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TO: Mayor DeWayne Hopkins and Members of City Council

SUBJECT: Budget Message - FY 2013/2014

DATE: March 15, 2013

The budget for fiscal year 2013/2014 is hereby presented as adopted by City Council subsequent to the informational review process and required public hearing. The emphasis of the budget process is on planning for anticipated operating expenditures, city services, personnel costs, capital expenditures, and other related programs. It is during the City Council's review process that choices are made among competing demands for the city's fiscal resources. The City of Muscatine's established budgetary process has resulted in a management oriented budget document with the fourfold theme of providing financial control, management information, planning, and policy information. This budgetary process has been recognized by the Government Finance Officers Association in their conferral of the 28th consecutive Distinguished Budget Presentation Award for the fiscal year 2012/2013 City Budget. The budget for fiscal year 2013/2014 will also be submitted for consideration for this award.

GOALS AND OBJECTIVES

The budget for 2013/2014 includes comprehensive goals and objectives for each department and activity in the operating budget. The process of developing a comprehensive management by objectives program for the community is a continual process as the needs of the community change. As a result, the city must continue to redefine its goals and set objectives as to how they can be achieved in both the short and long term. The evaluation of progress in accomplishing the prior year's objectives is an important part of the budget process between the City Council, City Administrator and department directors.

The City Council held a goal setting session in October of 2012 to discuss and establish goals and objectives for 2013/2014. At that meeting the City Council also began discussions for the establishment of Core Values, a Vision Statement, and an updated Mission Statement for the City. The Core Values, Vision Statement, updated Mission Statement, and strategic goals for 2013 and future years as adopted and prioritized by City Council are as follows:

Core Values

- Integrity
- Respect
- Innovation
- Excellence
- Professionalism
- Customer Service
- Fiscal Responsibility

Vision

Muscatine is a vibrant river community where a rich tradition of community pride and entrepreneurial spirit has created an outstanding environment to live and work. Muscatine values its history, has a strong sense of community pride, is rich in cultural and economic diversity, and has strong global connections. Muscatine residents, businesses and its local government are engaged and achieve goals through valued partnerships.

Mission

The City of Muscatine's mission is to provide a full-range of high quality, effective municipal services; excellent customer service; and sound fiscal management. We engage our community, producing results designed to enhance the safety, well-being and quality of life for our residents and business community. We are advocates for our community, valuing our history and working to shape our future.

Long-Term Goals

- Promote in-fill and voluntary annexation opportunities.
- Develop effective economic development strategies to encourage local investment and partnership.
- Partner with local organizations and governments to combine services or cooperate where feasible and appropriate.

Council Policy Agenda 2012 and 2013

Top Priority

- Develop a marketing and branding initiative for the City of Muscatine in cooperation with the Chamber and Convention and Visitors Bureau. 2013
- Work to promote the City of Muscatine as a Blue Zones Community.
- Meet with Muscatine Power & Water to redefine annexation policy for the extension of utilities in unincorporated areas.
- Monitor the long-term plan to eliminate the accumulated deficit in the landfill fund.
- Update the City's Financial Policies to reflect a new target General Fund fund balance in excess of the present 10% threshold. This policy update will also address conditions for use of reserves, authority over reserves, and replenishment of reserves. 2013
- Position the City to address potential shortfalls in revenue due to state and federal mandates.
- Develop a citywide comprehensive plan incorporating Iowa's Smart Planning Principles. 2013
- Develop policies/incentives to encourage in-fill opportunities and address blight within the city limits.
    - Adopt housing tax abatement plan.
    - Adopt historical housing tax abatement plan.

High Priority

- Provide for the City's existing levels of service with an emphasis on essential services.
- Prioritize and determine funding sources for capital projects identified in the 5-Year Capital Improvement Plan.
- Promote a climate for businesses to thrive in Muscatine and work to retain Tax Increment Financing (TIF) as a municipal economic development tool.
- Adopt updated City Code. 2013 (Estimated cost $15,000)
- Adopt updated Citywide zoning ordinance. 2013-2014 (Estimated cost $10,000)

<u>Management Agenda 2012-2014</u>

The Management Agenda represents short-term projects for the City Administrator and staff. Included in the Management Agenda are items that are considered major projects that involve significant city resources and may span more than one year for completion

Top Priority

- Focus on continuous improvement and excellence in service throughout the organization.
- Enhance the City's new website and maximize web-based resources as a resource for public communication.
- Complete an update of the City Code and City's 1974 zoning ordinance. 2013
- Prepare a Unified Development Code for City Council review and adoption (Subdivision, Building, Zoning, and Health regulations). 2014

High Priority

- Utilize surveys and other tools to enhance policy and budget recommendations.
- Continue to develop the Continuous Service Improvement (CSI) Program and begin Lean training for all City employees in cooperation with HNI.
- Provide a pavement management program and work to develop a sidewalk management policy and plan. 2013
- Continue to review and target means to improve energy efficiency throughout the organization and City facilities.
- Complete the following Capital Projects:
    - Finalize and implement the Combined Sewer Overflow (CSO) timeline. 2013
    - Cedar Street Reconstruction and Trail. 2013-2014
    - Colorado Street Reconstruction. 2013-2014
    - Identify Mississippi Drive Corridor funding mechanisms. 2013-2014
    - Provide support to the Phase III Soccer Committee.
    - Evaluate adding HVAC to City Hall and the Art Center. 2013
    - Prepare cost estimates and a construction timeline for inclusion of reconstruction of Mulberry Street (Houser to Bypass) in the City's Capital Improvement Plan.

The 2013/2014 budget includes funding appropriations (where applicable) required to accomplish the objectives listed above. Department objectives also make reference to the City Council Strategic Goals where applicable including the City Administrator, Community Development, Public Works, Engineering, Park Administration, Finance, and Landfill department objectives. The budget was also prepared according to certain policies and practices established by the City Council. These policies and practices immediately follow this Budget Message.

KEY BUDGET ISSUES

In developing the fiscal year 2013/2014 budget, there were several key issues which had to be addressed during the budget process and which will continue to be concerns during the implementation of the various programs and services during the year.

State Legislation

During previous Legislative Sessions, actions were taken by the State, which eliminated or reduced revenues that were shared and redistributed to local governments throughout Iowa. As a result of these actions, the City of Muscatine has seen a significant reduction in opportunities within the General Fund to maintain or generate additional revenues. Even without these revenues, the city has been able to maintain its basic level of services but has not been able to add significant service levels throughout city operations. Previous changes, however, have had a compounding effect for not only the lost revenue in that year but in the following years as well.

At the time the 2013/2014 budget was being prepared, City staff was closely monitoring bills being considered during the 2013 Legislative Session, specifically the property tax legislation that would roll back the taxable valuations of commercial and industrial property in future years and also bills that would prohibit cities from using automatic traffic enforcement (ATE) cameras or limit the fine rates for ATE cameras. At the time the budget is being prepared for publication, it appears there will be no restrictions for the upcoming year on the use of ATE cameras or the amount of the fines. There continues, however, to be discussion concerning the rollback of commercial and industrial valuations. If approved, this legislation could have long lasting and dramatic effects to the municipal budget and our ability to provide basic services to Muscatine residents. With this in mind, the City's 2013/2014 budget was developed based on positioning the City for future years if this type of change would be enacted.

The City of Muscatine made a number of changes over the last several years to adjust for the loss of revenues available for operational issues. Significant reorganization actions have taken place when the opportunities presented themselves throughout the General Fund activities. Overall, these adjustments have continued to place a strain on the operational activities of the City's General Fund. Despite these challenges, the City continues to do more with less and provide for basic overall services within the General Fund and other funds of the City of Muscatine while facing increasing demands for public services.

Property Tax Rate

Throughout the deliberations of City Council's budget sessions, Council determined that they wished to work to minimize the overall property tax impact to the community. Every elected body struggles with the balance of the tax burden for the citizens with a need to provide adequate funding for operational and capital activities within the organization itself. It is that balance that Council tried to achieve in the establishment of the 2013/2014 budget. The original proposed budget included a 1.33% increase in the City's property tax rate. This increase was proposed primarily due to the significant increase in the police and fire pension contribution rate from 26.12% to 30.12% which increased the City's police and fire pension costs by $235,800. The City Council in the final adopted budget, however, made a number of other reductions which allowed the City's property tax rate to remain at the same rate as the 2012/2013 rate at $15.67209/$1,000 of valuation. While the tax rate will not change for 2013/2014, residential property owners will still be impacted since the rollback factor applied to residential property increased by 4.06% for the upcoming year. The owner of a home with a value of $100,000 will see an increase of $33 in their city property taxes for 2013/2014.

Police and Fire Pension Contribution Rates

The required city contribution rate to the statewide Municipal Fire and Police Retirement Systems of Iowa (MFPRSI) increased from 26.12% in 2012/2013 to 30.12% for 2013/2014, which resulted in an increase of $235,800 in the contribution required. Police and fire pension contributions are funded annually from the Employee Benefits tax levy. For 2013/2014 the tax levy rate needed to fund Police and Fire pension costs increased to $1.70009/$1,000 of valuation from $1.43566/$1,000 for 2012/2013. This was a $.26443/$1,000 (18.4%) increase in the tax rate to fund these costs. In order to fund the increase in police and fire pension costs, as well as increases in other employee benefits and city insurance costs, the City chose to fund a $530,246 of other employee benefit costs for General Fund employees from the General Fund balance instead of the Employee Benefits levy. This allowed for the total overall tax rate to remain the same for 2013/2014. If the Police and Fire pension contribution rate further increases in upcoming years as projected, increases in the City's total tax levy rate will be unavoidable. The MFPRSI increases are the number one budget challenge we face annually and these costs have a direct impact on our ability to maintain our existing levels of services.

Significant Changes Implemented

A number of changes were implemented over the past several years, which has placed the City in a better financial position for 2013/2014 and future years.

A key issue for the 2010/2011 budget was the consideration of and ultimate adoption of a Utility Franchise Fee on Alliant Energy, the provider of natural gas to the community. The ordinance change adopting this fee provides that the fee may be up to 5% on natural gas sales by Alliant in the community. The initial rate was set at 2% which was effective July 1, 2010. Implementation of this fee allowed for a reduction in the City's property tax rate for 2010/2011 and future years. The effect of the Utility Franchise Fee and the related reduction in property taxes varies by resident and individual businesses. Implementation of this fee resulted in the reduction of the Emergency property tax levy from its maximum rate of $.27/$1,000 of valuation in 2009/2010 and prior years, to $.08/$1,000 in 2010/2011. The Emergency Tax Levy was eliminated in 2011/2012 and was not levied in 2012/2013 or 2013/2014.

The establishment of this fee allowed the City to diversify its funding sources used for the provision of General Fund services and reduce the City's property tax rate. With this franchise fee in place for up to 5% of gas sales, this also allows flexibility in future years for the City Council to modify this rate if needed to continue to provide expected levels of City services to residents. This rate can be modified by giving a 90-day notice to Alliant Energy. For the 2012/2013 year City Council chose to reduce the Utility Franchise Fee rate to 1% which is projected to generate $100,000 annually. This reduction was possible since there have been strong revenues in other areas of the General Fund budget, specifically Automatic Traffic Enforcement (ATE) fines, fees for Fire department inspections and permits, and increased hotel/motel taxes. The 1% franchise fee rate was maintained for the 2013/2014 budget. The City Council identified the Utility Franchise Fee as a potential revenue source to offset any legislative action to reduce annual ATE revenues.

Structural changes implemented in 2010/2011 and 2011/2012 also assisted the city in increasing the General Fund balance. The changes in 2010/2011 include but are not limited to the following: (1) a reduction of one fulltime position in the Park Maintenance budget; seasonal staff was increased to partially offset this reduction for a net savings of $49,300, (2) elimination of one fulltime custodian position with contract cleaning services partially offsetting the cost savings for a net savings of $7,400, (3) funding economic development administrative costs and the Chamber economic development allocation with TIF funds (a total of $137,500), (4) not filling the budgeted ¾ time Red Light Camera Technician net of the cost of creating an additional sergeant position for this function ($30,000 savings), and (5) transferring the dredge operation to the Water Pollution Control fund ($42,000 General Fund savings). These items total to a $266,200 positive impact on the General Fund.

The changes implemented in 2011/2012 and 2012/2013 focused on department efficiencies and cost savings and include but are not limited to the following: (1) using sponsorships for the Parks seasonal brochure and Golf score cards saving $4,700 annually; (2) the new eleven foot mower in the Parks department and trackhoe for grave digging at the Cemetery both saved man hours that were redirected to other functions in those divisions; (3) additional Park sites were "adopted" under the "Adopt a Park" program with this program expanding from four sites in 2010 to twelve in 2012; (4) redesigning the Library circulation system process eliminating a 35-hour/week position and creating a new 30-hour/week "Holds" person at a lower pay rate for a savings of $17,800; (5) using staggered work times in the Police investigations division which reduced overtime and call-ins saving an estimated $3,500 in overtime costs annually; (6) activities in the Engineering (engineering design for smaller projects), Community Development (Comprehensive Plan update), and Art Center (printing) were done in-house rather than under contracts resulting in varying amounts of cost savings; (7) using inmate labor to clear the Airport fence line of unwanted growth saved an estimated $22,000; and (8) the use of automatic traffic enforcement cameras has allowed the Police department to re-direct their time to other areas of law enforcement.

Departments will continue to look for efficiencies and cost savings in their operations in 2013/2014 and future years. The City's goal for the upcoming year of establishing a formal "Lean" program will assist departments in identifying and implementing efficiencies and cost savings applicable to their department operations. With limited financial resources expected to be available in future years and a growing demand for municipal services, the City must continue to take significant steps to enhance revenue streams as well as reduce expenditures where appropriate to meet these challenges. The budget recommendations contained within this document (and presented during the budget review) are aimed at positioning the city to continue to address economic challenges, provide core services to the community, and position the city to meet new challenges and ever growing demands.

Tax Increment Financing (TIF) and Economic Development

The City has been a strong proponent of economic development activities over the years and has made aggressive use of TIF and tax abatement incentives. The City continues to support these efforts as these are effective tools for local communities, but TIF comes up against strong attacks annually during legislative sessions. The City needs to maintain the ability at the local level to attract and retain business. However, there is another side of the story which is often forgotten and that is the effect on the city, county, and schools and ultimately their respective tax rates. The increment the City is claiming for TIF totals $25,919,281 in 2013/2014 for all of the TIF areas. This value would generate $209,946 in taxes from the $8.10 General Fund tax levy. The impact on total taxes including the various other levies using the City's total tax rate of $15.67209/$1,000 rate is $406,209 – essentially lost revenue that could be used to fund and maintain city operations and services. If that $25.92 million was allocated toward regular valuations for all taxing entities, the county would generate over $236,000 in taxes and the school over $397,000 (or they could reduce their respective tax rates). It should be noted that a portion of the increment the City is claiming is for debt service on bond issues for public improvements in TIF districts. If those projects were not funded from TIF and the City still did them, the City's debt service levy would need to be higher.

A significant funding source that was identified in previous years was the better utilization of tax increment financing (TIF) districts and returning to regular taxable valuations the unused portions of those funds on an annual basis. This will continue to be the case in the 2013/2014 budget and for years to come. By not claiming the full amount allowed, a portion of the values in each TIF area go back onto regular taxable valuations for all affected taxing entities. Approximately $741,000 of incremental taxes was not claimed by the city for 2013/2014. This resulted in the related property values to be considered as regular valuations, which increased regular tax revenues in all tax categories for the City and for each taxing entity.

For the 2011/2012, 2012/2013, and 2013/2014 budgets, the City Council approved two resolutions in each of these years for internal advances of funds which will allow the City to claim TIF funds for TIF administrative and economic development purposes. The first resolutions provided for internal advances of $102,517 in 2011/2012, $105,254 in 2012/2013, and $114,000 in 2013/2014 for staff time and other professional services involved in economic development activities and TIF administration and includes staff time of the City Administrator, Community Development Director, City Planner, Finance Director, Public Works Director and City Engineer. The other resolutions were for internal advances of $35,000 in each of the years from 2011/2012 through 2013/2014 for economic development grants to the Greater Muscatine Area Chamber of Commerce and Industry for their economic development activities. Using TIF funds for these purposes (instead of general property taxes) assisted the City in balancing the 2011/2012, 2012/2013, and 2013/2014 General Fund budgets and continuing to provide the current level of General Fund services to the community.

In May of 2011, the City Council approved a resolution, which consolidated and expanded the City's urban renewal policies, projects, and initiatives under a single urban renewal plan and expanded the City's urban renewal area to include the current City boundaries. This action will allow the City to pursue using TIF funding for economic development or blight alleviation throughout the City.

Landfill and Transfer Station Fund Deficits

Another key budget issue relates to the landfill fund, which is accounted for as an Enterprise Fund of the city. This fund has had a deficit fund balances since the 2002/2003 fiscal year. The budget for 2009/2010 included a significant rate increase for the transfer station from $41.00 per ton to $60.00 per ton effective July 1, 2009. This fee funds both transfer station and landfill costs. The continued need to expand and to develop costly landfill cells was the driving component of this fee increase as well as the deficit balance in the Landfill fund.

While it was anticipated that there would be some decrease in volume at the transfer station/landfill, the waste volume for 2009/2010 decreased from 41,320 tons in the prior year to 29,916 tons. With the continuing deficit in the Landfill fund, the Solid Waste Agency and the City considered implementing flow control measures which would have required all waste generated in the Agency area to be brought to the transfer station and landfill. Area businesses and the Chamber requested a committee be formed of business leaders, City staff, an Agency member, and others, to discuss the impacts that flow control would have on area businesses and possible alternate solutions. The Committee's recommendation included allowing for additional negotiated industrial contracts, which would bring additional waste volume and revenue to the landfill. City Council approved the Committee's recommendations at their October 7, 2010 meeting and five new industrial contracts were entered into which will bring in an additional 5,000 tons of waste and $180,000 of revenues annually over the next three years.

The deficit in the Landfill fund at the end of 2009/2010 was over $2.5 million. A large portion of this deficit was due to development of new cells at the landfill. The new cells are expected to have 298,800 tons of waste capacity, which should provide a waste disposal area for approximately 8.5 years depending on the annual waste volume. The Landfill deficit decreased by $411,988 to $2,100,612 in the 2010/2011 fiscal year and decreased by an additional $582,320 to $1,518,292 in fiscal year 2011/2012. With the estimated landfill revenues and expenditures, the deficit in the Landfill fund is projected to decrease by $485,238 during the 2012/2013 fiscal year and by an additional $338,122 to $694,932 by the end of the 2013/2014 year. The goal is to have the deficit eliminated and have a positive fund balance by the time the next cell needs to be constructed. Based on current waste volume projections, it is estimated that construction on the next cell will need to begin in the 2017/2018 fiscal year.

The Transfer Station fund had a deficit balance of $216,040 at the end of 2009/2010. Since revenues from the new negotiated industrial contracts were directed toward the deficit in the Landfill fund, the Transfer Station has not benefited financially from these new contracts. The 2010/2011 revised estimate included a $200,000 funding transfer from the City’s Refuse Collection fund which assisted in reducing the deficit in the Transfer Station fund. An additional $50,000 transfer from the Refuse Collection fund was made in 2011/2012 which eliminated the Transfer Station deficit. The City will continue to closely monitor the revenues and expenditures of both the Transfer Station and Landfill funds so these funds can remain in positive positions after the current deficits are eliminated.

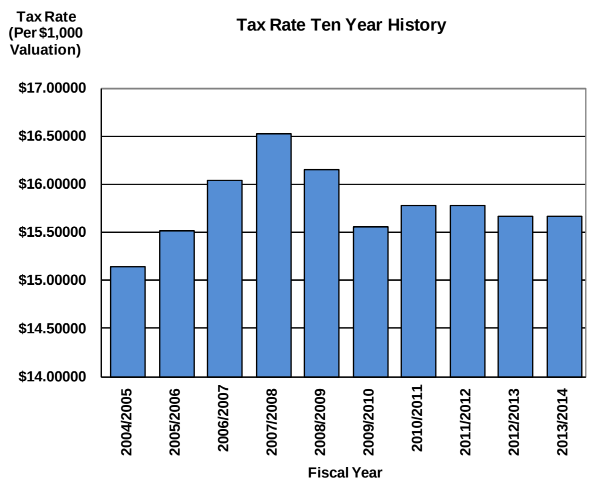
Other Issues and Changes for 2013/2014

As in every year, there are increases in expenditure levels for city operations that reflect the increased cost of providing services even at a status quo or below status quo level. In 2010/2011 the City successfully negotiated 3-year contracts with each of the City’s three bargaining units for the years 2011/2012 through 2013/2014. With 3-year contracts in place, labor attorney costs were reduced in 2011/2012 and 2012/2013. The Police and Blue/White Collar contracts included 2.25% increases for 2011/2012, 2.50% for 2012/2013, and 2.90% for 2013/2014. The Fire contract included increases of 2.25%, 2.50%, and 2.95% for those years. The 2013/2014 budget includes $12,000 for labor attorney costs to negotiate the three new contracts which will begin in 2014/2015. A new supervisory and non-union pay plan was implemented for the 2011/2012 year. This plan groups employees into eleven pay grades instead of the more than 60 individual pay grades in the previous plan. Employees in this group received a 2.25% increase for 2011/2012 unless their placement in the new plan exceeded this amount. The employees in the supervisory and non-union group received a 2.5% wage increase in 2012/2013 and will receive a 2.9% increase in 2013/2014.

Each of the bargaining units agreed to increases in health insurance deductibles and out-of-pocket maximums effective January 1, 2013 and January 1, 2014. The previous $300/$600 single and family deductibles and $600/$1,300 single and family out-of-pocket maximums increased to $400/$800 deductibles and $800/$1,600 out-of-pocket maximums on January 1, 2013. These will further increase to $500/$1,000 deductibles and $1,000/$2,000 out-of-pocket maximums on January 1, 2014. These changes will also apply to supervisory and non-union employees. These increases should assist in reducing future year health insurance costs and related rate increases.

TAX RATE AND BASE

Property taxes continue to be the major revenue source for the City of Muscatine. In 2013/2014, property taxes will represent 31.9% of total city operating revenues. This is a slight decrease from the 32.1% in fiscal year 2012/2013. The total tax levy rate for fiscal year 2013/2014 of $15.67209 per $1,000 of valuation is the same as the total tax rate for 2012/2013. The following chart shows the property tax rates for the last nine (9) years and the budgeted rate for 2013/2014:



The tax rate decreases for 2008/2009 and 2009/2010 were due to unusually high increases in taxable property valuations of 4.62% and 3.8%, respectively, for those years. This provided the city an opportunity to recover lost economic ground due to previous years' low or insufficient changes in taxable valuations. These higher than average increases in taxable valuation were one factor that led to lowering the City tax rates in each of these years. Additionally, for 2009/2010 the lower tax rate was due to several events in addition to the taxable valuation increasing - pension rates were down and debt service requirements were down. Going into 2010/2011 the city faced a different challenge – a net increase in taxable valuation of only 1.58% due to a significant loss in industrial values (down 4.35% for 2010/2011). The two main reasons for the increase in tax rate for 2010/2011 were the increase in the debt service levy for funding capital improvement projects and an increase in the Employee Benefits levy for the required rate increase for police and fire pensions. For 2011/2012 the same total tax rate was maintained and the rate decreased slightly (by $.10/$1,000) for 2012/2013. The tax rate for 2013/2014 was maintained at $15.67209/$1,000 of valuation, which was the same rate as 2012/2013.

There are six categories that make up the 2013/2014 tax rate. The City's General Fund levy of $8.10 per $1,000 of valuation is the maximum levy permitted by state law. The City has been at this maximum General Fund levy limit since 1991/92. The 2013/2014 Tort Liability tax levy increased by 3.3% and the Transit levy increased by 16.2% compared to the 2012/2013 levies. The increase in the Transit levy was due to increased bus repair and maintenance costs and funding for the local 15% share of the cost of two new transit vehicles. Of the remaining levies, the Special Revenue levy for employee benefits in the General Fund decreased 1.7% and the Debt Service levy decreased .4%. The decrease in the Employee Benefits levy is primarily due to funding $530,246 of General Fund employee benefit costs from the General Fund balance instead of the tax levy. This allowed City Council to maintain the same overall City tax rate and still maintain an adequate General Fund balance. The slight decrease in the debt service levy is due to favorable interest rates on the June 1, 2012 bond issue as well as refunding the last three years of the June 1, 2006 issue. The city will continue the Levee Improvement tax levy of $.06750 per $1,000 of valuation in 2013/2014, which will be used towards the city's share of the Mad Creek Levee project costs.

As noted previously, the City eliminated the Emergency tax levy for the 2011/2012 year and this levy has again not been used for 2013/2014. In 2009/2010 the City levied the maximum Emergency levy rate of $.27/$1,000 of valuation which generated $196,964. For 2010/2011 the City implemented a 2% Utility Franchise Fee on Alliant Energy, the provider of natural gas services in the City. This fee allowed for a reduction in the City's overall property tax rate for 2010/2011, specifically the Emergency Tax Levy rate which was reduced from $.27/$1,000 in 2009/2010 to $.08/$1,000 in the 2010/2011 budget. The Emergency tax levy was eliminated in the 2011/2012 budget as part of City Council's goal to maintain the City's total tax levy rate at $15.77146/$1,000 of valuation. From the 2009/2010 emergency levy, City Council directed that $80,000 be set aside in the Emergency Tax Levy special revenue fund to be available in the case of future revenue shortfalls due to current or future economic conditions or for unanticipated emergency expenditures. Those funds are budgeted to remain in the Emergency Levy special revenue fund in 2013/2014.

Expansion of the existing industrial and commercial tax base as well as attraction of new tax base is key to the financial stability of the City of Muscatine for the future. In this regard, the City Council continues to invest in economic development activities by participating in several programs within the community to promote economic development. A number of these programs are controlled solely by the City of Muscatine and include the establishment and use of tax increment financing districts as well as urban revitalization districts and enterprise zones. These financial incentive tools are available through City Council action to provide similar yet different types of financial incentives to encourage expansion of existing and attraction of new business opportunities within the city. In May of 2011 the City Council approved a resolution establishing a new enterprise zone and abatement schedule for a designated area of the City in order to offer tax abatement as an incentive to stimulate job creation and retention, enhance property tax values, and promote industrial revitalization within this area. As noted in the previous section, in May of 2011, the City Council approved a resolution, which consolidated and expanded the city's urban renewal policies, projects, and initiatives under a single urban renewal plan and expanded the city's urban renewal area to include the current city boundaries. This action allows the city to pursue using TIF funding for economic development or blight alleviation throughout the city. A top priority goal of the City Council for 2013 is to develop and adopt policies and incentives to encourage in-fill opportunities and address blight within the city limits. Plans are to include tax abatement incentives for improvements to properties in the City's two historical districts and in designated blighted areas of the City, and tax abatement incentives for new residential home construction in designated areas approved by City Council.

In addition, the City Council continues to provide financial support to the Muscatine Chamber of Commerce & Industry. For fiscal year 2013/2014 the City Council has included $35,000 in the budget to provide this assistance. The City is one of the largest financial contributors to the Muscatine Chamber of Commerce & Industry and the City also provides staff assistance on a variety of projects that are undertaken by this organization on behalf of the community to promote economic development. The City also continues to pursue infrastructure improvements throughout the community to enhance economic development efforts as an active development partner in this process. Continued expansion and improvements of the sanitary and storm sewer systems within the city, extension of sewer and water services to the south end and other areas of the community, continued airport improvements and overall quality of life projects are but a few examples of the city's continued commitment to enhancing economic and quality of life issues within the City of Muscatine.

The taxable property valuation for fiscal year 2013/2014 is $795,205,814, which is $17,517,382 (2.25%) higher than the fiscal year 2012/2013 valuation of $777,688,432. This increase is lower than the 2.84% increase for 2012/2013. Growth in Tax Increment Financing (TIF) districts is not included in these taxable valuation amounts. For 2013/2014 there was a decrease of 1.21% in commercial and a decrease of .53% in industrial valuations. Commercial and industrial property is valued at 100% for 2013/2014. The taxable valuation for residential property, however, increased by 5.12% for 2013/2014. While *actual* residential property values increased by only .99% in 2013/2014 due to growth and re-valuation of existing property, *taxable* values increased by 5.12%. This difference is due to the State “rollback factor” applied to actual values to derive taxable values. This rollback factor in the past normally resulted in a reduction to the taxable values of residential property. For 2013/2014, however, the rollback factor for residential property increased from 50.7518% to 52.8166% (an increase of 4.06%). With the total City tax rate of $15.67209 for 2013/2014, the City will collect $12,539,510 in property taxes in fiscal year 2013/2014 compared to fiscal year 2012/2013 taxes of $12,258,743, an increase of $280,767 (2.29%). The City was able to lower the total tax rate by funding a portion of General Fund employee benefits from the General Fund balance instead of from the tax levy.

STATE AND FEDERAL FUNDING

The City will continue to rely upon the property taxes generated as the primary funding source for General Fund programs. Reductions in state and federal funding sources have resulted in the continued emphasis on property taxes.

Funding from the State of Iowa included in the 2013/2014 budget continues to be affected by what is a recovering fiscal situation in the state. The largest source of funds from the State of Iowa relates to Road Use Tax funds collected by the State and distributed to local governments for street maintenance activities. For fiscal year 2013/2014 it is anticipated that the city will receive $2,286,600 in Road Use Tax funds, which is an increase of $146,800 from the original 2012/2013 Road Use Tax budget of $2,139,800. Road Use Taxes are distributed to cities on a per-capita basis and the increased revenue in 2013/2014 reflects the recent annexations which added 933 to the City’s population. An estimated $197,000 in State funding will also be received for the Transit operation and $140,300 for airport capital projects.

The fiscal year 2013/2014 budget includes an estimated $5,908,200 in federal funding for both operating and capital project costs. This includes the following: $1,915,600 in funding for the Section 8 Housing rental assistance program; $350,400 for operating and capital funding for the city’s Public Housing Program; $2,056,700 in federal funding for street-related projects; $353,300 in FAA funds for airport projects; $465,700 in federal funding for the Transit operation; $445,000 in federal funding for a trail project; and $321,500 in Police Department grants.

CHARGES FOR SERVICES

For fiscal year 2013/2014 budgeted charges for services total $13,228,850 and comprise 31.3% of total operating revenues of the city compared to 31.5% for 2012/2013. These charges primarily involve programs and activities in the city's Enterprise Funds. Fee increases are budgeted for sanitary sewer services, collection and drainage, and parking for fiscal year 2013/2014.

Sewer revenues including the separate collection and drainage charges are estimated at $5,330,000 for 2013/2014. Based on previous independent reviews and studies, the city set forth on a course to systematically increase fees for collection and drainage as well as sanitary sewer rates. The purpose was to create sufficient fund balances to address current and future capital requirements for both operations, as well as debt service requirements on the State Revolving Fund Loan used to fund the major plant upgrade recently completed. At the time the budget was being prepared the City was in the process of evaluating proposals for a formal rate study for these operations for years beginning in 2013/2014. The budget includes an estimated 2% in both sewer and collections and drainage rates for 2013/2014. The actual rate increases, however, will be based on the results of that study.

Parking fees are budgeted at $112,000 for 2013/2014. The budget includes increases in the parking meter rates from $.20 to $.25/hour for 10-hour meters and from $.30 to $.50 for 2-hour meters.

Golf course fees and sales are estimated at $850,900 for 2013/2014. Adult and senior greens fees were last increased for the 2012 golf season by $1.00 per round and adult and senior season pass fees were increased by $25.00. The greens fee and season pass rates for juniors were decreased in the 2012 fee schedule in an effort to increase interest in the game of golf by young people. The fee increase was needed to provide funds for capital improvements at the course, including replacement of the fairway irrigation system. The 2012 fee structure will remain in effect for the 2013 golf season. The 2013 season is the seventh season in which the city has complete operational control of golf services. The operation of the clubhouse had previously been contracted with a golf professional. The city's golf professional is now a fulltime employee and is responsible for managing the golf clubhouse operation. The city also assumed all beverage and golf cart services to maximize the earnings potential for the course. This change has produced positive results both operationally and financially for the city. An indoor golf simulator was purchased in 2010 to be used during winter months as well as during inclement weather during the golf season. The City rebuilt the Golf Course maintenance shop that was destroyed by fire in 2007 using funds from an internal loan. The loan was fully repaid in 2011/2012, three years ahead of the original schedule. Replacement of the fairway irrigation system is under construction in 2012/2013 at a total cost of $342,800. A $60,000 down payment has been included in the 2012/2013 budget and an internal loan will be used to finance the remaining portion of the project costs. Annual payments estimated at $60,000 will be made from the Golf Course fund to repay this loan. The payment schedule will be accelerated if there is sufficient funding available in the Golf Course fund.

Budgeted transfer station charges for services total $1,915,000 for 2013/2014 based on an estimated 35,000 tons of waste being processed at this facility. The current tipping rate is $60.00 per ton and this rate will not change for the 2013/2014 year. This rate increased from $41 to $60 per ton July 1, 2009 with this increase directly related to the cost of developing new cells at the landfill. In 2009/2010 the city began offering industrial contracts for refuse disposal whereby industries can enter into an agreement with the city to dispose of their waste at the Transfer Station and be directly billed for the disposal fees. Under these agreements the industries qualify for a discounted industrial rate of $50/ton of which $30 of this rate is paid to the Landfill. Additional negotiated industrial contracts were approved in 2010 which will assist in generating new waste for this facility. Revenue from the new negotiated contracts, however, will be directed toward the Landfill fund deficit. As noted previously, the 2010/2011 revised estimate included a $200,000 funding transfer from the Refuse Collection Fund and the 2011/2012 revised estimate included an additional $50,000 transfer which eliminated the accumulated deficit in the Transfer Station fund as of the end of the 2011/2012 fiscal year.

Budgeted landfill charges for services total $1,290,000 for 2013/2014. The landfill rates are incorporated in the transfer station rates with $40.00 of the $60.00 per ton transfer station rate ($30.00 of the $50.00 for industrial contracts) paid to the landfill for material disposed of at that facility. Additional negotiated industrial contracts were approved in the fall of 2010 with those revenues directed toward the deficit in the Landfill fund. A fee was also assessed to Solid Waste Management Agency members beginning in 2008/2009 to assist in the overall funding of landfill costs.

The Refuse Collection budget is charged on a tonnage basis for waste collected and disposed of at the transfer station. Refuse Collection charges for services total $2,171,000 for 2013/2014. The Refuse Collection rates were last increased from $18.25 to $20.00 per month for regular residential customers and from $13.25 to $15.00 for senior customers on April 1, 2011 when the City began providing contracted single-sort curbside recycling services to all residential customers. Under the contractual agreement for this service, the City paid the contractor $3.05 per customer per month for this service during the first year of the contract, with this cost increasing to $3.14 April 1, 2012, $3.23 April 1, 2013, $3.33 April 1, 2014, and $3.43 April 1, 2015. The City had cost savings from discontinuing the drop-off recycling program, which offset a portion of the cost for the curbside recycling program.

The Fire department continues to provide ambulance services for the city and surrounding townships. Revenue from ambulance services is estimated at $1,250,000 for both the 2012/2013 revised estimate and 2013/2014 budget with these estimates based on trends in the number of ambulance runs and revenues over the past year. The fee for the basic ambulance service is currently $560, the rate for ALS 1 calls is $665, the rate for ALS 2 calls is $962 and the rate for SCT (Skilled Care Transports) is $1,137. The Fire department reviews rates on an annual basis based on surveys of other area providers.

Transit fares were last increased for the 2003/2004 budget with the fare for fixed routes and night service increasing from $.65 to $.75 and the paratransit fare increasing to $1.00. No increase is budgeted for 2013/2014. Transit charges are estimated at $171,000 for 2013/2014.

Boat harbor slip rental rates are based on boat length. These rates increased by $40 per slip rental for the 2010 season. No rate increase was budgeted for 2011, 2012, or 2013.

PROGRAMS AND SERVICES

The 2013/2014 budget will provide for the continuation of most city services at the current levels. Full-time equivalent year-round employees on an entity-wide basis totals 223.81 for 2013/2014. This is a decrease of 1.48 in full-time equivalent positions compared to the original budget for 2012/2013. Changes in authorized positions for 2011/2012 through 2013/2014 are as follows:

2013/2014

- The part-time Library Security Guard position was eliminated which reduced fulltime equivalent employees by .60.
- One fulltime Plant Operator position was eliminated in the Water Pollution Control Plant Operations budget. Completion of the plant renovation project allowed for 24/7 staffing to be discontinued at the plant.
- There was an increase in part-time hours for housing staff equivalent to a .12 fulltime equivalent addition in staffing.

2012/2013

- Two full-time Police Officer positions were added midway through the 2011/2012 year. These positions will be 100% funded from a COPS grant for three years.
- One firefighter position was added for 2012/2013 with this position funded from a transfer from the Ambulance fund.

- The half time Community Services Officer in the Community Development department was increased to 3/4 time as part of the reorganization in the department after the retirement of the Health and Housing Coordinator. Since the new fulltime position is at a lower pay step, there was no additional cost for this change.
- A 35-hour/week position at the Library was replaced with a 30 hour/week position at a lower pay grade.
- A fulltime custodian position in the Housing department was replaced with a 3/4 time position in 2011/2012 when the former custodian retired. The part-time Section 3 worker in the Housing department was reduced from 20 to 15 hours per week.

2011/2012

- One full-time Police Officer position was added for the Street Crimes Unit.

The projected level of expenditures for the General Fund of $17,688,707 for 2013/2014 is 2.9% ($504,460) above the 2012/2013 budget of $17,184,247. The overall increase consists of (1) an increase of $324.900 (3.7%) in salaries and wages, (2) an increase of $313,900 (8.6%) in employee benefit costs, (3) an increase of $41,400 (4.7%) in commodity costs, (4) an increase of $115,200 (5.2%) in contractual services costs, (5) an increase of $171,900 (34.9%) in capital outlay costs, (6) a decrease of $72,840 (10.3%) in transfers, and (7) a decrease of $390,000 (90.7%) in "assigned" funding allocations. The increase in employee benefits includes $235,800 for the increase in police and fire pension contributions previously discussed.

The City first used the "assigned" funding classification in the 2012/2013 General Fund budget for the following items:

1. The first of three annual allocations of $40,000 to be set-aside to fund the City's obligation to retain the two new COPS grant-funded police officers for one year subsequent to the 3-year grant period. This is a requirement of the COPS grant.
2. The Fire department budget included a request for $490,000 to replace a fire engine. The budget included setting-aside or "assigning" $250,000 in 2012/2013 to make this purchase in 2013/2014. It was originally proposed the remaining $240,000 be funded from the 2013/2014 budget. Due to a favorable General Fund balance at the end of 2011/2012, City Council authorized funding for the full amount of the fire engine in 2012/2013.
3. The budget also included "assigning" $140,000 of funding for the replacement of the City's financial software system. Replacement of this software system is included in the City's Five Year Capital Improvements Program.

The funding "assignments" were made for several reasons: (1) While the General Fund balance and revenues are currently sufficient to fund operations and some capital items, changes by the State legislature could change this significantly in upcoming years. It is proposed that the City only make one-time expenditures from available funds instead of adding recurring costs (staffing increases); (2) Funding the fire engine and Finance software from the General Fund will assist in reducing future year debt service requirements. In prior years, sufficient funding would not have been available in the General Fund and these items would likely have been funded from bond proceeds; (3) Setting aside funds for the future COPS grant obligation will lessen the impact on the General Fund for that year.

The only funding "assignment" in the 2013/2014 budget is $40,000 for the second year of the funding to be set-aside for the City's obligation to fund the 4th year of the costs for the two officers funded from the COPS grant. The 2013/2014 budget, however, includes several significant capital outlay allocations in department operating budgets. Major capital items include: (1) $95,000 to replace and enhance the Police department's squad car video system; (2) $30,000 for backstop fencing improvements at Kent Stein Park; (3) $23,000 to paint and repair four tennis courts; (4) $25,000 to repaint the Aquatic Center pool basin; and (5) a total of $102,500 to replace General fund vehicles and equipment.

The 2013/2014 budget for the General Fund of the City of Muscatine provides an expenditure level to fund most core services at essentially the same level as in previous years for most departments. The two new COPS grant-funded police officer positions added midway through the 2011/2012 year enabled the Police department to reinstate the Street Crimes Unit to address gang-related activity in the city and also reinstate the School Resource Officer position for the middle schools. Although there are no full-time staff reductions in General Fund departments planned for 2013/2014, the effects of prior year reductions continue to be experienced in the respective departments. Prior year staff reductions affected most departments and have reduced full-time equivalent (FTE) employees in the General Fund by 16 from 170 in 2001/2002 to 154 in 2013/2014. There has always been a precarious balance between the desire to address community "needs and wants" and the availability and distribution of ever increasingly scarce financial resources. The city has been forced to adjust to the reduced levels of revenues by eliminating positions through the various departments of the city over the past several years. Although savings were achieved through these actions, it did alter the levels of service that the city now offers to the public.

The 2013/2014 budget continues to provide for a variety of essential and non-essential public services. In 2010/2011 the City contracted with GATSO, USA to install and operate Automatic Traffic Enforcement (ATE) cameras at five intersections in the community. This system has improved traffic safety in those areas at minimal or no cost to the Police department. The Police department budget continues to include one School Resource Officer position in the high school, which receives 75% funding from the Muscatine Community School District. As noted above, the School Resource Officer position assigned to the middle schools was reinstated in 2012/2013 as a result of being awarded the COPS grant. The budget also continues a 100% grant-funded police officer position to serve on the area's Joint Terrorism Task Force. The two police officer positions assigned to the Drug Task Force will continue in 2013/2014. These positions are partially funded from federal grants.

Fiscal year 2013/2014 will be the ninth full budget year for the Muscatine City/County Emergency Communications Center (MUSCOM). The city and county public safety dispatch centers were combined into the joint operation in September 2004. Operating costs through 2008/2009 were shared on a 55% county, 45% city basis. Beginning in 2009/2010 all of the costs for MUSCOM are being funded from a countywide tax levy.

The City of Muscatine continues to provide Emergency Medical Services (EMS) including ambulance services through the Fire department. Firefighters continue to provide paramedic level services as well as fire fighting services to the community.

Public Works programs and service levels in the areas of roadway maintenance, snow and ice control, street cleaning, traffic control, engineering, and refuse collection have been maintained for fiscal year 2013/2014. Major projects in the Public Works area in the upcoming year include beginning construction on both the Colorado Street Improvement project and the Cedar Street Improvement project. The Refuse Collection budget continues to provide for the contracted single sort curbside recycling program which began in April, 2011. As of that date, the former recycling drop-off locations were discontinued.

Leisure time service activities include a wide variety of activities that reach a cross section of the community through the Library, Art Center, Museum, Golf Course and a comprehensive system of parks, recreational programs, the aquatic center, boat harbor, and soccer facility.

Since 2002 the city has made significant investments in recreation facilities. In 2002 the city aggressively pursued and received a Community Attractions and Tourism (CAT) Grant for a variety of community projects from the Vision Iowa fund. The overall "Pearl of the Mississippi Project" was estimated at $9.6 million and included a new aquatic center, a skate park, an environmental learning center, exercise trail expansion, and various riverfront improvements. The skate park was opened in August of 2003 and the Aquatic Center opened for the 2004 summer season. In April 2005 the Environmental Learning Center (a Muscatine County project) opened its doors and the Riverview Center renovation work was completed in May 2005. The remaining individual projects in the overall "Pearl of the Mississippi Project", the trail expansion and community art, were completed by May 31, 2006. Phase II of the Pearl Project was completed in 2006/2007 and included an interactive water feature, landscaping, and other improvements on the riverfront. These projects significantly expanded parks and recreation facilities in the community.
The city will continue its commitment toward effective planning and community development efforts. In 2012/2013 the Community Development department is in the process of developing a new citywide comprehensive plan incorporating Iowa's Smart Planning Principles. The city's Housing department operates the 100-unit Clark House Senior Citizen Facility, the 50-unit low and moderate income family Sunset Park Project, and the 50-unit Hershey Manor senior citizens facility operated by the city through a management contract with the Hershey Manor Board. In addition, the city is assisting low and moderate income individuals and families with rent subsidies through the federal Section 8 Housing Choice Voucher program.

The city continues to pursue storm and sanitary sewer renovation and extension programs. In 2007 the city signed a Consent Order with the Environmental Protection Agency (E.P.A.), which requires the city to complete specific major sewer separation projects by 2024. In November of 2012, the E.P.A. approved the City's request to extend the completion date for these projects to 2028. The city completed the Hershey Avenue area sewer separation work in 2011/2012 which leaves the West Hill area as the remaining area yet to be completed. The cost of the West Hill sewer separation project is estimated to reach or exceed $50 million and this project will be done in multiple phases. This project will be funded in part by the 1% local option sales tax that was first approved by the voters in May 1994, renewed by the voters in August 1998, and again approved by voters in January 2004. On August 12, 2008, voters again approved extension of this tax for an additional ten years with a minimum of 80% of the tax to be used for storm and sanitary sewer projects with the balance to be used to fund the ongoing costs to maintain streets at a higher level as provided for in the Pavement Management Program. The first phase of the West Hill Sewer Separation project began in 2012 and the second phase will begin in 2013.

In recent years, the city through Federal Aviation Administration (FAA) grants completed various airport improvements including extending the primary runway, constructing a parallel taxiway, installing lighting, acquiring additional real estate, providing for a complete overlay of the existing main runway, construction of a crosswind runway and turnaround area, and construction of a parallel taxiway for the crosswind runway. The grant applications for these projects were made in accordance with the city's overall Master Plan for improvements at the airport. Airport projects budgeted for 2012/2013 and 2013/2014 include completion of the airport runway lighting improvements, airport hangar access security and T-hangar drainage improvements, airport airfield maintenance, and airport obstruction removal. These projects will receive either State (85%) or FAA (90%) grant funding. The airport will continue to serve the community for both recreational and business-related activities in 2013/2014.

For fiscal year 2013/2014 the city will continue to provide support for several non-profit service organizations within the community. Despite limited city resources, the City Council has remained committed to assisting these groups as best they can. These agencies provide valuable services to the entire community. For 2013/2014 the City Council chose to continue financial contributions for the Greater Muscatine Chamber of Commerce and Industry (GMCCI), Convention and Visitors Bureau (CVB), the Muscatine Humane Society, and Senior Resources. The subsidies to GMCCI, Senior

Resources, and the Muscatine Humane Society were maintained at the same levels as 2012/2013. The subsidy for the CVB was increased from $55,000 in 2012/2013 to 25% of the hotel/motel tax which is estimated at $87,500. The increased subsidy to the CVB is to support the new CVB Board's expanded efforts to promote tourism in the City of Muscatine and surrounding area.

Operating expenditures budgeted for all city operations for 2013/2014 total $38,779,707, which is an increas**e** of $1,472,906 (3.9%) from the fiscal year 2012/2013 level of $37,306,801. Operating revenues for the city total $42,227,671 compared to $40,859,157 for 2012/2013, an increase of $1,368,514 (3.3%). Capital project expenditures are estimated at $8,524,300 in the 2012/2013 revised estimate and $9,808,400 for 2013/2014.

FUND BALANCE AND BUDGET POLICY ISSUES

The 2013/2014 budget presents beginning balances, revenues, transfers in, expenditures, transfers out and ending fund balances for each city fund. Fund balance for budgeting purposes is defined as the funds remaining after the application of available resources to support expenditures of each fund. For governmental funds, fund balance is the difference between assets and liabilities of each fund. For enterprise and internal service funds, fund balance for budget purposes, is presented on a basis consistent with the budgets presented for governmental funds. Expenditures include capital outlay purchases and principal and interest due during the budget year on debt obligations. In this regard, the *budgetary* basis for enterprise and internal service funds differs from the *accounting* basis used to prepare the comprehensive annual financial report for the city. Additional information on the basis of budgeting and accounting for the various city funds can be found in the "Fund Structure Overview and Basis of Accounting and Budgeting" section later in the Introductory Section of the budget.

The city's Operating Budget/Expenditure Policy provides that a balanced budget be presented each year for City Council consideration and approval. The policy defines balanced budget as one in which expenditures will not exceed estimated resources and revenues. This in effect provides that expenditures be less than the beginning fund balance of each fund plus revenues for the year. For 2013/2014 balanced budgets were presented to and approved by Council for all funds with the exception of the Landfill and Marina Enterprise funds and the Equipment Services Internal Service fund. The deficits in both the Marina Enterprise fund and the Equipment Services Internal Service fund are due to inventories in those operations. The accumulated deficit in the Landfill fund is due to costs for development of new landfill cells at this facility. As noted previously, the new landfill cells are expected to have an 8.5-year life and the deficit in the Landfill fund is projected to decrease each year and be eliminated prior to the time that the next cell needs to be constructed.

The city's current budget policies require the ending balance for the year to be at least 10% of the budgeted expenditures in the General Fund or approximately $1,769,000 based on the 2013/2014 budget. The City Council in recent budgets has been making efforts to increase the General Fund balance over the minimum of 10% required by the city's financial policies to at least 15%. This effort is in part due to comments in the 2008 Moody's bond rating report which stated that Moody's considers our 10% fund balance requirement to be "relatively narrow" and that higher reserve levels may be appropriate for challenges to the city's financial operations. The ending balance for 2013/2014 is budgeted at $2,665,964, which is 15.1% of General Fund expenditures. This demonstrates City Council's commitment towards the goal of increasing the General Fund balance. Additionally, General Fund revenues are budgeted conservatively and department expenditures are generally less than their approved budgets and it is expected that the actual ending balance should exceed the amount budgeted.

The ending 2010/2011 General Fund balance was 13.6% of expenditures for that year. The ending balance for 2011/2012 increased significantly to 20.4% of that year's expenditures. This increase was primarily due to increased revenue from fines from automatic traffic enforcement (ATE) cameras that were installed in five locations in the spring of 2011; increased parks and recreation revenues; increased building and zoning fees; increased hotel/motel taxes; and expenditures for most departments coming in at less than the amounts budgeted. The City Council chose to use $250,000 of the increased balance to complete the financing for the new fire engine which was originally planned to be purchased in 2013/2014. In the original 2012/2013 budget the ending balance was budgeted at 14.3% of General Fund expenditures and it has been increased to 16.7% in the revised estimate.

While the General Fund budget for 2013/2014 shows the General Fund balance at 15.1% of expenditures, the budget is being "balanced" with $283,158 of General Fund balance. This is the amount that the estimated 2013/2014 expenditures exceed the estimated revenues. As noted in earlier sections of this budget message, the City Council used a portion of the General Fund balance to fund employee benefit costs in lieu of increasing the City's overall property tax rate. It should be noted, however, that continuing to use the General Fund balance to fund increased employee benefit costs, specifically the expected continued increase in police and fire pension costs, is <u>not sustainable</u> going forward into future years.

The importance of the General Fund balance integrity is reaffirmed when the city issues debt for various community projects. When undergoing a financial review by outside rating agencies in advance of bond issuance, the current fund balance in the General Fund reflects on the city's overall financial management and is probably the single most important issue in maintaining the city's bond rating. The rating received at the time of the city's 2012 bond issuance was Aa2 under Moody's new rating scale.

CAPITAL IMPROVEMENTS AND OTHER LONG-TERM FINANCIAL PLANS

Capital Improvements Plan

The operating budget will again be supplemented with an aggressive Five Year Capital Improvement Plan. In November of 2010 the City Council approved a resolution to adopt a new Five Year Capital Improvement Plan for fiscal years 2010/2011 through 2014/2015. Elected officials, citizens, and city staff participated in the development of the Plan and a public hearing was held prior to the Plan's adoption. This Plan is a document separate from the city's budget and it can be accessed from the city's website. The Plan's capital project summary schedule, however, listing all Plan projects has been included in the Capital Projects section of this budget document in order to provide a correlation between these two documents. During the annual budget process, this Plan is used to determine capital improvement projects to be included in the budget for the upcoming year. A number of projects in this Plan are subject to the receipt of federal, state, or local grant funding. As such, projects in the Plan may be accelerated or deferred based on funding availability. The projects in the 2012/2013 revised estimate and 2013/2014 budget are projects which have approved funding sources. If outside funding is awarded for projects in the Plan but not yet in the adopted budget, the city will make the appropriate amendments to the current or upcoming budget.

In addition to the project summary schedule from the Five Year Capital Improvements Plan, the Capital Projects section of this budget document includes descriptions of all projects under construction in 2012/2013 and those to be initiated in 2013/2014. Also included in the Capital Projects section are estimated costs for these projects on a fiscal year basis.

The major emphasis in the city's Capital Improvements Plan in the upcoming years will be upgrading of the city's streets and sewer systems as well as completion of facility improvements at the city's Water Pollution Control Plant.

In 2007 the city began a Comprehensive Pavement Management Program to upgrade the City's overall street conditions. Funding allocations of $1 million for calendar year 2007 and $2 million each for calendar years 2008 and 2009 were projected to be needed to complete the initial upgrade. These initial costs were funded with general obligation bond proceeds. Thereafter an annual allocation of at least $500,000 is needed to maintain the streets at this higher level. The third year of the initial street upgrade project was completed in the spring of 2010. The ongoing annual maintenance of the improved streets began in 2010 with these costs funded from the 20% allocation of local option sales taxes as provided for in the voter referendum in 2008 for the local option sales tax extension. This 20% allocation is estimated at approximately $500,000 annually.

In addition to the Pavement Management Program, other street improvement projects have been identified for construction in the next several years. These projects involve major upgrades to several heavily-traveled streets including Cedar Street from Parham to Houser and Colorado Street. Federal grants will fund a portion of the cost of these projects with bond proceeds funding the local share.

Sewer improvements continue to be identified as a high priority by City Council. In 2007 the City signed a Consent Order with the Environmental Protection Agency (E.P.A.) which requires the City to complete specific major sewer separation projects by 2024. The E.P.A. recently approved the City's request to extend the deadline in the Consent Order to 2028. In 2008 voters approved extending the local option sales tax for a 10-year period beginning July 1, 2009 with 80% of these funds allocated for sewer improvements including the projects mandated by the Consent Order. Construction on the second and final phase of the Hershey Avenue sewer improvement project was completed in 2011/2012. This was a major project mandated by the Consent Order. The remaining project in the Consent Order will be the separation of the combined sewer in the West Hill area. This will be a lengthy project to be done in multiple phases over the next fifteen years. The total cost for all phases of this project is expected to reach or exceed $50 million. Construction on Phase I of the project began in the summer of 2012 and is scheduled for completion by the end of 2013. Construction on Phase II of this project will begin in 2013.

Construction on the $18.5 million comprehensive Water Pollution Control Plant improvement project began in 2008/2009 and the project is substantially completed with only a few contract items yet to be resolved. A State Revolving Fund loan funded $16.5 million of project costs with the balance funded from the Water Pollution Control Plant Reserve. A separate project to expand the lab at the plant is scheduled for construction in 2013/2014.

Other capital projects either completed or expected to be completed in the current 2012/2013 year include the Mad Creek Flood Control project, Harrison Street Extension project, the Southend Fire Station project, the City Hall and Museum Boiler Replacement projects, the Golf Course Fairway Irrigation System project, and the Airfield Maintenance and Obstruction Removal projects at the Airport. Other significant capital projects budgeted for 2013/2014 include a new Park Maintenance facility, the Musser to Weggens Road Trail, the Airport T-Hangar Drainage project, and the Airport Runway Repair project. More information on individual capital projects can be found in the Capital Projects Fund section of the budget document.

Landfill Deficit Reduction Plan

In the fall of 2010, the City approved a long-term plan for the landfill to substantially reduce or eliminate the accumulated deficit in this fund over the next five-six years. This plan was developed as a result of meetings of a Chamber appointed committee which included designated business leaders, city staff, a member of the Solid Waste Agency, and others, to discuss methods other than flow control which would increase waste volume and revenues to the Landfill. This plan was also discussed in the Key Issues section of this Budget Message in the “Landfill and Transfer Station Fund Deficits” section.

City Comprehensive Plan Development

The City is currently in the process of updating its comprehensive plan and the City’s zoning ordinance update will follow later in 2013. Public forums are being held to receive input from the community on the new comprehensive plan and zoning ordinance. The City’s Five Year Capital Improvement Plan will be updated based on the updated comprehensive plan.

Long-Term Future Debt Financing Plan

The City, working with Public Financial Management (PFM), the City’s financial consultant, has developed a long-term future debt financing plan. This plan shows annual debt requirements for existing general obligation debt and the related actual or estimated debt service tax levy rates. This schedule also calculates the amount of future year debt which can be issued without impacting the debt service tax rate. Based on this schedule, the City is planning to issue $2,060,000 in property tax funded debt in the spring of 2014 with this bond issue to provide funding for the Cedar and Colorado Street improvement projects as well as various improvements at the municipal Airport. The proposed issue will include an additional $300,000 for the new Weed Park Maintenance Building which will be funded from incremental property taxes from the area adjacent to the park.

BUDGET DOCUMENT

The information in this budget document is generally organized on a fund basis. The State of Iowa requires city budgets be prepared on a fund and function basis with expenditures classified into nine functional areas – General Government, Public Safety, Culture and Recreation, Public Works, Community and Economic Development, Health and Social Services, Debt Service, Capital Projects and Business-Type Activities. The Introductory Section includes the city's Financial Management Policies, budget calendar, city organizational chart, and entity-wide budget overview charts, which immediately follow this budget message. These are followed by operating budget summary schedules for major funds and non-major funds combined, budget summary schedules for all operating funds, property tax schedules, and major revenue sources schedules. The Operating Budget by Function Matrix included with the budget summary schedules for city operating funds, reflects how expenditures of each fund and activity are classified into the functional areas. Department organizational charts conclude the information in the Introductory Section. Several of the department organizational charts include activities in more than one fund of the city so they have been included in the Introductory Section rather than the fund information which follows.

SUMMARY

The preparation of the fiscal year 2013/2014 budget involved an overall team effort by city staff and City Council. With the continued uncertainty that affects financial conditions in the state and the community, the challenge to continue high levels of service is one that city staff and Council must approach together. Decisions on the level of service to be provided throughout the community have generated and will continue to generate much discussion, especially when financial resources are limited and there is demand for services to be maintained at the same level or increased. The city will continue to look toward cooperative efforts between other governmental agencies in order to provide the best overall level of service to the community as a whole. However, it is important to be realistic in the expectations of the level of services as they match against the financial resources needed to provide for them. At some point the city will have to recognize it cannot provide all of the levels of service that are demanded by its citizens unless additional funding sources are identified to fund the cost of these additional services. Faced with this situation, elected representatives are forced to choose and prioritize levels of service in the community. Given that almost every service the city provides has a constituency base, future decisions are sure to draw criticism from those affected groups. It is unfortunate but it is a fiscal reality that this and other cities will have to grapple with well into the future. With strong leadership from the Mayor and City Council and a commitment to improve the quality of life in the community, the city staff looks forward to working with elected representatives and the citizens of Muscatine.

It is my pleasure and honor to serve this community and to work as a team with its elected officials and city staff members to provide the highest level of service to the community that is possible. The most significant assets the city has are the dedicated individuals who work for it. Without their dedication and professionalism, the services enjoyed by this community would be far less. Also the dedication and time the elected officials put forward in the preparation of the city budget as well as their responsibilities throughout the year is a testament to their commitment to the community and citizens who elected them. Thank you to city staff, department heads, the Finance department, and to our elected officials for their respective hard work and long hours in putting this 2013/2014 budget together. A special thank you to Nancy Lueck, Finance Director, and LeAnna McCullough, Accounting Supervisor, for their long hours of budget preparation, compilation, and assistance with this document.

Respectfully submitted,

Gregg Mandsager

Gregg Mandsager, City Administrator