March 07, 2017

The Honorable Mayor and City Council Members
City of Oskaloosa
220 South Market Street
Oskaloosa, Iowa 52577

RE: FY2018 Budget and Tax Rate

Honorable Mayor and City Council Members:

The city's administration is pleased to present the fiscal year 2018 (FY2018) budget for the city of Oskaloosa. The budget provides the financial spending plan for all city funds and activities for the fiscal year beginning July 1, 2017 and ending June 30, 2018. The adoption of the budget is the single most important action taken by the city's elected officials each year. The budget authorizes resources and establishes direction for our services for the coming fiscal year. A highlight for $35,023,964 FY2018 budget is provided for you below and is based upon four city council priorities: A.) maintain a safe community with small town feel and charm; B.) improve critical road and utility infrastructure to meet existing and future needs C.) improve the quality and availability of housing in the community and D.) improve community gateways and corridors to be more visually appealing and welcoming. The information below notes a few examples of how the FY2018 budget addresses the city council's key priority areas:

Maintain a safe community with small town feel and charm.

a. $3.34 million budgeted to fully fund public safety services at existing levels
b. $1.0 million downtown façade project continues to be funded through its completion
c. Construction of the fire station expansion and remodel project is budgeted for completion
d. Funding allocated to initiate the study and design of a recreation and early childhood education center project - a potential $10+ million investment by the city and millions more by the Oskaloosa Community School District and the Mahaska County YMCA (+/- $18 million total project)
e. $115,000 budgeted for Edmundson golf course and pro shop improvements

Improve critical road and utility infrastructure to meet existing and future needs.

a. Roads/sidewalks: More than $5.4 million budgeted for the care, maintenance and construction of our road and sidewalk networks; replacement of public works equipment
b. Wastewater: More than $3.8 million budgeted in project and equipment improvements; excludes operations
c. Stormwater: Approximatley $900,000 budgeted for stormwater improvement projects

Improve the quality and availability of housing in the community.

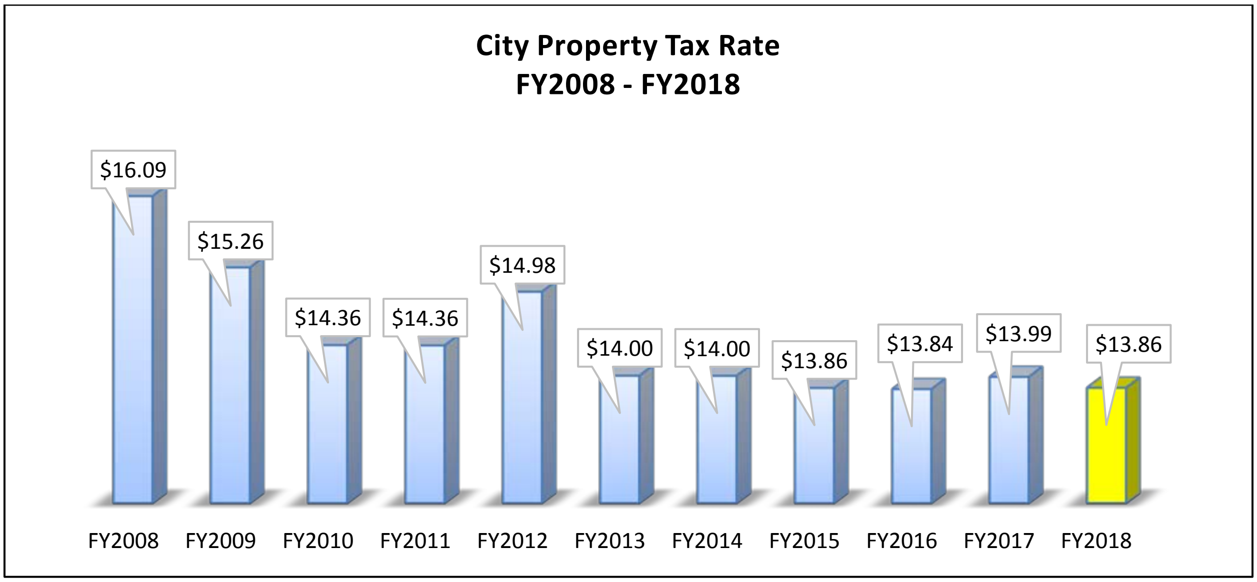
a. $50,000 budgeted to fund nuisance abatement or property acquisition/demolition
b. $25,000 to address upper story housing health and safety
c. Seed funding is budgeted to initiate a rental inspection program (if approved by council)

Improve community gateways and corridors to be more visually appealing and welcoming.

a. $335,000 budgeted for downtown building improvements
b. $38,000 budgeted for decorative streetscape style lights in downtown

Tax Rate Information

The FY2018 budget across all funds totals $35,023,964, an increase of $8,222,438 or approximately 30.68% from the FY2017 amended budget. The city's General Fund operating budget (FUND 001 on the Projected Fund Balances report), accounts for $5,931,804 of the total budget. The FY2018 budget sets the city's tax rate at $13.86029 per $1,000 of taxable valuation. This amount represents a rate decrease of $0.12678 compared to the FY2017 rate of $13.98707. Despite the $0.12678 drop in the tax rate, residential property owners will see a minimal increase in their property taxes while commercial, multi-family and industrial will see a decrease. The decrease in the rate is threefold; more experienced staff have retired and their replacements cost less in benefits; the city continues to pay down outstanding debt; and the city experienced growth in taxable valuation of approximate 3.5%. The FY2018 budget does include the issuance of debt in the General Fund and the Sanitary Sewer Utility Fund. The bond proceeds are planned to be used for road improvement projects at the Lacey Recreation Complex and for sewer system improvements mandated by the Iowa Department of Natural Resources.



An additional factor that influences property taxes paid each year by property owner is the State's Assessment Limitation Order, or "rollback" rate. This year the rollback rate is set to increase this year from 55.6259% to 56.9391%. The combination of the tax rate with the rollback rate means a residential property owner in Oskaloosa with a home assessed at a value of $100,000 can expect to pay approximately $11.00 in additional city property taxes over last year.

If the city's property tax rate is adopted at the rate of $13.86029 and it is assumed that assessed values for properties are constant, the average commercial property owner (assessed value of $260,000) can expect to see their city property taxes decrease by approximately $30.00 compared to the past year. The average industrial property owner (assessed value of $1,025,000) can expect to see their city property taxes decrease by approximately $117.00 over last year. Lastly, the newest property tax classification, multi-family, can expect to see a $164.00 decrease in taxes paid over last year. This information is detailed on the following pages.

City of Oskaloosa Property Tax Levy Residential Property Assessed Value - $100,000							
Fiscal Year	Rollback	Actual Valuation	Taxable Valuation	City Tax Rate	City Tax Amount	Yearly Change	Percentage Change
2009	44.08%	$100,000	$44,080	$15.25909	$673	-$60.58	-8.26%
2010	45.59%	$100,000	$45,590	$14.35817	$655	-$18.03	-2.68%
2011	46.91%	$100,000	$46,910	$14.35519	$673	$18.81	2.87%
2012	48.53%	$100,000	$48,530	$14.97533	$727	$53.35	7.92%
2013	50.75%	$100,000	$50,750	$14.00600	$711	-$15.95	-2.19%
2014	52.82%	$100,000	$52,820	$14.00000	$739	$28.68	4.03%
2015	54.40%	$100,000	$54,400	$13.85816	$754	$14.40	1.95%
2016	55.73%	$100,000	$55,734	$13.84482	$772	$17.74	2.35%
2017	55.63%	$100,000	$55,626	$13.98707	$778	$6.42	0.85%
2018	56.94%	$100,000	$56,939	$13.86029	$789	$11.15	1.44%

City of Oskaloosa Property Tax Levy Commercial Property Assessed Value - $260,000							
Fiscal Year	Rollback	Actual Valuation	Taxable Valuation	City Tax Rate	City Tax Amount	Yearly Change	Percentage Change
2009	99.73%	$260,000	$259,298	$15.25909	$3,957	-$227.54	-5.44%
2010	100.00%	$260,000	$260,000	$14.35817	$3,733	-$223.53	-5.65%
2011	100.00%	$260,000	$260,000	$14.35519	$3,732	-$0.77	-0.02%
2012	100.00%	$260,000	$260,000	$14.97533	$3,894	$161.24	4.32%
2013	100.00%	$260,000	$260,000	$14.00600	$3,642	-$252.03	-6.47%
2014	100.00%	$260,000	$260,000	$14.00000	$3,640	-$1.56	-0.04%
2015	95.00%	$260,000	$247,000	$13.85816	$3,423	-$217.03	-5.96%
2016	90.00%	$260,000	$234,000	$13.84482	$3,240	-$183.28	-5.35%
2017	90.00%	$260,000	$234,000	$13.98707	$3,273	$33.29	1.03%
2018	90.00%	$260,000	$234,000	$13.86029	$3,243	-$29.67	-0.91%

City of Oskaloosa Property Tax Levy Industrial Property Assessed Value - $1,025,000							
Fiscal Year	Rollback	Actual Valuation	Taxable Valuation	City Tax Rate	City Tax Amount	Yearly Change	Percentage Change
2009	100.00%	$1,025,000	$1,025,000	$15.25909	$15,641	-$854.79	-5.18%
2010	100.00%	$1,025,000	$1,025,000	$14.35817	$14,717	-$923.44	-5.90%
2011	100.00%	$1,025,000	$1,025,000	$14.35519	$14,714	-$3.05	-0.02%
2012	100.00%	$1,025,000	$1,025,000	$14.97533	$15,350	$635.64	4.32%
2013	100.00%	$1,025,000	$1,025,000	$14.00600	$14,356	-$993.56	-6.47%
2014	100.00%	$1,025,000	$1,025,000	$14.00000	$14,350	-$6.15	-0.04%
2015	95.00%	$1,025,000	$973,750	$13.85816	$13,494	-$855.62	-5.96%
2016	90.00%	$1,025,000	$922,500	$13.84482	$12,772	-$722.54	-5.35%
2017	90.00%	$1,025,000	$922,500	$13.98707	$12,903	$131.23	1.03%
2018	90.00%	$1,025,000	$922,500	$13.86029	$12,786	-$116.96	-0.91%

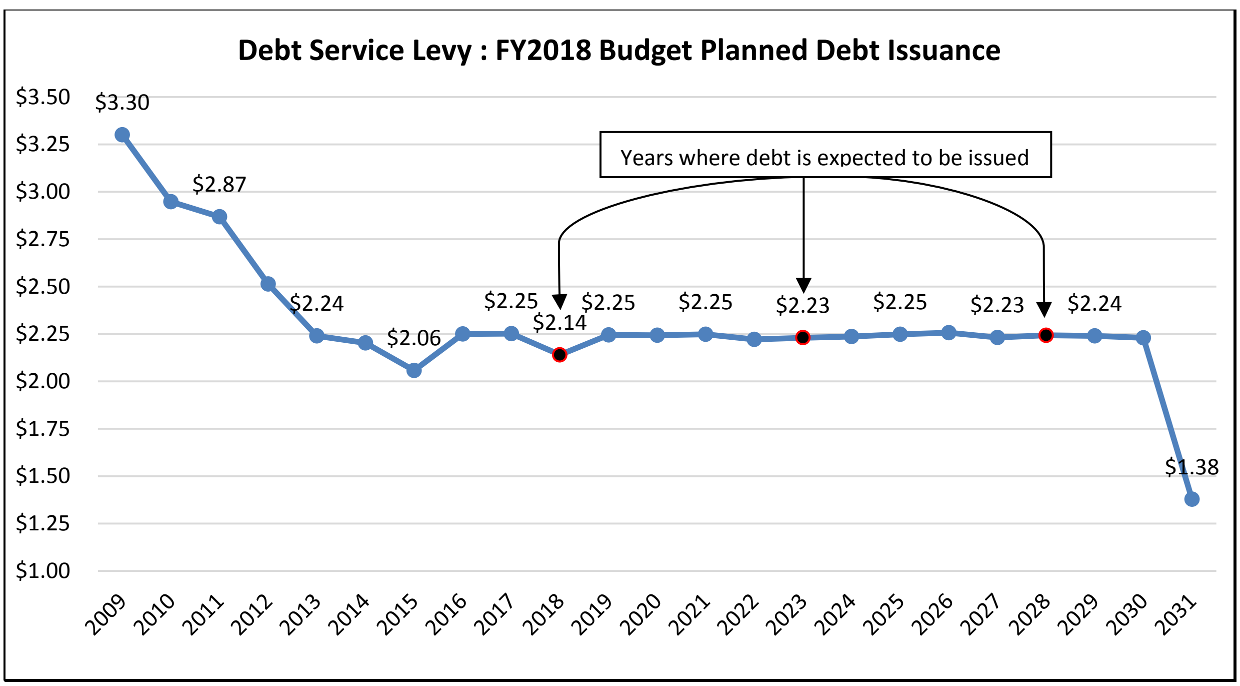
City of Oskaloosa Property Tax Levy

Multi-Family Property Assessed Valuation - $260,000							
Fiscal Year	Rollback	Actual Valuation	Taxable Valuation	City Tax Rate	City Tax Amount	Annual Change	Percentage Change
2017	86.25%	$260,000	$224,250	$13.98707	$3,137	-	-
2018	82.50%	$260,001	$214,501	$13.86029	$2,973	-$163.56	-5.21%

Special attention needs to be paid to the last table presented above for multi-family properties. This new classification was introduced with legislation passed known as SF295, or property tax reform. The bill enacted, amongst many things affecting property taxes, the creation of a new multi-family classification of properties that were once treated the same as commercial properties. Now, properties with three or more separate living quarters (apartments, retirement homes, etc.) are being assessed taxes at a reduced rate compared to previous years. The rollback applied to the taxable value decreases each year until the properties are taxed the same as residential properties. This change is projected to have a significant negative impact on property tax revenue received by the city with each passing year.

Debt Management

The city's debt service levy will decrease in FY2018 from $2.25257 to $2.14056 due primarily to the continued pay down of outstanding debt and the refinancing of two previously issued bonds. The city's amount of outstanding General Obligation Debt, which is paid back through property taxes, continues to remain low even after issuing debt to pay for the fire station renovation and expansion project. At the present time, the city is utilizing approximately 18% of the legally authorized debt capacity of $26,193,115. This amounts to approximately $4,826,000 of outstanding debt with $21,367,000 of capacity remaining. Those figures will change as the city council is proceeding with a debt management plan that was set into motion during the FY2016 budget discussions. The plan includes issuing General Obligation Bonds in FY2018 in an approximate amount of $1.7 million for road improvements. The council's plan proposes the issuance of $2.0 million in FY2023 for road improvements projects and essential equipment; and $2.0 million in FY2028 for road improvements projects and essential equipment.



Due to the way the city presently manages its debt, the debt service tax levy is anticipated to remain steady at or near $2.25 per $1,000. Staff is exploring options to reduce the length of each debt issuance from generally 10 years, to 5-7 years. This will save taxpayers interest costs and better align with the current debt management plan where new debt is scheduled to be issued on a five year cycle. Additional discussion will need to be held in the future as staff recommends issuing bonds that are paid down more quickly as that will likely cause the debt service rate to increase.

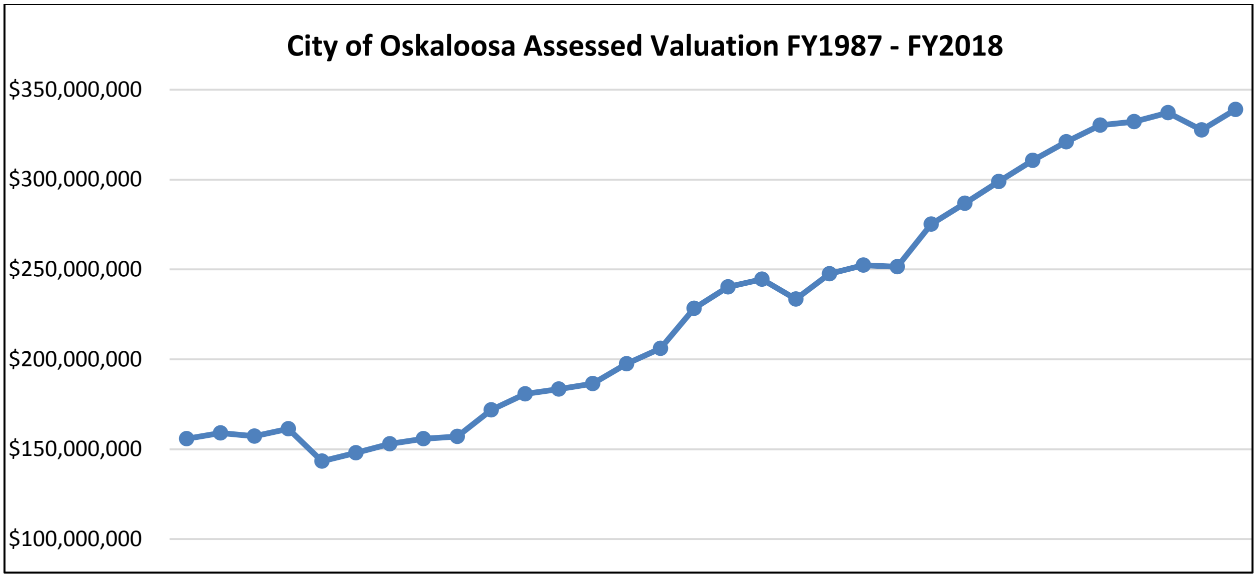
Taxable Valuation

Last year's budget message included a note about troublesome downward trends in taxable valuation for the city where, for the first time since FY2008, taxable valuation decreased a total of 2.85% or $9.6 million. The FY2018 budget reflects an overall taxable valuation increase of about 3.5% or $11.5 million. This increase is about one percent (1%) above the historical average, and more in line with what was experienced between FY2010 and FY2014.

The growth in taxable value this year is reflected in the multi-family sector of the community. FY2018 is the second fiscal year of eight that the city must absorb the impacts associated with the 2013 property tax reform legislation - SF295, specifically the creation of the new multi-residential classification for properties. As previously mentioned, the new classification results in properties with three or more separate living quarters (apartments, retirement homes, etc.) being taxed at a reduced rate compared to previous years until those properties are taxed the same as residential properties.

The impact associated with property tax reform legislation is anticipated to continue to place a strain on available resources within the city's operating budget as the taxable value of multi-family residential properties equalize with residential properties. The operating budget pays for services such as police, fire, library, street lighting, parks maintenance, pool, Forest Cemetery operations, animal shelter operations and other general financial and administrative functions of the city. In addition to the property tax reform impact, there have been discussions at the Capitol that property tax "backfill" also tied with SF295, could be in danger of being eliminated or phased out over time. The property tax backfill provided by the State is used to offset (not make whole) the impact associated with reducing the taxable value of commercial and industrial properties from one hundred percent (100%) of taxable value to ninety percent (90%). The city is expected to receive about $135,000 in backfill from the state in FY2018. If the backfill is reduced or eliminated, strategies will need to be implemented to reduce expenditures in the General Fund.

Although the following statement has appeared in previous budget transmittal letters to the city council, it needs to be made clear, no leeway remains with available funds in the city's operating budget (FUND 001), and cuts to services can be expected within the next five years unless there is historic growth in value or increase in revenues the city generates and/or collects. To this end, FY2017 was the first year that utility franchise fees were tapped to offset operational expenses rather than paying for traditional infrastructure projects. This is recommended to continue and expands in FY2018 as those funds help pay for the "economic development" activities associated with the development services department and one-time purchases to outfit our police department with replacement vehicles and technology.



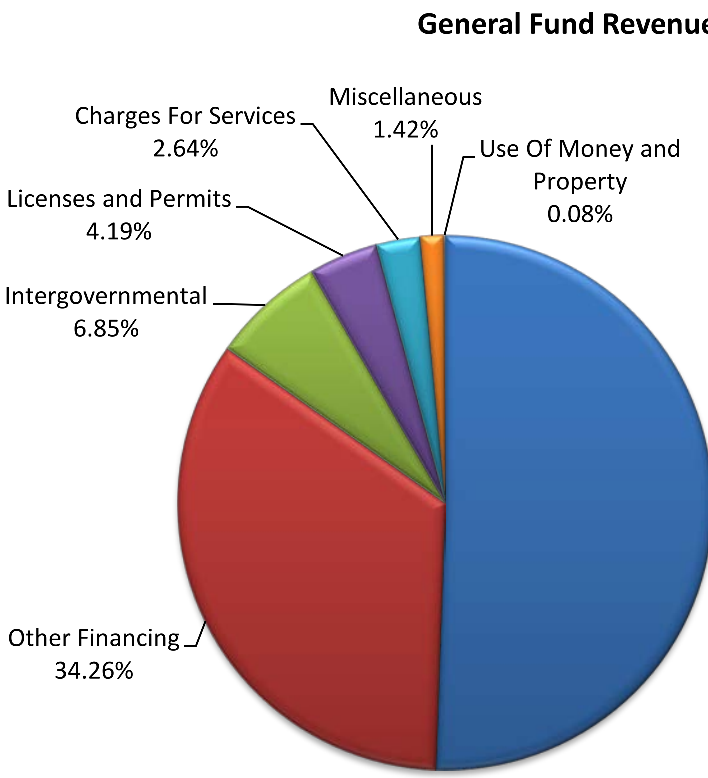
Utilization of the Urban Renewal Plan and Tax Increment Financing

The city council and community are utilizing an important tool for economic development – the city's urban renewal plan and tax increment financing (TIF). Although the city's original urban renewal area was created in 1978, the area and plan tied to it have been modified many times over. Most recently the city council amended and restated the area with a plan in 2014. Upon that update, staff immediately went to work developing projects that have appropriately leveraged the urban renewal area and associated TIF resources. The following table depicts the city's most recent and selective use of the city's urban renewal plan and TIF resources.

Tax Increment Financing Utilization			
Fiscal Year	2017	2018	2019
Total Asking	$300,419	$347,444	$834,844
Projects	Legal Services ($5,799)	Legal Services ($8,288)	Legal Services (TBD)
	O.D.D. - Swim's Bldg. ($250,000)	O.D.D. - Swim's Bldg. ($250,000)	Demolition Funds ($50,000)
	Wayfinding for Corridors ($44,620)	Façade Design ($18,000)	Façade Construction ($300,000)
		Cablevey ($4,000)	Cablevey ($4,000)
		Reserves at Ironwood ($67,156 rebate)	Reserves at Ironwood ($442,844 rebate)
			Streetscape - Light Poles ($38,000)

Budget in Brief - FY2018 General Fund Revenues

The FY2018 budget includes a total of $5,442,606 General Fund operating revenue (FUND 001). This represents an approximate 12.90% increase or $621,936 in revenue compared to the FY2017 amended budget. The primary reasons for the increase in revenue includes a transfer from franchise fees, taxes collected due to increased taxable valuation and a number of one-time transactions, such as the sale of equipment, and the transfer of bond funds. As expected, property taxes continue to be the primary source of General Fund revenue in FY2018 and as a percentage of the whole, this fluctuates very little year over year.



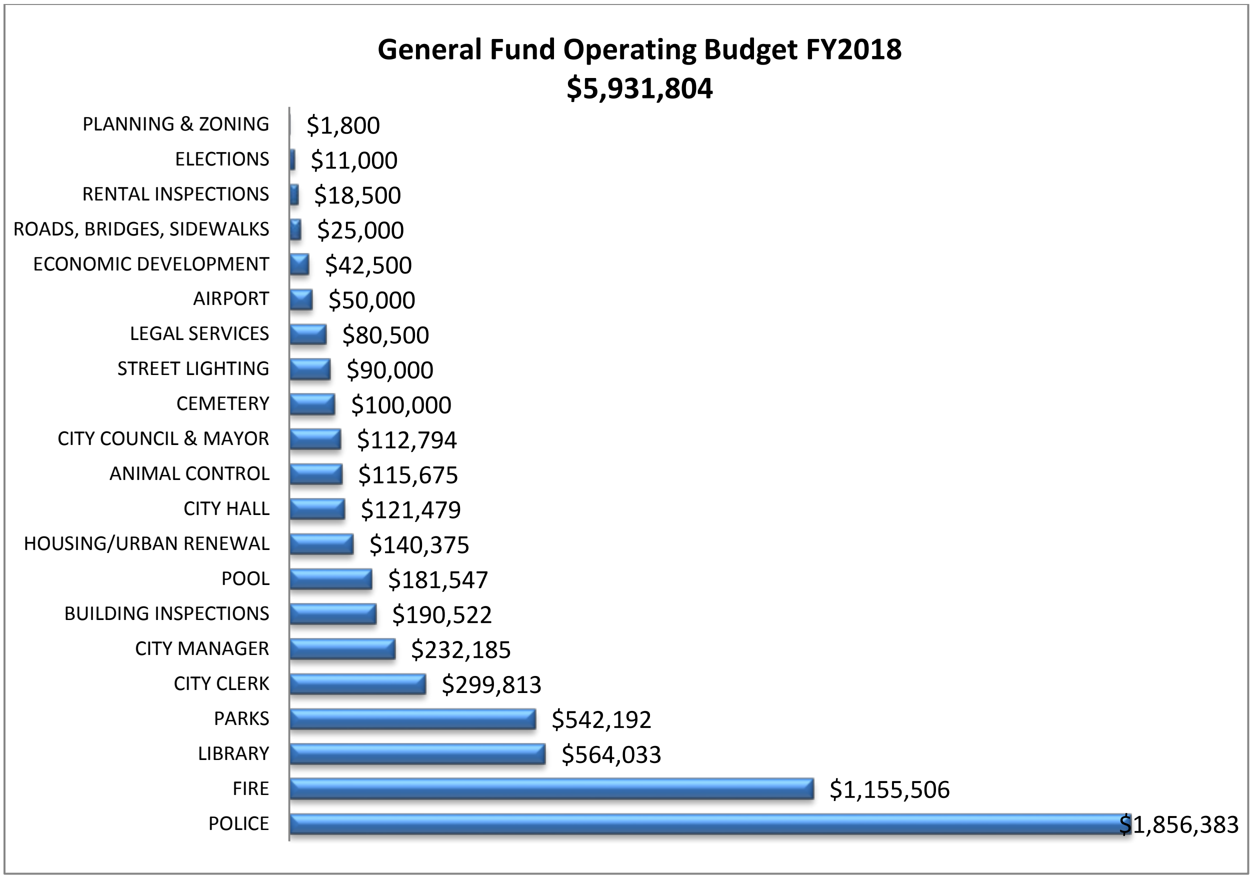
Taxes	$ 2,752,139
Other Financing	$ 1,864,586
Intergovernmental	$ 372,756
Licenses and Permits	$ 227,875
Charges For Services	$ 143,900
Miscellaneous	$ 77,050
Use of Money and Property	$ 4,300
Total	$ 5,442,606

Budget in Brief - FY2018 General Fund Expenditures

The city's FY2018 General Fund operating expenditures (FUND 001) are planned to total $5,931,804 and represents an increase of 15.92%, or $814,813 more than the FY2017 amended budget. The increase in expenditures is the result of one time capital expenditures for police, fire (aerial apparatus) and economic development (cash flow of downtown building improvements tied to TIF). In addition, the city is noting ongoing expense increases associated with building inspection services.

The FY2018 General Fund operating budget continues to be dominated by expenses related to providing a variety of public safety services to the community. Public safety expenditures, including police, fire, building inspection, code enforcement and animal control, account for more than 56.25% of all planned expenditures within the General Fund, totaling $3,336,586. The remaining 44% of the General Fund is spread across other program areas such as Culture and Recreation (Library, Pool and Park Maintenance) 23.4%; General Government (Council, Legal, Finance and Administration) 14.46%; Community Economic Development (Development Services and P&Z) 3.11%; and Public Works (street lighting) 2.78%.

Notable expenditures in the General Fund budget include: Animal Shelter contribution for operations at $115,675 ($85,675 for operations and $30,000 towards the new building project); $100,000 Forest Cemetery contribution; $40,000 to the Chamber/Main Street Oskaloosa; $10,000 to continue the Osky Rides fixed transit bus route; $400,000 for the purchase of a used aerial apparatus; $50,000 Edmundson Pool slide refurbish project; $25,000 for parks replacement vehicle.



Fund Balance – General Fund

Consistent with the City Council approved fund balance policy, the FY2018 budget includes reserves that meet and exceed 25% of operating expenditures. General Fund operating balances protect the city of Oskaloosa's financial integrity in the event of an emergency or unexpected changes in revenues/expenditures that may occur in any given year. The total General Fund operating revenues are expected to be $5,442,606 and total expenditures are expected to be $5,931,804 (FUND 001). Based upon the FY2018 budget, staff estimates the city's General Fund ending balance on June 30, 2018 to be $1,534,722; or 25.87% of annual General Fund operating expenditures. This amount is sufficient for meeting unexpected shortfalls in revenues or demands on future fund resources – such as deceased property values, damaging storms throughout the year, etc. Maintaining strong reserve levels is also important as the city plans to issue debt for projects and equipment in the future, and the potential that the State of Iowa will no longer fund its commitment of property tax backfill year to year. Rating agencies closely evaluate fund balance levels as they consider assigning a bond rating to the community.

Employee Wages and Benefits (paid by all Funds)

The FY2018 budget does not include the addition of new full time staff. The total number of full time employees decreased by one from FY2017 to FY2018 as management worked with the Library to convert a full time position to multiple part time positions upon an employee's retirement. With the conversion made, full time staffing for the city is fifty-six (56), part time staff of seven (7), and there are sixteen to twenty-five (16-25) paid on call fire reserves at any one time. Throughout the year, the city may have more than one hundred (100) seasonal staff on the books, but the largest share of those seasonal employees are due to the pool and the municipal band.

The FY2018 budget includes a continuation of existing employee compensation and benefit programs as agreed upon by the City Council and the three collective bargaining units. Beginning July 1, 2017 most union employees (the city and fire union are still in negotiations) and all non-union employees are scheduled and budgeted to receive a 2.90% wage increase. This increase is in addition to a possible merit or “step” increase within their wage range. The number of steps is dependent upon performance and employee classification. Most employee’s reach their max “step increase” after five (5) years of continuous and successful service with the city. The 2.90% wage increase represents the first year of a three year agreement with the Police and Mixed Unit collective bargaining units. The second and third year of the contracts include 2.75% and 2.60% of wage increases.

Employees will continue to pay 5.00% of their premium costs if they elect “family” health insurance, while “single” coverage continues to be fully paid for by the city. This equates to an approximate contribution of $60 per month for employees electing “family” health insurance coverage with the city. Every employee of the city elects to take advantage of the city’s insurance coverage that is offered. A 100% enrollment rate speaks highly of this benefit provided to the employees by the city.

The FY2018 budget reflects a slight decrease in the contribution rate for the Municipal Fire and Police Retirement System of Iowa (MFPRSI), or “411 retirement” provided to the city’s police officers and fire fighters. The city’s contribution rate of covered wages for FY2018 will be 25.68% as compared to 25.92% in FY2017. The decreased cost for the system will be realized by the city while the employee’s contribution stays capped at 9.40% of annual wages earned.

The budget reflects no change in the contribution rate for employees covered under the Iowa Public Employees Retirement System (IPERS). The city’s contribution rate also remains unchanged for last fiscal year. Any increased costs associated with IPERS is split 60/40 with employees. The FY2018 contribution rate for the city is 8.93% and the employee’s share is 5.95% of covered wages.

Capital Improvement Plan and Projects

There are two basic approaches to funding capital projects. These are pay-as-you-go and pay-as-you-use. Pay-as-you-go means paying for the capital project out of current revenues at the time of expenditure. Pay-as-you-use means borrowing to finance the expenditure with debt service payments being made from revenues generated throughout the useful life of the project. The city of Oskaloosa uses a mix of financing approaches to fund capital projects. Capital projects are financed through bonds, reserves, grants, developer contributions and/or other governmental sources. The FY2018 budget does include the issuance of new bonds in the amount of $1.7 million to complete road improvements that serve the Lacey Recreation Complex in addition to utilizing a number of other revenue sources (grants, Local Option Sales Tax and Franchise Fees).

Notably, the city continues to utilize a number of grant opportunities to fund projects during FY2018. The budget includes the Burlington Road reconstruction project, the NE Bridge Reconstruction project, and the South D Reconstruction project as examples where the city is only required to provide 20% of the project cost. The Brownfield Grant project is 100% federal government funded with zero local match and the Downtown Façade Improvement project is split 48% CDBG grant, 30% city and 22% property owner contribution.

The FY2018 budget is a transition year for capital projects funded by Local Option Sales Tax (LOST) revenue. The expired LOST fund is expected to have approximately $1.8 million available to fund expenses due to debt reserves being released, the School District needing less revenue for debt, and the city’s final receipts of SAVE funds as dictated by the 28E Agreement with the District and Mahaska County. Items to be funded with the remaining balance of expired LOST funds should be one-time in nature as the city will need to transition the revenue to other approved purposes after January 1, 2017.

The estimates for new or reauthorized LOST revenue collected after January 1, 2017 have not been provided by the State of Iowa at this point, due to Mahaska County's recent vote and extension of their penny tax. In any event, staff utilized FY2016 LOST receipts for projection purposes. The funds received through this source are restricted to the uses authorized by the voters of Oskaloosa: seventy-five percent (75%) for debt issued to pay for a recreation and early childhood learning center with the Oskaloosa Community School District and twenty-five percent (25%), in summary, for capital projects, maintenance of recreation facilities, and infrastructure. If bonds are not pursued for the recreation and early childhood education center project, the city can use seventy-five percent (75%) of the LOST funds for any lawful purpose. At this point, the city is still working towards the completion of recreation center project, and for budgeting purposes, shows seventy five percent (75%) of the projected funds received as "spent" on the recreation project. The balance, or approximately twenty-five percent (25%) of the new LOST funding is "unbudgeted" at this time pending further conversations and plans to be developed with/by the city council and city staff. Staff recommends leaving the funds in fund balance as grant resources are used during FY2018 and then these funds can be tapped to fund future capital expenditure needs.

As one would expect, the city's list of capital projects included in the FY2018 budget are heavily oriented towards the improvement of the community's infrastructure. This information can be reviewed in detail within the "Capital Improvements Program" and "Debt" tabs of the budget book.

Priorities in Summary: Road and Sidewalk Improvements

The city council remains committed to addressing aging infrastructure throughout Oskaloosa. The FY2018 budget includes more than $4.0 million dollars for new road construction, reconstruction, sidewalk improvements and other road maintenance needs - **excluding** expenses paid by the Road Use Tax Fund, FUND 110.

A blend of funding sources continues to be used to accomplish the planned road work for FY2018. The funding sources include the city's Local Option Sales Tax (LOST), contributions from the Oskaloosa School District's SAVE tax (also tied to the LOST 28E Agreement with the District), funding from the Road Use Tax Fund (RUTF), property taxes, and Federal Surface Transportation Program (STP) funds, which provide 80% grant funding with only a 20% local match required.

Priorities in Summary: Road and Sidewalk Improvements (paid by the Road Use Tax Fund, FUND 110)

The city of Oskaloosa will receive approximately $1,350,000 dollars in Road Use Tax Funds in FY2018, this includes an additional $200,000 from the increased gas tax. The gas tax money is planned to be spent as the city's 20% match for a grant to reconstruct South D Street. Approximately $1,440,000 dollars in Road Use Tax Funds, including fund balance from previous years, is planned to be utilized for street department expenditures including day-to-day operations and the replacement of equipment that is essential to the year-round operations of the department. Approximately $45,150 of the Road Use Tax Funds is expected to cover a portion of the overall expenses for street lighting. The balance of that expense will be covered by the city's General Fund in the amount of $90,000. The major equipment to be replaced using Road Use Tax Fund revenue in FY2018 includes a replacement pick-up truck ($30,000).

The FY2018 spending plan for the Road Use Tax Fund will use all of the revenue received from the State of Iowa, plus a portion of fund balance from previous years to fulfill the requests received by the department. This spending plan is estimated to reduce the operating reserve from 27% to 24%. The reserves for this fund are kept to cover emergencies or any unforeseen expenditures that may arise throughout the fiscal year (i.e. unusual snow removal costs, road repairs and equipment maintenance). Typically the budget associated with the Road Use Tax Fund does not get fully exhausted, with 5-10% of the approved budget remaining each year, therefore the targeted fund balance level of 25% is expected to be achieved.

Road Improvement Projects and Maintenance Expenses	FY2017	FY2018
Lacey Recreation Complex Road Improvements (road construction)	-	**$1,650,500**
South 7th Street, 6th Ave to 9th Ave (asphalt rehabilitation)	-	**$250,000**
North C Street - College Ave to C Ave (asphalt rehabilitation)	-	**$150,000**
Traffic Signal Controllers	-	**$50,000**
South F Street - Chip Seal County Portion	-	**$15,000**
South D Street Design and Reconstruction - A Ave to 6th St (80/20 STP funded project)	$112,000	**$475,500**
Sheriff Avenue Design and Reconstruction	$10,341	**$550,000**
Northeast Bridge Reconstruction (80/20 grant funded project with DOT)	$135,000	**$615,000**
Burlington Road (80/20 STP funded project)	$1,747	**$50,000**
Annual Street Maintenance (not chip seal, minor repair projects)	$100,000	**$100,000**
Sidewalks - Active Transportation Plan Connectivity	$50,000	**$50,000**
Annual Sidewalk Inspections/Assessments	$10,000	**$10,000**
Sidewalks - Green Street	$20,000	**-**
Sidewalks - Safe Routes to School Improvements	$192,000	**-**
South D Street Traffic Signals	$22,000	**-**
Traffic Signal Study - Citywide	$50,000	**-**
Corridor Improvements - Wayfinding	$80,000	**-**
City Owned Parking Lot Rehab - Hy-Vee Location	$200,000	**-**
3rd Avenue East (road reconstruction costs only - excludes sewer, stormwater and water)	$7,000	**-**
1st Avenue East to 3rd Street (road rehabilitation)	$100,000	**-**
Asphalt Zipper (Purchased with Franchise Fees)	$180,000	**-**
Street Maintenance Supplies (Chip Seal, Crack Seal, Concrete, Pothole Material - paid by RUTF)	$150,000	**$150,000**
Other Road Maintenance Related Activities (Public Works Department - all functions paid by RUTF)	$1,465,610	**$1,292,901**
Total	$2,885,698	**$5,408,901**

In addition to the more than $5.4 million of road improvement investments planned for FY2018 noted above, the city is gearing up to complete more than $4.8 million in improvements to the city's sewer and stormwater utility systems at the same time (please refer to the Capital Improvement Program information for more detail).

Priorities in Summary: Sewer Improvements (paid by Sanitary Sewer Fund)
The sanitary sewer fund, or the wastewater department is an essential service provided by the city of Oskaloosa. This service is run as an enterprise/utility fund and as such, the revenues generated through rates must be spent on the utility. Until FY2016, this utility had maintained a relatively flat expenditure history with minimal increases in operations and a steady, but small number of capital projects

undertaken each year. This approach led to low rates for many years but also meant much needed improvements and maintenance were being deferred. As a result, staff now routinely responds to widespread failures and emergency repairs within the system more so than previously observed in the past. Reactive response to the care and maintenance of the system is costly and inefficient – staff is committed to changing that approach so more proactive planning and system maintenance becomes embedded in day-to-day operations and long range project planning.

The FY2018 budget reflects the second year with the Oskaloosa Municipal Water Department running the day-to-day operations of the system. This management arrangement results in Water Department employees working with the three existing city employees in the treatment plant and collection system. The transition from city management to Water Department management has come with higher costs to the utility, but the desired long-term impact is to have a more effectively managed system where employees are cross trained and working more collaboratively than in previous years.

The management agreement with the Water Department does not impact the city council's responsibility to approve rates and set the operating and capital budgets for the utility each year. The FY2017 budget for this utility stays the course previously adopted by the city council in FY2016 – more intensive investment in the infrastructure system, planning and constructing improvements associated with mandates issued to the city by the Iowa Department of Natural Resources and the Environmental Protection Agency – more than $12 million of projects over the next three years. The requirement to address system mandates results in a 20% rate increase on April 1, 2017 and a recommended 15% increase on April 1, 2018. These rates do not include further mandated work that will need to take place in the immediate future for nutrient removal upgrades at the current treatment plants. The additional mandated improvements are anticipated to cost rate payers tens of millions more than is already planned to be spent over the next 3-7 years on the system and will most certainly require further rate increases to cover the borrowing necessary to complete the improvements.

Lastly, the sanitary sewer fund derives its revenues from the ratepayers by utilizing a base rate fee and a usage fee. The base rate continues to be a reliable source of revenue, however the water system continues to have an ongoing problem with water loss in the system, which is expected to affect billable utilization of sewer. The result is less revenue for the sewer fund and the further exacerbation to increase rates until billable usage and reportable water loss levels versus water produced are more in line with industry standards.

The FY2018 budget include a financing and operating plan for the sanitary sewer system that requires an increase to the base and usage rates that impacts the average residential ratepayer by approximately $6.00 per month, or $72.00 annually. The average residential customer uses about 3.64 units of water per month, and is charged the sewer base rate per month regardless of usage.

Impact of the rate increase on average residential sewer customer effective April 1, 2017.

Average monthly residential sewer bill – previous	$29.88 per month
Average monthly residential sewer bill – new rate	$35.90 per month
Increase per month	$6.01 per month

Sanitary Sewer Rate Changes				
Increase Date	Minimum Charge Per Month	Change	Per 100 Cubic Feet Used	Change
3/1/2012	$7.33	$0.25	$3.51	$0.12
3/1/2013	$7.59	$0.26	$3.63	$0.12
3/1/2014	$7.59	$0.00	$3.63	$0.00
4/1/2015	$8.73	$1.14	$4.17	$0.54
4/1/2016	$10.91	$2.18	$5.21	$1.04
4/1/2017	**$13.10**	**$2.19**	**$6.26**	**$1.05**
4/1/2018*	$15.06	$1.96	$7.19	$0.93
4/1/2019*	$15.81	$0.75	$7.55	$0.36
4/1/2020*	$16.60	$0.79	$7.93	$0.38

* Proposed rate increases to be considered at a future date based upon funding the operational and capital plan presented by staff and approved by city council.

Conclusion

This FY2018 budget represents a great deal of time, effort deliberation by staff, management and the city council to continue providing quality services to the community despite increasing fiscal constraints. The budget continues to focus on maintaining existing core service levels and completing the goals outlined by the mayor and city council with a strong emphasis on repairing and replacing critical community infrastructure.

Respectfully submitted,

Michael Schrock Jr.

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City Manager