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THE  
**CITY of PELLA**

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February 7, 2014

Honorable Mayor Mueller and City Councilmembers:

We respectfully present the proposed budget for the City of Pella for the fiscal year beginning July 1, 2014. **As the City's financial and spending plan for the year, the adoption of the budget is undoubtedly the single most important action taken by the Mayor and Council.** This budget proposal is inclusive of all City operations, including those funded by the General Fund and enterprise funds.

***FY 14-15 Budget Overview***

When discussing the City of Pella's FY 14-15 Budget, it is important to realize the City's finances are in excellent condition which is evident from the following:

- The City's cash reserves for all of its funds equal or exceed financial industry standards.
- The City of Pella has one of the lowest property tax rates in the State of Iowa.
- Over the last nine years, the City has reduced over 76% of its outstanding debt while during this same time period, we have increased operating reserves by 29%.

While the City has done an outstanding job of public financial stewardship over the years, it is also important to realize the City is also faced with infrastructure and facility improvements which will require financial resources to complete. After considering the above factors, the proposed FY 14-15 Budget is based on the following principles:

- *The completion of several significant projects that are currently underway and include the construction of the Pella Sports Park, renovation of the City's Indoor Pool, deconstruction of the City's Power Plant, and completion of the Southeast Underground Conversion Project.*
- *Continuation of the City's aggressive street improvement plan to improve 25% of the Community's street network by 2024.*
- *Incorporation of the Community Strategic Plan with emphasis on the strategic focus areas identified in the Pella 2020 Plan which includes the following:*

*Quality of Life; Economic Development and Tourism; Housing; Education; and Infrastructure/Transportation/Telecommunications Technology.*

- *Providing adequate funding to maintain the City's infrastructure and existing service levels.*

### ***FY 14-15 Budget Highlights***

- For the thirteenth consecutive year, the City's tax rate will remain at \$10.20 or lower. For mid-sized cities, Pella has one of the lowest tax rates in the state. One of the principle reasons we have been able to maintain our tax rate is the level of financial planning we undertake. The City's Electric, Water and Wastewater Funds are budgeted according to five year financial plans, while governmental funds are budgeted according to three year financial plans. Each of these plans includes balanced operating budgets each year. Pella is one of the few mid-sized cities in Iowa that prepares long-term financial plans for its operating budget. Staff believes this level of financial planning helps the City identify potential problem areas early which minimizes service level disruptions and helps maintain reasonably priced services for our community.
- The FY 14-15 Budget includes \$854,000 of funding for the reconstruction of Oskaloosa Street from East 3<sup>rd</sup> Street to East 16<sup>th</sup> Street. It is important to note, the total project cost is approximately \$2.5 million and is estimated to be completed by late fall of 2016.
- In addition to the reconstruction of Oskaloosa Street, the FY 14-15 includes \$40,000 of funding for engineering design services for the Jefferson Street Reconstruction Project from East 2<sup>nd</sup> to Hazel. The total estimated cost of this project is \$517,000 and is estimated to be completed by the fall of 2016. Furthermore, the FY 14-15 Budget also includes \$175,000 for residential street improvement projects.
- The 14-15 Budget includes \$1,639,700 of funding for construction of a new Jordan Well, which is part of the City's estimated \$14 million long-term water supply plan. Overall, the plan includes one new Jordan Well and water main connecting to the City's water treatment plant, a new 3.0 million gallon per day (MGD) reverse osmosis treatment plant and improvements to the City's existing water treatment plant. The completion date for the plan is tentatively set for late 2016 to potentially late 2017 depending on the timing of securing the necessary permits.
- Staff is proposing the addition of a patrol officer for the Police Department, which will bring the City's sworn officer total to 16. The new position is needed to maintain existing service levels and will allow the department to create a new detective position, which should facilitate enhanced criminal investigations. The estimated cost of the new position is \$70,700.
- Recently, the City had a life extension analysis performed on the Community Center which identified approximately \$3.2 million in capital improvements to extend the life of the facility for twenty to thirty years. Due to the significant amount of funding required for the facility, staff is proposing we assemble a committee consisting of Councilmembers, staff, and engineers to assess the proposed improvements to determine if they should be incorporated over a five to ten year period of time or if a comprehensive renovation should be scheduled within the next twenty four months. Depending on the timing and scope of the improvements, adjustments may need to be made to the City's tax rate to provide adequate funding for the projects.

***FY 14-15 Budget Highlights (continued)***

- The FY 14-15 Budget includes \$15,000 of funding for development of a long-term facility plan and cost estimates for the City’s Public Safety Complex. This analysis is being driven primarily by the need for additional space for the City’s Fire Department. Depending on Council direction, this analysis could also involve potential facility modifications to accommodate the needs of the Pella Community Ambulance Service. Finally, if Council proceeds with this planning effort, it is staff’s intent to have this analysis discussed at the same time the proposed improvements to the City’s Community Center are evaluated.
- While this budget proposal does not propose any rate increases for City utilities, the City may need to enact an Energy Cost Adjustment of approximately two percent to fund the recent 5.3% power supply increase from Missouri River Energy Services (MRES). The increase from MRES is projected to increase power supply costs approximately \$800,000 for the City of Pella. It is important to note, the increase from MRES was needed to fund the proposed \$260 million Lake Red Rock Hydroelectric Facility. During FY 14-15, staff plans to monitor load growth for the Electric Utility and then make a recommendation to Council in the fall of 2014 regarding supply plan and compliance with the Environmental Protection Agency’s new emission standards.
- As the following chart reflects, the FY 14-15 Budget includes projected revenues of \$37,836,740 and expenses of \$40,787,954. The overall budget has a projected drawdown of fund balance of \$2,951,214 which is attributed mainly to timing differences for the completion of the Indoor Pool Renovation and Power Plant Deconstruction projects. For both of these projects, the City is projected to expend nearly \$2.5 million in FY 14-15 while the bond proceeds for the project were received in FY 13-14. The remaining fund balance drawdown is attributed to funding the Oskaloosa Street Reconstruction project with cash on hand.

<b>CITY OF PELLA</b>				
<b>SUMMARY OF FY 14-15 BUDGET</b>				
	<b>FY 14-15 BUDGET</b>	<b>FY 13-14 BUDGET</b>	<b>INCREASE (DECREASE)</b>	<b>% INCREASE (DECREASE)</b>
<b>REVENUE</b>				
Property Taxes	\$ 4,665,506	\$ 4,328,570	\$ 336,936	7.78%
TIF Revenues	650,000	420,002	229,998	54.76%
Local Option Taxes	963,465	936,363	27,102	2.89%
Road Use Tax Funds	967,000	967,000	-	0.00%
Utility Revenue	21,407,380	21,608,310	(200,930)	-0.93%
Bond Proceeds	1,639,700	6,575,000	(4,935,300)	N/A
Other	7,543,689	5,677,852	1,865,837	32.86%
<b>TOTAL REVENUE</b>	<b>\$ 37,836,740</b>	<b>\$ 40,513,097</b>	<b>\$ (2,676,357)</b>	<b>-6.61%</b>
<b>EXPENSES</b>				
Compensation & Benefits	7,391,645	7,184,174	207,471	2.89%
Operating Expenses	20,131,571	19,719,943	411,628	2.09%
Developer Reimbursements	149,449	259,434	(109,985)	-42.39%
Debt Service	2,525,924	1,871,148	654,776	34.99%
Capital Improvements	10,589,365	12,512,423	(1,923,058)	-15.37%
<b>TOTAL EXPENSES</b>	<b>\$ 40,787,954</b>	<b>\$ 41,547,122</b>	<b>\$ (759,168)</b>	<b>-1.83%</b>
<b>INCREASE (DECREASE) IN RESERVES</b>	<b>\$ (2,951,214)</b>	<b>\$ (1,034,025)</b>	<b>\$ (1,917,189)</b>	<b>N/A</b>
<b>Estimated Beginning Fund Balance @ June 30, 2014: \$15,040,000</b>				
<b>Estimated Beginning Fund Balance @ June 30, 2015: \$12,088,71</b>				

***FY 14-15 Property Tax Review***

**The proposed property tax rate for FY 14-15 maintains the \$10.20 per taxable \$1,000 valuation for the thirteenth straight year.** The continuation of this rate is expected to generate approximately \$4,665,506, an increase of \$336,936 over FY 13-14. The 7.78% growth in property taxes can largely be attributed to the State’s 2013 Assessment Limitation, commonly referred to as the “rollback”, which increased 1.5836% for residential properties. In addition to an increase in the assessment limitation, increased property tax collection can also be contributed to new development and a revaluation of a significant number of properties.

The following chart demonstrates the history of Pella’s flat levy rate and levy rates for comparable sized cities.

**Five Year Comparison of Tax Rates for Comparable Sized Cities**

	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	% Change Since FY 09-10
Creston	13.86	13.85	13.85	13.52	12.95	-6.57%
Grinnell	14.42	14.42	14.42	14.42	14.42	0.00%
Indianola	11.35	11.30	11.20	11.21	11.20	-1.32%
Keokuk	14.93	15.93	15.93	15.92	15.90	6.50%
Knoxville	15.04	15.17	15.79	15.90	15.90	5.72%
Nevada	15.13	15.00	15.00	15.43	15.33	1.32%
Newton	15.66	15.35	15.30	15.00	15.15	-3.26%
Oskaloosa	14.36	14.36	14.98	14.00	14.00	-2.51%
Spencer	11.72	11.72	11.84	11.83	11.83	0.94%
Waverly	14.34	14.50	14.60	14.25	14.25	-0.63%
Windsor Heights	13.76	13.31	13.31	13.31	13.90	1.02%
Pella	10.20	10.20	10.20	10.20	10.15	-0.49%
<b>Average without Pella</b>	<b>14.05</b>	<b>14.08</b>	<b>14.20</b>	<b>14.07</b>	<b>14.08</b>	<b>0.11%</b>

Effective with the 2013 assessment limitation order is the impact of the first phase of 2013 Iowa Acts Senate File 295, which lowers the annual growth limit from 4% to 3% for residential property classification and incorporates an assessment limitation for commercial, industrial and railroad to 95%. Future impacts of the 2013 property tax reform bill include the further reduction of commercial taxable valuation to 90% in FY 2016 and the creation of a new property tax classification, multi-family residential, which will take effect in FY 16-17 and gradually rollback until it reaches the residential rollback rate.

For FY 14-15, the State of Iowa is expected to reimburse, or “backfill”, cities for lost revenue associated with the new commercial property assessment limitation. The expected revenues received as backfill for the fiscal year covered in this budget is anticipated to amount to approximately \$95,000. As in FY 15, the State’s standing appropriation bill is expected to backfill lost revenues through FY 18, at which time the annual appropriation will be capped.

While difficult to determine the full extent of lost revenue that will result from property tax reform, it does emphasize the importance of maintaining strong general fund reserves. Currently, the City’s general fund reserves equal approximately 42% of annual operating expenditures for the general fund. This level of fund balance will provide the City with a degree of flexibility in the event there is a material loss of property revenue in the future.

## Typical Residence in Pella

Due to an increase in the residential rollback for FY 15, the typical household will be paying approximately \$22 more annually in property taxes to the City in FY 15 compared to FY 14. Even though residential property owners will be paying more to the City in FY 15, it is important to note, they will be paying taxes on only 54% of the value of their home. In comparison, commercial and industrial property owners will be paying nearly 100% on the value of their property.

### Distribution of Property Tax Dollars for a Typical Home in Pella

School.....	14.37
County.....	6.72
Other.....	1.19
City.....	10.15
Total Levy....	32.43



	Actual FY 04-05	Actual FY 09-10	Actual FY 13-14	Proposed FY 14-15
<b>Property Taxes Paid by Function Area</b>				
General Government-Administration	67	95	115	108
Public Safety	260	289	347	366
Transportation	24	53	63	56
Quality of Life	256	241	301	314
Debt Service	90	105	51	50
<b>Total City Property Tax</b>	<b>\$697</b>	<b>\$783</b>	<b>\$877</b>	<b>\$894</b>
<b>Property Tax Calculation</b>				
Assessed Valuation	\$151,500	\$179,550	\$172,400	\$170,442
Rollback Percentage	48.46%	45.59%	52.82%	54.40%
Taxable Value	<b>\$73,417</b>	<b>\$81,857</b>	<b>\$91,062</b>	<b>\$92,720</b>
City Tax Rate per \$1,000 of Valuation	10.20	10.20	10.15	10.20
Gross City Tax	<b>\$749</b>	<b>\$835</b>	<b>\$924</b>	<b>\$946</b>
Less City Share of Homestead Tax Credit	(52)	(52)	(52)	(52)
<b>Total City Property Tax</b>	<b>\$697</b>	<b>\$783</b>	<b>\$872</b>	<b>\$894</b>

## ***FY 14-15 Utility Rate Review***

### **Water and Wastewater Rates**

The proposed FY 14-15 Budget maintains the current water and wastewater rates. However, if Council proceeds with implementation of the City's \$14.0 million water supply plan, water rates will need to be increased by 20-30% to fund the entire plan. The tentative financing plan calls for an annual 7% increase over a three year period of time once the timeline is firmly established, and Council makes a decision on the size and scope of the water supply plan. Unfortunately, at this time the timeline is subject to securing the necessary environmental permits, which could impact the estimated completion date of late 2016 to late 2017 for the plan. In addition, it is also important to note that each individual component of the plan will be submitted to Council for consideration. Therefore, the overall financial commitment to the plan is subject to further Council consideration.

Listed below is a chart which compares the City's combined water and wastewater rates with the communities of Knoxville and Oskaloosa.

#### **Combined Water/Sewer Rates--In City Limits**

City	Minimum No Usage	7,000 gal Residential	35,000 gal Commercial	100,000 gal Industrial
Knoxville	\$30.00	\$97.39	\$398.95	\$1,099.00
Oskaloosa	\$16.07	\$89.78	\$384.62	\$1,069.07
<b>Pella</b>	\$31.50	\$85.75	\$302.75	\$806.50

**Average without Pella      \$23.04      \$93.59      \$391.79      \$1,084.04**

As the chart above indicates, our combined water and wastewater rates are significantly lower than our neighboring communities for all customer classes. Finally, it is important to note that when comparing our rates to others in the region, one must consider the service level provided by the utilities. For instance, one community in the above chart performs minimal water treatment; our treatment process is a significant component of our budget. While this community has rates that are comparable to ours, their customers will often need to install filters and purchase a water system to obtain a higher quality of water. Unfortunately, these costs are not included in the comparison above.

### **Electric Rates**

The FY 14-15 Budget proposal maintains the current electric rates; however, the City may need to enact an Energy Cost Adjustment of approximately two percent to fund the recent 5.3% power supply increase from Missouri River Energy Services (MRES). The increase from MRES is projected to increase power supply costs approximately \$800,000 for the City of Pella. It is important to note, the increase from MRES was needed to fund the proposed \$260 million Lake Red Rock Hydroelectric Facility. During FY 14-15, staff plans to monitor load growth for the Electric Utility and then make a recommendation to Council in the fall of 2014 regarding supply plan and compliance with the Environmental Protection Agency's new emission standards.

**Electric Rates (continued)**

The latest rate comparison information for electric utilities is from calendar year 2012. Staff is pleased to report that the City has made significant strides over the last several years in improving the competitiveness of our electric rates. In addition, due to the near completion of the City’s power supply plan, we anticipate that we will make additional gains in future years. As can be seen from the chart, the City’s electric rates are slightly above the average in the State of Iowa for municipal utilities. It is also important to note, for most municipal utilities that have lower electric rates than the City of Pella, they receive a significant share of the their power supply from the Western Area Power Administration, (WAPA) which is a federally owned hydroelectric power. Unfortunately, since the City is not located in the western portion of Iowa, we are not eligible to receive allocations from WAPA.

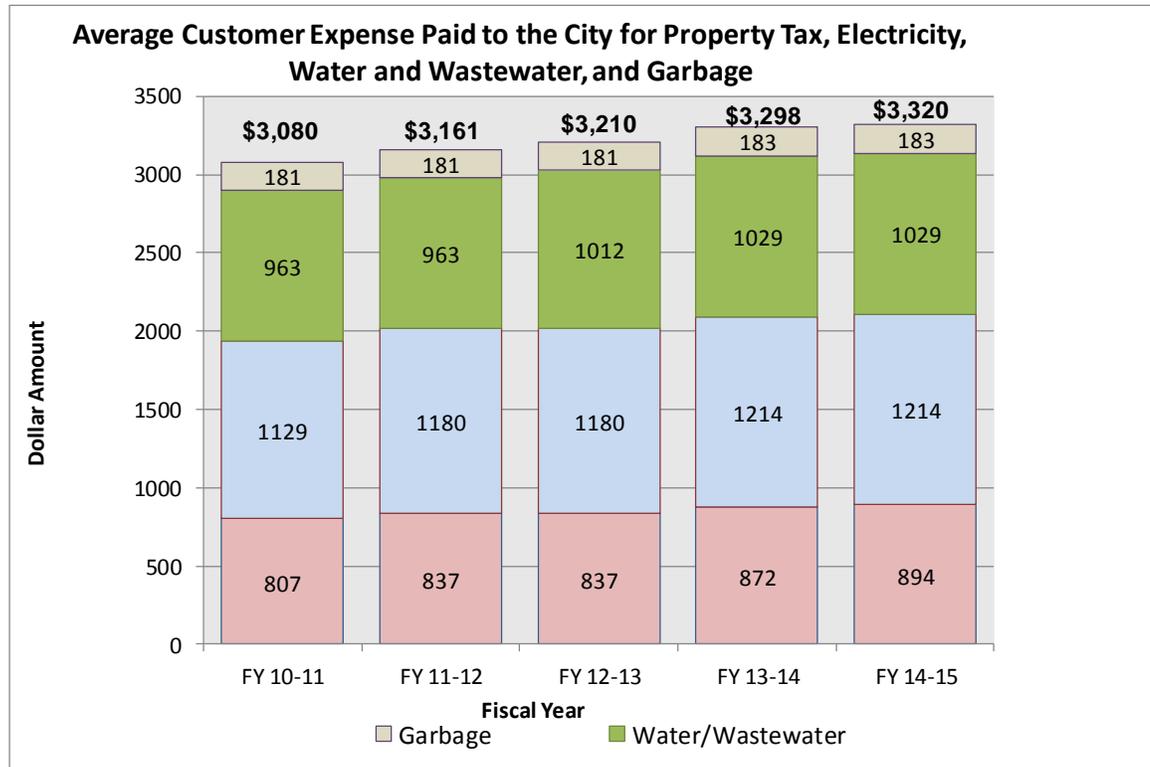
Average Revenue per kWh, 2012 United States and Iowa	
	All Sectors
	Rev/kWh
<b>Iowa Publicly Owned</b>	8.91
<b>Pella City of</b>	9.03
Ames	9.01
Indianola	9.24
<b>Iowa Investor-Owned</b>	7.82
Amana Society Service Co	8.68
Interstate Power and Light Co	8.54
MidAmerican Energy Co	6.23
<b>Iowa Cooperative</b>	10.91
Pella Cooperative Elec Assn	14.00
Chariton Valley Elec Coop, Inc	10.82
East Central Iowa Rural Elec Coop	11.19

Another factor to consider when comparing rates of utilities is the cost of reliability. It is important to note that our utility has exceptional reliability due to 80% of our distribution system being underground. While other utilities may have rates lower than or comparable to ours, their customers will often experience additional costs due to power outages, which are not reflected in the rate comparison table. In addition, for many investor owned utilities, distribution crews are shared among many communities. The advantage to our municipally owned electric utility is our distribution crew is solely for the customers of the Pella Municipal Electric Utility. Therefore, when an outage occurs, our crews can respond and restore power sooner than if our electrical load was provided by an investor owned utility. Finally, it is also important to note the rate comparison for investor owned and cooperative utilities does not include franchisee fees which many communities charge utilities operating in their communities. For most communities, this fee is in the range of 5% of total revenues of the utility.

***FY 14-15 Cost for the Average Resident***

Overall, the taxes and fees a typical resident will be paying to the City are projected to be approximately \$22 more in FY 14-15 than in FY 13-14. This increase is attributed to increases in taxable value for the average home as a result of the State rollback formula. In considering this increase, it is important to note, the City has no control over the residential rollback as this is established by the State of Iowa. Secondly, even with this increase, residential property owners will only pay taxes on 54% of the value of their homes.

***FY 14-15 Utility Rate Review (continued)***

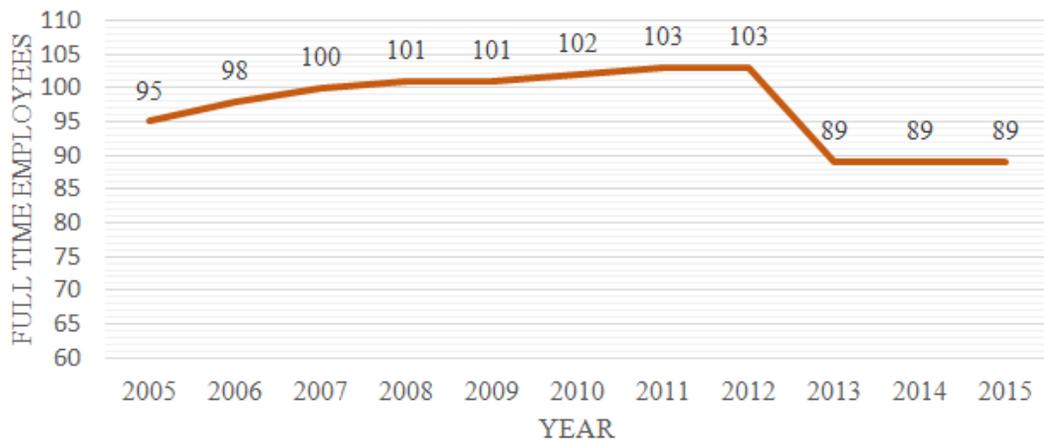


***FY 14-15 Personnel Highlights***

- The FY 14-15 Budget includes a 2.5% cost of living adjustment for both union and non-represented employees. As in previous budgets, eligible employees will also receive step increases that are typically in the range of 3%. The number of steps included in an employee’s path to the top of his or her respective scale is dependent upon employee classification or the applicable bargaining unit agreement. Overall, the FY 14-15 Budget includes wage increases of \$247,839 of which \$55,598 is directly attributable to the addition of a full time police officer. Also of note is the reclassification of roughly \$65,000 from supplies and services to personnel expenses related to the continued maintenance of the Bos Landen Golf Course.
- In FY 09-10, the City transitioned from a self-funded health care plan to the Iowa Governmental Health Care Plan, which incorporates self-funding in conjunction with the purchase of a high deductible health care group insurance for its member entities. Through this plan, the City was able to lower its cost for providing health insurance per full-time employee by approximately \$1,200. For FY 14-15, the cost for providing health insurance for employees is estimated at \$7,900 per employee. This health insurance savings for the City has been key in maintaining our current rates and taxes and has also helped offset other mandated personnel increases, such as retirement contributions.

***FY 14-15 Personnel Highlights (continued)***

- The City participates in two state run retirement systems, the Iowa Public Employee Retirement System (IPERS) and the Municipal Fire and Police Retirement System of Iowa (MFPRSI). Projected retirement contributions for employees covered by the IPERS are expected to remain at the FY 13-14 level of 8.93% of earnable compensation. Retirement contributions for the City’s police force, covered by MFPRSI, are expected to increase slightly for the City from 30.12% to 30.41% of earnable contributions. Although the anticipated increases in retirement contributions for FY 14-15 are minimal, the unfunded future liabilities of both systems increase the likelihood of significant future rate increases.
- As noted above, the FY 14-15 Budget includes the addition of a new full time police officer. The estimated cost for training, outfitting and employing the new officer is estimated at \$71,615.
- Listed below is a ten year summary of the City’s authorized full-time employees. As you can see from the chart, we are still operating with fewer full-time employees than we had in FY 04, which is mainly attributed to the transition of our power supply to Missouri River Energy Services (MRES) and the closure of the City’s Power Plant. However, even when adjusted for the transition of MRES, the City’s workforce has remained constant over the last ten years while the community corporate boundaries have expanded by 33% and its population has increased by 5%. Also of note is the anticipated obligation of additional facility operation and maintenance of the Pella Sports Complex, a 105 acre top tier complex for area recreational activities.



## ***Capital Improvement Program***

Annually, the City prepares a five year Capital Improvement Program which is used to plan for major changes to the City's infrastructure and other major capital improvements. The FY 14-15 approved capital projects, or first year projects in the Capital Improvement Program are incorporated into the FY 14-15 Budget as capital project funds.

Listed below is a description of the City's Capital Improvement Program.

### ***What is a Capital Improvement Program?***

The Capital Improvement Program (CIP) serves as a definitive guide for programming capital projects recommended for funding and represents a creative and pragmatic approach to establishing a prudent long-term capital investment strategy for the City. This is a five year plan which includes the costs, timing, sequencing and sources of funding. The first year of the five year plan is referred to as the capital budget. The capital budget is incorporated into the annual budget.

The planning of a Capital Improvements Program emphasizes these objectives:

- ◆ Ensure that future growth proceeds in an orderly and planned manner as a means to achieving a balanced economic base of commercial, residential, and public uses. Such balance is vital to the preservation and advancement of the quality of life for Pella's citizens and business persons.
- ◆ Provide the City with a long-range financial plan with which to address the capital improvement needs of a growing City in a fiscally responsible, yet progressive manner.
- ◆ Design a plan which provides efficient, coordinated, timely and economical public facilities which are sensitive to the expressed and implied needs of the community.

The total five year Capital Improvement Program amounts to \$31,462,675 in improvements and utilizes cash reserves, existing revenues, and debt financing to fund the proposed improvements.

When discussing the City's Capital Improvement Program, it is important to note, the City has done an exceptional job reducing its debt load over the last nine years. The City's total outstanding debt is projected to be \$16.8 million at June 30, 2014, which compares very favorably for the City when comparing ourselves to other communities whose annual budgets range from \$20.2 million to over \$40 million.

City	Population	Annual Budget	Outstanding Debt at 6/30/13
Altoona	14,541	39,970,034	97,506,000
Johnston	17,278	41,036,639	39,456,819
Clive	15,447	36,213,765	49,498,254
Knoxville	7,313	10,114,166	17,979,000
Oskaloosa	11,463	15,466,173	7,374,000
Pella	10,352	41,547,122	16,830,000*
			*Projected 6-30-14
Average without Pella	13,208	30,724,650	42,362,815

**Capital Improvement Program (continued)**

It is also important to note when comparing debt levels with other communities is the City operates a very capital intensive electric utility, which tends to have very high debt levels. In comparison, none of the above communities operate an electric utility.

Even though we have made significant strides over the years in reducing the City’s debt burden, the five year Capital Improvement Program proposes \$14.0 million in new debt issues for the City’s Long Term Water Supply Plan.

**Capital Improvement Program**

If Council were to proceed with the above projects, the projected debt load through June 30, 2019 is as follows:

	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19
Existing Debt	\$ 10,130,000	\$ 14,799,000	\$ 14,831,700	\$ 18,565,400	\$ 21,970,900	\$ 21,926,000
New Debt	\$ 6,700,000	\$ 1,639,700	\$ 5,123,700	\$ 4,832,500	\$ 1,824,100	\$ -
Total Debt	\$ 16,830,000	\$ 16,438,700	\$ 19,955,400	\$ 23,397,900	\$ 23,795,000	\$ 21,926,000

Even though the City’s projected debt load will be increasing, staff believes it is still very manageable and needed to fund this important infrastructure and facility projects.

Listed below are highlights of the FY 14 Capital Improvement Projects.

**General Fund Capital Projects**

In FY 14-15, significant capital projects for the General Fund include the following:

**Public Safety Records Management System - \$100,000**

The FY 14-15 Budget includes \$100,000 of funding to replace the records management system for the Public Safety Complex. The current system is seventeen years old and has limited operational capacity. The proposed new system will allow public safety personnel to access records efficiently, and it will also assist the Police Department in staying abreast of industry standards.

**Pella Aquatic Center - \$45,300**

For the past several years the Pella Outdoor Aquatic Center has been a regional destination for summer time fun for south central Iowa. As the original facility and lazy river addition near ten years of age, it is recommended to refurbish the slides and play structures to ensure these units continue to meet the public’s service level expectations as well as providing a safe environment for users of the facility. Included



### ***Capital Improvement Program (continued)***

in the FY 14-15 Budget is \$45,300 to refurbish the main play structure in the original pool and the associated floatables and diving boards. In addition, the City's five year Capital Improvement Program includes \$260,800 in funding for refurbishments of the aquatic center's slides and structures along with painting the respective pool basins.

### **Public Safety Complex Facility Assessment - \$15,000**

The FY 14-15 Budget includes \$15,000 for a long-term conceptual plan for the Public Safety Complex. The reason this plan is being proposed is due to additional space needs of the Pella Fire Department and potential facility modifications needed by the Pella Ambulance Service.

### **Community Center**

Recently, the City had a life extension analysis performed on the Community Center which identified approximately \$3.2 million in capital improvements to extend the life of the facility for twenty to thirty years. If Council proceeds with the Public Safety Complex Assessment, staff would propose assembling a committee consisting of Councilmembers, staff, and engineers to assess both the Community Center and the Public Safety Complex facilities and the proposed improvements to determine if they should be incorporated over a five to ten year period of time or if a comprehensive renovation should be scheduled within the next twenty four months. Depending on the timing and scope of the improvements, adjustments may need to be made to the City's tax rate to provide adequate funding for the projects.



### **Community Entrance and Wayfinding Signage Program**

Staff proposes in the FY 14-15 Budget the City solicit donations for the two community entrance signs and the vehicle wayfinding program. The estimated cost for two entrance signs and a core district wayfinding program is \$100,000. If staff is unable to raise the entire amount for these programs, then staff proposes the balance of these items would be funded in the FY 15-16 Budget through local option revenues.



## ***Road Use Tax Fund***

### **Pavement Management Plan**

In 2009, staff completed a detailed pavement management analysis of the City's street network which is updated annually to reflect improvements. Segment-by-segment inspections will be completed every five years under this system. The goal of the payment management analysis was to provide the City with a way to assess the overall condition of its street network and the estimated cost to improve the network over time. This analysis involved inspecting each segment of the City's 123 lane miles. For analysis purposes, the street network was classified by its functional characteristics as follows:

**Arterial/Collectors** – These streets are typically the primary and secondary entrances into our community and carry high to moderate traffic levels.

**Local** – These streets serve local/residential neighborhoods and typically represent low traffic levels.

The FY 15 Budget calls for the following street construction projects:

**Oskaloosa Street Reconstruction from Prairie to E. 16<sup>th</sup> - \$854,000** for water, sanitary sewer main replacement and street construction, which will run through FY 15-16. Total estimated cost for this project is \$2.5 million, which will consists of both Pella Business Corridor TIF District funding and federal assistance through the regional planning association.

**Local Street Improvements - \$175,000** The FY 15 Budget also dedicates \$175,000 of Local Option Sales Tax for the residential street improvement projects.

### ***Local Option Fund***

Listed below is a summary of the capital projects for the Local Option fund in FY 14-15:

#### **Indoor Pool Renovation - \$1,882,000**

The renovation of the City's Indoor Pool is scheduled to begin in March of 2014 and is tentatively scheduled for completion in November of this year. The FY 14-15 Budget includes \$1,882,000 in funding for the project, which will be provided from a proposed \$3.2 million bond issue in the spring of 2014. The financing for this bond issue will be from local option taxes through the year 2024. Finally, is important to note, the overall cost of the renovation for the Indoor Pool is approximately \$4.0 million, which includes replacement of the roof for the facility in 2011.



***Local Option Fund (continued)***

**Pella Sports Park - \$3,374,700**

The proposed budget includes funding of \$3,374,700 for the Pella Sports Park, which is tentatively scheduled to open in the spring of 2015. The City's projected funding for FY 14-15 is \$609,391, which will be provided by local option funding. Overall, the City's funding commitment of \$2,657,000 is approximately 34% of the \$7.8 million project. It is also important to note, this project would not be possible without the generous support from the following major contributing partners: *Pella Rolscreen Foundation; Peter H. and E. Lucille Gaass Kuyper Foundation; Vermeer Charitable Foundation; Vision Iowa; and Fields For Our Future.*



***Water Utility Fund***

The FY 14-15 Budget includes \$1,639,700 of funding for a new Jordan well which is the first stage for the City's long-term Water Supply Plan. Overall, the Water Supply Plan includes a new Jordan well and a 3.0 million gallon per day (mgd) Reverse Osmosis Treatment Process at an estimated cost of \$14.0 million. Listed below is the tentative timeline for the Water Supply Plan:

- 2014 to 2015 Construction of a new Jordan well
- 2014 to 2015 Engineering design for a new 3.0 mgd Reverse Osmosis Treatment Process
- 2015 to 2016 Construction of a new 3.0 mgd Reverse Osmosis Treatment Process and modifications to the Water Treatment Plant.
- 2016 to 2017 Water Supply Plan completed.



In discussing the City's long-term water supply plan, it is important to note the time period needed to secure the necessary environmental permits for the project could delay components of the plan which has the potential to delay the project's completion date. For this reason the timelines noted above are approximate dates subject to securing the necessary environmental permits.

*Water Utility Fund (continued)*

**Distribution System Improvements**

**Oskaloosa Street Main Replacement - \$197,000**

This project involves the replacement of the water main from Prairie Street to East 8<sup>th</sup> and will be done in conjunction with the planned street improvement for this area in the summer/fall of 2015.

*Wastewater Utility Fund*

As Council is aware, our current wastewater treatment permit expired on November 24, 2007, and we are waiting on the IDNR to issue a new permit. When the IDNR issues our new permit, there is a chance we may have more stringent discharge standards than those under which we are currently operating. The requirements of the new permit could affect how the City's wastewater treatment plant operates. The reason for the new rules is the IDNR feels that many of Iowa's streams currently do not have an appropriate level of protection from pollutants. To ensure that all of Iowa's streams are protected, the IDNR is working on updating stream designations throughout the state. If a stream designation is changed, facilities that discharge into that stream may need to improve their treatment facilities to meet more stringent levels of protection.

The new water quality standards could have a serious impact on our wastewater facility. Statewide, the IDNR estimates the cost of compliance for construction, operation, and maintenance to be as much as \$1 billion. Therefore, it is important to realize that if we face more stringent treatment requirements from the IDNR, additional rate increases will be needed.

**Wastewater Capital Improvements in FY 14-15**

Listed below is a summary of the significant capital improvements planned for FY 14-15:

**Sanitary Sewer Lining: Truman-Clark Streets - \$261,790**

This project involves lining of approximately 4,000 lineal feet of 18" and 21" sanitary sewer lines. This line was originally installed around 1981 and conveys sanitary sewage for approximately 75% of the City. Based on past inspections, staff believes a lining of this pipe is necessary to avoid future failures.

## *Electric Utility Capital Projects*

### **Electric Distribution Capital Improvement Projects - \$284,000**

The FY 15 Budget includes funds to complete the Southeast Conversion project. The total project cost is \$1.1 million, and staff believes approximately \$284,000 will be expended in FY 14-15 to complete the conversions. Once this project is completed, nearly 80% of our distribution system will be underground. Finally, it is important to note, staff is proposing to utilize local option funding to complete the conversion projects in FY 14-15.



### **Electric Generation Capital Improvement Projects**



#### **Power Plant Decommissioning - \$580,720**

The FY 14-15 Budget includes funding to complete the decommissioning of the City's coal fired power plant, which is no longer needed due to the transition of the City's power supply to Missouri River Energy Services. The estimated completion date is July of 2014 and the tentative plan is to return the area to undeveloped green space. In addition, the funding source for the project is an electric revenue bond issued in FY 13-14.

### **Lake Red Rock Hydroelectric Facility**

Construction is scheduled to begin in 2014 for the Lake Red Rock Hydroelectric project. What this means locally is greater reliability for our own electric customers. This project is great news for the greater Red Rock area as well. It is estimated to provide economic benefits of nearly \$250 million dollars to a four-county region during its construction with over 700 jobs. Completion is anticipated in late 2015.

The output of the plant is expected to be approximately 36 megawatts, but up to 55 megawatts should be achievable when water levels are highest. Once operations at the new plant begin, this will be the second largest hydropower generating facility in the State of Iowa. The new facility will be capable of providing power to approximately 18,000 homes and businesses within the Missouri River membership.

While this project is not a City project, it important to note, the new hydroelectric facility is planned to directly connect to the City's West Diesel Plant Substation. As a part of this connection, we may need to make modifications to our substation in order to receive

power from the new facility. As of the date of this letter we do not have firm estimates for these modifications but it should be noted that the costs will be allocated based on benefit between Missouri River Energy Services and the City of Pella.

*Summary*

We would like to express our personal thanks to members of the City staff for their diligent efforts in developing a budget that reflects the needs of their individual departments. Even more importantly, we acknowledge and appreciate those staff members and Department Directors who have approached the budget development as a team effort.

A special note of thanks and appreciation should go to the members of the Budget Team composed of Senior Accountant Vivian Vriezelaar and City Clerk Ronda Brown, who worked collaboratively and efficiently as we developed the FY 14-15 Budget. This budget could not have been developed without these individuals.

We would also like to thank the Mayor and City Councilmembers for your interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Corey Goodenow  
Finance Director

Mike Nardini  
City Administrator