



City of Willow Park

516 Ranch House Road
Willow Park, Texas 76087
Phone: (817) 441-7108 · Fax: (817) 441-6900

To: Honorable Mayor Neverdousky and members of the Willow Park City Council

From: Matt Shaffstall, City Administrator

Date: July 15, 2013

Subject: FY 2013-2014 Budget Memo

Each year the City's administrative staff prepares a budget that is submitted to the City Council for review. The budget process provides the City Council an opportunity to consider and adopt a budget that serves as a financial guide for the work and service programs ensuring the city's fiscal year operations. The annual operating budget as adopted by the City Council covers the fiscal period beginning October 1, 2013 and ending on September 30, 2014.

Budget Preparation Process

The process of developing the budget that is submitted begins in May. The process begins with a budget kickoff meeting to discuss the upcoming year's budget. Staff is presented information about the upcoming year's budget and given internal goals for shaping their department's budget request. From there department heads receive the necessary information to begin drafting their annual budget requests.

After initial budget requests are submitted a series of budget reviews takes place. Budget reviews are meetings where department heads can discuss in depth their department's goals, revenues and expenditures. As of this writing departmental budgets have been through four rounds of revisions, and will go through a fifth round before the proposed budget is submitted on August 1st.

The next step in the budget process is the submittal of this budget memo. The budget memo is released annually on July 15th. The budget memo is an overview of the budget process, a summary of major issues addressed in the annual budget, and a statement of the city's financial health. The budget memo is intended to be a non-financial document and minimizes the uses of the numbers.

Following the release of the budget memo the city will hold a budget workshop focused on the city's revenue sources and fund balances. The adopted budget calendar has the revenue workshop tentatively scheduled for Tuesday, July 30th. The revenue workshop is an important step in the budgeting process that determines the amount of revenue that will be available for the proposed FY 2013-14 Budget.



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On August 1st of every year the proposed budget will be released. The budget will be in the same format as the FY 2013 Budget Amendment. The budget will be in three sections; budget narrative, revenues, and detailed expenditures. The FY 2013-2014 budget will also contain more of the essential components of the Government Finance Officers Association (GFOA) Distinguished Budget Criteria. GFOA standards are recognized as best practice in municipal finance. Some of the new additions to the budget will be a summary budget, fund overviews which are executive summaries for each of the city's twenty operating funds, and an appendix of the city's financial policies. The City's financial policies will also need to be adopted in conjunction with the annual budget.

After the City Council has had time to review the proposed budget, a budget workshop will be scheduled. In the adopted budget calendar, Council left the date of the budget hearing to be determined at a later date. Staff is recommending Saturday, September 7th as the date for the budget hearing. The budget workshop will be a chance for department heads to present their budget requests directly to the City Council, and a chance for the City Council to have their budget questions directly answered by staff. Following the budget hearing a final budget will be submitted for adoption. Staff recommends moving the monthly September council meeting back a week to Tuesday, September 17th to adopt the final FY 2013-2014 budget.

Major Issues in the FY 2013-2014

Balanced Budget

The FY 2013-14 Budget is balanced. Normally this wouldn't be considered a major issue. State law requires cities to submit a balanced budget, but it's how the City has balanced the budget the last few years that has been an area of concern. The FY 2013 Budget Amendment brought to light a structural deficit that existed within the City's budget. Previous budgets included overestimated revenue projections and use of fund balance reserves to balance the budget. A tremendous amount of time and energy went into ensuring that the budget is balanced using current revenues to cover operating expenses. The FY 2014 Budget is balanced on several levels. At the simplest level revenues exceed expenditures. On a deeper level an effort was made to match sources of funding, so that current revenues match current expenditures and one time revenue sources were used for one time expenditures such as capital projects.

Excess Compensatory Time

The original FY 2013 Budget set a goal for the city to address the issue of excess compensatory time. A deeper investigation into the issue revealed a large amount of



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excess compensatory time, vacation time, and holiday leave time on the books that resulted in a substantial unfunded mandate for the city. The issue of excess time is being addressed by a change in city policy through the employee handbook and individual action plans for employees to lower the amount time accrued. The issue of excess leave should be in a completely manageable position for the city by the end of FY 2013-2014. The issue of excess leave is addressed directly in the narrative section of the budget in the unfunded mandates section.

Capital Projects

Capital Improvement Projects will be presented to the City Council for individual review and approval at the budget workshop. Capital requests have been included in the department budget request and each have a separate capital request worksheet. Capital requests are primarily funded with one time revenue sources such as inter-fund transfers. It will be important in future budgets to find a sustainable source of funding for capital improvements either through debt financing or a dedicated revenue source.

Change in Service Levels

The FY 2013-2014 Budget will include changes to the city's department service levels. The proposed budget includes the overhaul of the Development Services Department that began with the FY 2013 Budget Amendment. The Development Services Department handles all of the planning and permitting functions of the city, and it looking to add the position of Development Services Director. The proposed budget will also include some service reductions and consolidations of positions for improved efficiency. The proposed changes in service will be identified in detail in the narrative section of the budget.

Water Fund

One of the largest challenges in preparing the FY 2014 Water Fund budget was determining the Water Fund's true expenses. For years the Water Fund has paid for a blend of expenses in the Public Works Department which included General Fund, Wastewater Fund, Solid Waste Fund, and Water Fund expenses. This year's budget made a concerted effort to identify the total cost of operating a water system and distribute expenses appropriately. In several cases personnel costs were allocated by percentage to the city's different enterprise funds.

The Water Fund must also begin preparing to pay for the capital improvement plan. The capital improvement plan lays out millions of dollars in improvements to be made to



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the water system. The Water Fund has very healthy reserve funds, but needs a formal plan adopted for the use of those reserve funds.

Wastewater Fund

The Wastewater Fund is the city's single largest financial challenge. The Wastewater fund has operated in the red for years requiring transfers from the Water fund in order to operate. The Wastewater Fund is also burdened with a high amount of debt. The Wastewater Fund's debt is owed entirely to the city's Water Fund. The Wastewater Fund owes the Water Fund for years of operating transfers, a loan for the Lift Stations upgrades, ES & CM Legal expenses, and an operating capital transfer.

The core challenge for the Wastewater Fund is having a very small customer base to pay for the sewer system's fixed costs. Another key challenge for the Wastewater Fund is the billing structure for sewer customers. The billing system imposes a maximum fee of \$47.63 on residential customers instead of charging a base connection fee and a charge for account usage similar to the water billing system. The Wastewater Fund has been largely neglected by previous administrations often being treated as an extension of the Water Fund, which is why the inter-fund transfers between Water and Wastewater went unnoticed.

To address the challenges to the Wastewater Fund the city is taking the following actions in the upcoming budget year: the completion of a Water and Wastewater rate study to restructure the billing system to include base connection fees; the removal of usage caps on customers; separate accounting of the Wastewater Fund activities as part of the annual audit; and creation of a debt repayment schedule.

Beginning in FY 2014-15 the Wastewater Fund must begin repaying the Water Fund. For this step to happen in the upcoming budget year the city must certify the amount owed between the funds, and develop a debt repayment schedule (20 years for capital improvements, 10 years for operating capital).

There are two major undertakings for the Wastewater Fund in FY 2013-2014; the completion of the Lift Station project and effluent/future use study. Phase One of the Wastewater Capital Improvement Plan calls for the overhaul of the city's three lift stations. The lift station project will expand the sewer systems capacity to serve new customers, provide secondary power and meet TECQ standards for operating the system, and help manage the wastewater flow to the treatment plant.

The effluent/future use study will focus on the city's ability sell treated wastewater, known as effluent. The ability to sell effluent creates new potential revenue stream for



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the Wastewater Fund. The study will not only analyze the ability to sell effluent, but will also address future wastewater treatment plant needs, and examine the option of shifting from a treatment system to a wastewater collection system and allowing another city to treat the city's sewage.

Solid Waste Fund

Solid Waste has never been treated as a stand-alone fund, as a result the total cost related to administering solid waste services has never been investigated. In the FY 2013 Budget Amendment the Solid Waste Fund was established as a separate enterprise fund alongside the Water Fund and Wastewater Fund. All three enterprise funds have very different customer bases, but share some of the same operating expenses such as the Utility Billing division of the Public Works Department. The Solid Waste Fund faces increasing costs of the city's waste provider contractor. The solid waste contract has a built in escalator clause that raises the cost the city pays each year. The increase in operating expenses will either necessitate an increase in the monthly trash collections charges or require the General Fund to subsidize the Solid Waste Fund. As of this writing, a rate change from \$11.01 per household to \$12.50 per household is being proposed.

Financial Health

The overall financial health of the city is strong. The FY 2013-2014 Budget does not require an increase in the city's ad valorem (property tax) rate. Property values are increasing with new projects such as the apartments, and eye care clinic to be added to the FY 2015 tax rolls. Sales tax collections have reached new heights in recent months and show strong signs of continued growth for the FY 2013-2014. Staff will be recommending revisions to the fee schedule as part of this year's budget. The changes to the fee schedule are intended to ensure cost recovery for the service administered. All of these revenue items will be discussed in depth at the revenue workshop and in the revenue section of the budget.

The City's reserves are also very healthy. In fact in some cases the city has so much money in the bank it will be in the city's best interest to put that money to use for capital projects. The financial policies being proposed along with the budget identify clear minimums and goals for the city's twenty operating funds. The proposed use of the city's reserve funds will be listed in detail as part of the revenue workshop and specifically addressed in the narrative section of the budget.

Overview



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The budget should be a reflection of the city's values and clearly identify the city's priorities. The budget process is designed to help ensure the City Council's priorities are addressed and that the City Council individually reviews and approves each capital request. The budget is easily the most challenging decision the City Council makes every year.