

City Manager's Office

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Mayor and Ames City Council Members:

I have attached for your approval my recommended budget for fiscal year 2010-11. Compared to prior years, you will note that there are very few new initiatives reflected in this administrative/financial plan for the City. Because of the difficult economic environment in which we find ourselves, it is my intent to accomplish two objectives: 1) offer a budget that maintains the same level of service for the numerous programs we provide; and 2) mitigate the impact of property taxes, user fees, and utility rates on our citizens.

It should come as no surprise that the development of this budget was challenging for all involved in its preparation. However, because of prudent budget decisions made in the past by the City Council and adherence to conservative fiscal policies, we are in the fortunate position of being able to weather this financial storm easier than many other public and private entities.

While expenditures reflected in this document equal \$183,101,741, it is difficult to draw meaningful conclusions from this total, since the City operates a variety of utilities and enterprise funds. Therefore, I have attempted to provide you with the following major highlights from the budget.

GENERAL FUND OPERATIONS – Property Tax Rate Decrease

The majority of our property tax receipts are utilized to pay for law enforcement, fire/rescue, library, parks and recreation, and planning services. **To support these services, the budget calls for a reduction in the City tax rate from \$10.86/\$1000 of taxable valuation to \$10.77/\$1,000 of taxable valuation.** In the face of significant reductions in General Fund revenues such as building fees, interest earnings, and local option tax receipts, the Department Heads have worked hard to offset this downturn in revenues by holding the expenditure increase to only 2.1%. Given the fact that 77% of their budgets is driven by personnel costs, many of which are set by collective bargaining contracts, the proposed increase in expenditures is very reasonable.

As was the case in previous years, this tax rate reduction was further made possible because of balances in two of our funds. In FY 2010-11, we will continue this strategy by applying \$800,000 from the available balance in the Debt Service Fund to partially support our principal and interest obligation for G.O. Bonds, and \$185,000 from the Fire and Police Trust Fund to partially support our contribution to the state-mandated retirement system for our police officers and firefighters.

Building Safety Program

The one program impacted most by the downturn in the economy is our building inspection activities. Each year we attempt to match building, plumbing, and electric permit revenue with our expenditures to support these inspection activities. Because it is impossible to predict precisely how many inspections we will engage in each year, sometimes revenues exceed expenditures in a year, while other times the expenditures exceed revenues. Unfortunately, in FY 2009-10 we are estimating a shortfall in revenue of over \$200,000 and over \$100,000 in FY 2010-11. To mitigate the impact of the revenue reductions, we will not fill a vacant Building Inspector position, and will reassign a supervisory position to help administer capital improvement projects in the Electric Services and Public Works Departments that were originally planned to be contracted out. Interestingly, while permit revenue is down significantly, the number of construction permits is not. It appears we are experiencing an increase in smaller renovations rather than new, larger projects. To eliminate any more inspectors from this program will negatively impact service levels in an area that the City Council has established as a primary goal to improve.

Recreational Opportunities

As you will recall, we were informed by the Ames Community School District officials after our budget was certified for 2009-10 that they would no longer be willing to “subsidize” the City’s recreation programs by providing the use of their facilities at no charge. They indicated that the cost to the City would be approximately \$88,000 per year and that it was their intent to initiate this charge immediately. This change in our long-standing policy where no fees have been levied was problematic to us because of the magnitude of the charges and the fact that our fees had already been established for the year.

Over the past months we have worked closely with the School District representatives to determine what the actual incremental cost are being incurred to allow the City to use their facilities for our recreation programs. Upon further analysis, it appears the actual incremental costs to the School District are approximately \$3,000 per year, or about \$1.25 per participant, which is significantly less than the \$88,000 that we were first quoted.

While I regret that the School District will begin charging us to use their facilities, I understand that their limited funds will not allow them to continue this practice. Therefore, the budget includes fee increases to pay for this new facility charge to the Ames School District for the incremental costs associated with lighting and sanitary sewer usage by our participants.

RESOURCE RECOVERY UTILITY – No Per Capita or Tipping Fee Increase

The financial condition of the Resource Recovery operation remains strong. Therefore, the property tax support for this operation, allocated on a per capita basis to the City and all of the other municipalities in Story County that utilize our facility, will remain at \$10.50. The tipping fee we charge the haulers who deposit their garbage for processing at our plant will remain at \$52.75 per ton.

Of the \$723,429 per capita needed to fund our operation, \$423,475 will come from the taxpayers of Ames in FY 2010-11. This total financial obligation is the same as in previous years.

However, in the past, \$315,000 of this total was reflected in our Debt Service Levy and the remaining \$108,475 in the General Levy. With the outstanding debt now paid off, the total obligation will be reflected only in the General Levy. While the overall tax levy will not be impacted, the General Levy will be increased significantly this year.

STORM SEWER UTILITY– No Rate Increase

No increase is being recommended in our \$3.00 monthly storm sewer utility fee. In FY 2010-11, as directed by the Council, staff will be providing options for modifying the fee structure to reflect impervious land differences. If implemented, these modifications will result in higher fees for some property owners and less for others. The intent would be revenue neutral overall. However, since the Environmental Protection Agency’s Phase II Storm Water Regulations will require significantly more revenue from this utility to meet these obligations, a fee increase might be needed as early as FY 2012-13. Revenue increases may also be needed to administer the new program.

An interesting new initiative is reflected in the Storm Sewer Maintenance and Sanitary Sewer Maintenance programs. A new Jet Vac machine will be purchased to allow our City crews to accomplish more sewer cleaning than is being accomplished by private companies with whom we currently contract.

WATER UTILITY – 10% Rate Increase

Our five-year financial projections indicate we will need four consecutive years of water rate increases in order to finance a new 15 MGD treatment plant. Because of the impact of the debt associated with this capital project, we have worked hard to hold the line on operational costs in this utility. Budgeted operating expenses in FY 2010-11 are basically flat.

It appears that the new seasonal rate structure and Smart Water conservation programs have been effective in reducing water demand and the associated operating costs.

WATER POLLUTION CONTROL UTILITY – 9% Rate Increase

Current projections indicate that a series of four consecutive increases will be needed to cover the projected operational and capital improvement costs for our sanitary sewer utility. The FY 2010-11 budget includes an 8.3% increase in operational expenses. This total includes an update to our flood notification system, along with \$150,000 to shift from in-house application of bio-solids to a contracted service. Without these two commitments, the operational increase would be only .01%.

ELECTRIC UTILITY – No Rate Increase

Last year, we predicted that a rate increase would be needed in this utility. However, because many of our most costly capital improvement projects have been delayed, a rate increase to finance these projects can likewise be delayed. Current projections now indicate a need for a rate increase in each of the following two years.

Even without a rate increase, our customers will experience an increase of approximately 5% in their total bill. This is because the Energy Cost Adjustment (ECA) portion of their bills will increase due to the cost of our recently approved coal transportation and wind energy contracts. In an effort not to exacerbate these costs, the FY 2010-11 budget calls for only a 2.2% increase in expenditures over the previously adopted budget. This total is being accomplished even in the

face of a \$600,000 increase in contracted ash hauling and \$190,000 for a new, automated electric outage management system.

OTHER PROGRAMS OF WHICH TO TAKE NOTE

We have some good news related to two of our operations. In previous years, I expressed concern for the Homewood Golf Course and Ice Arena Funds because of insufficient balances. By the end of FY 2010-11, we expect to have grown our available balances to meet our desired goals.

This year, I need to call your attention to three other programs where expenditures are exceeding the associated revenue. First, maintaining our two cemeteries will require a \$26,565 property tax subsidy. While this is not an enterprise fund, we traditionally try to finance this operation from its own revenue. However, a major decrease in interest revenue is preventing this goal from being achieved. Second, the Parking Fund will require dipping into our available balance by \$61,784. While expenditures are actually down from previous year's adopted level, the projected revenue for FY 2010-11 is down even more. It appears this decrease in revenue is due to fewer tickets being written. Because of the economic downturn, fewer shoppers are parking in our commercial areas. In addition, the Council continues to waive parking regulations to support Downtown events that have resulted in anywhere from \$12,000 to \$19,000 per year in lost revenues over the past five years. Third, our leased housing program continues to reflect the trend whereby the federal funds provided to administer this service are inadequate to cover our administrative expenses. In FY 2010-11 we will be able to finance this shortfall from an available balance. However, it appears that within the next two years there will be insufficient monies in the fund balance to continue this program. We could discontinue providing the service (the Department of Housing and Urban Development (HUD) will assign another housing authority to administer the program), contract it out to another housing agency, or rely on other City funding sources to finance this service.

The City of Ames is very fortunate to have a group of department heads who are committed to maintaining the highest quality of service to our customers even in the face of these troubling financial times. We owe them our special thanks for this dedication. In addition, I would like to thank Duane Pitcher, Carol Collings, Nancy Masteller, Sharon Hjortshoj, Sheila Lundt, and Bob Kindred for their leadership in developing this Program Budget for fiscal year 2010-11.

Sincerely,

Steve

Steven L. Schainker
City Manager