



January 30, 2015

Mayor and Ames City Council:

In last year's budget message I indicated there was reason to be optimistic that our local economy was showing signs of emerging from the financial downturn that had gripped the country for many years. I am happy to report that this year there are specific indicators that verify this economic resurgence. Demand for additional industrial, commercial, and residential development continues to increase as we experience further growth in Iowa State University enrollment as well as in the number of new jobs created in our community. Due to this growth in development we are projecting that the number of building permits issued in FY 2014/15 will increase by 18% over the previous year's total. Because of this upturn in the local economy, \$91,602,424 of additional taxable property valuation was added. Another indicator of the improved financial health of our community is evidenced by the increase in our Local Option Sales Tax receipts, which are projected to increase by \$362,250 in FY 2015/16, or 5%, over the prior year's adopted level.

I am attaching for your review and approval the City Manager's Recommended Budget for Fiscal Year 2015/16 that takes advantage of this excellent financial environment. This document reflects expenditures totaling \$257,905,216 for the various programs and services that we plan to provide to our customers during this fiscal year.

This letter provides a summary of some of the major highlights included in this program budget.

PROPERTY TAXES - 2.5% Tax Rate Decrease - From \$10.86 to \$10.59

The budget that is being recommended reflects an overall property tax rate decrease of 2.5% from \$10.86 per \$1,000 of taxable valuation to \$10.59 per \$1,000 of taxable valuation. The property tax rate decrease reflected in this budget is intended to mitigate the impact of the increase in the state-mandated rollback percentage from 54.40% to 55.73% for residential properties and the 3.9% increase (\$55,964,000) in property valuations due to reassessments on existing properties as the result of an improving housing market. Due to the excellent work of the department heads and their staff members, expenditures to finance the operations supported by the General Fund are budgeted to increase by 3.3% in FY 2015/16. As a result of their efforts, this relatively small increase in expenses will require only an additional \$292,291 in property tax revenue to balance this budget and maintain a 23.3% available balance in the General Fund.

You will note that in FY 2015/16 the budget reflects funding of \$1,040,035 from the State government to meet its obligation to replace lost property tax revenue as the result of the new state legislation that now applies a 90% rollback on the assessed values for commercial and industrial properties.

ELECTRIC UTILITY - No Rate Increase

The utility's major focus will be on the conversion of our power plant from coal fired boilers to natural gas. The City Council's decision to pursue this estimated \$26,000,000 project was in response to the need to select the most economically viable alternative that would have the highest probability of meeting federal air quality requirements within the mandated timelines and would meet the City Council's goal to expand our sustainability efforts.

Converting our power plant to natural gas is estimated to reduce carbon emissions by 40%, or approximately 312,000 tons of CO₂ per year. This conversion, coupled with our current commitment of 14.2% of renewable energy (2.8% from the burning of the community's refuse in our power plant boilers and 11.4% from the purchase of 30 megawatts of wind energy), will place us well on the way to accomplishing the sustainability goal of the City Council.

While no electric rate increase has been included in this budget, the full impact of the gas conversion project should be felt first in FY 2016/17 when the Energy Cost Adjustment portion of our customers' bills will be increased by an estimated 5% to reflect the higher costs of burning natural gas in our power plant. In addition, in FY 2017/18 we are projecting the need for a 4% rate increase to complete the financing of the conversion project.

In the meantime, a strong effort was exerted to hold down the expenditures in the operations of this utility to help delay the need for an immediate rate increase. As a result, the estimated expenditures for operations, less purchased power, are less than 1% higher in FY 2015/16 than the previous year's adopted level.

WATER UTILITY - 4% Rate Increase

Here again, one project will dominate the attention of the staff in this utility – the new \$74,000,000 water treatment plant. In keeping with the City Council's sustainability goal, we have received a \$6,224,000 forgivable loan for this project because of our commitment to construct this new facility to a LEED certified standard.

In anticipation of the opening of the new plant in a few years, an effort has been made to forestall as much maintenance costs on the old plant as possible. Therefore, the FY 2015/16 operations budget calls for an actual decrease in expenditures of .3% as compared to the prior fiscal year. **The 4% water rate increase that is incorporated into the budget represents the last in the series of increases needed to finance the new treatment plant.**

Innovation is a value that drives our thoughts and actions in the city organization. An excellent example of this value is evidenced in the creation of the Student Intern

Operator positions at the water plant. These positions allowed us to eliminate a full-time position as well as to reduce the number of weekend work days required of the remaining Operators.

In order to preserve the capacity of the 22 existing wells, a new program for routine well rehabilitation has been introduced into this budget. Four wells are scheduled for rehab in FY 2015/16.

SANITARY SEWER UTILITY - 5% Rate Increase

In 2014, the Water Pollution Control facility received the Platinum Peak Performance Award for the 24th consecutive year. This award represents the third longest record in the nation for operating compliance.

The budget includes funding to upgrade the communication components of the Flood Early Warning System. The City will pay for 40% of the system, while the remaining 60% is split among Story County, Iowa Department of Transportation, and Iowa State University.

If this new system is removed from the calculation, the operating budget for this utility will increase by only 1.5% over the prior year's adopted level. **Therefore, the need for the 5% sewer rate increase is predominantly due to the Sanitary Sewer Rehabilitation capital improvement project that over the next five years will allocate more than \$18,000,000 to the repair or replacement of deficient sewer lines and deteriorated manholes.** These upgrades will decrease the amount of clean water entering the sanitary sewer system and eliminate the need for treatment at the Water Pollution Control Plant. This project was judged to be the more cost-effective strategy of maintaining adequate capacity for the Plant.

STORM SEWER UTILITY - No Monthly Fee Increase

As you know, the current monthly Storm Water Utility fee of \$3.45 per equivalent residential unit (ERU) is not adequate to cover the operational maintenance and capital improvement costs related to handling the ever-increasing amount of storm water that is transported through our community due to the increase in development and its associated impervious surfaces. Therefore, in FY 2015/16, \$777,189 from storm water utility fee revenues is being budgeted for various storm water capital improvement projects and maintenance work by City crews. An additional \$644,000 of G.O. Bond funding is needed to complete the planned capital improvement projects. Should the Council continue to rely partially on the issuance of debt to fund some of the needed capital improvement projects, it is estimated that the monthly ERU rate will need to be increased by \$0.25 in FY 2016/17 and another \$0.25 in FY 2018/19.

Since 2007, there has been one FTE (Storm Water Specialist) devoted to administering the Municipal Separate Storm Sewer System (MS4) permit issued by the EPA. This employee is aided by a part-time consultant. Their responsibilities include: plan review, field inspections, education/outreach, coordination with other environmental groups, monitoring chemical applications on public properties, and

monitoring/meeting MS4 permit activities. **Because of the increase in development throughout the community and in the demands of the MS4 permit, additional staff time is needed to comply with the MS4 permit. Therefore, the FY 2015/16 budget includes a new 3/4 FTE for a Storm Water Specialist.** The incremental cost of this position is \$23,400, since the consultant expenses will be eliminated from the budget.

Staff time associated with administering the MS4 permit has not been covered by the permit fees, as originally hoped. **The FY 2015/16 budget includes minimal permit fee increases to better cover these costs. In addition, two new permits, the subdivision stormwater plan review (\$450) and the grading plan review (\$250), are being introduced.** The grading permit will enable developers to advance construction activities, while complying with the MS4 permit. Even with these fee increases, the projected expenses for administering the MS4 permit will exceed revenues by \$74,800. This difference is covered from the Storm Water Utility.

RESOURCE RECOVERY UTILITY - No increase in Per Capita or Tipping Fees

The staff in this utility remains some of the most innovative employees we have in the City organization. They are constantly exploring ways to improve the efficiency of the Resource Recovery Plant. In 2013, a slow speed, high torque shredder replaced an older model which reduced the electric consumption at the Plant. As unforeseen drawbacks occurred with this installation, however, the Plant staff was able to overcome the problems through their increased maintenance efforts. In addition, the staff was able to design and fabricate the replacement for a major conveyor at the Plant. **Because of their dedication, the budget reflects only a 1.7% increase in operational expenses for FY 2015/16.**

The financial status of this utility remains strong, which allows us to maintain the Per Capita charge to our member cities and Story County to support this operation at \$9.10. In addition, this budget shows no increase in the \$52.75 per ton tipping fee to the garbage haulers.

Since the Per Capita fee remains the same for FY 2015/16, the City's property tax support for this utility will again be \$452,862.

ADMINISTRATIVE SERVICES - New Activity

Historically, each department is assigned specific administrative support staff to answer customer questions, direct customers to the appropriate staff members, and provide customers with materials that will assist them in their interaction with the City. Because the offices of community development related services are located in close proximity to each other on the second floor of City Hall, we have a unique opportunity to streamline the interactions with customers who many times need to interact with staff members in all of three of these offices.

Seizing upon this opportunity, the budget reflects the creation of a new Administrative Services function. This new arrangement combines the clerical staff from the Planning and Housing Department, Public Works Department, and

Inspections Division of the Fire Department into one central location. The goal of this new activity is to share services, increase collaboration, and provide a "one-stop-shop" related to our community development services.

GENERAL FUND PROJECT ADDITIONS

In some years we are fortunate to have available funds from the prior year that have accumulated either because expenditures came in less than budgeted or revenues received surpassed the appropriated totals. When this happens, I have explained that the City Council could take advantage of these additional funds by applying them to reduce property taxes. However, because this excess should be considered "one-time funding", I believe the wiser approach is to apply them to specific one-time projects where continued funding will not be required.

Available funding for the Adjusted FY 2014/15 budget totals approximately \$1,700,000. This abnormally high total is attributed to 1) \$598,467 in higher than anticipated building permit fees in FY 2013/14, 2) \$623,436 in expenditure savings in FY 2013/14 due to staff vacancies, reduced overtime, and lower than expected fleet maintenance costs, and 3) an additional \$524,753 to be received in Local Option Sales Tax revenue in FY 2014/15.

The timing of these additional funds comes at a very fortuitous time since we were able to earmark them for the following projects in FY 2014/15, thereby eliminating the need to raise property taxes to accomplish them.

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| Planning Services | \$100,000* | For additional funding to update LUPP *(Total amount accumulated = \$228,000 for consultant \$80,000 for Lincoln Way Corridor Study \$40,000 for temporary Planner) |
| Planning Services | \$50,000 | For development of concept plan related to East Industrial Area |
| Facilities | \$700,000 | For City Hall roof replacement |
| Facilities | \$500,000 | For City Hall parking lot repair |
| Facilities | \$30,000 | For renovation of Planning/Public Works offices |
| City Council | \$20,000 | For workshops expenses associated with Council goals (Evidence-Based Youth Programming) (Improving Environment for Entrepreneurialism) |
| Law Enforcement | \$45,000 | For depreciation of mobile data terminals |
| Information Technology | \$45,000 | For furniture needed for relocation to City Hall |
| Public Relations | \$200,000 | For City brand implementation |

URBAN FOREST DIVERSIFICATION & REFORESTATION PROGRAM

The City Council recently approved a twenty year plan to respond to the pending infestation of the Emerald Ash Borer on trees in the City's rights-of-way. During the first five years of the plan implementation, we will focus our efforts on removing both trees with a diameter of 6 inches or less and defective trees. To mitigate the visual impact of tree removal in our neighborhoods, only every fourth tree on a block will be removed annually. The remaining trees will receive chemical treatment until they are removed. Finally, the impacted areas will be replanted with new trees with an emphasis on diversity of species.

The FY 2014/15 adjusted budget includes \$291,655 to initiate this plan (\$200,062 in Right-of-Way Maintenance and \$91,593 in Parks Maintenance). In FY 2015/16, the budgeted amount for this program decreases to \$229,627 (\$211,098 in Right-of-Way Maintenance and \$18,529 in Parks Maintenance).

LIBRARY SERVICES

The much anticipated opening of our newly renovated Library was accomplished in FY 2014/15. The expansion of the building to 78,992 square feet posed significant challenges to providing staff coverage in this larger facility. As a result, the overall departmental structure was reorganized. You will note the net increase in FTEs is 3.75 from the reorganization. While 4.75 new part-time positions were added by transitioning existing temporary employees to permanent part-time positions, the overall budget was not impacted. To offset the cost of these new positions, savings were generated through the elimination of the Assistant Director position, along with a reduction in the amount budgeted for temporary salaries.

TRANSIT

Because of the ever-increasing enrollment at Iowa State University, ridership on CyRide is anticipated to grow to 6.8 million rides in FY 2014/15. This total represents a staggering 59% increase in ridership since FY 2006/07.

The Transit Board recently reaffirmed its support for maintaining the current high level of service to our riders. However, the magnitude of the growth in ridership, along with cutbacks in federal funding for vehicles, have caused a number of operational and infrastructure challenges that need to be addressed in the near future. A critical issue being discussed by the Transit Board is the appropriate level of financial support that should be provided by each of the funders. As ISU enrollment has increased, so too has the student's overall percentage of the ridership. While ISU students represent over 90% of the ridership on CyRide, the contribution from students' fees equals 67% of the total provided by the three funding parties. Ultimately, no significant change in the funding percentages was agreed to. Therefore, to meet the ever-increasing ridership, the FY 2015/16 budget includes the following additional services: 1) five additional hours of weekday service per day and 2) an additional bus on the Gray route each weekday from 7 a.m. to 10 p.m. The City's contribution to CyRide will increase by 5.03% in FY 2015/16 or an additional \$79,401 over the previous year.

PARKING

A review of the Parking Fund reveals that expenditures for our parking operations are expected to exceed revenues generated from parking space rentals, overtime violations, illegal parking violations, and parking meter collections by \$53,045 in FY 2015/16. Some of this deficit in financing can be attributed to the loss of revenue that has been historically waived in support of events in Downtown and Campustown. For example, in 2014 these waivers totaled approximately \$18,000. Fortunately, there is a sufficient balance in the Parking Fund so that an immediate increase in our fees is not required.

An important policy issue that the Council should consider in the near future is whether or not to finance the reconstruction of the City parking lots with revenues from the Parking Fund, or from the General or Local Option Sales Tax Funds. If a preference is to rely on parking operations revenue to finance the lot improvements, the Council should give serious consideration to increasing these fees in the near future to begin to accumulate the necessary funds to pay for these repairs.

Many of you are aware of our Excellence Through People (ETP) initiative. One of the goals of ETP is to provide exceptional service to our customers, at the best price. The program budget that was prepared by our department heads for the City Council's approval assures that this goal is being met!

In addition, I need to recognize Duane Pitcher, Finance Director; Nancy Masteller, Budget Officer; Emily Burton, Finance Department Secretary; Bob Kindred, Assistant City Manager; and Melissa Mundt, Assistant City Manager for their assistance in providing the leadership to complete this important management tool.

Respectfully submitted,



Steven L. Schainker
City Manager