This section of the annual financial report presents an overview and analysis of the financial activities of the City of Des Moines for the fiscal year ended June 30, 2017. Readers are encouraged to consider the information presented here in conjunction with additional information furnished in the letter of transmittal and the financial statements which follow.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Des Moines exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $940,040,861 (net position). Last year’s June 30, 2016 total net position was $889,244,194. Total net position increased by $50,796,667 over the FY2016 net position. The total unrestricted net position of the City was negative ($7,262,697). This was comprised of unrestricted negative governmental net position ($53,544,352) and business type activities net position of $46,281,655.

- At the close of this current fiscal year, the City of Des Moines' governmental funds reported combined ending fund balances of $130,820,930 an increase of $39,626,222 in comparison with the prior year. This increase was attributable primarily to an increase in the Debt Service Fund, CDBG Special Revenue Fund, Capital Projects Fund, and the Franchise Fee Settlement Fund.

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $27,775,452 or 17.8 percent of total General Fund expenditures. This represents a $533,279 reduction in the unassigned fund balance, but the reduction was less than budgeted.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Des Moines' basic financial statements. The City of Des Moines' basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Des Moines' finances, in a manner similar to a private-sector business.
The **Statement of Net Position** presents information on all of the City of Des Moines' assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference between the assets/deferred outflows of resources and liabilities/deferred inflows of resources reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Des Moines is improving or deteriorating.

The **Statement of Activities** presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Des Moines that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Des Moines include public safety, public works, health and social services, culture and recreation, community and economic development, and general government. The business-type activities of the City of Des Moines include the municipal housing agency, parking facilities system, sanitary sewer system, golf courses, solid waste system, and storm water utility.

The government-wide financial statements include the City of Des Moines itself (known as the primary government), as well as the Public Library of Des Moines Foundation, a discretely presented component unit, which raises funds for the benefit of the City’s libraries and the Des Moines Airport Authority, a discretely presented component unit, which runs the airport that serves central Iowa. The Des Moines Independent Community School District, the Des Moines Waterworks, Des Moines Area Regional Transit, the Wastewater Reclamation Authority, and Metro Waste Authority provide services to the citizens of Des Moines but do not meet established criteria as component units of the City, and thus, are not included in this report.

**Fund Financial Statements.** A **fund** is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Des Moines, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Des Moines can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.
- **Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Des Moines maintains 15 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, Tax Increment Fund, Capital Projects Fund, and Benefit Tax Accounts Special Revenue Fund and Franchise Fee Court Settlement Fund, all of which are considered to be major funds. Data from the other 9 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

- **Proprietary Funds.** The City of Des Moines maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Des Moines' various functions. The City of Des Moines uses internal service funds to account for the equipment service center, forestry, central services, radio communications, equipment and radio replacement, and group health insurance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

The City of Des Moines maintained six enterprise funds in fiscal year 2017. Proprietary funds provide the same type of information as the government-wide
financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Parking Fund, Sewer System Fund, Storm Water Utility Fund, and Municipal Housing Fund as these are considered to be major funds of the City of Des Moines. Data from the other two enterprise funds (Golf Fund and Solid Waste Fund) are combined into a single, aggregated presentation. Individual fund data for each of these non-major enterprise funds is provided in the form of combining statements elsewhere in this report. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

- **Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Des Moines' own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City has only one type of fiduciary funds: agency funds. The total assets held in the fiduciary funds at June 30, 2017 were $61,982,817 of which $60,126,787 belonged to the Des Moines Metropolitan Wastewater Reclamation Authority (WRA), an agency fund.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information.** The City’s budgetary comparison schedule is presented as required supplementary information immediately following the notes to the financial statements. The combining statements referred to earlier in connection with non-major governmental funds, non-major enterprise funds, internal service funds, and agency funds are presented immediately following the required supplementary information.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Position.** As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Des Moines, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $940,040,861, at the close of the fiscal year ended June 30, 2017.

By far the largest portion of the City of Des Moines' net assets, $890,548,180 or 94.7 percent, reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City of Des Moines uses these capital assets to provide services to citizens; consequently,
these assets are \textit{not} available for future spending. Although the City of Des Moines' investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Des Moines’ Net Position

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current and other assets</td>
<td>$358,855,441</td>
<td>$81,021,274</td>
<td>$439,876,715</td>
<td>$318,993,664</td>
<td>$60,977,751</td>
<td>$379,971,415</td>
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<tr>
<td>Capital assets</td>
<td>1,017,427,841</td>
<td>345,553,814</td>
<td>1,362,981,655</td>
<td>1,007,277,055</td>
<td>344,202,525</td>
<td>1,351,479,580</td>
</tr>
<tr>
<td>Total assets</td>
<td>1,376,283,282</td>
<td>426,575,088</td>
<td>1,802,858,370</td>
<td>1,326,270,719</td>
<td>405,180,276</td>
<td>1,731,450,995</td>
</tr>
<tr>
<td>Total deferred outflow of resources</td>
<td>76,193,922</td>
<td>4,400,448</td>
<td>80,594,370</td>
<td>49,821,428</td>
<td>3,025,403</td>
<td>52,846,831</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>590,001,472</td>
<td>80,829,883</td>
<td>670,831,355</td>
<td>545,940,658</td>
<td>72,801,845</td>
<td>618,742,503</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>79,543,978</td>
<td>13,470,033</td>
<td>93,014,011</td>
<td>80,023,816</td>
<td>13,248,053</td>
<td>93,271,869</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>669,545,450</td>
<td>94,299,916</td>
<td>763,845,366</td>
<td>625,964,474</td>
<td>86,049,898</td>
<td>712,014,372</td>
</tr>
<tr>
<td>Total deferred inflow of resources</td>
<td>177,943,523</td>
<td>1,622,990</td>
<td>179,566,513</td>
<td>180,572,209</td>
<td>2,467,051</td>
<td>183,039,260</td>
</tr>
</tbody>
</table>

Net position:

Net investment in capital assets

| Restricted              | 45,673,166                    | 11,082,212                  | 56,755,378   | 22,468,504                    | 9,509,930                     | 31,978,434   |
| Unrestricted            | (53,544,352)                  | 46,281,655                  | (7,262,697)  | (101,642,381)                 | 27,750,785                    | (73,891,596) |
| Total net position      | $604,988,231                   | $335,052,630                 | $940,040,861 | $569,555,464                   | $319,688,730                   | $889,244,194 |

An additional portion of the City of Des Moines' net position, $56,775,378 (6.0 percent) represents resources that are subject to external restrictions on how they may be used. The balance of \textit{unrestricted net position} is a negative net position balance of ($7,262,697). There is negative unrestricted net position as a result of the GASB 68 pension liability for both IPERS and MFPSRI booked in 2017. These liabilities represent the unfunded portion of the two pension funds that is the City’s share. The net pension liability was measured at $179,108,473 in 2017, up from $153,767,565 in 2016, a difference of $34,677,482. The business type activities funds has a positive unrestricted net position. The governmental activities funds have a negative position balance that requires additional future resources to fulfill ongoing obligations to the citizens and creditors of the governmental-type activities.
At the end of the current fiscal year, the City of Des Moines is able to report positive net position balances in the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City’s total net position increased by $50,796,667 during the current fiscal year. The governmental activities net position increased by $35,432,767. The total business-type activities’ net position increased by $15,363,900.

A summary of the City’s changes in net position follows:
Governmental Activities. Total governmental activities revenue for the fiscal year was $310,032,524 compared to $315,077,984 in 2016. The largest single revenue source for the City was property taxes of $147,250,051. Property taxes increased by $5,296,129 (3.7 percent) from 2016. This increase is primarily the result of an increase in the assessed value of property. Other taxes for the fiscal year 2017 were $25,062,717 compared to $24,031,652 for 2016. The increase of $1,031,065 was due to an increase in franchise fees being collected due to the higher cost of energy. Franchise Fee collections in the Franchise Fee Court Settlement Fund were $6,022,103. In addition, the City was notified that the
Franchise Fee Court Settlement Fund would receive $5,722,523 in unclaimed funds that were being held by the consultant charged with distributing refunds to citizens filing claims. These funds will be used to refund the debt issued to pay these claims.

Intergovernmental Revenue was up due to increased federal revenue in CDBG special revenue fund from prior year. Licenses and permits revenue was lower due to the significant increase in downtown development in the prior year. Governmental activities increased the City’s net position by $35,432,767.

Certain revenues are generated that are specific to governmental program activities. These totaled $134,038,780 in 2017 compared to $143,792,763 in 2016. The graph below shows a comparison between the expenditures by governmental activity type and the revenues generated that are specific to those activities:
The graph below shows the percentage of the total governmental revenues allocated by each revenue type.

**Revenues by Source - Governmental Activities**

- Property taxes: 49%
- Charges for services: 22%
- Operating grants and contributions: 16%
- Franchise fees: 6%
- Capital grants and contributions: 6%
- Other: 1%

**Business-Type Activities.** Total business-type activities’ revenue for the fiscal year was $117,861,193 compared to $113,735,653 in 2016. All but $1,382,308 and $1,474,093 of this revenue was generated for specific business-type activity expenses in 2017 and 2016, respectively. The graph on the following page shows a comparison between the business-type activity expenditures and program revenues.
The graph below shows the breakdown of revenues by source for the business-type activities.
Business-type activities increased the City of Des Moines' net position by $15,363,900, accounting for the increase, in total, in the government's net position. Key elements of this increase are as follows:

- The Storm Water Utility increased by $12,927,636 and the Sewer System increased by $9,429,975. The increase in rates the prior year provided a consistent increase in the net position from the prior year, $10,792,553 in the Storm Water Utility and $8,588,500 in the Sewer System. In addition, the Storm Water Utility benefited from the receipt of Sales Tax Increment funds from the State, in the amount of $3,809,344. These new funds are to be used for flood mitigation projects.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City of Des Moines uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the City of Des Moines' governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Des Moines' financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Des Moines' governmental funds reported combined ending fund balances of $130,820,930, an increase of $39,626,222 in comparison with the prior year. The increase was related to an increase of fund balance in the franchise fee court settlement fund of $5,936,283, an increase of fund balance in the debt service fund of $15,767,234, an increase of fund balance in the tax increment fund of $771,200, an increase of $10,946,330 in the capital projects fund, and an increase of $5,816,903 in the CDBG special revenue fund. These increases for the fiscal year were partially offset by a decrease of fund balance in the general fund ($1,013,169), which was less than the budgeted reduction for the fiscal year. Fund balance identified as nonspendable totaled $11,064,429. There were restrictions of $46,230,049 on the governmental fund balance. Committed fund balance totaled $46,357,761, and unassigned fund balance totaled $27,168,691. See footnote 20 for a further breakdown of the classifications of the governmental fund balance.

The General Fund is the chief operating fund of the City of Des Moines. At the end of the current fiscal year, unassigned fund balance of the General Fund was $27,775,452, while total fund balance was $35,760,147. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund
expenditures. Unassigned fund balance represents 17.8 percent of total General Fund expenditures, while total fund balance represents 22.9 percent of that same amount.

The fund balance of the City of Des Moines’ General Fund decreased by ($1,013,169) during the current fiscal year compared to a $2,350,535 increase in 2016. This decrease was primarily the result of total increased revenue of $2,146,655 offset by an increase in expenditures of $3,122,110 and an increase in transfers out of $3,412,261. In the General Fund, intergovernmental income was higher primarily because of an increase in the State fuel tax, increase in property tax revenue fueled by higher valuations, while increases in public safety expenses and general government expenses offset the increase in fund balance from 2016.

The Debt Service Fund has a total fund balance of $19,909,175. The net increase in fund balance during the current year in the Debt Service Fund was $15,767,234. The increase for the year was due to refunding bonds issued, and cash placed in escrow, for debt redemption in future fiscal years.

The Tax Increment Fund (TIF) has a total fund balance of $3,194,735. The net increase in fund balance during the current year in the Tax Increment Fund was $771,200. The net increase is due primarily to the increase in other revenue.

The Capital Projects Fund has a total fund balance of $42,116,648. The net increase in fund balance during the current year in the Capital Projects Fund was $10,946,330. This increase was due to an increase in general obligation bond borrowing. The unspent fund balance will be expended in projects in the subsequent year.

The Benefit Tax Accounts Special Revenue Fund had a total fund balance of $138,055 at the end of 2017. The net increase is due primarily to an increase in property tax revenue.

The Franchise Fee Court Settlement fund, was set up in fiscal 2014 to account for City transactions related to a court ruling. A lawsuit, which became a class action suit, was made against the City for charging franchise fees. The court ruled a portion of the utility fee received by Des Moines between September 2004 and May 2009 had to be returned to those who paid the fee because the City’s costs of regulating the gas and electrical utilities were less than the amount collected. To pay the judgment, the City issued general obligation bonds. On March 4, 2014 Des Moines voters approved a referendum to raise the franchise fee by 2.5% for about a 7 year period to pay the debt. At the end of the fiscal year, there was a fund balance in this fund of $6,373,054. Total revenue of $11,746,818 was collected in FY2017. Principal of $4,760,000 and interest and fiscal charges of $1,050,535 was paid in 2017. The fund balance at June 30, 2017 will also be used to pay down the debt.
Proprietary Funds. The City of Des Moines' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Storm Water Utility were $26,369,452; those for the Parking Facility System were $1,160,263; the Sewer System were $26,368,321; and those for the Municipal Housing Agency were ($1,003,334). Other factors concerning the finances of these funds have been addressed in the discussion of the City of Des Moines' business-type activities.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City of Des Moines' investment in capital assets for its governmental and business-type activities as of June 30, 2017, amounts to $1,362,981,655 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City of Des Moines' investment in capital assets for the current fiscal year was 0.9 percent (a 1.0 percent increase for governmental activities and a 0.4 percent increase for business-type activities).

Major capital asset events during FY2017 included the following:

- $5.6 million towards the completion of the $10.8 million Grand Avenue Bridge over the Des Moines River Replacement project.
- $300,000 for replacement of the curtain wall window at the South Side Library.
- $1.1 million toward the removal or treatment of ash trees in the third year of what is anticipated to be a ten year, $10 million project to address the impacts of the Emerald Ash Borer.
- $5 million toward renovation of the historic City Hall, including replacement of the boiler and air handling system, adding of a sprinkler system and a second elevator, interior and exterior light improvements, and general remodeling.
- $1.2 million to complete the rehabilitation of the Jackson Street pedestrian bridge.
- $975,000 on lining of sanitary sewers throughout the city.
- Completed the $700,000 Fairmont Water Playground project.
- $500,000 for the Rehabilitation of the Neal Smith Trail from Riverview Park to the Euclid Avenue.
- $600,000 for Pioneer Park Road Improvements.
- $2.5 million for the raising of the Riverwalk red pedestrian bridge over the Des Moines River for flood mitigation.
- $1.2 million for sidewalk ADA ramp improvements.
- More than $10 million for the City’s various on-going street maintenance projects.
• $2.6 million towards the Walnut Street Streetscape improvement project.
• $1.6 million for George Flagg resurfacing from Park Avenue to SW 30th Street.

City of Des Moines' Capital Assets
(amounts expressed in thousands)

<table>
<thead>
<tr>
<th></th>
<th>Governmental Activities</th>
<th>Business-type Activities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$141,062</td>
<td>$140,850</td>
<td>$15,752</td>
</tr>
<tr>
<td>Buildings</td>
<td>224,345</td>
<td>219,536</td>
<td>104,246</td>
</tr>
<tr>
<td>Improvements other than buildings</td>
<td>1,209,374</td>
<td>1,126,115</td>
<td>384,206</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>70,935</td>
<td>70,727</td>
<td>29,587</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>41,614</td>
<td>80,794</td>
<td>16,995</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(669,902)</td>
<td>(630,745)</td>
<td>(205,233)</td>
</tr>
<tr>
<td>Total</td>
<td>$1,017,428</td>
<td>$1,007,277</td>
<td>$345,553</td>
</tr>
</tbody>
</table>

Additional information on the City of Des Moines' capital assets can be found in note 6 of this report.

**Long-Term Debt.** At the end of the current fiscal year, the City of Des Moines had total bonded debt outstanding of $476,709,000. Of this amount, $405,035,000 comprises debt backed by the full faith and credit of the government. The remainder of the City of Des Moines' debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

City of Des Moines' Outstanding Debt
General Obligation and Revenue Bonds

<table>
<thead>
<tr>
<th></th>
<th>Governmental Activities</th>
<th>Business-type Activities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>General obligation bonds</td>
<td>$378,905,000</td>
<td>$357,980,000</td>
<td>$26,130,000</td>
</tr>
<tr>
<td>Revenue bonds</td>
<td>27,065,000</td>
<td>28,770,000</td>
<td>44,609,000</td>
</tr>
<tr>
<td>Total</td>
<td>$405,970,000</td>
<td>$386,750,000</td>
<td>$70,739,000</td>
</tr>
</tbody>
</table>

The City of Des Moines’ total bonded debt increased by $23,573,000 (5.2%) during the current fiscal year. The key factors in this increase were issuing additional debt in the
enterprise funds and the issuance of refunding general obligation bonds and storm water refunding revenue bonds for bonds that will be paid in future fiscal years.


The City of Des Moines maintained its debt rating of Aa2 from Moody’s Investors Service and an AA+ rating from Standard & Poor’s during the fiscal year.

State statutes limit the amount of general obligation debt a governmental entity may issue to five percent of its total assessed valuation. The current debt limitation for the City of Des Moines is $569,816,717, which is significantly in excess of the City of Des Moines’ outstanding general obligation debt ($405,035,000).

Additional information on the City of Des Moines' long-term debt can be found in Note 9 of this report.

**BUDGETARY HIGHLIGHTS**

In accordance with the Code of Iowa, the City Council annually adopts a budget on the modified accrual basis following required public notice and hearing which includes all funds except fiduciary funds and internal service funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type/enterprises and transfers out. The legal level of control is at the aggregated function level, not at the fund or fund type level. These budget amendments are reflected in the final budgeted amounts.

Differences between the original budget and the final amended budget for the City of Des Moines can be summarized as follows:
The total original FY2017 revenue budget of $390,758,907 was increased through an amendment to $401,334,723 (an increase of $10,575,816). The total other financing sources and transfers original budget of $183,472,644 was increased to $216,527,752 an increase of $33,055,108. The City continues to pursue debt refinancing opportunities and the major increase was the amended plans to refund debt in FY2017 that was not in the adopted FY2017 budget. Bond proceeds of $30,665,000 for Series 2016B, $8,745,000 for Series 2016C and $9,870,000 for Series 2016D were included in the amended budget for a total of $49,280,000.

Actual revenues for FY2017 were $414,087,641 compared to the revised budget projection of $401,334,723, a difference of $12,752,918, or 3.2%.

The total original FY2017 expenditure budget of $457,310,347 was increased through an amendment to $509,313,615 (an increase of $52,003,268). The majority of this increase was for carryover expenditures for capital projects due to completion timing and the amendment to refund the following debt series: 2006D, 2009E, 2010D and 2010F for a total increase of $49,280,000.

Expenditures were under the revised budget in total by $48,673,052. This underage was primarily due to expenditures that were under in business-type ($17,167,401) and capital outlay ($40,158,161). These underages were partially offset by the over budget amounts in public safety ($1,603,884) and health and social services ($7,474,822).

See page 109 for the Budgetary Comparison Schedule – All Governmental Funds and Enterprise Funds.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The outlook for the Des Moines economy continues to remain very positive. The City issued 2,955 permits for construction valued at a record-breaking $782 million in calendar year 2016. The total value of permits issued in the prior calendar year (2015), $665.9 million, had exceeded the previous record set in 2007, by nearly $200 million.

The outlook on the economy in Des Moines and the surrounding metropolitan area remains positive with continued growth in residential, commercial and industrial activity. Surrounding Cities are also seeing strong growth. The City, in conjunction with the regional Corporation for Economic Development, the Des Moines Partnership and the Convention and Visitors Bureau, continues to work diligently to spur economic development activity within the City of Des Moines and metro area. Construction of a new events center hotel has begun which will add to continued growth and vibrancy in the downtown area.
During calendar year 2017, Des Moines continued to receive praise from various outlets. Accolades include: 2017 All-American City by National Civic League, #9 “Best Cities to Get out of Credit Card Debt” by SmartAsset, #5 “Best Cities for Successful Aging” by Milken Institute, #1 “Best Place for Millennials to Live in the Midwest” and #4 “Best Place for Millennials to Live in the United States” by Growella.

Assessed valuations for 2016 in Des Moines increased 1.3% over 2015. Indicators for continued growth are all positive. Construction permit values have seen a steady incline for the past three calendar years, 2014 through 2016, totaling $1.78 billion. The record breaking population growth prompted a 98% increase in new single and multi-family dwelling & townhome units permitted. Des Moines welcomed more than 1,450 multi-family along with 212 single-family dwelling and townhome units in 2016. Corporation renovations and new construction, along with residential, mixed use, commercial, and hotel projects are underway and planned over the next few years.

As the result of state legislation, beginning in fiscal year 2015, commercial, industrial and railroad classes of property will now be subject to a rollback. The assessed valuation for commercial and industrial property is now adjusted by 90% to determine the taxable valuation. The state legislature created a standing appropriation, beginning in fiscal year 2015, to reimburse local governments for the property tax reductions resulting from the new rollback for commercial and industrial property. Multi-residential property was previously taxed the same as commercial property but will now be phased down to the same rates as residential property over the next 8 years. All of this has been taken into account for the future budget.

Approximately 50 percent of all General Fund revenues are derived from property taxes. Continuous efforts are being made to both diversify revenues and implement strategic expense reductions. Budget actions resulted in an increase of $0.12 to the property tax rate of $16.92 per $1,000 of taxable valuation to $17.04 for the fiscal year ending June 30, 2018.

As part of the budget discussions in FY2016, the City Council approved multi-year rate increases for the Sanitary Sewer Enterprise and the Storm Water Utility. A 5% Sanitary Sewer fee increase is scheduled for July 1, 2017 to address ongoing sewer separation requirements mandated by the federal government and fund lining projects to extend the life of the sewer system. A 5% Storm Water fee increase is scheduled for July 1, 2017 to address flood protection improvements and separation of sewer systems. Some specific rate changes are in place for the Parking fund. Demand has continued to grow the last few years reflected by higher occupancy rates, and the trend is projected to continue in budget modeling over the next 5 years ahead. No rate changes are scheduled for the Solid Waste fund.
On July 1st, 2011 the City converted to a self-funded health care program with a third-party administrator for processing claims. The self-funded program has allowed the City to pay claims and build a reserve fund sufficient to meet State self-funded health insurance reserve requirements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Des Moines' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Bob Fagen, Finance Director, City of Des Moines, 400 Robert D Ray Drive, Des Moines, IA 50309-1891.