



Council Communication

Office of the City Manager

Date April 23, 2007

Agenda Item No. 51
Roll Call No. 07-
Communication No. 07-217
Submitted by: Richard A. Clark, City Manager

AGENDA HEADING:

Informal Public Hearing regarding the planned use of Project Destiny, Local Option Sales Tax revenues that could be used for additional property tax reduction and/or local quality of life projects, and approval of final ballot language and Additional Property Tax Relief Plan.

SYNOPSIS:

Project Destiny is a regional initiative that would, if approved by voters, add one cent to the sales tax and use the proceeds to reduce property taxes and pay for quality of life improvements. The proposal would mandate that at least 1/3 of the proceeds be used for property tax reduction; 1/3 would be used to fund regional attractions such as the Civic Center, Science Center, Art Center, Blank Park Zoo, Living History Farms, and recreation trails; and another 1/3, plus approximately \$3,000,000 per year to be received from a Regional Equalization distribution, would be used for local quality of life projects, further property tax reduction, or a combination of both, as decided by each participating community. This proposal requires voter approval, and is scheduled to be decided by voters at a July 10, 2007 special election. The sales tax would sunset in 10 years unless renewed by the voters.

At the March 26, 2007, City Council meeting, the City Council directed the City Manager and City Attorney to prepare the Additional Property Tax Relief Plan as prescribed in the Project Destiny 28E agreement, and prepare proposed ballot language for the July 10, 2007 referendum. The public hearing on the proposed ballot language and tax relief plan are continued from the April 9, 2007 City Council meeting.

FISCAL IMPACT:

Amount: Estimated \$13,722,000 annually (\$10,724,000 1/3 for Additional Tax Relief, plus \$2,998,000 from Regional Equalization). The use of \$10,724,000 from Mandatory Property Tax Reduction, and \$11,049,000 for Regional Facilities and Attractions are prescribed in the Project Destiny 28E agreement, as approved by the City Council on February 26, 2007.

Funding Source: Regional One-Cent Local Option Sales Tax Referendum (Project Destiny)

ADDITIONAL INFORMATION:

Public input meetings were held in each of the City's four wards to gather public input for preparing Des Moines' plan for the use of sales tax revenues as follows:

- Ward 2: March 13th, Eastside Community Center
- Ward 4: March 14th, Southridge Mall
- Ward 1: March 15th, Northwest Community Center

- Ward 3: March 15th, Plymouth Congregational Church

In addition, a “virtual” town hall meeting was available on the City’s website from March 13th through March 16th to provide an avenue of input for those who were unable to attend the live meetings in each ward. City staff compiled the input from the meetings, the website, and other sources (such as citizen satisfaction surveys). Results of citizen input indicated strong support for additional property tax reduction, Blank Park Zoo, a regional skate park, neighborhood park improvements, street and infrastructure improvements, and neighborhood commercial improvements.

Expected Revenue

If approved by the voters, the City of Des Moines will receive and budget sales tax revenues of about \$13.7 million in the first year, and about **\$150** million over 10 years. This assumes relatively modest annual increases that average about 1.5%.

Goals

- Reduce Property Taxes
- Reduce City/suburban tax disparity
- Provide fiscal stability for the City of Des Moines
- Fund needed projects and improvements that otherwise might not be funded
- Deliver on the Promise

Recommendations

1. Quality of Life – \$50 million over 10 year period for highly desired projects that address needs and priorities as established by community input process:
 - Zoo Expansion - \$18 million over 10 year period. A dollar-for-dollar match to non-City funds raised for an expansion of the Blank Park Zoo from the current 22 acres to about 115 acres.
 - Neighborhood Street Improvement Program and Sidewalk Repair - \$10 million over 10 year period. Neighborhood residential street improvements with related curb and sidewalk repair and sidewalks designated as school walk routes, with funding allocated at approximately 75% for streets, 15% for sidewalks, and 10% for curbs.
 - Neighborhood Commercial Area Improvements - \$10 million over 10 year period. Funds will be used to leverage private investment and create partnerships to improve the physical environment in commercial nodes and corridors found throughout the city’s diverse and unique neighborhoods.
 - Neighborhood Park Improvements - \$10 million over 10 year period. Two water playgrounds, eight to ten water splashpads, two neighborhood skate parks, park master planning, and a new southeast park.
 - Tenant Relief Program - \$2 million over 10 year period. \$200,000 annually, for ten years to supplement the existing Low-Income Home Energy Assistance Program (LIHEAP).

Further details regarding the use of these funds are contained in the Additional Property Tax Relief Plan.
2. Tax Reduction – all remaining dollars over 10 year period (estimated to be \$100 million over 10 years) will be used to reduce property taxes. The estimated amount will vary based on total sales tax revenues so we cannot pledge a specific amount. However, the amount of sales tax revenue required to be used for tax reduction each year will be fixed based on the simple formula:

Sales Tax Relief Revenue - \$50 Million = Tax Reduction

- The amount of sales tax revenue devoted to tax reduction will increase each year so that the amount of sales tax revenue devoted to property tax reduction will increase over time. This will allow future tax rate increases to be held to a minimum.
- This amount is in addition to the mandatory 1/3 tax reduction which would add another estimated \$114 million over 10 years. The mandatory tax reduction portion is expected to lower the tax rate approximately \$1.70 in the first full year.
- When combined with the mandatory tax reduction, the City of Des Moines tax rate would be reduced to a rate that is expected to be approximately \$14.70 for FY09, down from a projected rate of \$17.16 in FY09. The adopted FY08 rate is \$16.59. The exact amount of tax rate reduction in future years cannot be determined at this time due to variables beyond the City's control, such as the amount of non-property tax revenues, the amount of future property values, and changes to State law that could impact City finances. To guarantee a certain tax rate at this time could jeopardize the City's financial security.
- If Council elects to maintain the same level of service, we would expect tax rates to increase in the future but at a much lower rate, unless alternative revenue sources are secured. As always, the City Council will retain the right to set tax rates each year by adjusting expenditures and service levels.
- The proposed uses of sales tax revenues will be the subject of a public hearing during each annual budget process, prior to adoption by the City Council.
- The City's annual Operating and CIP budgets will itemize specific uses, including property tax rate reduction, according to the above categories resulting from the use of sales tax revenues.
- The City will provide an annual accounting by an independent auditor certifying as to the use of sales tax revenues. This information will be made readily available to the general public and shall be placed on the agenda of a regular Council meeting for public review and comment.

PREVIOUS COUNCIL ACTION(S):

Date: April 9, 2007

Roll Call Number: 07-680

Action: Informal public hearing on proposed Additional Property Tax Relief Plan for use of Project Destiny local option sales tax proceeds, and to continue the informal hearing to April 23, 2007 at 5:00 P.M. Moved by Vlassis to receive and file comments and continue the informal hearing to April 23, 2007 at 5:00 P.M. Motion Carried 7-0.

Date: March 26, 2007

Roll Call Number: 07-603

Action: City Manager recommendation regarding planned use of Project Destiny funding, which is designated for additional property tax reduction and/or local quality of life projects. (Council Communication No. 07-158) Moved by Vlassis to adopt. Motion Carried 7-0.

Date: February 26, 2007

Roll Call Number: 07-399

Action: Project Destiny Agreement and establishing process for public input into use of one-cent local option sales tax proceeds. (Council Communication No. 07-088) Moved by Vlassis to adopt. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE