

January 30, 2019

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



**RE: FY2020 Budget and Tax Rate**

Honorable Mayor and City Council Members:

The city's administration is pleased to present the Fiscal Year 2020 (FY2020) recommended 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, 2019 and ending June 30, 2020. 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 of the FY2020 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, and community amenities to help attract and retain the local workforce; and D.) improve community gateways and corridors to be more visually appealing and welcoming. The information below notes a few examples of how the FY2020 budget addresses the city council's key priority areas:

**Maintain a safe community with small town feel and charm.**

- a. + \$3.2 million to fully fund public safety services at existing levels
- b. + \$569,000 to fully fund library operations
- c. + \$806,000 to fund park maintenance, pool operations, and cemetery support
- d. Funds for the Phase II Façade Improvement Project (west side of city square park)
- e. \$10,000 to continue the city's fixed route transit service

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

- a. Roads/sidewalks: + \$2.8 million for the care, maintenance and construction of our road and sidewalk networks; replacement of public works equipment
- b. Sanitary Sewer: + \$4.2 million for projects and equipment (excludes operations)
- c. Storm water: + \$250,000 for curb, gutter and intake improvement projects

**Improve the quality and availability of housing, and community amenities to help attract and retain the local workforce.**

- a. \$70,000 to continue first time homebuyer and demolition assistance programs
- b. \$65,000 to address upper story housing health and safety
- c. + \$26,000 to continue administration of the city's residential rental inspection program
- d. + \$2.0 million available to initiate the early childhood education and recreation center project

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

- a. \$30,000 to fund nuisance abatement or property acquisition/demolition
- b. + \$60,000 for corridor improvements (sidewalks, trees, ROW acquisition, street lights)



### Tax Rate Information

The FY2020 budget across all funds totals \$34,141,603, a decrease of \$1,572,741 or approximately 4.4% from the FY2019 amended budget. The city's General Fund operating budget (FUND 001 on the Projected Fund Balances report), accounts for \$5,573,824 of the total budget. This represents a decrease of \$177,909, or 3.09% from the FY2019 amended budget. The FY2020 budget sets the city's tax rate at \$13.97090 per \$1,000 of taxable valuation. The \$0.18988 increase in the tax rate will result in higher city property taxes paid by property owners.

The increase in the city's tax rate is driven by additional costs for liability and property insurance, and most dramatically by employee benefit costs associated with the city's partially self-funded insurance plan. The city needs to increase the tax rate for the purpose of stabilizing the health insurance fund.

The FY2020 budget does not include the issuance of new debt to fund capital projects which would affect the "debt service" property tax levy.



An additional factor that influences property taxes paid each year by property owners is the State's Assessment Limitation Order, or "rollback" rate. This year the rollback rate is set to increase this year from 55.6209% to 56.9180%. 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 \$150,000 can expect to pay approximately \$43.00 more in city property taxes over last year (if assessed value remained the same).

If the city's property tax rate is adopted at \$13.97090 and assessed valuations for properties are constant, an assessed valued commercial property of \$250,000 can expect to see their city property taxes increase by approximately \$43.00 compared to the past year. An industrial property owner with an assessed value of \$1,000,000 can expect to see their city property taxes to increase by approximately \$171.00 over last year. Lastly, the newest property tax classification, multi-family, can expect to see a \$94.00 decrease in taxes paid over last year if the assessed value is \$250,000. The decrease would be driven by the continuing decrease in rollback for the new classification due to the previously enacted property tax reform form of 2013.



<b>City of Oskaloosa Property Tax Levy</b>							
<b>Residential Property Assessed Value - \$150,000</b>							
Fiscal Year	Rollback	Actual Valuation	Taxable Valuation	City Tax Rate	City Tax Amount	Yearly Change	Percentage Change
2011	46.91%	\$150,000	\$70,365	\$14.35519	\$1,010	\$28.22	2.87%
2012	48.53%	\$150,000	\$72,795	\$14.97533	\$1,090	\$80.03	7.92%
2013	50.75%	\$150,000	\$76,125	\$14.00600	\$1,066	-\$23.92	-2.19%
2014	52.82%	\$150,000	\$79,230	\$14.00000	\$1,109	\$43.01	4.03%
2015	54.40%	\$150,000	\$81,600	\$13.85816	\$1,131	\$21.61	1.95%
2016	55.73%	\$150,000	\$83,600	\$13.84482	\$1,157	\$26.60	2.35%
2017	55.63%	\$150,000	\$83,439	\$13.98707	\$1,167	\$9.63	0.83%
2018	56.94%	\$150,000	\$85,409	\$13.86029	\$1,184	\$16.72	1.43%
2019	55.62%	\$150,000	\$83,431	\$13.78102	\$1,150	-\$34.02	-2.87%
2020	56.92%	\$150,000	\$85,377	\$13.97090	\$1,193	\$43.02	3.74%

<b>City of Oskaloosa Property Tax Levy</b>							
<b>Commercial Property Assessed Value - \$250,000</b>							
Fiscal Year	Rollback	Actual Valuation	Taxable Valuation	City Tax Rate	City Tax Amount	Yearly Change	Percentage Change
2011	100.00%	\$250,000	\$250,000	\$14.35519	\$3,589	-\$0.74	-0.02%
2012	100.00%	\$250,000	\$250,000	\$14.97533	\$3,744	\$155.04	4.32%
2013	100.00%	\$250,000	\$250,000	\$14.00600	\$3,502	-\$242.33	-6.47%
2014	100.00%	\$250,000	\$250,000	\$14.00000	\$3,500	-\$1.50	-0.04%
2015	95.00%	\$250,000	\$237,500	\$13.85816	\$3,291	-\$208.69	-5.96%
2016	90.00%	\$250,000	\$225,000	\$13.84482	\$3,115	-\$176.23	-5.35%
2017	90.00%	\$250,000	\$225,000	\$13.98707	\$3,147	\$32.01	1.03%
2018	90.00%	\$250,000	\$225,000	\$13.86029	\$3,119	-\$28.53	-0.91%
2019	90.00%	\$250,000	\$225,000	\$13.78102	\$3,101	-\$46.36	-0.57%
2020	90.00%	\$250,000	\$225,000	\$13.97090	\$3,143	\$42.72	1.38%

<b>City of Oskaloosa Property Tax Levy</b>							
<b>Industrial Property Assessed Value - \$1,000,000</b>							
Fiscal Year	Rollback	Actual Valuation	Taxable Valuation	City Tax Rate	City Tax Amount	Yearly Change	Percentage Change
2011	100.00%	\$1,000,000	\$1,000,000	\$14.35519	\$14,355	-\$2.98	-0.02%
2012	100.00%	\$1,000,000	\$1,000,000	\$14.97533	\$14,975	\$620.14	4.32%
2013	100.00%	\$1,000,000	\$1,000,000	\$14.00600	\$14,006	-\$969.33	-6.47%
2014	100.00%	\$1,000,000	\$1,000,000	\$14.00000	\$14,000	-\$6.00	-0.04%
2015	95.00%	\$1,000,000	\$950,000	\$13.85816	\$13,165	-\$834.75	-5.96%
2016	90.00%	\$1,000,000	\$900,000	\$13.84482	\$12,460	-\$704.91	-5.35%
2017	90.00%	\$1,000,000	\$900,000	\$13.98707	\$12,588	\$128.03	1.03%
2018	90.00%	\$1,000,000	\$900,000	\$13.86029	\$12,474	-\$114.10	-0.91%
2019	90.00%	\$1,000,000	\$900,000	\$13.78102	\$12,403	-\$71.34	-0.57%
2020	90.00%	\$1,000,000	\$900,000	\$13.97090	\$12,574	\$170.89	1.38%



City of Oskaloosa Property Tax Levy Multi-Family Property Assessed Valuation - \$250,000							
Fiscal Year	Rollback	Actual Valuation	Taxable Valuation	City Tax Rate	City Tax Amount	Annual Change	Percentage Change
2017	86.25%	\$250,000	\$215,625	\$13.98707	\$3,016	-	-
2018	82.50%	\$250,000	\$206,250	\$13.86029	\$2,859	-\$157.28	-5.21%
2019	78.75%	\$250,000	\$196,875	\$13.78102	\$2,713	-\$145.55	-5.09%
2020	75.00%	\$250,000	\$187,500	\$13.97090	\$2,620	-\$93.59	-3.45%

Special attention should continue to be paid to the last table presented above for multi-family properties. This 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 in FY2024 and beyond. This change is projected to have a significant negative impact on property tax revenue received by the city with each passing year as the Legislature does not provide “backfill” through a standing appropriation (created in FY2015) for this classification as they do for commercial and industrial properties.

**Debt Management**

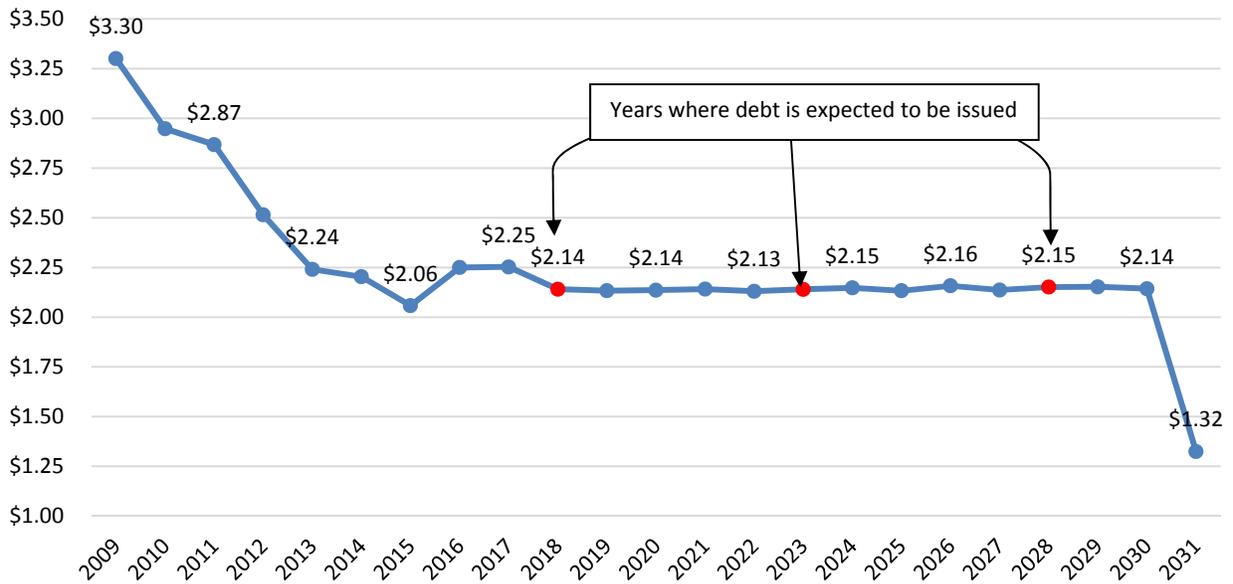
The city’s debt service levy will slightly decrease in FY2020 from \$2.13316 to \$2.04484. The city’s amount of outstanding General Obligation Debt, which is paid back through property taxes, continues to remain low even after issuing debt to pay for the fire station renovation and expansion project and the Lacey Recreation Complex road improvement project.

At the present time, the city is utilizing approximately 21% of the legally authorized debt capacity of \$28,068,649. This amounts to approximately \$5,290,000 of outstanding debt with \$22,778,649 of capacity remaining. Those figures are expected to change as the city council contemplates a new debt management plan that includes accelerating borrowing sooner than originally anticipated for road improvement projects within the community. In addition, the financing of the early childhood education and recreation center project will impact debt capacity if the project’s construction proceeds in the immediate future.

The former debt management plan included issuing General Obligation Bonds last fiscal year (FY2019) in an approximate amount of \$1.7 million for road improvements and then issuances 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. Under this scenario, the debt service tax levy was anticipated to remain steady at or near \$2.15 per \$1,000.

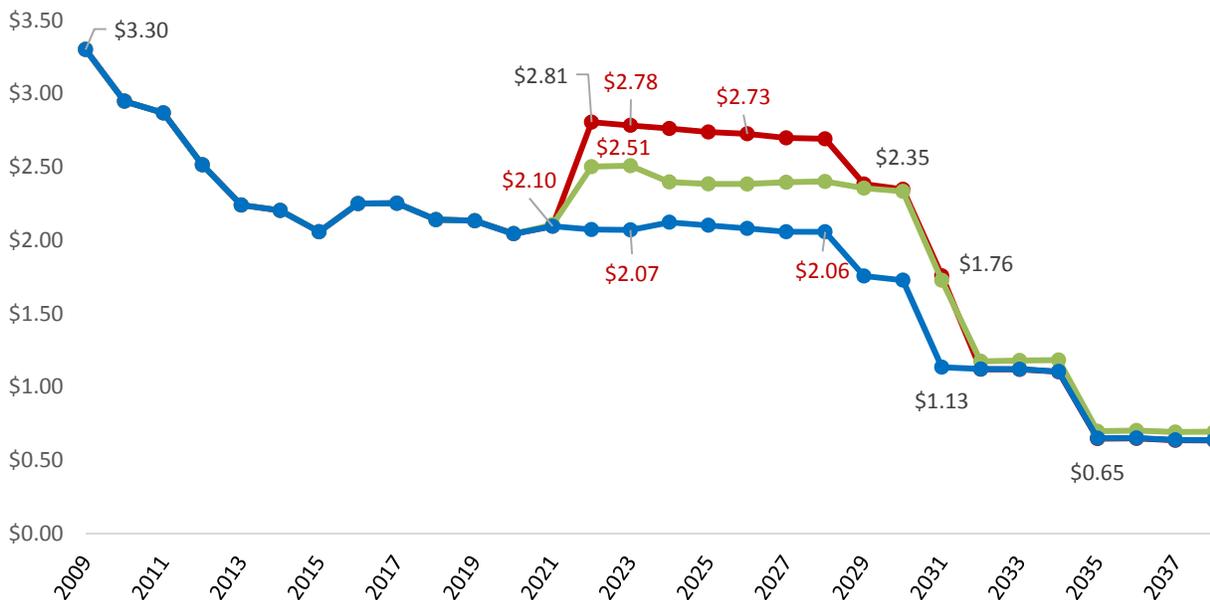


### Debt Service Levy : FY2019 Budget Planned Debt Issuance



Staff and city council have held preliminary discussions about reconstruction options for the Meadow Creek subdivision in an expedited timeframe. Moving the project up in the capital improvement program shifts the discussed debt issuance schedule, and requires issuing debt sooner than previously contemplated. As a result, the following debt management options have been put together for discussion and review. Staff and city council will need to spend additional time during FY2020 to further refine the debt management plan as multiple options exist with varying impacts to property the tax rate, the amount of funds to be borrowed, and the projects/equipment that are pursued with the bond proceeds.

The chart below represent bonding scenarios for future discussions. The blue line represents last year’s plan, \$2.0M bonds issued in FY2023, and FY2028; the red line represents \$2.0M bonds issued in FY2021, FY2023, and FY2028; and the green line represents \$1.5M bonds issued in FY2021 and FY2023.



## **Taxable Valuation**

The FY2020 budget reflects an overall taxable valuation increase of about 1.2% or \$4.18 million. This increase is less than half the amount of assessed valuation growth the city typically compared to the historical averages kept since FY1988. Growth in taxable value this year that did occur is reflected in the residential, multi-residential, and commercial sectors of the community. The industrial sector saw essentially no increase in taxable value since last year.

FY2020 is the fourth 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. 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. The reduction in the multi-residential properties will continue until those properties are taxed the same rate or “equalized” to residential properties.

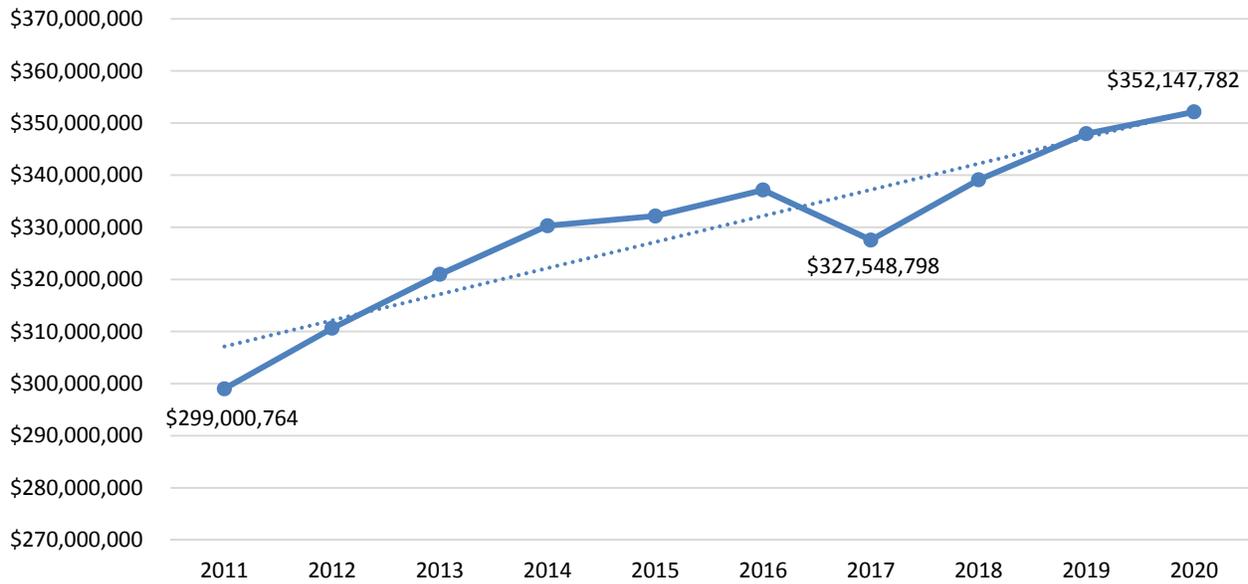
The impact associated with property tax reform legislation is anticipated to continue to place a strain on available resources within the city’s operating budget. The operating budget pays for services such as police, fire, library, street lighting, parks maintenance, pool, Forest Cemetery operations, 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 100% of taxable value to 90%. The city is expected to receive about \$140,000 in backfill from the state in FY2020. The city is counting on receiving the backfill from the State, so if this revenue 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 that very little financial flexibility remains in the city’s operating budget (FUND 001) to support new initiatives or programs. The continued funding of existing services will be increasingly difficult to maintain, especially if low or no growth scenarios persist while the cost for staff, supplies, services, utilities and similar items continue to rise. If that occurs, cuts to services or delays to the replacement of critical operating capital items that support operations can be expected in the immediate future. The need for reductions could be delayed if the city sees growth in valuation that is significantly higher than historic averages, the enactment of additional fees or taxes that result in higher or new revenue that assists the General Fund, or a shift of General Fund expenses to other funds where permissible.

One significant measure taken by the city council to help address rising financial pressure on the city’s operating budget occurred during the FY2017 budget when direction was provided to use portions of the city’s utility franchise fee revenues to help pay for certain one-time expenses within the public safety departments, rather reserving those funds solely for infrastructure projects. This practice has continued each year since that time and is recommended to continue in FY2020. Evaluation each year by staff and council will occur for the purpose of discussing the correct balance of General Fund support versus paying for other allowable uses with Franchise Fees, such as infrastructure improvements.



### Taxable Valuation FY2011- FY2020



### 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.

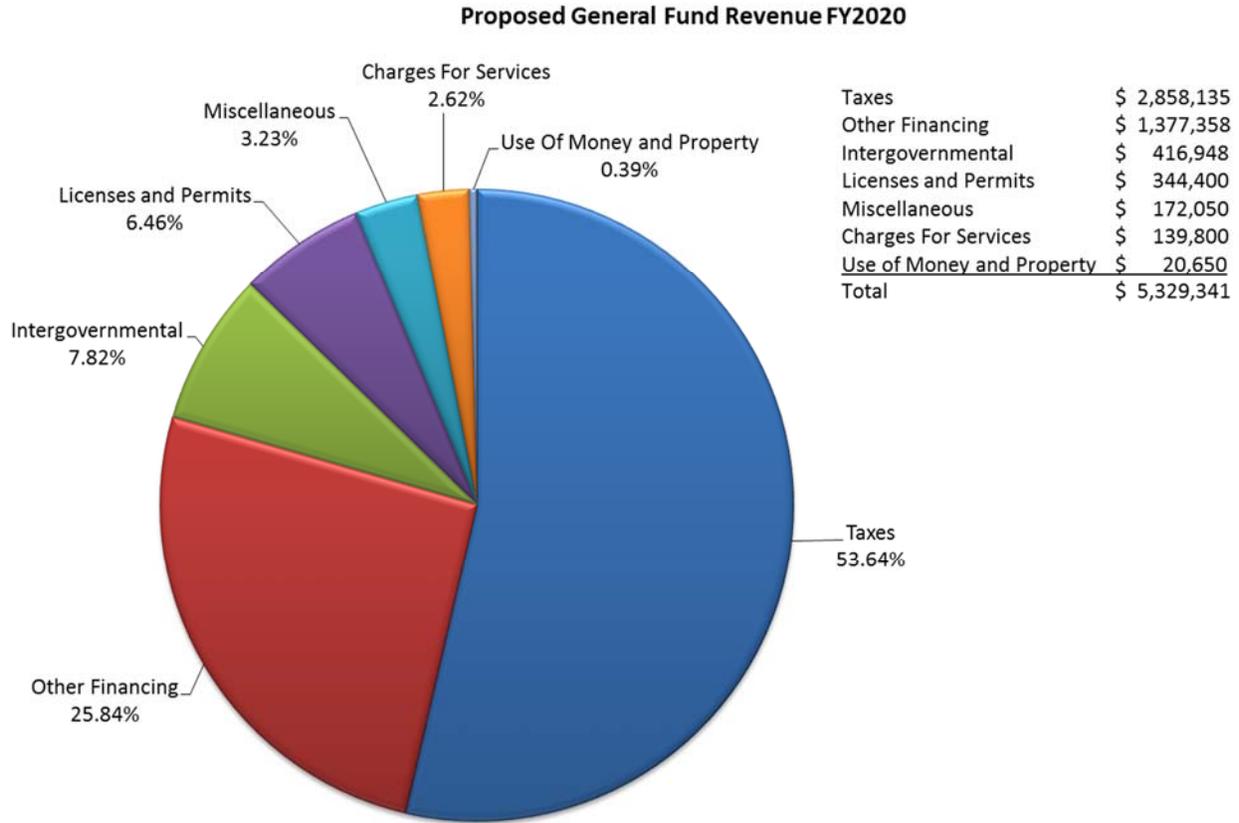
Tax Increment Financing Utilization			
Fiscal Year	2017	2018	2019
Total Asking	\$300,419	\$347,444	\$199,670
Projects	Legal Services (\$5,799) O.D.D. - Swim's Bldg. (\$250,000) Wayfinding for Corridors (\$44,620)	Legal Services (\$8,288) O.D.D. - Swim's Bldg. (\$250,000) Façade Design (\$18,000) Cablevey (\$4,000) Reserves at Ironwood (\$67,156 rebate)	Legal Services (\$1,000) Demolition Funds (\$46,400) Façade Construction (\$118,069) Cablevey (\$4,000) Reserves at Ironwood (\$30,201 rebate)

Fiscal Year	2020	2021
Total Asking	\$292,841	\$449,668
Projects	Legal Services (\$5,873) Façade Phase I Construction (\$169,370) Cablevey (\$4,000) Reserves at Ironwood (\$11,418 rebate) Streetscape - Light Poles (\$33,500) Façade Phase II Design (\$31,800) Wayfinding Signs for Corridors (\$36,880)	Legal Services (TBD) Cablevey (\$4,000) Reserves at Ironwood (\$11,418 rebate) Façade Phase II Construction (\$220,000) Burrell Apt. B Avenue West (\$214,250)



**Budget in Brief - FY2019 General Fund Revenues**

The FY2020 budget includes a total of \$5,329,341 General Fund operating revenue (FUND 001). This represents an approximate .80% decrease, or \$43,246 in revenue compared to the FY2019 amended budget. As expected, property taxes continue to be the primary source of General Fund revenue in FY2020 and as a percentage of the whole, this fluctuates very little year over year.

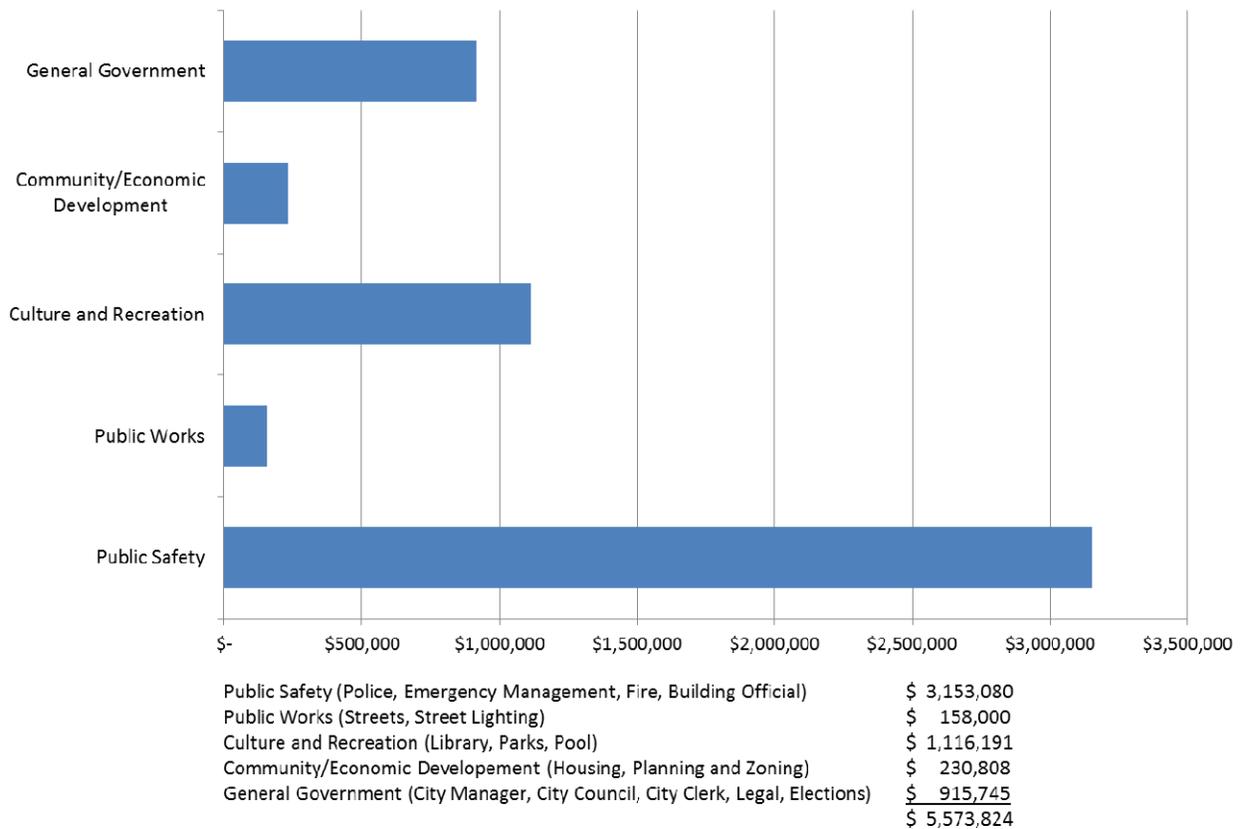


**Budget in Brief - FY2020 General Fund Expenditures**

The city’s FY2020 General Fund operating expenditures (FUND 001) are planned to total \$5,573,824 and represents a decrease of 3.09%, or \$177,909 less than the FY2019 amended budget. The largest share of General Fund expenditures, as expected continues to be employee salary and benefit costs. These costs total \$4,016,409, or 72.06 % of the total General Fund budget of \$5,573,824.



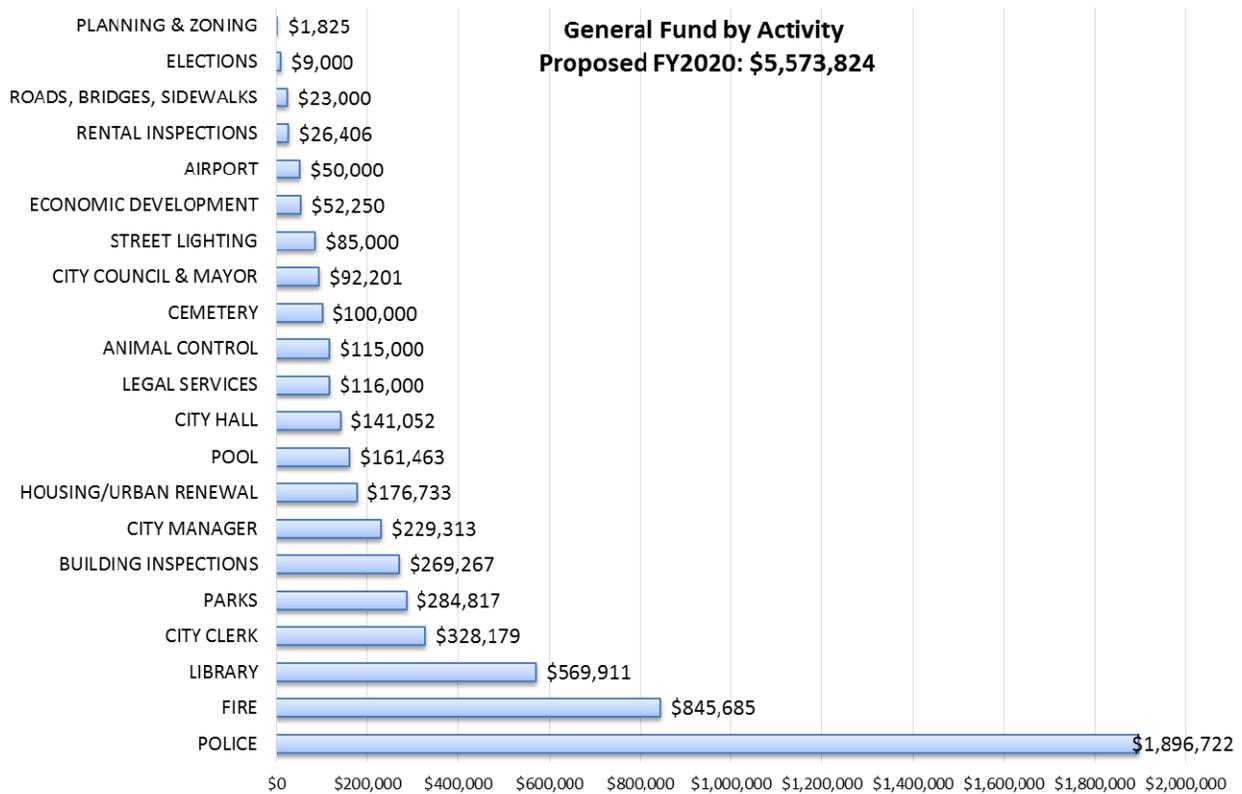
### General Fund Expenditures by Program FY2020



The FY2020 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, animal control, and rental inspection account for more than 56% of all planned program expenditures within the General Fund, totaling \$3,153,080. The remaining 44% of the General Fund is spread across other program areas such as Culture and Recreation (Cemetery, Library, Pool and Park Maintenance) 20%; General Government (Council, Legal, Finance and Administration) 17%; Community Economic Development (Development Services and P&Z) 4%; and Public Works (street lighting, and regional airport) 3%.

Other notable expenditures in the General Fund budget include: Animal shelter contribution of \$115,000 (\$85,000 for operations and \$30,000 towards the new building project); \$100,000 Forest Cemetery contribution; \$50,000 to the Oskaloosa Area Chamber and Development Group/Main Street Oskaloosa; \$30,000 set aside for corridor improvement work; +40,000 for improvements at Edmundson Park/Pool; and \$50,000 to assist with moving the regional airport project forward.





**Fund Balance – General Fund**

Consistent with the City Council approved fund balance policy, the FY2020 budget includes reserves that 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 \$5,329,341 and total expenditures are expected to be \$5,573,824 (FUND 001). Based upon the FY2020 budget, staff estimates the city’s General Fund ending balance on June 30, 2020 to be \$1,922,724; or 34.50% 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, and our fund balance levels have positively impacted previous ratings.

**Employee Wages and Benefits (paid by all Funds)**

The FY2020 budget includes no increases in full time staff. The budget authorizes a total of fifty-seven (57) full time staff, seven (7) part time staff, and 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 FY2020 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, 2019 union



employees and all non-union employees are scheduled and budgeted to receive a 2.60% 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 employees reach their maximum “step increase” after five (5) years of continuous and successful service with the city. The 2.60% wage increase represents the third and final year of the contracts with each of the city’s three collective bargaining units. Negotiations for future contracts with the unions will need to be completed in FY2020.

Health insurance premiums are budgeted to increase 15% during FY2020. The increase is needed to stabilize the fund balance levels maintained by the city for its partially self-insured program. Employees will continue to pay 5% 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 \$74 per month for employees electing “family” health insurance coverage with the city. Nearly every employee of the city elects to take advantage of the city’s insurance coverage that is offered. A 98% enrollment rate speaks highly of this benefit provided to the employees by the city.

The FY2020 budget reflects a 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 FY2020 will be 24.41% as compared to 26.02% in FY2019. The increased 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 FY2020 budget reflects no increase in the contribution rate for employees covered under the Iowa Public Employees Retirement System (IPERS). The city’s contribution also remains the same for the upcoming fiscal year. Any increased or decreased costs associated with IPERS is split 60/40 with employees. The FY2020 contribution rate for the city is 9.44% and the employee’s share is 6.29% of covered wages.

### **Capital Improvement Plan and Projects**

As one would expect, the city’s list of capital projects included in the FY2020 budget is heavily oriented towards the improvement of the community’s sewer infrastructure. This information can be reviewed in detail within the “Capital Improvements Program” and “Debt” tabs of the budget book.

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 FY2020 budget does not include the issuance of new bonds to fund capital improvement projects.

Notably, the city continues to utilize a number of grant opportunities to fund projects during FY2020. The budget includes the North 17<sup>th</sup> Street Bridge Reconstruction project which requires the city to provide 20% of the project cost, while grant funds pay the remaining 80%. If awarded for a second time, the Brownfield Grant project is 100% federal government funded with zero local match, and the Downtown Façade Improvement Phase II is split with CDBG funds, city urban renewal funds, and private property owner contributions.

Similar to FY2019, the FY2020 budget continues the city’s transition from funding a large share of capital projects with the previously authorized 2002 Local Option Sales Tax (LOST) to other sources, and reducing



the amount of projects planned in the future paid for with cash. The expired LOST fund will be used in full, and the 2017 LOST, (approved in May of 2016 – effective January 1, 2017) has restrictions on how the funds can be used.

The revenue estimate for the recently 2017 LOST revenue collected is once again set at approximately \$1,025,000 for FY2020. The funds received through this source are restricted to the uses authorized by the voters of Oskaloosa:

- a. *Seventy five percent (75%) for construction of a Recreation and Early Childhood Education facility, until all project debt obligations are met, or in the event of a surplus or if local option sales and services tax bonds are not issued for a Recreation and Early Childhood Education facility, for any lawful purpose;*
- b. *Twenty five percent (25%), for annual street construction, sanitary or storm sewer projects; construction and maintenance of recreation facilities; capital expenditures for construction, renovation, fixtures and maintenance of public facilities; capital equipment purchases.*

Since the vote was approved and funds have been received, staff has taken measures to set aside 75% of the collections in anticipation that the early childhood education and recreation center project would proceed. The revenue is transferred from Fund 121 to Fund 303 Rec and Early Childhood Center and any expenses incurred with the project are directly charged to that fund, such as legal and/or design expenses. The FY2020 budget projects spending all of the revenue to be received during the year, as well as the balance carried forward in FY2019 – cumulatively this totals \$2,379,045.

The remaining funds that are not transferred to the early childhood education and recreation center project have continued to be shown in Fund 121 (approximately \$250,000 each year). Staff recommends allocating the annual 25% LOST funds for the purpose of completing infrastructure maintenance (streets/sidewalks), as well as capital and maintenance needs of the Park Maintenance Department. The FY2020 allocation plan will use a little more than one full year’s worth of revenue to be generated by the tax.

#### **Priorities in Summary: Road, Bridge, and Sidewalk Improvements**

The city council remains committed to addressing aging infrastructure throughout Oskaloosa. The FY2020 budget includes approximately \$1.3 million dollars for new road/bridge construction, sidewalk improvements, and other road maintenance needs - **excluding** expenses paid by the Road Use Tax Fund, FUND 110 (see table on page 13).

A blend of funding sources continues to be used to accomplish the planned road work for FY2020. The funding sources include the city’s 2017 reauthorized LOST, contributions from the Road Use Tax Fund (RUTF), property taxes, Franchise Fees, and DOT 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 \$1,375,000 dollars in Road Use Tax Funds (RUTF) in FY2020, this includes an additional \$200,000 from the increased gas tax. The gas tax money is planned to be used to fund “Pavement Management” project listed in within the city’s capital plan. Approximately \$1,600,000 dollars in RUTFs, 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 \$40,150 of the RUTF 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 \$85,000. The major equipment to be replaced using Road Use Tax Fund revenue in FY2020 includes \$200,000 for the replacement of the city's boom truck; \$55,000 for the replacement of a staff truck; \$45,000 for a new asphalt hot box; \$25,000 allocated to repairs at the street shop facility.

The FY2020 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 46% to 18%. 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 fund balance levels have not historically dipped to the levels estimated.

<b>Road Improvement Projects and Maintenance Expenses</b>	<b>FY2019</b>	<b>FY2020</b>
Active Transportation Plan (Sidewalk Connectivity)	\$6,331	\$50,000
Annual Sidewalk Inspections/Assessments	\$10,000	\$10,000
Annual Street Light Maintenance	\$25,000	\$25,000
Annual Street Maintenance (not chip seal, minor repair projects)	\$50,000	\$50,000
Annual Traffic Signal Upgrades	\$25,000	\$25,000
B Avenue West Reconstruction	\$196,890	-
Burlington Road (80/20 STP funded project)	\$50,000	-
Lacey Recreation Complex Road Improvements (road construction)	\$1,048,988	-
Meadow Creek Subdivision	-	\$100,000
Northeast Bridge Reconstruction (80/20 grant funded project with DOT)	\$480,849	\$640,625
Salt Storage Building with DOT	\$25,000	-
South D Street Design and Reconstruction - A Ave to 6th St (80/20 STP funded project)	\$2,980,790	-
South D Street Traffic Signals	\$184,532	-
South 7th - 9th Avenue East to 15th Avenue East	-	\$300,000
Street Maintenance Supplies (Chip Seal, Crack Seal, Concrete, Pothole Material - paid by FUND 110 - RUTF)	\$165,000	\$150,000
Street Sweeper (storm water utility paid \$95,000)	\$182,572	-
Traffic Signal Controllers	-	-
Traffic Signal Study - Citywide	\$6,011	-
6th Street - C Avenue to 3rd Avenue	-	\$100,000
Other Road Maintenance Activities (Public Works Department - all functions FUND 110)	\$1,351,861	\$1,442,351
<b>Total</b>	<b>\$6,788,824</b>	<b>\$2,892,976</b>

In addition to the \$2.9 million of road improvement and maintenance investment planned for FY2020 noted above, the city is gearing up to complete more than \$3.75 million in capital improvements to the city's sewer utility, and more than \$250,000 to the storm water utility system at the same time. Please refer to the Capital Improvement Program information for additional 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

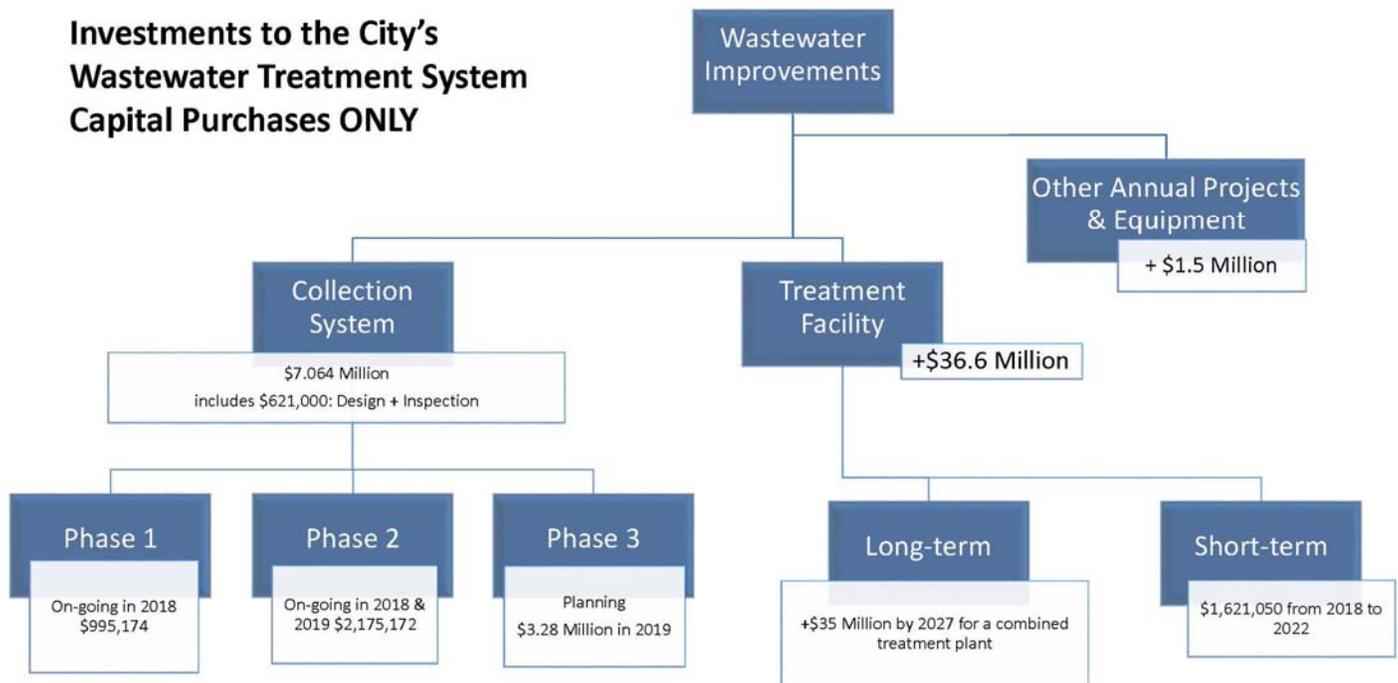


history with minimal increases in operations and a steady, but small number of capital projects undertaken each year. This approach led to low rates for many years but also meant much needed improvements and maintenance were being deferred. As a result, staff routinely responds to widespread failures 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 FY2020 budget reflects the fourth 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 FY2020 budget for this utility stays the course previously adopted by the city council in FY2016 – more intensive investment in the infrastructure system, planning, maintenance, and constructing improvements associated with permit compliance requirements and direction from the Iowa Department of Natural Resources. The result of the more intensive look at the sanitary sewer system has resulted in 80% increases in rates from 2015 to 2018. An additional 8% rate increase is expected to become effective March 1, 2019, with proposed increases of at least 8% each year thereafter. A continuing concern for the system is a developing trend of consumption decreases. If consumption falls off as predicted, the current rates will not be sufficient to maintain the current multi-year operational and capital plan (please reference the “sewer cash flow” tab for more information) and rates will need to be increased, expenditures reduced, or both actions will be necessary.

### Investments to the City’s Wastewater Treatment System Capital Purchases ONLY



As previously mentioned, the FY2020 budget includes a financing and operating plan for the sanitary sewer system that requires an increase to the base and usage rates effective March 1, 2019. The rate increase to be implemented impacts the average residential ratepayer by approximately \$3.88 per month, or \$46.56 annually. The average residential customer uses about 4.37 units of sewer per month, and is also charged the sewer base rate per month regardless of usage.

**Impact of the rate increase on average residential sewer customer effective March 1, 2019.**

Average monthly residential sewer bill – today	\$48.54 per month
Average monthly residential sewer bill – Approved	\$52.42 per month
Increase per month	\$3.88 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	\$15.72	+\$2.62	\$7.51	+\$1.25
<b>3/1/2019</b>	<b>\$16.98</b>	<b>+\$1.26</b>	<b>\$8.11</b>	<b>+\$0.60</b>
3/1/2020*	\$18.34	+\$1.36	\$8.76	+\$0.66
3/1/2021*	\$19.80	+\$1.46	\$9.46	+\$0.70
3/1/2022*	\$21.38	+\$1.58	\$10.22	+\$0.76

\* 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 FY2020 recommended 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.  
City Manager

