

# AN ANALYSIS OF DAVENPORT CITY FINANCES

## Prepared For:

Iowa State Policemen's Association  
Collective Bargaining Unit Local No. 2

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## THE CITY'S ABILITY TO PAY

According to the City of Davenport budget and other information (see appendix), general fund revenues would increase about 3% (\$620,000) next fiscal year (FY 1985) without any action to increase property tax rates. In addition, the proposed budget includes two measures which would create additional resources in the general fund: (1) an emergency levy, which would generate about \$489,000; and (2) the transfer of about \$666,000 in employee benefits to the trust and agency fund. The trust and agency levy will rise, and \$666,000 of the additional revenues generated thereby will be used to release monies in the general fund (\$150,000), in the transit fund (\$172,000)--which is subsidized by the general fund, and in road use tax funds, which supports activities also funded from the general fund. Thus, a total of about \$1.8 million in additional resources will be available in FY 1985, an increase of 8.9% over FY 1984 general fund revenues. This is shown in Table 1.

A number of additional revenue sources could be exploited in FY 1985, as summarized in Table 2. These total nearly \$2 million, and are explained in more detail in the pages that follow. Clearly, the city has the ability to finance increases in wages and benefits well above what it has offered city employees.

## INCREASING CHARGES FOR SERVICES

The greatest potential for increasing revenue from fees lies in the refuse collection department. Of the eight cities in Iowa with population over 50,000, Davenport is the only one which does not charge a fee per residence for trash collection. Table 3 shows the fees charged, on a monthly basis, by each city as of February 1984, and the percent of total refuse collection expenditures which are covered by fee revenues. The fees range from \$3.50 to \$4.75 per residence per month, and generally cover most or all of the collection expenses. Most of these cities budget refuse collection in an enterprise fund. The fees are usually collected through bimonthly or quarterly water bills so that additional billing expense is minimal.

The FY 1985 Davenport budget shows a total refuse collection budget of \$1,319,247 financed from the following revenue sources:

General Fund:	\$1,037,841
Revenue Sharing Fund:	45,000
CDBG Fund:	42,087
Tort Liability Fund:	21,600
Trust and Agency Fund:	<u>171,999</u>
	\$1,319,247

Table 1 City of Davenport: General Fund Revenues (thousands of dollars)			
With property taxes unchanged	FY 1984	FY 1985	Change
Property taxes	15,475	15,742	+267
Nonproperty taxes	686	642	-44
Regulatory fees	1,245	1,293	+38
Service charges	405	906	+501
Intergovernmental revenue	1,422	1,521	+99
Use of money and property	763	643	-120
Miscellaneous revenue	157	37	-120
Total general fund revenues	20,153	20,773	+620
Additional Resources in Recommended Budget			
Employee benefits transferred to trust and agency fund /a/	0	666	+666
Emergency levy	0	489	+489
Cumulative total	20,153	21,928	+1,775
/a/ This is the amount of employee benefits budgeted under the road use tax fund (\$344,000) and the transit fund (\$172,000) and the workers compensation budgeted under the general fund (\$150,000) in FY 1984. Thus, a total of \$666,000 of the increase in the trust and agency fund levy for FY 1985 represents a net gain in resources available for general governmental operations.			

The City of Davenport currently has about 28,900 refuse collection customers. A \$1.00 per month per customer fee, therefore, would produce about \$346,000 in revenues. This amount of general fund resources would then be available for other purposes. A fee of \$3.80 per month would product about \$1,318,000 in revenues. The budgetary effects are shown in Table 4.

Table 2 City of Davenport: Major Additional Sources of Revenue for FY 1985 Budget	
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	Amount		
Substitute debt for federal revenue sharing funds in Capital Improvement Program /a/	273,000		
Implement fee for refuse collection			
\$1.00 per month	346,000		
Additional \$2.80 per month	779,000		
Maintain operating reserves at \$4.6 million	199,000		
Reduce operating reserves to 20% of general fund	388,000		
Total	\$1,985,000		
/a/ Proposed budget includes a transfer of \$273,000 from the revenue sharing fund into the capital improvement program.			
<p>Table 3: Refuse Collection Financing in Iowa Cities of 50,000 Population or More (1984)</p>			
	1980 Population	Monthly Fee per Residence	Fee Revenue as Percent of Collection Expenditures
Des Moines	191,003	\$4.75	98%
Cedar Rapids	110,243	4.25	n/a
Davenport	103,264	None	0
Sioux City	82,003	3.50	n/a
Waterloo	75,985	4.50 /a/	100%
Dubuque	62,321	4.20	n/a
Council Bluffs	56,449	4.42	100%
Iowa City	50,508	3.50	82%
<p>Source: Telephone survey, city budgets, and 1980 census. /a/ City trash collection is optional (provided one can show that a private hauler has been contracted with) and households with under \$7,000 income are exempt from fee.</p>			

Table 4 Budgetary Effects of Trash Collection Fee		
Monthly Fee	\$1.00	\$3.80
Annual Revenue	\$346,000	\$1,318,000
Budgetary effects		
Freed general fund resources	346,000	1,037,000
Freed revenue sharing and CDBG resources	0	88,000
Reduced tort liability and trust and agency levies	0	193,000

### REDUCED OPERATING RESERVES

In the FY 1984 budget (p. viii), it was estimated that \$3.6 million in fund balances have to be maintained for cash flow requirements from July 1 of each fiscal year until property tax revenues are received from the county in October. This sum, in other words, is not to be appropriated for operating expenditures but is to be used only temporarily to finance city operations during the first third of the fiscal year. The balance would be replenished from property tax receipts, invested when not needed to meet cash flow requirements, and kept intact for the same purpose for subsequent years. The acting city finance director now estimates that the balance needed for cash flow purposes as of June 30, 1985, will be \$4.8 million. See Table 5.

It would be possible to meet the city's cash flow requirement without holding such large balances from year to year. It is a fairly common practice to utilize short-term borrowing for such purposes. Iowa law permits cities to issue tax anticipation warrants, which are short-term notes retired from tax collections. In other words, the city would borrow \$1 million July 1 for 120 days, to be paid from property taxes collected in September and October. It might be argued that the city is now earning interest on the fund balances carried over from year to year, whereas borrowing requires paying interest and is thus a more costly alternative. This argument is invalid for two reasons; (1) the short-term notes, being tax exempt, would carry low interest rates and the proceeds could be invested at higher rates until needed so that the net interest cost would be quite low; (2) under the present policy, the city is, in effect, borrowing from the taxpayers and paying them no interest; the interest foregone by the city's taxpayers represents a hidden interest expense that should be taken into account. In other words, a short-term borrowing approach is not necessarily more costly to the city's taxpayers than the fund balance policy.

Table 5		
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Fund Balances (thousands of dollars)				
	General Fund	Road Use Tax	Revenue Sharing	Total
Balance 7-1-83	4021	531	947	5499
Less appropriation for FY 1984	-580	-68	1017	369
Balance estimated 6-30-84	4601	599	-70	5130
Less budgeted appropriation for FY 1985	-199	-110	-70	-379
Balance estimated 6-30-85	4800	709 /a/	0	5509
/a/ A large part of this balance will probably be used during FY 1985 to finance capital projects.				

It is true that existing fund balances are a "depletable resource" and that when they are consumed to fund annually recurring expenditures the problem is only postponed; other revenue sources must eventually be found to support those expenditures. The availability of future resources is uncertain. For this reason, it may not be prudent to spend all or even a large share of existing balances in one year. On the other hand, a part of those balances could safely be drawn upon. More importantly, the "depletable resource" argument does not apply in the case of *increases* in the fund balance. As the city's annual costs rise, the sum required to meet expenses during the first part of the fiscal year will rise also. As the city's annual costs rise, the sum required to meet expenses during the first part of the fiscal year will rise also. As long as the city rejects a borrowing approach, it will have to raise taxes each year in order to add to the fund balances required for cash flow needs. There is no apparent reason to reject the use of tax anticipation warrants to finance all *increases* in cash flow requirements. This would reduce pressure on the property tax.

The FY 1985 budget calls for the use of about \$200,000 in general fund revenues to *increase* the balance in the general fund for operating reserve purposes, from \$4.6 to \$4.8 million. If this sum actually turns out to be needed for cash flow purposes during the first three months of FY 1986, it could be borrowed at that time through issuance of tax anticipation warrants. Adoption of such a policy now would release the \$200,000 in general fund revenues to finance operating expenditures during FY 1984.

Appendix:  
General Fund Operating Reserves (thousands of dollars)

City of Davenport: FY 1984

1.	Estimated reserve 7-1-83	\$ 3,600
2.	Actual balance 7-1-83	4,021
3.	General fund budgeted expenditures	20,640
4.	Total budgeted expenditures	43,699
	Reserve Percent of General Fund 3,600 / 20,640 = 17.4% 4,021 / 20,640 = 19.5%	Reserve Percent of Budget 3,600 / 43,899 = 8.2% 4,021 / 43,899 = 9.2%

FY 1985:

1.	Estimated general fund balance 7-1-84	\$ 4,600
2.	General fund budgeted expenditures	21,064
3.	Total budgeted expenditures	47,678
	Reserve Percent of General Fund 4,600 / 21,064 = 21.8%	Reserve Percent of Budget 4,600 / 47,678 = 9.6%

NOTE: Davenport General Ledger for month ending 9-30-83: (1) General fund: expenditures exceeded receipts during first 3 months of FY 1984 by \$1,961,538; (2) all appropriated funds: expenditures exceeded receipts 7-1-83 through 9-30-83 by \$2,809,588.

Nine largest cities in Iowa, FY 1984

General fund balances 7-1-83	\$ 23,116,000
General fund expenditures	\$166,218,000
Total budget expenditures	\$468,056,000
Reserve Percent of General Fund 23,161 / 166,218 = 13.9%	Reserve Percent of Total Budget 23,161 / 469,056 = 4.9%

**ADDITIONAL PROPERTY TAX LEVIES**

Several of the many special-purpose property tax levies permitted under Iowa law could be employed by the City of Davenport. These are identified in Table 6. The capital improvements levy could be employed to finance any major capital project. The levy for the operation of cultural or scientific facilities could be used to finance the art gallery or library operations, which together account for over \$1.3 million in general fund expenditures in the FY 1985 budget. The zoo levy could replace the \$77,000 in general fund support of the city zoo. All of these would require voter approval, however. The levy for the operation of a civic center could be enacted by the council without a referendum should the revenues from the hotel-motel tax and TIF levy fail to cover the debt service and operating costs of the Civic Activities Center.

**REDUCING SUBSIDIES TO ENTERPRISES**

The airport and the parking system are the two city enterprises which are intended to be self-supporting (unlike transit) but which have required some taxpayer subsidy in the past and probably will again in the future. Raising parking fees or hangar rentals, or initiating airport landing fees, could (1) reduce general fund subsidies, and/or (2) reduce the debt service and tort liability levies, relieving some of the pressure on the property tax. For FY 1985, there was only \$2,376 in general fund subsidies to these two enterprises. However, as shown in Table 7, there was a subsidy of \$153,593 from the tort liability and debt service funds. Eliminating this subsidy would permit a reduction in the overall property tax rate of about 8 1/2 cents per thousand. See Tables 8 and 9 for comparative property tax votes and increases in property tax bills for the City of Davenport.

Table 6 Additional Property Tax Levies Available				
Purpose	Code Reference	Election Required	Maximum Rate /a/	Maximum Revenues (\$1000)
Capital improvement reserve fund	384.7	Yes	\$0.675	1.222
Cultural or scientific facilities	384.12.4	Yes	0.27	489
Operating and maintaining civic center	384.12.12	No	0.135	244
Maintain an institution received by gift or devise	384.12.17	Yes	0.205	371 /b/

Operating and maintaining a zoo	394.3	Yes	0.27	489
/a/ Dollars per thousand. /b/ The actual amount of revenues that could be derived from these levies is limited by the amount currently budgeted for qualifying activities. In the case of the zoo, for example, the FY 1985 budget proposes an expenditure of about \$77,000 in general fund revenues for the zoo; a zoo levy would probably not exceed that amount.				

Table 7 Property Tax Subsidies to Airport and Parking Enterprises, FY 1985				
Property Tax Levy	Airport	Parking	Total	Tax Levy (\$/thousand)
General fund	\$2,376	\$0	\$2,376	
Tort liability	4,650	33,600	38,250	\$0.0211
Debt Service	26,586	88,757	115,343	.0633
Total	\$33,612	\$122,357	155,969	\$0.0844
Source: Davenport Fiscal Year 1985 Proposed Budget				

Table 8 Property Tax Rates (Dollars per Thousand) in Iowa Cities over 50,000 Population		
City	FY 1984 /a/	FY 1985 /b/
Sioux City	17.31822	n/a
Council Bluffs	15.10305	15.63
Des Moines	15.00939	15.35

Dubuque	13.44364	14.19
Waterloo	12.55856	13.28
Davenport (actual levy)	12.55856	13.84
Davenport (levy without refuse collection expense)	11.75	13.11
Cedar Rapids	12.41352	12.60
Iowa City	11.90817	10.65
/a/ Source: State of Iowa, Comptroller's Office, <i>City Property Tax Rates Based on January 1, 1982 Taxable Valuations</i> .		
/b/ Levy in proposed FY 1985 budgets as of March 5, 1984. Source: Telephone survey and copies of proposed budgets.		

**CITY OF DAVENPORT: PROPERTY TAX BASE AND TAX LEVIES, FY 1984 AND FY 1985.**

There are three principal components to the city's property tax base:

- ◆ Taxable value of agricultural land and improvements, which is subject to a maximum tax rate of \$3.00375 per \$1000 of taxable value;

Table 9  
Increase in Property Tax Bills Resulting from Proposed FY 1985 Budget

	\$50,000 Home		\$100,000 Home	
	FY 1984	FY 1985	FY 1984	FY 1985
Actual value of residence	\$50,000	\$50,000	\$100,000	\$100,000
State roll-back percentage	x 0.67223	x 0.698754	x 0.67223	x 9,698754
Taxable value	\$33,612	\$34,938	\$67,223	\$69,785
Homestead exemption	-4,850	-4,850	-4,650	-4,850
	\$28,762	\$30,088	\$62,373	\$65,025
Tax rate	x 0.01255686	x 0.013843	x 0.01255686	x 0.013843
Homeowner's tax bill	\$361.15	\$416.50	\$783.21	\$900.14
Increase in tax bill FY 1984 to FY 1985				
Dollar amount		\$55.35		\$116.93
Percentage increase		15.3%		14.9%
Pct increase adjusted for inflation /a/		11.3%		10.9%
NOTE: Increase in taxes on commercial and industrial property, FY 1984 to FY 1985: about 10%.				
/a/ Assumes inflation will continue at an annual rate of 3.6% through early 1985.				

- ◆ The increment in taxable value of property within the city's tax increment financing (TIF) district since the year the district was established: this taxable value is multiplied by the consolidated levy (the county, school district, and special district levies combined with all city levies except debt service) to generate revenues dedicated to financing the civic activities center (CAC); and
- ◆ The taxable value of all nonagricultural personal property, less the TIF tax base and less the value of residential property eligible for the military exemption. This total net nonagricultural valuation is the effective tax base for purposes of applying the following levies: (a) general fund levy, subject to an \$8.10/\$1000 limit; (b) the transit levy (maximum rate \$0.54/\$1000); (c) the total liability levy (unlimited); (d) the trust and agency fund levy (unlimited); (e) an emergency levy, if any (maximum rate \$0.27/\$1000); (f) any additional levies authorized in section 384.12 of the Iowa Code (subject to various limits).

The debt service levy (unlimited) is applied to the sum of the net non-agricultural valuation and the TIF valuation.

The components of Davenport's property tax base for fiscal years 1984 (actual) and 1985 (most recent estimates) are shown in Table A1, the January 1982 valuation being the tax base for FY 1984 levies and the January 1983 valuation being the base for FY 1985 levies.<sup>11</sup>

The three property tax levies under the general fund (agricultural land, general fund, and transit) were at the maximum rate in FY 1984 and will be again in FY 1985. The net nonagricultural valuation increased 1.7% between FY 1984 and FY 1985 (as shown in Table 1); general fund property tax revenues should rise by a similar percentage, producing approximately \$267,000 additional resources for general government operations. In addition, the proposed FY 1985 budget includes an emergency levy, which would produce another \$489,000. Table A2 shows the actual tax rates (levy per thousand dollars of taxable value) for FY 1984, estimated receipts from each levy (including collections of prior years' taxes), and proposed levies and estimated receipts for FY 1985. Since the tort liability, debt service, and trust and agency fund levies are not limited, these tax rates will be set at the rate required to produce revenues sufficient to finance insurance, debt service payments, and employee benefits.

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<sup>11</sup> Fiscal Year 1984 runs from July 1, 1983 to June 30, 1984. Property taxes are collected in September 1983 and March 1984 and are based on the levies certified in March 1983 (for the FY 1984 budget) and the taxable value as of January 1982.

Appendix: Cost of Living		
	January 1984	Pct Increase over January 1983
CPI-U	305.2	4.1%
CPI-W	302.7	3.6%
Source: U.S. Bureau of Labor Statistics		

Table A1  
Taxable Value of Property for City of Davenport

		Taxable Value	
		January 1, 1982	January 1, 1983
1.	Agricultural Property	13,783,190	15,157,939
2.	TIF valuation	16,769,148	10,936,897
3.	Net nonagricultural valuation	1,780,606,347	1,810,938,818
4.	Tax base for debt service (2 + 3)	1,797,375,495	1,821,875,715
5.	Total net valuation (1 + 4)	1,811,158,685	1,837,033,654
6.	Military exemption	15,534,761	15,534,761
7.	Total gross valuation (5 + 6)	1,826,693,446	1,852,568,415

Source: Table furnished by City Finance Department in December 1983, titled "City of Davenport: Assessed and Taxable Valuation," and information supplied by the acting finance director.

Table A2  
City of Davenport Property Tax Levies:  
Fiscal Years 1984 and 1985 (dollar amounts in thousands)

Levy	Fiscal Year 1983 - 1984		Fiscal Year 1984 - 1985 /c/	
	Levy Per Thousand /a/	Est. Receipts /b/	Levy Per Thousand	Est. Receipts
In general fund				
Agricultural land	\$2.97464	\$ 41.0	\$3.00375	\$ 45.5
General fund	8.10	15,384.0	8.10	15,646
Transit	0.54		0.54	
Emergency			0.27	489.0

Credits		50.0		50.0
Total general fund collections		15,475.0		16,231.0
In other funds				
Tort liability	0.04188	74.6	0.415	750.7
Debt service fund	1.96855	3,538.2	1.615	2,942.1
Trust and agency fund	1.90643	3,394.6	2,903	5,256.5
Total for general government		22,482.4		25,180.3
Total nonagricultural levy	12.55686		13.843	
<p>SOURCES:</p> <p>/a/ Comptroller's Office, State of Iowa, City Property Tax Rates Based on January 1, 1982 Taxable Valuations</p> <p>/b/ Calculated by multiply levy per thousand times appropriate figure for taxable value from Table 1</p> <p>/c/ City of Davenport Fiscal Year 1985 Proposed Budget, and calculations by authors.</p>				