

TO: Michael C. Van Milligen, City Manager
FROM: Jennifer Larson, Budget Director
SUBJECT: Budget and Fiscal Policy Guidelines for Fiscal Year 2018
DATE: December 29, 2016

I am recommending adoption of the Fiscal Year 2018 Budget Policy Guidelines. The guidelines reflect City Council direction given as part of the goal setting sessions.

The budget guidelines are developed and adopted by City Council during the budgeting process in order to provide targets or parameters within which the budget recommendation will be formulated within the context of the City Council Goals and Priorities established in August, 2016. The final budget presented by the City Manager may not meet all of these targets due to changing conditions and updated information during budget preparation. To the extent the recommended budget varies from the guidelines, an explanation will be provided in the printed budget document. By State law, the budget that begins July 1, 2017 must be adopted by March 15, 2017.

The Fiscal Year 2018 budget guidelines call for a 2.47% reduction in the property tax rate, which would be a 0.0% property tax change (\$0) for the average Dubuque homeowner and a property tax decrease for commercial (-2.47%, -\$83.02), industrial (-2.47%, -\$124.43) and multi-residential (-6.71%, -\$144.91) properties. Since 1989, the average homeowner has averaged an annual increase in costs in the City portion of their property taxes of 1.37%, or about \$8.11 a year. If the State had been fully funding the Homestead Tax Credit, the increase would have averaged about \$4.82 a year.

These guidelines include no recommended improvement packages.

Significant issues impacting the FY 2018 budget include the following:

1. Gaming Revenue Reduction.
 - a. Gaming revenues generated from lease payments from the Dubuque Racing Association (DRA) have been decreased significantly (-\$159,046) based on revised projections from the DRA. This follows a \$405,767 decrease from budget in FY 2017 and a \$535,918 decrease from budget in FY 2016.
 - b. The Fiscal Year 2018 projections are based on five months of actual experience and gross gaming revenues are down 2.4%. The Dubuque

gaming market was significantly impacted beginning in May 2016 when Rhythm City Casino off Interstate 80 opened in Davenport. The DRA has projected a 1% decrease in gross gaming revenue for Calendar Year 2017.

- c. The State of Illinois passed a Video Gaming Act on July 13, 2009 which legalized the use of Video Gaming Terminals in liquor licensed establishments including bars, restaurants, truck stops and certain fraternal and veterans' organizations. In the part of Illinois that impacts the Dubuque market, the first year of operation of video gaming terminals generated \$1 million in revenue monthly. The use of video gaming terminals has now grown to \$6.8 million monthly for the five counties closest to Dubuque and in a direct line with Rockford, IL, which has caused a reduction to the gaming market in Dubuque. The Mystique Casino and Diamond Jo Casino average monthly revenue is \$9.6 million. The Mystique Casino and the Diamond Jo Casino have a combined 1,800 slot machines. The five nearby Illinois counties have over 4,600 slot machines. This is a similar impact as if two and a half more casinos combined were built half-way between Dubuque and Rockford. In addition, the recession has also impacted the gaming market.

2. New multi-residential property class in Fiscal Year 2017.

- a. Beginning in FY 2017 (July 1, 2016), new State legislation created a new property tax classification for rental properties called multiresidential, which requires a rollback, or assessment limitations order, on multiresidential property which will eventually equal the residential rollback. Multiresidential property includes apartments with 3 or more units. Rental properties of 2 units were already classified as residential property. The State of Iowa will not backfill property tax loss from the rollback on multiresidential property. The rollback will be 86.25 percent (\$331,239) in FY 2017, 82.50 percent (\$471,885) in FY 2018, 78.75 percent (\$576,152) in FY 2019, 75.00 percent (\$684,614) in FY 2020, 71.25 percent (\$785,129) in FY 2021, 67.50 percent (\$890,380) in FY 2022, 63.75 percent (\$993,116) in FY 2023 and will equal the residential rollback in FY 2024 which is currently 56.94 percent (\$1,179,685). **This annual loss in tax revenue of \$471,885 in FY 2018 and \$1,179,685 from multiresidential property when fully implemented in FY 2024 will not be backfilled by the State.** From Fiscal Year 2017 through Fiscal Year 2024 the City will lose \$5,912,201 in total, meaning landlords will have paid that much less in property taxes. The state did not require landlords to charge lower rents or to make additional investment in their property.

3. Fiscal Year 2018.

- a. The hiring freeze has been extended through June 30, 2018 (Fiscal Year 2018 budget). The frozen positions are being further evaluated to determine if they should be reinstated as part-time positions (25 hours per week or 0.625 FTE), full-time positions, or supplemented with contracted services. All general fund positions that become vacant, excluding sworn public safety positions and positions in the Emergency Communications Center, will be evaluated prior to being filled going forward. Several positions are being added to the list of frozen positions including Building Inspector II, Community Engagement Coordinator, Training/Workforce Development Coordinator, Parking Division Manager, Water Plant Manager and Assistant Water & Resource Recovery Center Manager.

In addition, two positions are being recommended to be eliminated, a part-time Building Inspector II position (-0.75 FTE) and a full-time Assisted Housing Supervisor position (-1.0 FTE).

The positions frozen until June 30, 2018 in Fiscal Year 2018 are as follows:

Department	Position	Type	FY 2018 Savings (Including Benefits)	FTE
Building	Inspector II	Full-Time	\$88,136	1.00
Human Rights	Community Engagement Coordinator	Full-Time	\$84,370	1.00
Human Rights	Training/Workforce Development	Full-Time	\$84,370	1.00
Park	Assistant Horticulturalist	Full-Time	\$71,611	1.00
Park/Public Works	Assistant Horticulturalist	Full-Time	\$71,611	1.00
Park	Maintenance Worker	Full-time	\$72,998	1.00
City Manager's Office	Management Intern	Part-Time	\$41,332	0.60
City Manager's Office	Secretary	Full-Time	\$60,932	1.00
Information Services	Help Desk Technical Support	Full-Time	\$65,839	1.00
Engineering	Traffic Engineering Assistant	Full-Time	\$84,371	1.00
Parking Division	Parking Division Manager	Full-Time	\$96,237	1.00
Police	Records Clerk	Full-Time	\$61,825	1.00
Water	Water Plant Manager	Full-Time	\$126,364	1.00
Water & Resource Recovery	Assistant Water & Resource Recovery	Full-Time	\$90,117	1.00
Total FY 2018 Savings			\$1,102,262	13.60

4. Debt Reduction

- a. Outstanding G.O. debt (including tax increment debt, TIF rebate remaining payments and general fund lease agreement) on June 30, 2017 will be \$150,591,904 (72.69 percent of the statutory debt limit) leaving an available debt capacity of \$56,582,205 (27.3 percent). In FY 2016 the City was at 86.13% of statutory debt limit, so 72.69% in FY 2017 is a 15.61 percent decrease in use of the statutory debt limit.

The City also has debt that is not subject to the statutory debt limit. This debt includes revenue bonds. Outstanding revenue bonds payable by water, sewer and stormwater fees on June 30, 2017 will have a balance of \$143,115,572. The total City indebtedness as of June 30, 2017, is projected to be \$293,707,476. The total City indebtedness as of June 30, 2016, was \$295,477,641. **The City will have a projected \$1,770,165 (-0.6%) less in debt as of June 30, 2017. The Fiscal Year 2018 review of Capital Improvement Budget requests is not yet complete, so there are no Fiscal Year 2018 debt projections as of yet.**

Some highlights of the document are:

- Sales tax funds are set by resolution to be used 50 percent in the General Fund for property tax relief in FY 2018. Sales tax receipts are projected to remain the same as the FY 2017 budget (\$4,643,525) and 0.09% under FY 2016 actual of \$4,647,554 based on FY 2017 revised revenue estimate of \$4,457,095 which includes a reconciliation payment from the State of Iowa of \$103,185 received in November 2016, increased 4.2 percent to calculate the FY 2018 budget, and then increase at an annual rate of 2.0 percent per year beginning in FY 2019. The estimates received from the State of Iowa show a 0.89% increase in the first two payments estimated for FY 2018 as compared to the first two payments budgeted for FY 2017.
- Building fees (Building Permits, Plan Check Fees, Electrical Permits, Mechanical Permits and Plumbing Permits) is anticipated to be unchanged from \$688,780 in FY 2017 to \$688,780 in FY 2018 based on a consistent level of construction.
- Natural Gas franchise fees have been projected to increase 10 percent over FY16 actual of \$892,663 based on the projected rate increases and additional usage. Also, Electric franchise fees have been projected to increase 4 percent over FY16 actual of \$3,361,651 based on the projected rate increases and additional usage. The franchise fee revenues increase at an annual rate of 4 percent per year from FY 2019 thru FY 2022.
- The split of gaming revenues from taxes and the DRA lease (not distributions) in FY 2018 is recommended to be changed to reflect a split of gaming taxes and rents between operating and capital budgets of 95.6 percent operating and 4.4 percent capital. In FY 2017, the split of gaming taxes and rents between operating and capital budgets was 99 percent operating and 1 percent capital.

- The Municipal Fire and Police Retirement System of Iowa Board of Trustees City contribution for Police and Fire retirement decreased from 25.92 percent in FY 2017 to 25.68 percent in FY 2018 (general fund savings of \$34,600). The Municipal Fire and Police Retirement previously projected that the City contribution is expected to decrease 3.30% in FY19; 4.10% in FY20 and then begin increasing in FY21. Also, the Iowa Public Employee Retirement System (IPERS) City contribution remained at 8.93 percent in FY 2018 and the employee contribution remained at 5.95% in FY 2018 (which did not affect the City's portion of the budget). The IPERS rate is anticipated to increase 1 percent each succeeding year.
- Consistent with the already approved collective bargaining agreement for Dubuque Police Protective Association, in FY 2018 there is a 2.0% employee wage increase for represented and non-represented employees at a cost of \$756,171 to the General Fund.
- The City portion of health insurance expense is projected to not increase from \$1,325 per month per contract (based on 563 contracts) in FY 2018. The City of Dubuque is self-insured and actual expenses are paid each year with the City only having stop-loss coverage for major claims. Estimates for FY 19-22 have been increased by 6.32 percent per year. The no increase in Fiscal Year 2018 is based on anticipated savings from the responses to the City Request for Proposals for Third Party Administrator (TPA) services.
- Electrical energy expense is estimated to have a 4 percent increase over FY 2016 actual expense, then 2 percent per year beyond. Alliant Energy has proposed rate increases over two years.
- Natural gas expense is estimated to decrease 10 percent over FY 2016 actual expense, then 2 percent per year beyond.
- Motor vehicle fuel is estimated to decrease 18.5 percent under FY 2017 budget (-\$142,493), then increase 2.0 percent per year beyond.
- The increase in property tax support for Transit from FY 2017 to FY 2018 is \$329,370, which reflects reduced revenue (-\$225,914) due to the Iowa Clean Air Attainment grant ending for the Midtown Loop and Feeder (January 2017). The continuation of the Midtown Loop and Feeder route was funded with property tax as a recurring improvement package in FY 2017. In addition, 2.82 FTE (5,866 hours annually) related to improvement packages approved in FY 2015 and FY 2016 for the Shopping Circulator, Nightrider and Saturday Paratransit Service were understated in the Fiscal Year 2016 and 2017 budget which was corrected in FY 2018 (+\$121,526).

The following is a ten-year history of the Transit subsidy:

Fiscal Year	Amount	% Change
2018 Projection	\$1,502,255	+28.1%
2017 Budget	\$1,172,885	+24.4%
2016 Actual	\$942,752	-13.2%
2015 Actual	\$1,086,080	+30.2%
2014 Actual	\$833,302	-20.2%
2013 Actual	\$1,044,171	+45.5%
2012 Actual	\$717,611	-33.5%
2011 Actual	\$1,078,726	-7.1%
2010 Actual	\$1,161,393	-7.4%
2009 Actual	\$1,253,638	+17.2%
2008 Actual	\$1,070,053	+15.9%

- The Enterprise Funds have contributed to the administrative overhead of the City operation, but the General Fund has always carried most of the financial burden. In FY 2013, a multi-year process to more equitably distribute those costs across all funds was implemented. The remaining overhead recharge will be increased each year until reaching the total overhead recharge percentage. In FY 2018, the administrative overhead calculation administrative overhead formula is recommended to be modified. The modification removes Neighborhood Development, Economic Development and Workforce Development from all recharges to utility funds. In addition, the Landfill calculation is modified to remove GIS and Planning. There was a reduction in metered water usage in FY 2014 and water and sewer revenue bond covenants calculated on the accrual basis of accounting that have required a reduction in both the water and sewer administrative overhead recharges in FY 2016 and 2017. The sanitary sewer administrative overhead was partially reinstated in FY 2017 and fully reinstated in FY 2018. The Water administrative overhead was partially reinstated in FY 2018 at 6.12 percent of full implementation.

In April of 2016, City staff hosted five events focused on gathering public input around the Council Goals and Priorities.

In November 2016, City staff hosted two evening public budget input meetings at St. Mark's Community Center and the City Council Chambers in the Historic Federal Building. During November 2016, an online survey was made available to the public to submit budget input.

By December 19, 2016, a total of 30 community members shared their budget input. Out of the 30 community participants, staff reached 17 individuals through the in-person meetings and 13 participants took the online survey.

The input provided will be analyzed by City staff and evaluated by the City Manager for inclusion in the Fiscal Year 2018 budget recommendation as deemed appropriate, consistent with City Council priorities.

During Fiscal Year 2016, the City launched a web based open data platform which can be found at www.dollarsandcents.cityofdubuque.org. The City of Dubuque's Open Budget application provides an opportunity for the public to explore and visually interact with Dubuque's operating and capital budgets. This application is in support of the five-year organizational goal of a financially responsible city government and high-performance organization and allows users with and without budget data experience, to better understand expenditures in these categories.

During Fiscal Year 2017, an additional module was added to the open data platform which included an interactive checkbook which will allow citizens to view the City's payments to vendors. The final step will be adding performance measures to the open data platform to allow citizens to view outcomes of the services provided by the City.

There will be six City Council special meetings prior to the adoption of the FY 2018 budget before the state mandated deadline of March 15, 2017.

JML

Attachment

cc: Crenna Brumwell, City Attorney
Cindy Steinhauser, Assistant City Manager
Teri Goodmann, Assistant City Manager