



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

February 6, 2021

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, 2021 (FY 2022). 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 view 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

As we move into the second half of FY 2021, I am pleased to note some recent accomplishments related to managing the City's financial resources.

- ◆ On July 27, 2020, and again on November 30, 2020, Moody's Investor Services affirmed its highest rating (Aaa) on the City's general obligation bonds. This followed a similar affirmation of the highest rating from S & P Global Ratings (AAA) in 2019. 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 (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report covering the fiscal year ended June 30, 2019. This represents the 27th consecutive year the City has earned this award.
- ◆ The GFOA also awarded a Distinguished Budget Presentation Award for its Budget Summary document covering the fiscal year beginning July 1, 2020. This represents the 22nd consecutive year the City has earned this award.

Highlights of the FY 2022 Recommended Budget

- ◆ The FY 2022 budget being recommended by staff will reduce the City’s property tax levy rate by \$0.04, from \$10.99 to \$10.95 per \$1,000 of taxable valuation. Recall that for Fiscal Year 2020 the rate was reduced significantly, from \$11.79 to \$10.99, after voter approval of a Local Option Sales and Services Tax (LOSST) for Polk County in March 2019. This year’s more modest reduction is made possible by adjusting the city’s Debt Service Levy Rate and is made possible by continued low borrowing rates and a reduction in underlying project spending.
- ◆ The FY 2022 budget includes an estimated \$11.6 million of LOSST receipts. The approved ballot language for Dallas County and Polk County calls for 50% of this revenue to be transferred to the General Fund and applied directly against the property tax levy rate. For FY 2022 67.3% of LOSST receipts are being applied. Per the ballot language, remaining funds will be used for Public Safety, Public Infrastructure, and Quality-of-Life Amenities. Below is a comparison of the current and proposed property tax rates:

	<u>FY 2021</u>	<u>FY 2022</u>
Total Tax Dollars Required	\$71,395,189	\$74,504,204
(Levy per \$1,000)	\$13.00643	\$12.99240
Commercial & Industrial Replacement	(2,465,420)	(2,494,259)
(Levy per \$1,000)	(0.44830)	(0.43418)
50% of Local Option Sales Tax	(7,247,000)	(5,779,518)
(Levy per \$1,000)	(1.34743)	(1.02961)
City Uses Local Option Sales Tax	(1,186,983)	(3,247,931)
(Levy per \$1,000)	<u>(0.22070)</u>	<u>(0.57861)</u>
Net Tax Levy	\$60,495,786	\$62,982,496
	\$10.99	\$10.95

- ◆ Included in the proposed FY 2022 budget is the addition of three (3) employee positions as well as one adjustment to an existing position:
 - 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 percentage of the City’s vehicle and equipment was maintained by contract with outside vendors. This became more expensive, particularly when considering that nearly all the work involved transporting vehicles to vendors located outside the City. With the recent completion of a new, significantly larger Public Services facility, much of this work can now be done inside the existing facility by trained employees.
 - The Library will add a half-time Teen Services Assistant. This position will support the soon-to-be completed dedicated space and increased programming for young adults and teens.

- Human Resources will be adding a Senior Human Resources Generalist in order to meet demand in hiring from departments. With the opening of the MidAmerican Energy RecPlex, there are many seasonal and part-time employees needed to support that facility and its accompanying recreational programming.
- The Police Department will be converting an existing vacant Community Service Officer position to a sworn Police Officer assigned to the Entertainment Response Unit.
- An additional 10 positions were requested by department directors but were of a lower priority and, due to budgetary constraints, could not be accommodated.
- ◆ The historical growth in employees is comparable to the growth of the city over the long-term. Because city employees must serve residents, visitors, and businesses, 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% per year.
- ◆ The proposed employee compensation totals take into consideration financial terms of bargaining unit contracts for each of the approximately 300 union employees. Projected personnel expenditure levels rely on historical trends, current contract information, and projected terms for agreements yet to be finalized. The proposed budget will address the approximately 221 non-union employees using existing pay plans and benefit packages.

Bargaining unit employees are expected to receive cost-of-living adjustments ranging from 3.00% to 3.25% (plus steps within the pay range as appropriate), all budgeted in agreement with the terms of their respective contracts. All contracts have been negotiated and executed into FY 2022 except for the EMS bargaining unit, which is currently in negotiations. 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, 2021, to receive pay increases based solely upon job performance (no steps within pay ranges). The budget includes a total 3.25% increase for non-union employees.

- ◆ The City will receive approximately \$8.6 million dollars in Road Use Tax funding during FY 2022. This represents a slight increase from the previous year, in line with the Iowa Department of Transportation’s forecast. This revenue allows for approximately \$7 million in Road Use Tax funds to be expended for street-related expenditures (CIP and operating), along street lighting and repayment of debt related to Iowa Highway 5 construction. While, staff’s goal for the Road Use Tax Fund is to maintain a steady fund balance from year-to-year, the fund currently has a planned deficit balance due to large capital spending in previous years related to construction of the City’s new Public Services Facility, completed in 2020.
- ◆ The proposed FY 2022 budget reflects an increase in the contribution rate for the Municipal Fire and Police Retirement System of Iowa (MFPRSI). The City’s contribution rate for those employees into FY 2022 will be 26.18% as compared to 25.31% for FY 2021. 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 2022.

- ◆ The proposed budget reflects the carryover of cash to ensure the FY 2022 budget maintains prudent general fund balances. This protects financial integrity. General Fund total revenues are projected to be \$79,803,234., with total expenditures of \$82,031,023. Even with this planned annual deficit, the projected Uncommitted General Fund composite balance on June 30, 2022, will be \$27,765,898 (36.55% of annual operating expenditures). This balance leaves ample funds for meeting unexpected revenue shortfalls or demands on future fund resources. The projected balance remains well within the guideline established by previous City Councils. It also follows a continuing recommendation from City's financial advisory firm who suggest that the General Fund cash reserve balance remain over 30% in order to meet the criteria for a AAA bond rating.

Outlook Beyond FY 2022

The City's budgeting philosophy continues to be very conservative, ensuring that funding is adequate to provide services to residents and protect our long-term viability. The starting point for all projections is having the resources to deliver desired levels of service to residents and to maintain quality infrastructure and amenities. The city is also dedicated to using responsible revenue assumptions and maintaining adequate reserves. In addition, the City Council has indicated that maintaining or reducing the city's property tax rate is a very high priority, at least equal in status to maintaining prudent fund balances and providing quality services.

Obviously, the effects of COVID-19 are widespread; they continue to ripple through the world's economy and the city of West Des Moines has certainly not been immune. Most notably West Des Moines includes a heavy concentration of regional retail, lodging, and entertainment venues, and those areas have been particularly hard-hit. While LOSST Revenues and Hotel/Motel Tax Revenues have been significantly reduced, the City Council has nonetheless been responsive in taking steps to assist local residents and businesses – working class residents have been afforded grants to assist in homelessness prevention, and businesses have seen the City delay job creation requirements within agreements as well as deferring economic development loan payments. Additional funds were granted to the local non-profit organization tasked with managing the Historic Valley Junction District, during a time when their revenue-producing events were canceled or significantly reduced. Despite the concentrated areas of reduced revenue, areas such as building permits have exceeded expectations and lessened the overall budget effects greatly.

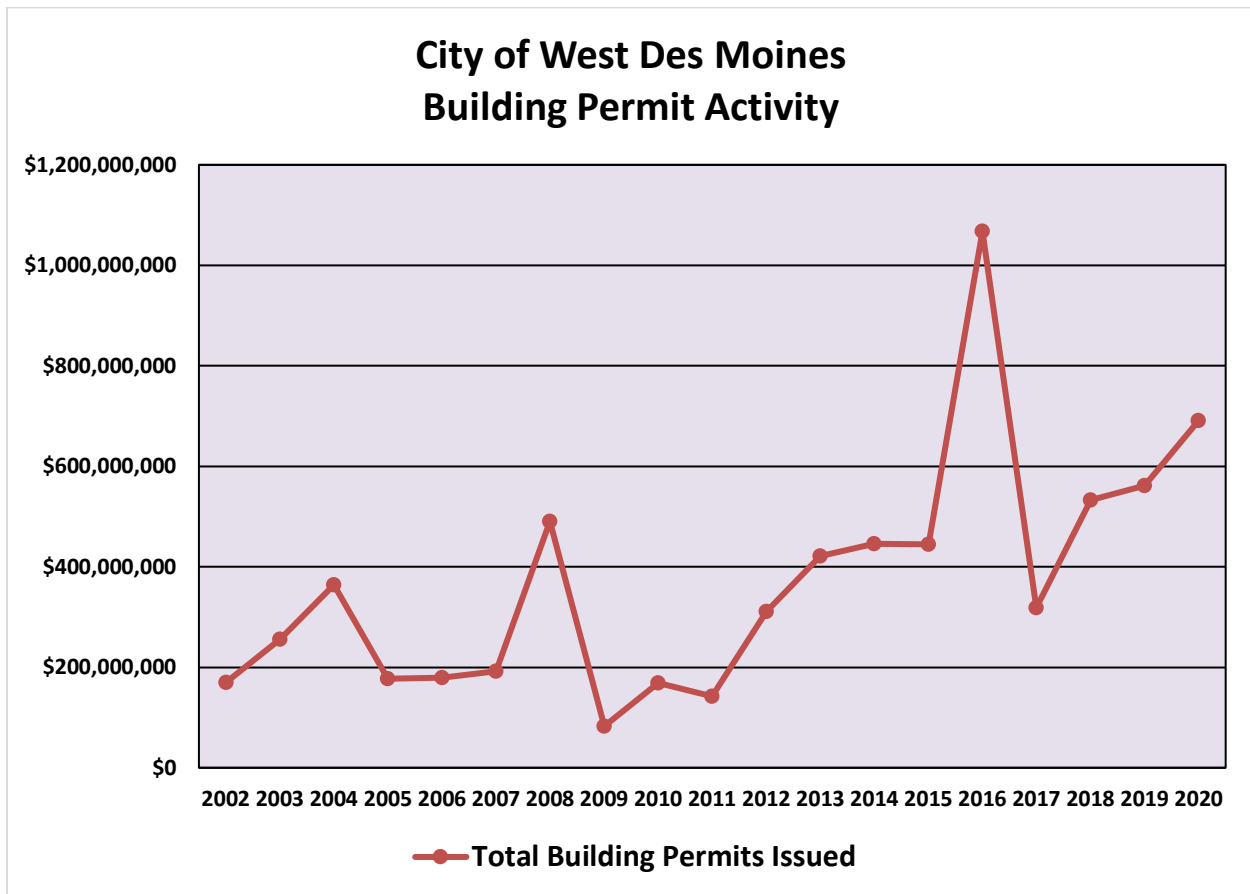
The effects of COVID remain in the forefront moving forward as citywide LOSST revenue projections have been lowered from \$14 million annually to less than \$12 million, and they also linger in the background as long-term effects could include a possible long-term reduction in taxable valuation of office and retail properties. Other lingering concerns include (1) a future reduction or elimination of the current commercial tax replacement funding by the State Legislature (approximately \$3 million annually), (2) spending for an aggressive capital improvement program, albeit largely necessitated by development agreement obligations with underlying developer valuation and job guarantees, and (3) rising employee health insurance, pension, and other employee benefit costs, including additional mandates being considered by the State Legislature.

Local Economy/Development Activity Highlights

The City continues to be one of the faster 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. From 2015 to July 2019, the US Census Bureau estimates that the city added another 4,158 residents (a 6.5% increase) which would bring the total population to 67,899. This brings the City up to a ranking as the 6th largest city in the State of Iowa. The growth continues a long-term pattern, as the population of the city grew by 79% from 1990 to 2010. Using these estimates, the City should continue to grow by approximately 1,000 residents each year.

During calendar 2020, the City saw its second highest level of building permit activity in history (in terms of valuation) as the year totaled \$690 million. This is the third consecutive year that building permit valuations have topped \$500 million. Calendar 2020 also constituted the 10th consecutive year of permits valuing over \$300 million.



BUDGET IN BRIEF

Revenues and Taxable Growth

Every two years the various county assessors revalue property across the state. Existing property valuations were adjusted on January 1, 2019, so FY 2022 represents a “non-revaluation year” which typically sees modest growth because only new construction will add to the previous year’s total. Nonetheless, the City saw overall taxable valuation growth of 5.2% due to this new construction over the past year (as opposed to 6.2% in the previous year – a “revaluation year”. Greatly assisting the valuation increase was a rise in the residential rollback percentage of over 1%. A portion of the current year increase, however, will not directly assist the City’s general fund, as growth from Microsoft’s data center projects will be used to pay for the surrounding

infrastructure over the next 10-20 years and some other generated valuation was used similarly through Council-directed rebate programs and TIF-related activity. This resulted in non-TIF-related taxable growth of approximately 4.3%.

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, including the areas around Iowa Highway 5 and the newly constructed Veterans Parkway and Grand Prairie Parkway corridors south and west of most existing development. Microsoft is rapidly advancing its presence in the City – as its third data center is under construction on the south edge of the city, it has announced plans to construct a fourth and fifth data center in the city on an aggressive schedule. This is all in response to increased demand for data storage.

Perhaps the most significant infrastructure project the City has conceived to-date is the construction of a city-wide conduit network designed to house fiber connections on behalf of Internet Service Providers. This project has been included as part of the vision and master plan. Design is ongoing and construction will occur over the next 2.5 years to completely build the network at a cost of approximately \$42 million.

The City has been aggressive in adding to its quality-of-life amenities with construction of the MidAmerican Energy Rec Plex, a city-owned, 300,000 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 spring 2021.

During 2020, two significant City Park facilities were completed and opened with critical acclaim. The Jamie Hurd Amphitheater, an outdoor space adjoining the City Hall Campus opened in August 2020 will host concerts and other productions, 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, opened in July 2020. Much of these two facilities, as well as a significant portion of the Rec Plex, are being funded by the Local Option Sales and Services Tax (LOSST).

For FY 2022, General Fund operating revenues of \$66,23,973 are projected to increase by 1.35% compared to FY 20-21. As mentioned above, an increase in property tax revenue is largely due to an increase in the residential rollback from 55.07% to 56.41%. 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 21-22

Top 10 Cities in Iowa

City	Population - 2019 US Census Estimate	Total 2020 Taxable Valuation	Change in Taxable Valuation from Prior Year	Taxable Valuation Per Capita
Des Moines	214,237	9,555,207,363	2.03%	44,601
Cedar Rapids	133,562	7,597,563,604	2.95%	56,884
Davenport	101,590	5,068,433,707	1.93%	49,891
Sioux City	82,651	3,561,521,900	1.39%	43,091
Iowa City	75,130	4,393,979,723	3.19%	58,485
West Des Moines	67,899	6,414,435,455	5.21%	94,470
Ankeny	67,355	4,460,767,760	6.68%	66,228
Waterloo	67,328	2,677,386,000	1.67%	39,766
Ames	66,258	3,342,217,778	4.73%	50,442
Council Bluffs	62,166	3,198,399,545	6.91%	51,449

It is worth noting in the above table that West Des Moines' is clearly the highest-ranking in terms of "Taxable Valuation Per Capita" among Iowa's 10 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 in the city.

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

Comparison of Taxable Valuation

FY 21-22

Des Metro Communities

City	Population Per 2019 US Census Estimate	Total 2020 Taxable Valuation	Change in Taxable Valuation from Prior Year	Taxable Valuation Per Capita
Des Moines	214,237	9,555,207,363	2.03%	\$ 44,601
West Des Moines	67,899	6,414,435,455	5.21%	\$ 94,470
Ankeny	67,355	4,460,767,760	6.68%	\$ 66,228
Urbandale	44,379	3,677,588,787	4.04%	\$ 82,868
Waukee	24,089	1,566,738,151	9.55%	\$ 65,040
Johnston	22,582	1,829,371,540	3.28%	\$ 81,010
Altoona	19,221	1,430,710,947	7.50%	\$ 74,435
Clive	17,242	1,691,866,217	4.01%	\$ 98,125
Grimes	14,804	1,144,798,987	9.48%	\$ 77,330
Norwalk	11,938	678,738,825	10.12%	\$ 56,855
Pleasant Hill	10,019	713,169,983	3.23%	\$ 71,182

West Des Moines' taxable valuation per capita of over \$94,000 remains the highest of Iowa's ten largest cities and second among cities in the Des Moines metro area, trailing only Clive at \$98,000.

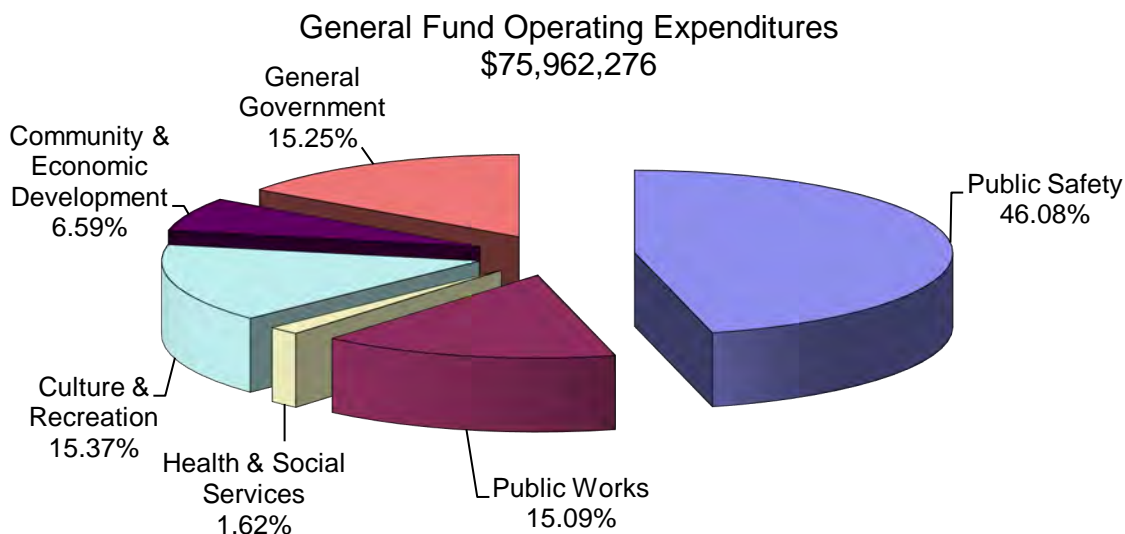
It is important to note that \$815 million in taxable valuation remains included in the City's Tax Increment Finance (TIF) Districts. This is up significantly from \$711 million and \$557 million over the previous two years. This equates to approximately \$7.2 million in tax dollars being excluded from 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

With Local Option Sales and Services Tax (LOSST) now being collected in all areas of West Des Moines, the City now expects to collect approximately \$11.5 million annually in these revenues. As noted earlier, half of this revenue is used to reduce property taxes and half 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 2022 General Fund budgeted operating expenditures total \$75,709,676, which represents a decrease of \$375,575 (-0.49%) from FY 2021. The largest percent of expenditures continues to be in the Public Safety program area, which encompassed 44.24% of the General Fund for the fiscal year.



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 the pension rates, increases wages, staff 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 \$0.07133 increase. 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 521. The impact of accelerating personnel costs must be closely evaluated and monitored as there are several 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 2022 budget reflects a proposed use of operating cash reserves for several "one-time" capital needs 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 \$2,982,019 in the upcoming year. This is a significant decrease from historical "pre-COVID" levels – currently projecting only 2/3 of what was received in Fiscal 2019. By agreement, money is allocated from these revenues to outside organizations: 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, Waukee, 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

Conclusion

The FY 2022 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 (or 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 three (3) proposed new staff positions were carefully scrutinized, vetted, and prioritized from a pool of approximately 13 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, Assistant to the City Manager Laura Reveles, 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,



Tom Hadden
City Manager