

CITY OF DENTON CITY COUNCIL MINUTES

August 2, 2012

After determining that a quorum was present, the City Council convened in a Special Called Work Session on Thursday, August 2, 2012 at 8:30 a.m. in the Council Work Session Room at City Hall.

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

ABSENT: None

1. Receive a report, hold a discussion, and give staff direction regarding the FY 2012-13 City Manager's Proposed Budget, Capital Improvement Program, and Five-Year Financial Forecast.

City Manager Campbell stated that the proposed budget represented the City Manager and staff Program of Services for the next fiscal year. It also represented Council priorities and what was felt that the citizens wanted.

Bryan Langley, Chief Finance Officer, presented the details of the proposed budget.

Overview and Purpose

- Review key elements of strategic plan
- Discuss key assumptions in the General Fund
- Present General Fund supplemental packages recommended for approval by City Manager
- Review 2012-13 proposed five year financial forecast for the General Fund
- Discuss 5 year CIP plan and future GO/CO bond issuances
- Discuss budget recommendations for utility funds
- Review other funds and information
- Outline next steps

Strategic considerations – Langley reviewed the Strategic Plan in terms of intent of the plan, crafting the budget to achieve the goals and objectives outlined in the approved strategic plan, and key focus areas.

General Fund – the discussion centered on revenue characteristics, sales tax, appraised values and property taxes, and other key revenues. A review was presented of the General Fund revenue components, changes in monthly sales tax collections, sales tax collection history, sales tax projections, and appraised values. It was noted that to provide a clear picture of the cost and benefits of sale tax rebate agreements, incentive payments were included in the expenditure budget. A 3% increase in “base” sales tax revenue was forecasted for 2012-13.

Council Member Watts questioned what percentage of the change of sales tax projects did not include net and if that net would track the same percentage.

Langley stated that he would have to look at it but it would probably be very close and might be a bit lower.

Council Member Watts stated that he would like an informal memo similar to the chart for sales tax collections.

Langley continued with appraised values. The certified appraised value was \$6.716 billion for 2012 which was a 4.75% increase compared to the 2011 value. A 3% increase had previously been forecasted in June. The appraised value distribution by tax year was presented. 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 \$45,000 for 2012-13.

Downtown TIF- the Downtown TIF was established in 2010 for the purpose of improving development in the Downtown area. The 2010 base value was \$79,356,854 and the 2013 value was \$89.6 million. Based on this increase in value, the TIF would receive \$70,691 in property tax revenue for 2012-13. No expenditures had been established at this time by the TIF Board.

Property Tax rate – the tax rate was comprised of two components of operation and maintenance; and GO debt service. No tax rate increase was proposed for 2012-13. The average residential property taxes were reviewed.

Truth in Taxation Information – Texas Property Tax Code mandated the calculation and publication of effective and rollback rates. If the proposed tax rate exceeded the effective rate, the Council would have to vote to consider a proposal for a tax increase on August 7th and a public hearing would be held on the tax rate on August 21st and August 28th. The 2012-13 effective tax rate was estimated to be \$0.68045 and the estimated rollback tax rate was \$0.73217. As the proposed tax rate exceeded the effective tax rate, a separate vote and hearing was required by Council. If Council elected to adopt the effective rate, approximately \$624,000 in property taxes would be lost.

Other Key Revenues – General Fund franchise fees were proposed to decline primarily due to additional revenue transferred to the Street Improvement Fund. Administrative Cost Transfers to the General Fund were proposed to increase due to a recent cost allocation plan study. Interest income was expected to remain extremely low due to unusually low interest rates.

Council Member Gregory requested a list of departments that had administrative cost transfers to and from the General Fund.

Council Member Roden requested a GIS map of the property values compared to areas of the City.

General Fund Expenditures – discussion centered on expenditure characteristics; cost containment strategy; compensation plan; expenditure enhancements; fund balance; and proposed 2012-13 General Fund Five Year Forecast. Langley reviewed General Fund Expenditure components and General Fund budget by department.

Prior Reductions – in 2009-10 approximately \$1.2 million in reductions were included in the adopted budget. In 2011-12 the majority of these cost saving measures were retained. In the 2012-13 proposed budget most of the prior reductions made in 2010-11 and 2009-10 were maintained.

Vacancy Management Plan – The equivalent of 22 positions were not funded in 2010-11 and the equivalent of 14 positions were not funded in 2011-12. While a specific group of vacant positions was initially targeted, the purpose of the plan was to manage to a total savings amount rather than a set of positions. The Vacancy Management Program was proposed again for 2012-13 and a savings of approximately \$0.9 million was expected.

Compensation – 2010-11 did not include any merit increases for employees while 2011-12 included a 2% merit increase for employees. 2011 and 2012 budgets also included normal Step increases for Police/Fire Civil Service employees. For 2012-13 a 3% merit increase for non-civil service employees was planned. A large percentage of employees were below midpoint of their salary range and as a result, equity pay adjustments for employees below their market average was also recommended if they had satisfactory performance.

Council discussed the reasons employees left the city, market ranges, and pay adjustments.

Texas Municipal Retirement System – in 2008 Council discussed the TMRS pension plan and the need to change from the unit credit to projected unit credit actuarial cost method. A number of options were discussed and Council elected to maintain benefits and phase in to a higher contribution rate over a period of up to 8 years. Due to changes related to SB 350 passed in 2011, and better than expected financial performance, the full rate was now proposed for 2012-13. Early implementation would improve funding ratios and reduce future actuarial rates.

Firemen's Relief and Retirement Fund – in addition to TMRS, the City maintained a Firemen's Relief and Retirement fund for Civil Service employees in the Fire Department. While not subject to the same actuarial changes as TMRS, the Council elected to contribute the same rate to the FRRF in 2008. Accordingly, the 2012-13 contribution to the FRRF had been increased to match the full TMRS rate mentioned previously.

General Fund Supplemental Packages Recommended - \$9.9 million and 43.8 full time employees in supplemental packages were submitted to the City Manager for consideration in the General Fund. Departments included in the supplemental packages included Fire, Police, Animal Control, Municipal Court, Traffic, Library, Building Inspections, Planning, Parks, Facilities Management, Public Communications, Economic Development and Finance. Langley detailed the packages requested by each department. Langley reviewed the proposed funding for the Downtown Grant Reinvestment Program which would put an additional \$50,000 into the existing funding of \$50,000.

Council Member Roden stated that there were still funds in this year's budget for the bike program and asked how those funds could be maintained for use in future years.

Langley stated that the funds were transferred from the General Fund to a project account which was a multiple year account.

Council Member Roden stated that as the bike plan was updated, he would like to see what the funds were spent on this year.

Council Member Gregory questioned if all of the funding was not going to be spent for next year would there be the possibility of creating a position, even if part-time, to oversee the implementation of the bike plan.

Mayor Pro Tem Kamp asked about the Downtown Circulator.

Langley stated that the Circulator was not recommended as part of the City Manager budget.

Council Member Roden requested a breakdown on how the funds in the Neighborhood Grant Program had been used.

Council Member Watts requested more information on how the determination was made for funding of the projects and the structure of the program.

Council Member Watts indicated that he was not in favor of increasing the funding in the Downtown Grant Reinvestment Program. It did not make sense to give the TIF funding and other incentives for the Downtown area.

Council Member King stated that the Downtown was a big drawing factor and drew people here to visit and move here. He felt the funding was appropriate.

Mayor Burroughs stated that the original funding was at such a low level that it was not bringing large scale projects to the Downtown. The funds were used for smaller projects. The Economic Development Partnership Board felt it was hard to have significant redevelopment in the Downtown due to the low funding in the program. His opinion was that these were redevelopment/green field development issues and should not be required to complete some of the improvements that were currently triggered by the way the current Development Code was written. He did not object to some additional flexibility to fund some major infrastructure improvements.

Mayor Pro Tem Kamp agreed with the Mayor and Council Member King. She was in support of the fund and felt it had done some good things for the Downtown area. TIF projects were for much larger projects and the grant program was for smaller projects.

Council Member Roden questioned if there was a sense for projects done in last two years which would have not been done if the program was not available.

Mayor Burroughs stated that the funding had been so low that it eliminated the amount of funding to be substantial enough to do projects.

Council Member Roden questioned if there was a need to revisit the policy of how to give out the money to achieve the attraction of significant development that was needed.

Council Member Watts stated that it was a good observation that the money was so small that larger projects could not be done. It was not so much the money but the principle and policy that drove the policy of putting money where it was not needed. Redevelopment in the Downtown was happening. It was his understanding that the grant funds were limited to certain projects.

Mayor Pro Tem Kamp stated that there were smaller projects that did not happen but not larger projects that did not happen.

Council Member Watts stated that he would like to see those projects that were turned down.

Council Member Gregory stated that he had requested to increase the fund but also to expand the program to other parts of the City to be able to use the funds and not just the Downtown area. Currently there was nothing in place to allow for that other than in the Downtown area. He did not want to abandon the Downtown area as that was what made Denton unique.

Council Member King stated that buying a building was easier to get funding. A tenant had a harder time getting financing and the program might help those types of projects.

Council Member Engelbrecht stated that he could see both positions but in the future he would be looking to see if the grants were for business/services not already in the Downtown area. There was a need to look at what parts the Downtown community was missing and not support the same type of business that were already there.

Mayor Burroughs stated that the general direction from Council was if the increased funding were kept in the budget, footnotes be given to the Economic Development Partnership Board about seeing novelty in projects and see some projects not currently available because of the small dollars that were now available.

Council Member Roden also requested that the policy be looked at to include different areas of the City and not just the Downtown.

Other General Fund expenditures – In addition to the supplemental packages, \$396,329 was recommended to be funded from 2011-12 resources. Projects in that category included an engineering study of the Lake Forest Dam as required by the State of Texas; vehicles and equipment related to the Gas Well Review and Code Enforcement Divisions, remodel Municipal Court front counter area to provide better access and increased security; a salary survey and compensation analysis; Laserfiche imaging system update; equipment related to the Aircraft Rescue and Firefighting vehicle; hazardous materials contract and no parking markings in neighborhoods near TWU and UNT.

Council Member Roden stated that some Council requests had not been discussed such as the community market and restoring Council contingency funds.

Mayor Pro Tem Kamp also requested more information as to why the Downtown Circulator and Council contingency funds were not included in budget.

City Manager Campbell stated that in the past budget, the Council contingency was \$17,500. To use the funds, the program item had to come to Council and a formal contract completed with the agency that would be receiving the funding. It was his intent that if Council wanted to have a contingency fund, it might be better to keep the funds in a general contingency account and bring each project forward to Council rather than parcel out individual amounts.

Mayor Burroughs stated that in the past the program was very inefficient. There was a need for microgrants that the standard process did not accommodate. His request to the City Manager would be to not to have same structure but if projects came up, a limited City participation would be of help. The requests could be put through the City Manager to consider individually.

City Manager Campbell responded to the question regarding the Downtown Circulator. His budget did not recommend it as there were many other projects that needed to be put in the budget. It was not highest priority at this point in time.

Mayor Pro Kamp agreed that the improvements on Hickory Street should be done first and then consider the Downtown Circulator project.

Council Member Gregory requested a financial statement on the operation of Gas Well Division in terms of actual costs for equipment replacements so as to revise fees to cover the costs of the program if necessary.

Council Member Roden questioned the original process and what were the benefits of the Council contingency program.

Mayor Pro Tem Kamp stated that each Council Member had a specific amount of money to designate to different projects. Requests were received from various organizations or people for the funding as small amounts of funding could make a difference to some organizations. There were specific guidelines for spending the funds.

Mayor Burroughs stated that the concept was to be able to reach out to the community to provide funding for smaller projects that created good will throughout the City.

Council Member Engelbrecht stated the other side was that there was a large amount of staff work involved to provide these funds.

Council Member Roden stated that he would like to explore further Council having these funds. It seemed like the funds were eliminated in the past due to budget issues. He also requested a further discussion on community market enhancements.

Council Member Engelbrecht stated that other cities had amazing community markets and he would like to have a discussion on further enhancements for the market.

Council Member Engelbrecht questioned if the no parking signs that were proposed in the budget also included the West Oak area.

Langley indicated that he would find out that information and would provide a response to the Council.

Fred Greene, Assistant City Manager, stated that a majority of the signs were planned to be around UNT where people were parking too close to driveways.

Council Member Watts questioned if some of these other General fund expenditures were one-time costs and some were ongoing.

Langley stated that all were one-time costs out of 2011-12 resources.

Summary of Assumptions – Langley reviewed the summary of assumption for 2013-2017, fund balance reserves, and the proposed 2012-13 General Fund Long Term Plan. The Fund Balance reserves were expected to remain above the target level over the next several years. The target for the fund balance was revised in 2011-12 in response to conversations with bond rating agencies. The revised target was approved as part of the 2011-12 budget.

Council Member Watts questioned if a health insurance budget amendment might be required for this fiscal year.

Langley stated that a health insurance budget amendment was needed for the current year and staff was bringing it to the Audit/Finance Committee next week.

Street Improvement Fund – Langley reviewed street maintenance funding challenges and the 2012-13 proposed funding.

Street maintenance funding – one of the main street maintenance issues was that the OCI rating of streets showed that the streets were deteriorating over the past several years. The current level of street maintenance was insufficient to maintain current OCI rating. To address these issues a Street Improvement Fund was created to separately account for street maintenance activities. The funding was increased by transferring increases in franchise fee revenue and transferring interest cost savings from utility funds as a result of the issuance of Certificates of Obligation instead of Utility System Revenue Bonds. Street impact fees might also be considered in the future. Langley reviewed planned increases in funding for street maintenance.

GO Debt Service fund – the discussion included a review of the proposed 2012-13 debt issuances and a planned future bond sales and potential issues.

The GO debt service fund assumed no tax rate increase. The appraisal growth assumptions mirrored those in the General Fund. Staff recommended issuing \$11.2 million in Certificates of Obligation in 2012-13 for the vehicle replacements and facility improvement; the Animal Care and Adoption Center; property acquisition at the Denton Airport; new traffic signals; and the Public Safety Training Facility at City Hall East.

GO Debt Service Fund 2012-13 and beyond – a \$20.4 million bond program for street reconstruction was proposed in 2012-13 which would be sold over 5 years. \$9.0 million in Certificates of Obligation were also planned to be issued for the required match on Bonnie Brae and Mayhill projects in 2013-14. Future size and timing of additional GO bond elections would be dependent on economic factors, however, a \$50-60 million 5 year program may be possible in 2014-15 or 2015-16

Future bond program projects – the next voter approved bond program was planned for 2014-15 or 2015-16. This bond program timeline assumed no tax rate increase. However, more immediate needs were identified which might require a tax increase. Langley reviewed the needs at the various fire stations.

Fire Station Improvements – a fire station location study was currently underway with expected results by the end of summer or early fall. Based on the outcome of the study, stations may be recommended to be relocated. If so, property would need to be acquired and there was an unknown cost for property acquisition, design and construction of a new station. If current locations were sufficient, stations could be replaced for approximately \$4.0 million each. Staff would brief Council and provide a recommendation on how to proceed.

Other Major Funds – Langley presented information on other major funds including the electric, water, wastewater, solid waste, health insurance and other miscellaneous funds.

Utility funds – the Public Utilities Board recommended utility budgets to the Council on June 25th. Major impacts on the 2012-13 operating budget, CIP and five year financial forecasts included the replacement of a larger percentage of aging infrastructure with revenue and a significantly larger 5 year CIP program than anticipated last fiscal year. The proposed budgets were subject to the following risks that might affect financial performance: inflation of materials, chemicals and fuel; aging infrastructure; water supply; reserve targets; and debt coverage ratios.

Strategies and objectives were developed to strengthen the financial integrity of each utility: (1) phase-in replacement of aging infrastructure with current revenue funding and reduce reliance on debt financing; (2) reach and maintain sufficient reserve fund, (3) maintain water and wastewater impact fee reserve balances at \$1 million for each utility, (4) maintain water and wastewater Development Plan Line reserve balances at \$1 million, (5) create a \$1 million drainage reserve in the Wastewater Fund and (6) maintain debt coverage ratio of 1.25 or better for each utility.

Electric fund – the proposed budget included no base rate increase for electric utility customers, an accelerate CIP program that would have a significant impact on operations for the foreseeable future, and 11.5 new full time employees. Major CIP projects were reviewed as well as the five-year CIP debt issuance.

Water fund – the proposed budget included 3 full time employees. A 9.5% rate increase was originally considered with an 8.0% rate increase recommended by the Public Utilities Board which represented approximately a \$3.25 monthly increase to the average residential customer. Major 2012-13 CIP projects were reviewed along with the water five year financial forecast.

Council Member Gregory requested a listing of the justification for the rate increase.

Council Member Engelbrecht requested a comparison with other cities in terms of utility rates.

Wastewater fund – the proposed budget recommended the addition of 2.88 new full time employees. A 12.0% rate increase was originally contemplated but the Public Utilities Board recommended a 9.0% increase. That rate increase represented approximately \$2.50 monthly increase to the average residential customer. Major 2012-13 CIP projects were reviewed along with the five year wastewater financial forecast.

Solid Waste Fund – the curbside recycling services were brought in-house in 2012 which resulted in a net lower cost than the private services. Five new full time employees were recommended. Residential and commercial rate increases were proposed for 2012-13. This represented a \$0.85 monthly increase in standard cart refuse container. No recycling fee

increases were proposed. Major 2012-13 CIP projects were reviewed along with the five year financial forecast for solid waste.

Health Insurance Fund – A \$1.4 million budget amendment was needed in 2011-12 due to the discovery of previously undiagnosed conditions from the clinic Health Risk Assessments and significantly more claims over \$25K than in the prior year. This issue would be discussed with the Audit/Finance Committee on August 7th. Currently staff was working on evaluating employee/retiree rates and plan design. Details would be presented in the near future to Council. A 6% increase in city contributions was included in 2012-13 proposed budget.

Parks Gas Well Fund - \$800,000 in expenditures of Parks Gas Well funds were proposed to be used for (1) \$500,000 for property acquisition at North Lakes Park; (2) \$200,000 for construction at the golf driving range and (3) \$100,000 for adult soccer field construction.

Other funds – the Hotel Occupancy Tax Committee had provided a recommendation for Tourism and Convention funds to include \$100k for contingency purposes for potential expenses associated with a planned convention center. Capital improvement program budget and grant funds budget also included.

Summary Information – discussion included a full time employee summary, total expenditure budget by fund, proposed budget by fund, and Next Steps.

The Council did not go into Closed Session following the completion of the budget discussion.

With no further business the meeting was adjourned at 1:20 p.m.

MARK A. BURROUGHS
MAYOR
CITY OF DENTON, TEXAS

JENNIFER WALTERS
CITY SECRETARY
CITY OF DENTON, TEXAS