

January 23, 2018

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



RE: FY2019 Proposed Budget and Tax Rate

Honorable Mayor and City Council Members:

The city's administration is pleased to present the fiscal year 2019 (FY2019) 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, 2018 and ending June 30, 2019. 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 FY2019 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 FY2019 budget addresses the city council's key priority areas:

Maintain a safe community with small town feel and charm.

- a. + \$3.0 million to fully fund public safety services at existing levels
- b. + \$1.6 million available to initiate design of the recreation and early childhood education center
- c. + \$560,000 to fully fund library operations
- d. + \$475,000 to fund park maintenance, pool operations, and cemetery support
- e. Funds for the Phase II Façade Improvement Project included (pending grant award)
- f. \$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: + \$6.0 million for the care, maintenance and construction of our road and sidewalk networks; replacement of public works equipment
- b. Sanitary Sewer: + \$5.5 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 in the community.

- a. \$70,000 to continue first time homebuyer and demolition assistance programs
- b. \$65,000 to address upper story housing health and safety
- c. \$50,000 to update the city's Comprehensive Plan from 2000 (\$100,000 total project)
- d. \$25,000 to continue administering the city's rental inspection program

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

- a. \$30,000 budgeted to fund nuisance abatement or property acquisition/demolition
- b. + \$35,000 budgeted for corridor improvements (sidewalks, trees, ROW acquisition)



Tax Rate Information

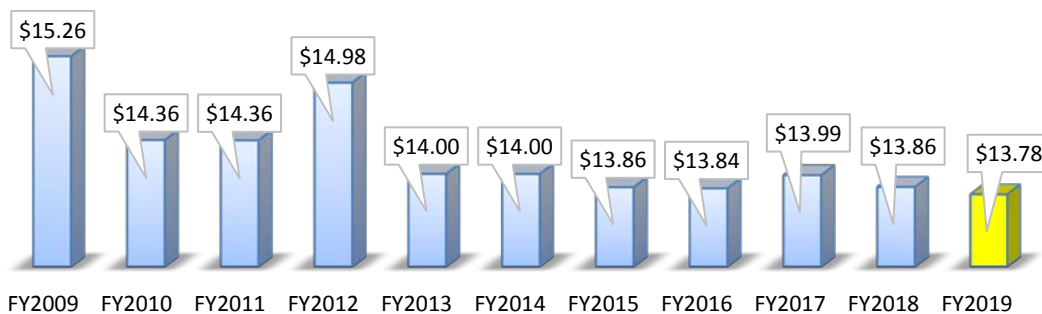
The FY2019 budget across all funds totals \$33,022,468, an increase of \$1,077,085 or approximately 3.30% from the FY2018 amended budget. The city’s General Fund operating budget (FUND 001 on the Projected Fund Balances report), accounts for \$5,544,105 of the total budget. The FY2019 budget sets the city’s tax rate at \$13.78102 per \$1,000 of taxable valuation. The proposed \$0.07927 drop in the tax rate should result in a minimal decrease in city property taxes paid by property owners, however with the recent “special revaluation” completed by the County Assessor, staff suspects most properties saw an increase in assessed valuation. The expected increase in assessed valuation likely outweighs the decrease in the tax rate proposed with the FY2019 budget, and as a result, property owners are likely to see an increase in their property taxes paid over last year.

The decrease in the city’s tax rate is due to a decrease in the need to levy for liability and property insurance costs, but that is offset by increases in employee benefit costs as we plan to have experienced staff retire; the city is also increasing health insurance premiums 10% to stabilize the health insurance fund (the city is partially self-insured).

The proposed FY2019 budget does not include the issuance of new debt to fund capital projects which would affect the “debt service” property tax levy - that is expected to occur in FY2023. As you might recall, the FY2018 budget contemplates significant borrowing (SRF loans and G.O. Bonds) to accomplish sewer work, as well as the road improvement projects at the Lacey Recreation Complex. Additional debt that is expected to be issued but not anticipated to affect the property tax rate includes borrowing in FY2020 for the purpose of constructing the Recreation and Early Childhood Education Center project with the Oskaloosa School District in the form of G.O. debt paid by Local Option Sales Tax revenue, backed by property taxes.

Staff continues to discuss and explore numerous debt management schedules internally. Presently, the city’s plan for debt issuance is \$2 million dollars every five years, with payback occurring over 10 years. Staff would like to see the debt paid off sooner, perhaps over five years, with debt issuance occurring more often than five years, but perhaps every three years. If that debt management plan was accepted by city council, the tax rate would undoubtedly increase from the current rate of \$2.13 to approximately \$3.00.

**City Property Tax Rate
FY2009 - FY2019**



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 decrease this year from 56.9391% to 55.6209%. 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 \$34.00 less in city property taxes over last year (if assessed value remained the same).

If the city's property tax rate is adopted at \$13.78102 and assessed valuations for properties are constant, an assessed valued commercial property of \$250,000 can expect to see their city property taxes decrease by approximately \$45.00 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 decrease by approximately \$70.00 over last year. Lastly, the newest property tax classification, multi-family, can expect to see a \$145.00 decrease in taxes paid over last year if the assessed value is \$250,000. This information is detailed on the following pages.

City of Oskaloosa Property Tax Levy Residential Property Assessed Value - \$150,000							
Fiscal Year	Rollback	Actual Valuation	Taxable Valuation	City Tax Rate	City Tax Amount	Yearly Change	Percentage Change
2010	45.59%	\$150,000	\$68,385	\$14.35817	\$982	-\$27.05	-2.68%
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	0.85%
2018	56.94%	\$150,000	\$85,409	\$13.86029	\$1,184	\$16.72	1.44%
2019	55.62%	\$150,000	\$83,431	\$13.78102	\$1,150	-\$34.02	-2.91%

City of Oskaloosa Property Tax Levy Commercial Property Assessed Value - \$250,000							
Fiscal Year	Rollback	Actual Valuation	Taxable Valuation	City Tax Rate	City Tax Amount	Yearly Change	Percentage Change
2010	100.00%	\$250,000	\$250,000	\$14.35817	\$3,590	-\$214.93	-5.65%
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	-1.47%



City of Oskaloosa Property Tax Levy Industrial Property Assessed Value - \$1,000,000							
Fiscal Year	Rollback	Actual Valuation	Taxable Valuation	City Tax Rate	City Tax Amount	Yearly Change	Percentage Change
2010	100.00%	\$1,000,000	\$1,000,000	\$14.35817	\$14,358	-\$900.92	-5.90%
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%

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%

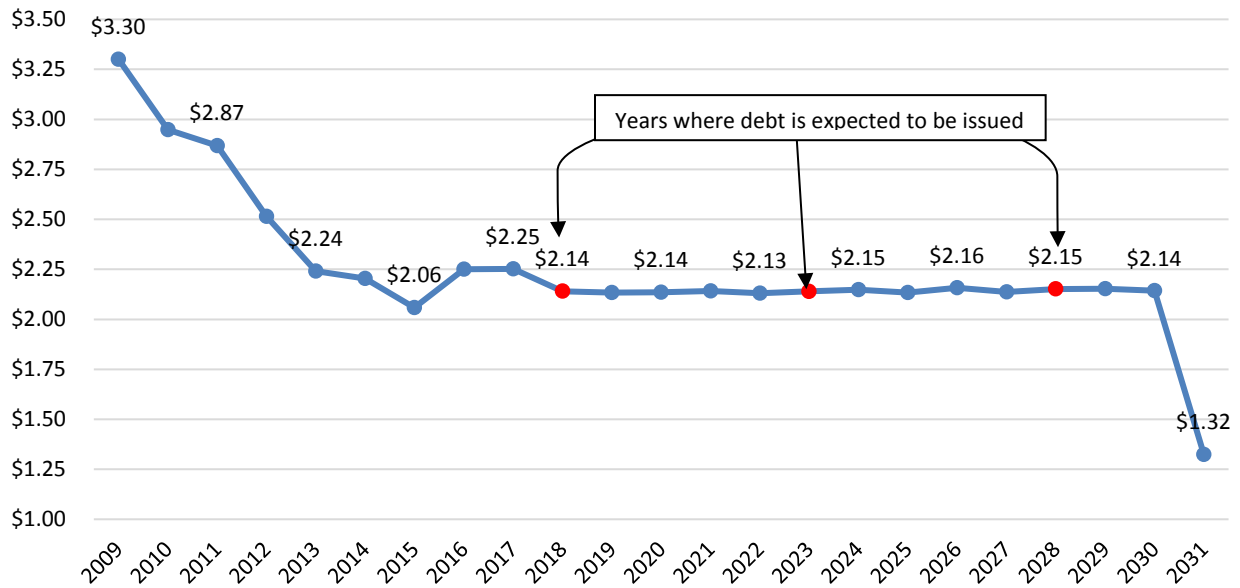
Special attention needs to be paid to the last table presented above for multi-family properties. This new classification was introduced with legislation passed known as SF295, or property tax reform. The bill enacted, amongst many things affecting property taxes, the creation of a new multi-family classification 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 slightly decrease in FY2019 from \$2.14056 to \$2.13316. 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 planned debt issuance for the Lacey Recreation Complex project. At the present time, the city is utilizing approximately 21% of the legally authorized debt capacity of \$27,802,269. This amounts to approximately \$5,890,000 of outstanding debt with \$21,912,269 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 then 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.



Debt Service Levy : FY2019 Budget Planned Debt Issuance



Due to the way the city presently manages its debt, the debt service tax levy is anticipated to remain steady at or near \$2.15 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

The FY2019 budget reflects an overall taxable valuation increase of about 2.6% or \$8.87 million. This increase is on point with the historical averages kept since FY1988.

Growth in taxable value this year is reflected in the residential and commercial sectors of the community. The multi-residential sector saw a decline in taxable value since last year. FY2019 is the third 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.

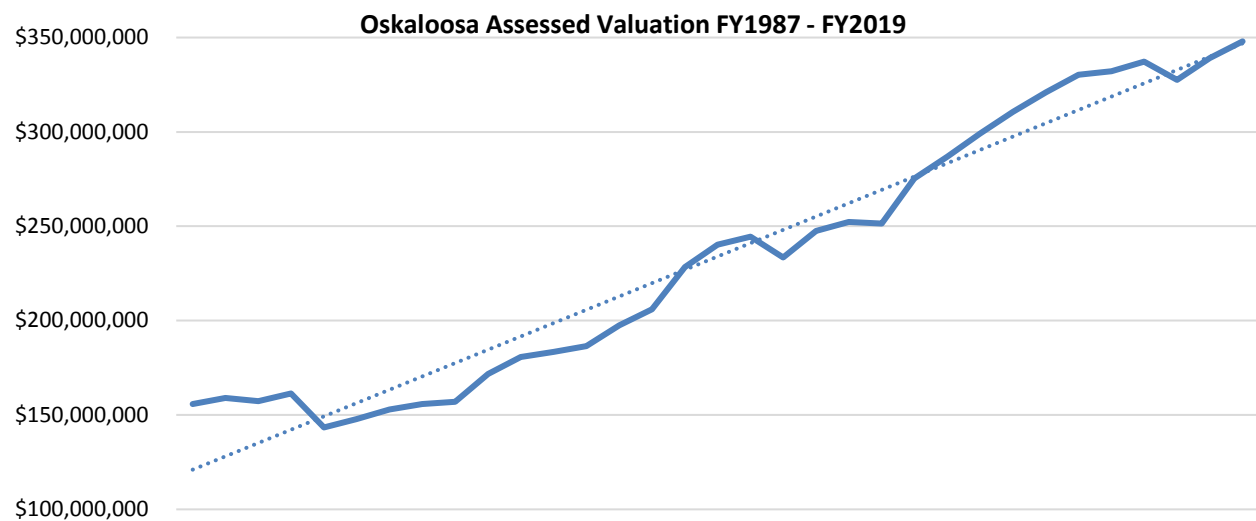
The impact associated with property tax reform legislation is anticipated to continue to place a strain on available resources within the city’s operating budget. The operating budget pays for services such as police, fire, library, street lighting, parks maintenance, pool, Forest Cemetery operations, 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 \$150,000 in backfill from the state in FY2019. 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, no leeway remains with available funds in the city’s operating budget (FUND 001), and cuts to services or delays to the replacement of critical operating capital items that support operations can be expected within the next five years unless there is growth in value significantly higher than historic averages, the enactment of additional fees or taxes that result in higher revenue for the General Fund, or a shift of expenses to other funds.

One measure taken by city council during the FY2017 budget was approving the use of utility franchise fee revenues to help pay for operating expenses, rather reserving those funds solely for infrastructure projects. This practice is recommended to continue and expand in FY2019 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.

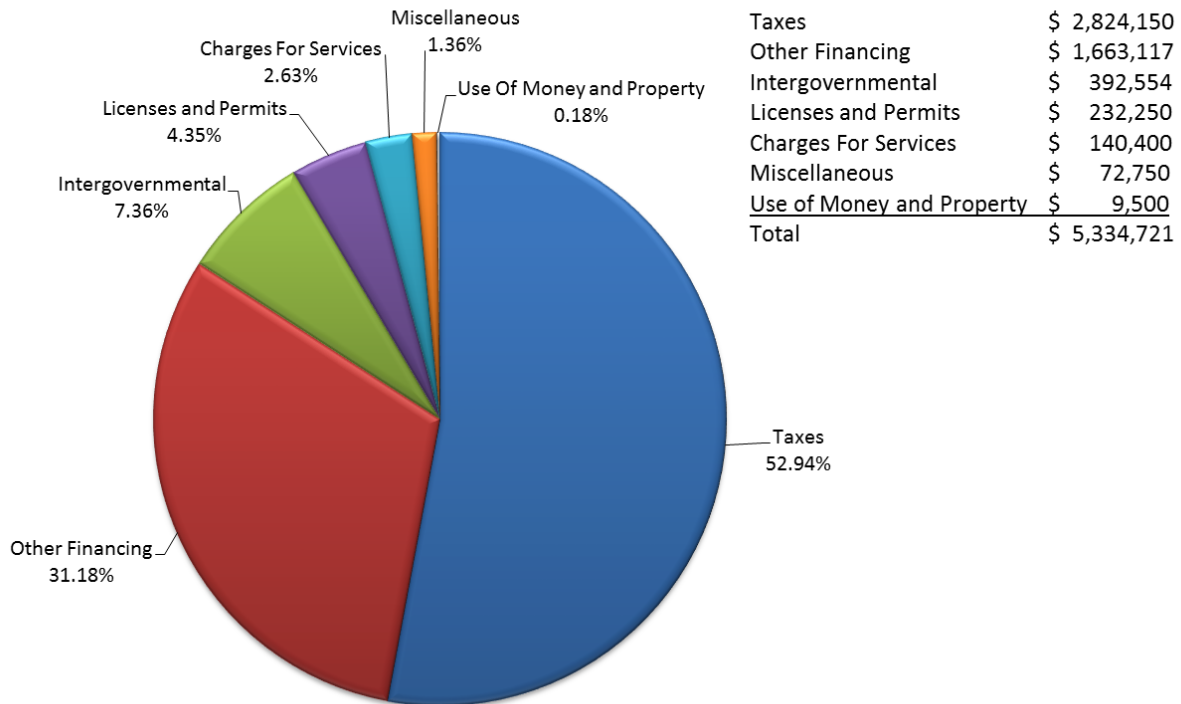
Tax Increment Financing Utilization				
Fiscal Year	2017	2018	2019	2020
Total Asking	\$300,419	\$347,444	\$199,670	\$396,918
Projects	Legal Services (\$5,799) O.D.D. - Swim’s Bldg. (\$250,000) Wayfinding for Corridors (\$44,620)	Legal Services (\$8,288) O.D.D. - Swim’s Bldg. (\$250,000) Façade Design (\$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)	Legal Services (TBD) Demolition Funds (\$30,000) Façade Construction (\$181,931) Cablevey (\$4,000) Reserves at Ironwood (\$31,107 rebate) Streetscape - Light Poles (\$38,000) Façade Phase II Design (\$32,000) Façade Phase II Construction (\$40,000) Wayfinding Signs (\$39,880)



Budget in Brief - FY2019 General Fund Revenues

The FY2019 budget includes a total of \$5,334,721 General Fund operating revenue (FUND 001). This represents an approximate 0.17% decrease, or \$8,919 in revenue compared to the FY2018 amended budget. As expected, property taxes continue to be the primary source of General Fund revenue in FY2019 and as a percentage of the whole, this fluctuates very little year over year.

PROPOSED GENERAL FUND REVENUE FY2019

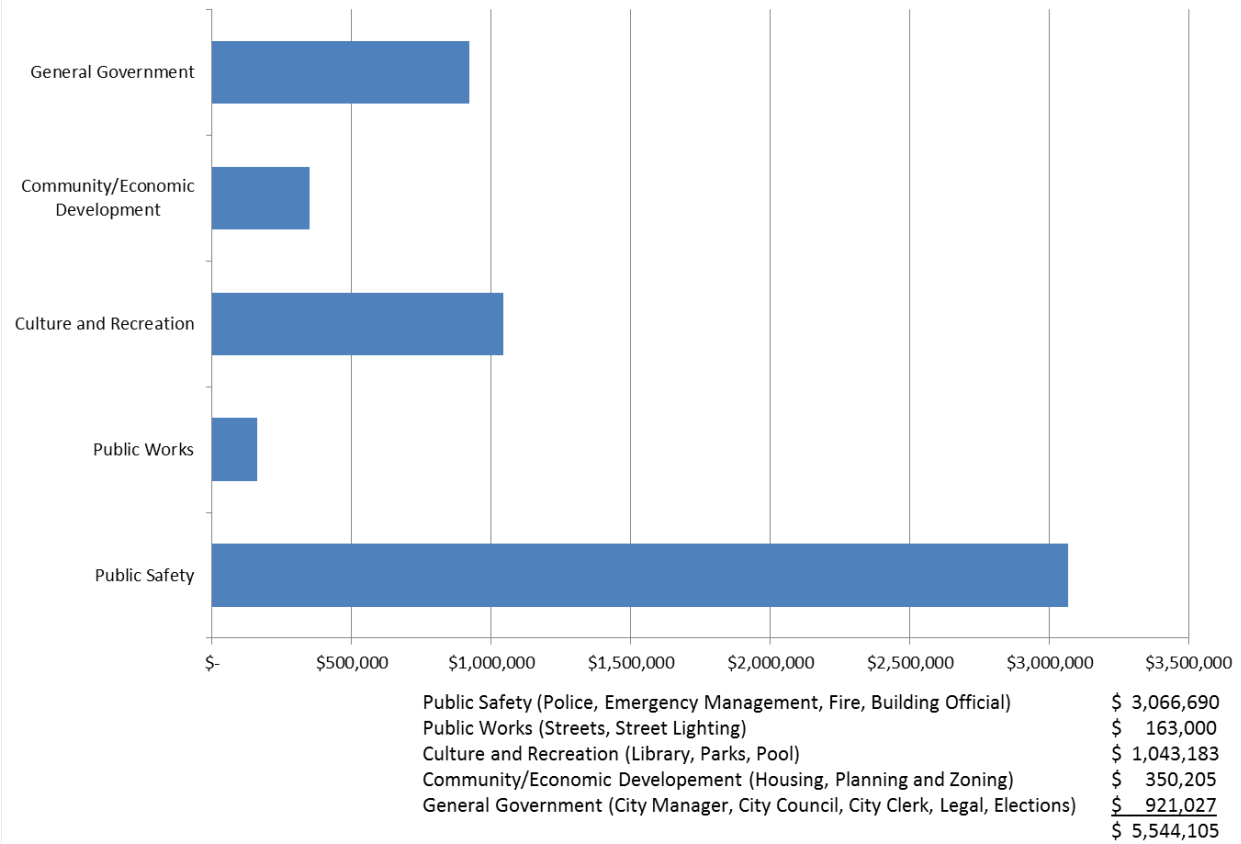


Budget in Brief - FY2019 General Fund Expenditures

The city's FY2019 General Fund operating expenditures (FUND 001) are planned to total \$5,444,105 and represents a decrease of 0.40%, or \$22,335 less than the FY2018 amended budget.



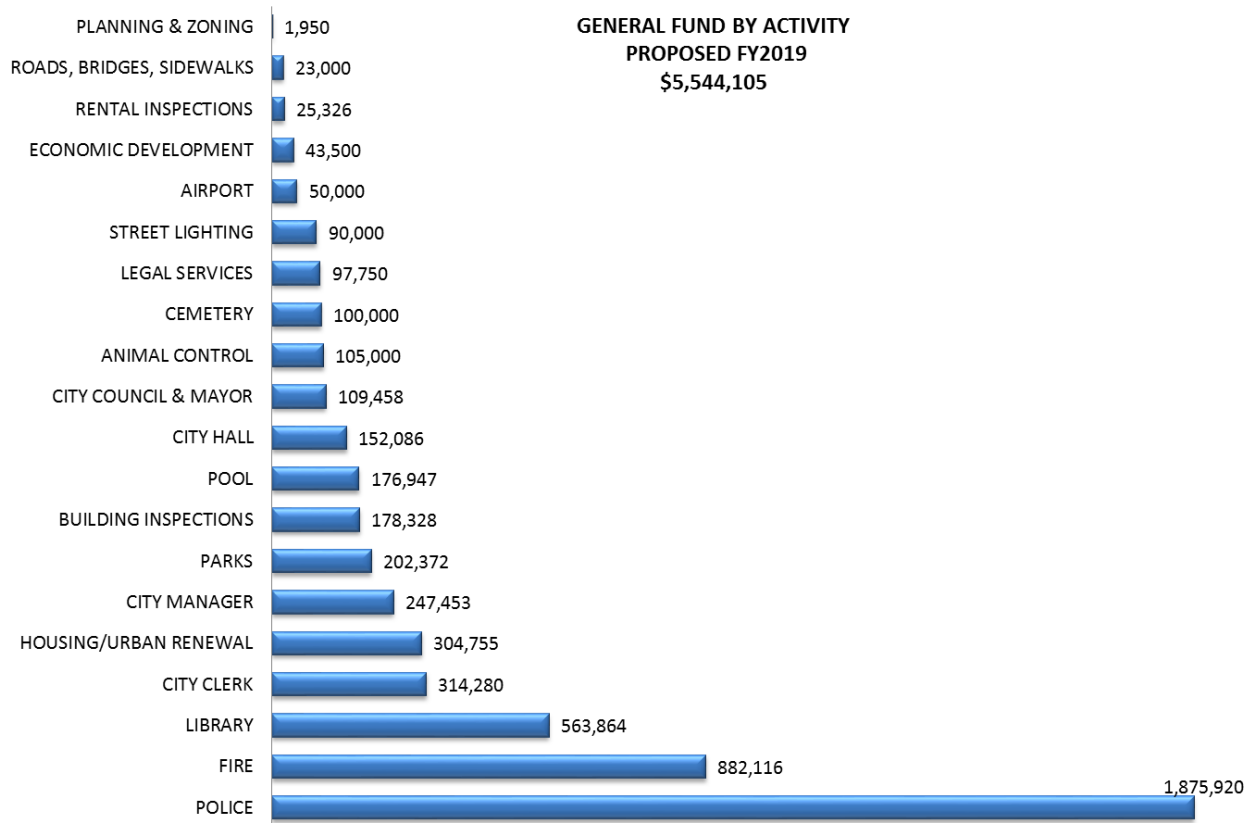
General Fund Expenditures by Program FY2019



The FY2019 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 55% of all planned program expenditures within the General Fund, totaling \$3,066,690. The remaining 45% of the General Fund is spread across other program areas such as Culture and Recreation (Cemetery, Library, Pool and Park Maintenance) 19%; General Government (Council, Legal, Finance and Administration) 17%; Community Economic Development (Development Services and P&Z) 6%; and Public Works (street lighting, and regional airport) 3%.

Other notable expenditures in the General Fund budget include: Animal shelter contribution of \$105,000 (\$75,000 for operations and \$30,000 towards the new building project); \$100,000 Forest Cemetery contribution; \$40,000 to the Chamber/Main Street Oskaloosa; \$45,000 for corridor improvement work; \$25,000 to update the city’s website; \$65,000 to replace frontline fire gear and extrication equipment; \$25,000 for park maintenance utility vehicle replacement.





Fund Balance – General Fund

Consistent with the City Council approved fund balance policy, the FY2019 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 \$5,334,721 and total expenditures are expected to be \$5,554,105 (FUND 001). Based upon the FY2019 budget, staff estimates the city’s General Fund ending balance on June 30, 2019 to be \$1,847,046; or 33.32% of annual General Fund operating expenditures. This amount is sufficient for meeting unexpected shortfalls in revenues or demands on future fund resources – such as decreased 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 FY2019 budget includes the addition of one new full time staff member – Planning Technician in the Development Services Department (salary funded by franchise fees, benefits by property taxes). If this position is approved, the total number of full time employees would increase by one from FY2018 to FY2019 for 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 FY2019 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, 2018 union employees and all non-union employees are scheduled and budgeted to receive a 2.75% 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 max “step increase” after five (5) years of continuous and successful service with the city. The 2.75% wage increase represents the second year of a three year agreement with the collective bargaining units. The third and final year of the contracts includes a 2.60% of wage increase.

Health insurance premiums are budgeted to increase 10% during FY2019. 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 \$64 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 FY2019 budget reflects an increase 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 FY2019 will be 26.02% as compared to 25.68% in FY2018. 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 FY2019 budget reflects an increase in the contribution rate for employees covered under the Iowa Public Employees Retirement System (IPERS). The city’s contribution rate also increases for the upcoming fiscal year. Any increased costs associated with IPERS is split 60/40 with employees. The FY2019 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 FY2019 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.

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 FY2019 budget does not include the issuance of new bonds to fund capital improvement projects but bond and loan proceeds from FY2018 issuances and borrowings will be put to use for the purpose of funding priority capital projects

Notably, the city continues to utilize a number of grant opportunities to fund projects during FY2019. 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 Phase II would be split with CDBG funds, city urban renewal funds and private property owner contributions.



The FY2019 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. 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 set at approximately \$1,025,000. 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 Recreation and Early Childhood Education 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 FY2019 budget projects spending all of the revenue to be received during the year, as well as the balance carried forward in FY2018 – cumulatively this totals \$1,635,120.

The remaining funds that are not transferred to the Recreation Center and Early Childhood Education 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 FY2019 allocation plan will use one full year's worth of revenue as well as a portion of fund balance from previous years.

Priorities in Summary: Road and Sidewalk Improvements

The city council remains committed to addressing aging infrastructure throughout Oskaloosa. The FY2019 budget includes more than \$4.5 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 FY2019. The funding sources include the city's LOST (2002 expired and 2017 reauthorized), contributions 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 \$1,375,000 dollars in Road Use Tax Funds (RUTF) in FY2019, this includes an additional \$200,000 from the increased gas tax. The gas tax money is planned to be spent as a portion of the city's 20% grant match requirement to reconstruct South D Street. 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 \$45,150 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 \$90,000. The major equipment to be replaced using Road Use Tax Fund revenue in FY2019 includes \$100,000 towards the replacement of the city's street sweeper (split funded with storm water); and \$100,000 for the replacement of the city's liquid asphalt storage tank. The liquid asphalt is used during the city's annual chip seal (seal coating) road maintenance work.

The FY2019 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 44% to 23%. 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 target fund balance level of 25% is expected to be achieved.

Road Improvement Projects and Maintenance Expenses	FY2018	FY2019
Active Transportation Plan – Sidewalk Connectivity	\$40,556	\$50,000
Annual Sidewalk Inspections/Assessments	\$10,000	\$10,000
Annual Street Light Maintenance	-	\$25,000
Annual Street Maintenance (not chip seal, minor repair projects)	\$100,000	\$50,000
Annual Traffic Signal Upgrades	-	\$25,000
Burlington Road (80/20 STP funded project)	\$10,000	\$40,000
Lacey Recreation Complex Road Improvements (road construction)	\$500,000	\$1,150,000
North C Street - College Ave to C Ave (curb and gutter rehabilitation)	\$150,000	-
Northeast Bridge Reconstruction (80/20 grant funded project with DOT)	\$310,000	\$800,000
South D Street Design and Reconstruction - A Ave to 6th St (80/20 STP funded project)	\$764,626	\$2,135,000
South D Street Traffic Signals	\$17,100	\$210,000
South 7th Street, 6th Ave to 9th Ave (asphalt rehabilitation)	\$285,000	-
Street Maintenance Supplies (Chip Seal, Crack Seal, Concrete, Pothole Material - paid by RUTF)	\$150,000	\$150,000
Street Sweeper (storm water utility to pay \$95,000)	-	\$195,000
Traffic Signal Controllers	\$50,000	-
Traffic Signal Study - Citywide	\$41,411	-
Wayfinding Improvements	\$51,880	-
1st Avenue East to 3rd Street (road rehabilitation)	\$3,532	-
Other Road Maintenance Related Activities (Public Works Department - all functions paid by RUTF)	\$1,047,336	\$1,263,348
Total	\$3,531,441	\$6,103,348

In addition to the more than \$6.0 million of road improvement and maintenance investment planned for FY2019 noted above, the city is gearing up to complete more than \$5.5 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 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 FY2019 budget reflects the third 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 FY2019 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 capital projects during FY2018, FY2019, and FY2020. The requirement to address system improvements has resulted in a 60% rate increase since April 1, 2015, with a recommended 20% increase effective April 1, 2018. The recommended increase for April 1, 2018 sets rates at a point where the city’s future +\$32 million sewer plant upgrade can be paid for without additional rate increases if system utilization stays flat and revenues meet projections. Future adjustments to the sewer rates should reflect needed offsets for operational expenses and/or inflation. This still allows the fund to make loan payments for the new treatment plant that must be operational within 10 years. Therefore, if operational costs increase 5%, the recommended rate increase that year would be 5%. If operational costs increase 2%, rates would expect to rise 2% (please reference the “sewer cash flow” tab for more information).

The FY2019 budget includes 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 \$8.30 per month, or \$99.60 annually. The average residential customer uses about 4.54 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 April 1, 2018.

Average monthly residential sewer bill – previous	\$41.52 per month
Average monthly residential sewer bill – new rate	\$49.82 per month
Increase per month	\$8.30 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
4/1/2019*	\$16.51	\$0.79	\$7.89	\$0.38
4/1/2020*	\$17.33	\$0.83	\$8.28	\$0.39

* 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 FY2019 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

