



Council Communication

Office of the City Manager

Date February 25, 2008

Agenda Item No. 47A&B
Roll Call No. 08-
Communication No. 08-103
Submitted by: Richard A. Clark, City Manager

AGENDA HEADING:

Hearings on amendment to the Annual Budget for current fiscal year ending June 30, 2008; on the proposed Annual Budget for fiscal year ending June 30, 2009; and the Capital Improvements Program for fiscal years 2008-09 to 2013-14.

SYNOPSIS:

Recommend adoption of amendment of the annual budget for the current fiscal year (FY 2008) and adoption of the annual budget for the next fiscal year (FY 2009). The recommended operating and capital improvement budgets were presented to Council on January 25, 2008, after several workshops were held to discuss various budget policies.

FISCAL IMPACT:

Amount: \$610 million

The recommended operating budget for FY 2009 is over \$471 million. The FY 2009 recommended capital budget is approximately \$139 million.

ADDITIONAL INFORMATION:

The following are the major highlights that summarize the proposed budget and process:

No increase in overall tax rate:

The recommended budget was prepared under the assumption that there would be no increase in the overall tax rate. Based on final valuations from the auditors of Polk and Warren counties, it now appears the tax rate to be adopted will be 16.58. There are still valuations under protest, which may result in a tax rate of 16.59, as presented in the budget document.

Reduced general obligation bonding:

The planned tax-supported general obligation (G.O.) bond issuance in FY2009 has been reduced by \$910,000 from what was shown in last year's CIP. This reduction was accomplished by funding some of the planned projects with Tax Increment Financing (TIF) backed G.O. bonds and by eliminating, reducing, or delaying other projects. Overall, G.O. debt will be \$42 million less in FY 2009 than it was projected to be in 2005. Reduction in bonding amounts has a positive impact on the debt service tax rate and the overall tax rate. Because of recent reductions, the FY 2009 debt service tax rate is 52 cents lower than it was projected to be in 2005.

Increased investment in Public Safety:

Several public safety investments are included in the budget. Approximately \$4 million in Tax Increment supported general obligation bonds will be issued to fund the construction of a Fire Maintenance and Logistics Training Campus. The total project cost is \$7,156,000. On average, \$3,280,000 per year is planned to be spent on Fire Protection Improvements during FY 2009-2014. Also, \$950,000 has been included for City-wide Radio System Improvements for the Police Department. This project will bring the City into compliance with Federal Communications Commission requirements for its radio systems. In addition, bridge funding in FY 2009 will be \$2 million and address the results of the 2007 Citywide Bridge Evaluation Study.

Strategic staffing:

The recommended operating budget includes funding for three positions in Community Development to improve the timeliness of commercial, residential, subdivision and site plan review; an Urban Design Architect position in Community Development to enhance in-house urban design capabilities; and increased staffing in the Public Information Office to improve communication with residents, visitors and employees. These positions will be added through reallocations. Overall, the City's General and Special Revenue Funds will experience a net reduction of three authorized positions in FY 2009. The City continues to practice a limited hiring freeze as an ongoing savings strategy, as this requires a critical review of the need for each position before it is filled. This strategy will save the City \$225,000 in FY 2009.

The recommended budget also includes \$100,000 for succession planning. Within the next five to eight years, the City will experience significant turnover due to retirements. Currently, 51% of employees in non-public safety departments are age 50 or over. The median age of council appointees and department directors is 52 while the median age of senior managers (deputy directors and divisions heads) is 55. The funding for succession planning will cover costs associated with specialized training and employee development programs that will ensure continuity of operations amidst personnel changes.

Municipal building improvements:

The Capital Improvement Budget (CIP) includes two significant projects - the City Hall Annex and Eastside Parking Garage. These projects are related and contingent upon a yet-to-be written development agreement. \$6 million is programmed in FY 2010 for the City Hall Annex (\$3 million TIF Bonds, \$3 million land sale proceeds), which currently is anticipated to be a three-story, 30,000 square foot office building with limited underground parking to be located on Robert D Ray Drive across from City Hall. Approximately \$18.5 million of TIF bonds are planned to be sold between FY 2009 and FY 2010 for the \$20 million Eastside Parking Garage. The garage is planned to include 1,000 spaces and to be located just southeast of City Hall. It will provide parking for City employees, Embassy Suites customers, and downtown visitors, but it will not be a part of the Parking system. The scope of these projects, however, may change pending the results of a City space needs study, to be completed this fiscal year.

Maintained tax rate for the Des Moines Area Regional Transit Authority (DART):

The City will provide DART a grant of \$1,200,000 over three years to support regional transit operations. Funding will come from non-tax Park and Ride revenues that must be spent on public transit. The grant dollars will help DART balance its budget and maintain a steady (60 cent) tax rate for Des Moines taxpayers. This arrangement provides funding for DART to operate its transit service on Sundays. A strategy of using temporary grant dollars to fill the budget gap will only be successful if DART is able to fully absorb its expenses after FY 2010. To do so, DART will need to develop a new funding formula that is sufficient to support the transit priorities of the region, regardless of mileage in a particular jurisdiction. We also expect the DART Commission to approve a ten-year agreement to

establish and maintain an appropriate uniform metro-wide levy in return for an on-going allocation of Park and Ride revenue.

Below are some other areas that have, in the past, been the subject of attention and questions from both the City Council and members of the public. The explanations below outline how each is addressed in the amended and proposed budgets.

Franchise Fees:

The City is still involved in litigation regarding gas and electric franchise fees. Based on the preliminary legal analysis, a positive outcome is anticipated. Franchise fee revenues, therefore, are included in the budget. If the legal outcome on franchise fees is not favorable, the Council does have alternatives to address the shortfall. These would include operating cost reductions, short-term borrowings, and adjustments to the tax rate.

Gaming Revenues:

The City anticipates collecting \$6 million of gaming revenues in FY 2008 and FY 2009. This is one million dollars more than was received in FY 2007, but one million dollars less than was projected last year. As planned last year, \$2 million/year will be used to help fund bridge projects, however, the allocation for streets will remain at \$4 million/year instead of increasing to \$5 million/year. The \$2 million for bridges will greatly help the City meet the needs identified in the 2007 Citywide Bridge Evaluation Report.

Enterprise Operations:

The City Council will consider a multi-year adjustment to sanitary sewer rates, consisting of increases of 6% on July 1, 2008, July 1, 2009, and July 1, 2010. Staff has prepared revisions to the sanitary sewer ordinance to be included on the February 25, 2008 Council agenda that, if approved, would increase rates for each of the next three fiscal years. Increases are necessary to fund combined sewer separation projects that are required by the National Pollutant Discharge Elimination System (NPDES). The budget does not reflect any rate increases beyond the previously adopted fee schedules for storm, solid waste, and parking enterprise operations.

Subsequent Budget Actions:

Subsequent to the publication of the budget document, three additional changes were proposed. The City Manager's Office staffing configuration is being changed with the addition of one Assistant City Manager position; this will be offset by the deletion of the Management Analyst and the Management Intern positions; the Economic Development Office will add a management intern position; this will be offset by the deletion of an Economic Development Coordinator position; and the Engineering Department will add an Assistant City Architect position. The staffing adjustments in the City Manager's Office will result in a \$50,000 savings while the addition of the Assistant City Architect position will be funded through expense allocation to the Capital Improvement Program, specifically various airport projects.

Long Range Budget Perspective:

At the February 18th workshop, there was discussion concerning the FY 2010 budget outlook. A preliminary projection of a \$5.2 million shortfall was provided for FY 2010. Once again, this is an indication of the structural deficit condition, which the City faces each year. Every effort will be made to identify means to close the funding gap, including: reviewing opportunities to improve efficiency in operations; minimizing health insurance costs; reviewing existing and potential revenue sources other than property tax; diversifying and expanding the City's revenue stream; and reviewing potential service

reductions. Specific strategies to be pursued include a citywide organization and space study, review of a 311 call center, a review of field service operations and organization, a review of custodial services, and a city services fee study.

As discussed in the past, the City will most likely face similar shortfalls beyond FY10 given the current funding system for municipal governments in Iowa. Dialogue with the State legislature and other municipalities across the state continues with the intent of determining what the best funding mechanism is for local governments, the goal being to provide municipal services through stable, diverse revenue streams that reduce reliance on property taxes.

PREVIOUS COUNCIL ACTION(S):

Date: February 11, 2008

Roll Call Number: 08-213

Action: Setting Date of Hearing for Amendment to the Annual Budget for the current fiscal year ending June 30, 2008, (2-25-08). Moved by Hensley to adopt. Motion Carried 7-0.

Date: February 11, 2008

Roll Call Number: 08-214

Action: Setting Date of Hearing for Proposed Annual Budget for the fiscal year ending June 30, 2009, (2-25-08). Moved by Hensley to adopt. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE