



October 1, 2007

Honorable Mayor
Honorable City Council
City of The Colony
The Colony, Texas 75056

In accordance with the Civil Statutes of Texas and the Charter of the City of The Colony, the annual budget and work program for the fiscal year beginning October 1, 2007 and ending September 30, 2008, are presented for your consideration. The Budget is our most important policy document because it presents in financial terms, the overall plan to accomplish the City's program of services and priorities during the upcoming fiscal year.

The **Budget Overview** section has been prepared to explain in some detail all of the major changes and assumptions of the approved budget. The remainder of this transmittal letter highlights some key objectives and features of the new budget.

Highlights and Issues of the 2007-2008 budget

The adopted budget, a financial and policy plan, strives to meet the City's missions and goals. Economic incentives are budgeted in the Economic Development (4A) Fund to promote new enterprises and residential development and to retain existing business. More positions are added to better serve the citizens. To assure a quality community, full funding of the cultural and leisure activities is provided for. New public safety personnel are approved to ensure a safe living environment. More streets will be reconstructed and repaired. A 3% cost of living adjustment is granted to employees to retain a trained workforce.

The total adopted budget is \$42,502,322, excluding transfers out, a 3.67% increase over the 2006-2007 revised budget. Ad Valorem Taxes are the City's major revenue source. Total current Ad Valorem Taxes are \$14,063,223, which is \$503,893 more than last year. This is attributable to an increase in the City's tax base and a 1.75 cent reduction in the tax rate from 71.5 cents to 69.75 cents. One percent is budgeted for uncollectable Ad Valorem Taxes. We have budgeted an increase in sales tax revenues from 2007's original budget of \$150,000 in General Fund, and \$75,000 increases in sales tax revenues in each of the 4A and 4B Funds. Economic incentives in the form of sales tax rebate were granted to Edward Don & Company. In that regards, \$100,000 is budgeted as sales tax rebate in the General Fund, and \$100,000 in the 4A Fund. Increases in various revenue sources are anticipated due to incorporation of new fees and increases in existing fees. The City has constructed a new fire station to service the western portion of the City. Three new positions are created in the FY 2007-08 budget, yet six more positions costing an estimated \$400,000 annually will need to be added in the future. Adequate budget dollars are provided in the Police Department's budget for

the addition of five new officers. In addition, three positions in Development Services, Parks and Recreation and Library are added to the budget to handle growth in development and increased population. Also, one position upgrade and two part-time positions are added to the work force. The following are some highlights and priorities for the new budget year:

Tax Rate

It has been the City's desire to gradually reduce the Ad Valorem Tax Rate. The tax rate has been decreasing with a peak of 80 cents in 1993 to 71.5 cents per \$100 valuations for the fiscal year 2006-2007. For fiscal year 2007-2008, the tax rate is further reduced to 69.75 cents per \$100 valuation with increasing service deliveries. The reduction of tax rate can be accomplished through the rise in certified value, sales tax and other fees due to the continuous growth in the City. New developments account for \$21,509,706 and revaluation of existing properties is \$106,863,978.

Economic Development

The Colony continues to set aside resources to attract business developments to the City. The City collects a one cent sales tax divided equally between The Colony Economic Development Corporation (4A) and The Colony Community Development Corporation (4B). The 4A budget includes approximately a \$1.62 million dollar appropriation to fund economic development incentives. With new commercial growth, the City reaps the benefits of higher property values and taxes, increases in sales taxes, and concentration of employment centers. The economic benefits can be huge.

A developer, Jackson-Shaw/Cascades Limited Partnership is developing and constructing a mixed-use development on 92 acres of land located at the northeast corner of State Highway 121 and Morning Star Drive in the city of The Colony, which includes town homes, patio homes, retail, office and flex industrial space. The Colony Economic Development Corporation provided approximately \$3.6 million in economic incentives for infrastructure constructed by Jackson-Shaw. This development will serve as a catalyst for increased economic activities. The City will benefit from the additional tax revenues and increased daytime population.

Phase V of the Parks of Austin Ranch is currently being platted. The 20.99 acre tract is located at the southeast corner of Windhaven and Saintsbury. Uses proposed in this phase include retail, a restaurant, a bank and 500 multi-family units.

The developer at The Tribute (previously known as Wynnwood Peninsula) obtained approval from the City Council for a development plan in 2005 for commercial, golf course, and 1,148 residential lots for executive homes and golf villas. Phase I of the property has since been platted into seven subdivisions, or "villages" for 419 lots. The cost of the homes has been estimated between \$275,000 and \$1,000,000. The City has a tax rebate agreement with Wynnwood Peninsula, Ltd., and MSW Wynnwood LLC, developers for the Tribute in exchange for the Developer's construction of all public improvements within the Tribute.

An \$186,970,000 bond package is proposed to improve transportation throughout Denton County. The Colony will see some of the money as Farm to Market 423 (Main Street) will undergo major improvements. The bond program will provide close to \$1 billion in highway improvements through cooperation with the Texas Department of

Transportation, Denton County, participating cities, and the North Central Texas Council of Governments. FM 423 from The Colony to 380 will be the most significant roadway improvement for the area. Also, State Highway 121 is undergoing expansion transforming the now four-lane highway to a six-lane tollway with three-lane service road. The project will be completed by mid 2008. The results could mean significant economic boosts to the area.

Quality of Life

The City values quality of life for its residents. The City continues to fund the Library and the Parks and Recreation Department operating budgets to assure a quality community. The City has opened facilities in providing residents with high valued and low cost entertainment venues, which include the Five Star Community Complex, the Spray Park, and the Skate Park. Beautification and landscaping improvements are included in the budget to enhance the City's image.

Employee Compensations

To continue to retain high caliber employees, which in turn provide excellent customer services to our citizens, salary increases for all employees are granted in the form of a cost of living adjustment of 3 percent. Longevity pay is being maintained at \$10 per month of service.

Capital Improvements and Debt Services

Various enhancements including construction of municipal buildings, vehicles, equipment, leasing of computer equipment, improvements and extensions of the City's waterworks and sewer system are provided for in the budget. All these capital improvements are financed by operating funds and the issuance of Certificates of Obligation with \$750,000 5-year notes, and \$14 million 20-year maturities. The budget includes funding for all debt service payments for current year. The City's Revenue Bond ratings are rated A3 by Moody's rating agency and A- by Standard and Poor's and the general obligation bonds are rated A2 by Moody's and A+ by Standard and Poor's. These rates are a reflection of the City's diverse economic base, new growth, economic stability, expert management team and proactive City Council.

Future Challenges

One of the main concerns facing the City is the national and regional economy. In the past, the City has experienced rapid growth. However, new construction slowed substantially in 2004, 2005 and 2006. For the next few years new development at the Wynnwood Peninsula, Austin Ranch and the Cascades are propelling the economic engine for the city. Single-family homes and commercial construction are picking up.

We have budgeted \$132,000 for lease payments from the Hawaiian Falls Adventure Park. This is based on annual sales of \$2.5 million. On the expenditure side, we are transferring \$100,000 to debt service to offset the cost of the infrastructure improvements related to this project. Commercial development along State Highway 121 will pick up upon completion of construction on the Highway. However, it is too early to tell what type of impact new commercial development will have on our sales tax revenues.

Due to various new development and aging infrastructure, the City is in dire need of updating and expanding infrastructure to service growing population. There is planning in place for Austin Ranch to construct sewage lines to route wastewater to be treated. The City has expanded the wastewater treatment plant to accommodate treating all wastewater for the City.

The City has initiated a citywide street improvement program to address badly needed repairs. A citizen advisory committee along with city staff have outlined the individual streets to be repaired with set priority levels. Construction of new streets to provide easy access to strategic areas has to be considered. The City has issued approximately \$4.5 million dollars of Certificates of Obligation for street projects in the summer of 2007.

As of October 1, 2007, the Council increased both its water and sewer rates by 6.5%. Future increases might be necessary to accommodate expected escalations in expenses, debt service transfers, sewer capital projects and/or increases in water purchases from the city of Dallas.

The City is working with the city of Carrollton to install a water main that would bring potable water from the Dallas Water Utilities (DWU) Elm Fork Treatment Plant. The once in a lifetime project will literally save the City millions of dollars in not only construction cost, but also valuable right-of-way/easement cost. The cost of this project for the City is \$8,400,000. This additional access to water plus two future wells will take care of the City's water needs through final built-out. The additional two wells are being proposed in Austin Ranch and Wynnwood Peninsula. It is also anticipated that the primary source of water will be from DWU and that the wells will be utilized to supplement peak demand days.

Providing adequate coverage for police and fire to the outlying and newly developed areas is also very challenging. Two new fire stations will be needed to serve Austin Ranch and the Wynnwood Peninsula areas if we are to continue to provide quick responses to emergencies. The construction costs of the two fire stations will be approximately \$8 million.

To staff the two new fire stations, twenty one additional firefighters will be needed. The annual operating cost for each fire station will be \$1 million. Additional police officers will be needed to patrol the area to ensure resident safety. To fully cover the two areas upon build-out in the next five to fifteen years, fifteen Patrol Officers, four Investigators, and three Sergeants will be needed with an estimated cost of \$1.8 million a year. The upfront cost of equipping the additional police officers will be approximately \$500,000.

The City is required to comply with a federal mandate relating to storm drainage management to improve water quality in streams and lakes by controlling the runoff of pollutants from construction sites and developed property. These are requirements of the Clean Water Act implemented by the Environmental Protection Agency (EPA).

The City has to file a permit application with a Storm Water Management Plan to the Texas Commission on Environmental Quality (TCEQ) in February 2008; continue to implement storm water management program over the next five years; document storm water protection; and submit annual reports to TCEQ. The City implemented the Storm Water Utility program as of October 1, 2004.

As the City grows, so does the need for City facilities. City Hall and the Library are both “space” challenged. Library patronage and demand for library services have increased significantly. The current City Hall provides no real accommodations for any staffing increases and storage spaces. The City’s fleet has increased through the years and has outgrown the current fleet maintenance shop, which was designed 20 years ago. This can hamper the repairs and preventive maintenances on City vehicles and equipment and may cause safety concerns in the future. Architectural/Engineering costs of \$500,000 are included in the 2007 debt issuance to start the first phase of construction of the public service station which will replace the current building that houses the fleet maintenance shop, the public works department and utility operations.

The Council has also expedited the expansion of the Police and Courts building. The jail and property room are inadequate to serve current needs. The Colony’s jail has not been increased in size in twenty years despite an increase of about 94 percent in the City’s population during this period. The property room is filled to capacity. The building needs significant repairs to be brought up to today’s standards. The estimated construction cost to build a larger jail area and address other areas of concern of the building is about \$2 to \$3.5 million. Architectural studies are going to be paid out of the State Infrastructure Bank (SIB) loan refunds. The funding source of construction is from future debt issuance.

Hidden Cove Park has a projected deficit of \$391,275 as of September 30, 2008. Ever since the City acquired the Park from the Corps of Engineers, the Park has been operated at deficits. Park operation was privatized to Marine Quest on January 1, 2005. The contract with Marine Quest provides a \$50,000 annual lease payment to the City. The City repays the General Fund with the lease payment to offset contributions from the General Fund to the Hidden Cove Park for the past three years. Marine Quest is to make a \$250,000 donation to the City after the Corps of Engineers approves the plans for construction.

Employee healthcare costs are plaguing all employers in the Country. Our rates increase by 8% for 2007-2008. According to State law, we are required to offer health insurance for retirees because of our population size. The retirees pay the premiums themselves with no subsidies from the City, but retirees electing this option will have an impact on our rates in the future. In view of all these, increasing funding will have to be set aside to anticipate the spiraling costs of providing employee health insurance.

The Texas Municipal Retirement System (TMRS) where City holds its pension fund is planning on revising member cities’ actuarial contribution rates and its investment strategies. The rate for the calendar year 2008 will not change and the city has the option of making additional contributions to TMRS to reduce the city’s unfunded pension liabilities. The actuary TMRS hired to review the change in actuarial cost method and amortization schedule recommended a five-year phase-in of the new contribution rate for cities, but the exact schedule has yet to be determined. This, undoubtedly, will impact the city’s finances in the future and more resources will have to be allocated to the employees’ retirement fund.

Due to the continuous growth in world demand of oil and construction materials, the City is facing escalating costs of energy and construction. To combat these escalating costs, additional funding will be needed in the operating budget for transportation and utilities. Construction costs of major projects, like the Carrollton water line has been increasing 15 to 20 percent per year. This has greatly put demand on the City’s financing needs.

Hopefully with careful planning and prudent leadership and new development coming into the City, these costs can be met with new revenue sources and reallocation of funding priorities.

Strategic Plans

To better guide the City into the future, Departments are requested to develop strategic and capital improvement plans for the next five years. Major issues facing the City are identified. Extension of current services to meet growth and new programs to enhance the quality of life are presented to the Council for developing and prioritizing goals.

Planning is a continuous process. The preparation of the budget starts in early spring with the final document adopted in mid to late September. As a combined effort, the City Manager's Office, Finance Director and all departments monitor the revenues and expenditures throughout the year. Appropriate actions are taken to control expenditures when revenues fall short of expectations. The Capital Improvement Plan (CIP) projects five years' personnel and enhancement needs. The CIP becomes the basic foundation on which annual budgets are built on. A twelve year projection of the growth in Ad Valorem taxes and debt service payments and a five year projection of general fund and utility revenues and expenditures are in place to help guide the development of the operating budgets. Expanded or new services are identified and financial plans are put into action.

This planning process provides a road map for short-term and long-term needs and aids in the allocation of resources in budget formulations. Development of the Capital Improvement Programs helps to gauge future funding priorities.

To meet all these challenges, the City has to exercise due diligence in forming its spending plans for the future. With limited resources, the future budgets will have to be crafted to prioritize needs and effective service deliveries.

Conclusions

The 2007-2008 budget has been prepared with the assistance of several devoted and dedicated employees who stand ready to accomplish the goals outlined and adopted by the City Council. Under the prudent leadership of the City Council, we commit our best efforts to ensure that the needs of our citizens are met and exceeded!

Respectfully submitted,



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