



To **North Liberty Mayor & City Council**
From **Ryan Heiar, City Administrator**
Date **September 24, 2021**
Re **FY22 Tax Rate**

In January of 2021, the City Council conducted two budget planning sessions, consisting of approximately 5 hours of discussion regarding the FY22 budget. At the conclusion of the final planning session the Council agreed to a property tax rate of \$11.32/\$1,000 in taxable value. On March 9, 2021, following public hearings, publications and other legally required steps, the City of North Liberty certified by resolution a total property tax levy of \$11.51 for the fiscal year beginning July 1, 2021. This discrepancy between planning documents targeting a levy of \$11.32 was not immediately identified.

In August 2021, staff realized the certified tax levy, which remains lower than any of our neighbors, did not account for \$234,000 of reserve funds that had been earmarked to reduce the city's levy due to a spreadsheet input error that resulted in those reserve funds not being applied as intended.

While the legal documents throughout the certification process were consistent, it reflected a discrepancy between budget planning memos and financial models and the legal budget documents.

When the error was found, staff consulted with state and county staff about options, but learned that a correction in the current fiscal year would be a "logistical nightmare" and was not practical. This error will result in the collection of \$234,000 in property taxes, equivalent to \$1.97 per month for the owner of a \$220,800 home (median home value in North Liberty). The intent is to apply these reserve funds plus accrued interest to the next fiscal year's budget to buy down the levy to reduce the property taxes paid by property owners in FY23 as was intended in FY22.

As the leader of this organization, I take full responsibility for not catching this error sooner in the process. Further, I want to ensure our residents, City Council and staff, that our team will be implementing new steps into our budget process to ensure this does not happening again. And finally, I want to apologize to our residents, City Council and staff for this error and I commit to doing better in the future.

The following report explains in further detail what occurred, how it happened and additional safeguards staff will implement to avoid future errors.

Budget Process

The City's budget process began on September 24, 2020, when initial budget documents were distributed to the management team. The management team began planning for expenses and revenues for the coming fiscal year. From December 9 to December 22, each management team member met with the City Administrator to discuss their respective department's needs and refine the request.

The City received its tax revenue projections from the County on December 30, 2020. With these projections, staff compared proposed expenditures to anticipated revenues, as well as reviewed cash on hand, the potential for borrowing and other factors to further refine requests before presentation to Council.

On January 19 and 26, 2021, staff presented the recommended budget to Council and sought input on capital projects and program changes. The Council spent these two meetings, and approximately 5 hours, finalizing the budget for the fiscal year that starts July 1. Once the Council finalized its discussion, staff published public notices on February 11 and February 25, and two public hearings were held on February 23 and March 9, followed by approval of the budget by the City Council on March 9. And finally, several days later, the City Clerk certified the budget with the County Auditor's Office.

The fiscal year took effect on July 1, 2021.

How the Error Occurred

In addition to the state budget forms that are required to be completed and certified to the County Auditor's officer and Department of Management; the City uses its own budget model and financial software when creating the annual budget. The City's forms are much easier to read and understand. In this case, a data point did not get transferred from the City's budget model to the state form, resulting in a calculation that was not consistent with the discussions at the City Council's budget work sessions.

Actions When the Error was Discovered

Upon discovering this error, staff immediately reached out to the County Auditor's office to determine what steps could be taken to correct the error. The Johnson County Auditor's office explained that the tax bills were in the process of being printed and changes could not be made. Subsequently, staff sought guidance from the Iowa Department of Management about potential ways to correct the error. Department of Management staff wrote that it was too late to change tax statements and to address the error with rebates in FY22 would be a "logistical nightmare" requiring notice from the County Treasurer each time a payment was made and computing individual refunds for

thousands of payers. The suggested solution was to use the cash on hand to buy down the levy in FY23.

Impact of the Error

Because of the \$234,000 of cash on hand not being used as supplemental funds in FY22 the City’s tax rate will be \$0.19/1,000 higher than planned. Instead of a tax rate of \$11.32, it is \$11.51. Below are a few examples of how the 19¢ difference will impact North Liberty residents and businesses.

Residential Value	FY22 Annual Cost	FY22 Monthly Cost	Commercial Value	FY22 Annual Cost	FY22 Monthly Cost
\$200,000	\$21.44	\$1.79	\$300,000	\$51.30	\$4.28
\$300,000	\$32.15	\$2.68	\$450,000	\$76.95	\$6.41
\$400,000	\$42.87	\$3.57	\$600,000	\$102.60	\$8.55

Additional Safeguards to Avoid Future Errors

Staff will be implementing new procedures in FY23 and future years, establishing several check points at the public hearing process and again at the final adoption process. For example, after the City Council budget work sessions and before the first public hearing, the City Administrator, City Clerk and City Treasurer will independently review the legal publication to ensure it is consistent with the budget planning models. Prior to the second public hearing, the City Administrator, City Clerk and City Treasurer will again compare the publication to the planning models. And finally, prior to budget certification, the City Administrator, City Clerk and City Treasurer will review the state budget forms and City budget models to be certain that the numbers match. The intent of these check points is to have another set of eyes reviewing the budget planning models and the state forms to ensure consistency. With additional people reviewing the work, the likelihood of mistakes will be diminished.