



City Manager's Office
509 North McDonough Street
P.O. Box 220
Decatur, Georgia 30031
404-370-4102 ■ Fax 404-378-2678
info@decaturga.com ■ www.decaturga.com

To: City Commissioners

From: Peggy Merriss
City Manager 

Date: May 21, 2018

Subject: 2017-2018 Revised Budget Estimates
2018-2019 Proposed Budget Estimates

The purpose of this budget message is to provide an introduction to the 2017-2018 Revised Budget Estimates and the 2018-2019 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 3-28) 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 2018 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 35-50) and the “General Fund Revenue Summary” (pages 53-56) provide specific information regarding the 2017-2018 Revised Budget Estimates and the 2018-2019 Proposed Budget Estimates for all funds, including detailed information regarding the General Fund. The “Capital Projects Narrative” and related budgets (pages 103-122) describe the City’s capital program and provide specific project listings with each budget.

You will be asked to take final action on the budget on June 18, 2018. We have also scheduled an extended budget work session with the City Commissioners from 4:00pm – 6:30pm before the regular City Commission meeting on Monday, June 4, 2018. 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

- The 2018-2019 Proposed General Fund Budget increases 4.9% from the 2017-2018 Revised General Fund Budget.
- Estimated real property digest increase of 6%.
- The capital improvement millage increases from 1.06 mills to 1.55 mills and includes a transfer of \$1,000,000 from the General Fund to the Public Facilities Authority to pay for debt service related to the purchase of the former Children’s Home.
- It is estimated that an additional .35 mills will be needed in fiscal year 2019-2020 to cover the Children’s Home annual debt service in its entirety.

- Use of \$1,481,030 from the general fund balance to cover one-time expenses consistent with the City's financial policy guidelines.
- Funding of 2.5% in-step merit based salary increases.
- Rising group health insurance costs require an employee contribution increase and some plan modifications.
- Major activities to include funding from the new Special Purpose Local Option Sales Tax (SPLOST); expanded sidewalk maintenance, repair and construction program; increased hotel/motel tax rate; housing summit; enhancement of streetsweeping; and, restructuring of parking management services and initiation of the 2020 Strategic Plan and Storm Water Master Plan Update.

Vision-Based Budget

A vision-based budget is developed to achieve and sustain 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 the vision for the future.

In order to produce the 2018-2019 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 sought-after 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 contributes to the City's sustained 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. As part of the issuance of bonds by the Decatur Public Facilities Authority the City's AA+ bond rating from Standard & Poor's was confirmed and the City's rating from Moody's was increased from Aa2 to Aa1.

The 2017-2018 Revised Budget Estimates and the 2018-2019 Proposed Budget Estimates were prepared with the knowledge that residential redevelopment 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 2019. 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 2017-2018 Revised General Fund Budget is \$299,560 (1.2%) more the Approved 2017-2018 General Fund Budget. The 2018-2019 Proposed General Fund Budget is \$1,255,120 (4.9%) more than the 2017-2018 Revised 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 63% 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. For the five year period from 2013-2017, the digest increased 57% consistent with the increased value of real estate sales and growth from new development projects.

As of May 18, 2018 the DeKalb County Tax Assessor's Office has not provided the 2018 property digest report. 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 2018-2019 Proposed Budgets based on a conservative real estate digest increase of 6%. 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 4th City Commission meeting.

At this point, we are fairly certain that regardless of the growth in the digest, we will need to hold public hearings and advertise a tax increase as required by the “Truth in Taxation” legislation because of the additional millage needed to cover the debt service payments for the former Children’s Home property. We have reserved Monday, June 11, 2018, at 6:00pm and Monday, June 18, 2018, at 3:30pm and 7:30pm for the required public hearings.

While current tax digest information is not yet available, single family real estate sales show a 4% increase in the average sales price of a single-family home from \$625,560 as of January 1, 2017 to \$651,610 as of January 1, 2018; and, a 13% increase in the average single-family home sales price from \$574,460 as of January 1, 2016 to \$651,610 as of January 1, 2018. The number of days on the market has decreased from 38 days in January 2017 to 31 days in January 2018. Supply also decreased from 309 units to 251 units. This indicates a strong and desirable single-family home real estate market.

Current permitting activity along with existing and anticipated construction expected to take place in the remainder of 2018 through mid-2019 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. We expect that new value will be added as commercial developments recently completed are fully occupied and their value continues to increase. New developments currently under construction should be completed in 2019 and will impact the 2020 real estate digest values.

Millage Rates and Increased Homestead Exemptions

It is recommended that the General Fund Millage remain the same at 9.24 mills. 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 impact to general fund is a reduction of approximately \$425,000 in real property taxes that would have otherwise been collected.

The debt service millage for the 2007 general obligation bonds remains at .90 mills. The 2017 debt service millage for school system capital improvements remains at 1.91 mills. The DDA Fund Millage remain at .38 mills.

An \$850,000 transfer from the General Fund balance to the Public Facilities Authority (PFA) Fund is included in the 2017-2018 Revised Budget estimates in order to cover debt service interest payments for acquisition of the former Children’s Home property. In 2017 we anticipated that the capital improvement millage would need to be increased by 1.2 mills in 2018 to pay the debt service on the property. The current recommendation is to increase the Capital Improvement millage by .49 mills in 2018 and transfer \$1,000,000 from the General Fund balance for the required debt service. We anticipate that an additional .35 mills will be needed in 2019 for a total of .76 mills on an annual basis to fully cover the debt service payments in future years.

It is recommended that the Capital Improvement Fund millage be increased from 1.06 mills to 1.55 mills in order to provide a transfer of \$1,300,000 to the PFA Fund with an additional \$1,000,000 transfer from the General Fund to the PFA Fund for fiscal year 2018-2019. Increasing the Capital Improvement Fund millage for 2018 from 1.06 mills to 1.55 mills will result in an estimated \$110 increase in City of Decatur property taxes for a property valued at \$500,000.

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 2016-2017 Revised General Fund budget estimated a \$554,110 use of fund balance but there was an actual contribution to fund balance of \$1,295,870, resulting in a fund balance as of June 30, 2017 of \$9,716,340. The 2017-2018 Proposed General Fund budget anticipated using \$1,180,030 from the general fund balance to provide enough revenue to cover 2017-2018 Proposed General Fund expenditures. Due primarily to increased revenues, the 2017-2018 Revised General Fund Budget estimates that the use of fund balance will be reduced to \$904,150. The estimated general fund balance at June 30, 2018 is estimated to be approximately \$8,812,190 or 35% of 2017-2018 Revised General Fund expenditures.

The 2018-2019 Proposed General Fund budget anticipates using approximately \$1,481,000 of the general fund balance. This should decrease the general fund balance at June 30, 2019 to approximately \$7,331,160, or 27% of 2018-2019 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 2018-2019, fund balance will be used to pay for a portion of the debt service associated with the purchase of the former Children's Home, to cover the costs of several planning efforts, including the 2020 Strategic Plan, holding a housing summit, improving cybersecurity testing, smart city initiatives and other one-time non-recurring expenditures.

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.

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 2018 Citizen Survey, 96% of respondents rated the overall quality of life in Decatur as "excellent" or "good." Also, 91% 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 2018-2019 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. The cost of the in-step merit increase is estimated to be about \$152,000 or about 1% of general fund expenditures.

We are recommending a \$2.00 per hour increase for part-time staff in the Active Living Division. We believe this will significantly enhance our recruitment efforts and stabilize our retention effort for staff. We are also increasing the number of school crossing guards from 32 to 34 in order provide better coverage of assigned crossings.

As part of the 2017-2018 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. 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 that survey, and to retain an excellent workforce and be competitive in recruiting new staff, a ten-percent shift in salary ranges and authorization of a 5% a merit-based general market adjustment for full-time employees was approved effective January 1, 2018. There is no market rate adjustment recommended in the 2018-2019 Proposed Budget Estimates.

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 6% in the 2018-2019 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 7% increase in employee contributions to health care costs in the 2018-2019 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 2018-2019 remains at 8% of payroll or approximately \$949,220. The total required employer contribution is approximately 2.9% 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.

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

Major Activities

Former Children's Home and Other Planning Efforts

In 2017, the City Commission took advantage of an amazing opportunity to take ownership of 77 acres formerly owned by the United Methodist Children's Home. 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. Two sources of financing were used to purchase the

property. The City of Decatur Public Facilities Authority (PFA) secured an \$11,452,000 low-interest loan from the Georgia Environmental Finance Authority (GEFA) to purchase approximately 22 acres of the property that will remain in a conservation easement and in August 2017, the PFA issued \$29,625,000 in bonds to purchase the remaining 55 acres. Purchase of the property was closed in August 2017 and the City took possession of the property in October 2017.

With a goal of involving as many residents as possible, the planning effort for the future of this property included five public input sessions, over 40 civic dinner conversations and a dozen stakeholder meetings and tours for groups that included environmentalists, housing experts, the creative community, and younger residents from first grade, middle school and high school. An online survey was also utilized to provide one more opportunity for community input. As a result, thousands of ideas were gathered and incorporated into three conceptual plans. The City is currently taking additional community input on these concepts and will refine these concepts into a single plan that will be presented for consideration by the City Commission in late summer 2018.

The 2018-2019 Proposed Budget Estimates also include funding for a number of plans, including the 2020 Strategic Plan, the Storm Water Master Plan Update, a Phase 2 Impact Fee analysis and the Historic Resources Survey Update.

Housing Attainability Summit

The desirability of the City of Decatur as a place to live, combined with limited available land, has resulted in increased housing prices, demolition of smaller, lower priced housing stock and development opportunities that have raised concerns about a decrease in housing diversity types that are attainable at a moderate price. In order to move forward on this issue, the 2018-2019 Proposed Budget Estimates include funding for a housing attainability summit that will be designed as a hands-on session for housing advocates, professionals and Decatur residents to engage in activities that will result in developing a common definition of affordable housing and set the framework for future actions to address housing type diversity and attainability.

Special Purpose Local Option Sales Tax (SPLOST)/Equalized Homestead Option Sales Tax (EHOST) and the Hotel/Motel Tax.

In November, 2017 DeKalb County voters approved a referendum that established a six-year SPLOST for capital improvements and debt service and an EHOST that uses 100% of the proceeds from the former 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 Hospital) millage. The SPLOST and EHOST became effective on April 1, 2018.

The City of Decatur's portion of SPLOST funding is based on a formula established in the referendum which is estimated to be approximately \$20,529,000 over the six-year period. The City's SPLOST projects include \$5,900,000 for construction of improvements to the Atlanta Avenue intersection, \$13,400,000 for debt service for previously bonded capital improvement projects including the Decatur Recreation Center, Fire Station #1, the Public Works Building and the Beacon Municipal Center and \$1,200,000 for sidewalk maintenance and construction projects.

The distribution from the capital improvement portion of the county-wide Homestead Option Sales Tax (HOST) sales tax will cease with a one-time payment estimated to be \$1,162,240 from the HOST

proceeds that were collected between January – March, 2018, prior to the implementation of the new SPLOST and EHOST on April 1st.

The City was also able to secure local legislation through the Georgia General Assembly to increase the hotel/motel tax from 7% to 8%. It is anticipated that the City Commission will be asked to consider adoption of a new hotel/motel tax ordinance in June, 2018 that could then go into effect September 1, 2018. With the opening of the new Hampton Inn in early 2019, we anticipate a significant increase in hotel/motel tax revenue for the General Fund and also to support a robust program for the Decatur Tourism Bureau.

Program Improvements

The 2018-2019 Proposed Budget Estimates include the addition of one new full-time position in the Solid Waste Division to enhance our streetsweeping program. Currently we have one full-time staff and one temporary staff assigned to streetsweeping. However, when we have staff vacancies on the residential collection route, full-time staff are reassigned because residential garbage collection is a priority. With an additional staff person assigned to streetsweeping we believe we can have more predictable and consistent streetsweeping service. We are also researching technology opportunities to provide timely information on routes and schedules to residents.

The 2018-2019 Proposed Budget Estimates anticipate reorganizing parking management services by contracting some of the parking management operations and staffing. In addition, it is recommended that the City Commission approve increasing the parking rate from \$2 per hour to \$3 per hour for metered parking Monday-Saturday, 8:00am – 6:00pm and allowing enforcement of the two hour limit after 6:00pm.

In response to requests from residents for sidewalk maintenance, repair and construction, it is recommended that the City Commission consider making a committing to a five-year, \$3,250,000 sidewalk maintenance, repair and construction program where we dedicate \$650,000 per year for five years using a combination of HOST fund balance, Capital Improvement funds and SPLOST funding. We believe this level of funding will enable the City to address identified needs, including priority Safe Routes to School within a scope that we should be able to schedule and implement over time and gain some efficiencies of scale.

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 Commission has also discussed the importance of open space and green space acquisition throughout the City. It is important to note that the Trust for Public Land ParkServe® website shows that 96% of residents of the City of Decatur live within a ten-minute walk of a park. The national average is 54%. 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.

In August, 2017 the City purchased the former Children's Home property and placed 22 of the 77 acres in a permanent conservation easement. In March, 2018 the City closed on the purchase of 2 parcels on Chevelle Lane near Dearborn Park for a total of \$60,000 to maintain as permanent natural space. The City is party to an eminent domain action to acquire 16 parcels adjacent to Dearborn Park. We expect resolution of the proceedings by the end of 2018. We have worked 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.

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 estimated combined operations millage is 11.17, an increase of .49 mills. However until we get a real property digest report from DeKalb County, we cannot calculate the roll-back millage rate and the millage rates are subject to change. We do expect to get a report by the end of May 2018 and believe that we can meet the requirements of the law for 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 11, 2018 at 6:00pm and Monday, June 18, 2018 at 3:30pm and 7:30pm. In addition, we have scheduled an extended work session from 4:00pm – 6:30pm before your regular meeting on June 6, 2018.

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. 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. To that end, the 2017-2018 Revised Budget Estimates and the 2018-2019 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 2018-2019 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 2013 and the recommended estimated 2018 millage rates:

	2013	2014	2015	2016	2017	2018
	<u>Levy</u>	<u>Levy</u>	<u>Levy</u>	<u>Levy</u>	<u>Levy</u>	<u>Levy</u>
General Fund	10.20	10.20	9.70	9.30	9.24	9.24
General Fund						
Cap. Improv.	1.10	1.00	1.00	1.00	1.06	1.55
Downtown Dev.						
Authority	.38	.38	.38	.38	.38	.38
Operations Total:	11.58	11.58	11.08	10.68	10.68	11.17
2007 Bonds	1.42	1.42	.92	.92	.90	.90
2015 School Bonds	0	0	1.57	1.57	1.91	1.91
Bonded Debt Total:	1.42	1.42	2.49	2.49	2.81	2.81
TOTAL:	13.00	13.00	13.57	13.57	13.49	13.77

Completion of the 2017-2018 Revised Budget Estimates and 2018-2019 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 City Clerk Meredith Roark.

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