# City of Muscatine
# Budget Session
### City Hall
February 1, 2024,6:00 PM

## AGENDA

1. **CALL TO ORDER**

2. **ROLL CALL**

3. **DISCUSSION ITEMS**
    A. General Fund Overview

4. **ADJOURNMENT**

# City of Muscatine Budget Overview

## Proposed Fiscal Year 2024/2025 General Fund Budget

Carol Webb, City Administrator
Nancy Lueck, Finance Director

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# Direction Sought

This item is informational and intended to provide a high level overview of the proposed fiscal year 2024/2025 General Fund budget.

City staff welcomes any questions or comments City Council might have on the information presented.

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# Strategic Priorities

| Excellent Customer Service | Healthy Community | Reliable Public Infrastructure | Safe Community | Vibrant Community |
|---|---|---|---|---|
| • Provide excellent customer service to our residents, businesses, and visitors through effective citizen outreach and engagement, employee training and improved organizational processes | • Support a healthy community through the availability of quality affordable housing, outstanding recreational and cultural amenities, collaboration with community and healthcare partners, and opportunities for lifelong learning. | • Continue to update and implement the City's Capital Improvement Plan to ensure reliable, safe, public infrastructure that meets community needs. | • Provide exceptional public safety and community services to ensure a safe community in which residents may live, work, and play. | • Enhance and improve the vitality of our community core and gateways including the Grandview Avenue Corridor, Park Avenue Corridor, Riverfront, and Downtown areas to support a thriving economy, vibrant neighborhoods, and a high quality of life and place. |

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# Financial Policies

- The City Administrator will compile and submit to the City Council a balanced budget by the first Monday in February of each year.
- A balanced budget criteria
    - Expenditures do not exceed estimated resources and revenues
    - Routine expenditures will not be greater than the previous year's expenditure level by more than the estimated annual percentage increase in the cost of living.
    - The Municipal Cost Index and Consumer Price Index as a basis for the cost of living.
- Operating budget = service level basis
    - Additions, deletions and/or alterations related to services to the general public
- The General Fund Balance Policy
    - <u>Minimum</u> fund balance = two months of expenditures or 16.7%

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# FY 2025 Budget Process Timeline

| | October | November | December | January | February | March | April |
|---|---|---|---|---|---|---|---|
| Council/Staff Strategic Planning and Goal Setting | | | | | | | |
| Iowa Department of Revenue Issues Rollback Order | | | | | | | |
| Department Budget Development | | | | | | | |
| Department Budget Meetings | | | | | | | |
| City Administrator/Finance Develop Recommended Budget | | | | | | | |
| Iowa Department of Management posts City Assessed, Taxable, and TIF values | | | | | | | |
| Council Budget Discussions/Determine Proposed Tax Levy | | | | | | | |
| Approve Budget Statement, Set Public Hearing on Budget Statement | | | | | | March 7 | |
| Hold Property Tax Hearing, set Public Hearing on Budget | | | | | | | April 4 |
| Hold Public Hearing on Budget, Adopt Budget | | | | | | | April 18 |
| Deadline to Certify Budget and Tax Levy to County Auditor | | | | | | | April 30 |

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# City Administrator Budget Goals

1. Maintain status quo service levels
2. Provide departments the resources needed to continue to provide services to residents.
3. Provide for identified priority capital improvements in the community
4. Propose reasonable tax rates or other funding options
5. Balance department budget requests with funding that is available
6. Further the City's strategic plan and City Council priorities, programs, and initiatives

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# Key Budget Considerations

- Major changes to Iowa's property tax system
  - NEW - Combined General Fund Levy (CGFL) limit of $8.37 per $1,000 of valuation (former $8.10 general levy + $0.27 emergency levy)
- NEW – State rollback order decreased the residential rollback from 54.6501% to 46.3428% (a decrease of 15.2% in taxable values)
  - Example
    - Residential Property Assessed Value - **$200,000**
    - Taxable Value with 54.6501% rollback (applied to Jan 1, 2022 Assessments) - **$109,300 Taxable Value**
    - Value with 46.3428% rollback (applied to Jan 1, 2023 Assessments) - **$92,686 Taxable Value**
    - 15.2% Reduction in Taxable value
  - Also applies to first $150,000 of valuation of commercial and industrial property value.
  - This is the largest drop in the residential rollback in over 20 years. The decrease indicates strong growth in residential property valuations and limits the City's property tax revenue.

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# Key Budget Considerations

- NEW Expanded Homestead Tax Credit for property owners 65 and older
  - $3,250 for FY 25
  - $6,500 for FY 26 and future years
  - No state backfill
- NEW Expanded Military Service Exemption
  - Increased to $4,000 for FY 25 and future years
  - No state backfill
- Slightly negative growth in total taxable property valuations (-0.18%) primarily due to:
  - State rollback factor on residential properties
  - State phase out of their reimbursement (the "backfill") for the commercial and industrial rollback ( Reduced revenue by $76,970 across all funds).

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# Balancing the Budget - Considerations

- City union contracts remain in negotiation
  - Police, Fire, and Blue/White
- Compensation for non-union employees based on a cost of living adjustment higher than previous years and placement in new pay plan.
- Supply chain issues
  - Finding supplies
  - Long lead time for vehicles, equipment
- <u>30%</u> projected increase in tort liability insurance costs

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# Balancing the Budget – Revenue Recommendations

| | |
|---|---|
| State COVID Relief | Emergency Levy Balance |
| Max Combined General Fund Levy | Tort Liability Levy |
| Transit System Levy | Debt Service Levy |

- Utilize remainder of State COVID Relief funds to assist in balancing the FY 2024/2025 budget ($604,533).
- Spend down Emergency Levy Balance ($86,162) from prior years
- Levy Maximum Combined General Fund Levy rate at $8.37 per $1,000 of valuation for 2024/2025.
  - Results in a 0.14% decrease in revenue from the CGFL tax rate due to a decrease in taxable valuations.
- Levy Tort Liability Levy rate at $0.46998/$1000 to fund the full costs of risk insurance needed to operate the city (based on projected 30% increase)
- Reduce transit system levy from $0.19459 to $0.07346/$1000
- Restructure financing of bond issue to reduce Debt Service Levy from $2.04192 to $1.98512/$1000

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# Balancing the Budget – Expenses Recommendations

- Department General Fund Budget Request Total = $28,332,100
- City Administrator Recommended General Fund Budget = $26,235,078
    - Expense reduction of $2,097,022

- No funding for new personnel requests for status quo services
- Utilizing fund balances where appropriate
- Funding only for critical vehicle and equipment requests
- Funding for capital projects with Road Use Tax, Local Option Sales Tax, bond issue, etc. as appropriate
- Provide departments with resources to maintain service levels

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# Property Tax Rates

| Levy | Current Levy Rate for FY 2023/2024 | Proposed Rate for FY 2024/2025 | Percent Increase/(Decrease) in Levy Rate over FY 2023/2024 |
|---|---|---|---|
| Combined General Fund Levy | N/A | $8.37/$1,000 | N/A |
| General Fund Levy<br>Emergency Levy | 8.1000/$1000<br>0.2700/$1000 | N/A<br>N/A | N/A |
| Transit System Levy | 0.19459/$1,000 | 0.07346/$1,000 | (62.3%) decrease |
| Tort Liability Levy | 0.36075/$1,000 | 0.46998/$1,000 | 30.28% increase |
| Special Revenue: Police/Fire Retirement, FICA/IPERS, Other Employee Benefits | 4.70493/$1,000 | 4.87248/$1,000 | 3.56% increase |
| Debt Service Levy | 2.04192/$1,000 | 1.98512/$1,000 | (2.78%) decrease |
| **TOTAL** | **15.67219** | **15.77104** | **0.63% increase** |

# Examples of Impacts on Owners of Residential Homes

| House #1 | Current Year FY24 | Upcoming Year FY25 | Percentage Change |
|---|---|---|---|
| 100% Assessed Value | $ 61,650 | $ 66,589 | 7.42% |
| Rollback (percent) | 54.6501% | 46.3428% | -17.93% |
| Taxable Value Without Exemptions | $ 33,691.79 | $ 30,859.21 | -9.18% |
| Homestead Exemption for Seniors | | $ 3,250.00 | |
| Taxable Value with Exemptions | $ 33,691.79 | $ 27,609.21 | -22.03% |
| City Levy Rate | 15.67219 | 15.77219 | 0.63% |
| Impact of Change in City Levy Rate | $ 528.02 | $ 435.46 | -21.26% |

| House #2 | Current Year FY24 | Upcoming Year FY25 | Percentage Change |
|---|---|---|---|
| 100% Assessed Value | $ 127,040 | $ 137,948 | 7.91% |
| Rollback (percent) | 54.6501% | 46.3428% | -17.93% |
| Taxable Value | $ 69,427.49 | $ 63,928.97 | -8.60% |
| City Levy Rate | $ 15.67 | $ 15.77 | 0.63% |
| Impact of Change in City Levy Rate | $ 1,088.08 | $ 1,008.30 | -7.91% |

| House 3 | Current Year FY24 | Upcoming Year FY25 | Percentage Change |
|---|---|---|---|
| 100% Assessed Value | $ 289,600 | $ 329,141 | 12.01% |
| Rollback (percent) | 54.6501% | 46.3428% | -17.93% |
| Taxable Value Without Exemptions | $ 158,266.69 | $ 152,533.16 | -3.76% |
| Military Exemption | | $ 4,000.00 | |
| Taxable Value with Exemptions | $ 158,266.69 | $ 148,533.16 | -6.55% |
| City Levy Rate | 15.67219 | 15.77219 | 0.63% |
| Impact of Change in City Levy Rate | $ 2,480.39 | $ 2,342.69 | -5.88% |

*Note: Impacts will vary by individual property assessed valuation*

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# General Fund Balance

| | | Budget 2023/2024 | City Administrator Revised Estimate 2023/2024 | City Administrator Recommended Budget 2024/2025 |
|---|---|---|---|---|
| Funds Available (Revenues + Fund Balance) | | $30,243,877 | $30,317,941 | $31,765,424 |
| Expenditures | | $24,901,528 | $24,787,653 | $26,235,078 |
| Ending Fund Balance, June 30 | | $5,342,349 | $5,530,288 | $5,530,346 |
| Minimum Fund Balance per policy – 16.7% or more of General Fund Expenses | | $4,159,000 | $4,140,000 | $4,381,000 |
| Amount Over (Under) Fund Balance Policy Minimum of 16.7% | | $1,183,349 | $1,396,288 | $1,149,346 |
| Ending Balance as a percent of General Fund Expenditures | | 21.5% | 22.3% | 21.1% |
| Balance expressed as months of expenditures | | 2.57 months | 2.68 months | 2.52 months |

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# In Summary

- Challenging Budget Year
- Rising cost of tort liability insurance will become the new baseline
- Use of one-time funds used to balance budget is not sustainable.
- Higher taxable valuations would assist in reducing reliance on one-time revenue
- HF 718/CGFL will have an impact in future years. We need to prepare for future resilience to those impacts.

# Direction Sought

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