



TO: Michael C. Van Milligen, City Manager
FROM: Jennifer Larson, Budget Director
SUBJECT: Budget and Fiscal Policy Guidelines for Fiscal Year 2020
DATE: December 12, 2018

I am recommending adoption of the Fiscal Year 2020 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 2018. 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 2019. 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, 2019 must be adopted by March 15, 2019.

The Fiscal Year 2020 budget guidelines call for a 0.97% reduction in the property tax rate, which would be no property tax increase for the average Dubuque homeowner and a property tax decrease for commercial (-0.59%, -\$19.42), industrial (-0.72%, -\$34.88) and multi-residential (-5.69%, -\$106.36) properties. Since 1989, the average homeowner has averaged an annual increase in costs in the City portion of their property taxes of 1.35%, or about \$8.06 a year. If the State had been fully funding the Homestead Tax Credit, the increase would have averaged about \$4.97 a year.

These guidelines include \$697,351 for recurring and \$478,777 for non-recurring improvement packages.

Significant issues impacting the FY 2020 budget include the following:

1. 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. **It is**

assumed the backfill will be fully funded in FY 2020, then beginning in FY 2021, 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
2020	\$0
2021	-\$206,540
2022	-\$206,540
2023	-\$206,540
2024	-\$206,540
2025	-\$206,540
Total	-\$1,032,700

2. Gaming Revenue Reduction.

- a. Gaming revenues generated from lease payments from the Dubuque Racing Association (DRA) are estimated to increase \$85,928 from \$4,901,176 in FY 2019 to \$4,987,104 in FY 2020 based on revised projections from the DRA. This follows a \$45,165 increase from budget in FY 2019 and a \$159,046 decrease from budget in FY 2018.
- b. The Fiscal Year 2020 projections are based on five months of actual experience and gross gaming revenues are up 4.7%. In Calendar Year 2018, gross gaming revenues at the Q Casino is up 4% and the Diamond Jo is up 1%. Overall, the Dubuque gaming market is up 2.2% for Calendar Year 2018. Q Casino's increase is due to the hotel renovation, new restaurant (Farmhouse), and new gaming product and entertainment mix. The DRA has projected a 1% increase in gross gaming revenue for Calendar Year 2019.
- c. The State of Illinois passed a Video Gaming Act on July 13, 2009 that 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 affects 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 \$9.4 million monthly for the five counties closest to Dubuque and in a direct line with Rockford, IL, which has limited revenue to the gaming market in Dubuque. The Q Casino and Diamond Jo Casino average monthly revenue is \$10.8 million. The number VGT machines have increased by 84% since 2013. The five counties in Illinois had 1037 machines in 2013 and currently have 1906 machines. Currently, Q Casino has 833 Slot Machines and Diamond Jo has 916 for a total of 1,749 or 9% less. **This is a similar impact of building approximately two more casinos halfway between Dubuque**

and Rockford. The revised DRA gaming projections include minimal growth in revenues over the next five years with a growth rate of 1% in FY 2020 and FY 2021 and a growth rate of 0% in FY 2022 and beyond.

3. 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.

Fiscal Year	Rollback %	Annual Loss of Tax Revenue
FY 2017	86.25%	\$ 331,239
FY 2018	82.50%	\$ 472,127
FY 2019	78.75%	\$ 576,503
FY 2020	75.00%	\$ 696,046
FY 2021	71.25%	\$ 614,319
FY 2022	67.50%	\$ 952,466
FY 2023	63.75%	\$ 1,018,664
FY 2024	55.63%	\$ 1,187,123
Total		\$5,848,487

This annual loss in tax revenue of \$696,046 in FY 2020 and \$1,187,123 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 \$5,848,487 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.

4. Fiscal Year 2020.

a. The hiring freeze ended during Fiscal Year 2019 with most of the positions funded only a partial fiscal year in FY 2019, the additional new costs in Fiscal Year 2020 are as follows:

Department	Position	FY 2020 Cost	FTE
Human Rights	Full-time Community Engagement Coordinator	\$40,886	1.00
Human Rights	Full-time Training/Workforce Development	\$40,886	1.00
Park	Full-time Assistant Horticulturalist	\$40,189	1.00

Department	Position	FY 2020 Cost	FTE
Park/Public Works	Full-time Assistant Horticulturalist	\$40,189	1.00
Park	Full-time Maintenance Worker	\$54,140	1.00
City Manager's Office	Part-time Management Intern (ICMA)	\$16,806	0.60
City Manager's Office	Full-time Secretary	\$30,124	1.00
Information Services	Full-time Help Desk Technical Support	\$31,858	1.00
Engineering	Full-time Traffic Engineering Assistant	\$58,055	1.00
Police	Full-time Records Clerk	\$29,337	1.00
Total Additional FY 2020 Cost		\$382,470	9.60

5. 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, 2019 will be \$129,940,743 (56.40% of the statutory debt limit) leaving an available debt capacity of \$96,572,012 (43.60%). In FY 2018 the City was at 63.42% of statutory debt limit, so 56.40% in FY 2019 is a 7.02 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, 2019 will have a balance of \$141,390,905. The total City indebtedness as of June 30, 2019, is projected to be \$266,331,648. **The total City indebtedness as of June 30, 2018, was \$271,788,100. In FY 2019, the City will have a projected \$5,456,452 (-2.0%) less in debt.**

The Fiscal Year 2020 review of Capital Improvement Budget requests is not yet complete, so there are no revised Fiscal Year 2020 debt projections as of yet. In addition, these debt projections do not include any general obligation debt for the Five Flags Renovation.

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 2020. Sales tax receipts are projected to increase 2.8 percent over FY 2019 budget (+\$123,514) and 1.00 percent over FY 2019 actual of \$4,440,884 based on FY 2019 revised revenue estimate of \$4,440,884 which includes a reconciliation payment from the State of Iowa of \$217,699 received in November 2018, increased 1.0 percent to calculate the FY 2020 budget, and then increased at an annual rate of 1.0 percent per year beginning in FY 2021.

The estimates received from the State of Iowa show a 4.35% decrease in the first two payments estimated for FY 2020 as compared to the first two payments budgeted for FY 2019.

Building fees (Building Permits, Electrical Permits, Mechanical Permits and Plumbing Permits) are anticipated to increase \$30,918 from \$629,547 in FY 2019 to \$660,465 in FY 2020 based on Fiscal Year 2019 building activity to-date.

Natural Gas franchise fees have been projected to increase 5.5 percent over FY18 actual of \$1,147,459 based on the projected growth. Also, Electric franchise fees have been projected to increase 5.5 percent over FY18 actual of \$3,398,709 based on the projected growth. The franchise fee revenues are projected to increase at an annual rate of 4 percent per year from FY 2021 thru FY 2024.

The split of gaming revenues from taxes and the DRA lease (not distributions) in FY 2020 is recommended to remain at a split of gaming taxes and rents between operating and capital budgets of 96 percent operating and 4 percent capital. When practical in future years, additional revenues will be moved to the capital budget from the operating budget.

The Municipal Fire and Police Retirement System of Iowa Board of Trustees City contribution for Police and Fire retirement decreased from 26.02 percent in FY 2019 to 24.41 percent in FY 2020 (general fund savings of \$162,007). Also, the Iowa Public Employee Retirement System (IPERS) City contribution is unchanged from the FY2019 contribution rate of 9.44 percent (no general fund impact). The IPERS employee contribution is also unchanged from the FY 2019 contribution rate of 6.29% (which does 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 agreements for Teamsters Local Union 120, Teamsters Local Union 120 Bus Operators, Dubuque Professional Firefighters Association, and International Union of Operating Engineers, in FY 2020 there is a 1.5% employee wage increase for represented and non-represented employees at a cost of \$550,635 to the General Fund.

The City portion of health insurance expense is projected to decrease from \$1,193 per month per contract to \$903 per month per contract (based on 572 contracts) in FY 2020 (general fund savings of \$1,218,758). 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. In FY 2017, The City went out for bid for third party administrator and the estimated savings has resulted from the new contract and actual claims paid. In addition, firefighters began paying an increased employee health care premium sharing from 10% to 15% and there was a 7% increase in the premium on July 1, 2018. During FY 2019, 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 21-24 have been increased by 5.62 percent per year.

Electrical energy expense is estimated to have a 1% increase over FY 2018 actual expense, then 2% per year beyond.

Natural gas expense is estimated to have no increase over FY 2018 actual expense, then 2% per year beyond.

Motor vehicle fuel is estimated to increase 7% over FY 2019 budget (+\$158,173), then increase 2.0% per year beyond.

The decrease in property tax support for Transit from FY 2019 to FY 2020 is \$20,512, which reflects decreased expense for health insurance (\$28,982); decrease in workers compensation (\$20,514); decrease in electrical utility (\$17,616); increase in motor vehicle maintenance and diesel fuel (\$65,800); decrease in machinery and equipment (\$212,299) and decreased FTA operating revenue (\$148,416).

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

Fiscal Year	Amount	% Change
2020 Projection	\$1,550,795	-1.31%
2019 Budget	\$1,571,307	-0.10%
2018 Actual	\$1,572,825	34.10%
2017 Actual	\$1,172,885	24.41%
2016 Actual	\$942,752	-13.20%
2015 Actual	\$1,086,080	30.33%
2014 Actual	\$833,302	-20.19%
2013 Actual	\$1,044,171	45.51%
2012 Actual	\$717,611	-33.48%
2011 Actual	\$1,078,726	-7.12%
2010 Actual	\$1,161,393	-7.36%
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 and in FY 2020 is 21.67 percent of full implementation.

In September and October 2018, the City of Dubuque launched a new interactive budget simulation tool called Balancing Act. The online simulation invites community members to submit their own version of a balanced budget under the same constraints faced by City Council, respond to high-priority budget input questions, and leave comments. The Budget Office conducted community outreach with the new tool via print and digital marketing and presentations to the Institute of Managerial Accountants, Point Neighborhood Association, Young Professionals, Community Development Advisory Commission, Downtown Neighborhood, and at City Expo.

In November 2018, City staff hosted an evening public budget input meeting at the City Council Chambers in the Historic Federal Building. The Budget Office conducted community outreach with the new budget simulator tool to the Kiwanis Club and North End Neighborhood Association.

In December 2018, City staff presented the new budget simulation tool at the December 3, 2018 City Council meeting and hosted a Budget Simulator Workshop at the Carnegie-Stout Public Library in the Aigler Auditorium on December 8, 2018.

A total of 321 community members attended the budget presentations. There have been 870 page views of the Balancing Act budget simulator tool and 125 budgets have been submitted by the public as of December 10, 2018. The input provided will be analyzed by City staff and evaluated by the City Manager for inclusion in the Fiscal Year 2020 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 2020 budget before the state mandated deadline of March 15, 2019.

JML
Attachment

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