

INTRODUCTION TO THE FY 2012 BUDGET BUDGETARY PROCESS, GOALS, & STRATEGIES

A budget is a plan for earning and spending money to achieve organizational goals. In municipal government, the budget is a dollars and cents expression of the City Council's most immediate priorities for the Community. More than any speech or campaign promise, a City budget will provide a clear and unequivocal view of a City Council's values. In adopting an annual budget, a City Council quite literally puts its money where its mouth is.

Every budget is a compromise. In any organization, there are always more wants and needs than there are funds available to pay for them. Every dollar earmarked in a budget for filling potholes is one less dollar available to pay for new fire fighting equipment or employee salaries. Because City budgets are created within a restricted financial environment, the City Council is forced to make hard choices among a variety of competing programs and ideas for spending money. In his book *Public Budgeting in America*, Thomas B. Lynch describes the process of choice and compromise:

“There never seems to be enough money to finance every project. Choices have to be made by someone with some appreciation of the benefits received from a particular choice, as well as the opportunities lost because of that selection. Choices must be made among competing and alternative programs. Analysis can help make the choices, but competition is the significant factor. People within and outside of government are requesting more money than is available to spend. Someone must and does decide among programs. Those choices are policy decisions and the arena in which to make those is called public budgeting.”

The proposed FY 12 budget for the City of Clear Lake is the result of a public decision-making process. The Mayor and City Council, working in close cooperation with the City staff, have devised this Plan for meeting the various demands of local citizens as well as the mandated requirements of Federal and State laws. In developing this budget, the City government carefully assessed numerous programs and projects –

some large and others small – and considered how each contributed to the overall development of the Community and the well being of the citizenry.

I. THE PURPOSE OF THE CITY BUDGET

Iowa State statutes require every City in the State to develop and adopt a budget on an annual basis. Cities that fail to adopt a budget violate the law and, accordingly, the first purpose of budgeting is to avoid the serious legal consequences, which would result from non-compliance.

But even if State law did not require it, good government demands that public entities regularly and periodically assess their organizational goals and their financial ability to achieve these goals. Legal requirements notwithstanding, the purposes of the Clear Lake City budget are as follows:

- To assure that the City’s revenues and expenditures are balanced. It is the nature of public entities to spend more money than they earn. Spending more money than is available is a dangerous practice. Adopting a well-reasoned balanced budget assures that the City will avoid financial difficulties.
- To assure accountability. In adopting a budget, the Clear Lake City Council holds its staff and employees accountable for achieving goals and avoiding waste.
- To express the broad goals and policies of the City Council. The budget tells the employees and the general public what it would like to accomplish throughout the year. The public in particular wants the City to show accomplishments and the budget tells the public what it can expect to see accomplished in the coming year.
- Public Relations. A clearly written, well-reasoned budget helps the citizens understand the working of their government. Citizens, who understand the City’s goals, and the reasons for such goals, are more likely to give their support.
- Planning. Good budgets require the City staff to project revenues and expenditures into the future and to annually examine the costs and benefits of each program.

II. THE CITY'S BUDGET PROCESS

In December of this year, the City's departmental supervisors and superintendents began work on the development of expenditure budgets for the upcoming fiscal year.

These budgets take into account the following factors:

- The superintendent's estimate of the costs of meeting the day-to-day operations.
- The superintendent's views concerning the need for new programs or projects, taking into account their specialized understanding of the needs of their departments.
- The legal and regulatory requirements placed upon the departments by the State and Federal governments.
- Programs proposed or suggested by the City Administrator or the City Council.
- Programs directed or approved by the City of Clear Lake Strategic Plan and Goal Setting Report.

For each of these items, the superintendent completes an estimate of the financial costs involved. The total of these various projects is then added up and sent to the City Finance Officer in the form of a budget request.

At about the same time, the City Administrator and City Finance Director develop estimates of revenues for the City government. In making these revenue estimates, the City examines historical financial data to ascertain the development of trends, which might affect future income. In most instances, this analysis is sufficient to suggest a general idea of the revenues the City will earn in the coming fiscal year. However, intuitive estimates and judgment are also used in those instances where the statistics are believed to be weak or unreliable.

Note that the expenditure requests and the development of a revenue estimate are made independently of each other. The people responsible for estimating the cost of the coming year's programs are not the same persons calculating the amount of money available to spend on those programs. It is believed that this process reduces the chance for the production of unrealistic, overly optimistic budgets.

Once the revenue estimates are completed, the City Administrator then reviews the expenditure requests submitted by the Dept. Heads/Superintendents and begins the process of matching expenditures and revenues. Typically, the proposed expenditures total more money than is projected to be available in the revenue estimates. The City Administrator is responsible for bringing the budget into balance. At this point, the process of cutting the expenditure requests begins.

The City Administrator begins by cutting those budget requests, which are inconsistent with City policy, the Strategic Plan, or those, which he otherwise believes, would not enjoy the support of the Community or City Council. Usually, and this year was no exception, these cuts are not enough to balance the budget. A decision must then be made whether or not to utilize fund cash balances as a means to address budget shortfalls. A “one-shot” use of fund balances should not necessarily be perceived negatively if there is a long-term solution to address a particular problem. On the other hand, continually using fund balances to meet recurring expenditures may negatively impact an organization’s financial stability.

At this point, a draft budget is submitted to the City Council for their preliminary review. The City Administrator then explains the budget and Council Members ask questions, make suggestions, and otherwise direct the staff to finalize the development of the budget.

The City Finance Officer completes the final draft of the City budget. The City Clerk then schedules a public hearing for presentation of the budget to the general public and media. At the public hearing, the Council and the City Administrator review the highlights of the budget and answer specific questions concerning proposed programs, tax rates, and similar information. After receiving public input, the Council may decide to make certain amendments before voting to adopt the annual budget.

While the public hearing marks the end of the budget adoption process, it is not the end of the City’s involvement with the budget. On a monthly basis throughout the year, the City Finance Officer distributes a budget report to the City Administrator and all department heads. The monthly report contains specific information, which allows the staff to monitor how closely the City is complying with the budget. Especially important, the monthly report gives managers “red flags” in those areas where revenues or

expenditures are not meeting expectations – allowing the City to make mid-year corrections long before the onset of a budget crisis.

The City’s budget and accounting basis is in accordance with Generally Accepted Accounting Principals (GAAP). The City’s various funds are budgeted on a modified accrual accounting basis. Expenditures are recognized when they occur. Revenues are measured when they become available to finance expenditures.

III. HIGHLIGHTS OF THE 2012 FISCAL YEAR BUDGET:

This document represents the City Administrator’s proposed budget for FY 12. The recommended budget is a reflection of prior accomplishments, current projects, and future priorities. This overall budget proposal has been carefully prepared and is designed to provide Clear Lake’s residents with sustainable municipal services. It is also once again designed to fill gaps left by previously austere budgets.

Both the proposed 2012 and 2011 amended fiscal year budgets are substantially more fiscally aggressive than the original 2011 fiscal year budget. However, by maintaining an equitable and competitive tax rate, funds will provide for essential staffing, operations, and capital needs. The budget proposal is submitted for the perusal of the elected officials of the City of Clear Lake. This document represents the continued commitment on the part of City staff to prudent financial planning and effective and efficient service delivery designed to provide our residents with a high quality of life.

The City of Clear Lake is well-positioned to take advantage of current positive economic conditions and prepared to endure an economic down-turn should one present itself. The City continues to foster a strong and resilient residential, commercial, & industrial tax base; maintains healthy reserve fund balances; and builds community amenities. The City has a bright future highlighted by several recent housing developments, commercial redevelopment projects; and industrial expansion projects.

The recommended budget supports the basic government services such as infrastructure maintenance, road improvements, police, fire, library, ambulance, administration, public works, parks & recreation, and aquatic center.

The proposed budget also preserves the City’s strong financial foundation that has made possible the achievement and advancement of the various initiatives and priorities

identified herein. This budget would not be possible without all the hard work, sacrifice and diligence of the City's department heads.

There are numerous cities around the State of Iowa that are experiencing an ever-declining tax base, inability to raise sufficient revenues, deteriorating infrastructure, reduced services, staff retrenchments, and employee benefit reductions. This results in the inability of those communities to satisfactorily meet the needs of their residents in the venues of public safety, economic development, and infrastructure maintenance.

Alternatively, Clear Lake has been able to steer clear of such crises by sound fiscal planning and maintaining a financially responsible City government. However, the City cannot afford to rest on its laurels.

Based upon the many recent residential subdivision developments in the Community, as well as commercial and industrial expansion, and no "rollback" on commercial or industrial property, Clear Lake is poised more so than at any other time in its history to enhance its quality of life for the Community's residents and visitors. The challenge now is to ensure that the City's investments continue to be made strategically, in order to further embolden our fiscal position which has provided unprecedented opportunity.

The recommended budget is presented with an eye towards continuing the efforts that have been so successful throughout the past decade. Simultaneously, the Council must consider the 2012 fiscal year budget proposal in the context of the coming years as well. The overall stability of the City's finances and services has had a great influence on the quality of life afforded in Clear Lake. This has to be the context within which current budget decisions are balanced against.

The budget reflects total expenditures among the various programs of \$14,334,153 - of which \$6,672,147 is directed towards operations, \$1,338,546 is directed towards debt service, and \$6,323,460 for capital improvements. Total general fund revenues for FY 12 are projected at \$5,137,625 and anticipated expenditures are \$5,141,491. The general fund's cash reserve is projected to have a June 30, 2011 ending fund balance of \$2,365,699. It is projected that the City will have a June 30, 2012 ending cash balance in the general fund of \$2,117,232, which represents roughly 41% of the general fund's budget.

The primary objective of this financial/planning document is to maintain current service levels for the majority of the programs within our City, while initiating selected improvements in other areas, based upon the City's Strategic Planning & Goal Setting Report and citizen input throughout the year.

As a result of the Council's willingness to support a long-range perspective, through fiscal policy, the overall financial position of the City of Clear Lake is relatively good. Listed below are selected highlights of the proposed FY 2012 City of Clear Lake Municipal Budget.

FY 12 PROPERTY TAX RATE - \$10.54051

The proposed 2012 fiscal year budget will require an adjustment to the City's property tax rate from the 2011 fiscal year. This is, of course, solely due to voter approval of a referendum in August, 2010 to issue \$2.3 million in general obligation debt to fund the construction and equipping of a new fire station. Previously, the tax rate had remained the same for five (5) consecutive fiscal years, with no increase in the City's portion of the consolidated tax rate. A City's tax base is the best indicator of its overall economic health. Again this year we are reaping the rewards of a prudent overall economic development policy. The City's tax base increased by roughly 5% percent for fiscal year 2012 for General Fund purposes. This is evidence of real growth within the Community and is indicative of success in the area of economic development.

The single largest source of revenue for the City is, of course, the property tax. The property tax is based on the value of property owned. It is often called an ad valorem tax because it is set according to physical value. In FY 2012, property taxes will represent nearly 30% of total revenues. This is an increase from 28% in fiscal year 2011.

Clear Lake's property valuations have shown steady growth over the past ten years and this trend is expected to continue, although much depends upon the future of the State legislature. The January 1, 2010 property tax valuation serves as the basis for calculating property taxes for FY 2012. **The "taxable valuation" for purposes of the FY 2012 budget is \$447,297,875 - including TIF & Agricultural valuations, which collectively represent \$79,901,363, - which is a \$24,421,042 increase over the FY 2011 level of**

\$422,876,833. The growth in taxable valuation has occurred despite the historical impact of the residential rollback. This is a continuation of a positive trend that began in the 2001 fiscal year and has continued, unabated, throughout the decade.

Since 1978, the various classifications of real property have been subject to an assessment limitation order (i.e., rollback). For FY 2012 the “rollback” for residential property is 48.53% (46.91 % [FY 11]). Also, for FY 12 there is no “rollback” on commercial or industrial property. **Since the 1990-91 fiscal year, cities in Iowa have lost the ability to tax over 28% of the value of residential property.** Obviously, when property taxes comprise the largest single source of general fund revenue for the City, the rollback has a significant impact upon our ability to continue to provide the same level of services to the Community. The City’s total property tax rate is based on a combination of four (4) different levies: 1) general; 2) employee benefits; 3) tort; and 4) debt service.

Property tax revenues for FY 12 are expected to increase by roughly 11% over the 2011 fiscal year level. That increase is driven primarily by the increased debt service requirements of the \$2.3 million debt issuance for the fire station project. The 2012 fiscal year levy is based on a total taxable valuation of \$447,297,875. The increase in property tax revenue to the City is attributable mostly to real growth within the taxable valuation of the City.

General Fund Levy - \$7.37830

The General Fund is the chief operating fund of the City. This levy predominately supports the day-to-day operations of various departments, such as police, fire, library, administration, parks & recreation, ambulance, pool, etc. Cities may levy up to \$8.10/\$1,000 of taxable value on residential, commercial, and industrial property and up to \$3.00375/\$1,000 on the taxable value of agricultural property for their general fund needs. The majority of Iowa’s 950 cities, especially those of comparable size to Clear Lake, are at the \$8.10 general fund limit and have been there for many years. Clear Lake, however, does not yet tax at the statutory limit of \$8.10 limit. For FY 2011, the City of Clear Lake taxed at the rate of \$7.38828/\$1,000 of taxable valuation for general fund purposes. For FY 12, it is proposed to decrease the general fund tax rate to \$7.37830/\$1,000 of taxable valuation; a decrease of \$0.00998/\$1,000 of taxable

valuation. This compares with the FY 10 general fund tax rate of \$7.71951/\$1,000 of taxable valuation.

Tort Levy - \$0.23136

Insurance premiums necessary for the operation of the City and the costs of self-insurance or risk sharing pools may also be levied outside of the general fund. The levy rate is the actual cost of the premiums divided by the total property tax base. For FY 12, it is proposed to set the tort rate at \$0.23136/\$1,000 of taxable valuation. In FY 09, FY 10, & FY 11 the Tort Levy rate was \$0.20161, \$0.21216 and \$0.22025, respectively.

Employee Benefit Levy – 1.61869

A City may levy in the Trust & Agency Fund for the City's contribution under the Federal Insurance Continuation Act (FICA), the Iowa Public Employers Retirement System (IPERS), and for various other employee benefits (e.g., health & medical insurance and unemployment insurance). The proposed rate for FY 12 is \$1.61869, which represents a decrease from the FY 11 rate of \$1.61982/\$1,000 of taxable valuation.

The estimated cost of the City's employee health insurance premiums for FY 11 budget purposes was projected to increase by roughly 20%. However, when the City actually received its premium renewal in late-April of 2010, the increase was only 2.58%. Consequently, there is projected to be a larger than usual ending balance, as of June 30, 2011, of \$266,809, in the employee benefit fund. Some of that cash reserve will be utilized for FY 12, however, thereby lessening the amount of revenue needed to be levied for this purposes. Based on a longer-term experience, however, the City still should take a conservative approach when it comes to anticipated health insurance premium increases. For example, in the 2003, 2004, and 2005 fiscal years, the City realized the following rate increases respectively: 18%, 23.7%, and 11.3%. Therefore, a 20% increase in health insurance premiums has been budgeted for FY 12.

Debt Service Levy - \$1.31216

A city may also cover principal and interest payments on general obligation bonds under debt service. The debt service levy is the dollars needed to cover the annual obligations divided by the total property tax base.

The proposed debt service levy for FY 12 is projected to increase by \$0.49181. This amount is attributable exclusively to the debt service requirements associated with the \$2.3 million, voter-approved, general obligation bond issue for the new fire station.

Road Use Tax Fund - \$90/per capita

The Road Use Tax Fund (RUTF) is accumulated through motor vehicle registration fees, motor vehicle fuel taxes, an excise tax imposed on the rental of automobiles, and use tax on trailers. The RUTF allocates funding for the general operation, maintenance, and construction of roadways within the City. The decline in the economy and higher fuel costs has reduced the fund's collections dramatically over the last year. The Iowa Department of Transportation does issue per capita *estimates*; however, cities are only entitled to receive their share of the amount actually collected. These estimates are always subject to change and, therefore, the City uses a conservative approach in making projections.

Estimates indicate that the City can expect to receive nearly the same amount of funding from RUTF revenues for FY 12 that it received for FY 11. It is estimated that for FY 2012, the City will receive \$700,000 in RUTF dollars. The projected June 30, 2012 ending RUTF cash balance is anticipated to be \$600,326, which represents a decrease in the ending fund balance that is projected for June 30, 2011 (i.e., \$772,326). The City typically strives to maintain a reserve fund balance of approximately \$600,000 in the RUTF.

Other Taxes

The City of Clear Lake imposes a local option sales tax (LOST), as well as the hotel/motel tax (HMT). The LOST is an additional 1% sales tax imposed on top of the State sales tax. It is estimated that the City of Clear Lake will receive approximately \$1,120,000 in FY 12 in LOST revenues. These revenues are directed to the general fund

and used primarily for property tax relief, as required by law. These estimates that are provided by the State Department of Revenue & Finance are very “elastic” and are adjusted periodically throughout the year.

The City anticipates receiving approximately \$353,000 in FY 12 in HMT revenues. As of January 1, 2008, the City began imposing a 7% tax on the rental rate of a room in addition to the State tax. The City raised the rate from 5% to 7% following approval by the voters at referendum in November of 2007. These revenues are allocated to the Clear Lake Conventions & Visitors Bureau (CVB); the Lake restoration projects; North Iowa Cultural Center & Museum (a/k/a Surf Ballroom); and the Clear Lake EDC. The City retains only 20% of the original 5% tax rate, which is estimated to be roughly \$50,000 for FY 12.

HMT and LOST revenues are rather fluid sources of funds. Each is subject to potential downturns in the economy. Consequently, revenue estimate projections are made on a conservative basis.

Enterprise Funds

Water, Sewer, Solid Waste, & Stormwater Utilities:

The revenue in the water fund is developed through a base rate and a consumption rate. As a direct result of several major capital improvements, including construction of the 4th water tower and the 2010 Water Distribution System Project, a rate adjustment was approved as part of the 2009 fiscal year budget. The base rate will continue to increase by 80% of the Consumer Price Index (CPI-U), as provided for by ordinance (with a cap of 3%). Additionally, the consumption rate per 1,000 gallons was also increased by 80% of the Consumer Price Index (CPI-U), beginning on July 1, 2008 and every July 1st thereafter.

The City projects total revenues for water, sanitary sewer, solid waste, and storm water utilities for FY 11 to be at \$805,700, \$339,550, \$470,325, and \$122,075, respectively. Total water expenditures are estimated at \$1,333,256, sewer expenditures at \$1,220,846, solid waste expenditures are estimated at \$486,352, and storm water expenditures are estimated at \$411,532. All enterprise funds are projected to have a

positive cash balance as of June 30, 2012. The water fund will have a June 30, 2012 ending cash balance of approximately \$645,645, with \$45,000 of that being refundable customer deposits . The sanitary sewer utility fund is projected to have a June 30, 2012 ending cash balance of \$311,428. The solid waste enterprise fund is projected to have a June 30, 2012 ending cash balance of \$30,988. The storm water utility fund is projected to have a June 30, 2012 ending cash balance of \$200,655.

IV. ADDITIONAL BUDGET INFORMATION

The City of Clear Lake's tax rate is proposed to increase by \$0.49181 for the 2012 fiscal year budget. This increase is due entirely to the voter-approved \$2.3 million dollar general obligation bond issuance for the new fire station. The rate had remained constant for the previous 5 fiscal year's budgets. It is a point of pride that, when compared to other Communities in the State, Clear Lake's tax rate is among the lowest. The recommended budget attempts to provide the highest quality of services for the dollars received.

Undoubtedly, the most important asset the City of Clear Lake has is its loyal, competent and dedicated workforce. The proposed budget reflects the philosophy of providing the opportunity for our existing workforce to earn a competitive a market wage. The recommended FY 12 budget includes an "across-the-board" wage adjustment of 3.4% on July 1, 2011 for bargaining unit employees, as well as "non-represented" personnel. While this amount exceeds the rate of inflation, some of the increase will be offset by a scheduled increase in the employee's share of the contribution to the monthly health insurance premiums.

Again, the recommended property tax levy rate for FY 12 is \$10.54051/\$1,000 of taxable valuation. The recommended tax rate of \$10.54051/\$1,000 of taxable valuation would result in a tax bill for City government services of \$729.97, in 2011-12, for a residential property with an assessed valuation of \$150,000 (with Homestead Credit). Consequently, the corresponding property tax increase, resulting from the proposed FY 12 tax rate would be approximately **\$60 a year more for FY 12** for a residential property with an "assessed" valuation of \$150,000 in Clear Lake.

It is a generally accepted principal in municipal finance that cities should attempt to maintain a general fund cash balance in reserves of not less than 30-35 percent of the annual operations & maintenance expenditures. Both the City's financial advisor and its auditor support this policy. Ruan Securities has indicated that rating agencies and others in the municipal finance industry prefer year-end fund balances of at least 30-35% of annual expenditures. The City of Clear Lake's projected General Fund Reserve balance for June 30, 2012 is 41%.

A fiscal year is simply an artificial construct used for budgeting and financial reporting purposes. Expenses obviously do not cease simply because the City changes fiscal years. Through the course of a fiscal year, revenues do not come in exactly when they are needed. For example, property taxes are only received twice in a calendar year. As cities in Iowa operate on a fiscal year basis, which begins on July 1st, it is well into the fiscal year when the first property tax collections are received by the City.

A second reason for maintaining a fund balance is that it is a primary means of financing large capital expenditures, including vehicles, equipment, land acquisition, and capital projects. Building up a fund balance over time helps to mitigate the need for entering into short-term borrowing, or at least reduce the amount of borrowing needed when capital expenditures are required, thereby reducing the interest costs to the City.

Another benefit of a fund balance is that it provides the City with revenues to invest to earn interest income. Such income is an important revenue source that can be used to support a lower property tax asking. In other words, what may appear superficially to be temporarily idle cash, can provide a meaningful source of revenue for the City.

Lastly, a fund balance can be a source of "contingency" funds which enable the City to respond to any unexpected events or emergencies throughout the course of the year. Buildings and/or equipment may be damaged by unforeseen events. An emergency may require more employee overtime expenses than originally budgeted or opportunities may arise which the City may wish to take advantage of, but which were not foreseeable when the budget was originally adopted.

IV. CONCLUSION

To the maximum extent possible, all Clear Lake City employees are directed to carry out the fiscal strategies, goals, and mandates of the FY 2012 budget and are empowered and responsible to assist in ensuring that its objectives are achieved. The annual budget is the expression of the political and fiscal will of the City Council and each employee is obligated to assure full and complete compliance.

I must express my personal thanks to members of the City staff for their diligent efforts to develop budgets that reflect the needs of their individual departments. A special note of thanks should go to City Finance Officer Linda Nelson for her excellent performance in gathering and analyzing information accurately and for lending me the benefit of her expertise in the preparation of this 2012 Fiscal Year City of Clear Lake Municipal Budget, the Department Heads/Superintendents who have contributed many hours towards the preparation of this document. Thanks also to the Mayor and City Council for your input into the budgeting process and the many hours devoted to developing this document for the City government.

Respectfully submitted,

Scott Flory
City Administrator of Clear Lake

* The budget graphics, which follow, categorize expenditures and revenues as contained in the 2012 fiscal year budget.