



## **FY2021 Budget Letter to Oelwein City Council**

Honorable Mayor and Council,

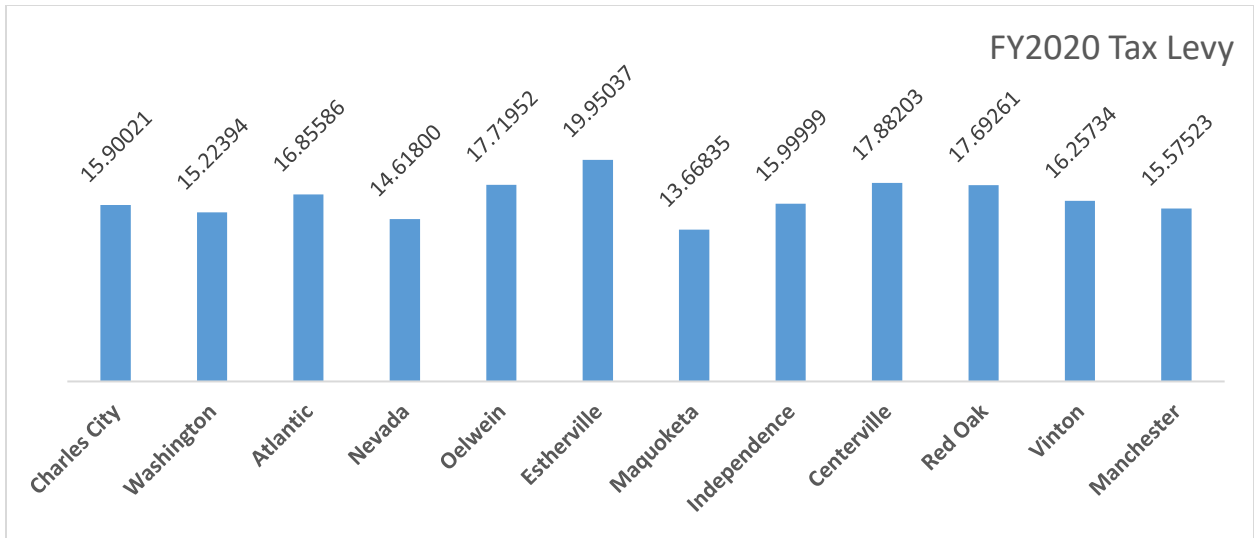
The city's budget becomes more complicated each year as council pushes to provide more services with less revenues. While the city as an organization is reaching new heights and providing services that are much needed, revenues are not following expenditures. The city of Oelwein must sit back and wait for revenues to match expenditures in order to continue to provide the level of service that is needed. The city often sees an increase in property tax each year, only to cover raises for current personnel. The only way Oelwein can see adding general fund staff is to create new revenues.

The important question is to ask what happened to push the city to their spending limit. Revenues for the rental inspection program have proven to be less than estimated. This is a result from the significant sale of properties, and the fact that many owners simply stopped renting their properties. Revenues also fall short in public safety with the county court charging up front for their fees then relying on payment from the defendant to cover cost. While I hope that one year the city will see a large increase in revenue that day has yet to happen. There is some small hope with new assessments and state equalization orders, but that has not occurred. Mayor and Council must understand that current services are all that Oelwein can afford and that adding new staff or new services must come with new revenue. The city has reached its level of service it can provide with the current number of staff.

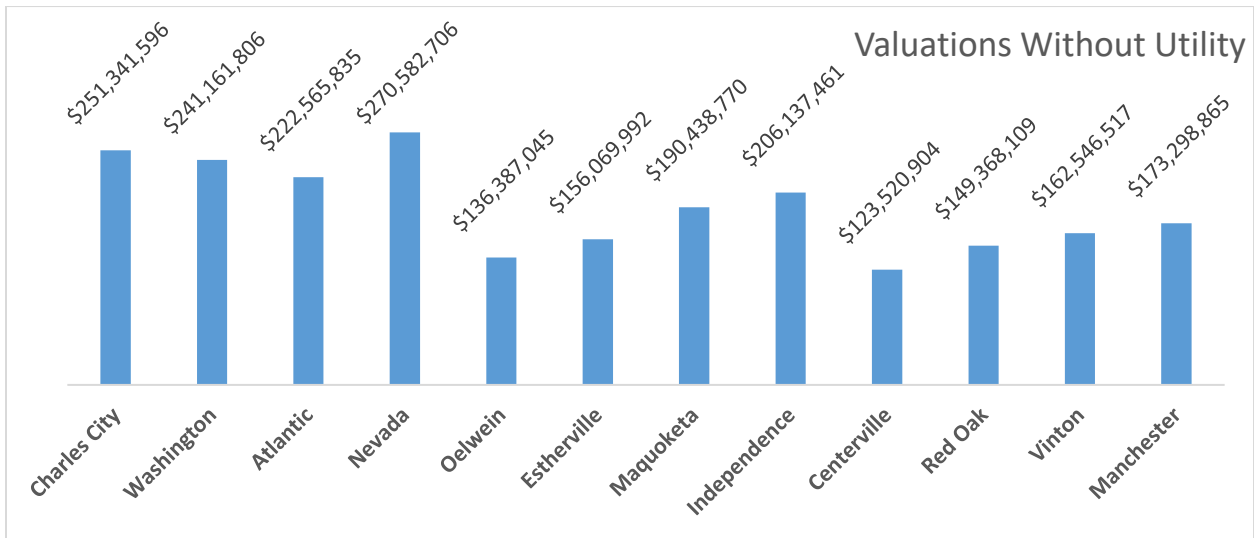
The city is not ready to take on large projects in the general fund for the next three years. This does not mean the city should back down on spending of franchise fee, local option sales tax, road user tax, and utilities. The city can and should continue to replace equipment with these funds and work on projects improving infrastructure. Like any good government, Oelwein has money in certain funds, but not enough in other funds. Staff will work harder with council on prioritizing budgets and ensuring that operations continue at the expected service level set by City Council.

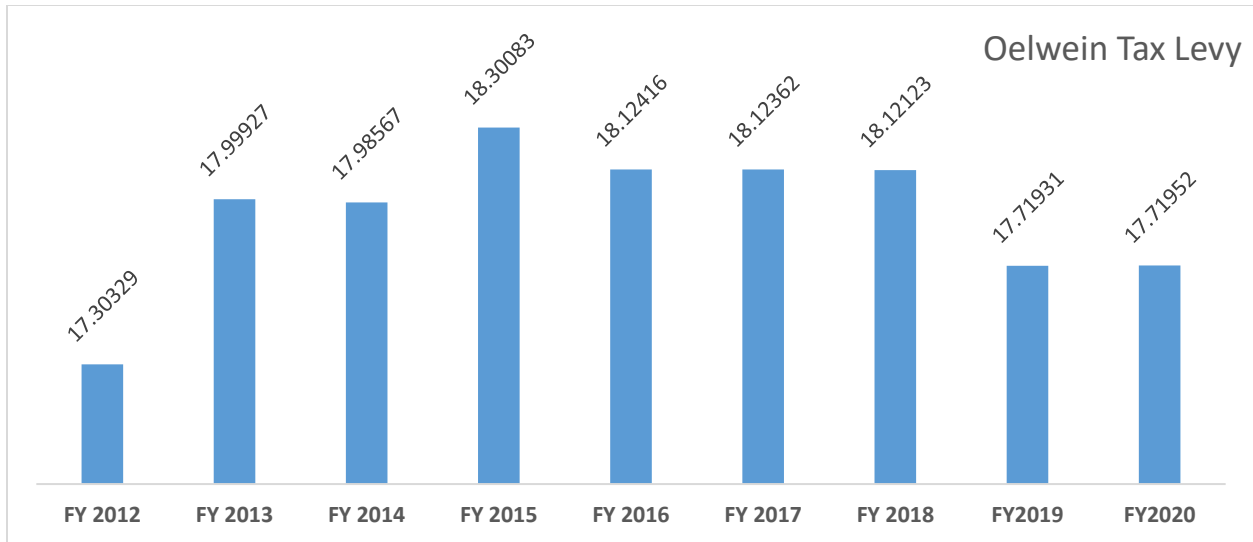
### **Tax Rate**

The City Council adopted a tax rate of \$17.71952 for the year 2019-2020 (FY 2020). The rate was higher because of the ability to pay off debt service general obligation bond earlier than anticipated. The tax rate is primarily adjusted because of the benefits (trust and agency) levy and the debt service levy. Staff will work with council each year to ensure the levy proposed meets the needs of the city to provide quality service.



The Oelwein tax rate is high, because tax values are low and require a high tax rate. Council has done a great job ensuring that spending has been conservative, and that services are being delivered as expected from the public. This conservative spending shows the community that council is doing their due diligence and tasking staff with the need to be flexible and innovative when spending public dollars.

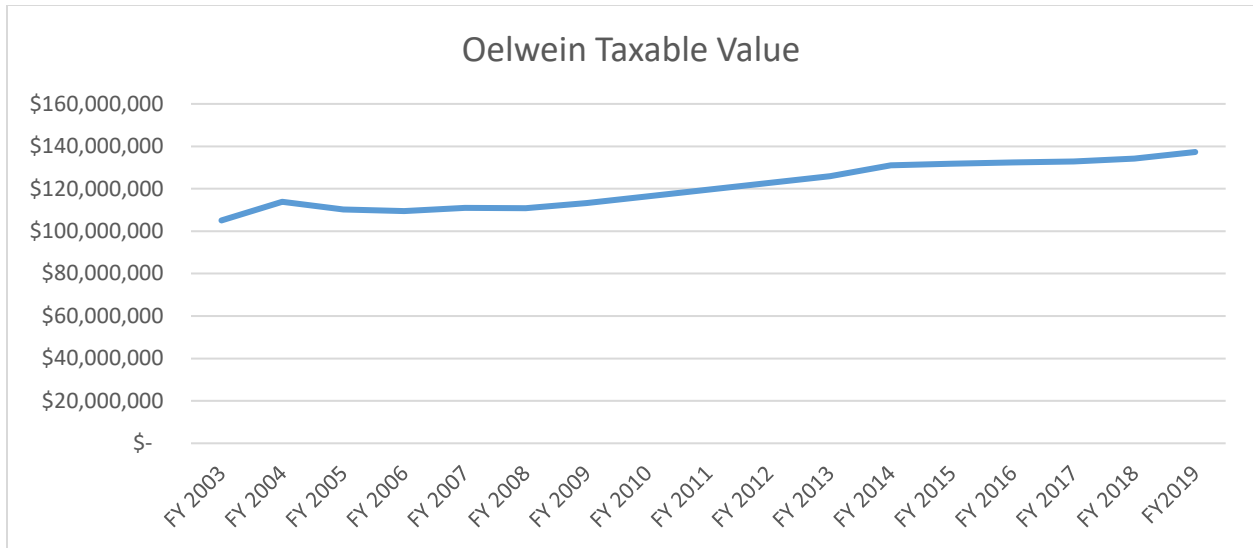




Oelwein has a high levy because 55 percent of the homes were built before 1940 and have an average assessed value of \$37,184. A house that is valued at \$37,184 pays \$369.84 in city property tax annually. This does not include other taxes such as school district, county, community college, and other smaller levies. This is a challenge for the city as low revenues from property tax will continue to restrict revenues and put a strain on city services that are already being offered. The following table shows how the city takes in revenue from property taxes.

Type	Valuation	Roll Back	Amount that is taxed	per 1000	Oelwein Rate per 1000	Oelwein FY2020 Levy	1-year taxes
Residential	\$100,000	56.1324%	\$56,132.40	56.1324	50.51916	17.71952	\$895.18
Commercial	\$100,000	90.0000%	\$90,000.00	90	81	17.71952	\$1,435.28
Industrial	\$1,000,000	90.0000%	\$900,000.00	900	505.1916	17.71952	\$8,951.75

The property valuations over the last 15 years have increased except for 2004-2005. Most recently over the last three years, the city has seen more of a plateau than an increase in property valuations. Without a significant increase in property valuations, the city's budget becomes strained as it tries to do more with less. Cost quickly outpace revenues in one year. Revenues may not increase, but wages, equipment, and cost of services continually increase. Addressing housing and continuing to improve the amount of commercial and industrial industries in town will have a positive effect on valuations.



### Multi-Residential Property Tax Class

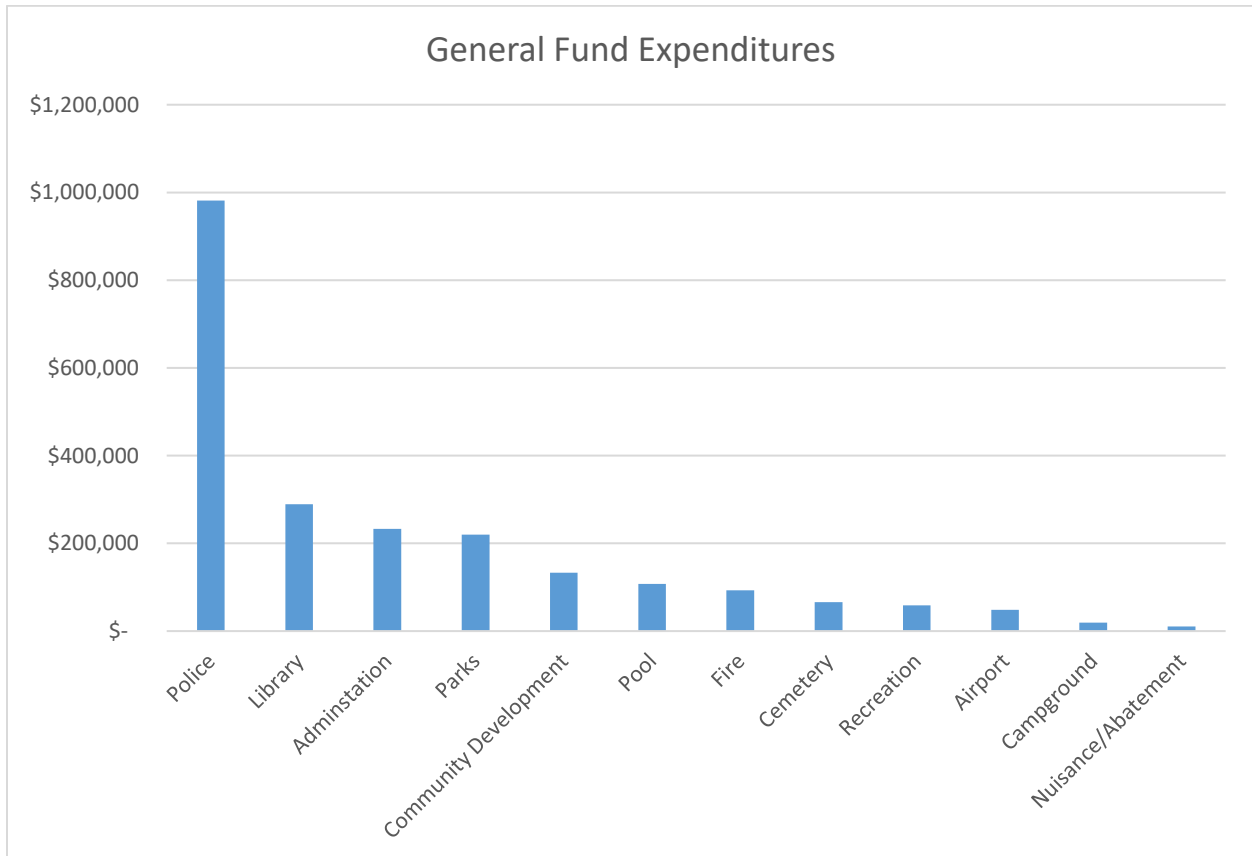
Oelwein will also see a decrease in revenue as Multi-Residential properties will continue to drop. The state created a new tax classification in 2014. The Multi-Residential tax cut is the largest in the history of the state. Units once classified as commercial are now Multi-Residential. As Multi-Residential decreases, the state will not back fill the loss in revenue. Properties that qualify include mobile home parks, assisted living facilities, and upper story housing. Several businesses in the downtown will have a commercial classification for the first floor and Multi-Residential for the upper living space. Multi-Residential will go from 90 percent roll back to the same as residential in 2024. Below is a projected revenue loss the city of Oelwein as the tax continue to decrease.

	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Multi Residential Roll Back Schedule	<b>75%</b>	<b>71.25%</b>	<b>67.5%</b>	<b>63.75%</b>	<b>55.7335</b>
Property Tax Revenue	\$76,026.03	\$72,224.72	\$68,423.42	\$64,622.12	\$56,495.95
Estimated annual Loss	\$3,801.30	\$3,801.30	\$3,801.30	\$3,801.30	\$8,126.17

The estimated total revenue loss for Oelwein over the life of the program is \$30,933.98. This projection does not consider an increase in property values because Oelwein has minimal increases starting in fiscal year 2014.

## General Fund

City Council will need to focus a great deal of attention on the general fund over the next year. Increases in this fund are because of new construction, or remodels of properties. Oelwein has low valuations, and sometimes renovations do little to raise valuations. The city should see a significant increase on general fund dollars in FY2022, because Fayette County is doing a complete assessment of the county over the next four years. This assessment has been done in other counties/cities and has dramatically changed the valuations of properties. While Oelwein should continue to be progressive, City Council will need to continue to closely monitor general fund spending.



*The Community Development Department is funded through general fund and Local Option Sales Tax. Administration is split three ways between general fund, water, and wastewater. This chart shows only the general fund expenditures.*

## Franchise Fees

Franchise Fees are the five percent taxes on gas and electric. They can be used for several purposes including public safety, public buildings, equipment, and economic development. The revenue for FY2021 is estimated at \$725,000. This revenue is dependent on weather and utility usage.

- FY 2021 (proposed)
  - \$492,469
    - Plan to spend
      - \$260,000 Police Station Loan

- \$145,000 property tax relief (general fund)
- \$516,000 Capital Improvement Plan (CIP)
- \$30,000 public safety transfer

The City will be spending down the reserve to keep up an aggressive Capital Improvement Program (CIP). This program ensures departments can keep equipment new and running. The CIP also helps keep buildings in top condition and parks looking fresh. All projects in the CIP will be discussed in January with the departments. Council will need to adjust the CIP program once the reserve is spent down.

The City's CIP program is based on general fund budgets and the ratio of their spending to the general fund. This way the money is allocated based on need and department size. City Council determines what items are purchased by the departments.

**Economic Development**

The City of Oelwein uses local option sales tax for economic development and property tax relief. This funding is used to better the community and accomplish the goals set by council. A high priority of council is to improve housing. The City Council has the option this year to make a large impact in housing. I have outlined the dollars and how the city can use them below:

Local Option Sales Tax Revenue (projected FY2021)

- \$570,000
  - \$400,000 economic development
  - \$170,000 property tax relief
- \$400,000
  - This money is used for multiple economic development activities
    - \$50,000 Oelwein Chamber and Development
    - \$45,000 Abatement
    - \$35,000 Oelwein Regional Tech Complex (Tec Spec)
    - \$35,000 Library Accreditation
    - \$25,000 Residential tear down grant
    - \$25,000 Junk house removal
    - \$15,000 Fayette County Housing Trust Fund
    - \$15,000 CDBG Housing Grant
    - \$25,000 Wellness Center Loss
  - This fund still contains the remaining \$100,000 toward City Hall improvement from the sale of the Donaldson Building.
  - The City has \$350,000 to use for housing improvements. The first \$125,000 is being used for a local housing program where the city will partner with Upper Explorerland.
  - The City will need to continue to use its teardown funds to ensure houses that need removed are being removed.
  - City Council should consider funding a branding campaign with the chamber of commerce and school district.
  - Council can also use this money to provide rebates to the local housing tax abatement program.

### Remaining Bond Proceeds

Council has the opportunity and will have the opportunity to allocate \$480,000 in unused bond proceeds. These proceeds came from the extension of 14<sup>th</sup> St. SE, because the city was successful in securing a low bid as the contractor was on site doing earth work for East Penn. These proceeds can be used for the following according to the resolution passed by council: on a residential demolition project and improvements to streets, water, and sanitary sewer systems. Council will need these proceeds for housing demolition and can use over half for infrastructure improvement. Staff recommends using \$280,000 in for house tear down and \$200,000 in road improvements.

### Reserves

The City of Oelwein is working toward having strong accounts that help the city remain fiscally stable and prepare the city for future loans and emergency expenses. Having stable reserves saves the city money and prepares the city for emergency expenses. It is generally considered a best practice to have 25 percent of expenses in reserves. This percent can fluctuate based on availability and city council determination. The following are reserve goals for the city of Oelwein in Fiscal Year 2021.

Fund	Reserve
General Fund	\$539,584
Franchise Fee	\$182,500
Economic Development	\$100,000
Road User Tax	\$211,325
Water	\$270,100
Sewer	\$291,540

*Proposed Reserve goals for the City of Oelwein FY 2020.*

### Capital Improvement Program (CIP)

The Capital Improvement Program (CIP) is now in its third year for the City of Oelwein. Franchise fees will play a key role in purchasing equipment and infrastructure that are in the Capital Improvement Program. The complete CIP is included in the budget book. While Department Heads submitted \$2,715,664, the city can fund \$1,992,950. Additional funding sources include Road User Tax, Utilities, Municipal Trust, Grants, and Economic Development.

### Comparables

The City uses several cities in Iowa to make comparable comparisons. This is based on population, location, income, and general characteristics. The city uses the following comparables:

- Estherville
- Maquoketa
- Red Oak
- Centerville
- Nevada
- Atlantic
- Washington
- Charles City

- Vinton
- Independence
- Manchester

### **FY2021 and Beyond**

The relationship between funding and the needs of the general fund to provide services is a difficult situation for the City of Oelwein. City Council will need to take more time than the usual budget meetings to walk through and decide what services are important and which ones can be reduced. City Administration currently believes that keeping spending inline with revenues is crucial, and that waiting for the equalization order in 2022 to bring in new revenues will be a long wait. The current trend of the general fund is unsustainable. Council and staff need to determine ways to cut spending and how these will affect the current services. Spending cuts can only be avoided if new revenues are created, or existing revenues are increased.

Council will need to work on ensuring their goals align with spending. The city cannot provide superior service to the community without a properly funded organization. The needs and wants from the community come from all directions, council must see through this and work to provide a service that leads the community in the best direction. Council must work diligently to weigh the concerns of the community and determine what should be acted on, and what policy changes need to be made to address concerns. Staff is looking for a vision from council on the future of Oelwein. Staff will work tirelessly to meet the expectations set out by the city council.

Thank you for your time,

Dylan Mulfinger, City Administrator