

AGENDA

DES MOINES CITY COUNCIL
FINANCE COMMITTEE
City Council Chambers
21630 11th Avenue S, Des Moines, Washington
Thursday, October 3, 2024 - 4:00 PM

Finance Committee: Chair Matt Mahoney; Vice Chair Jeremy Nutting; JC Harris

CALL TO ORDER

AGENDA

- Item 1. APPROVAL OF MINUTES
[Draft 08.01.2024 Minutes](#)
- Item 2. SQUARE FOOTAGE TAX
[Square Footage Tax Memo](#)
- Item 3. UTILITY TAX PROPOSAL
[Utility Tax memo](#)
- Item 4. GENERAL FUND REPORT - AUGUST 2024
[August 2024 General Fund Report](#)

ADJOURNMENT

MINUTES

DES MOINES CITY COUNCIL FINANCE COMMITTEE City Council Chambers VIA ZOOM

Thursday, August 1, 2024 - 5:00 PM

CALL TO ORDER

Chair Matt Mahoney called the meeting to order at 4:00 p.m.

ROLL CALL

Finance Committee:

Chair Matt Mahoney, Vice Chair Jeremy Nutting; Councilmember JC Harris

Staff Present:

Interim City Manager Tim George; Assistant City Manager Adrienne Johnson-Newton; Interim City Attorney Matt Hutchins; Finance Director Jeff Friend; Director of Community/Administrative Services Bonnie Wilkins; and Deputy City Clerk Sara Lee

AGENDA

APPROVAL OF MINUTES

Direction/Action

Motion made by Vice Chair Jeremy Nutting to approve the June 6th, 2024 Finance Committee Meeting minutes as presented; seconded by Councilmember JC Harris

Motion passes 3-0.

STAFFING UPDATE

- Interim City Manager Tim George and Director of Community/Administrative Services Bonnie Wilkins gave the Finance Committee a staffing update.

BUDGET UPDATE - BUSINESS LICENSE FEES

- Finance Director Jeff Friend provided the Finance Committee information on business license fees.

GENERAL FUND REPORT - JUNE 2024

- Finance Director Jeff Friend provided the Finance Committee

Finance Committee Minutes
August 1, 2024

with a report regarding the general fund.

ADJOURNMENT

The meeting adjourned at 5:36 p.m.

Matthew Hutchins, Acting City Attorney
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Memo

Date: September 25, 2024
To: Finance Committee
From: Matthew Hutchins, Acting City Attorney
Re: Square footage tax

Like many Cities, one major source of revenue for the City of Des Moines is the City's Business and Occupation (B&O) tax. Businesses receive the benefit of city services such as public safety, and a B&O tax ensures that businesses using those services to make profits for their owners contribute their fair share of the costs of those services.

The most widely used and known version of the B&O tax is one that is imposed on gross receipts of the business activity conducted in the city. Generally speaking, gross receipts represent the proceeds of sale or the value of goods and services produced in the City. The rate for a gross receipts tax is capped at 0.2% by state law absent approval for a higher rate by the voters. The gross receipts tax rate in Des Moines is 0.2%. Other bases for a B&O tax do exist, however, including a head tax on employees or a tax on the square footage utilized by a business in the city.

A gross receipts tax is an effective way of capturing the amount of business activity occurring for certain kinds of businesses, but can be very poor with respect to other businesses. Other cities in the state have recognized that this failure is particularly true with respect to warehousing. While businesses see great value to their bottom line in storing and/or distributing their merchandise, without sales or manufacturing on site, no taxable events occur for the purposes of a gross receipts tax. Millions of dollars in merchandise may be transported on city roads and protected by city police, but the contribution to these city services may be literally zero.

Some cities such as Kent and Auburn have chosen to address this disconnect by assessing its B&O tax on warehouse business activities on a square foot basis. Rather than using gross receipts, this separate tax is assessed as a quarterly rate multiplied by the square footage the floor space used by the business in the conduct of its business.

Des Moines Business Park

There are currently seven large warehouse buildings in the Des Moines Business Park that have been developed in the past decade or so, with more proposed in the new Des Moines Business Park West development. The buildings can accommodate a single tenant or multiple tenants.

In order to gauge whether imposing a square footage tax may be appropriate, staff did a quick survey of B&O taxes paid by business park tenants. For the years 2022-2024, of eleven businesses identified as having been Business Park tenants during that period, it appears that four paid no B&O tax. Of the businesses who did pay B&O tax, one paid less than \$300 per year, three paid approximately \$3000 per year, one paid between \$6000 and \$10,000 per year, and two have paid between \$10,000 and \$20,000 per year. At least a portion of those taxes paid can likely be attributed to retail sales on site.

The chart below represents the square footage for reported uses of the seven warehouse buildings in the Des Moines Business Park from the King County Assessor’s website, separated by tenant. (Phase 2, not included, is the location of the FAA building, not subject to City taxation)

Building	Street Address	warehouse	office	manufacturing		Total
1A	2341 S 208th St	127,112	1,450			128,562
		31,072	1,978			33,050
1B	2231 S 208th St	72,878	3,503			76,381
		68,475				68,475
1C	2021 S 208th St	143,694	9,838	13,025		166,557
		62,793	4,290			67,083
3A	2361 S 211th St	39,591	9,711	102,698		152,000
3B	2141 S 211th St	82,135	5,698			87,833
		217,131	13,849			230,980
		29,632				29,632
4A	21202 24th Ave S	259,631	6,305			265,936
4B	21402 24th Ave S	97,092	7,687			104,779
		36,430				36,430
		104,779				104,779
Total		1,372,445	64,309	115,723		1,552,477

The Business Park contains over 1.5 million square feet of floor space that can be employed for for-profit business. That area is about 40 times the size of the average grocery store in the U.S. For the years 2022 and 2023, this area generated slightly less than \$50,000 in B&O tax. Businesses without taxable retail sales events also do not generate sales taxes.

Cities with square footage tax

A quick survey of cities reporting to the Association of Washington Cities that they impose B&O taxes revealed six cities that impose a square footage tax: Algona, Auburn, Bellevue, Dupont,

Kent, and North Bend. Two additional cities, Lake Forest Park and Olympia reserve the right to impose a head tax or square footage tax in the future.

The rates imposed by these cities are as follows:

Algona - \$0.015/square foot per quarter

Auburn - \$0.10/square foot per quarter

Bellevue - \$.1834/square foot per quarter

Dupont - \$.15/square foot per quarter

Kent - \$0.09/square foot per quarter

\$0.12/square foot per quarter beginning Jan 1, 2025

North Bend - \$0.15/square foot per quarter for the first 25,000 square feet

- \$0.10/square foot per quarter for the next 25,000 square feet

- \$0.04/square foot per quarter for 50,001+ square feet

Minimum floor areas for tax to apply by city :

Algona – 3,000 sq ft

Auburn – 4,000 sq ft

Bellevue - none

Dupont – 20,000 sq ft

Kent – 4,000 sq ft warehouse space or 12,000 other business space

North Bend – 10,000 sq ft

Considerations

If the Council were to consider a square footage tax, some decisions would be required. The primary questions would be:

- What will be the tax rate
- Will the tax be limited to warehouse and related uses; warehousing and some other business activities; or all businesses with a physical place of business
- What minimum threshold square footage would be required before the tax is imposed
- If gross receipts tax and square footage tax both apply, will there be an offset
- Will the tax have an adjustment for inflation or some other factor

For illustration only, applying a \$0.10/square foot per quarter to a the square footage provided in the chart above would result in an additional \$620,990.80 per year in tax revenue to the general fund.

Timothy A. George, Interim City Manager
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Memo

Date: September 25, 2024
To: Finance Committee
From: Tim George, Interim City Manager
Re: Utility Tax Proposal

The City of Des Moines has faced challenging budget deficits, particularly in the General Fund, for many years, stretching back to the passage of I-695 in 1999. The City has used a variety of strategies to balance the budget over the years, including positions cuts, use of one-time revenues, instituting new revenues, furloughs, employees voluntarily reducing their Cost of Living Adjustments, changes to benefit programs, reorganizations, etc.

In order to address some of these challenges in 2015/2016, the City considered the imposition of a utility tax on the City's water/sewer utilities. At the time, the question of whether the City had the authority to impose a utility tax on other governmental water/sewer utilities was an unsettled question of law. As a result, the City engaged in negotiations with our water/sewer utility providers and ultimately ended up agreeing to new franchise agreements with many of them that included a franchise payment of 6% of total revenue in lieu of the imposition of a utility tax. Since that time Washington courts have made clear that cities have the legal authority to impose a utility tax on water/sewer utilities operating within City limits. *Lakehaven Water & Sewer District et al. v. City of Federal Way* (2020).

There are five water/sewer utilities that service the City of Des Moines. In 2016, the City Council approved franchise agreements with three of them (Highline Water District, Southwest Suburban Sewer District and Midway Sewer District) that authorized a franchise payment of 6% of total revenue in lieu of the imposition of a utility tax. In exchange for this franchise payment, the City agreed during the term of the franchise (10 years) to not impose a utility tax.

In 2016, the City had an existing franchise agreement with Lakehaven Utility District for a term of 2011-2031 that waived the City's ability to impose a utility tax on the District based on other concessions. As a result, Lakehaven declined to renegotiate their franchise agreement and therefore does not pay a 6% franchise payment. However, given that the City now clearly has the

authority to impose a utility tax, it is recommended the City re-approach Lakehaven to inquire about an extension of the franchise that would waive the utility tax past 2031 in exchange for a negotiated franchise payment to begin immediately.

Finally, the franchise agreement with Water District 54 does not contain a waiver of utility tax and the District does not pay the City 6% of total revenue. The only provision for payment is an annual \$5,000 payment to cover the City's administrative cost. As a result, the City is not prohibited or limited in imposing a utility tax on WD54 in an amount the Council deems fit. Given that the other utilities (except Lakehaven) pay 6% of total revenue, it is recommended the City impose a 6% utility tax. This could be accomplished by including the following language into the Des Moines Municipal Code:

Imposition of water utility tax.

Effective January 1, 2025, there is hereby created a tax in the amount of six percent (6%) per year, chargeable monthly, against and upon the gross water system utility rates as assessed by the water system utility businesses operating in the City. This section shall not apply to a water system utility that has a Franchise Agreement with the City that precludes the levying of a utility tax.

Preliminary estimates indicate a 6% tax would result in annual payments to the City of \$88,000.

August 2024 – General Fund Report

General Fund Summary of Sources and Uses	August 2024			2024 YTD Budget vs Actual		2024
	Amended Budget	YTD Budget	YTD Actual	Amount	Percentage	Remaining Budget
Operating Revenues						
Property Tax	\$ 5,639,570	\$ 3,759,713	\$ 2,889,588	\$ (870,125)	-23%	\$ 2,749,982
Utility Tax	4,459,106	2,972,737	2,994,140	21,402	1%	1,464,966
Sales Tax	4,325,000	2,883,333	2,696,391	(186,942)	-6%	1,628,609
B+O Tax	1,440,000	960,000	991,255	31,255	3%	448,745
Franchise Fees	1,450,000	966,667	991,340	24,674	3%	458,660
Criminal Justice Tax	1,300,000	866,667	778,163	(88,504)	-10%	521,837
Gambling Tax	35,000	23,333	9,780	(13,554)	-58%	25,220
Leasehold Tax	240,000	160,000	171,324	11,324	7%	68,676
Taxes Subtotal	\$ 18,888,676	\$ 12,592,451	\$ 11,521,980	\$ (1,070,471)	-9%	\$ 7,366,696
Business Licenses and Permits	300,000	200,000	193,125	(6,875)	-3%	106,875
Other Licenses and Permits	15,000	10,000	8,044	(1,956)	-20%	6,956
Intergovernmental (Grants, etc.)	1,043,304	695,536	649,353	(46,183)	-7%	393,951
Charges for Services:						
General Government Services	212,944	141,963	132,626	(9,337)	-7%	80,318
Court	103,300	68,867	71,223	2,356	3%	32,077
Public Safety	83,300	55,533	65,791	10,257	18%	17,509
Culture and Recreation	438,900	292,600	280,148	(12,452)	-4%	158,752
Red Light Running Infractions	1,200,000	800,000	717,811	(82,189)	-10%	482,189
Other fees and penalties	352,150	234,767	63,112	(171,655)	-73%	289,038
Fees/Charges/Fines Subtotal	\$ 3,748,898	\$ 2,499,265	\$ 2,181,233	\$ (318,033)	-13%	\$ 1,567,665
Interest Income	106,000	70,667	58,152	(12,515)	-18%	47,848
Rentals and Leases	511,570	341,047	255,862	(85,185)	-25%	255,708
Contributions and Donations	24,000	16,000	2,403	(13,597)	-85%	21,597
Miscellaneous	30,700	20,467	164,654	144,188	705%	(133,954)
Interfund Charges	1,459,291	972,861	1,114,231	141,370	15%	345,060
Transfers In						
Fund 114 (ARPA Fund)	1,850,617	1,233,745	1,124,547	(109,197)	-9%	726,070
Other Revenues Subtotal	\$ 3,982,178	\$ 2,654,785	\$ 2,719,849	\$ 65,064	2%	\$ 1,262,329
Total Operating Revenues	\$ 26,619,752	\$ 17,746,501	\$ 16,423,062	\$ (1,323,439)	-7%	\$ 10,196,690
Operating Expenditures						
City Council	\$ 103,781	\$ 69,187	\$ 95,831	26,644	39%	7,950
City Manager/Administration	1,255,148	836,765	1,133,236	296,470	35%	121,912
City Clerk	854,703	569,802	604,189	34,387	6%	250,514
Human Resources	407,370	271,580	176,443	(95,137)	-35%	230,927
Finance	1,334,670	889,780	803,180	(86,600)	-10%	531,489
Technology Services	1,618,534	1,079,022	1,169,541	90,518	8%	448,993
City Attorney	889,357	592,904	376,666	(216,238)	-36%	512,690
Municipal Court	1,735,021	1,156,681	1,024,943	(131,738)	-11%	710,079
Public Safety - Business Office	1,061,350	707,567	802,265	94,698	13%	259,085
Police	12,133,208	8,088,806	7,714,803	(374,003)	-5%	4,418,406
Community Events and Services	5,568,193	3,712,129	2,973,422	(738,707)	-20%	2,594,771
Transfers Out						
Fund 208 (2018 LTGO Bonds)	226,600	151,067	132,183	(18,883)	-12%	94,417
Fund 506 (Facility Repair and Replacement)	51,000	34,000	34,000	-	0%	17,000
Total Operating Expenditures	\$ 27,238,936	\$ 18,159,290	\$ 17,040,703	\$ (1,118,588)	-6%	\$ 10,198,233
Total Operating Income (Loss)	\$ (619,184)	\$ (412,789)	\$ (617,641)	\$ (204,852)		

**August is month 8 of 12 = 66.7%

SALES TAX SUMMARY September 2024 (July 2024 Sales)

NAICS	CONSTRUCTION	23 TOTAL	23 YTD	24 YTD	YTD % Diff
236	Construction of Buildings	714,343	539,781	263,347	-51.2%
237	Heavy & Civil Construction	50,465	38,437	34,333	-10.7%
238	Specialty Trade Contractors	360,010	249,161	266,861	7.1%
TOTAL CONSTRUCTION		\$ 1,124,818	\$ 827,379	\$ 564,541	-31.8%
		<i>Overall Construction Change from Previous Year</i>		\$ (262,838)	
NAICS	MANUFACTURING	23 TOTAL	23 YTD	24 YTD	YTD % Diff
311	Food Manufacturing	\$ 1,607	\$ 1,152	\$ 583	-49.4%
312	Beverage & Tobacco Products	2,444	1,763	1,519	-13.9%
313	Textile Mills	244	216	157	-27.2%
314	Textile Product Mills	207	187	152	-18.7%
315	Apparel Manufacturing	310	221	240	9.0%
316	Leather & Allied Products	365	264	324	22.9%
321	Wood Product Manufacturing	2,141	726	4,959	583.0%
322	Paper Manufacturing	460	336	197	-41.4%
323	Printing & Related Support	4,336	3,062	3,582	17.0%
324	Petroleum & Coal Products	41	40	78	94.5%
325	Chemical Manufacturing	1,254	889	1,004	12.9%
326	Plastic & Rubber Products	384	225	242	7.2%
327	Nonmetallic Mineral Products	4,380	2,826	3,356	18.8%
331	Primary Metal Manufacturing	25	25	58	129.7%
332	Fabricated Metal Mfg Products	6,380	5,846	1,400	-76.0%
333	Machinery Manufacturing	854	537	635	18.3%
334	Computer & Electronic Products	3,309	2,228	2,031	-8.8%
335	Electric Equipment, Appliances	790	778	605	-22.3%
336	Transportation Equipment Mfg	16,069	11,669	11,397	-2.3%
337	Furniture & Related Products	4,229	2,749	3,618	31.7%
339	Miscellaneous Manufacturing	4,628	2,944	3,503	19.0%
TOTAL MANUFACTURING		\$ 54,458	\$ 38,683	\$ 39,640	2.5%
		<i>Overall Manufacturing Change from Previous Year</i>		\$ 957	
NAICS	TRANSPORTATION & WAREHOUSING	23 TOTAL	23 YTD	24 YTD	YTD % Diff
481	Air Transportation	\$ -	\$ -	\$ -	-
482	Rail Transportation	5	2	1	-50.0%
483	Water Transportation	-	-	-	-
484	Truck Transportation	6,501	5,006	4,824	-3.6%
485	Transit and Ground Passengers	-	-	-	-
487	Scenic and Sightseeing Trans	669	669	-	-100.0%
488	Transportation Support	2,121	1,523	2,298	50.9%
491	Postal Services	115	86	83	-4.6%
492	Couriers & Messengers	23,390	17,523	23,071	31.7%
493	Warehousing & Storage	1,143	1,085	344	-68.3%
TOTAL TRANSP & WHSNG		\$ 33,944	\$ 25,895	\$ 30,621	18.2%
		<i>Overall Transportation Change from Previous Year</i>		\$ 4,726	
NAICS	WHOLESALE TRADE	23 TOTAL	23 YTD	24 YTD	YTD % Diff
423	Whls Trade-Durable Goods	\$ 162,845	\$ 122,242	\$ 106,507	-12.9%
424	Whls Trade-Nondurable Goods	52,346	40,338	41,733	3.5%
425	Wholesale Electronic Markets	796	606	995	64.1%
WHOLESALE TRADE TOTAL		\$ 215,987	\$ 163,187	\$ 149,235	-8.5%
		<i>Overall Wholesale Change from Previous Year</i>		\$ (13,952)	

NAICS	AUTOMOTIVE	23 TOTAL	23 YTD	24 YTD	YTD % Diff
441	Motor Vehicle & Parts Dealer	\$ 102,216	\$ 78,094	\$ 183,031	134.4%
447	Gasoline Stations	-	-	-	-
TOTAL AUTOMOTIVE		\$ 102,216	\$ 78,094	\$ 183,031	134.4%
		<i>Overall Automotive Change from Previous Year</i>		\$ 104,937	
NAICS	RETAIL TRADE	23 TOTAL	23 YTD	24 YTD	YTD % Diff
442	Furniture & Home Furnishings	\$ -	\$ -	\$ -	-
443	Electronics & Appliances	-	-	-	-
444	Building Material & Garden	53,538	40,805	42,846	5.0%
445	Food & Beverage Stores	171,323	128,043	136,571	6.7%
446	Health & Personal Care	-	-	-	-
448	Clothing & Accessories	-	-	-	-
449	Furniture, Home Furnishings, Electronics, and Appliances	215,111	178,278	113,420	-36.4%
451	Sporting Goods, Hobby, Books	-	-	-	-
452	General Merchandise Stores	-	-	-	-
453	Miscellaneous Store Retailers	-	-	-	-
454	Nonstore Retailers	-	-	-	-
455	General Merchandise Retailers	57,547	43,507	48,181	10.7%
456	Health and Personal Care Retailers	155,417	138,613	45,332	-67.3%
457	Gasoline Stations and Fuel Dealers	66,686	50,402	45,436	-9.9%
458	Clothing, Clothing Accessories, Shoe and Jewelry Retailers	51,776	40,027	38,261	-4.4%
459	Sporting Goods, Hobby, Musical Instrument, Book and Misc	622,518	453,045	510,436	12.7%
TOTAL RETAIL TRADE		\$ 1,393,916	\$ 1,072,720	\$ 980,482	-8.6%
		<i>Overall General Retail Change from Previous Year</i>		\$ (92,238)	
NAICS	SERVICES	23 TOTAL	23 YTD	24 YTD	YTD % Diff
51*	Information	\$ 189,478	\$ 136,461	\$ 164,006	20.2%
52*	Finance & Insurance	23,393	17,065	17,914	5.0%
53*	Real Estate, Rental, Leasing	69,057	46,600	41,460	-11.0%
541	Professional, Scientific, Tech	84,983	57,123	60,717	6.3%
551	Company Management	817	495	1,540	211.3%
56*	Admin, Supp, Remed Svcs	251,426	183,206	198,604	8.4%
611	Educational Services	16,075	11,870	12,460	5.0%
62*	Health Care Social Assistance	6,030	4,969	5,239	5.4%
71*	Arts & Entertainment	32,618	23,746	25,064	5.6%
72*	Accommodation & Food Svcs	415,966	310,265	314,614	1.4%
81*	Other Services	117,907	84,047	119,003	41.6%
92*	Public Administration	867	337	400	18.6%
TOTAL SERVICES		\$ 1,208,618	\$ 876,183	\$ 961,021	9.7%
		<i>Overall Services Change from Previous Year</i>		\$ 84,838	
NAICS	MISCELLANEOUS	23 TOTAL	23 YTD	24 YTD	YTD % Diff
000	Unknown	\$ -	\$ -	\$ -	-
111-115	Agriculture, Forestry, Fishing	947	856	500	-41.6%
211-221	Mining & Utilities	1,052	451	11,283	2401.6%
999	Unclassifiable Establishments	142,767	98,272	101,045	2.8%
MISCELLANEOUS TOTAL		\$ 144,766	\$ 99,579	\$ 112,828	13.3%
		<i>Overall Miscellaneous Change from Previous Year</i>		\$ 13,248	
GRAND TOTALS		\$ 4,278,723	\$ 3,181,722	\$ 3,021,400	-5.04%
		<i>Grand Total Change from Previous Year to Date</i>		\$ (160,322)	