

MINUTES OF THE SPECIAL MEETING OF THE AMES CITY COUNCIL

AMES, IOWA

FEBRUARY 2, 2024

The Special Meeting of the Ames City Council was called to order by Mayor John Haila at 2:00 p.m. on the 2nd day of February, 2024, 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, and Rachel Junck. Council Member Anita Rollins joined the meeting telephonically. *Ex officio* Jeff Clark was absent.

BUDGET OVERVIEW FOR RECOMMENDED 2024/25 FISCAL YEAR: City Manager Steven Schainker began the overview of the budget recommended for the 2024/25 Fiscal Year (FY), explaining that the presentation would be a high-level overview of the budget with in-depth analysis of particular programs during the budget hearings the following week.

Council Member Tim Gartin entered the meeting at 2:01 p.m.

Finance Director Corey Goodenow presented the Special Reports for FY 2024/25 Budget, starting with a review of the calendar for budget approval. The state legislature mandated a new hearing process, which starts with taxpayer statements mailed to residents from the County Auditor on March 20th. On April 9th, the City will hold a Property Tax Hearing as a separate meeting, and the final budget will be adopted on April 23rd.

Director Goodenow noted that the City is not the only recipient of property taxes. The Ames Community School District receives the largest percentage of property taxes at 45.27%, followed by the City at 33.13%, Story County at 19.18%, and Des Moines Area Community College at 2.42%. The total tax rate reflects a number of different levies. Compared to peer cities in Iowa, the tax rate per capita in Ames is low. Most peer cities have the General Levy maxed out at \$8.10 per \$1,000, while Ames retains flexibility in that category at \$5.51 per \$1,000.

Next, Director Goodenow explained that property valuation is the starting point for calculating levy rates. Every other year, the Assessor's Office assesses property values, and this past year saw an increase in total assessed property value in Ames of 18.76%. Different categories of property are subject to different rollback rates, which determine how much of a property's assessed value is taxable. In response to the dramatic increase in assessed values, the Iowa Department of Revenue adjusted the residential rollback rate so that only 46% of the assessed value is taxable, a significant change from the 54% that was taxable in the previous fiscal year. The residential rollback rate also applies to the first \$150,000 of commercial/industrial property values. Despite the reduction in taxable assessed value, the total taxable property valuation in Ames rose by 4.6%. However, Director Goodenow explained that the state legislature imposed additional restrictions on cities based on three tiers of growth rates. Ames falls into the second tier, comprised of cities that experience a taxable valuation increase of 3-6%. Cities in this tier must reduce their levy rate by approximately 2%, further limiting cities' ability to generate the revenue needed to keep up with inflation and cover operating expenses.

Council Member Gartin inquired about how this tiered reduction would impact planning for future

budgets, and Director Goodenow pointed out that the City would have the most flexibility to add programs or start large projects in years when its taxable valuation grew by less than 3%. Mayor Haila noted that the taxable value available to cities had been flattening for several years even before the new tiered reductions were imposed. Director Goodenow explained that the state also increased costs to cities through tax exemptions, as cities are now required to cover the cost of tax exemptions for military service members and residents 65 or older.

Once the amount of revenue needed to provide the expected level of service to residents has been determined, Director Goodenow explained, the City sets the tax rate to collect only the amount of revenue required. The City uses 60% of its Local Option Sales Tax revenue to offset the amount of funding that is needed from the General Levy, thereby keeping property taxes lower. Even with the increased rollbacks and state restrictions, the City's taxable valuation increased enough for the City to reduce the overall levy rate. The total levy for FY 2024/25 was presented at \$10.09 per \$1,000, down from \$10.20 in FY 2023/24. This reduction would generate a 3.51% increase in total collections, which is the amount required to balance the budget. Mayor Haila clarified that the General Levy largely goes to personnel wages, primarily public safety personnel. Council Member Gartin noted that Local Option Sales Tax revenue played an important role in keeping property taxes low, and expressed concern that the legislature may alter the formula used to calculate distribution of sales tax and reduce the City's revenue.

For FY 2024/25, Director Goodenow presented the total existing and upcoming CIP debt. Various abatement tools and use of the Debt Service Fund bring down the total that must be funded by the Debt Service Levy, resulting in a proposed rate of \$3.28 per \$1,000 of taxable valuation. Staff employs the Debt Service Fund to minimize spikes in the levy rate. The same legislation that created the levy reductions by tiered growth rates also combined a number of separate levies into one adjusted city general fund levy. This combined levy is subject to the same cap of \$8.10 per \$1,000 in taxable valuation. Director Goodenow observed that this change would force some cities to drop below the \$8.10 levy cap, and only jump up to that level in years where growth was below 3% to not subject to the 2% reduction in the 3-6% growth tier. Director Goodenow also commented that, while the legislature intended this policy to make tax rates more predictable, the actual effect will be unpredictable spikes in tax rates in years where cities have growth below 3% to catch up on projects and programs that were reduced or cut in years when cities were subject to the tiered reductions.

Next, an overview was provided by Director Goodenow of the total tax increase and sample tax bills for residents. The City experienced a 534% increase in lost revenue due to tax exemptions. The total tax increase across all property classifications for FY 2024/25 was 3.51%. City Manager Schainker noted that the City has made wise investments with Tax Increment Financing (TIF) projects, as Kingland paid off ahead of schedule and Barilla is doing well. Director Goodenow pointed out that Residential properties made up 79% of taxable valuation in Ames now that multifamily properties have been reclassified as Residential rather than Commercial. Director Goodnow then explained that the tiered reduction formula pushed the tax levy per \$1,000 of taxable valuation from \$10.20 in FY 2023/24 down by \$0.11 to \$10.09 for FY 2024/25, a decrease of 1.04%. He concluded with the presentation of several sample tax calculations. Mayor Haila noted that properties which experienced less of an increase in assessed value, like newer homes, would experience more of a reduction in taxes than properties with larger jumps in assessed value.

Budget Manager Nancy Masteller presented the summary of changes in expenses and revenues impacting the tax asking for FY 2024/25. The contributions of interest on investments and Local Option Sales Tax to increased revenue were highlighted as well. The most significant contributor to increased expenditures was Personal Services, with merit raises for current employees, rising healthcare costs, and the addition of a new communications specialist position and firefighter. Budget Manager Masteller commended departments for keeping contractual services, commodities, and capital expenditures low. Next, she presented charts illustrating that public safety combined is the largest component of the tax bill for each residence, followed by streets, library services, transit, and parks. City Manager Schainker noted that this allocation corresponds to the prioritization of City services reported by residents in the annual Resident Satisfaction Survey.

The next topic addressed by Budget Manager Masteller was the source of the FY 2023/24 General Fund Balance. She explained that the balance arises from a combination of higher-than-projected revenues and lower-than-projected actual costs. Projects are not always completed by the end of the year, and there may be vacancies that lead to Personal Services savings. Increased revenue from interest and Local Option Sales Tax collections also contributed to the balance. Council Member Gartin inquired about the negative balance for FY 2022/23 property tax revenue, and Director Goodenow clarified that this was likely due to refunds for successful appeals of property assessments.

Budget Manager Masteller explained that, in order to balance the budget to zero, the General Fund Balance is usually allocated to one-time expenses in the Adjusted FY 2023/24 Budget. City Manager Schainker presented his recommended allocations for the FY 2023/24 General Fund Balance, emphasizing that these funds were best used for one-time expenses, especially items that would otherwise need to be budgeted for in the future. According to City Manager Schainker, a top priority in unbudgeted CIP projects is a new Animal Control Shelter, so funding for a shelter design study is recommended. Another project on the horizon is relocation of Fire Station #2 due to safety issues with the current location, so funding for a relocation study is suggested. Other recommendations include capital outlays for equipment or facilities improvements such as battery-powered extrication equipment for the Fire Department, additional funding for renovating the Parks and Recreation Maintenance Facility, a development plan for the Ontario Park, additional funding towards carpet replacement in the Ames Public Library, and additional funding towards replacing the HVAC in the Ames City Auditorium. City Manager Schainker also recommended allocating funding for an interactive art piece in the Downtown Plaza, a sustainability study of City facilities, an improved budgeting/reporting system, and a newly-created scholarship fund for Parks and Recreation programs. The remainder of the General Fund Balance is recommended to be allocated to the City Council Priorities fund for sustainability projects and for future CIP projects. Council Member Betcher expressed interest in using some of the City Council sustainability funding towards grants for retrofitting houses or offering subsidies to assist with property maintenance to maintain the City's housing stock.

The only utility rate seeing an increase in FY 2024/25 is the sewer utility at 7%, explained Director Goodenow. In the next four years, the water and sewer utilities are planned to alternate with 9% rate increases. While there are not currently planned increases for the Electric utility, a rate study

is underway, and changes are expected to arise in order to meet sustainability goals of increasing renewable energy generation. While the utility rate for Resource Recovery is not increasing, the tipping fee for garbage haulers is increasing, and some of this cost increase may be passed on to customers by individual haulers. The average utility bill for a median residential customer will increase 1.49% in FY 2024/25, and median commercial customers will see a 0.47% increase.

Budget Manager Masteller presented an overview of the Fund Summaries in the Draft Budget. Next, Budget Manager Masteller clarified that, prior to the establishment of the Parks and Recreation Scholarship Fund, fees for disadvantaged participants were simply waived rather than paid back. Council Member Gartin hoped that Parks and Recreation Director Keith Abraham could provide data on how much fee revenue has been waived, and Mayor Haila agreed that such data would be useful for fundraising efforts for the scholarship fund. Budget Manager Masteller also noted that the two FEMA funds were being closed out.

Further, Budget Manager Masteller discussed the Capital Projects funds, included Special Assessments, Street Construction, Park Development, Winakor Donation, Indoor Aquatic Center, Council Priorities Capital Fund, and Bond Proceeds. The City is legally limited to spending only 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, Electric Sustainability Reserve, 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 explained that utility funds are not budgeted to balance at zero each year because the periodic rate increases are expected to generate enough revenue up front to cover several years of operations without rate increases. Budget Manager Masteller noted that the Transit Board had requested the addition of the new Transit Student Government Trust. City Manager Schainker highlighted that the Resource Recovery fund balance would be drawn down significantly over the coming years, and further planning on the future of the facility and organized waste collection was in progress.

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, Information Technology, Technology Replacement Reserve, Shared Communication System, Technology Reserve, Printing Services, Messenger Services, Risk Management, and Health Insurance. Budget Manager Masteller clarified for Mayor Haila that deductibles for property insurance and workers' compensation claims are paid from the Risk Management fund.

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

COUNCIL COMMENTS: Council Member Betcher thanked staff for the presentation and shared

that she recently attended the Iowa State University Health and Wellbeing Symposium. There was excitement for working with community partners, and Council Member Betcher welcomed possible collaboration.

ADJOURNMENT: Moved by Betcher, seconded by Junck, to adjourn the meeting at 4:53 p.m.
Vote on Motion: 6-0. Motion declared carried unanimously.

Jeremy Neefus, Principal Clerk

John A. Haila, Mayor

Renee Hall, City Clerk