

# FY2023 Budget Pressures for Council Feedback

# Agenda

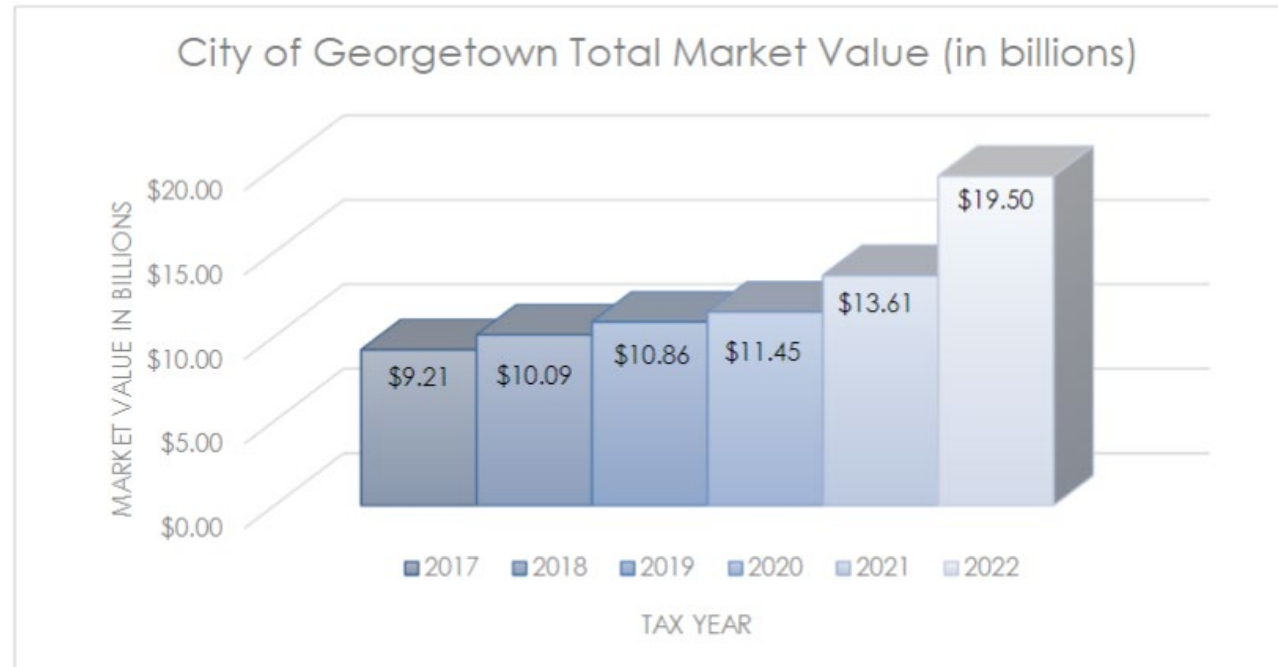
- Preview major changes in revenues and expenditures for the FY2023 budget
- Present findings from Council-requested research on Payment in Lieu of Taxes
- Get Council feedback prior to draft budget workshops July 19<sup>th</sup> and 20<sup>th</sup>

Note – estimates on the following slides are preliminary and subject to change prior the draft and proposed budgets as staff work through the review process over the summer

# FY23 Budget Themes

- Maintain service levels
  - Address rapid growth and significant inflation
- Address staff workload pressures
- Improve risk management
- Responding to a tight labor market

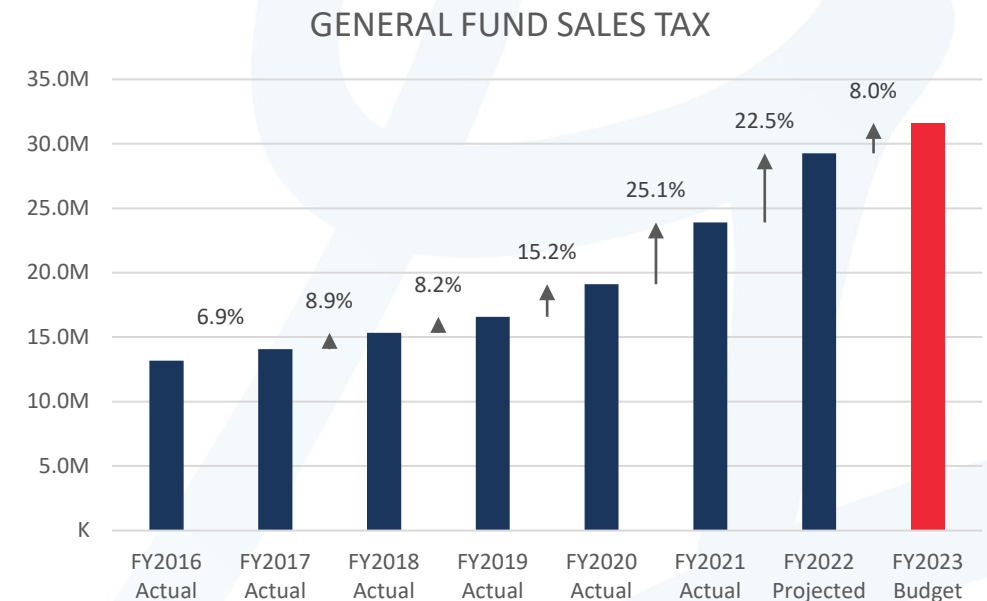
# Revenue Changes – Property Tax



- 43% preliminary increase in total market value, \$1.03 billion in new value
- State imposed 3.5% cap on O&M side; transportation and facilities pressure on the debt side
- O&M Property Tax estimate – anticipating \$1 million increase over FY2022

# Revenue Changes – Sales Tax

- YTD trends and year-end estimates:
  - FY22 year-end estimate at \$29.3M
  - FY23 increase estimated at \$2.3M
- Volatility caution – building materials make up 20% of year-to-date sales tax revenue
- Propose an increase to the Economic Stability Reserve from 6% to 8%.
  - \$1.46M increase



# Revenue Changes – Cost Allocation Model (Admin Charges)

- Completed consultant study
- Results reduced revenues/increased expenses to the General Fund by \$4M
- Two-year phase in 2023 and 2024
  - FY23 impact is a \$2M reduction in the General Fund

# Revenue Changes – ESD8 Contract

- Agreement between the City and ESD #8 for Fire and EMS support services
- ESD Property tax revenue not keeping up with their contract cost; sales tax election failed
- There's a potential for ESD #8 to not be able to meet their obligations and will need to evaluate next steps.
- ESD #8 expenses exceeded their revenues by \$1.3M in FY2022, remaining fund balance of \$3.19M

# Revenue Changes – Payment in Lieu of Taxes

- Current PILOT methodology represents approximately 10% \$9.3M of revenue in the General Fund
- The Electric PILOT has been artificially capped in past years to assist in restoring the electric utility reserves
- FY22 reserves are projected to be above targets
- Current budget development by staff would cap Electric Pilot at \$5.5M (\$1.7M below our financial policies)

# Expense Changes – Inflation

- Fuel: Mid-year budget amendment adjusted the budget for fuel by 37% city-wide. Proposing a 21% increase over the FY2022 budget in FY2023.
- Vehicles: prices increasing, and production of most vehicles delayed because of supply change issues.
- Chemicals: Mid-year budget amendment adjusted the budget for chemicals by 76%. Proposing a 42% increase over FY2022 budget in FY2023.

# Expense Changes – Employee Recruitment and Retention

- Second half of FY2022 3% base pay increase - \$1.6M
- Second half of 20.5 (General Fund) new positions in FY2022 - \$340K
- Merit and Market for FY2023
  - \$750K General Fund impact
- Public Safety Meet and Confer – \$1.8M (estimate)

# Expense Changes – Development Services

- Development Services: Planning, Inspections, Engineering - \$1.6M
  - Senior Planner (\$77K)
  - Planning Consulting Services (\$50K)
  - Permit Technician and Building Plans Examiner (\$115K)
  - Project Manager (\$98K)
  - 3 Public Improvements Inspectors (\$220K)
  - Project Planner Scheduler (\$70K)
  - 5 vehicles (\$280K)
  - Development Engineering Consulting Services (\$700K)

# Expense Changes – Public Safety

- Public Safety - \$2.5M
  - K-9 unit staffing - \$410k
  - Patrol and Investigations staffing - \$640k
  - Battalion Chiefs (3) and Fire Life/Safety staffing - \$873k
  - Fire Equipment and Supplies - \$590k

# Expense Changes – Risk Management

- Risk Management - \$440k
  - Emergency Management staffing – \$74k
  - Finance (treasury/accounting) staffing - \$82k
  - Real Estate consulting - \$50k
  - Appraisal contracting - \$30k
  - Performance Management software platform - \$120k

# Expense Changes – Public Works

- Public Works - \$735k
  - Transportation Planning staffing - \$80k
  - Sign Maintenance contract - \$150k
  - Traffic studies contract - \$150k
  - Field crews - \$115k
  - Sign and Signal staffing - \$240k

# Expense Changes – Communications/Customer Service/ Special Events

- Communications/Customer Service/Special Events - \$728k
  - Social Media staffing - \$67k
  - “311 Like” implementation - \$200k
  - Branding implementation - \$150k
  - Special Events staffing - \$146k
  - 175<sup>th</sup> City Birthday Celebration - \$125
  - Street Maintenance Sales Tax Election Education - \$40k

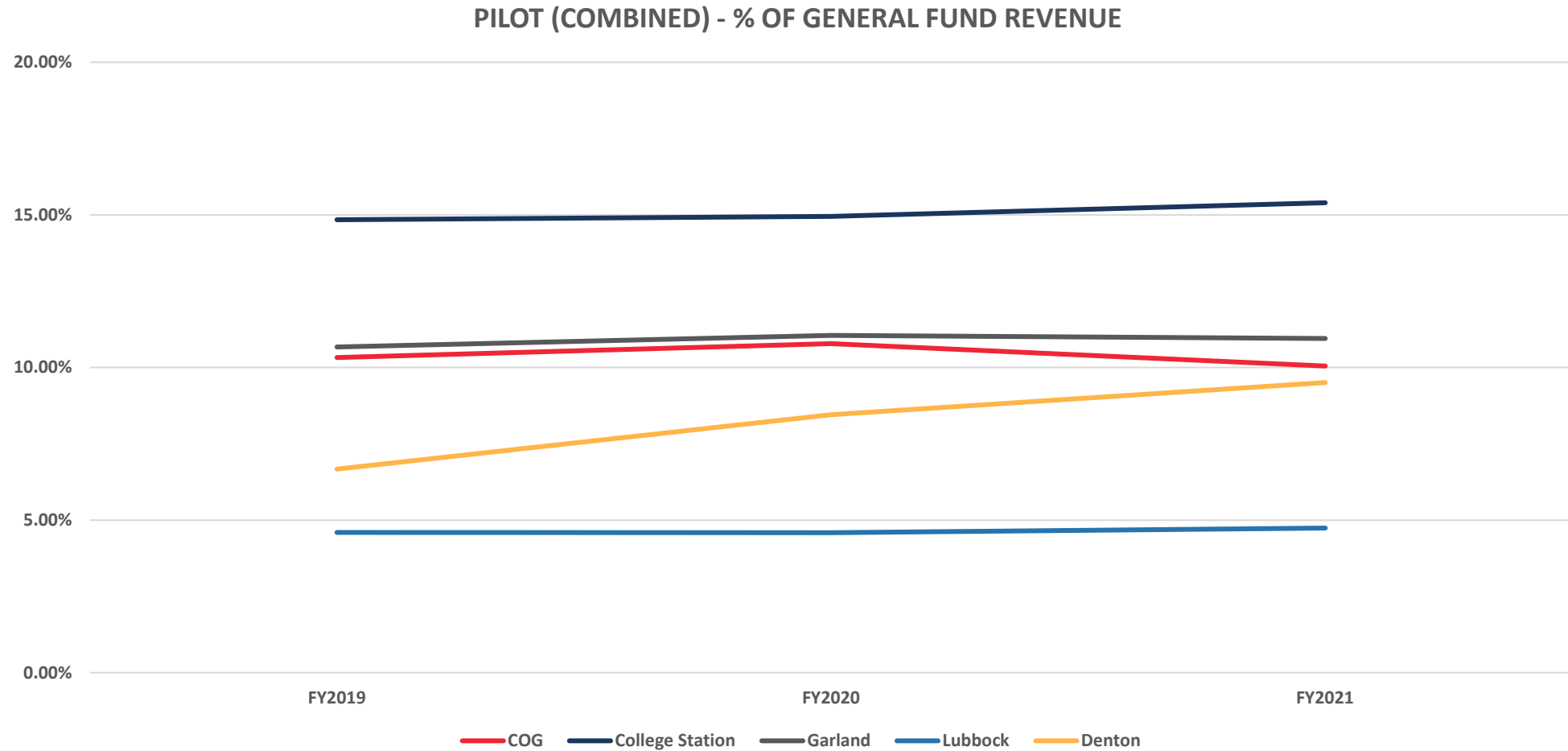
# Electric Pilot Comparisons

- Compared Georgetown, College Station, Lubbock, Denton and Garland

Each cities calculates their transfers differently...not a specific standards

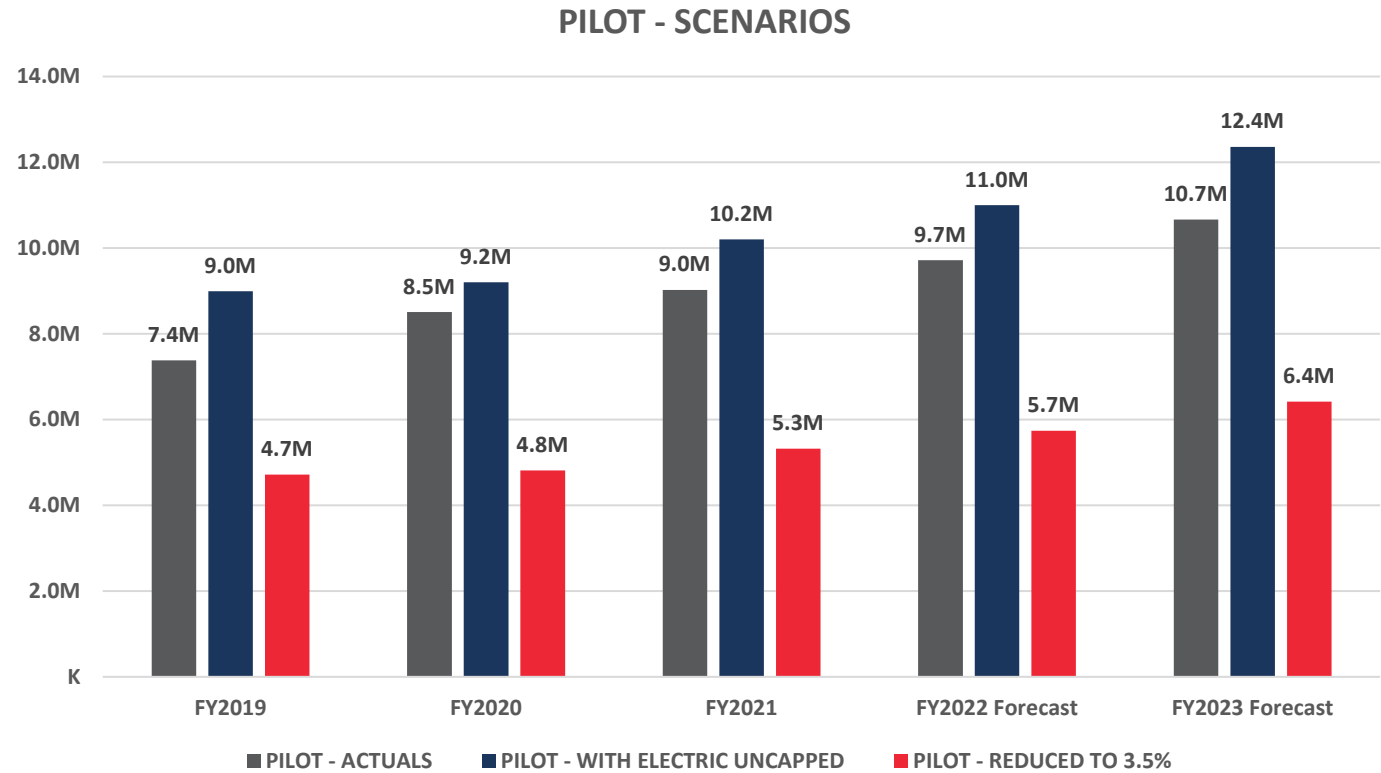
- Methodologies:
  - City of Georgetown: 7% of the gross revenue of the base monthly charge plus \$0.007253/kWh sold
  - College Station: Calculated based on kWh usage at a rate that would equate to an approximate 9.0% franchise fee, and the total transfer amount will not exceed 9.0% of total estimated operating revenues
  - Lubbock: 1% of metered revenues
  - Denton: 3.5% of rate revenue. PILOT is capped at 6% of the net investment.
  - Garland: Percentage applied to a three-year moving average of net retail sales plus an in-lieu of Ad Valorem Tax assessment on GP&L's (Garland Power and Light) fixed assets and inventory as of the close of the fiscal year. The percentage is currently at 8%.

# Revenue Changes – Payment in Lieu of Taxes

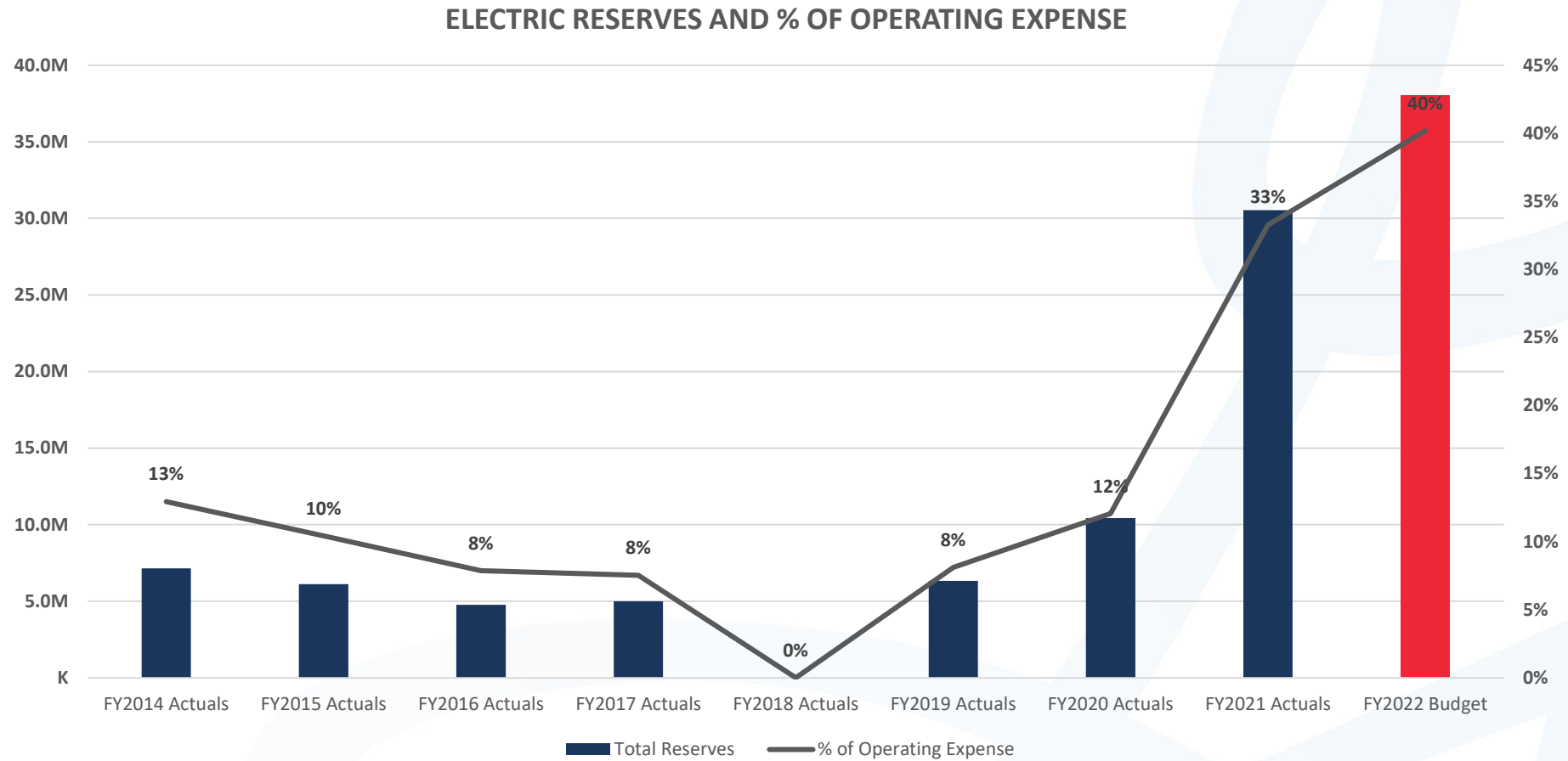


# Revenue Changes – Payment in Lieu of Taxes

- Reduce policy to half PILOT across all utility funds
  - General Fund Impact
    - FY2019: \$2.7M
    - FY2020: \$3.6M
    - FY2021: \$3.7M
    - FY2022 Forecast: \$3.9M
    - FY2023 Forecast: \$4.2M



# Electric Fund Reserve History



# Pilot Treatment Options

1. Stay the current course
  - Continue to cap the Electric Pilot below the financial policies - \$1.7M impact to General Fund in FY23
  - Look at further lowering Electric Pilot using one-time funds after the close of the fiscal year
2. Reduce Pilot in half in FY23 - \$4.2M impact to the General Fund in FY23
3. Set a Pilot reduction goal with a multi-year reduction plan
  - Example: Reduce to a certain target over 5 years
4. Review Pilot at a policy level following the implementation of the allocation study...estimated to be done in FY25

# Next Steps

- Week of July 11: distribute draft budget books
- July 12 Council Workshop: fee increase proposals; tax-supported CIP balancing
- July 19 and 20: presentation of the draft 2023 budget
- Aug 9: proposed budget
- Aug 23: first reading to adopt the budget, tax rates, fees and utility rates; fiscal policies