



City of Polk City, Iowa City Council FY2023 Budget Memo

Date: March 14, 2023
To: Mayor Steve Karsjen and City Council
From: Chelsea Huisman, City Manager
Subject: FY2024 Budget Memo

General Overview of the FY2024 Budget:

I would like to begin by thanking the elected officials and the city staff for your dedicated work on the FY2024 budget. The annual budget is the most difficult, yet most important task we complete each year, and as our budget grows, and we continue to complete capital projects, it becomes more complicated. Without all of you and your commitment, compiling this upcoming fiscal year's budget would not be possible. I thank each one of you for your time with the budget process, and your valuable input.

I am proud to present to the City Council the proposed FY2023-2024 operating budget for the fiscal year beginning July 1, 2023, and ending June 30, 2024. The city typically begins their budget planning process in November prior to the fiscal year budget beginning. While this year was no different regarding start of the city budget, there were some changes made by the State Legislature in February, which impacted the proposed schedule for the upcoming budget cycle. Due to Senate File 181, which was a corrective bill to fix the residential rollback for FY2024, this year's budget filing period has been extended to April 30, 2023. Therefore, we did make a few adjustments to the budget calendar, and finalization of the city budget is occurring later than usual this year.

This memo outlines the main points regarding the budget. I have listed some highlights at the beginning of the memo, and then you will find all major highlights by fund. The City Council members will receive full budget workbooks, and the full city budget will be available on the city's website. A public hearing on the proposed budget is tentatively scheduled to be held at the regular City Council meeting on April 10, 2023. The City Council will consider adoption of the budget immediately after the public hearing.

The proposed budget for FY2024 has a city tax levy of \$11.00 per \$1,000 assessed. For FY2023, the aggregate city tax levy rate was also \$11.00 per \$1,000 assessed, or unchanged from last year's budget.

In 2018, the State Legislature enacted a "Truth in Taxation" bill that required city and county governments to have an additional public hearing prior to adoption of the budget. In general, the rule states that if a city

exceeds 2% or more in revenue generated from their operating taxes, a public hearing and approval is required. A City that exceeds the 2% increase in revenue must have approval by the City Council prior to setting the public hearing for the budget adoption. Polk City has had this maximum property tax hearing the last three years and I would expect it every year moving forward as we are a growing community, and we have averaged annual growth of 6-10%. The maximum property tax public hearing was held on February 27, 2023, and approved.

Polk City's taxable valuations did increase from FY23 to FY24. For the city's operating taxable valuation, we are seeing a 5% increase from current fiscal year of \$307,403,769 to \$322,643,643 and an 8% increase for debt service valuation from \$345,877,132 to \$373,764,341. Taxable valuation is solely based on what is taxable; therefore, tax increment financing (TIF) and the rollback are factored into those taxable numbers.

Most of Polk City's taxable growth is due to new construction. In 2022, the City issued 89 single family home permits, 22 townhome/duplex permits and 3 commercial building permits. All new construction from the calendar year 2022, is incorporated into the proposed budget, meaning we collect the new valuation growth.

Another factor for the increase in growth is due to the slight increase of the residential rollback for FY2024. In the State of Iowa, residential property owners do not pay taxes on their full 100% valuation. Instead, they pay taxes on a lesser number, known as the residential rollback, which is a limitation on annual growth of property values. Property value growth is limited to 3% between any given year through the residential rollback tool. The rollback history generally trends around 54-56%, meaning that a residential property owner pays taxes on 54-56% of their valuation, instead of 100%. The residential rollback for FY2024 is 54.6801, a slight increase from the previous year's 54.1302.

The proposed FY2024 budget has total revenue (excluding transfers) of \$23,056,856 and total expenditures (excluding transfers) of \$27,874,454. The city has \$17,046,600 in capital projects and capital equipment purchases planned for FY23-24; therefore, the city's total operating budget is \$10,827,854.

Each fund in the city budget has a positive fund balance, except for the city's capital fund. The City anticipates constructing several capital projects next year, some of which the city already has the funds on hand to construct. It may appear that the city is spending more than we are bringing in for the capital fund, however, the revenue and expenses for the proposed capital projects may just occur in different fiscal years, creating what appears to be a deficit fund balance. The City does balance the capital fund at the end of each fiscal year and will plan to do that prior to June 30, 2024.

General Fund Revenue Highlights:

The City's largest revenue source is property taxes. Of all general fund revenue, property taxes accounts for nearly 68% of all general fund revenue. For FY2024, all general fund revenue equals \$4,610,109. Other sources of revenue to support the General Fund consist of a portion of local option sales tax, or LOST, hotel/motel tax, ambulance billing, permit fees, franchise fees, donations, rentals, interest, lease agreement revenue, grants, and other miscellaneous revenue.

For FY2024, the City's taxable valuations increased approximately 5% for general operating and 8% for debt service. The City's proposed levy for FY23-24 is \$11.00 per \$1,000 assessed. Here is the breakdown of the City's overall tax levy of \$11.00:

- The most commonly used general levy is known as the **8.10 levy**. In Iowa, a city is permitted to impose a property tax rate for the general fund operations not to exceed \$8.10 per \$1,000 of assessed value. City governments can levy for additional specific purposes, but the general 8.10 levy is the most unrestricted levy available for general fund expenses. For FY2024, Polk City's General Fund \$8.10 per \$1,000 levy will generate **\$2,613,414**.
- Polk City does require additional revenue beyond what is generated with the 8.10 levy. One of the city's largest expenses is the cost of employee benefits, such as health insurance. For FY2024, the City of Polk City will also levy for **Other Employee Benefits**. The proposed levy amount for other employee benefits is **\$.61133 per \$1,000** assessed. This is an increase from the current years levy rate; however, we will not be levying for FICA/IPERS for next year, and instead will just levy for other employee benefits due to the rising costs of health insurance. This levy will generate an additional \$197,243 to pay for a portion of the city employee benefit costs.
- The FY23-24 budget also has a proposed **Emergency Levy**. We did not utilize this levy in the current years budget. The proposed levy for Emergency purposes is **\$.27 per \$1,000** assessed. This levy will generate an additional \$87,114 to be used for emergency expenses related to Public Safety.
- The final levy we utilize is the **Debt Service levy**. This levy is specifically to pay for general obligation outstanding debts. The City has 4 outstanding debt obligations that we utilize the debt service levy to pay, and those include: 2018 GO (DMWW Water Improvements & purchased capacity), 2020 GO (Asphalt overlay street project), 2021 GO (General Corporate Purpose and Refunding of Sewer Improvements), and 2022 GO(City facility and trail improvements). The City is also planning to issue new general obligation debt for 2023, at an estimated value of \$3,600,000. We will be levying for that first partial principal and interest payment, which the City Council has already approved and authorized the pre-authorization levy for.

The proposed levy for debt service is **\$2.01867 per \$1,000** assessed. Total revenue generated by the Debt Service Levy in the proposed budget is \$754,508. The city uses some water and sewer cash to buy down the City's debt service levy rate. Therefore, you may notice this does not cover the City's

entire debt payments. I have added some additional long term debt spreadsheets this year in the budget books for reference.

Other revenue sources that contribute to the general fund include other various fees. The sources listed below are of most significance.

- Polk City is a growing community, and therefore we have experienced high building permit and development fee revenue charged to developers. For FY24, we are estimating \$630,500 in building and housing development revenue. This revenue typically offsets our expenses for engineering and building inspection fees.
- For FY2024, we have an estimated \$50,000 being generated in franchise fee/tax. This tax is generated by the utility companies using the city's ROW and paying a fee to do so. The City Council has approved proceedings for a 1% tax to be collected on electric and gas utilities. In the State of Iowa, cities can approve up to 5% for electric, gas, cable, and telephone. The City Council could consider increasing the franchise fee up to 5%, with each percentage generating \$50,000.
- We have estimated \$25,000 for Hotel/Motel tax. Hotel/Motel has declined for our community throughout the past years, as Polk City only has one hotel property. The City of Polk City does have agreements with BRAVO & GDSM Partnership, that they each collect 2 cents of a 7-cent local tax. The city then keeps and utilizes the remaining 3 cents.
- Interest rates have soared over the past 6 months, and the city is taking advantage of the higher interest rates. The city recently converted some of our money market accounts to Certificates of Deposits (CDs) to increase interest on the city's accounts. With this move, we are estimating \$230,000 in interest for FY2024.
- The city has agreements with 4 cell phone companies to lease space on our water tower for equipment. This is a very common practice in local government, as water towers are typically the highest facility, and make good locations for cell phone antennas/equipment. We are estimating \$89,000 in revenue for next year's proposed budget.
- The city is estimating \$44,000 in revenue from the State of Iowa for Commercial/Industrial backfill. In 2013, the State Legislature passed a property tax reform bill, which initiated a rollback for commercial, industrial, and multi-residential property, similar to the residential rollback. The bill states that commercial and industrial will be taxed at 90% of their taxable value, instead of 100%. Since the implementation, the State has backfilled the lost 10% in revenues to the local governments. In 2021, the Legislature approved a bill to phase out the rollback to local governments. Based on a City's growth in valuations, local governments can expect the backfill to be gone over a period of

years. Polk City is on the 4-year plan, beginning with the proposed budget year beginning July 1, 2022. The city is estimating that we will receive \$14,000 in backfill money from this State change.

In 2022, the State Legislature passed a similar tax reform bill, which initiated an additional rollback for commercial and industrial property on the first \$150,000 of taxable value. The first \$150,000 of taxable value are now taxed at the residential rate, instead of the commercial/industrial rate. We are estimating a loss of \$30,000 with this new bill and are expecting to receive that amount from the State backfilled for FY2024. The State has not said how long they will backfill this revenue loss.

General Fund Expenses Highlights:

The City's General Fund contains the expenses of Police, Fire, Building/Housing, Library, Parks & Recreation, and City Hall & Administration. These department expenses within the General Fund must be covered by general fund revenue, such as property taxes, and the other revenue sources I have outlined in this memo. For FY2024, all general fund expenses equal \$4,527,650, with a total general fund surplus of \$82,459. Nearly all expenses in the city's general fund are general operating expenses, meaning that the City does not have large capital expenses paid for out of general fund revenue. The largest expense in the City's general fund, and overall budget is employee wages and benefits.

The proposed budget includes 2 new full-time positions: Police Sergeant and FF/Paramedic. These are 2 public safety positions the City Council has prioritized in the city's staffing plan, FF/Paramedic (FY2024) and Police Sergeant (FY2025). Once the city budget is approved, the City Council will need to update the city's organizational chart and amend the Police Sergeant position in the city's staffing plan, as we are adding that position a year early.

Road Use Tax Highlights:

Cities in Iowa receive Road Use Tax (RUT), which is based on per capita. For FY2024, I am estimating the city will receive revenue (\$720,590) and expenses (\$710,450) for the RUT fund. Our RUT estimation is based on a per capita rate of \$130.00. The city's official 2020 census population is 5,543, and this revenue source is a significant reason why growing cities will conduct special census.

All expenses in the RUT fund must be used on streets. The largest expense in the city's RUT fund is employee wages and benefits for the Public Works department. Other expenses include vehicle operations and repairs, snow removal expenses, equipment, and city right-of-way expenses. The city's RUT funds do not cover the full city street costs, and we have to supplement some of the revenue for streets with general

fund revenues. In Iowa, you cannot transfer money into the RUT, therefore the remaining expenses for streets (\$117,200) is paid directly out of the general fund.

Local Option Sales Tax Highlights:

The city does collect a 1% local option sales tax, which was approved by the voters of Polk City back in 1985. I am estimating LOST revenue for FY24 in the amount of \$950,000. Of that \$950,000, \$200,000 will be transferred to the City's general fund for general operations, and the remaining \$750,000 will be spent on capital projects in lieu of borrowing additional money.

Tax Increment Financing Highlights:

For FY2024, Polk City estimates the tax increment financing (TIF) fund revenue (\$887,632) and expenses (\$727,241). The revenue we collect from TIF is solely to pay outstanding economic development agreements we have throughout the community. Of that \$887,632 revenue, \$617,241 will be paid for economic development agreements, and \$50,000 will be transferred to the general fund to contribute to the city's administrative support program for urban renewal related activities. The remaining revenue will be transferred to the city's low to moderate housing income fund (LMI), as required by State law.

Capital Projects & Capital Equipment Highlights:

The proposed projects and capital equipment budget for FY2024 will consist of several large-scale projects, with a total budget amount of \$17,046,600. All the expenses in the capital fund, are one-time projects and purchases, which will be paid for through loans, local option sales tax, grant funding, and cash reserves. The city is expecting to complete the following projects with the following estimated expenses:

1. City Hall/Community Room Project, FY2024 expense \$5,950,500. The City Hall/Community Room project estimated total cost is \$6.5 million. This project is to construct a new 12,000 square foot facility south of the current City Hall. The facility will be a 2-story building, with a community room on the main level, and office spaces for city staff located on the 2nd level. Construction for the project will begin in April 2024, and the city will pay some of the construction costs in FY2023, however, most expenses will be paid in FY2024. It is difficult to determine expenses in FY2024, therefore, I have incorporated the expense of \$5.95 million, assuming full construction, minus architect/engineering fees in FY2024.
2. Water Tower project, FY2024 expense \$8,184,000. The Water Tower project will be constructed over fiscal years. Again, it is difficult to know when expenses will be paid out, therefore, I have prepared

the budget to assume most construction costs will be paid in FY2024, although the project will also continue into FY2025. With the demanding needs for water storage in Polk City, the city plans to construct a 1.5 million gallon storage tank on the north side of town.

3. Capital Equipment FY2024 expense \$369,100. The city plans to purchase 2 new police vehicles, lease payments on existing police vehicles, replace 2 public works trucks, and purchase a new concrete trailer for public works.
4. Northside Drive intersection realignment and trail project, FY2024 expense \$2,018,000. This project will reconstruct the intersection of North 3rd Street and Northside Drive and construct a multi-use trail from Kiwanis Park to E. Vista Lake Drive. The city has received grant funding for this project in the amount of \$893,000.
5. Trail projects, FY2024 expense \$275,000. This project will fill in 2 trail gaps along Bridge Road. Construction of these trail gaps will provide for full trail connectivity along Bridge Road.
6. Street Repairs project, FY2024 expense \$225,000. This is an annual project completed, where the City removes and replaces concrete street panels throughout the community.
7. Whitetail Parkway Study, FY2024 expense \$25,000. This project will provide a study for the future alignment of Whitetail Parkway. As the community develops to the north, the alignment of this major corridor needs to be planned for future developments.

Water Fund Highlights:

The city is estimating revenue (\$1,770,990) and expenses (\$1,773,695) for FY2024 to fund the water utility. This fund covers all the city's expenses for the water utility. Some of the largest expenses for the water utility include staff wages for the public works and administration departments, our cost to purchase water, produce water and maintain and repair water main breaks within the system. The city will also use a portion of water revenue to buy down our debt service levy for the 2018 General Obligation loan.

Sanitary Sewer Fund Highlights:

The city is estimating revenue (\$1,888,300) and expenses (\$1,857,493) for FY2024 to fund the sanitary sewer utility. This fund covers all the city's expenses for sewer and funds portions of staff wages for the public works and administration staff, our fees to send sewage to the WRA treatment facility, our annual payment to Polk County for the Rock Creek trunk sewer, and repairs and maintenance to the system. We will also use a portion of sanitary sewer revenue to buy down our debt service levy for the 2021 General Obligation Refunding Loan.

Solid Waste/Recycling Fund Highlights:

For FY2024 we are estimating revenue and expenses in the solid waste fund to be \$416,000. All expenses for solid waste/recycling are to provide the service directly to the residents. Although the city provides a contract for solid waste and recycling to Polk City residents, the city acts as only a pass-through for the collection of revenue, meaning the city does not collect any revenue off of this utility. All expenses paid out of this fund are paid directly to the Metro Waste Authority (MWA), who administers the contracts for solid waste and recycling services.

Stormwater Fund Highlights:

The city does collect a stormwater fee from residents to help offset some of the stormwater utility expenses. This is a relatively new utility for Polk City. For the FY2024 budget, I am estimating revenue (\$295,000) and expenses (\$230,000) for the storm water utility. Some of the expenses in the stormwater utility fund include street sweeping costs, stormwater detention maintenance, and miscellaneous contract work to complete a city-wide soil quality restoration (SQR) project. As some of you may recall, in 2021, the city was awarded a grant from the State of Iowa to complete a city-wide SQR project. With the grant funding, and private property owner contributions, the city selected a contractor to complete SQR on 63 residential properties. For calendar year 2023, we have been awarded \$95,000 to complete this project again, and our goal is to complete more SQR projects city-wide.