



Executive Overview



THE CITY OF
West Des Moines®
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City Manager

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'AAA'
Credit Rating from
Standard & Poor's

January 25, 2020

Honorable Mayor and Council:

I respectfully present the proposed General Fund Budget for the City of West Des Moines for the upcoming fiscal year beginning July 1, 2020. The adopted budget authorizes resources and sets the direction for our programs and services for the coming fiscal year. As the City's financial and spending plan, we believe the adoption of the budget is the single-most important action taken annually by the City's elected officials.

As you review the preliminary draft of this budget, recognize that staff makes every effort to enhance the format of the material so that the public has a better understanding of the various services we can deliver to citizens. If sections of the proposed budget are unclear, we should work to improving those. In addition, it is vital that you as the City's policymakers have the information needed to ensure that the budget reflects the public interest. The final budget should serve as an effective public policy document and financial planning tool.

Recent Accomplishments in Financial Management

Moving into the second half of Fiscal 2020, we are pleased to note three recent accomplishments in the management of the City's financial resources.

- ◆ On July 3, 2019, S & P Global Ratings reaffirmed its AAA rating on the City's outstanding general obligation bonds. This follows confirmation of the same by Moody's Investor Services in December 2018. Each of these ratings are the highest given by the respective agencies. The City remains one of approximately 100 in the United States which can boast of the highest rating from each agency.
- ◆ The Government Finance Officers Association of the United States and Canada (GFOA) again awarded a Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report for the fiscal year ending June 30, 2018. This is the 26th consecutive year the City has received this award.
- ◆ The City received a Distinguished Budget Presentation Award from the Government Finance Officers Association of the United States and Canada (GFOA) for its Budget Summary document for the fiscal year beginning July 1, 2019, the 21st consecutive year the City has achieved this award.

Highlights of the FY 2021 Recommended Budget

- ◆ The FY 2021 budget recommended by staff maintains the City’s property tax rate at \$10.99 per thousand dollars of taxable valuation. You will recall that the city was able to reduce the rate for Fiscal Year 2020 from \$11.79 to \$10.99 (per \$1,000 taxable valuation) as a result of the Local Options Sales and Services Tax (LOSST) election held in Polk County in March 2019. The FY 2021 budget includes an estimated \$14.5 million of LOSST receipts and in accordance with the ballot language, 50% of this revenue will continue to be transferred to the General Fund and applied directly against the property tax levy rate. Per the ballot language, the balance of funds will be used for Public Safety, Infrastructure, and Quality-of-Life Amenities. Below is a comparison of the current and proposed property tax rates:

	<u>FY 2020</u>	<u>FY 2021</u>
Total Tax Dollars Required (Levy per \$1,000)	\$66,754,528 \$12.68782	\$71,364,188 \$13.0067
Commercial & Industrial Replacement (Levy per \$1,000)	(2,277,553) (0.43822)	(2,465,419) (0.44830)
50% of Local Option Sales Tax (Levy per \$1,000)	(5,400,000) (1.04350)	(7,247,000) (1.34743)
City Uses Local Option Sales Tax (Levy per \$1,000)	(1,118,265) <u>(0.21609)</u>	(1,155,983) <u>(0.21493)</u>
Net Tax Levy	\$57,958,710 \$10.99	\$60,495,786 \$10.99

- ◆ Included in the proposed FY 2021 budget is the addition of ten (10) employee positions (4 in Public Safety and 6 in other departments) as well as two budgetary adjustments to an existing position:
 - The Fire Department will add an Assistant Chief position as a result of a restructuring between the administrative areas of the Fire and EMS Departments.
 - The Police Department will add a Detective in order to meet an ever-increasing case load. This will bring the total number of detectives to nine (9).
 - Westcom will add a two (2) Dispatchers to meet ever-increasing demands of 911 calls and as the Westcom cities all continue to expand their public safety departments. The Westcom positions have been approved by the Westcom Management Committee, a group which consists of representatives from all the Westcom cities.
 - Public Services will add two (2) Public Services Operators. The Public Services Operator positions are needed to accommodate the significant growth of the City’s infrastructure across many areas (streets, parks, forestry, and horticulture).

- Public Services will add a Utility Locator position. Currently, utility locates are a task that falls has fallen to Traffic Signal Technicians and sometimes Operations Specialists, both of which are at a higher pay grade than this proposed Utility Locator. Transitioning the work will be more cost efficient and will permit the Signal Technicians and Operations Specialists to focus on an increasing demand for their services. In addition, combining the locate function under one individual should decrease the City's risk, particularly as the amount of city-owned infrastructure (fiber, storm, and sanitary sewer) continues to grow rapidly.
- Public Services will add a Mechanic position. Previously, work for Mechanics was constrained by the available space in the Public Services facility. As a result, a significant amount of vehicle and equipment maintenance was contracted out to the private sector. This is more expensive, particularly when considering that nearly all the work involved transporting vehicles outside the City. With the impending move to a much larger maintenance facility, much of this work can now be done in-house.
- The Library will add an Outreach Librarian who will be tasked with developing outreach activities to promote library programming, resources and services both in the library and off-site, pack and deliver book to the homebound and eldercare centers, serve as a liaison for community organizations, and work with staff on special projects. The Library will also upgrade the existing Children's Librarian to Head of Youth Services as well as the existing Secretary to an Administrative Secretary.
- Finance will be adding an Accountant which will be tasked with duties involving procurement, budgeting, and grant compliance. The City has always had a decentralized purchasing philosophy, where purchasing is coordinated at the department level. This position will allow Finance greater resources to assist the departments with purchases, by shepherding a bidding process, searching for advantageous contracts, or coordinating efforts between department as appropriate. This should allow for a significant direct financial savings as well as a more efficient process for all staff. This position will also be asked to provide support to the City's Budget Analyst, which will allow the department to provide a more proactive approach to budget preparation and monitoring. Finally, the City has taken advantage of an ever-increasing number of grant opportunities and nearly all of those require detailed compliance, reporting, and funding guidelines. Traditionally that responsibility has fallen to the department receiving the grant, but his position will be able to consolidate those efforts and reduce the chance of non-compliance issues.
- An additional 14 positions were requested by department directors but were of a lower priority and, due to budgetary constraints, they were not accommodated at this time.
- ◆ The growth in employees is comparable to the growth of the city over the long-term. Because city employees must serve residents, visitors, and businesses in the city, it seems logical that employees would need to grow in similar proportion to both population and property valuation. Over the past 15 years, property within the city has grown at an average annual rate of 7.6%, population has grown at 1.9%, and the employee complement has grown at 2.9%.
- ◆ The proposed employee compensation totals take into consideration terms of bargaining unit contracts for each of the approximately 297 union employees. Projected personnel expenditure levels rely on historical trends, current contract information, and projected terms for

agreements yet to be finalized. The proposed compensation budget will address the approximately 218.25 non-union employees using existing pay plans and benefit packages, including health insurance plans for new employees.

Bargaining unit employees are expected to receive cost-of-living adjustments ranging from 2.50% to 3.00%, all budgeted in agreement with the terms of their respective contracts. All contracts have been negotiated and executed into FY 20-21. In addition to the cost-of-living increases, bargaining unit employees who are not at the maximum pay of their range may be eligible to receive “step” increases dependent upon performance and classification.

Non-union employees who have not yet reached the maximum pay level for their position may be eligible at July 1, 2020, to receive pay increases based solely upon job performance.

- ◆ The City will receive approximately \$8 million dollars in Road Use Tax funding during FY 20-21. This is a slight increase from the previous year because the Iowa Department of Transportation increased the per capita forecast. This revenue allows for approximately \$7 million in Road Use Tax funds to be expended for street-related expenditures (CIP and operating), along with spending of the remaining funds for street lighting and repayment of debt related to Iowa Highway 5 construction. Staff’s goal for the Road Use Tax Fund is to maintain a steady fund balance from year-to-year.
- ◆ The proposed FY 20-21 budget reflects an increase in the contribution rate for the Municipal Fire and Police Retirement System of Iowa (MFPRSI). The City’s contribution rate of covered wages for FY 20-21 will be 25.31% as compared to 24.41% for FY 19-20. The proposed budget also reflects no change in the contribution rate for Iowa Public Employees Retirement System (IPERS). The City’s contribution rate for IPERS will be 9.44% for FY 20-21.
- ◆ The proposed budget reflects the carryover of cash to ensure the FY 20-21 budget maintains prudent general fund balances, which protect financial integrity. General Fund total revenues carrying over are projected to be \$80,767,660 and total expenditures will be \$83,655,462. The projected Uncommitted General Fund composite balance on June 30, 2021, will be \$22,999,153 or 30.36% of annual operating expenditures. This will leave enough funds for meeting unexpected revenue shortfalls or demands on future fund resources. It remains within the guideline set by members of City Council and follows the recommendation of the City’s financial advisory firm, who suggest that the General Fund cash reserve balance remain over 30% in order comfortably meet the criteria for a AAA bond rating.

Outlook for FY 20-21 and Beyond

The City’s budgeting philosophy continues to be conservative, ensuring that funding is adequate to provide services to residents and protect our long-term viability. A starting point for projections was a desire to deliver comparable levels of service to residents, utilize responsible revenue assumptions, and maintain adequate reserves. In addition, the City Council has indicated that maintaining the current general fund tax rate is a very high priority, at least equal in status to maintaining prudent fund balances and providing quality services.

While the general economy in the state and in Central Iowa remains relatively solid, cities in Iowa, including West Des Moines, continue to face several areas of consideration and concern. As staff and I prepared the proposed budget, we needed to consider: (1) a future reduction or elimination

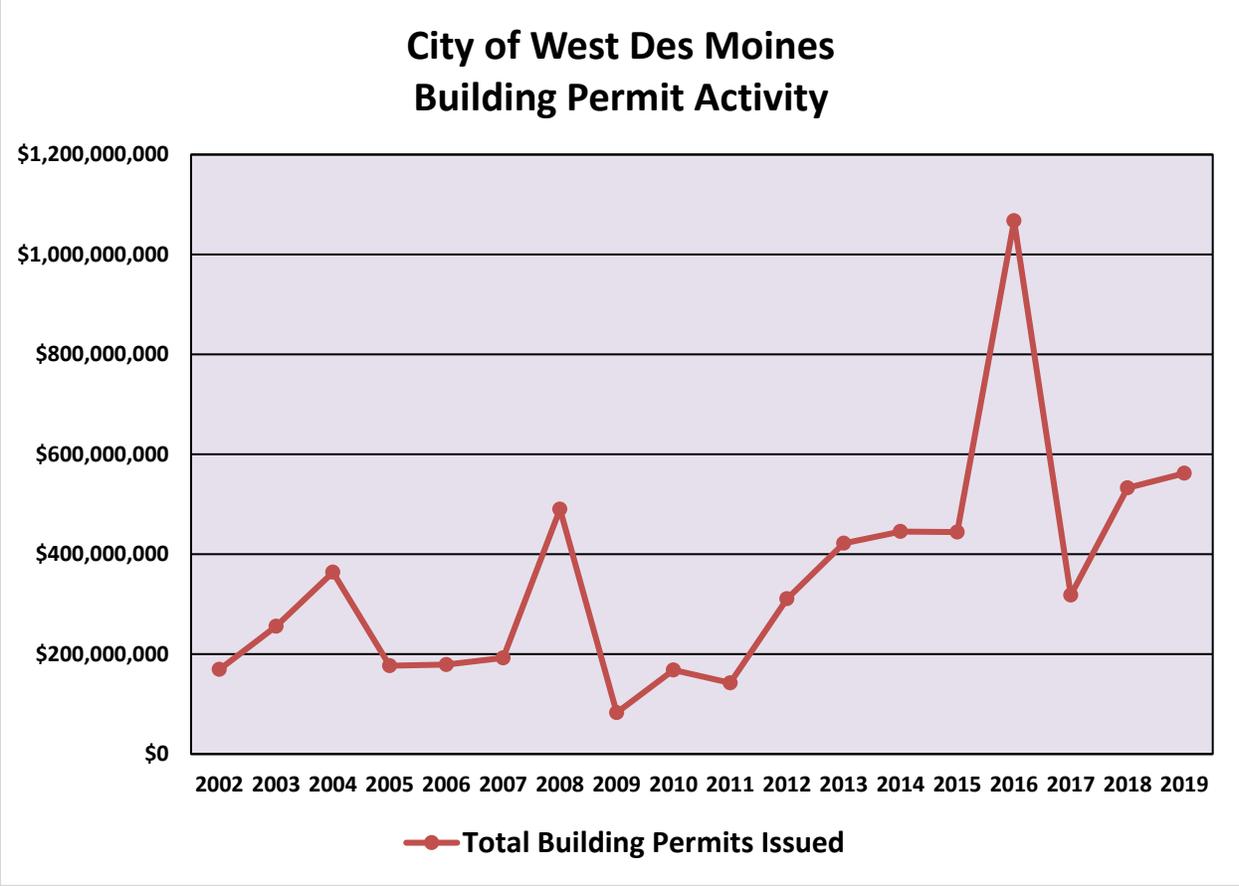
of the current commercial tax rollback backfill by the State of Iowa, (2) a continued reduction in future tax revenues related to multi-family residential properties which was legislated in 2013, (3) a very aggressive capital improvement program, and (4) escalating employee health insurance, pension, and other benefit costs.

Offsetting some of the concerns is the recent passage of the Local Option Sales and Service Tax (LOSST) in Polk and Dallas Counties. This allows for up to \$14 million in annual revenue and has allowed for a significant reduction in property taxes along with an accelerated path for adding needed public safety personnel. It also has allowed the city to begin to provide a multitude of quality-of-life projects including the Jamie Hurd Amphitheater, the Raccoon River Park Boathouse, and the MidAmerican Energy RecPlex.

Local Economy/Development Activity Highlights

The City continues to be one of the fastest growing cities in the state of Iowa. A Special Census completed in December 2015 revealed a population of 63,541, which reflected growth of 12% since the last official Census in 2010. Since 2015, the US Census Bureau estimates that another 3,100 residents have been added, bringing the total to 66,641 as of July 2018. This continues a long-term pattern, as the population of the city grew by 79% from 1990 to 2010. Estimates indicate the City should continue to grow by approximately 1,000 residents per year.

During calendar 2019, the City saw its second highest level of building permit activity in history (in terms of valuation), with \$561 million. This is the second consecutive year that building permit valuations have topped \$500 million. Calendar 2019 also constituted the 9th consecutive year of permits valuing over \$300 million.



BUDGET IN BRIEF

Revenues and Taxable Growth

As discussed above, the City continues to experience significant development. Every two years the various county assessors revalue property across the state. Property valuations were adjusted on January 1, 2019. This date’s valuation is used to calculate property tax revenues to be received in FY 20-21, so the growth allowed for taxable valuation to increase by 6.2% for the City. All of this valuation increase will not directly assist the City’s general fund, however, as revenues from Microsoft’s data center projects will be used to pay for the surrounding infrastructure over the next 10-20 years, a portion of the property tax revenues generated by the Mills Civic Parkway area and Athene office complex continue to be used similarly, and much of the anticipated future growth will be spoken for through Council-directed rebate programs and TIF-related activity. This resulted in non-TIF-related taxable growth of approximately 3.9%.

The City has a strong tax base in commercial property, including two regional malls and extensive office and medical clinics. Approximately 41% of the city’s valuation is taxed commercially, which is a much higher percentage than a typical metro suburb. This has worked to the City’s advantage in the past, but recent reductions to the commercial tax rate by state legislation have slowed revenue growth.

Large infrastructure projects in the areas of Mills Civic Parkway and Jordan Creek Parkway, which began nearly 20 years ago, have now seen a significant percentage of developable areas around those corridors filled with retail centers, hotels, restaurants, offices, and multi-family residential projects. Other areas are poised for future development such as the areas around Iowa Highway 5.

More recent infrastructure which could spring future development is the Grand Prairie Parkway Corridor / Interstate 80 interchange which opened for traffic in December 2015. During 2019 several commercial projects began construction – Sammons Financial Group headquarters on Mills Parkway, two hotels opened on Jordan Creek Parkway (Comfort Inn and Holiday Inn Express), retail continued to grow – an example being Giordano’s Pizza entering Iowa for the first time with a West Des Moines location near Jordan Creek Town Center.

Construction of infrastructure continued as the City completed and opened 12 miles of roadway on the Veterans Parkway / Grand Prairie Parkway loop. These roadways, along with electrical and sewer projects, were all constructed to allow for paved accesses and utilities to Microsoft’s newest data center (Osmium). In addition, the projects now allow for up to 5,000 acres of new potential commercial and residential development into the future. The opening of these roadways was the result of many years of planning and coordination with property owners and Microsoft. Included were two significant bridges – one crossing Interstate 35 and one over the Raccoon River. The Osmium data center is currently under construction along the Interstate 35 in Warren and Madison County.

The City also began construction of its own major facilities during 2019 with four separate projects. The MidAmerican Energy Rec Plex is a city-owned, 220,000 square foot sports facility with two ice arenas, a full-sized indoor turf fieldhouse, a gymnasium with multiple basketball/volleyball courts, office and locker room spaces, an adaptive play area, an e-sports area, flexible meeting spaces, and a sports medicine / therapy clinic operated by Des Moines University -- all under one roof. Opening is currently scheduled for late 2020.

The Parks Department of the City also began construction of two major facilities – the Jamie Hurd Amphitheater, an outdoor space adjoining the City Hall Campus will be open to host concerts and other productions in the summer of 2020, and the Raccoon River Park Boathouse, which will host watercraft rentals and other outdoor activities on Blue Heron Lake along with offering concessions and other amenities. These two facilities are being funded in large part by Local Option Sales and Services Tax (LOSST), which is discussed in more detail further in this letter.

For FY 2021, General Fund operating revenues of \$66,329,990 are projected to increase by 5.78% compared to FY 19-20. Several factors contributed to the increase in property tax revenue despite the decreased percentage of the residential rollback from 56.92% to 55.07%. As mentioned previously, the City saw significant residential and commercial development, and also an overall increase to existing property valuations. Statewide trends among the larger cities shows mixed results but most of the major cities saw solid growth during the non bi-annual reassessment year. A summary of the ten largest cities is depicted below:

Comparison of Taxable Valuation
 FY 20-21
 Top 10 Cities in Iowa

City	Population Per 2018 US Census Estimate	Total 2019 Taxable Valuation	Change in Taxable Valuation from Prior Year	Taxable Valuation Per Capita
Des Moines	216,853	9,365,412,911	8.34%	39,862
Cedar Rapids	133,174	7,379,530,910	2.78%	53,916
Davenport	102,085	4,972,221,925	4.11%	46,783
Sioux City	82,396	3,512,755,677	12.11%	38,027
Iowa City	76,290	4,258,178,148	8.54%	51,424
Waterloo	67,798	2,633,279,135	-0.06%	38,863
Ames	67,154	3,191,402,277	2.01%	46,587
West Des Moines	66,641	6,096,904,788	6.24%	86,115
Ankeny	65,284	4,181,496,732	8.71%	58,917
Council Bluffs	62,421	2,991,554,285	2.41%	46,799

It is worth noting in the above table that West Des Moines' places as the highest-ranking city in terms of "Taxable Valuation Per Capita" among Iowa's largest cities. Having this status is a significant financial advantage, but it also requires a sizable investment in public safety to protect the relatively more valuable property.

Among communities in the Des Moines Metro area, the growth trend is even stronger. The Des Moines Metro area as a whole continued to see development and growth in recent years, consistently ranking among the top developing cities in the region and country. Within the metro, older, more established communities saw more limited growth while the outer ring of cities continued to grow the tax base at a very rapid pace as depicted in the following table:

Comparison of Taxable Valuation

FY 20-21

Des Metro Communities

City	Population Per 2018 US Census Estimate	Total 2019 Taxable Valuation	Change in Taxable Valuation from Prior Year	Taxable Valuation Per Capita
Des Moines	216,853	9,365,412,911	8.34%	\$ 39,862
West Des Moines	66,641	6,096,904,788	6.24%	\$ 86,115
Ankeny	65,284	4,181,496,732	8.71%	\$ 58,917
Urbandale	43,949	3,534,664,135	6.00%	\$ 75,872
Johnston	22,040	1,771,260,739	5.43%	\$ 76,224
Waukee	22,810	1,430,107,723	10.99%	\$ 56,486
Altoona	18,844	1,330,874,964	6.76%	\$ 66,151
Clive	17,097	1,626,711,206	4.82%	\$ 90,767
Grimes	13,562	1,045,706,610	15.65%	\$ 66,670
Norwalk	11,517	616,339,523	11.97%	\$ 47,794
Pleasant Hill	10,064	690,846,648	6.07%	\$ 64,719

West Des Moines' taxable valuation per capita of over \$86,000 remains the highest of Iowa's ten largest cities and second among cities in the Des Moines metro area, trailing only Clive at \$90,000.

It is important to note that \$711 million in taxable valuation remains included in the City's Tax Increment Finance (TIF) Districts (up fairly significantly from \$557 million in the previous year). This amount equates to approximately \$6.7 million in tax dollars being excluded from the City's potential general fund resources. A large percentage of TIF funds are dedicated to public infrastructure projects such as public safety facilities, bridges, roads and utility systems, with the balance being used for economic incentive payments to various businesses around the City.

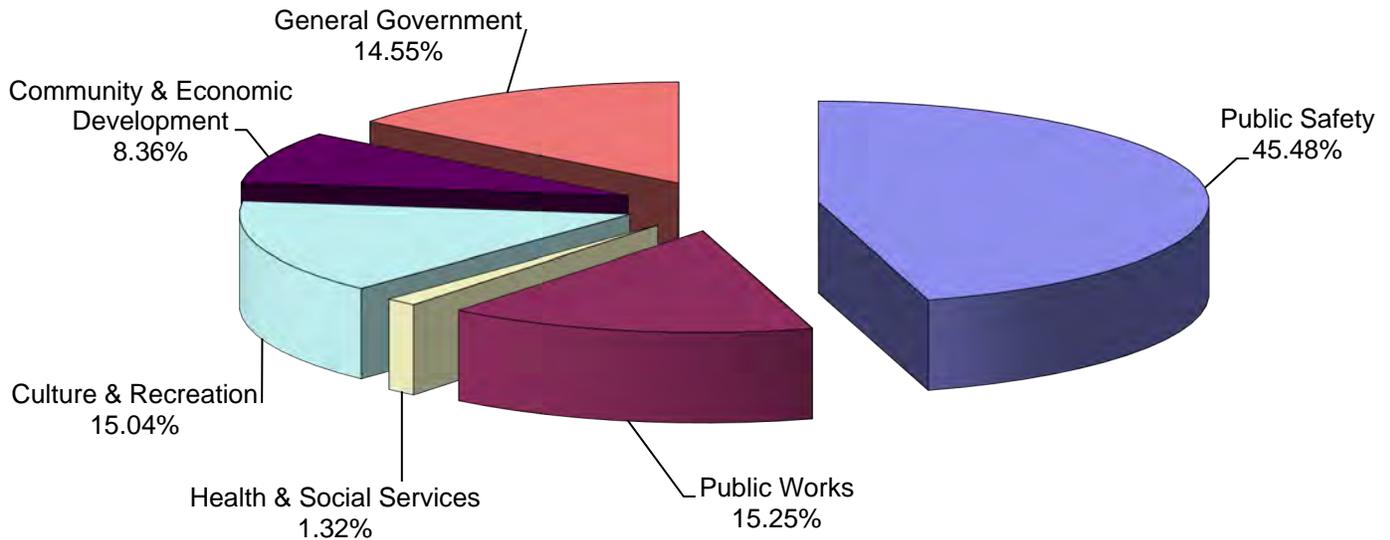
Local Option Sales Tax

As a result of a March 2019 election in Polk County, the City now collects approximately \$13.8 million in Local Option Sales and Services Tax (LOSST). As noted above, per the ballot language, 50% of this revenue is used to reduce property taxes and 50% is to be used on public safety, library improvements, infrastructure, and other quality-of-life initiatives including the planned "Five Waters" parks projects.

Expenditures

The City's FY 2021 General Fund budgeted operating expenditures total \$75,761,444, which represents an increase of \$4,192,009 (+5.86%) from FY 19-20. The largest percent of expenditures continues to be in the Public Safety program area, which encompassed 45.48% of the General Fund for the fiscal year.

**General Fund Operating Expenditures
\$75,761,444**



Police and Fire employee pension costs are accounted for outside the General Fund and utilize their own portion of the overall property tax levy for funding. Due to the increases in taxable valuations and the City’s desire to keep funding for these contributions level, the tax levy rate for the Police and Fire Pension system reflected a \$0.07654 decrease. In response, other tax levies were decreased.

If the budget is approved as recommended, the City’s total number of full time equivalent (FTE) employees will be 515.25. The impact of accelerating personnel costs must be closely evaluated and monitored as there are a number of new position requests that were not included in this budget due to financial constraints. Self-insured healthcare costs are projected to increase by 10%, which is conservative based on historical values for the past few years, but also cognizant of significant claims increases within the past 10-year window.

The FY 2021 budget reflects a proposed use of operating cash reserves for several “one-time” capital needs including continued expense for a contracted purchase of 142 acres of future parkland in Madison County, and several smaller building, equipment, and planning projects.

Hotel/Motel Revenues

A 7% Hotel/Motel Tax, first authorized by West Des Moines voters in 1984, is expected to generate \$4,600,000 in the upcoming year. By agreement, money is allocated as follows: 2/7th of the funds are directed to the Greater Des Moines Convention and Visitors Bureau (CVB), 2/7th is directed to Bravo Greater Des Moines, 2/7th (subject to City Council approval) will be used for parks, recreation, and/or tourist activities, and the remaining 1/7th will be available for distribution to other City Council-designated entities or for other internal uses. Also, a percentage of City Council-designated discretionary revenues in excess of total fund revenues of \$2,550,000 continue to channel \$120,000 per year towards the City’s public arts program.

Regional Cooperation

The City continues to support programs that improve the quality of life for all residents of the

metro area. Besides direct financial support, the City of West Des Moines contributes to the Des Moines metro area in many ways, including but not limited to:

- ◆ Wastewater Reclamation Authority – regional organization, facility, and systems
- ◆ WestCom Public Safety Center – West Des Moines, Clive, Urbandale, and Norwalk
- ◆ Joint Fire/EMS facility – West Des Moines and Clive
- ◆ WestPet Animal Control – West Des Moines, Clive, and Urbandale
- ◆ Police Department remains involved with many metro-wide activities ranging from traffic task forces to narcotic trafficking
- ◆ Metro Home Improvement Program – West Des Moines, Ankeny, Altoona, Clive, Grimes, Johnston, Pleasant Hill, Polk City, Urbandale, and Windsor Heights. A multi-jurisdictional housing rehabilitation entity, Metro Home Improvement, a collaborative effort to preserve affordable housing stock
- ◆ Iowa EMS Alliance – private-public partnership with Unity Point Health where the City provides administration and operation of emergency medical services which avoids duplication of services while maintaining high quality care
- ◆ Capitol Crossroads – regional visioning with a focus on collaboration

Conclusion

The FY 2021 budget recommended by the City Manager and staff accomplishes the primary objectives of maintaining services, committing capital funds to maintaining infrastructure, amenities, and city facilities as well as development, while maintaining (and in this case reducing) property tax rates.

In addition, City departments have identified supplemental services and projects which are included in the proposed budget document for review by the Mayor and City Council. The nine (9) proposed new staff positions were carefully scrutinized, vetted, and prioritized from a pool of approximately 24 departmental requests, with only the most essential positions being recommended. The Management Team will continue to assess the staffing in these departments and offer the City Council alternatives to achieve effective staffing levels across the organization.

In order to assure that the City's human and physical infrastructure keeps pace with the City's growth, additional user-fee revenue enhancements, strategic expenditure reductions, and potential restructuring will likely continue. Current service demands and limited revenue growth will necessitate a thorough and on-going review of all aspects of our financial plan.

I must express thanks to members of the City staff for their diligent efforts to develop and operate within budgets that provide continual high quality service to our residents.

I would also like to give two specific notes of thanks. First, to the Finance Department staff for their performance in gathering, analyzing, and presenting information clearly and accurately, and second, to the City's departmental leadership for providing critical feedback, input, financial projections, and lists of priorities, all needed to formulate the budget. The budget preparation team composed of Deputy City Manager Jamie Letzring, Finance Director Tim Stiles, Budget Analyst Chris Hamlett, and me, worked collaboratively with Department Directors and many other staff members to develop the proposed budget. This would not have been completed without the effort of all those involved.

I would also like to thank the elected officials for your continued support in planning and directing the financial operations of the City in a responsible and progressive manner. The West Des Moines community has benefited greatly from your leadership and commitment.

Respectfully submitted,

A handwritten signature in blue ink that reads "Tom Hadden". The signature is written in a cursive style with a large initial "T" and "H".

Tom Hadden
City Manager