

AGENDA

**DES MOINES CITY COUNCIL
STUDY SESSION
City Council Chambers
21630 11th Avenue S, Des Moines, Washington
Thursday, September 5, 2024 - 6:00 PM**

City Council meeting can be viewed live on the City's website, Comcast Channel 21/321 or on the City's [YouTube](#) channel.

CALL TO ORDER

PLEDGE OF ALLEGIANCE

ROLL CALL

CORRESPONDENCE

COMMENTS FROM THE PUBLIC

Comments from the public must be limited to the items of business on the Study Session Agenda. Please sign in prior to the meeting and limit your comments to three (3) minutes.

DISCUSSION ITEMS

- Item 1. SWEARING IN OF POLICE CHIEF TED BOE
- Item 2. BUDGET PRESENTATION/BUDGET STRATEGIES
[2025 – 2026 Budget Presentation](#)
- Item 3. CITY MANAGER SELECTION DISCUSSION

EXECUTIVE SESSION

NEXT MEETING DATE

September 12, 2024 City Council Regular Meeting

ADJOURNMENT

AGENDA ITEM

BUSINESS OF THE CITY COUNCIL
City of Des Moines, WA

SUBJECT: 2025 – 2026 Budget Presentation

FOR AGENDA OF: September 5, 2024

ATTACHMENTS:

- 1. 2025 – 2026 Budget Memo
- 2. Five Year Financial Forecast

DEPT. OF ORIGIN: Finance

DATE SUBMITTED: August 30, 2024

CLEARANCES:

- City Clerk _____
- Community Development _____
- Courts _____
- Emergency Management _____
- Finance *[Signature]*
- Human Resources _____
- Legal _____
- Marina _____
- Police _____
- Parks, Recreation & Senior Services _____
- Public Works _____

APPROVED BY CITY MANAGER
FOR SUBMITTAL: *[Signature]*

Purpose

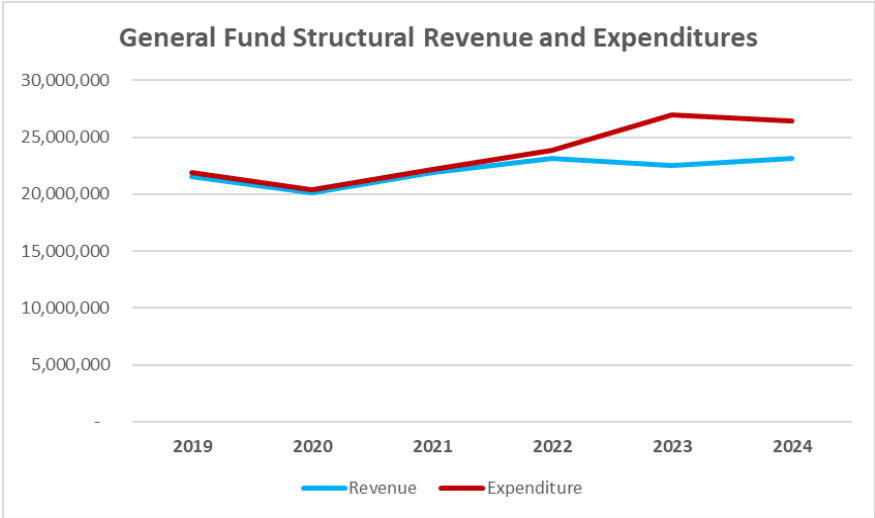
The purpose of this item is to continue discussions regarding the 2025 – 2026 Biennial Budget and consider budget balancing strategies. See attached Budget Memo and Five-Year Financial Forecast.

2025-2026 BUDGET DRAFT PRESENTATION

Background

On September 14, 2023, the City Council was presented with a five-year financial forecast which projected the solvency of the General Fund’s Fund Balance was vulnerable to decline due to the post-COVID economic impacts of inflation and rising labor costs. Revenues were growing but could not keep pace with rapidly increasing costs. Balancing the 2024 budget required the use of about \$1.3M of American Rescue Plan Act (ARPA) funds to aid in plugging the budget gap. Some expenditures, such as funding the costs of fleet replacement had also been significantly reduced in the budget.

The chart below displays the increase of structural expenditures against the increase of structural revenue.



To help address the General Fund’s financial situation, a Finance Committee was formed in 2024. Among a number of options considered, the Committee recommended to Council placing a property tax levy lid lift on the ballot in hopes of maintaining and increasing public safety service levels. Voters rejected the ballot measure in the August 6, 2024 primary election. It will be on the ballot again on November 5, 2024. If successful in November, the increase in property tax revenue could be between \$2.5 million and \$3 million. The following budget scenarios are presuming that the ballot measure will fail again in November.

2025-2026 BUDGET DRAFT PRESENTATION

The Forecast

The five-year financial forecast included in this report is based on the initial collection of budget data from departments. **There are no budget strategies or budget cuts reflected in this draft.**

The financial forecast assumes the following:

- A 3.8% Cost of Living Adjustment (3% for Police Support Guild members)
- A 10% increase in medical premium costs
- Full funding for
 - vehicle replacement (\$1,183,813)
 - computer replacement (\$304,698)
 - vehicle maintenance (\$326,225)
- WCIA Insurance premium of \$1,074,153
- SCORE costs of \$794,310
- Valley Communication Center costs of \$907,256
- Public safety positions funded by the American Rescue Plan Act have been removed (Eliminates 2 Police Officer positions, Crime Analyst and Mental Health/Social Worker position)
- A 2% growth in Sales Tax
- A 1% increase to Property Tax revenue

The 2025 Budget Deficit

Expenditures in the General Fund are projected to exceed revenue by about **\$4.6 million** in 2025.

Cities are required to adopt a balanced budget (RCW 35.33.075, 35A.33.075, 35.34.120, and 35A.34.120):

Appropriations shall be limited to the total estimated revenues contained therein including the amount to be raised by ad valorem taxes and the unencumbered fund balances estimated to be available at the close of the current fiscal year.

2025-2026 BUDGET DRAFT PRESENTATION

2025 Budget Strategies

The following budget strategies can be implemented to reduce the budget deficit by increasing revenue and decreasing costs:

Increase Annual Revenue	
Revise Rental Facility Fee Schedule	\$ 15,000
Increase Fees:	
Animal Licenses	2,000
False Alarm Fees	5,000
Public Record Requests	20,000
Business Licenses	112,000
Utility tax on non-franchise prohibited utilities	88,500
Concealed Pistol License	1,000
	\$243,500

Decrease Costs	
Reduce training and travel budgets	\$ 60,000
Terminate Wesley Senior Services contract reorganize PRSS	150,000
End Burien Cares contract	100,000
Eliminate Human Services Spending	250,000
Close Redondo Police Substation	36,400
Eliminate Advisory Committees	30,000
Suspend Downtown Beautification	40,000
Freeze General Fund Vacancies	230,000
Retain One-time Sales and B+O tax in General Fund	275,000
Retain funds for:	
vehicle replacement	up to 1,183,813
computer replacement	up to 304,698
vehicle maintenance	up to 326,225
Reduce 2025 COLA	up to 840,000

The remaining budget deficit for 2025, after implementation of these budget strategies, is estimated to be between \$600,000 and \$1,000,000. Additional measures will need to be undertaken to close this gap. Some options include canceling City funded events (summer festivals/concerts), eliminating City Currents/Channel 21, staff layoffs/furloughs, further increasing participation fees in City programs or eliminating programs.

It should be noted that funds for vehicle replacement, computer replacement, etc. are not likely to be 100% retained as capital needs are expected.

2025-2026 BUDGET DRAFT PRESENTATION

Likewise, Cost of Living Adjustments are subject to negotiations with bargaining units. The Police Support Guild will be receiving a 3% COLA in 2025. As the budget process moves forward, baseline COLA levels will be determined for represented and non-represented staff positions.

2024 Fund Balance

ARPA

ARPA funds are required to be obligated by the end of 2024. ARPA funds that are not likely to be obligated are listed below along with other ARPA funds that are available to be redirected. The proposed uses for these funds can help support the General Fund.

Available ARPA	
Tenant Restroom	\$ 400,000
ADA Compliance Program (replaced by Redondo Speed Enforcement revenue)	88,936
Traffic Calming (replaced by Redondo Speed Enforcement revenue)	80,273
Nonprofit	25,404
Marina Redevelopment Materials	20,000
	<u>\$ 614,613</u>

Proposed Repurposing of ARPA	
Field House Play Equipment Overruns	\$ 5,000
2024 SCORE Costs	265,656
2024 LT-Crime Analyst/Mental Health Support	143,957
Police Department Overtime	200,000
	<u>\$ 614,613</u>

	2025-2031 GENERAL FUND									
	REVISED ANNUAL BUDGET 2024	PROJECTED ACTUALS 2024	BUDGET		FORECAST					
			2025	2026	2027	2028	2029	2030	2031	
BEGINNING FUND BALANCE	\$ 5,210,847	\$ 4,671,467	\$ 3,879,031	\$ (710,890)	\$ (5,044,813)	\$ (9,353,840)	\$ (13,380,941)	\$ (17,386,238)	\$ (21,393,155)	
Operating Revenues										
Taxes	18,623,676	17,890,602	19,026,759	19,288,776	19,735,814	20,214,805	20,831,414	21,481,822	22,168,323	
Licenses and Permits	315,000	315,000	325,500	341,500	346,250	356,250	356,250	361,250	361,250	
Intergovernmental	1,043,304	1,037,472	859,397	837,201	1,005,500	1,041,463	1,079,223	1,118,872	1,160,503	
Fees/Charges/Fines	2,390,594	1,857,850	1,826,350	1,861,990	1,825,300	1,825,300	1,775,300	1,775,300	1,775,300	
Other	2,131,561	2,046,411	2,284,558	2,356,623	2,363,197	2,415,992	2,474,342	2,528,259	2,557,755	
	<u>24,504,135</u>	<u>23,147,335</u>	<u>24,322,564</u>	<u>24,686,090</u>	<u>25,276,061</u>	<u>25,853,810</u>	<u>26,516,529</u>	<u>27,265,503</u>	<u>28,023,131</u>	
Operating Expenditures										
Policy and Support Services	6,962,913	6,709,697	7,754,909	7,815,402	8,256,643	8,105,416	8,265,701	8,751,644	8,627,281	
Public Safety Services	14,929,580	14,627,620	16,184,314	16,073,304	16,296,418	16,651,265	17,020,181	17,189,142	17,559,964	
Community Services	5,068,843	4,331,471	4,626,530	4,649,267	4,605,627	4,697,830	4,809,544	4,905,233	5,022,565	
Other	277,600	226,600	346,732	482,041	426,400	426,400	426,400	426,400	426,400	
	<u>27,238,936</u>	<u>25,895,388</u>	<u>28,912,485</u>	<u>29,020,014</u>	<u>29,585,088</u>	<u>29,880,911</u>	<u>30,521,826</u>	<u>31,272,420</u>	<u>31,636,210</u>	
** Net Activity ("Operating revenues over (under))	<u>(2,734,801)</u>	<u>(2,748,053)</u>	<u>(4,589,921)</u>	<u>(4,333,924)</u>	<u>(4,309,027)</u>	<u>(4,027,101)</u>	<u>(4,005,297)</u>	<u>(4,006,916)</u>	<u>(3,613,079)</u>	
ONE-TIME ACTIVITIES										
Revenues										
Sound Transit		212,944	154,868	19,359	-	-	-	-	-	
American Rescue Plan Funding	1,850,617	1,850,617			-	-	-	-	-	
One-Time Sales & B&O Tax Revenues	265,000	105,000			-	-	-	-	-	
Total One-Time Revenues	<u>2,115,617</u>	<u>2,168,561</u>	<u>154,868</u>	<u>19,359</u>	-	-	-	-	-	
One-time Expenditures										
Transfer Out - One-Time Sales & B&O Tax	-	-			-	-	-	-	-	
ARPA Expenditures		-			-	-	-	-	-	
Sound Transit related expenditures		(212,944)	(154,868)	(19,359)	-	-	-	-	-	
Total One-Time Expenditures	<u>-</u>	<u>(212,944)</u>	<u>(154,868)</u>	<u>(19,359)</u>	-	-	-	-	-	
Change in Fund Balance	(619,184)	(792,436)	(4,589,921)	(4,333,924)	(4,309,027)	(4,027,101)	(4,005,297)	(4,006,916)	(3,613,079)	
ENDING FUND BALANCE	\$ 4,591,663	\$ 3,879,031	\$ (710,890)	\$ (5,044,813)	\$ (9,353,840)	\$ (13,380,941)	\$ (17,386,238)	\$ (21,393,155)	\$ (25,006,234)	
GFOA Target of 60 days (approx. 16.67%)	<u>4,540,731</u>	<u>4,316,761</u>	<u>4,819,711</u>	<u>4,837,636</u>	<u>4,931,834</u>	<u>4,981,148</u>	<u>5,087,988</u>	<u>5,213,112</u>	<u>5,273,756</u>	
Reserve (shortfall) surplus to GFOA Target	<u>50,933</u>	<u>(437,730)</u>	<u>(5,530,601)</u>	<u>(9,882,450)</u>	<u>(14,285,674)</u>	<u>(18,362,089)</u>	<u>(22,474,227)</u>	<u>(26,606,267)</u>	<u>(30,279,990)</u>	
Ending Reserve - % Total Operating Expenditures	16.86%	14.98%	-2.46%	-17.38%	-31.62%	-44.78%	-56.96%	-68.41%	-79.04%	