

## AGENDA

DES MOINES CITY COUNCIL  
FINANCE COMMITTEE  
City Council Chambers  
21630 11th Avenue S, Des Moines, Washington  
Thursday, March 7, 2024 - 4:00 PM

**Finance Committee:** Councilmembers JC Harris, Matt Mahoney, Jeremy Nutting

### CALL TO ORDER

### AGENDA

- Item 1. SELECTION OF CHAIR/VICE CHAIR
- Item 2. BIENNIAL BUDGETING  
[Biennial Budgeting Agenda Item](#)
- Item 3. LEVY LID LIFT  
[Levy Lid Lift Agenda Item](#)
- Item 4. MONTHLY GENERAL FUND REPORT  
[Q4 2023 Council Report - Monthly GF](#)

### ADJOURNMENT

## **Agenda Item – Biennial Budgeting**

**Currently the City of Des Moines follows an annual budgeting process. Finance desires to seek Council approval to adopt a biennial budget process.**

### Annual Budgeting vs. Biennial Budgeting

Cities, towns, and counties in Washington State operate under either an annual budget (budgeting one year at a time) or biennial budget (budgeting in two-year intervals). Budgeting for a two-year biennium has been permitted for Washington cities since 1985 when the Municipal Biennial Budget Act was adopted. In a biennial budget cycle, a legislative body may approve an appropriation, or budget, for a full two-year term without subsequent action.

If a municipality decides to change from an annual budget cycle to a biennial budget cycle, an ordinance must be passed at least six months before the beginning of the biennium.

A biennium is required by law to start with an odd-numbered year. Cities that budget on a biennial basis must adopt a budget no later than December 31 of the preceding even-numbered year. Additionally, the city must review and modify the budget between September 1 and December 31 of the first (odd-numbered) year of the biennium.

### Advantages and Disadvantages of Biennial Budgeting

#### *Commonly cited advantages*

- Encourages a long-term planning focus over multiple years instead of just balancing the budget for a single year,
- Reducing the total amount of time spent budgeting over a two-year period and freeing up time for other projects in year two. In year two, all city departments would benefit from the time savings, and
- Budgets could be less politicized as the budgets would only be adopted in non-election years.

#### *Commonly cited disadvantages*

- More time and effort to develop the budget in year one,
- A perceived loss of control by the legislative body, since they are approving the budget for two years at a time,
- More difficulty and uncertainty forecasting revenues/expenditures further into the future, and
- Some jurisdictions spending too much time on budget amendments or the mid-biennium review and adjustment, eliminating any time savings in year two.

Given the financial challenges facing the City, it is the opinion of Finance that the City could benefit from a process that places emphasis on a longer-term perspective. Departments throughout the City could also focus on other projects in year two, which is a more efficient use of City resources.

In regards to the “disadvantages”:

- 1) The additional time spent on budgeting in year one is not a significant increase.
- 2) The City Council will not only maintain control of the budget process but, with the addition of the Finance Committee, is positioned to exert more control than in past budget cycles.
- 3) Forecasting through to the end of a two-year period would be more difficult, but more time would be available for doing forecasts in year two.
- 4) A budget amendment or review process requires significantly less time than a full-scale budget process during the second year.

Cities with Biennial Budgets

Arlington	<b>Kent</b>	Redmond
<b>Auburn</b>	Kirkland	<b>Renton</b>
Bainbridge Island	Lake Forest Park	Sammamish
<b>Bellevue</b>	Lakewood	<b>SeaTac</b>
Bellingham	Leavenworth	Sedro-Woolley
Benton City	Longview	Shoreline
<b>Bonney Lake</b>	Lynnwood	Snoqualmie
Bothell	<b>Maple Valley</b>	Stanwood
<b>Burien</b>	Marysville	Steilacoom
Camas	Mercer Island	<b>Sumner</b>
Carnation	Mill Creek	<b>Tacoma</b>
DuPont	Monroe	<b>Tukwila</b>
Duvall	Mountlake Terrace	Tumwater
Ellensburg	<b>Normandy Park</b>	<b>University Place</b>
<b>Federal Way</b>	North Bend	Vancouver
<b>Fife</b>	Oak Harbor	Walla Walla
Hoquiam	Ocean Shores	West Richland
<b>Issaquah</b>	Pasco	Woodinville
Kelso	Port Orchard	Yakima
Kenmore	Poulsbo	Yelm
Kennewick	Pullman	

\*nearby cities in bold

For Reference

Municipal Research and Services Center; *Biennial Budgeting* <https://mrsc.org/explore-topics/finance/budgets/biennial-budgeting#cities>

Mike Bailey; *Biennial Budgets in Washington’s Cities and Counties – Revisited*  
<https://mrsc.org/getmedia/b83323a3-73d4-4867-b7cc-ce3be3c5f782/biennialbudget2014.pdf>

Washington State RCW Chapter 35A.34 <https://app.leg.wa.gov/rcw/default.aspx?cite=35a.34>

## Agenda Item – Levy Lid Lift

### The Levy Limit

Taxing districts with a population of 10,000 or more may not increase the *total levy amount* collected from current assessed valuation by more than 1% annually or the rate of inflation, whichever is lower. However, if the inflation rate is below 1%, these jurisdictions may adopt resolutions of “substantial need” to increase the levy up to 1 percent.

For example, if inflation is 4%, then the City can only increase the total levy amount by no more than 1%. No resolution of “substantial need” is required.

If inflation is .75%, then the City can only increase the total levy amount by no more than .75% without a resolution of “substantial need”. However, the City Council can approve a resolution of “substantial need” and increase the total levy amount by 1%.

As the Municipal Research and Services Center (MRSC) states, “The 101% limit obviously restricts revenue growth, especially for jurisdictions that are heavily dependent on property taxes and whose costs are increasing more than 1% per year due to inflation, salary and benefits costs, and other factors.”

Property taxes are the top revenue source for the City of Des Moines. The City’s General Fund expenditures increased 6% from 2021 to 2022 and another 13% from 2022 to 2023. The City of Des Moines clearly fits the description put forth by MRSC.

There are two ways for a jurisdiction to increase its regular levy above the 1% limit:

- **Banked capacity:** A jurisdiction may take *less* than the maximum increase in any given year and “bank” the remaining capacity to use in the future, adding this capacity to the 1% increase.
- **Levy lid lift:** A taxing jurisdiction may seek voter approval to increase its levy more than 1%, up to the statutory maximum rate, for a specified amount of time.

### What is a Levy Lid Lift?

A taxing jurisdiction that is collecting less than its maximum statutory levy rate may ask a simple majority of voters to “lift” the total levy amount collected from current assessed valuation by more than 1% ([RCW 84.55.050](#) – also see [WAC 458-19-045](#), which provides a better understanding of the process than the statute). The new levy rate cannot exceed the maximum statutory rate.

Levy lid lifts may generate revenue for any purpose, but if the amount of the increase for a particular year would require a levy rate above the statutory maximum tax rate, the assessor will levy only the maximum amount allowed by law.

### **Types of Levy Lid Lifts**

- Single-Year
  - Temporary
  - Permanent
- Multi-year
  - Temporary
  - Permanent

There are two types of levy lid lifts: single-year lifts (sometimes known as “one-year,” “one-bump,” “basic” or “original” lifts) and multi-year lifts. However, these names can be confusing, since “single-year” levy lid lifts typically last for multiple years too.

A good way to think of the difference between “single-year” and “multi-year” lid lifts is: How many years can the total levy increase by more than 1 percent?

With a single-year lid lift, a taxing district can exceed the 1% annual limit for one year only, and then future increases are limited to 1% (or inflation) for the remainder of the levy. With a multi-year lid lift, a taxing district can exceed the 1% annual limit for up to 6 consecutive years.

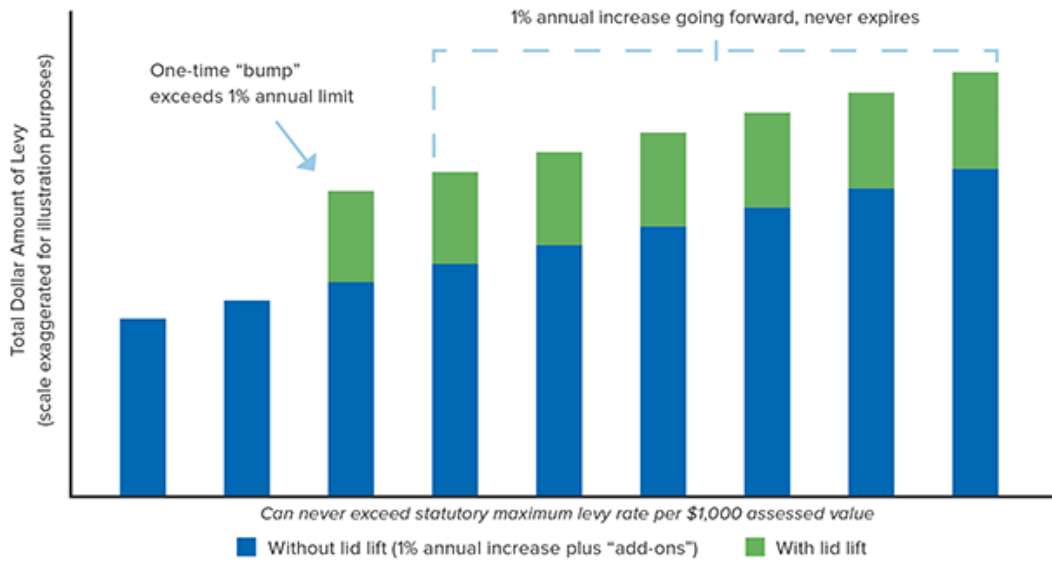
### SINGLE-YEAR TEMPORARY LEVY LID LIFT



With a temporary single-year lid lift, the levy lid bumps up more than 1% in the first year, and then that amount is used to calculate all subsequent 1% levy limitations until the measure expires. A temporary lid lift can be used for any purpose and last for any number of years, but if used to pay debt service it may not exceed nine years.

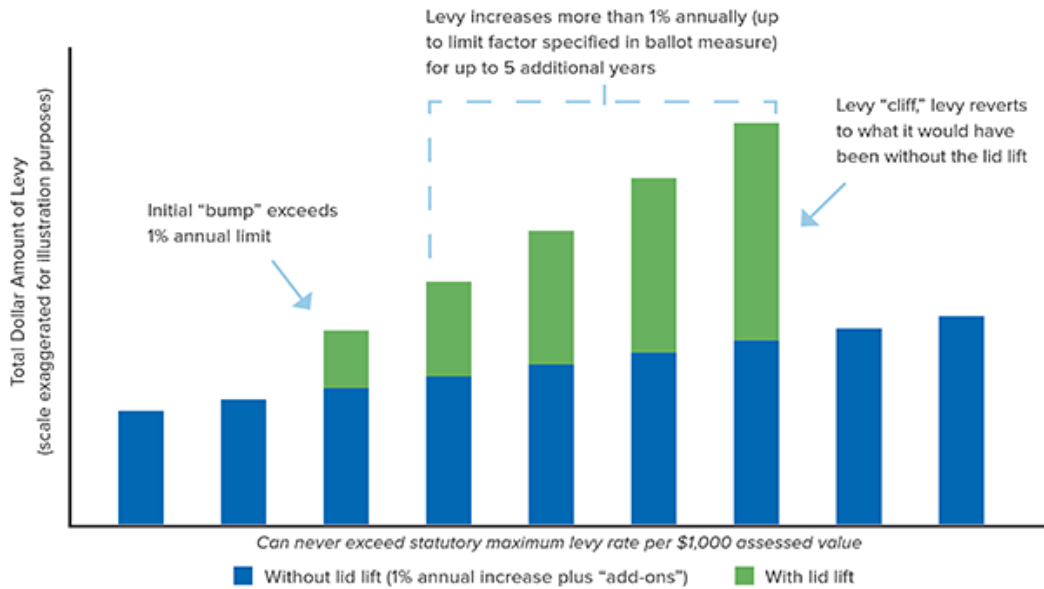
When the lid lift expires, the levy lid reverts to what it *would have been* if the levy lid lift never existed and the jurisdiction had increased its levy by the maximum allowable amount each year in the meantime ([RCW 84.55.050\(5\)](#)).

### SINGLE-YEAR PERMANENT LEVY LID LIFT



With a permanent single-year lid lift, the levy lid bumps up more than 1% in the first year, and then that amount is used to calculate all future 101% levy limitations. The measure never expires and the levy lid never reverts. However, future annual increases may not exceed 1% without going to the voters for another lid lift.

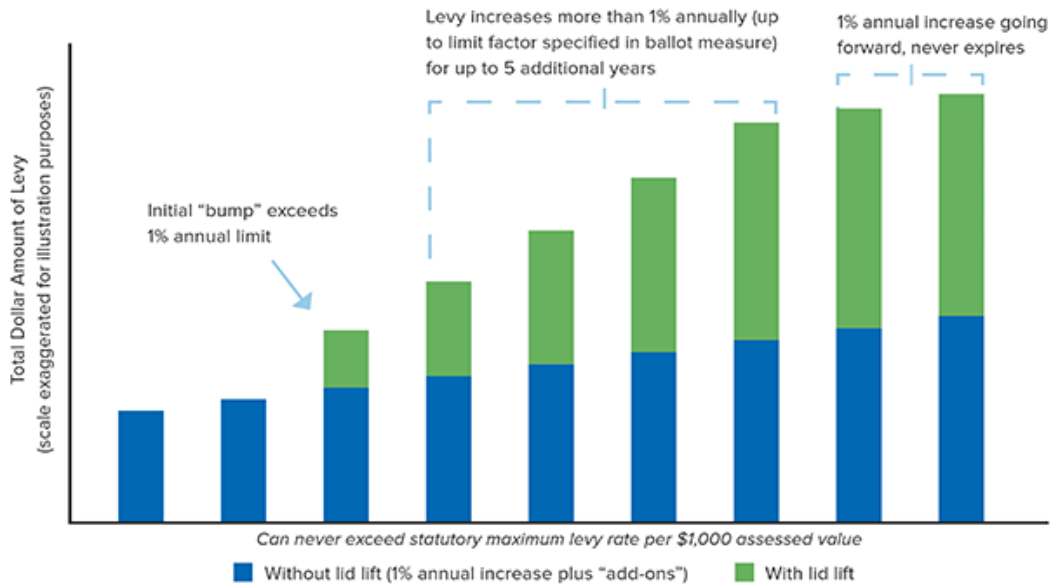
## MULTI-YEAR TEMPORARY LEVY LID LIFT



With a temporary multi-year lid lift, the levy lid bumps up more than 1% each year (subject to the limit factor) for up to six years. When the lid lift expires, the levy lid reverts to what it *would have been* if the levy lid lift never existed and the jurisdiction had increased its levy by the maximum allowable amount each year in the meantime ([RCW 84.55.050\(5\)](#)).



## MULTI-YEAR PERMANENT LEVY LID LIFT



Similarly, with a permanent multi-year lid lift the levy lid bumps up more than 1% each year (subject to the limit factor) for up to six years. However, the lid lift does not revert and the maximum levy is then used as the base to calculate all future 1% levy limitations.

### Multi-Year Limit Factor/Inflation Index

A multi-year lid lift must identify a maximum "limit factor" which the total levy amount may not exceed in subsequent years (stated as an annual percent increase or a specific inflation index). The limit factor does not have to be the same for each year.

The main factor to consider when choosing an inflator is how much your assessed valuations are increasing. For instance, if a city seeks to raise its levy lid to its maximum statutory rate of \$3.10 per \$1,000 assessed value, and assessed valuations are rising about 6% annually, the city might want to establish an annual limit factor of 6% (sometimes expressed as 106%) in an attempt to maintain the \$3.10 levy rate. (If the city uses a limit factor of less than 6% in that situation, the levy rate will likely fall in subsequent years as the increase in current assessed valuation outpaces the annual levy lid increase.)

## **Ballot Measure Requirements**

All levy lid lifts require a simple majority (50% plus one) for passage. Levy lid lifts do *not* have any validation (minimum voter turnout) requirements. However, there are slightly different ballot requirements for single-year and multi-year lid lifts.

### **Single-Year Lid Lift Ballot Requirements**

A single-year lid lift ballot measure must:

- State the *maximum tax rate* to be imposed in the first year (for instance, \$1.50 per \$1,000 AV).
- If temporary, state the total duration of the levy (number of years).
- If permanent, state that it is permanent or that the dollar amount of the levy will be used for the purpose of computing the limitations for subsequent levies.
- State the exemption for senior citizens and persons with disabilities under RCW 84.36.381, if the jurisdiction wishes to exempt these individuals (*cities and counties only*)

The ballot measure does not have to state:

- The purpose, although doing so is a good idea
- The *increase* in the levy rate (for instance, an increase of \$0.20 per \$1,000 AV), although some jurisdictions do so
- The maximum total levy *amount* (for instance, a total levy amount of \$300,000)

### **Multi-Year Lid Lift Ballot Requirements**

A multi-year lid lift ballot measure must:

- State the total levy duration (number of years)
- If permanent, state that it is permanent or that the dollar amount of the levy will be used for the purpose of computing the limitations for subsequent levies.
- State the maximum tax *rate* to be collected in the first year (for instance, \$1.50 per \$1,000 AV)
- State the *limit factor* to be used for all subsequent years (stated as an annual percent increase or inflation index). The amounts do not need to be the same for each year.
- State the exemption for senior citizens and persons with disabilities under RCW 84.36.381, if the jurisdiction wishes to exempt these individuals (*cities and counties only*)

The ballot measure *cannot* state the maximum levy *rate* for subsequent years after the first year.

## Recent Ballot Measures from Cities in King County

### Normandy Park - November 2021 – Multi-Year Permanent

#### Ballot Measure Details

Jurisdiction: Normandy Park  
County: King

Subject: Other

**Ballot Measure Text:** Proposition No. 1 Property Tax Rate. The Normandy Park City Council passed Resolution No. 967 to place before the voters restoring funding of City services to previous levels. This proposition authorizes (1) an increase in the regular property tax rate for collection in 2023 of approximately \$.20 cents per \$1,000 of assessed valuation, for a total tax rate of \$1.60 per \$1,000 of assessed valuation, (2) annual increases in the levy amounts for 2024-2028 of 4% or such lesser increase as will keep the tax rate at \$1.60 per \$1,000, and (3) use of the 2028 levy amount as the basis for levy calculations thereafter.

**Funding Type/Statutory Authority:** Levy Lid Lift (RCW 84.55.050)

Levy (Per \$1000 A/V): \$1.60

#### Election Results

Pass / Fail: **Passed**  
Yes: **67.04%**  
No: **32.96%**  
Election Date: **November 2021**

### Shoreline – November 2022 – Multi-Year Permanent

#### Ballot Measure Details

Jurisdiction: Shoreline  
County: King

Subject: Criminal Justice, Parks and Recreation, Other

**Ballot Measure Text:** Proposition No. 1 Maintenance and Operations Levy for Public Safety and Community Services. The Shoreline City Council adopted Resolution No. 492 concerning a property tax levy for public safety and community services. If approved, this proposition restores Shoreline's levy rate to help fund police/neighborhood services, including RADAR and crime prevention; preserves parks, trails, playgrounds/playfields; and provides human services.

This proposition sets Shoreline's maximum regular property tax rate to \$1.39/\$1,000 for collection in 2023; sets the limit factor for levy increases in 2024-2028 at 100% plus annual inflation (Seattle CPI-U); uses the 2028 levy amount to calculate subsequent levy limits; and exempts qualifying seniors and persons with disabilities per RCW 84.36.381.

**Funding Type/Statutory Authority:** Levy Lid Lift (RCW 84.55.050)

Levy (Per \$1000 A/V): \$1.39

#### Election Results

Pass / Fail: **Passed**  
Yes: **62.84%**  
No: **37.16%**  
Election Date: **November 2022**

## Maple Valley – November 2023 – Single-Year Permanent

### Ballot Measure Details

Jurisdiction: Maple Valley  
County: King

Subject: Criminal Justice, Other

**Ballot Measure Text:** Levy Lid Lift for Public Safety. The City Council of the City of Maple Valley passed Ordinance No. 23-780 concerning funding for public safety services. This proposition funds public safety and maintains current police staffing/service levels, including safety patrols, school zone traffic enforcement, school resource officer, and crime prevention programs, by increasing the City's regular property tax to a maximum rate of \$1.18/\$1,000 of assessed valuation (generating approximately \$2,200,000 for public safety) for collection in 2024. The 2024 levy amount will be the basis to calculate subsequent levies, per RCW 84.55. Qualifying seniors, veterans, and others would be exempt, per RCW 84.36.

Funding Type/Statutory Authority: Levy Lid Lift (RCW 84.55.050)

Levy (Per \$1000 A/V): \$1.18

#### Election Results

Pass / Fail: **Passed**

Yes: **65.65%**

No: **34.35%**

Election Date: **November 2023**

### Which Option is Better?

The answer, of course, is “it depends”. There are several factors that may impact the decision of single-year vs. multi-year lid lifts. Here are a few to consider:

- How much money the taxing district needs to raise
- What the revenue is needed for, and for how long (for instance, continued operating costs versus a capital project that will only last a few years)
- How quickly the taxing district's costs, and property values, are increasing
- The desired election date (special, primary, or general)
- How it's perceived that voters will respond to the different alternatives (for instance, a permanent versus temporary tax)

The multi-year lid lift is slightly more restrictive in its uses, since the purpose must be stated in the ballot title and, for jurisdictions in King County, there may be supplanting restrictions. However, as stated earlier it is a good idea to state the purpose even if it is not required.

### Revenue impact of increased rates

In 2023, the City of Des Moines property tax levy rate was \$.90262 per \$1,000 of assessed value. The resulting levy for the City was \$5,586,671. Below is a schedule of what the levy could have been with lifted rates:

Rate	Levy	Increase over actual 2023 Levy amount
\$ 1.10	\$ 6,808,334	\$ 1,221,663
\$ 1.15	\$ 7,117,804	\$ 1,531,132
\$ 1.20	\$ 7,427,274	\$ 1,840,602
\$ 1.25	\$ 7,736,743	\$ 2,150,072
\$ 1.30	\$ 8,046,213	\$ 2,459,542
\$ 1.35	\$ 8,355,683	\$ 2,769,011
\$ 1.40	\$ 8,665,153	\$ 3,078,481

It should be noted that annual assessed values can increase or decrease from year-to-year. Therefore, choosing a rate for a levy lid lift is more “art” than “science”; meaning the impact of the rate increase is more of a moving target than a direct correlation.

### Impact to Property Tax Payer

Below is an example of an increase to a property tax bill if the 2023 levy rate was \$1.30 instead of the \$.90262.

Property Value	Property Tax		Increase
	\$.90262 Rate	\$1.30 Rate	
\$ 400,000	\$ 361	\$ 520	\$ 159
\$ 600,000	\$ 542	\$ 780	\$ 238
\$ 800,000	\$ 722	\$ 1,040	\$ 318
\$ 1,000,000	\$ 903	\$ 1,300	\$ 397
\$ 1,200,000	\$ 1,083	\$ 1,560	\$ 477
\$ 1,400,000	\$ 1,264	\$ 1,820	\$ 556
\$ 1,600,000	\$ 1,444	\$ 2,080	\$ 636

The median property value in the City of Des Moines is \$521,000.

## **Finance Recommendation**

Finance recommends that the City consider a ballot measure for the August primary election. Finance also recommends a multi-year, permanent levy lid lift with a rate of \$1.35 in the first year with the subsequent five years increasing at a rate that is the lesser of inflation (CPI-Seattle) or 3%.

Below is a comparison between a single-year permanent levy lid lift and a multiple-year levy lid lift. While the passage of either would be a positive outcome for the City, the multi-year levy lid lift would give the City more of a cushion to absorb increased costs in the future. The examples below show the different results of each option using the 2023 levy as a base:

### **Single-Year Levy Lid Lift**

	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
	\$ 1.35	1%	1%	1%	1%
Levy Amount	\$8,355,683	\$8,439,240	\$8,523,632	\$8,608,869	\$8,694,957
Increase per year	\$2,769,011	\$ 83,557	\$ 84,392	\$ 85,236	\$ 86,089

### **Multi-Year Levy Lid Lift**

	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
	\$ 1.35	3%	3%	2%	1.5%
Levy Amount	\$8,355,683	\$8,606,353	\$8,864,544	\$9,041,835	\$9,177,463
Increase per year	\$2,769,011	\$ 250,670	\$ 258,191	\$ 177,291	\$ 135,628

The filing deadline for the August primary election is May 3, 2024.

Source: Municipal Research and Services Center, *Levy Lid Lifts*, <https://mrsc.org/explore-topics/finance/revenues/levy-lid-lift>

General Fund of Sources and Uses	January 2024			2024 YTD Budget vs Actual		2024
	Adopted Budget	YTD Budget	YTD Actual	Amount	Percentage	Remaining Budget
<b>Operating Revenues</b>						
Property Tax	\$ 5,639,570	\$ 469,964	\$ 27,453	\$ (442,511)	-94%	\$ 5,612,117
Utility Tax	4,459,106	371,592	451,573	79,981	22%	4,007,533
Sales Tax	4,325,000	360,417	323,934	(36,483)	-10%	4,001,066
B+O Tax	1,440,000	120,000	239,860	119,860	100%	1,200,140
Franchise Fees	1,450,000	120,833	88,987	(31,846)	-26%	1,361,013
Criminal Justice Tax	1,300,000	108,333	95,231	(13,103)	-12%	1,204,769
Gambling Tax	35,000	2,917	0	(2,917)	-100%	35,000
Leasehold Tax	240,000	20,000	0	(20,000)	-100%	240,000
<b>Taxes Subtotal</b>	<b>\$ 18,888,676</b>	<b>\$ 1,574,056</b>	<b>\$ 1,227,038</b>	<b>\$ (347,018)</b>	<b>-22%</b>	<b>\$ 17,661,638</b>
Business Licenses and Permits	300,000	25,000	75,063	50,063	200%	224,938
Other Licenses and Permits	15,000	1,250	2,013	763	61%	12,987
Intergovernmental (Grants, etc.)	1,043,304	86,942	145,644	58,702	68%	897,660
Charges for Services:						
General Government Services	212,944	17,745	0	(17,745)	-100%	212,944
Court	103,300	8,608	3,892	(4,716)	-55%	99,408
Public Safety	83,300	6,942	7,393	452	7%	75,907
Culture and Recreation	438,900	36,575	19,626	(16,949)	-46%	419,274
Red Light Running Infractions	1,200,000	100,000	98,243	(1,757)	-2%	1,101,757
Other fees and penalties	352,150	29,346	8,238	(21,108)	-72%	343,912
<b>Fees/Charges/Fines Subtotal</b>	<b>\$ 3,748,898</b>	<b>\$ 312,408</b>	<b>\$ 360,113</b>	<b>\$ 47,705</b>	<b>15%</b>	<b>\$ 3,388,785</b>
Interest Income	106,000	8,833	6,108	(2,725)	-31%	99,892
Rentals and Leases	45,000	3,750	27,293	23,543	628%	17,707
Contributions and Donations	24,000	2,000	134	(1,866)	-93%	23,866
Miscellaneous	30,700	2,558	339	(2,219)	-87%	30,361
Interfund Charges	1,459,291	121,608	121,608	-	0%	1,337,683
Transfers In						
Fund 114 (ARPA Fund)	1,850,617	154,218	0	(154,218)	-100%	1,850,617
<b>Other Revenues Subtotal</b>	<b>\$ 3,515,608</b>	<b>\$ 292,967</b>	<b>\$ 155,482</b>	<b>\$ (137,485)</b>	<b>-47%</b>	<b>\$ 3,360,126</b>
<b>Total Operating Revenues</b>	<b>\$ 26,153,182</b>	<b>\$ 2,179,432</b>	<b>\$ 1,742,634</b>	<b>\$ (436,798)</b>	<b>-20%</b>	<b>\$ 24,410,548</b>
<b>Operating Expenditures</b>						
City Council	\$ 95,981	\$ 7,998	\$ 4,808	(3,191)	-40%	91,173
City Manager/Administration	1,255,148	104,596	204,119	99,523	95%	1,051,029
City Clerk	854,703	71,225	61,339	(9,886)	-14%	793,364
Human Resources	407,370	33,948	16,815	(17,132)	-50%	390,555
Finance	1,334,670	111,222	102,706	(8,517)	-8%	1,231,964
Technology Services	1,618,534	134,878	234,171	99,293	74%	1,384,363
City Attorney	889,357	74,113	49,407	(24,706)	-33%	839,950
Municipal Court	1,735,021	144,585	111,730	(32,855)	-23%	1,623,291
Public Safety - Business Office	1,061,350	88,446	84,638	(3,808)	-4%	976,712
Police	12,133,208	1,011,101	793,207	(217,893)	-22%	11,340,001
Community Events and Services	4,587,294	382,275	311,019	(71,255)	-19%	4,276,275
Transfers Out						
Fund 208 (2018 LTGO Bonds)	226,600	18,883	-	(18,883)	-100%	226,600
Fund 506 (Facility Repair and Replacement)	51,000	4,250	4,250	-	0%	46,750
<b>Total Operating Expenditures</b>	<b>\$ 26,250,237</b>	<b>\$ 2,187,520</b>	<b>\$ 1,978,210</b>	<b>\$ (209,310)</b>	<b>-10%</b>	<b>\$ 24,272,027</b>
<b>Total Operating Income (Loss)</b>	<b>\$ (97,055)</b>	<b>\$ (8,088)</b>	<b>\$ (235,576)</b>	<b>\$ (227,489)</b>		

\*\* January is month 1 of 12 = 8.3%