



February 2, 2018

To The Mayor and Ames City Council:

I recall vividly last spring when the new property valuations were sent out by the City Assessor to residential property owners. Because of a resurgence in our housing market, the once stagnant valuations were increased substantially to reflect the new market reality. The outcry to City Hall was swift and loud from those who received hefty valuation increases to their prime asset, their home. They were very concerned that these large percentage increases in valuation would result in the same percentage increases in their property tax bills.

At the time, we tried to remind everyone that a property tax bill is based primarily on two factors: the taxable valuation of the property as determined by the City Assessor and the tax rate established by taxing entities – in our case the city, county, Des Moines Area Community College, and school district in which you live.

It is important to understand that as the City staff prepares the budget for the City Council's consideration each year, we focus on the amount of expenditures needed to 1) assure that exceptional services can be provided to our customers, 2) accomplish the City Council's seven goals, and 3) result in what we believe is a justifiable increase in property tax and utility payments by our residents.

In accordance with this philosophy, I am presenting the City Manager's Recommended Program Budget for FY 2018/19, totaling \$234,116,785. This budget calls for \$1,326,550 more in property tax dollars than the previous fiscal year, as well as user fee increases in our Water, Sanitary Sewer, and Resource Recovery utilities.

While there are numerous highlights reflected in the budget document, I have attempted to identify below some of the most significant issues.

PROPERTY TAXES - \$.31 RATE DECREASE

The Recommended FY 2018/19 Budget reflects a decrease in the City's overall property tax rate from \$10.37589 to \$10.06857 per every \$1,000 of taxable valuation. Because of new construction and the significant increase in assessed valuations for some residential properties, this decrease in the City's overall property tax rate will still generate the additional \$1,326,550 in property tax revenues needed to fund the budget.

I realize that our citizens would prefer that the budget completely eliminate or significantly mitigate the tax consequences from any large increases in their property valuations. Unfortunately, because of the wide variation in new valuations (some were decreased, some remained the same, some were increased slightly, and some were increased by double digits),

it is virtually impossible to prevent any impact to all property owners. In fact, the more we lower the property tax rate, the more tax revenue we lose from those who received the same or lower valuations this year. This situation results in a need for an even higher contribution of property tax payments from those who experienced larger valuation increases in order to finance the proposed budget. Staff understands this desire and has worked hard to somewhat mitigate this impact on every property owner.

It's difficult to provide information on the actual tax obligation for every resident that will result from this budget, since each property situation is unique. However, if we consider each customer class as a whole, the reduction in the City's property tax rate reflected in this budget, coupled with a decrease in the state-mandated rollback, results in a estimated out of pocket tax payment increase for the residential customer class of 3.45% (or +\$20.38 for every \$100,000 of taxable valuation), a tax payment decrease for the commercial customer class of -0.44% (or - \$4.08 for every \$100,000 of taxable valuation), and a tax payment decrease in the industrial customer class of -3.27% (or -\$30.52 for every \$100,000 of taxable valuation). With the lower property tax rate, all increases in taxes paid will be a smaller percentage than the increase in valuation.

It is important to note that this budget assumes that the City will continue to receive state replacement funds totaling \$973,210 as was promised when the Iowa Legislature rolled back the taxable valuation on commercial and industrial properties from 100% to 90%. Should this promise not be fulfilled by the State Legislature, rather than a \$0.31 decrease in our overall tax, we would have required a \$0.03 increase in the overall tax rate.

GENERAL FUND AVAILABLE BALANCE

We were fortunate to end FY 2016/17 with a balance in the General Fund that was almost \$1,000,000 higher than we had anticipated. The availability of these excess funds is a result of delays in filling vacant positions, savings from completed projects, and the receipt of revenues greater than what was budgeted.

I have consistently advised over the years that excess monies in a fund balance should be utilized for one-time expenditures. Applying one-time excess funds to cover ongoing operating costs will only result in higher increases the next year when the one-time balance has been depleted. In an effort to utilize this one-time funding source, I have included a number of capital items and capital improvement projects in the FY 2017/18 Adjusted Budget, totaling \$1,202,110 that otherwise would have been included in the FY 2018/19 budget and required additional property tax support.

Even with this intentional drawdown, we are planning to end FY 2018/19 with a 28% available balance in the General Fund. This total is \$995,651 more than the City Council's goal of a 25% balance. Because the City Council is engaged in a number of projects where the total funding is yet to be secured, it seems appropriate to maintain a larger available General Fund balance this year.

PUBLIC SAFETY

I have once again included in the budget an additional firefighter and police officer position. These additions are meant to build up these two public safety forces to meet growing service demands and the eventual addition of a new fire station and additional police district to respond to our expanding city.

LAW ENFORCEMENT

An additional Police Officer position has been added to the Crime Prevention and Police Services program. With the addition of this officer in FY 2018/19, the Safe Neighborhoods Team will be able to enhance its emphasis on the prevention of serious crime. Advances in crime prediction, intelligence-led policing, and technology supported crime analytics are showing results in the prevention of serious crime, including gun-related violence. This new officer will be assigned to assist in this type of analysis.

In response to concerns from the residents surrounding the Campustown area, the City Council authorized funds in FY 2017/18 to hire additional Community Service Officers to increase parking enforcement on residential streets. Initial feedback from this experiment seems to indicate that the parking situation has improved with this increase in enforcement.

I am proud to say that our Police Department has taken the initiative in FY 2017/18 to hire a nationally known expert to conduct an analysis to determine if there are a disproportionate number of minority contacts during our traffic stops. Once the analysis has been completed, we will share the results with the City Council and the public.

FIRE SAFETY

A new Firefighter position has been added to the Fire Suppression and Emergency Action program for FY 2018/19. This position will not be assigned to a permanent shift, but will be used as needed to fill short-term firefighter vacancies (caused by injuries, retirements, resignations, etc.) across all three shifts, similar to the new firefighter positions added in both FY 2016/17 and FY 2017/18.

Emergency medical response for our residents is currently accomplished through a long-time partnership with Mary Greeley Medical Center, the Ames Fire Department, and Ames Police Department. As the population grows in Ames as well as in the incorporated and unincorporated areas of Story County, the ability to provide timely medical response to all of these locations has become a challenge. Therefore, the Story County Emergency Management Commission has begun a feasibility study regarding the possibility of a county-wide ambulance system. The Ames Fire Department has volunteered to take the lead in gathering the initial data regarding this topic.

ANIMAL CONTROL

A brief visit to our Animal Control facility should convince you that improvements are needed to this aging structure. Therefore, the FY 2017/18 Adjusted Budget includes funding for an architectural review of the facility to determine whether it is suitable for remodeling into a shelter that meets contemporary animal control standards.

In addition, the FY 2018/19 budget reflects a new part-time Veterinary Technician. This half-time position will assist with customer service by extending the number of open hours for the shelter, improving the medical exam and routine treatment of incoming shelter animals, and ensuring that animals adopted from the shelter are healthy and disease-free.

BUILDING SAFETY/INSPECTIONS

In accordance with the City Council's goal to Strengthen Our Neighborhoods, a new Rental Inspector position was added to the FY 2017/18 Adjusted Budget. The new position will assist with the Council's direction to initiate proactive inspections of rental properties and focus on more frequent inspections of single and two-family rental units.

The additional cost for this initiative will be covered by the available balance in the General Fund in FY 2017/18. However, as a result of this new position and the normal cost increases needed to fund the existing service, \$92,253 more revenue will be required in FY 2018/19 to cover the expenses associated with rental housing inspections.

The City Council will need to decide how to recoup the cost of the additional inspector from the rental property owners, either spreading the cost to 1) all of the rental property owners, or 2) only the rental property owners of single and two-family units.

There are no other building permit or plan review fees increases contemplated in this program.

ELECTRIC UTILITY – No Rate Increase

It appears that the 4% rate increase introduced in FY 2017/18 will be sufficient to cover the operations and capital improvements expenditures in the Electric Utility for the next five years.

Through the hard work of our Electric Services staff, the benefit of very stable energy rates, and a favorable natural gas contract that was previously negotiated, the largest portion of this utility's expenditures, Fuel and Purchased Power, will actually decrease slightly in FY 2018/19.

Much of the attention in Electric Services will be focused on the City Council's goal to Expand Sustainability Efforts. Our highly successful Demand Side Management (rebate incentives) and Prime Time Power (air conditioner control) programs have helped shave 25 megawatts off of our peak demand and reduce 40,000 megawatt hours of energy consumption. As a result of this success, we will continue to promote participation in these programs for our industrial, commercial, and residential customers. In addition, we hope to complete our 2 megawatt Community Solar project along Airport Road which should increase our total renewable energy portfolio to 18%.

The utility continues to make our transmission lines available to the Midcontinent Independent System Operator (MISO). As a result of use of our lines by other utilities, the City has benefited from a \$2,000,000 credit each year. This amount has become large enough to more than offset the City's transmission costs.

WATER UTILITY – 3.5% Rate Increase

Our long-term financial analysis of the Water Utility indicates that a 3.5% rate increase will be needed in FY 2018/19 and followed by two additional increases over the following four years. The need for these user fee increases can be attributed to three factors. First, with the opening of our new Water Treatment Plant in May 2017 we are now estimating that the additional cost to operate the new plant as compared to the old plant will be \$232,000 per year. Secondly, funding has been increased in the five-year Capital Improvements Plan (CIP) to upgrade to larger distribution mains in older sections of the City to eliminate rusty water and increase water pressure. Thirdly, additional funding is needed over the coming years to build up our available balance in this fund to meet our new goal of 25% of operating expenses.

SANITARY SEWER UTILITY – 3% Rate Increase

In FY 2018/19, a 3% user rate increase has been incorporated into the budget for the Sanitary Sewer Utility. Two additional rate increases are expected to be needed over the next four years. Here again, though the operating expenditure increases are fairly stable over time, these rate

increases are still needed to finance the projects approved in the CIP and meet the new goal of the available balance in this fund of 25% of operating expenses.

As of January 1, 2018, the City has not been issued an operating permit from the Iowa Department of Natural Resources. However, because of the age and condition of the WPC facility, we intend to move forward with a study to determine required improvements to meet the State mandated nutrient reduction strategy in the absence of a permit.

STORM WATER UTILITY – No Increase in Monthly Fee

As our economy continues to improve and more construction occurs in our city, Storm Water projects become even more important in our efforts to mitigate the overland flooding caused by increased impervious areas. The FY 2018/19 budget reflects \$1,930,000 in Capital Improvement projects and \$680,644 in operational expenditures to correct deficiencies in our storm water system, assure that construction projects adhere to our local and federal discharge requirements, and educate our citizens regarding best practices to protect our environment.

As a result of action taken by the City Council in FY 2017/18 to increase the monthly ERU (Equivalent Residential Unit) fee by 5%, the Storm Water utility appears to be in a good financial position for the next five years. Therefore, no increase in the monthly storm water fee is being recommended in this budget.

**RESOURCE RECOVERY SYSTEM
15% Increase In Per Capita Subsidy (From \$9.10 to \$10.50),
No Increase In Tipping Fees**

The Resource Recovery utility will receive a great deal of the staff's attention during the coming year. While expenditures are expected to continue to increase moderately over the next five years, revenues have decreased from prior years primarily because of two factors. First, the more frequent downtime of our Power Plant boilers means a reduction in the amount of incoming tonnage and associated fees from private haulers as well as less Refuse-Derived Fuel (RDF) from the Resource Recovery Plant being "sold" to Electric Services as an alternative energy source. To compound the revenue impact from these occurrences, the boiler outages result in an increase in the cost of transporting unprocessed garbage to the Boone County landfill. Second, a drop in the metals market has resulted in a significant reduction in the amount of revenue generated from the sale of the ferrous and non-ferrous materials captured through our recycling process.

In an initial effort to improve the long-term financial condition of this utility, this budget calls for an increase in the per capita subsidy from \$9.10 to \$10.50. In 2011, the subsidy was reduced by \$1.40 and has remained the same since then. Therefore, this action restores the subsidy to the amount that existed prior to 2011.

This decision to increase the subsidy will increase the total support from all of the financial partners in this operation from \$717,217 to \$827,558. Of this amount, the citizens of Ames will be responsible for \$522,533.

During the coming year, staff will explore other strategies to assure the long-term financial viability of this utility including consideration of alternative formulas related to the sale of RDF to the Electric Utility and other means of producing renewable energy from processing solid waste.

TRANSPORTATION

STREET SYSTEM

In recognition of the public interest and growing requests for traffic related analyses, an additional Engineer position was approved by the City Council after the FY 2017/18 budget was certified. This addition has allowed us to respond to citizen requests in a more timely manner.

TRANSIT SYSTEM

The City's support for CyRide will be increased by 4.7% for FY 2018/19 bringing the total amount to \$1,907,085. This additional \$85,609 is impacted by three policy decisions made by the CyRide Board of Directors. First, in order to become more competitive with our recruitment efforts and help reduce our driver shortage, the lowest rate of pay for our part-time drivers will be increased to \$15.60 per hour. Second, an additional .5 Information Technician position will be added to assist with the increasing number of specialized transit-related technologies such as NextBus, Telephone System, Google Transit, CyRide server, CyRide intranet, WiFi service, bus cameras (3 different systems), and digital advertising signs. Third, fares will be rolled back in FY 2018/19 to \$1.00 per ride. While this decision will result in approximately \$45,000 less revenue to the system, it is expected to provide an incentive for riders to try the new redesigned system that is scheduled to be introduced this fall.

PUBLIC PARKING

The City Council is well aware that our parking fees are relatively low (\$.20 per hour in Downtown and \$.50 per hour in Campustown) in comparison to other cities of our size. This rate structure has allowed us to generate just enough revenue to cover the operating expenses associated with our parking system each year. With a growing need to reconstruct our municipal parking lots, it appears to be an appropriate time to increase these fees to generate sufficient revenue to also finance these capital improvement responsibilities.

In accordance with the Council direction provided following the November 2017 workshop, the FY 2018/19 budget assumes that the following changes to the Public Parking System will be implemented:

- The introduction of a three tiered system with hourly parking meter fees from \$1.00, \$.75. and \$.50 throughout the existing metered parking system.
- The increase in monthly rental fees for public parking spaces to \$50,
- The initiation of a new, higher fine for illegal parking that will be imposed during special events,
- The reduction in overnight parking restrictions in the Downtown and Campustown business districts to 4:00 a.m. to 6:00 a.m.,
- The consideration of a new application that would allow customers to pay meter fees with their mobile devices, and
- (Note: No increases in parking fines other than for special events.)

COMMUNITY ENRICHMENT

PARKS AND RECREATION

Most of our recreational programming relies on temporary employees. Unfortunately, the competition for this labor pool is intense as it continues to shrink for a variety of reasons. In order to remain competitive and meet our staffing needs, we have developed a five year plan to

gradually increase the wages for these temporary employees. Therefore, you will notice a significant expenditure increase in many of our recreation programs as a result of this plan.

In FY 2017/18, a consultant will be hired to survey our facilities and recommend improvements to assure accessibility and compliance with the Americans With Disabilities Act (ADA).

Staff will continue to work with a steering committee to plan for the construction of an All-Inclusive Playground and Miracle Field at Inis Grove Park. Hopefully, the private fund raising effort will be completed and the construction work will begin by the end of FY 2018/19.

Both the Homewood Golf Course and Ames/ISU Ice Arena funds appear to be in good financial shape. With minor user fee increases each year, projected operating costs can be covered and the preferred available balances in these funds can be maintained.

It should be noted that a strategy is in place to adjust fees gradually over the next six years so that sufficient revenue will be available in the event the cell tower, along with its payments to Homewood, cease to exist in the future.

LIBRARY SERVICES

In keeping with the Council's goal to Expand Our Sustainability efforts, this budget includes funds in FY 2018/19 to replace existing fluorescent bulbs with Light Emitting Diode (LED) bulbs throughout the Library.

An additional .5 FTE has been added to Resource Services to increase support for production of printed and digital promotional materials related to Library events, services, and new resources.

Like our recreation programming, the Library continues to diversify and improve its offerings by partnering with numerous organizations in our community.

We must once again recognize the members of our Executive Leadership Team and their staff members who are challenged daily to balance our customers' ever increasing demand for quality services with an equally important expectation of affordability. It is through their commitment to the City of Ames that this balance is achieved.

This Program Budget is the result of many months of effort by the following members of our Budget Team: Duane Pitcher, Finance Director, Nancy Masteller, Budget Officer, Emily Johnson, Finance Department Secretary, Bob Kindred, Assistant City Manager, and Brian Phillips, Assistant City Manager. These team members also deserve our thanks for the quality and accuracy of this document.

Respectfully Submitted,



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City Manager