



**TO:** Michael C. Van Milligen, City Manager  
**FROM:** Jennifer Larson, Director of Finance and Budget  
**SUBJECT:** Budget and Fiscal Policy Guidelines for Fiscal Year 2021  
**DATE:** January 30, 2020

I am recommending adoption of the Fiscal Year 2021 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 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.

	<b>% Change</b>	<b>\$ Change</b>
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 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 (Attachment I).

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, then beginning in FY 2022, 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
2021	\$0
2022	-\$203,355
2023	-\$203,355
2024	-\$203,355
2025	-\$203,355
2026	-\$203,356
Total	-\$1,016,776

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 Fiscal Year 2021 projections are based on five months of actual experience and gross gaming revenues are up 1.27%. In Calendar Year 2019, gross gaming revenues were down .11% for the DRA and the Diamond Jo were up 2.27%. The DRA showed increases in hotel room

revenue, food and beverage sales and entertainment ticket sales. The DRA has projected a 2% increase in gross gaming revenue for Calendar Year 2020.

- c. 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 to be \$140,000.**
- d. During 2019, Illinois passed legislation regarding six additional casinos, Sports Betting and increased Video Lottery Terminals (VLT's) through the state. The casino license issued for Rockford will be the closest. The Rockford City Council voted on October 7, 2019 to certify the Hard Rock Casino as the city's choice for a new casino. The Illinois Gaming Commission has until October 28, 2020 to approve the license for the new Rockford casino. The Hard Rock Casino plans construction of a \$330M casino and hotel. Construction will last approximately 18 to 24 months. Illinois is allowing an increase in the number of VLT's per location from 5 to 6. Currently in the five counties in Illinois between Dubuque and Rockford, there are approximately 400 locations with 2076 VLT's. Each able to increase by one additional machine or a 20% increase in the number of terminals in this area. The terminals in this five county area had revenue of \$120M in 2019, similar to the amount wagered in the Dubuque market. The DRA gaming projections include minimal growth in revenues over the next five years with a growth rate of 1% in FY 2021 and FY 2022 and a growth rate of 0% in FY 2023 and beyond.

### 3. Residential Property.

- a. Residential property was revalued by the City Assessor by neighborhood for the January 1, 2019 property assessments, which impacts the Fiscal Year 2021 budget. **The average residential property value increased 5%. This revaluation of residential property resulted in the taxable value for the average homeowner calculation to increase from \$139,493 to \$146,467 (+5%).**

### 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.

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
<b>Total</b>		<b>\$7,374,402</b>

\*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.

There would have been an equalization order of 17% for multi-residential property in Fiscal Year 2021 based on values established through actual sales, so the City Assessor adjusted multi-residential property values. There was not an equalization order for commercial or industrial property in Fiscal Year 2021. The Iowa Department of Revenue is responsible for “equalizing” assessments every two years. Also, equalization occurs on an assessing jurisdiction basis, not on a statewide basis.

## 5. Debt Reduction

- Outstanding G.O. debt (including tax increment debt, remaining payments on economic development TIF rebates, and general fund lease agreement) on June 30, 2020 will be \$118,789,842 (52.18% of the statutory debt limit) leaving an available debt capacity of \$108,871,632 (47.82%). In FY 2019 the City was at 56.32% of statutory debt limit, so 52.18% in FY 2020 is a 7.35% 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, 2020 will have a balance of \$144,324,386. The total City indebtedness as of June 30, 2020, is projected to be \$263,114,228. The total City indebtedness as of June 30, 2019, was \$261,617,815. **In FY 2020, the City will have a projected \$1,496,413 (0.57%) less in debt.**

**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.

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 2021. Sales tax receipts are projected to decrease 4.35% under FY 2020 budget (\$426,400) and 2.40% over FY 2020 actual of \$4,581,312 based on FY 2020 revised revenue estimate which includes a reconciliation payment from the State of Iowa of \$438,664 received in November 2019, increased 2.40% percent to calculate the FY 2021 budget, and then increased at an annual rate of 2.00% percent per year beginning in FY 2022. The estimates received from the State of Iowa show a 0.54% increase in the first payment estimated for FY 2021 as compared to the first payment budgeted for FY 2020.
- Building fees (Building Permits, Electrical Permits, Mechanical Permits and Plumbing Permits) are anticipated to increase \$98,071 from \$673,215 in FY 2020 to \$771,286 in FY 2021 based on Fiscal Year 2019 actual.
- Natural Gas franchise fees have been projected to increase zero percent over FY 2019 actual of \$1,153,753. Also, Electric franchise fees have been projected to increase 8 percent over 2020 budget of \$3,510,806. The franchise fee revenues are projected to increase at an annual rate of 4 percent per year from FY 2022 through FY 2025.
- The split of gaming revenues from taxes and the DRA lease (not distributions) in FY 2021 is recommended to change to 100% operating and 0% capital. This is a change from 96% operating and 4% capital in FY 2020. 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 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). Also, the Iowa Public Employee

Retirement System (IPERS) City contribution is unchanged from the FY 2020 contribution rate of 9.44% (no general fund impact). The IPERS employee contribution is unchanged from the FY 2020 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 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.
- 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%.
- Effective July 1, 2019, employees over the sick leave cap can convert 50% of the sick leave over the cap to vacation or be paid out. The 50% sick leave payout expense budget in the General Fund in FY 2020 was \$112,000 as compared to FY 2021 of \$102,607, based on FY 2020 year-to-date expense.
- Effective March 8, 2019, employees may use Parental leave to take paid time away from work for the birth or the adoption of a child under 18 years old. Eligible employees receive their regular base pay (plus longevity) and benefits for twelve weeks following the date of birth, adoption event or foster-to-adopt placement. If both parents are eligible employees, each receive the leave benefit. The parental leave expense budget in the General Fund in FY 2020 was \$47,015 as compared to FY 2021 of \$0 based on departments covering parental leave with existing employees and not incurring additional cost for temporary help.
- Electrical energy expense is estimated to have a 8% increase over FY 2019 actual expense, then 2% per year beyond.

- Natural gas expense is estimated to have no increase over FY 2019 actual expense, then 2% per year beyond.
- Motor vehicle fuel is estimated to remain at the FY 2020 budget, then increase 2.0% per year beyond.
- 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).

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

Fiscal Year	Amount	% Change
2021 Projection	\$1,726,584	10.79 %
2020 Budget	\$1,558,460	6.88 %
2019 Actual	\$1,458,109	(4.99)%
2018 Actual	\$1,534,726	30.85 %
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%

- 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 2021 is 16.00 percent of full implementation.

## 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](http://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\*\*](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\*\*](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.

The action step is for City Council to adopt the Fiscal Year 2021 Budget and Fiscal Policy Guidelines.

JML

Attachment

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