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MARSHALLTOWN
IOWA

City Administrator's Office

To: Mayor Greer and the City Council
From: Jessica Kinser, City Administrator
Diana Steiner, Finance Director
Date: March 6, 2023
RE: Impacts of SF181

The Governor signed Senate File 181 into law on February 20th, which resulted in the Iowa Department of Revenue issuing a new (lower) residential rollback number to all County Auditors for the fiscal year that starts July 1, 2023. The residential rollback dropped from 56.4919% to 54.6501%, which means there are changes to the proposed fiscal year 2024 budget for the City. These changes effectively break down into 3 different areas for updates/discussion: Capital Improvement Tax Levy Funds; General Fund; and Total Property Tax Levy. The individual discussions on the items below highlight questions or items to give direction on so that we may bring back the notice to set the public hearing to the March 27th City Council meeting.

Capital Improvement Tax Levy Funds – No Council Action Required
Fund 030 and 032 are both funded with the Capital Improvement tax levy ($.675 per every $1,000 of taxable valuation). This levy is not part of the Maximum Property Tax Levy public hearing/notice. Due to the decrease in overall taxable valuations, $.675 is less dollars with the current valuations than those we started the budget process with. Specifically, the rollback reduction results in $13,141 fewer dollars to be collected to support capital projects. Fortunately, this impact is one that was able to be absorbed by the Fund 030 and 032.

However, we did have two other changes in Fund 030. Chief Tupper was able to locate two vehicles for purchase, so the FY23 vehicle replacement budget was increased by $60,000 to $190,000 to accommodate the additional costs. This created a small deficit in FY25, so staff computer purchases were reduced by $2,500 in that year to accommodate. No action is needed on this item unless there is objection to any of the proposed projects/purchases, and it is for your awareness only.

General Fund – Council Action Required
The General Fund is supported with an $8.10 general levy along with the Emergency Levy of $0.27. Since these both have caps, the dollars decrease when taxable valuations decrease. The resulting reduction to the General Fund is $164,595. The Council did bring the General Fund into balance for FY24 with the prior valuations using a number of options. The three options below are considerations for closing (or leaving) the new deficit.

1. Option 1- General Fund-Fund Balance
   The City is starting FY24 with a $3.5 million fund balance in the General Fund. This does not include the Cash Flow Reserve Fund. This is approximately 20% of the proposed General Fund expenditures for fiscal year 2024, and is at a percentage threshold recommended by the Government Finance Officers Association (GFOA) as a healthy fund balance. As a one-time measure, the Council could choose to proceed with

the $164,595 deficit as is. Ultimately fund balance would only be utilized if actual expenses exceeding the actual revenues exists as of June 30, 2024.

PRO: Does not tie up other revenues; does not harm the overall GF fund balance
CON: One-time dollars; short-term budgetary measure

2. Option 2- Council-Designated LOST
   The Council directed the use of Council-designated local option sales tax (LOST) to fill the original General Fund deficit following the first round of budget reductions discussed at the January 30th budget meeting. The LOST fund has $164,595 available to address the new deficit in FY24.

   PRO: Readily available source of revenue
   CON: Ties up funds with an allocation through FY24

3. Option 3- Expenditure Reductions
   Following the January 30th meeting, there were really only two recommended reductions still on the table: furlough days for non-public safety employees ($15,843 per day) or the non-bargaining COLA reduction from 3 percent ($43,261 reduced per 1% reduction). Both received a lot of negative feedback from Council, but still remain as considerations.

   PRO: Reductions today will positively impact future fiscal years
   CON: Harmful to employee morale; reduces services to the public

The January 30th meeting brought forth the question of what else could be eliminated before getting into personnel reductions. I verbally stated that we are at the point of personnel reductions if trying to cut further expenses from the General Fund, which I still believe to be a true statement. Between FY20 and the proposed FY24 budget, General Fund expenditures have grown 17 percent. The chart below shows the growth in personnel costs (wages and benefits) from the fiscal year that ended June 30, 2020, to the fiscal year we are currently budgeting. Wages have increased by $1 million or 11 percent during this time period, while the number of FTEs has actually decreased. Benefits have also increased by $700,000 or 19 percent during this same time period.

PERSONNEL COSTS IN GENERAL FUND

All other General Fund expenditures, or the areas we have been cutting over the last five budget cycles, are where a lot of pressure and growth is seen despite reductions. These expenditures include all things besides personnel, including transfers out, insurance, utilities, fuel, materials and supplies, maintenance & service agreements, training, contracted services, and many other line items that help to accomplish the provision of services. In FY20, these other expenditures were just over $3 million, while in FY24 they are proposed at nearly $4 million, or an increase of 32 percent from FY20 to FY24. This is the impact of inflation on those services or items that the City really cannot control or eliminate without a broader service reduction.

The revenue side of the equation is not shown on the graph above, but is where Marshalltown sees the most trouble. From FY20 to the proposed FY24 budget, the taxable valuations increased by 6 percent. Unfortunately, current legislative proposals designed to cap individual property assessment growth, provide further rollbacks to commercial and industrial properties and to eliminate certain property tax levies do not provide a bright outlook that property tax revenue will be our highest revenue in the General Fund.

We will be discussing the process for implementing the franchise fee, which remains the only untapped revenue option. Automated Traffic Enforcement revenues are budgeted very conservatively as well, but some legislative bills could impact what Marshalltown is allowed to collect. Given two large revenue unknowns, now might not be the time to implement significant service level changes, but we are getting closer to the point where we have fewer options.

Total Property Tax Levy – Council Action Required
As a result of lower taxable valuations, any individual tax levies based on a dollar amount result in the tax levy increasing to meet the dollar amount required. We are proposing to keep the dollar amounts the same as what was presented in the Maximum Property Tax Levy public hearing and for the debt service levy. The loss of valuation forced the overall levy rate to increase $0.13 from $15.36 to $15.49. In practical terms a house assessed at $100,000 would pay $7.25 more in City property taxes than if the original taxable valuations had remained.

As a reminder, the staff had proposed and Council had not objected to the use of other funds on hand to keep the levy at $15.36 in our original conversations. This included $932,747 in LOST- Property Tax Relief, and $1,086,770 from Employee Benefit and Police & Fire Retirement funds.

There are some options the Council has with this new information.

1. <u>Option 1- Keep the levy at $15.49</u>
   The levy with the increase from SF181 would still include using more than $2 million to keep it at this level, but does not deviate from what was originally proposed.

   If the Council wants to go with this option, it is possible to use #2 in Option 2 to use Debt Service fund balance in place of LOST- Property Tax Relief. This does not have any major effect but is a budgetary change that needs to be reflected in the public hearing and final budget documents.

2. <u>Option 2- Buy down the levy to $15.36</u>
   If Council desires to keep the overall levy rate exactly the same for FY24 as FY23 at $15.36, then another $127,230 would need to be used. This could come from the following sources:

   1. LOST Property Tax Relief – Not all property tax relief dollars were allocated (intentionally) in the FY24 budget to buy down the tax levy. This LOST would be available for the entire $127,230, and would take the projected fund balance at the end of FY24 to $66,389.

   2. Debt Service Fund Balance – The Debt Service Fund has a smaller amount of fund balance. Using $127,230 in the current fiscal year would leave a balance in this fund at 6/30/24 of approximately $159,083.

3. <u>Option 3- Increase levy beyond $15.49</u>

As mentioned earlier, there are some significant dollars going into keeping the tax rate lower for fiscal year 2024, which leaves open the option/question of whether this is too much given the unknown of what next year could be. The Council could pull back on some of the LOST Property Tax Relief of $932,747 to keep additional funds with a plan to buy down the FY25 tax levy.

Cash Balances before any changes made to keep property tax rate the same as FY23 and just using LOST:

Fund	Fund Name	ENDING CASH 06/30/22	REVISED FY 23 NET BUDGET	ESTIMATED 06/30/23 ENDING BALANCE	FY 24 NET BUDGET	FY 24 ESTIMATED ENDING
121	LOCAL OPTION SALES TAX - Prop tax relief only	1,810,778.00	(719,224.00)	1,091,554.00	(897,935.00)	193,619.00
200	GO BONDS DEBT FUND	172,476.91	35,252.00	207,728.91	78,584.00	286,312.91

All changes made at the March 13th meeting will be incorporated into the final budget which will come back before the Council on a resolution to set the public hearing at the March 27th meeting. The public hearing on the budget will be held on April 10th. This leaves the City in a good position to complete the budget process before the new, one-time April 30th deadline.