



# *Memorandum*

## *July 25, 2022*

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TO: Mayor and Councilmembers

FROM: Julie Couch, Town Manager

SUBJECT: **Proposed FY 2022-23 Budget**

Attached you will find the amended budget for FY 21-22 as well as the proposed budget for FY 22-23. Following is a discussion of the budget outlook and the major points included in the proposed budget.

### Budget Overview

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The lingering effects of the pandemic along with the booming construction Texas and the Dallas area experienced in FY21-22 has created some challenging issues in the demand for services and the cost to provide those services. The CPI for FY21-22 has increased 7.8% for the 9 months to date. The first 6 months of 2022 have seen inflation increase by 8.3%. These inflation levels have had an impact on the Town's ability to pay for goods and services to fund the Town's operations. Additionally, the pandemic, rapid growth in the region, and inflation have combined to create one of the most challenging conditions in the retention and recruitment of personnel along with significant increases in property values. The tax base is projected to increase by 16.24% over the tax roll from last year. The increase in the tax base is due to both new growth and the increase in value to the existing tax base. New growth in the tax base totals approximately \$74,409,718. The existing tax base saw an increase of 12.92%. Below is a comparison of certified tax base growth over the past six years.

<u>FY17-18</u>	<u>FY18-19</u>	<u>FY19-20</u>	<u>FY20-21</u>	<u>FY21-22</u>	<u>FY22-23</u>
11.07%	10.05%	4.51%	3.06%	7.55%	16.24%

The Town continues to provide one of the lowest tax rates of any full-service city in Collin County that provides both full time fire and police services as well as other town services. The annual

budget is a policy document that sets the financial course for the Town and defines the service priorities for the community. Adopting the budget is a key role of the Town Council. The budget process allows the Town Council the opportunity to balance the needs of the Town against available resources. The development of the budget requires a significant amount of time from the staff and from the Council. The departments submit their proposed budgets, those budgets are reviewed and prioritized in a manner that utilizes available resources with fiscal constraints to achieve the Town’s goals. The staff, from the department managers to the management team have scrutinized expenditures, reduced expenditures where possible, and only proposed expenditures that are deemed necessary to ensure that services are maintained.

## Economic Picture and Growth

While the Town has experienced significant growth of over 12% in the past 3 years, residential development has begun to slow down due to the economy and will continue to decrease with the almost full development of the residential areas of the Town. The Town experienced strong residential construction this year, and other revenues including sales taxes also saw significant increases.

Attached is a breakdown from the Appraisal District which reflects the growth of all of the entities in Collin County. Attached you will find a comparison of tax base and personnel over the past several years.

We saw significant residential construction in FY21-22 as well as the planning for a number of subdivisions. Active residential construction is occurring in Chamberlain Place, Woodland Farms, Kingdom Estates and Stoddard Farms. Harbor Oaks, and Apple Crossing residential developments have been completed. The number of residential building permits is expected to drop in FY22-23 due to the economy and as developments begin to fully build out. Below is a breakdown of residential permits over the past several years:

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
37	24	38	69	75	89	99	117	27– to date

Sales tax collections for FY21-22 have seen a significant increase over FY20-21. Revenues for FY21-22 are projected at \$1.9 million in the General Fund, which is the highest level of sales taxes the Town has collected. Revenues for FY22-23 are projected to remain at current levels. It is important to remember that as sales in the Center increase, so does the 380 payment back to them.

Construction in the commercial district in FY21-22 saw the completion some smaller construction projects including SWIG and Salad to Go, which are both doing well. Other businesses in the Center have not yet opened including the anticipated brewery. The Center continues to work to fill vacant spaces. In FY22-23 Lincoln will be constructing the apartments that were approved this year.

## Taxes and Rates

The tax rate for FY22-23 is proposed to drop from .345580 to .321577. The calculations needed to determine the various rates required by the state are reviewed under separate cover.

### Utility Rates

In 2018, the Town conducted an update review of the Town's water and wastewater rates by Willdan (aka Economist.Com) to determine what adjustments were needed in the water and wastewater rates. Several issues impact the costs in the Water & Wastewater Fund: increases in cost of water purchased and wastewater treatment by North Texas Municipal Water District, increased operating expenses in general, and coverage of debt service in line with the goal of having the Water & Wastewater Fund cover the cost of debt issued for water and sewer purposes. The review was consistent with previous reviews and recommended continued multi-year increases in the water and wastewater rates over the next several years.

There are several factors that are taken into consideration in developing rates and those are to ensure that the Water and Wastewater Fund:

1. Is covering current and future operating costs
2. Is paying for debt service attributable to the utility system
3. Is meeting all coverage and reserve requirements
4. Is meeting working capital goals and requirements – generally between 60 and 90 days of operating expenses but not less than 60 days per fund balance policy.

The study recommended a series of rate increases to fully meet the goal of transferring all of the water and sewer debt to the utility fund as well as anticipating ongoing increases in services from North Texas. The recommended rate adjustments were as follows:

FY19-20 -	10.2%
FY20-21 -	7%
FY21-22 -	3.8%
FY22-23 -	3.8%

### Water and Sewer Rates

The last year rates for water were increased was in FY19-20 and they were increased by 2.4%. In FY20-21 and FY21-22, due to the pandemic and the fact that North Texas did not raise their water rates, we did not recommend a rate increase, even though we were fully funding the water debt out of the water fund for the first time. The revenues were budgeted conservatively and reflected a loss should we experience the conservative revenue projections. As it has turned out so far in

FY21-22 this year has been extremely dry and water sales are up. We had budgeted a loss for FY21-22, but we are now projecting a positive year end with the ability to also consider setting aside funds for some capital projects. We are anticipating ending FY21-22 with working capital of 121 days and ending FY22-23 with working capital of 97 days in excess of our minimum reserve requirement. The town's policy is to maintain 60 days of working capital in reserves.

For FY21-22 we are continuing our practice of projecting conservative revenues. One of the biggest impacts to the utility fund will be the increases from North Texas. They are experiencing the same inflationary impacts that we are and they have not raised rate in the past two years. The increase in water rates is projected at 13% and the sewer rates are projected to increase by 20%. Those increases are being passed through to our customers. We are proposing a set aside for capital improvements in the utility fund as a part of the budget.

### **Solid Waste Rates**

As the Council is aware, last year we approved a new contract with Republic, which provides for a 3.5% increase in our costs and rates are projected to increase by that percentage to cover the increase.

## **Fund Balances and COVID Funds**

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The general fund has a projected fund balance of 55% and the water and sewer fund has approximately 121 days of working capital. These levels exceed the town minimum requirements of 25% in the general fund and 60 days in the water and sewer fund.

The Town is expecting did receive approximately \$1.1 million in American Rescue funds in FY20-21 and will receive another \$1.1 million in FY21-22. Those funds are reflected in the Covid Relief Fund the use for these funds will be determine by the Town Council as part of our capital planning.

## **Elements of the Budget**

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### **Personnel**

There are several personnel related items included in the proposed FY22-23 budget:

#### **Pay System**

In FY20-21 there were no increases to personnel salaries included in the original budget due to the pandemic and the unknown impacts to revenues. During the year the Council approved a one-time stipend for employees and later in the year a 2% adjustment was provided to all employees. During FY21-22 we did provide a 3% merit increase that was implemented in October. Additionally, we added a 2% market adjustment in April to help with retention and recruitment. We know that many other cities were impacted differently by the pandemic, and with the growth in the area and the competition for employees, some cities have made adjustments to their pay that impact our ability to compete in the market.

We are currently in the process of completing a comprehensive employee compensation and benefits study to evaluate our processes and position in the market to determine what changes or adjustments in our pay and benefit system are needed. McGrath has received the survey information from our identified comparator cities and they are in the process of analyzing the data and developing in depth recommendations for the plan adjustments. It will be August before they can finalize the detailed recommendations but they have reviewed the data on a macro level and they recommend that we set aside a minimum of 8% for pay adjustments for next year. They are seeing the markets adjust by 8-10%. We have included 8% in the budget for implementation of the pay and benefit plan changes. The Council will get a full presentation from the consultants to review their recommendations when they are completed.

#### Positions

There were several positions requested for FY22-23 including 3 fire positions and 3 police positions. The only position that has been included in the budget is one of the police positions that would be funded if the grant is approved. The position would not be filled until January.

#### Benefits

Funding has been included to fund a potential health benefit cost increase of 8.6%. Additionally, one of the benefits that has been identified for consideration is adding a COLA for our TMRS benefits. Currently, retirees from Fairview do not receive any sort of increase due to cost of living increases. TMRS does offer the ability to adopt a COLA that would provide a 30%, 50%, or 70% of the CPI change to the monthly annuity of a retiree. Up until this year the Town had not had many employees retire, however, this year we have had several and others will be retiring in the near future. Additionally, it is a tool that prospective employees consider when looking a Fairview for a position. Of our 13 comparator cities, 10 offer 70%, 2 offer 50% and 1 offers nothing. The proposed budget includes funds to implement a 30% COLA. The cost of that benefit to the General Fund would be approximately \$129,000 and it is included in the budget.

#### **General Fund**

The total General Fund budget for FY22-23 is projected to have revenues of \$ 10,597,706. Expenditures for FY22-23 are projected at \$ 10,597,706 as well.

#### Revenues

There is an increase in property tax revenue that is attributable to the growth in property values for existing properties and the new growth in the tax base. The Appraisal District has certified a total increase of 16.24% with 12.92% coming from existing property values. We are waiting to hear from the County as to what our various tax rates are under the state law. We will provide this information under separate cover. The total tax base is certified to be \$ 2,599,765,328. Of that \$ 74,409,718 is from new property values. Sales taxes are projected to equal \$1.9 million for both FY21-22 ending and for FY22-23, and beverage taxes are projected a bit higher for next year. Building permits are projected to be lower than FY21-22 given the buildout of several larger subdivisions and a slowdown in construction. Interest is projected to see some increases for next year.

### Expenses

As mentioned, expenses for FY22-23 are proposed at \$10,597,706. The primary increases are due to the personnel and pay changes outlined above as well as the increased cost of goods and services due to inflation and supply chain shortages.

There is a proposed transfer in the amended FY21-22 budget of \$150,000 to the vehicle replacement fund through the use of excess funds. Additionally, there are capital expenses in the for the General Fund contribution to the public works facility, funds to pay for Hart Road engineering, and funds for land acquisition for the trail system. Those items will be discussed in more detail with the capital budget discussion.

Other cost increases that are included are generally due to outside increases or operational cost increases. Behind each department you will find detail sheets that provide justification for supplemental items that were requested by department heads. This includes all items that were requested. If they were approved, they are included in the budget.

### **Water and Sewer Fund**

The total Water and Sewer Fund budget for FY22-23 is projected to have revenues of \$ 8,139,300. Expenditures for FY22-23 are projected at \$ 8,142,229.

### Revenues

Water and Sewer rates and revenues are discussed above. Water revenues are projected based on an average year, not the dry year we have experienced this year. There are pass through rate increases as discussed above for both water purchases and sewer transmission and treatment costs from North Texas Municipal Water District.

### Expenses

Expenditures for the water and sewer fund include pay changes discussed above. This budget also fully covers the cost of water and sewer debt expenses. There are transfers out in FY1-22 to cover

the cost of the water and sewer fund contribution to the public works facility project, contribution to the vehicle replacement fund, and funds to consider initiating an AMI system for remote reader meter system. There is also a proposed transfer in the FY22-23 budget to the vehicle replacement fund, and to continue the transition to the AMI system. There will be more detail of this in the capital budget discussion.

Debt service in the water and sewer fund is lower by approximately \$260,000 as a 2012 debt issue is paid off in FY21-22.

### **Solid Waste Fund**

As discussed above, this fund reflects the cost of the new franchise agreement with a 3.5% cost increase. The new agreement outlines the methodology for increases going forward and ties them to the cost for such services on an annual basis.

### **Debt Service**

There are no significant changes in the debt service fund.

### **Drainage Fund**

The revenues for FY22-23 reflect the growth that has occurred the past year. The expenditures reflect the pay elements described above. Also included in the amended FY21-22 budget are consulting funds needed for the cost of the Fox Glen study. The costs for the improvements needed for these areas will be reviewed as a part of the capital budget discussion.

### **EDC/CDC Funds**

The EDC/CDC Board has a statutory obligation to develop their proposed budget for submission to the Council. The Board has met and they have reviewed their budgets for your consideration.

The revenues for the EDC and the CDC are in line with revenues and expenditures included in the FY21-22 budget. The CDC budget continues to reflect the expenditure of \$100,000 for fire station debt service.

### **Capital Projects and Equipment**

#### **Capital Projects Fund**

Funds for the completion of the public works facility are being transferred from the General Fund and the Utility Fund. Funds are also included from the General Fund for some remodeling and repair work that needs to be done to Fire Station 2 and the completion of the updates to the subdivision and zoning ordinance.

### Park Dedication Fund

Funds are included for the Town match for the approved grant as well as the submitted grant to the County for trail improvements. Additionally, there is funding for land acquisition for trail property included in the budget along with the transfer of funds to this fund from the General Fund to offset some of the land acquisition costs. Revenues reflect a significant contribution for the apartments that will be built in the Center.

### Vehicle/Equipment Fund

There are several purchases contained in the fund including the purchase of replacement of two police cars, the replacement of a utility truck that is used in the fire department, and the replacement of an engineering truck. There is also funding for some equipment replacement in the fire department.

### Street Construction Fund

The only funds shown to be expended in FY22-23 are funds to complete the design and construction of Frisco Road.

A total of \$200,000 was set aside in FY19-20 to complete landscaping on Stacy Road. There was some thought to partner with the City of Allen on some improvements, however the City of Allen submitted a project to the state that was denied. There has been some discussion about repurposing these funds. We will discuss them under the capital budget discussion.

### Utility Construction Fund

There are no expenditures planned for this fund.

### Impact Fee Funds

Funds are transferred from the Roadway Impact fee fund to Street Construction fund in FY21-22 for the completion of the engineering on Frisco Road. There are no expenditures proposed for FY22-23. Funds are being transferred from the Utility Impact fee fund to the Street Construction fund in FY22-23 for the cost of a water line that is planned for Frisco Road.

### Fire Donation Fund

The expenditures for FY22-23 include some equipment replacement and funds for events and awards for the department.

### TIF Fund



The TIF Fund includes the expenditure of \$75,000 toward the det service for the fire station. There are no other expenditures proposed for this fund. The use of these funds will be evaluated once we have the total costs for the construction of Frisco Road.

#### Relief Fund

This fund is a short-term fund that houses the revenue received from the County for the CARES Act and now the American Rescue funds.

#### IT Fund

There are several expenditures in FY22-23 that are necessary for continued improvements to the networks and our security.

#### Other Funds

There are no major changes in the other funds. These include Special Revenue, and Hotel/Motel Fund.

#### Capital Budget

Information will be provided under separate cover on the capital budget discussion.

We will be ready to review the budget on Thursday at the work session.