



January 29, 2016

Mayor and Members of the Ames City Council:

I am attaching for your review and approval the City Manager's operating budget for Fiscal Year 2016/17. This program/performance plan reflects expenditures of \$229,192,769 to assist with the accomplishment of the various services that are provided to our customers.

Those of you who have read my budget messages in recent history will have noted that I have emphasized the growth that has been taking place in our community. This positive economic climate continues because of Iowa State University's increase in enrollment of 6,114 students, the addition of 6,500 new jobs in our metro area, and the physical expansion of our city limits by 672 acres, all over the last five years. The ability to meet the responsibilities for service increases and infrastructure improvements resulting from the growth was challenging in the past, as the national economic climate was influencing stagnant property values and decreasing sales tax revenues. In addition, actions taken by the State Legislature to reform the local property tax system were negatively impacting this important source of revenue.

Unlike previous years, we have recently experienced a number of positive developments that will assist us in meeting the challenges of a growing community. First, a \$.10/gallon increase in the State motor fuel tax is estimated to generate an additional \$1,000,000 per year in revenue to be used for much needed capital improvement projects and operating costs related to our transportation system. Second, the City's contribution rate to finance the state-mandated Police and Fire retirement system is estimated to cost less in FY 2016/17, providing us with an opportunity to add new positions dedicated to our Public Safety services. Third, sales tax revenues are estimated to increase by \$315,395, of which an additional \$189,237 will be available in FY 2016/17 to help reduce property taxes. Fourth, property valuation in the city grew by 6.5%. This robust amount is the result of an improved housing market, properties coming off various tax abatement programs, and new growth, which represents 41% of the valuation increase.

I have provided below what I believe to be the most significant highlights of the FY 2016/17 budget.

PROPERTY TAXES - 2.4% Tax Rate Decrease - From \$10.63 to \$10.37

This budget reflects an overall property tax rate decrease of 2.4%, from \$10.63 per \$1,000 of taxable valuation to \$10.37 per \$1,000 of taxable valuation. This tax rate decrease was made possible because of the commitment of our department heads and their staff members who have proposed budgets that require only a 3.3% increase in expenditures. As described above, the increase in valuations and sales tax receipts, along with the decrease in the Police and Fire Retirement System obligation, also have aided in the reduction of the overall tax rate.

One-Time Expenditures in FY 2015/16

It should be noted that we had an unanticipated increase in the General Fund balance by the end of FY 2015/16 by \$2,359,676, predominantly as the result of an increase in revenues realized from Local Option Sale Tax, Hotel/Motel Tax, and building permits, along with significant salary savings from unexpected vacancies. This higher than expected balance allowed us to fund \$270,302 of one-time capital items in FY 2015/16 that would have been included in the FY 2016/17 budget recommendation. The list of these items include police body cameras, an expanded building video security system, Library sewer line repair, fire station garage door replacement, a portable outdoor ice rink, lights at the Dog Park, and park maintenance equipment.

New General Fund Balance Policy

In addition, this larger than expected one-time carryover of funds has allowed us to propose a new General Fund balance goal in an effort to restore our Aaa bond rating. The new "score card" used by agencies that rate our municipal bonds expects the top-rated cities to maintain a balance in their General Fund equal to 25% of their revenues. This is a different from our current approach, where we reserve 20% of our expenses minus the pass-through transfers in the General Fund. This new fund goal will require us to reserve an additional \$1,538,302, which is reflected in this budget. Even with the change in policy, we are expecting the General Fund balance to exceed the new goal by \$1,338,532 at the end of FY 2016/17.

ELECTRIC UTILITY - No Rate Increase

No rate increase has been programmed into the Electric Utility budget for FY 2016/17, nor is one anticipated until FY 2017/18, when a 4% increase is being projected. However, as emphasized previously, the conversion to gas-fired power plant boilers will cost approximately \$4,000,000 per year more than the cost to operate our current coal-fired units. Therefore, even without a rate increase, our customers in this utility will experience an increase in their electric bills, because this additional operating cost will be reflected in the Energy Cost Adjusted (ECA) portion of their monthly bills.

In accordance with the City Council's goal to expand our sustainability efforts, \$1,000,000 has once again been incorporated into the FY 2016/17 budget to provide incentives for demand-side management techniques to reduce electric consumption. This effort has helped reduce our peak load demand by 17 megawatts and energy

consumption by 30,000 megawatt-hours and delayed the need for additional generation.

Our emphasis on renewables continues with approximately 25% of our energy needs coming from Refuse-Derived Fuel (transformed from our municipal solid waste) and Wind purchases. In addition, 25 customers have installed private solar systems on their properties and, therefore, are taking advantage of our net metering "credit" on their bills. These renewable sources, coupled with the estimated 40% reduction in our carbon footprint due to the conversion to natural gas, will go a long way in helping the City Council meet its sustainability goal.

In past years, the Electric Utility had to pay for transmission service to deliver electricity to the City. With the completion of the new segment of our transmission line to the south, our total transmission system has been incorporated into the Midcontinent Independent System Operator (MISO) which generates credits totaling \$2.5 million, which more than offsets the City's transmission costs.

WATER UTILITY - No Rate Increase

No water rate increase has been included in the FY 2016/17 budget. However, as staff advised the City Council last year, we are currently planning for a 4% rate increase in FY 2018/19 and another 4% increase in FY 2019/20.

It is important to note that while water rates were increased previously to pay for the extension of a water main east to 590th Street, the revenues generated from this action were not meant to pay for an elevated water tower, should it be needed in the future in this area.

Because most of our staff's energy in this utility is being focused on completing the new treatment plant along 13th Street, we are trying to hold expenditures down as much as possible during the next two years. Therefore, operating expenditures in this utility are budgeted to increase by only 1.7% in FY 2016/17.

The staff in this utility continues to seek out innovative practices that result in savings to our customers. Recently, Water Plant staff completed an analysis regarding optimization of the chemical feed rates at the facility. The implementation of the results of this study yielded a \$50,000 reduction in chemical expenses.

SEWER UTILITY - No Rate Increase

No rate increase is reflected in the FY 2016/17 budget. Our best estimates indicate that a 5% increase will be required in FY 2018/19 and a 6% increase in FY 2020/21 to finance the cost of the operations and capital improvements planned for over the next five years. It should be pointed out that these future increases are less than we projected last year at this time.

Because of a backlog, we are operating without a permit from the Iowa Department of Natural Resources. It is anticipated that a new operating permit will be issued in

the spring of 2016. When the permit is ultimately issued, we expect a requirement to perform a study to determine the most effective way for the facility to achieve the goals of the Iowa Nutrient Reduction Strategy. I can assure you that an evaluation of creative alternatives beyond simply constructing a \$35 million plant modification will be an emphasis of our study.

The staff has been continuing to communicate with customers who will be required to comply with the new Fats, Oils, and Grease (FOG) program. The first charges to those customers who fail to meet the program requirements will begin in FY 2016/17.

RESOURCE RECOVERY - No Increase in Per Capita or Tipping Fees

Twelve partner communities, along with Iowa State University and Story County, are committed to the sustainable and environmentally sound disposal of municipal solid waste as members of our Resource Recovery System by transforming our waste to energy in our Power Plant and recycling the glass and metals that are collected in our system.

There are two major sources of revenue which help us cover the expenses in this utility: per capita charges and tipping fees. **Because of the dedication of a very creative team of employees at the Resource Recovery Plant, the per capita charge to all partners in the system will remain at \$9.10 in FY 2016/17. The City's portion of this subsidy is reflected in the General Levy, where \$452,862 has been allocated for this operation.**

The tipping fee charged to garbage haulers (\$52.75/ton), cars and passenger vans (\$8.00), and pickups and vehicles with trailers (\$22.00), will remain the same as they were when last adjusted with a decrease in FY 2013/14. It should be noted that our five-year economic projections indicate the need to increase the per capita charge and tipping fees prior to FY 2018/19.

In accordance with our commitment to continuous improvement, a team comprised of Resource Recovery staff, Electric Services staff, Boone County, Iowa State University, and private garbage haulers has been working with a consultant utilizing the LEAN manufacturing principles to improve our overall waste disposal process.

The City secured a grant from the Iowa Department of Natural Resources to perform a waste characterization study to identify the types of materials that are being disposed of at our Resource Recovery Plant and to identify alternative ways to divert certain materials (e.g. organics and household improvement wastes) from the landfill.

With the conversion to a gas-fired Power Plant, a new formula is needed to establish the price of the RDF that is sold by the Resource Recovery system to the Electric Utility. The FY 2016/17 budget assumes the existing formula will be maintained in order for the staff members from both utilities to have a year to observe the gas operation in place before making final decisions regarding a new formula.

STORM WATER UTILITY

\$ 1.25/month Increase For Tier 1 Fee
\$ 2.50/month Increase For Tier 2 Fee
\$ 3.75/month Increase For Tier 3 Fee
\$11.20/month Increase For Tier 4 Fee

The growth and associated development in our community has resulted in an expanding amount of impervious land, which has necessitated an increase in operating and capital improvement expenditures. This increased investment in repairs to our Storm Water System will help accomplish a previous goal of the City Council to mitigate overland flooding.

In order to meet demand for improvements to our Storm Water System, a substantial Storm Water fee increase is needed to finance proposed projects. The City Council could choose to increase this fee over a two year period. However, given the fact that no other rate increase is planned in FY 2016/17 for any of our other four utilities, it would seem preferable to implement the total Storm Sewer Utility fee increase in one year.

LAW ENFORCEMENT

Funding for agencies that provide mental health services has decreased significantly throughout the nation over the past years. As a result, interactions between those with mental health/behavioral problems and our dispatchers, officers, and detectives have risen dramatically over time. In order to keep pace with this increasing demand for service, the FY 2016/17 budget increases the part-time Mental Health Advocate to a .75 FTE position. This person helps connect citizens with treatment needs to the appropriate service providers. Because this position was budgeted as less than a .5 FTE, it was not previously reflected in our FTE totals.

The FY 2016/17 budget appropriates funding for an additional Police Officer position. **The new position will be assigned to the afternoon patrol shift (3:00 p.m. to 11:00 p.m.) in order to assist in the handling of peak service call volumes that occur during these hours.**

Like other law enforcement agencies through the country, we are planning to obtain body cameras for our officers. To accomplish this objective, \$64,000 has been added in the FY 2015/16 Adjusted Budget to purchase the units. The cost of this new venture requires an additional \$25,000 for data storage and replacement funding. An additional .25 FTE Records Clerk position to code, classify, and reproduce the data that will be accumulated from the cameras is also needed. These latter costs are reflected in FY 2016/17. It is important to emphasize that, while the funds have been included in the budget, the cameras will not be purchased until an acceptable policy for the use of the new system has been approved by the City Council. The staff understands that more detailed discussions must be held before this happens.

FIRE SAFETY

An additional Firefighter position has been added in FY 2016/17 in order to fill short-term vacancies caused by injury, retirements, and resignations across all three shifts. This addition will be somewhat offset by a reduction in overtime costs.

In addition, a new Training Officer position is being introduced in the FY 2016/17 budget. This position will provide up-to-date EMS and fire training/certifications for our firefighters, assist in incident command during emergencies, and serve as the Safety Officer during structure fires and other emergencies.

This position will be very beneficial since the Iowa Fire Service Training Bureau's recruit academies are scheduled inconsistently, making it difficult to ensure that uncertified recruits are prepared to contribute to community safety immediately. In the past we have attempted to hire retired fire trainers to perform some of these functions. However, it has been difficult to assure that this type of person will be available when we need them. The cost of this new position will be offset somewhat by the elimination of the cost to hire outside professional services.

COMMUNITY CENTER, AUDITORIUM, BANDSHELL

The activity reflects an increase from a .5 FTE to 1.0 FTE in FY 2016/17. This addition will enable this position to take over the supervision of the Community Center temporary employees, which is currently handled by the Department administrative staff; more aggressively pursue revenue-producing shows in the Auditorium and Bandshell; and properly train the part-time staff in order to increase the level of customer service.

LIBRARY SERVICES

You will note that the costs for contractual services have been increased significantly from the previous years. This increase is due to the higher than expected utility costs and building-related service contracts that were originally projected from the efficiencies to be gained from new construction.

A new initiative reflected in both the FY 2015/16 and FY 2016/17 budgets is the addition of four interns to focus on event/program promotions, video production, youth services, and information technology.

STREET SYSTEM MAINTENANCE

New annexations have resulted in additional street miles to be maintained. It has reached the point where the workload demand has outpaced the capacity of the existing workforce. Therefore, two additional Maintenance Worker positions have been added to the FY 2016/17 budget. These additional positions will be split 75% in the Street System Maintenance activity and 25% in the Snow and Ice Control activity.

TRANSIT – 4.9% LEVY INCREASE

As the unprecedented increase in enrollment continues at Iowa State University, so does the demand for CyRide services. We are currently projecting 7 million rides in FY 2016/17. As a result of this growth, each of the three funders of the transit operation is being asked to contribute an additional 4.9%, which in our case is an additional \$78,648. One of the major challenges facing CyRide is the inability to attract enough drivers to meet this demand and, once hired, train them in an appropriate amount of time. In an effort to accommodate this demand, the FY 2016/17 budget includes:

- An increase of five hours per weekday to meet the overcrowding that is anticipated during peak hours.
- The addition of driver preparation time to allow for the additional time it takes to remove the buses from a tightly packed storage area.
- An increase in the referral bonus to those who recommend a person that is ultimately hired as a driver.
- An increase in the hiring bonus for those who are hired as a driver.
- The elimination of the training wage, which currently is significantly lower than the hourly rate for the approximately two months the drivers are being trained.
- Increasing the summer training position to full-time so that new drivers can be prepared to pass their CDL test and be ready for the fall semester.

As always, special recognition is warranted for the women and men who are employees of the City of Ames. This group of very dedicated professionals strives every day to provide exceptional service to our customers at the best price. In addition, the program/performance budget requires many hours of work to compile. Therefore, I want to thank Duane Pitcher, Finance Director; Nancy Masteller, Budget Coordinator; Emily Burton, Finance Department Secretary; Derek Zarn, Printing Services Technician; Bob Kindred, Assistant City Manager; and all of the members on the Executive Leadership Team who helped with the development of this service/financial plan for our city!

Sincerely,



Steven L. Schainker
City Manager