



## MEMO

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TO: The Mayor and City Council  
FROM: Jim Sanders, City Administrator  
Teresa Rotschafer, Assistant City Administrator/Finance Director  
DATE: January 15, 2021  
RE: Information for the January 19th work session on the FY22 budget

1/14/21 Draft

The work session for the FY22 budget will be held on Tuesday, January 19 at **6:00 p.m.** The operating budgets presented by department heads at the work session in December have not changed significantly and are included in the proposed budget (as a reminder, the detailed budget can be found in BoardDocs, in the library under 2021-2022 Budget Work Book). In preparation for the budget work session staff has created several exhibits, prioritized decision packages and created a summary which is included in this memo.

If you have any questions regarding the operating budget, or this memo, feel free to call or e-mail us in advance of the meeting. The more staff can be prepared to answer your questions, the more productive the meeting will be.

### Community Survey and City Council Goal Setting

The community survey was updated in late 2020. The survey identified two areas of improvement the city should focus on:

- o Overall flow of traffic in the City
- o Overall quality of recreation programs and facilities

**The survey also identified** two categories of City maintenance services rated as a high priority.

- o Maintenance of sidewalks
- o Maintenance of City streets

In October/January 2020/21 the Mayor and City Council conducted the bi-annual strategic planning session which involved summarizing the past accomplishments and identifying, discussing and establishing future priorities for the City. Although the strategic plan has not been adopted, some of the preliminary priorities (in no order) include:

- Town Center Association management
- NW 86<sup>th</sup> Street – redevelopment
- Broadband rollout

- Need for additional commercial and service-related businesses
- Updating zoning ordinances and subdivision regulations
- Working on diversity, equity and inclusion (DEI)
- Expand Community Service Officer (CSO) and Community Affairs programs in the police department
- Complete a community-wide traffic flow study
- Implement a sidewalk program (to include maintenance and filling in the gaps)

Residential and commercial growth:

Building permits issued

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Single family	139	113	101	86	124	105	68	72	55	87
Townhome/condos	27	14	23	42	45	18	14	17	14	12
Multi-family	16	275	109	98	395	75	118	118	144	47
<b>Total units</b>	<b>182</b>	<b>402</b>	<b>233</b>	<b>226</b>	<b>564</b>	<b>198</b>	<b>200</b>	<b>207</b>	<b>213</b>	<b>147</b>

The official population in 2010 was 17, 278. A special census conducted in 2015 indicated the city had grown to 20,460 residents, an 18.4 percent increase since 2010 and 137 percent increase since 2000. There has been a total of 965 dwelling units constructed or under construction since 2015. The city will receive the 2020 census numbers in early 2021.

Commercial growth in 2020 includes four projects that will add \$14,259,000 in taxable valuation.

Commercial building activity

	2014	2015	2016	2017	2018	2019	2020
Commercial permits	7	8	3	14	8	5	4
Commercial valuation	\$14,638,500	\$36,582,984	\$5,083,805	\$27,881,704	\$8,219,704	\$6,811,920	\$14,259,000
Industrial permits	0	0	0	0	0	0	0
Industrial valuation	0	0	0	0	0	0	0
<b>Total valuation</b>	<b>\$14,638,500</b>	<b>\$36,582,984</b>	<b>\$5,083,805</b>	<b>\$27,881,704</b>	<b>\$8,219,704</b>	<b>\$6,811,920</b>	<b>\$14,259,000</b>

Department Budget Proposals

Department heads prepared their budgets maintaining the bottom line of the current (FY21) budget. The bottom line is calculated by removing the cost of decision packages which were approved as one-time expenditures in the current budget (this represents ten years in a row the budget was built from the base of the previous year's budget). Department heads were allowed growth within their budget for expenditures which are programmed to increase (i.e., bargaining unit wage adjustments, insurance premium adjustments, utility costs, etc.). Decision packages were prepared by department heads for additional budget initiatives including new programs, equipment, and positions.

Staff has prepared a two-year budget (FY22 and a preliminary budget for FY23). The primary purpose for completing a two-year budget is with the uncertainty in property valuations, property tax collections and revenue from the Local Options Sales and Services Tax (LOSST), staff wants to assure the property tax levy is relatively stable for at least the next two budget years. This also helps the city better prepare for trends and initiatives that we know are on the horizon.

Property valuations and property tax rate

The Polk County Assessor's Office completes a reassessment of property values every other year (odd numbered years). 2019 was a reassessment year and the city experienced significant growth in taxable valuation on existing properties (8.81%). 2020 was not a reassessment year so growth in taxable value is primarily based on new construction that adds taxable valuation. The city received the final preliminary property values on January 5, 2021 with the growth in taxable valuation of 3.28%. This valuation will be the basis for calculating the FY22 property tax rate.

City services funded primarily from property taxes:

Police	Library
Fire	Code Enforcement
Emergency Medical Services	Parks/trails
Emergency Management	Recreation
Roads, Bridges and Sidewalks	Trees
Road Administration	City Council/Administration/Communication
Construction Observation	Finance /City Clerk
Street Lighting	Debt Service
Welfare Assistance	Planning & Zoning
Mosquito Control	Senior Citizens

City services funded by other sources:

- Solid Waste/Recycling Collection and Disposal (garbage and recycling fees)
- Traffic Control and Safety (Road Use Tax – RUT)
- Roads, Bridges and Sidewalks (RUT)
- Regional Cultural (hotel/motel tax)
- Economic Development (hotel/motel tax and tax increment financing)
- Building and Housing (building permit and development fees)
- Storm Water Utility (stormwater utility fees)
- Water Operations (water revenue)
- Wastewater Operations (sanitary sewer revenue)

State Legislative law adopted in 2019 sets a threshold of 2% growth in property tax dollars collected from the previous fiscal year. The 2% threshold amount for Johnston in FY22 is \$249,641.96. Based on the estimated growth in valuation, if the general fund and special revenue levies remain the same as FY21, we would generate an additional \$338,776 in property tax dollars.

The 2019 state law requires cities to conduct an additional public hearing in the budget approval process. This public hearing is on the proposed Maximum Property Tax Dollars. Cities not exceeding the 2% threshold can approve the Maximum Property Tax Resolution by simple majority. Any city exceeding the 2% growth limitation must receive two-thirds approval from the council. Staff anticipates the growth in

general fund revenue will be above the 2% threshold

Community characteristics that have an impact on the level of service provided by the city:

In many suburban communities the population on weekdays is less than in the evening or on weekends as many residents leave the community during the day to go to work. Although Johnston is a suburb in a larger metropolitan area, staff research indicates the daytime population in Johnston is greater than the number of people that live here. Significant employers such as Corteva, John Deere Credit, Camp Dodge and the Johnston Community School District generate an influx of people on weekdays.

The increase in daytime population places an additional burden on city government services, especially public safety (police and fire), as there is more demand for emergency medical and police service.

There are businesses and organizations that attract thousands of visitors, beyond their daily employment, throughout the year. Examples include:

- Corteva – Head count for employees and contractors; 2,919 in 2018 and 2,771 in 2017. They also hosted 23,731 guests in 2018 and 25,766 guests in 2017.
- In 2017 and 2018 Camp Dodge drew more than 400,000 visitors each year which is a mix of military, civilian, events, and law enforcement students. In 2017, 886,584 vehicles entered and exited Camp Dodge and the Joint Forces Headquarters on NW 78<sup>th</sup> Avenue. In 2018 they were averaging 74,452 vehicles per month entering the camp.

According to information on the Polk County Assessor website, in 2019 there was \$114,070,900 of tax exempt property in Johnston (not including the value of the Camp Dodge property). Based on our FY21 property tax rate of \$10.63, this valuation would have created \$1,212,574 in property tax revenue.

Property Tax Rollback

The Iowa Department of Revenue issued the FY22 assessment limitation order for residential property (property tax rollback). Property tax rollback for residential properties will adjust from the current 55.0743% to 56.4094%. This means a residential property owner will pay property taxes based on 56.4% of their assessed value rather than 55.1%.

The property tax rollback on commercial/industrial properties will remain at 90%. The Iowa Legislature created a standing appropriation and committed to reimburse (backfill) the lost revenue to cities due to the commercial property tax rollback. The backfill was funded at 100% by the legislature for FY15, FY16 and FY17. Future backfill appropriations are capped at the FY17 level.

The city has received reimbursement as follows:

FY 15	\$215,783
FY 16	\$474,499
FY 17	\$526,413
FY 18	\$554,271
FY 19	\$591,392
FY 20	\$486,472
FY 21	\$458,720
FY22 estimated	\$448,921

Staff has received guidance from the Iowa Department of Management to anticipate receiving 75% of the projected rollback in FY22.

Beginning with the January 1, 2015 valuations, multi-residential properties began a phased-in rollback. Previously multi-residential properties were considered commercial for property taxation purposes (which means they were taxed at 90% of their value in FY16). The schedule for the phase-in of multi-residential rollback is as follows:

Fiscal Year	Rollback Percentage
FY17	86.25%
FY18	82.5%
FY19	78.75%
FY20	75%
FY21	71.25%
FY22	67.5%
FY23	63.75%
After FY24	Same as residential

There is no backfill for the reduced revenue.

Property Tax Levy

The table below illustrates the property tax levy over the past 10 years. As the table indicates, the preliminary general fund property tax levy (which provides funding for police, fire, parks, library and administration) for the FY22 budget is \$7.51/\$1,000 of taxable valuation, which is lower than the state-imposed cap of \$8.10/\$1,000. Beginning in FY20, staff began reporting the Special Revenue Levy for the General Fund Employee Benefits (health, dental, life, disability and unemployment insurances). The Special Revenue and Debt Service Levies are not included in the \$8.10 cap.

Debt Service Levy

The table below also shows the debt service levy. Staff and the City Council have worked to maintain the debt service levy as low as possible while addressing the infrastructure needs of the community. Some of the strategies used include:

- Prioritizing and scheduling projects to keep the debt service levy stable and as low as possible,
- Searching for and utilizing additional funding sources (i.e., grants, State Revolving Loan program, etc.),
- Refinancing existing debt to take advantage of lower interest rates
- Structuring debt so we do not issue more debt than we intend to pay off or are planning to pay off each year.

Property Tax Levy Calculation

Budget Year	General Fund Tax Levy	Special Revenue Levy	Debt Service Tax Levy	Property Tax Levy
2011/12	\$7.63	0	\$3.46	\$11.09
2012/13	\$7.70	0	\$3.59	\$11.29*
2013/14	\$7.57	0	\$3.58	\$11.15**
2014/15	\$7.57	0	\$3.77	\$11.34
2015/16	\$7.70	0	\$3.80	\$11.50
2016/17	\$7.74	0	\$3.66	\$11.40
2017/18	\$7.74	0	\$3.65	\$11.39
2018/19	\$7.91	0	\$3.61	\$11.52
2019/20	\$6.83	\$1.22	\$3.60	\$11.65
2020/21	\$7.51	\$0.78	2.34***	\$10.63
2021/22 preliminary	\$7.51	\$0.84	2.34	\$10.69

\* Includes \$.29 in debt service levy to pay for the initial debt on the public safety building and fire station #2 (which was approved by 82.28% of the citizens that voted).

\*\*Includes the \$.41 of the debt service levy needed to pay the debt on the public safety building project.

\*\*\*The FY21 debt service levy includes utilizing Local Option Sales and Services Tax (LOSST) revenue to provide property tax relief in the amount of \$1.21582/\$1,000. In December, the city learned of a re-estimated revenue estimate which is approximately 73% of what was anticipated; therefore, the City is utilizing 88% of LOSST revenue for property tax relief.

Property Tax Revenue

As the community grows and the cost to operate public facilities and provide public services increases (i.e., costs of utilities, equipment, supplies, staff and benefits), we anticipate growth in property tax revenue to meet the needs of a growing community. One of the metrics the city tracks is how much revenue (tax dollars) the city generates each year through the property tax levy. Below is a chart that shows the tax dollars generated over the last ten years and the percentage of tax revenue growth.

Property Tax Dollars

Property Tax Year	General Levy Revenue & Special Benefit Levy	Debt Service Levy Revenue	Ag Levy Revenue	Total Levy Revenue	Percent of tax revenue growth
2011-2012	7,907,536	3,903,632	5,828	11,816,996	4.179%
2012-2013	7,926,463	4,069,960	5,392	12,001,815	1.564%
2013-2014	8,318,667	4,304,014	6,158	12,628,839	5.224%
2014-2015	8,485,040	4,679,258	8,986	13,173,284	4.311%
2015-2016	8,879,202	4,898,588	9,827	13,787,617	4.663%
2016-2017	9,327,022	5,088,658	10,590	14,426,270	4.632%

2017-2018	9,822,292	5,370,329	11,258	15,203,879	5.390%
2018-2019	10,787,506	5,831,935	12,964	16,632,405	9.396%
2019-2020	11,706,051	6,031,499	13,428	17,750,978	3.663%
2020-2021	12,466,616	4,133,978	15,482	16,616,076	(3.63%)
Projected 2021-2022	12,990,442	4,269,542	16,070	17,276,054	3.97%

Capital Improvements Plan (CIP)

The City Council adopted the 2021-2022 thru 2025-2026 Capital Improvements Plan on January 4, 2021. The projects approved in the CIP are included in the FY22 preliminary budget. The projected debt service levy over the next several years, including LOSST revenue, is \$2.34 and declining.

Capital Improvements projects proposed for construction in FY22:

Park improvements:

- IGNIT park improvements
- Johnston Drive trail (partnership with private development)
- Lew Clarkson Park improvements
- Dewey Park improvements
- Crosshaven Park shelter
- Dog park

Street Improvements

- NW Beaver Drive Overlay and Recreation Trail (3<sup>rd</sup> and final phase)
- Second and final phase of the reconstruction of NW 54<sup>th</sup> Avenue from NW 100<sup>th</sup> Street to NW 86<sup>th</sup> Street
- Implementation of the sidewalk repair, replacement and construction program
- Beginning the design for the NW 100<sup>th</sup> Street reconstruction from NW 54<sup>th</sup> Avenue to NW 100<sup>th</sup> Street

Sanitary sewer improvements

- Master plan for the gravity sanitary sewer system
- NW Area sanitary sewer extension

Stormwater improvements

- Harbor Oaks improvements
- The Harbour #2: Longboat Court and Tenacity Lane improvements
- Green Meadows West (behind Huntingwood)
- Royal Park Estates
- Terrace Drive Storm Sewer

Water improvements

- Repainting the NW 100<sup>th</sup> Street water tower
- Repainting NW Beaver Drive standpipe
- Extension of the NW Beaver Drive fiber network
- NW area water service extension

Employee compensation

All three bargaining unit contracts (AFSCME, IAFF and Teamsters) will be entering the third year of four-year agreements. Wage ranges increased 3% and there will be benefit adjustments and possible step adjustments, which are included in the preliminary budget.

As previously directed by the City Council, the preliminary budget includes a pool of funds for non-bargaining unit employee wage increases. The pool is the equivalent of a 3% wage increase for non-union

employees and an additional \$25,000. The pool will be available to non-bargaining unit employees based on their performance reviews.

#### Employee Health Insurance

Since July 2013, the City operates a self-insured medical expense reimbursement plan, which provides medical benefits to its employees. The plan provides each covered person with unlimited lifetime maximum coverage for health care needs. The plan is funded by both employee and City contributions and is administered by Wellmark Blue Cross & Blue Shield. The City pays 100% of the employee's coverage and 90% of spousal and family care for the High Deductible Health Plan (HDHP). For employees participating in the HDHP, the City contributes monthly to a Health Savings Account \$100/single; \$130/employee/spouse/child; \$175/family.

For the traditional healthcare plan, the City pays 90% of the single premium and either 83% or 80% of the spousal and family care premium, depending upon which union or non-union plan an employee is under. The uninsured risk retention per person is \$35,000 and not to exceed 125% of expected claims. Additionally, the City has purchased commercial stop-loss insurance to provide for claims more than \$35,000 to reduce our exposure to large losses. At the time of this memo, claims are running at anticipated expense, therefore we are anticipating an 8% increase in premiums (equivalent to annual trend expectations). Over the years, we have averaged an increase in the budget of 3.2% per year, which is far better than health insurance trends.

#### Iowa Public Employers Retirement Program (IPERS)

Most of our employees are covered under the IPERS. For FY22 IPERS funding remains the same as FY21. The employee contribution for regular employees is 6.29% of their wages. The amount the City pays into the program is 9.44% of wages.

The FY22 IPERS rates for protected class employees (police and fire) is 6.21% for the employee contribution and 9.31% for the employer contribution, which is a reduction from the FY21 contributions of 6.41% and 9.31% respectively.

#### General Fund Reserve

Our goal is to maintain a minimum reserve of at least 25% of the general fund operating budget. For many years, the city had general fund reserves greater than 25%. The city utilized reserve funds above 25% to fund decision packages and decrease the property tax levy. We knew at some point the reserve would be spent down to around 25%. The FY22 preliminary budget calculates the general fund reserve at 24%.

The actual reserve on June 30, 2020 was \$4,735,000.65, which was 28% of the general fund operating budget. The FY21 budget anticipated a general fund operating reserve of \$4,305,864.65 at year end, which is 28%. Based on the preliminary FY22 budget, 25% of the general fund operating budget is \$3,889,033. The preliminary FY22 budget anticipates a general fund reserve at year-end of \$3,657,872 which is 24%.

Exhibit "A" shows the reserve fund for FY20, the anticipated reserve for FY21 and the preliminary reserve for the FY22 budget.

#### Decision Packages

Exhibit "B" is a memo regarding staff's prioritization and recommendations for decision packages.



### Capital Equipment Program (CEP)

The preliminary budget includes the ninth year of funding the Capital Equipment Program (CEP). The program is designed to plan and budget for capital equipment that are replaced based on their life cycle. The intent is to set aside adequate funding each year to enable the purchase/replacement of equipment that is critical to the city's ability to serve the community. The list of the proposed equipment is included in Exhibit "B".

Below are several principles/practices used by staff to manage the CEP:

- Equipment and vehicles planned for replacement are not automatically replaced because it is in the schedule. Staff evaluates each item to determine if it is at the end of its useful life.
- When appropriate, equipment and vehicles planned for replacement are evaluated to see if they can be used by another department to extend its' useful life and delay replacement.
- Equipment and vehicles that have value are either traded-in or sold on Govdeals. The trade-in or proceeds from Govdeals are applied toward the purchase of the replacement equipment/vehicle. Sometimes the City receives up to 25% more from Govdeals than from the trade-in value.
- Staff is working to structure the CEP to eliminate significant fluctuation in funding each year.

### Road Use Tax (RUT)

Road Use Tax funds come from motor vehicle registration fees, motor vehicle fuel taxes, an excise tax imposed on the rental of automobiles and a use tax on trailers. The actual amount of RUT funds available fluctuates based on the economy and fuel consumption. Cities have been advised of the potential of 10% lower than expected Road Use Tax revenue in FY22 from less traveling (i.e., gas sales) primarily due to Covid-19. The Iowa Department of Transportation estimates a reduction of 8% in RUT revenue in FY21.

RUT funds are distributed to cities on a per capita basis. Staff typically budgets revenue that is \$5.00 to \$6.00 less than the DOT forecast. For FY22, staff is estimating \$122.00 per capita or \$3,412,356.

RUT funds are distributed based on the official number of residents as determined by the census. The city will receive the 2020 census information in early 2021.

### Hotel/Motel Tax

The City receives 7% voter-approved hotel/motel tax revenue each year. State law requires that 50 percent of the revenues be used for acquiring, operating, or improving recreational, cultural or entertainment facilities or for the promotion and encouragement of tourism and convention business. The Department of Revenue reported an immediate reduction of hotel/motel tax revenue of 14 to 15% in FY 20 due to COVID-19. The current (FY21) budget anticipates revenue of \$290,000. For the FY22 budget, staff reduced the anticipated revenue by 25% to \$217,500. 2/7 of the tax (\$62,143 in FY22) is provided to the Greater Des Moines Convention and Visitors Bureau (Catch Des Moines) and 2/7 (\$62,143 in FY22) is provided to Bravo Greater Des Moines. The balance of the funding (3/7 or \$93,214) is used for the Johnston Economic Development Corporation (JEDCO - \$30,000 in FY21), Johnston Chamber of Commerce (\$8,000 in FY21), Greater Des Moines Partnership (\$5,590 in FY21), employee work clothing (\$2,500 in FY21) and Park and trail improvements (the balance of the funds up to \$81,000). If the other organizations are funded at the same level as in FY21, there may be \$34,910 to support park and trail improvements

Local Option Sales and Services Tax (LOSST)

In August 2019, a special election was held regarding implementation of a Local Option Sales and Services Tax. 76.45% of Johnston residents that voted supported LOSST. The language included on the LOSST ballot was:

At least fifty percent (50%) to be allocated for property tax relief.

The remainder of revenue to be applied directly to public safety expenditures, public infrastructure, public parks, sports and recreational facilities and trails, and public library uses.

In the FY21 budget, the city used LOSST revenue to lower the property tax rate by \$1.21582/\$1,000.

For the FY21 budget, based on the Iowa Department of Revenue estimates, staff estimated \$2,200,000 in LOSST revenue and the re-estimate from the State in December was \$2,425,839.84.

When LOSST is collected, cities receive 95% of the estimated tax receipts each month. A final payment of any remaining tax due to a city for the fiscal year is made by November of the following fiscal year. If there was an overpayment to a city for the previous year, the first and/or second payment of tax receipts in the subsequent fiscal year will be adjusted to deduct the overpayment.

Originally it was projected there would be 8% revenue growth in LOSST for FY22. The State of Iowa Revenue Estimating Committee now estimates there will be 0.9% growth in LOSST revenue for FY22.

Des Moines Water Works (DMWW) Rate

Des Moines Water Works has approved a 3% increase on the cost of purchasing water. The increase goes into effect March 1, 2021.

Year	DMWW Rate/1000 gallons	% increase	Johnston Rate to customers/ 1000 gallons
2012	\$3.05	0%	\$6.50 water availability fee \$4.88/1,000 gallons \$6.09/1,000 irrigation fee
2013*	\$3.05	0%	\$6.73 water availability fee \$5.05/1,000 gallons \$4.00 irrigation availability fee* \$6.31/1,000 irrigation fee
2014	\$3.17	5%	\$6.96 water availability fee \$5.15/1,000 gallons \$4.12 irrigation availability fee \$6.44/1,000 irrigation fee
2015	\$3.33	5%	\$7.21 water availability fee \$5.36/1,000 gallons \$4.24 irrigation availability fee \$6.70/1,000 irrigation fee
2016	\$3.66	10%	<del>\$7.46 water availability fee**</del> <del>\$5.49/1,000 gallons**</del> <del>\$4.37 irrigation availability fee**</del> <del>\$6.86/1,000 irrigation fee**</del> \$8.29 water availability fee*** \$6.63/1,000 gallons***

			\$4.88 irrigation availability fee*** \$7.71/1,000 irrigation fee***
2017	\$3.84	5%	\$8.91 water availability fee \$6.62/1,000 gallons \$5.25 irrigation availability fee \$8.29/1,000 irrigation fee
2018	\$4.03	5%	\$9.58 water availability fee \$7.12/1,000 gallons \$5.64 irrigation availability fee \$8.91/1,000 irrigation fee
2019	\$4.31	7%	Fees adopted by ordinance 976; 6/18/17 \$10.06 water availability fee \$7.47/1,000 gallons \$5.93 irrigation availability fee \$9.36/1,000 irrigation fee
2020	\$4.44	3%	Fees adopted by ordinance 976; 6/18/17 \$10.56 water availability fee \$7.85/1,000 gallons \$6.22 irrigation availability fee \$9.83/1,000 irrigation fee
2021	\$4.57	3%	As of 1/19/21 no rate increases have been approved

History of Sanitary Sewer rates

Year	Rates charged to Johnston Customers
2012	No rate change
2013	\$5.25 - Service availability fee \$4.85/1,000 gallons usage fee \$27.72 flat rate inside the city* \$41.61 flat rate outside the city*
2014	\$5.41 - Service availability fee \$5.00/1,000 gallons usage fee \$28.58 flat rate inside the city* \$42.87 flat rate outside the city*
2015	\$5.58 - Service availability fee \$5.15/1,000 gallons usage fee \$29.44 flat rate inside the city* \$44.18 flat rate outside the city*
2016	No rate change
2017	\$5.72 - Service availability fee \$5.28/1,000 gallons usage fee \$30.18 flat rate inside the city* \$45.27 flat rate outside the city*
2018	Fees adopted in ordnance No.977; 6/19/17

	\$5.86 - Service availability fee \$5.41/1,000 gallons usage fee \$30.93 flat rate inside the city* \$46.40 flat rate outside the city*
2019	Fees adopted in ordinance No.977; 6/19/17 \$6.01 - Service availability fee \$5.55/1,000 gallons usage fee \$31.71 flat rate inside the city* \$47.57 flat rate outside the city*
2020	Fees adopted by ordinance 1016; 6/17/19 \$6.15 - Service availability fee \$5.68/1,000 gallons usage fee \$32.47 flat rate inside the city* \$48.71 flat rate outside the city*
2021	As of 1/19/21 no rate increases have been approved

\*Due to the difficulty in metering sanitary sewer usage a flat rate fee is charged to customers that do not have metered water service.

#### Stormwater Utility

Below is the history of fees charged for the stormwater utility:

Year	Cost per ERU (Equivalent Residential Rate)
2012	\$4.55
2013	No rate change
2014	\$5.05
2015	No rate change
2016	\$5.55
2017	No rate change proposed
2018	\$6.05
2019	No rate change proposed
2020	\$6.55
2021	No rate change is proposed

#### Curb-It Recycling Program

The current monthly Curb-It! recycling fee is \$3.45. Staff included a 3% increase in the preliminary budget. This is a pass-through expense which means the rates are paid by the customer. The city will receive the FY22 rate information from Metro Waste Authority in early 2021.

#### Garbage rates

In 2020 the city made a couple of changes in the solid waste program.

1. The city entered a contract with Metro Waste Authority to negotiate and manage our solid waste contract.
2. Working with Metro Waste Authority, the garbage hauling contract for the city switched from Waste Management of Iowa to Ankeny Sanitation Incorporated.

In 2020 there was no adjustment to the garbage collection and disposal rate from the previous year. For budgeting purposes, staff used a 3% rate increase for the FY22 budget. The city will receive the actual rate adjustment in April/May 2021.

Requests from Outside Organizations

At the January 4th work session, the City Council received requests for funding from outside organizations. The preliminary FY22 budget includes the same amount for each organization that is included in the current (FY21) budget as a place holder (except there was a decrease for Community Education since we have an agreement with them). Funding for JEDCO, the Chamber of Commerce and the Greater Des Moines Partnership is provided through the hotel/motel tax. Funding for Community Education and the Johnston Partnership for a Healthy Community is provided through the general fund property tax levy. At the work session the City Council will determine the level of funding for each organization. Below is a summary of the requests:

Community Education – The Director of Community Education is now Scott Kruthoff. Based on the 28E agreement with the schools, the funding request is based on one-third of the total administration budget of the program. The cost decreased in FY21 from \$87,073 to \$73,501. Their request for FY22 is \$78,714 and the estimated FY23 request is \$80,508.

Greater Des Moines Partnership – \$5,590, has been included in the preliminary budget which is the same as the current year. They have requested an increase to \$10,000.

Johnston Chamber of Commerce – they have requested a \$2,000 increase from \$8,000 (current amount) to \$10,000. \$8,000 was included in the preliminary budget.

Johnston Economic Development Corporation (JEDCO) – the same as the current year (\$30,000) is included in the preliminary budget. They have suggested two options for FY22. One option is to increase funding to \$37,100 and the second option is decreasing base funding to \$25,000 and the city providing a cost reimbursement for other services such as Business Record Advertising, Development Guide printing, and the ICREA.

Johnston Partnership for a Healthy Community – \$15,000 is included in the preliminary budget, which is the same as the current budget. They have requested a \$10,000 increase to \$25,000 for FY22.

Johnston Arts Council – The arts council will not be making a request for FY22; however, they will be requesting the City to pay for the mural on the support building in the Town Center. The estimated cost for the mural is \$8,000 - \$12,000 which could utilize Town Center lease purchase funds as a funding source.

Des Moines Area Regional Transit (DART)

DART has taxing authority, which means they can set their own property tax rate. DART tax rates are not included in the city property tax levy and the funds collected go directly to DART. DART has not established their FY22 levy rates. Below is a history of the DART levy for the past ten years.

Budget Year	Tax Rate per \$1,000 (amount of funds generated)
FY12	.25
FY13	.40 (\$412,379)
FY14	.48 (\$528,125)

FY15	.55
FY16	.61
FY17	.63 (\$761,414)
FY18	.63
FY19	.63
FY20	.63
FY21	.66
FY22	tbd

Consumer Price Index - Urban (CPI)

Per the Iowa League of Cities, the US CPI increased by 1.4% from September 2019 to September 2020. The CPI is based on the major expenditure categories of food and beverages, housing, clothing, transportation and energy, medical care, recreation, education and communication as well as other goods and services.

The Midwest Region CPI rose 1.3% over the same period.

U.S. Employment Cost Index (ECI)

The ECI factors in expenses related to wages, benefits and total compensation. The ECI total compensation index for state and local government workers increased by 2.7% from June 2019 to June 2020. With individual components of wages increasing by 2.6% and benefits increasing by 3.1%.

Mileage Reimbursement

The IRS allowable mileage reimbursement rate for 2020 was \$.575 cents per mile and the 2021 rate is \$.56 cents per mile.

Tax rate comparison and additional revenue sources

Exhibit “C” is a document that compares the Johnston property tax rate to several other metro communities. The tax rates shown in the document are the rates that were adopted for FY21. The report shows the Johnston operating levy (Sub-total Gen/Sp Levy) is lower than most metro communities. The Johnston Debt Service levy (\$.2.34073) includes using LOSST revenue to decrease the levy (property tax relief).

The report also shows which other communities have additional revenue sources such as Utility Franchise Fees. These additional revenue sources are often used to lower the property tax rate or to reduce the impact of future expenditures on the budget.

Budget preparation timeline

- January 19, 2021 - City Council budget work session to discuss and make decisions on the budget and decision packages (other work sessions may be scheduled as necessary).
- February 16, 2021 - City Council orders notice of Maximum Property Tax Dollars Hearing
- March 1, 2021 - City Council conducts Maximum Property Tax Dollars Hearing
- March 1, 2021 - City Council finalizes and adopts final operating budget and orders public hearing
- March 15, 2021 - Public hearing on the budget
- March 31, 2021 – Deadline to certify the budget to the county auditor

### Current Status and Recommendations

The City has received property valuation information from Polk County which is used to establish the FY22 property tax rate. Polk County has indicated the valuations are subject to change as there are appeals of property values that have yet to be settled. The residential assessed valuation increased \$26,134,284 from the current \$2,144,939,957 to \$2,171,074,241. When the property tax rollback of 56.4094% is applied, and other county adjustments, the residential taxable value is \$1,200,087,689.

The assessed value on commercial and industrial property increased by \$18,700,503 from the current \$354,566,814 to \$373,267,317. When the commercial property tax rollback of 90% is applied the commercial and industrial taxable value is \$319,461,672. .

The assessed value on multi-residential property increased by \$572,037 from the current \$11,237,798 to \$11,809,835. When the multi-residential property tax rollback of 67.50% and the valuation committed to tax increment financing (TIF) is applied, the multi-residential taxable value is \$2,137,180.

The debt service portion of the budget dedicated to retiring debt increased from \$4,133,978 to \$4,269,542. This is due to the increase in assessed valuation.

For ease in calculating the effect of decisions regarding the property tax levy, with the current taxable valuation, \$0.01 of property tax levy equates to approximately \$15,571.

- The preliminary FY22 property tax levy calculation is \$10.69/ \$1,000 which is an increase of \$0.06 from the current (FY21) tax levy. The general fund reserve is at 24% or \$3,657,872. This anticipates receiving 75% of the commercial and industrial backfill for the commercial property tax rollback.
- A preliminary property tax levy of \$10.69 includes no change in the debt service levy (\$2.34073) and no change in the general fund portion of the property tax levy ( \$7.53234). The tax levy includes an increase in the Special Revenue Levy (employee benefits) portion of the levy from \$.78 to \$0.84.
- The anticipated increase in property tax dollars collected is \$659,978 or 3.97%.
- Property valuations for January 2020 grew 3.28% compared to 8.81% in January 2019.
- 25% of the general fund operating budget is \$3,889,033. The preliminary FY22 budget anticipates a general fund reserve at year-end of \$3,657,872 which is 24% of the operating budget (exhibit "A").
- The preliminary FY22 budget anticipates a total reserve at year-end of \$4,998,101 or 30% (exhibit "A").

#### Staff recommendation:

2020 has been a difficult year for many Johnston property taxpayers (citizens and businesses). The pandemic not only has had a financial impact but has created emotional and mental stresses as well. COVID-19 has impacted several city funding sources (Road Use Tax Funds, Local Options Sales & Services Tax, Hotel/motel tax, etc.) and has had a significant financial impact on many of our partner organizations (Bravo Greater Des Moines, Catch Des Moines, etc.).

The FY 22 budget must consider the financial challenges facing our community. The city must balance the cost to provide essential services and the impact a property tax increase will have on the economic recovery from the pandemic.

Following are staff recommendations:

- Approve the operating budgets proposed by department heads. The proposed operating budgets include expenditures that are programmed to increase (i.e., bargaining unit wage adjustments, insurance premium adjustments, utility costs, facility operation costs, etc.).
- Consider a \$.06 increase in the property tax levy from the current \$10.63 to \$10.69. This increase maintains the general fund and debt service levies and provides funding for the increased cost for providing employee benefits.
- Fund decision packages as recommended in the decision package memo (Exhibit “B”).
- Establish a reserve of at least 24% of the general fund operating expenditures and 30% of all reserve accounts. Our intent is to increase the general fund reserves to at least 25% in FY23.
- Due to Covid-19 and the reduction in funding from the hotel/motel tax, maintain the level of support for the outside organizations at the FY21 level (except for the reduction in funding for Community Education which was reduced based on the formula in the 28E agreement).

Budget discussion agenda:

1. Review the budget memo, budget status and supporting documents
2. Review staff recommendations, discuss council budget priorities, the property tax rate and general fund reserve
3. Review decision package and capital equipment plan (CEP) memo and receive city council direction regarding funding (exhibit “B”).
4. Review requests from outside organizations and determine funding (see page 13 in memo)
5. Discuss use of the Local Option Sales and Services Tax
6. Provide direction to staff for finalizing the budget,
7. Schedule additional budget work sessions, if necessary