

CITY OF RICHWOOD
FISCAL YEAR 2025
BUDGET WORKSHOP

June 17, 2024

THINGS TO CONSIDER MOVING INTO THE BUDGET

- There are key economic indicators that our economy may not be in good shape.
- Volatile Stock Market
- Decreasing Consumer Confidence
- Inverted Yield Curve
- Debt-personal and government
- Housing costs and interest rates

Date	1 Mo	2 Mo	3 Mo	4 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
06/03/2024	5.49	5.49	5.52	5.46	5.39	5.14	4.82	4.62	4.42	4.41	4.41	4.63	4.55
06/04/2024	5.48	5.48	5.52	5.45	5.38	5.11	4.77	4.55	4.35	4.33	4.33	4.56	4.48

Updated on MARCH 31, 2024

Yield Curve Inversion

suggests that the US recession risk is

Very High

Overview

The US Treasury Yield Curve is currently inverted, meaning short term interest rates are higher than long term interest rates. This unusual occurrence, called a yield curve inversion, **has historically been a very reliable indicator of an upcoming economic recession.** Since World War II every yield curve inversion has been followed by a recession in the following 6-18 months, and recessions are naturally correlated with decreased stock market returns.

SIGNS CONTINUED

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PRESS RELEASE

Household Debt Rose by \$184 Billion in Q1 2024; Delinquency Transition Rates Increased Across All Debt Types

May 14, 2024

US Auto Loans Delinquent by 90 or More Days (I:USALD90)

4.41% for Q1 2024

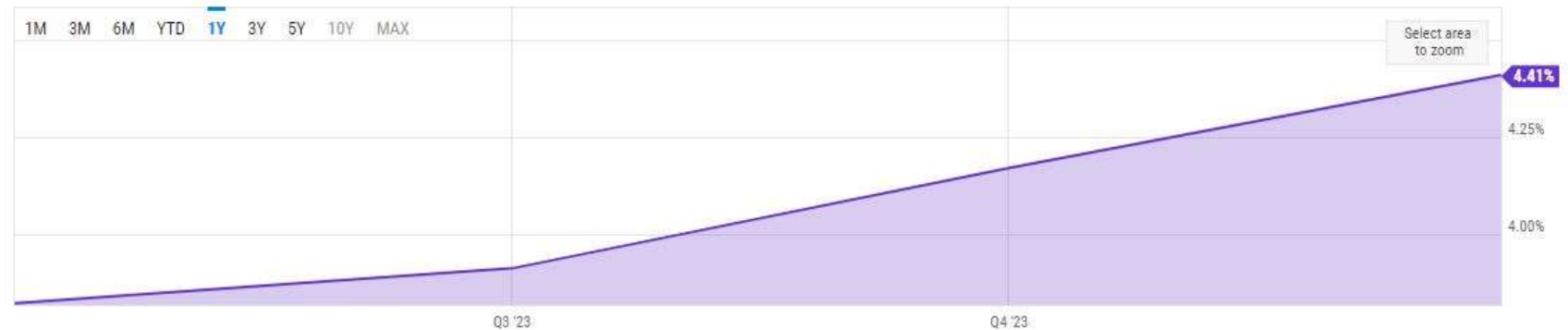
Overview

Interactive Chart

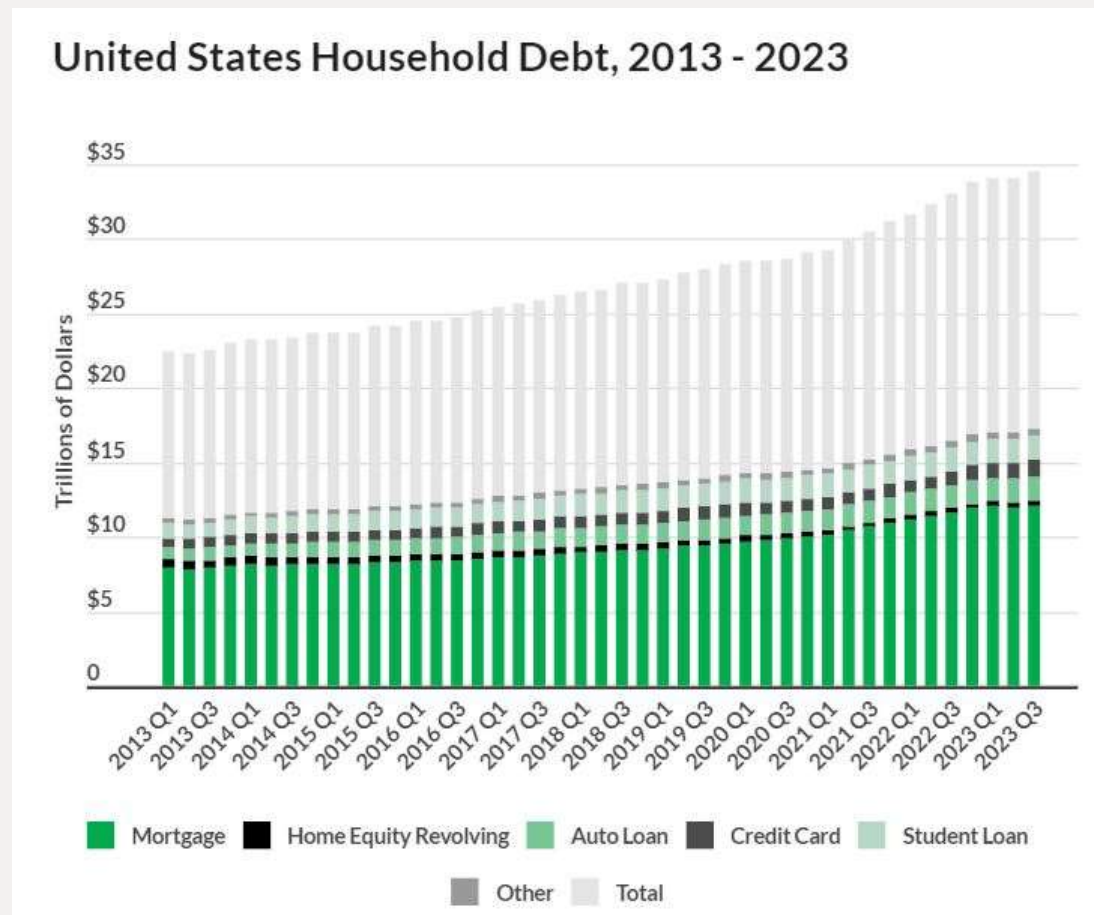
Level Chart

VIEW FULL CHART

1M 3M 6M YTD 1Y 3Y 5Y 10Y MAX



SIGNS CONTINUED



SIGNS CONTINUED

Saudi Arabia's petro-dollar exit: A global finance paradigm shift



By [Katja Hamilton](#)

10 Jun 2024

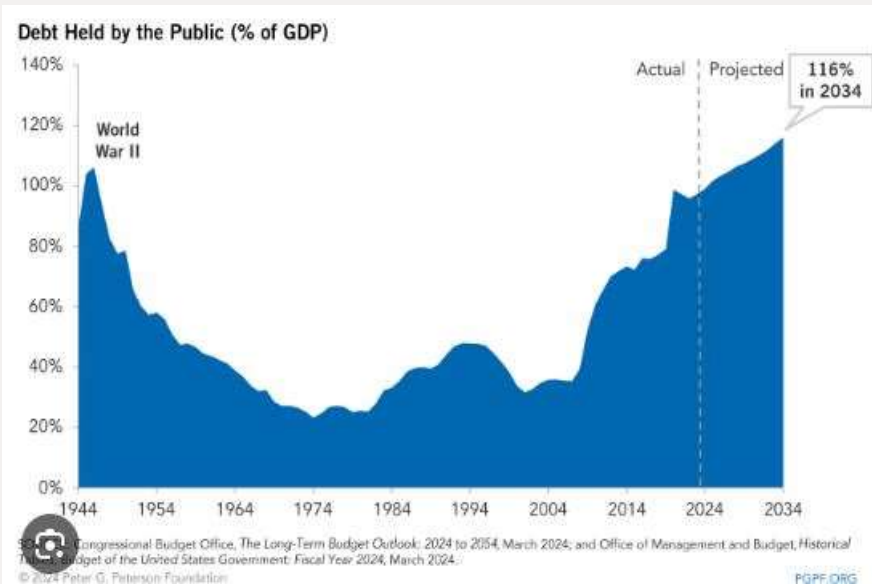


The financial world is bracing for a significant upheaval following Saudi Arabia's decision not to renew its 50-year petro-dollar deal with the United States, which expired on Sunday, 9 June, 2024.

SIGNS CONTINUED

**Housing Market Predictions For 2024:
When Will Home Prices Be Affordable
Again?**

SIGNS CONTINUED

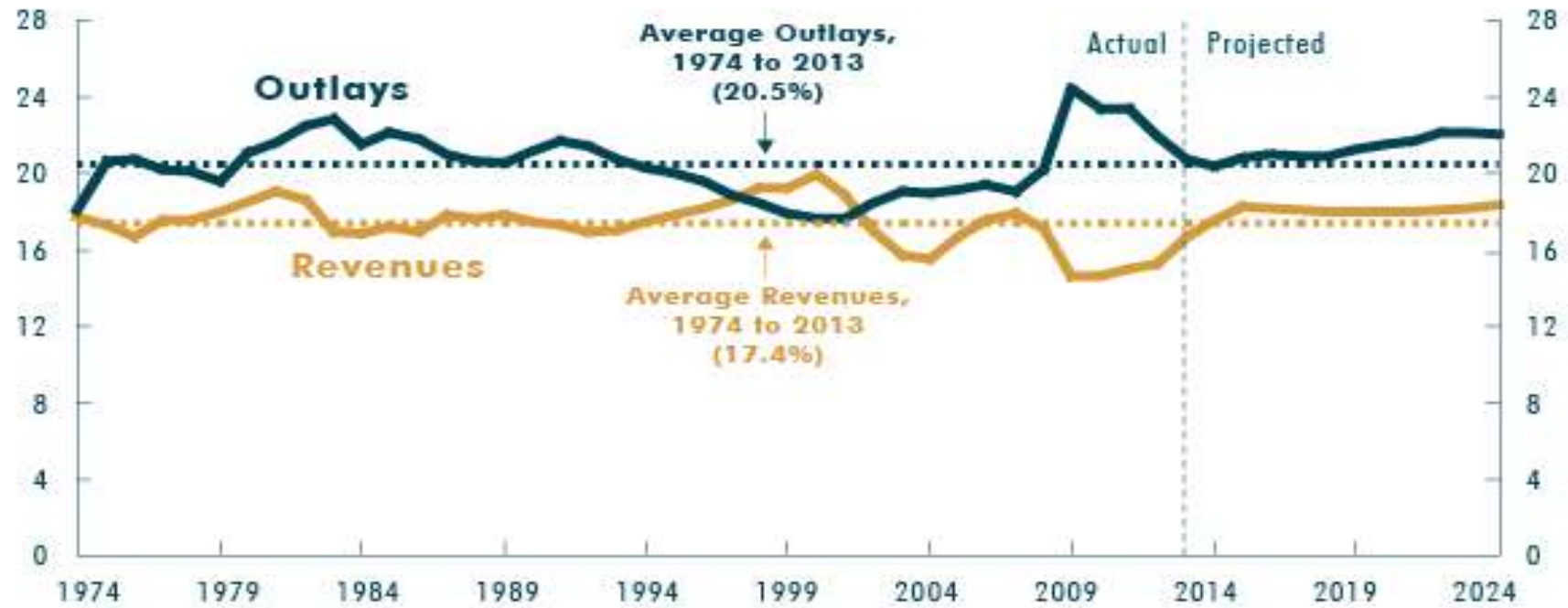


The United States' debt-to-GDP ratio at the close of fiscal year 2023 was **97 percent**. While this figure is down slightly from 100 percent in 2020, a 74-year high, the nation's fiscal outlook is still on an unsustainable path. Debt held by the public is on track to exceed GDP in 2025 and climb to 116 percent in 2034. Apr 9, 2024

SIGNS CONTINUED

Total Revenues and Outlays

Percentage of gross domestic product



TAKEAWAYS FOR BUDGET PLANNING

- Stability is key
- No Drastic moves one way or the other
- Continue conservative spending policies
- Expect a decrease in purchasing power and higher costs for goods and services
- Limit debt during high interest rates
- Keeping higher than normal reserve funds

GOVERNMENTAL ACCOUNTING in a Nutshell

- Governments use Fund Accounting
- Each fund is used to track the amount of cash assigned to different purposes and the usage of that cash
- The motive is not profit but rather **ACCOUNTABILITY**

“Businesses are operated with a profit motive, whereas governments exist primarily for providing services. Businesses focus on whether revenues earned were sufficient to cover related costs, whereas governments focus on whether inflows of spendable resources are sufficient to cover outflows.”

GFOA Bluebook



GENERAL FUND

- Our goal is to set a tax rate for our maintenance & operations (M&O) that will provide for the necessary services provided by the city, as well as a reserve for future capital outlay and unexpected needs.

ENTERPRISE FUND

- Our goal is to set utility rates that will provide for the operation, repair & maintenance, and debt obligation repayment, as well as a reserve for future capital outlay and unexpected needs.

Governmental Funds can be:

- **Non-spendable** – Resources that are either not in a spendable form or are legally or contractually required to be maintained intact.
- **Restricted** – Resources subject to externally enforceable constraints.
- **Committed** – Resources subject to constraints imposed by City Council.
- **Assigned** – Resources earmarked for particular purposes.
- **Unassigned**– Total fund balance less other components.

Proprietary/Enterprise Funds can be:

- **Net Investment in Capital Assets**
- **Restricted** – Resources subject to externally enforceable constraints or are set aside to satisfy liabilities.
- **Unrestricted** – Net position less other components.

RICHWOOD GOVERNMENTAL FUNDS

- **GENERAL FUND** used for the operation of the city, including administration, permitting, court, police, fire, city maintenance, and parks. M&O portion of Ad Valorem tax, as well as sales tax, franchise tax, court receipts, facility rentals and other miscellaneous revenues are accounted for in this fund.
- **REPLACEMENT FUND** used to set aside monies for replacement of equipment and vehicles for public works and the fire department.
- **GENERAL CONTINGENCY FUND** to set aside unassigned reserve funds for unexpected expenditures or for capital projects, used at the discretion of council.
- **COURT SECURITY AND TECHNOLOGY FUNDS** represent fees collected by the court as set by the state. These funds are restricted in use for security or technology.
- **TRANSPORTATION FUND** set up for the purpose of accumulating sales tax and transportation fees that are restricted for streets, sidewalks and drainage.
- **GENERAL OBLIGATION I&S** restricted for use in satisfying the debt obligations of the city, accumulates the I&S portion of Ad Valorem taxes
- **GRANT FUND** used for the receipt and expending of grant funds.

RICHWOOD BUSINESS-TYPE (ENTERPRISE) FUNDS:

- **WATER & SEWER FUND** operating fund for the operations and maintenance of the utility plant; this fund collects all billing receipts for the utility accounts. All debt attributed to the utility plant is paid from this account.
- **INFLOW & INFILTRATION (I&I) RESERVE FUND** is a committed fund for the purpose of maintenance and repairs to reduce I&I into our sewer system.
- **UTILITY CAPITAL IMPROVEMENTS FUND** is a committed fund for the accumulation and expending of moneys for capital improvements within the utility plant

COMPONENT UNIT FUNDS:

- **CRIME CONTROL & PREVENTION (CCPD) FUND** is under the control of the CCPD board under the advisement of the Richwood Police Chief. CCPD board determines the annual budget with council approval. Revenue from sales tax restricted to use by CCPD is accounted for in the CCPD fund.
- **BEAUTIFICATION FUND** is under the control of the KRB board with the budget requiring council approval. Revenue is primarily from a voluntary donation on utility bills.

Fund	Fund Balance as of	10/1/2020	10/1/2021	10/1/2022	10/1/2023
10 - General Fund	<i>Governmental Unassigned</i>	1,535,212.00	1,843,045.00	1,939,929.00	1,897,410.00
13 - Replacement	<i>Governmental assigned</i>	124,464.00	109,165.00	96,316.00	144,470.00
15 - Crime Control and Prevention	<i>Component Unit</i>	186,491.00	212,805.00	284,040.00	358,794.00
16 - General Fund Contingency	<i>Governmental Unassigned</i>	74,144.00	274,144.00	530,975.00	843,870.00
17 - Court Security	<i>Governmental Restricted</i>	22,673.00	22,991.00	23,183.00	20,740.00
18 - Court Technology	<i>Governmental Restricted</i>	4,443.00	4,866.00	5,123.00	10,534.00
20 - Beautification	<i>Component Unit</i>	26,740.00	34,140.00	34,506.00	39,793.00
25 - Transportation Fund	<i>Governmental Restricted/Committed</i>	488,245.00	718,759.00	970,664.00	399,634.00
28 - I&I (Inflow & Infiltration) Reserve Fund	<i>Enterprise Committed</i>	25,369.00	59,369.00	83,369.00	117,369.00
30 - Water and Sewer Fund	<i>Enterprise Unrestricted</i>	1,357,925.08	1,340,263.00	253,785.00	592,293.00
32 - Utility Capital Improvements	<i>Enterprise Committed</i>	20,895.00	241,896.00	503,070.00	502,553.00
40 - General Obligation I&S	<i>Governmental Debt Restricted</i>	83,506.00	54,804.00	25,407.00	8,357.00
70 - Grant Funds	<i>Governmental Restricted</i>	43,418.00	43,277.00	43,277.00	61,325.00



GFOA recommends a minimum of 60 days of either General Fund revenues or General Fund expenditures be maintained.

Per auditors, this high-risk area is better prepared with a minimum of 120-to-180-day reserve.

An ***early*** look at

PROPERTY VALUES & AD VALOREM TAX

APPRAISED VALUES (Preliminary numbers from Brazoria County)	631,327,864
Less Homestead Cap	(37,343,666)
Less 23.231 Cap	<u>(6,445,008)</u>
ASSESSSED VALUE	587,539,190
Less State Exemptions	(22,664,221)
Less Local Exemptions:	
Homestead	7,304,900
Over 65	7,597,678
Disabled	<u>471,850</u>
	<u>(15,374,428)</u>
NET TAXABLE VALUE	549,500,541

This is 57,461,632 (11.68%) above 2023 certified taxable value.

Of this increase, 10,342,118 represents new additions/improvements, or 1.9% of total increase.

AD VALOREM TAX LEVY based on preliminary estimate at current tax rate:

$$549,500,541 \times 0.540587/100 = 2,970,528$$

Debt payment required (453,439)

Levy available for M&O **2,517,089**

FY 24 PROJECTED 2,179,188

GENERAL FUND

	2023 Actual	2024 Budget	Proposed 2025 Budget	Change
Total Expenditures	2,920,222	2,939,001	3,197,750	258,749
Sources				
974960 Transfer from CCPD	15,000	25,000	15,000	-10,000
974962 Transfer from Replacement Fund	0	0	65,000	65,000
Total Sources	15,000	25,000	80,000	55,000
Uses				
985950 Contingency Fund	280,000	290,000	319,775	29,775
985962 Transfer to Replacement - Vehicles	20,000	20,000	30,000	10,000
985963 Transfer to Beautification	5,000	5,000	5,000	0
985965 Transfer to Replacement - Equipment	4,000	4,000	5,000	1,000
985967 Transfer to Replacement- Fire Dept	20,000	15,000	30,000	15,000
Total Uses	412,652	334,000	389,775	55,775

Items of Note

- COLA Payroll increase of 4%
- Increase in attorney fees
- Increase in insurance costs – may be higher than presently estimated
- Increase transfers to Replacement Fund
- Includes Contingency Fund transfer of 10% of expenditures
- Public Works new vehicle = transfer from Replacement Fund
- CCPD transfer to defray \$15,000 of police overtime cost

ENTERPRISE FUND

	2023 Actual	2024 Budget	Proposed 2025 Budget	Change
Total Operating expense	1,880,323	2,441,705	2,243,492	-198,213
Non-operating expense				
255960 Meter Capital Lease - Principal	0	70,987	0	-70,987
255961 Meter Capital Lease - Interest	5,501	2,804	0	-2,804
255970 Series 2011 Tax & Rev CO Bonds - Principal	0	40,000	45,000	5,000
255971 Series 2011 Tax & Rev CO Bonds - Interest	16,727	15,171	13,615	-1,556
255988 Series 2004 - Principle	0	35,000	40,000	5,000
255990 2004 CO Bond Fees	2,629	500	500	0
255991 Series 2004 - Interest	3,109	3,269	1,140	-2,129
255992 Bond Insurance & Agent Fees	750	750	750	0
255993 Series 2019B Bonds - Principal	0	135,000	135,000	0
255994 Series 2019B - Interest	123,836	132,500	124,400	-8,100
985962 Transfer to I & I Fund	34,000	34,000	34,000	0
985966 Transfer to Capital Improvements	22,000	22,000	22,000	0
Total Non-operating expense	279,951	491,981	416,405	-75,576

Items of Note

- COLA Payroll increase of 4%
- Decrease in Clute Transmission line lease due to budgeting error in FY24
- Increase in insurance costs – may be higher than presently estimated
- No budgeted engineering costs
- Meter Capital Lease was finalized in FY24
- Series 2004 final payment in FY25

SUPPLEMENTALS

1. Additional Public Works position – Distribution Operator	Enterprise Sewer	\$ 44,025
2. Contract Labor – Tradesmen International annual	Transportation Fund	\$ 65,000
3. Shipping Containers – Service Center storage	General Fund	\$ 26,000
4. Cypress & Misty Ct Reconstruction 700,000	General Fund fund balance	\$
5. Streets & Parks Master Plan – Engineering 200,000	General Fund fund balance	\$