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

**From: Matt Shaffstall, City Administrator**

**Date: July 15, 2014**

**Subject: FY 14-15 Budget Memo**

### **Why We Budget**

The budget is one of the City's most essential policy and operating tools. The budget describes how the City of Willow Park will use its resources to meet the needs of our growing community. It is a resource for citizens interested in learning more about the operation of their City government. This budget also adopts a long-range planning approach to capital improvements by incorporating a Capital Improvement Plan to enable the City to direct resources towards pathways, facility improvements, water & sewer projects as well as technology upgrades.

All of the programs, activities and projects that we engage in today form the foundation for our City's future. By maintaining a strong public safety program, a sound infrastructure plan, responsive internal systems and quality development standards, we will continue to make The City of Willow Park's future strong and resilient.

The City budget fulfills several functions:

- At its most basic level, the budget is an *accounting document*. The annual budget provides the municipality with expenditure authority and authority to levy taxes to finance those expenditures.
- The budget serves as an *operational guide*. It identifies work programs and goals to be achieved for each department or unit in the coming fiscal year.
- At the highest level, the budget is an important *policy document*. The annual budget process is the one time during the year when all City operations and processes are reviewed in a comprehensive manner. The City reviews the needs of the community, priorities, and goals and then matches resources against those needs, priorities, and goals. Resources are limited, so choices must be made. The annual budget reflects those choices.
- Finally, throughout all levels, the budget is a *communications tool*. It is one of the means that the City uses to explain the various demands, needs, constraints, resources, and opportunities

We continue to find ways to protect and enhance the valuable dollars our citizen's pay us to provide a quality of life the community is proud of by crafting a prudent financial plan that reflects the vision and values of the people of Willow Park.

### **Budget Process**

The process of developing the budget that is submitted on August 1<sup>st</sup> begins in May. The process begins with a budget kickoff meeting of the Department Heads 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. Department heads then receive the necessary information to begin drafting their annual budget requests.

At the same time the Department Heads are developing the first drafts of their department budgets, the budget team begins work on estimating the City's revenues for the upcoming year. The budget team consist of the City Administrator, Financial Analyst, City Secretary, and Budget Intern.

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. The departmental budgets go through several rounds of revisions, before the proposed budget is submitted to the City Council on August 1<sup>st</sup>.

The next step in the budget process is the submittal of this budget memo. The budget memo is released annually on July 15<sup>th</sup>. 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.

On August 1<sup>st</sup> of every year the proposed budget will be released. The budget document is filed with the City Secretary and is made available at City Hall and is uploaded on to the city's website. Each City Councilmember will receive the budget on an individual USB drive. The budget will be in three sections; budget narrative, revenues, and detailed expenditures. The budget document is designed to include essential components of the Government Finance Officers Association (GFOA) Distinguished Budget Criteria. GFOA standards are recognized as best practices in municipal finance.

Following the release of the budget document the city will hold a revenue estimates workshop focused on the City's revenue sources and fund balances. The adopted budget calendar has the revenue estimate workshop tentatively scheduled for Tuesday, August 5, 2014. 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 2014-15 Budget. The August 5<sup>th</sup> workshop will also include the City's third party rate study consultant's final recommendation for the City's Water and Wastewater rates and impact fees.

The next step in the budget process is to hold a budget hearing to discuss expenditures. On the Budget Calendar City Council left the date of the budget hearing to be determined at a later date. Staff is

recommending a workshop for either Tuesday, August 19, 2014 or Saturday, August 23, 2014 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. The budget workshop will also include a capital project prioritization activity to determine the capital projects that will be included in the FY 2015 Budget.

Following the budget hearings the budget document will be updated to reflect any changes and a final budget will be submitted for adoption. The budget adoption process is set for the first reading of the budget and tax rate ordinance to take place at the regular monthly City Council meeting on Tuesday, September 9, 2014. The second reading of the ordinances will take place on Tuesday, September 16, 2014. The FY 2014-15 Budget and tax rate adoption is scheduled for Tuesday, September 23, 2014.

After the City Council has approved a Budget Ordinance for the year. The budget document is updated to include the final approved numbers and formatted for submittal to the GFOA. The final budget document is then uploaded to the city's website replacing the August 1<sup>st</sup> document. A physical copy of the final budget is kept on hand at City Hall and an official copy is kept in the City Secretary's Office.

### **Public Involvement**

The public is involved throughout the budget process. Public budget hearings are scheduled for the August and September City Council meetings. The budget hearings are a chance for the public to comment on priorities and make requests for what they would like to see in the upcoming year's budget. The budget hearings are advertised as part of the published agenda for each meeting. The State of Texas has very strict standards for how and when budget and tax rate adoption notices must be published in the local newspaper and on the city's website.

### **The Budget Memo (This Document) vs. The Budget**

The Budget Memo is a non-financial document that is intended to highlight the major issues to be addressed in the upcoming budget. The Budget Memo is high level overview of the issues facing the city. The actual Budget Document that will be released on August 1<sup>st</sup> is an incredibly in-depth document. The Budget Document will be in three major sections; I. Narrative, II. Revenues, III. Expenditures. The Narrative section of the budget will address the issues raised in the Budget Memo in more depth and will include the use of budget numbers and graphs. The Revenue section will include a focus on the City's revenue collections and projections for the upcoming budget year. The Revenue section will also include detail on the proposed tax rate and fee schedules. The Expenditure section will include the line-by-line detail for every budget item.

## **Financial Overview**

The overall fiscal health of the city is very strong. The upcoming budget year shows a tremendous amount of promise with key economic indicators on the rise. Along with a strengthening economy, the City is in solid financial position due to its fund balance and recently improved credit rating.

*We come a long way in a short time*

Eighteen months ago the city was operating budget deficits in each of its major funds. The City was overstaffed and was slowly bleeding its reserve accounts. At the same time the City had large sums of money tied up in different accounts and Certificates of Deposit drawing little to no interest and no plan in place to utilize its resources. The City had very few financial monitoring policies in place and little oversight over the activities of its departments. As a result of poor management the City faced a series of unfunded liabilities totaling hundreds of thousands of dollars from lawsuits and leave accruals.

Fast forward to today and the City is a different place. The City received a clean bill of health following a more intensive audit process. The City's budget process follows Government Finance Officer Association (GFOA) best practices. The City matches its sources and uses of funding to ensure there are no budget deficits. The city has addressed its unfunded liability issues including \$110,000+ in excess leave accruals. Management has implemented a series of internal controls, and with this budget the City will now have a multiyear plan for addressing multiyear capital concerns.

## **Revenues**

For the upcoming year's Budget there are three major issues affecting the City's revenues; economic growth, revenue collection practices, and rate adjustments. These three factors will lead to increased revenues for the City.

Economic growth is the main driver for increasing the City's revenues. Eastern Parker County continues to show strong signs of growth for the upcoming year. The economy has recovered from the recession and Willow Park is a desirable location for new development. For FY 2015 the City is projecting growth in nearly every revenue category for the General Fund; Ad Valorem Taxes, Sales & Use Taxes, Development Fees, and Fines.

The City has been undergoing a series of process improvements, coupled with planned technological advances that will enhance the revenue collection process. The planned upgrade of the Utility Billing software and point-of-sale program to accept credit cards for city transactions should greatly improve the City's ability to collect revenue. The more opportunities the City gives a customer to pay, the more likely customers will keep their accounts current.

The City is also overdue to re-examine its fee schedule. Beginning with this budget the fee schedule will be included with the annual budget as attachment B with the final budget ordinance. This will allow for an annual re-examination of fees to ensure cost recovery. Including this attachment will also simplify the process and transparency of fees for the customer. The fee schedule can then be displayed at City Hall and on the website in a single location instead of relying on searching every individual ordinance for the appropriate fee. The City is planning on a rate increase for all of the Utility (Enterprise) Funds as a direct result of the city's third party rate study for water and wastewater rates.

### **Major Challenges**

The City faces several major challenges in the upcoming year. Years of lack of planning and lack of investment in infrastructure have caught up with the city. The City faces major challenges in the area of infrastructure repair & replacement at the same time it must also address growth and the need for increased infrastructure.

### **Capital Improvements**

FY 2014-15 is going to see the completion of many of the City's current capital improvement projects. The Wastewater Fund's lift station replacement project should be complete by the beginning of the budget year. The Water Fund's water line rehabilitation project and General Fund's road replacement Phase One projects will be completed within the fiscal year. In addition to these current projects staff is recommending a debt issuance for the next phase of both the waterline and road rehabilitation projects. For the second phase of the waterline project the City will explore using a Texas Water Development Board (TWDB) funding program. The second phase of the Road rehabilitation project staff is recommending a Certificate of Obligation issuance.

### **Roads**

The City has approximately twenty streets in need of major repair or reconstruction. The types of repair vary depending on the street. The streets fall into three construction categories: two-course penetration, asphalt overlay, and concrete. Two-course penetration is used in most residential streets, asphalt overlay is used on major roads and feeder streets, and concrete construction is used for new streets. The city's current inventory of streets in need of repair is estimated at over eight hundred thousand dollars.

The City Council recently participated in a prioritization activity which is an important first step to addressing the roads issues. The prioritized capital improvement plan for roads sets the order in which repairs will be made. At the July 8<sup>th</sup> City Council meeting the City Council established the following Road Repair Capital Improvement Plan:

<b>Priority #</b>	<b>Street</b>
<b>Phase One</b>	
1	Quail Crest Dr
2	Ranch House Road
3	Ranch House Rd
4	Indian Camp Road
5	Cactus Rd
6	Fox Hunt Tr
7	Canyon Ct
8	Canyon Ct
9	Woodbridge Ct
10	Aspenwood Dr
11	Deer Pond Dr
12	Valley View Ct
13	Willow Crest Dr
<b>Phase Two</b>	
14	Cherokee Ct
15	Cherokee Ct
16	Navajo Tr
17	Cook Rd
18	Sam Bass Ct
19	Trinity Ct
20	Trinity Ct
21	Buena Vista Dr

The next step in the capital improvement process is the most challenging, funding the repairs. Earlier this summer, with the adoption of the City's new financial policies and through the budget amendment process, the City earmarked \$460,000 for road repairs. The \$460,000 is cash and is the result of one time funding sources. The cash allotted for road repairs is currently held in the General Fund Capital Improvements accounts. The cash allotment should be sufficient to cover the cost associated with phase one of the road repair project. The challenge for the City is determining a funding source for the remaining projects on phase two capital improvement roads prioritization list. To address this issue staff is recommending financing the remaining repairs through a Certificate of Obligation issuance.

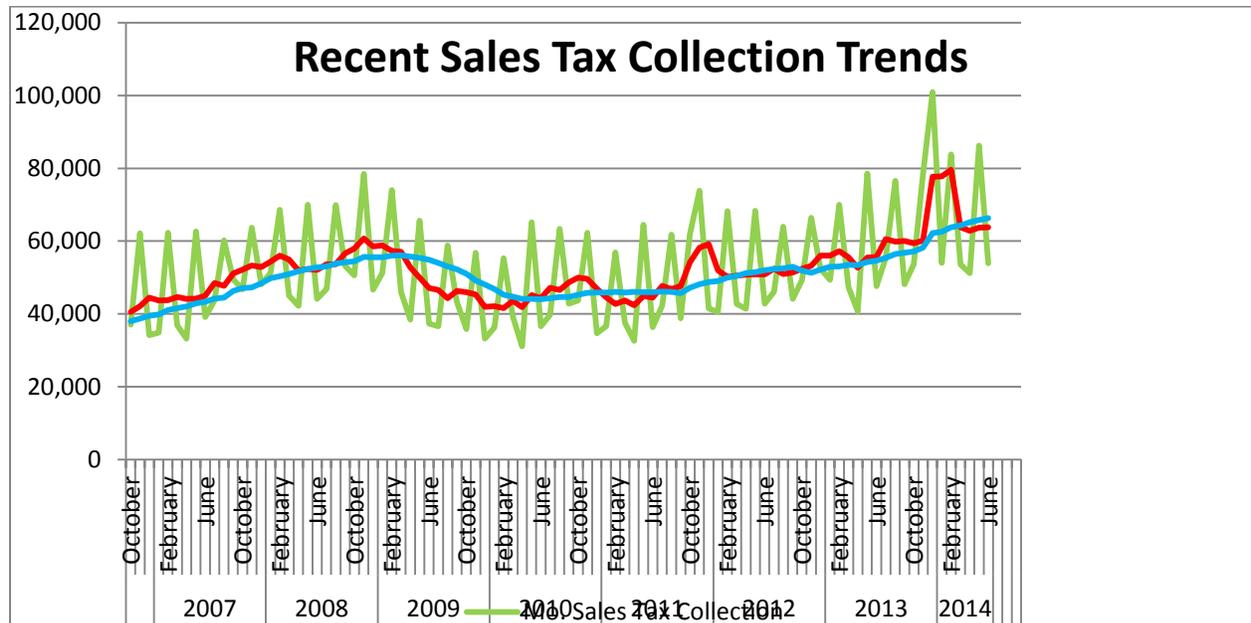
**Economic Development**

The City’s Council strategic plan meeting on June 23, 2014 highlighted Economic Development as a major goal for this council. The City Council specifically listed the creation of the an Economic Development Corporation as a top priority for this council. An Economic Development Corporation is an independent body created by the City Council which is charged with promoting economic development in the City. Economic Development Corporations, known as EDCs are governed by the Texas Economic Development Corporation Act. While a City Council may create an EDC unilaterally, the funding source for the EDC must be approved by a public vote to assign the local sales tax option.

*County Sales Tax*

The State of Texas allows up to two cents to be allocated for local option sales tax. The City currently allocates one cent for “regular rate” General Fund use, ½ cent for City property tax relief, and ½ cent for County property tax relief. The local option sales tax for the two ½ cent property tax relief items were establish by a public vote and effective on January 1, 1988.

The issue facing the City is simple. The City is giving increasingly valuable revenue to Parker County for very little in return. The County provides very few services to the City, so in turn sales taxes collected in Willow Park are subsidizing services elsewhere in the County. This issue is heightened by the recent gains made in Willow Park sales tax base. Simply put, Willow Park’s ½ cent is worth a lot more than some other Parker County cities.



The above graphs highlights the gains Willow Park has made in recent years sales tax collection. For a historical comparison the sales tax collection for the year of 1989 was \$108,382. For the year 2013 the annual collection was \$746,766.

Year	Annual Collection (City)	Approximate County ½ Cent Value
1989	\$108,382	\$ 35,766
2013	\$746,766	\$246,432

To address this issue the City will begin researching the process of reclaiming its ½ cent local sales tax option currently allocated to the county. If the City is able to reclaim any portion of the local sales tax option, it will require a general election to obtain the voters permission to reassign the tax. If the local option sales tax can be reclaimed, staff recommends going to the voters to ask for some combination of a dedicated sales tax for economic development and road repairs.

This issue is incredibly important to the City, because if the City is not able to reallocate the County's ½ cent, then the City will be forced to come up with an alternative funding source for roads and economic development on its own. The City could opt to hold a vote to reallocate the city's ½ cent local option sales tax, but this would have a direct impact on the General Fund.

### **Personnel**

This Budget includes a restructuring of the employee benefits packaged. The employee benefit package is not in-line with the other area cities and benchmark cities. In some areas such as retirement the city is woefully behind the other area cities. In some areas such as health insurance the city is a head of its comparable cities. The goal of the benefit restricting is to bring the city to the mid-point of the benefit package offered.

The largest adjustment in the benefit restructuring is the retirement adjustment. The city is a member of the Texas Municipal Retirement System (TMRS). TMRS is a hybrid cash balance retirement plan which differs from a defined benefit plan. TMRS benefits are based on employee contributions, the city match, and the interest income credited to the employee's individual account. The City is currently a TMRS 5% 1:1 match and the proposal is change to a TMRS 7% 2:1 match.

To offset the budget impact of adjusting the retirement benefit up, the restructuring proposal includes reductions to the City's healthcare package. The City currently provides a gap insurance program in addition to the City's regular health insurance. The gap insurance program serves to lower the out of pocket expense an employee pays to \$500 and covers costs up to the \$5,000 health insurance deductible. The City is in the process of restructuring the benefits package to either raise the gap insurance limit or lower the health insurance deductible, whichever is the most cost effective for the City.

The benefit restructuring also includes revising the city’s stipend and take-home vehicle policies. The City’s cell phone stipend was never implemented as intended by the City Council and the policy doesn’t account for the different needs of different types of position. The benefit restructuring will also revisit the certification stipends given to align all departments on an equal footing. Each department will define what is considered a level I, level II, and level III certification for the departments. All departments will be on the same stipend schedule. This budget will also put forward a written take-home vehicle policy identifying which positions include use of take-home vehicles or vehicle stipend. The City’s treatment of take-home vehicles was of particular concern during the IRS audit the City underwent this past year.

**Fleet**

Another major challenge facing the City is a fleet replacement program. With the exception of the Police Department, the purchasing of the City’s fleet has largely gone unplanned. As result nearly every vehicle in the City’s fleet is due for replacement in the next five years. The FY 14-15 Budget includes a capital improvements fleet replacement schedule. Every vehicle in the City currently has been designated as either replacement or non-replacement vehicle. Replacement vehicles are included in the replacement schedule and have a designated replacement year and estimated replacement cost. For each vehicle on the replacement schedule the City will set aside a ten percent replacement cost to be held in the City’s newly created Capital/Equipment Replacement Fund. The Capital/Equipment Replacement Fund is funded through the sale of the City’s used vehicles at auction and transfers that were approved in the City’s financial policies, the FY 14 Budget Amendment, and FY 14 Fire Board Budget Amendment.

For the FY 14-15 Budget year there are three new vehicles that need to be purchased. The Fire Department has requested a small brush truck. The current small brush truck is a 25-year old manual truck that can’t accommodate modern firefighting gear. The Police Department has requested a new CID vehicle for the Sergeant. The current CID vehicle is an old Crown Vic on its last legs. The Public Works Department has requested a new dump truck to replace the 1980 manual dump.

Department	Vehicle	Cost Estimate
Fire	Small Brush Truck	\$77,000
Police	Criminal Investigation Dept. (CID)	\$36,000
Public Works	Dump Truck	\$60,000

The City will explore the option of funding the vehicles either through traditional financing, lease-purchase agreement, or combining the vehicle purchase with the Certificate of Obligation issuance being proposed to finance phase two of the road improvement project.

## **Water**

Water will always be a top priority for Willow Park. Water is essential for the City's continued growth and maintaining the City's quality of life. The major issues facing the City's water system include future water sources, system maintenance, and system growth.

The future water source issue is two-fold; first the City needs surface water to augment its well program and second the City still needs more wells to balance the city's growing demand for water. The goal of the future water system to be able to continue to use the well system to support the City and avoid peaking charges, while using surface water to ensure a continued water supply for existing customers and give the City the ability to support new customers.

The Surface water issue should be addressed at the same time we are developing this budget. The City is working to put a surface water agreement in place to be able to obtain wholesale treated water from the City of Weatherford. The water agreement establishes a minimum amount of wholesale water the City will purchase in what is known as a "take or pay" agreement. The water agreement also established peaking charges for what the City would pay if it uses more than its contracted allotment. With surface water the City will be paying a greater price for wholesale water than the unit price for well water which will require a water rate increase. A surface water agreement can be reached once the City of Hudson Oaks completes a rate agreement with the City of Weatherford. The City of Willow Park will be subject to the same water rates as the City of Hudson Oaks. The FY 14-15 Budget will put into place a funding mechanism to begin addressing the inter-connect between the Willow Park and Weatherford water systems.

The water system repair issues include improvements to the City's main water supply line and several of the smaller neighborhood service lines. The Willow Park Water System has been the victim of neglect both through lack of planning and lack of system maintenance. The City made huge strides this past year in beginning the phase one waterline rehabilitation project. The City obtained special financing from the Texas Water Development Board (TWDB) for a low interest loan project to replace approximately 21,000 linear feet of waterline. The challenge in the upcoming FY 14-15 Budget Year will be the construction of the phase one repairs and the planning of the phase two repairs. The City will explore additional TWDB for the second phase of the water line rehabilitation project. No matter what the source of funding for the phase two repairs, the City will require a water rate fee increase as indicated by the third party rate study.

The water system growth improvements are identified in the City's water capital improvement plan. The capital improvement plan includes a number of improvements that are necessary to expand the water system to facilitate new growth, but would also provide added benefits to the system's current

users. The planned funding source for the water capital improvement is impact fees collected from developers and revenue from increased water rates.

#### *Water Rate Fee Increase*

The City needs to adjust its water and wastewater fees for the upcoming budget year. The City Council has previously selected and hired a consultant to perform a third party rate study which has concluded that the City needs to increase its utility rates. The increased costs associated if obtaining surface water, capital improvements to repair the existing system, and capital improvement to expand the water system are going to require increased revenue from increased water user fees.

The City is in the process of completing the rate study to determine exactly what the new rate structure will be. To date the rate consultant is recommending that the City restructure the water connection charge based on meter size and restructure the usage tiers and usage rates.

While staff feels it is very important to implement the recommendation of the rate study consultant to fully fund the planned improvements, staff cautions against such a steep increase in the water rates. The City water system is the victim of neglect, and while rates should have been reexamined and increased on a continual basis, it is simply too much to ask our current users pay the entire difference in a single year. Staff recommends capping the rate increase by adopting an alternative rate structure and re-evaluating the rates after three years. The water and waste rates will be discuss in depth at the August 5, 2014 Budget Hearing.

#### *Water Loss*

Water loss is a major concern of the city's water system. While every water system has some amount of water loss, Willow Park's system is exceedingly high. The City is addressing the water loss issue through a variety of solutions. First the City is more closely monitoring its water production and comparing it to water sales to monitor its water loss. Second the waterline rehabilitation project should go a long way to combating the issue by replacing the section of waterline that regularly has the largest leaks. Third, the City implementing a water meter replacement program. The upgrade of the water meters will more accurately reflect the water used by the customer. The City is looking to install more automatically read water meters which will also decrease the time and labor costs associated with meter reading. The City is exploring the different options for a meter replacement program, but it is considering three options; radio reads, fixed base collections, and cellular collections. There are pros and cons to each system, but as part of this budget staff will be developing a recommendation on which system is the best choice and best value for Willow Park.

#### *Collections*

While not a major issue, there is concern with the utility billing collections system worth noting. The City has a number of outstanding or delinquent accounts that are eligible to go to collections. The City currently has 589 accounts in arrears for \$146,151. The accounts receivable problem is the result of inattention by past staff, informal polices, and the inability to collect the funds. To correct this issue a

written procedure for handling of past due accounts will be established in the upcoming budget year. All accounts 60 days past due will be disconnected and have a disconnection charge applied. At 90-days, past due accounts will be sent to the same collection firm that manages the Municipal Courts past due accounts. Old past dues accounts will be individually audited once converted from the current AVR billing system to the new STW utility billing system and sent to the collection firms.

Another concern with the utility billing system is the number of secured accounts. Approximately 50% of the City's utility billing accounts are secured by deposit. For years, customers were allowed to open accounts without placing a deposit if they used a letter of credit or showed a zero balance with their former utility provider. Unfortunately for the City, when a customer with no deposit moves out or closes the account with a remaining balance, there is no deposit to apply towards the final balance leaving the city. To remedy this issue, staff recommends beginning to charge unsecured accounts a prorated deposit of \$10 per month for ten months. This program should be implemented slowly over several years. The deposit build up program would not begin until after the City has fully converted the utility billing software from AVR to STW. Staff recommends beginning the deposit build up program with all of non-city accounts the water system services in the City's Extra Territorial Jurisdiction (ETJ). Once all the ETJ accounts are secured in two years the City would begin the deposit build up program with Willow Park residents in FY 16-17.

### **Solid Waste**

The City's Solid Waste Fund was created to begin the process of separating the revenues and expenditures related to providing trash collections and recycling services to the citizens of Willow Park.

The primary issue the City faces in the Solid Waste Fund is losing money through bad collections. The City's overhead on trash collection charges is so low that a single month's missed collection results in the loss of an entire year's revenue on the account.

The rate the city pays for residential trash collection is set as part of a multi-city contract and increases each year. The new service charge to the City for residential curbside will be \$11.05 per month. Meanwhile the rate the city charges for solid waste services has remained flat (\$11.02 per month). As discussed in last year's budget a solid waste rate increase is necessary to cover the operating expenditures associated with this utility service. The service cost for the City has reached the point where it will now exceed the fee that is currently assessed, meaning without a fee increase the City will be subsidizing trash collection services for users. Staff recommends simply establishing a policy to set the solid waste fee at a 15% over the collection service charge. An increased solid waste fee has been included in the proposed fee schedule for this budget moving the Solid Waste fee from \$11.02 to \$12.72 per month for residential curbside service.

### **Closing Thoughts**

FY 14-15 is going to be an exciting year for Willow Park. The budget being put forward supports an ambitious scope of work. The City Council has shown new level of leadership, laying out a strategic plan to tackle some of the City's most serious issues. The road improvements, waterline improvements, and surface water agreement will make a real impact in the citizen's daily lives and help secure Willow Park's ability to grow for years to come. The internal improvements to the personnel benefits and fleet replacement schedule will ensure a quality workforce with proper equipment to execute the City Council's plan. By addressing the City's major issues head on, the City will be in a better position to shape its future and prosper from future growth.

The August Budget Document will contain much more detail on all of these issues including the specific revenue and expenditure items for the departmental operations. I will be glad to meet with any Councilmember or citizen to explain our budget process and answer any questions.