



TO: The Honorable Mayor and City Council Members

FROM: Michael C. Van Milligen, City Manager

SUBJECT: Budget and Fiscal Policy Guidelines for Fiscal Year 2020

DATE: December 12, 2018

Budget Director Jennifer Larson is recommending adoption of the Fiscal Year 2020 Budget Policy Guidelines.

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 recommendation 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.

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.

The City property tax rate projected in these budget guidelines and impact on the average residential property owner (\$139,493) is as follows:

Fiscal Year	City Tax Rate	% Change in Tax Rate
FY 2020	10.4856	-0.97%
FY 2021	10.5168	+0.30%
FY 2022	10.8831	+3.48%
FY 2023	11.3251	+4.06%
FY 2024	11.9426	+5.45%

Fiscal Year	"City" Property Tax Askings	% Increase in Tax Askings	% / \$ Impact on Avg. Residential Property*
FY 2019	\$25,766,328		
FY 2020	\$26,370,503	+2.3%	+0.00% / +\$0
FY 2021	\$26,616,587	+0.9%	+0.30% / +\$2.30
FY 2022	\$27,711,877	+4.1%	+3.48% / +\$26.90
FY 2023	\$29,014,168	+4.7%	+4.06% / +\$32.46
FY 2024	\$30,692,094	+5.8%	+5.45% / +\$45.36

The recommended guideline is no increase for the average residential property owner assuming the Homestead Property Tax Credit is fully funded. A one percent increase in the tax rate will generate approximately \$265,942.

Dubuque is the SECOND LOWEST in the state for property tax rate. The highest ranked city (Council Bluffs) is 74.17% higher than Dubuque's rate, and the average is 46.41% higher than Dubuque.

City Property Tax Rate Comparison for Eleven Largest Iowa Cities

Rank	City	Tax Rate
11	Council Bluffs	\$18.26
10	Des Moines	\$18.15
9	Waterloo	\$17.45
8	Davenport	\$16.78
7	Sioux City	\$16.33
6	Iowa City	\$16.18
5	Cedar Rapids	\$15.22
4	West Des Moines	\$12.78
3	Ankeny	\$12.29
2	Dubuque (FY 2020)	\$10.49
1	Ames	\$10.07
	AVERAGE w/o Dubuque	\$15.35

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.

The hiring freeze ended during Fiscal Year 2019 with most of the positions funded only a partial fiscal year in FY 2019, so these will be additional new costs in Fiscal Year 2020 of \$382,470.

5. Debt Reduction

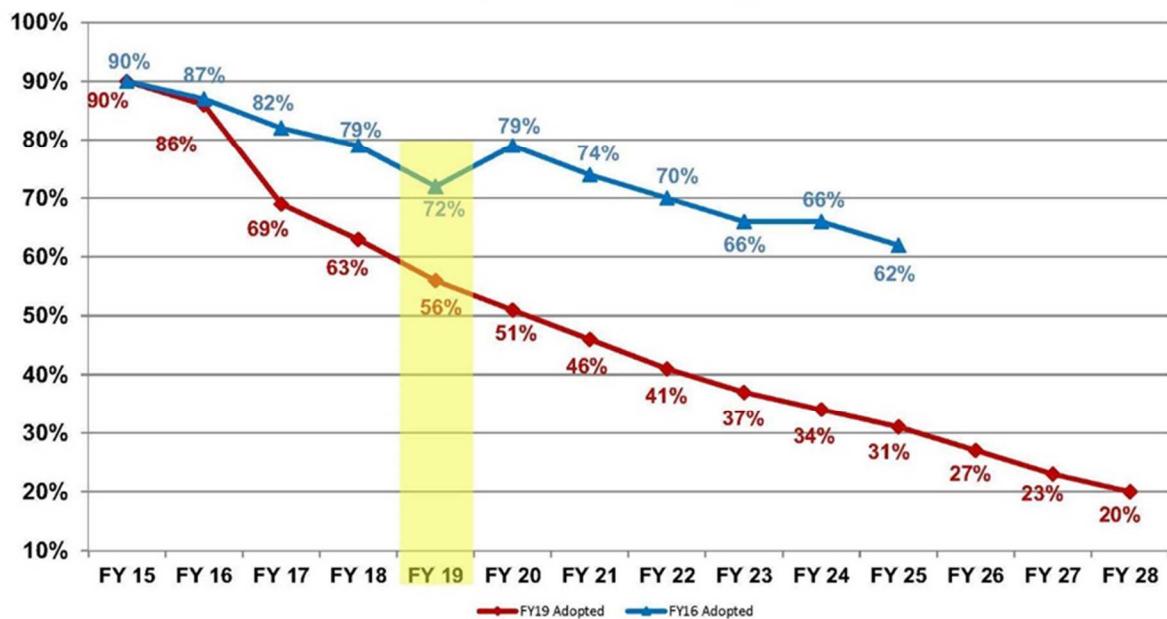
- a. Outstanding G.O. debt (including tax increment debt, economic development projects TIF rebates remaining payments and general fund lease agreement) on June 30, 2019 will be \$129,940,743 (56.40% of the statutory debt limit) leaving an available debt capacity of \$96,572,012 (43.60%). In FY 2018 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.**

In August 2015, the Mayor and City Council adopted a debt reduction strategy which targeted retiring more debt each year than was issued by the City. The FY 2019 budget achieved that target throughout the 5-year CIP and also substantially beat overall debt reduction targets over the next five and ten-year periods. **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.**

- b. You can see that based on the FY 2019 budget process, the Mayor and City Council have significantly impacted the City's use of the statutory debt limit established by the State of Iowa. In Fiscal Year 2015, the City of Dubuque used 90% of the statutory debt limit. In Fiscal Year 2019, the use of the statutory debt limit would be 56%, and by the end of the current recommended 5-Year Capital Improvement Program (CIP) budget in Fiscal Year 2023, the City of Dubuque would be at 37% of the statutory debt limit. Projections out 10 years to Fiscal Year 2028 show the City of Dubuque at 20% of the statutory debt limit. This is an improvement on the debt reduction plan adopted in August 2015, that first began implementation in Fiscal Year 2016.

Statutory Debt Limit Used (as of June 30th)



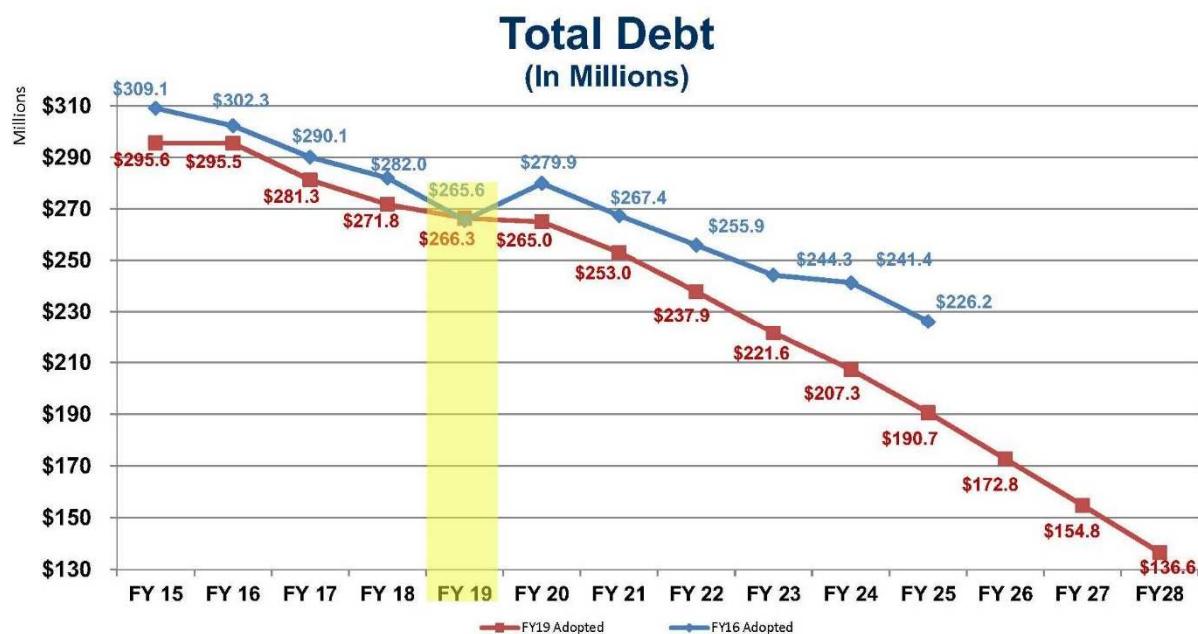
c. The following chart demonstrates that the relative position pertaining to use of the statutory debt limit of the City of Dubuque for Fiscal Year 2020 (based on the Fiscal Year 2019 budget process) to the other cities in Iowa for Fiscal Year 2018 with a population over 50,000:

Legal Debt Limit Comparison for Eleven Largest Iowa Cities

Rank	City	Amount of Debt Against 5% Legal Debt Limit	Percentage of legal debt limit utilized
11	Des Moines	\$416,130,930	73.03%
10	Sioux City	\$144,100,000	67.47%
9	Davenport	\$211,165,000	63.87%
8	Waterloo	\$108,225,490	56.54%
7	Cedar Rapids	\$271,585,000	52.43%
6	Ankeny	\$126,830,000	51.65%
5	W. Des Moines	\$184,720,000	51.39%
4	Dubuque (FY20)	\$115,141,469	50.96%
3	Ames	\$65,480,000	31.30%
2	Council Bluffs	\$68,725,096	28.40%
1	Iowa City	\$66,945,000	24.37%
	Average w/o Dubuque	\$166,390,652	50.04%

In March 2018, the projected use of the statutory debt limit as of June 30, 2019, was 56.40%, which remains unchanged. The projection for FY 2020 is 50.96%. Of the eleven cities in Iowa with a population more than 50,000, Dubuque will have the fourth lowest use of statutory debt limit. The highest city (Des Moines) is 43.3% higher than Dubuque and the average of the other ten cities 1.8% lower than Dubuque.

- d. The total amount of debt for the City of Dubuque by the end of the FY 2019 Five Year Capital Improvement Program (CIP) budget would be \$219.6 million (37% of the statutory debt limit) and the projection is to be at \$136.6 million (20% of statutory debt limit) within 10 years.



- e. After all planned expenditures plus an additional \$1,050,000 added to the fund balance in FY 2019, the City of Dubuque will have a general fund reserve of 19.76 percent of general fund expenses as computed by the methodology adopted in the City's general fund reserve policy or 22.02 percent of general fund revenues as computed by the methodology used by Moody's Investors Service. The general fund reserve cash balance is projected to be \$11,384,325 on June 30, 2019. The City of Dubuque will increase the General Fund working balance or operating reserve by a minimum of \$1,000,000 in FY 2020. In subsequent years, the City should add to the operating reserve until 20% is maintained consistently. In Fiscal Year 2017, the City had projected reaching this consistent and sustainable 20% reserve level in Fiscal Year 2022. Now this projection is this level will be reached in Fiscal Year 2019, three years ahead of schedule.

General Fund Reserve Projections:

	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Contribution	\$600,000	\$1,050,000	\$1,050,000	\$1,000,000	\$100,000	\$100,000	\$100,000
City's Spendable General Fund Cash Reserve Fund Balance	\$14,172,661	\$16,460,491	\$15,485,326	\$16,185,326	\$16,285,326	\$16,385,326	\$16,485,326
% of Projected Revenue (Moody's)	20.09%	23.81%	22.02%	22.86%	22.93%	23.46%	22.92%

6. Health Insurance

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. 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.

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.

I concur with the recommendation and respectfully request Mayor and City Council approval.



Michael C. Van Milligen

MCVM:jml
Attachment

cc: Crenna Brumwell, City Attorney
Cori Burbach, Assistant City Manager
Teri Goodman, Assistant City Manager
Jennifer Larson, Budget Director