

March 15, 2007

Honorable Mayor, City Council and Citizens

We are pleased to present the Operating and Capital Improvement Budget for the City of Cedar Rapids, Iowa, for the fiscal year ending June 30, 2008. This budget includes all operating funds and component units of the City as well as the first year of the City's Capital Improvements Program. In compliance with state law and sound financial practices, this is a balanced budget.

The budget process started in October with the distribution of the budget instructions. In the last few years, General Fund department's non-personal services have been held close to zero increase and personal services were looked at on a position by position basis. In FY 2008, General Fund departments were asked to review their personal and non-personal expenses with an eye toward no increase however, if necessary, submit a request for an increase and the City Council would review the requests. The General Fund's capital equipment budget would be budgeted at \$1.4 million, including items under \$5,000. Enterprise Funds departments were asked to submit a budget where revenues were at least equal to expenditures, including depreciation.

Departments spent the months of October and November loading their information into the budget module. The City Council spent the months of December and January evaluating department requests and fine-tuning the budget. By February 6, 2007, the City Council had reached a collective agreement on the budget. In addition to the normal wage increases, there were many obstacles to overcome this year, such as, health insurance increases, fuel increases, and professional services increases. This was especially difficult in the General Fund as taxable values, used to generate over 70% of their revenue, increase only 1.17%. All of these tasks were accomplished in work sessions held as open meetings during which the public could witness the budget building process. A public hearing, as required by state code, was held on March 7, 2007 where the new budget was presented to the citizens and the City Council with a vote of six yeas and three nays adopted the budget.

Budget Highlights

The City Council strategic priorities for FY 2008 are as follows:

- Facilitate growth of tax base and the creation of high quality jobs and businesses.

Office of the City Controller-Auditor

City of Cedar Rapids • 51 First Avenue Bridge

Cedar Rapids, Iowa 52401-1113 • (319) 286-5006 • FAX (319) 286-5140

- Work to enhance the quality of life in our City.
- Increase the effectiveness and efficiency of city government through proven, contemporary continuous improvement practices.
- Improve prosperity and quality of life through increased collaboration with other key partners with the “corridor”/region.

The total budget for FY 2008, approximately \$352 million, is an increase of 14.9% over the current year’s budget of \$306 million. Although the City’s total assessed valuations increased by 2.60% and taxable valuations increased only 1.17% as compared to the previous year. The low growth in assessed values is due to a combination of situations, such as, a decline in industrial values and a slight growth in commercial values. The state rollback on residential property was increased and there is an increase in the use of TIF (tax incremental financing) funding. Residential property will be taxed at 45.5596% as compared to 45.996% in the current fiscal year. Commercial property will be taxed at 100% as compared to 99.15% for the current fiscal year. The property tax levy will increase by approximately \$.23 to \$14.62/\$1,000 of taxable valuation. Taxes, primarily property taxes, account for 23% of the total in this budget.

Overall, personal services are increasing by \$1.2 million or 1.17%. Personal Services is increasing in FY 2008 due to proposed wage increases and health insurance rates increasing 8%. Purchased Services will increase \$3.3 million or 6.4% primarily due to consulting engineering services, other professional services, and electricity. Supplies and Materials will increase \$.9 million primarily due to fuel cost and chemical supplies. Other expenditures will increase \$2.8 million or 19% due to increases in grants, contributions other agency, and settlement/judgments. Overall, Capital Outlay will increase \$36.2 million or 42% due to an increase in capital improvement projects and Debt Service will increase \$1.1 million or 3.1% due to sale of general obligation bonds in FY 2008.

The City established an administrative service charge for departments in fiscal year 2008. Only those departments that do not receive either a property tax subsidy or a Hotel-Motel tax subsidy would be part of the initial program. It was decided these eligible departments would “pay” as if they were being charged for administrative services being provided. The departments and their amount of the administrative charges for FY 2008 are shown as follows:

General Fund (Building division)	\$	86,900
Golf		142,500
Parking		144,000
Sewer Maintenance		159,400
Solid Waste and Recycling		248,500
Water		595,000
Water Pollution Control		494,000
Total Admin Charges	\$	<u>1,870,300</u>

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

Fiscal Impact

As stated previously, the property tax levy rate will increase by approximately \$.23 to \$14.62/\$1,000 of taxable valuation. The debt service levy, which is a part of this total levy, is increasing by \$.08 per thousand to \$1.90/\$1,000 and used to service debt associated with the City's infrastructure improvements.

The rollbacks applied to residential property for FY 2008 were increased by the Iowa Department of Revenue to 45.5596% of estimated value, an increase over the current amount of 45.996%. For a home valued at \$100,000, for taxing purposes, it will be valued at \$45,559 in FY 2008. The application of the rollback, with the increase in the tax levy rate, will translate to a .63% increase in taxes paid to the City of Cedar Rapids by owners of residential property. For example, a \$100,000 market value home in FY 2008 will see an increase of approximately \$4 per year for the City's portion of property taxes.

Commercial property will have a rollback applied in FY 2008 of 100%. In FY 2007, commercial property was taxed at 99.1509% of market value. Coupled with the change in rollback and increase in the tax rate, commercial property tax owners will see a 2.45% increase or approximately \$35 additional taxes in FY 2008.

Rollbacks are not applied on industrial property, thus the amount of City taxes an industrial property taxpayer will pay will increase in direct proportion to the increase in the tax levy rate. For property valued at \$100,000 this increase will be approximately \$23 annually or an increase of 1.60%.

Major Initiatives General Fund

Initial general fund budget presented by departments resulted in a \$7.53 million deficit. The City Manager made initial recommendations to the City Council that reduced the deficit balance by \$6.24 million. Of the \$6.24 million recommended by the City Manager, \$1.65 million related to the City Blueprint for the Future which includes elimination of functional duplication and reorganization plans focused to improve efficiency, effectiveness, and responsiveness. City Council then selected budget options which were submitted by departments to reduce the deficit balance by another \$.89 million. The remaining deficit balance was eliminated by the 1.17% increase in valuations.

Overall, general fund expenditures will increase approximately \$1.5 million or 1.92%. Of this increase, personal services will be only increasing \$.2 million due to the City Blueprint for the Future, capital equipment is increasing \$.1 million, and non personal services will be increasing \$1.25 million for expenditures such as fuel, health services, and professional services.

Enterprise Funds

Water, Sewer, and Solid Waste service fees combined are budgeted to increase 4.69% in FY 2008 for the average residential customer. The amount of increase for the average residential user (based on the usage of 10 units of water per month) will only be \$.07 per day. Even with these increases in rates, our combined water and sewer rates are still far below other large cities in Iowa that provide similar services.

The Water department's FY 2008 water rates are increasing by 4.86%. Combining the increase in rates with a slightly higher usage should provide an additional \$1.3 million in charges for services revenue. However, the total FY 2008 revenue budget of \$37.1 million for the Water department is an increase of 65.2%. Increases in general obligations bonds and state revolving fund loan are the main reasons for the large increase in revenues in FY 2008. The Water department's total expenditure budget of \$40.7 million is an increase of \$3.1 million or 8.4% from FY 2007. Personal services will increase approximately \$.3 million or 3% due to the increase in wages as well as health insurance. Non-personal services expenditures will increase approximately \$.7 million over FY 2007 due primarily to contract labor, other professional services, and electricity. Capital outlay is expected to increase \$1.9 million due to more capital improvement projects in FY 2008. The water department will pay an administrative service charge of \$595,000 in fiscal year 2008.

Water Pollution Control's (WPC) overall revenue budget of \$30.4 million is an increase of \$3.6 million or 13.3%. Charges for services are budgeted to increase \$1.9 million, while general obligation bond revenue is increasing \$1.6 million. The increase in charges for services is due to budgeted rate increase of 8.45%. The FY 2008 expenditure budget of \$32 million is an increase over FY 2007. Personal Services expenditures are expected to increase 5.9% as compared to FY 2007 due to wage and health insurance increases. Non-personal services will increase \$1.2 million from FY 2007 due to increases in chemical supplies, other professional services, and electricity. Capital outlay is expected to increase \$3.9 million or 59.5%. WPC's contribution to the City's administrative service charge program will be \$494,000 in FY 2008.

The Sanitary Sewer department's revenue budget of \$12.9 million is an increase of \$.8 million or 6.3% in FY 2008. The primary areas of change are an increase of \$.8 million in charges for services, primarily due to the sewer rate change, and \$.2 million in general obligation bonds. The total expenditure budget of \$12.3 is a \$.9 million or 7.8% increase. Personal services will increase \$.1 million and is due to wages and health insurance costs. Non-personal services expenditures are increasing \$.1 million or 11.1% due to sewer materials and supplies, diesel fuel, and other professional services. Capital Outlay to include capital equipment and capital

improvements increased \$.9 million or 13.9%. Debt payments will decrease 6.6% to \$2.9 million and Sanitary Sewer's administrative service charges will be \$159,400 for FY 2008.

Total budgeted revenue for the Transit department in FY 2008 is \$7.9 million, which is a decrease of \$.1 million or 1.4%. The decrease is primarily due to reduction in federal grant funding. State law allows a City to implement a tax rate levy up to \$.95/1,000 for what is called a transit rate levy. This rate, which becomes part of the City's overall tax rate, is used to subsidize the operations of the Transit department. The FY 2008 tax rate for Transit operations will be 63.481 cents/\$1,000, which is the same as the previous year. The tax rate will generate \$3.0 million in revenue subsidy. Total operating expenditures are budgeted at \$7.8 million, or a decrease of \$.2 million. Personal services will decrease \$.04 million due to elimination of positions. Non-personal services will increase \$.3 million due to fuel cost and vehicle liability. Capital Outlay, primarily machinery and equipment, is budgeted to decrease \$.5 million.

Budgeted revenues for the Parking system of \$13.7 million is an increase of \$5.2 million or 61.8% and primarily due to an increase in federal grants and revenue bonds. Total expenditures are budgeted at \$14.2 million, which is an increase from FY 2007. Personal Services will increase by \$.1 million or 6.4% due to wage increases and health insurance. \$.9 million in non-personal services is a decrease of \$.3 million or 23.9%. Construction of the Intermodal Facility is budgeted to start in FY 2007 with completion in FY 2009. The amount of the Parking System administrative service charges is \$144,000 for FY 2008.

The Solid Waste and Recycling rate will maintain a total monthly amount of \$13.85 for both garbage and recycling pickup in FY 2008. The department's revenue budget of \$7.2 million is an increase of \$.5 million or 7.5% and reflected in interest revenue account. The total expenditure budget of \$7.3 million is an increase of \$.3 million or 4.6%. The personal services budget of \$3.8 million is a 3.1% increase and due to changes in wages and health insurance. The \$2.7 million in non-personal services is an increase of \$.2 million or 9.5% and primarily due to equipment and fuel cost. Capital Outlay's budget of \$.9 million is a decrease of \$.02 million in purchases of machinery and equipment. The Solid Waste and Recycling department's contribution to the City's administrative service program will be \$248,500 in FY 2008.

Golf's revenue budget in FY 2008 is \$3.3 million and is an increase of \$.2 million or 5.7% from FY 2007. The increase in charges for services revenue and miscellaneous revenue of \$.2 million or 4.7%, due primarily to the City taking over the clubhouse at Gardner Golf Course. Golf's expenditure budget of \$3.1 million is an increase of \$.3 million or 9.1% from FY 2007. Personal services budget of \$1.5 million is a slight increase over last year. The \$1 million non-personal services budget is, \$.1 million increase over FY 2007. Capital Outlay is increasing by 93.6% to \$.1 million in FY 2008. The ten-year plan to renovate the four golf courses has scheduled minor improvements in FY 2008. Golf's FY 2008 administrative service charge is \$142,500.

Revenue for the U.S. Cellular Center is budgeted at \$1.9 million, which is at the same level as FY 2007. Expenditures are expected to decrease by \$.1 million or 4.4 % to \$2 million. Personal services will increase \$1,569 or .2% due to increase in temporary/seasonal employees. Non-personals services will decrease \$32,379 or 3.1% primarily due to electricity cost. Capital Outlay is decreasing \$.1 million or 61.2% due to waiting until community Fifteen in 5 needs are identified.

The Paramount Theatre's FY 2008 revenue budget of \$.7 million is a slight increase from last year. The FY 2008 expenditure budget of \$1 million is also a slight decrease from last year. Capital outlay will decrease due to renovations of theatre being completed in previous fiscal years.

The Ice Arena's FY 2008 revenue budget of \$1.6 million is an increase of \$.5 million or 49.4% from FY 2007. The majority of the increase is in general obligation bonds. FY 2008 expenditure budget of \$2.2 million is an increase of \$.6 million. Personal services will increase 4.2% due to an increase in temporary/seasonal employees. Non-personal services will increase \$.05 million. Capital outlay will increase primarily due to renovations of ice rink.

The Cedar Rapids Airport Commission operates The Eastern Iowa Airport, a component unit of the City of Cedar Rapids. The Commission has the responsibility for managing and operating the City's airport facility and related parking. The Commission, whose members are appointed by the Mayor with the approval of the City Council, has all the powers granted to the City except for the authority to sell the airport. The FY 2008 budget, submitted by the Commission, provides for total revenues of approximately \$22.8 million. This is an increase of \$2 million or 9.6% is primarily due to increases in federal/state grants and rents/royalties. The \$25.9 million in expenditures is an increase of \$4.4 million or 20.2%. Personal services will decrease \$.1 million or 2.8%. Non-personal services are increasing \$.7 million or 14.2% due to consulting engineering changes. Capital outlay for FY 2008 will increase \$3.8 million or 29.8% and debt service is decreasing slightly by \$28,984 or 3.48%.

The other component unit of the City of Cedar Rapids is the Cedar Rapids/Linn County Solid Waste Agency. The result of a cooperative Chapter 28E agreement as provided in the Iowa Code, the Cedar Rapids/Linn County Solid Waste Agency, formerly known as Bluestem Solid Waste Agency, operates the combined Cedar Rapids City and Linn County landfills in an integrated manner for the benefit of the entire county. Currently, all cities in the county as well as the county itself are members of this organization. Due to the fact it is a component unit of the City of Cedar Rapids, the City includes their budget as a part of the City's budget. Total FY 2008 revenues of \$8 million are an increase of \$.5 million or 7.3%. The increase is primarily due to charges for services and interest. The agency's budgeted FY 2008 expenditures are \$17.8 million, an increase of \$8.5 million or 91.2%. The increase is primarily due to capital outlay for landfill expansion

Internal Service Funds

Revenues, excluding transfers-in, in the Internal Service Funds are budget at \$25.4 million, which is an increase of \$.9 million or 3.4%. The revenue increase is due to inter-departmental charges and the result of the 8% increase in health insurance charges. The total FY 2008 expenditures budget, excluding transfers-out, is \$24.9 million, which is an increase of \$1 million or 4.3%. The majority of the increase is in health insurance.

The major change in Risk Management FY 2008 revenue budget of \$21.6 million is the result of the 8% increase in health insurance rates charged to the departments. The result is an increase to inter-department charges of \$.5 million. The FY 2008 expenditure budget of \$21 million is an increase of \$.7 million or 3.3% due to an increase in health services.

Joint Communications' FY 2008 expenditure budget of \$2.5 million is an increase of \$.4 million or 16.9%. Personal services increased \$.1 million and non-personal services increased by \$.05 million. Capital outlay increased \$.2 million due to mobile data computers and field reporting module.

The Public Works Facility revenues for FY 2008 are budgeted at \$1.5 million, which is a 4.5% increase and primarily in the building rental account. The FY 2008 expenditures are budgeted at \$1.5 million, which is a decrease of \$2,321 or .2% and due to a reduction in capital outlay.

Capital Projects Funds

The FY 2008 revenue budget for the Capital Projects Funds is \$30.3 million, which is an increase of \$4.1 million or 15.7% from FY 2007. The majority of the increase is due to federal, state, and local grants, special assessments, and general obligation bond proceeds. The FY 2008 expenditure budget is \$45.4 million, which is \$10.7 million or 30.9% more than FY 2007. The net increase is in Capital Outlay and is due to more capital improvements projects being budget in FY 2008. Additional information regarding the City's ten-year capital improvement program can be found in the Adopted Capital Improvement Program, FY 2008 – 2017 budget document.

Special Revenue Funds

FY 2008 revenues for the Special Revenue Funds are budget at \$37.2 million, which is a \$3.4 million or 10.2% increase from FY 2007. The majority of change is a \$.5 million increase in TIF property taxes, \$.2 million increase in hotel-motel tax, \$.3 million increase in building rental, and \$2.1 million increase in federal and state grants. FY 2008 expenditures of \$17.4 million are a \$2.5

million or 17.2% increase from FY 2007. Non-personal services will increase \$3.6 million or 30.2% primarily due to other professional/technical services, grants, and contributions other agency. Capital outlay will decrease \$1.1 million in fiscal year 2008.

Debt Service Fund

The City's debt service rate for FY 2008 will increase by \$.08 to \$1.90 per thousand. The City anticipates it will sell approximately \$27 million of general obligation bonds and \$2.5 million in revenue bonds during the next fiscal year for capital improvement and equipment projects to be completed during FY 2008. Of these bonds, less than a third will be property tax supported. The remaining amount will be supported by a combination of other sources to include user fees and TIF property taxes. The City has had several large bond sales in recent years, but even with the new bond issue it expects to maintain in excess of \$148.9 million or 36.6% of debt capacity in reserve. Debt capacity is computed by multiplying our total assessed valuation by 5% and then subtract the outstanding general obligation debt from the calculated amount.

The City has continuously maintained an Aaa bond rating from Moody's Investors Service since 1973. The City's goal is to retire sixty percent of its debt within ten years. It is currently estimated that the City will retire 69.7% of its debt within ten years. This relatively short maturity retirement practice, combined with our low median debt burden, is two of the major reasons we continue to maintain the coveted Aaa rating.

The Future Outlook

The City is continuing a process called Cedar Rapids Managing for Results or CRMFR. Managing for Results is a management approach that focuses on defining and then achieving the results that are important to a local government. The organization develops a shared, widely understood framework using performance measurement for setting goals and objectives, managing, allocating resources, and evaluating its accomplishments. Managing for Results can benefit a local government by improving the focus on key results and sharpening the organization's management skills to achieve those results. It is a tool for more responsive and accountable government. Research has shown that citizens are very knowledgeable about performance measures and believe they should be reported. Furthermore, they are very interested in whether and to what degree their government is using performance measures for the management of operations and what effect the use of performance measures is having on their government. It is anticipated this process may take three to four years to become fully operational. It is our sincere hope that this process will allow the City Council to refine its budgeting process.

The City Council believes it has been and will continue to be responsive to its citizenry in trying to control its spending level at the same time as it addresses the needs of the City. This financial stewardship is further reflected by comparing our property tax rate with


the rates of the other nine largest cities of Iowa (those with populations over 50,000). Based upon the proposed budgets of these cities, Cedar Rapids will still have the third lowest property tax rate in the State of Iowa.

Acknowledgments


This budget is the result of the combined efforts of department managers and their staffs, budget staff, the City Council, and you, the citizenry. Even though the actual process takes place over several months, citizen input occurs throughout the year. This year's process occupied many hours of public City Council meetings with department managers, budget professionals, and the public all participating. This is your budget and the City Council encourages you to get involved in the process and continue this involvement as the budget is implemented.

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

Respectfully submitted,



Jim Prosser
City Manager



Casey J. Drew, CPA
City Controller-Auditor