

**MINUTES OF THE SPECIAL MEETING
OF THE AMES CITY COUNCIL**

AMES, IOWA

JANUARY 29, 2010

The Ames City Council met in special session at 2:00 p.m. on January 29, 2010, in the Council Chambers of City Hall, 515 Clark Avenue, pursuant to law with Mayor Campbell presiding and the following Council members present: Goodman, Larson, Orazem, and Wacha. Council Members Davis and Mahayni and *ex officio* Member Keppy were absent.

FY 2010/11 BUDGET OVERVIEW: City Manager Steve Schainker, Finance Director Duane Pitcher, and Assistant City Manager Sheila Lundt reviewed the documents contained in the budget packet distributed to the City Council.

City Manager Schainker advised that this meeting marked the unveiling of the Fiscal Year 2010/11 Program Budget. He announced that this budget actually calls for a reduction in the City tax rate from \$10.86 to \$10.77/\$1,000 of taxable valuation. Mr. Schainker stated that the recommended Fiscal Year 2010/11 budget totals \$183,101,741.

Mr. Schainker said that it was his intent in developing this budget to accomplish two objectives: (1) maintain the same level of service for the numerous programs provided and (2) mitigate the impact of property taxes, user fees, and utility rates on Ames residents. Department Heads have worked hard to offset the downturn in revenues by holding the expenditure increase to only 2.1%. City Manager Schainker noted that 77% of the departments' budgets is driven by personnel costs, many of which are set by collective bargaining contracts.

According to City Manager Schainker, the financial condition of the Resource Recovery Plant remains strong. No rate increases are being requested for Storm Sewer Utility or the Electric Utility. There will be rate increases for Water Utility and Water Pollution Control Utility.

Mr. Schainker called the Council's attention to three other programs where expenditures are exceeding revenues:

(1) Maintaining two municipal cemeteries will require a \$26,565 property tax subsidy. A major decrease in interest revenue is preventing the operations being financed from its own revenues.

(2) The Parking Fund will require dipping into the available balance by \$61,784. It appears that the decrease in revenue is due to fewer tickets being written. In addition, the City Council continues to support Downtown events by waiving parking regulations, which has resulted in \$12,000 - \$19,000/year in lost revenues.

(3) The federal funds provided to the Leased Housing Program are inadequate to cover its expenses. In 2010/11, the shortfall will be financed by an available balance; however, within the next two years, there will be insufficient monies in the fund balance to continue this program. The City could discontinue providing the service; the Department of Housing and Urban Development (HUD) would then assign another housing authority to administer the Program.

Property Tax Levies for 2010/11 were summarized by Director Pitcher. He stated that the City of Ames levy is \$10.86/\$1,000 valuation (34.27%), School is \$13.59 (42.88%), County is \$6.67 (21.06%) and DMACC is 0.57 (1.79%).

Mr. Pitcher gave a comparison of City Property Tax Valuations and Total Levies to be collected for fiscal year 2009/10 for the 11 largest cities in Iowa. He reported that Ames is the only city under the \$8.10 limit. Ames has the second-lowest total city tax levy per \$1,000 valuation (\$10.86); only Dubuque is lower at \$9.86. Mr. Pitcher reiterated that for FY 2009/10, the total tax levy/\$1,000 taxable valuation will be \$10.77.

According to Mr. Pitcher, factors that will impact the FY 2010/11 budget are:

1. Rate increases for Water and Sanitary Sewer Utilities
2. Storm Sewer, Resource Recovery, and Electric remain flat, although cost of fuel and wind energy will increase, resulting in an effective rate increase of 5%.

Mr. Pitcher reminded the City Council that, by referendum, 60% of the Local Option Tax proceeds goes to reduce property taxes. The total tax levy for FY 2010/11 would be \$12.45 without the infusion of Local Option Tax proceeds of \$1.68/\$1,000. According to Mr. Pitcher, there was an increase in taxable value of 4.7%.

Mr. Pitcher emphasized the large impact on the City’s budget from residential rollback and the conversion of apartments to condominiums. He also described the budget ramifications resulting from the Fire & Police Trust Fund.

Debt Service for the 2010/11 budget was explained by Mr. Pitcher. He noted that \$800,000 will be allocated from the Fund Balance. With current valuation, that translates into a Debt Service Levy of \$3.57/\$1,000 valuation. Attention was directed to the listing of General Obligation Bond projects planned for 2010/11.

The percentage change of total levy by property type was explained by Mr. Pitcher. The net change is 3.87%. An analysis of that change in tax dollars by property type was also described.

Mr. Pitcher reported on the percentage of taxable valuation by property type: Residential, 71.48%; Commercial, 24.42%; Industrial, 3.88%; and Utilities, 0.30%. He gave sample tax calculations for the three property classifications. Mr. Pitcher presented a summary of the change in tax asking for FY 2010/11. Revenues are down by \$494,907, with the biggest decreases coming from interest revenues and license and permit fees. The total increase in expenses is \$606,134. Combining those, the total change in the General Levy is \$1,101,041.

The costs of City services for 2010/11 per residence from property taxes (based on a \$100,000 home) were summarized, as follows:

Streets/Traffic	\$	124
Police Protection		116
Fire Protection		76
Recreation and Parks		59
Library		44
Transit		29
General Support Services		23
+ Planning		10
Resource Recovery		7
Storm Sewer		6

Animal Control	4
Inspections/Sanitation	4
Building and Grounds/Airport	<u>3</u>
TOTAL	<u>\$ 505/\$100,000</u>

Road Use Tax Revenue was briefly explained by Mr. Pitcher. He noted that FY 2009/10 and 2010/11 include a new source of revenue called TIME-21 Funding. TIME-21 Funding was a program of the state intended to increase funding to make up for shortfalls in infrastructure improvements. It was supposed to incrementally increase over the years and be distributed with Road Use Tax funding. However, the issue is that Road Use Tax revenues have decreased significantly. The CIP reflects the lower projected revenues.

City Manager Schainker said that the estimates received from the State for the base amount are flat. It is anticipated that expenses will exceed revenues and draw the balance down significantly. The fund balance policy is to retain 10% of budgeted expenses for operating cash for maintenance projects. The reserve was reduced to 5% for FY 2010/11. Mr. Schainker noted that the City has not historically borrowed to perform road maintenance; however, in the future if Road Use Tax Revenues continue to decline, funding will have to come from bonds, the General Fund, or the Council could decide not to do routine maintenance projects.

Council Member Larson asked if the 4.54 was last year's budgeted amount or after it was reduced. Mr. Pitcher said that it was the amount adopted; however, the City is not going to get that and that is already reflected. Mr. Larson asked how that amount compares to other years. Mr. Pitcher said that he would have to break out the TIME-21 part. Mr. Schainker said that there is also talk about reallocating Road Use Tax in the future, which would provide further challenges for the City. Council Member Orazem asked if that was the amount proposed to be allocated to the Highway Patrol and if an amount was known. Mayor Campbell indicated that the legislators had responded that the transfer to the Highway Patrol was in doubt. Director Pitcher will provide the amount to the Council in the near future.

Authorized employment levels [FTEs (full-time equivalents)] is up by 1.25. CyRide made several changes that resulted in an increase of 0.25 FTE in the Fixed Route Program. The Police Department Emergency Community Center budget includes an additional 1.00 FTE for an additional dispatcher position, which will ultimately reduce costs for part-time positions and overtime for full-time positions. Council Member Larson noted that any additional positions that might be necessitated by the initiation of a Safe Neighborhoods Program were not included in the 2010/11 budget.

Fee changes in the Police and Parks and Recreation Departments were highlighted by Director Pitcher.

City Manager Schainker advised that expenditures will exceed revenues in the Building Inspections Division. Each year, attempts are made to match building, plumbing, and electric permit revenue with expenditures to support inspection activities. In FY 2009/10, it is being estimated that there will be a shortfall in revenue of over \$200,000 and over \$100,000 in FY 2010/11. To mitigate the impact of those revenue reductions, a vacant Building Inspector position will not be filled, and a supervisory position will be reassigned to help administer capital improvement projects in the Electric Services and Public Works Departments. Another option

would be to raise permit fees. Mr. Schainker said that to eliminate any more inspectors from this program would negatively impact service levels in an area that the City Council has established as a primary goal to improve.

Mr. Schainker stated that, after analyzing the impact of the School District's charging the City to use their facilities for recreational programs, the actual incremental costs total approximately \$3,000/year or \$1.25/participant. That increase in \$1.25/participant has been built into the fees for FY 2010/11.

Council Member Goodman asked for the comparison of tax rates to be updated after cities have certified their budgets on March 15, 2010.

Director Pitcher brought the Council's attention to the fact that this fund balance slightly higher than expenses. It was noted that the 2009/10 Adjusted reflects the expending of \$1,125,587. Mr. Pitcher said that amount reflects the amount to be allocated to the City Hall Space Re-Use Project.

The Local Option Tax Fund was explained by Ms. Pitcher. He recalled the Council's policy that the fund balance is reserved at 25% of budgeted expenditures less the 60% tax relief. The unreserved fund balance is estimated to be approximately \$791,295 for 2010/11. Director Pitcher noted that there were a number of carry-over projects, which drew down the fund balance significantly.

City Manager Schainker explained that one-time projects are generally financed through the Hotel/Motel Tax. It is estimated that the ending balance in FY 2010/11 will be approximately \$330,000. Council Member Larson shared information he learned from serving on the Ames Convention & Visitors Bureau Board (ACVB). It is believed that revenues from Hotel/Motel Tax will be 15% lower. City Manager Schainker said staff will be in contact with the Director of the ACVB.

In the Leased Housing Fund, Mr. Pitcher reported that program revenues are not sufficient to cover expenses. The program has operated with a deficit since FY 2008/09, and it is expected to operate with a deficit in 2010/11, with the fund being completely exhausted during FY 2011/12. If federal funding and City costs continue at the current rate, additional funding will need to be identified to continue the program for FY 2011/12. According to City Manager Schainker, discussions will occur about the future of this program. Assistant City Manager Bob Kindred stated that the federal government has determined that there is a need for this program in Ames; whether the City administers it or another agency does will need to be determined in the near future.

City Manager Schainker briefly described the Community Development Block Grant (CDBG) revenue account. He noted that it is important for the City to carry through with major projects because the federal funds must be expended or the City is at risk of receiving a lower allocation in the future.

The Fire/Police Retirement fund was explained by Mr. Pitcher. The FY 2010/11 budget required that the contribution rate increase to 19.9% of payroll.

The new TIF District project on South Bell was briefly reviewed by Director Pitcher. He pointed out that the TIF project of 1998 has collected adequate revenue to pay off outstanding bonds, and the property has been released for general taxation.

Assistant City Manager Sheila Lundt described the Library Donations fund. The fund accounts for general donations and grants to be used for projects specifically at the Library.

City Manager Schainker explained the Developer Projects Fund, which accounts for the developers' share of improvements required by the Development Agreement. He also described the Economic Development fund, which accounts for revolving loans, community investment, and pass-through state loan activity. The initial contribution for this Fund came from Local Option Tax proceeds and from the Electric Utility.

Director Pitcher briefly explained the Special Assessment, Street Construction, and Bond Proceeds Funds.

City Manager Schainker told the Council not to be alarmed if they see negative fund balances in the Utility Funds when large projects are financed. He reminded that rates are established to cover operations and capital improvements.

Mr. Pitcher brought the Council's attention to Parking Operations and Improvement. He noted that a deficit will occur in FY 2010/11 in the amount of \$61,558. This is the third year that expenses have exceeded revenues by a significant amount.

The GSB Transit Trust fund can also have a negative balance. The fund balance fluctuates based on fee approval, enrollment, and service levels.

Mr. Pitcher explained that there is good news for the Ice Arena Capital Reserve and Homewood Golf Course because revenues will exceed expenses. There is a small increase in ice time built into this budget. Resource Recovery Operations and Improvements is also holding its own, and no rate increases are planned for the near future.

Fleet Replacement, Information Technology, Computer Replacement, and the Risk Management Funds were briefly explained by Director Pitcher. There were several large Worker's Comp claims last year, and an adjustment to the rates charged to Departments was made.

Council Member Larson noted that Director Pitcher often refers to "targets." He asked if there is a target on all of the funds or a range for a target. He said some times staff refers to a goal of drawing a fund down to a certain point, while there are others that fluctuate a great deal. Mr. Pitcher replied that the City has general policies. He noted that staff could lay out what policy is used for each fund. Mr. Larson asked that the target be listed for each fund and an explanation of what the target is based on. Mr. Pitcher said that could be added to the description of the fund at the top of each page.

Director Pitcher explained the Health Insurance Fund. Noting that the City is self-insured, an explanation of how claims are handled was provided.

It was noted that copies of the written requests for funding from outside agencies were included in the information provided to the Mayor and Council. A copy of the request from the Main Street Cultural District, which was received today, was distributed around the dais.

ADJOURNMENT: Moved by Goodman, seconded by Wacha, to adjourn the meeting at 4:20 p.m.
Vote on Motion: 4-0. Motion declared carried unanimously.

Diane Voss, City Clerk

Ann H. Campbell, Mayor