



# City of Des Moines

ADMINISTRATION  
21630 11TH AVENUE SOUTH, SUITE A  
DES MOINES, WASHINGTON 98198-6398  
(206) 878-4595 T.D.D.: (206) 824-6024 FAX: (206) 870-6540



May 5, 2022

Dear Mayor and Des Moines City Council,

City Council recently received a letter from the Des Moines Marina Association (DMMA) that was subsequently forwarded to City Administration by several City Council members. The letter questions the allotment of expenses Marina tenants must pay for Marina services. Given that very significant changes are taking place and are planned for Marina redevelopment – both water and landside – City administration appreciates the opportunity to clarify a number of points identified in the DMMA letter.

Perhaps it would be best to recap City involvement with DMMA over the past four years. On January 16, 2019, Scott Wilkins was appointed Harbormaster upon the retirement of Joe Dusenbury. Joe was and continues to be a font of knowledge about the Marina, given his many years at the helm, and the City has retained Joe as a consultant to work on some of the complex permitting dynamics related to Marina capital improvements.

In late 2017 and early 2018, City staff, Dan, Scott and Michael met with representatives of the DMMA; Bill Linscott, Ben Stewart, Ken Rogers and Todd Powell. The interest of the DMMA, as we recall and understood, was for the City to undertake strategic planning for the Marina to help identify future actions.

At the suggestion of the DMMA Board, the City contracted with their recommended consultant, Mark Bunzel, with the Waggoner Group, who is well known in the marina industry for the Waggoner Cruising Guide that provides periodic updates on boating and marinas in the Pacific Northwest, also known as the “bible for Northwest cruising.” Mr. Bunzel and his team produced a report for the City that was presented to the City Council at a Council meeting in September, 2019. He also presented results to a community meeting in that same period.

Simultaneous to that, Marina staff began work updating our Marina Master Plan. Special acknowledgement was given to the participation of DMMA, in the draft report. “Special thanks goes out to the Harbormaster’s Working Group members Todd Powell, Bill Linscott, and Ken Rogers, who represented the boating community and provided invaluable insight into the development of this 2021 Comprehensive Master Plan.”

The City contracted with Moffatt & Nichol who utilized Paul Sorensen with BST Associates to prepare a demand and analysis study as part of their scope of work for dock replacement. BST Associates marine study drew similar conclusions to the work of Bunzel and the Waggoner Group. The focus of their respective analysis suggested that the Marina does not have the Des

*The Waterland City*

appropriate slip mix to accommodate future boating trends in Puget Sound (and elsewhere); as well as that cost of moorage were not competitive with the market as a whole and that very significant capital investment would be required to replace aging docks and enhance the quality of the Marina's facilities.

All of these outcomes were shared with DMMA as they were brought to fruition. It became clear that DMMA was not celebratory about recommendations to raise moorage rates, reconfigure slip mix, reduce the amount of covered moorage during dock replacement, and to increase cost of fuel to compete with the marine fuel market in the northwest.

City staff continued to meet regularly with the DMMA Board in what was called the Harbormasters working group, which included Scott, Katy, Dan, Todd, Bill and Ken. Scott, Dan and Katy continued to attend DMMA meetings, and the City Manager joined them on specific occasions. As constituents for boater moorage, it was clear that not all of the changes moving forward were perceived as positive steps by the DMMA. There were fundamental aspects of marina (waterside) redevelopment that conflicted with the special interests of the DMMA. However, it was always a foundational piece of the relationship with DMMA, that everyone wanted a high quality, healthy and functional marina.

As you are aware, the Marina is an Enterprise Fund, run as a business responsible to match revenues with expenditures and with enough left over for debt service for capital costs, for example, dock replacement.

Incidentally, during this time the north bulkhead renovation began, a \$12 million project that the City had removed from the Marina's responsibility and the City assumed responsibility for financing this large capital improvement.

In 2015, the current administration transferred a large portion of the Marina uplands to the City as it did not directly impact Marina operations and the result was the City taking responsibility for the \$12 million north bulkhead renovation (an improvement that has significant regional emergency management implications). As a result of reconfiguring the finances of the Marina, the Marina fund balance increased as a result of these steps from less than \$500,000 in 2013 to over \$3 million in 2021.

Since discussions with DMMA had engaged, and as the analysis of the consultants became known, City staff became concerned that certain allegations were circulating to the effect the City had inappropriately allocated Marina funds to the City general fund. At a time when the City was moving forward on a number of projects to enhance the water and landside of the Marina, false allegations about finances seemed to be divisive and non-productive. Clarifying these allegations was the basis of the presentation made by Dan Brewer, at March 10, 2022 City Council meeting.

The DMMA claimed they were not included in the presentation to City Council, that they should have had a chance to review the presentation prior to City Council. The answer is simple. The business of the Marina is a City function and DMMA has no statutory or legal authority for the operation of the Marina. That is City Council's responsibility and City administration was exercising their respective duty to inform City Council. DMMA is an advocacy organization for constituents with specific/personal interests in the Marina, essentially related to the interests of moorage tenants. As DMMA stated in their letter, "their primary purpose is to assist the City in preserving the health and welfare of the Des Moines Marina." No one disputes this intent, however DMMA, nor any other private organization, is not entitled to critique information before it is provided to City Council.

For example, the following from the DMMA letter to City Council,

"However, we were dismayed at the wording, tone, and lack of context around certain aspects of the presentation. We were also concerned with the absence of any meaningful scrutiny by the Council during discussions... We believe the presentation failed to provide the historical context and reasoning for the Council."

A troubling element of this allegation is that the presentation on Marina finances, in fact, provided to City Council financial information, [slide 7 of the PowerPoint, titled "The Marina's Indirect Cost Allocation"] that included data from 2001 – 2021. This 20-year period is included in many of the slides portraying financial information.

Their letter states that "DMMA would like to focus our response on two areas:

- The position that leasehold excise tax payments from the Marina should not be credited against the Marina's Indirect Cost Allocation; and,
- The assertion that the City has, for decades, been subsidizing both moorage rates and fuel sales."

Related to Leasehold Excise Tax,

"DMMA believes the Marina Enterprise is paying twice for the services from the General Fund departments. First through the tax revenue sent to the City's General Fund and again with the transfer out to cover the indirect cost allocation."

The fundamental assumption throughout the DMMA letter, is that essentially moorage tenants are being double charged by Leasehold Tax and Indirect Cost Allocations is simply incorrect. Leasehold excise tax revenue received from the State does not directly fund support service departments of the City. This point was made explicitly clear in the March 10<sup>th</sup> staff presentation to Council.

As an example, in 2021, the total tax revenue that the City received from all sources including real and personal property tax, retail sales and use tax, business and occupation tax, utility Des

taxes, gambling taxes and leasehold tax was \$13,711,890 (note: this figure does not include one-time sales tax<sup>1</sup> which is directed to the City's Capital Improvement Program by City Ordinance, or other restricted taxes like real estate excise tax). The 2021 expenditures for public safety was \$13,022,375. That represented 95% of all tax revenue received by the City, leaving just under \$700,000 in tax revenue to pay for Park, Recreation and Senior Services, Public Works, and other essential governmental services. So essentially all of leasehold tax paid by the Marina funds public safety. None of it directly funds the support service Departments of the City.

The DMMA letter also refers to:

"Sales tax proceeds from the Marina's Fuel Dock business. These taxes (leasehold and sales) contribute to the General Fund, which in turn funds those same City operating departments and support services through the City budget process."

In fact, there is no sales tax on fuel sales. The following are government costs associated with marine fuel sales:

Ethanol Free Unleaded:

- Federal LUST Tax
- Oil Spill Tax
- WA State Excise Tax
- WA Hazardous Substance Tax
- WA Petroleum Product Tax

Red Dyed Low Sulfur Off Road Diesel

Federal LUST Tax

- Oil Spill Tax
- WA Hazardous Substance Tax
- WA Petroleum Product Tax

There is a gas tax, the majority of which goes to the State of Washington and is distributed back to City and County road funds.

*DMMA asks* that the City Council address the Indirect Cost Allocation logic and methodology as a part of the 2023 budget cycle.

---

<sup>1</sup> One-time Sale tax is defined by development projects that exceed \$15,000,000 in valuation.

The City is required to formulate an indirect cost plan that equitably distributes shared costs to operations on a fair and equitable basis. It is important to remember that each year the City is subject to a review by the State Auditor. Our financial record, since overcoming the threat of bankruptcy in 2014-2015, reviewed by the State Auditor has been extremely clean.

The City will continue its commitment for fair and proportionate distribution of support service department costs to operating departments. These indirect cost allocations represent true and actual costs of all operating departments, including the Marina. Indirect Cost Allocations for the Marina currently represent approximately less than 8% of the Marina budget. This is an overhead cost for administrative support. Typically, overhead costs in other private and public companies/agencies can exceed 15%.

DMMA objects to the characterization that the City has subsidized moorage rates and fuel costs.

To avoid dispute about language or syntax perhaps this phenomenon can be characterized differently. Over many years, as a result of multiple consultant studies, moorage rates in the Marina have been proven to be below competitive market rates. The City had a one to nine-year waiting list for new tenants. The difference between the City moorage rate and market rates throughout Puget Sound resulted in the City not capturing fair market value for moorage. The difference between the market rate and the Marina rate represents **lost opportunity** for revenue that could have been allocated toward capital projects, dock replacement, tenant restroom replacement, etc. This same dynamic existed for many years as Des Moines Marina had significantly below market fuel rates.

It is a plausible economic strategy to be either a loss leader in fuel sales or a loss leader in moorage rates, but it makes little sense to be a loss leader in both. This is what happened for many years and Marina tenants and boaters (from all over who purchased fuel) enjoyed the benefit of these lower than market rates for both moorage and fuel. The lost revenue was never available to support capital investment to assure Marina infrastructure was up to date.

The fact remains that past City policy, as outlined in the DMMA letter, was to set moorage rates well below market rates and to sell fuel at well below competitive rates. These facts are undeniable. The benefits accruing from these past policies did not enhance the City's General Fund or the Marina fund but rather allowed the cost structure to benefit specifically Marina tenants and Puget Sound boaters.

Des Moines City Council

Page Six

May 5, 2022

As the City moves forward with redevelopment of its Marina, both the waterside and landside, we will certainly take into consideration views from stakeholders such as the DMMA. However, at the end of the day, the City Council and Administration will make decisions that are in the best interest of the long-term sustainability of the Marina. DMMA is always welcome to participate in that goal. With that goal in mind, we look forward to working collaboratively together.

Best,



Michael Matthias  
City Manager

cc: Des Moines Marina Tenant Association  
President, Todd Powell  
Vice President Paul Grove  
Treasurer Ben Stewart  
Secretary Bill Linscott  
Directors: Ken Rogers, Frank Kurian, Doug Andrews, Joe Dusenbury, David Barber and Steve Novak

Chief Operations Officer Dan Brewer  
Harbormaster Scott Wilkins  
Assistant Harbormaster Katy Bevegni  
City Attorney Tim George  
City Clerk/Director of Administrative Services Bonnie Wilkins