



August 1, 2019

Kaufman City Council
209 S. Washington Street
Kaufman, TX 75142

Dear City Council:

In accordance with the Kaufman City Charter and the State of Texas Local Government Code, the proposed FY20 Budget for the fiscal year beginning October 1, 2019 and ending September 30, 2020 is presented and attached as an exhibit to this memorandum.

The proposed FY20 Budget presents in financial terms the plan for accomplishment of municipal objectives during the forthcoming fiscal year. Preparation of this document requires a comparison of the anticipated revenues with proposed programs and priorities that are based on City Council priorities, service demands or prior project commitments.

While the proposed budget does not fund all departmental requests, it meets City Council goals expressed during the planning process. The proposed budget has been formulated by reflecting the core values of:

- ✓ Providing exceptional governmental services;
- ✓ Remaining fiscally sound;
- ✓ Effectively allocating resources to meet citizen needs; and
- ✓ Valuing our employees

The attached document is a responsible financial plan developed utilizing advanced planning methods and Governmental Accounting Standards Board (GASB 34) provisions, and complies with the proposed Fund Balance Policy (GASB 54). Prudent financial and operational philosophies have guided budget development. Every budget seeks to allocate scarce resources, and there will always be more needs than available funds. The FY20 Budget highlights include:

- 3%, 5% or 7% COLA adjustment for most of the organization. The intent is to 'true up' the lower paid employees as much as the restrictive budget will allow. No COLA increase is budgeted for the certified police officers (except the Police Chief) as their salaries were adjusted at mid-year FY19 to remain competitive in the area.
- Funding Chapter 380 Agreements including KLLM

- 5-year lease of nine (9) vehicles; 5 police vehicles and 4 public works vehicles
- A full-time Administrative/HR Assistant
- A full-time Event Coordinator/Youth Program Manager/Civic Center Manager
- \$150,000 Street Maintenance/Rehab (primarily dedicated to curb & sidewalk repair)
- \$389,000 Street Maintenance Fund (1/4 penny Sales Tax)
- Increasing the Retail Utility Rates 9.43% as a wholesale increase pass thru from NTWMD and providing additional revenue to service \$2.71 million Wastewater Treatment Plant upgrades.
- 4 new Summer Hire positions (maintenance of parks)
- Additional Park Maintenance funds to affect significant improvements within our park system
- \$15,000 for janitorial services for our new Municipal Complex and future Community Center

FY 20 Budget Development Considerations

The proposed budget includes total revenues of \$14,704,843 and expenditures of \$14,221,396. Excluding the Capital Improvement and Grant fund projects, the overall budget contains a surplus (revenues over expenditures) of \$483,447. The following sections discuss, by fund, the major issues addressed in the FY20 budget.

GENERAL FUND

Revenues – Each revenue source is carefully evaluated during the budget process to ensure adequate levels of funding. Diversifying city revenue sources to reduce reliance on property taxes is critical to minimizing the tax burden of our residents and commercial property owners. Identified diversification areas include maximization of sales tax revenue along the Highway 34 & 175 corridors and accompanying increased franchise fee collections that are included with commercial development.

- **Property Tax** – The 2nd largest revenue source in the General Fund is the ad valorem tax. Maintenance and Operating (M&O) tax rate of 0.5479431/\$100 is proposed. Property tax revenue for M&O in FY20 is expected to increase by \$466,679 over FY19. This is attributable to an increase in taxable property values (2.06% new growth; 14.13% increase of existing properties) all certified by the County Appraisal District.
 - **Property Tax Rate** - The FY19 Budget is based on a total property tax rate of \$0.8486505 per \$100 assessed valuation, a **\$0.05 decrease** from the adopted FY19 rate. A goal of staff and Council was to propose a tax rate that would only increase by the amount needed to service new debt, and remain at or below the rollback rate. The proposed tax rate includes \$0.3007074 to service debt and \$0.5479431 to fund maintenance and operations.

Property Tax Base - The certified 2019 appraisal rolls show an increase of 16.19% over the 2018 certified values. The total taxable value for the City of Kaufman is \$417,289,219. This represents a continual growth trend for the city. The average appraised home value is \$115,093.

- **Sales Tax** – The largest revenue source in the General Fund is sales tax receipts. The FY20 budget projects a 3% growth in receipts over the estimated collections for FY19. Sales tax revenue is wholly dependent on the local economic conditions and can fluctuate. The city does have the potential for major commercial development along the corridors of Highway 34 Bypass, King's Fort Parkway and Highway 175 that could help diversify the city's revenue sources in future years.

However, in order to remain fiscally responsible, the city does not assume any major developments, other than the new Marlow's Convenience Store, Burger King, Schlotzsky's, and a new retail strip center, and modest commercial growth in the King's Fort business corridor.

Franchise Fees –The franchise fees are projected based on the past and current trends and franchisee's estimates. Franchise fees are decrease primarily due to discounted Water/Sewer Utility franchise fees.

- **Licensing and Permits** – Licensing and Permits will remain stable.
- **Fines and Fees** – Fines and fees represent revenue generated from the municipal court, development related fees, and recreation based fees. This revenue source is expected to decrease slightly compared to the FY19 yearend estimate. Staff will continue to make a concentrated effort in FY20 to decrease the outstanding warrants that are currently on the books.

Personnel – Being primarily service oriented, municipal governments are extremely reliant on their employees. The City of Kaufman is no different. For a department to add positions, a demonstrated need must first exist. Citizens and Council have come to expect the highest level of service at the lowest possible cost, all while being competitive in the marketplace. The proposed budget exemplifies this exact sentiment.

- **Compensation** - The FY20 Budget includes a 3% cost of living allowance increase for senior management personnel; a 5% COLA for all others, except Public Works maintenance technicians and equipment operators ... they will get a 7% COLA increase. The certified Police Officers were awarded a Salary True up in mid FY19 to keep pace with surrounding public safety programs and remain competitive in this market.
- **Health Insurance** - The Health insurance program in FY 20 continues with the Texas Municipal League Health Benefit Pool (TML Health). The cost of health insurance continues to escalate nationwide. The increased costs, coupled with a higher claims year than expected, resulted in a modest 6% increase to the city's contribution rate in FY20. TML Health is a non-profit health provider centered on providing full service health protection of political subdivisions of Texas.
- **EAP** - The City will continue to provide an Employee Assistance Program (EAP). This benefit provides confidential counselling for a multitude of areas for both the employee and his/her family. Confidential counselling, legal assistance, ID recovery, disaster assistance and several other social assistance programs are available to our employees and their families.
- **Personnel Changes** – Personnel changes are considered on an as needed basis after a demonstrated need exists. As the City grows, service level demand also grows. In order to meet increasing service demand the FY20 budget includes the following personnel changes:
 - Full Time Administrative/HR Assistant
 - Full Time Events Planner/Summer Youth Program Manager/Civic Center Manager
 - 4 Summer Hires
 - Fire Lieutenant promotion
 - Part-Time Accountant

Summer Youth Camp Program – Resources are programmed to launch a new, Summer Youth Camp program. This will be a comprehensive, youth camp with an approved curriculum, including, day trips, crafting, daily physical activities, etc. We are in the early coordination stages with KISD to facilitate and develop this program.

Equipment Replacement – Equipment replacement money is not budgeted in the General Fund in FY20. All capital equipment needs will be purchased through existing Equipment Replacement Fund and proposed FY20 operating budget.

WATER/SEWER (UTILITY) FUND

Utility Rates – Many variables and factors influence utility rates, including future wholesale purchase costs of bulk water, future capital improvements necessary to maintain healthy, safe water and wastewater services. The proposed FY20 wholesale water rate increase of 2.4% is necessary to provide for the increase in the wholesale purchase costs of bulk water. The corresponding utility retail rate will increase 9.43% to cover the increased wholesale water purchase and \$2.71 million Wastewater Treatment Plant upgrades. For the average residential customer consuming 10,000 gallon/month, this represents a monthly increase of \$7.65 to their water utility bill and \$5.82 to their sewer utility bill.

OTHER FUNDS

Capital Improvement Program – Kaufman is in the process of several capital improvement projects around the city. When considering future capital improvements the City considers federal and state mandates, the effect on citizens, and the effect a project will have on future operating budgets. The following projects have been initiated and currently under construction:

- Downtown Sidewalk Enhancement Project (TxDOT Grant)
- Street Bond Project (May 2016 Bond Election)
- Water/Sewer Infrastructure Improvements related to Street Bond Improvements
- Infiltration & Inflow Storm Sewer Projects
- Drainage Improvement Project for Austin Street area
- Dallas Street CDBG Storm Drainage Improvements

Debt Service Fund – The total debt service for FY19 is \$1,906,839. Kaufman EDC agreement will provide \$100,000 to assist in servicing this total debt amount, and an additional \$422,395 will be provided by TxDOT for the SH34 Pass Thru Revenue to the City, and \$100,000 will be provided by existing fund balance. The Interest and Sinking (I&S) component of the total tax rate is \$.3007074. This I&S tax rate will provide for adequate resources to ensure all debt obligations are met in FY20 (assuming a 98% collection rate).

Storm Drainage Utility Fund – In FY16, the Kaufman City Council approved a fee to Kaufman property owners to cover the costs of providing the infrastructure and facilities that permit the safe drainage of storm water, the prevention of surface water stagnation, and the prevention of pollution arising from nonpoint runoff effective January 1, 2016. The City engaged a professional consultant to conduct a master drainage study in order to better assess current storm drainage infrastructure and future needs. The storm drainage fee for residential homeowners is \$3 per month, and commercial entities are charged based on an Equivalent Residential Unit (ERU) system.

Based on the Storm Drainage master study, the City continues to appropriate these resources to address the most pressing needs on a prioritized and approved basis.

Summary & Conclusion

Municipal government exists for one reason: to organize and deliver the best service possible with the resources available, in order to provide a safe, high quality of life for our citizens. This year's budget for FY20 represents a collective effort by the City Council and the City Staff to meet that challenge. This budget is more than a financial document, it is a policy document that lays the groundwork for a continuation of current services and stabilizes the future financial position in order to carry on the City's duties and responsibilities, while meeting the goals and objectives outlined in the City's strategic vision. The city staff will continue to work to review, evaluate, and innovate to improve service delivery.

I appreciate the opportunity to lead an organization that provides our community with exceptional services, programs, and quality of life. I would like to thank the City Council for volunteering their time to serve their community and providing leadership to continue to make the City of Kaufman "a City of progress and tradition."

Sincerely,

A handwritten signature in black ink that reads "Mike Slye". The signature is written in a cursive, flowing style.

Michael T. Slye
City Manager

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