
MEMORANDUM

TO: WOODWAY COUNCIL
FROM: MAYOR MIKE QUINN
SUBJECT: PRELIMINARY BUDGET FOR 2022
DATE: SEPTEMBER 28, 2021
CC: ERIC FAISON, TOWN ADMINISTRATOR
HEIDI K. S. NAPOLITINO, CLERK-TREASURER

At Monday's meeting, I will be presenting the 2022 preliminary budget. Here are some highlights:

Overview:

My proposed 2022 budget reflects our annual process of evaluating costs by line item, including adjusting projections based on recent & historical trends, regulatory & contractual obligations, revised priorities and expectations, and new one-time revenues and/or expenses. While this process sounds complex, the Town has few significant revenue sources and is very leanly staffed, with appropriate service levels. As a result, most of the Town's operating expenses fall within what we would describe as mandatory (26%) or essential (66%) services, limiting substantial variations in our annual expenses.

Of particular interest this year are additional revenues from the state and federal governments. Recent state legislation allows the Town, on a temporary basis through 2023, to spend real estate excise tax (REET) revenue on the operation of certain capital assets (e.g., street and park maintenance/operations). I am proposing to spend approximately \$200k of REET on maintenance/operations in 2021 and \$279k in 2022, in addition to completing overlays, as laid out in our six-year Transportation Improvement Plan.

The federal government, in addressing the impacts of the COVID-19 pandemic on local governments, recently adopted the American Rescue and Recovery Act (ARPA). The Town received \$194k in ARPA funds in 2021, and we will receive an additional \$194k in 2022. These funds must be used by the end of 2023, and there are legal limitations on the use of the funds. My proposed budget proposes spending these funds on salaries and benefits for our police officers each year through 2023, and most of the remaining funds on Public Works temporary summer employees and tree maintenance/removal in our parks.

These two new revenue sources provide substantial temporary support to the Town's operating budget – over \$1 million through 2023. However, these funds merely mask an ongoing structural deficit. After 2023, we expect annual operating fund deficits to return due to expense growth rates that exceed revenue growth rates. We currently project the Town's operating funds beginning balance will drop below \$1 million in 2028 and a negative fund balance two years later. As a result, while this proposed budget has positive one-time impacts, we will continue to focus on the long-

term health of the community and our staff, and we will make strategic tradeoffs throughout this process to ensure that we are prudently using the resources available.

Key items to note:

Revenues:

Property taxes remain the primary revenue source for the Town. We are projecting an increase of 1% in 2022. The largest additional revenue sources in 2022 relate to the aforementioned REET transfer and ARPA grant. We have slightly increased our sales tax projections, based on historical trends. Although we experienced a dramatic increase in our REET revenue in 2021, I am proposing that we maintain our conservative estimate of \$120k, because these funds will not be budgeted and expended until after we receive them.

Operating Expenses:

Mandatory: By law, we are required to have a Mayor, a Council, a clerk, a treasurer, a building official, an attorney, and a police chief. We also are required to perform the functions of a building inspector, a planner, permit technician and certain responsibilities generally performed by public works. There also are mandatory costs, such as State Auditor charges, County election charges, etc.

There are few changes in our mandatory expenditures. The first change that you will notice in the 2022 budget is a reduction in our auditor expenses. The State's audit of our finances and operations occurs every odd year.

There also is a change in the salary & benefits line of our Building & Planning Department. The increase reflects a change in the Deputy Clerk/Permit Technician position from ¾ time to full-time. We reduced the position to a part-time position as a cost-savings measure following the rejection of the Town's property tax levy request in 2016. Five years later, and five employees later, it has become clear that this position's mandatory functions cannot reasonably be performed with a part-time employee, nor does it allow for long-term staffing stability.

Lastly, the most significant change is in the 2021 Facility Management line item under Public Works. Bridge inspection will cost approximately \$50,000 and will be discussed at the Council meeting. The federally mandated inspection was last performed in 2014 and is due in 2022. We recommend that this work be completed in 2021, if approved. Whether done in 2021 or 2022, this item will be funded by a REET transfer to the operating budget.

Essential: Police officers, a fire department, or public works and parks are not included on the list of mandatory positions/responsibilities. Traffic enforcement, police patrols, and even police response are not required by law. Nor are fire protection or emergency medical services. Paved roads, surprisingly, are not required. However, most residents would categorize each of these services as essential.

Here too our expenses have few changes, but the changes are significant financially. Specifically, our Public Safety expenses are our largest expense – accounting for almost half of our operating expenses. These expenses will increase by \$31k, which, of note, is more than the \$19k increase in our largest revenue source – property tax.

Increases in our Public Works expenses include increases in salary & benefits, \$17k in Town Hall maintenance and drainage improvements, and \$18k for a temporary summer employee.

Discretionary: While discretionary, most of the expenses that would fall within this category are expenses that many would find very important. A non-exhaustive list of these items would include parks maintenance, salary and benefits of our Town Administrator, planning and legal expenses associated with Point Wells and the Town Fair. There are few changes in this area. Notably, beginning in 2024 (after the end of the ARPA and REET assistance), our annual operating deficit will exceed all discretionary expenses.

Capital Expenses:

As part of our six-year transportation improvement plan, I have included \$455k in the 2022 Capital Projects Fund to repair and overlay the following areas:

- The intersection of 226th/Algonquin/North Deer; and
- The Woodway Highlands neighborhood.

The other two projects on our TIP are scheduled to be completed in 2024. All these projects are funded by REET revenue and cost estimates are conditioned on a favorable bidding climate.

We will continue to maintain a modest REET reserve to support regular, ongoing street maintenance (overlays pursuant to our six-year Transportation Improvement Plan) and Town Hall debt service.

Budget Summary:

Overall, we ended 2021 with \$437k more in operating revenue than anticipated. \$394k of this total is from ARPA (\$194k) and a state authorized REET transfer (\$200k). We ended 2021 with \$185k in higher expenses than budgeted. Of this amount, \$175k is for Town Hall related repairs, extra tree removal expenses, summer public works staffing, and the federally mandated bridge inspection. Almost all of these additional expenses are covered by ARPA or REET.

The proposed budget for 2022 includes \$495k more in operating revenue than what was originally budgeted in 2021. \$473k of this total is from ARPA and a state authorized REET transfer. The proposed 2022 budget includes \$108k in higher expenses than were budgeted in 2021. Of this amount, \$96k is for adjustments to staff salaries/staffing, annual increases in Public Safety expenses, increased costs for roadway striping, and additional summer public works. Most of these additional expenses are covered by ARPA or REET.

Please review the package of material and consider additions that you consider to be a community priority, and we will discuss as a group. Additional staff research time may be needed. I look forward to productive discussions during this budget cycle!