

March 15, 2006

Honorable Mayor, City Council and Citizens

We are pleased to present the Operating and Capital Improvement Budget for the City of Cedar Rapids, Iowa, for the fiscal year ending June 30, 2007. This budget includes all operating funds and component units of the City as well as the first year of the City's Capital Improvements Program. In compliance with state law and sound financial practices, this is a balanced budget.

The budget process started in October with the distribution of the budget instructions. In the last few years, General Fund department's non-personal services have been held close to zero increase and personal services were looked at on a position by position basis. In FY 2007, General Fund departments were asked to review their personal and non-personal expenses with an eye toward no increase however, if necessary, submit a request for an increase and the City Council would review the requests. The General Fund's capital equipment budget would be maintained at last years level, including items under \$5,000. Enterprise Funds departments were asked to submit a budget where revenues were at least equal to expenditures, including depreciation.

Departments spent the months of November and December loading their information into the budget module. The City Council spent the month of January evaluating department requests and fine-tuning the budget. By February 6, 2006, the City Council had reached a collective agreement on the budget. In addition to the normal wage increases, there were many obstacles to overcome this year, such as, a 20% increase in health insurance costs. This was especially difficult in the General Fund as taxable values, used to generate over 50% of their revenue, increase only .49%. All of these tasks were accomplished in work sessions held as open meetings during which the public could witness the budget building process. A public hearing, as required by state code, was held on March 8, 2006 where the new budget was presented to the citizens and the City Council with a vote of eight yeas and one nay adopted the budget.

Budget Highlights

The City Council budget initiatives for FY 2007 are as follows:

- A safe community where people feel secure.
- An available and thriving cultural and recreational community that achieves a high quality of life.
- A progressive, sustainable, economically vital community with a healthy economy that successfully manages growth and change.
- An effective, accessible, and accountable city government that works openly and respectfully with and for the community.

The total budget for FY 2007, approximately \$306 million, is an increase of 4.7% over the current year's budget of \$292 million. Although the City's total assessed valuations increased by 5.56% and taxable valuations increased only .49% as compared to the previous year. The low growth in assessed values is due to a combination of situations, such as, a decline in industrial values and a slight growth in commercial values. The state rollback on residential property was increased and there is an increase in the use of TIF (tax incremental financing) funding. Residential property will be taxed at 45.996% as compared to 47.96% for the current fiscal year. Commercial property will be taxed at 99.15% as compared to 100% for the current fiscal year. The property tax levy will increase by approximately \$.40 to \$14.39/\$1,000 of taxable valuation. Taxes, primarily property taxes, account for 26% of the total in this budget.

Overall, personal services are increasing by \$5.2 million or 5.3%. Personal Services is increasing in FY 2007 due to proposed wage increases, health insurance rates increasing 20%, and workers' compensation increasing. Purchased Services will increase \$4.6 million or 9.7% primarily due to health services, consulting engineering services, natural gas, and electricity. Supplies and Materials will increase \$1.9 million primarily due to equipment furniture/fixtures, fuel cost, and chemical supplies. Other expenditures will increase \$.8 million or 5.8% due to increases in settlements-judgment and closure/post closure landfill expense. Overall, Capital Outlay will increase \$2.8 million or 3.4% due to an increase in capital improvement projects and Debt Service will decrease \$1.6 million or 4.6% due to a smaller sale of general obligation bonds in FY 2007 than the previous year.

The City established a PILOT (payment in lieu of taxes) program for its Enterprise Departments starting in FY 2000. Only those Enterprise departments that do not receive either a property tax subsidy or a Hotel-Motel tax subsidy would be part of the program. It was decided these eligible departments would "pay" as if they were being taxed for police and fire protection. The property tax rates for these two services would be multiplied by their market valuations to determine their PILOT contributions. The departments and their amount of the PILOT contributions for FY 2007 are shown as follows:

Golf	\$ 65,281
Parking	357,505
Sewer Maintenance	8,820
Solid Waste and Recycling	15,210
Water	408,941
Water Pollution Control	441,500
Total PILOT	<u>\$ 1,297,257</u>

The amounts collected from participating departments will be distributed with the other pooled revenues within the General Fund. The Eastern Iowa Airport is currently not part of this program although discussions are continuing with airport management.

Fiscal Impact

As stated previously, the property tax levy rate will increase by approximately \$.40 to \$14.39/\$1,000 of taxable valuation. The debt service levy, which is a part of this total levy, is decreasing by \$.06 per thousand to \$1.82/\$1,000 and used to service debt associated with the City's infrastructure improvements.

The rollbacks applied to residential property for FY 2007 were increased by the Iowa Department of Revenue to 45.9960% of estimated value, an increase over the current amount of 47.9642%. For a home valued at \$100,000, for taxing purposes, it will be valued at \$45,996 in FY 2007. The application of the rollback, revaluation average of 7% coupled with the increase in the tax levy rate, will translate to a 5.5% increase in taxes paid to the City of Cedar Rapids by owners of residential property. For example, a \$100,000 market value home in FY 2007 will see an increase of approximately \$35 per year for the City's portion of property taxes.

Commercial property will have a rollback applied in FY 2007 of 99.1509%. In FY 2006, commercial property was taxed at full value or 100% of market value. Coupled with the change in rollback and increase in the tax rate, commercial property tax owners will see a 1.9% increase or approximately \$27 additional taxes in FY 2007.

Rollbacks are not applied on industrial property, thus the amount of City taxes an industrial property taxpayer will pay will increase in direct proportion to the increase in the tax levy rate. For property valued at \$100,000 this increase will be approximately \$40 annually or an increase of 2.8%.

Major Initiatives General Fund

Approximately 80% of the General Fund is made up of Personal Services. Personal Services changes are due to pay rates, benefits, number of employees, or any combination of these. In FY 2007 the Personal Services within the General Fund will increase by \$3.7 million or an increase of 6.1%. The increase is the result of eliminating 7.7 FTE's, a 20% increase in health insurance rates and an increase in workers' compensation. Additional information highlighting personal services can be found in Book 1 of this document under Personal Services Summary.

Non-Personal Services will increase by \$.6 million or 3.9%. The major increases are in books, periodicals and subscriptions, equipment, furniture/fixtures, electricity, natural gas, and fuel cost.

The General Fund Capital Outlay will decrease \$.3 million due to reductions in machinery and equipment.

Enterprise Funds

Water, Sewer, and Solid Waste service fees combined are budgeted to increase 4.41% in FY 2007 for the average residential customer. The amount of increase for the average residential user (based on the usage of 10 units of water per month) will only be \$.07 per day. Even with these increases in rates, our combined water and sewer rates are still far below other large cities in Iowa that provide similar services.

The Water department's FY 2007 water rates are increasing by 3.1%. Combining the increase in rates with a slightly higher usage should provide an additional \$.4 million in charges for services revenue. However, the total FY 2007 revenue budget of \$22.4 million for the Water department is a decrease of 21.9%. Decreases in general obligation bond requirements in FY 2007 offset the gains made with the water rate increase. The Water department's total expenditure budget of \$37.6 million is an increase of \$3.5 million or 10.4% from FY 2006. Personal services will increase approximately \$.5 million or 5.8% due to the increase in wages as well as health insurance. Non-personal services expenditures will increase approximately \$.6 million over FY 2006 due primarily to contract labor and chemical supplies. Capital outlay is expected to increase \$2.9 due to more capital improvement projects in FY 2007. FY 2007 is the sixth fiscal year the Water Department will pay a payment in lieu of taxes (PILOT) to the City. The payment for FY 2007 is \$408,941.

Water Pollution Control's (WPC) overall revenue budget of \$26.8 million is an increase of \$3.9 million or 17.4%. Charges for services, are budgeted to increase \$1.5 million, while, general obligation bond revenue is increasing \$2.3 million. The increase in charges for services is due to budgeted rate increase of 7%. The FY 2007 expenditure budget of \$27 million is an increase over FY 2006. Personal Services expenditures are expected to increase 5% as compared to FY 2006 due to wage and health insurance increases. Non-personal services will increase \$1.4 million from FY 2006 due to increases in chemical supplies and natural gas. Capital outlay is expected to increase \$.3 million or 4.6%. WPC's contribution to the City's PILOT program will be \$441,500 in FY 2007.

The Sanitary Sewer department's revenue budget of \$12.1 million is an increase of \$1 million or 8.9% in FY 2007. The primary areas of change are an increase of \$.7 million in charges for services, primarily due to the sewer rate change, and \$.2 million in general obligation bonds. The total expenditure budget of \$11.4 is a \$.5 million or 4.5% decrease. Personal services will increase \$.1 million and is due to wages and health insurance costs. Non-personal services expenditures are increasing 14.9% due to sewer materials and supplies, diesel fuel, and equipment furniture/fixtures. Capital Outlay to include capital equipment and capital improvements decreased \$.9 million or 13.9%. New debt payments will increase 2.4% to \$3.2 million and Sanitary Sewer's PILOT contribution will be \$8,820 for FY 2007.

Total budgeted revenue for the Transit department in FY 2007 is \$8 million, which is an increase of \$.2 million or 1.9%. The increase is primarily due to \$.1 million in federal and state grant funding. State law allows a City to implement a tax rate levy up to \$.95/1,000 for what is called a, transit rate levy. This rate, which becomes part of the City's overall tax rate, is used to subsidize the operations of the Transit department. The FY 2007 tax rate for Transit operations will be 63.481 cents/\$1,000, which is the same as the previous year. The tax rate will generate \$3.0 million in revenue subsidy. Total operating expenditures are budgeted at \$8.0 million, or an increase of \$15,443. Personal services will increase \$.2 million due to wage and benefit increases. Non-personal services will increase \$2,607. Capital Outlay, primarily machinery and equipment, is budgeted to decrease \$.2 million.

Budgeted revenues for the Parking system of \$8.5 million is an increase of \$4.1 million or 94.2% and primarily due to an increase in federal grants and general obligation bonds. Total expenditures are budgeted at \$8.5 million, which is an increase from FY 2006. Personal Services will decrease by \$5,547 or .3% due to decreases in FTE's. \$1.2 million in non-personal services is a decrease of \$.8 million or 40.2%. Construction of the Intermodal Facility is budgeted to start in FY 2006 with completion in FY 2007. The amount of the Parking System PILOT contribution is \$357,505 for FY 2007.

The Solid Waste and Recycling rate will increase by \$.40 to a total monthly amount of \$13.85 for both garbage and recycling pickup in FY 2007. This rate increase will result in \$.2 million of additional revenue. The department's revenue budget of \$6.7 million is an increase of \$.2 million or 2.5% and reflected in charges for services account. The total expenditure budget of \$7 million is a decrease of \$.7 million or 8.6%. The personal services budget of \$3.6 million is a 9.7% increase and due to changes in wages and health insurance. The \$2.5 million in non-personal services is an increase of \$.2 million or 6.5% and primarily due to contract labor and fuel cost. Capital Outlay's budgeted of \$.9 million is a decrease of \$1.1 million in purchases of machinery and equipment. The Solid Waste and Recycling department's contribution to the City's PILOT program will be \$15,210 in FY 2007.

Golf's revenue budget in FY 2007 is \$3.1 million and is a decrease of \$.1 million or 1.8% from FY 2006. The decrease in charges for services revenue of \$.1 million or 3.2%, due primarily to an anticipated decline in usage. Golf's expenditure budget of \$2.8 million is a decrease of \$66,391 or 2.3% from FY 2006. Personal services budget of \$1.4 million is a slight increase over last year. The \$.9 million non-personal services budget is only a \$3,261 increase over FY 2006. Capital Outlay is decreasing by 51.7% to \$.1 million in FY 2007. The ten-year plan to renovate the four golf courses has scheduled minor improvements in FY 2007. Golf's FY 2007 PILOT contribution is \$65,281.

Revenue for the U.S. Cellular Center is budgeted at \$1.9 million, which is a decrease of \$.1 million or 5% in FY 2007. Expenditures are expected to decrease by \$.6 million or 23.3 % to \$2 million. Personal services will decrease \$13,250 or 1.6% due to decreases from regular to temporary/seasonal employees. Non-personals services will decrease \$81,789 or 7.2% primarily due to electricity cost, equipment, furniture, and fixtures, and office supplies. Capital Outlay is decreasing \$.6 million or 90% due to waiting until community Fifteen in 5 needs are identified.

The Paramount Theatre's FY 2007 revenue budget of \$.6 million is a slight increase from last year. The FY 2007 expenditure budget of \$1.1 million is also a slight increase from last year. Capital outlay will decrease due to capital improvements being completed for the theatre.

The Ice Arena's FY 2007 revenue budget of \$1 million is a decrease of \$23,607 or 2.2% from FY 2006. The majority of the decrease is in charges for services. FY 2007 expenditure budget of \$1.6 million is a decrease of \$43,217. Personal services will decrease 9.7% due to a reduction in temporary/seasonal employees. Non-personal services primarily electricity will increase \$4,333. Capital outlay will decrease slightly due to fewer purchases of machinery and equipment.

The Cedar Rapids Airport Commission operates The Eastern Iowa Airport, a component unit of the City of Cedar Rapids. The Commission has the responsibility for managing and operating the City's airport facility and related parking. The Commission, whose members are appointed by the Mayor with the approval of the City Council, has all the powers granted to the City except for the authority to sell the airport. The FY 2007 budget, submitted by the Commission, provides for total revenues of approximately \$20.8 million. This is an increase of \$2.2 million or 11.8% is primarily due to increases in federal/state grants and rents/royalties. The \$21.6 million in expenditures is an increase of \$5.3 million or 32.8%. Personal services will increase \$.1 million or 3.9% due to wage and health insurance changes. Non-personal services is increasing \$.7 million or 17% due to consulting engineering changes. Capital outlay for FY 2007 will increase \$6.1 million or 90.8% and debt service is decreasing \$1.6 million or 65.3%.

The other component unit of the City of Cedar Rapids is the Cedar Rapids/Linn County Solid Waste Agency. The result of a cooperative Chapter 28E agreement as provided in the Iowa Code, the Cedar Rapids/Linn County Solid Waste Agency, formerly known as Bluestem Solid Waste Agency, operates the combined Cedar Rapids City and Linn County landfills in an integrated manner for the benefit of the entire county. Currently, all cities in the county as well as the county itself are members of this organization. Due to the fact it is a component unit of the City of Cedar Rapids, the City includes their budget as a part of the City's budget. Total FY 2007 revenues of \$7.5 million is an increase of \$.1 million or .9%. The increase is primarily due to charges for services and interest. The agency's budgeted FY 2007 expenditures are \$9.3 million, a decrease of \$.8 million or 7.5%. The decrease is primarily due to capital outlay.

Internal Service Funds

Revenues, excluding transfers-in, in the Internal Service Funds are budget at \$24.5 million, which is an increase of \$3.3 million or 15.8%. The revenue increase is due to inter-departmental charges and the result of the 20% increase in health insurance charges. The total FY 2007 expenditures budget, excluding transfers-out, is \$23.9 million, which is an increase of \$2.5 million or 11.8%. The majority of the increase is in health insurance.

The major change in Risk Management FY 2007 revenue budget of \$21 million is the result of the 20% increase in health insurance rates charged to the departments. The result is an increase to inter-department charges of \$3.1 million. The FY 2007 expenditure budget of \$20.3 million is an increase of \$2.7 million or 15.1% due to an increase in health services.

Joint Communications' FY 2007 expenditure budget of \$2.1 million is the same as FY 2006. Personal services increased \$65,372 and non-personal services decreased by the same amount to maintain overall expenditure budget at same level as FY 2006.

The Public Works Facility revenues for FY 2007 are budgeted at \$1.5 million, which is a 1.8% increase and primarily in the building rental account. The FY 2007 expenditures are budgeted at \$1.5 million, which is a decrease of \$.2 million or 9% and due to a reduction in capital outlay.

Capital Projects Funds

The FY 2007 revenue budget for the Capital Projects Funds is \$26.2 million, which is a decrease of \$7.1 million or 21.5% from FY 2006. The majority of the decrease is due to federal, state and local grants and general obligation bond proceeds. The FY 2007 expenditure budget is \$34.7 million, which is \$5.4 million or 13.5% less than FY 2006. The net reduction is in Capital Outlay and due to fewer capital improvements projects being budget in FY 2007. Additional information regarding the City's five-year capital improvement program can be found in the Adopted Capital Improvement Program, FY 2007 – 2011 budget document.

Special Revenue Funds

FY 2007 revenues for the Special Revenue Funds are budget at \$33.8 million, which is a \$2.2 million or 7% increase from FY 2006. The majority of change is a \$1.1 million increase in TIF property tax levy and \$1.1 million increase in federal and state grants. FY 2007 expenditures of \$14.8 million is a \$.3 million or 1.9% increase from FY 2006. Non-personal services will increase \$.6 million or 5.1% primarily due to other professional/technical services.

Debt Service Fund

The City's debt service rate for FY 2007 will decrease by \$.06 to \$1.82 per thousand. The City anticipates it will sell approximately \$20.8 million of general obligation bonds during the next fiscal year for capital improvement and equipment projects to be completed during FY 2007. Of these bonds, less than a third will be property tax supported. The remaining amount will be supported by a combination of other sources to include user fees and TIF property taxes. The City has had several large bond sales in recent years, but even with the new bond issue it expects to maintain in excess of \$143.7 million or 36.3% of debt capacity in reserve. Debt

capacity is computed by multiplying our total assessed valuation by 5% and then subtract the outstanding general obligation debt from the calculated amount.

The City has continuously maintained a Aaa bond rating from Moody's Investors Service since 1973. The City's goal is to retire sixty percent of its debt within ten years. It is currently estimated that the City will retire 73.9% of its debt within ten years. This relatively short maturity retirement practice, combined with our low median debt burden, is two of the major reasons we continue to maintain the coveted Aaa rating.

The Future Outlook

The City is continuing a process it started called, Cedar Rapids Managing for Results or CRMFR. Managing for Results is a management approach that focuses on defining and then achieving the results that are important to a local government. The organization develops a shared, widely understood framework using performance measurement for setting goals and objectives, managing, allocating resources and evaluating its accomplishments. Managing for Results can benefit a local government by improving the focus on key results and sharpening the organization's management skills to achieve those results. It is a tool for more responsive and accountable government. Research has shown that citizens are very knowledgeable about performance measures and believe they should be reported. Furthermore, they are very interested in whether and to what degree their government is using performance measures for the management of operations and what effect the use of performance measures is having on their government. We recognize that this process will not be implemented within the next budget. It is anticipated this process may take three to four years to become fully operational. It is our sincere hope that this process will allow the City Council to refine its budgeting process.

The City Council believes it has been and will continue to be responsive to its citizenry in trying to control its spending level at the same time as it addresses the needs of the City. This financial stewardship is further reflected by comparing our property tax rate with the rates of the other nine largest cities of Iowa (those with populations over 50,000). Based upon the proposed budgets of these cities, Cedar Rapids will still have the third lowest property tax rate in the State of Iowa.

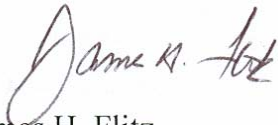
Acknowledgments

This budget is the result of the combined efforts of department managers and their staffs, budget staff, the City Council, and you, the citizenry. Even though the actual process takes place over several months, citizen input occurs throughout the year. This year's process occupied many hours of public City Council meetings with department managers, budget professionals, and the public all

participating. This is your budget and the City Council encourages you to get involved in the process and continue this involvement as the budget is implemented.

We would like to take this opportunity to express our gratitude to all those who have contributed to this process. The support, cooperation, and assistance provided by the City's department manager's is greatly appreciated. Thanks also goes to the news media for portraying the budget and the process to the public. Special thanks are due the City's financial and budget staff for their ability and diligence to assemble and reassemble the budget within the short time frame. Finally, the guidance of the City Council and their ability to make tough decisions while maintaining that fine balance between levels of service and the funding of those services is crucial to the City's continued success and we want to applaud them for their efforts.

Respectfully submitted,



James H. Flitz
City Manger, Acting



Casey J. Drew, CPA
City Controller-Auditor