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memo

January 18, 2021

TO: Mayor and City Council
CC: Zachary Wolfe, Budget Manager
FROM: Lon Pluckhahn, City Manager
RE: FY 22 Recommended Budget – Proprietary & Debt Service Funds

To accompany the fiscal year 2022 (FY 22) Recommended Budget Memo, here is an overview of the proposed changes to the proprietary (utility) and debt service funds.

The City of Marion has six different utility rates to pay for service delivery and on-going maintenance for services. Proprietary funds are treated as self-supporting and the services provided are typically financed through the user charges or on a cost-reimbursement basis.

The FY 21-23 City strategic plan focus area *Sustainable Infrastructure* guides various activities in the FY 22 budget. The proprietary funds support the majority of these strategic initiatives.

Sanitary Sewer

The Sanitary Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system. A portion of the salaries and benefits from the following departments are accounted for this in this fund: Public Services, Engineering, City Manager's Office, and Finance.

Sanitary Sewer revenue is comprised of two fees, a flat \$2.00 per month coupled with a variable rate of \$4.10 based upon consumption per every 100 c.f. of water. An increase of 7% is recommended for the variable rate (\$4.10 per 100 c.f.) in FY 22 to address the cost increase to the sanitary sewer contract with Cedar Rapids for water treatment services. The FY 22 contract is expected to increase by \$1.7M, from \$ 3.5M (FY 21) to \$5.2M.

The increase in the Sanitary Sewer variable rate is estimated to generate \$400K in new revenue as compared to FY 21 estimates.

Budget Summary	FY 2019 Actual	FY 2020 Actual	FY 2021 Amended	FY 2021 Estimated	FY 2022 Requested	FY 2022 Recommended
Beginning Balance	472,643	356,458	2,084,633	2,084,633	2,421,454	2,421,454
Revenues	4,001,072	7,405,521	6,047,100	6,230,000	8,712,444	6,166,200
Transfers In	-	-	-	-	-	-
Total Revenues	4,001,072	7,405,521	6,047,100	6,230,000	8,712,444	6,166,200
Expenditures	3,903,258	5,419,649	6,527,885	5,647,034	6,066,813	7,820,732
Transfers Out	214,000	257,696	319,215	246,145	246,145	246,145
Total Expenditures	4,117,258	5,677,345	6,847,100	5,893,179	6,312,958	8,066,877
Ending Balance	356,458	2,084,633	1,284,633	2,421,454	4,820,940	520,777
Ending Balance/Expenditures	9.1%	38.5%	19.7%	42.9%	79.5%	6.7%
Current Year Cash Added/Used	(116,186)	1,728,175	(800,000)	336,821	2,399,486	(1,900,677)

Sanitary Sewer Replacement

The Sewer Replacement Fund provides for the capital needs for the city's sanitary sewer system including contractual sanitary sewer repairs and the city's share of sewer extension and/or oversizing projects.

Sanitary Sewer Replacement revenue is generated through a \$2 monthly fee on residential and commercial utility bills and this fee has remained flat from more than ten years (prior to FY 2011). The growth of sewer replacement and maintenance projects continues to place increased pressure of this fund to sustain the current sanitary sewer infrastructure and new development.

In FY 22, there are \$2.5M in capital projects funded from the Sanitary Sewer Replacement Fund, of which \$1.6M are for annual projects (on-going capital maintenance projects). The ending fund balance in FY 22 is projected at \$933K.

A \$1 rate increase is being proposed beginning in January of 2022. This would increase the current \$2 a month rate to \$3. An additional \$1 a month is estimated to increase revenue collections from \$435K (FY 21) to \$550K in FY 22. The fully annualized collections of \$3 a month wouldn't occur until FY 23 when revenue collections are expected to be \$670K. This increase would assist in improving the long-term fiscal health of the fund as there are tens of millions of dollars in unfunded sanitary sewer projects.

Budget Summary	FY 2019 Actual	FY 2020 Actual	FY 2021 Amended	FY 2021 Estimated	FY 2022 Requested	FY 2022 Recommended
Beginning Balance	2,835,089	3,221,323	3,530,482	3,530,482	3,036,002	3,036,002
Revenues	504,404	498,551	310,000	28,000	280,000	280,000
Transfers In	63,932	200,047	89,520	89,520	89,520	89,520
Total Revenues	568,336	698,598	399,520	117,520	369,520	369,520
Expenditures	182,102	346,559	970,000	520,000	2,380,000	2,380,000
Transfers Out	-	42,880	92,000	92,000	92,000	92,000
Total Expenditures	182,102	389,439	1,062,000	612,000	2,472,000	2,472,000
Ending Balance	3,221,323	3,530,482	2,868,002	3,036,002	933,522	933,522
Ending Balance/Expenditures	1769.0%	1018.7%	295.7%	583.8%	39.2%	39.2%
Current Year Cash Added/Use	386,234	309,158	(662,480)	(494,480)	(2,102,480)	(2,102,480)

Solid Waste

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste collection system. A portion of the salaries and benefits from the following are accounted for this in this fund: Public Services, Engineering, City Manager's Office, Information Technology, and Finance.

In FY 2021, monthly Solid Waste fees increased from \$15.50 to \$17.50 to address on-going increases in operational expenses and capital investments (share of building costs for the new Public Services Facility and the cost to replace the current vehicle fleet). In the FY 22 budget, a recommended increase of 7% or \$1.25 each month (\$18.75 monthly residential rate) is proposed to support on-going expenditures.

Notably, changes in the international and national recycling markets have recently impacted both the revenue previously received by selling recyclable materials (decrease in \$66K annually) and by increasing costs for recycling tipping fees.

To fully evaluate the long-term approach to waste management in the City of Marion, a study is budgeted (\$150K) in FY 22 to evaluate current and alternative waste collection and removal service delivery models (*Goal 4.3: Increase the sustainable practices of waste management* in the FY 21-23 strategic plan). Additionally, this study will assess community interest and viability of moving to automated collections service delivery model.

Budget Summary	FY 2019 Actual	FY 2020 Actual	FY 2021 Amended	FY 2021 Estimated	FY 2022 Requested	FY 2022 Recommended
Beginning Balance	498,855	396,812	2,315,652	2,315,652	2,482,244	2,482,244
Revenues	2,036,588	5,069,688	2,855,990	2,903,145	5,446,370	2,972,370
Transfers In	39,852	39,852	39,852	39,852	-	-
Total Revenues	2,076,440	5,109,540	2,895,842	2,942,997	5,446,370	2,972,370
Expenditures	2,103,483	3,072,004	3,169,325	2,530,260	3,313,672	3,476,337
Transfers Out	75,000	118,696	526,215	246,145	246,145	246,145
Total Expenditures	2,178,483	3,190,700	3,695,540	2,776,405	3,559,817	3,722,482
Ending Balance	396,812	2,315,652	1,515,954	2,482,244	4,368,797	1,732,132
Ending Balance/Expenditures	18.9%	75.4%	47.8%	98.1%	131.8%	49.8%
Current Year Cash Added/Used	(102,043)	1,918,840	(799,698)	166,592	1,886,553	(750,112)

Stormwater

The Stormwater Fund accounts for all revenues from stormwater management service fees and subdivision drainage fees. Allocations are used to fund stormwater management/drainage projects, any city share of neighborhood drain tile projects as well as the city share of storm sewer oversizing and detention/retention basis projects associated with new development.

Stormwater fees are not proposed to increase in FY 22. The negative structural balance for Stormwater is primarily due to a \$500K transfer out to pay for derecho cleanup efforts. However, even with the removal of this transfer, the fund is still unstructurally balanced. Rate increases will be considered in future fiscal years.

Budget Summary	FY 2019 Actual	FY 2020 Actual	FY 2021 Amended	FY 2021 Estimated	FY 2022 Requested	FY 2022 Recommended
Beginning Balance	1,318,653	1,291,428	1,534,333	1,534,333	1,200,271	1,200,271
Revenues	1,152,209	1,157,220	1,115,000	1,130,000	1,096,000	1,117,000
Transfers In	-	-	500,000	-	532,000	32,000
Total Revenues	1,152,209	1,157,220	1,615,000	1,130,000	1,628,000	1,149,000
Expenditures	913,853	648,733	1,536,807	1,326,562	1,081,724	1,186,033
Transfers Out	265,581	265,581	137,500	137,500	75,000	575,000
Total Expenditures	1,179,434	914,314	1,674,307	1,464,062	1,156,724	1,761,033
Ending Balance	1,291,428	1,534,333	1,475,026	1,200,271	1,671,547	588,238
Ending Balance/Expenditures	141.3%	236.5%	96.0%	90.5%	154.5%	49.6%
Current Year Cash Added/Use	(27,225)	242,905	(59,307)	(334,062)	471,276	(612,033)

Urban Forest

The purpose of the Urban Forest Utility is to provide for the collection and use of public tree management fees, tree permit fees, and other fees as applicable to maintain trees on city owned property and provide for the disposal or re-use of tree-related materials.

In FY 21, the Urban Forest Utility fee increased from \$2.25 to \$3 a month. The additional \$139K in revenue of helped address the negative fund balance of the fund (it is nearly in balance in FY 22).

A silver lining of the derecho storm is many of the emerald ash borer affected trees in the City's right-of-way will be removed in the cleanup efforts. This decreased long-term costs planned in Urban Forest. The division's current focus is on managing cleanup efforts of effected forestry and right-of-way, while working on reforestation within the City.

Annual Operating Budget

720 - Urban Forest

Budget Summary	FY 2019 Actual	FY 2020 Actual	FY 2021 Amended	FY 2021 Estimated	FY 2022 Requested	FY 2022 Recommended
Beginning Balance	628,628	588,275	456,365	456,365	589,391	589,391
Revenues	401,861	408,550	540,461	538,400	538,724	541,724
Transfers In	-	-	-	-	-	-
Total Revenues	401,861	408,550	540,461	538,400	538,724	541,724
Expenditures	304,462	380,496	439,339	344,968	488,805	488,805
Transfers Out	137,752	159,964	60,406	60,406	61,556	61,556
Total Expenditures	442,214	540,460	499,745	405,374	550,361	550,361
Ending Balance	588,275	456,365	497,081	589,391	577,754	580,754
Ending Balance/Expenditures	193.2%	119.9%	113.1%	170.9%	118.2%	118.8%
Current Year Cash Added/Used	(40,353)	(131,910)	40,716	133,026	(11,637)	(8,637)

Water

The Water Department will be presenting their FY 22 proposed budget during the budget work session. Preliminary plans by the Water Department for FY 22 indicate a 5% to 8% increase in water rates.

Overall Utility Rates

During the work sessions, we will be reviewing the operating budgets for each of the utilities and the impact for proposed rate changes.

FY 22 Recommended Utility Rates for the Average Marion Residential Homeowner

City of Marion Residential Utility Bill Statistics (Nov, 2020)									
Residential Accounts	Solid Waste	Sewer Sewer Replacement	Sanitary Sewer	Stormwater	Urban Forest	Water	Water Excise Tax	Monthly Residential Bill (based on avg consumption)	Bi-Monthly 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%		
FY 21 Avg Residential Bill	\$ 17.50	\$ 2.00	\$ 27.79	\$ 5.17	\$ 3.00	\$ 24.33	\$ 1.46	\$ 81.25	\$ 162.51
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 Bill	\$ 18.75	\$ 3.00	\$ 29.74	\$ 5.17	\$ 3.00	\$ 26.28	\$ 1.58	\$ 87.51	\$ 175.02
\$ Change	\$ 1.25	\$ 1.00	\$ 1.95	\$ -	\$ -	\$ 1.95	\$ 0.12	\$ 6.26	\$ 12.52
% Change	7.1%	50.0%	7.0%	0.0%	0.0%	8.0%	8.0%	7.7%	7.7%

Debt

The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general obligation bonds.

While the total expenditures for debt is increasing slightly in FY 22, the amount payable by the debt service levy is decreasing. Included in the FY 22 new debt issuances is a short-term financing option to pay for the derecho cleanup efforts while FEMA and the State review our cost reimbursements. This debt instrument is estimated to cost \$400K with half being paid by the debt service levy and half by the Debt Service fund balance.

Annual Operating Budget

200 - Debt Service

Budget Summary	FY 2019 Actual	FY 2020 Actual	FY 2021 Amended	FY 2021 Estimated	FY 2022 Requested	FY 2022 Recommended
Beginning Balance	997,853	1,652,592	758,763	758,763	1,030,421	1,030,421
Revenues	13,542,269	14,596,864	4,085,441	4,097,586	4,414,769	4,014,769
Transfers In	2,506,331	2,597,823	2,354,044	2,354,044	2,341,891	2,341,891
Total Revenues	16,048,600	17,194,687	6,439,485	6,451,630	6,756,660	6,356,660
Expenditures	15,393,861	18,088,517	6,399,484	6,179,972	6,756,660	6,556,660
Transfers Out	-	-	-	-	-	-
Total Expenditures	15,393,861	18,088,517	6,399,484	6,179,972	6,756,660	6,556,660
Ending Balance	1,652,592	758,763	798,764	1,030,421	1,030,421	830,421
Ending Balance/Expenditures	10.7%	4.2%	12.5%	16.7%	15.3%	12.7%
Current Year Cash Added/Used	654,739	(893,829)	40,001	271,658	-	(200,000)

Derecho Clean Up City Share

The current estimate for derecho cleanup work is \$43M. The FY 22 budget presumes FEMA eligible reimbursements will be 75% of the \$43M and the State will pay 10%. The remaining balance is \$6.5M and would be paid for by the City.

The FY 22 budget sets aside funding to cover nearly half of the expected City portion, \$3M. As we progress through the reimbursement process with the Federal Government and the State, we will determine how much of our cost share will be reduced by eligible in-kind services.

Derecho Cleanup Estimated Expenditures		43,245,000
Budgeted Reimbursements		Total
FEMA	75.00%	32,433,750
State	10.00%	4,324,500
Total	85.00%	36,758,250
Remaining (City Share)	15.00%	6,486,750
FY 22 Repayment of City Share		
Road Use Fund		1,500,000
General Fund		1,000,000
Stormwater Management		500,000
Projected FY 23 Balance		3,486,750
<i>% Repaid</i>		<i>46.2%</i>

We look forward to the on-going discussion on planned initiatives for FY 22 and fiscal health of these proprietary and debt service funds.