

## **City Manager's Report for 2019-20 Budget Workshops**

Tuesday, January 29 and Wednesday, January 30, 2019  
Special Council Meetings at 4:30 p.m.

**Background:** This is a summary regarding the Council, Mayor & Administration sections of the budget, as well as some topics that apply throughout the budget cost centers.

The main difference in this budget from previous budgets is that the Directors were asked to provide a true picture of their needs for FY19-20. In your budget are memos from each Department Director. It's important for you to hear the unvarnished goals and ideas from each department, including mid to long term priorities. Therefore, Angie and I did not do much of changing of the director's budgets, although we did provide guidance.

In the past, many budget needs have not been presented to you in the interest of having a balanced budget at the very beginning of the process. While I agree with the need for a balanced budget, for me and Angie to balance it at the beginning of the process would deny the directors and you the opportunity to have a full dialogue about our needs and the necessary revenues.

This budget contains many positives. The estimated projection of cash on hand on June 30, 2019 of approx. \$59,594. In addition, the positives include a continued commitment to street improvements – with no additional bonding. Our IMWCA (Worker's Compensation) costs dropped by about 50% and our liability insurance is projected to rise by only 3%. Our Local Option Sales tax is healthy and is projected to allow us to fund a new ambulance (\$200,000), wages for our recreation staff (\$97,000), cemetery road fixes (\$20,000), and a new roof for City Hall/Police Department (\$125,000). This leaves a projected balance in Local Option Sales Tax of about \$50,000.

Without mincing words, FY19-20 is a tough budget year for the General Fund. The General fund portion of this budget is not passable in its current form without cuts and/or additional revenues. The FY19-20 General Fund budget, assuming no amendments, would be \$2,218,098. This would be a 17.2% increase over FY18-19, and a negative cash balance of \$233,252.

My contact at the Iowa League of Cities advises a 17% cash balance (also known as reserves). 17% of \$2,218,098 is \$377,077. This is unachievable at this time; a 3% cash balance is a more realistic goal (similar to FY18-19). To achieve a 3% projected General Fund cash balance for FY19-20 would mean cuts and/or additional revenues totaling \$292,797 (which is \$233,252 + \$59,545).

**General Fund only**

<b>Fiscal Year</b>	<b>Projected expenditures</b>	<b>Cash balance (Reserves)</b>	<b>% Cash balance</b>
2019-20	\$ 2,218,098.00	\$ (233,252.00)	-10.52%
2018-19	\$ 1,892,618.00	\$ 59,594.00	3.15%
2017-18	\$ 1,799,385.58	\$ 99,015.12	5.50%
2016-17	\$ 1,479,289.10	\$ 120,911.72	8.17%
2015-16	\$ 1,299,678.87	\$ 109,286.83	8.41%

We have highlighted the main additional needs which were included in the budget. For example, postponing the full-time employee for SCAT, Fire Department increases, the hiring of an additional police officer and reducing the Pavilion marketing funds would significantly aid in filling the gap.

The challenges include rising health insurance costs, the State of Iowa’s budget issues (which could affect the “backfill” dollars), and the general tightness in Sheldon’s bonding availability.

During the formation of this budget, I asked the Department Directors to review the City’s well written City Council Goal Setting Report (dated December 13, 2017) and apply it accordingly. Based on this goal setting report, I have invited Mark Reinders from Mid-American to come to the January 30 Budget workshop to present the concept of a franchise agreement.

**Personnel:** Our most important asset is our people. We currently have 31 approved full-time employees City wide, with two vacant positions (Pavilion General Manager and Assistant Recreation Director). Here is the overall summary of our personnel:

- FT: 31
- PT>10 hours: 4
- PT<10 hours: 55
- Seasonal: 76

EMA: 7  
SCAT: 20 (ambulance team)  
Fire: 18

As noted previously, our worker's compensation premium has been cut in half – from \$87,471 for FY18-19 to an estimated \$45,000 for FY19-20. This budget includes an inexpensive, but valuable benefit for City employees – the Employee Assistance Program is an asset for both employees and employers. The estimated cost is \$3,302.40 annually and would cover all of our part and full-time employees, plus our emergency services volunteers.

A 2.5% pay increase for union employees is included, effective July 1. This budget includes 2.5% for non-union as well. Both AFSCME units (Public Works and Police) are on three-year contracts which end on June 30, 2020.

The cost of health insurance is estimated to go up 10% this coming year; as Angie mentioned in her memo, this is still a savings of \$30,836 from the previous self-insurance plan. The City currently pays 100% of the employee's health insurance and 100% of family for non-union. For the two AFSCME union units, the City pays 85% of the difference from family to single. Per the adopted contracts, the contribution by union employees is increasing to 20% (80% City participation) on July 1, 2019.

This budget includes the 100% City contribution for non-union, and 80% for union, per the adopted contracts. My professional opinion is this variance is too great.

Since approximately ½ of our employees are paying significantly more for health insurance than the other half, here are some options to consider:

1. Keep it the same for non-union employees, with the City paying 100% for employees and 100% for family. Starting July 2019, the City would pay 80% (of the difference from family to single) for union employees and family per the adopted contracts.
2. Change non-union from 100% paid by the City to 80%, effective July 1. Non-union and union employees would both then be paying 20%. (This would cause a significant impact for employees).

3. Change the benefit itself for non-union to increase the deductible from \$250 individual/\$500 deductible to something greater and leave the City's contribution levels the same for non-union employees. This would basically split the employee health plans further and you would have two plans: 1) Union employees would be paying 20% and 250/500 deductible, and 2) Non-union employees would pay 0% of the premium and a higher deductible.

**Options 4 and 5 would require ratification by both unions.**

4. Ask non-union employees to pay 5% of their insurance (of the difference from family to single) and draw up a memorandum of understanding to the union contracts to freeze the union's contribution level at 15% for FY19-20.
5. Ask non-union employees to pay 5% (of the difference from family to single) and amend the union contracts to lower their contribution level from 15% to 10% instead of increasing it to 20%. And then double the deductibles from \$250/\$500 to \$500/\$1,000.

Option number four would likely have the broadest support, and I will have more information for you by the budget hearings. Here is a summary of the impact.

Monthly health insurance premium - employee portion	Single	Family	5% (of difference from Family to Single)	15% (of difference from Family to Single)	20% (of difference from Family to Single)
FY18-19	\$ 798.04	\$ 1,995.10	\$ 59.85	\$ 179.56	\$ 239.41
FY19-20	\$ 877.84	\$ 2,194.61	\$ 65.84	\$ 197.52	\$ 263.35

**Overall Budget process:**

- The Legislature is in session, and a concern for Iowa's local governments are the "backfill" dollars. The impact for Sheldon is significant. We expect to receive \$100,593 in FY18-19. This budget proposal assumes 90% of our backfill for the FY19-20 budget; we are hoping we will receive 100%, although it is wise to prepare for a cut.
- The "backfill" is not a subsidy of the City by State Government. This was a commitment to reduce commercial and industrial taxes in Iowa and partially replaces money we otherwise would

have received. Cities like Tiffin and Ankeny are growing faster than average, which provides fuel for the argument to reduce the allocations. We appreciate the past support of our local legislators on this important issue and hope we will have their support on this matter again this coming session. I have been in touch with several legislators and am receiving positive feedback so far, although the consensus is that “backfill” will likely come up as a potential cost saving measure for the State if the State’s budget is again tight. The Iowa League of Cities is closely monitoring this as well.

Below are the Sheldon “backfill” numbers from the State’s website.

Sheldon Backfill \$'s	2018-19	2018-19	2017-18	2017-18	2016-17	2016-17	2015-16	2015-16	2014-15	2014-15
LEVY	LEVY	AMOUNT OF	LEVY	AMOUNT OF	LEVY	AMOUNT OF	LEVY	AMOUNT OF	LEVY	AMOUNT OF
TYPE	RATE	BACKFILL	RATE	BACKFILL	RATE	BACKFILL	RATE	BACKFILL	RATE	BACKFILL
REGULAR GENERAL	\$8.10	\$ 56,814	\$8.10	\$ 56,814	\$8.10	\$ 58,524	\$8.10	\$ 56,183	\$8.10	\$ 26,365
NON-VOTED & VOTED GENERAL	\$0.27	\$ 1,894	\$0.27	\$ 1,894	\$0.27	\$ 1,951	\$0.27	\$ 1,873	\$0.27	\$ 879
EMERGENCY	\$0.27	\$ 1,894	\$0.27	\$ 1,894	\$0.27	\$ 1,951	\$0.27	\$ 1,873	\$0.27	\$ 872
EMPLOYEE BENEFITS	\$4.75	\$ 33,306	\$4.75	\$ 33,306	\$3.71	\$ 26,839	\$3.23	\$ 22,426	\$2.75	\$ 8,957
DEBT SERVICE	\$0.48	\$ 3,349	\$0.48	\$ 3,349	\$1.25	\$ 9,006	\$1.36	\$ 9,910	\$1.39	\$ 4,857
CAPITAL PROJ RESERVE	\$0.00	\$ -	\$0.00	\$ -	\$0.00	\$ -	\$0.00	\$ -	\$0.00	\$ -
<b>Totals (Non-TIF funds)</b>	<b>\$13.87</b>	<b>\$ 97,257</b>	<b>\$13.87</b>	<b>\$ 97,257</b>	<b>\$13.60</b>	<b>\$ 98,271</b>	<b>\$13.23</b>	<b>\$ 92,265</b>	<b>\$12.78</b>	<b>\$ 41,930</b>
Totals (TIF funds)		\$ 3,336		\$ 2,020		\$ 16,403		\$ 14,232		\$ 8,348
<b>New Totals (w/ non-TIF &amp; TIF)</b>		<b>\$ 100,593</b>		<b>\$ 99,277</b>		<b>\$ 114,674</b>		<b>\$ 106,496</b>		<b>\$ 50,278</b>

Source: <https://dom.iowa.gov/document/commercial-industrial-replacement-payments>

- Mayor Meendering and all Council members submitted their vision and priorities for this budget; this is included in your binders. Also included in the budget binders is the 2017 Goal Setting Report.

*Sam Koiker*