

CITIZENS' GUIDE

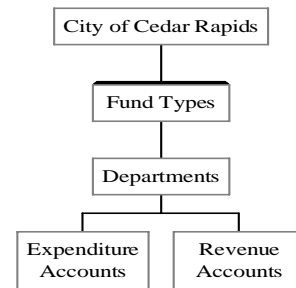
City Services

The City of Cedar Rapids provides the following services: street maintenance, traffic engineering, public safety, public works, solid waste collection and curb side recycling, animal control, library, parking (on and off-street), ground transportation, community development and housing services, municipal water, sewer, and water pollution control. The City also provides cultural and recreational opportunities through various departments such as: Aquatics, Recreation, Parks, Golf, and Ushers Ferry. Air travel facilities and solid waste disposal services are provided through component units of the City.

In addition to the departments operated by the City, the City Council has established 35 boards and commissions to assist in managing and governing the operations of specific City departments. These boards and commissions, staffed by 250 citizen volunteers, range from the Board of Adjustment and the Board of Library Trustees to the City Planning Commission and the Cedar Rapids Airport Commission. The intent of the City Council in setting up these boards and commissions is to encourage broad citizen participation in the operation of the government.

City Budget and Financial Reporting Structure

The City's annual operating budget is organized and presented at the fund level. The six fund types are the highest level of reporting and includes the Internal Service Funds, General Fund, Capital Projects Funds, Debt Service Fund, Enterprise Funds, and Special Revenue Funds. Within each fund type resides the departments and within each department are the Major Objects of Expenditures and Revenues. The accounts, where expenditures and revenues are captured, are categorized within the Major Objects of Expenditure and Revenue. Each department has its own expenditure and revenue budget. Although the budgets are assembled at the account level, it is at the department level where managers and supervisors are held accountable. To the right is an example of the budget hierarchy. Below is a list of funds, which includes a partial list of revenue sources and the departments assigned. The City is required to have a balanced budget.



Internal Service Funds: to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost reimbursement basis. Revenues for the Internal Service Funds are derived from the user. The Internal Service Funds departments include the Public Works Facility, Risk Management, and Joint Communications.

General Fund: to account for all financial resources of the City, except for those required to be accounted for by other funds. The revenues of the General Fund are primarily derived from property taxes, charges for services, fines and forfeits, licenses and permits, and federal, state, and local grants. Examples of General Fund departments are Council and Mayor, Treasurer, Attorney, Parks, Recreation, Aquatics, Building, Housing, Streets, Police, Fire, Animal Control, Controller-Auditor, and City Manager.

Capital Projects Funds: to account for financial resources to be used for the acquisition or construction of capital facilities and other major fixed assets, with the exception of those that are financed by Enterprise Fund monies. Capital projects for Enterprise Funds activities are accounted for in the Capital Projects Funds when the projects are financed with other than Enterprise monies. Revenues are primarily derived from general obligation bonds, grants, and Road Use Tax.

Debt Service Fund: to account for the accumulation of resources for, and the payment of, general long-term and special debt principal, interest, and related costs. Revenues are primarily derived from debt service tax levy and Enterprise Funds.

Enterprise Funds: to account for the operations and activities that are financed and operated in a manner similar to a private business enterprise, where the costs of providing goods and services to the general public on a continuing basis are expected to be financed or recovered primarily through user charges. The Enterprise Funds departments are Water Pollution Control (WPC), Water Treatment Facility, Solid Waste and Recycling, Parking, Transit, Golf, U. S. Cellular Center, Paramount Theatre, and Ice Arena. The primary source of revenue is from charges for services. Additional revenues are from intergovernmental (federal, state, and local) grants, general obligation bonds, and property taxes (Transit department only).

Special Revenue Funds: to account for revenues derived from specific sources that are required to be accounted for as separate funds. Examples of Special Revenue Fund departments are Hotel-Motel Tax, Road Use Tax, Community Development and Leased Housing. Other funds are: fire and police pensions and payroll.

Major Objects of Revenue and Expenditure: the major objects of revenue and expenditure are listed below:

<p>The Major Objects of Revenue are:</p> <ul style="list-style-type: none">TaxesLicenses and PermitsIntergovernmentalCharges for ServicesFines and ForfeitsUse of Money and PropertyRents and RoyaltiesMiscellaneous RevenuesOther Financial SourcesProceeds from Fixed AssetsProceeds of Long Term Liabilities	<p>The Major Objects of Expenditure are:</p> <ul style="list-style-type: none">Personal ServicesPurchased ServicesSupplies and MaterialsOtherCapital OutlayDebt Service
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Definitions of each Major Objects of Revenue and Expenditure are in the Glossary.

Accounting Method

The accrual and modified accrual methods of accounting are used by the City to compile and report actual revenues and expenditures. The accrual method is used for all Enterprise and Internal Service Funds. Under this method of accounting, revenues are recognized in the accounting period in which they are earned and become measurable and expenditures are recognized in the period incurred, if measurable. The measurement focus is on determination of net income, financial position, and cash flow.

The General, Special Revenue, Debt Service, Capital Projects, and Expendable Pension Funds use the modified accrual basis. Under this method of accounting, revenues are recognized in the period in which they become available and measurable. Expenditures are recorded when the related fund liability has been incurred or the invoice is received.

The City budgets for all funds on a modified accrual basis.

Budget Guidelines

The FY07 budget guidelines from the City Council were: Departments that are funded by property taxes were requested not to request a budget increase unless necessary. The Enterprise Funds departments would submit a balanced budget, in that expenditures and revenues are equal including depreciation and capital equipment. All departments were required to submit a five-year long-range plan for their Capital Improvements Program (CIP) and the replacement of capital equipment.

Budget Controls

The City's budget and financial statements include total expenditures and revenues for all funds, departments, accounts, boards and commissions, and other governmental entities that do not have separate legal status as required by generally accepted accounting principals. Two component units included in the City's budget are: The Eastern Iowa Airport and Cedar Rapids/Linn County Solid Waste Agency.

The City's management team takes a very active role in the financial planning and management from the short-term daily operation to the long-range planning. The City adopts its annual program budget to include all funds. While budgetary monitoring is exercised at the program or fund type level, management control is exercised at the department or major object of expenditure and revenue level. The operations are closely monitored through the City's automated integrated on-line Financial Management Information System and reports are provided to management weekly and monthly as well as on demand. The budget amendment process is available to those departments that either fall short or exceed their total revenue budget. Departments must adhere to the amendment criteria before being allowed to amend its budget. The amendment criterion is described in the Budget Amendment section of this document.

Budget Process and Timeline

The City of Cedar Rapids budgets on a fiscal year basis that begins July 1 of the current year and ends June 30 of the next year. The budget process started in October with the distribution of the budget instructions. 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. 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. Following is the FY07 budget timeline.

FY07 Budget Timeline

October 31, 2005	Budget Instructions to Departments
December 31, 2005	Budget Data entered into Budget Module
January 4, 2006	Pre-Budget Public Hearing
January 2-31, 2006	Review Budgets
January 31, 2006	Final Budgets Review
February 25, 2006	Publish Notice of Public Hearing
March 8, 2006	Public Hearing to Present Budget to the Public
March 8, 2006	Public Hearing to Adopt Budget
March 15, 2006	Budget Certification to County Auditor

In addition to adopting the annual operating and capital budgets, the Council also approves the five-year Capital Equipment Replacement Schedule, the five-year Capital Improvements Program (CIP), and allocations of the current year's estimated Hotel-Motel Tax receipts.

Budget Amendment

The State of Iowa allows municipalities for a budget amendment toward the end of the fiscal year. This amendment provides a mechanism so cities can adjust their expenditures relative to the revenues received and for unplanned events. The budget amendment must be prepared and adopted in the same manner as the original budget. There is no pre-budget amendment public hearing, however, there is a public hearing to adopt the recommended amendments to the budget and allows citizens to be heard. The departments have no authority to amend the budget other than as directed and adopted by the City Council. The timing of the budget amendment process allows departments a more realistic look at the actual expenditures and revenues rather than the forecasts used to assemble the budget 18 months previous. A public hearing is held during the last week in May whereby the recommendations are adopted by the City Council and also signals the budget amendment process is complete.

Following is the budget amendment timeline:

April 3, 2006	Department Notification of budget amendment process
April 21, 2006	Department requests for amendment due
May 1, 2006	Initial review with City Council
May 10, 2006	Resolution setting public hearing
May 12, 2006	Publish public hearing notice
May 24, 2006	Public Hearing and resolution adopting amendment

The City’s current fiscal year budget can be amended for the following reasons:

- a. To permit the appropriation and expenditure of unexpended unencumbered cash balances on hand at the end of the preceding fiscal year.
- b. To permit the appropriation and expenditure of amounts anticipated being available from sources other than property taxation.
- c. To permit transfers between funds as prescribed by State Law.
- d. To permit transfers between programs.

The following analysis shows the results of the budget amendment process over the last five fiscal years:

Budget Amendment Five-Year History

<u>Fiscal Year</u>	<u>Adopted Budget Amount</u>	<u>Amendment Increase/ (Decrease)</u>	<u>Amended Budget</u>
2002	\$ 279,580,326	\$ 4,713,721	\$ 284,294,047
2003	\$ 282,467,855	(\$ 8,025,728)	\$ 274,442,127
2004	\$ 284,462,091	(\$ 1,685,144)	\$ 282,776,947
2005	\$ 286,750,510	(\$ 4,520,066)	\$ 282,230,444
2006	\$ 292,513,909	\$ 16,115,432	\$ 308,629,341

FY06’s budget was amended to increase by \$16.1 million. The increase is primarily due to priority changes or construction projects for Enterprise departments and for the recall of the 1996 bond issue. Budgeting for our construction projects is complicated because of priority changes, weather conditions and the City’s fiscal year ends in the middle of the construction season.

Program Budget

The City must prepare and submit its revenues and expenditures in a Program Budget format to the State of Iowa as prescribed by the State. The Program Budget is compiled by reassembling the City’s adopted operating and capital fund budgets into the prescribed format. Following are the state’s programs and the departments that are included.

Public Safety: Fire, Police, Animal Control, Joint Communications, Building and Ambulance

Public Works: Streets, Traffic, Engineering and Public Works

Health & Social Services: Cedar Rapids does not budget for this program

Culture & Recreation: Library, Parks, Recreation, Aquatics, Band and Ushers Ferry

Community & Economic Development: Development and Housing

General Government: Council and Mayor, Clerk, Controller-Auditor, Attorney, Memorial, Civil Rights, and City Manager

Debt Service: Debt Service

Capital Projects: Capital Projects

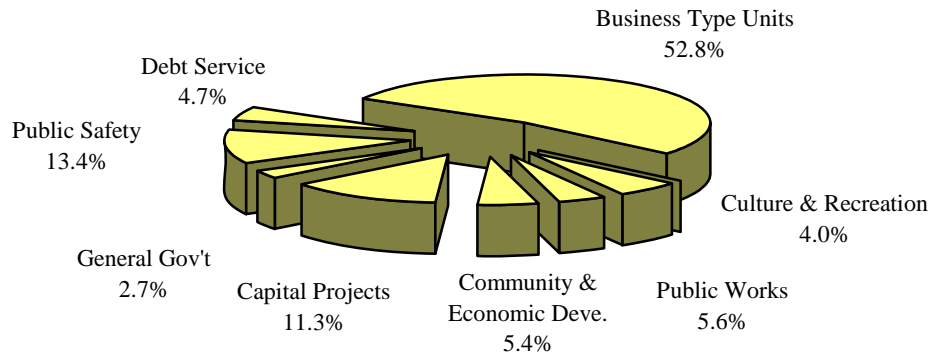
Business-Type Activities: The Eastern Iowa Airport, Cedar Rapids/Linn County Solid Waste Agency, Parking, Transit, Golf, Sanitary Sewer, Solid Waste and Recycling, Water Pollution Control and Water.

Following is this year's budget by program.

Fund	FY06 Budget	FY07 Budget	Amount Increase/ (Decrease)	Percent Increase/ (Decrease)
Public Safety	\$ 38,098,454	\$ 41,131,261	\$ 3,032,807	7.96%
Public Works	16,709,502	17,263,354	553,852	3.31%
Culture and Recreation	11,704,819	12,220,201	515,382	4.40%
Community & Economic Dev.	16,599,626	16,495,539	(104,087)	(0.63%)
General Government	8,262,570	8,408,255	145,685	1.76%
Debt Service	14,924,722	14,286,307	(638,415)	(4.28%)
Capital Projects	40,087,589	34,694,872	(5,392,717)	(13.45%)
Enterprises	146,126,627	161,741,422	15,614,795	10.69%
Total Program Budget	<u>\$292,513,909</u>	<u>\$306,241,211</u>	<u>\$13,727,302</u>	<u>4.69%</u>

The following chart shows the distribution percentage of the FY07 budget into the various programs.

Percent Distribution of Expenditures by Program

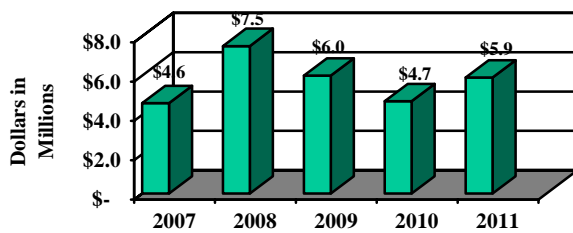


Additional information showing distribution of Program budget, by department, is located herein.

Capital Equipment Replacement Schedule

Capital equipment is defined as an item that has a purchase price of \$5,000 or more, has an estimated useful life of two years or more, and is not an expendable. The City budgets for capital items that costs less-than \$5,000, however the budget becomes part of the departments non-personal services.

Capital Equipment Replacement Schedule



Each budget year, the City of Cedar Rapids prepares a five-year Capital Equipment Replacement Schedule. Each department is required annually to submit their capital equipment requests for the upcoming budget year plus a forecast for the following four years. The first year of the City's five-year plan becomes part of the current year's operating budget. The total capital equipment long-range budget is \$28.8 million. In FY07, the City is budgeted to spend \$4.3 million on capital equipment replacement.

Above is the distribution, by year, of the five-year capital equipment budget.

For the fiscal year beginning July 1, 1998, the City implemented a more formal financing arrangement for portions of its General Fund operating departments' capital equipment replacement. The departments included were the Police and Street departments. Over the last few years, the City has recognized the difficulty in fully funding capital replacement schedules in the General Fund. As part of the City's FY98 bond issue, \$1.575 million of general obligation bonds were sold to purchase equipment for these departments. The retirement schedule on these bonds equated to two-thirds of the estimated life of the equipment being purchased. A major portion of the General Fund money formerly going to acquire the equipment outright was utilized for the repayment of the bonds. In addition, interest earned, from excess funds in the Solid Waste Enterprise Fund, has been used to help offset the cost of purchasing capital equipment. A Special Revenue Fund was created to account for the reserve. It is intended that the fund will grow and at some point the money earned from this fund will be used to reduce the burden of funding

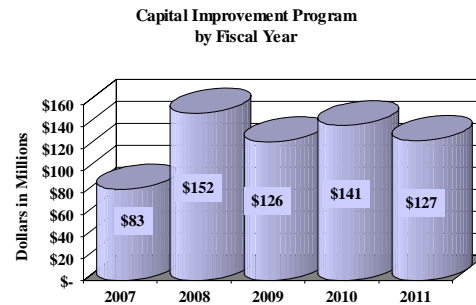
equipment in the General Fund using property taxes. Additional departments are to be included to this process in future fiscal years. The City did not budget to bond for Police and Street Maintenance capital equipment in FY07.

The long-range Capital Equipment Replacement Schedule that shows expenditures by year by department is in the Supplementary Data section of this document.

Capital Improvements Program (CIP)

The Capital Improvement Program is a group of capital improvement projects that are planned for installation over a fixed number of years and designed to meet capital requirements arising from the government's long-term needs. The Capital Projects Funds accounts for the CIP resources and expenditures that are used in the acquisition or construction of capital facilities and other major fixed assets, with the exception of those that are financed by Enterprise Funds monies. Capital projects for Enterprise Funds are accounted for in the Capital Projects Funds when the projects are financed with other than Enterprise monies. The CIP financial resources for the Enterprise Departments are a part of the individual Enterprise Funds.

The City of Cedar Rapids annually publishes a separate Capital Improvements Program (CIP) budget. This budget identifies the sources of revenues and expenditures for each project in the five-year plan as well as consolidations by department. Each department is required to submit a detailed CIP budget for the upcoming budget year, plus forecast the next four years. Each project must include all revenues and their sources and the expenditures should include all dollars required to install, remodel and/or remove a physical structure. The first year of the five-year CIP is incorporated into the Capital Projects Funds or each Enterprise department's budget.



The City contracts the services necessary for construction of most capital improvements and a significant portion of major construction repairs. The City does maintain the expertise to do some minor repairs. The City is responsible for the review of contracted engineering and inspection of the work as construction is progressing. The five-year CIP budget represents the projects that are identified through the budget process. The first year represents the projects with the highest priority. Prioritization is based on need to the community, availability of funding, and the manpower to accomplish the work. The CIP includes budget for single and multiple year projects.

The total long-range CIP expenditure budget for the City, beginning with FY07, is \$629.4 million. The budget for FY07 is \$83.1 million, which is \$7.3 million more than the FY06 budget. Improvements to the City's infrastructure, such as, streets, sewer, airport, water, and water pollution control comprises most of the CIP projects. Other areas that have capital improvements are parks, recreation, and parking. Following is a five-year comparison of the departments and their capital improvement budgets followed by a list of major projects for FY07, with expenditures greater than \$1 million. A more detailed breakdown of capital improvements is located in the Enterprise Funds, Capital Projects Funds, and Supplementary Data section.

Capital Improvement Five-Year Budget
(Millions of dollars)

Funds	FY07	FY08	FY09	FY10	FY11
Street Construction	\$ 16.0	\$ 47.1	\$ 32.7	\$ 57.4	\$ 50.3
Storm and Sanitary Sewer	7.6	18.1	15.8	14.6	21.2
Water Pollution Control	6.1	6.4	5.3	17.1	13.5
Water Treatment Facility	14.9	21.6	17.5	14.0	18.1
The Eastern Iowa Airport	14.6	15.9	13.3	8.5	6.8
Transit	1.2	0.6	0	0	0
Parking	5.5	5.6	0.8	0.7	0.9
Trail Improvements	0.1	6.3	2.3	2.5	4.4
Parks, Recreation and Aquatics	1.1	4.1	1.7	1.5	2.8
Other CIP Improvements	16.0	26.4	36.6	24.6	9.3
Budget Total	\$ 83.1	\$ 152.1	\$ 126.0	\$ 140.9	\$ 127.3

Major FY07 Capital Improvements Projects (over \$1 million)

<u>Project Description</u>	FY07 Expenditures (in millions)
<u>Street Improvements</u>	
1 Edgewood Rd Fr 60th N-Hwy 30	\$ 4.0
2 Collins Rd @ 1st Ave	1.3
3 Wilson Ave Fr Arlington-Stoney	1.0
4 FY07 Paving Maintenance Bonds	1.3
Sub Total Street Improvements	<u>\$ 7.6</u>
<u>Other Improvements</u>	
5 FY07 Storm Sewer Maint Bonds	\$ 1.3
6 Pioneer Light Rail Project	5.6
7 Renovate Term. + Mech. Systems	3.1
8 Covered Boarding Walkway B Con	3.0
9 Rehab W 2,000 ft R W 0927	8.3
10 Interceptor Repair	1.5
11 Biosolids Storage Facility	1.0
12 Water Plant Improvements	2.4
13 Water Works Main Extensions	3.5
14 Secondary Disinfection System	1.1
15 Collector Wells 5 & 6	3.1
16 Prairie Valley Reinforcement	2.0
17 Intermodal Facility Construct	5.0
18 FY07 Sanitary Sewer Maint Bond	1.1
Sub Total Other Improvements	<u>\$ 42.0</u>
Total FY07 Major Projects	<u><u>\$ 49.6</u></u>

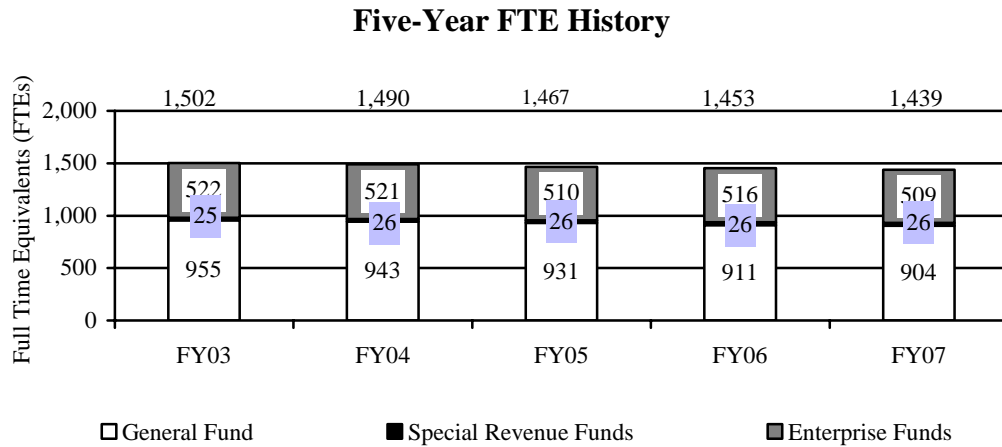
A long-range analysis of the Capital Improvements Program budget, by year, by project area is located in the Supplementary Data section of this document. To review the City’s CIP revenues and expenditures, in more detail, we refer you to the City’s FY07 Capital Improvements Program budget. The City does not have non-routine capital expenditures.

Full Time Equivalentents

A Full Time Equivalent (FTE) is defined as a position working 2,080 hours a year. One FTE however, can accommodate one regular employee who works full time or many temporary or seasonal employees. Therefore, the number of FTEs is not, nor is it intended to be representative of the number of people employed by the City at any given time during the year, but, is the number of positions budgeted. The actual number of employees will vary significantly depending on the season of the year. As an example, during the summer, the City may hire 400 to 500 seasonal employees to work in the parks and at the swimming pools and stay within the budgeted number of FTEs. The City budgets each FTE evenly across the entire year. An historical analysis of the City’s FTEs, by department, is located in the Supplementary Data section of this document.

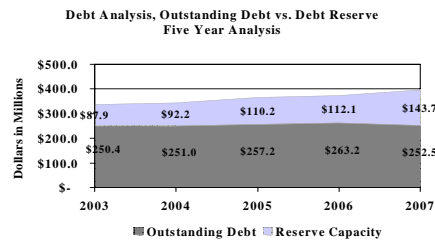
In FY07, the City is budgeting for 1,439 FTEs, which is a decrease of fourteen FTEs under FY06. The majority of the decrease is in the General Fund and Enterprise Funds.

Following is a five-year historical graphic analysis of the changes in FTEs by fund.



Long-Term Debt

The Debt Service Fund accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs. The long-term debt is created with the issuance of GOB (General Obligation Bonds). See the section on bonds to learn why and how bonds are issued. The City uses various methods to retire debt. Enterprise Funds use revenues from their services, as well as revenue from TIF’s, special assessments, and property taxes. For our purpose here, we will restrict the discussion to



debt that is retired using property tax revenue. The above graph shows our debt accumulation and amount of reserve for the last five years. The change in the amount of debt and the debt service levy is a combination of two things, the annual debt retirement paid each year, that reduces the debt service levy, and the accumulation of additional debt due to capital improvement projects or the addition of capital equipment, which increases the debt service levy. The change in the debt amount or debt structure requires approval of the City Council and, at a minimum, is done annually with the adoption of the budget. Debt capacity is limited by the State and is determined by calculating the City's assessed value times five percent. Goals, set by the City Council, are to maintain a certain percent of capacity as reserve and limit the increase in the debt service levy paid by citizens.

The debt requirements for a year are determined during the annual budget process. As City Council approves the budget for capital improvement projects, capital equipment, and other debt generating projects, the bond requirements fall into place. Once the projects and bond requirements are identified, the City Treasurer is responsible for distributing the bond repayment, called principal, across the years deemed necessary to pay off the debt. To the debt is added interest, therefore, interest as well as bond principal retirement costs makes up the debt payment for any given year. The total debt payment schedule is structured over approximately twenty years. However, as discussed earlier, a City goal is to retire over 60% of the debt in ten years or less and as shown below we far exceed this goal. Now, we have a debt payment schedule of principal and interest for as many years as we have debt payments to make. The interest amount is divided so half is paid in December and half in June of each year. The total principal amount is paid in June.

Following is an analysis on how the debt service levy is determined:

- Capital projects budget - non-property tax revenue = debt retired by property tax.
- Total debt retired by property tax distributed on debt schedule (sets annual principal & interest payment).
- Principal plus interest / taxable value (including TIF) of real property = debt service levy.

Debt planning structure:

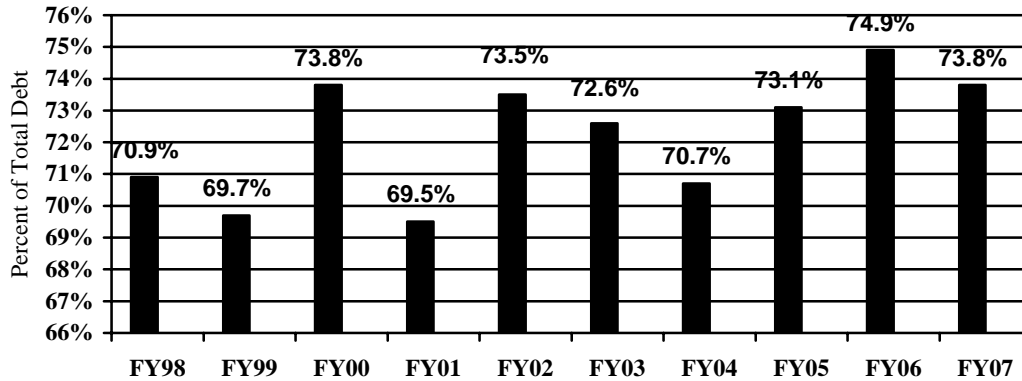
- The City's debt capacity is equal to 5% of total assessed value/market value of the City.
- 76.4% of General Obligation debt will be retired in ten years as projected for FY07.
- The City has maintained a Moody's Aaa rating for 34 years.

Long-term debt is an integral part in the viability of the City's financial posture as it governs its ability to borrow money. By Iowa law, debt cannot be used to fund the daily operations of the City; therefore, the debt is incurred to pay for capital improvements and capital equipment. The two funds that accumulate the majority of debt are the Capital Projects Funds and the Enterprise Funds. The debt for Capital Projects Funds provides improvements to streets, storm sewers, parks, trails, etc. The revenue for debt retirement for these improvements is collected via property tax rate. Debt for Enterprise Funds pays for capital improvements, such as, improvements to the water pollution control system, water system, airport, parking system, etc. and are retired by using revenues collected for the services they provide. In FY07, only 29.4% of

long-term debt will be retired with property tax, with the remaining 70.6% to be retired with revenue collected from Enterprise Funds.

The judicious control of long-term debt has been one factor in the City’s ability to maintain its Moody’s Aaa bond rating since 1973. It is a City goal to control the financial direction of the City so as not to jeopardize the bond rating and yet upgrade and improve the City’s infrastructure and services. Below is a graph that tracks the percentage of debt retired within ten years.

Ten-Year Debt Retirement Percentage



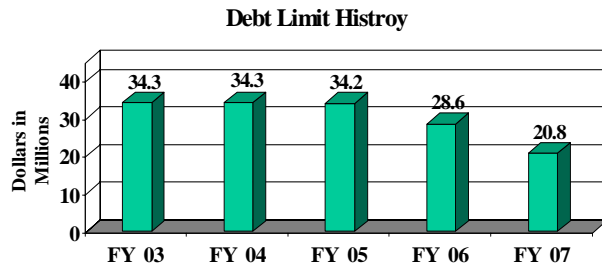
It has been the City’s policy to fund Capital Project Funds and Enterprise Funds capital improvements using general obligation bonds. We believe, due to increased interest, it costs less than issuing revenue bonds for Enterprise Funds improvements. The ability to maintain a significant reserve capacity allows the City to continue this policy.

Below is an analysis of the City’s assessed valuation, the debt limit, reserve capacity and the tax supported debt service levy amounts. Since 2001, the City has issued its general obligation bonds in the summer of each year. This means that the revenue from the sale of bonds budgeted in FY07 will be received in FY07. In FY07, the debt service tax rate of \$1.82/\$1,000 is a decrease of \$0.06 from FY06.

Reserve Capacity Analysis for Debt

(dollars in millions)

	FY03	FY04	FY05	FY06	FY07
Assessed Value	\$ 6,767.9	\$ 6,863.0	\$ 7,344.8	\$ 7,507.2	\$ 7,924.7
Debt Limit (5%)	338.4	343.2	367.4	375.4	396.2
Less Outstanding Debt	250.4	251.0	257.2	263.2	252.5
Reserve Capacity	\$ 88.0	\$ 92.2	\$ 110.2	\$ 112.1	\$ 143.7
Percent Reserve Capacity Available	26.0%	26.9%	30.0%	29.9%	36.3%
Tax Supported Debt Service Levy (in dollars per thousand)	\$ 1.73	\$ 1.71	\$ 1.74	\$ 1.88	\$ 1.82



The debt limit is computed by multiplying the total assessed valuation, as determined by the assessor, by 5%. The reserve capacity is determined by subtracting the outstanding debt from the debt limit. As shown in the table above, the reserve capacity has been fairly stable the last few years.

To the left is a five-year history of bond issues by the City. A more detailed analysis of bond issues is located in the Supplemental Data section of this document.

Bonds

Bonds are a term used when referring to General Obligation Bonds, Municipal Bonds or Revenue Bonds. The City can only issue general obligation bonds for those capital improvements or equipment as defined by The Code of Iowa as, essential corporate purpose. If the City wants to include a project not classified as essential corporate purpose, they must ask the voters for approval. Voter approval requires a 60% majority. As an example, in past years the City asked (and the voters approved) a new police station and a new fire station.

The City Council determines the bond sale amount. The City Treasurer is responsible for putting together the sale or issuance of bonds and determining the rate at which they will be paid off as well as the annual debt service rate. The City policy is for at least sixty percent of its bonds to be paid off in ten years. As shown above, we currently exceed the sixty percent policy and intend to continue. The debt service rate determines the amount of revenue the City will receive from the taxpayers to pay the debt.

The City of Cedar Rapids usually issues/sells bonds once a year, in September, so the money can be used during the current fiscal year. The money received from the bond sale is used to improve the City infrastructure or the purchase of capital equipment. If a second issue is sold during a year, it is usually to retire older bonds that have a higher interest rate. In other words, the second issue is a cost saving measure for the City.

Why does the City issue bonds? It's because we do not have cash readily available to spend on the infrastructure improvements or capital equipment purchases. It is the same reason you get a loan to buy or improve your home or to purchase a car. With bond money we are able to add or improve our infrastructure sooner, which means we are better able to accommodate and respond to growth or change. Yes, it costs more because of the interest, however, the additional cost is worth the time it would take to save the money. The City never issues bonds to fund departments' operating costs.

What is the bond process? The process is similar to what you do to obtain a home or car loan. Each year, during the budget process, the departments determine the capital improvements that are to be worked on during the year and the funding or revenue sources available to finance it. Bonding is used only when other sources of revenue have been exhausted. Each department assembles their project lists as well as capital equipment for presentation to the City Council. The City Council has previously determined the level of debt they want to incur and reduce or modify projects to reach the desired level. Once the debt level is reached, we determine the bond sale amount and the debt service rate for the budget year.

At this point, the City Treasurer takes over and puts together the necessary documents to set up a bond sale and the sale date. The organizations that purchase the bonds are notified of the sale date and they submit their bid for the bonds. Their bid is the amount of interest the City will be required to pay. The organization that submits the bid with the lowest interest rate, usually receives the bonds. Once the City Treasurer knows the rate of interest, they can structure a payment schedule. When determining the debt payment structure, the City Treasurer needs to take into consideration the depreciation of equipment, as we do not want to be paying on items that have passed their useful life. Added to the principal will be the interest we have agreed to pay. Once the debt principal and interest have been determined, the new debt is added to the existing debt and we have an updated debt payment schedule. We now know what the yearly principal and interest payments are going to be for the duration of the debt. As a year ends and the debt payments are made, the amount of debt is reduced. As the new budget year is completed the new debt approved by the City Council will be added. The City makes two interest payments annually, in December and June, and one principal payment in June.

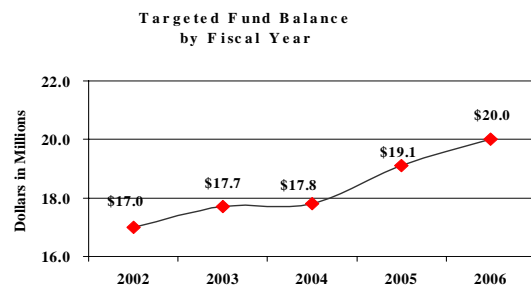
Who buys our bonds? The answer is investors. It's organizations that have confidence in the City's ability to pay back the money they have loaned you. Just like your home loan, the bank has the confidence you will pay back the loan. The interest is the amount of money the investor will receive for the use of their money. When the loan is paid off, the investor will have received the principal amount (the amount of the original bond) plus the interest.

The percent of interest you will have to pay is influenced by the economy, of which we have no control. However, again just like your home loan, the percent of interest is influenced by your credit rating. The better the credit rating the better (lower) the interest rate you pay; the same for the City of Cedar Rapids. Because Cedar Rapids has a bond rating of Aaa, we will receive a lower interest rate than if we had a lesser rating. The City's bond rating has saved the taxpayers hundreds of thousands of dollars over the years.

The bond process sounds like a fairly simple process, similar to you getting a home loan. However, the actual process takes a considerable number of staff hours: identifying revenue sources for each project; determining the amount of debt we should incur; and getting ready for the bond sale including preparation of the Operating Statement that provides up-to-date financial information about the City and used by potential investor so they can become acquainted with us. We also work with outside consultants like our financial advisor and bonding attorney. After the bond money has been received, it is distributed to each project. We also provide continuous monitoring of expenses so the money is used as intended. As stated in other sections of this document, the departments are required annually to prepare a five-year plan identifying the expenditures and revenue sources for a piece of capital equipment or improvement project.

Targeted Fund Balance

The City of Cedar Rapids adopted a financial policy that requires it to maintain a Targeted Fund Balance. The amount of this unreserved and undesignated fund balance, which is only in the General Fund, is equal to twenty-five percent of the next year's estimated budgeted



expenditures. The purpose of this policy is to insure that the City has sufficient operating funds while it is waiting for property tax collections and other revenues arrive.

During FY93, a budgetary policy change was adopted that allows General Fund departments to carry over up to fifty percent of their unexpended non-personal services budget into the following fiscal year. The other fifty percent is applied toward funding the Targeted Fund Balance. However, if a department exceeds its budget, then 100% of the overage will be taken from the following years budget. Implementation of this policy has provided department managers with incentives to manage their budgets. Since the policy was adopted, we have seen a significant improvement in the departments' financial stewardship. This policy has also allowed the City to fund the Targeted Fund Balance increases without an undue burden to the taxpayer.

Interfund Transfers

In order for the City to comply with Iowa law, local ordinances, or for expedience, it is sometimes necessary to transfer revenues and expenditures from one fund or department to another. Examples of such transfers are those between the Internal Service Funds to the General Fund for Social Security and IPERS (Iowa Public Employees Retirement System) and transfers from Special Revenue Funds like Road Use Tax to the General Fund and Capital Projects Funds. All transfers-in are considered revenue and transfers-out are considered expense. Citywide, in total, transfers-in and transfers-out must equal.

Taxation

In this section, Taxation, we will explain: what, by whom, how, and when property is assessed; we will discuss rollbacks and tax levies and how they affect the property owner; and we will explain how a taxing entity, like the City of Cedar Rapids, determines the amount of tax revenues it requires and show the funded services.

Cooperation and coordination are required before property tax revenue is determined and subsequently received by the taxing entities of the City of Cedar Rapids, the various school districts, the County, etc. For our discussions, we will refer to the tax rate as the rate per thousand that is identified by the taxing entity through the budget process to be multiplied by the taxable value to generate the revenue required to run the entity. The tax levy, commonly referred to as property tax, is the amount of revenue/money generated from the tax rate multiplied by the tax rate to the taxable value.

Annually, the assessor must determine the assessed value of all real property. From the assessors information, the State must determine if the real property growth has exceeded their mandated guidelines and, if so, determine the percent of rollbacks that should be applied, at what percentage, and to which class or classes of real property. The taxing entities must adopt revenue and expenditure budgets so a tax levy can be applied to property owners. The tax must be collected from the property owner so the revenue can be distributed to the taxing entities. For purposes of clarity, we define a taxing entity as any organization that receives revenue via property taxes becomes a part of the total property tax rate for the City.

The local taxing entities, such as cities, counties, and schools, rely on property tax revenue in order to provide a level of service the community demands. Without property tax revenue, the public schools would not be able to provide the high degree of education and the City would have to curtail services such as law enforcement, parks and recreational opportunities, street and road

improvements. The county would have to reduce such things as law enforcement, attorney services, rural road improvements, and mental health care. The following five-year analysis shows the consolidated tax rate for taxpayers that reside in the County, in the City of Cedar Rapids and located within the Cedar Rapids Public School District. Each school district within the City of Cedar Rapids has its own tax rate. Because the Cedar Rapids School District has the most students, we will use their tax rate in our analysis below.

Total Tax Rate for Cedar Rapids Residents

<u>Taxing Entity</u>	<u>FY03</u>	<u>FY05</u>	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>
Cedar Rapids Schools	\$ 15.40	\$ 15.37	\$ 15.75	\$ 15.29	\$14.90
City of Cedar Rapids	12.83	13.07	13.12	13.99	14.39
Linn County	5.25	5.29	5.51	5.73	5.69
Other	1.05	1.08	1.08	1.08	1.29
Total Tax Rate	<u>\$ 34.53</u>	<u>\$ 34.81</u>	<u>\$ 35.46</u>	<u>\$ 36.09</u>	<u>\$36.27</u>

What, How, and When is Property Assessed?

Real, tangible, and utility property, in Iowa, are assessed under state law and administered through City and County Assessors. Assessments and tax rolls are prepared and maintained by each county for all jurisdictions within the county. Annually, the assessors must determine the actual value of all real, tangible, and utility property within a jurisdiction. The Code of Iowa, Section 444.21 states “the actual value of all property subject to taxation shall be fair and reasonable market value of such property...” subject to certain limitations on agricultural and horticultural lands.

The Assessor

The assessor, appointed by a conference board, is highly skilled and is required to pass a state examination for certification before appointment. Reappointment occurs every six years and successful completion of continuing education is mandatory. The assessor does not collect taxes, calculate taxes, determine the tax rate, nor set policy for the Board of Review. The assessor’s primary duty is to place a monetary value (assessment) on all real property within its jurisdiction except for that property which is otherwise provided by law. Real property is made up of classes and includes residential, commercial, personal, utility, industrial, and agricultural. Almost all personal property and specific classes of real property, such as governmental, religious, educational, and military are exempt from property taxes. The values of tax-exempt properties are not included in the total assessed valuations.

To assess a piece of property is to estimate the market value of that property. The market value is an estimate of the price that a piece of property would sell for on the open market. The assessor usually uses one of three approaches in assessing a property. The Market Approach uses sales ratio studies to determine the general level of assessment in a community in order to adjust for local conditions. The Cost Approach estimates how many dollars it would take to replace your property with one similar to it. The Income Approach is used if the property produces income such as an apartment or office building.

New assessments become effective on January 1st of the following year. This means that any change in the value of property that takes place during calendar year 2006 will not become effective until January 1, 2007. Put another way, there is a lag time between when the assessed value becomes effective and when the property owner pays taxes based on that assessment. For example, the tax revenue the City will receive in FY07 is based on the assessment that became effective January 1, 2005.

As discussed, the City Assessor is continually reassessing property, however, every two years the State performs its own property assessment and, as before, the effective date is January first. The State's assessment is performed during each odd numbered calendar year. The assessment, called revaluation, takes into consideration many facets of the valuations of property across the state and can add to or delete from the assessed value of residential and commercial property determined by the City Assessor. The revaluation does not include industrial property, just residential and commercial.

Effects of State Legislation

The State Legislature eliminated personal property from the tax roll beginning with the 1988 tax year. The City has received annually at least partial reimbursement from the State based on the fiscal year 1986 tax level for ad valorem taxes eliminated by this change.

State Legislation, enacted during May 1995, also provided an exemption to industrial machinery, equipment and certain computer property purchased after January 1, 1995. The tax on industrial machinery, equipment, and certain computer property purchased before January 1, 1995, will be phased out over the next few years. After the January 1, 2001 assessment, no tax dollars will be received by the City on industrial machinery, equipment, and certain computer property.

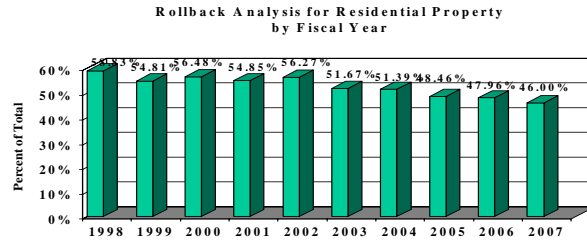
The machinery and equipment tax represented approximately 6.4 % of the City's FY98 taxable valuation. Starting with the FY04 budget, Cedar Rapids will not receive any revenue from the state for machinery and equipment.

Rollbacks

The state controlled rollback procedure has been in effect since 1980 and designed to control the rate of change in taxable values within each class of property so as to minimize significant increases and decreases in property taxes. Put another way, the State controls the amount of change in the taxes that are paid by Iowa landowners. Annually, after the assessed property values are finalized, the Iowa Department of Revenue, through their calculation, establishes what the growth in each class has been across the state. If the growth in a class is greater than their established guidelines the rollback in that class is added. If one already exists, then it is increased. The greater the growth; the larger the rollback percent. If the growth is less they can decrease the rollback. As verified by the schedule below, with the exception of FY00 and FY02, where the rollback increased, growth across the state has consistently exceeded the set guidelines, therefore, the rollback percent keeps decreasing.

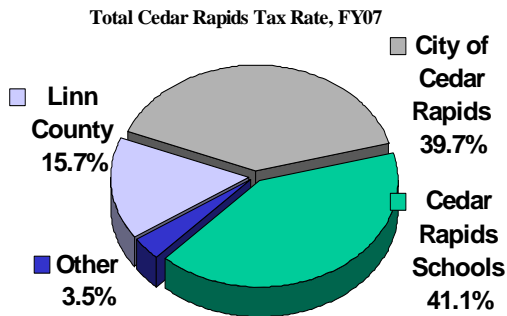
In FY88, the rollback was 80.6% of the assessed value of residential property. The 2007 budget was built using a rollback of 45.996% on residential property. This means, in fiscal year 2007, a residence with an assessed value of \$100,000 will pay taxes based on a value of \$45,996.

To the right are the residential property rollback percentages for the last ten fiscal years.



In FY99, commercial property had a 97.36% rollback applied, in FY00, it was rescinded so that taxes were collected on 100% of the assessed value. In FY01, there was a 98.77% rollback and in FY02, it was rescinded. There was a rollback for commercial property in FY03, which was set at 97.77% and in FY04, it is rescinded. In FY05, the commercial property rollback is 99.257%. In FY06 the FY05 rollback was rescinded. In FY07, there is a 99.15% rollback applied Industrial property is the only class of property to not have a rollback applied.

The Tax Levy Rate



We define the tax rate as a rate per thousand that is applied to all real taxable property. The result is tax revenue generated for taxing entities, which, in return, provide services. The tax rate varies for each taxing entity and usually changes each fiscal year. The change is determined through the budget process.

Tax rates can be applied for a variety of reasons. State law or the voters can limit a rate to a specific amount, or restrict the purpose for which the revenue may be used. The City uses what is called the 8.10 rate as a major source of revenue to help fund the General Fund operating budget. Cities can use any rate they need up to the 8.10, but cannot exceed it. There is the debt rate that can only be used to retire tax-supported debt. There are other rates available that are voter controlled. For example, the voters in Cedar Rapids approved imposing upon themselves a tax rate of \$.04 per thousand to be used by the Library for the specific purpose of purchasing books and related materials. Even though the State allows us a rate up to \$.27 per thousand for use by the Library, the current \$.04 rate cannot be changed, except by referendum (voter approval). There are other types of rates where a cap or ceiling is mandated. They are similar to the 8.10, however, the revenue must be used for specific purposes. Examples include the bus rate, which helps fund the ground transportation system and the Memorial rate, which funds the Memorial department and capital improvements to memorial assets. All of the individual rates, by taxing entity, are combined to form a consolidated tax rate.

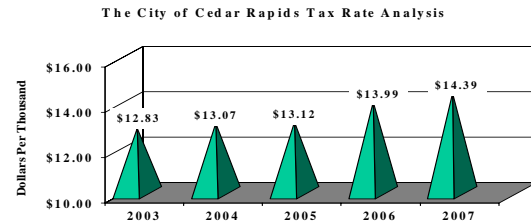
Located herein is a chart that compares the consolidated property tax rates for the citizens of Cedar Rapids.

While the City budgets are in the early stages of preparation, for a fiscal year that begins 18 months away, the assessor is finalizing the assessment of all real property so that they can meet the effective date of January 1. The State must wait until the assessments are complete so they can analyze the changes in value from the previous year in determining if a change in the rollback percentage is warranted. After the rollbacks are published, the City can complete the budget

process and determine the property tax levies. In preparing the General Fund budget, the City Council reviews any changes in the level of service to the community and communicates those desires to the departments. From here, each department forecasts all non-tax generated revenue they may receive in areas such as building permits, recreational activities, court fines and business permits. Simultaneously, each department manager reviews their operating and capital equipment expenditure requirements that are needed to perform the quality of service identified by the City Council and the citizens. These expenditures include such items as: personnel services (salaries and benefits), purchased services, and supplies and materials. After the revenue and expenditure forecasts and estimates are complete, the total non-property tax revenues are subtracted from the total expenditures with the remainder to be made up from property taxes.

To the right is an analysis of the City's property tax rates over five years.

Following is a five-year analysis of property tax rates of the nine largest cities in the State. Note Cedar Rapids consistently has one of the lowest tax rates in the State.



**Tax Rate is in Dollars Per Thousand of Taxable Value
2000**

Population	Iowa Cities	FY03	FY04	FY05	FY06	FY07
57,686	Dubuque	10.21	10.27	10.07	9.70	9.98
120,758	Cedar Rapids	12.83	13.07	13.12	13.99	14.39
62,220	Iowa City	16.81	17.60	17.31	17.73	17.30
98,359	Davenport	14.63	14.97	15.24	15.24	15.58
85,013	Sioux City	15.95	16.43	17.79	17.97	18.25
58,268	Council Bluffs	16.42	17.30	17.77	18.39	18.29
198,682	Des Moines	17.05	17.05	17.05	16.52	16.45
50,731	Ames	9.64	9.63	9.95	10.16	10.25
68,474	Waterloo	18.37	18.91	18.79	19.16	19.00

In the Supplementary Data section there is a Comparative Tax Rates and Tax Levies analysis for FY05, FY06 and FY07, which includes the special property tax levies, their rate per thousand and dollar amounts produced. Also, in the Supplementary Data, is a table of the Comparison of Taxable Values, FY05 through FY07.

Property Taxes

We have discussed how property is assessed, what rollbacks are, how they minimize significant increases and decreases in property taxes and what makes up the tax rate. Now, we will discuss how the City receives property tax revenue and what services are provided to the community.

To reiterate, the assessed values of all real properties located within a jurisdiction are determined by the assessor. As there are many properties that are exempt from property tax, such as, churches and hospitals, we are interested in only the value of the property that is eligible for taxation. To the assessed value, the rollback percent (determined by the State) is applied. The remainder is the rollback value. From the rollback value is subtracted the authorized credits such as Homestead Credit or Military Exemptions equaling the taxable value. The property tax rates,

in dollars per thousand and determined by the taxing entity, is applied to the taxable value with the product being property tax revenue.

- Assessed Value * Rollback Percent = Rollback Value
- Rollback Value - Authorized Credits, such as Military Exemption = Taxable Value
- Taxable Value Property *Tax Levy Rate per Thousand = Property Taxes
(if the homeowner is eligible for Homestead Tax Credit the amount is deducted from the Property Tax above)

Following is a five year analysis of the City' tax rate levies including all of the components that make up the tax rates.

	<i>Tax Rate Analysis</i>				
	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
General Levy					
General Fund	\$8.10000	\$8.10000	\$8.10000	\$8.10000	\$8.10000
Band	0.01615	0.01569	0.01459	0.01459	0.01459
Library-Book Levy	0.04000	0.03999	0.03999	0.03999	0.04000
Memorial	0.41432	0.45278	0.44422	0.17988	0.17320
Total General	<u>\$8.57047</u>	<u>\$8.60846</u>	<u>\$8.59880</u>	<u>\$8.33446</u>	<u>\$8.32779</u>
Special Revenue					
FICA/IPERS	\$0.73695	\$0.78564	\$0.77190	\$1.01806	\$0.75820
Fire & Police Pens.	0.14237	0.24237	0.34237	0.49237	0.64237
Other	1.00213	1.05969	1.02741	1.62927	2.20445
Total Special Rev.	<u>\$1.88145</u>	<u>\$2.08770</u>	<u>\$2.14168</u>	<u>\$3.13970</u>	<u>\$3.60502</u>
Debt Levy	1.73214	1.70746	1.74268	1.88100	1.81846
Bus Levy	0.64563	0.66414	0.63481	0.63481	0.63481
Totals	<u><u>\$12.82969</u></u>	<u><u>\$13.06776</u></u>	<u><u>\$13.11797</u></u>	<u><u>\$13.98997</u></u>	<u><u>\$14.38608</u></u>

It is the responsibility of the county to collect the appropriate property tax from the property owner and distribute the revenue to the taxing entity.

Where Does the Tax Money Go?

We know what real property, assessments, and rollbacks are, how the property tax rate is determined, and who collects and distributes the revenue to the taxing entities. This section will identify to the reader where the tax revenue is spent. Following is an analysis that compares the distribution of General Fund tax revenue for the last five years. Our tax dollars fund the wages and benefits for employees, purchased services, supplies and materials and capital equipment for the General Fund.

Tax Revenue by Area

Service Area	FY06	FY07
Public Safety	\$25.42	\$ 25.06
General Government	5.31	5.24
Parks and Recreation	4.64	4.87
Public Works	3.92	4.22
Library	2.96	3.18
Street Lighting	1.60	1.65
Community Development	1.08	1.15
Debt	7.51	6.97
Bus	2.52	2.41
Memorial	0.72	0.65
Library Books	0.16	0.15
Band	0.08	0.08
Total*	<u>\$ 55.92</u>	<u>\$ 55.63</u>

Tax Increment Financing

Tax Increment Financing (TIF) is a mechanism under Iowa Code chapter 403 for municipalities (cities and counties) to finance public improvement projects or, added later, to fund economic, housing and residential development incentives (section 403.19).

TIF is based on the theory that making such improvements or attracting development will result in an increased property tax base for the municipality, and that the increase (the increment) can then be used to finance the cost of the improvement or incentive. Tax Increment Financing is also an optional mechanism under chapter 260E to finance new jobs training via the community colleges, which will also enhance economic development.

How are TIF's financed? Authorization of a TIF, does not change the property taxes paid by the taxpayer. When property taxes are paid, the incremental portion of the assessed property is diverted to the TIF, and the amount determined by the base value goes to the municipality. The amount of funding received by a TIF usually increases as the assessed value of the increment increases. Expenditures are based on the criteria that established or authorized the TIF.

Municipalities can use TIF's for a variety of reasons. Urban renewal projects to improve slum and blighted areas, to provide a mechanism to finance capital improvements, developments in an area within the municipality, and construction of housing for families with low to moderate income. TIF's are also used to assist industrial and commercial enterprises desiring to locate to the area and the expansion, modernizing, or repair existing businesses. For businesses, the funding can be used for construction, repairing, furnishing, and equipping. Training TIF's can be authorized so a community college can received funding to establish a program in a particular work discipline that might be necessary to train future employees for a new or existing employer.

If a TIF is for economic development and is not to improve a slum or blighted area, the duration is twenty years.

When a TIF is authorized, it becomes a district. In that, each district is defined by geographic location within the municipality. There can be many different districts within a municipality, however, not all the municipality needs to have a TIF district assigned.

Annually, all municipalities that have TIF's are required to report to the county auditor and Iowa Department of Management certain information on each TIF. The information includes, a description of the original purpose and any modifications, date established, base year valuation, current incremental value, the number of business that have located in each area, the funding use, term length of financing, all debts and advances and projects completed in the urban renewal area.

The Utility Bill

The City submits to its customers a bi-monthly municipal utility bill, which originates from the Water Department. The bill is for such services as water and sewer usage, solid waste collection and recycling fees, state landfill fee, etc. It is through payment of the utility bill that the respective departments receive their revenue for services provided.

Following is a comparison with other cities in Iowa of the combined water and sewer rates. For comparative purposes, the amounts represent a one-month billing period and are based on using 800 cubic feet of water or 6,000 gallons.

Utility Rate Comparison with other Iowa Cities

<u>City</u>	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>
Cedar Rapids	\$ 23.21	\$ 24.92	\$ 26.19	\$ 27.69
Dubuque	25.70	26.96	28.16	30.16
Council Bluffs	30.08	31.28	34.64	35.92
Ames	35.20	35.20	36.87	36.87
Des Moines	37.42	38.08	39.88	41.38
Iowa City (2001)	62.16	60.62	60.62	60.62

Retirement Systems

The City contributes to the Iowa Public Employees Retirement System (IPERS) and the Municipal Fire and Police Retirement Systems of Iowa (MFPRSI), which are administered by the State of Iowa. All systems are contributory and all regular full-time and part-time employees must participate in one of these systems.

Iowa Public Employees Retirement System

The City and plan members make contributions to the IPERS, which is a cost sharing multiple-employer defined benefit pension plan. The IPERS provides retirement and death benefits to plan members and beneficiaries in accordance with established State statutes.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of the annual covered payroll except for special groups, in which case the percentages are 6.16% and 9.23% respectively.

Municipal Fire and Police Retirement System of Iowa

The MFPRS is a cost sharing multiple-employer defined benefit for public uniformed fire and police employees and administered by a Board of Trustees. Plan members and the City make contributions to the system. Plan members contribute 9.35% of their annual covered salary and the City's contribution is currently 24.92%. The City's contribution is variable and determined annually by an independent actuary, but by state statutes cannot be less than 17.0%.

Risk Management

Risk Management Fund

The Risk Management Internal Service Fund is used to account for and finance the City's exposure to various risks of loss arising out of: liability claims and lawsuits, damage to City buildings, contents, equipment, and vehicles; job related injuries to employees; and providing health and dental benefits to employees, retirees, and their dependents. The fund also accounts for related expenses such as claims administration, stop loss insurance, actuary opinions, state fees and assessments, maintenance of claim records, placement of insurance coverages, and maintenance of property appraisals. Charges to City departments are treated as expenses by the departments and are accounted for as revenue to this fund.

The City's risk management program strives to protect the City's assets in the most cost effective and responsible ways possible using a combination of the four recognized methods of treating risk, which are: elimination, reduction, transfer and retention. Safety and loss prevention programs promoted by the Employee Safety and Health Services Division of the Human Resources Department reduce the City's exposure to risks. Those risks, that cannot be eliminated or reduced, are either transferred or retained.

The Eastern Iowa Airport, one of the City's component units, uses a combination of the four recognized methods as well. The major risk it transfers, airport liability, is covered by an airport liability policy and an errors and employment practices liability policy. Conversely, the other component unit, Cedar Rapids Linn County Solid Waste Agency, transfers all its risk by purchasing commercial insurance.

There has been no significant change in insurance coverage purchased as compared to prior years. For those exposures covered by insurance policies, settled claims have not exceeded the insurance coverage purchased for each of the past three fiscal years.

Liability Claims and Lawsuits

The City purchases liability insurance to cover its airport, underground fuel tanks, six vehicles, maintenance of a non-owned air-ambulance, lead paint hazard control program, and liquor liability. The City self-insures without excess insurance, the rest of its general liability, errors and employment practice liability, police liability, auto liability, bus liability and owned aircraft exposures which are accounted for and financed under a separate subdivision of the Risk Management Fund. The City self-administers claims and utilizes an independent auto damage appraisal firm to write vehicle damage estimates. All City Departments and Enterprise Funds are charged a liability premium according to their loss exposure and past losses. The total premium

charged is based on claims funding at an 80% confidence level as determined by an actuary and administrative costs. A claims liability of \$2,770,000 as of June 30, 2005, was calculated by an independent actuary at a 95% confidence level and includes claims reported but not settled and those incurred but not reported.

Damage to City Buildings, Contents, Equipment, and Vehicles

The City purchases property insurance with a \$100,000 per occurrence and \$300,000 aggregate deductible. City Departments and Enterprise Funds are charged a property insurance premium based on a percentage of the projected cost of full coverage. The difference between the premium charged departments and the premium paid to the insurer is used to pay losses that fall between the \$2,000 departmental deductible and the \$100,000 policy deductible. The City's infrastructure assets are not insured.

Job Related Injuries to Employees

Benefits due City employees under the Iowa Workers' Compensation Laws are accounted for and financed under a separate subdivision of the Risk Management Fund. Claims administration is performed by City staff. The City purchased excess stop loss insurance since it began retaining this risk in fiscal year 1987 thru fiscal year 2002. Effective July 1, 2002 the City discontinued purchasing stop loss insurance. All City Departments and Enterprise funds are charged a premium based on each department's past claims costs. The June 30, 2005 claims liability of \$2,854,000 was calculated at a 95% confidence level by an independent actuary.

Health Care Benefits for Employees, Retirees and Dependents

The City has been accounting for and financing health care benefits under a separate subdivision of the Risk Management Fund since January 1, 1992. A third party provides claims administration. Effective July 1, 2006 the City will again purchase stop loss insurance. All City departments and Enterprise Funds are charged a premium based on the number of single and family plans in place each month. Retirees pay 102% of the monthly plan premium. The total premium charged is the amount needed to pay expected claim and administrative costs. An independent actuary examined the claims payment records and determined the claims liability for incurred but unpaid medical bills as of June 30, 2005 to be \$860,000.

Dental Care Benefits for Employees, Retirees and Dependents

Effective April 1, 1993, the City began to account for and finance dental care benefits under a separate subdivision of the Risk Management Fund. A third party administrator provides claims administration. All City Departments and Enterprise Funds are charged a premium based on the number of plans in place each month. Employees pay the extra cost to purchase family plan coverage. Retirees pay 102% of the single or family plan monthly premium. The total premium charged is the estimated amount needed to pay expected claim and administrative costs. An independent actuary examined the claims payment records and determined the claims liability for incurred but unpaid dental bills as of June 30, 2005 to be \$34,000.

Contingent Liabilities

There are numerous lawsuits pending against the City for various reasons. The outcome and eventual liability to the City, if any, from these cases and from any unasserted claims is not known at this time. Lawsuits stemming from the operation of the City's airport are covered by insurance purchased by The Eastern Iowa Airport. For other risks, which have not been transferred to an insurance company, the City accounts for and finances these lawsuits through the Risk Management Fund, an internal service fund. This fund includes an, open-and-incurred-but-not-reported, claims liability determined by an independent actuary comprised of an estimate of the possibility of unfavorable outcomes involving these pending lawsuits, all open claims and any possible unasserted claims unknown to the City. It is the joint opinion of management and counsel that there are no known lawsuits or open claims that will have a material adverse effect on the City's financial position or the Risk Management Fund.

Landfill Closure and Post closure Care Cost

State and federal laws and regulations require a final cover be placed on a landfill site when an entity stops accepting waste and requires an entity to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post closure care costs will be paid only near or after the date the landfill stops accepting waste, the liabilities of closure and post closure care costs are to be expensed in each period based upon landfill capacity used as of each statement date.

As of July 1, 1994, the City entered into an agreement with Linn County to form the Cedar Rapids/Linn County Solid Waste Agency. The City and Linn County's liability for closure and post closure care costs as of July 1, 1994, were fixed as part of the agreement based on estimated care costs and the percentage of landfill capacity utilized for each of the two respective landfill sites. The City's liability for closure and post closure costs as of July 1, 1994, was \$6,553,050. As part of the agreement, the City transferred its landfill site and certain other assets with a fair value of \$3,202,554 and an equal amount of closure and post closure care liabilities to the agency. These liabilities as well as those transferred by Linn County, in connection with the transfer of its landfill site, are recognized as liabilities by the component unit. The remaining amount of the City's closure and post closure care costs are recognized by the primary government in the amount of \$3,178,096 and are expected to be paid to the agency as closure and post closure care costs are incurred.

Cedar Rapids/Linn County Solid Waste Agency is liable for all closure and post closure care costs at the two-landfill sites except for the liabilities retained by the City and Linn County.

About Cedar Rapids

Nestled in a valley and named for the swift surging rapids of the Cedar River, Cedar Rapids is the principal industrial and agricultural city of East Central Iowa. Before 1838, the Cedar Rapids vicinity was occupied by roving bands of Sac and Fox, Mesquaki, and Winnebago Indians. The first cabin was built in 1838 and late that year and early 1839 others settled here. As the City emerged, the Scottish, English, Irish, German, and Czechoslovakian people settled here with each nationality contributing to the characteristics of the community.

In 1841, a bush dam was constructed across the Cedar River to harness its power, thus the beginning of an industrial Cedar Rapids starting with gristmills and sawmills. The community also became a trading center and in 1842 the first steamboat made its way up the Cedar River and landed its cargo in Cedar Rapids. So the growth of the City began, and over the years Cedar Rapids has continued to increase its role as the area's industrial, agricultural, and trade center leader.

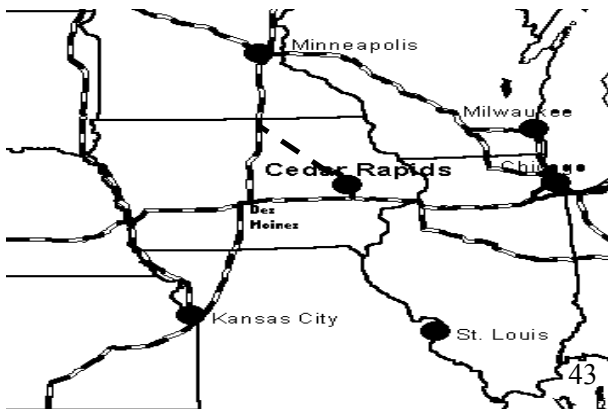
Form of Government

The City of Cedar Rapids, incorporated in 1849, has operated under the Commission form of government since 1908. During fiscal year 2005, a petition submitted on October 29, 2004, signed by 10,262 citizens, asked the City Council to create a Home Rule Charter Commission to prepare a Home Rule Charter to be voted upon with the current form of government. The Home Rule Charter Commission was formed on November 5, 2004. On April 5, 2005, the Home Rule Charter Commission filed the proposed charter with the City of Cedar Rapids, Iowa. The proposed charter called for a part-time mayor, part-time city council, and a full-time city manager.

A general election was held on June 14, 2005, with the citizens being asked to vote on retaining the existing commission form or adopting the Home Rule Charter form. The election resulted in the Home Rule Charter form being approved by the citizens of Cedar Rapids, Iowa. The new form of government consists of nine council members. Five of the members represent a specific district. The remaining four council members are elected at-large, with the Mayor being one of those seats. The election for the new form of government took place on Tuesday, November 8, 2005, and a run-off election occurred on Tuesday, December 6, 2005. The new City Council took office on January 2, 2006, and is responsible for hiring the City Manager.

The Council meets regularly in both formal session and informal staff meetings. The formal sessions are held on Wednesdays at 6:00 PM. The work sessions are held one week prior to the formal sessions at 4:00 PM. The citizens of Cedar Rapids are encouraged to attend all meetings and invited to voice their opinions pertaining to the operation of the City.

Demographics and Physical Attributes



The City of Cedar Rapids, the second largest city in the State of Iowa, is located in the Eastern part of the state, twenty-five miles north of Interstate 80 and Iowa City and one hundred thirty miles east of Des Moines, the State Capitol. Centrally located between Minneapolis, Milwaukee, Chicago, St. Louis, and Kansas City, Cedar Rapids is

only a few hours driving time from these major midwestern trading centers.

Known as The City of Five Seasons, the City is situated along the banks of the Cedar River and surrounded by some of the most fertile farmland in the world. The City consists of 68.59 square miles, with a population, based on the 2000 census report, of 120,758 citizens. We are large enough to enjoy the conveniences of a big city, yet, retain the flavor of small town living. It takes about ten minutes to drive from the center of the City to the beautiful rolling hills of farm country. The metro area, Linn County, has a population of approximately 191,700 citizens.

Cedar Rapids is a beautiful city, attributable in part, to the vast number of trees and shrubs. The beauty is especially evident in the spring with all of the pink, white, and red blossoms on the flowering trees. The fall colorama with the various shades of yellows, oranges, reds, and browns is also a magnificent site. For the 29th consecutive year, the National Arbor Day Foundation has recognized Cedar Rapids as a "Tree City USA". The foundation recognizes communities that maintain ongoing tree care operations through annual budgeted planning and Cedar Rapids was the first community in Iowa to receive that designation two years after the program started. Another beautiful attribute is the Cedar River that flows through and divides the City. The City and community foster a continuing effort to enhance the beauty of the river.

Cedar Rapids has five seasons: spring, summer, fall, and winter as well as a season to enjoy the other four seasons. The average low temperature is 38.3 degrees and the average high temperature is 58.7 degrees. The annual precipitation is 33.4 inches and the annual snowfall is 29.4 inches.

Economic Characteristics

It was announced that two new manufacturing facilities would start construction in 2005. Red Star Yeast is putting up a \$50 million plant and J.Rettenmaier USA LP is putting up a \$25 million plant. Both companies are welcome additions to Cedar Rapids.

The City of Cedar Rapids is recovering from an economic slowdown. Unemployment is down to 3.7% in April. Non-farm employment in the metro area has declined 1,500 over the past year; however, jobs in the area still remain available. Other local businesses are expanding and, due to the coordinated efforts of various organizations within the area, new companies are moving into the metropolitan area, which creates a need for additional employees.

Even though Cedar Rapids is recovering from an economic slow down, for the second year in a row we are ranked among the top fifteen metropolitan areas in the nation for companies looking to locate or expand. In 2004, the Cedar Rapids metropolitan area was ranked twelfth. Only four other Iowa cities, Des Moines (number 1), Iowa City (number 5), Dubuque (number 38) and Waterloo-Cedar Falls (number 43) were in the top 50 of the 331 cities studied. The Expansion Management magazine's study "Mayor's Challenge" analyzed each community's work force on public education, college-educated workers, health care costs, quality of life, logistics infrastructure, and taxes and spending.

Expansion Management magazine is a monthly business publication for executives of companies actively looking for a community where they can expand or relocate a facility. During the past twelve months, Expansion Management's research department published major studies that evaluate and compare 331 metropolitan statistical areas according to a variety of categories that a corporate site selectors need to consider when choosing the best location for an impending facility.

The magazine has also ranked the Cedar Rapids Community School district as the tenth best overall school district in the country, regardless of size.

The area's forecasted growth was verified by the 2000 census. The City grew over 11% between 1990 and 2000, making Cedar Rapids the fastest growing large city in the state and growth is continuing during this decade. The metropolitan area grew over 18%.

The fact that during troubled economic time the City remains strong is not due to luck or a sign of the times, but in fact due to the resolve and character of the community. Up until the early 1980's, the community believed it was pretty much immune from severe economic downturns. This belief was based on the diverse types of companies doing business here and their history of stability. However, from 1981 through 1983, approximately 5,500 jobs were lost due to plant closings and cutbacks – unemployment was very high for this area – most of the job losses were good paying manufacturing and office jobs – many families were forced to leave the community to find work or take lower paying jobs. Residential property values decreased significantly and most retail stores suffered. It was some of the worst of times for the community. But, it was also at this time that the character of the community and its resolve came forth. The City, community organizations, and businesses united and came forward for the specific purpose of getting this community back on track. By the end of the 1980's, the City had made significant achievements from earlier in the decade. The 1990 census showed full recovery had not been accomplished, as the City's population was still 1,471 residents below the previous census a decade ago. Though the labor force had risen 8%, unemployment was still at 5.3%. Today, it is working. With the results of the 2000 census, the Cedar Rapids and metro area enjoy its largest population in history and the valuations of the property (residential, commercial, and industrial) over the last ten years have grown significantly and are continuing to grow. The City has not forgotten all of the cooperation, coordination, and resolve that brought Cedar Rapids to this point and was expected to immerse from this economic downturn even stronger than before.

The Total Assessed Values and Taxable Values of property have significantly increased over the last ten years. Total Assessed Value of the City has risen 58% and the Taxable Value without TIF's is up 29%. An analysis, located in the Statistical Section of this document, shows the annual growth of assessed and taxable values since 1997.

Cedar Rapids is the hub of Eastern Iowa transportation as demonstrated by the four railroads and the large trucking companies located here. Three of the large trucking companies maintain their home offices within the City. In addition, our airport, which is the largest in Eastern Iowa, carries over 1,004,265 passengers, 48 million pounds of cargo annually, and \$68,882 in total FAA operations. Our available transportation opportunities not only link us with U.S., but world markets.

Cedar Rapids is a state leader in the number of manufacturing jobs. However, agriculture has a significant economic influence to the area. Grain farmers who feed the large cereal plants of Quaker Oats Co. and General Mills Inc., the grain storage and distribution elevators such as, Cargill and the large grain processors of ADM Corn Processing, Genencor International Inc., Penford Products Co., and Redstar Yeast surround the City. All of these companies are within the City and they manufacture foods, transport grain, and make products that impact people, industry, and markets worldwide.

Other large industries located in Cedar Rapids includes Rockwell Collins, Inc. (avionics and communications), CRST International Inc. (motor freight), PMX Industries Inc. (brass and copper

foundry), Alliant Utilities (generates and distributes electricity), MCI Telecommunications Corporation (telecommunications), Weyerhaeuser Company Shipping Container Division (cardboard manufacturing), CedarRapids, Inc. (road construction equipment), Aegon USA Inc. (insurance), Toyota Motor Insurance Services (insurance), and APAC Teleservices Inc. (telemarketing).

Because of our diverse agricultural, industrial, and service-based companies, and the mindset of the community, Cedar Rapids is destined to improve the quality of life. The outlook for the City is to continue to grow and prosper and, as a team, continue to strive to improve.

Educational Opportunities

In terms of educating its young people, the community school system consistently ranks among the top academic public school systems in the United States. This reflects not only a commitment from the educators and staff that makes up the school system, but also the citizens of Cedar Rapids and the State of Iowa to provide the best public education possible for its 18,000 students. The City also supports a top-notch parochial school system that educates another 3,000 young people. Total student enrollment in the Cedar Rapids metro area exceeds 30,000 students.

According to the Cedar Rapids Educational Service Center, the Cedar Rapids Community School District can boast that 98.4% of its high school senior's graduate compared to 89.4% for the State of Iowa. In addition, 90.2% of our high school graduates attend a post secondary institution, as compared to 82.9% for the State of Iowa. Only 3.2% of the workforces in the metro area do not have a high school diploma, while 68.9% have post high school education. The community's school systems are not only noted for their high academic standards, but also take pride in their excellent sports and fine arts programs (theatre and music). Many of the high school programs are invited to compete or perform in other parts of the country.

Cedar Rapids offers a variety of opportunities to obtain additional education for all its citizens. Located within the City are two private colleges, Mount Mercy College and Coe College, providing four-year liberal arts degree programs. Both colleges have a variety of degree programs and offers day and evening classes. Kirkwood, the largest community college in the state, in terms of enrollment, resides in Cedar Rapids and provides two year vocational and technical training for the over 11,000 students. In addition, the college works closely with businesses in the area to offer training that will help make them successful. Day and evening classes are also available. Iowa State University, The University of Northern Iowa and The University of Iowa, well known for their excellence in educational opportunities, are in close proximity to the City.

Cultural and Recreational Opportunities

The City of Five Seasons, the fifth season being the time to enjoy the other four seasons, is dedicated in its efforts to provide first class recreational as well as cultural activities for its citizens. Our highly recognized and regarded symphony orchestra and the community theatre provide a number of concerts and productions during the year and are well supported by the community. The City's civic arena, with its 7,800 seating capacity, offers a variety of concerts, sports and travel shows, State volleyball tournaments, wrestling meets and other community oriented activities. The City's soccer complex is gaining popularity throughout the state as an excellent place for meets. The City's historic Paramount Theatre, which was built during the early 1920's and offers a number of smaller cultural events during the year, has reopened after undergoing major \$7.8 million renovation in 2004.

The City's skate park, constructed in FY 2000, remains a hit. The various apparatus' allows skateboarders, trick bikers and inline skaters the means to hone their skills. The City's Recreation department in partnership with a youth group, parents, the police department, and the community school district collaborated to construct this skate park. Funding came from the City, fundraisers, grants and donations from citizens and businesses. Plans are on the table for expansion.

In FY 2000, the City entered into another partnership with businesses and now the citizens are enjoying a two-sheet indoor ice skating rink. One sheet is designed for hockey and has seating for 4,000. The other sheet, Olympic size, is primarily used for recreational and instructional skating. In addition to providing an opportunity for year around recreational ice-skating, citizens now have the opportunity to watch junior league hockey. This year the Cedar Rapids Rough Riders had another outstanding season and made it to the playoffs and lost in the Eastern Division finals, one game away from going to the Clark Cup finals.

Cedar Rapids was the first city in Iowa to open an IMAX theatre. Since the opening in 2001, the IMAX has demonstrated its value to the community. The Science Station, which is attached to the IMAX, and the force that pulled the partnership together and obtained funding for the theatre, also expanded.

In FY 2002, a partnership with veterans, businesses and citizens resulted in construction of a new \$16.4 million baseball stadium. This 5,300 seat, state-of-the-art, baseball stadium brings joy and excitement to many people and will for many years. The stadium is also used as a site for local amateur baseball tournaments and the Corridor Classic, a match up between the University of Iowa and the University of Northern Iowa.

The Cedar River, which flows through the City, offers summer and winter recreational opportunities, as do the many lakes in the surrounding area. The City boasts that it maintains over 60 separate parks in its 4,042 acres of parkland that allows its citizens to enjoy the fifth season. Most parks have a variety of activities available, such as, playground equipment, soccer and softball fields, walking trails, picnic tables, and grills to be used by its patrons. There are 21 pavilions located in 10 of our largest parks that are used for events. Six swimming pools, one of which is indoors, are scattered throughout the City's quadrants and allows the citizens of all ages and in all quadrants the opportunity for water activities. The citizens of Cedar Rapids, in 2003, approved a one year, one cent sales tax increase, which raised \$15 million. In 2005, when the project was complete, five pools have been replaced and the remaining one upgraded. The City also operates four golf courses. Two courses have been renovated and more renovations are planned in the future on the other two courses.

The City's Parks and Recreation departments not only maintain the parks and facilities, but also offer many cultural and recreational activities for all ages of its citizens. Some of the adult workshops offered are pottery, raku, book making, portraiture, and the use of computers. Social, swing, and belly dancing workshops are also available. For the youth, there are classes offered in archery, babysitting, and radio control model airplanes. There are almost 200 classes designed for all ages that improve existing skills, allows folks to learn new ones, or just have fun.

Recreational activities, offered by the City, include tennis lessons at all skill levels. We offer leagues in softball: slow, medium and fast pitch (female, male, and co-ed leagues), soccer, roller hockey, Frisbee, and handball to name a few.

City Web Site

Additional information regarding the City of Cedar Rapids, its departments, and services can be found on the City's web site @ www.cedar-rapids.org. This site also provides community information as well as links to other relevant web sites.

Demographics for Cedar Rapids, Iowa

Size of Cedar Rapids

1976	52.75 Sq. Miles
1981	54.10 Sq. Miles
1986	54.91 Sq. Miles
1991	56.94 Sq. Miles
2001	65.67 Sq. Miles
2004	67.30 Sq Miles
2005	68.59 Sq. Miles

Population (1)

1980	110,243
1990	108,772
2000	120,758

Median Age (1) (3)

1985	30.90
1990	33.42
2000	35.93
2005	37.00

Unemployment Rate (5)

1990	5.3%
2005	4.7%
2006 (April)	3.7%

School Enrollment (4)

Public Schools	
1990	17,367
2000	17,645
2004	17,125
2005	17,051

Private Schools

1990	2,148
2000	2,748
2004	2,757
2005	2,905

Climate (2)

Ave. Low Temperature	38.3
Ave. High Temperature	58.7
Annual Precipitation	33.4"
Annual Snow Fall	29.4"

Bond Rating (General Obligations Bonds)

Moody's	Aaa
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Parks and Recreation

Acres in Park System	4,040
Number of Parks	95
Playgrounds	50
Swimming Pools	6
Golf Courses (City Owned)	4

U.S. Cellular Center (2005)

Attendance	241,099
Event Days	121

Paramount Theatre (2005)

Attendance	108,027
Event Days	133

(1) U.S. Department of Commerce, Bureau of the Census, 1980 and 1990 Census of Population

(2) National Weather Service – Quad Cities www.crh.noaa.gov

(3) Woods & Poole Economics, Inc., Copyright 1998, Woods & Poole Economics Inc., Washington, D.C.

(4) Grant Wood Area Education Agency

(5) Iowa Workforce Development www.iowaworkforce.org

Demographics (Continued)

Per Capita Income Linn County, State of Iowa and United States

	1999(1)	2000(1)	2001(1)	2002(2)	2003(2)	2004(1)
Linn County	\$30,932	\$31,757	\$32,391	\$32,672	\$32,672	\$34,469
State of Iowa	25,598	26,723	27,825	28,081	28,876	31,058
U. S. Total	28,546	29,676	30,413	30,810	31,484	33,050

Note: (1) Source: US Department of Commerce Bureau of Economics Analysis

(2) Revised in 2006

Median Household Effective Buying Power (1)

	1999	2000	2001	2002	2003
City Of Cedar Rapids (Metro)	\$38,188	\$40,090	\$41,765	\$38,517	\$39,133
Linn County	38,528	41,054	42,431	40,271	39,703
State of Iowa	33,150	34,962	34,459	35,461	35,393
City as percent of State	115.20%	114.6%	121.2%	108.6%	105.7%

Note: (1) Source: Survey of Buying Power, Sales & Marketing Management

Cedar Rapids MSA (1) (2) Non-Agricultural Labor Force (3)

Employment Classification	2002	2003	2004	2005
Natural Resources & Construction	6,700	6,400	7,100	7,900
Manufacturing	18,400	17,700	19,400	20,000
Trade & Transportation	25,700	25,000	28,000	29,100
Information	6,100	5,700	5,700	5,300
Financial Activities	8,700	9,200	9,700	9,700
Professional & Business	12,700	11,900	12,300	12,100
Education & Health	14,300	14,800	16,000	16,900
Leisure & Hospitality	9,100	9,200	10,600	11,000
Other Services	4,700	4,700	5,300	5,200
Government	12,400	12,400	15,300	16,100
Total Employees	118,800	117,000	120,900	133,300

Notes: (1) Cedar Rapids MSA covers Linn County

(2) Source: Iowa Workforce Development

(3) Labor force data is based on place of work concept, whereby an individual is counted in the area where he/she works regardless of the area where he/she lives.

CITY OF CEDAR RAPIDS, IOWA
TEN LARGEST TAXPAYERS
2004 ASSESSMENTS PAYABLE IN 2005/2006
FOR FISCAL PERIOD ENDED JUNE 30, 2006

		Total	Percentage of Total Estimated Actual Valuation
ADM Corn Processing	Grain Processing	\$ 143,633,696	33.61%
Weyerhaeuser Company	Packaging Materials	49,717,389	11.63%
Rockwell Collins, Inc.	Avionics and Communication	49,370,679	11.55%
Aegon USA, Inc.	Insurance	36,267,628	8.49%
SDG Macerich Properties (Lindale Mall)	Shopping Center	35,141,019	8.22%
McLeodUSA, Inc.	Telecommunications and Publishing	34,768,633	8.14%
PMX Industries, Inc.	Brass and Copper Foundry	22,063,635	5.16%
Westdale Investments, Inc.	Shopping Center	21,371,989	5.00%
Iowa Land & Building	Real Estate	17,681,548	4.14%
Hy-Vee	Grocery Store Chain	17,366,637	4.06%
Total Assessed Ten Largest Taxpayers		<u>\$ 427,382,853</u>	<u>100.00%</u>

Data Source: Office of City Assessor