

MINUTES OF THE SPECIAL MEETING OF THE AMES CITY COUNCIL

AMES, IOWA

FEBRUARY 3, 2023

The special meeting of the Ames City Council was called to order by Mayor John Haila at 2:00 p.m. on the 3rd day of February, 2023, in the City Council Chambers in City Hall, 515 Clark Avenue, pursuant to law. Present were Council Members Bronwyn Beatty-Hansen, Gloria Betcher, Amber Corrieri, Tim Gartin, Rachel Junck, and Anita Rollins.

BUDGET OVERVIEW FOR RECOMMENDED 2023/24 FISCAL YEAR: City Manager Steve Schainker reported that this was the most discouraging budget process he had experienced since becoming City Manager. Numerous bills under consideration by the state legislature would negatively impact the City's ability to generate revenue. The state legislature appears concerned about substantial increases in assessed property values for next year, which would lead to significantly higher tax burdens if property tax rates remained the same. City Manager Schainker clarified the City sets the tax rate each year so as to collect only the amount of revenue to provide the level of service which residents expect at the lowest cost. Often, when assessed values increase, the City is able to reduce property tax rates. The increase in assessed valuation this year was nominal at 2.6%, so this budget included a slight levy increase.

The most significant impacts to the budget were the known impacts of recent actions by the state legislature, which affect the revenue side of the budget. The General Fund, which pays for Parks and Recreation, Library, Fire, and Police, is supported by property taxes. The actual expenditure askings for these departments were up only 3.6%, a remarkable achievement in a year when the uncontrollable costs are rising significantly. Staff worked hard to keep expenditures at a reasonable level.

City Manager Schainker provided an overview of four state actions which negatively impacted the revenue side of the budget. First, in 2013, the state legislature ruled that commercial and industrial properties would no longer pay taxes on 100% of their taxable value. The state promised to backfill the revenue which local governments lost in this rollback to make up the difference. For Ames, this was \$970,000 a year. In 2021, the state decided to phase out the backfill program over a period of five years. The impact to the FY 2023/24 budget will be a reduction of \$195,000.

Second, the state legislature recategorized multifamily properties so that they would receive the Residential Property rollback rate, taking these properties from paying on 90% of their taxable value to only 56.5%. Next year, Ames is projected to lose \$217,000 in revenue from this change.

Third, the state legislature has implemented a two-tiered system for taxing commercial and industrial properties. The first \$150,000 of assessed value will be taxed at the residential rollback rate, meaning that commercial and industrial properties will pay on 56.5% of the first \$150,000 instead of 90%. It is estimated that this could result in as much as \$400,000 of lost revenue. The state currently claims that the lost revenue will be backfilled, so the FY 23/24 budget includes that amount, but City Manager Schainker warned that the City might not be able to count on the state fulfilling that commitment in future years.

Fourth, the state legislature was actively considering Senate File 181, which would correct a miscalculation in the rollback rate. State officials calculate the rate and give it to local governments, and cities build budgets around that number. The number given to local governments for the residential rollback rate was 56.5%. State officials discovered that the rate should have been set at 54%, and the legislature is primed to make that correction effective immediately, even though many cities around the state have already completed budgets based on 56.5%. The estimated loss of revenue from this correction for Ames is about \$775,000. City Manager Schainker noted that this state action meant the budget presented would almost certainly have to change in the next week to account for a loss of \$775,000 in revenue.

To conclude the introduction, City Manager Schainker observed that the state legislature was eroding home rule by affecting the City's ability to raise revenue. City Manager Schainker noted that this Mayor and City Council have always tried to provide quality services to customers, and hoped unwanted cutbacks would not have to be made. He recognized the work of Mayor Haila advocating for the City at the state legislature and providing leadership for other localities as well.

Council Member Gartin thanked Mayor Haila for his leadership in state-level advocacy. He invited City Manager Schainker to explain how long staff has been working on the budget. City Manager Schainker explained that creating the budget is a four-to-five-month process that staff takes seriously. Council Member Gartin expressed frustration with the state legislature, especially related to the rollback rate correction. He noted that state officials were aware of the error four to five months ago, but neglected to inform cities so it could be proactively accounted for in the budgeting process. Council Member Betcher thanked Council Member Gartin for articulating his frustration, indicating that she and other City Council members shared the sentiment.

City Manager Schainker explained that the presentation would be a high-level overview of the budget, with in-depth analysis of particular programs to come in the budget hearings the following week.

Finance Director Corey Goodenow presented the Special Reports for FY 2023/24 Budget. To begin, he noted that the City is not the only recipient of property taxes. In fact, Ames Public Schools receives the largest percentage of property taxes at 46.53%, followed by the City at 32.02%, Story County at 19.19%, and Des Moines Area Community College at 2.26%. Two years ago, the City's tax rate per \$1000 of taxable value was \$9.87. The rate for FY 22/23 was \$9.82. Compared to peer cities in Iowa, Ames's tax rate per capita is low. Most peer cities have their General Levy maxed out at the \$8.10 cap, while Ames retains flexibility in that category at \$5.51.

Breaking down the proposed levy with the Utilities Excise Tax included, Director Goodenow noted that the proposed General Levy would be \$5.56, a five-cent or less than one percent increase. The Employee Benefits Levy funds Police and Fire Department retirements, and the amount the City is required to contribute saw a one percent decrease. There are also separate levies for Transit and Debt Service. Staff works to keep the Debt Service rate consistent even while debt service costs fluctuate year to year.

Mayor Haila noted that Ames residents should be proud that the City has not maxed out the General Levy rate and pays for some expenses which other levy categories can cover out of the General

Fund. This means that the City will have some flexibility in responding if the state legislature decides to also limit General Levy increases. Director Goodenow concurred that the City is in a good position financially to continue to provide services as long as the state does not cap total tax collection. Council Member Gartin expressed concern that moving things between different levies may create a game of whack-a-mole with the state legislature, so creative budgeting could backfire. City Manager Schainker commented that the state legislature is also considering changes to the Local Option Sales Tax, which could hurt City revenue. Mayor Haila noted discussion at the state level of rolling back commercial tax rates an additional 10%, which could result in another \$1,000,000 of lost revenue.

Summing up the tax levy breakdown, Director Goodenow stated that the proposed overall levy rate of \$9.96 represents a 13-cent increase, or 1.36%. This rate is the incremental amount needed to continue the same level of service for residents. Director Goodenow pointed out that this increase is largely driven by state legislative impacts, demonstrating that the non-impacted rate would have been \$9.84, a mere two-cent increase from the previous year.

To illustrate the impact of Senate File 181, Director Goodenow presented the tax levy breakdown with adjusted rates. If this bill correcting the residential rollback calculation goes into effect, the City would lose \$775,000 in revenue from the presented budget. The adjusted tax rate to cover that loss of revenue would go up to \$10.19, an increase of 23 cents on top of the 13-cent increase proposed in the Draft Budget. Director Goodenow emphasized that the requested dollar amount remains the same. Council Member Betcher observed that 36 cents would be a historic leap in the levy rate, when more often than not the City is able to lower the rate. She expressed frustration that this course of action may be forced by the state legislature.

Director Goodenow explained that the levy rate has been managed for consistency over the past five years; while valuation fluctuated, the City demonstrated sound fiscal management in keeping the rate consistent, refusing to take advantage of increased valuation to collect more revenue. The City saw a 2.61% increase in total taxable valuation, with 1.34% coming from new construction and 1.13% from existing property. There was a shift from commercial to residential not due to increases in residential growth, but rather the reclassification of multi-family properties from a different property tax class.

In the Fire and Police Trust Fund, the balance has been drawn down over the past 32 years, ending at around \$15,000 after the allocation this year. For the Debt Service cost allocation, streets make up the majority of existing debt, and some debt is abated. The total debt service cost for FY 2023/24 is \$11,143,151, which sets the Debt Service levy for the year at \$3.17. Director Goodenow surveyed the schedule of current and proposed debt through 2029, demonstrating the plan to minimize spikes in the Debt Service levy with the Debt Service Fund balance. This schedule did not include potential abatement revenue from the Linc Development Project.

Next, Director Goodenow offered sample tax calculations for different property classes based on the proposed budget and based on the changes Senate File 181 would require, noting that the latter scenario would still result in a reduced total contribution to the budget from residential taxpayers, even with the rate increased by 36 cents. Director Goodenow clarified for Mayor Haila that the large increase in valuation from the 2021 assessments would show up in next year's budget, but

the state is expected to increase the rollback so that residential properties would only pay on 48% of their assessed value.

Budget Manager Nancy Masteller discussed the summary of change in tax asking for FY 2023/24. The total increase is \$1,217,287, with the majority of that amount needed in the General Levy. She covered the components of the fund, pointing out how remarkable it is that departmental expenses only increased 3.7% when inflation and uncontrollable expenses are on the rise. In sum, just over one million dollars in the General Fund are available from savings in FY 2022/23 for one-time expenditures. These proposed one-time expenditures include \$154,000 for Alternative Response for Community Health (ARCH), \$150,000 for a soccer pitch, \$100,000 for a Community DEI Plan, \$200,000 for City Hall carpet replacement, \$100,000 for City Auditorium HVAC replacement, and \$325,000 for sustainability in the City Council Priorities Fund. Council Member Gartin expressed concern about putting one-time expenditure funds toward a new program like ARCH. Council Members Beatty-Hansen, Betcher, Corrieri, and Junck emphasized that the funding would be supporting a pilot run of the program to generate the data that would be needed to assess the merits of building it into the regular budget. City Manager Schainker again discouraged the City Council from trying to address the potential \$775,000 revenue gap from the rollback correction in Senate File 181 with one-time savings from the General Fund. The change in the rollback rate is permanent rather than a one-time problem.

Budget Manager Masteller discussed the property tax cost of services per residence, noting that public safety comprises the bulk of the cost. Additionally, City Manager Schainker noted that three authorized Full Time Equivalent (FTE) positions are being added, including a Sustainability Coordinator, a maintenance worker, and a librarian.

Addressing Utility rates, City Manager Schainker explained that City utilities are run more like a business, setting rates at a level to cover operating and capital improvement costs. This differs from programs funded by the General Fund, which largely subsidizes operations for things people cannot actually afford. Director Goodenow observed that the City typically alternates rate increases for Water and Sewer to keep consumer costs from spiking. In FY 2023/24, there are no proposed increases to Electric, Sewer, Storm Sewer, or Resource Recovery rates, with an 8.0% increase for Water. The median residential utility bill is estimated to have a total increase of 1.58% as a result, while the median commercial bill would increase 0.62%.

Director Goodenow drew attention to attachments addressing requests for funding and Parks and Recreation and Cemetery fee increases.

Mayor Haila recessed the meeting at 3:47 p.m. and the meeting reconvened at 3:55 p.m.

Budget Manager Masteller presented an overview of the Fund Summaries in the Draft Budget, including the General Fund, Special Revenue Funds, Capital Projects, Permanent Funds, Enterprise Funds, Debt Service, and Internal Service Funds. Regarding the General Fund, Budget Manager Masteller noted that the City maintains a minimum fund balance of 25% of revenues per the recommendation of the City's bond advisors.

Special Revenue Funds include Local Option Sales Tax, Hotel/Motel Tax, Road Use Tax, Public

Safety Special Revenues, Citywide Housing Programs, Community Development Block Grant, Home Investment Partnership Program, CDBG/COVID-19 CARES Act, IEDA/COVID-19 CARES Act, HOME/American Rescue Plan, Employee Benefit Property Tax, Fire/Police Pension, Parks and Recreation Donations and Grants, FEMA/COVID-19, FEMA/Derecho 2020, American Rescue Plan, Library Donations and Grants, Utility Assistance, Miscellaneous Donations, Developer Projects, Economic Development, and Tax Increment Financing (TIF). In relation to the Hotel/Motel Tax, Council Member Betcher commented that the Ames Convention and Visitor's Bureau (ACVB) is now doing business as Discover Ames, but since it is still officially registered as ACVB, the names are sometimes used interchangeably. City Manager Schainker drew the attention of the City Council to page 294 of the Draft Budget, noting for the record that some initial costs for the Fitch Family Indoor Aquatic Center were paid for out of the portion of the Hotel/Motel Tax set aside for Economic Development, since those costs were unbudgeted.

Further, Budget Manager Masteller discussed the Capital Projects funds, included Special Assessments, Street Construction, Airport Construction, Park Development, Winakor Donation, Indoor Aquatic Center, Council Priorities Capital Fund, and Bond Proceeds. The City is legally limited to only spending fund earnings for the two Permanent Funds, the Cemetery and the Donald and Ruth Furman Aquatic Center Trust.

Financed and operated like private business enterprises, the City's Enterprise Funds include Airport Operations, Airport Improvements, Airport Sigler Reserve, Water Utility, Water Construction, Water Sinking, Sewer Utility, Sewer Improvements, Sewer Sinking, Electric Utility, Electric Sinking, SunSmart Community Solar, Parking Operations, Parking Capital Reserve, Transit Operations, Transit Student Government Trust, Transit Capital Reserve, Stormwater Utility, Stormwater Improvements, Ames/ISU Ice Arena, Ice Arena Capital Reserve, Homewood Golf Course, and Resource Recovery. City Manager Schainker noted that the Transit Capital Reserve is building a healthy balance for future expansion of the existing CyRide facility. He also commented that the Ames/ISU Ice Arena has struggled with generating revenue due to the Covid-19 pandemic and the temporary suspension of the ISU hockey teams. On the other hand, Homewood Golf Course is thriving, with operating funds being available to contribute toward a CIP project. The balance could sustain the fund if revenue generated by the cell tower lease on the course was lost. Budget Manager Masteller explained that the Resource Recovery Fund was stable, but possible changes based on the results of the Waste-to-Energy Study could impact future performance.

Budget Manager Masteller stated that the Debt Service Fund proceeds are used to pay principal and interest for General Obligation Bond debt. Lastly, Internal Service Funds include Fleet Services, Fleet Replacement Reserve, Fleet Services Reserve, Shared Communication System, Printing Services, Messenger Services, Risk Management, and Health Insurance.

Council Member Gartin inquired whether actions by the state legislature could be targeting fund balances. Director Goodenow observed that spending down fund balances would harm the City's bond rating, which would increase long-term debt costs.

City Manager Schainker thanked the City Council members for their time and encouraged them to prepare for difficult decisions at Budget Wrap-Up. Director Goodenow explained that the decision

made on February 14th will set a cap on the amount of revenue that can be collected, so once the hearing date is set adjustments can only be made to reduce the budget. Mayor Haila commented that some communities were considering delaying setting the hearing date due to the uncertainty the state legislature had created.

DISPOSITION OF COMMUNICATIONS TO COUNCIL: Mayor Haila stated that there were no communications to the City Council.

COUNCIL COMMENTS: Council Member Betcher recognized Iowa State University's celebration of George Washington Carver Day. She also commented that she was glad Homewood Golf Course was doing well.

ADJOURNMENT: Moved by Betcher, seconded by Rollins, to adjourn the meeting at 4:49 p.m. Vote on Motion: 6-0. Motion declared carried unanimously.