

TO: The Honorable Mayor and City Council Members
FROM: Michael C. Van Milligen, City Manager
SUBJECT: Fiscal Year 2019 Budget Recommendation Public Hearing
DATE: February 28, 2018

The State of Iowa is underperforming in critical areas. It is very concerning that only local governments (including cities, counties, school districts, and community colleges) are taking action to address these challenges. It is ironic and troubling that we continue to hear about state legislation and rules that cut revenues available to local governments. Proposed State-level legislation and rules to reduce sales tax revenue, decrease property tax revenues, eliminate the promise to backfill past property tax reductions with state revenues, severely restrict the use of Tax Increment Financing (the only viable economic tool used by local governments to support growth in business investment and jobs), and to eliminate or reduce Historic Tax Credits for building rehabilitation all threaten the ability of local governments to respond to local issues.

Information recently released by the State of Iowa Legislative Services Agency shows the change in population in counties across Iowa. It is a frightening trend that must serve as a wake-up call for all Iowans. If we want our children and grandchildren to be able to stay in Iowa and be successful, we must all work to make Iowa a place of choice, not only for businesses but also the workforce they will need to thrive. We should not be considering the elimination of economic development and community rehabilitation tools, but instead exploring how we can improve those tools to create more growth in jobs and population and to make the incentives more competitive. We should not be pursuing ways to starve cities, counties, and school districts of the funds they need. We should instead be looking to diversify sources of revenues so local governments can invest in the future for the benefit of the citizens they serve, those here today and those we hope to be here in the future.

Iowa Percent Change in Population by County 2010-2016
State of Iowa +2.9% (88,338)

There are 99 counties in the state of Iowa. Only 27 (27%) showed any growth at all from 2010 to 2016. If you only consider counties that had at least 1% growth and have a population of 25,000 or more, only 10 (10%) of the 99 counties met these criteria and

four of them are in the Des Moines/Ames corridor. In fact, the Des Moines/Ames corridor accounted for 74,081 (84%) of the 88,338 of the state-wide population growth.

Even some of the counties that include some of Iowa's larger cities did not meet this criteria.

COUNTY	% Population Change: 2010-2016
Woodbury (Sioux City)	+0.6%
Muscatine (Muscatine)	+0.5%
Pottawattamie (Council Bluffs)	+0.5%
Jasper (Newton)	-0.4%
Wapello (Ottumwa)	-1.8%
Cerro Gordo (Mason City)	-2.4%
Webster (Fort Dodge)	-3.3%
Clinton (Clinton)	-3.7%

Fortunately, Dubuque County showed a growth of 3.4%, achieving a population of 97,003.

The picture is just as discouraging when you look at the Estimated Population Migration from 2010 to 2016. This measurement represents the number of people who have moved to these counties vs. the number of people who have left. The State of Iowa experienced a net inflow of 24,643 people during that time. Only 20 (20%) of the state's 99 counties showed a net migration inflow. Six (30%) of those 20 counties were concentrated in the Des Moines/Ames Corridor.

If you only consider counties that had a net positive change of at least 1,000 people, only 9 (9%) of the 99 counties met that criteria. **Fortunately, Dubuque County is one of those nine with a net migration increase of 1,389.**

I believe the facts presented in the January 29, 2018, Fiscal Year 2019 Budget Recommendation memo make a strong case that, while local businesses are identifying the lack of available workforce as their top impediment to growth, a skilled workforce is imperative to the future of Dubuque.

Recently, legislation was introduced in the Iowa Senate to eliminate the promised property tax backfill payments to cities, counties, and school districts. This would cost the City of Dubuque \$344,233 in revenues in Fiscal Year 2019, \$688,465 in Fiscal 2020, and \$1,032,698 in Fiscal Year 2021 and each year beyond. The legislation would also reduce funding for the State of Iowa Historic Tax Credit Program. This is a significant source of financing for private developers across the state as they renovate old buildings and repurpose them, like the projects in the Historic Millwork District that are creating commercial and retail space and hundreds of apartments for workforce housing.

A 2018 report just released by the Iowa Business Council, which represents many of the state's largest employers, should be a great cause of concern for the State of Iowa. When compared with how Iowa ranks among all 50 states in key metrics comparing the year 2000 with 2017, it is clear that Iowa needs to do more, not less, to support economic development, job growth, and workforce development:

	2000 Ranking	2017 Ranking
Median Household Income	21	26
Gross State Product	29	30
8 th Grade Reading Proficiency	11	17
8 th Grade Math Proficiency	12	14
Education Attainment High School	9	11
Education Attachment Bachelor Degree	22	34
Gallup-Healthways Well-Being Index	7	19

Two bright spots in the analysis were:

	2000 Ranking	2017 Ranking
State Public-Pension Funded Ratio	29	13
State Business Tax Climate	46	40

Despite the desire of some state legislators to eliminate the backfill in as little as two years, I still stand by my original property tax recommendation for FY2019:

	% Change	\$ Change
Property Tax Rate	-2.71%	-\$0.29
Average Residential Payment	+2.00%	+\$15.11
Average Commercial Payment	-3.84%	-\$126.04
Average Industrial Payment	-3.46%	-\$170.38
Average Multi-Residential Payment	-7.13%	-\$143.71

Should they reduce or eliminate the backfill in Fiscal Year 2019, I will recommend some expenditure reductions to bridge the funding issue into the Fiscal Year 2020 budget process, where it can be dealt with more strategically.

Since the budget recommendation was originally submitted, the City received a higher than expected Fiscal Year 2018 (current year) distribution payment from the DRA, but we are also seeing reduced projected Dubuque Racing Association lease revenues, a recent spike in experienced health care costs, increased cost in Fire overtime and other medical, and continued pressure on the local option sales tax. None of this translates into a change in the Fiscal Year 2019 budget recommendation, with the continued intent to be able to contribute \$1,050,000 to the general fund reserves.

During the budget hearings, Council Members expressed an interest in adding \$25,000 to the Airport marketing budget. Should this be funded, it would have the following impact to the property tax rate and different classes of property:

	Original Recommendation	With \$25,000 Increase
Property Tax Rate	-2.71%/- \$0.29	-2.62%/- \$0.28
Average Residential Payment	+2.00%/+\$15.11	+2.10%/+\$15.84
Average Commercial Payment	-3.84%/- \$126.04	-3.75%/- \$123.06
Average Industrial Payment	-3.46%/- \$170.38	-3.37%/- \$165.90
Average Multi-Residential Payment	-7.13%/- \$143.71	-7.04%/- \$141.94

During the budget hearings, Council Members had expressed an interest in funding the \$3,000 Library request for three regional author visits each year. Should this be funded, the recommended property tax rate would increase 0.01% (\$0.001) and the average residential taxpayer would have an increase of 0.01% (+\$0.09) from recommended.

A majority of the City Council wanted to consider retaining the Maintenance Electrician position at the Water and Resource Recovery Center. While I still support the recommendation from Water and Resource Recovery Center Manager Willie O'Brien to eliminate the Maintenance Electrician position, and I believe this is the best way to optimize plant operations, it is clear that a majority of the City Council does not support this plan.

The combination of the added cost (\$83,281) of the Maintenance Electrician position and the reduction of \$42,000 in the contract services request would equate to an increase in the sanitary sewer fee from 3% to 3.41%.

One of the other positions eliminated in this staffing plan was a Plant Operator position. There was a person in that position and that was recommended to be eliminated as of January 1, 2019. That person will be leaving the position next month to take a position in Public Works. Since that position is now vacant, it will be eliminated as of July 1, 2018. This creates an extra six months of savings equal to \$39,000. This \$39,000 savings brings the sanitary sewer fee increase down from 3.41% to 3.08%.

By keeping the Maintenance Electrician position, there is also an \$8,000 reduction in the Supplies and Services Sanitary Sewer Maintenance budget in Engineering, which also is paid from the Sanitary Sewer Fund. Elimination of this brings the fee increase down to 3.03%

BRD is the firm installing and operating the equipment at the Water and Resource Recovery Center to further clean the methane gas generated through the anaerobic digestion process at the new facility. The resulting biogas (BioCNG) can be sold to the Black Hills Energy pipeline and will generate Renewable Identification Number (RIN) revenue from the Federal Renewable Fuel Standard program.

I contacted BRD and they agreed to amend their agreement to operate at the Water and Resource Recovery Center. The current agreement says that BRD will reimburse the City for any services BRD needs from City Maintenance staff. BRD will have their own

maintenance contract, but will need some City assistance. The City estimated \$6,000 in revenue in Fiscal Year 2019. BRD has agreed to guarantee the City \$3,000 a month in revenue through June 30, 2019. This would add \$30,000 to the Fiscal Year 2019 revenue stream. The \$30,000 of BRD revenue will help offset \$25,000 of additional staff expense related to the engineering of BRD operation. In addition, the sanitary sewer rate increase must be no lower than 3% in order to fund the sanitary sewer reserve. The additional BRD revenue will not impact the Fiscal Year 2019 budget recommendation.

I respectfully recommend Mayor and City Council approval of the original January 29, 2018 budget recommendation. Should the City Council choose to make any amendments related to Airport Marketing, Library Regional Author visits or the Maintenance Electrician position, I respectfully recommend they be made consistent with the information in this memorandum.


Michael C. Van Milligen

MCVM:jh

Attachment

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