



TO: Michael C. Van Milligen, City Manager

FROM: Jennifer Larson, Budget Director

SUBJECT: Budget and Fiscal Policy Guidelines for Fiscal Year 2019

DATE: December 14, 2017

I am recommending adoption of the Fiscal Year 2019 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 2017. 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, for example, the final property assessed valuations are not available until January 2018. 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, 2018 must be adopted by March 15, 2018.

The Fiscal Year 2019 budget guidelines call for a 2.71% reduction in the property tax rate, which would be a +2.0% property tax increase (+\$15.11) for the average Dubuque homeowner and a property tax decrease for commercial (-3.84%, -\$126.05), industrial (-3.46%, -\$170.39) and multi-residential (-7.13%, -\$143.72) properties. Since 1989, the average homeowner has averaged an annual increase in costs in the City portion of their property taxes of 1.39%, or about \$8.34 a year. If the State had been fully funding the Homestead Tax Credit, the increase would have averaged about \$5.15 a year.

Residential property was revalued by the City Assessor by neighborhood for the January 1, 2017 property assessments, which impacts the Fiscal Year 2019 budget. The average residential property value increased 7 percent. This revaluation of residential property resulted in the taxable value for the average homeowner calculation to increase from \$130,357 to \$139,493 (+7%).

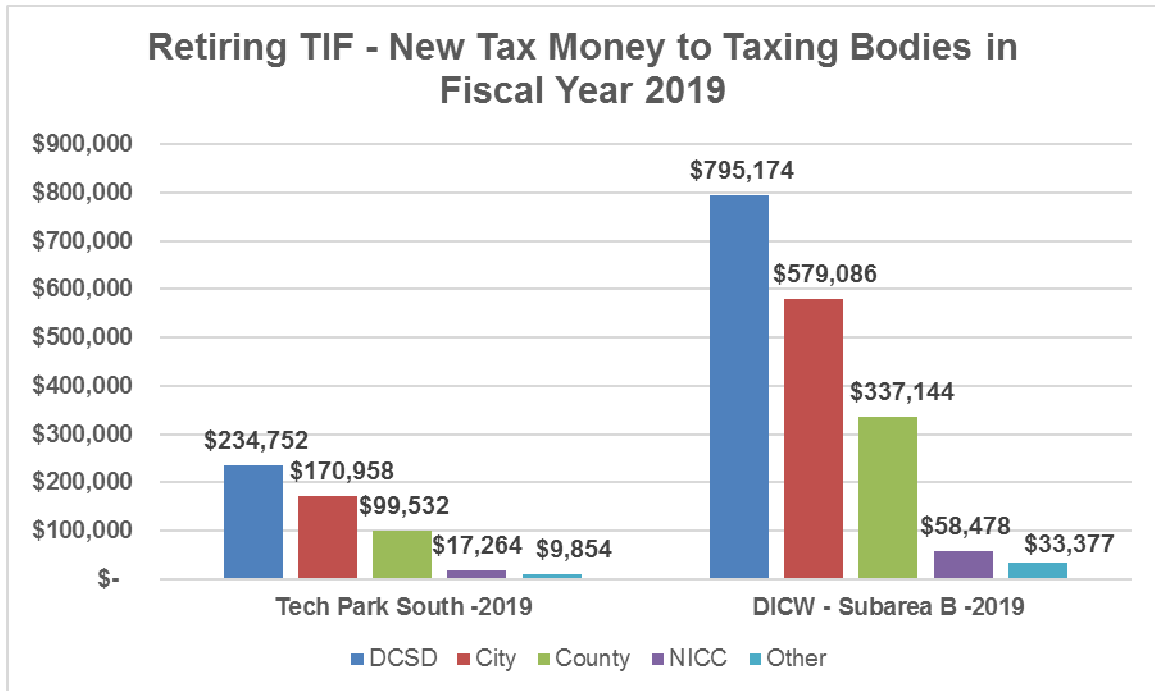
These guidelines include \$126,207 for recurring and \$463,205 for non-recurring improvement packages.

Significant issues impacting the FY 2019 budget include the following:

1. Tax Increment Financing Subareas Retired

a. On June 30, 2018, three subareas of tax increment financing districts will retire, Subarea B of Dubuque Industrial Center West and Subareas A and B of Technology Park. This is consistent with major amendments to Chapter 403 of the Code of Iowa enacted in 1994 which changed economic development tax increment requirements for areas established after January 1, 1995 and limited those districts to a twenty-year life. There is \$76,526,204 of incremental value created by these subareas that will be redistributed to all taxing bodies in FY 2019. In FY 2019, the City of Dubuque will receive approximately \$579,000 in general fund tax revenue from Subarea B of Dubuque Industrial Center West and \$171,000 in general fund tax revenue from Subareas A and B of Technology Park.

The following is a chart that shows the amount of tax revenue to be distributed to each taxing body due to the subareas retiring:



2. State Funded Backfill on Commercial and Industrial Property Tax

a. Elements of the property tax reform passed by the Iowa Legislature in 2013 have created a tremendous amount of uncertainty in the budget process. While the State has committed to provide some funding for the City revenue reductions caused by the decrease in taxable value for commercial and industrial properties, key legislators have been quoted in the media as casting doubt on the reimbursements continuing. In addition,

the state's previous budget shortfall and need to replenish general fund reserves could cause legislators to reduce or eliminate the backfill in a special legislative session. **Beginning in FY 2019, it is assumed that the State will eliminate the backfill over a five-year period.**

The projected reduction of State backfill revenue to the general fund is as follows:

Fiscal Year	State Backfill Reduction
2019	-\$206,540
2020	-\$206,540
2021	-\$206,540
2022	-\$206,540
2023	-\$206,540
Total	-\$1,032,700

3. Gaming Revenue Reduction.

- a. Gaming revenues generated from lease payments from the Dubuque Racing Association (DRA) have barely stayed the same (+\$1,906) based on revised projections from the DRA. This follows a \$159,046 decrease from budget in FY 2018 and a \$405,767 decrease from budget in FY 2017.
- b. The Fiscal Year 2019 projections are based on five months of actual experience and gross gaming revenues are down 2.1%. 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 0.50% increase in gross gaming revenue for Calendar Year 2018.
- 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 \$7.5 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 \$9.5 million. This is a similar impact as if approximately one and a half more casinos combined were built half-way between Dubuque and Rockford. In addition, the recession has also impacted the gaming market.

4. 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 multi-residential, which requires a rollback, or assessment limitations order, on multi-residential property which will eventually equal the residential rollback. Multi-residential 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 multi-residential property. The rollback will be 86.25 percent (\$331,239) in FY 2017, 82.50 percent (\$472,127) in FY 2018, 78.75 percent (\$564,913) in FY 2019, 75.00 percent (\$670,862) in FY 2020, 71.25 percent (\$771,786) in FY 2021, 67.50 percent (\$904,711) in FY 2022, 63.75 percent (\$1,008,719) in FY 2023 and will equal the residential rollback in FY 2024 which is currently 55.621 percent (\$1,205,292). **This annual loss in tax revenue of \$564,913 in FY 2019 and \$1,205,292 from multi-residential 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 \$5,929,148 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.

5. Fiscal Year 2019.

- a. The hiring freeze will end during June 30, 2019 (Fiscal Year 2019 budget). The positions that have been unfrozen will be 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.

In addition, at least four positions will be recommended to be eliminated, a full-time Building Inspector II position (-1.00 FTE), Water Plant Manager position (-1.00 FTE), Assistant Water & Resource Recovery Plant Manager (-1.00 FTE), and a full-time Parking Division Manager position (-1.00 FTE).

The positions being recommended to be unfrozen and the dates unfrozen in Fiscal Year 2019 are as follows:

Department	Position	Type	Date Unfrozen	FY 2019 Cost	FTE
Human Rights	Community Engagement Coordinator	Full-Time	03/01/2019	\$27,261	1.00
Human Rights	Training/Workforce Development	Full-Time	03/01/2019	\$27,261	1.00
Park	Assistant Horticulturalist	Full-Time	03/01/2019	\$22,959	1.00
Park/Public Works	Assistant Horticulturalist	Full-Time	03/01/2019	\$22,959	1.00
Park	Maintenance Worker	Full-time	03/01/2019	\$23,427	1.00
City Manager's Office	Management Intern	Part-Time	05/01/2019	\$6,295	0.60
City Manager's Office	Secretary	Full-Time	05/01/2019	\$9,681	1.00
Information Services	Help Desk Technical Support	Full-Time	05/01/2019	\$10,507	1.00
Engineering	Traffic Engineering Assistant	Full-Time	03/01/2019	\$29,867	1.00
Police	Records Clerk	Full-Time	01/01/2019	\$29,489	1.00
	Total FY 2019 Cost			\$209,706	9.60

6. Debt Reduction

- a. Outstanding G.O. debt (including tax increment debt, economic development projects TIF rebates remaining payments and general fund lease agreement) on June 30, 2018 will be \$132,383,576 (63.33 percent of the statutory debt limit) leaving an available debt capacity of \$76,665,131 (36.67 percent). In FY 2017 the City was at 69.41% of statutory debt limit, so 63.33% in FY 2018 is an 8.76 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, 2018 will have a balance of \$140,744,200. The total City indebtedness as of June 30, 2018, is projected to be \$273,127,776. The total City indebtedness as of June 30, 2017, was \$283,732,002. **In FY 2018, the City will have a projected \$10,604,226 (-3.7%) less in debt. The Fiscal Year 2019 review of Capital Improvement Budget requests is not yet complete, so there are no Fiscal Year 2019 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 2019. Sales tax receipts are projected to decrease 2.3 percent under FY 2018 budget (-\$103,966) and 1.00 percent over FY 2018 actual of \$4,362,537 based on FY 2018 revised revenue estimate of \$4,362,539 which includes a reconciliation payment from the State of Iowa of \$77,018 received in November 2017, increased 1.0 percent to calculate the FY 2019 budget, and then increased at an annual rate of 1.0 percent per year beginning in FY 2020. The estimates received from the State of Iowa show a 2.13% decrease in the first two payments estimated for FY 2019 as compared to the first two payments budgeted for FY 2018.

Building fees (Building Permits, Electrical Permits, Mechanical Permits and Plumbing Permits) are anticipated to decrease from \$667,180 in FY 2018 to \$629,547 in FY 2019 based on Fiscal Year 2018 building activity to-date.

Natural Gas franchise fees have been projected to increase 5 percent over FY17 actual of \$942,886 based on the projected rate increases. Also, Electric franchise fees have been projected to increase 12.5 percent over FY17 actual of \$3,530,308 based on the projected rate increases. The franchise fee revenues are projected to increase at an annual rate of 4 percent per year from FY 2020 thru FY 2023.

The split of gaming revenues from taxes and the DRA lease (not distributions) in FY 2019 is recommended to be changed to reflect a split of gaming taxes and rents between operating and capital budgets of 96 percent operating and 4 percent capital. In FY 2018, the split of gaming taxes and rents between operating and capital budgets was 97 percent operating and 3 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. In FY 2016, the split of gaming taxes and rents between operating and capital budgets was 100 percent operating and 0 percent capital. In FY 2015, the split of gaming taxes and rents between operating and capital budgets was 97 percent operating and 3 percent capital.

The Municipal Fire and Police Retirement System of Iowa Board of Trustees City contribution for Police and Fire retirement increased from 25.68 percent in FY 2018 to 26.02 percent in FY 2019 (general fund cost of \$49,828). Also, the Iowa Public Employee Retirement System (IPERS) City contribution increased from 8.93 percent in FY 2018 to 9.44 percent in FY 2019 (general fund cost of \$82,269). The IPERS employee contribution increased from 5.95% in FY 2018 to 6.29% in FY 2019 (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 Teamsters Local Union 120, Teamsters Local Union 120 Bus Operators, Dubuque Professional Firefighters Association, and International Union of Operating Engineers, in FY 2019 there is a 1.5% employee wage increase for

represented and non-represented employees at a cost of \$529,622 to the General Fund.

The City portion of health insurance expense is projected to decrease from \$1,325 per month per contract to \$1,108 per month per contract (based on 562 contracts) in FY 2019 (general fund savings of \$986,278). 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. The City went out for bid for third party administrator in FY 2017 and the estimated savings has resulted from the new contract and actual claims paid. In addition, police officers and firefighters begin paying an increased employee health care premium sharing from 10% to 15% on July 1, 2018. During FY 2018, the City went out for bid for third party administrator for the prescription drug plan and there will be savings resulting from the bid award. Estimates for FY 20-23 have been increased by 6.32 percent per year.

Electrical energy expense is estimated to have a 12.5 percent increase over FY 2017 actual expense, then 2 percent per year beyond. Alliant Energy has proposed rate increases over two years.

Natural gas expense is estimated to increase 5 percent over FY 2017 actual expense, then 2 percent per year beyond.

Motor vehicle fuel is estimated to decrease 16.7 percent under FY 2018 budget (-\$104,636), then increase 2.0 percent per year beyond.

The increase in property tax support for Transit from FY 2018 to FY 2019 is \$71,031, which reflects increased expense for replacement of onboard bus computers (\$95,643); increase in motor vehicle maintenance and diesel fuel (\$88,108); increase in employee expense (\$4,240); and increased FTA operating revenue (\$154,581).

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

Fiscal Year	Amount	% Change
2019 Projection	\$1,643,856	+4.5%
2018 Budget	\$1,572,825	+34.1%
2017 Actual	\$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%

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 was modified. The modification removed Neighborhood Development, Economic Development and Workforce Development from all recharges to utility funds. In addition, the Landfill calculation was 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 November 2017, City staff hosted an evening public budget input meeting at the City Council Chambers in the Historic Federal Building. During November 2017, an online survey was made available to the public to submit budget input.

By December 1, 2017, a total of 43 community members shared their budget input. Out of the 30 community participants, staff reached 17 individuals through the in-person meetings and 26 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 2019 budget recommendation as deemed appropriate.

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 2019 budget before the state mandated deadline of March 15, 2018.

JML
Attachment

cc: Crenna Brumwell, City Attorney
Cori Burbach, Assistant City Manager
Teri Goodmann, Assistant City Manager