



Memorandum

July 23, 2021

TO: Mayor and Councilmembers

FROM: Julie Couch, Town Manager

SUBJECT: **Proposed FY 2021-22 Budget**

Attached you will find the amended budget for FY 20-21 as well as the proposed budget for FY 21-22. Following is a discussion of the budget outlook and the major points included in the proposed budget.

Budget Overview

This year as well as last year have presented challenges that have not been experienced in the past due to the ongoing impact of the COVID-19 pandemic and its impact on revenues and expenditures. This budget reflects some return to normalcy with tax revenues and some adjustments in other revenues. The tax base is projected to increase by 4.59% over the tax roll from last year. The increase in the tax base is primarily due to the new growth in the tax base of approximately \$64,000,000. The existing tax base saw an increase of 1.41%. Below is a comparison of certified tax base growth over the past six years.

<u>FY15-16</u>	<u>FY16-17</u>	<u>FY17-18</u>	<u>FY18-19</u>	<u>FY19-20</u>	<u>FY20-21</u>
7.46%	10.43%	11.07%	10.05%	4.51%	3.06%

The proposed FY21-22 budget includes some needed items that have been deferred for the past two years. With the influx of funds from the federal government there will be some expenditures over the next two years that will allow us to accomplish some one-time or capital items that will be determined over the year. 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

The economic impact of the pandemic is still being felt as the economy is recovering. The Town experienced strong residential construction this year, but other revenues including sales taxes are still below pre pandemic levels.

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 FY20-21 as well as the planning for a number of subdivisions that should be under construction in FY1-22. Active residential construction is occurring in Chamberlain Place, Woodland Farms, Kingdom Estates, Harbor Oaks, and Apple Crossing residential developments. The number of residential building permits is expected to drop in FY21-22 as developments including Apple Crossing and Wooded Creek fully build out in FY20-21. Below is a breakdown of residential permits over the past several years:

<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
65	37	24	38	69	75	89	99	109 – to date

The pandemic significantly affected commercial properties including Lincoln Properties. Sales tax collections for FY19-20 were lower than revenues in FY18-19 but not by as much as projected. Sales taxes for end of year FY20-21 is projected to be a little higher than FY19-20 but still under FY18-19. Revenues for FY21-22 are conservatively projected to stay flat as we see how retail continues to rebound from the pandemic.

Construction in the commercial district in FY20-21 saw the completion of construction on a 100,000 square foot office project in the Center. Next year some smaller construction projects should be underway including SWIG and the finish out for the Wild Acres Brewery.

Taxes and Rates

The tax rate for FY21-22 is proposed to remain at .347156. 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 Rates

The last year rates for water were increased was in FY19-20 and they were increased by 2.4%. In FY20-21, 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 this year, we have not

had a normal weather year, but in fact have experienced a wet year and that has affected water sales. That coupled with increased costs in the fund, we are projecting a greater loss this year than anticipated. Because we have experienced drier years previously, we will still end the year with approximately 150 days of working capital. 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. That coupled with some increased expenses we are reflecting a loss once again. Fortunately, North Texas is, once again, not planning to increase wholesale rates for FY21-22. If our costs were projected to continue as estimated for FY21-22 a rate increase of approximately 6% would be needed to bring revenues into line with fund expenses, however, in FY22-23 the debt in the utility fund will see a significant reduction as some debt drops off. It is recommended that water rates remain flat for FY-21-22 and that rates be reevaluated in FY22-23 with the reduction in costs due to lower debt expenses. It is possible a rate increase might be needed in FY22-23 but it would not need to be as high as 6%. Keeping rates at their current levels with the projected loss will still maintain 129 days of working capital in the fund.

Sewer Rates

In FY21-22 North Texas will be raising the wholesale sewer rates by an average of 14%. A corresponding ___ rate increase is included in the proposed budget to offset that increase.

Solid Waste Rates

As the Council is aware, we recently approved a new contract with Republic, which will go into effect in October. There will be a 3% increase in our costs and rates are projected to increase by that percentage to cover the increase. The rates in FY20-21 increased by 3% under the current contract but due to the pandemic it was not recommended to increase rates this year. That increase was absorbed by the fund and fortunately residential growth was sufficient to offset that increase in costs.

Fund Balances and COVID Funds

The general fund has a projected fund balance of 60% and the water and sewer fund has approximately 129 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 increase in the General Fund balance is due to the influx of Covid relief funds in FY19-20 and FY20-21. For audit purposes the majority of the Covid funds were transferred to the General Fund in both years. The expenditure for the ambulance ordered in FY19-20 did not occur until FY20-21 so the funds for that purchase were transferred into the Covid Relief Fund in this year. Additionally, the transfers to the Vehicle Replacement fund and the IT Fund were increased in the amended FY20-21 budget.

The Town is expecting to receive approximately \$1.1 million in American Rescue funds in FY20-21 and another \$1.1 million in FY21-22. Those funds are reflected in the Covid Relief Fund with only limited transfers to the General Fund of \$300,000 and \$170,000 to the Utility Fund to offset capital and one-time expenses in those funds. The balance of those funds will be programed in FY21-22 with the Council once the funds have been received.

Elements of the Budget

Personnel

There are several personnel related items included in the proposed FY21-22 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. we know that many other cities were impacted differently by the pandemic, and were able to provide salary increases to their employees this year. Additionally, with the growth in the area and the competition for employees some cities have made further adjustments that impact our ability to compete in the market.

As previously mentioned, we have proposed to conduct a comprehensive employee compensation and benefits study to evaluate our processes and position in the market to determine if changes or adjustments in our pay system are needed. This study would be conducted by an outside consultant and would be paid for with Covid relief funds. The last time a comprehensive study was completed was in 2012. We have begun developing the RFP for the study and hope to have it out in the market by September.

Funds have been included to provide the equivalent of a pay adjustment and funds that could be used to accommodate changes that may be necessary as a result of the study. A total of 5% has been set aside for these adjustments. It would be the intent to complete the study early in the fiscal year and make any pay adjustments once the study is completed.

Positions

There are several changes to personnel included in the budget. They are discussed below:

Fire Department - over the past several years we have been transitioning the department away from staffing part time personnel to full time positions. Part time personnel are not consistent in availability and the need to have larger number of part time employees to cover the needed shifts and provide for sufficient back up when shifts aren't covered becomes expensive when needing to provide gear and uniforms. Additionally, shifts that remain uncovered must be backfilled with existing staff on overtime. The budget eliminates the part time positions and replaces them with

2 full time positions. The impact is budget neutral. The 2 additional staff costs are offset with savings in part time pay and overtime reductions.

Police – in FY19-20 an additional supervisory position, a sergeant position, was added in the police department by promoting internally to that position. The addition of the supervisory position was needed for the management and operation of the department but the officer position vacated with the promotion was not replaced. The FY21-22 budget replaces this officer position.

Water and Sewer – an additional utility employee has been proposed. The work load in public works has continued to increase and staffing is needed to address this additional work load.

Utility Billing – an additional position has been included in utility billing to add a staff member to be trained to replace our utility billing clerk, who will be retiring in FY21-22. This is an important position who interacts daily with the public.

General Fund

The total General Fund budget for FY21-22 is projected to have revenues of \$9,631,600. Expenditures for FY21-22 are projected at \$9,574,101. Both of these include the use of \$300,000 in Covid related funds.

Revenues

There is an increase in property tax revenue that is primarily attributable to the new growth in the tax base. The Appraisal District originally projected a total increase of 4.9% with 1.41% 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 projected to be \$2,237,318,926. Of that \$63,785,948 is from new property values. Sales taxes are projected to equal the amended FY20-21 estimate and beverage taxes are projected a bit higher for next year. Building permits are projected to be lower than FY20-21 given the bull buildout of several larger subdivisions. Interest is still projected at low levels for next year. Intergovernmental income is projected higher for both the amended FY20-21 and the proposed FY21-22 budget. This reflects CARES and American Rescue funds that are used to cover pandemic related costs as well as other one time and capital general fund expenses.

Expenses

As mentioned, proposed expenses for FY21-22 are proposed at \$9,574,101. The primary increases are due to the personnel and pay changes outlined above. We have also included some of the funds normally allocated from the General Fund to rebate funds under the 380 agreement. Normally, \$450,000 is allocated for that purpose. For the past 2 years no funds were expended. A total of \$50,000 is allocated under the expectation that revenues may increase sufficiently to require a portion of a payment from the General Fund. Funds have also been included in Public Works to increase the street maintenance budget from \$275,000 to \$350,000. We have been working to

increase our maintenance funds to sufficiently maintain our asphalt streets. We will need to continue to review this budget in relation to concrete street maintenance as well in the future.

There is a proposed transfer in the amended FY20-21 budget of \$200,000 to the vehicle replacement fund through the use of excess funds as a result of Covid funds. Additionally, there are capital expenses in the police budget to fully replace the vehicle cameras from an older unsupported system to the new system that we have been transitioning to for the past several years and a transfer of \$160,000 to the IT fund to cover some one time expenses.

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. If they were approved, they are included in the budget.

Water and Sewer Fund

The total Water and Sewer Fund budget for FY21-22 is projected to have revenues of \$7,078,300. Expenditures for FY21-22 are projected at \$7,385,061. Both of these include the use of Covid related funds included in the transfer of \$100,000 to the vehicle replacement fund and the transfer of \$46,000 to the IT fund to complete needed security installations at the Town's facilities.

Revenues

Water and Sewer rates and revenues are discussed above. Total revenues for the fund are projected at \$7,078,300. There is no rate increase proposed for this fund.

Expenses

The expenses for FY21-22 are projected at \$7,385,061. This includes the personnel and pay changes discussed above. This budget also fully covers the cost of water and sewer debt expenses.

Solid Waste Fund

As discussed above, this fund reflects the cost of the new franchise agreement with a 3% 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. The cost of the fire station bonds as well as the reductions in debt service with the refunding that was accomplished last year are incorporated in this budget.

Drainage Fund

The revenues for FY21-22 reflect the growth that has occurred the past year. The expenditures reflect the pay elements described above. Also included in the fund for both the amended FY20-21 and the proposed FY21-22 budget are consulting funds needed for the cost of the Fox Glen study and a study that is needed for a drainage issue in Hawkswood. The costs for the improvements needed for these areas will be reviewed once they are finalized through the studies.

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 FY20-21 budget. The CDC budget continues to reflect the expenditure of \$100,000 for fire station debt service.

Capital Projects and Equipment

Capital Projects Fund

The construction of the fire station was budgeted in this fund and that cost should be complete by the end of this year. Once the fire station project is complete and we know the full cost and the savings that we may realize with that project, we plan to develop a funding plan to construct improvements to the existing fire station facility for use by public works. There will be some costs associated with reuse of that building for another purpose. Funds for that cost could be excess funds in the Capital Projects fund, excess funds in the General Fund reserve, and possible use of the American Rescue funds. The only other project for this fund is the completion of the updates to the subdivision and zoning ordinance.

Park Dedication Fund

The update to the Park and Trail plan will be completed by the fall of this year. The Park Board held their Town Hall meeting and they will soon meet to finalize their plan with the intention of bringing to the Council in the next few months. The only cost that may be considered for this fund in FY21-22 would be the match should the County approve the grant request for a trail extension from Apple Crossing to Stoddard Road.

Vehicle/Equipment Fund

There are several purchases contained in the fund including the purchase of replacement police car, the purchase of replacement life packs and a mower in the fire department, and the replacement of a dump truck, pick up and bobcat in the utility department.

Street Construction Fund

The only funds shown to be expended in FY21-22 are funds to complete the update to the street impact fees. This fund will also be used to complete the design and construction of Frisco Road. We will amend the budget once we have actual construction costs when the project is bid in early 2022. The costs for the engineering will be covered through funds already in hand from the county and through roadway impact fees.

A total of \$200,000 was set aside in FY19-20 to complete landscaping on Stacy Road. This has not been approved as a project by the council to date as planning with the City of Allen was delayed due to the pandemic. We now understand that the City of Allen has submitted a grant request to TxDOT for landscaping of the islands. We don't know if that grant might be approved or if the Town would have any costs associated with the project if it is considered by TxDOT. It is not recommended to use those funds until we have information back on the application.

Utility Construction Fund

The only project included in this fund is the completion of the update to the utility impact fees.

Impact Fee Funds

There are no expenditures proposed for these funds. The use of these funds will be evaluated once we have the total costs for the construction of Frisco Road.

Fire Donation Fund

The expenditures for FY20-21 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 FY21-22 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.

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