



EXECUTIVE OVERVIEW





THE CITY OF
West Des Moines®
www.wdm-ia.com

City Manager

4200 Mills Civic Parkway
P.O. Box 65320
West Des Moines, IA 50265-0320

515-222-3610
FAX 515-222-3638

E-mail cityinfo@wdm-ia.com

'AAA'
Credit Rating from
Standard & Poor's

January 28, 2012

Honorable Mayor and Council:

I respectfully present the proposed budget for the City of West Des Moines for the fiscal year beginning July 1, 2012. As the City's financial and spending plan for the year, the adoption of the budget is the single-most important action taken by the City's elected officials each year. The adopted budget authorizes resources and sets the direction for our programs and services for the coming year.

As you review the 2012-13 FY budget, it is the Staff's belief that the budget format enhances the citizens of West Des Moines' understanding of the budget process and the services delivered.

It is vital that the City's policy makers are provided with information needed to ensure that the budget document reflects the public interest. It is our intent the budget document serves as an effective policy document, financial planning tool, operational tool, and communication device.

Recent Accomplishments in Financial Management

As we move into the second half of the 2011-12 FY, we are pleased to note two accomplishments in the management of the City's financial resources.

- 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, 2010. This is the eighteenth 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 accounting principles generally accepted in the United States of America and applicable legal requirements.

- In July of 2011, the City's bond rating on outstanding general obligation debt was reaffirmed by Standard & Poor's at AAA. AAA is the highest rating that can be achieved and West Des Moines is the only Standard & Poor's AAA rated city in the state of Iowa. In their published rating report, Standard & Poor's notes "The City's financial position is strong due to the maintenance of a large general fund balance and conservative financial management." S&P's reaffirmation follows Moody's Investors Services July 2010 Aaa rating citing the city's "well managed finances characterized by solid reserves and strong fiscal management".

2012-13 FY Budget Highlights

- The proposed budget maintains the current property tax rate of \$12.05 per thousand dollars of taxable valuation.
- One new position is being recommended in the proposed budget, the addition of a second Assistant City Attorney.
- In light of on-going economic conditions, we have continued to focus on long-term financial planning. Three teams have been formed to assist in making projections and recommendations: the Revenue Estimating Team, Personnel Expenditure Estimating Team and the Position Review Team. The Revenue Estimating Team's function is to project taxable valuation and other major revenue components such as hotel/motel taxes, building permits and interest income. The Personnel Expenditure Estimating Team's function is to project costs associated with personnel, such as wages, health/medical insurance and pension contributions. The Position Review Team's function is to examine vacant positions and make a recommendation to the City Manager regarding the future of the position. Recommendations may include filling the position, merging the position and duties with another position, changing the position title/pay grade, leaving the position vacant for a specified amount of time, or eliminating the position. Implementation of recommendations from the Position Review Team has saved the City nearly \$1,100,000 in reoccurring operational costs. Given the success of these teams and processes, we will continue the initiative.
- Employee compensation will follow past practice in that we have or are negotiating bargaining unit contracts for approximately 198 union employees and will address 145 full time non-union employees. New full time employees continue to be enrolled in the City's health plans added in July 2010, if allowed by union contract, and pension benefits are under the purview of the State.

Bargaining unit employees will receive cost-of-living adjustments ranging from 2.00% to 3.00% in agreement with the terms of their respective contracts. The Fire & Library bargaining units are currently in negotiations for multi-year contracts. In addition to cost of living increases, bargaining unit employees are eligible to receive step increases with the number of steps being dependent upon performance and employee classification.

Non-represented employees are budgeted to receive a 2% adjustment on July 1, 2012. Those who are not at the maximum of their pay grade may be eligible to receive step increases based upon job performance. These step increases in total will not exceed 2% of total wages. Some non-represented employees may receive a 1.5% performance increase and a very limited number may receive a 3% performance increase.

- The City of West Des Moines will receive approximately \$5.16 million dollars in Road Use Tax Funds. Approximately \$4.36 million in Road Use Tax funds are being utilized for street related expenditures (CIP and operating) and the purchase of land for the planned Public Services Facility. The remaining funds will be used for street lighting.
- The proposed 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 2012-13 FY will be 26.12% as compared to 24.76% for the 2011-12 FY. The increased rate amounts to an additional \$77,000 in annual pension costs. The proposed budget also reflects an increase in the contribution rate for Iowa Public Employees Retirement System (IPERS). The City's contribution rate will increase from 8.07% in 2011-12 FY to 8.67% in 2012-13 FY. The IPERS rate increase is equivalent to \$82,000 in additional pension costs to the City. Of the City's 365 FTE(s), 112 employees participate in the Municipal Fire and Police Retirement System of Iowa, and the remaining 253 employees are enrolled in the Iowa Public Employees Retirement System.

Recognizing that investment returns for both pension systems are less than what is required to meet future needs, expectations are that increase(s) in contribution rates will be necessary in future budgets.

- In 2007 the City Council approved changes to the residential solid waste collection fees and, coupled with a new service provider contracted through the Metro Waste Authority, we believe those fees will remain adequate for the 2012-13 FY.
- Sanitary sewer service fees were also revised, with annual rate adjustments starting in 2007. Those proactive steps preclude the need for additional fee modifications in the 2012-13 FY.
- Continuing with the City's preference to be proactive on enterprise fund revenues rather than reactive, the City Council in 2010 approved actions indexing both sanitary sewer capital charges as well as sanitary sewer connection fee district per acre charges.
- The proposed budget reflects the carryover of cash to ensure the 2012-2013 FY budget maintains prudent general fund balances, which protect the City of West Des Moines' financial integrity. The total revenues are \$54,488,860 and total expenditures are \$54,440,931. The projected General Fund composite balance on June 30, 2013 will be slightly under 31 percent (\$16,848,854) of annual operating expenditures which is sufficient for meeting unexpected shortfalls in revenues or demands on future fund resources.
- Additionally there are two other non-general fund operating programs being recommended for the 2012-13 FY. The first is collaboration with the West Des Moines Development Connection whereby the City would match a \$50,000 commitment by the Connection for a small business startup and expansion program. The City's contribution could be provided

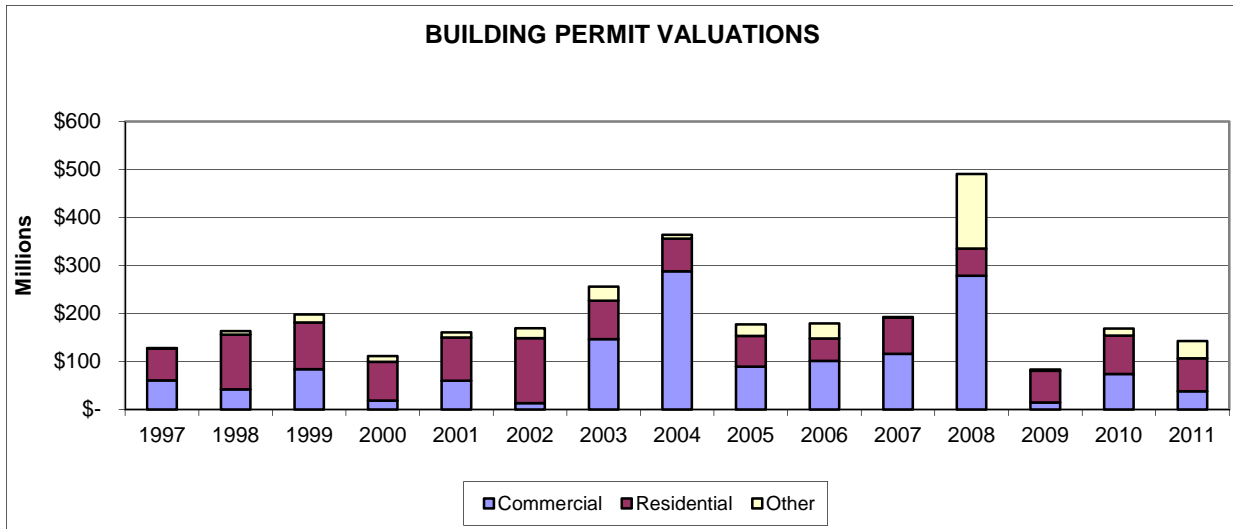
through available funds in our Economic Development special revenue fund. Details as to how the program would operate are currently in the discussion phase with an expectation the parameters will be before the Development Connection Board and City Council in the next couple of months. The other proposed new emphasis is an expansion of closed circuit televising of our sanitary and storm sewer lines with funding provided by sanitary sewer and storm water fees. Public Works has completed an in-depth analysis indicating utilizing city staff to operate newly acquired televising equipment would be both cost beneficial and would provide more timely response and service times.

Outlook for 2012-13 FY and Beyond

Given the continued slowdown in the state and national economy, we have thoroughly analyzed projecting revenues and expenditures to ensure adequate funding of services will be available in the following budget cycles. The starting point for all projections was: to deliver the same high-level of service to our community; to utilize very conservative revenue assumptions, maintain the tax rate; to insure adequate staffing levels. As fiscal variables become clear, we will continue to monitor the next two budget cycles. Examples of variables we are most concerned with include the pronounced slowdown of private taxable development, the anemic sub-1% earnings rate on our investments, the substantial increases of mandated pension contributions, and the likely return to reductions in the residential rollback. Also, we will have to closely monitor proposals at the state level to rollback commercial property valuations which could have a dramatic negative effect on property tax revenues.

Local Economy/Development Activity Highlights

The City of West Des Moines continues to be one of fastest growing cities in the State of Iowa. As of the 2010 census we had 56,609 residents, which is a 78.9 percent increase in population since 1990 and 22 percent since 2000. As of January 1, 2012, staff estimates the City's population to be 59,281. In calendar year 2011, the total building permit valuation was slightly in excess of \$142,361,000. This was lower than 2010, and the sustained downturn in development activity is a concern for future budget years. Staff will continue to monitor the economy and make budget recommendations and adjustments as necessary.



BUDGET IN BRIEF

Revenues

The City of West Des Moines continues to experience significant growth. However, much of the recent commercial growth will not translate into additional funding for operating budgets. The two hospitals are tax exempt and the AVIVA office building tax revenues will be used to pay for the surrounding infrastructure for several years to come. The City has built a strong base in commercial property including two regional malls and extensive office and medical clinics along Westown Parkway. There are numerous vacant parcels along Mills Civic Parkway and Jordan Creek Parkway that will enable further commercial growth as the economy rebounds.

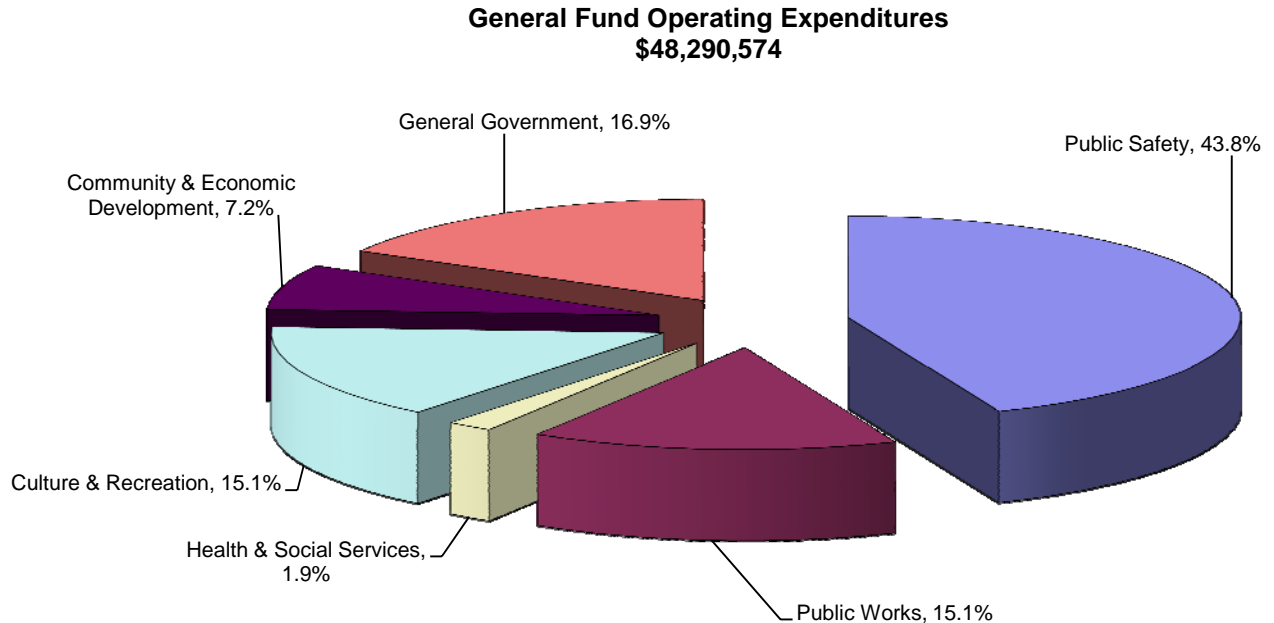
In 2012-13, General fund operating revenues of \$42,877,224 are projected to decrease by 1.77% compared to 2011-12 FY. Several factors contributed to the decrease in property tax revenue including significant property devaluation in Polk County. This decrease was partially offset by residential rollback going from 48.5% to 50.7518%. Even with the residential rollback increasing, the city’s taxable valuation subject to operating levies decreased by 0.71%, paling in comparison to many years where West Des Moines annual increases were in excess of 5%.

Two significant general fund revenue sources are projected to remain at recent lower levels for FY 2012-13. Interest earnings are projected to be \$29,800 which is \$145,200 less than the amount budgeted in FY 2011-12. Building related revenues are projected to be about 2% higher at \$415,000 as compared to \$407,250 for 2011-12.

It is important to note that in excess of \$456,000,000 in taxable value remains included in the City’s Tax Increment Finance (TIF) Districts. This amount equates to \$4,700,000 (estimated) in tax dollars that is excluded from general fund resources. Much of these TIF funds are dedicated to public infrastructure projects such as, public safety facilities, bridges, roads and utility systems.

West Des Moines’ taxable valuation per capita of over \$66,000 remains the highest of Iowa’s ten largest cities.

Expenditures



The City's General Fund operating expenditures total \$48,290,574 and denote a decrease of 2.57%, \$1,272,491 less than the 2011-12 FY budget. The largest percent of expenditures continues to be in the Public Safety program area with 43.8% of General Fund.

Police and Fire pension costs are accounted for outside the General Fund but do utilize a property tax levy for funding. Increases in contributions to the Police and Fire pension system are reflected in a 2.5-cent increase to the tax levy for pensions. In response, other tax levies were decreased and the tax capacity of the General Fund was diminished.

The City of West Des Moines' total number of full time equivalents (FTE's) will be 365 which is a decrease of 5.25 from the level approved for the 2011-12 FY. This will be the fourth consecutive year that the City has reduced the number of employees. 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%. As noted earlier IPERS pension contributions increased by \$82,000 in FY 2012-13 and are projected to increase in future years.

Capital Improvement Plan

As previously agreed to by the Mayor and City Council, the City did not convene a citizen committee, this year, to develop and present a Capital Improvement Plan. Due to the committee's diligent work in prior years and the extraordinary large number of priority projects competing for limited funding, staff prepared the proposed plan identifying definitive funding for projects over the next three years. The proposed CIP honors previous commitments and continues to adhere to the \$2.00/\$1,000 debt service rate limitation. Proposed projects are identified for ensuing fiscal years of the plan, but the funding is tentative or listed as "to-be-determined".

There are two basic approaches to funding capital projects: Pay-as-you-go and Pay-as-you-use. Pay-as-you-go means paying for the capital project out of current revenues at the time of expenditure. Pay-as-you-use means borrowing to finance the expenditure with debt service payments being made from revenues generated throughout the useful life of the project. West Des Moines uses a mix of finance approaches to finance capital projects. Capital projects are financed through bonds, reserves, grants, developer contributions and other governmental sources.

In addition to our efforts to extend infrastructure improvements to our developing areas we will continue present efforts in our established neighborhoods. The CIP commits substantial resources to resolve stormwater, sanitary sewer and paving issues in the Valley Junction area. Additionally, the following major projects are recommended for funding and construction in the 2012-13 FY:

- \$3,000,000 in Street Rehabilitation
- Southwest Connector Phase III (Highway 28 to Highway 5)
- Grand Avenue (South 35th Street to South 50th Street)
- Westcom Radio Replacement
- Legion Park Major Renovations
- Public Safety Station #17 Masonry Repairs & Windows
- Design of Sanitary Sewer Trunks to serve 105th Street/I-80 area

Strategic Planning/Quality Improvement Process/Clusters/Goal Setting

The City of West Des Moines Mayor, City Council and staff have pursued a number of initiatives to define the direction for the city organization and community. These measures include a citizen attitude survey, mission statement, employee value statement and the Balanced Scorecard Strategic Planning process.

The City staff has committed to enhancing the level of the services provided to our residents through the quality team process. This has involved extensive training of city personnel in quality tools and techniques. City employees have formed a number of teams that are examining and making recommendations on a wide range of city-wide and departmental issues. The quality team process is guided by a group of city employees representing all city departments.

In order to improve communications and break down departmental barriers the concept of organizational clusters was introduced several years ago. Four clusters within the City organization have been formed with each of the clusters being comprised of similar departments that are closely related in function and common issues.

Community Enrichment Cluster: Parks and Recreation, Human Services, Library

Public Safety Cluster: Fire, EMS, Police, WestCom

Public Services Cluster: Public Works, Development Services, Community and Economic Development, Water Works

Support Services Cluster: City Manager's Office, Finance, City Attorney's Office, Human Resources, and Information Technology Services

Better relationships, synergies, and efficiencies have been established through the increased

interactions of the departments. Departments have become more strategic partners as they embrace long-term issues and address strategic planning issues. The organizational clusters are a natural complement to the City's quality process as the City organization continually looks to improve.

Hotel/Motel Revenues

Hotel/Motel Tax, authorized by West Des Moines voters in 1984, is expected to generate \$2,650,000 in the upcoming year. Of those revenues 2/7^{ths} will automatically go to the Greater Des Moines Convention and Visitors Bureau, 2/7^{ths} will flow (per agreement) to BRAVO, 2/7^{ths} (subject to City Council approval), will be used for city park/recreation/tourist activities and the remaining 1/7th will be available for distribution to other City Council designated entities. For 2012-13 FY, the contribution to metropolitan-based organizations will exceed \$1,500,000. City Council action designated discretionary revenues in excess of total fund revenues of \$2,550,000 are to be channeled towards a public arts program.

Regional Cooperation

The City of West Des Moines 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 Metro in many ways, including:

- ◆ Wastewater Reclamation Authority
- ◆ Metro Planning Organization
- ◆ West Des Moines and Clive jointly share a Fire/EMS facility
- ◆ West Des Moines, Clive, and Urbandale have moved toward a common program of animal control licensing and enforcement.
- ◆ The West Des Moines Police Department is involved in many metro-based activities, ranging from traffic task forces to narcotic trafficking.
- ◆ The City has committed \$1,300,000, over a multi-year period, to the Iowa Events Center.
- ◆ The City of West Des Moines, along with the Cities of Ankeny, Altoona, Clive, Grimes, Johnston, Pleasant Hill, Polk City, Urbandale and Windsor Heights have formed Metro Home Improvement Program, a multi-jurisdictional housing rehabilitation entity. This program is a collaborative effort of nine metro cities with the purpose of preserving affordable housing stock in these communities.
- ◆ During 2008, the City entered into an agreement with Iowa Health Systems to provide administration and operation of emergency medical services. The resulting public-private partnership, Iowa EMS Alliance, avoids duplication of services while maintaining high quality care for the citizens of West Des Moines and the patients of Iowa Health.

Conclusion

The City of West Des Moines' budget is increasingly difficult to balance due to both continued growth and demand for services coupled with reduced resources. City departments have identified supplemental services/projects which are included in the proposed budget document for review by the Mayor and City Council.

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 continue in future. Current service demands and limited revenue growth will necessitate a thorough and continuous review of all aspects of our financial plan.

I must express my personal thanks to members of the City staff for their diligent efforts to develop budgets that continue to provide high quality services to our residents.

A special note of thanks and appreciation to the members of the Finance Department staff for excellent performance in gathering, analyzing, and presenting information clearly and accurately. The budget preparation team, composed of, Deputy City Manager Jody Smith, Finance Director Tim Stiles and Budget Analyst Chris Hamlett, worked collaboratively and effectively, in concert with the Department Directors, in developing the proposed 2012-13 FY budget. This proposed budget could not have been completed without the combined efforts of all those involved.

I would also like to thank the City's elected officials for your interest and support in planning and conducting 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,



Greg L. Sparks
City Manager