



Administration
1225 6th Avenue, Suite 110
Marion, Iowa 52302
www.cityofmarion.org

memo

January 29, 2021

TO: Mayor and City Council
CC: Zachary Wolfe, Budget Manager
FROM: Lon Pluckhahn, City Manager
RE: FY 22 Recommended Budget – Request for Additional Information and Flat Property Tax Levy Proposal

This document presents additional budget information requested during the fiscal year (FY) 2022 Recommended Budget Work Session on January 22, 2021. During the budget work session, City Council made three primary requests:

- (1) Propose a budget scenario(s) which maintains the property tax rate flat (as opposed to the increase suggested in the FY 22 Recommended Budget),
- (2) Provide additional information on new FY 22 initiatives including the priority ranking, costs, number and type of studies/plans being proposed, and the estimated impact of new initiatives and
- (3) Review the proposed figures for salary increases to understand the costs for each .5% increment and how it compares to indexes of inflation.

During the City Council Work Session scheduled on February 2, 2021 staff will provide a presentation on these data to continue the discussion on the FY 22 budget.

FY 22 Property Tax Rate Reduction

The initial property tax rate presented in the FY 22 Recommended Budget was **14.29856** an increase of .08354 (8.3 cents per \$100,000 of taxable valuation) from the rate of 14.21502 in FY 21. The 8.3 cents increase in the property tax rate was recommended to fund one half of the first-year implementation costs of the Public Safety Information Management System (\$150K). The Emergency Levy was proposed to fund this increase.

Staff reviewed both the revenue and expenditure items in the FY 22 Recommended budget and propose reducing the FY 22 property tax rate to **14.19976**, a decrease of .01526 (1.5 cents per \$100,000 of taxable valuation) from the FY 21 rate. This would result in the third straight year where the property tax rate has decreased or remained flat (FY 20: flat, FY 21: decrease, FY 22: decrease).

Reduction of the property tax rate to 14.19976 is being facilitated by a revenue increase and expenditure decrease in the General Fund. In the FY 22 Recommended Budget, \$87K in revenue for the school resource officer (SRO) providing services to the Marion and Linn Mar Schools was not included in the budget. Additionally, the line item for the Code Enforcement (\$83K) was removed from the Recommended Budget to further reduce the general fund expenditures. These two items nearly offset the \$150K previously included in the Emergency levy and result in a property tax rate reduction from FY 21 (by removing Code Enforcement it also reduces the benefits levy rate).

Removing the Code Enforcement budgeted expenditure will not interrupt the review of a new approach to code enforcement. This review began in FY 21 and is expected to continue into FY 22. Depending on the outcome of this review, it will be determined if additional resources are needed to redesign service delivery of code enforcement.

The impact of the tax levy on the residential property class is noted below. Residential properties per \$100K assessment value would see a 2.31% increase as opposed to a 3.03% increase in property taxes (FY 22 Recommended Budget) in FY 22.

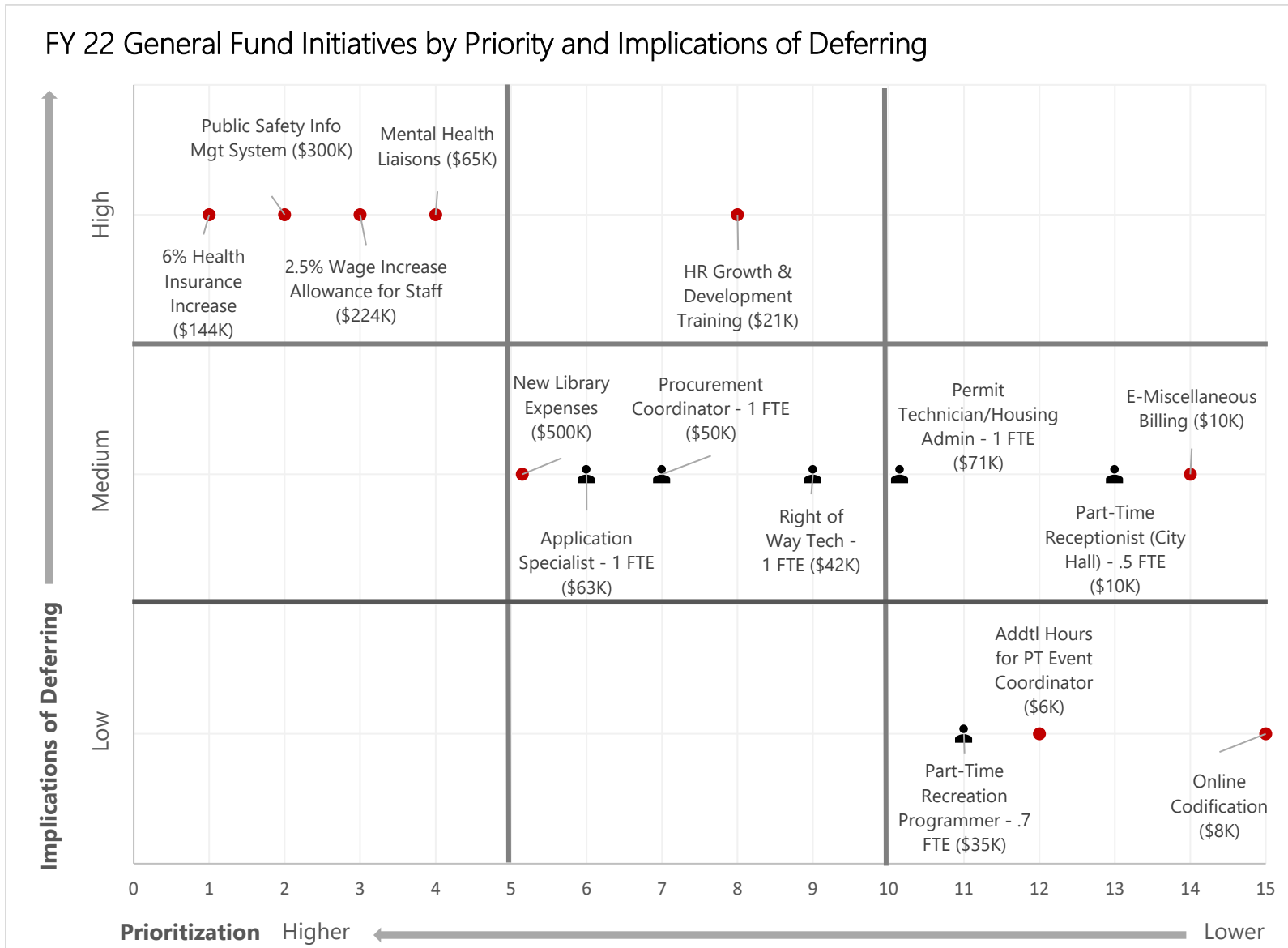
Fiscal Year	Value after Rollback Equalization	Tax Levy	City Tax Payable	% Change
Per \$100,000 Residential Value				
FY 21-22	56,409	x 14.19976	= \$ 801.00	2.31% FY 22 Proposal
FY 21-22	56,409	x 14.29856	= \$ 806.57	3.03% FY 22 Recommended
FY 20-21	55,074	x 14.21502	= \$ 782.88	-3.30%
FY 19-20	56,918	x 14.22338	= \$ 809.57	3.48%
FY 18-19	55,621	x 14.22338	= \$ 791.12	-0.68%
FY 17-18	56,939	x 13.98943	= \$ 796.54	3.61%

FY 22 Budget Priorities and Ranking

The table below provides an overview of the FY 22 budget priorities for the General Fund and proprietary funds. A ranking for each initiative and a measure of the implication for deferring the new initiative is included (High, Medium or Low). *High* represents deferring is expected to increase costs, negatively impact organizational effectiveness or negatively impact the community. *Low* indicates deferring will have minimal impact to the organization or the public.

FY 22 RECOMMENDED BUDGET PRIORITIES						
Priority Rank	FY 22 Budget Initiative/Position (FTE = Full Time Equivalency)	Cost (Fund)	Department	Budget Priority Category	Strategic Plan Alignment	Implications of Deferring
General & Equipment Replacement Funds		<i>Only Includes General & Equipment Replacement Fund Costs</i>				
1	6% Health Insurance Increase	\$144K	All	Employee Invstmt		High
2	Public Safety Info Mgt System	\$300K	Police	Strat Plan Align	Safe Communities	High
3	2.5% Wage Increase Allowance for Staff	\$224K	All	Employee Invstmt		High
4	Mental Health Liaisons	\$65K	Police	Strat Plan Align	Safe Communities	High
5	New Library Expenses	\$500K	Library	Strat Plan Align	Vibrant Communities	Medium
6	Application Specialist - 1 FTE	\$63K	IT	Maximize Tech	Efficient & Effective Gov	Medium
7	Procurement Coordinator - 1 FTE	\$50K	Finance	Strat Plan Align	Efficient & Effective Gov	Medium
8	HR Growth & Development Training	\$21K	City Mgr (HR)	Strat Plan Align	Efficient & Effective Gov	High
9	Right of Way Tech - 1 FTE	\$42K	Engineering	Strat Plan Align	Sustainable Infrastructure	Medium
10	Permit Technician/Housing Admin - 1 FTE	\$71K	Comm Dev (Bldg)	Enhance Srv Delvly		Medium
11	Part-Time Recreation Programmer - .7 FTE	\$35K	Parks & Recreation	Strat Plan Align	Vibrant Communities	Low
12	Addtl Hours for PT Event Coordinator	\$6K	City Mgr (Comm)	Strat Plan Align	Vibrant Communities	Low
13	Part-Time Receptionist (City Hall) - .5 FTE	\$10K	Finance	Enhance Srv Delvly		Medium
14	E-Miscellaneous Billing	\$10K	Finance	Maximize Tech		Medium
15	Online Codification	\$8K	City Mgr (Clerk)	Enhance Srv Delvly		Low
Proprietary Funds		<i>All Non-General Fund Cost</i>				
1	Environmental Specialist - 1 FTE	\$84K	Engineering	Strat Plan Align	Sustainable Infrastructure	High
2	Equipment Operator - 1 FTE	\$79K	Road Use	Strat Plan Align	Sustainable Infrastructure	High
Priority Rank	FY 22 Budget Plans/Studies	Cost (Fund)	Department	Budget Priority	Strategic Alignment	Implications of Deferring
1	Solid Waste Management Study	\$150K	Public Services	Strat Plan Align	Sustainable Infrastructure	High
2	Master Planning -Tower Terrace	\$60K	Community Dev	Enhance Srv Delvly		High
3	Master Planning Fernow East	\$30K	Community Dev	Enhance Srv Delvly		High

The matrix below displays the implications for deferring these investments against the priority ranking. Additionally, the cost of the initiative is included in the label and the position icon (👤) indicates a new position would be created with this initiative. Those projects deemed the highest implication for deferring and highest priority are in the left, upper corner.



FY 21 Initiatives Status

Below is an overview of the initiatives/studies budgeted in FY 21 and the status for each project.

FY 21 Initiatives	Type	Project Status	Next Step
Compensation and Classification	Study	Complete	Compensation System Redesign
Rec Desk Software for Parks & Recreation	Software	Complete	Full Integration
Aquatic Feasibility Study	Study	Complete	Review of Study
Development Impact Model	Model	Complete	Validation
Pavement Condition Index Model	Model	Complete	Target Condition Levels
Sewer Capacity Model	Study	Complete	Incorporate into Planning
Payroll Automation	Software	On-Going	Full Transition
Agenda Management	Software	On-Going	Full Transition
Strategic Plan Implementation	Plan	On-Going	Quarterly Reports (Monitoring)
Uptown Master Plan	Plan	On-Going	Plan Adoption
Derecho Recovery-Clean up	Other	On-Going	Waterway Cleanup
FEMA Assistance Grant	Other	On-Going	Reimbursement Documentation
Housing Inspection Software	Software	Budgeted for FY 22	Process Analysis and RFP Development

2.5% Increase in Salary Allowances

Government is customer service industry and our greatest asset is our staff. To maintain competitive salaries and benefits, the FY 22 budget includes the annualized costs to increase non-bargaining salaries by 2.8% in April of 2021 and a subsequent salary increase the following April of 2022 of 2.5%. Bargained increases for union staff for FY 21 have been applied to the budget and FY 22 increases are being estimated at 2.5% starting in July of 2021 (FY 22 labor union contracts are currently under negotiation).

The term *Wage Increase Allowance* is utilized to denote the City's approach to salary increases where non-bargaining staff are scored based upon annual performance and the budgeted increase allowance (2.5% in FY 22) sets the ceiling for individual salary increases. Therefore, not all non-bargaining staff will receive the fully allotted salary increase allowance. Furthermore, labor union increases are typically step increases (all staff receive them if they remain employed) so even if salary increases are budgeted at equal values across non-bargaining and labor unions, labor union salaries would increase at a faster rate. Over time, can contribute to wage compression between managerial and line staff in department with labor unions.

Rebalancing the FY 22 General Fund personnel expenditures after removing the Code Enforcement line-item results in an annual increase of 4.1% in personnel expenditures or \$798K. The table below displays each of these personnel expenditure cost drivers budgeted for FY 22.

Personnel Expenditure Changes from FY 21	General Fund	% of New Expenditures
FY 21 Amended Salary and Benefit Expenditures	\$19.6M	
Fully Fund FY 21 Pay Increases and Staff Realignment	\$256K	32.0%
FY 22 New Indirect Position Changes (OT, PT and Unfilled Positions)	\$56K	7.0%
FY 22 Wage Increase Allowance of 2.5% (Existing Positions)	\$224K	28.1%
FY 22 Medical Health Plan Increase (6%)	\$149K	18.6%
FY 22 New Positions	\$297K	37.2%
FY 22 Engineering Allocation to Road Use	-\$184K	-23.0%
FY 22 Recommended Salary and Benefit Expenditures	\$20.4M	
\$ Change	\$798K	
% Change	4.1%	

The *Fully Fund FY 21 Pay Increases and Staff Realignment* line includes the full cost for annualizing salary increases for staff with third quarter (April) salary increases in FY 2021. All staff with the exception of Fire labor unions are expected to receive a salary increase in April of 2021, which is added to the FY 22 budget in this line item.

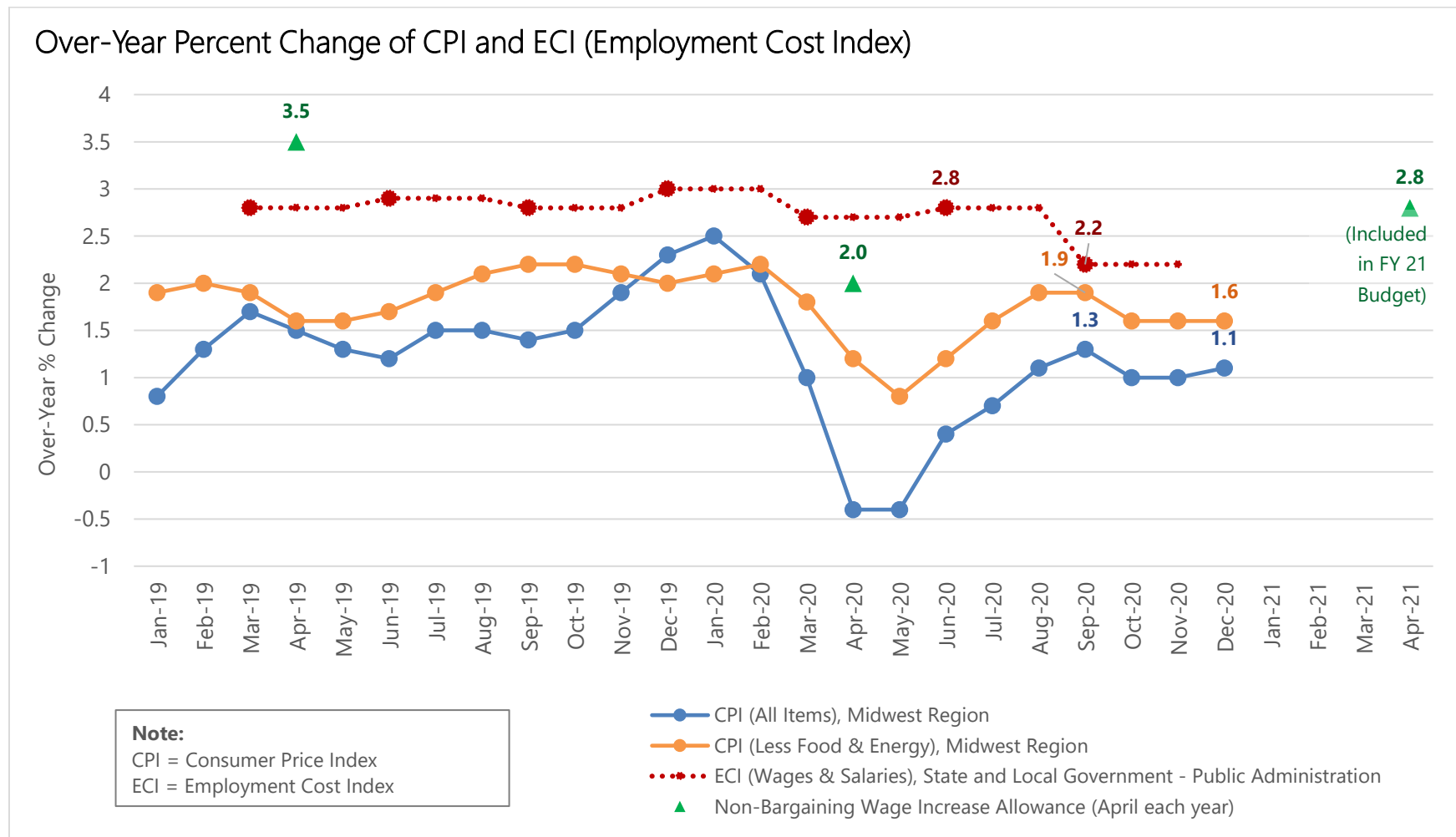
Similarly, the *FY 22 Wage Increase Allowance of 2.5% (Existing Positions)* line reflects the budgeted increase for existing staff in FY 2022, estimated at \$224K. Police, Fire and AFSCME labor union staff are budgeted in this line to receive a 2.5% increase starting on July 1, 2021, while non-bargaining staff are budgeted to receive a 2.5% increase on April 1, 2022. This means the annual salary percentage increase for non-bargaining staff is .625% (one-fourth of the 2.5%) in the FY 22 budget. The fully annualized salary impact of 2.5% for non-bargaining staff would be adjusted in the FY 23 budget.

A discussion point with City Council was the cost per .5% increment for wage increases. Each .5% increment is estimated to cost the City in FY 22 \$44,800.

FY 22 WAGE INCREASE REVIEW			FY 22 Recommended Increase							
Wage Increase %	3.50%	3.00%	2.50%	2.00%	1.50%	1.30%	1.00%	0.50%	0.00%	
Total FY 22 Cost Estimate	\$313,600	\$268,800	\$224,000	\$179,200	\$134,400	\$116,480	\$89,600	\$44,800	\$0	

Additionally, at the budget work session, a request was made to look at the consumer price index (CPI) as compared to the recommended wage allowance increase of 2.5%. Below are these data provided by annual percentage increase by month. In addition to looking at CPI (Midwest Region), the CPI – Less Food & Energy (Midwest Region) is included to remove the impact of the more volatile categories of inflation and the Employment Cost Index (ECI) is included to look at specific wage inflation data. The ECI data is measured quarterly and provides the estimated average increase in salaries and wages for state and local government, specifically the public administration category for these data. Although, ECI data does provide data on benefits, it is not included in the figures below to isolate salary/wage inflation.

The green triangles in the graph below indicate the wage allowance increases planned by the City of Marion FY 19-21.



According to the data, CPI data rose slowly from June 2019 through January 2020 (2.5%), when it declined rapidly through April of 2020—indicating annual cost of goods deflation. Beginning in June of 2020, CPI began to increase and the last data point for December of 2020 estimates CPI at a 1.1% year-over-year increase. The CPI (Less Food & Energy) follows a similar trajectory to CPI; however, it is nearly .5% higher in value (December of 2020 at 1.6%).

When looking at the ECI data, it show relatively steady annual percent increases (assessed quarterly) of 2.5% to 3.0%. Notably, the most recent data point in September of 2020 (Q3) indicated a sharp decline from 2.8% to 2.2% in annual salary/wage increases.

These two metrics provide different lens for considering wage increases for City employees: estimates of cost of living (CPI) and the average wage increases provided by public sector agencies (ECI).

To further contextualize the increases being considered, below are three different scenarios for wage allowance increase modeled on the City of Marion median salary in FY 21. The figures below do show the year-over-year percentage increase for non-bargaining staff, as their FY 22 budgeted increase is estimated at .0625% (based upon a 2.5% increase).

Wage Increase Example - Median Salary Staff Member				
	City of Marion Median Salary	Recommended Wage Allowance Increase	ECI Over-Year % Change (State and local government - public administration), Sep 2020	CPI Over-Year % Change (Midwest Region), Sep 2020
	66,000	2.50%	2.20%	1.30%
\$ Change Year		\$1,650	\$1,452	\$858
\$ Change/Month		\$138	\$121	\$72
\$ Change/Paycheck		\$63	\$56	\$33

Note: These figures do not account for the expected monthly increase in medical health insurance of \$4 to \$11 a month (employee share estimates).

FY 22 Utility and Property Tax Rates

Utility Rates for the Average Marion Residential Homeowner

In looking at further measures where FY 22 utility rates increases can be delayed or decreased, staff propose delaying the rate increase for the Sanitary Sewer Replacement until FY 23. This would reduce the total utility rate increases being proposed from 7.7% to 6.5%, a reduction of an additional \$1 a month. The impact of the property tax rate reduction would reduce estimated City property taxes by \$10 a year, 25% less than originally proposed (rate of 14.29856).

FY 22 Recommended Utility Rates

City of Marion Residential Utility Bill Statistics (Nov, 2020)											Property Taxes (14.29856)	Total Proposed
Residential Accounts	Solid Waste	Sanitary Sewer Replace	Sanitary Sewer	Stormwater	Urban Forest	Water	Water Excise Tax	Monthly Residential Bill (based on avg consumption)	Bi-Monthly Residential Bill (based on avg consumption)	Annual Residential Bill (based on avg consumption)		
FY 21 Fee Structure (monthly)	\$ 17.50	\$ 2.00	Flat: \$2.00 Variable: \$4.10/100 c.f.	Flat: \$3.50 Variable: \$1.67	\$ 3.00	Variable	6%				Based on \$168,700 Property	
FY 21 Avg Residential B	\$ 17.50	\$ 2.00	\$ 27.79	\$ 5.17	\$ 3.00	\$ 24.33	\$ 1.46	\$ 81.25	\$ 162.51	\$ 975.03	\$ 1,321.00	2,296
FY 22 Proposed Fee Structure (monthly)	\$ 18.75	\$ 3.00	Flat: \$2.00 Variable: \$4.39/100 c.f.	Flat: \$3.50 Variable: \$1.67	\$ 3.00	5%-8% increase (modeled at 8%)	6%					
FY 22 Avg Residential B	\$ 18.75	\$ 3.00	\$ 29.74	\$ 5.17	\$ 3.00	\$ 26.28	\$ 1.58	\$ 87.51	\$ 175.02	\$ 1,050.14	\$ 1,361.00	2,411
\$ Change	\$ 1.25	\$ 1.00	\$ 1.95	\$ -	\$ -	\$ 1.95	\$ 0.12	\$ 6.26	\$ 12.52	\$ 75.10	\$ 40.00	\$ 115.10
% Change	7.1%	50.0%	7.0%	0.0%	0.0%	8.0%	8.0%	7.7%	7.7%	7.7%	3.0%	5.0%

FY 22 Proposed Utility Rates (reduced property tax rate and flat sanitary sewer replacement fee)

City of Marion Residential Utility Bill Statistics (Nov, 2020)											Property Taxes (14.19976)	Total Proposed
Residential Accounts	Solid Waste	Sanitary Sewer Replace	Sanitary Sewer	Stormwater	Urban Forest	Water	Water Excise Tax	Monthly Residential Bill (based on avg consumption)	Bi-Monthly Residential Bill (based on avg consumption)	Annual Residential Bill (based on avg consumption)		
FY 21 Fee Structure (monthly)	\$ 17.50	\$ 2.00	Flat: \$2.00 Variable: \$4.10/100 c.f.	Flat: \$3.50 Variable: \$1.67	\$ 3.00	Variable	6%				Based on \$168,700 Property	
FY 21 Avg Residential B	\$ 17.50	\$ 2.00	\$ 27.79	\$ 5.17	\$ 3.00	\$ 24.33	\$ 1.46	\$ 81.25	\$ 162.51	\$ 975.03	\$ 1,321.00	2,296
FY 22 Proposed Fee Structure (monthly)	\$ 18.75	\$ 2.00	Flat: \$2.00 Variable: \$4.39/100 c.f.	Flat: \$3.50 Variable: \$1.67	\$ 3.00	5%-8% increase (modeled at 8%)	6%					
FY 22 Avg Residential B	\$ 18.75	\$ 2.00	\$ 29.74	\$ 5.17	\$ 3.00	\$ 26.28	\$ 1.58	\$ 86.51	\$ 173.02	\$ 1,038.14	\$ 1,351.00	2,389
\$ Change	\$ 1.25	\$ -	\$ 1.95	\$ -	\$ -	\$ 1.95	\$ 0.12	\$ 5.26	\$ 10.52	\$ 63.10	\$ 30.00	\$ 93.10
% Change	7.1%	0.0%	7.0%	0.0%	0.0%	8.0%	8.0%	6.5%	6.5%	6.5%	2.3%	4.1%

Summary

We hope this additional information assists in reviewing the FY 22 City budget and we look forward to the discussion on Tuesday, February 2nd.