

July 30, 2007

Dear Mayor and Council,

We respectfully submit for your consideration the Fiscal Year 2007-2008 Business Plan and Operating Budget for the City of Kaufman. The budget is set in the context of the goals the Council has set in their strategic planning process, the limitations of our local economy, and the continuing effort of staff to perfect good management practices; i.e. provide the best services at least cost.

There is no requested change in the tax rate and the proposed has the last of three 3% increases in the water rate. After this increase, the City will still be able to sell water at a very competitive rate and we need to keep our eyes to the future to assure the solvency of the Water Fund. There are no increases in the sewer rate again. Staff feels it is still too high and continue to find other means to make the necessary improvements.

The total budget for all funds is \$7,034,249 compared to the \$6,809,530 amended budget for this year (net of expenses related to bond proceeds). The proposed FY08 budget includes an Impact Fee Fund Budget for \$210,000 that appears for the first time. These funds have restricted use and are not a part of the normal operational budget. The total FY08 budget more closely relates to the current budget if you take out the special Impact Fee Budget. (Total budget \$7,034,249 less Impact Fee Budget \$210,000 = \$6,824,249) This amount is within range of the current amended budget of \$6,809,530. We are also changing the budget structure this year to more closely reflect common practices. We are creating a number of fiduciary funds to better account for designated funds like court technology, court security, impact fees, and equipment replacement.

In order for you and the public to better understand what this budget is attempting to achieve, this submittal letter is framed in three parts. First is a capsulation of the goals City Council set for itself at the annual strategic planning retreat. Then there is a description of what has happened in the current year and what effect it will have on next year. Third, there will be a description of the costs of the proposed budget and what revenues will be necessary to fund them. Last we will highlight the capital requests and new programs we suggest to continually move the City forward.

City Council Strategic Goals

The Council goals are as follows:

- Start planning and construction of the thoroughfare connection from “Old Kemp Highway” to U. S. 34 to stimulate commercial development in the U. S. 175 and U. S. 34 area.
- Update the Annexation Plan to include tracts of land east and west of the City along U. S. 175 to manage positive growth at the City’s east and west entrances.
- Analyze the effect of impact fees for new development on the City’s rate of growth and make whatever necessary adjustments to encourage quality growth and minimize cost of development on existing property owners.
- Develop incentives for upscale development so our residents will benefit from an improved tax base and property tax rate.
- Establish a rental housing inspection program to improve the appearance of our neighborhoods.
- Make necessary improvements to public spaces in City Hall until such time the City can afford a comprehensive City Hall capital improvement plan.
- Develop a specific strategic plan for improved police services to our citizens and business owners.

The following goals established by the City Council for Fiscal Year 2007 are still important:

- To investigate the Wi-Five Internet business for the near future.
- Develop a 10-year Plan for streets, curbs and storm drainage and sidewalks, including a financial plan over the 10 years.
- To address the Police Department’s appearance overall (improve performance and the way they represent the City). Start discussion with the County Sheriff regarding the use of the Kaufman County Jail for prisoners. Investigate County rates, report on how many prisoners are transferred to the County yearly, and report on how many prisoners does the City hold in the City’s jail facility yearly.

- Highway 34 Realignment starting at Highway 175 (erect overpass bridge) and extend to Highway 34 and Highway 243 within the next three years. This would decrease traffic congestion, reduce potential hazardous trucks and/or oversized loads in the Central Business District and would improve school safety.
- Expand Medical Industry – Trinity Valley Community College Nursing School, expansion of program and expand student population by 30% over a seven-year period.
- Farmers Market – Continue efforts to locate suitable facilities, location, and vendors.
- Sports Complex – consider fees for tournaments, annual vehicle stickers and/or parking fees and that the city contracts the concession stand.

This Year

We have had a very productive year and staff has been frugal with public funds. In this year's budget, Council appropriated \$7,561,963. This funding level would have required that we spend \$362,653 of our Excess Fund Balances. Currently it looks like we are going to spend only \$7,232,461. This means we are spending only \$25,893 out of reserves. We actually anticipate adding \$110,271.00 to the Utility Fund.

On the revenue side, we did very well in the General Fund. We budgeted \$3,486,855 in revenues and it looks like we are going to collect \$3,537,704. The General Fund gets 90% of its revenues from three different sources: Property Tax, Sales Tax, and Franchise Taxes. All of the Franchise Taxes came in lower or just about where budgeted. Electric Franchise Tax was down, the Gas Franchise Tax was down and the Cable and Telephone Franchise revenues were down. Only the IESI Franchise tax held to budget.

The Property Taxes projected to be collected are \$1,315,000 compared to the \$1,326,000 we budgeted. This is due to the tax rate being calculated on the assumption that we will collect 100% of the taxes, which is rarely the case.

The Sales Tax is the only revenue stream that performed strongly for us. We expect to collect \$1,117,832 as compared to the \$1,050,000 that was budgeted. The first half of the year, the Sales Tax performed very strong and we expect it to flatten out in the third quarter.

In terms of accomplishments, the City installed new water and sewer lines this year as planned. We still have one more sewer project funded through the Texas Water Development Board (TWDB) to complete. We did complete the first two phases and completed the water lines along Jefferson Street and East Grove funded through grant

money. The improvements to the Water Towers will be let this fall when water demand is down and we can afford the time to drain each tower. The new aerial fire truck has been purchased and the firefighters have undergone training in its use.

Operationally, we have closed the City's "jail" facility down and all prisoners are being transported to the County facility. Also, staff has updated the zoning ordinance and has made substantial progress on the Developer's Handbook. Public Works has done an excellent job on handling the many water line breaks we experienced through the dry winter, and the flooding and brush removal during the stormy spring. Code Enforcement has increased its performance many times over with the new code enforcement officer. We have torn down four substandard buildings and set up stronger enforcement procedures to improve the quality of our neighborhoods. The Zoning Board of Adjustment processed the nuisance complaint on the meat processing plant and has ordered a cease in operations for the non-conforming use.

All in all, Kaufman and Kaufman City operations are quite different at this point in time compared to last year. The staff is focused on Council goals and there have been substantial improvements to the quality of life in Kaufman.

Next Year

For the Fiscal Year 2007-2008 operating budget, staff proposes that we budget \$6,505,952 in expenses with \$6,210,885 in revenues and the use of \$295,067 in excess reserves to cover the costs. These operating expenses are just slightly under (\$33,011) the current years amended budgeted expenses of \$6,538,963 (net of related bond expenses).

General Fund

Goals.

- Reduce funding of street overlay to \$200,000 and adding \$75,000 for improvement of the parking lot at the Sports Complex.
- Add a mowing crew during growing seasons to focus on public rights of way. This crew will maintain places like the entryways to the City, the lot next to McDonalds and the new landscaping at Highway 175 and Washington Street. Our goal is to set the standard for a cleaner and more attractive community, encouraging property owners to follow suit.
- Revise land use plan and subdivision regulations for \$65,000. This was a program scheduled for the current budget year, but because we did not budget adequate funds we rolled this funding over to this budget and added another \$25,000.
- Increase retirement benefits for employees from 6% to 7%. Analysis shows that Kaufman is one of few cities our size and the only city in northern Kaufman County and the metroplex that offers a 6% retirement program. The cost of this increase to the General Fund is \$36,130.
- Personnel Study for \$12,000. The Council knows we have a number of problems with the compensation plan for City employees. We have had a high turn over

rate this year and almost every employee left for a higher salary. This year we lost three people in the Water and Sewer crews that left for better pay. It has crippled the productivity of that department. We continue to lose police officers and we lost one key administrative position. Our annual market analysis shows our salaries are, on an average, 21% below market for similar cities. It has been 8 years since our last professional classification and market study. The one we have now has been amended a number of times to meet current needs or solve a specific problem. These amendments, if not carefully handled, will put the personnel system out of balance. The study will also establish targets (defined by Council) that will move our employees towards parity.

- Move funds out of the General Fund balances to give the Council and the Public a better understanding of funds designated for specific purposes and recognize actual reserves and excess fund balances. There is also a transfer of planned capital expenditures to the Capital Improvement Fund and a transfer for equipment expenditures to the equipment replacement fund.

Expenses. The General Fund has planned expenditures of \$3,893,107. This compares to the current year's amended budgeted expenditures of \$3,968,779 (net of related bond expenses). That is a \$75,672 decrease or 1.91%. The proposed fiscal year 2008 General Fund Budget still provides for an additional \$74,565 for a 4% employee increase and \$36,130 increase for an improved retirement benefit. Street improvements continue in fiscal year 2008 with \$200,000 for street overlay and \$75,000 for regular street maintenance provided by city crews.

Revenues. The existing revenues available to fund this General Fund Budget total \$3,662,139. This is a \$175,284 increase or 5% over the current year. Most of this gain is through growth in total assessed valuation and sales tax revenues. We can expect a \$206,745 increase in sales and property tax revenues.

There is no request for an increase in the tax rate (nor can staff recommend decreasing it and meet the challenges ahead.) In fact, there is no request for any increase in fees in the General Fund. However, inspection cost has increased significantly and that will be visited during the next fiscal year.

Fund Balances. In the current year, the City budgeted to use \$347,069 of available fund balances to balance the General Fund budget. Because of conservative budgeting, unanticipated revenues and adjustments made through the year, it appears we are going to use \$136,164 of the available fund balances. This puts the City in a better place than we planned for next year.

Therefore, the necessary \$230,968 to balance the general fund budget is readily available in excess fund balances. The use of fund balances are reserved for one time capital expenditures and studies.

Conclusion. The General Fund budget calls for \$3,893,107 in expenses and is covered by \$3,662,139 in revenues from existing resources and \$230,968 in fund reserves. This

budget does not call for any tax rate increase or any other fee increases. With this budget we will start making inroads on street maintenance, beautification, and improved service to the public and systemic improvements in the management of the City.

Water & Sewer Fund

Goals.

- Finish Phase 3 of the TWDB sewer improvements.
- Complete water tower improvements.
- Improve primary treatment at the wastewater plant by making improvements to the bar screen. This improvement will reduce the numbers of breakdowns in equipment due to large objects coming through the system creating damage.
- Miscellaneous equipment for the distribution and collection crews.

Expenses. The Water and Sewer Fund has planned expenditures of \$2,612,845. This compares to the current year's amended budgeted expenditures of \$2,570,184 (net of related bond proceeds expenses for water tower improvements). That is a 42,661 increase or 1.66%. There is a \$38,000 increase for a new person in the meter reading area. This additional person will allow two crews to operate most of the time. Currently, because of having one person off for meter reading and time off, vacations, etc., more often than not, Public Works has to combine two crews to make up one effective repair crew. One additional person for meter reading will alleviate most of the work scheduling problems for the two crews.

There is also an additional \$27,249 for a 4% employee increase to employees in the Water and Sewer Fund and another \$13,218 to increase retirement from 6% to 7%.

Debt Service for the Utility Fund has increased \$52,971.

Revenues. The existing revenues available to fund this Water and Sewer Fund Budget total \$2,548,746. This is a \$23,146 or 0.9% over the current year. Most of this gain is through the last of three 3% steps in water rates budgeted this fiscal year 2008.

Fund Balances. In the current year, the City budgeted to use \$15,584 of available fund balances to balance the budget. Because of conservative budgeting, unanticipated revenues and adjustments made through the year, it appears we are going to add \$110,271 to the available fund balances. This puts the City in an even better place for next year.

This budget for the Water and Sewer Fund proposes to use \$64,099 in fund reserves. With the available excess reserves carried over from the current year, it is an acceptable draw down.

Conclusion. The Water and Sewer Fund Budget calls for \$2,612,845 in expenses and is covered by \$2,548,746 in revenues from existing resources and \$64,099 in fund reserves. This budget also incorporates a 3% increase in water rates for operations and maintenance. Sewer rates remain the same.

Capital Projects and New Programs

The following list of Capital Projects and New Programs have been selectively chosen to move the community forward in meeting the anticipated demand of growth. Some of the programs are renovating or replacing existing resources to bring them up to standard. Other programs are system improvements to more effectively serve the community.

Mayor & Council

Sidewalk Repairs - \$5,000

The Council set for one of their goals this year to provide an incentive for homeowners to repair their sidewalks. The incentive calls for 50% participation on the City's part. This first year we are setting aside \$5,000 out of reserves.

Administration

Compensation Study - \$12,000

Annual surveys conducted by staff suggest that city employees are being paid 21% below the average of similar cities to Kaufman. The compensation and classification plan has not been updated for over eight years.

Printer - \$3,000

There is a need for a good color printer that we could possibly use for newsletters and other materials to promote the City.

Facilities Management

Lobby Improvements - \$8,000

The Council desires that we improve the appearance of the places in City Hall where the public comes to do business. These funds are geared toward making cosmetic improvements to the lobby area.

Municipal Court

Office Furniture - \$650

Replace old desk and chair for Court Clerk.

Finance Department

Replace Printer - \$1,500

This was approved in FY07 budget, however the old printer is still working so we have delayed purchasing this printer.

Planning

Land Use Plan & Subdivision Ordinance Update - \$65,000

The City is just completing a revision of the Zoning Ordinance. With growth coming to the City's edge, it is important that the community prepare itself with a uniform focus on how the new development will impact Kaufman. Re-affirming the Land Use Plan,

establishing in policy new development standards and looking at the Thoroughfare Plan are essential to smart growth.

Police

Equipment - \$4,600

Minor equipment replacement.

Patrol Car (with equipment) \$29,450

This unit will replace a 2001 Ford with 126,000 miles.

Fire

Replace Chief's Vehicle - \$35,050

Replace the Fire Chief's 1998 Explorer with high mileage which has experienced some motor problems making it unsuitable for emergency service. Staff proposes moving the 1998 Explorer to the Development Services Department to be used by the Code Enforcement Officer.

Warning Siren - \$2,500

Add additional siren near ambulance station to increase warning area. The siren is on hand. These funds are for the necessary electrical work.

Street

Convenience Station, replace A/C - \$1,000

The air conditioner for the convenience station needs to be replaced.

Convenience Station, Road Repair - \$2,500

The road into the Convenience Station is in much need of repair.

Water Tank - \$650

This water tank is for watering remote sites like the lot next to City Hall.

Seasonal Help - \$11,665

There are a number of locations around the City that reflect poorly on the City. Now with the addition of the landscaping project on Washington Street and the land next to City Hall, there is a real need for additional personnel during the growing season.

Street Overlay - \$200,000

It is imperative to continue funding our street improvement program. This \$200,000 will allow for improvements to the next scheduled section of streets outlined in our street rehabilitation program.

Parks

Parking Lot @ Sports Complex - \$75,000

This project will finally complete the parking lot at the Sports Complex to its original designed need.

Replacement Mowing Equipment - \$12,910
This is a replacement mower for the Parks Department. It will replace the 1998 Kubota 54" cut riding mower which is 9 years old.

Two Shelter Benches - \$2,750
Improvements to the Sports Complex. Benches are to be installed near the playground area.

Water

Add one new employee (including benefits) - \$38,000
Necessary to provide for two water/wastewater crews year round. Change would add one employee. The City has experienced problems hiring and retaining employees in this department.

Flow Meter @ Underground Storage Facility - \$60,000
New meter required per our agreement with NTMWD when we took ownership of the underground tanks. Meter must be installed no later than FY09. This is an eligible expenditure for water impact fees.

Auto Dialer @ Underground Storage Facility - \$11,000
(Includes phone line upgrade.) Current emergency notification system is obsolete and has been out of service for almost a year. Can't repair.

Sewer

Fine Screen Upgrade for Bar Screen - \$58,000
The plant receives a large amount of plastics, mop strings and hair that bind together and cause them to collect on pumps and aerators. They then cause the units to fail. This is the reason for the recent \$30,000 repairs to the mixers. This unit provides more fine screening for bar screen to remove smaller solids. This is a retrofit to our existing unit.

We want to thank the City Council for considering this business plan and hope that staff's recommended strategic use of resources reflects the goals Council has set for the City over the next eighteen months. When the Business Plan is adopted, the citizens will recognize that Kaufman has direction and the City will manage our future growth in a manner that will benefit all.

Respectfully,

Curtis Snow
City Manager