



January 29, 2014

Mayor and Ames City Council:

As you look around our community, there is a new-found reason for optimism as we begin to emerge from an extremely difficult economic climate that permeated our country. The continued unprecedented growth in student enrollment at Iowa State University, the significant increase in non-governmental employment highlighted by the 700 new, high-paying jobs at WebFilings, the expansion of commercial opportunities at North Grand Mall and along the South Duff commercial district, the impending redevelopments in Campustown beginning with Kingland Systems, the initiation of the next phase of the Iowa State University Research Park, and the annexation of a significant amount of residential land in our north growth area all have contributed to this feeling of optimism about our future. It is within this context that I am presenting for your review and approval the FY 2014/15 Budget which totals \$236,821,276 to finance the numerous services that are provided to our citizens and visitors to the City of Ames.

As I have consistently cautioned the City Council, however, the benefits of increased revenues realized from growth lag behind the expenditures needed to facilitate this growth. Property taxes realized on new improvements are not collected by city governments in Iowa for up to 18 months after completion. In addition, it takes time to build out a development after the infrastructure first has been installed. Therefore, even in the face of this optimism, the preparation of the FY 2014/15 Budget posed a number of significant challenges.

First, to our surprise, the Local Option Sales Tax receipts for FY 2013/14 are expected to be \$473,739 less than we had budgeted. This shortfall means that there are 284,244 fewer dollars in FY 2013/14 to reduce property taxes than we had planned. Fortunately, because of greater revenues than anticipated from various fee receipts, as well as expenditure reductions due to savings realized from employee turnover, we were able to identify adequate funds to make up for this lower than expected sales tax revenue. Relying on the aforementioned optimism, we have budgeted the same level of Local Option Sales Tax receipts in FY 2014/15 as we adopted in FY 2013/14. This total represents a 7% increase over the amount expected to be received in FY 2013/14.

Second, the recently passed State legislation which reduced the taxable value on commercial and industrial properties from 100% to 95% of their assessed value resulted in a loss of \$48,265,140 in taxable value. Fortunately, two changes will allow us to offset these losses: 1) the percentage of assessed value subject to taxation for residential properties will increase from 52.8% in FY 2013/14 to 54.4% in FY 2014/15, yielding \$41,356,217 in additional taxable valuation; and 2) \$524,239 from the newly established State Replacement Tax proceeds will be received in accordance with the new State legislation. We can only hope that the State Legislature will continue its commitment to backfill this loss in taxable

value as the rollback on commercial and industrial property goes to 90% in FY 2015/16. This has not always been the case!

## **PROPERTY TAXES - NO INCREASE IN OVERALL CITY TAX RATE**

**After overcoming the challenges mentioned above, I am able to present to you a budget for FY 2014/15 that reflects virtually the same overall tax rate of \$10.85 per \$1,000 of taxable value.** The ability to maintain the same tax rate was due to the exceptional work of our department heads and their staff who developed operating budgets in the General Fund that calls for a decrease in expenditures of \$15,000 in FY 2014/15 as compared to the prior year's adopted level.

Given this total, the document that I have presented should be considered a maintenance budget where emphasis is being placed on continuing the same levels of service for our citizens. However, there are a number of issues in this budget that should be highlighted.

- **Land Use Policy Update Awaits**

At a recent goal setting session, the City Council designated the review and updating of the LUPP as its top priority. Therefore, \$247,000 has been included in FY 2013/14 to hire a consultant to assist in this labor intensive task. Because of the extensive public involvement we hope to encourage, this project could take up to two years to complete.

- **Much Needed Renovation of City Hall**

City offices were first relocated to the Central Junior High site in 1990. Since that time as our city has grown, so too has our need for office space. Rather than pursue space options at another site and fragment our offices even further, an attempt has been made to optimize the space at the current City Hall. The combination of General Fund monies along with a federal grant, allowed us to complete Phase I of our City Hall Renovation Plan. This project has reduced the overcrowding in a portion of the Police Department, and included a much needed expansion to our Emergency Operations Center. The FY 2013/14 adjusted budget includes approximately \$1,100,000 from unanticipated savings in the General Fund derived over the years to fund Phase II of the City Hall renovation project. These funds will complete the anticipated work in the Police Department on the first floor and upgrade the office space in the basement to accommodate the Print Shop, Public Works Engineering, and Information Technology space needs.

- **New Permitting Software Will Improve Service**

In response to customer feedback, new permitting software will be purchased in FY 2013/14. This new software, which is estimated to cost \$250,000, will allow our Building and Rental Housing Inspectors to schedule inspections, access pertinent information regarding codes, process permits faster, and check on any special status of a property in the field. Not only will this software promote more efficiency and improved timeliness for our inspectors, this new tool will allow our customers to remotely submit permit requests, track the status of their permits, and pay for permits.

- **New Library Opens**

As you can understand, budgeting for the opening of our newly renovated library is tricky. The current schedule calls for a completion date in the fall of 2014. Lacking a specific move-in date that would allow us to cancel the lease at our temporary location, we have budgeted financial support for two facilities for three months. Although more energy efficient than the older space, the new Library will have substantially more space. Without any experience in the new space, we had to provide our best estimates for utilities and cleaning services.

- **CyRide Growing Pains**

As you know, as ISU's enrollment has skyrocketed over the past years, so too has the ridership on CyRide. We are now projecting ridership to reach 6.5 million in FY 2013/14. This ridership demand is posing a significant challenge to CyRide, not only to satisfy requests for new routes, but also to meet the ridership demands on existing routes.

Historically, federal funds were available to help fund new buses, as well as operational expenses. Unfortunately, this source of revenue has been eliminated for vehicle purchases. In order to purchase new or used buses to meet our ever growing ridership demand, our local funds must now fund 100% of these capital purchases. Therefore, this loss in outside revenue places a greater burden on the three funders (City of Ames, ISU Government of the Student Body, and ISU Administration) to finance our transit system.

In order to accommodate the ridership increase, the CyRide program includes this budget's only increase in personnel where 2.6 drivers, two mechanics, and two part-time lane workers have been added. As a result of these additions, the City's support for CyRide will increase 4.4% in FY 2014/15, bringing our total property tax support to \$1,546,606. In order to meet the financial demands on our system, the Transit Board is discussing the exploration of a new funding model during the coming year.

- **Sustainability Is A Priority**

Each department has taken very seriously the City Council's goal to promote sustainability throughout our operations. Two excellent examples of this effort are evident in the Traffic Maintenance and Street Maintenance programs. The transition to LED lights in our traffic signals has yielded \$36,000 in annual savings to the City, while the crushing and reuse of concrete from previous road projects has generated approximately \$60,000 in savings.

- **Preparing For The Ash Borer**

The City of Ames is one of three communities in the State that has received a grant from the Iowa Department of Natural Resources that has allowed us to work with an urban forester to develop a plan to react to the anticipated infestation of the Emerald Ash Borer. It is our intent that this plan will be finalized in FY 2013/14. This plan will give guidance for street, park, and private trees.

- **What Has Not Been Included In This Budget?**

It should be emphasized that two high priority projects for the City Council have not been included in this budget request. The vote on the new multi-purpose event center will occur too late to know whether or not to include the first year's debt service payment for this facility in the FY 2014/15 budget. Rather than delaying this project a year if the bond referendum is approved, we will explore the possibility of ISU paying its one-half of the project in advance of the City's first payment, or some other viable strategy.

A significant amount of planning regarding the third phase of the ISU Research Park has been accomplished recently. However, the final pieces of a funding strategy for this complex project are not complete. Either our share of the project will have to be delayed a year or the City can choose to finance this project through a Tax Increment Financing strategy.

<b>RESOURCE RECOVERY - NO INCREASE IN PER CAPITA SUDSIDY OR TIPPING FEES ( Per Capita Fee = \$9.10 &amp; Tipping Fee = \$52.75/Ton)</b>
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Historically, the Resource Recovery Plant has not been able to cover its expenditures with user revenues. Consequently, in addition to the tipping fees charged to cars, vans, and trucks that drop off waste at the facility and the sale of the processed waste (refuse derived fuel) to our electric utility for an alternative fuel source, the operation is subsidized by a per capita fee assessed to Iowa State University, the rural residents in Story County, and the twelve cities that utilize our facility rather than maintain their own landfill. This budget maintains the same per capita fee of \$9.10, as well as the current \$52.75 per ton tipping fee. In FY 2014/15, the City's portion of the per capita fees will be \$452,862, or about 62% of the total subsidy.

A review of our fund balance in this utility reveals a healthy total that should forestall any fee increases in the near future. However, as we continue to seek alternatives to transform our waste to a gaseous state to meet future storage problems and to improve our electric utility's ability to access the less expensive energy markets when available, fee increases will be required if a major capital improvement is needed to accomplish this task.

Our contracts with our partner cities in Story County expire in June 2014. Therefore, we are actively working with all the jurisdictions to renew these agreements for an additional twenty-five years.

<b>WATER UTILITY - NO RATE INCREASE</b>
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Due to the impending construction of the new Water Treatment Plant, the staff has made an effort to hold off any further improvements at the existing facility. In addition, improvements in the performance of the pumps and motors at this utility have resulted in a 17% gain in energy efficiency in our water production. As a result of these efforts, the operational expenditures in the Water Utility are down .1% from the previously adopted level. Hence, no rate increase will be needed in FY 2014/15.

Our organizational values emphasize continuous improvement and innovation. Consistent with these values, we are introducing a new Student Operator Program in the Water Utility where students attending ISU or DMACC will be trained to operate the plant during weekend evenings and weekend overnight shifts. This new program will result in savings to this utility, assure more attractive schedules for our permanent operators, and provide more flexibility for covering extended leaves for our full-time operators.

#### **SANITARY SEWER UTILITY - 8% RATE INCREASE**

Here again, the department staff did an excellent job in holding down the increase in the operating expenditures to only .9% over the prior year's adopted level. However, the recently completed Long-Range Facility Study identified a significant number of capital improvement projects for our twenty-four-year-old WPC Plant over the next five years that will necessitate a series of rate increases, beginning with an 8% increase in FY 2014/15.

The reclassification of the South Skunk River to a primary contact recreation designation required the construction of an Ultraviolet Light Disinfection System as a final phase of our treatment process. This much anticipated project is scheduled to be operational in March of 2014.

#### **STORM SEWER UTILITY - NO FEE INCREASE**

In FY 2012/13, the City Council adopted a new Storm Sewer Utility fee structure that transitioned from the same monthly fee being charged to every utility account to a three-tier rate structure based on the amount of impervious area. A monthly fee of \$3.45 was set for each Established Residential Unit (ERU) calculated for each property.

While this fee structure appears to be sufficient to cover our current annual operating costs to maintain the manholes and intakes in our storm sewer system, these revenues are not sufficient to support all of the capital improvement projects needed to handle the ever-increasing runoff associated with the growth in our city. As a result, General Obligation debt of over \$2.4 million will be relied upon to finance improvements to our storm water system over the next five years. A future policy decision for the City Council will be whether or not to increase the monthly fee schedule to cover more of the capital improvement costs.

In 2014, we hope to obtain City Council approval for a Post-Construction Storm Water Ordinance and enhance our water quality programs that include: community outreach, tree planting, rain barrels, rain gardens, and soil restoration.

#### **ELECTRIC UTILITY - NO RATE INCREASE**

The operating expenditures reflected for FY 2014/15 for the Electric Utility are actually \$48,509 less than compared to the FY 2013/14 adopted budget. Consequently, no electric rate increase is needed at this time.

Now that the City Council has directed us to pursue the conversion of our Power Plant from coal to natural gas, we will begin designing the necessary improvements to accomplish this task. These capital improvements will no doubt drive future rate increases in this utility as soon as FY 2016/17.

The Electric Utility accomplished three milestones in FY 2013/14:

- The much needed transmission line to the south and east was finally completed, which will guarantee our customers more reliability and access to less expensive energy.
- Our electric rate ordinance was restructured in accordance with a recently completed cost-of-service study. While the new structure is revenue neutral, it eliminated declining block rates, increased demand rates, increased minimum customer charges, and decreased energy rates.
- The Demand Side Management Program which consists of a wide array of incentives, along with the installation of load-shedding devices, has successfully reduced our peak demand by 14 megawatts.

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As will be evident after you review this budget, our department heads have taken very seriously their responsibility to provide exceptional service to our citizens and visitors at the least cost possible. However, as our community grows, this task will become even more challenging. I am confident that the employees of the City of Ames will meet this challenge through their devotion to creativity, dedication to their jobs, and commitment to the citizens of Ames.

I also want to thank Duane Pitcher, Finance Director, Nancy Masteller, Budget Officer, Sharon Hjortshoj, Finance Department Secretary, Bob Kindred, Assistant City Manager, and Melissa Mundt, Assistant City Manager, for asking the right questions and for their hard work in completing this financial/service plan for the City of Ames.

Respectfully submitted,

  
Steven L. Schainker  
City Manager