



AGENDA ITEM SUMMARY FORM

MEETING DATE: 14 JANUARY 2025

PREPARED BY: Lindsay Koskiniemi, CGFO, CPM, MPA, MSA

AGENDA CONTENT: Discussion and possible action on Fiscal Year 2024 – 2025 budget book presentation and plan for balancing FY25 budget pursuant to Chapter 102 of Texas Local Government Code.

AGENDA ITEM SECTION: Regular Agenda

BUDGETED AMOUNT: N/A

FUNDS REQUESTED: N/A

FUND: Presentation of all funds within FY25 budget, affecting Funds - General Fund (01), Enterprise Fund (03), Hotel / Motel Fund (04), Debt Service Fund (05), Angleton Emergency Services Division #3 Fund (107).

EXECUTIVE SUMMARY:

On Tuesday, September 10, 2024, the City of Angleton conducted a council workshop and adopted the annual budget for Fiscal Year 2024 – 2025 beginning October 1, 2024 and terminating on September 30, 2025 with the approval of Ordinance Number 20240910-006. While the Executive Summary portion of the agenda item stated the proposed budget was attached, a review of the meeting minutes and agenda packet from the meeting returned no budget presentation. No evidence was found to support the idea that the City Council was presented with a budget in the format of projected revenues over anticipated expenditures. Subsequently, a no-no-new revenue tax rate was adopted under the same ordinance with the following fund allocations:

General Fund (01)	\$19,425,950
Street Fund (02)	\$ 20,000
Utility Fund (03)	\$12,429,748
Debt Service Fund (05)	\$ 4,173,711
Hotel / Motel (04)	\$ 281,568
Court Technology (07)	\$ 10,000
Court Security (08)	\$ 5,500
STEP Grant – CMV (09)	\$ 15,028

Police Drug Confiscation (10)	\$ 1,000
Community Events (11)	\$139,000
Child Safety (12)	\$ 2,025
Keep Angleton B (13)	\$ 61,400
STEP Grant Fund (16)	\$ 15,028
Unemployment Fund (41)	\$ 50,000
Angleton Activity Center Prog.	\$498,575
TIRZ#1 Fund (58)	\$ 20,465
Police Donation Fund (80)	\$ 16,300
Animal Donation Fund (101)	\$ 12,000
OBJ Police Grant Fund (105)	\$ 79,000
Angleton ESD #3 Fund (107)	\$400,188
Downtown Revitalization (117)	\$ 10,000

Because these amounts were adopted by ordinance, these amounts cannot be exceeded. Texas law requires that municipalities adopt a balanced budget, meaning that expenditures cannot exceed available revenues. Local governments are prohibited from adopting a budget that leads to a deficit without provisions for covering shortfalls. During the budget process, City Council had several questions for staff that were not adequately addressed during the budget process. Several reductions to the budget were requested of staff, and during the budget adoption process, staff members identified approximately \$980K in proposed reductions.

In October 2024, the Finance Director position was vacated, and staff members reconstructed the FY25 budget to compile a budget book pursuant to Texas Local Government Code Chapter 102 §005, which requires municipalities to have a copy of the budget book filed with the Office of the City Clerk. Staff found that the software used to create the budget did not support the needs of the City and contained information that did not reflect the agreed changes to the budget. The information in the MDSS system was not in the revenue to expenditure format, and the MDSS vendor did not cooperate with staff's request to train staff members on how to compile a budget book from the information entered into MDSS.

With no other options to efficiently create a budget book, staff assumed the task of reconstructing the budget in Excel. The Finance Department members reviewed the videos from the budget meetings and met with department directors. Finance compared the budget numbers in MDSS to the meeting minutes and what was stated in the meeting recordings. Throughout this process, Finance sent the personnel allocations to Public Works and Parks to confirm employee allocations, as some employees are paid in multiple funds or require funds to be transferred from one fund to another to cover personnel costs. Finance sent preliminary budget sheets for review

to department directors in the General Fund and Enterprise Fund and met with the department directors where requested.

A benefit of having a blueprint for a budget book using Microsoft Office programs is staff now has a blueprint for how to create an entire budget book using the created templates with minimal effort going forward, with the exception of updating yearly budget requests amounts, changes in personnel costs, such as cost-of-living adjustments, and changes in health and liability insurance rates.

After reconstructing the FY25 budget, with all resources available to rebuild the budget, and in good faith, the Finance Department has concluded the budget is imbalanced and must be rectified to balance the budget pursuant to Texas Local Government Code Chapter 102 §002. The revenues are inadequate, as adopted by City Council, to cover the entirety of the expenditures in the General Funds, the expenses in the Utility Fund, and the expenditures in the Hotel / Motel Fund, and Debt Service Fund. The subsequent paragraphs will explain our basis for this determination.

FY25 Budget Conclusions:

General Fund (Fund 01) & Enterprise Fund (03) Entanglement – The General Fund is funded predominantly by property tax revenues and sales and use tax. Other revenues include permitting fees, court fines and fees, and miscellaneous income such as income from investment interest. After fully reviewing the certified appraised values, reduced by the tax increment financing (TIF) amount, and adjusting for a collection rate of 97% consistent with the county's practice for estimating property tax revenue collection, staff found that property tax revenue collection was initially overstated. The preliminary FY25 budget materials disclosed the estimated property tax revenue number that had been used in the proposed FY25 budget was \$8,528,250. After calculating the anticipated property tax collection using the no-new-revenue tax rate and adjusting for delinquency / default, staff reduced the property tax revenue number in the budget to \$7,535,040. Furthermore, upon review of previous sales-and-use tax trends, we feel the revenue amount for sales tax is overstated. We were able to reduce the property tax collection number, however, if we found a need to increase that number, we would be unable to do so, since the budget was adopted already.

Late in the month of November after making numerous attempts to contact the MDSS vendor and use the materials available to compile a budget book, the decision was made by Finance to create a budget book from Excel, which has proven to be a beneficial exercise to staff who had not previously partaken in the construction of an annual municipal budget. In creating the budget book and reviewing the recorded budget workshop meetings, we found that several of Council's requested changes to the FY25 budget were not made or updated in MDSS. We also found that the approved 2% increase for cost-of-living pay increases was not included in MDSS. Staff used

Excel to input the approved figures and changes approved during budget workshop meetings in line with what should have been presented as a final draft for budget adoption.

Initially, the General Fund did not balance. Originally, the budget had property liability and windstorm fully allocated to the General Fund in the Non-Departmental Department (Dept. 559). Not all insured facilities are considered within the General Fund such as the Water Plant, Wastewater Treatment Plant, and lift stations. These facilities should be allocated to the Enterprise Fund, as those facilities fall under the purview of Utilities within the Enterprise Fund. Additionally, we found most all the costs associated with City fleet, such as the Enterprise Fleet lease (not to be confused with Enterprise Fund) were allocated to the General Fund. The Enterprise Fleet lease refers to the vehicle lease program available through the vendor, Enterprise. Staff allocated property liability and windstorm insurance and fleet costs to the appropriate departments within the General and Enterprise Funds, which provided enough relief on the General Fund to balance, *however*, the FY25 budget was adopted with a transfer in the amount of \$1,545,560 from the Enterprise Fund to the General Fund to subsidize the General Fund without and means of repayment. As the budget was adopted, and including the subsidy transfer to the General Fund, the Enterprise Fund is at a deficit of over (-\$1.8) million. If that transfer is removed by a budget amendment, the General Fund will be at a deficit of (-\$1,545,560), and the Enterprise Fund will be at a deficit of (\$-349,605).

The General Fund is presently and has been for the past four (4) years, supported by the Enterprise Fund. This practice is not recommended without a plan for repayment to the subsidizing fund. In previous recent budgets, the subsidy from the Enterprise Fund to the General Fund has been in the hundreds of thousands of dollars. This year, the budget was adopted with a transfer from all 4 Enterprise Fund departments totaling \$1,545,560. Transfers from business-type activities funds, such as the Enterprise Fund also referred to as the Utility Fund or Water Fund, are discouraged by municipal finance standard authorities such as the Government Finance Officers Association (GFOA) without having an adopted repayment plan. The reason we keep the General Fund and the Enterprise Funds separate is so we know what a fair property tax rate needs to be to cover all operational costs for the year and what a reasonable utility rate is that will cover annual expenses related water and wastewater and supports a reasonable amount that can transferred to fund balance at fiscal year-end for capital projects and reserves.

Realistically, the Enterprise Fund should not subsidize the General Fund at all, because it is never recommended to mix the property tax-supported fund with the fund that is supported by utility rates.

Hotel / Motel Occupancy Tax Fund (Fund 04):

The Hotel / Motel Occupancy Tax (HOT) Fund, also referred to as HOT Fund, is fully funded with hotel and motel occupancy tax, and the manner in which funds can be expended is specific to purposes involving activities that generate or promote tourism.

While the HOT Fund allocated budget amount for this fiscal year does not present a deficit, we must report that in the past three (3) fiscal years, the fund has operated at a deficit. Pursuant to Chapter 102 Section 002 of Texas Local Government Code, deficits cannot be carried over from one fiscal year to the next. The ending revenue to expenditure balance in FY22 is (-\$194,307). In FY23, the ending revenue to expenditure balance is (-\$80,089), and for FY24, the unaudited ending revenue to expenditure amount is (-\$48,659).

Debt Service Fund (Fund 05):

While reconstructing the budget document, staff found that an inadequate number to cover the full amount of debt obligation payments in FY25 was budgeted for Fund 05 total expenditures. The total amount under we believe is \$52,228, and a large part of that amount is attributed to a \$35,000 payment toward a 2016 bond obligation that appears to have been missed in the original calculation. Regardless, the City is obligated to pay the full amount for all debt service principal and interest payments due in FY25. The full debt schedule as well as a consolidated list of outstanding debt obligations is included in the FY25 Budget Book Draft attached to this agenda item.

Angleton Emergency Services District #3 (Fund 107):

Fund 107 was allocated \$400,188 in the FY25 budget, however there is over \$479K in anticipated expenditures for this fund. Staff was unable to determine how to achieve a balanced budget in this fund, therefore this fund will need to be addressed between City Council and staff members to determine how best to proceed.

Street Fund (Fund 02):

In the FY25 budget, the Street Fund was approved for an allocation of \$20K. Prior to 2020, the City of Angleton dedicated a percentage of sales and use tax to the repair and maintenance of streets within the city's limits consistent with Chapter 327 of Texas Tax Code. A portion of the sales tax dedicated to the Street Fund was used for Streets projects in conjunction with funding from the 2018 bond issuance. Staff found after sales tax was reallocated, a change approved by a majority of registered voters, and Council acted to de-obligate the remainder of the Street Fund with an ending balance of approximately \$2.134M that can be used for General Fund purposes.

Conclusion:

Because the Enterprise Fund cannot support a subsidy in the amount of \$1,545,560 to the General Fund, cancellation of the interfund transfer is recommended, which will provide relief in that same amount to the Utility Fund. In subsequent budgets it is also recommended to not continue subsidizing the General Fund with the business-type activity funds, as it is necessary to understand the property tax rate needed to support operations independent of subsidies. While there is not a recommendation at this time to rectify the proposed \$349,605-deficit in the Enterprise Fund after the subsidy transfer is cancelled (by budget amendment adopted by

ordinance), however, there is a utility rate fee study in progress, that, if rate increases are implemented mid-fiscal year, could provide additional revenue sufficient to alleviate the anticipated shortfall.

Clearly, the General Fund, based on past fiscal year fund expenditures and subsidy transfer amounts, is not operating with adequate revenue, and there is no opportunity for any generated surplus to be added to reserves, which have suffered tremendously over the past three (3) years. Budget must be as lean as possible for the next few years and must not rely of subsidies from other funds. A recovery plan to replenish reserves must be adopted by ordinance; the recommendation is to budget for a transfer to fund balance in any funds determined to have insufficient reserve percentages.

The Street Fund balance from the de-obligated funds may be transferred with the approval of a budget amendment to the Street Fund and transferred to the General Fund to balance the FY25 budget. Because transfers from fund balance to balance negative budgets are incongruent with best management municipal finance practices, it must be stated this proposed idea is a one-time only recommendation, without any alternative options, to balance the budget. If this idea is determined to be the plan of action to balance the budget, a repayment plan to repay the Street Fund must be adopted and enforced.

RECOMMENDED ACTIONS:

- Cancel the subsidy transfer from the Enterprise Fund (Fund 03) to the General Fund (03). This action can be taken in this meeting; a budget amendment will need to be brought back for adoption by ordinance.
- Adopt appropriate budget amendments to balance budgets in funds proposed with expenses/expenditures shown to exceed anticipated revenues. (Later meeting).
- Update the FY25 Budget Book Draft with adopted budget amendments and balanced budget sheets. Publish document with all adopted revisions on website as Adopted Fiscal Year 2024-2025 Budget Book.
- Approve transfer from Street Fund balance to Street Fund and approve a transfer from Street Fund to General Fund (cannot do at this meeting.) in the amount of \$1,545,560 with a repayment plan – all adopted by ordinance. It is recommended to obtain a legal opinion from the City Attorney before proceeding.
- Resolve total expenditure amount for Fund 107 – cannot exceed amount adopted by ordinance.
- Develop a recovery plan to replenish reserves – recommend adopting future property tax rates that support annual transfers to the General Fund balance until reserves are met.
- Implement a spending reduction plan effective immediately.