



DISCUSSION OF BUDGETS

CITY OR GENERAL FUND BUDGET

The following discussion will focus on how the budgets for the City side, as well as the Utility side, are developed each year. The approved budgets for each side are also included and will be referred to many times throughout this discussion.

Each year in late July or early August, the council meets in workshop session to discuss the City side budget first. We meet after the Jefferson County Tax Assessor has given us a report stating the appraised value of all properties in Bevil Oaks that is used to calculate the amount of property tax revenue that the city will be receiving. At this point, it is just a very close guess because the tax rate, at this time, has not been finalized. However, using last year's tax rate gives a very close approximation as to how much money we will receive so that we can start the budgeting process. Later on in September, the Tax Assessor will send us the effective tax rate and at that point, depending on if it goes up or down, we may have to make minor adjustments to the budget before voting to finalize our budget for the coming tax year.

In looking at the attached budget, one can see there are other forms of income that we receive in addition to property tax revenue. The franchise taxes remain roughly the same from year to year with the revenue from sales taxes being the only relative unknown that we have to "guess" at. At line item #21, you can see that the total amount of money that we have to operate the city with is \$223,000. This is not much money; prior to the flood, we had households that operated on this much or more here in Bevil Oaks!

Nearly all budgeted items are "fixed", meaning they recur year to year and while the cost may vary slightly, it doesn't change much. The only items of "discretionary" spending are the ones highlighted in yellow. The amount of money that is available for discretionary spending is easy to determine; however much money is left over after all of the "fixed expenses" are covered is divided up between the categories located at line items # 50, 51, and 59. At the end of each budget or fiscal year, any unspent money from the budget is placed into the city's General Fund or savings account.

UTILITY BUDGET

Prior to this budget cycle, the utility budget was determined in much the same manner as the city budget. However, facing a known shortage of revenue due to the lack of connections as well as a major reduction in water sales, a different approach was used this past year. We did not know how much revenue we needed to operate the utility to start with. So, we went thru all lines items looking at past cost for each and made sure we put in enough money to cover these expenses. Next, one of the expense items is how much we have to pay Beaumont to treat our effluent that we now pump to them. To do this we had to determine how much water we would sell to our citizens in order to determine what the cost to Beaumont would be since we pay for this cost based on the amount of water that is sold thru the primary meters that we have. This does NOT include the secondary meters for irrigation; they do not figure into this cost. To determine this number, former Councilman Pride looked at historical data from years past as well how much water we had been selling for the past several months and it was decided that we would base this calculation on water sales of 14M gallons for this budget cycle. This was down from an average sales volume of about 26M gallons for the previous 4 or 5 years.

So, with the sales volume of 14M gallons, it was determined how much revenue would be necessary to fund the budget to cover all expenses. This sounds simplistic, however former Councilman Pride put together a complex analysis taking into account several factors to arrive at his suggested rate of \$26/ 1000 gallons combined rate for water & sewer. This analysis was shown on the projector screen at the last budget workshop held on October 3, 2018 and then approved unanimously by council at the October 4, 2018 council meeting. All of which can be viewed at any time on Facebook, at the City's Facebook page titled Bevil Oaks City. It should be noted that there are no "discretionary spending" items in this budget.

Now, looking at the UTILITY BUDGET, at line item 16, "Billing Sewer Expense", this is the amount we will owe the City of Beaumont for treating our effluent waste based on 14M gallons of water sold thru the primary meters. Line item 17 is the note payable to Beaumont (three year note) for the year that we did not pay for this sewer expense. They have agreed to carry this note for 3 years interest free.

At line item 20, "Utility Service Contract" is the monthly fee of \$2350 X 12 months= \$28,200 to our utility contractor, Utility Innovations, dba Utility Specialties. This monthly service fee covers: Record master meter readings on all wells daily; Monitor & check chlorine residual in the distribution system as well as at all well sites daily; Change out chlorine cylinders as necessary; Flush all dead-end flush valves monthly; Pull & submit to lab required number of bacteriological samples for testing monthly; Make monthly reports as required by TCEQ; Fill out and submit to the TCEQ Quarterly Reports; Fill out & submit operator notification to the TCEQ; Check operation of all waste water lift stations Monday thru Friday each week; submit monthly operator report to council and including performing all duties as required by the TCEQ.

Moving on to line item 33, Extraordinary Expense, this is a category for repairs that are over and above the type of daily and/or routine repairs or maintenance items that we might incur throughout the year. Examples would be the replacement of a fire hydrant, or repairing a main water line leak, or having to re-work one of our 3 water wells, (anywhere from \$13,000 to \$20,000 per occurrence). This category is generally performed by our utility contractor but not always as in the case of a well work over. #34, Tap Expense; this is the expense for new taps, however, they are paid for up in the revenue section under the heading of FEES. #35, Subcontractors-Repairs & Maintenance; generally, this is an electrical contractor that we have to call out from time to time to make repairs to our electrical components that our utility contractor cannot perform. It also

might be a plumber that we need for issues concerning city hall problems. #36, Monthly Repair; any routine repairs that are not covered by the Daily Service heading below generally requiring more than one person and/or equipment such as a mini excavator for digging. #37, Turn on/turn offs; most of this expense is covered again, under fees above, such as when a service is being turned on. And, it could be covered when someone moves out by using money from their deposit to cover this expense. #38, Dailey Expense; generally these are simply easy repairs that can be made by one technician working by himself or maybe having to re-read a meter that the lid was turned over and would not read, or determining if a leak was on the city's side or the property owners side of the meter, etc.

Moving on to line item #51, User Fee Receipts; this is the amount of money that is generated by the user fee of \$39.90 X 410 connections (the amount used to base this budget on) X 12 months per year on your water bill. Below this item are the two notes that are paid out of this fee, #52 & #53. The bond payment for the sewer improvements is paid twice a year in February and August for the total amount of \$133,100 this year. The water meter payment is made once a year in September, in the amount of \$23,984. You will notice that there is a positive amount of \$39,224 that hopefully will be generated this year. The reason for this is twofold. First, we do not have enough money in the account set up to make these payments out of at present. We do, however, have a \$164,000 in our Tex-Pool account, which is a savings account administered by the State. So, currently, we have decided to "borrow" money from our Tex-Pool account to make these payments until such time as we have paid back all that we had to borrow to make these payments as well as save enough money to be able to have a years' worth of payments on hand. As connections rise, this rate may be able to be adjusted slightly, however, in general, you can see that it will probably be necessary to have a relatively high rate for two or three years until we reach this financial goal, at which time, it can then be drastically reduced. (As a side note, we are also reviewing the requirements to change this user fee amount needed from the water bills to the property taxes, allowing everyone who owns property in Bevil Oaks to help pay, rather than only those with water bills.) If it turns out that this is not financially advantageous to everyone (cheaper/month), it will not be done as this would be the only reason to make this change.

So it was with this information combined with weeding out past expenses that were a "one time" expenditure that were Harvey related that former Councilman Pride used in his rate analysis to come up with the combined rate of \$26/1000 gallons of water combined. What this budget **does not** have included in it is money for smoke testing & repair, fire hydrant repair or replacement, capital improvement projects, preventative maintenance expense, or a catch all category of simply "depreciation" which could be an all-encompassing category that could be applied to all mentioned above.

Your council recognized these short comings in this budget but felt that at this time, the citizens could not afford the additional rate required to provide monies for these things. Make no mistake, these are the things that need to be in our budget because at present, there is no money available to take care of these things should the need arise. Another item that needs to be planned and saved for is if and when the TCEQ gives us a directive to make some type of change or repair to our system. This has happened a few times in the recent past, but luckily, the cost has been \$5000 or less and we have been able to manage it. As I have stated to the council many times in the past, you can't run a utility company to simply break-even; that's a recipe for failure or financial disaster. The PUC rate consultant that will be making a presentation to the council and public at this month's council meeting on February 21 will be addressing these items in his discussion. As we go along,

our sewer & water system infrastructure will be a continuous source of needs, repairs, updates and/or replacement. The system is going into its 39th year of existence. We must to be planning for the future.

Hopefully, this information in addition to the two budgets will provide some insight as to how your city government is operating.

Mayor Rebecca Ford

Mayor Pro Tem Danny Fruge

Kimberely Vandver, City Secretary