

INTRODUCTORY SECTION



THE CITY OF
West Des Moines®
www.wdm.iowa.gov

Finance Department

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'Aaa'
Credit Rating
Moody's

'AAA'
Credit Rating
Standard & Poor's

December 17, 2018

Honorable Mayor, Members of the City Council, and
Citizens of the City of West Des Moines, Iowa:

Chapter 11 of the *Code of Iowa* requires the City of West Des Moines (the "City") to publish a complete set of audited financial statements within nine months of the close of each fiscal year. This comprehensive annual financial report has been published to fulfill this requirement for the fiscal year ended June 30, 2018.

This report consists of management's representations concerning the finances of the City. Management assumes full responsibility for the completeness and reliability of all the information, based upon a comprehensive framework of internal control established for this purpose. The cost of internal controls should not exceed anticipated benefits; therefore, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Eide Bailly LLP, a firm of licensed certified public accountants, has issued an unmodified opinion on the statements which has been published herein, immediately preceding the financial section of the report.

Management's discussion and analysis of the basic financial statements (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis. This letter of transmittal is intended to complement the MD&A and they should be read in conjunction.

Profile of the City

The City was incorporated as Valley Junction in 1893, changed its name to West Des Moines in 1938, and is now the largest suburb of Iowa's capital city of Des Moines. This year marked the 125th anniversary of the City and the milestone was commemorated by holding numerous neighborhood events and scaling up the town's 4th of July celebration.

Centrally located in Iowa, the City is currently comprised of approximately 48.2 square miles spanning portions of Polk, Dallas, Warren, and Madison counties. The City's population continues to grow at a steady pace, totaling 65,608 residents according to the most recently-available United States Census Bureau estimate (July 1, 2017). The City has grown its population 15.9% since the 2010 Census, 38.4% since 2000, and 107.0% since 1990.

Policy-making and legislative authority in the City are vested in a governing council. The City Council consists of a mayor and five council members; all are elected on a non-partisan basis. Three of the council members are elected by ward and two, as well as the mayor, elected at large. For continuity purposes, the mayor and council members serve four-year staggered terms with elections held every two years. The City Council makes policy decisions for the City through the enactment of ordinances, resolutions and motions. The Council is also responsible for adopting operating and capital budgets, appointing committees, hiring a city manager and city attorney, and appointing a city clerk.

The City Manager, as the City's chief administrative officer, is responsible for implementing policy decisions of the Council, overseeing day-to-day operations, and hiring department directors. Departments of the City include Community & Economic Development, Development Services, Emergency Medical Services, Engineering, Finance, Fire, Human Resources, Human Services, Legal, Parks & Recreation, Police, and Public Services. The City also maintains a public library which, through state statute, is governed by a separate Board of Trustees. However, the library and its employees are also considered a city department as they are budgeted funds by the City Council and routinely follow the general operating policies and procedures implemented by the City.

Public elementary and secondary education services for residents of West Des Moines are provided by six separate public school districts – Des Moines, Norwalk, Van Meter, Waukee, West Des Moines, and Winterset – in addition to several parochial schools. Public water services are provided primarily by the West Des Moines Water Works with scant areas of the City served by Des Moines Water Works. Each of the public school districts or water works entities have the ability to issue separate debt which is not an obligation of the City; therefore the financial statements of these entities have not been included in this report.

The City's annual budget serves as the foundation for financial planning and control. Each fall, staff from each of the City's departments submits budgetary requests and discusses appropriation levels for their department related to the upcoming fiscal year. Using these requests as well as staffing and revenue projections produced by the finance department, the city manager prepares a preliminary budget. The proposed budget is presented to the Mayor and City Council for discussion during workshops, and a public hearing is held before Council ultimately votes on the City's budget. By state statute, the budget for each fiscal year must be adopted by the Council and filed with the State prior to March 15th of the preceding fiscal year. The state mandates that the City maintain legal spending control at the function level, which consists of Public Safety, Public Works, Health and Social Services, Culture and Recreation, Community and Economic Development, General Government, Capital Projects, Debt Service, and Business-type expenditures.

Local Economy

Based on the most recently-available US Census estimate (July 1, 2017), West Des Moines ranks as the 8th largest city by population in the State of Iowa. By contrast, it currently ranks 3rd in terms of overall taxable property valuation as of January 1, 2017, 2nd in the collection of hotel/motel tax revenues during fiscal 2018, and 4th in Iowa overall in terms of taxable retail sales during fiscal 2017 (fiscal 2018 was not available at the report date). The median household income in the City continues to exceed both the national and state averages. According to the US Census Bureau, at the end of 2017, the median household income in the City was \$73,645, which compares to the State of Iowa median of \$56,247 and the national median of \$57,617.

The City continues to grow high quality jobs, mainly in the office and retail sectors. Housing continues to expand westward with a mix of rentals and owner-occupied and the City has a large and growing inventory of multi-family housing – apartments, condos, and townhomes. Fiscal 2018 saw 290 new single family homes constructed along with 9 new multi-family projects containing 355 units. Rental rates and occupancy percentages are well above the average for the state and region.

Business development projects over the past fiscal year include the continued construction of Microsoft's Mountain and Alluvion data centers as well as preliminary work towards a third major data center for the company. The third center, named Project Osmium, will ensure continued construction for the company and will carry a final taxable valuation of over \$313 million when completed. The Osmium project was originally scheduled to begin in fiscal 2018, but was delayed slightly due to planning and should begin in fiscal 2019. Microsoft also emphasized its commitment to the West Des Moines community during fiscal 2018 by contributing over \$800,000 towards construction of a city amphitheater as well as being a major funder of a project dedicated to bringing reduced-fee Wi-Fi service to lower income households in the City's Valley Junction area.

Other development projects included renovation of a historic train depot building into a gathering space with an on-site brewery, distillery, and food truck commissary kitchen facility. Retail also continued to expand with several new hotels, retail shops, and new to the market restaurants opening during the year. During fiscal 2018 the City saw a total of 23 new commercial buildings constructed with an estimated value of \$118 million.

Fiscal 2018 saw continued strong building growth overall, with a total of \$323 million of building permit activity. This represented a jump from the 2017 level of \$288 million but was still lagging behind a historic \$1.1 billion of building permit activity in fiscal 2016 and three consecutive years prior which were each over \$400 million. Much of the activity from earlier years was generated by Microsoft Alluvion. It is anticipated that fiscal 2019 will benefit similarly from the permits required for Microsoft Project Osmium.

The City places an emphasis on a creative but sound economic development strategy which offers plans to businesses seeking to grow within or relocate to the City. During fiscal 2017 and 2018 several economic incentive programs (a combination of grants and no-interest loans) were developed to energize the Valley Junction area. These incentives, with three rounds of funding completed, have thus far seen private investment of over 4 times the cost of the incentive program. Another new incentive program (tax rebates) has been developed to target several sections of the city that have been determined to be in need of redevelopment.

Relevant Financial Policies and Long-term Financial Planning

The City continues to be cautious when estimating property tax revenue, ancillary revenue, and investment returns, as well as use conservative expense figures to establish rates and balance the budget into upcoming fiscal years. These tactics ensure that adequate funding for services will be available in future budget cycles.

For budgetary and planning purposes, management strives to maintain an unassigned, undesignated general fund balance equal to or slightly exceeding 25% of total general fund expenditures. These funds are necessary to meet cash flow needs during the initial months of the new fiscal year as property tax revenue, the primary source of funding for general operations, is collected semi-annually with the respective county treasurers remitting the vast majority of those taxes to the City in the months of October and April.

During the annual budgeting process, the City evaluates the property tax rate for comparison to other cities of similar size and to determine that there will be sufficient revenue to provide the services deemed necessary by the City Council. Fees and charges for services are also evaluated annually to ensure they keep pace with the cost of providing these specific services. The City strives to maintain or increase its diversified revenue sources, to provide for greater financial stability.

Included in the operating budget are costs associated with the City's capital equipment replacement schedule. This money is set-aside annually to ensure funding is available for the timely replacement of vehicles and heavy equipment that are no longer cost effective to maintain. In addition, during each budget cycle the City Council and staff update the City's multi-year capital improvement plan, including funding of priority projects, based on community input and other data. Among the data available is information from a street management system which assesses and prioritizes street maintenance needs over a multi-year cycle.

Major Initiatives and Accomplishments

On May 3, 2018, Moody's Investors Services reviewed and reaffirmed its highest rating (Aaa) to the City's general obligation bonds. Prior to that, on July 11, 2017, Standard & Poor's reaffirmed its AAA rating on the bonds. The City continues to hold the highest available rating from both Moody's Investor Services and Standard and Poor's rating. Each of the agencies cites the City's financial positions and conservative fiscal management as strengths.

As of June 30, 2018, the City was one of approximately 100 in the United States to have the distinction of carrying the highest rating from both agencies. The City's financial positions remain strong and for the fiscal year ended June 30, 2018, the City reported a general fund surplus of approximately \$4.3 million, which brought the general fund reserves to \$41.1 million, or 71.2% of annual general fund operating expenditures.

Financial Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of West Des Moines for its Comprehensive Annual Financial

Report for the fiscal year ended June 30, 2017. This was the 25th consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles (GAAP) and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and again this year will be submitting it to the GFOA to determine eligibility for another certificate.

Additionally, for the 20th consecutive year the City received the GFOA's Distinguished Budget Presentation Award for its annual budget document related to the fiscal year beginning July 1, 2018. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged and deemed proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

Acknowledgements

Elected officials and staff take great pride in providing high quality municipal services, including transparent and clear financial reporting and budgeting. The City's continued recognition of reporting excellence by the GFOA, the City's continuing Aaa bond rating, and a #1 ranking by the Des Moines Business Record as the most conducive city for business in Central Iowa for nineteen consecutive years, are all reflective of competitiveness, efficiency, and attention to detail.

Preparation of this report was accomplished through the dedicated services provided by the Finance Department staff. We would like to express our appreciation to all members of the department who assisted with the audit and contributed to the preparation of this report, including our audit firm Eide Bailly LLP. Likewise, we wish to extend our sincere appreciation to the Mayor and members of the City Council for their interest in and support of our efforts to conduct the City's financial operations in the most responsible and progressive manner.

Respectfully submitted,



Tom Hadden
City Manager



Tim Stiles
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of West Des Moines
Iowa**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

City of West Des Moines, Iowa
List of Principal Officials
As of June 30, 2018

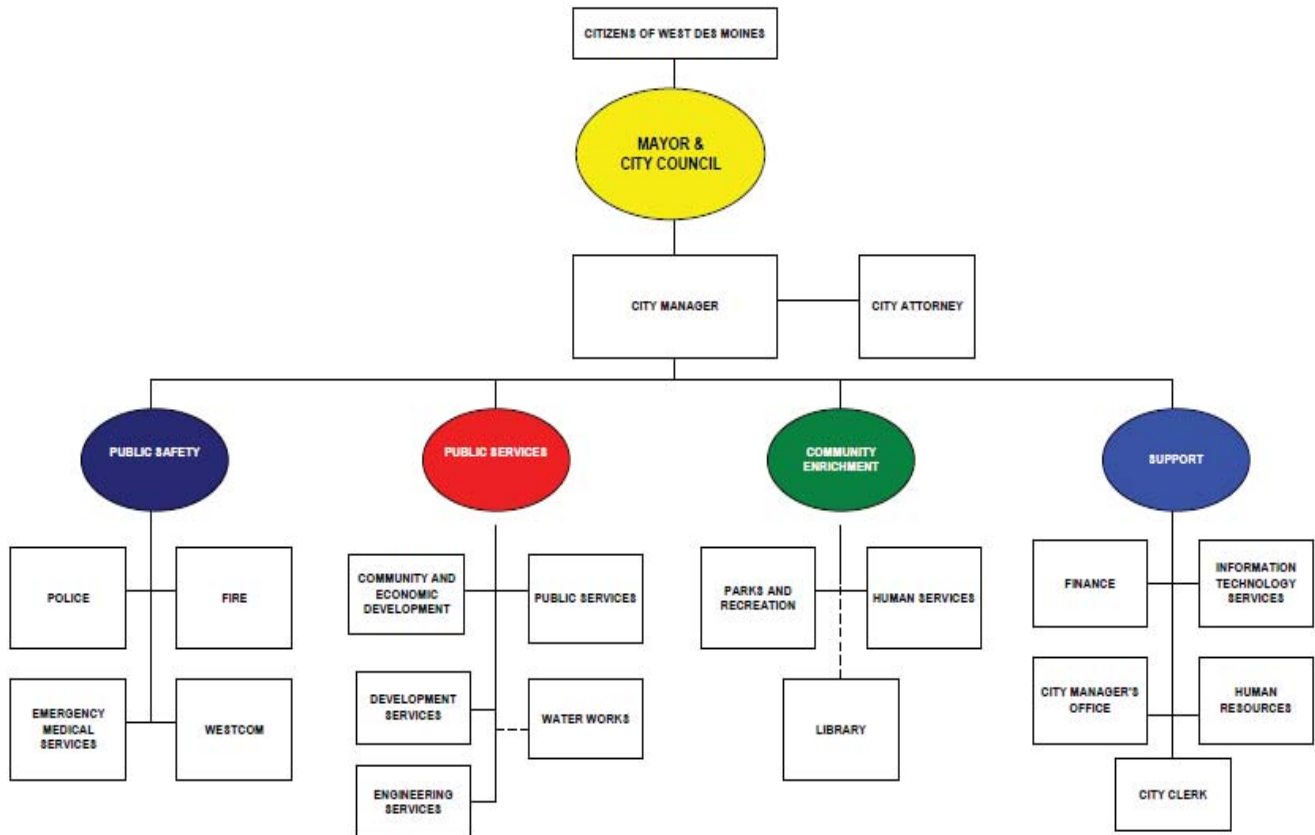
Elected Officials

Steven K. Gaer	Mayor	Term Expires December 31, 2021
Renee Hardman	Councilmember, At Large	Term Expires December 31, 2021
James Sandager	Councilmember, At Large	Term Expires December 31, 2019
Kevin Trevillyan	Councilmember, Ward 1	Term Expires December 31, 2021
John Mickelson	Councilmember, Ward 2	Term Expires December 31, 2019
Russ Trimble	Councilmember, Ward 3	Term Expires December 31, 2021

Appointed Officials

Tom Hadden, City Manager
Ryan Jacobson, City Clerk
Richard J. Scieszinski, City Attorney

City of West Des Moines, Iowa
Organizational Chart
 As of June 30, 2018



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