



To: City Commissioners

From: Peggy Merriss
City Manager

Date: May 15, 2017

Subject: 2016-2017 Revised Budget Estimates
2017-2018 Proposed Budget Estimates

The purpose of this budget message is to provide an introduction to the 2016-2017 Revised Budget Estimates and the 2017-2018 Proposed Budget Estimates with a focus on highlights and a high level overview of process, environment and policy goals incorporated into the recommended budgets.

The “Budget Narrative” (pages 3 – 27) is an extremely important part of the budget document and it is a key part of the City’s overall fiscal plan. It will be necessary to read the narrative for a full understanding of the basis of funding and expenditure recommendations included in this budget. The narrative and department budgets highlight quantitative and qualitative measures as well as results from the 2016 citizen survey and do a thorough job of describing the work plans for the coming year and the successes and accomplishments for the City from the past year.

The “All Funds Overview” (pages 35 – 48) and the “Revenue Summary Overview” (pages 51-54) provide specific information regarding the 2016-2017 Revised Budget Estimates and the 2017-2018 Proposed Budget Estimates for all funds, including detailed information regarding the General Fund. The “Capital Fund Narrative” and budgets (pages 101-124) describe the City’s capital program and provides specific project listings with each budget.

You will be asked to take final action on the budget on June 19, 2017. We have also scheduled an extended budget work session with the City Commissioners from 3:30pm – 6:30pm before the regular City Commission Meeting on Monday, June 5, 2017. The City will also use the Open City Hall forum to encourage comments via the City’s website. Copies of the budget will be available on the City’s website, at City Hall and at the Decatur Library.

Highlights

- Acquisition of the United Methodist Children’s Home property and implementation of an associated operations budget.
- Estimated real property digest increase of 5%.
- Increase in the General Fund operating millage rate from 9.30 mills to 9.50 mills.
- The debt service millage remains the same at .92 mills for the 2007 general obligation debt but increases from 1.57 mills to 1.97 mills for debt service related to the 2016 school general obligation bond referendum.

- Use of \$1,180,030 in general fund balance in order to stay within financial policy guidelines.
- The 2017-2018 Proposed General Fund Budget increases 3.5% from the 2016-2017 Revised General Fund Budget.
- A 5% market based salary range adjustment effective January 1, 2018 is recommended.
- Funding of 2.5% in-step merit based salary increases.
- Group health insurance costs increased necessitating an employee contribution increase and some plan modifications.
- The City's required 8% contribution to the Employees' Retirement System remains the same.

Vision-Based Budget

A vision-based budget is developed to sustain and achieve the outcomes that the community has identified as most important. Each department determines what it does to support these common goals and the budget communicates to the public how the allocation of resources reflects community priorities and its vision for the future.

In order to produce the 2017-2018 Proposed Budget Estimates, we relied on information provided in the 2010 Strategic Plan and the results of citizen and employee surveys to provide guidance regarding the community's priorities. Ultimately five interdepartmental vision-based budgeting teams were part of the budget process, one for each of the four principles articulated in the 2010 Strategic Plan and one to focus on an additional principle that supports the City of Decatur's organizational commitment to exceptional public service based on innovation, professional expertise and creativity.

The City's vision-based budget consists of three main elements - a descriptive narrative; identification of quantitative and qualitative measures that relate activities and financial resources directly to the community's goals to determine if we are making a difference; and, broad organization-wide budgets that show how each strategic principle is supported financially. As part of the budget presentations in June, we will also provide a report that compares selected Decatur performance measures to other cohort cities from across the United States.

Overall Financial Condition

The City's mature economy, its overall real estate market stability and desirability, long-term growth management strategy and dedication to superior services make it possible for the City to remain on strong financial footing. Over the years, the City Commission has made strategic decisions that have positioned the City to better withstand financial stress. For the past thirty years, the City's growth has been directed to redevelopment of undervalued and underutilized properties in the central business district and in smaller neighborhood commercial areas. The reasonable scale of this type of growth has provided opportunities for residential and commercial spaces to be absorbed by the market instead of creating a significant number of vacancies.

During the past year there have been continued improvements in the overall economy which have supported stable economic growth for the City. We remain a regional destination for restaurants, shops, festivals and special events. The continued high quality of the City Schools of Decatur is an important part of the overall appeal of the City. City services which focus on high-touch and personal attention contribute to a "clean, green, active and attractive, safe and secure" community that is a very desirable place to live, work and play. The City represents a highly desirable, niche

market in the metropolitan Atlanta area. Its reputation for political stability, quality management and a commitment to long-term planning puts the City in the right place to continue its healthy financial position.

The City Commission has adopted financial policies for the overall operation of the City of Decatur. The purpose of having financial policies is to enable the City to achieve and maintain a long-term positive financial condition. The policies include direction on providing a conservative approach to budgeting that generally means expenditures are calculated using the best estimate of true cost without discounting and that revenues are estimated at a level that would reasonably be collected within the fiscal year based on historic collection data, as well as realistic expectations about existing and future economic conditions and activities.

Overall, the City maintains a strong financial position by continuing to utilize conservative fiscal practices and by making strategic decisions that support the community's vision. This is confirmed by the City's AA+ bond rating from Standard & Poor's and a Moody's rating of Aa2.

The 2016-2017 Revised Budget Estimates and the 2017-2018 Proposed Budget Estimates were prepared with the knowledge that residential re-development and home sales continue to reflect growing demand in a limited market. In the past two years three commercial redevelopments have been completed and the occupancy and rental rates are meeting projections. Two large commercial redevelopments are underway and should be completed in 2018. Private sector capital investment continues to occur. However, we have also taken into account that future economic prosperity is not a given and we continue to base our budget estimates on providing the best possible services at the least possible cost. We also realize that the community expects responsive high quality services which are provided by City employees who are committed to improvement, innovation and public service.

The 2016-2017 Revised General Fund Budget is \$43,010 less (-0.18%) than the Approved 2016-2017 General Fund Budget. The 2017-2018 Proposed General Fund Budget is \$819,550 (+3.3%) more than the 2016-2017 Proposed General Fund Budget.

Real Property Digest

The value of the real estate digest is very important to the City of Decatur budget as real property taxes are 62% of all general fund revenues. During the recession period from 2008 – 2012, the City's real estate digest remained relatively flat, showing a 1.2% increase over the five year period. Comparatively speaking, this was outstanding. As the economy has rebounded, the real estate digest has shown healthy improvement consistent with real estate sales and development.

Unlike prior years, the DeKalb County Tax Assessor's Office has not provided any preliminary property digest information. It is our understanding that we will receive a digest report at the end of May. This has made developing revenue estimates more difficult. We developed the 2017-2018 Proposed Budgets based on a conservative real estate digest increase of 5%. We are hopeful that we will be able to make a more detailed report at the work session and public hearing scheduled for the June 5 City Commission meeting.

At this point, we are proceeding as if we will need to hold public hearings and advertise a tax increase as required by the "Truth in Taxation" legislation. We have reserved Monday, June 12,

2017, at 6:00pm and Monday, June 19, 2017, at 3:30pm and 7:30pm for the required public hearings.

While current tax digest information is not yet available, real estate sales show a 9% increase in the average sales price of a single-family home from \$574,460 in January 2016 to \$626,260 in January 2017; and, a 20% increase in the average single-family home sales price from \$520,720 in January 2015 to \$626,260 in January, 2017.

Current permitting activity along with current and anticipated construction expected to take place in the remainder of 2017 through late-2018 indicates that property values will continue to increase. We believe the reevaluation of existing real estate, as well as new value from construction of single-family homes and the value of significant improvements to existing homes will still be a strong positive contributor to the overall tax digest. New value will be added as commercial developments recently completed are fully occupied and their full value is added to the tax digest in 2017. New developments currently under construction should be completed in 2018 and will impact the 2019 real estate digest values.

Millage Rates and Increased Homestead Exemptions

Based on the estimated 5% increase in the property digest value, it is recommended that the General Fund Millage increase from 9.30 mills to 9.50 mills. Increasing the General Fund millage will result in a \$45 increase in City of Decatur property taxes for a property valued at \$500,000. This increase is necessary due to the City's pending purchase of the United Methodist Children's Home property.

As part of the November 8, 2016 election, Decatur voters approved various homestead exemption increases that apply to the General Fund, Capital Improvement Fund and the DDA Fund. All approved exemption increases were reflected in the first installment billing in April, 2017. The estimated reduction in general fund real property taxes is \$385,000 for fiscal year 2016-2017 and \$770,000 for fiscal year 2017-2018.

The debt service millage for the 2007 general obligation bonds remains at .92 mills. The 2017 debt service millage for school system capital improvements increases from 1.57 mills to 1.97 mills because the first principal payment will be due in August 2018 and funds must be collected in 2017 in order to meet the repayment schedule.

Due to capital needs, it is recommended that the Capital Improvement Fund Millage remain at 1 mill and due to resident, business and visitor requests for increased community engagement activities, improved public spaces, and business development, it is recommended that the DDA Fund Millage remain at .38 mills.

United Methodist Children's Home

Earlier this year the City Commission saw an amazing opportunity to take ownership of 77 acres owned by the United Methodist Children's Home (UMCH). Preliminary private development possibilities provided to UMCH indicated that somewhere north of 600 townhomes could be developed on the property if it was sold to a developer. The property is immediately adjacent to the existing southeastern city limits and about one-third of the property is natural open green space. It also contains existing playing fields, a gymnasium, swimming pool and administrative and

warehouse buildings. In order to meet community and strategic plan goals for increasing the amount of open natural green space and to meet demands for additional active living facilities, on April 19, 2017 the City Commission authorized purchase of the UMCH property for \$40 million.

We are working on the financing plan and anticipate the City of Decatur Public Facilities Authority issuing bonds in late July 2017 and closing on the property in August 2017. In addition to the purchase cost of the property, \$500,000 will be included for playing field maintenance and improvement. In 2018 a community master planning effort will be held in order to determine the future use of this unique property.

We have budgeted a \$750,000 transfer from the General Fund balance to the Public Facilities Authority Fund in order to cover debt service interest payments. We anticipate that the capital improvement millage will need to be increased by 1.2 mills in 2018 to account for the debt service required to pay the bonded interest and principal.

We anticipate taking possession of the property in October 2017. At that time we will become responsible for maintenance (such as cutting grass), utilities and insurance. In order to use the gymnasium we will need one Active Living staff member to be present to operate, supervise and manage the facility. We also believe we will need two facility maintenance staff to work on the grounds and facilities and provide some level of security for the 77-acre property. Initial estimated operating and maintenance costs of approximately \$500,000 are included in the 2017-2018 Proposed Budget Estimates which results in a recommendation of a millage increase from 9.30 mills to 9.50 mills. If the new property tax digest comes in higher than 5%, it is anticipated that the millage rate recommendation can be reduced.

The debt service and operating costs of purchasing the UMCH property for the overall 2017-2018 Proposed Budget Estimates is \$1,190,000. Without this expenditure, proposed use of General Fund balance could be reduced by about two-thirds and the small millage increase would not be needed.

Personnel Services

The City is committed to continuing to provide an exceptional level of public safety, public works and quality of life services that contribute to the stability of property values and have made the City a desirable place in which to live, work, invest in and visit. In the most recent 2016 Citizen Survey, 94% of respondents rated the overall quality of life in Decatur as “excellent” or “good.” Also, 90% of the respondents rated services provided by the City of Decatur “excellent or “good.” This resulted in Decatur being ranked among the top 10% of communities that used the survey and asked the same questions. City staff is an integral part of assuring that quality of life and services meet the demanding expectations of our community and rewarding those efforts is an important part of the City’s financial strategy.

The 2017-2018 Proposed Budget Estimates incorporate funding for 2.5% merit increases for employees who are still below the maximum in their salary range. These merit adjustments occur throughout the budget year on an annual basis. As part of this year’s budget process, the City conducted a salary survey of metropolitan Atlanta cities and used data collected by the Georgia Department of Community Affairs for benchmark comparisons. Appendix E contains the results for benchmark positions. The City strives to maintain salary ranges above the median offered in the Atlanta metropolitan area for the same or similar work. Based on the results of the survey, and to retain an excellent workforce and be competitive in recruiting new staff, we are recommending

shifting salary ranges by ten-percent and authorizing a 5% a merit-based general market adjustment for full-time employees effective January 1, 2018.

All full-time employees will be eligible including those who have been at the maximum salary rate for their position and who have not received an increase in compensation in the last three years.

The cost of the in-step merit increase is estimated to be about \$140,000. The cost of the merit-based general market salary range adjustment is estimated to be approximately \$330,000, for a total cost of \$470,000, or 2% of general fund expenditures.

In addition to the changes for full-time staff, we are recommending a \$2.00 per hour increase for part-time staff in the Children and Youth Services Division. We believe this will significantly enhance our recruitment efforts and stabilize our retention effort for staff in our after-school and camp programs.

The 2017-2018 Proposed Budget Estimates include the addition of four new positions, three for operations at the United Methodist Children's Home property and one to meet department operational needs for the Community and Economic Development.

Details on personnel expenses are included in the "All Funds Overview" later in this document.

Including health care costs, fees and stop-loss coverage, the wellness initiative, the smoking cessation program and a weight loss program, the City's overall health care costs per employee are budgeted to increase about 7% in the 2017-2018 Proposed Budget Estimates. The overall costs are split with the City absorbing 80% of the cost while employees and retirees will contribute 20% towards the plan. In order to maintain the 80/20 split, we are recommending a 6% increase in employee contributions to health care costs in the 2017-2018 Proposed Budget. The employee wellness premium reduction plan remains funded. We believe that this investment assists in reducing future health care costs, less use of sick leave and increased employee productivity.

All full-time employees are also members of the City of Decatur Employees' Retirement System. The City's system offers conservative benefits to employees who have served the community over a long period of time. The City's required employer contribution to the system has remained steady over the past ten years, fluctuating between 6.25% - 9.07% of payroll. The budgeted employer contribution for fiscal year 2017-2018 remains at 8% of payroll or approximately \$902,460. The total required employer contribution is approximately 3% of total operating expenditures. Employee contributions to the system average 14% for public safety employees who are not members of Social Security and 8% for general employees who participate in Social Security.

The City relies on private contractors to provide certain services when it makes financial sense and the quality of service can be assured. The City currently has contracts for building inspection services, geographic information systems (GIS), information technology services, payroll, recycling, athletic field maintenance and swimming pool management. These contracts are managed and supervised closely to assure that costs are less than or equal to what they would be for the City to provide the same or similar services.

The City has taken steps to assure financial security and to support our ability to provide the high level of services expected by our community. The City is an organization that is positioned to take advantage of opportunities, capable of making appropriate investments in our employees and committed to offering superior services for the least possible costs.

Fund Balance

The City's financial policies also provide direction for maintaining an adequate fund balance equal to 20 to 30 percent of operating expenses. Maintaining an adequate fund balance allows governments the ability to weather financial difficulties without having to depend on millage rate increases or service delivery reductions. Due to the City's history of conservative budgeting practices that estimates expenditures fully and limits revenue estimates to likely possible collections, the City has been able to maintain a stable fund balance.

The 2015-2016 Revised General Fund budget estimated a \$639,830 contribution to fund balance but the actual contribution was \$1,211,185, resulting in a fund balance as of June 30, 2016 of \$8,420,470. The 2016-2017 Proposed General Fund budget anticipated using \$1,224,340 from the general fund balance to provide enough revenue to cover 2016-2017 Proposed General Fund expenditures. Due primarily to increased revenues, the 2016-2017 Revised General Fund Budget estimates that the use of fund balance will be reduced to \$554,110. The estimated general fund balance at June 30, 2017 is estimated to be approximately \$7,866,360 or 32% of 2016-2017 Revised General Fund expenditures.

The 2017-2018 Proposed General Fund budget anticipates using approximately \$1,180,030 of the general fund balance. This should decrease the general fund balance at June 30, 2018 to approximately \$6,686,330, or 27% of 2017-2018 Proposed General Fund expenditures. The use of fund balance is appropriate to cover the costs of one-time, non-recurring expenses in order to keep the fund balance within policy parameters. For 2017-2018, fund balance will be used to pay for the initial interest payment for purchase of the United Methodist Children's Home, to cover the costs of updates to the Community Transportation and Greenspace master plans, for information technology security set-up fees, imaging old City Commission Meeting minutes and phase 2 for an impact fee assessment.

The City will still retain sufficient general fund balance to provide resources in case there is a need for unforeseen or emergency expenditures or to provide resources to take advantage of unanticipated opportunities consistent with supporting the City's strategic plan.

Challenges

HOST and adoption of a Special Purpose Local Option Sales Tax (SPLOST)

The City currently receives a distribution from the capital improvement portion of the county-wide Homestead Option Sales Tax (HOST) sales tax that is meant to equalize the benefit between city and county taxpayers from paying the one percent sales tax. The distribution is calculated based on the value of owner-occupied residential property within a city, the DeKalb County millage rates for special service districts and on a formula that shares the proceeds among all cities in DeKalb County. In

November, 2015 local referendums were held and the City of Tucker was established. In November, 2016 a successful referendum established the City of Stonecrest. As it currently stands, the addition of the City of Tucker does not decrease the City of Decatur's share of the HOST capital

improvements funding. An analysis of the effect of the City of Stonecrest has not yet been published.

However, we believe that DeKalb County will actively pursue the adoption of a special purpose local option sales tax (SPLOST) which would result in significant changes to the HOST. For the SPLOST to go forward, voters would have to approve what is being referred to as an E-HOST (equalized-HOST) that would use 100% of the proceeds from the HOST one percent sales tax to fund homestead exemptions to be applied to the cost of services paid for at the same level by all county owner-occupied taxpayers to include the DeKalb County Maintenance and Operations (M&O) millage and the Hospital Authority Assessment (Grady). E-HOST proceeds would not be available to fund any special tax district (i.e., City) tax.

It is anticipated that SPLOST funding would be based on a formula previously negotiated in 2016. Details are not currently available. Depending on the particulars of the SPLOST and EHOST that are approved, there could be implications for the City's 2018-2019 and forward capital improvement and debt service budgets.

Open Space and Greenspace Acquisition and Maintenance

The City has been budgeting a token amount of resources, approximately \$50,000 per year for the purchase of open space and green space and has had success in acquiring tax parcels and donated parcels near or adjacent to existing City properties or along streams and creeks. The City has also been able to reserve \$500,000 for purchase of 16 parcels adjacent to Dearborn Park.

We are currently under contract to purchase the United Methodist Children's Home which contains at least 22 acres of open natural greenspace. There has been strong support communicated to the City Commission for creation of additional open space/green space in downtown Decatur. We were able to work with the City Schools of Decatur (CSD) and the Decatur Housing Authority (DHA) to secure community use of greenspace at the corner of West Trinity Place and Commerce Drive until CSD needs to construct a building and then we will have access to shared greenspace for the downtown community.

The City Commission has also discussed the importance of open space and green space acquisition throughout the City. We will continue to pursue options as resources allow. In order to make any major purchases or improvements, there would need to be a new source of funding.

Millage Rate Adoption

The 1999 General Assembly adopted O.C.G.A. § 48-5-32.1, known as the "Truth in Taxation" law. It requires every levying authority (i.e., the City) and every recommending authority (i.e., the City Schools) to take the percentage of the digest increase due to property reassessments and calculate the operations millage rate (debt service is not included) reduction due to the increased digest. To the extent that the recommended operations millage rate exceeds the "roll-back" rate, certain advertisements and public hearings are required. This requirement began with the certified 2000 digest. The current combined operation millage rate is 10.68 mills. The proposed combined operations millage is 10.88, an increase of .20 mills. However until we get a real property digest report from DeKalb County, we cannot calculate the roll-back millage rate. We do expect to get a report by the end of May 2017 and believe that we can meet the requirements of the law providing a legal advertisement, issuing a press release and holding three public hearings. It is recommended

that the required public hearings be held on Monday, June 12, 2017 at 6:00pm and Monday, June 19, 2017 at 3:30pm and 7:30pm. In addition, we have scheduled an extended work session from 3:30pm – 6:30pm before your regular meeting on June 5, 2017.

CONCLUSION

The City’s objective is to provide quality services that reflect the community’s goals and vision within reasonable fiscal limits. This means that we have to take a strategic approach that relies on and builds upon the City’s strengths while preserving and protecting community financial resources. To that end, the 2016-2017 Revised Budget Estimates and the 2017-2018 Proposed Budget Estimates include funding for a number of programs and projects that are responsive to community needs and concerns but also position the City well for the future.

The 2017-2018 Proposed Budget Estimates assure that that City will maintain its capacity to offer the high-level, high-quality services desired by our residents. This budget also supports our continued commitment to making the necessary infrastructure improvements and investments that will benefit our community long into the future. We remain committed to our conservative fiscal policies that allow us to meet the needs of the community today while assuring future generations will have the same access to resources and quality of life we currently enjoy. Below is a summary of property tax millage rates since 2012 and the recommended 2017 millage rates:

	2012	2013	2014	2015	2016	2017
	<u>Levy</u>	<u>Levy</u>	<u>Levy</u>	<u>Levy</u>	<u>Levy</u>	<u>Levy</u>
General Fund	10.20	10.20	10.20	9.70	9.30	9.50
General Fund						
Cap. Improv.	1.10	1.00	1.00	1.00	1.00	1.00
Downtown Dev.						
Authority	.38	.38	.38	.38	.38	.38
Operations Total:	11.68	11.58	11.58	11.08	10.68	10.88
2007 Bonds	1.32	1.42	1.42	.92	.92	.92
2015 School Bonds	0	0	0	1.57	1.57	1.97
Bonded Debt Total:	1.32	1.42	1.42	2.49	2.49	2.89
TOTAL:	13.00	13.00	13.00	13.57	13.17	13.77

Completion of the 2016-2017 Revised Budget Estimates and 2017-2018 Proposed Budget Estimates would not be possible without the assistance of Accounting and Personnel staff, the teamwork and support shown by City employees in all departments, the Narrative Teams and particularly without the work of Assistant City Manager Andrea Arnold and Budget & Performance Measurement Manager Meredith Roark.

I will be glad to review the following budget proposals with you at your convenience.



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