City of Bellaire

CITY MANAGER'S OFFICE

To: Honorable Mayor and Members of City Council

From: Sharon Citino, City Manager

Date: July 17, 2023

Subject: Proposed Fiscal Year 2024 Budget

Overview:

The proposed Fiscal Year 2024 Budget was developed with the objectives of advancing work on City Council's strategic goals and ensuring regulatory compliance while holding the nominal tax rate flat and maintaining structural balance and reserve requirements. Meeting all these objectives was challenging. We expect real property and sales tax revenues to increase, but we also expect costs for goods and services to increase due to inflation. In addition, we know that on January 1, 2024, the cost of employee pension benefits will increase by 9%, and the cost of employee medical benefits could increase by as much as 13%. Because the City is a service provider, its budget is largely comprised of personnel costs. As a result, these benefit increases have a significant impact on the overall budget.

The proposed Fiscal Year 2024 Budget recommended for appropriation is as follows:

General Fund	$27,068,550
Enterprise Fund	$11,669,200
Debt Service Fund	$9,599,554
VET Fund	$664,400
Capital improvement funds*	$11,011,926
Special Revenue Fund	$668,060
Total	$60,681,690

* This includes the Capital Bond Fund, Capital Grant Fund, Capital Improvement Fund, and METRO Fund.

The proposed Fiscal Year 2024 Budget assumes a 10% increase in water rates, 10% increase in wastewater rates, 7% increase in solid waste rates, and 4% cost of living adjustment (COLA) for employees.

The following is a high-level summary of key components of the proposed Fiscal Year 2024 Budget.

General and Enterprise Funds:

The proposed Fiscal Year 2024 Budget for General Fund and Enterprise Fund revenues and expenditures/expenses, with a comparison to the adopted Fiscal Year 2023 Budget, is as follows:

	Adopted Fiscal Year 2023 Budget	Proposed Fiscal Year 2024 Budget	Change
General Fund:			
Revenues	$24,584,417	$26,329,800	7.1%
Expenditures*	$24,717,374	$26,004,100	5.2%

Surplus/(Deficit)	($132,957)	$325,700	
Enterprise Fund:			
Revenues	$10,983,540	$12,020,000	9.4%
Expenses*	$10,401,083	$10,919,200	5.0%
Surplus/(Deficit)	$582,457	$1,100,800	
Combined Total:			
Revenues	$35,567,957	$38,349,800	7.8%
Expenditures*	$35,118,457	$36,923,300	5.1%
Surplus/(Deficit)	$449,500	$1,426,500	

*Expenditures/expenses listed above reflect non-discretionary transfers from the Enterprise Fund to the General Fund and the Debt Fund, but do not reflect discretionary transfers from the General Fund and Enterprise Fund to the Vehicle, Equipment, and Technology Fund and Capital Improvement Fund. However, these discretionary transfers are reflected in the more detailed fund summaries in the proposed Fiscal Year 2024 Budget.

Personnel Considerations:

FTEs: We reduced the number of full-time equivalents (FTEs) from 188 to 187 by combining the Assistant Director of Development Services and Building Official into a single position. This reduction is reflected in the proposed Fiscal Year 2024 Budget.

Pension Benefits: The City's combined contribution rate to the Texas Municipal Retirement System (TMRS) will increase in calendar year 2024, resulting in a 9% cost increase. This increase is reflected in the proposed Fiscal Year 2024 Budget.

Medical Benefits: The City's agreement with Aetna limits rate increases to 13% in calendar year 2024. While the actual rate increase could be lower, we must plan for a 13% rate increase. This increase is reflected in the proposed Fiscal Year 2024 Budget.

COLA: We recommend that going forward, the City consistently apply the methodology used by the Social Security Administration (SSA) to calculate the COLA for Social Security benefits. That methodology looks at the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) over the last three months of available data (for SSA, this is July-September). Applying this methodology to the last three months of available data (for the City, this is January-March), we calculate a COLA of 5.5%. This was reduced to 4% based on what the City can afford without further increasing water, wastewater, or solid waste rates.

Below is a comparison of the COLAs adopted in calendar year 2023 and proposed for calendar year 2024 by SSA (which has yet to calculate its COLA for 2024), the federal government for federal civilian workers, and the City:

	Adopted 2023 COLA	Proposed 2024 COLA
Social Security benefits	8.7%	--
Federal civilian workers	4.1%	5.2%
City employees	2.5%	4.0%

Consistent with the City's policies, a step increase is not included in the proposed Fiscal Year 2024 Budget because the City cannot afford one without increasing the nominal tax rate or further increasing water, wastewater, or solid waste rates.

Supplemental Requests – General Fund:

The proposed Fiscal Year 2024 Budget includes the following new recurring expenditures from the General Fund that are recommended for City Council's consideration and approval, in priority order:

Maintenance of 10 Flock cameras (transfer from Bellaire Police & Fire Foundation)	$25,000
Reclassification of 4 Communication Officers to Lead Communication Officers	$25,300
New Forerunner floodplain management software	$30,000
New Library mobile application	$7,650
Total	**$87,950**

In addition to the above-listed supplemental requests, we recommend adding cybersecurity improvements at an estimated cost of $60,000. However, based on the second quarter report for fiscal year 2023, it appears the current budget for Information Technology may be able absorb this expenditure without an increase to the General Fund in fiscal year 2024. Therefore, we are withholding this request pending the outcome of the third quarter report. If based on those projections it appears the existing budget will not be able to absorb this expenditure, we will revise the proposed Fiscal Year 2023 Budget to include this request.

Supplemental Requests – Vehicle, Equipment, and Technology (VET) Fund:

The proposed Fiscal Year 2024 Budget includes the following non-recurring expenditures from the VET Fund that are recommended for City Council's consideration and approval, in priority order:

Replacement of 10 handheld radios for Police personnel (scheduled)	$50,000
Replacement of 5 ballistic vests and helmets for Fire personnel (scheduled)	$7,500
New equipment for second EMS unit	$121,400
New ADA-compliant door for Library	$20,000
New bedliners, racks, and locking toolboxes for 2 Public Works pickup trucks	$20,000
Replacement garbage truck (scheduled)	$270,000
Total	**$488,900**

Capital Improvement Funds:

The proposed Fiscal Year 2024 Budget includes non-recurring expenditures from the Capital Bond Fund, Capital Grant Fund, Capital Improvement Fund, and METRO Fund (collectively, "Capital improvement funds") to advance specific capital projects identified in the proposed Capital Improvement Plan. We will discuss the proposed Capital Improvement Plan with City Council at an upcoming budget workshop.

Next Steps:

We look forward to presenting the proposed Fiscal Year 2024 Budget on July 17, 2023 and discussing it with you during one or more budget workshops, the first of which is scheduled for August 7, 2023. As in years past, we have established an email address to receive your questions and facilitate dialogue throughout the budget consideration process. Please direct your communication regarding the proposed