

FISCAL YEAR 2009/2010 CITY COUNCIL BUDGET ISSUES

OVERALL ECONOMIC CONDITION OF THE CITY

Though there has been a significant slowdown in the national economy, so far the impact on the central Iowa region and the City of Ames has been more moderate. There has been a reduction in new construction and property valuation increases. The cost of fuel has decreased recently, but we are still expecting fuel costs to have a negative impact both on the current year and the FY 2009/10 budget.

Short-term interest rates increased in the past couple of years, but have recently fallen. The Federal Reserve has lowered rates after problems in credit markets; we expect that investment earnings will be reduced in FY 2009/10.

Though the City's overall financial situation remains strong, increases in costs coupled with reduced revenue growth related to an overall economic slowdown are expected to have a negative impact on the City's budget.

FUND BALANCES

The General Fund ended FY 2007/08 with a higher than budgeted fund balance due primarily to open positions. The General Fund closed the year at approximately two percent higher than our policy balance. The Council policy has been to use one-time available balances to fund planned capital expenditures in the current year. This policy contributes toward keeping property taxes down for several years rather than using the fund balance for operating expenses, which results in a single year reduction in property taxes that will need to be replaced in the following years. The recommended budget will continue to follow this policy. Options for use of the fund balance include building improvements and Cool City initiatives.

FIRE AND POLICE RETIREMENT AND IPERS

The City has received notification from the Municipal Fire and Police Retirement System of Iowa (MFPRSI) that the City contribution rate to this retirement plan will decrease from 18.75% to 17.00% for a total reduction in cost of \$109,200 from the FY 2008/09 adopted budget. The City contribution rate to this retirement plan has varied dramatically over the past few years from 17% in 2003 to 28.21% in 2006 due to benefit increases passed by the State Legislature and market performance of pension investments. Though there will be a reduction in the cost for the upcoming budget year, current poor performance of pension investments and continued pressure from the state police and fire associations to increase pension benefits are likely to result in future increases in the City contribution rate.

The State Legislature passed a series of increases in the Iowa Public Employees Retirement System (IPERS) to raise the combined contribution rate from 9.45% to 11.45% over four years. The increases were approved to improve the funded status of the IPERS system. The plan maintains the contribution split at 60% City and 40% employee with the City contribution rate increasing from 6.35% to 6.65% in FY 09/10. The cost of the contribution rate increase will be approximately \$48,000 for the City.

INSURANCE – HEALTH AND WORKERS’ COMPENSATION

The City continues to benefit from implementation of health program changes recommended by the City Health Insurance Team. For the current year, rate reductions for health insurance to departments will result in savings of a little over \$100,000 compared to the adopted budget. For FY 2009/10, health insurance rates are budgeted to increase approximately 10% from the lower adjusted rates for FY 2008/09. Additionally, the Health Care Self Insurance Fund maintains a strong balance and the City is able to absorb fluctuations in future health care claims experience.

With Workers’ Compensation, the news is not as good. The City self-insures for Workers’ Compensation and we currently have several unsettled claims that could substantially reduce the fund balance available to pay future claims. To restore the balance, contribution rates to Workers’ Compensation have been increased by 35% in the current year and will be increased by 10% in FY 09/10. We expect that an additional year of increased contribution rates will be required to restore the self- insurance fund balance to a level needed to fund claims.

CYRIDE

CyRide is struggling with what the Iowa DOT is calling, “The Perfect Storm” for public transit systems – volatile fuel prices, lower state revenue/transit funding and increased ridership. These factors have dramatically affected CyRide’s operating budget this year and will continue into the 2009-2010 budget year. Specifically, CyRide’s fuel expenses have increased 29% and are anticipated to average even higher next year. Second, CyRide receives state funding from the statewide sale of automobiles. This funding source has been declining and is predicted to bring in substantially fewer dollars over the next several years due to the slowing economy affecting automobile sales. Both of these negative budget effects come at a time when residents of Ames are turning to transit services more than they ever have before. CyRide is on track to carry its highest number of customers this year – over 4.8 million. With this increased ridership comes a need to increase the number of buses and related operating expenses, as many of the buses are already at capacity. These budget constraints make the possibility of increasing service to meet community needs, such as to the Aquatic Center or a Fare Free City-Wide Program, difficult to fund in the current environment.

ROLLBACK AND VALUATION

To set the taxable value, the State issues a rollback order each year that is applied to the assessed value of residential and commercial property. For FY 2009/10, 45.5893 percent of assessed residential value will be taxed, up from 44.0803 percent in FY 2008/09. Industrial property will continue to be taxed at 100 percent of assessed valuation. Commercial property will be taxed at 100 percent of assessed valuation, up from 99.7312 percent in FY 2008/09. The combination of the changes for commercial and residential rollback rates will result in a \$36,621,894 or a 1.9% increase in taxable valuation.

Though we do not have valuation information, the slowing of construction and property tax valuation will result in an increase of taxable valuation of not much beyond the increase due to the rollback change.

LOCAL OPTION SALES TAX REVENUES

Estimated Amounts for FY 2008/09

For the current year, local option sales tax receipts are expected to be \$6,241,700. Though this amount is \$368,538 over the adopted budget, we have been notified by the Iowa Department of Revenue and Finance that there was an error made in tax reporting and an amount of hotel/motel tax was submitted as sales tax. We expect that the local option sales tax revenue will be reduced and the hotel/motel tax increased, bringing both more in line with budgeted amounts. For FY 2009/10, we are predicting growth of 3.00% percent in local option sales tax revenue from the adopted budget.

Human Services & Arts Agencies Funding

ASSET Human Services Funding

For FY 2008/09, the City's allocation to ASSET is \$935,934. Current ASSET agency requests total a 6.6% increase in funding or \$997,567. The many options available for budget direction include funding the full request, a 5% increase (\$982,730 allocation), an increase reflecting the expected growth of Local Option Sales Tax (\$964,012 allocation), or some other amount.

At this time, staff does not know the level of funding from other ASSET contributors.

COTA Funding

The COTA allocation for FY 2008/09 is \$109,529. The COTA groups have requested funding in the amount of \$149,100, or a 36% increase. Again, there are many options available including full funding, a 5% increase for a total of \$115,005, a 3% increase for a total of \$112,815, or some other amount.

UTILITY RATES

Water, Sanitary Sewer, Storm Water, Electric

The Water, Sanitary Sewer, Storm Water, and Electric utilities will all require rate increases within the five-year term of our capital planning horizon to support increased operating costs and capital improvement plans.

The Water and Electric utilities are in the process of planning large-scale capital plant improvements that will require multiple rate increases in the coming years. We are in the process of reviewing the five-year CIP and will make adjustments in the timing of improvements to coordinate water and electric rate increases to lessen the impact on customers in any given year.

For the Storm Water utility, we may need to consider an increase in the flat fee rate \$0.40 per month to maintain the fund until we can consider an alternative method of charging for the service.

The level of rate increases will be dependent on the Capital Improvements Plan and the associated impact on the operating budget. Though it is too early in the budget process to determine the level of rate increases, we can expect that there will be increases in multiple utility rates several of the years over our five-year capital planning horizon. Below is a chart of possible rate increases discussed during the FY 2008/09 budget. The FY 2008/09 Water rate change was a change in the rate structure to promote conservation during peak periods, and the FY 2009/10 Sewer rate change was reduced and moved to FY 2008/09. This chart with change with decisions made during the budget and CIP process.

	FY 08/09	FY 09/10	FY 10/11	FY 11/12	FY 12/13
Electric	x	x			
Water	*	x	x	x	x
Sewer		x		x	
Storm Sewer	x				

Resource Recovery

The Resource Recovery Plant continues to have positive improvements in efficiency and the overall financial situation. After review of the Capital Improvements Plan, we may want to consider lowering the per capita subsidy or the per ton tipping fee.

GO GREEN INITIATIVES

On October 28, 2008, Council adopted a goal of reducing the City operation's carbon footprint by 15% by 2014. Some of the areas under consideration to accomplish this goal include:

City Buildings

All departments that manage a City building will be reviewing options to upgrade to more efficient lighting and HVAC systems. These improvements may be included in capital budgets or the CIP.

City Fleet

The City's fleet will be converted to hybrid or flex fueled vehicles where possible, or replaced with more fuel efficient vehicles. New technology will continue to be evaluated and implemented when practical. CyRide will be replacing buses that operate at 3 mpg with buses that operate at 4.5 mpg. Though these changes are expected to reduce operating costs over time, we are likely to have increased capital costs as we shift to more efficient vehicles.

Outdoor Lighting

LED street lights will be evaluated for performance and energy use. Red and green traffic signal lights already have been converted to LED with a proven reduction in energy use of 50%. The yellow traffic signal lights will be converted to LED in the next few years.

SERVICE LEVEL IMPROVEMENTS

During the current fiscal year, City Council will be asked to approve the addition of a Transportation Planner position in the Public Works Department. This position will primarily be funded with federal surface transportation funding. It will relieve the Director of responsibility for day-to-day administration of the Metropolitan Planning Organization (MPO), will carry out routine traffic studies so that the Traffic Engineer can take over administration of the Municipal Airport, and will play a supportive role in updating the MPO's five-year Master Transportation Plan. The City Manager will be evaluating other positions to possibly improve City services.

CITY HALL SPACE NEEDS

Much has changed since we moved into the renovated Central Junior High School building back in 1990. As our workload grew and new service responsibilities were added, additional staff in the Planning and Housing, Public Works, Human Resources, Fire, Police, and Legal Departments were assigned to City Hall. We have reached a point where lack of adequate space in City Hall is impacting the effectiveness of our work. Shive-Hattery Associates is currently conducting an evaluation of the City Hall basement and Police spaces to help address

environmental challenges and determine how more efficient use can be made of these areas. This evaluation will form the basis for an updated proposal for improvements to City Hall. That plan will address opportunities available for the basement and Police spaces, as well as longer-term upgrades that are needed for the 19-year old building's ventilation, roof and other systems. For several years, we have budgeted \$50,000 per year for the Local Option Sales Tax Fund to pay for improvements beyond day-to-day maintenance of City Hall. With the aging building, this amount may need to be increased.

City Council's Input

(Given the information provided, Council's input is requested.)

Service Level Increases

Service Level Decreases

Input related to City Council Goals

- Rejuvenate Campustown
- “Go Green” to minimize impact on global climate change
- Strengthen our neighborhoods
- Promote “One Community”
- “Brand” Ames
- Define desired growth

Other Issues