



## STAFF REPORT

**DATE:** September 21, 2021

**TO:** Kent Cagle, City Manager

**FROM:** Jonathan Locke, Executive Director of Finance

**VIA:** Miranda Drake, Director of Budget

**SUBJECT:** Budget Amendment

### **BACKGROUND AND FINDINGS:**

City staff creates a yearend budget amendment to align budgets with estimated revenues and expenditures. Staff has forecasted revenues and expenditures through the end of the fiscal year and identified accounts that require a budget amendment. The City Charter authorizes the City Manager to approve budget amendments between accounts of the same department and fund. The City Council must approve budget amendments between accounts of different departments and to increase the overall budget of a fund.

The budget amendment predominantly addresses five major initiatives that include amending operational funds; establishing a health insurance fund; American Rescue Plan Act (ARPA) funding; debt service adjustments; and transfer fund balance in excess of 22% for capital improvement projects per the Financial Governance Policy.

#### Operational Funds -

There are five operational fund items addressed in this budget amendment:

1. Appropriating CARES Act revenue of \$66,531 from the Texas Workforce Commission for unemployment claims and appropriate the additional unemployment claims of \$88,204. Funds are available in the consulting account to cover the remaining \$21,673.
2. As discussed at the September 7, 2021, City Council Workshop, the City needs to purchase additional COVID tests for citizens. The cost of the tests is covered by the Federal Emergency Management Agency (FEMA). The estimated amount of tests to be purchased is \$70,000.
3. The City of Killeen Fire Department is part of the Texas Intrastate Fire Mutual Aid System (TIFMAS) and the Texas A&M Engineering Extension Service (TEEX) Texas Task Force 1. Both groups require specialized training for specific rescue missions. Depending on the mission, the employees with the necessary qualifications are then deployed.

Due to multiple recent natural disasters, the Fire Department deployed several employees to assist with Texas wildfires, severe weather, and COVID vaccinations. The cost of the deployments total \$293,562. The City of Killeen will receive reimbursement from the

applicable agencies for these expenditures. This budget amendment recognizes the expenditures and associated reimbursements related to the fire deployments.

4. Due to a large number of retirements and position turnover, the Solid Waste Fund has exceeded the separation pay budget. This budget amendment appropriates \$129,468 to cover the additional costs.
5. In accordance with the Financial Governance Policy, Section X. Fund Balance, unassigned fund balances in excess of the 22% goal shall be transferred to the Capital Projects Fund. This occurs in the year end budget amendment each year after the final audit from the prior fiscal year has been delivered. Three funds are eligible to move excess funds above 22% after the FY 2020 audit: Water & Sewer \$1,859,165, Solid Waste \$159,933, and Drainage \$310,448.

The Water and Sewer Fund and Solid Waste Fund had one-time funding events that provided fund balance in excess of 22%. One of the events impacted both of the funds. During FY 2020, the Support Services Fund was closed. When the fund was first created, the General Fund, Water and Sewer Fund, and Solid Waste Fund contributed a proportionate amount. When the Support Services Fund was closed, the amount contributed was returned to the respective fund. The amount returned was as follows, General Fund \$2,249,806, Water and Sewer Fund \$1,247,031, and Solid Waste Fund \$564,119. The return of these funds is the reason the Solid Waste Fund has fund balance in excess of 22% and is part of the reason for the Water and Sewer Fund. The funding returned to the General Fund has already been appropriated by City Council for emergency street maintenance.

The Water and Sewer Fund also had a budget savings from the delay of the \$22 million bond issue. There was \$1.7 million budgeted in FY 2020 to cover the debt service requirements of the bond issue. Since the bond issue did not occur until early FY 2021, the budget for the debt service was not used creating a one-time savings in the Water and Sewer Fund. The Water & Sewer Fund has estimated annual capital maintenance needs of \$3.0 million. The \$1.8 million will assist in meeting some of the capital projects that have been delayed due to lack of funding.

<b>FY 2021 Operational Funds</b>	<b>Revenue Budget</b>
General Fund	\$430,093
<b>TOTAL</b>	<b>\$430,093</b>

<b>FY 2021 Operational Funds</b>	<b>Expenditure Budget</b>
General Fund	\$430,093
Water & Sewer Fund	1,859,165
Solid Waste Fund	289,401
Drainage Fund	310,448
<b>TOTAL</b>	<b>\$2,889,107</b>

#### Internal Service Fund -

There is one internal service fund item addressed in this budget amendment:

1. In FY 2021, the City Council authorized staff to set up a self-funded health insurance program. This budget amendment will appropriate \$1.6 million in funds set aside in the Governmental Capital Improvement Project (CIP) Fund to establish a fund balance and reserve. In addition, the Wellness Fund is being closed and the budget amendment will transfer the fund balance of \$243,650 into the Health Insurance Fund.

<b>FY 2021 Internal Service Fund</b>	<b>Revenue Budget</b>
Health Insurance Fund	\$1,843,650
<b>TOTAL</b>	<b>\$1,843,650</b>

#### Special Revenue Funds -

There are three special revenue fund items addressed in this budget amendment:

1. In FY 2021, the City Council provided a motion of direction on July 17, 2021 to fund the Hotel Occupancy Tax Fund requested items with American Rescue Plan Act (ARPA) funds. This included funding in FY 2021 for the following:
  - a. Grants to the Arts for FY 2020 \$100,283
  - b. Grants to the Arts for FY 2021 \$102,167
2. The general obligation bond refunding in August 2020 changed the bond principal payment in the Hotel Occupancy Tax Fund for FY 2021 by nearly \$6,500. Funds are available in the waste disposal and merchant services account to cover the additional cost.
3. In FY 2021, the City Council authorized Staff to set up a self-funded health insurance program. This budget amendment will transfer the Wellness Fund (\$243,650) into the Health Insurance Fund for administration of the wellness program.

<b>FY 2021 Special Revenue Funds</b>	<b>Revenue Budget</b>
Hotel Occupancy Tax Fund	\$202,450
<b>TOTAL</b>	<b>\$202,450</b>

<b>FY 2021 Special Revenue Funds</b>	<b>Expenditure Budget</b>
Hotel Occupancy Tax Fund	\$202,450
Wellness Fund	243,650
<b>TOTAL</b>	<b>\$446,100</b>

#### Debt Service Fund -

1. This budget amendment includes moving the remaining bond funds from the 2011 State Pass Thru Financing Bond for the Rosewood and Highway 190/2410 construction project to the Debt Service Fund to close out the bond fund. The agreement with the state requires remaining project bond funds to be used to repay the debt.

<b>FY 2021 Debt Service Fund</b>	<b>Revenue Budget</b>
Debt Service Fund	\$116,600
<b>TOTAL</b>	<b>\$116,600</b>

<b>FY 2021 Debt Service Fund</b>	<b>Expenditure Budget</b>
Debt Service Fund	\$0
TOTAL	\$0

#### Capital Improvement Projects -

There are four capital improvement project items addressed in this budget amendment:

1. In FY 2021, the City Council provided a motion of direction on July 17, 2021 to fund deferred maintenance projects in the Hotel Occupancy Tax Fund with American Rescue Plan Act (ARPA) funds. This included funding in FY 2021 for the following:
  - a. HVAC System & Lighting Upgrades \$1,204,680
2. As mentioned above, in FY 2021, the City Council authorized Staff to set up a self-funded health insurance program. This budget amendment will appropriate \$1.6 million in funds set aside in the Governmental CIP Fund to establish a fund balance and reserve for this new fund.
3. As mentioned above, this budget amendment includes moving the remaining bond funds from the 2011 State Pass Thru Financing Bond for the Rosewood and Highway 190/2410 construction project to the Debt Service Fund to close out the bond fund. The agreement with the state requires remaining project bond funds to be used to repay the debt.
4. As mentioned above, in accordance with the Financial Governance Policy, Section X. Fund Balance, unassigned fund balances in excess of the 22% goal shall be transferred to the capital projects fund. This occurs in the yearend budget amendment each year after the final audit from the prior fiscal year has been delivered. Three funds are eligible to move excess funds above 22% after the FY 2020 audit: Water & Sewer, Solid Waste, and Drainage Funds.

<b>FY 2021 Capital Improvement Projects</b>	<b>Revenue Budget</b>
Governmental CIP Fund	\$1,204,680
Water & Sewer CIP Fund	1,859,165
Solid Waste CIP Fund	159,933
Drainage CIP Fund	310,448
TOTAL	\$3,534,226

<b>FY 2021 Capital Improvement Projects</b>	<b>Expenditure Budget</b>
Governmental CIP Fund	\$2,804,680
2011 State Pass Through Financing Bond	116,600
TOTAL	\$2,921,280

#### THE ALTERNATIVES CONSIDERED:

- 1) Do not approve the ordinance amending the FY 2021 Annual Budget.
- 2) Approve the ordinance amending the FY 2021 Annual Budget.

**Which alternative is recommended? Why?**

Option 2 is recommended to approve the ordinance amending the FY 2021 Annual Budget.

**CONFORMITY TO CITY POLICY:**

The City's Financial Governance Policies, Section V. Budget Administration (B)(1) states that City Council may amend or change the budget by ordinance.

**FINANCIAL IMPACT:**

**What is the amount of the expenditure in the current fiscal year? For future years?**

This budget amendment is for FY 2021, and includes:

- ☐ General Fund - increase of \$430,093 in revenues and \$430,093 in expenditures.
- ☐ Water & Sewer Fund - increase of \$1,859,165 in expenses.
- ☐ Solid Waste Fund - increase of \$289,401 in expenses.
- ☐ Drainage Fund - increase of \$310,448 in expenses.
- ☐ Internal Service Fund - increase of \$1,843,650 in revenues.
- ☐ Special Revenue funds - increase of \$202,450 in revenues and \$446,100 in expenditures.
- ☐ Debt Service Fund - increase of \$116,600 in revenues.
- ☐ Capital Improvement Project funds - increase of \$3,534,226 in revenues and \$2,921,280 in expenditures.

**Is this a one-time or recurring expenditure?**

One-time

**Is this expenditure budgeted?**

Upon approval of the attached ordinance amending the FY 2021 Annual Budget.

**If not, where will the money come from?**

N/A

**Is there a sufficient amount in the budgeted line-item for this expenditure?**

Upon approval of the attached ordinance amending the FY 2021 Annual Budget.

**RECOMMENDATION:**

City Council approve the ordinance amending the FY 2021 Annual Budget.

**DEPARTMENTAL CLEARANCES:**

Finance

Legal

**ATTACHED SUPPORTING DOCUMENTS:**

Ordinance