



January 30, 2009

The Honorable Mayor
and
Members of the City Council
City of Des Moines, Iowa

Dear Mayor and Council Members:

I am pleased to submit the recommended Operating and Capital Budgets for the fiscal year ending June 30, 2010, as well as the Capital Improvement Program (CIP) for fiscal years 2009-10 through 2014-15. The operating budget and CIP are an expression of the City's priorities of services to be delivered to its residents, workers, and visitors.

Budget workshops were begun in August 2008 and will continue through February, or until the budget is adopted by the City Council. During the nine budget workshops held to date, Council has had an opportunity to systematically review the key issues that are essential to understanding and compiling the budget. Three more budget workshops are planned for February to further discuss budget proposals and recommendations. Community input has been solicited through the City Source newsletter, and members of the public have been invited to comment at the workshops. Input was also gathered from a separate outreach to City employees.

Key issues addressed in budget discussions were:

Operating Budget: At a September 2008 workshop, staff identified a budget gap of between \$5.4 million and \$8.8 million dollars, depending on the tax rate target. It was reported that targeting a fixed operating tax rate would yield a gap of \$5.4 million, targeting a fixed total tax rate would yield a gap of \$5.9 million, and targeting a fixed residential tax bill would result in a budget gap of \$8.8 million. Following careful consideration of the respective impacts to operating department budgets and service levels, the decision was made to target a fixed total tax rate and the resulting \$5.9 million budget gap. This approach reduced the Tort and Trust and Agency tax rates by \$.04 and shifted it to the debt service levy, while holding the total tax rate at \$16.58.

The operating budget projection also assumed contractual increases for employee salaries and benefits and estimated cost increases in materials and supplies including a large increase in the cost of fuel. In developing a budget that addressed the funding gap, staff sought to avoid one-time revenues, develop conservative and reasonable recommendations for expenditure reductions and revenue increases, minimize the impact of expenditure reductions upon service delivery, place a priority on front-line Police and Fire services, and use privatization as an effective strategy to maintain services at lower costs.

Capital Budget: Staff sought to exercise discipline in the CIP and decrease general obligation bonding levels when possible. Exercising such discipline will have a positive long term impact on the tax rate. As with prior budgets, staff evaluated capital improvement projects using various criteria, such as public health and safety, economic development, and effects on operating expenditures. Also, staff continued to evaluate projects based on the extent to which they would mark progress toward one of the City's twelve goals.

Following are the major highlights that summarize the adopted FY2010 budget:

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 - the tax rate would remain at \$16.58. Since 2004, when the tax rate reached \$17.05, the tax rate has decreased by 47 cents.

Reduced Tax-Supported Bonding: In comparison to last year's capital improvement plan, this year's budget includes a decrease of \$14,328,000 in FY 2009-10 tax-supported bonding amounts. The reduction is made up of a \$1,478,000 reduction in bonds to be repaid through the debt service levy and \$12,775,000 to be repaid with Tax Increment funds. This reduction is being made possible by deleting and deferring projects and using grant funds in place of City funds. The reduction also allows the debt service levy to be \$.04 less than was projected a year ago and \$.74 less than was projected four years ago.

Operational Privatizations: Services traditionally provided by City staff can be provided at a lower cost, in some cases, through out-sourcing work to the private sector. It is believed that custodial services, grass mowing, athletic turf maintenance, animal control services and workers compensation administration can be provided at less cost by this means. Cost savings through privatization are currently estimated to be \$1,800,000. Custodial and mowing services are in the midst of a competitive bidding process and an Animal Control Services contract is being negotiated with the Animal Rescue League that will more clearly define the actual savings amount prior to Council approval of the budget. Privatization will result in staff reductions totaling up to 64 positions, but will result in considerable cost savings with little or no reduction in service to citizens.

Organizational Reductions and Restructuring: The City organization continues to strive for increased efficiencies through collaboration with other governmental organizations and within the City organization itself. A number of actions have been recommended for the FY2010 budget that will reduce costs significantly, but in some cases will result in acceptable decreases in service levels. These actions include staffing reductions in Police administrative support services, and staffing within the City Clerk, Engineering, Legal, Information Technology, and Community Development departments. The Fire Administration Command reflects reduced position levels, the appropriation to Library has been reduced, funding for City primary elections has been eliminated, and budgeted capital outlay has been reduced. There has also been an effort to improve collaboration between the Parks and Public Works departments in the areas of snow removal, park refuse collection, forestry, street repair, and park road maintenance. It is estimated the sum of savings in these areas will yield annual cost savings of \$2,300,000 and reduce staffing by 22 positions.

Non-Personnel Reductions: Budget staff routinely reviews departmental budgets to assure that amounts are appropriate to fund services. For the FY 2010 budget, cuts of over \$500,000 have been made in General Fund categories in which reasonable discretion can be exercised to reduce expenses. This \$500,000 reduction is equal to 5.5% of \$9,000,000 budgeted in these categories.

Specifically targeted in this review were travel and training budgets in all funds. The budget recommends a reduction of \$188,000, an average of 23%, in citywide travel and training budgets, including funds for Succession Planning, Employee Development, Police Forfeited Funds and grants. \$27,000 of this amount was in the General Fund.

Reserve for Contingency: A reserve for contingency is used to provide a greater degree of certainty that the City can operate within the constraints of the adopted budget. The reserve for contingency provided in the recommended FY 2010 budget is \$500,000 as compared to \$250,000 in FY 2009. This increase reflects the uncertainty surrounding the local, state, and national economy in general, and specifically, the significant budget reductions proposed, such as privatization contracts, and uncertainty related to miscellaneous revenue sources such as payments in lieu of taxes, franchise agreements, and other voluntary contributions.

Capital Improvement Projects: Funding remains in the capital budget for construction of the Fire Maintenance/Logistics and Training Campus, with efforts currently being made to identify opportunities for collaboration with metro-area cities so the ultimate use of the facilities can be maximized. The City Hall Annex planned in the FY2009 CIP has been removed from the plan, at least for the time being, and the Eastside Parking Garage has been deferred for two years. The projects listed above will be funded with tax increment funds.

Significant sewer improvements were added to the CIP in response to the 2008 flood in an effort to mitigate future flooding in addition to enhancing staff capabilities to perform on-going maintenance and repairs. Projects include Court Ave/Water Street Sewer Separation, restoration of the M.L. King Jr. Parkway Levee, improvements to the storm water conveyance in the Central Place area, and Storm Water Pump Station Emergency Power Generation. The city is also aggressively pursuing the accelerated design and construction of a new levee built to US Army Corps of Engineers' standards in the Birdland area. Stormwater Utility rates were increased to help fund these improvements, but the City is seeking Federal and State grants to help mitigate these or future rate increases.

Franchise Fees: The City is awaiting the outcome of litigation regarding gas and electric franchise fees. Based on the 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 future tax rates.

Gaming Revenues: The City anticipates collecting \$6 million of gaming revenues in FY 2010. Past years' budgets have dedicated 100% of these funds to street and bridge capital improvements. The FY 2010 budget allocates \$1,000,000 to fund street maintenance with the remaining \$5,000,000 continuing to be used for capital improvements. The \$5,000,000 allotment is allocated \$3,000,000 for streets and \$2,000,000 for bridges. The \$2 million for bridges will greatly help the City meet the needs identified in the 2007 Citywide Bridge Evaluation Report.

Beyond FY 2010: We can expect similar budgeting challenges in future years due to the structural deficit present in Des Moines' finances. In other words, we can expect the cost to provide our current level of services to outpace the growth in revenues. One benefit of the cuts recommended for FY 2010 is that they include approximately \$1,000,000 in one-time costs that will not be present in future years. Therefore, with those one-time costs no longer present in FY 2011, we will be \$1,000,000 closer to a balanced budget than we would be otherwise. In addition, staff will continue their review of operations beyond this budget cycle to identify further cost saving measures, and proposed changes will be brought to Council attention as they are identified.

In closing, I wish to acknowledge the contributions of many staff members in all departments for the preparation of this budget. It has truly been a team effort to be able to present to you a budget that is balanced and addresses the goals identified by Council. I also appreciate the leadership of the City Council and their willingness to devote many hours to work with staff to formulate this policy document. Finally, a special thanks to the many people who serve on our various boards and commissions and to the citizens of Des Moines who participate in the budget process and care about the future of our great city.

Respectfully submitted,



Richard A. Clark
City Manager