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Mayor and Ames City Council Members:

As we began the preparation of the FY 2012/13 budget, State Legislators in Des Moines were about to begin a debate regarding bills that would impose an arbitrary limit on the amount of property taxes a City Council could raise each year to support municipal services. With the projected trend that the amount of residential valuation subject to taxation will increase in the coming years, there appears to be fear among some in the State House that locally elected City Council members will take advantage of this trend and raise the taxes on their constituents in excess of their needs.

It is important for our citizens to know that year after year the Ames City Council members have been very prudent in their decisions to levy taxes to finance city services, and fiscal year 2012/13 will be no different.

The budget that I am recommending for fiscal year 2012/13 reflects expenditures of \$197,836,020. In this transmittal letter, I have attempted to provide highlights regarding this financial/service plan for our community.

PROPERTY TAXES – \$.12 Property Tax Rate Reduction

Property taxes have been historically used to support programs related to police, fire, transit, parks, recreation, library, and planning services as well as associated capital improvements. In FY 2012/13, the operational expenses for the above services are estimated to grow 3.6%. **In order to fund these expenditures, an additional \$502,094 in property taxes will be needed as compared to the previous year.**

Of this total, new or additional costs total \$412,348 and are primarily attributable to 1) a \$95,753 increase in funding for CyRide; 2) \$135,203 to meet our obligations to fund State mandated employee retirement systems; 3) \$29,387 in additional support for Resource Recovery operation; 4) \$78,734 to cover the debt service on new neighborhood flood mitigation projects identified in the CIP that have been rejected for FEMA funding; and 5) a shift in \$73,271 of staff costs for economic development efforts from the Hotel/Motel Tax support to the General Fund.

Also included in the additional property tax request for FY 2012/13 is \$295,522 generated from the debt service levy to begin payment of the recently approved bond issue to renovate the Library. This financial obligation will most likely be spread over two-to-three years in conjunction with the construction project.

The budget also benefited from a recovery in Local Option Sales Tax revenue which has been stagnant since FY 2008/09. Local Option Tax revenues transferred to the General Fund for property tax relief are expected to increase by \$501,370.

Because of the improvement in Local Option Sales Tax, new growth in our community, and an increase in the rollback percentage, we are able to finance this tax increase with a \$.12 reduction in the overall property tax rate from \$10.84 per \$1,000 of taxable valuation to \$10.72 per \$1,000 of taxable valuation.

What seems to be most important to our citizens is how much more or less they will be asked to pay in property taxes. The proposed FY 2012/13 budget will require a home owner to pay an additional 3.40%, or \$17.88 per \$100,000 of taxable value. The commercial and industrial property owners will benefit from a 1.13% decrease in their tax obligation, or a \$12.24 per \$100,000 of taxable valuation reduction in taxes.

It is important to note that these totals include the obligation for the renovation of the Library. If not for the recently approved bond referendum for the Library renovation, the residential property owners would have been asked to pay only 2.12% more in taxes (\$11.18 per \$100,000 of taxable valuation), with the commercial and industrial property owners realizing a decrease of 2.35% (\$25.44 per \$100,000 of taxable valuation).

ELECTRIC UTILITY – No Revenue Increase/Rate Restructuring

There is no need to increase the overall revenue in FY 2012/13 to finance the projected 3% increase in operating expenditures. Sufficient revenues are available in the Electric Fund to cover these costs. However, as a result of a recently completed Cost-of-Service Study, our electric rates will be restructured. Highlights of this restructuring will include an increase in the minimum bills, the establishment of a flat block rate for all customer classes to promote consumption reduction, and a change in the unit of measure to determine the demand charge so that it is more accurate.

In the face of an uncertain regulatory environment, in FY 2011/12 we intend to begin developing an updated strategic plan to chart viable options for meeting our future generation needs.

In accordance with the City Council's goal to promote environmental sustainability, the Electric Services staff will be working with three citizen committees. These committees will focus on public education, awards and recognition, and policies in an effort to reduce electric consumption throughout the community.

With the upgrade to the transmission system in Central Iowa, we are receiving more energy from our wind farm in northeast Story County which adds to our renewable energy portfolio.

A major initiative in FY 2011/12 and FY 2012/13 will be to expend \$2,000,000 to remove ash from our ponds east of the Power Plant to increase the capacity of this storage area.

WATER UTILITY – 3% Rate Increase

The staff has done its part to hold down expenditures with only a .6% increase. Most of the needed repairs are being delayed in anticipation of the new Water Treatment Plant reflected in the CIP.

In order to finance the operating costs and continue building the Water Fund to generate sufficient funds to cover the debt on the new Water Treatment Plant, a 3% rate increase will be required in FY 2012/13. This increase is substantially less than originally projected for this year because of the exciting news that the City will receive a \$5.88 million forgivable loan towards the project to make our facility the first LEED certified treatment plant in the state.

SANITARY SEWER UTILITY – 5% Rate Increase

A 5% revenue increase has been incorporated into the budget to meet the maintenance needs at the plant and satisfy the increasing discharge limits reflected in our discharge permit. This includes the installation of a new disinfection system that will be added to further improve the quality of our effluent. We are able to mitigate this requested rate increase because the staff was able to hold the operational expense increases for FY 2012/13 to 3.5%.

A major initiative will involve a Facility Master Plan. Our WPC plant is over 22 years old and it is critical that we determine what improvements are needed to meet our customers' needs for the next 20 years.

For the twenty-first year, the WPC Plant has achieved 100% compliance with our NPDES permit. Only two facilities in the country have longer compliance streaks.

STORM SEWER UTILITY – No Revenue Increase/Rate Restructuring

Since its inception, we have attempted to partially fund our storm water projects through a monthly fee charged to each utility account. In this way, everyone was treated similarly. Over the years, it has been suggested that the City consider changing to a fee structure that would be based on the amount of impervious surface on a lot. After extensive discussions among the City Council members, a new structure will be implemented in January 2013 that will result in a customer being charged a greater fee for larger amounts of impervious surface that is on a site. While the new fee structure is meant to be revenue-neutral, it will impact certain customers differently. For example, entities with large parking lots (churches, schools, commercial areas, major employers) will see substantial increases in their storm sewer fees.

Much of the focus in FY 2012/13 will be on implementing improvements in neighborhoods impacted by overland flooding during the August 2010 flood and preparing a mitigation plan to protect properties that sustained damage during this same event from river flooding.

RESOURCE RECOVERY UTILITY – \$1.40 Per Capita Rate Decrease

The Resource Recovery operation continues to reflect a healthy fund balance. This fact is important as we continue to explore new technologies to convert our waste in lieu of sending it to a landfill. Currently, the Refuse Derived Fuel (RDF) is burned in our Power Plant boilers along with coal to produce electricity. The possibility of converting RDF to a gaseous form to produce electricity might yield environmental benefits. Any future conversion to a new technology will require significant capital investments, so a healthy fund balance will help mitigate the cost impact on our customers.

This operation is supported by fees generated primarily from the Electric Utility and garbage haulers. However, additional revenue is needed from the City taxpayers, as well as from the other governmental entities who are partners in our operation, to cover the estimated expenditures. In FY 2012/13, the required subsidy will be \$725,188. This amount is allocated among the partners based on population. Since 2000, the City of Ames represented 59% of the total Story County population and, therefore, in FY 2011/12, our share was \$423,476 of the total subsidy. The recently released census information indicates that the total population in the County has increased, with Ames now representing 62% of the county population.

In order to generate the same total revenue in FY 2012/13 that was realized in FY 2011/12, the per capita charge to our partners must be reduced from \$10.50 to \$9.10. **Because we now represent a greater percentage of the county population, the City's property tax obligation to finance the Resource Recovery operation will increase by \$29,386 (from \$423,476 to \$452,862), even with the reduction in the per capita charge.**

PARKING – No Fine Increases

You will note that, in FY 2012/13, the expenditures exceed the revenue by approximately \$25,000. Since there remains a substantial available balance in this fund, no immediate action is required to correct this situation. However, based on the information recently presented by the Police Chief, we can expect this trend to continue since the amounts we are charging for overtime and illegal fines are not covering our costs. In addition, as we explore new technologies to improve customer convenience for paying meter fees and enforcement efficiencies, additional funds will be needed for one-time capital expenditures to purchase this equipment. Therefore, the City Council should be prepared to take action in the near future to increase fee and fine amounts to generate this needed revenue.

TRANSIT – 7% Increase In Support For CyRide

In FY 2011/12, the CyRide operation was confronted with fuel costs that exceeded the budgeted levels by approximately \$150,000. Since this trend toward higher fuel costs is expected to continue, fuel is budgeted at \$3.50 per gallon in FY 2012/13. This amount is an

increase of \$1.00 per gallon more than the previous year, or an additional \$307,500 for this one item.

In order to absorb this significant cost increase and prepare for an anticipated reduction in federal funding in the next fiscal year, the following three financial strategies are being instituted: 1) fares were increased by 25% (from \$1.00 to \$1.25 per ride); 2) various operational expenses were cut; and 3) minor service level reductions were made. Even with these actions, an additional 7% is being asked from the City, University, and GSB for FY 2012/13 in order to bring the fund balance for this operation up from 8.2% to 10.3%, which is still below the Transit Board's goal of 15%.

LAW ENFORCEMENT

Historically, our citizens have benefited from a partnership between Mary Greeley Medical Center and the Ames Fire Department to provide excellent emergency response services to our community. Since the number of emergency medical calls has continued to increase over the years, three critical initiatives are being implemented in FY 2011/12 to enhance this service capacity.

1. **Emergency Medical Dispatch**

We have successfully implemented a new system to provide emergency medical dispatch capabilities. Given new training and certification, our Police Dispatchers can now provide emergency instructions to callers, even before the ambulance arrives. At the same time, Dispatchers can now communicate information about the patient's condition to the ambulance and fire crews en route to the scene.

2. **Automatic External Defibrillators in Police Cars**

In an effort to speed the medical response to cardiac emergencies, automatic external defibrillators are being placed in each police patrol vehicle. While we cannot ensure that a patrol car will be present in every neighborhood at all times of the day, this new service will add a third component to our emergency response capability. In those cases where a patrol officer arrives at the scene of an emergency in advance of the Fire Department or ambulance, a life-saving intervention can now be initiated.

3. **Cost-Effective Response to Mental Health Calls**

In response to the dramatic escalation of mental health calls to the Police Department, the budget reflects an additional part-time position similar to a Community Safety Officer to address this growing workload. This cost-effective initiative will provide a response to these calls by a person with specialized training and experience, will coordinate actions with mental health service providers, and will leverage justice system resources in support of mental health patients.

BUILDING SAFETY

When the economic downturn hit our community with a corresponding slowdown in construction, I recommended that two positions in this program not be filled. Eventually,

construction activity picked up with the addition of several new apartment units and commercial projects. As a result, permit revenue was sufficient to justify the filling of these two positions by September 2011.

As we look ahead to FY 2012/13, we are anticipating additional major construction projects that will impact our workload. Realizing that our customers have urged the City Council to ensure that timely inspections are provided, the budget includes \$72,500 to contract with a private firm to supplement our inspection capabilities. While more costly in the short run, contracting out for these inspection services will hopefully prove more effective in meeting peak demands. However, if the construction activity continues to grow, we will need to give consideration to an additional full-time inspector to satisfy our customers' demands.

Another approach to handling this increased workload and improve our customer service is to take advantage of new technology to assist our inspectors in becoming more efficient. The staff is currently exploring new software that will allow inspection reports, scheduling, and research to be accomplished in the field. Unfortunately, the cost of this new software could be as much as \$250,000. In FY 2011/12, we are earmarking \$175,000 from the General Fund balance to begin accumulating sufficient funds to purchase this new technology.

LIBRARY SERVICES

The Library staff has done an outstanding job at holding down expenditures with only a 3.2% increase reflected in FY 2012/13. Unfortunately, these services will require a 6.4% increase in General Fund support. This larger-than-usual increase is necessary because the City of Gilbert canceled the agreement with the City of Ames to provide library services to their residents. This action resulted in an unexpected \$56,000 shortfall in revenue in FY 2011/12 that continues into FY 2012/13.

While the Library staff took action to discontinue the Bookmobile stop in Gilbert, the absence of a non-resident charge still allows Gilbert residents to utilize our services at other Bookmobile stops or at our main Library location.

RECREATIONAL OPPORTUNITIES

Instructional

It is important to note a significant decrease in the projected revenue from our youth programs. It appears that the recent construction of gyms and the addition of recreational leagues affiliated with local churches have impacted our participation levels. In the coming year, the staff will be looking at ways to redefine our niche in this recreation service area.

Wellness

While not yet reflected in the budget, the City Council should know that staff is working to develop a new partnership with the Green Hills Retirement Community. This partnership is being designed so that the City will provide fitness and aqua classes for Green Hills residents for an annual fee. In addition, the proposed arrangement will allow the City to

gain access to their fitness facility and therapeutic pool for our classes which will be open to the general public.

ENDING GENERAL FUND BALANCE

During our budget guideline session last fall, I informed the City Council that we were fortunate to end FY 2010/11 almost \$550,000 better in the General Fund balance than we planned. I indicated at that time that you should consider utilizing this funding for one-time expenditures that would lessen the tax burden for FY 2012/13. In accordance with this strategy, the following expenditures have been amended into the FY 2011/12 budget:

- \$81,161 for various capital items
- \$175,000 for new Inspection software
- \$200,000 towards the City Hall/Police Department renovation project
- \$195,000 towards the City’s contribution to the Fire/Police Retirement System

STAFFING LEVELS

The Budget includes a slight decrease in the overall number of Full-Time Equivalents (FTEs) to support the numerous services we provide our citizens from 552.85 to 552.35. To accomplish this net .50 FTE reduction, the following changes have been made:

-1 FTE

A reorganization of the Parks and Recreation Department supervisory staff has allowed us to eliminate a **Recreation Supervisor** position (\$88,000).

-1 FTE

With the recent action by the State of Iowa to discontinue our contract and take over restaurant inspections, the **Sanitarian** position was eliminated from the organization.

+1 FTE

In FY 2011/12, a part-time intern position was added to focus on special projects and City Council referrals. During this past year, the position has proven to be of great value. The intern has provided much needed analytical assistance to almost every department. As a result of this success, in FY 2012/13, the position is being converted to a full-time **Management Analyst** position at an added cost of \$17,000. In addition to assisting all of the departments with special projects requiring analytical capabilities, the position will be responsible for grant writing, facilitating process improvement teams, and coordinating in-house sustainability programs for the total organization.

+.50 FTE

The Library has added a ½ time **Circulation Clerk**. The funding for this new position is coming from savings realized through a reclassification of another position and through a reduction of their pool of funds for temporary salaries.

We cannot be sure what action, if any, the State Legislature will take that will impact our ability to provide exceptional service to our citizens at the best price. However, in the face of this uncertainty, I feel more comfortable knowing that we have City employees who are dedicated to meeting any challenge that might be imposed upon us.

I would like to thank all of our department heads along with Duane Pitcher, Carol Collings, Sharon Hjortshoj, Bob Kindred, and Sheila Lundt for their hard work in preparing this budget document. **In April 2012, Sheila will be concluding her outstanding career with the City of Ames. Her wisdom and guidance will be very much missed by those of us within our organization as well as by the citizens of Ames whom she served so well over the years!**

Respectfully submitted,

Steve

Steven L. Schainker
City Manager