REGULAR MEETING OF THE DES MOINES CITY COUNCIL

MINUTES May 16, 2002

The regular study session of the Des Moines City Council was called to order at 7:33 p.m. by Mayor Don Wasson in the City Council Chambers, 21630 11th Avenue South, Suite B.

PLEDGE OF ALLEGIANCE to the Flag was led by Finance Director Scott McCarty.

ROLL CALL - Present: Mayor Pro Tem Richard Benjamin, Councilmembers Gary Petersen, Maggie Steenrod, Scott Thomasson and Susan White. Absent: Mayor Don Wasson and Councilmember Bob Sheckler. Also present were City Manager Tony Piasecki, Assistant City Attorney Linda Marousek, Finance Director Scott McCarty and City Clerk Denis Staab.

**MOTION** was made by Councilmember Thomasson, seconded by Councilmember White and passed unanimously, to excuse Councilmembers Sheckler and Wasson.

CONSENT CALENDAR was read by City Clerk Staab.

1. Two motions:
   - A. Motion is to authorize the City staff to bid the 10th Avenue Culvert Replacement and Intersection Improvement Project for construction.
   - B. Motion is to waive utility undergrounding requirements for the 10th Avenue Culvert Replacement and Intersection Improvement Project.
2. Motion is to authorize the City Manager to approve all vouchers for payment of the following claims during the period of May 10, 2002 through May 24, 2002:
   - a. All vouchers for payment of payroll checks, including Marina payroll, and
   - b. All vouchers for payment of claims and Marina checks, provided that all vouchers and checks approved by the City Manager in accordance with this motion shall be presented at the June 13, 2002 meeting.

**MOTION** was made by Councilmember Thomasson, seconded by Councilmember White and passed unanimously, to approve the Consent Calendar as read.

DISCUSSION ITEMS

5 Year Operating Model and Budget Policy Direction

Finance Director McCarty informed Council that the draft 5 Year Operating Model is a decision making tool for staff and Council. He advised that staff reviewed the 2001 budget to actual performance and then reviewed the 2002 budget in relation to the 2001 actual performance. He noted that from this review, staff identified necessary 2002 budget adjustments as follows:

| **Revenues** | | **Rationale** |
|---|---|---|
| Property Taxes | $135,755 | Accounting change-expenditure offset |
| Sales Tax | ($45,000) | Based on automotive sector performance |
| Reduce transfer in from Arterial Streets Fund | ($40,000) | Budget error |
| Eliminate transfer from Drug Seizure Fund | ($32,000) | Budget error |
| Reduce transfer in from MCI Fund | ($30,000) | Budget error |
| **Total Revenue Adjustments** | ($11,245) | |

| **Expenditures** | | **Rationale** |
|---|---|---|

| | | |
|---|---|---|
| Debt Service-South Wing Remodel | $131,343 | Accounting change-revenue offset |
| Police Dept. Holiday Compensation: | | |
| Detectives | $ 6,000 | Budget omission |
| Patrol | $23,000 | Budget omission |
| Traffic | $ 1,500 | Budget omission |
| Animal Control | $ 500 | Budget omission |
| Vacant Position | ($150,000) | Policy change based on past history |
| Retirement Rate Reduction | ($20,000) | State Rate Reduction |
| Memberships | ($5,500) | Based on actual charges |
| **Total Expenditure Adjustments** | ($13,157) | |

REVISED 2002 OPERATING BUDGET

| | **Original Budget** | **Adjustments** | **Revised Budget** |
|---|---|---|---|
| Revenues | $13,625,893 | ($11,245) | $13,614,648 |
| Expenditures | $23,620,687 | ($13,157) | $13,607,530 |
| Contingency | $ 5,206 | $ 1,912 | $ 7,118 |

REVENUES TO WATCH*

| | **Minimum** | **Maximum** |
|---|---|---|
| Utility Taxes | $0 | $100,000 |
| Sales Tax | $0 | ($75,000) |
| Building Permits | $0 | ($100,000) |
| Interest Earnings | ($50,000) | ($75,000) |
| **Subject to Revenue Stabilization Fund** | **($50,000)** | **($150,000)** |

**Performance of these revenues will be effected by the economy this year and do not warrant a Permanent budget adjustment at this time.*

Finance Director McCarty proceeded to review the percentages of the $13M 2002 operating revenue figures of:

- Charges for Services - 29% $3.8M
- State Shared Revenues - 22% $2.8M
- Property Tax - 20% $2.5M
- Utility Taxes & Franchise Fees - 18% $2.4M
- Sales Tax - 11% $1.5

Upon questioning by Council, Finance Director McCarty noted about the only one of these operating revenues that the City could potentially help, would be property and sales taxes and that would only occur through large commercial/retail development increases. In regards to State shared revenues, he noted the City revenues will only grow in this area if the State grows.

*POLICY QUESTION: Should the final I-695 "backfill" payment be considered one-time revenue?*

Finance Director McCarty proceeded to review the following items with policy questions as noted:

- Revenues-Excluding One-time Activity
- Revenues-Including One-time Activity

*POLICY QUESTION: How much of the one-time revenues should be built into the base-operating budget?*

- Annual Net Activity

*POLICY QUESTION: Should the City set a policy determining the annual expenditure rate increase as a function of revenue increases? For example, annual base expenditures grow at a rate of 65% of revenues.*

- Operating Reserves-Excluding One-Time Revenues
- Reserves-Including School Construction

*POLICY QUESTION: To what extent will reserves be used?*
*POLICY QUESTION: How will the reserve be replenished?*
*POLICY QUESTION: Is the reserve policy amount too high?*

- Model Conclusions

In regards to "Budget Alternatives", Finance Director McCarty advised Council that staff has been analyzing the practicality of concepts given to Council in March of 2002. He noted that staff is asking Council for formal authorization to purse the viability of the major concepts as follows:

1. Should the City receive a financial benefit from owning the Marina?
*Potential Outcome: The Marina becomes a department within the Operating Funds.*

2. Use of Reserves/Review Reserve Policies
    - 7% Operating Reserve
    - Revenue Stabilization Fund
    - Equipment Operations & Replacement
    - Computer Operations and Replacement
    - Self Insurance
    - Unemployment Insurance
    - Facilities Maintenance

*Potential Outcome: Eliminate the unemployment insurance fund and charge costs directly to the related department based on actual activity.*

3. Make Capital Investments to Reduce Operating Costs
    - Review existing operational and energy efficiency of facilities.

*Potential Outcome: Reduce the three entrances to City Hall by reconfiguring the North Wing so a receptionist position is not required.*

4. Convert Operating Expenditures into Capital Expenditures
    - Move the $135,000 South Wing Remodel debt service to MCI Fund
    - Allocate employee salaries to specific capital projects

*Potential Outcome: Paying annual south Wing Remodel debt service from MCI would significantly reduce the City's ability to construct new capital facilities, such as a Senior Center.*

5. Reduce employee Total cost of Compensation (TCC)
    - Employee to pay a portion of health care benefits

6. Increase Revenues
    - Increase gambling activity within the City
    - Create a Parks and Recreation District ($1.35M per year)

*Potential Outcome: To create a Parks and Recreation District, a majority of voter approval is required. Such approval would allow for up to a $0.75 per $1,000 assessed value property tax levy increase. Assuming a $200,000 house, a homeowner would pay an additional $150 per year.*

- Property Tax levy Lift or One Year O&M Levy ($350,000 per year)
- Review "charge for fee" rate structure to ensure covering costs.

*Potential Outcome: Apartment business license fees are increased.*

- Hotel/Motel Tax ($20,000 per year)
- Impact Fees

In conclusion, Finance Director McCarty noted that currently staff is focusing on efficiency and service levels and is reviewing the following with savings as noted:

| | | |
|---|---|---|
| 1. Change to LED traffic lights | = | $ 20,000 (PROJECT COMPLETED) |
| 2. Regular, rather than medium grade fuel | = | 25,000 (PROJECT COMPLETED) |
| 3. Hire employees to perform janitorial services | = | 20,000 |
| 4. "Facilities Master Plan" | = | 75,000 |
| 5. "Horizontal" Review of Personnel | = | 100,000 |
| 6. Business License/Registration | = | 50,000 |
| 7. Reserves/Internal Assessments | = | 100,000 |
| TOTAL SAVINGS | | $367,500 |

City Manager Piasecki commented that Council will also need to a make decision on whether there should be any reduction in the level of services provided. He noted this budget discussion will be placed on an agenda for more in depth Council input in June.

Councilmembers White and Steenrod acknowledged that Finance Director McCarty's last day with the City will be tomorrow. They thanked him for his expertise in guiding the City's finances and wished him well as the new finance director for the City of Puyallup.

EXECUTIVE SESSION

At 9:18 p.m. Assistant City Attorney Marousek announced that the City Council will recess into an Executive Session for approximately 15 minutes to discuss with legal counsel representing the City litigation or potential litigation to which the City is, or is likely to become, a party and about which public knowledge regarding the discussion is likely to result in an adverse legal or financial consequence to the City.

At 9:34 p.m. City Manager Piasecki announced that the Executive Session is expected to last another 10 minutes.

No formal action was taken.

At 7:49 p.m. Council reconvened to open session.

Possible Separation Agreement of City Attorney

City Manager Piasecki announced that staff is removing this agenda item. He noted the item will be on an Agenda in early June.

NEXT MEETING DATE

Mayor Pro Tem Benjamin announced that the next regular meeting will be a study session on June 6, 2002.

ADJOURNMENT

At 9:51 p.m. **MOTION** was made by Councilmember Petersen, seconded by Councilmember Thomasson and passed unanimously, to adjourn.

Respectfully submitted,

Denis Staab
City Clerk