



January 29, 2021

To: Mayor and Ames City Council Members:

It seems that each year, as I prepare my budget transmittal letter to the City Council, I am struck by how increasingly difficult it has become to meet both the service expectations of our residents and their equally fervent desire for us to reduce their property taxes and utility fees. Equally challenging is the fact that we must finalize this financial strategy as many as eighteen months before the expenses will actually be incurred.

The uncertainty of when our country will overcome the COVID-19 virus and return normalcy to our lives, our jobs, our spending habits, our social interactions, and participation in our City services makes the preparation of the Fiscal Year (FY) 2021/22 budget even more difficult. Fortunately, our City of Ames employees have supported a strategy that included some extraordinary efforts to avert a financial crisis in our organization during the last three months of FY 2019/20 and the first seven months of FY 2020/21. These actions included delaying the filling of vacant full-time positions, cancelling training, conferences, and associated travel for all employees, eliminating the hiring of seasonal or part-time employees and assigning permanent staff members to assume these extra duties, and not spending funds on various previously approved one-time capital items. In addition, on the revenue side, we were fortunate that the federal government provided CARES funding to reduce the COVID-19 related financial strain on our Transit, Police, and Fire services.

The question now becomes, to what extent will COVID-19 impact the FY 2021/22 budget? At the time of this writing, vaccines for the virus are being distributed throughout the country. While there is hope associated with the dispensing of these vaccines, there remains uncertainty as to how fast they will work to eradicate the pandemic. Therefore, the philosophy reflected in the FY 2021/22 budget assumes a certain level of improvement in our residents' participation in the services that impact the City, but not to the extent it was in pre-COVID-19 times.

The City staff is well aware of the negative impact that the virus has had on the financial and emotional well-being of our citizens and, therefore, we have worked diligently to mitigate increases in our utility fees as well as the property tax burden on our residents in FY 2021/22.

The following is a brief summary of various highlights of the City Manager's Recommended Budget.

PROPERTY TAXES—2.69% DECREASE IN OVERALL CITY TAX RATE

FROM \$10.15 TO \$9.87

The FY 2021/22 budget calls for an additional \$590,011 from the previous year, or a 1.85% increase, to support the various services funded by the General Fund. This additional revenue requirement will be financed with a tax rate decrease of 2.69% from \$10.15 per \$1,000 of taxable value to \$9.87 per \$1,000 of taxable valuation for the City portion of the overall property tax bill, which is approximately 33% of the total tax bill.

This overall tax rate decrease is made possible because our department heads and their staffs worked very hard to hold the line on expenditures, requesting only 2% more in FY 2021/22 in the General Fund to cover their projected operational expenditures. In addition, we will benefit from a taxable valuation increase of 4.71%, or an additional \$146,122,570. Of this total increase, \$79,791,000 is associated with new growth coming on the tax rolls for the first time and \$66,331,570 from net changes to existing valuations due to reassessments, an increase in the state-mandated rollback percentage for residential property, and expiring tax exemptions.

Rather than focusing on requested tax rates and/or taxable property values, most of our residents want to know how the City's budget will impact the amount of property taxes they will have to pay. Because each situation is different, it is not possible to list the projected tax impact of this budget for every property owner. **However, when analyzing each tax classification, on average in FY 2021/22 residential property tax bills will increase .54%, or \$3.03 more per \$100,000 of assessed valuation, commercial property bills will be 1.53% lower, or \$13.93, less per \$100,000 of assessed valuation, and industrial property tax bills will be 2.69% lower, or \$24.53 less per \$100,000 of assessed valuation.**

Because of the unusual steps taken to hold the line on expenses during the last two fiscal years of the pandemic and the receipt of federal CARES funding, we expect to generate approximately \$5,000,000 in additional General Fund balance from FY 2019/20 and FY 2020/21. **As I have always cautioned the City Council, the use of one-time savings should be used for one-time expenditures.** Therefore, I have developed a list of one-time expenditures for FY 2020/21 which includes funding for an Arts Grant Program, dredging of the Ada Hayden Wetlands, new bike path signage, Downtown transformer painting, additional/replacement parking for the Downtown Plaza, Library entryway improvements, Auditorium stage lighting, replenishment of the Park Development and Parking Funds, supplemental funding for the new splash pad, and a new outdoor recreation obstacle course. Many of these projects were identified from recent citizen input into the budget process.

The FY 2021/22 budget projects an ending balance of \$10,255,214 in the General Fund. This balance allows us to maintain both our normal 25% unobligated reserve and an additional \$1,000,000 reserve to guard against the loss of state replacement funding. An additional \$236,523 in unobligated funds remains in the balance to absorb any further impacts of COVID-19.

Law Enforcement

I believe that we should not include the Ames Police Department as one of the law enforcement agencies throughout the country that has been plagued by on-going incidents of unjustified actions against members of their marginalized communities. However, like all police departments, we must be committed to providing social justice to everyone who interacts with our police officers and understand that there are specific actions that we can, and should, take to accomplish this goal. In response to citizen concerns and input received after the killing of George Floyd, a report entitled, "Policing in Ames, A Path Forward" was developed by staff from the City Manager's Office and the Police Department that outlines twenty-one recommendations covering nine different categories. Over the next year, we hope to implement these recommendations.

There are two recommendations that will immediately impact the budget. The first creates a new Diversity, Equity, and Inclusion Coordinator position housed in the Human Resources Department to assist with recruiting, training, and reviewing personnel policies. This position will help to assure adherence to our organizational values as well as provide staff support for the Ames Human Relations Commission members with their city-wide effort to continue to build a more inclusive community. The second converts a vacant Police Officer position to a new Administrative Sergeant in the Police Department who will manage the training needs, statistical reporting, and supervision of new officers during their onboarding.

Progress is being made to operationalize an upgraded radio system, StoryComm, by June 2021. This system will improve reliability and interoperability among our first responders in Story County.

The Police Department is transitioning to hybrid patrol vehicles over the next two years. The first hybrid placed into service as a pilot program is achieving 18.4 mpg compared to 9.2 mpg for our non-hybrid patrol vehicles. The greenhouse gas emissions from hybrid patrol vehicles is half the amount generated by a non-hybrid vehicle. Finally, while a non-hybrid unit averages \$4,600 over a six-month period in fuel and maintenance, the hybrid vehicle has averaged \$2,000 over the same period.

Animal Control

New regulations by the Department of Agriculture required immediate improvements to our Animal Control facility. As a result, the chain-link dog kennels were replaced, floors were resurfaced, isolation kennels were installed, and a mobile trailer was retrofitted into a cat housing room.

The Ames Animal Shelter is the only municipal shelter in Iowa that has been recognized for saving more than 90% of all domestic animals brought to the facility. Staff is developing a partnership with the Story County Animal Shelter in regard to pet adoption programs and disaster planning.

Fire Safety

Historically, the Ames Fire Department has backed up Mary Greeley Medical Center's (MGMC) ambulance operations by providing first responder services on scene. A recently updated agreement will allow our department to move from an Emergency Medical Responder (EMR) level to an Emergency Medical Technician (EMT) level. This increase in service level will allow our fire fighters to perform more advanced medical services on the

scene before MGMC ambulances arrive. The additional costs related to this service upgrade will be paid by MGMC.

Rather than construct an expensive structure, we have assembled a series of used shipping containers to serve as a fire training facility with much success. This new facility has allowed us to upgrade our fire training efforts.

Building Safety – No Increase in Building Permit Fees or Rental Housing Fees

COVID-19 has had an impact on our building permit fees which has resulted in less revenue for the General Fund. While the number of large building projects is down, the total number of building permits remain about the same as we are inspecting more smaller renovation projects. Fortunately, our new online permit system has allowed us to serve our customers even when city offices were forced to close to the public due to the pandemic.

For the first time since 2001, we are not projecting any increase in rental units. We are training each Rental Inspector to become a certified Fire Inspector 1 to supplement the work of our Fire Inspector and help assure greater fire safety in our rental properties.

ELECTRIC UTILITY– NO RATE INCREASE

No electric rate increase has been included in this budget and our long-range projections, based on the current Capital Improvements Plan (CIP), indicate that an increase will not be needed for the next five years. However, we are engaged in a study to decide the future of our current waste-to-energy system. Should this study result in a major project that is not contemplated in our current CIP, a rate increase may be needed.

The overall expenditures for FY 2021/22 in the Electric Services operating budget are down 4.6% from the previous year's adopted level. Much of this decrease is associated with our Fuel & Purchased Power activity which is down approximately \$3,600,000 as a result of renegotiating our existing gas purchase agreement and extending it for two years, and paying off our obligation to Alliant Energy for a gas distribution line serving our plant.

Electric Production expenditures were impacted by the addition of a new proactive maintenance software package, a significant increase in property insurance premiums, and emergency renovation work to the Refuse Derived Fuel (RDF) bin.

The new SunSmart Community Solar farm become operational in December 2020. This new renewable energy facility is capable of producing up to 2.2 megawatts.

WATER UTILITY–RATE INCREASE OF 6%

The operational expenses in the Water Utility will increase 3.4% in FY 2021/22. **A 6% increase in Water Utility user rate has been incorporated in the budget, which is 2% less than we predicted last year.** This rate increase is needed to fund the projected operating and capital improvement expenditures, increase the available balance in the Water Fund to our target level, and increase the debt ratio in the fund to qualify for the State's low-interest revolving fund.

COVID-19 should have had a significant impact on the revenue in the Water Utility since ISU students, who are a significant portion of our water users, did not return to Ames beginning in April 2020, but rather chose to take classes virtually from their hometowns. Interestingly, the existence of a major drought during this same time resulted in an increase

in water consumption in excess of the amounts originally projected. Hence, the additional revenue generated as the result of the drought offset the lost revenue caused by COVID-19 in both the Water and Sewer Funds.

A main emphasis in this utility will be to optimize the efficiencies in the new plant, begin demolition of our old water treatment plant, and initiate the repurposing of the Technical Services Building. In addition, we are initiating a project to provide real-time pressure monitoring throughout the distribution system, thereby enhancing our capital improvement planning. Finally, a Risk and Resilience Assessment for the Water Treatment Plant in regard to physical and cyber security has been completed.

SEWER UTILITY– NO RATE INCREASE

Operational expenses for the Sewer Utility are planned to be 0.8% less than the previous adopted level. Therefore, no rate increase is scheduled in FY 2021/22.

In effort to mimic the highly successful program in the Water Fund, this budget calls for the hiring of four new part-time student plant operators. This innovative strategy provides a cost-effective alternative to staffing weekends and maintenance shifts, offers a real-world experience for the students, and solidifies a partnership with Iowa State University and Des Moines Area Community College.

The Water & Pollution Control (WPC) Laboratory activity continues to assist the Squaw Creek Watershed Management Authority by performing analyses at no cost. The frequency of these analyses has increased from the summer months only to all year as well as the number of parameters tested from two to five.

Our long-term analysis of both the Water and Sewer Utilities indicates that an average rate increase of 4.5% will be needed in each fund over the next five years to finance the projected operating expenses and capital improvement project costs. In comparison, the state average annual increase for each of these funds over the next five years is projected to be 5%.

Two new pieces of equipment will be purchased from this budget. First, a trailer mounted jet/vac will allow a timelier response to sanitary and storm sewer backups. Second, a Sewer Line Rapid Assessment tool will allow for the assessment of a potential blockage in a sanitary sewer line in a matter of minutes without having to rely on larger equipment that takes longer to put in place.

STORMWATER UTILITY– NO INCREASE IN MONTHLY FEE

There has been no increase included in the FY 2021/22 budget to the \$4.95 Equivalent Residential Unit (ERU) fee that is charged on our monthly utility bills to finance the maintenance of our storm sewer system. The fee revenue is used to prevent overland flooding from the inability to transport rainwater safely to our creeks and rivers. Our long-range financial projections indicate the next fee increase in this utility will not be needed until FY 2022/23.

Funds have been appropriated in this utility to obtain services from Prairie Rivers of Iowa to complete watershed projects including continued implementation of a water quality monitoring plan, a soil health and education plan, and a 10-year water quality implementation plan in collaboration with City departments and Story County.

We intend to continue to focus on stormwater facility rehabilitation in various neighborhoods throughout our community by removing excess sediment, installing updated outlet structures, adding pretreatment systems, and establishing native vegetation to filter pollutants.

RESOURCE RECOVERY UTILITY
NO INCREASE IN THE PER CAPITA SUBSIDY
NO INCREASE IN THE TIPPING FEE

No increase is being planned to the current \$10.50 per capita charge to each partner municipality that financially supports the Resource Recovery Plant nor to the current \$58.75 per ton tipping fee charged to private haulers that dispose of their refuse at our facility. If the status quo is maintained, it is anticipated that the next increase in the tipping fee will be requested in FY 2022/23. However, because we are engaged in a comprehensive study to determine the next generation of our waste-to-energy operation, additional fee increases might be required next five years to finance any recommended capital improvements that are approved as a result of this study.

In FY 2021/22, the City of Ames is scheduled to pay \$577,500 (63%) of the total \$913,500 anticipated to be received from all the municipalities that help finance the Resource Recovery operation.

A major emphasis is being placed on removing food waste from the processing stream. These organics harm the mechanical systems and result in higher costs to landfill this wet material. During FY 2019/20, 12,042 pounds of organics were composted through our Food Waste Diversion pilot program. During the first four months of FY 2020/21, 11,276 pounds of organic material were composted. In addition, the Public Works staff is exploring whether organics from the Food Waste Diversion program can be added to the anaerobic digester to generate heat and energy at the WPC Plant.

TRANSPORTATION

Street System/Traffic

After we were subjected to the full brunt of COVID-19, State officials cautioned cities that Road Use Tax revenues could be down as much as 40% because people have remained in their homes and avoided travel. A decrease of this magnitude would have had a detrimental impact on our street maintenance and traffic improvements which are funded predominantly with Road Use Tax funds. **Fortunately, as we end FY 2020/21 and prepare for FY 2021/22, more people are traveling by car thereby allowing us to be optimistic that this valuable revenue source will return to previous levels.**

A skill-based pay system was introduced in the Traffic Maintenance activity with the goal of incentivizing upgrading of skills within the City organization and allowing us to avoid hiring more costly outside contractors.

In response to feedback received in our Resident Satisfaction Survey, six of our dump trucks will be upgraded with wing plow mounts, underbody plows, and laser guidance systems. These improvements will make the trucks safer for the operators and increase the

efficiency of each truck in terms of response time for snow and ice control and street maintenance activities.

A recently completed pilot program to utilize B100 fuel in five of our trucks yielded significant success towards the City Council's goal to promote greater sustainability in our operations. These trucks generated 104 metric tons less carbon than our traditional diesel units over the same time period. Because of this success, we intend to outfit the six new trucks mentioned above with the B100 system.

Contractors will continue to supplement the City's street sweeping service. The private companies are used primarily during the spring and fall to maximize the pickup of debris and leaves.

A \$1,176,518 grant was awarded to the City that will allow us to implement Phase 1 of our Intelligent Transportation System projects by collecting traffic adaptive, high resolution controller data, and real-time monitoring of the transportation system.

CyRide

COVID-19 has severely impacted our transit system. With the largest portion of riders being Iowa State University students and many of their classes now being conducted virtually, our system ridership is down 65% compared to the previous non-pandemic year. To compound the financial challenge, the ISU Student Government Trust Fund is being depleted due to declining enrollment.

Realizing that all three funding bodies (ISU Administration, ISU Student Government, and the City of Ames) are reeling from the financial impacts from COVID-19, the FY 2021/22 budget calls for the same level of financial support as provided in FY 2020/21. This means that the City's financial support for CyRide will remain at \$2,037,720.

We are able to avoid an increase in support for the transit system in the face of declining ridership because we were fortunate to receive \$7,028,297 in federal CARES funding, which will be spent over a two-year period. The injection of these funds will allow us time to develop plans to right-size our future service levels to match our projected revenue as well as replenish the ISU Student Government Trust Fund.

Public Parking Services

With State mandates to limit hours of operation and occupancy, businesses in the Campustown and Downtown business districts have suffered over the past two fiscal years from the impact of COVID-19. Consequently, significantly fewer customers parked in our public lots resulting in far less parking meter and fine revenues than during a normal year. In fact, our projections indicate that if no financial assistance is provided, the Parking Fund will end FY 2021/22 with a \$463,486 deficit. **To avoid this fund deficit, \$600,542 in General Fund savings have been budgeted as a transfer into the Parking Operations Fund in FY 2020/21. This transfer will allow us to end FY 2021/22 with the appropriate fund balance, as well as to continue to build up the Parking Capital Reserve Fund for future lot improvements.**

It should be emphasized that this transfer from the General Fund should be viewed as a one-time subsidy to deal with this financial emergency, rather than as establishing a precedent for supporting Parking Operations the future.

COMMUNITY ENRICHMENT

Parks & Recreation Services

A review of the revenue realized in FY 2019/20 and projected in FY 2020/21 reflect approximately \$1,500,000 less than the adopted levels because of a significant drop in participant attendance in our Instructional, Athletic, Wellness, Community Center, and Aquatics programs due to COVID-19. In an effort to offer some exercise opportunities to our residents, we have offered a number of virtual wellness classes online.

Since most of our recreational programs were cancelled, expenditure reductions were achieved by not hiring temporary staff to lead these activities, which partially offset the lost revenue. In an additional move to respond to the revenue shortfall, seasonal workers were not hired for park maintenance activities and permanent recreation staff were assigned to these duties.

Given the uncertainty of the duration of the pandemic, the FY 2021/22 budget reflects optimism that participation in our recreation offerings along with the associated fee revenue will improve, but not yet to the pre-COVID levels.

The Park Development Fund was established to provide a source of monies that would allow us to respond immediately to opportunities to obtain additional park land and/or install new facilities in our park system rather than wait for approval in the CIP planning process. Unfortunately, higher than anticipated costs associated with projects financed from this fund have depleted this valuable fund balance. **In order to restore this balance, \$600,000 from one-time General Fund savings have been moved into this fund in FY 2020/21, bringing the anticipated total to \$947,993 by the end of FY 2021/22.**

Through the generous donations of time and money from many Ames citizens, \$2,300,000 was raised by the Ames Foundation for the recently completed Harrison Barnes Family Playground and Ames Rotary Club Miracle League Field.

Library Services

The Library Board has decided to follow the example of other libraries by acknowledging the equity disparity caused by the collection of over-due fines. **Therefore, beginning in FY 2020/21 the Library discontinued charging for overdue material. This decision results in the elimination of an approximately \$90,000 revenue source.** The reduction will be partially offset by savings from collection service and credit card processing fees as well as less postage costs for the new State Library delivery service.

Economic Development Services

The final activity greatly impacted by COVID-19 is our effort to attract conventions and meetings to our community in our quest to generate sales tax revenue from these visitors to mitigate our property tax increases to our residents. This task is accomplished through a contract with the Ames Convention and Visitors Bureau (ACVB) whereby the ACVB receives 72% of the Hotel/Motel tax proceeds the City receives each year. Unfortunately, concerns for the health of participants and reduction in organization travel budgets caused events to be cancelled resulting in drastic drop in Hotel/Motel revenues to the ACVB which is estimated to be approximately \$1,100,000 over FY 2019/20 and FY 2020/21. As a result, the ACVB eliminated a number of their permanent positions and even so their ability to remain solvent is still in jeopardy. Their financial analysis indicates that if the City Council would provide them with a \$35,000 grant and a \$75,000 loan, they could then make it through this financial crisis. **The FY 2020/21 amended budget includes funding for this request from the available balance in the Hotel/Motel Tax Fund.**

Housing Services

Fortunately, federal and state funds are being distributed to cities to help low-income residents whose lives have been negatively impacted by the coronavirus. Therefore, the FY 2020/21 adjusted budget reflects three rounds of funding, 1) \$354,515 from the Community

Development Block Grant (CDBG) CARES program, 2) \$604,386 from the Iowa Economic Development Authority CARES program, and 3) \$356,455 from the CDBG CARES program. These funds will be directed primarily towards rent, mortgage, and utility relief for qualifying households.

In addition, three years of federal HOME have been rolled forward to the FY 2020/21 adjusted budget. The \$1,200,554 available initially will be directed to create low income, owner occupied houses in the new Baker subdivision at 321 State Avenue as well as for down payment and closing cost assistance for these single-family homes.

Special thanks are due our exceptional team of department heads along with Duane Pitcher, Finance Director; Nancy Masteller, Budget Manager; Amy Crabbs, Budget Analyst; Shannon Andersen, Finance Secretary; Deb Schildroth, Assistant City Manager; and Brian Phillips, Assistant City Manager; who helped devise this administrative/financial plan for the City.

My hope is that when I write my budget transmittal letter next year, we will have broken the back of COVID-19 and the doors to our homes, schools, and businesses will have reopened. Whether this happens sooner or later, the City employees will continue to provide exceptional service to the residents of our community!

Respectfully submitted,



Steven L. Schainker

City Manager