



City of Polk City, Iowa

City Council FY2025 Budget Memo

Date: February 7, 2024
To: Mayor Steve Karsjen and City Council
From: Chelsea Huisman, City Manager
Subject: FY2025 Budget Memo

General Overview of the FY2025 Budget:

I would like to begin by thanking the elected officials and the city staff for your dedicated work on the FY2025 budget. One of the most important tasks we work on annually is the upcoming fiscal year budget. As our budget continues to grow, and we add capital projects each year, the budget process becomes more complex. Without your engaged commitment to the City of Polk City, this process would not run as smoothly. Again, thank you to all involved and providing valuable input.

I am proud to present to the City Council the proposed FY2024-2025 operating budget for the fiscal year beginning July 1, 2024, and ending June 30, 2025. Each year, the city begins the budgeting process in November prior to the fiscal year. This year was no different, but with some new state requirements, our deadlines have changed for the budget. House File 718 (HF718) extended the deadline to submit the upcoming fiscal year budget from March 31st to April 30th annually. HF718 also included various other provisions which will impact FY2025 budget and future budgets. I will provide some of those new provisions throughout this document.

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. There will be two public hearings regarding the proposed budget in the coming months. The first public hearing will be on the City's proposed tax levy, tentatively scheduled for March 25, 2024. The second public hearing on the actual proposed budget is tentatively scheduled at the regular City Council meeting on April 22, 2024. The City Council will consider adoption of the budget immediately after the public hearing.

The proposed budget for FY2025 has a city tax levy of \$11.00 per \$1,000 assessed. For FY2024, the aggregate city tax levy rate was also \$11.00 per \$1,000 assessed, or unchanged from last year's budget.

In 2023, the State Legislature passed legislation known as HF718. This legislation will have multiple impacts on Polk City's budget and needs to be understood as we are preparing this budget. HF718 created a new Combined General Fund Levy (CGFL), which replaces the regular general fund levy from previous budget years. The new CGFL levy has a mechanism where the levy automatically is reduced for cities that experience certain levels of taxable property valuation growth. Several levies previously available to local governments across the State, including voter approved levies, have also been eliminated.

The new CGFL mechanism for automatic reduction in the levy rate may result in reduced revenues for most cities. The mechanism automatically reduces the city's CGFL if the annual non-tax increment financing (TIF) taxable property valuation grows higher than 2.99%. For cities that have growth between 3%-5.99%, the CGFL is reduced by 2%. For cities with taxable growth higher than 6%, the CGFL is reduced by 3%. FY2024 has been set as the base year.

Polk City's growth in the CGFL increased by 8.36%, which automatically reduced the CGFL from \$8.37 per \$1,000 assessed to \$8.12622. At the City Council work session in February, I mentioned to the Council our GCFL reduced by approximately 2%, however, we are in the 3% category for FY2025. The legislation will require all cities to use the GCFL FY2025-2028. For FY2029 the legislation places a firm maximum on the levy at \$8.10 per \$1,000, regardless of taxable valuation growth or decline.

HF718 also expanded the Homestead Tax Credit by establishing a new Homestead exemption for property owners age 65+ and by expansion of the Military Service Exemption. Neither of these exemptions are state funded, and the impact is lower taxable value on these properties. I am estimating this impact alone reduces the city's revenue by \$20,000 for FY2025. The impact will increase in future budget years.

Other parts of the legislation put restrictions on when a city can put forward a referendum to voters for certain types of bonds. Those referendums now can only be held at November elections. The new law also included increases in the limitations to enter into loan agreements payable from the general fund and increases the limitations for general corporate purpose reverse referendum thresholds.

Lastly, HF718 created a new budget adoption and filing process. In previous years, the city has been required to hold a maximum property tax public hearing prior to adoption of the budget. That public hearing is no longer required. Instead, cities are now required to hold a proposed tax rate public hearing, and prior to the public hearing send the proposed tax rate to the County Auditor. The County Auditor is now required to send a direct mailing to all taxpayers with the collective information regarding cities and counties proposed tax rates prior to the proposed tax rate public hearing.

The two public hearings for the city's proposed budget will be held as follows:

- March 25th 5pm Property Tax Levy Hearing
- April 22nd 6pm Budget Adoption Hearing

Polk City's taxable valuations did increase from FY24 to FY25. For the city's operating taxable valuation, we are seeing an 8% increase from the current fiscal year of \$322,643,643 to \$349,602,532 and an 11% increase for debt service valuation from \$373,764,341 to \$415,073,160. Taxable valuation is solely based on what is taxable; therefore, tax increment financing (TIF) and the rollback are factored into those taxable numbers.

Polk City's 100% valuations significantly increased from FY24 to FY25. Although this does not impact our budget, since we work off what is taxable, the increase in valuations increases the city's borrowing authority. In FY24, we had property valuations of \$668,460,544. For FY25, our property valuations were \$868,594,618, an increase of 30%. In Iowa, cities have a statutory general obligation debt limit of 5% of 100% values. In FY24, our constitutional debt limit was \$33 million. In FY25, our constitution debt limit was increased to \$43 million.

Of important note for the proposed budget is the significant decrease in the state-wide residential rollback. In FY2024, the residential rollback was 56.4919%. In FY2025, the residential rollback is 46.3428%. To understand property tax in Iowa, it's important to understand the residential rollback and its impact on local governments. The residential rollback was implemented in 1978. The purpose of the rollback is to limit growth of property values from one year to the next, known as an assessment limitation order. Typically, where we see the residential rollback significantly change is the year after state-wide assessments. To limit the growth, the rollback decreases. Prior to 2012, that assessment limitation order was 4%. Since 2013, the assessment limitation order is 3%. This means property value growth is limited to 3% in any given year from the previous year.

Iowa's rollback is different because in addition to the 3% limitation on residential, the rollback includes a formula that ties residential property to agricultural property. The connection between the two is that one class cannot exceed that of the other, meaning residential and agricultural property values may only increase at the lower rate of the two.

Most of Polk City's taxable growth is due to new construction. In 2023, we did have a down year in single family home permits and other residential permits. We did issue eight commercial permits, which was a high number for Polk City. Other growth can be attributed to property valuation in tax increment financing (TIF) districts, finally hitting the tax rolls, the largest majority of this being the Tournament Club of Iowa development. We have been seeing this development valuation being released in the past several years, and that development is now 100% incorporated into the non-TIF taxable valuations.

The proposed FY2025 budget has total revenue (excluding transfers) of \$20,620,229 and total expenditures (excluding transfers) of \$24,497,854. The city has \$13,076,026 in capital projects and capital equipment purchases planned for FY24-25; therefore, the city's total operating budget is \$11,421,828.

Each fund in the city budget has a positive fund balance, except for the city's capital fund, and the sanitary sewer 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.

The sanitary sewer fund does have a negative balance for next year. The City Council will need to review increasing sanitary sewer fees, and they may offset the negative balance for the fund. If the Council does not increase sanitary sewer rates, we will need to use sewer fund balance to cover the deficit.

General Fund Revenue Highlights:

The City's largest revenue source is property taxes. Of all general fund revenue, property taxes account for nearly 87% of all general fund revenue. For FY2025, all general fund revenue equals \$4,432,067. Other sources of revenue to support the General Fund consist of a portion of hotel/motel tax, ambulance billing, permit fees, franchise fees, donations, rentals, interest, lease agreement revenue, grants, and other miscellaneous revenue. Because our expenses are higher than our general fund revenue, we transfer money into the General Fund from other funds, such as Local Option Sales Tax (LOST), and TIF.

For FY2025, the City's taxable valuations increased approximately 8% for general operating and 11% for debt service. The City's proposed levy for FY2025 is \$11.00 per \$1,000 assessed. Here is the breakdown of the City's overall tax levy rate of \$11.00:

- The 8.10 levy has been replaced by the new **Combined General Fund levy**. The CGFL levy for Polk City has a maximum levy rate of \$8.12622 per \$1,000 assessed. City governments can levy for additional purposes, but the new CGFL is the main levy used in local government. For FY2025, Polk City's CGFL levy will generate **\$2,840,947**.
- Polk City does require additional revenue beyond what is generated with the CGFL levy. One of the city's largest expenses is the cost of employee benefits. For FY2025, the City of Polk City will also levy for **Other Employee Benefits**. The proposed levy amount for other employee benefits is **\$.95722 per \$1,000** assessed. This is an increase from the current year's levy rate. This levy will generate an additional **\$334,648** to pay for a portion of the city employee benefit costs.
- The final levy we utilize is the **Debt Service levy**. This levy is used specifically to pay for general obligation outstanding debts. The City has five outstanding debt obligations that we utilize the debt service levy to pay, and those include: 2018 General Obligation (DMWW Water Improvements &

purchased capacity), 2020 General Obligation (Asphalt overlay street project), 2021 General Obligation (Roundabout project and refunding of Sewer Improvements), 2022 General Obligation (City facilities and trail improvements), and 2023 General Obligation (City Facilities, Street improvements, and trail improvements). The City is not planning to issue any new General Obligation debt in 2024, unless the city holds a special referendum in November. Even then, it is very possible we would not issue debt until 2025.

The proposed levy for debt service is **\$1.91656 per \$1,000** assessed. Total revenue generated by the Debt Service Levy in the proposed budget is **\$795,513**. We use some water, sewer and TIF cash to buy down the city's debt service levy rate. Therefore, you may notice this levy rate does not cover the city's entire debt payments.

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

- For the past several years, we have experienced high building permit and development fee revenue. 2023 was our slowest year in single family home building, with less than 25 single family home permits issued. Because of this, we are estimating \$200,000 in less revenue from the current budget year. We also expect the current budget revenue for building permits to be significantly lower than estimated. Total building permit revenue estimate: \$200,000; total development revenue estimate: \$200,000
- For FY2025, 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 an additional \$50,000 in revenue.
- 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 & Greater DSM Partnership, that they each collect 2 cents of a 7-cent local tax. The city then keeps and utilizes the remaining 3 cents and spends it on Parks & Recreation and the Library as approved by the voters.
- Interest rates have been high for over a year now, and the city has taken advantage of this. The city converted some of our money market accounts to Certificates of Deposits (CDs) last year to increase interest on the city's accounts. Those CDs will expire towards the end of this current fiscal year, and we plan to renew those CDs for a term to be determined. We are estimating \$250,000 in interest for FY2025. For FY2024, we budgeted this same amount, however, we are on track to collect

\$480,000 in interest this current year. The estimate for next year would be a conservative estimate if interest rates decrease.

- The city has agreements with four cell phone companies to lease space on our water tower for equipment. This is a common practice in local government, as water towers are typically the tallest 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 properties 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 began to phase out the backfill 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 fast-track plan. The city is estimating that we will receive \$10,000 in backfill money from this State change.

In 2022, the State passed a bill that made tax credits for businesses automatic for those that qualified, instead of the requirement to apply for them. This applies to all 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 \$34,000 with this new bill. The legislature has appropriated to backfill this loss to cities; however, the Iowa League of Cities is reporting that the State will not have enough funding available to cover this backfill for FY2025, and cities can expect to receive less.

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 FY2025, all general fund expenses equal \$4,929,340. With transfers into the general fund from LOST and TIF, the general fund will have a surplus of \$93,477.

The largest expense for the city is salary and benefits for all our personnel. The city currently employs 30 full-time employees, and approximately 50 part-time employees. The proposed budget includes adding one new full-time position: Finance Director. This position is not identified in the city's staffing plan; however, this has been a priority position for the Council. The staffing plan included two positions in FY2025, which

are not included in the budget: Police Support Clerk (change from PT to FT) and Building Inspector. The City Council will need to make an amendment to the staffing plan once the budget has been finalized.

Road Use Tax Highlights:

Cities in Iowa receive Road Use Tax (RUT), which is based on per capita. For FY2025, I am estimating the city will receive revenue (\$737,200) and expenses (\$734,705) for the RUT fund. Our RUT estimation is based on a per capita rate of \$133.00. The city's official 2020 census population is 5,543, and this revenue source is a significant reason why we are having a special census in September 2024. Our current population estimate is 6,800, which could generate an additional \$167,000 annually in RUT funds.

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 (\$247,650) is paid directly out of the general fund.

Local Option Sales Tax Highlights:

The city does collect a 1% LOST, which was approved by the voters of Polk City back in 1985. I am estimating LOST revenue for FY25 in the amount of \$1,050,000. Of that revenue estimate, \$415,750 will be transferred to the city's general fund for general operations, \$433,000 will be spent on capital equipment (\$85,000 new police vehicle, and \$348,000 new ambulance), and the remaining \$181,250 will be spent on the Twelve Oaks Park Phase II project.

Tax Increment Financing Highlights:

For FY2025, I estimate the TIF fund revenue (\$1,372,565) and expenses (\$1,178,593). The revenue we collect from TIF is to pay outstanding economic development agreements we have throughout the community. Of that \$1,372,565 revenue, \$597,075 will be paid for economic development agreements, \$100,000 will be transferred to the general fund for the administrative support program, \$75,000 will be transferred to pay for the City's contribution to GoPolkCity, \$200,000 will pay for the construction of the E. Southside trail project, \$163,428 will be transferred to the city's LMI fund, \$50,000 will be available for the City's newly created Downtown Grant program, and \$43,090 will be transferred to the city's debt service fund to buy down the cost of our 2023 general obligation loan.

Capital Projects & Capital Equipment Highlights:

The proposed projects and capital equipment budget for FY2025 will consist of several large-scale projects, with a total budget amount of \$12,876,026. 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. Water Tower project, FY2025 expense \$8,184,000. The Water Tower project will be constructed over the fiscal years 2024 and 2025. 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 for in both fiscal years, therefore I have budgeted the full project in both years. 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 located in the future Regional Park.
2. Northside Drive intersection realignment and trail project, FY2025 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 \$1,164,650.
3. Trail projects, FY2025 expense \$1,522,776. These projects will consist of Phase 3 of the HTT to NST trail connection (\$320,000), Phase 4 of the HTT to NST connection (\$748,776), Phase 7 of the HTT to NST trail connection (\$190,000), E. Southside Drive trail connection (\$200,000) and the Woodhaven connection (\$64,000)
4. Street Repairs project, FY2025 expense \$200,000. This is an annual project completed, where the city removes and replaces concrete street panels throughout the community.
5. Sump Pump collector project, FY2025 expense \$344,000. This project consists of installing pipe at the edge of the curb for streets Roosevelt, Sunset, Lyndale and Oaklyn Drive. We have identified drainage issues in this vicinity of Polk City, and this project would provide for a main storm sewer line for residents to connect to the city's storm sewer system.
6. Capital Equipment FY2025 expense \$626,000. The city plans to purchase one new police vehicle (\$85,000) an ambulance (\$348,000), a new generator for the Fire Station/Police Station (\$60,000), new public works truck (\$60,000), snow pusher (\$15,000), and cab mower/snowplow (\$58,000).

Water Fund Highlights:

The city is estimating revenue (\$1,843,200) and expenses (\$1,843,085) for FY2025 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 (\$196,000).

Polk City recently opted into the newly established Central Iowa Water Works (CIWW). In FY2025, CIWW will begin their operations, which will create a new regional water producing entity. Polk City will have some start-up costs to evaluate for buy in to CIWW, however, the Council has not determined how we will fund those start-up costs. The city may use some water fund balance or borrow money. Depending on that future decision, we may need to amend our budget for that function.

Sanitary Sewer Fund Highlights:

The city is estimating revenue (\$1,910,500) and expenses (\$1,941,703) for FY2025 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 wastewater reclamation authority (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 (\$42,000).

For FY2025, I am showing a negative fund balance in the sanitary sewer fund. Our FY2025 WRA budget is based on calendar year 2023 flows, and Polk City's flows have increased 16%. The city will use fund balance to cover the deficit. The City Council will be reviewing sanitary sewer fees in the spring of 2024, and I would expect the Council to consider increasing sanitary sewer fees to offset the 16% increase. A portion of the increase is due to flow increase, and the remaining is due to additional debt the WRA has issued for capital projects.

Solid Waste/Recycling Fund Highlights:

For FY2025 we are estimating revenue and expenses in the solid waste fund to be \$461,500. 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 collection 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 from 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:

For the FY2025 budget, I am estimating revenue (\$150,000) and expenses (\$374,000) for the storm water utility. Some of the expenses (\$30,000) in the stormwater utility fund include street sweeping costs and

stormwater detention maintenance. The City has a fund balance in the stormwater fund, and this is how we will fund the Sump Pump collector project next year. There is the possibility that we use some LMI funds for the project. The City Council could also consider a special assessment for this project.

FY2025 Budget Summary:

Overall, I am very proud of the work we've completed on the upcoming fiscal year budget. The City Council has done a great job of prioritizing capital projects, and additional staffing and that has made the budget process easier for the city staff. For FY2025, we are expecting to keep the city's aggregate tax levy unchanged from the current budget year. We can do this because the city has a healthy fund balance, and the city uses LOST to buy down the city's tax levy and use a portion of that one cent tax for city operations. The remainder of our LOST is spent on capital projects and equipment.

The City Council is not planning to issue any new debt in FY2025, unless a bond referendum is on the November ballot for the Regional Park project. If that project is added to the November ballot, the amount and length would be determined at a later time, as those decisions have not yet been made by the Council. The Council recently hired a firm to determine the feasibility of the Regional Park project, and the final report and recommendation will be available to the City Council in May 2024.

The City Council will be evaluating water and sanitary sewer rates for FY2025 in the coming months. The Council has increased rates consistently over the past 5 years and will continue to review and evaluate rates. Rate increases are necessary to keep up with cost increases to manage the city's water and sanitary sewer systems, as well as the increases that are passed along to us from Des Moines Water Works (DMWW) to purchase water, and the Wastewater Reclamation Authority (WRA) for sanitary sewer waste treatment. Of important note, Central Iowa Water Works (CIWW) will begin operations in FY2025, and that may have some impact on the budget.

The City Council will begin a new Capital Improvement Plan in the coming months, which will help to streamline future budget years FY2026-2030. The city will also work on a new 5-year staffing plan, as evaluating the city's staffing needs remains important in a growing community. Our goal with the staffing plan is to provide adequate services to our residents, and to ensure our departments are appropriately staffed to do that.

Again, I greatly appreciate the effort of the city staff and City Council throughout the budget process. Producing and finalizing a budget takes a lot of work for all those involved. Please reach out if you have any questions regarding the proposed FY2025 budget.