

CITY COUNCIL MINUTES
BUDGET WORKSHOP

KERRVILLE, TEXAS
JUNE 24, 2014

On June 24, 2014, the Kerrville City Council meeting was called to order by Mayor Pratt at 9:06 a.m. in the city hall upstairs conference room, 701 Main Street.

COUNCILMEMBERS PRESENT:

Jack Pratt	Mayor
Carson Conklin	Councilmember
Stacie Keeble	Councilmember
Gary Stork	Councilmember

COUNCILMEMBERS ABSENT:

Gene Allen	Mayor Pro Tem
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CITY EXECUTIVE STAFF PRESENT:

Todd Parton	City Manager
Mike Hayes	City Attorney
Kristine Ondrias	Assistant City Manager
Brenda G. Craig	City Secretary
Sandra Yarbrough	Director of Finance
Kim Meismer	Director of General Operations
Ashley Boyle	Special Projects Manager
John Young	Police Chief

VISITORS PRESENT: List on file in city secretary's office for the required retention period.

DISCUSSION AND DIRECTION TO STAFF REGARDING PROPOSED FISCAL YEAR 2015 BUDGET

Mr. Parton reviewed the process with Kerr Central Appraisal District (KCAD); the preliminary roll indicated about 8% increase in tax base over 2013; however, 2% was under contest. An increase in ad valorem tax base would affect the effective tax rate calculation and could result in lowering the effective tax rate.

Mr. Parton reviewed the particulars of the proposed FY2015 budget:

- Sustainable, balanced budget, expenditures did not exceed revenues; revenue forecast was conservative; sustained positive growth and diversification in the tax base; 1% growth in utility connections annually; sales tax continued to rise with a significant increase in manufacturing.
- Maintained current property tax rate, \$0.5625.
- Total 2015 budgeted revenue estimated at \$46,224,833, which was 0.1% less than 2014; general fund revenue was \$23,568,181, or 51% of total city revenue.
- Total 2015 budgeted expenditures estimated at \$45,093,152, an increase of 0.7% over the 2014 budget; general fund expenditures totaled \$23,568,181, 52.3% of the city's overall expenditures.

- Water and sewer fund generated 21.4% of the general fund revenue and 22% of the general fund expenditures. The \$1.5 million transferred from the water and sewer fund was to reimburse the general fund for expenditures for utility fund issues, e.g. administration, finance, information technology, legal, etc.
- Maintained current water and sewer rates; five year fiscal forecast did not anticipate any change in rates; 1% annual growth in utility connections.
- Water and sewer fund revenue was \$9,898,998; anticipate 47% reserve fund balance at the end of FY2015.
- Transferred \$1.4 million from the water and sewer fund to the CIP fund to pay for capital projects. Based on the existing rate structure, \$11.3 million would be available through FY2020 to fund capital projects on a pay as you go plan.
- Water/Wastewater and general fund revenues were not co-mingled; no sales tax or property tax revenues were used to fund utility operations.
- Adequate fund balance reserve, greater than 25% of annual operational expenditures for general fund and water and sewer fund; no use of fund balance for recurring expenditures.
- Maintained or enhanced current level of service.
- Full implementation of step plans for public safety (frozen for four years), and merit increases for general government employees from compensation study, phase II.
- Two patrol positions in the police department unfrozen.
- The city entered into a contract with the county whereby the city would provide fire/EMS county-wide, effective October 1, 2014. The proposed budget allocated \$600,000 in the fire reserve fund for major capital equipment replacement. Under National Fire Protection Standards, front line equipment should not be older than 15-20 years; the city had several trucks that were at or exceeded this standard.
- The proposed budget included a five year interest free loan from the Cailloux Foundation for the purchase of a platform aerial fire truck.
- Increased street maintenance and repair; the city paved 5-6 miles per year for the past several years; goal for 2015 was 7-9 miles; increased \$700,000 for materiel.
- Growth in parks, public safety, and street departments due to increased service levels and general maintenance in these departments.
- Added a maintenance crew to help with: routine maintenance and clearing of right of ways, utility easements, and drainage easements; street construction; and parks maintenance. The net impact of the additional crew was \$170,000 including the cost of a vehicle; equipment was purchased in 2014.
- Debt service fund maintained a one-year bond payment reserve as established in the city's financial policy.
- FY2015 debt service was at 28% of water and sewer fund revenue; the city adopted a self-imposed policy setting a 35% cap; the city could issue debt for capital projects, up to 7% of revenue. Based on the utility rate model and the debt cap; the city could issue debt annually for the next four years and stay within the debt cap and existing rate structure. Staff anticipated a debt issuance in 2015-16 to fund capital projects in the water/wastewater master plan, such as the effluent project. Also, the city was nowhere near debt limit standards, just the self-imposed 35% cap. A debt issuance was not currently in the proposed budget.

- The need for the effluent project continues to escalate as the state tightens the city's water diversion permits; staff was currently in negotiations with the state on managing the water level in the lake.
- Suggested conducting a needs survey and appointing a citizens committee to evaluate and recommend capital projects and finance plan in the future.
- Tax supported debt would not begin to fall off until 2019.

Council also discussed the following:

- Street sweeper: Mr. Parton noted sales tax had come in higher than budgeted in FY2014 and staff proposed a budget amendment in July to purchase a new street sweeper.
- Garage fund: Mr. Parton noted that garage fund revenue was an inter-department transfer of funds for vehicles and equipment repaired through the city garage.
- Utility rate comparison with other cities: Mr. Parton noted Kerrville was high-middle, but competitive; utility rates increased in the past to build up reserves to fund capital projects on a pay as you go plan.
- Should coordinate potential debt issuance with KPUB. KPUB was owned by the city and even though KPUB's debt would be completely funded by electric rates, KPUB's debt would affect the city's ability to issue bank qualified debt, which kept the interest rate and issuance costs lower. Bank qualified debt was limited to \$10 million a year; the city could issue more debt, but the interest rate would be higher.
- EMS revenue: Budgeted at \$2,820,000; bad debt write-off budgeted at \$610,000.
- Assistant city attorney position was not in the budget: Mr. Hayes stated he was evaluating the need before filling this position; a prosecutor had been hired to handle municipal court issues.
- Constant changes in information technology but budget showed only a small increase.

Mr. Parton reviewed the budget schedule: anticipate receiving certified tax roll from chief appraiser by July 25 and city manager files the budget July 31, followed by two hearings on the tax rate and two readings to adopt the budget and tax rate ordinances. Budget discussions would be scheduled during regular council meetings, no additional workshops were anticipated.

ADJOURNMENT. The meeting adjourned at 11:58 a.m.

APPROVED: 07/22/2014

/s/
Jack Pratt, Jr., Mayor

ATTEST:

/s/
Brenda G. Craig, City Secretary