

CITY OF DENTON CITY COUNCIL MINUTES

August 4, 2011

After determining that a quorum was present, the City Council of the City of Denton, Texas convened in a Special Called Work Session on Thursday, August 4, 2011 at 8:30 a.m. in the Council Work Session Room at City Hall.

PRESENT: Council Member Gregory, Council Member Watts, Council Member Roden Mayor Pro Tem Kamp, and Mayor Burroughs

ABSENT: Council Member Engelbrecht and Council Member King.

1. Receive a report, hold a discussion and give staff direction on the 2011-12 City Manager's Proposed Budget, Capital Improvement Program, and Five-Year Financial Forecast.

City Manager Campbell stated that Council had received a copy of the budget proposal. There were no surprises as the budget had been discussed over the past year and those discussions had been incorporated into the proposal.

Bryan Langley, Chief Financial Officer, presented the overview and purpose of the discussions. Those included a review of key elements of the Strategic Plan; a discussion on the key assumptions in the General Fund; presentation of the General Fund Supplemental Packages recommended for approval by the City Manager; a review of 2011-12 proposed Five Year Financial Forecast for the General Fund; a discussion on the five year CIP plan and future GO/Co bond issuances; discussion on budget recommendations for the utility funds; a review of other funds and information and an outline of the next steps.

Strategic Considerations – this discussion included a review of the Strategic Plan and alignment with the budget development and a discussion on the key focus areas. The key focus areas included organizational excellence; public infrastructure; sustainable economic development and environmental stewardship; safe, livable, and family friendly community; and partnerships and regional leadership. The goals associated with these key focus areas were reviewed.

General Fund – The General Fund was discussed in terms of fund balance, revenue characteristics, sales tax, appraised value, and other key revenues. Fund Balance reserves were expected to remain above the target level of the planning horizon. General Fund Revenue components were reviewed. It was noted that approximately 85% of the revenue came from ad valorem taxes, sales taxes, transfers in and franchise fees. Transfers included Return on Investment and administrative cost charges.

Council Member Gregory asked for an explanation of the difference between transfers, cost of service and return on investment

Langley stated that cost of service was services provided from individuals or departments that were shared throughout the organization and transferred back into the General Fund. Return on Investment was the charge for utilities.

Sales Tax – Langley continued with a review of the 2011 monthly changes in sales tax collection which were looking very strong at this point in time.

Council Member Watts asked if the increase included Rayzor Ranch North as it had not achieved a build-out for a rebate.

Council Member King joined the meeting.

Langley replied that was correct plus the economic development incentives now had its own category and the amount in the fund was backed out from the sales tax revenue. Economic development incentive agreements previously were netted from revenue. A 2% increase in the base sales tax revenue was forecasted for 2011-12.

Appraised Values – The certified appraised value was \$6.312 billion for 2011. That was a 2.93% increase compared to 2010 value of \$6.230 billion. A 2% decline had previously been forecasted. \$1.4 million of additional revenue was realized compared to early forecasts, but that was only marginally higher than more recent estimates. In 2009 the Council endorsed a plan to increase the over 65 property tax exemption in \$5,000 increments. The goal was to achieve a \$50,000 exemption level by 2013-14. The proposed budget included a \$5,000 increase in the over 65 exemption level to a \$40,000 level for 2011-12.

Council Member Roden asked if the sales tax revenue could be tracked on type of business segments and where it was done geographically.

Langley stated that the State Comptroller did the categories and were not noted geographically.

Downtown TIF – The Downtown TIF was established in 2010 for the purpose of improving development in the Downtown area. The 2010 base was \$79 million and the 2011 value was \$81 million which resulted in a gain of \$2.3 million. Based on this increase in value the TIF would receive \$15,871 in property tax revenue for 2011-12. No expenditures had been established at this time by the TIF Board.

Council Member Watts asked about new construction versus reconstruction in appraised value.

Langley stated he could get those figures from the Appraisal District. He reviewed the appraised valued history from 2002-2012.

Property Tax Rate – The property tax rate was comprised of two components; operations and maintenance which were deposited in the General Fund and the GO Debt Service which was deposited into GO Debt Service fund. No tax rate increase was proposed for 2011-12.

Mayor Burroughs asked if the COs were similar to the GO debt in that the COs were paid by the General Fund.

Langley stated that all were paid out of the GO Debt fund.

Truth in Taxation Information – the Texas Property Tax Code mandated the calculation and publication of the effective and rollback rates. The effective tax rate was the calculated rate that would generate the same amount of tax revenue as the previous year based on the new appraised values on existing property. The rollback tax rate was the highest rate the city could set before taxpayers might initiate a rollback petition. If the proposed tax rate exceeded the effective rate,

Council must vote to consider the tax increase on August 16th and hold a public hearing on the tax rate on September 6th and 13th. The 2011-12 effective tax rate was estimated to be \$0.697757 and the rollback tax rate was estimated to be \$0.745030. The proposed tax rate of \$0.68975 did not exceed the effective tax rate, so a separate vote and hearing was not required by Council. If Council elected to adopt the effective rate, an additional \$513,254 in property taxes would be generated.

Council Member Roden questioned if there had been a history of going to the effective tax rate.

Mayor Pro Tem Kamp stated that it had been done only twice in the past nine years.

Other key revenues - Franchise fees were estimated to be \$13.4 million in 2011-12. A portion would be accounted for in the newly created Street Improvement Fund in 2011-12. Interest income was expected to remain extremely low due to unusually low interest rates.

General Fund expenditures - Langley stated that he would be detailing expenditure characteristics, cost containment strategy/reductions, expenditure enhancements, compensation plan, and proposed 2011-12 General Fund Five Year Forecast. He reviewed expenditure components and the General Fund budget by department.

Prior reductions - in 2009-10 approximately \$1.1 million in reductions were included in the adopted budget. The 2010-11 General Fund budget included approximately \$5.2 million in reductions compared to initial forecasts. Key reductions included overtime, Technology Services, training and travel budget reductions, Efficiency Team implemented initiatives, the elimination of transfers to the Gas Well fund, the transfer of the Keep Denton Beautiful program to Solid Waste, and the elimination of a pay increase.

Vacancy Management Plan- no layoffs had occurred but the equivalent of 22 positions were not filled in 2010-11. The Vacancy Management Program sought to achieve at least \$1.45 million in savings. For 2011-12, the Vacancy Management Program was recommended to continue. \$0.9 million in savings was planned with the number of vacant positions reduced to 14.

Cost Containment Strategy - for 2011-12 the intent was to maintain the previous reductions made in 2010-11 and 2009-10. Most prior year reductions were not restored. Additional efficiencies and cost reductions would also be explored throughout the upcoming fiscal year. They were not expected to be as significant as prior years and the focus would be on productivity improvements.

GF Supplemental Recommended Packages - \$6.0 million and 15.2 full time employees (excluding streets) in supplemental packages were submitted to the City Manager for consideration in the General Fund.

Council Member Roden asked about the 14 vacant positions as opposed to the 15 new positions. He questioned if there was a difference in priorities for those positions.

Langley stated that the 15.2 new positions were in addition to the 14 vacant positions. The supplemental list was only for new positions.

Council Member Roden asked if the new positions were more necessary than the vacant positions.

Langley stated that some of the new positions were more important than vacant positions.

Recommended General Fund Supplemental packages – Langley reviewed the General Fund recommended supplemental packages for Parks, Library, Traffic Planning Police, Fire, Cable, Animal Control, and Facilities Management.

Council Member Gregory asked if funding was included for a cross walk and signalization at Hickory.

Mark Nelson, Director of Transportation, stated that funding for the Hickory Street project was associated with funds for the Transit Center.

Council Member Roden asked about the \$50,000 funding for the bike plan.

Langley stated that staff was bringing that information to the Mobility Committee and the Traffic Safety Commission to determine how to cost that out.

City Manager Campbell stated that the first drafts of the plan were in hand and would be reviewed by the Planning and Zoning Commission, the Mobility Committee and the Traffic Safety Commission. There was a minimal amount to start the process.

Council Member Roden stated that the street maintenance plan seemed to include striping the street and not other maintenance issues rather than bike path improvement.

City Manager Campbell stated that improvements for bike paths would come from the bike plan funding.

Council Member Roden asked if dollar figures were attached to the plan when adopted.

City Manager Campbell stated that when the plan was adopted, there was no expectation that the bike plan might be recommended in one or two years. The long term plan was to put in dollars that could be implemented for a particular year.

Langley stated that the figure was \$50,000 for 2011-12 and with recurring costs for future years.

Mayor Burroughs asked about the COPS program which was CDBG related and which might be eliminated on the federal level.

Langley stated that originally it was anticipated that the city would received five officers but the city did not receive the funding and there was no funding sources in the budget.

Mayor Burroughs noted that perhaps in future years, there could be council initiated supplemental packages.

Council Member Gregory asked staff to investigate if there would be enough revenue from the gas well inspection fees to cover the costs of enough inspectors to cover all the gas wells in Denton.

Council Member Watts stated that in terms of the \$50,000 Downtown Incentive grant there were several grants that were retroactive. He felt there should be a discussion whether the funds were created/achieved their purpose and perhaps re-evaluate how those funds were used.

Langley review additional packages that had been recommended for funding. Those included a JD Edwards financial software upgrade; self-contained breathing apparatus, Life Pak defibrillators, personal protective equipment, and mobile data communication unites for the Fire Department; a remodel of Human Resources/Risk Management offices; Fire Station 4 remodel and Station 2 parking lot repairs; and a cost allocation study.

General Fund – Overall the General Fund budget had been reduced by \$1.8 million compared to 2010-11 with a large portion of the decrease related to the newly created Street Improvement Fund. Recurring revenues were balanced with recurring expenses in FY 2011-12. The 2011-12 budget anticipated a reduction of \$1.08 million in the fund balance for the one-time purpose of a transfer of fund balance to a street improvement fund, funding for a comprehensive plan update and other miscellaneous one-time items.

The 2011-12 proposed budget also identified \$192,616 in funding which could be used for additional street maintenance funding; implementation of various elements of the bike plan; additional traffic signals; Comprehensive Plan update contingency funding; DCTA Downtown shuttle operating costs; or neighborhood improvement incentives. If Council elected to adopt the effective tax rate, an additional \$784,978 in property taxes would be available for these initiatives as well. Staff was seeking Council input regarding specific initiatives and funding levels.

Council Member King stated that if that money was not spent, the General Fund would be reduced by that amount.

Langley stated that was correct.

Council Member Roden asked if the \$192,616 had to be locked in or could it be in an account for Council discretion for later use.

Langley stated that the funds could be set up in a discretionary fund for later use per Council direction.

Compensation - Langley stated that compensation in 2009-10 did not include any base rate increase for employees. There was a one-time lump sum payment equivalent to 2% of pay included. Fiscal year 2010-11 did not include any merit increases for employees with a 2% merit increase forecasted for each subsequent year. Fiscal year 2010 and 2011 budgets did include normal step increases for police/fire civil service employees. Public Safety positions were subject to Meet and Confer agreement conditions. For FY 2011-12, an average 2% merit increase was included for non-Civil Service positions and a 2% increase was included for Civil

Service positions. A 2% base pay increase was forecasted for each subsequent year of the five year financial forecast.

Mayor Burroughs asked how much a 2% increase represented.

Langley stated it was approximately \$480,000. Step increases for Civil Service would be an additional amount.

Mayor Burroughs asked if staff had a comparison of what other cities were doing in terms of compensation.

Langley stated that Arlington was proposing a 4% lump sum; Carrollton 2%; Dallas, Ft. Worth, Irving were still preparing figures; Frisco had proposed a 3% increase; McKinney a 2% increase and Plano a 2% increase.

Mayor Pro Tem Kamp requested a matrix of comparison of other cities.

Summary of Assumptions – Langley presented a summary of assumptions in the General Fund in terms of appraised value growth, sales tax growth, compensation, tax rate and future bond sales. He also reviewed the proposed 2011-12 General Fund long term plan which assumed a 3% ad valorem growth in 2013 and 4% each year thereafter. It also included a one cent tax increase in 2014-15.

Street Improvement Fund – Langley indicated that he would review street maintenance funding challenges, discuss strategic plan objectives, and outline proposed funding solutions.

Street Maintenance funding - during the 2011 City Council retreat these street issues were discussed: the OCI rating (quality) of streets had deteriorated over the past several years; the current level of street maintenance funding was insufficient to maintain the current OCI rating; and a long-term strategy should be developed to address maintenance and capital fund requirements. In response to the adopted strategic plan, the 2011-12 proposed budget recommended the creation of a stand-alone “Street Improvement Fund” to be separate and distinct from the General Fund and a \$303,384 increase in street maintenance activities. Additional funding could be achieved through the transfer of future increases in the franchise fee revenue compared to 2010-11 or a transfer of interest cost savings from Utility Funds as a result of the issuance of COs instead of Utility System Revenue Bonds.

Mayor Burroughs stated that there was a large percentage of COs as opposed to GOs. He requested a break out of the COs listed on page 89 of the budget book which were utility related COs and asked if in the tax rate were all of the utility-related COs removed from that debt service item.

Langley stated that page 89 of the budget book indicated those figures.

Council Member Roden asked about street maintenance and how it was shown in the overall budget.

Langley stated that it was represented in the street improvement fund.

Funding Justification – a linkage existed between franchise fees received and street use. Franchise fees would be used for rights-of-way acquisition and maintenance and use of streets in public rights-of-way by utilities. Franchise fees were not required to be spent on streets or any other purpose. These represented General Fund resources that could be spent on any Council approved purpose. As a result of issuance of COs instead of Revenue Bonds, interest cost savings would be generated in the Utility funds. Interest cost savings were proposed to be transferred from the Utility funds to the newly created Street Maintenance fund. This developed an additional street maintenance revenue stream and was a logical connection with utility operations since there were heavily utilized rights-of-way. He reviewed a proposed increase in funding for street maintenance activities only. For 2011-12 the entire \$5.7 million Street Department budget was proposed to be accounted for in the Street Improvement Fund.

GO Debt Service Fund – Langley indicated that he would be reviewing the updated long-term forecast and assumptions and the planned future bond sales and potential issues.

GO Debt Service Fund 2011-12 - There was no tax rate increase planned for the fund. The appraisal growth assumptions mirrored those in the General Fund with a 3% growth in 2012-13 and a 4% growth in 2013-14 and each subsequent year. Staff recommended issuing \$4.0 million in GO bonds (remaining from 2005 bond election) in FY 2011-12. \$4 million in COs was also proposed for vehicle replacements and facility improvements. \$0.4 million in COs was proposed for traffic signals and \$3 million in COs was planned for the Animal Care and Adoption Center consistent with Council direction.

GO Debt Service Fund – 2012-13 and Beyond – a \$20 million streets only GO Bond Program was proposed for FY 2012-13 which would have to be voter approved. These were required for reconstruction of streets in conjunction with an increase in maintenance; included all costs for engineering, right-of-way, signalization, drainage, and construction activities; required that the Public Safety Training facility be delayed until funding could be obtained; and assumed no tax rate increase in the GO Debt Service Fund. The process for developing specific program detailed for 2012-13 would be discussed with the Council over the new few months. \$9 million in COs was planned to be issued for the City's required match on Bonnie Brae and Mayhill projects in 2013-14. An additional \$40-50 million bond program was also tentatively planned for 2015-16.

Other Major funds – other major funds to be discussed included the Electric Fund, Water Fund, Wastewater Fund, Solid Waste Fund, Health Insurance Fund and other miscellaneous funds.

Utility Fund Overview – the Public Utilities Board had recommended the proposed utility budgets to the Council on June 27th. All funds assumed an average 2% increase in compensation for employees which was the same as the General Fund. Expenditure reductions in prior years had been retained to minimize rate increases with an emphasis to maintain service delivery levels. Major impacts on the 2011-12 operating budget, CIP and Five-Year Financial Forecasts included an aging infrastructure which presented challenges; lower growth rates that had reduced revenue forecasts; and the cumulative effects of lower growth which resulted in lower impact fee revenue forecasts. The proposed budgets were subject to the following risks that might affect financial performance: growth projections and commodity market pricing/fuel costs; material and equipment costs; and regulatory compliance requirements. The following strategies and objectives had been developed to strengthen the financial integrity of each utility:

a phase-in for the replacement of aging infrastructure with current revenue funding and reduced reliance on debt financing; reach and maintain sufficient reserve fund balances based on average daily expenses and unique operational aspects of each utility: maintain water and wastewater impact fee reserve balances at \$1 million for each utility; maintain water and wastewater development plan line reserve balances at \$1 million; and maintain reserve debt coverage ratio at 1/25 or better for each utility.

Electric Fund – proposals for the Electric Fund included no base rate increase for electric utility customers; a reduced revenue forecast from the prior year estimate; the addition of two new FTEs. Major 2011-12 CIP projects were reviewed.

Water Fund – proposals for the Water fund included a net 0.5 FTE decrease and a 9.5% rate increase proposed for 2011-12. Major 2011-12 CIP projects were reviewed along with the Water Five Year Financial Forecast.

Wastewater Fund – The Sanitary Sewer Overflow Program required the addition of 3.5 FTEs, new equipment and capital expenditures. Four new FTEs (2 FTEs in Collections/1.5 FTEs in Wastewater Administration/0.5 FTEs in Pretreatment) were proposed. An 11% rate increase was proposed for 2011-12. Major 2011-12 CIP projects were reviewed along with the Wastewater Five Year Financial Forecast.

Council Member Gregory asked for an informal staff report regarding the efficiency and effectiveness study that was done regarding Materials Management and the Warehouse.

Solid Waste Fund - Curbside recycling services were recommended to be brought in-house in November 2012 which would result in a net lower cost than private services. Seven FTEs (6 FTEs for Curbside Recycling program/1 FTE for Construction and Demolition Operations) were included in the proposed budget. Six FTEs would be added in the last 2 months of the fiscal year. The proposed budget also included new technologies and expanded services initiatives over the next 5 years with various residential and commercial rate increases proposed for 2011-12. Major 2011-12 CIP projects were reviewed as well as the Solid Waste Five Year Financial Forecast. He noted that the working capital balance target was 30 days with 8% of expenses and the residential service balance target was 14 days and 4% of expenses. The overall monthly rate impact for the average residential customer was reviewed which represented a \$7.22 increase in a monthly bill.

Health Insurance Fund – employee insurance premiums were not proposed to increase in 2011-12. City contributions were proposed to increase 6% with no plan design changes proposed for the next fiscal year. It was expected that the Health Services Clinic would be opened in 2012.

Parks Gas Well Fund - \$350,000 in expenditures were proposed in the budget which would improve various city parks and facilities.

Non-Airport Gas Well fund – the fund was expected to end in 2010-11 with \$1.6 million in the unrestricted fund balance. In 2011-12 \$0.6 million was proposed for the completion of a Comprehensive Plan update. It also assumed \$1 million for a planned purchase of property. That would exhaust the funds in the account.

Fleet Services Fund - DCTA and the City had entered into a discussion concerning a possible partnership for fleet maintenance operations. Figures for that partnership were still preliminary due to ongoing negotiations.

Other funds – the HOT Committee had provided recommendations for the Tourism and Convention Fund with the intent to minimize an increase in funding for various organizations. The goal was to increase the fund balance and create future capacity for convention related costs and services. Materials Management Fund was reduced by 1.5 FTE due to the reorganization of the operations. The Risk Retention Fund was proposed to increase by 1 FTE due to the addition of a Benefits Leave Coordinator position. Capital Improvement Program budget and grant funds budget were also included.

Summary Information – Langley stated that Summary Information would include a FTE Summary, budget summary, and next steps for Council.

Langley reviewed the Full Time employee summary which showed an increase in 27 employees proposed for the next fiscal year. That number included the 14 positions which would not be filled. Total expenditure budget by fund was discussed and the proposed budget by fund was shown. The total budget was \$585.4 million for all funds.

Next steps included the publishing of the effective and rollback tax rate on August 7th; a budget work session on August 9th; a budget work session and vote to consider the tax rate increase on August 16th; budget work sessions and tax rate/budget public hearings on September 6th and 14th; and Council adoption of the tax rate and approval of the Annual Program of Services on September 20th.

Closed Meeting

- A. Deliberations Regarding Certain Public Power Utilities: Competitive Matters – Under Texas Government Code Section 551.086.
 1. Receive competitive public power information from staff in the form of a proposed operating budget for Denton Municipal Electric (“DME”) for the upcoming fiscal year, including without limitation, revenues, expenses, commodity volumes, and commitments, and the direction of DME; and discuss, deliberate, consider adoption of the budget and other matters, and provide staff with direction regarding such matters.

Council did not meet in Closed Session.

With no further discussion, the meeting was adjourned at 1:03 p.m.

MARK A. BURROUGHS
MAYOR
CITY OF DENTON, TEXAS

JENNIFER WALTERS
CITY SECRETARY
CITY OF DENTON, TEXAS