeast water tower and replacement of water main along Wilson Street in conjunction with the bridge reconstruction.

A requirement for the City to receive IEPA loan funding was to ensure repayment through an established revenue stream. This requirement necessitated a series of rate increases of 40% in 2004, 15% in 2005 and a final 10% increase in 2006. No further rate increases are planned at this time.

Wastewater Utility

The City's Wastewater Fund borrowed \$11,000,000 for renovations completed in 2001. The upgrades were also financed through low interest loans from the IEPA. The expansion at the plant increased the capacity to projected build out of the community and it increased the quality of treated effluent discharged to the Fox River.

Capital improvements planned for 2007 include upgrades at the Carriage Crest lift station, one of the City's 18 lift stations. This project was budgeted in 2006 but was delayed while the Sanitary Sewer Study was being conducted. As a result of the study it was determined that the cost of the project would be much more than originally anticipated. Therefore, the project has been spread over a two-year period.

While no rate increases are planned in the 2007 budget, further review will be necessary once the full long-term capital plan for the sanitary system is completed and the associated costs are known.

Debt Management

Whenever possible or practical, the City has financed capital expenditures on a pay-as-we-go basis. There are times, however, when it is more prudent to issue debt and spread the cost of the asset over its useful life. This philosophy attempts to assess a portion of the cost to all who will benefit from use of the asset.

Governments typically issue general obligation bonds to fund capital improvements. Other methods of financing include installment contracts, debt certificates, revenue bonds, tax increment finance bonds (TIF) and special service area bonds (SSA). Revenue bonds are used to finance enterprise activities and are paid by user fees. TIF and SSA bonds are used to provide improvements to a limited area for a specific purpose and are repaid through taxes from the specific district. The City's only TIF loan will be paid at the end of 2006 and an Installment Contract for the McKee Tributary will be paid in 2007.

General Obligation bonds carry the full faith and credit of the issuer and the pledge of full taxing powers to ensure repayment. Because these bonds carry less risk, cities can issue them at a lower rate than revenue bonds. At the end of 2006 the City will have \$17,240,000 in principal outstanding for general obligation debt. This total includes \$10,000,000 in bonds issued in 2006 for the Fire Station reconstruction. Of the total G.O. debt, \$1,269,900 is attributable to the water fund and is being repaid through user fees and \$490,000 is being repaid with motor fuel taxes.

There are no plans to issue General Obligation debt in 2007. The following table outlines all GO debt and indicates what revenue source will be used for repayment. The table reports the both principal and interest to demonstrate budgetary impact.

Outstanding General Obligation Debt
Debt Service Requirements (Principal and Interest)

Issue	Fire Stations	Fire & PW	Flood Bonds	Bridge	City Hall	Streets	Total P & I
Funding	Sales Tax	Sales Tax	Sales Tax	Property Tax	Property Tax	MFT	by Year
2007	728,169	105,133	284,324	168,363	312,888	159,345	1,758,222
2008	730,369	106,855	235,580	170,563	314,112	127,780	1,685,259
2009	736,969	107,152	237,480	167,375	319,830	132,300	1,701,106
2010	737,769	105,956	238,930	169,188	324,830	131,270	1,707,943
2011	742,969		239,930	170,813	319,098		1,472,810
2012	741,394		240,480	167,250	323,028		1,472,152
2013	744,182		240,580	167,500	326,200		1,478,462
2014	746,119			167,500	333,600		1,247,219
2015	747,207			167,250			914,457
2016	752,444			161,750			914,194
2017-2026	6,876,031			1,118,500			7,994,531

The City's Electric Fund will incur sizable debt in 2006 in relation to the 138 kV project mentioned earlier. Although rate increase for both 2007 and 2008 have been approved, the majority of the rate increase is required due to the increased cost of power and is not a result of the debt issue. The debt that NIMPA will incur for the Prairie State Project will be repaid by the Electric Utility in the form of a long-term purchased power contract.

The Water Fund is repaying the GO bonds mentioned previously, which financed a water treatment plant. In addition the Water Fund also has five low-interest loan agreements in process with the IEPA totaling \$15,419,583. Repayment for these loans has already begun, although final repayment schedules will not be available until the EPA closes out the projects. Wastewater currently has \$11.9 million in principal outstanding in IEPA loans.

Projected Enterprise Fund Debt Requirements (Principal and Interest)			
	Electric*	Water**	Wastewater
2007	645,130	1,358,732	1,368,959
2008	1,359,668	1,364,335	1,368,959
2009	1,359,943	1,365,303	1,368,959
2010	1,359,768	1,361,411	1,368,959
2011	1,364,080	1,016,489	1,279,457
2012	1,642,740	1,016,489	1,030,579
2013	1,640,143	1,016,489	781,701
2014	1,641,536	1,016,489	781,701
2015	1,641,708	1,016,489	781,701
2016	1,640,638	1,016,489	781,701
2017 -2027	32,852,633	13,467,481	3,093,269

*These amounts are projected based on estimated financing

**Includes estimate of ultimate financing for all IEPA projects

Budgeting and Accounting Relationship

The budget is done on a basis consistent with generally accepted accounting principles (GAAP) except for some items, which are adjusted on the City's accounting system at year-end. During the year, the adopted budget is maintained and monitored on the City's accounting system. The difference between this budget and GAAP for Governmental Funds is that the self-

insurance contributions are recognized as expenditures for budgetary purposes only. Enterprise Fund differences are: a) debt principal and capital outlay are recorded as expenses for budgetary purposes as opposed to the GAAP adjustment of the balance sheet accounts; b) depreciation is recorded as an expense (GAAP) and not recognized for budgetary purposes.

Budget Policies & Priorities

The budget is the method by which departments carry out their goals for providing services. Since the budget must be submitted within the City's ability to pay, not all requests can be approved. During the budget process, priorities must be used to determine where cuts should be made. Following are the priorities used in making these difficult decisions.

Level 1: **Emergency** – An expenditure that is required due to the fact that without the expenditure, there would be eminent danger to an employee or resident.

Level 2: **Legal Requirement** – An expenditure that is required as the result of some legislative or court action, which if ignored, would result in legal action.

Level 3: **Maintain Present Service Levels** – An expenditure that is necessary to continue to provide the same services at the same level of quality as in the past.

Level 4: **Expanded Service** – An expenditure that will expand the current level of services offered or will expand the quality of existing services.

Surplus and Reserves

The Surplus/Deficit reported in the budget refers to the difference between Revenues and Expenditures for that particular budget year. The Surplus and Reserves refers to available cash on hand. The Surplus and Reserves does not refer to fund balance or net assets. As mentioned earlier, the budget is prepared on a basis consistent with GAAP except for certain accruals and accounting entries for debt and fixed assets. Review of fund balance and net assets can provide useful information and should be reviewed as part of the City's Audited Annual Financial Report.

For budget purposes it is most appropriate to review the available cash on hand, which represents the current amount available for continuing operations. The available cash balance is the amount of cash and investments on hand less any amount restricted for debt payments or held in escrow. A standard measure of available

cash on hand recommended by the Government Finance Officers Association is to maintain a balance sufficient to remain in operation for a minimum of 62 days for General Activities and 90 days for Enterprise Funds. The number of days is calculated by dividing the amount of cash projected to be on hand at the end of the budget year divided by the total operating expenses (no capital) multiplied by 365 days. The City will meet these reserve policies for all funds in 2007.

As a result of higher than normal revenues in past budgets the City's General Activities reserves will allow for the one-time draw downs mentioned earlier for funding the additional costs for the fire stations and the bridge. The projected reserves for the end of 2007 are still expected to be at a healthy 110 days after these expenses.

Reserves in the Electric Fund not including the bond funds will end the year at 129 days. These reserves should provide for capital replacement projects at least through 2010.

The reserves for the Water Fund will be back up to a healthy level of 208 days at the end of 2007. Several water main replacement projects will be funded through the use of reserves in the coming years.

The reserves for the Wastewater Fund are projected to be 144 days at the end of 2007. These reserves will be drawn further once the Sanitary Sewer study recommendations are implemented.

While City staff always makes every effort to present a balanced budget, it is sometimes necessary and appropriate to utilize reserves during downturns in the economy or to provide for capital purchases. Available reserves should never be used to fund an

increase to operations for personnel or for on-going contractual obligations. Available reserves should also not be the only indication of the City's economic health. A thorough review of outstanding debt, contractual obligations, and planned capital improvements is needed to ensure that adequate planning for the future will allow the City to continue to provide services at the current level. In addition a continuing review of the City's revenue sources must be done. The City should not be heavily reliant on any one revenue source or only on elastic revenues that fluctuate with the economy.

All of these factors are evaluated during the budget process when reviewing department requests for the coming year. While it may appear to help the budget to delay capital expenditures, it is not a long-term solution. It is important to maintain adequate capital without burdening any one budget year.

Conclusion

The current economic position of the City remains positive. This would not be the case, had the community not approved the non-home rule sales tax. The tax was essential for the City to provide for the renovations of the City's two fire stations, reconstruction of the bridge and for general operations.

The outlook for 2007 is cautiously optimistic. Prudent planning through the implementation of the Capital Improvements Plan, wise use of debt issuance and ongoing review of operating expenses should help to ensure that the City will be able to continue providing services at the current level and beyond. The total budget for all funds is on the following pages.

CITY OF BATAVIA 2007 BUDGET

Total 2007 Budget - All Funds and Activities

DESCRIPTION	ACTUAL		APPROVED	ESTIMATED	PROPOSED
	2004	2005	BUDGET 2006	2006	BUDGET 2007
Surplus and Reserves	\$23,306,174	\$20,979,860		\$26,023,758	\$58,138,164
01 Intergovernmental	\$3,367,206	\$3,534,466	\$4,634,033	\$4,655,992	\$12,445,464
01 Municipal Taxes/Fees	\$7,975,718	\$8,203,225	\$10,447,173	\$10,463,409	\$11,252,928
01 Property Taxes	\$5,273,418	\$5,288,191	\$5,801,958	\$6,071,826	\$6,423,361
01 Utility Operating Revenues	\$30,350,140	\$33,559,384	\$37,163,992	\$35,111,209	\$39,958,863
02 Contributions	\$2,089,237	\$2,814,373	\$3,341,851	\$3,358,672	\$4,494,468
02 Utility Nonoperating Revenues	\$1,114,335	\$1,309,037	\$1,259,950	\$789,412	\$823,285
03 Licenses and Permits	\$546,906	\$504,569	\$561,837	\$451,569	\$345,450
04 Charges for Services	\$978,631	\$996,882	\$856,317	\$940,427	\$1,185,384
05 Fines and Forfeitures	\$166,104	\$262,939	\$197,500	\$230,500	\$238,500
06 Other Revenues	\$1,112,577	\$3,304,897	\$1,879,846	\$4,218,167	\$2,095,681
07 Interfund Allocations	\$3,453,793	\$3,832,331	\$4,471,308	\$4,572,920	\$6,106,151
08 General Obligation Debt Proceeds	\$0	\$2,100,000	\$10,000,000	\$9,944,639	\$0
08 Revenue Bond Proceeds	\$3,841,050	\$5,015,645	\$22,810,185	\$29,451,733	\$2,144,196
Total Revenue	\$60,269,115	\$70,725,939	103,425,950	110,260,475	\$87,513,731
TIF District Projects	\$144,538	\$147,877	\$532,000	\$195,500	\$1,769,500
Administration & Legislative	\$1,099,629	\$1,197,265	\$2,151,619	\$1,901,906	\$1,939,817
Human Resources	\$237,628	\$268,586	\$287,846	\$278,038	\$338,752
Community Development	\$682,232	\$716,006	\$942,139	\$830,849	\$988,954
Public Works Administration	\$299,351	\$313,907	\$332,569	\$325,191	\$354,892
Engineering	\$514,943	\$540,782	\$556,732	\$585,807	\$759,593
Building and Grounds	\$387,872	\$323,666	\$319,774	\$319,476	\$408,455
Finance and Accounting	\$421,245	\$428,739	\$467,818	\$468,450	\$517,426
Information Systems	\$448,683	\$616,524	\$631,946	\$588,394	\$1,263,038
Utility Billing	\$296,791	\$312,750	\$356,230	\$339,301	\$404,527
Worker's Compensation Plan	\$0	\$307,238	\$290,620	\$488,459	\$324,000
Subsidized Transportation	\$52,691	\$53,740	\$57,450	\$56,650	\$58,975
Police Admin & Operations	\$5,873,393	\$6,164,854	\$6,610,965	\$6,501,880	\$7,446,152
Fire Services	\$3,625,068	\$3,807,844	\$4,272,614	\$4,098,433	\$4,470,567
E.S.D.A.	\$32,532	\$27,390	\$44,915	\$29,560	\$31,781
Drainage Capital Projects	\$80,222	\$69,349	\$27,500	\$34,717	\$0
Public Works Capital Acquisition	\$107,009	\$355,807	\$270,000	\$264,068	\$0
Fire Capital Acquisition	\$28,000	\$23,596	\$1,318,000	\$831,115	\$541,000
Health Benefit Plan	\$2,284,439	\$3,648,343	\$2,779,072	\$3,461,674	\$3,444,538
Streets and Sanitation	\$2,487,150	\$2,647,815	\$2,897,408	\$2,718,015	\$3,232,501
Fire Stations Renovations	\$0	\$270,080	\$5,226,122	\$1,995,907	\$8,931,849

CITY OF BATAVIA 2007 BUDGET

Total 2007 Budget - All Funds and Activities

DESCRIPTION	ACTUAL 2004	ACTUAL 2005	APPROVED		PROPOSED
			BUDGET 2006	ESTIMATED 2006	BUDGET 2007
Surplus and Reserves	\$23,306,174	\$20,979,860		\$26,023,758	\$58,138,164
Street Improvements/Construction	\$1,175,292	\$1,529,875	\$2,043,000	\$2,039,322	\$1,182,458
Route 25 Jog Capital Project	\$5,380	\$0	\$15,000	\$15,000	\$0
Donovan Bridge Project	\$250,610	\$241,008	\$909,000	\$853,799	\$11,065,775
Electric Improvements	\$3,104,991	\$1,135,109	\$20,131,285	\$5,910,889	\$22,953,419
Meter Reading/Locating	\$393,832	\$430,888	\$502,941	\$503,151	\$578,193
Transmission & Distribution	\$20,864,041	\$24,929,403	\$27,443,974	\$25,110,627	\$30,777,156
Water Improvements	\$8,021,901	\$4,308,664	\$4,563,422	\$4,192,400	\$1,235,000
Water Production	\$454,995	\$683,978	\$1,128,617	\$1,038,606	\$1,176,785
Water Distribution	\$951,999	\$939,593	\$1,008,548	\$915,626	\$1,085,184
Wastewater Improvements	\$126,914	\$0	\$399,000	\$0	\$437,845
Waste Water Treatment	\$1,375,587	\$1,485,513	\$1,618,930	\$1,541,655	\$1,748,375
Sanitary Sewer	\$144,594	\$464,508	\$612,398	\$582,124	\$375,245
Interfund Allocations	\$3,453,793	\$3,756,281	\$4,471,308	\$4,572,920	\$6,106,151
Utility Revenue Bond Expenses	\$1,990,429	\$2,390,313	\$3,326,846	\$2,575,801	\$3,436,021
General Obligation Debt Service	\$1,177,655	\$1,144,750	\$1,986,484	\$1,980,759	\$1,762,196
Total Expense	\$62,595,429	\$65,682,041	100,534,092	\$78,146,069	121,146,120
Surplus/(Deficit)	(\$2,326,314)	\$5,043,898	\$2,891,858	\$32,114,406	(\$33,632,389)
Surplus and Reserves	\$20,979,860	\$26,023,758		\$58,138,164	\$24,505,775