

## BUDGET MESSAGE FOR FY 2019-2020



August 1, 2019

### **To the Honorable Mayor Arthur L. Miner, Members of the City Council and the Citizens of Watauga:**

I am pleased to provide you with the Proposed FY2019-2020 Annual Budget for the City of Watauga. This spending plan reflects our commitment to provide quality services and amenities to our residents, while enhancing our organization's long-term financial sustainability. The objectives used in developing this budget were to present a balanced budget with prudent revenue and expenditure estimated and implement the City Council's priorities and initiatives outlined in the City's Strategic Plan.

The Annual Budget for the Fiscal Year beginning October 1, 2019 and ending September 30, 2020 is constructed for your review and feedback. It presents, in summary form, the revenues and expenditures for each of the City's Funds, departmental highlights, accomplishments and expenditures, as well as the five-year Capital Improvement Plan (CIP). The **Budget in Brief** that follows this message provides a concise summary of the Proposed Budget.

The Proposed Budget for the Fiscal Year 2019-2020 connects the priorities and financial planning as documented from the Council Strategic Planning Session this past February. The primary concerns while preparing this budget were continuing all existing services for our citizens, maintaining appropriate staffing levels, and maintaining reserve levels in accordance with the City's fiscal policies. Services provided by the City include fire and police protection, emergency medical services, planning and zoning, economic development, code compliance, street maintenance, water and wastewater services, parks, recreation, library, and senior citizen services. A primary focus of this year's budget was to shift more funding to economic development in accordance with State Law and in support of Council prioritization.

Due to the many harmful legislative changes proposed and adopted by the Texas State Legislature in their 86<sup>th</sup> session from January to May, 2019, this budget can be characterized as "proceed with caution". Although some of the changes do not affect this year's budget, it is prudent to begin planning and preparing for the future impacts. A summary of the legislation is provided later in this section.

# BUDGET MESSAGE FOR FY 2019-2020

## Strategic Direction

---

Setting long-term priorities for the City is one of the most important responsibilities for Watauga's elected officials. In February, 2019 Council met to discuss top priority goals for the City. By focusing on goals and strategic initiatives, Council and staff are better able to position the community in a positive direction. These goals guide financial and operational decisions to achieve community excellence. Following are the City Council's goals and strategic initiatives for FY2019-20, which are supported in the budget:

### City Council Goals

---

- Goal #1: Establish an environment conducive to strong and sustainable economic development.**
- Goal #2: Enhance a secure and safe City.**
- Goal #3: Enhance quality of life through recreational, cultural, and educational services.**
- Goal #4: Establish responsible fiscal management and excellent governance.**
- Goal#5: Sustain and enhance infrastructure network.**
- Goal #6: Commitment to maintain a highly skilled, well-trained, fairly compensated, customer service oriented workforce.**

Watauga continues to move at a healthy pace toward its strategic goals and objectives with regard to meeting the needs of citizens, encouraging new business development and planning for revitalization efforts, improving infrastructure and making Watauga, "A Great Place to Live." The budget reflects the City Council's vision to be "**A Community that meets the needs of citizens by offering a high quality of life through transparent governance.**"

The FY2019-2020 Budget will provide funding for Strategic Initiatives that will enable the City to achieve the above stated priority goals:

- *Maintain the Financial Strength of the City* – this includes maintaining sound fiscal management practices, ensuring the City's bond rating is maintained or improved, developing an internal audit committee, reviewing the City's eligibility to participate in the Federal Opportunity Zones program, and seeking grant opportunities,
- *Develop a sustainable economic development effort* – In FY2018-19, the City shifted from a primarily Parks focused to economic development driven use of

## BUDGET MESSAGE FOR FY 2019-2020

the ¼ cent Type B sales tax. To accomplish economic development initiatives, many planning activities will take place this year which include a new business recruitment strategy, an economic development incentive policy, a tax abatement policy, and a strategic plan for economic development. The City will continue efforts and develop policies and plans to reinvest, revitalize, and improve aging shopping center sites and foster economic development, redevelopment, business retention and attraction.

- *Strengthen Future Planning* – this budget provides funding for an update to the Comprehensive Plan to include economic development. A review of City ordinances is underway and will continue this year.
- *Improve Community Involvement* – this initiative includes developing and implementing a Youth Advisory Council, Parks Advisory Board and continuing funding for a citizen survey every three years.
- *Improve the City Brand* – funding for branding signs are included in this year's Watauga Economic Development Corporation's budget. The City is focusing on developing a marketing strategy to promote the City.
- *Attract, retain and motivate qualified staff* – a Personnel Improvement Plan is included with this budget to identify areas of staffing needs for all City departments. The City plans to extend funding beyond salaries, thus included funding for an employee satisfaction survey in this year's budget.
- *The 5-year Capital Improvement Plan* outlines efforts to continue infrastructure improvements such as water, wastewater, street, and storm drain capital improvements. Quality of life projects such as parks improvement projects are also included in this plan. These projects include shade structures, trails, park lighting, and other parks projects.

### Planning for the Future

---

The City's financial condition is strong, and the immediate future looks bright with the Dallas Ft. Worth economy continuing to expand. Over the last few years, the City has experienced property valuation increases and Fiscal Year 2020 (Tax Year 2019) provides for an increase of 13.8% growth in the City's net taxable property values. Parkview Estates, a 55-home development in the northern part of the City was completed in FY2018-19 and added to the City's property values this year. The same builder is planning for a 70-home single family residential development that will be located on Hightower Drive. The development will add significant benefit to the City by adding new quality housing with improved streetscapes, new sidewalks, and greenspace. Some smaller residential developments are currently in the early planning stages. Future commercial development includes a new office park, Magnolia Office Park, which is currently underway. This 3.596 acre of land is located less than two

## BUDGET MESSAGE FOR FY 2019-2020

miles from Interstate 820. The owner will initially develop two to four lots and continue development with demonstrated demand.

Although the economy is strong, there are numerous variables that merit a cautious approach when developing the current year budget with a long-term outlook. These include:

- The near build-out status of the City requires a strategic approach to attracting new development and revitalization of existing businesses.
- Sales taxes are expected to remain steady with modest increases in future years. The transition in the retail market and emergence of on-line retailer and marketplaces is well under way.
- The actions of the State Legislature in passing 330 City-Related bills during the 2019 session. It is important to address the Bills that were passed and will have an almost immediate impact, as well as some of the Bills that didn't pass since those Bills are likely to be introduced in a future session. A few areas of concern are listed below:
  - Property tax legislation (SB2) –This Bill reforms property tax legislation and lowers the rollback rate, now termed voter-approval rate, from the current 8% to 3.5%. Additionally, if a City desired to exceed the rollback (voter-approval) rate, citizens were required to submit a petition to force an election. However, SB2 makes an election automatic if the voter-approval rate is exceeded. This legislation takes effect next fiscal year.
  - Photographic Camera Enforcement was banned June 1, 2019 (HB1631) and resulted in a loss of \$750,000-\$900,000 a year in fee revenues. Although one-half of these funds were sent to the State, the remainder was used as an important source of funds for traffic safety programs. The City will have to fund these programs within the City's General Fund in future years.
  - SB1152 allows for cable and telecom companies to stop paying the lower of cable or telecom franchise fees. These franchise fee reductions remain a concern for future years. This legislation has the potential for a big impact on future revenues for the City, however, the amount of loss is unknown due to the lower fee is based on statewide fees, not by municipality.
  - To make matters worse, the legislature saddled cities with unfunded mandates, particularly in areas of open government. HB3834 requires cybersecurity training annually and SB944 requires cities to collect and maintain records of City-related business carried out on City issued and

## BUDGET MESSAGE FOR FY 2019-2020

personally owned devices in the event the City should receive a request for public information related to the records.

The City continues a long-term approach through various planning tools. These include the following:

- ❖ **A Comprehensive Land Use Plan** was adopted by City Council to be used as a tool in the development of the City. As the City approaches full build out, planning initiatives for re-development and improvement of certain aging corridors in the City are of primary focus.
- ❖ **The Equipment Replacement Fund** put into place a few years ago continues to be assurance that certain equipment, technology, and vehicle needs will be met in the future.
- ❖ **The Capital Outlay Plan** provides for a 5-year format to identify timing of replacement and sources of funding for major equipment, vehicles, and technology City-wide.
- ❖ **5-year Capital Improvement Plan** is a long range financial planning document that revolves around several major street projects and water/sewer system infrastructure projects as well as significant improvements to our storm water drainage system. Over the next couple of years, various water and sewer infrastructure projects will be funded by the 2017 Certificates of Obligation proceeds. The 2018 Certificates of Obligation proceeds will fund street projects, parks improvements, and building improvements throughout the City. The 2019 Certificates of Obligation proceeds will fund water and wastewater projects throughout the City and provide funding for various Capital Outlay items.
- ❖ **The Parks Master plan** identifies various parks improvement projects throughout the City of Watauga. Many of these projects are incorporated into the 5-year Capital Improvement Plan with funding sources identified.
- ❖ **A Personnel Improvement Plan** identifies needed personnel positions in order to provide services and programs to our Citizens.

### *Summary*

---

The FY2019-2020 proposed budget totals \$55,666,021 which includes approximately \$23.7 million in capital projects and \$1.4 million in capital equipment. The budget this year continues to focus on sustainability in order to continue our program of services and to improve on the quality of life in our City.

We remain committed to having a City budget that spends within its means while we together serve, enhance and transform our community. City departments are focused

## **BUDGET MESSAGE FOR FY 2019-2020**

on the big picture and look beyond the boundaries of their departments to contribute towards problem solving and the improvement of programs and services critical to the quality of life in our community. I believe this budget underscores a commitment by all city departments to maintain service levels in our core services, and to implement cost saving efficiencies wherever possible, while preserving those things that make Watauga "A Great Place to Live".

I would like to thank City Council for their commitment to the Community, as well as their guidance and support throughout the development of this proposed budget. In addition, I wish to thank all the staff members who contributed their time and efforts in the development of this document.

Respectfully Submitted,

Andrea Gardner, City Manager

## BUDGET MESSAGE FOR FY 2019-2020



### Budget-in-Brief

---

This budget reflects the positive financial condition of the City and utilizes sound fiscal policies and a conservative approach in revenue and expenditure forecasting. For FY2019-2020, the City's budget provides for continued programs and services and a reduction in the tax rate by \$0.0213 (from \$0.601788/\$100 valuation to \$0.58050/\$100 valuation). The proposed rate will also provide funding for increases in operating expenses such as general cost of service increases, funding for parks employee salaries that were previously funded by Type B sales tax funds, employee compensation to include increases in the requirement for the City's retirement rate, funding of equipment replacement needs, and increased debt service that will provide for funding of capital equipment needs.

This budget is a fluid document that is changing and moving on a constant basis and serves as a guide for the following twelve-month period. We utilize past history, present conditions, and expected future trends in preparing estimated revenues. Once revenues are developed, we then evaluate costs associated with the delivery of existing services, any new and expanded costs or programs, and new programs established by Council. Within the limited resources available, we adjust the costs to achieve a balanced budget. The budget document, even after adoption, is still an estimated financial plan and is always subject to change by amendment. More often than not, elements within the body of the document will change throughout the year. Changes in economic conditions, new projects, project overruns, emergencies and unforeseen events can necessitate a budget amendment.

This budget document and financial plan for FY2019-2020 has been developed and constructed in such a way as to balance revenues to expenditures with minimal use of fund balances. Typically, fund balances are used to allow for one-time needs or liabilities that have accrued over long periods of time. When fund balances are used, the remaining fund balances are well above the minimums approved by Council. These balances throughout the various City Funds are used to provide as much economic

## BUDGET MESSAGE FOR FY 2019-2020

relief to our citizens as possible, while still providing a financially sound and strong municipal organization.

### Fiscal Year 2019-2020 Financial and Economic Outlook

---

The financial plan as presented in the proposed budget should be considered from the broad perspective of the specific environment within which the City operates. The City of Watauga is located in Tarrant County and is part of the Dallas-Fort Worth Metroplex that has a total population of 6.5 million people. The City of Watauga encompasses 4 square miles of which 96% is developed. The 2010 census reflects a population of 23,497.

Property tax revenues are a major revenue category for the City's General Fund, comprising 45% of all revenues. This heavy reliance on property tax revenues is a significant challenge as the community is 96% built out. In FY2018-2019, property valuations certified by Tarrant Appraisal District came in at a 9.2% increase over prior year. In FY2019-2020, the City's valuations have increased to \$1,573,355,021. This represents an increase of 13.8%, or \$190,623,670 in taxable value compared to FY2018-2019. This increase in valuations will allow the City to have operational funds for programs and expenses while lowering the tax rate

A significant portion (22%) of the city's general operating revenue is derived from sales tax. Over the past several years, the City, along with the DFW Metroplex and the State of Texas, in general, had experienced an increase in sales tax revenues. Beginning in FY2015-16 and continuing through FY2017-18, the City experienced decreases in the sales tax revenue category. According to various retail reports, more and more consumers are buying goods on-line and consumers are spending more on services and less on material goods. The sales tax decline flattened in FY2017-2018, and experienced a 3% increase in sales tax revenues in FY2018-2019. We are projecting FY2019-20 receipts to be 2% higher than FY2018-2019 year-end projections.

The City's economic development goals include attraction of quality visually appealing businesses, as well as revitalize and invest in areas that have seen some deterioration of economic activity. Efforts to maintain and grow our sales tax base continue to be a high priority. In FY2018-19, the Parks Development Corporation, a Type B Sales Tax Fund, was renamed to the Economic Development Corporation and the focus was shifted from parks to economic development funding.

---

## BUDGET MESSAGE FOR FY 2019-2020

### BUDGET HIGHLIGHTS – ALL FUNDS

---

The total budget for FY2019-2020, including transfers between funds and capital projects is \$55,666,021. This represents an increase of \$12,583,413 when compared to FY2018-2019. Funding for planned capital projects this fiscal year is \$23.7 million in comparison to capital projects funding at \$10.3 million last fiscal year. \$1.4 million in capital equipment purchases are planned for this fiscal year and are outlined in the Capital Outlay Plan Summary.

Changes in operating expenditures vary in each fund based on the nature of the services provided in each fund.

### Personnel, Compensation and Benefits

---

A compensation and classification survey was conducted in FY2015-16 as a tool to assess and evaluate the City's compensation plan in comparison to the market and also to ensure fair and accurate job classification. The City has a multi-year plan to phase in the recommendations resulting from the survey. This year, funding will be provided for the following:

- Continue to provide funding for civil service step increases.
- Provide for a 1.5% cost of living adjustment for all full-time and part-time employees (civil-service and non-civil service).

Police retention, hiring, and retirements have impacted the City in the last few years. Improvements to the hiring processes, and compensation, began in FY2016-17 and continue through this proposed budget year in response to this need. A mid-year compensation adjustment for civil service and civil service management was put in place in FY2016-17 and FY2017-18, along with additional recruitment tools and incentives to attract and retain public safety personnel. In FY2018-19, Police Corporal positions were funded to provide a path of growth and promotion opportunities.

➤ There are (2) **unfunded** positions this year:

**Asst. Landscape Gardener – General Fund** – This position was not funded this year in an effort to balance the fund revenues and expenditures. As sales tax has declined the past few years, funds with the primary source of revenues as sales tax have to be balanced through a decrease in expenditures.

**Police Officer – General Fund** – One (1) police officer position is on hold this year. Due to anticipated savings because of vacancies, it is anticipated that there will be enough salary savings during the year to cover funding the position when filled during the fiscal year. The Police Department has 41 sworn positions authorized through the classifications approved by the City Council and the Civil

## BUDGET MESSAGE FOR FY 2019-2020

Service Commission. Four (4) of these positions were unfunded in the years FY2014-15, FY2016-17, and FY2017-18. There are currently 37 positions funded in the FY2019-20 budget.

- The City's Secretary's Office was reorganized in FY2018-19 which will result in a savings in FY2019-20.
- There are **full-time new positions** funded this year. The Homework Help position for the Library was funded as a seasonal part-time position. The City's Personnel Improvement Plan outlines staffing needs for every department in the City. Funding for various reclassifications of positions is proposed in this budget.
- The **City's Employee Retirement (TMRS)** rate is forecast to be 14.37%, up .69% from last year's rate of 13.68%.
- **Health insurance** cost increases over the last few fiscal years has been a major concern in the City. This fiscal year, health insurance came in a 2.4% decrease over last year by switching to a new carrier. The budget impact resulting from this cost decrease for health care is approximately \$40,000 across all funds. Employee cost will remain the same as last year. The City is looking at different methods to mitigate increases to insurance costs in future years.

In FY2016-17, the City contributed to dependent care cost for the first time. (The employees have traditionally covered this cost at 100%). This year, the City continues to contribute funds to dependent insurance costs. This contribution amount totals \$65,000. In addition, appropriations have been made in the amount of \$35,000 for matching contributions for employees Health Savings Accounts.



The City implemented "WataugaFit", an employee wellness program to identify risk and provide avenues for behavior modification which reduces chronic disease, medical costs and absenteeism last fiscal year. This program is funded again this year and has been increased to further support programs for the Health and Wellness of City Employees.

### Other Programs and Initiatives

- This year's budget provides funding for an Employee Satisfaction Survey. This will be the first year to conduct a survey and is planned for every three years. This tool will be effective to assess employee satisfaction and improve engagement, satisfaction, productivity and retention.
- Various equipment and vehicle purchases will be funded this year and the majority of these items are listed in the 5-year Capital Outlay Plan with identified funding sources. Some of the items are listed below:
  - Police Department

## BUDGET MESSAGE FOR FY 2019-2020

- Police vehicles (5) to include patrol, administration and Animal Control
- Fire Department
  - Replacement Washer-Extractor for Gear
  - Class A Dress uniforms
- Public Works Department
  - Heavy equipment vehicles to include backhoe loader and flatbed truck
  - Other light equipment such as trailer lift and concrete saws
  - Generator for the water tower
- Finance Department
  - Meter Replacement Program continuation
  - Technology upgrades to provide for E-billing, Court, and Financial Efficiencies
- Information Technology
  - Council A/V replacement
  - Server Replacements
  - Software Upgrades
  - Phone System replacement
  - Fire apparatus (MDT) – 6 units
  - IT Department Vehicle replacement
- Parks and Recreation
  - Cardio Equipment
  - Recreation van
  - Small engine equipment (mowers) for Parks Maintenance
  - Double Court Volleyball System
- Library
  - Radio Frequency Identification System
  - Disc Repair System replacement
  - Inventory Wand
  - Replacement Coin-Op device
  - Furniture replacement

### Capital Projects

The City's Capital Improvement Plan (CIP) is a 5-year plan for public physical improvements to include infrastructure such as streets, water and sewer and drainage improvements. In addition, parks and building improvements are included in the CIP. The CIP provides a forecast of funds available for capital projects and identifies all planned capital improvement projects and their estimated costs. A detail of these projects can be found in the Capital Improvement section of this document.

Approximately \$23.7 million in planned capital projects are included in this year's budget. Continuation of some projects will carry over from FY2018-19 and year-end projections are subject to change. Unused funds roll over each year until the projects are completed.

# BUDGET MESSAGE FOR FY 2019-2020

## General Fund

---

**General Fund Revenues** - The proposed budget provides funding for continuation of all current programs and services. Revenue projections for FY2019-20 total \$13,764,492, an increase of \$661,992, or 5.3% over the FY2018-19 budget. Increases have been projected for property tax, sales tax, licenses and building permits, franchise fees and miscellaneous revenue categories.

- **Property Taxes** - Revenue collected from property taxes is the largest component of the General Fund, comprising 43% of revenues. This revenue is projected based on information from the Certified Tax Roll received July 25<sup>th</sup> from the Tarrant Appraisal District. The certified roll reflects all taxable property in the City as of January 1, 2019. After the roll is received, the tax rate is set by the City Council based on both the debt rate required to pay the City's General bonded indebtedness and funds needed for maintenance and operations.

In FY2019-20, valuations increased by 13.8% compared to 9.2% in FY2018-19. In the FY2019-20 budget, the proposed tax rate of \$0.5805 per 100 of valuation decreases the tax rate by \$0.021288 from last year's rate of \$0.601788. The rate is a result of the higher valuations and will ensure that we can maintain the same quality service levels and programs and cover operational cost increases.



## BUDGET MESSAGE FOR FY 2019-2020

- The proposed tax rate for FY2018-19 is **\$0.58050/\$100** of valuation. The tax rate distribution for FY2019-20 compared to FY2018-19 is as follows:

	<b><u>FY2019-20</u></b>	<b><u>FY2018-19</u></b>
Operations:	\$0.405884/\$100	\$0.420628/\$100
Interest & Sinking	\$0.174616/\$100	\$0.181160/\$100
<b>TOTAL TAX RATE:</b>	<b>\$0.580500/\$100</b>	<b>\$0.601788/\$100</b>

### TABLE OF TRENDS IN ASSESSED VALUES, RATES, AND LEVIES

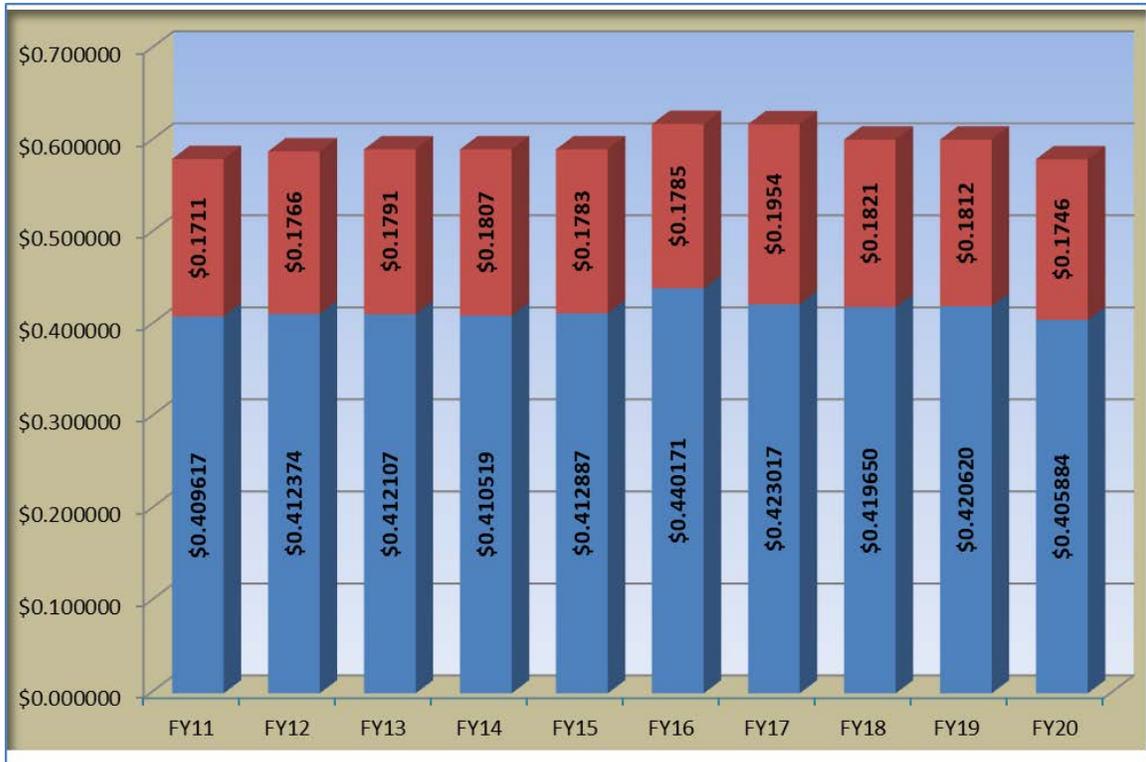
As shown in the table below and the Assessed Value of Taxable Property Graph, City valuations remained fairly flat from Fiscal Years 2011-2014. The City has experienced healthy increases in property valuations from Fiscal Years 2017 to current. The City's collection rates for property taxes are strong at approximately 99% annually.

Year Ending Sept. 30	Assessed Value of Taxable Property (Adjusted)	Tax Rate/\$100 of valuation	Tax Levy	Current Year's Taxes Collected	% Current Levy Collected
2011	\$ 971,784,583	0.580763	\$ 5,652,695.00	\$ 5,567,194	98.49%
2012	\$ 964,172,471	0.589001	\$ 5,636,137.00	\$ 5,565,685	98.75%
2013	\$ 959,370,713	0.591216	\$ 5,661,880.00	\$ 5,591,107	98.75%
2014	\$ 956,468,332	0.591216	\$ 5,699,054.00	\$ 5,627,816	98.75%
2015	\$ 1,016,667,348	0.591216	\$ 5,986,463.99	\$ 5,926,599	99.00%
2016	\$ 1,024,630,104	0.618718	\$ 6,325,757.00	\$ 6,262,499	99.00%
2017	\$ 1,157,125,543	0.618411	\$ 7,051,791.64	\$ 6,969,084	98.83%
2018	\$ 1,265,325,039	0.601788	\$ 7,487,384.32	\$ 7,401,975	98.86%
2019 est	\$ 1,382,731,351	0.601788	\$ 8,040,121.00	\$ 7,959,720	99.00%
2020 est	\$ 1,573,355,021	0.580500	\$ 8,780,923.00	n/a	n/a

## BUDGET MESSAGE FOR FY 2019-2020

The property tax rate history for the past ten years is shown below:

	M&O	I&S	TOTAL
FY11	\$0.409617	\$0.1711	\$0.5807630
FY12	\$0.412374	\$0.1766	\$0.5890010
FY13	\$0.412107	\$0.1791	\$0.5912160
FY14	\$0.410519	\$0.1807	\$0.5912160
FY15	\$0.412887	\$0.1783	\$0.5912160
FY16	\$0.440171	\$0.1785	\$0.6187180
FY17	\$0.423017	\$0.1954	\$0.6184110
FY18	\$0.419650	\$0.1821	\$0.6017880
FY19	\$0.420620	\$0.1812	\$0.6017880
FY2020 proposed	\$0.405884	\$0.1746	\$0.5805000

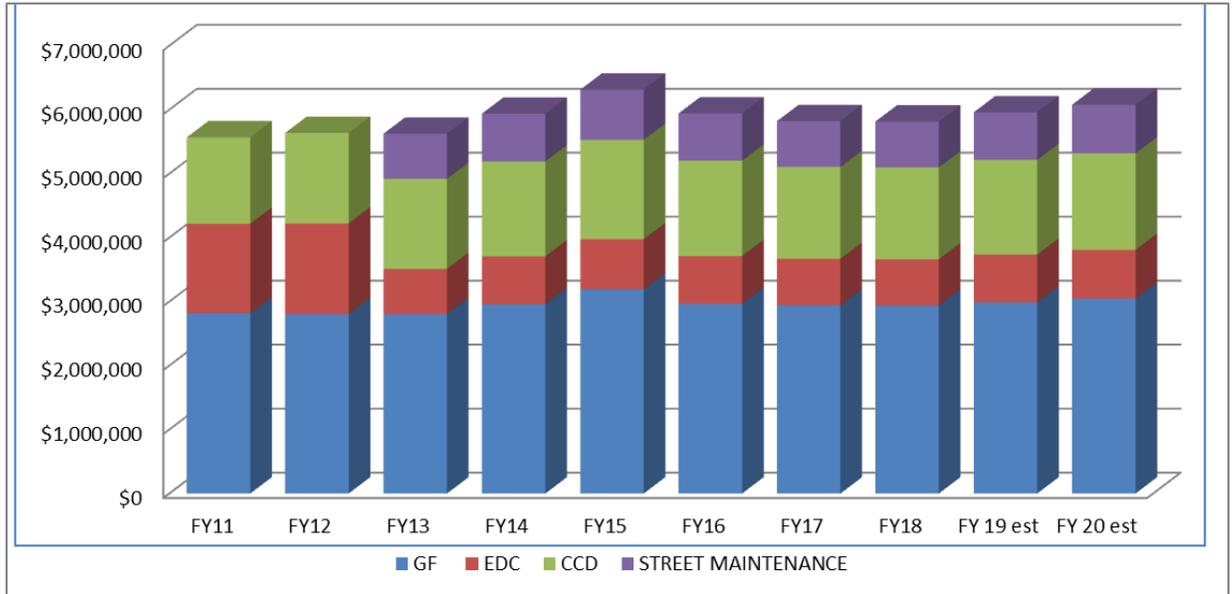


The average taxable value of a home in Watauga this year is \$152,618, an increase of \$17,820 from last year's average taxable value of \$134,798. The amount of annual City property tax on the average home at the proposed tax rate of \$0.58050/\$100 is \$885.95, up from \$811.20 last year. This is an annual increase of \$74.75 or \$6.23 per month. The average taxable value on a Watauga home today is the highest it has been in the past ten years.

# BUDGET MESSAGE FOR FY 2019-2020

## Sales Tax Collections

The second major financial consideration that guides the development of the budget for the upcoming year is the projection of sales tax revenues. Sales tax revenues comprise 23% of General Fund (GF) revenues. We are forecasting sales tax revenues to be 2% higher than FY2018-19 estimates.



## General Fund Expenditures

The operating expenditures including transfers for the General Fund are proposed at \$13,855,306. This is a \$614,576, or a 4.8% increase over last year's budgeted expenditures. It is important to note that the majority of the increase was due to the change in funding source for the Parks Department to General Fund from Type B sales tax funding in prior years. The City experienced increases in jail/dispatch fees, employee compensation, and other operational costs. This year, there was a small decrease in medical insurance, which provided some relief for the City. Operating expenditures include one-time expenditures of \$104,100 to include one-time expenditures such as the employee survey, the update to the City's Comprehensive Plan, various equipment purchases and separation pay.

In addition, the general fund expenditures include \$25,000 of contingency funds for unforeseen events or emergency purchases during the year. Transfers from the General Fund have been decreased this fiscal year to ensure fund balance reserves remain at an acceptable level. Transfers will not be made this year to the Capital Projects Fund to pay for the debt service for the Rufe Snow Street Project, a City of North Richland Hills project, and miscellaneous engineering services. Instead, these costs will be covered by Capital Projects Fund reserves created by interest earnings over the past several years. The only transfer from General Fund to other funds is a transfer to the Equipment Replacement Fund for FY2019-2020 equipment purchases in the amount of \$12,500.

## **BUDGET MESSAGE FOR FY 2019-2020**

There will be a utilization of fund balance in the amount of \$90,814 proposed for this year for the transfers and one-time expenditures mentioned previously. The projected ending fund balance for FY2019-2020 is \$4,125,230, which equates to 30% of operating expenditures in reserves. This is above the minimum target policy of twenty-five percent (25%) by an amount of \$687,429.

### **General Fund Debt Service Fund**

The debt service requirement for principal and interest payments for Fiscal Year 2019-2020 totals \$2,640,803. In 2019, an \$8.850 million Certificates of Obligation debt issuance is proposed that will provide funds for various capital outlay items in the amount of \$460,000. The remainder of the issuance will be repaid by the Utility Fund. The ending fund balance is projected to be \$774,805.

### **General Capital Projects Fund**

The following projects will be funded this year:

- ✓ This year the sidewalk program will be funded at \$100,000.
- ✓ Engineering costs have been funded at \$25,000 in anticipation of additional needs throughout the City.
- ✓ Whitley Road street projects, parks projects, including a splash pad and trails will be in progress and will be funded by the 2016 and 2018 Certificates of Obligation proceeds. \$2.536 million is projected for funding of parks projects, and \$4.944 million will fund street projects. Some of these projects will continue in future fiscal years.
- ✓ Capital equipment and vehicles in the amount of \$710,000 for Police, Fire, Public Works vehicles, building equipment, and community branding signs are included this year and will be largely funded by debt issuance proceeds.

General capital projects and equipment expenses for this year are proposed at \$8,333,308. The ending Fund Balance is forecast to be \$2,192,610. See the General Capital Projects Fund for a detailed description.

# BUDGET MESSAGE FOR FY 2019-2020

## **Strategic Initiative Fund**

The Strategic Initiative Fund was created in FY2015-2016 in order to fund the strategic initiatives identified as priorities by Council. The funding source for this fund is through General Fund transfers. This year, fund balance in the Strategic Initiative Fund will provide for the planned expenditures. Expenditures in this fund include \$30,000 for the Watauga Improving Neighborhoods (WIN) home revitalization program through the Tarrant County HOME program, and the remaining \$115,000 is appropriated for other Council identified strategic projects such as the Green Ribbon Project design and construction. It is anticipated that this fund will be closed out next fiscal year since funding for economic development initiatives are now funded by the Economic Development Corporation.

## **Special Revenue Funds**

### ➤ **Economic Development Corporation**

Voters elected to redistribute ¼ cent from the Parks Development Corporation Fund to Street Maintenance in May, 2012, with an effective date of October 1, 2012. This effectively made the Parks Development Fund into an operations and maintenance fund and limited the fund's ability to fund large dollar capital projects. In FY2018-19, the Parks Development Corporation and City Council voted to change the corporation's focus from Parks Funding to Economic Development funding. The corporation's name was changed to reflect this change. Sales tax revenues are proposed to be \$764,000 for FY2019-FY2020.

The proposed budget for this fund includes funding for completion of various economic development plans such as participation in the City's Comprehensive Plan, completion of a Strategic Plan, Business Retention Plan, New Business Recruitment Strategy, and a Redevelopment Plan for the City. Expenditures are proposed at \$426,120. The ending fund balance is projected to be \$1,177,327.

The EDC Capital Fund Budget includes \$50,000 for amenities that include branding at Capp Smith Park. The projected ending fund balance is \$40,307.

### ➤ **Street Maintenance Fund**

This fund was established in FY2012-2013 to account for ¼ cent sales tax reallocated from the Parks Development Corporation. This allocation was effective October 1, 2012. This ¼ cent sales tax was reauthorized by voters in May, 2016 for another four years. We expect sales tax revenues collected for the year to total \$759,000. Street maintenance projects funded for the year total \$908,000, leaving an ending fund balance of \$1,045,330.

### ➤ **Crime Control and Prevention District Fund**

## **BUDGET MESSAGE FOR FY 2019-2020**

Sales tax revenues are generated from a ½ cent sales tax and are expected to be \$1,509,000. Total revenues are forecast to be \$1,576,000, The FY2019-2020 operating budget is \$1,688,370 and funding for capital equipment is provided for in the amount of \$17,000. Ending fund balance is projected to be \$552,271.

### ➤ **Library Donation Fund**

Estimated revenues for this fund are expected to be \$6,050. Revenues represent donations made by customers as part of utility bill payment. The proposed budget expenditure of \$10,700 will leave an estimated ending fund balance of \$37,093.

### ➤ **PEG Fee Fund**

This fund was created in FY2017-18 to account for a 1% PEG (public, educational or governmental) fee received from Cable Providers operating in the City. Revenue estimates are conservative. Fees are estimated to be \$40,000 for FY2019-20. Expenditures are budgeted at \$45,000 this fiscal year for capital projects such as the Council A/V Technology replacement. Expenditures can only be capital items for the local access channel as described by federal law. Estimated ending fund balance is \$41,303.

### ➤ **Municipal Court Revenue Funds**

Revenues for the Security Fund, Technology Fund, and Juvenile Case Manager Fund come from a \$3.00, \$4.00, and \$5.00 fee, respectively, on each citation for which there is a conviction. Forecast revenues are \$39,550 for all of these funds combined.

Expenses are for security and technology improvements for the Court office, a portion of the Juvenile Case Manager salary and a portion of the Deputy Marshal's salary. The total budget for this year is \$53,900, leaving combined fund balances of \$197,750.

### ➤ **Traffic Safety Fund**

In June, 2019, legislation passed by the Texas Legislature affected cities that have automatic photographic enforcement programs. The City's contract was terminated June 1, 2019 when the law to ban photo enforcement programs became effective. This year, the City is using fund balance to fund the traffic safety program. Expenses are projected at \$380,930, and the ending fund balance is expected to be \$262,041. City Administration reached an agreement with Birdville Independent School District to participate with a 50/50 cost share for the 6 of the 12 school crossing guard positions. Keller Independent School District is considering the same cost share agreement but understands the five positions will not be covered at 100% for FY2020. Both Districts have agreed to

## BUDGET MESSAGE FOR FY 2019-2020

assume 100% financial responsibility for the school crossing guard program in FY2021 and beyond.

### **Proprietary Funds**

#### ➤ **Storm Drainage Fund**

Total charges for services are forecast to be \$1,470,000 for service charges, with total revenues of \$1,525,000. The proposed operating expenditure budget is \$837,830. This year, \$3,679,518 in capital projects are included in the budget to include the drainage portion of Whitley Road Phase II and III, and the continuation of the Channel Protection Program, partial funding for the pavestone wall repair at Capp Smith, and the Drainage Master Plan. Proposed ending fund resources are \$963,131.

#### ➤ **Water and Sewer Fund**

Total charges for services are forecast to be \$8,570,000, with total revenues of \$9,066,000 and total available resources are \$10,538,887. Projections are based on historical averages and will fluctuate with usage and weather. In an effort to cover the Utility's fixed costs, these projections include an increase to the base rate for residential and commercial customers for both water and sewer base rates. The City contracts with the City of Ft. Worth for wastewater treatment and North Richland Hills for water purchases.

Expenditures for water purchases and sewer treatment services also vary based on customer usage and weather. Total expenses are estimated as \$8,813,580. These expenditures include a decrease in our wholesale water and wastewater costs by the City of Ft. Worth. Transfers are included to cover debt service payments. In 2019, a debt issuance for the Utility Fund is proposed and debt service payments will increase in FY2019-20 from prior year. This fund is in a reserve recovery mode due to increased wastewater treatment costs attributed to inflow and infiltration issues in FY2018-19. The ending Fund Balance is expected to be \$1,725,307. Fund balance is at a 20% reserve level at the end of FY2019-20. The reserve level policy is proposed to change to 25% in FY2018-19. The City will be addressing measures to increase reserves over the next several months.

#### **Water and Sewer Debt Service Fund**

The Utility Fund debt service requirement for FY 2019-2020 is \$1,598,469 and will be funded by a transfer from the Water/Sewer operating fund. The fund balance at the end of the year is expected to be \$6,068. Debt service requirements increased in FY2019-20 from FY2018-19 due to the 2019 Certificates of Obligation proposed issuance that will fund wastewater improvements identified in the 5-year Capital Improvement Plan.

# BUDGET MESSAGE FOR FY 2019-2020

## **Water and Sewer Capital Projects Funds**

Total available resources are projected at \$11,714,571 which includes remaining proceeds from a debt issuance of \$7.325 million that occurred in summer of 2017 to provide funding for various water and sewer infrastructure projects and the new \$8.390 million issuance proposed for 2019. Total expenditures are \$11,543,000 and include the water and wastewater projects that were identified and prioritized in the City's 5-year Capital Improvement Plan. An estimated \$240,000 in estimated water and sewer main repairs and maintenance is budgeted this year. The ending fund balance will be \$171,571 in this fund if the projects are completed by September 30, 2020. Unused funds will roll over to the next fiscal year until the projects are completed.

## **Joint Use Facility Fund**

The City of Watauga and City of North Richland Hills jointly maintain a transfer station for water. A maintenance reserve of \$60,000 per year is scheduled. These reserves are transferred in annually from the Water/Sewer operating fund. Reserves are used for pump replacements and other maintenance, as necessary.

## **Equipment Replacement Fund**

This year the City continues the use of the Equipment Replacement Fund that began in FY2013-2014, but on a smaller scale. The City maintains an equipment replacement fund for use in the purchase of rolling stock, equipment, facility needs such as HVAC and roofing, and technology replacement with a minimum cost of \$5,000 and a useful life of at least five years. This fund is designed to provide on-going financing for replacement equipment once it reaches its expected life span. The Equipment Replacement Fund purchases these items and then charges the acquiring fund a prorated amount based on the cost and useful life of the equipment. This year we are utilizing this fund for the purchase of rolling stock, equipment, technology, and facility needs in the amount of \$646,900. The City utilized some of the legacy fund balance to fund equipment this fiscal year. The forecasted ending Fund Balance is \$2,233,922.

## *Conclusion*

---

This City Manager Budget Message is a summary of the major highlights of the 2019-2020 Fiscal Year Budget document. The following pages summarize the significant budget changes and new and expanded requests submitted by departments this fiscal year. The summaries by fund and departmental detail can be found in the fund sections of this document.

