

October 1, 2014

Honorable Mayor and Members of the City Council
Kilgore, Texas 75662

RE: Fiscal Year 2014-2015 Operating Budget Message

Dear Mayor, Council Members and Citizens of Kilgore:

It is my privilege to present the approved and adopted budget for the fiscal period commencing October 1, 2014 and ending September 30, 2015. This budget is the culmination of a major effort by numerous members of the City staff, City Council and the citizens of Kilgore whose input has been used to develop policy and spending priorities. The City of Kilgore has been proud to obtain the GFOA Distinguished Budget Presentation Award for the past two years. However, this FY 2015 budget will not be submitted to the GFOA due to the retirement of the City's finance director immediately prior to the budget creation process. The Finance Department also has a new accountant and accounts payable clerk, making the time commitment and budget expertise to submit an award-winning document infeasible. Thus, the budget message will be brief and accompanied by the line-item budget. It is anticipated that a full award-winning budget document can again be created and submitted to the GFOA in FY 2016.

The 2014-2015 Budget Development Principal Issues

As with most municipal governments, Kilgore faces the task of doing more with less. As more services are added to meet citizen demands and needs, more revenue must be raised to meet that demand. The City of Kilgore has maintained a sound fiscal and political approach during the budget process. As part of this budget, the City Council has raised ad valorem taxes as well as sales tax collection estimates to address a heavy capital infrastructure need. The new property tax rate is .45, which will generate an additional \$405,627 over FY 2014. The new sales tax collection estimate has been increased from \$6,250,000 to \$6,600,000. Roughly \$3.4 million has been budgeted for road projects in FY 2015. These include the following:

- \$250,000 for Asphalt Rejuvenation
- \$350,000 for Concrete Diamond Grinding
- \$100,000 for Crack Seal
- \$40,000 for Drainage, Curb and Gutter
- \$500,000 for Kilgore Street Reconstruction
- \$335,000 for West Sabine Street Reconstruction
- \$1,025,000 for Energy Drive Reconstruction
- \$762,606 for General Street Maintenance and Reconstruction

Additionally, the City conducted a salary survey with similar-sized cities in East Texas. From this survey it was determined that employee salaries were on the whole significantly below these benchmarked communities. As a response, the City Council budgeted 7% toward pay parity across-the-board. Employees within the 7% parity were increased to parity. Employees with parity above 7% were limited to 7% with the anticipation that future budget years address the disparity.

The City also updated its fee schedule as part of the FY 2015 budget. This philosophy of ensuring that fees cover costs has created a shift in our financial picture. With annual reviews of fees, changes can be made incrementally and not all at once, thereby limiting the impact to users while generating additional needed revenue to cover rising costs. We are pleased to report that our General Fund is balanced, and our Utility Fund now benefits from long-range estimations as brought forward in our capital improvement plan and road improvement plan.

The City of Kilgore is a member of the Texas Municipal League Intergovernmental Employee Health Benefits Pool. Unfortunately, the city had a poor claim history in FY 2014 and insurance costs have increased 8% to the city and 11% to employees. To combat these drastic increases, the city increased its

employee-only standard plan cost from \$0 to \$25 per month per employee. The HSA plan is still cost-free for employee-only coverage. The City has a private third-party health insurance firm that works to keep premiums low and administer our plan.

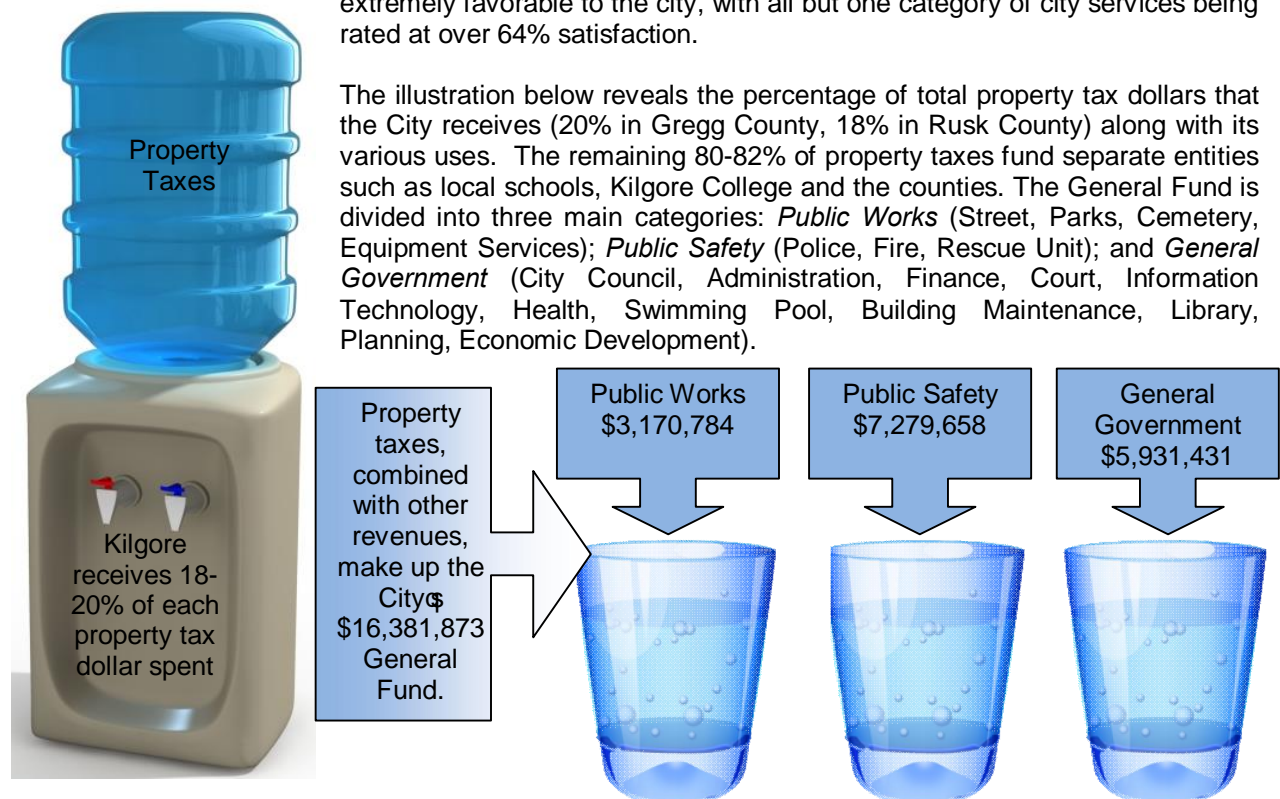
Annual Budget Considerations

The operating budget consists of the General Fund, an Enterprise Fund, the I&S Tax Debt Service Fund, two (2) Internal Service Funds, and sixteen (20) Special Revenue Funds. The General Fund consists of departments such as administration, library, police, fire, planning, general services, economic development, street maintenance, and the rescue unit. The 2014-2015 General Fund also includes \$200,000 for contingencies.

The Interest and Sinking Debt Service Fund accounts for resources that will be used to service the City's long-term debt for the current year. Scheduled principal, interest and fee payments for FY 2015 total \$6439,926. The City has two bonds: a 2008 tax and waterworks and sewer system revenue bond and a 2009 general obligation bond.

The Internal Service Funds receive transfers from other governmental funds, and consist of the Employee Benefits Fund (FY 2015 transfer of \$1,842,254) and Capital Equipment Replacement Fund (\$230,726). The Special Revenue Funds are self-revenue generating (proprietary) funds such as the 911 Emergency System, Hotel Occupancy Taxes, Hospital, and Cemeteries Funds. The Capital Projects Fund is considered a non-operating fund since projects are committed within the fund and span multiple years. The 2014-2015 budget includes a transfer of \$762,606 from the General Fund and \$300,000 from the Utility Fund to the Capital Improvement Fund.

The Annual Citizen Survey, which was initially implemented in 2012 and updated in 2014, shows the City's effort to gain public input into the budget process. It is clear from the Citizen Survey results that citizens of Kilgore have placed a high priority on spending for street maintenance and repair. Again, the City has responded to this feedback by budgeting almost \$3.4 million for road projects. The survey was extremely favorable to the city, with all but one category of city services being rated at over 64% satisfaction.



Funds and Fund Structure

Due to the large number of appropriated funds and the limited scope of certain funds, and in order to simplify the budget reporting process, the City categorizes its funds by type. The following table lists the three major City-classified groups of funds that will be reported in this document: General Fund, Utility Fund and Other Funds.

General Fund	Utility Fund ¹	Other Funds ²
Administration	Production I (Water Wells)	Civic Center
Finance	Production II (Surface Water)	I&S Tax Debt Service ⁴
Police	Customer Services	Hotel Occupancy Taxes
Municipal Court	Distribution & Operation	Employee Health Fund ³
Fire	Wastewater	Hospital Fund
City Council	Sabine River Pump Station	Grant Funds
Rescue Unit	Debt Service	911 Emergency Fund
Street	Administration	Kilgore Cemeteries
Health	Contingency	K-9 Drug Dog Fund
Parks		Sewer Restoration Fund
Swimming Pool		Meadowbrook Golf Course Fund
Cemetery		Capital Improvement Fund
Building Maintenance		Capital Replacement Fund ³
Library		Information Technology Fund ³
Equipment Services		Federal Drug Seizure Fund
Planning		State Drug Seizure Fund
Economic Development		KYSSSED Fund
Contingency		Court Technology Fund
		Court Security Fund
		Main Street HOT Funds
		Main Street Theater Restoration Fund
		Kilgogh Art Festival Fund
		BEVCO Fund

¹Enterprise Funds

²Unless Otherwise Noted, All Funds Below Are Special Revenue Funds

³Internal Service Funds

⁴Interest and Sinking Debt Service Fund

The following table lists the major funds and illustrates their relationship with each city department.

General Fund	Utility Fund*	Other Funds ^
Administration	Administration	Administration
Finance	Finance	Finance
General Services		
Fire		
Library		
Planning		Planning (Main Street)
Police		Police (911, Drug Dog, Drug Seizure, KYSSSED)
Public Works	Public Works	Public Works (Cemeteries, Sewer Restoration, Cap. Imp, Cap Replacement)

The FY 2015 Budget Priorities

The total budget for FY 2015 is \$35,975,577. This is an increase of 9.68% from the FY 2014 final budget. The increases are mainly due to the large capital expenditures in the Capital Improvement Fund and the 7% salary pay parity. Otherwise, the budget is very conservative for each department. Emphasis in 2015 is on quality of life initiatives and maintaining services and infrastructure.

Budget priorities have been developed by staff with input from the City Council and citizens. These priorities are intended to guide the City toward a more stable financial situation as well as address many areas of concern including maintenance, efficiency and image. In 2014, staff spent considerable time establishing priorities and creating a customer service plan to deal with the issues of the community. Our priorities for 2015 are planned and have purpose as they are linked to the City's customer service plan as well as our capital improvement plan. The City Council, City Administration and staff are making decisions and plans that are linked to an overall goal for the improvement of the City of Kilgore.

Household Survey Spending Priorities

	<u>2012</u>	<u>2014</u>
Street maintenance and repair	94%	97%
Water and sewer infrastructure	87	91
Street Cleanliness	N/A	87
Financial incentives to attract retail stores and restaurants	70	73
Sidewalk repair and new construction	64	66
FarmersqMarket downtown	N/A	63
City swimming pool maintenance	65	62
Construction of new housing	65	56
City entrances on major thoroughfares	63	46
Citywide permanent GoBUS routes	N/A	46
Development of the I-20 Corridor	N/A	43
Citywide multi-use recreational trail system	N/A	39
Quiet Zone	N/A	36
Splash Pad	30	29
Meadowbrook Golf & Event Center	N/A	26
New recreation & aquatic center	28	25
Construction of a soccer complex	N/A	25

City Council Priorities

	<u>Rank</u>	<u>Outcome</u>
PT Bldg/Rest. Inspector	4.4	Yes
CitySourced (Code Enf. Mobile App)	4.4	2014
North Kilgore Water & Hwy 135 Tower	4.2	Maybe
Streets - Maintain Current Pavement Condition	4.2	63%
Utility Fund Rate Increase @ 5%	4.2	Yes
Dispatch Equipment (Radios)	4.2	2014
Meadowbrook	4	Yes
Code Enf (x2 PT positions)	4	1 PT
Streets - Improve Pavement Condition	4	No
Employee Pay Parity	3.8	Partial
Texan Theater	3.6	2014
2012 Intl. Const. Code & 2011 Natl. Elec. Code	3.6	2014
EMS	3.6	Maybe
Trails	3.4	Yes
Crim Theater - Conceptual Drawings, OR	3.4	No
Housing	3	No
Retail Incentives	3	No

North Kilgore Water	2.8	Maybe
Sweeper	2.8	Yes
Recreation Task Force	2.4	No
Retail Consultant	2	No
Crim Theater - Demolish Behind Facade, OR	1.8	No
Crim Theater - Demolition	1.2	No

The City is adding two part-time code enforcement officers and one part-time building/restaurant inspector in FY 2015.

Fund Balance

Fund balance is the difference between fund assets and fund liabilities of governmental and fiduciary funds. Changes in fund balance are the result of the difference of revenues to expenditures. Fund balances increase when revenues exceed expenditures and decrease when expenditures exceed revenues.

The City of Kilgore's fund balance policy states that the cash balance in both the General Fund and Water Utility Fund must be equal to or greater than 25% of the current year fund budget. Therefore, increases in fund balance typically remain in the fund in which it was generated for use at a later time.

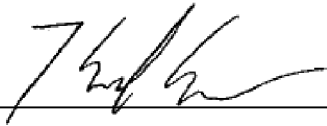
The FY 2015 General Fund budget has \$0 appropriated to transfer to other funds out of fund balance, leaving a projected FY 2015 ending General Fund balance of \$14,400,226 (unaudited), which is 88% of the total FY 2015 General Fund budget. This is greatly above the 25% fund balance policy.

The Utility Fund FY 2014 ending fund balance was \$1,444,445, which is 28% of the adopted FY2015 budget. The budgeted FY 2015 ending fund balance in the Utility Fund is \$2,078,162

The Other Funds collectively hold a fund balance of \$13,643,440.

Summary

The budget, as presented, reflects the ongoing commitment of the Mayor, City Council and city staff to be responsive to the community's needs and desires. On behalf of city staff, we appreciate and thank you for the efforts you have made to improve the services provided to our friends and neighbors in the Kilgore community.



J. Scott Sellers
City Manager