



July 31, 2008

Dear Mayor & Council,

Welcome to the FY 2008-2009 Annual Operations Budget and Business Plan. This year's proposed budget totals \$7,469,223. That is a \$254,890 or 3.5% increase over the current operating budget.

The question that begs to be asked is, "Why is there any increase in the budget in the face of the economic times that is approaching us?" The answer is that there is over \$190,000 in increases that are beyond our control like the cost of water from North Texas Municipal Water District, increases in workmen's compensation insurance and liability insurance, and of course, a \$95,000 increase in gasoline.

We are required by the State to first, update our impact fees, at a cost of \$25,000 and start work on improving our dam at City Lake Parks for a cost of \$37,000 for engineering services. These two issues need to be addressed. The dam has had no real attention for years and state inspectors feel that the spillway is in need of repair. The impact fees need to be updated as our future plans change. State statues require updates at least every five years.

The compensation study we just completed said that our employees, on an average, are being paid 28% less than what workers in our community and similar cities are being paid for doing the same kind of work. To start moving our employees towards parity, this year we have budgeted \$155,000.

But, before we get into specifics, let me tell you how we think we are going to finish out this year. Then I will give you the highlights of the FY 2009 budget.

FY 2007-2008 OR
HOW DO YOU PROTECT YOUR FINANCIAL POSITION IN A STALLING ECONOMY?

In the current year, we set out to make modest improvements and implement some new programs. Before the end of the second quarter of the year, we saw we were going to collect less property taxes than anticipated. We ended up missing the mark by \$25,000. The sales tax was starting to waiver but still meeting projections. By the end of the second quarter the sales tax was flattening and the national economy was taking a serious turn. We had already bid out and completed the street improvement program but nearly all other capital expenditures were put on hold.

In the end, it turned out that water sales may be down as much as \$30,000. The sales tax is projected to be down nearly \$50,000. Property taxes are going to be down about \$25,000. Right now, we are projecting all of our revenues are off about \$70,000 from what we projected.

In anticipation of this shortfall, we held up on approximately \$70,000 in capital purchases that includes the fine screen improvement at the wastewater plant, improvements at City Hall and a few other minor projects. We also attempted to curb spending in other areas. The projection is that we will only spend \$6.3 million this year as compared to the \$6.6 we budgeted in the General Fund and Utility Fund. Originally, we planned to spend nearly \$400,000 of our excess fund balances this year for capital improvements. Now it looks like we will be spending only \$167,830.

Two other notable notes: in the Utility Fund we had to appropriate another \$80,000 toward the Mulberry Street project; and, though we pushed off constructing the fine screen on the primary filter at the wastewater treatment plant, we had a number of unanticipated large repairs to the mixers and aerators. Those repairs consumed nearly \$40,000 of the \$60,000 in savings putting off the fine screen project.

The bottom line is that staff adjusted responsibly mid-year in light of the turn in the economy. We pushed of certain expenditures to accommodate the short fall in revenues and protected excess fund balances that we will need over the next few years until the economy improves. The General Fund is going to have \$180,134 more than we planned to have at the end of this year. The Utility Fund is going to have \$50,549 more.

FY2008-2009 OR
HOW DO YOU PLAN IN AN ECONOMY THAT APPEARS TO BE SINKING?

When staff gathered to plan for next year, it was agreed that it was not time for anything new. It was a time to tighten and keep things running. We wanted to preserve the street improvement program, follow through on our beautification efforts, and try to roll over into this coming year what we put off in the FY 2008 year.

GENERAL FUND

The budget for the General Fund requires \$3,724,116 in revenues as compared to \$3,662,139 in the current budget. That is a 61,977 increase. The new money is coming from sales tax, court fines and pass through fees for trash services. We estimated a \$40,000 increase in sales tax due to the new Denny's and inflation. Court fines are going up because of our success with our new collection policies.

On the expenditure side, this budget anticipates \$4,177,900 in expenses. In the current year we budgeted \$3,923,107. That is a \$254,793 increase. Nearly \$80,000 of that money is for increased capital expenditures. Operating costs are only going up \$170,000. Implementation for the compensation study will be \$116,301. There are modest increase in workmen's compensation insurance, liability insurance, and health insurance totaling approximately \$20,000. Fortunately, electricity costs are not increasing much because we over-budgeted in this current fiscal year. The rest of the increase is due to gasoline prices and other inflationary costs.

So, what does the FY 2009 General Fund budget try to achieve? Based on Council input and staff assessment of operating needs, there are number of projects to attempt. There are not as many as last year, because staff wanted to take a "wait and see" approach toward the economy. First, there is a plan to take a step 1/3 of the way toward pay parity based on the compensation study the Council warranted. Then there are funds to undertake an update in the thoroughfare plan, build an annexation plan, and develop a park plan. This is all a part of updating our comprehensive plan. The funds budgeted for this project are rollover funds from the comprehensive plan update that was put on hold this year.

The street program is still reduced to \$200,000 (from our target of \$300,000). This is due to adding another \$60,000 to the Sports Complex parking lot expansion project. The funds currently budgeted did not include engineering and construction of curbs and guttering. There is another 90,000 budgeted to acquire land in the downtown area for parking. This will be a joint project with the county. There are not funds budgeted to build the parking lot this year. These are the most important programs. Below is a list of all the significant programs and projects included in the General Fund operating budget.

☞ **Completion of the Home Grant**

The City started the Home Grant for replacing five homes for qualified homeowners. There is \$48,000 budgeted as part of the City's match to complete this project. These funds are rollover fund from the current year.

☞ **Comprehensive Plan Update**

The staff postponed the budgeted Comprehensive Plan update this year and is rolling funds over to complete the update in the proposed budget year.

☞ **Kaufman Lake Dam**

State inspectors are concerned with the condition of the spillway at City Lake. \$37,000 is budgeted for engineering of repairs to the spillway.

☞ **Street Impact Fee Study**

State law requires street impact fee studies be updated every five years. There is \$10,000 budgeted.

☞ **Replace phone system**

This is a rollover project from the current year. It was one of the projects put on hold.

☞ **Replace air conditioner at City Hall**

High maintenance costs to keep one of the air conditioners running will require us to replace it.

☞ **Complete Sports Complex parking lot**

This year we will be able to complete the curb and guttering and probably the base. Because we did not include curbing in our original estimates there is another \$60,000 proposed in the budget.

☞ **Purchase land for downtown parking lot**

The City and the County are both in need of additional parking downtown. Judge Gent has agreed the County will participate in half of the cost to acquire the land and build the parking lot. This year the City can only afford to budget the purchase of the land.

☞ **Implementation of the compensation study**

The implementation plan calls for a three year strategy to bring City employees up to 90% of parity with our peer cities. This budget includes \$117,000 for the first year implementation.

☞ **Street Program**

There is \$200,000 budgeted for the continuation of the Street Improvement Program. Most of the streets selected this year are streets that were cut up installing new sewer lines this year. A map of the streets has been included.

☞ **Rental Inspection Program**

There are no funds in the budget for the Rental Inspection Program but it is a program that will be launched in this budget year. The implementation strategy is still being developed. Regardless of how the program is implemented, it will pay for itself in rental inspection fees.

☞ **Miscellaneous equipment replacement**

It is important to continue to replace equipment that runs inefficiently and requires high maintenance. There is a list of equipment that will be replaced this year included in your book.

UTILITY FUND

The anticipated revenues for the Utility fund \$2,683,975 as compared to \$2,548,746 budgeted in the current year. That is a \$135,229 or 5% increase. The planned operating expenses are \$2,793,590. Last year expenses were budgeted to be \$2,686,455. This is a \$107,135 or 4% increase.

North Texas Municipal Water District costs are going up \$43,840 and the first year implementation of the compensation study requires an additional \$38,496. This budget proposes \$60,000 more in capital purchases than was budgeted in the current year.

The most important issue in the Utility Fund is not the planned expenses. It is the continual shortfall in revenues to pay for planned expenditures. There has been a planned draw down on the excessive fund balance over the past three years. There has also been a three year strategy to increase rates to accommodate the new debt service put in place when the City implemented the TWDB wastewater improvement projects. The draw down on excess

reserves was hastened with the cost over runs on the Mulberry Street project and the revenue growth has not kept pace with expenses.

If rates are to continue at current levels, the City will need fund balances to pay for operation costs (as opposed to capital purchases.) The excess reserves in the Utility Fund are down to \$500,000 as of the beginning of the current fiscal year. If the City continues rates at existing levels, we will spend nearly \$190,000 for recurring operating expenses in the proposed budget and will have less than \$128,000 in excess reserves at the end of the FY2009 budget year.

To get the City heading in the right direction, this budget proposes to increase the base rate for water to \$9.96 and the cost per thousand gallons at \$3.40. The rate changes include an increase of the out of City customers surcharge to \$10.00 and increase the Senior Discount the same amount as the increase in the base rate. For a homeowner or business in Kaufman that uses 5,000 gallons of water the changes cost them \$3.60. For users of 10,000 gallons the changes would cost them \$6.10. The average user in Kaufman uses around 7,500 gallons each month. Elderly couples will use less than 5,000 gallons.

By implementing these changes we will be using excess fund balances for capital only and the City should have at least \$332,539 at the end of the proposed fiscal year. This is still short from having the necessary coverage to issue any further debt if needed. In other words, we are still outside the parameters of sound financial management practices.

Now, what are we trying to accomplish in the proposed FY 2008-2009 budget for the Utility Fund? The most important effort is to increase revenues to more closely match expenses. Reducing expenses significantly are not a realistic expectation when there are only two people running the wastewater treatment plant and six hands maintaining the water distribution and wastewater collection systems. With the staffing levels we have citizens become frustrated when it takes weeks for our crews to repair water leaks because they are continually working on wastewater system failures and reading water meters. It is not realistic to expect significant cost reductions when money not used for salaries is used for purchasing water from NTMWD, paying for electricity and repairing electric motors and pumps. The Utility Fund is a very lean operation with a lot of fixed costs.

The other projects and programs in this utility budget are rolling over the funds for the fine screen at the head of the wastewater plant to reduce wear and tear on pumps and mixers. This project was put on hold this year and funds are being rolled over to the proposed year. There is money proposed to rebuild another Philadelphia Mixer. One of these have gone out nearly every year for the past four years. We anticipate that one will need to be rebuilt next year.

These are the major projects. A list of the salient issues are as follows:

- ☞ **Fine screen improvement to the wastewater plant**
This is a rollover project from this year. It was put on hold because of other plant failures and a projected \$30,000 shortfall in revenues.
- ☞ **Rebuild Philadelphia Mixer at the wastewater plant**
It is anticipated that another Philadelphia Mixer will fail during this budget year.
- ☞ **Update the water impact fee study**

The State requires impact fee studies to be updated ever five years. This will not be an additional expense. It will be paid for out of regularly budgeted engineering fees.

☞ **Finish up the Wastewater Block Grant project**

The replacement sewer lines for Jefferson Street and others are starting this year and will be completed next year. We will roll over the City's match requirement.

☞ **Apply for another Block Grant**

There will be another round of CDBG grants given out this year. Staff will be working with Traylor and Associates to develop an effective application for more sewer line replacement. There are no costs associated unless the grant is awarded and that will occur in the following budget year.

☞ **Implement the first year of the compensation study**

The Utility Fund portion of the compensation study implementation is \$38,496.

☞ **Replace worn out equipment**

The only equipment scheduled to be replaced is a utility truck and one computer.

In all, it is a very tight budget that is geared toward maintaining what we have. The overall increase in the budget is less than the growth in inflation. Any new programs, like the rental inspection program must pay for themselves. Any increased costs come from external forces like increases passed on to us from NTMWD, electricity and gasoline. The only exception is the cost of implementing the compensation study. If we want to keep good employees and attract quality new employees, the City's pay plan has to be competitive with the surrounding communities.

I hope you feel as I do that the City employees are doing a good job at providing quality services and projecting a corporate image that instills confidence and pride in our citizens. The compliments from citizens continue to flow into City Hall and I am proud of what our people accomplish with so little. I am especially proud at the dedication they show in the preparation of this budget.

Sincerely,

Curtis Snow
City Manager