



August 1, 2022

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 FY23 Budget for the fiscal year beginning October 1, 2022 and ending September 30, 2023 is presented and attached as an exhibit to this memorandum.

The proposed FY23 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 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 FY23 Budget highlights include:

- A structured, modified Step Pay Plan with imbedded retention payments occurring the first two 5-year increments including a 3% COLA increase effective October 1, 2022

- Funding Chapter 380 Agreements including KLLM & South Pointe Development
- Fleet management lease plan of seven (7) vehicles; 2 police vehicles and 5 public works vehicles
- six (6) full-time positions: 2 Administrative Clerks, 3 Maintenance Technicians and 1 Patrol Officer (PD)
- Aggressive, controlled residential development 105 residential permits)
 - Georgetown Phase 2A&B (60 permits)
 - Freeman Farm (5 permits)
 - Prairie Creek Phase 3 (20 permits)
 - Infill and Duplex units (25)
- South Pointe development (infrastructure)
- \$90,000 Street Maintenance/Rehab (primarily dedicated to curb, sidewalk repair & road overlay)
- \$15K for street sign replacement program
- \$565,830 Street Maintenance Fund (1/4 penny Sales Tax)
- Increased Retail Utility Rates.
- Additional Park Maintenance funds to update Sports Complex irrigation system
- Continued Storm Drainage capital improvements, North Water Tower rehabilitation and Shannon & City Lakes Park improvements

FY23 Budget Development Considerations

The proposed budget includes total revenues of \$20,653,913 and expenditures of \$20,096,323 excluding the Capital Improvement and Grant fund projects, the overall budget contains a surplus (revenues over expenditures) of \$557,590. The following sections discuss, by fund, the major issues addressed in the FY23 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 second largest revenue source in the General Fund is the ad valorem tax. Maintenance and Operating (M&O) tax rate of 0.5120018/\$100 is proposed. Property tax revenue for M&O in FY23 is expected to increase by \$563,650. This is attributable to an increase in taxable property values (3.98% new growth; of 19.7% overall increase in taxable property values) all certified by the County Appraisal District.
 - **Property Tax Rate** - The FY23 Budget is based on a total property tax rate of \$0.799976 per \$100 assessed valuation, the same rate adopted in FY22. A goal of staff and Council was to propose a tax rate that would provide the necessary resources to continue providing the same level of quality, expected municipal services and service required debt, and remain at or

below the rollback rate. The proposed tax rate includes \$0.2879742 to service debt and \$0.5120018 fund maintenance and operations.

- **Property Tax Base** - The certified 2022 appraisal rolls show an increase of 19.7% over the 2021 certified values. The total taxable value for the City of Kaufman is \$635,604,820. This represents a continual growth trend for the city. The average appraised home value is \$161,077.
- **Sales Tax** – The largest revenue source in the General Fund is sales tax receipts. The FY22 budget projects a 13.4% surplus (\$520,606). 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 takes a conservative approach to future development that would impact future sales tax receipts. The FY23 budget anticipates a 3% increase from the forecasted FY22 yearend projection (\$3,395,000).
- **Franchise Fees** –The franchise fees are projected based on the past and current trends and franchisee’s estimates. The projected growth supports a 3% increase in all franchise tax receipts for FY23.
- **Licensing and Permits** – Licensing and Permits will continue to increase as we experience the trending growth pattern. This budget assumes 110 new single family residential permits, a 250-unit multifamily project, an 80-key hotel, and several smaller commercial projects during the fiscal year.
- **Fines and Fees** – Fines and fees represent revenue generated from the municipal court, development related fees, and recreation-based fees. Staff will continue to make a concentrated effort in FY23 to decrease the outstanding warrants that are currently on the books. Staff anticipates continued growth related to development fees.

Expenses –

- **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. This proposed budget does, however, plan for six (6) new positions: 2 Administrative Clerks, 3 Maintenance Technicians, and one new Patrol Officer. Several other new positions have been identified, but not funded.
- **Compensation** - The FY23 Budget includes a 3% COLA adjustment to the new Step Pay Plan that focuses on retention of all positions. Entry-level Maintenance Technicians in Public Works starting salary has been adjusted to \$32,136 (\$15.45 per hour).

- **Health Insurance** - The Health insurance program in FY23 continues with the Texas Municipal League Health Risk Pool (TML Health). The cost of health insurance continues to escalate nationwide. The city's benefit plans contribution rates increased 13% after the past 2 years of level premiums. The monthly contribution to each employee is increased \$20 to \$660/month per employee. TML Health is a non-profit health provider centered on providing full-service health protection for political subdivisions of Texas.
- **EAP** - The City will continue to provide an Employee Assistance Program (EAP) through the TML Health portal. 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.
- **Parks** – Shannon Park and City Lakes Park will receive a long-overdue facelift in FY23. Shannon Park is currently under construction and will include the city's first Splash Pad with covered pavilion, covered basketball pavilion, expanded parking, and a ¼ mile lighted pedestrian trail. City Lakes Park will receive federal grant funding to assist with new hike and bike trails, all-inclusive playground, park expansion and disc golf course.
- **Equipment Replacement** – Minimal equipment replacement money is budgeted in the General and Utility Funds in FY23, and all capital equipment needs proposed will be purchased through the proposed FY23 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 FY23 wholesale water rate will increase by 13%. This represents an increase of approximated \$184,000 for the purchase of the city's water needs for FY23. The city has engaged a professional consultant to assist in providing necessary rate increase recommendations for Council's consideration. This study is still in process and will be presented in August for Council action. A full-blown rate study is budgeted for FY23. The last formal rate study was conducted the summer of 2015.

It is anticipated that the Sewer rate, too, will need to be increased to provide for more efficient operations at the Wastewater Treatment plant after the improvements that were made in FY22. In addition, sludge hauling costs have increased.

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:

- Water/Sewer Infrastructure Improvements related to Street Bond Improvements
- Infiltration & Inflow Storm Sewer Projects
- Storm Drainage Improvement Projects for 10th & Clay, Melody Circle and Shannon Park.
- South Pointe Infrastructure development
- Northeast Utility Infrastructure development including the 50% city participation for the road construction bordering the proposed new elementary school (KISD) and the extension of FM2727 (Highland Meadows). **This initiative will require new debt that will be included with the other utility-related programmed debt issue)**
- Washington Street Storm Drainage Improvements

Debt Service Fund – The total debt service for FY23 is 2,303,845. Kaufman EDC agreement will provide \$100,000 to assist in servicing this total debt amount The Interest and Sinking (I&S) component of the total tax rate is \$.2879742. This I&S tax rate will provide for adequate resources to ensure all debt obligations are met in FY23 (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 increased to \$4.50 per month. This fee will increase to \$5 per month in FY23. Commercial entities are charged based on an Equivalent Residential Unit (ERU) system, at \$4.50 per ERU.

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 FY23 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