

City of Meadowlakes

AGENDA

City Budget Work Session Meeting

Tuesday, May 17, 2022 at 5:00 p.m.
Totten Hall, Meadowlakes Municipal Offices
177 Broadmoor Street, Meadowlakes, Texas

Notice is hereby given that a Budget Work Session Meeting of the City Council of the City of Meadowlakes, Texas will be held on Tuesday, May 17, 2022 at 5:00 p.m. at Totten Hall, Meadowlakes Municipal Building, Meadowlakes, Texas, at which time the following subjects will be discussed, to wit:

1. Call to Order and Quorum Determination.
2. Workshop on following items:
 - A. Fiscal Year 2022 and 2023 Budgets
 - B. Future Capital Improvements
3. Adjournment.

An agenda packet is available for public inspection at City Hall, 177 Broadmoor, Suite A, Meadowlakes, between the hours of 8:00 a.m. through 4:00 p.m. Monday through Friday.

THE PUBLIC IS INVITED TO CITY COUNCIL MEETINGS

I, Evan Bauer, City Secretary for the City of Meadowlakes, Texas, do certify that this Notice of Meeting was posted at City Hall, in a place readily accessible to the general public at all times, on May 12, 2022 at 2:00 pm and remained so posted for at least 72 continuous hours preceding the scheduled time of said meeting.

/s/ Evan Bauer
Evan Bauer, City Secretary

/s/ Mark Bentley
Mark Bentley, Mayor

PERSONS WITH DISABILITIES WHO PLAN TO ATTEND THIS MEETING AND WHO MAY NEED AUXILIARY AIDS OR SERVICES ARE REQUESTED TO CONTACT THE CITY SECRETARY'S OFFICE AT (830) 693-6840 FORTY-EIGHT (48) HOURS PRIOR TO THE MEETING TIME.
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Budgeting Process

Fiscal Year 2023

May 11, 2022

BUDGET OVERVIEW

One of the most essential functions of any governmental entity is being a good steward of the citizens' tax dollars. Adopting a budget demonstrates accountability for the money the taxpayer has entrusted to it. The adoption of the City's annual budget and its ad valorem tax rate are two of the most essential functions you will be asked to consider during your tenure as a member of the Council. Two States of Texas statutes govern these actions. The first, Chapter 102 of the Texas Local Government Code (LGC), regulates the mechanism for the adoption of the City's annual budget. In contrast, the City's property tax rate adoption is governed by the second statute, Chapter 26 of the Texas Property Tax Code (Tax Code). Each statute has specific timetables, notice requirements, and hearing requirements.

A budget should:

- Set goals and plans to achieve them.
- Establish priorities in the selection of City programs to help achieve these goals.
- Determine the level of taxation necessary to finance City programs.
- Estimate the City's income and expenses.
- It serves as a control tool for using the City's resources.
- Provides the public with a written document that plainly describes activities and expenditures undertaken during the next fiscal year.
- Serves as both short and long-term planning tools
- Serves as a day-to-day operations guide

Once the budget is adopted, the City may only expend funds that comply with the budget, except in the case of an emergency. Monthly financial reports provide the public and you with the information needed to determine if City resources are being used to obtain the goals and objectives addressed in the adopted budget.

Regardless of their size, all cities must follow the requirements set forth in LGC. The law requires cities to observe the following regulations:

- The City's budget officer must prepare a proposed budget for the Council's consideration; the City Manager is charged with this responsibility in our form of government.
- The proposed budget must be filed with the City Secretary at least 30-days before adopting the ad valorem tax rate and must be posted on the City's website.
- The city council must adopt an annual budget and conduct the City's financial affairs in strict conformance with that budget.
- The budget for each fiscal year must be adopted by September 29 of that year.
- The budget must include an itemized comparison between expenditures in the proposed budget and the preceding year.
- The budget must show the estimated amount of money for each project or expenditure.
- The budget must contain a complete financial statement of the City, which includes:

- ❖ All outstanding obligations of the City
- ❖ Cash on hand for each Fund
- ❖ Total revenue received for the previous fiscal year
- ❖ All Funds available for the ensuing year
- ❖ Estimated revenues for the current fiscal year and the projected revenues for the next fiscal year
- ❖ The estimated tax rate required for the proposed budget

In addition to the budget's mentioned requirements, there are several additional requirements regarding specific wording for the budget coversheet.

BUDGET

The budgeting process consists of four primary phases: preparation and requests, legislative approval, implementation and execution, and audit and review. I will review the two of these steps in detail for you below. The implementation and execution phase of the budget is the responsibility of the City Manager, with guidance from the Council to manage the budget as adopted. The audit and review phase are the responsibility of the Council and City Manager to ensure that the budget is being administered as adopted. By an outside auditor, the end-of-year audit confirms that the budget and fiscal affairs of the City were administered as budgeted.

The budget provides the public with proof of accountability of the City officials and staff. It provides the structure needed to determine the day-to-day operation of the City Government. Once adopted, the City can only expend funds as they are addressed in the budget, except in the case of an emergency. The City can amend the adopted budget as needed, provided funds are available.

During our upcoming workshops, you will hear me refer to the City's various funds. The City has four distinctive funds in which a budget must be adopted for each year. They are the General Fund, Debt Service Fund, Utility Fund, and Recreation Fund. The General Fund and the Debt Service Fund are classified as governmental funds; usually, they have stringent budgetary requirements. The Utility and Recreation Fund are classified as proprietary or enterprise funds and operate similarly to those found in the business world and have somewhat less stringent budgetary requirements.

Preparation and Request

While many people are involved in developing the annual budget, including elected officials, department heads, and the public, the primary responsibility of the budgeting process falls on the budget officer. In a Council/Manager form of government, such as ours, the City Manager is designated as the budget officer by state statute and is required to "prepare a municipal budget to cover the proposed expenditures of the municipal government for the succeeding year." The budget officer has some specific requirements as to the items that must be incorporated within the budget, such as:

- ❖ Clear comparison, as practicable, between the proposed budget to actual expenditures for the current fiscal year
- ❖ Show all outstanding obligations
- ❖ Cash on hand for each Fund
- ❖ All revenues for all funds anticipated for the current fiscal year
- ❖ Listing of all funds available from all sources for the current fiscal year

- ❖ The estimated revenues available to cover the proposed budget
- ❖ The estimated tax required to cover the proposed budget

Like most cities in Texas, our fiscal year begins on October 1 of each fiscal year and ends on September 30, which means our budget must be adopted no later than September 29.

The Preparation phase of the budgeting process has already begun. Staff has started compiling the prior year's revenues and expenses and determining the needs for the upcoming fiscal year.

I like to take a two-prong approach to develop the proposed budget. The first is a projection of total revenues based on our best assumptions and anticipated expenses to provide the same level of service to our citizens as provided in the current fiscal year. The second is to incorporate in the budgeting process decision packets for projects and funding that would not usually be considered routine. Hopefully, after our budget workshops, we will have developed a proposed budget that incorporates the level of service you wish to provide to our citizens and funding requirements to meet your goals and priorities. Based on your input from the subsequent workshops, I will develop a final proposed budget for your review, which we will review in your final workshop. After the final workshop and incorporating any additional changes, I will file the proposed budget with you and the City Secretary. The proposed budget must be filed with the City Secretary at least 30-days before adopting the ad valorem tax rate.

Legislative Action-Public Hearing

Once filed with the Council and City Secretary, the proposed budget must be posted on the City's website and be available for public inspection.

The only formal action related to the filing of the proposed budget to be taken by the Council will be establishing the date, time, and place of the one required public hearing. This public hearing must be held before the budget is adopted to allow the public to comment on the proposed budget. The notice must be published in the paper between 10 to 30 days before the hearing and include a specific statement if the proposed budget will generate more income from ad valorem taxes than the previous year. A quorum of the Council must be present at the public hearing. Later in this review, we will discuss the possibility of one additional public hearing that may be required before setting the tax rate for 2022.

There is some confusion regarding the wording in the LGC, which states, "*At the conclusion of the public hearing, the governing body of the municipality shall take action on the proposed budget.*" It has been determined that this does not mean that the budget must be adopted at the end of the public hearing. If you desire to make minor changes to the budget at the end of the hearing, you may amend the proposed budget, and it can be amended before formal adoption. If you have substantial changes to the proposed budget, you could elect to postpone the meeting for up to 24 hours (the City may "recess" a meeting for no more than one day without posting a new notice). You could call a special meeting or postpone the adoption of the budget until your next regularly scheduled meeting.

The budget must be adopted prior to adopting the property tax rate.

Adoption of Budget

As mentioned above, the adoption of the budget can be made at the public hearing, a special called meeting, or at a regularly scheduled meeting (provided it is no later than September 29.)

Depending on the income budgeted to be generated from property taxes, one or two votes must be taken to adopt the budget. If additional income is derived from property taxes, one vote must be taken, which specifically ratifies that additional income will be derived from property taxes. This action can be simply incorporated within the minutes of the meeting. The second official action will be the actual adoption of an Ordinance, which establishes both the maintenance and operation tax rate and the debt service tax rate for 2022. As previously mentioned, the budget cannot be adopted until a public hearing is held, and the budget must be adopted before setting the property tax rate for 2022.

PROPERTY TAX RATE

Senate Bill 2

Senate Bill 2 (Bill), also known as the Texas Property Tax Reform and Transparency Act of 2019, was passed by the State Legislature in 2019. This Act basically reforms the means by which property taxes are collected. The three main ways this legislative action was: (1) lowering the tax rate at which we can adopt a tax rate without voter approval and requiring a mandatory election if we adopt a tax rate over the lowered rate; (2) making several changes in the procedures in which we adopt a tax rate; (3) make several changes to the property appraisal process.

OVERVIEW

Adopting the property tax, sometimes referred to as "ad valorem" tax rate, can be confusing, and I will brief you below on the procedure required. During our discussions, I will refer to the **tax rate for 2022**; this is very confusing since we are setting the tax rate for our needs for fiscal year 2022-2023. The actual tax rate is levied for 2022 and is based on the taxable value of the properties as of January 1, 2022, but the taxes generated from it are collected in the fiscal year 2022-2023. The City has two separate tax rates; when combined, establish the actual ad valorem tax rate, each of these rates will be discussed in more detail below.

The City contracts with the Burnet Central Appraisal District for appraisal and collection functions. The Chief Appraiser is charged with calculating all statutory rates and must certify the tax roll, which provides the taxable values within the City.

Type of Calculated Tax Rates

In addition to numerous changes to our methods to establish the ad valorem tax rate, the Bill has developed all-new terminology.

We mainly dealt with three tax rate calculations in the prior years: the effective tax rate, effective maintenance and operation rate, and the rollback rate. The Bill changed the names of these rates and created new ones. I will attempt to explain the various rates below:

1. This calculation is slightly more complicated. The Bill changed the "effective tax rate" to "no-new-revenue-tax rate" and the "effective maintenance and operation tax rate" to "no-new-revenue maintenance and operations tax rate." These rates would allow the City to generate the same amount of property tax income from the previous year on those properties being taxed for both years after considering any changes in appraised values. Still, the resulting tax rate is mainly used for comparisons and shows the relationship between last year's revenues and the current year's taxable values on the same home in both fiscal years.
2. The "rollback tax rate" previously referred to as the "voter-approved *tax rate*" has been changed to a "*voter-approved tax rate*." Not only did the name change, but the new rate has significant changes and requires a city to hold an automatic election if a rate is higher than it has been set.

In the past, the *rollback rate* was a calculated rate that would allow a city to generate 8% more maintenance and operation tax revenue than the previous year before considering any changes in appraised values. If a rate is established above the *rollback rate*, the City could be subject to a rollback election, provided the appropriate number of registered voters petition the City. In general, the Bill has made several changes to this, and it reduced the amount that could be generated from 8% to 3.5%. If a rate is set above the *voter-approved tax rate*, the City, in most cases, must have an election to approve the proposed rate; however, there is one exception. If an election is required, it will be on the State's November general election date.

In addition to reducing the maximum rate the City can set before a mandatory election, the Bill threw in some other adjustments related to "unused increment rates," which does not apply to us.

An exception to the mandatory election to establish a rate higher than the *voter-approved tax rate* is a new route called the "*de minimis rate*," which is somewhat of a blessing to smaller cities under 30,000, such as ours. It provides some relief to the 3.5% *voter-approved tax rate*. The *de minimis rate* is defined as the sum of:

- A. A taxing unit's *no-new-revenue maintenance and operation tax rate*
- B. A rate that, when applied to the City's current taxable value, will impose an amount of tax income that would generate \$500,000 in additional tax income
- C. The City's current debt service rate

Basically, the *de minimis rate* was added to the Bill to allow smaller cities (under 30,000 population) more flexibility in establishing a tax rate; it allows a small city to generate up to \$500,000 in additional ad valorem tax income without a mandatory election. The Bill threw in another twist to this already complicated tax adoption procedure. Suppose we set a maintenance and operation tax rate above the 3.5% voter-approved tax rate but less than 8% above the no-new-revenue maintenance and operation tax rate. In that case, the City is not subject to a voter-approved election. However, should we set a tax rate that exceeds the no-new-revenue maintenance and operation by 8%, we become subject to a petition from the voters to conduct a voter-approved election. The election would be held in May of the following year, eight months into the new fiscal year. My understanding is if the election passes, any tax income generated above the 8% *no-new-revenue maintenance and operation tax rate* would be refunded to the taxpayer.

I have just touched on a few of Bill's changes in setting our ad valorem tax; there are many more "What if" scenarios in the Bill. I do not believe any of them will affect establishing and adopting our rate.

Tax Rate

The actual ad valorem tax rate is adopted annually. It consists of the combination of two separate tax rates: a maintenance and operation (M&O) tax rate and a debt service (DS) tax rate. The income generated from the M&O tax rate provides most of the funds necessary to fund the General Fund, while the DS tax rate provides the majority of the funds to retire the City's debt service.

Last year, the City's total taxable appraised value was approximately \$320.2 million with a total combined tax rate of \$0.2661, which generated approximately \$852,050. The M&O rate last year was \$0.1487, generating approximately \$476,150 for the General Fund; the DS rate was \$0.1174 and generated \$375,900.

The Chief Appraiser determines and calculates the various ad valorem tax rates addressed in S.B. 2. One of the first things needed for the City to calculate the various rates is the amount of ad valorem tax income required to cover the City's existing bonded debt service. The Chief Appraiser must publish specific notices, including the income required to satisfy our bonded debt. Thus, we must provide the amount of income we expect to derive from ad valorem taxes early in the budgeting process. Once the notices are published, we cannot exceed the published ad valorem tax rate, but we do have the option of setting a rate lower than the published one. Due to limited funding sources and the Debt Service Fund only having one expense, the Fund's budget can be determined early in the budgeting process.

Debt Service Fund

In the fiscal year 2023, we will be making the final principal and interest payment on our bonds. As you may recall, the City refunded the 2008 Bonds at a lower interest rate in 2013, and at the end of September 2023, we will make the final payment on the \$3.34 million in bonds.

Our bond debt service is paid from property tax revenues and operating revenues from the Utility Fund. Of the approximate \$432,125 needed to satisfy our bond debt in the current fiscal year, approximately \$375,000 (86%) was funded from ad valorem taxes, \$56,000 (13%) from the Utility Fund, and approximately \$1,125 (1%) from interest earned on investments.

The City's total bonded debt service for FY23 is \$428,610, including \$420,000 in principal and \$8,610 in interest. Please find below the first draft of the FY22 Debt Service Fund budget. The proposed budget for FY23 reflects decreases in both ad valorem tax income and transfers into the Fund from the Utility Fund. The main reason for these decreases is the utilization of approximately \$13,000 in the fund balance anticipated to be carried over from FY22. Since we will be making the final principal and interest payment on our bond issue next fiscal year, the Debt Service account will be closed out, and all funds must be dispersed.

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PROPOSED FY2022 DEBT SERVICE FUND BUDGET

INCOME	FY 2022	Proposed FY2023	Difference
Ad Valorem Tax	\$375,000 (86%)	\$375,000 (87.5%)	0
Interest Earnings	\$ 1,125 (1%)	\$ 1,200 (0.3%)	\$ 75
Excess Funds on Deposit	\$ 0	\$ 13,000 (3%)	\$13,000
Utility Fund Transfer In	<u>\$ 56,000 (13%)</u>	<u>\$ 39,410 (9.2%)</u>	<u>(\$13,000)</u>
Total Income	\$432,125	\$428,610	(\$ 3,515)
EXPENSES			
Principal	\$405,000	\$420,000	\$ 5,000
Interest	<u>\$ 17,120</u>	<u>\$ 8,610</u>	<u>-\$ 8,510</u>
Total Expenses	\$432,120	\$428,610	-\$ 3,510
Net Gain/Loss	\$ 0	\$ 0	(\$ 0)

Required Public Notices and Public Hearing

Senate Bill 2 (SB2) did provide some relief to the number of public hearings required before adopting the ad valorem tax rate. The number of hearings has been reduced from two to one. The Chief Appraiser prepares and causes the various notices to be published in the local paper and posted on our website.

If we adopt a tax rate higher than the no-new-revenue rate, we must hold at least one public hearing. This hearing must be open to the public, comply with the Texas Open Meetings Act, and be a separate item on the agenda.

Adoption of Tax Rate

In the past, we had to wait at least three days after the last public hearing before adopting the ad valorem tax rate. Now it can be adopted at the conclusion of the public hearing.

The budget must be adopted before the adoption of the tax rate. The tax rate must be adopted by ordinance with the M&O tax rate and Debt Service tax rate as two separate components of the adopting ordinance. The tax rate must be adopted before September 29 or by the 60th day after receiving the certified appraisal roll, whichever date is later.

Staff will provide an ordinance establishing the tax rate for your consideration.

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RECAP

Publication and Hearing Requirements

Budget

1. The proposed budget must be filed with the City Secretary by the Budget Officer 30 days prior to adopting the property tax rate.
2. One public hearing must be held before the adoption of the budget and must meet the following requirements:
 - A. The public hearing must be held at least 16 days after filing the budget with the City Secretary.
 - B. Notice of the public hearing must be published no earlier than 30 days before the hearing and must be published at least ten days before the hearing date.
 - C. At the conclusion of the public hearing, some type of action is required. You may adopt the budget or defer action on adopting the budget to a future date.

Tax Rate

1. **April 28** - The Chief Appraiser provided a preliminary estimated taxable value of \$345.4 million, approximately \$25.2 million (7.9%) greater than last year's taxable value.
2. **Early June** - The Chief Appraiser provided an estimated taxable value.
3. **July 25** - The Chief Appraiser must certify the property's taxable value within the City.
4. **August 7** - As soon as possible, the no-new-revenue and voter-approved tax rates must be submitted to the City Council and required public notices published.
5. **August 29** - This is the last day for the budget officer to file the proposed budget with the City Secretary.
6. **September 18** - This is the last day to publish notice of the budget hearing.
7. **September 22** - We must continuously publish the notice of tax hearing on the City's website. The notice must be continuously posted for at least seven days immediately before the public hearing on the proposed tax rate.
8. **September 24** - Is the last day to publish the tax rate hearing notice.
9. **September 28** - Is the last day for a hearing on the budget.
10. **September 29** - Is the last day to adopt the City's budget.

PROPOSED FISCAL YEAR 2022-2023 BUDGET CALENDAR
(Items in Red are State mandated dates, items in yellow or suggested dates)

(Items in Yellow can be changed based on Council availability, items in Red are mandatory dates as established by Texas Property Tax Code and the Local government Code)

<u>Date</u>	<u>Responsibility</u>	<u>Action to be taken</u>	<u>Progress</u>
April 2022	City Manager	Begin compiling budget data, including FY22 revenues and expenses.	In Progress
April 2022	Chief Appraiser	Send notices of appraised value.	Completed
April 30	Chief Appraiser	Prepares and certifies the estimation of taxable value of property within the City.	Received
May 3	City Council & Staff	1st Budget Workshop	Completed
May 17	City Council & Staff	Establishment of Budget Calendar	
June 7 or 14	City Council & Staff	Workshop for strategic planning regarding establishing goals, priorities, and projects for FY2023.	
July 5	City Council & Staff	Presentation of working FY23 draft budget to Council for discussion, review, and recommendations.	
July 12	City Council & Staff	Review of proposed budget and recommendations from the previous workshop.	
July 19 Before Council Meeting	City Council & Staff	Review the proposed budget, and Council establishes the date/time/place of the required public hearing(s).	
July 25	Chief Appraiser	Certifies the taxable value of property within the City.	

July 26 or August 9	City Council & Staff	Final budget workshop prior to filing proposed budget with the City Secretary. Note: The draft budget must be filed with the City Secretary 30-days prior to adopting the City's ad valorem tax rate.
July 26 to August 7	Chief Appraiser	Public required notice of no-new revenue and voter-approved tax rates.
August 7	City Manager	Must submit the no-new-revenue and voter-approved tax rates to the City Council or as soon as practicable thereafter. (It is anticipated that this will be done at the July 26 or August 9 th budget workshop.)
August 26	City Council	The earliest day budget could be adopted assuming the proposed budget was filed on July 26; if the budget is filed on August 9, the earliest date the budget can be adopted is September 8; I would suggest it be done on September 13.
August 29	City Manager	Is the last day the proposed budget can be filed with the City Secretary.
September 13	City Council	Conduct Public Hearing on Budget and Ad Valorem Tax Rate. Approved both the budgeted and ad valorem tax rate.
September 18	City Council	Last day for the publication of the budget hearing.
September 28	City Council	Last day for hearing on the proposed budget.
September 29	City Council	The last day to adopt the FY23 budget and ad valorem tax rate.

(Dates are subject to change depending on Council recommendations, filing, and publication dates.)