

BUDGET SHORTFALL INFORMATION

AUGUST 2004

For the past five years, local governments across Washington have faced persistent budget deficits brought about by various citizen tax-cutting initiatives. Budgets have been cut and many municipal services reduced or eliminated. Many of these governments, including Des Moines, have now reached the point where many essential municipal services must be further reduced or completely eliminated. The City of Des Moines estimates that for the 2005 budget, there will be an operating deficit of \$3.3 million in the City's General Fund.

This report focuses on Des Moines' budget situation. The information provided herein is intended to help educate Des Moines residents and to solicit input that can help the City Council pin-point which services to reduce or eliminate to balance the 2005 budget.

The Des Moines City Council is studying various options for balancing the City's budget, including reducing the City's operating budget by as much as \$3.3 million (20% of the City's operating budget). These are difficult choices that will be felt by all residents. For example, Zenith Park will probably have to be closed and fenced and Des Moines Beach Park may be closed in the winter. The Council believes that major decisions like these should be made only after extensive community input.

- *Should budget cuts be distributed across all City Departments equally, or should the cuts be focused more in some City Departments than in others?*

Government budget cuts are rarely easy and here are some of the reasons why. First, every service or program has a public con-

stituency that works hard to prevent cuts in that particular area. Some public services do not lend themselves to analytical scrutiny because they offer indirect and direct value. Meanwhile, identifying the best cuts to Des Moines' budget will force all of us to compare and prioritize very different services.

Example 1:

The City investigates hundreds of complaints each year about junk cars, illegal fences, and poorly maintained property. Without enforcement of zoning and nuisance laws, neighborhoods can become unattractive and, over time, home values in the area can decline. When neighborhood property values go down, crime rates can increase to an extent that law enforcement in the neighborhood costs more than the cost of the zoning code enforcement. These changes are not immediate and are visible only long after the budget decision was made to end the enforcement of zoning laws. *What City services can be eliminated without causing unexpected increases in other services?*

Example 2:

All City services can be expressed in terms of their cost. Even so, it is often difficult to weigh the relative value of very different City services or programs. *How would you choose between such diverse services as animal control, after-school recreation programs, and next-day building inspections?*

The City is holding several informal [Community Budget Meetings](#) to gather additional citizen input. Your attendance and participation is requested.

WHAT CAUSED DES MOINES' \$3.3 MILLION DEFICIT?

Our budget problems began in earnest in 1999 when Washington voters (and the Washington State Legislature) approved **Initiative 695**. I-695 eliminated the Motor Vehicle Excise Tax (MVET), which was a major funding source for smaller communities like Des Moines. MVET funded Sales Tax Equalization, Washington's program for "returning" sales tax to residential communities with few businesses and industries. Prior to I-695, the City's operating budget was \$11.2 million, with \$2.3 million in revenues coming from MVET. Simply put, I-695 was a major blow to the City's budget. With MVET gone, the City's largest single revenue source (for operations) was property tax. Des Moines' voters approved I-695.

In 2001, Washington voters approved **Initiative 747**. Prior to that time, municipalities were allowed to increase property tax levy rates as much as 6% each year. I-747 reduced that authority to a maximum of 1% per year.

Unfortunately, inflation and other factors have increased our operating expenditures at rates greater than 1% per year. For example, insurance premiums have increased 15% or more each year. Fuel costs have increased 13% since April 2003. Property tax revenue that increases at only 1% per year simply cannot keep pace with regular expenses.

The passage of **Initiative 776** in 2002 was another blow to the Des Moines' budget. That Initiative eliminated the \$15 vehicle-licensing fee that funded a large portion of Des Moines' street maintenance program. The loss of more than \$267,000 in license fee revenue means that expense is now shifted to the City's operating budget.

For 2005, the three initiatives equate to a reduction in City revenue of more than \$3 million. For comparison, total 2004 on-going revenue for the General Fund is \$12 million.

WHY IS THE DEFICIT SO PROMINENT NOW?

The City Council has made a number of budget cuts each year since 1999. More detail is provided on the following pages about the City's efforts to cut operating expenditures. Meanwhile, Des Moines has been fortunate to have some one-time revenues, mostly in the way of permit fees for large construction projects, and reserve funds that have helped the City postpone the most severe budget cuts. Also, for a limited time, the State provided some "backfill" money to cities like Des

Moines that were particularly hard hit by Initiative 695. Some of the one-time revenue could be used to help balance the budget for 2005; however, those funds need to be used to provide building permit services. The "backfill" money is only \$90,000 for 2005 and is expected to be non-existent in 2006. At this point, the most prudent approach is to make sure that regular and reliable revenues are adequate to cover regular, ongoing expenditures.

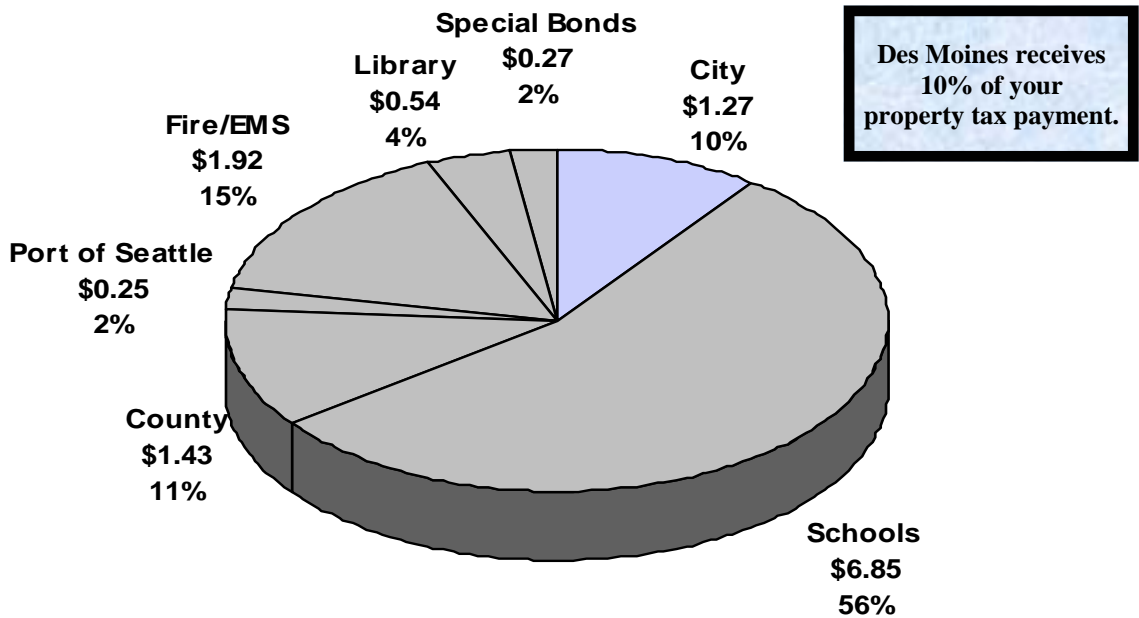
WHAT IS THE “OPERATING BUDGET”?

Operating budget is a term used to identify the regular, re-occurring expenses associated with city services. These expenses include employee salaries, office supplies, fuel, insurance, utilities, etc.

The City’s General Fund is the accounting tool used to keep track of operating expenses. An operating budget does not include one-time expenditures, such as the cost of building roads, city buildings, and similar capital improvements. Also, budgets for the Marina and the Surface Water Management Utility (SWM) are separate from the General Fund.

Employee salaries and benefits are the largest expenditures within the operating budget. The City has 132 full-time and 13 part-time employees. The Parks Department and the Marina also hire approximately 37 summer workers during those Departments’ busiest times. Employee salaries and benefits within the General and Street Funds constitute approximately 68% of those budgets. Even if voters approve the levy lid lift in September, layoffs will need to be made.

2004 PROPERTY TAX DISTRIBUTION
\$12.54 per \$1,000 of Assessed Value



WITHOUT NEW REVENUES, A 20% CUT IN SERVICES WILL BE REQUIRED TO CORRECT THE DEFICIT

Examples of City Services That May Be Eliminated in 2005

Police

- All animal control services
- Custody and protection of evidence
- Motorcycle traffic control program
- All crime prevention programs
- Liquor law enforcement
- Tobacco law enforcement
- Bicycle helmet program
- Vacation house checks
- Speed radar trailer
- Pedestrian safety enforcement
- Gambling law enforcement
- Mt. Rainier school resource officer
- Homeland security coordination
- Mutual aid to King County cities
- Investigation of crimes against property
- Traffic school for municipal court
- Sex offender monitoring program
- Special investigations (drug, gang, etc.)
- Patrol vehicle video recording program
- Lost and found
- Police station front desk open 24 hours/day

Public Works

- Next-day inspections
- Prompt permit review
- Digital mapping services
- Regular road striping
- Reduced number of street lights
- Reduced road maintenance
- Reduced maintenance of City vehicles
- Reduced trimming of vegetation at roadway

Parks and Recreation

- Mt. Rainier Pool
- Soundwaves Summer Concerts
- Easter Egg Hunt, Halloween Party
- Teen programs, low-income scholarships
- Adult health programs
- Reduced maintenance
- Reduced hours at Field House
- Winter closure of Steven J. Underwood Memorial Park, Des Moines Creek Trail, Beach Park, Field House Park
- Closure of Zenith Park, Cecil Powell Park, Kiddie/City Park, Parkside Park, and Water Tower Park
- Restrooms at Steven J. Underwood Park
- Programs and services not fee-supported

Senior Center/Services

- Reduced hours at Activity Center
- All programs not fee-supported

Municipal Court

- Prompt trials for defendants
- Jail transport by Court
- Monitoring of probation compliance

Community Development

- Nuisance and zoning enforcement
- Next-day building inspections

Executive Office

- City Currents* newsletter
- Summer Neighborhood Meetings
- Consumer advocacy for cable TV



Next day building inspections

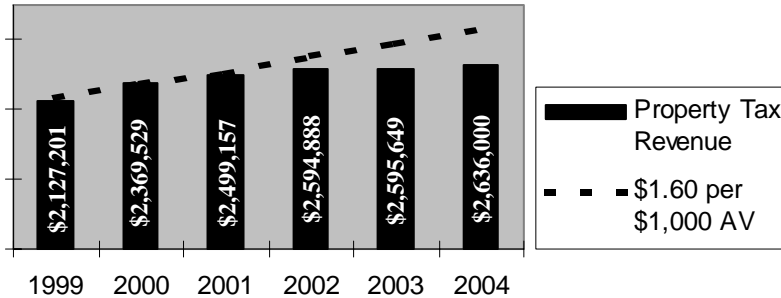


Special police patrols

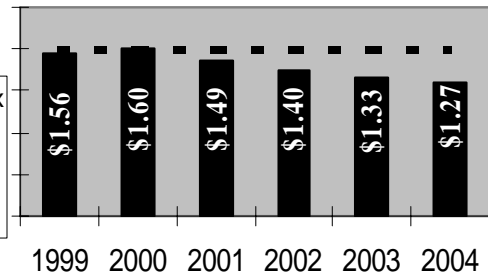


Vegetation management

City Property Tax Revenue



City Property Tax Levy Rates



WHAT COST-SAVING MEASURES HAS THE CITY IMPLEMENTED SINCE I-695?

The City has taken a number of steps to reduce expenditures, but still more are needed. Examples of cost-savings measures implemented so far include:

Elimination of several City jobs:

- Police D.A.R.E. Officer
- Two Police Community Service Officers (CSO)
- Two Street Maintenance Workers
- Park Maintenance Worker
- Part-time Park Maintenance Worker
- City Hall Receptionist
- Part-time File Clerk

- Delayed equipment/vehicle replacement
- Voluntary furloughs by employees
- Reduction in cell phone use
- Reduction in janitorial services for City buildings
- Reduction in training for employees

WHAT EFFORTS HAVE BEEN MADE ALREADY TO IDENTIFY POTENTIAL SAVINGS AND INCREASE REVENUES?

After the passage of I-695, the City increased the utility tax rate from 5% to 6%. Also, fees for recreation programs and classes were increased in order to avoid the loss of the most popular events. Building permit fees were also increased to help offset the cost of plan review and construction inspections and make them more self-supporting.

In order to produce a sustainable financial future for the City, we are pursuing a number of long-term objectives. Efficiency studies have begun for the Surface Water Management Utility, the park maintenance function, and the building permit process. These studies by outside experts will identify ways to cut costs and improve customer service.

In September, Des Moines voters will decide whether to increase the City's property tax levy rate to \$1.60 per \$1,000 of assessed valuation.

The City is working hard to attract new businesses to our community. We are rebuilding Pacific Highway South and offer a number of incentives for redevelopment of the properties in that area. The Zoning Code is being examined to determine if it can be streamlined to make permitting easier. Also, a new economic development plan will be developed to maximize our chances of bringing new commerce to Des Moines. The City Code was changed in 2002 to allow restaurants to open card rooms (mini casinos). In the long run, redevelopment of our commercial areas may help solve some of the City's budget problems. However, these

changes will take some time and, in the meantime, we need to make sure the City's budget is balanced.



Recreation Programs

WHAT OPPORTUNITIES ARE THERE TO INCREASE CITY REVENUES?

Summary of Opportunities for Increasing Operating Revenues

FUNDING SOURCE	DESCRIPTION
Sales tax and gambling tax	Discussed on the previous page.
Property tax increase (levy lid increase)	Presently, the City Council can approve levy rates that generate up to 101 % of the property tax collected the previous year. The 2004 levy rate is \$1.27 per \$1000 of assessed valuation (AV). The September 14th ballot will ask voters to approve a levy rate of \$1.60 per \$1000 of AV. Voter approval of this levy rate would generate approximately \$870,000 for the City. The additional property tax for the owner of a home valued at \$200,000 would be \$66.
Metropolitan park district	Voters can establish a metropolitan park district that would create a separate taxing authority for park facilities within Des Moines. Voters would establish the levy rate for the new Park District. A park district can levy \$.50 per \$1000 of AV generating approximately \$1,042,000. The City's Park, Recreation, and Senior Services Department would be transferred to the new Des Moines Park District, and removed from the City's General Fund.
Parking fees	The City Council could establish parking fees at park facilities such as Steven J. Underwood Memorial Park, Des Moines Beach Park, and Zenith Park. The parking fee at Redondo is expected to generate approximately \$50,000 annually.
Utility tax increase	The City currently collects a 6% utility tax on telephone, cable TV, solid waste, natural gas, and electrical service. Voters can increase the utility tax up to a maximum of 9%. Each percent of utility tax generates approximately \$374,000.
Business and occupation tax	The City Council can establish a B&O tax. As its name implies, it applies to businesses in Des Moines and tax rates are based upon gross revenues. A B&O tax would generate approximately \$350,000 in revenue.
Business license head tax	The City Council can modify the method of determining business license fees by including a rate per number of persons employed by that business. The amount of revenue that could be generated by this tax has not yet been determined.
User fees	The City Council could increase user fees for recreation programs, facility rentals, boat launching, and similar services. User fees are presently set at rates appropriate for local conditions and further increase will probably result in reduced patronage.

WHAT'S NEXT?

Over the next several months, the Des Moines City Council will be working through the process of developing the 2005 budget. If you have thoughts or suggestions you would like to share with the City Council, you can do so via e-mail to citycouncil@desmoineswa.gov; by U.S. mail addressed to the City Council at

21630 11th Ave. S., Des Moines, WA 98198; by phone at 206-870-6541; on the City's website at www.desmoineswa.gov; or during the "Comments from the Public" portion of the City Council meetings held the second and fourth Thursdays of each month.



David Foxley, Court Transport Officer

City of Des Moines

21630 11th Avenue South, Des Moines, WA 98198

Comments or questions?

Contact Paula Henderson, Finance Director

206-870-6512 phenderson@desmoineswa.gov



Des Moines Field House

Community Budget Meetings

The City of Des Moines is beginning to prepare its budget for 2005. Because we anticipate that there will be a \$3.3 million deficit in the City's operating budget, City officials want to gather community input on how to best handle this budget challenge. A good portion of the budget deficit is the result of several State-wide, tax-relief initiatives since 1999. The City Council has decided to ask Des Moines voters to consider a property tax increase specifically to help reduce the deficit and to preserve essential services. Please attend one or more of the community meetings to share your thoughts and suggestions. ***Meetings recently added to the schedule.**

Date	Location	Address	Time
August 30, Monday	Fire District 26	2238 S. 223rd St.	7:00 p.m.
August 31, Tuesday	Redondo Heights Condominium Clubhouse	28313 Redondo Way S.	7:00 p.m.
September 1, Wednesday	Wesley Gardens (Logan Hall)	815 S. 216th St.	7:00 p.m.
September 7, Tuesday*	Resurrection Lutheran Church	134 S. 206th St.	7:00 p.m.
September 27, Monday*	Woodmont Library	26809 Pacific Highway S.	7:00 p.m.
September 28, Tuesday*	North Hill Community Club	20827 3rd Ave. S.	7:00 p.m.
October 18, Monday*	Fire District 26	2238 S. 223rd St.	7:00 p.m.
October 20, Wednesday*	Huntington Park Clubhouse	1000 S. 248th St.	7:00 p.m.