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Mayor and Ames City Council Members:

It seems preparing a budget that accomplishes our organizational goal of providing exceptional services to our citizens becomes more difficult each year. Unfortunately, this year is no different. We are faced with the following financial challenges: 1) the primary source of revenue for many of our services, property tax revenues, has been negatively impacted by growth in taxable valuation of only 2%; 2) the state-mandated Police and Fire Retirement system will require an additional contribution of \$381,192 (a 30% increase in City funding); 3) the need to invest in our aging Water, Sanitary Sewer, Resource Recovery, and Electric utilities continues to grow; and 4) the unprecedented flooding that we experienced last summer will require the City to take steps to recover from the disaster and to mitigate damage that this type of flooding disaster may cause in the future.

In an effort to meet these challenges while not drastically reducing service levels for our residents, I am presenting the attached budget for fiscal year 2011/12. It is not possible to summarize the budget in this letter because of its magnitude and complexity. I have, however, attempted to highlight a number of important policy issues that are included for your consideration.

PROPERTY TAXES – NO TAX RATE INCREASE

In order to finance the FY 11/12 budget, the overall property tax rate will remain at \$10.84/\$1,000 of taxable valuation. In addition to a concerted effort by our Department Heads and their staffs to hold the line on all of their controllable expenditures, the ability to avoid a property tax rate increase is facilitated by the use of available monies in our Debt Service and Employee Benefits funds, the retirement of a number of long-term employees whose replacements will be paid at lower salaries, anticipated increases in revenues from our recreation and building fees, and estimates for increased local option tax revenues.

UTILITIES

RESOURCE RECOVERY – NO INCREASE

The Resource Recovery utility remains in excellent financial condition. Therefore, the budget calls for the per capita subsidy rate charged to ourselves and the other Story County

communities that are partners in this operation to remain at \$10.50. Our portion of this support will be \$423,475 in FY 11/12. In addition, the tipping fee charged to our local garbage haulers will remain at \$52.75 per ton. Maintaining both of these charges will benefit our residents.

A major initiative in this utility is a partnership with Electric Services to explore ways to convert refuse derived fuel (RDF) into some other form (gas or bio-fuel) that could prove more financially advantageous to the Resource Recovery operations and less costly to Electric Services.

WATER - 8% INCREASE

Last year we estimated that three consecutive double-digit rate increases would be required to generate sufficient revenue to cover the debt needed to finance a new 15 MGD Water Treatment Plant. In order to mitigate this impact on our customers, the operating budget request is flat compared to the prior year's adopted level, thereby allowing us to reduce our rate increase in FY 11/12 to 8%.

STORM SEWER - 15% INCREASE

The staff has been working with the City Council over the past months to develop a new structure for the Storm Sewer Utility fee that is based on impervious area rather than on a per meter charge. However, in addition to the fee restructuring, we emphasized to the City Council that 15% more revenue is being sought in FY 11/12. This increased funding is needed in this utility in order to match federal mitigation funds and, hopefully, to begin correcting the various flooding situations that occurred in various neighborhoods in August 2010.

SANITARY SEWER - 10% INCREASE

Here again, the staff has emphasized the need for three consecutive years of rate increases to incorporate a new disinfection system into our treatment process, to expand the bio-solids storage facility, and to construct other costly capital improvements that will be required as part of our new operating permit from the Iowa Department of Natural Resources.

The FY 11/12 budget reflects a rate increase of 10% rather than the 9% projected last year. The reason for this higher than projected increase is due to the fact that the new CIP has advanced the evaluation of the sanitary sewer collection system and introduced a new long-range Water Pollution Control facility analysis so that we can determine the most cost-effective projects to meet the requirements of our State operating permit.

The staff in this utility worked equally hard to hold down operating expenditures. As a result of their efforts, the expenditures in FY 11/12 are actually 2.5% less than the prior year adopted level.

ELECTRIC - NO INCREASE

Last year we indicated that smaller rate increases (5%) might be needed in FY 12/13 and FY 13/14 to finance the numerous projects listed in the CIP to maintain our electric power plant and distribution system. Hence, no rate increase was projected in FY 11/12. However,

electric cost-of-service and rate studies will be conducted in FY 10/11 to make sure there is no cross-subsidization among customer classes. The result of these studies could necessitate a rate restructuring that may not generate additional total revenue to the utility, but would impact certain customer classes differently.

The staff in Electric Services has done its part to keep operating expenses as low as possible with an operating budget that includes expenditures of only 2.8% over the previous year's adopted level.

PUBLIC WORKS ENGINEERING

I have consistently explored the most cost-effective means to deliver our city services. Many times this is accomplished by contracting out services. This has been true for design services for our numerous capital improvements. However, I have noticed that our cost for this type of consulting service has not decreased, even though you might imagine that design firms would be hungry for work during the downturn in the economy.

The Public Works CIP includes twenty-one public improvement projects totaling \$16,219,000 in FY 11/12. We have estimated that a new Civil Engineer position would be able to handle a number of these projects internally. Based on our most recent cost for outside design services (over 10% per project) compared to the cost of a new position (\$80,000), the City could expect to save hundreds of thousands of dollars with this new position. Therefore, an additional FTE has been added to the Public Works Engineering program.

BUILDING SAFETY

RENTAL HOUSING INSPECTION

The City Council has invested a significant amount of time in discussing the specific revisions to the Rental Housing Code. However, what has been overlooked in these discussions were the concerns that were raised by rental property owners back in 2008 about the lack of timeliness in accomplishing inspections, providing follow-up letters summarizing inspection findings, and issuing Letters of Compliance.

Since FY 01/02 the number of rental units has increased from 9,410 to 11,915 in FY 10/11, with an additional 400 rental units planned for completion next year. What makes this workload so challenging is the fact that we have to accommodate this ever-increasing number of rental units with only one full-time inspector, one-half FTE for clerical support, and the equivalent of one-half FTE in temporary inspection salaries. Consequently, we now find ourselves with a six-to-nine month backlog.

In order to reduce this backlog in inspections, an additional full-time Rental Housing Inspector (along with the elimination of temporary inspection salaries) and a ½ FTE increase in a clerical support position have been added to the FY 11/12 budget. With these personnel additions, the rental inspection fees will increase an additional \$3.38 per unit in FY 11/12. If the City Council can not support the increase in personnel to ensure compliance with our current service level goal, then it is recommended that reconsideration be given to the three-year inspection cycle. Without additional personnel to support this service, it appears the

inspection cycle will need to be extended to at least five years. However, from a staffing standpoint, such an extension would likely lead to significantly more complaints that will also need follow-up.

BUILDING CODE INSPECTION

Each year it is our goal to generate enough building code inspection fees to cover the cost of our inspection operations. Due to the stagnating building environment, we have subsidized this service even though two inspection position vacancies were not funded in FY 10/11. With the economy showing signs of improvement, the FY 11/12 budget for inspection related expenses will exceed revenue by only \$29,306 even after one inspection position is again held open and a 4% increase in inspections fees is implemented. It should be noted that this total is less than the \$100,776 subsidy adopted in FY 10/11.

RECREATIONAL OPPORTUNITIES

As expected, the Furman Aquatic Center was able to generate net revenue in FY 10/11 and is projected to do the same in FY 11/12. The success of this new attraction and the closing of Carr Pool have allowed us to decrease the amount of General Fund subsidy in the Aquatics program from \$147,000 in FY 08/09 to \$30,000 in FY 11/12. In the future, the City Council may want to consider reserving excess revenue from the Furman Aquatic Center for equipment replacement at the facility.

LEASED HOUSING

Following the direction of the City Council, the FY 11/12 budget anticipates that the City of Ames will no longer be administering the Section 8 Leased Housing program. The staff is preparing a plan to transition the administration of this program to another agency selected by the Department of Housing and Urban Development to provide this service to Ames residents.

It is unfortunate that we have come to this point. However, in order to continue to administer this housing service, a local subsidy of at least \$150,000 per year would be needed. It is apparent from the ever-decreasing amount of federal funds available for administering this program, that it is more cost-effective for housing agencies that manage significantly more vouchers than the City currently has to continue this program for our qualifying residents.

AFFORDABLE HOUSING

Likewise, the county-wide affordable housing partnership came to an end in FY 10/11. After all funds are distributed to the partner cities, nearly \$700,000 will remain available in the City-Wide Affordable Housing Fund for City Council priority projects in the future.

COMMUNITY DEVELOPMENT BLOCK GRANT

In FY 11/12, the staff will focus efforts on three projects (Housing Rehabilitation, Public Improvements, and Homebuyer Assistance) that will assist in accomplishing the City Council goal of strengthening our neighborhoods.

RIVER FLOODING

Since the unprecedented floods of 2010, the City Council has established a goal to mitigate flooding in our community. This goal will require us to analyze this issue from two perspectives: 1) flooding that damaged commercial and industrial areas from the overflow of the Skunk River and Squaw

Creek; and 2) flooding that damaged various neighborhoods from localized, non-river surface runoff during intense rain events.

In order to address this critical goal, the FY 10/11 budget has been amended to include \$250,000 to identify the most cost-effective means for mitigating the impact of river flooding, \$30,120 to assess urban stream flooding that erodes private property and undermines our utility piping, and \$48,980 to determine how best to protect our neighborhoods from future surface flooding. The CIP anticipates a substantial amount of federal hazard mitigation funding matched by the revenues generated from our Storm Sewer Utility increase to accomplish the identified mitigation projects.

SANITATION

In past years, I have reminded the City Council that we are contracting with the State of Iowa to perform restaurant inspections in the belief that we can provide a superior service to our customers. Unfortunately, while this arrangement has saved the State the cost of providing this service, an associated State law prevents us from raising our inspection fees to cover our costs.

With the announced retirement of our long-time Sanitarian, this is an opportune time to determine whether or not to continue this arrangement. By canceling the contract with the State, the City would save an additional \$50,000, or a reduction of \$.02 of the property tax rate. The City Council should understand that currently our Sanitarian is able to inspect each restaurant twice per year. It appears that other communities who are inspected by the State receive inspections once per year.

Given all of the financial challenges that we must confront in FY 11/12, we are happy to present you with a budget that maintains our level of service and does not increase the property tax rate to our citizens. I should emphasize that this administrative/financial plan could not have been accomplished without the commitment and creativity of our department heads and their staffs. In addition, the budget document is the product of the hard work of Duane Pitcher, Carol Collings, Sharon Hjortshoj, Bob Kindred, and Sheila Lundt.

Respectfully submitted,

Steve

Steven L. Schainker
City Manager