



TO: The Honorable Mayor and City Council Members

FROM: Michael C. Van Milligen, City Manager

SUBJECT: Budget and Fiscal Policy Guidelines for Fiscal Year 2021

DATE: January 30, 2020

Budget Director Jennifer Larson is recommending adoption of the Fiscal Year 2021 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 2019. 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, 2020 must be adopted by March 31, 2020.

The Fiscal Year 2021 budget guidelines call for a 1.00% increase in the property tax rate, which would be a 2.72% (\$20.94) tax increase for the average Dubuque homeowner and a property tax decrease for commercial (-0.53%, -\$16.89) and industrial (-0.03%, -\$1.39) and an increase for multi-residential (+12.26%, +\$213.06) properties.

	% Change	\$ Change
Property Tax Rate	+1.00%	+\$0.10
Average Residential Payment	+2.72%	+\$20.94
Average Commercial Payment	-0.53%	-\$16.89
Average Industrial Property	-0.03%	-\$1.39
Average Multi-Residential	+12.26%	+\$213.06

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 \$411,686 for annually recurring and \$213,109 for non-recurring improvement packages. There are many improvement packages requested by departments in an effort to support City Council goals and priorities. A list of the improvement package requests is attached (attachment I) and you will see that the recurring requests total \$1,320,477 of net operating budget impact and the non-recurring requests totals \$494,865, both exceeding the resources that will be available for Fiscal Year 2021. You will receive the Fiscal Year 2021 City Manager’s budget recommendation on the February 17, 2020 City Council agenda.

The City property tax rate projected in these budget guidelines and impact on the average residential property owner (\$146,467 assessed value) is as follows:

Fiscal Year	City Tax Rate	% Change in Tax Rate
FY 2021	10.4346	1.00%
FY 2022	10.6819	2.37%
FY 2023	11.0507	3.45%
FY 2024	11.5693	4.69%
FY 2025	12.1076	4.65%

Fiscal Year	"City" Property Tax Askings	% Change in Tax Askings	% Impact on Avg. Residential Property	\$ Impact on Avg. Residential Property
FY 2020	\$26,296,081			
FY 2021	\$26,952,048	+2.49%	+2.72%	+\$20.94
FY 2022	\$28,053,356	+4.09%	+2.37%	+\$18.75
FY 2023	\$29,508,044	+5.19%	+3.45%	+\$27.96
FY 2024	\$31,279,095	+6.00%	+4.69%	+\$39.31
FY 2025	\$33,386,550	+6.74%	+4.65%	+\$40.82

The recommended guideline is a 2.72% or \$20.94 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 \$266,485.

For the current Fiscal year 2020, Dubuque has the SECOND LOWEST property tax rate as compared to the eleven largest cities in the state. The highest rate (Des Moines) is 76.14% higher than Dubuque’s rate, and the average is 45.24% higher than Dubuque. Dubuque's recommended FY 2021 property tax rate is \$10.4346 (increase of 1.00% from FY 2020).

Fiscal Year 2020 City Property Tax Rate Comparison for Eleven Largest Iowa Cities

Rank	City	Tax Rate
11	Des Moines	\$18.38
10	Council Bluffs	\$18.26
9	Waterloo	\$17.55
8	Davenport	\$16.78
7	Sioux City	\$16.07
6	Iowa City	\$15.83
5	Cedar Rapids	\$15.44
4	West Des Moines	\$11.80
3	Ankeny	\$11.41
2	Dubuque (FY 2021)	\$10.43
1	Ames	\$10.03
	AVERAGE w/o Dubuque	\$15.15

Significant issues impacting the FY 2021 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 2021.**

2. Gaming Revenue.

- a. Gaming revenues generated from lease payments from the Dubuque Racing Association (DRA) are estimated to increase \$198,633 from \$4,987,104 in FY 2020 to \$5,185,737 in FY 2021 based on adding \$140,000 in FY 2021 for sports betting and revised projections from the DRA. This follows a \$85,928 increase from budget in FY 2020 and a \$1,906 increase from budget in FY 2019.
- b. The Iowa Legislature passed Sports Betting Legislation in June 2019. DRA started Retail (On-Site) on August 27, 2019 with Mobile Wagering starting on November 12, 2019. Diamond Jo Casino started Sports Betting Retail in September 2019 and is working to start mobile wagering in early 2020. DRA had \$470,000 in Sports Book revenue during 2019. **With an amended lease, the City will begin receiving 0.5% of the handle from Sports Betting in FY 2021, estimated at \$140,000.**

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
2017	86.25%	\$331,239
2018	82.50%	\$472,127
2019	78.75%	\$576,503
2020	75.00%	\$691,640
2021 [^]	71.25%	\$1,332,445
2022	67.50%	\$1,171,716
2023	63.75%	\$1,270,513
2024	55.07 %	\$1,528,219
Total		\$7,374,402

*55.07% = Current residential rollback
[^] 17% State Equalization Order in FY 2021

This annual loss in tax revenue of \$1,332,445 in FY 2021 and \$1,528,219 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 \$7,374,402 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. Debt Reduction

- a. 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 2020 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 2021 review of Capital Improvement Budget requests is not yet complete, so there are no revised Fiscal Year 2021 debt projections as of yet.** The FY 2020 debt projections included some general obligation debt related to deferred maintenance at the Five Flags Civic Center renovation.

5. The Municipal Fire and Police Retirement System of Iowa Board of Trustees City contribution for Police and Fire retirement increased from 24.41% percent in FY 2020 to 25.31% percent in FY 2021 (general fund cost of \$148,555 for Police and \$59,933 for Fire or a total of \$208,488).
6. 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 2021 there is a 1.50% employee wage increase for represented and non-represented employees at a cost of \$573,301 to the General Fund.
7. Health Insurance

The City portion of health insurance expense is projected to increase from \$921 per month per contract to \$1,013 per month per contract (based on 588 contracts) in FY 2021 (general fund cost of \$501,061). 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 with there being actual reductions in cost in FY 2018 (19.42%) and FY 2019 (0.35%). 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 there has been savings resulting from the bid award. Beginning in FY 2020, actual experience has been a 12.19% projected increase in health insurance costs. Estimates for FY 2022 were increased 5.62%; FY 2023 were increased 10%; FY 2024 were increased 12.5%; and FY 2025 were increased 11%.

8. The increase in property tax support for Transit from FY 2020 to FY 2021 is \$180,352, which reflects increase in employee expense (\$59,465); increase in motor vehicle maintenance and diesel fuel (\$143,999); increase in snow removal (\$47,770); increase in machinery and equipment (\$50,541); and increased Federal and State operating revenue (\$108,430).

Timeline of Public Input Opportunities

The Budget Office conducted community outreach with Balancing Act using print and digital marketing and presentations.

- **October:** Point Neighborhood Association, Downtown Neighborhood, and at City Expo. The City Manager hosted an evening public budget input meeting at the City Council Chambers in the Historic Federal Building.

- **November:** The City Manager 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 North End Neighborhood Association and the City Life group.
- **January:** City staff conducted community outreach with a social studies class at the Alternative Learning Campus as part of a documentary that the students are working on.

A total of 195 community members attended the budget presentations. There have been 430 page views of the Balancing Act budget simulator tool and 32 budgets have been submitted by the public as of January 20, 2020. The input provided will be analyzed by City staff and evaluated by the City Manager for inclusion in the Fiscal Year 2021 budget recommendation as deemed appropriate.

Open Budget

URL: www.dollarsandcents.cityofdubuque.org

During Fiscal Year 2016, the City launched a web based open data platform. 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.

Open Expenses

URL: <http://expenses.cityofdubuque.org/>

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

Balancing Act

URL: <https://dubuque.abalancingact.com/fiscal-year-2021-budget-simulation>

During Fiscal Year 2019, the City of Dubuque launched a new interactive budget simulation tool called Balancing Act. The online simulation invites community members to learn about the City's budget process and 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.

Taxpayer Receipt

URL: <https://dubuque.abalancingact.com/2020>

During Fiscal Year 2019, the City launched an online application which allows users to generate an estimate of how their tax dollars are spent. The tool uses data inputted by the user such as income, age, taxable value of home, and percentage of goods

purchased within City limits. The resulting customized receipt demonstrates an estimate of how much in City taxes the user contributes to Police, Fire, Library, Parks, and other city services. This tool is in support of the City Council goal of a financially responsible and high-performance organization and addresses a Council-identified outcome of providing opportunities for residents to engage in City governance and enhance transparency of City decision-making.

There will be six City Council special meetings prior to the adoption of the FY 2021 budget before the state mandated deadline of March 31, 2020.

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 Goodmann, Assistant City Manager
Jennifer Larson, Director of Finance and Budget