

# TOWN OF NORTHLAKE

## FUND DISCUSSION



### GENERAL FUND

The general fund is the Town of Northlake's primary operating fund. The projected starting fund balance for the general fund is \$4,091,528 or 45% of FY 2022 operating expenditures. The State of Texas recommends the general fund cover 30% of operating expenses, and the Town's balance comfortably meets this standard. Fund balance is projected to increase \$184,749, to a total ending fund balance of \$4,276,277. The fund balance has doubled over the past three years due to the rapid residential and commercial growth the Town is experiencing.

### REVENUE

The largest revenue source for the general fund is building permits at \$3,084,000, totaling 34% of all revenues. The major driver for building permits is new residential permits, which make up 81% of all permit revenues. These residential permits are primarily issued for new homes in large residential developments such as Pecan Square, The Ridge, and Harvest in addition to estate lot developments such as Stardust Ranch, The Highlands and Creek Meadows.

Property tax revenues make up the second largest category of revenues at \$2,331,493, or 26% of all revenues. With the rapid residential expansion, property tax revenues are projected to overtake building permit revenues in the next two years. The Town's property tax base is primarily commercial; however the base will continue to change over the next few years due to residential growth. The large commercial base has given the Town the ability to increase its homestead exemption to 20% of taxable value, the maximum allowed by State law, providing a property tax relief to homeowners. The property tax of the Town has remained low at \$0.295000 per \$100 of taxable value for the past 23 years.

Sales tax makes up 14% of the total revenue at \$1,260,000. This is a 25% increase from last year's budgeted amount due to the opening of Texas Roadhouse in Northlake along the east side of 35W at SH114. The second driver of increased revenue has been the South Dakota v. Wayfair decision, which has increased the online sales tax revenue the Town receives. Northlake's sales tax has proven to be resilient during the pandemic, as evidenced by the fact that revenue has increased since March. Northlake does not overly rely heavily on retail and tax exportation which has created a stable revenue stream.

Other smaller sources of revenue for the general fund are court fines (6%), franchise fees (6%), development revenues (7%), and contract police services (3%). Combined, these sources make up \$1,989,250 or 22% of the total general fund revenue. Registrations, interest, service fees, and unanticipated revenue account for the remaining 4% of total revenue.

### EXPENDITURES

Personnel payroll is the largest expenditure category for the Town's General Fund. Essential services provided by Northlake staff to residents on behalf of the Town government and are the largest driver of costs. The Town has budgeted for approximately 64 employees for next year. Total personnel expenditures for the general fund are \$4,836,831, or 54% of total expenditures. This has increased since last year due to the addition of six new positions to the fund: two patrol officers, a traffic officer, infrastructure inspector,

planner, and human resources coordinator. Additional staff are necessary to maintain service levels and to accommodate growth.

Services are the second largest expenditure for the Town at \$2,216,888, or 25% of total expenditures. These are third party contract services, the greatest costs being inspection, development review services, engineering, and legal services. Relying on contractors to provide development review services saves the Town money by eliminating the need for additional staff that will need to be reduced when development begins to slow.

Internal services are the third largest expenditure category at \$1,341,524, making up 15% of total expenditures. This category is comprised of departmental transfers to the technology, equipment, and building funds. The transfers to the technology and building funds are calculated using a prorated amount based on personnel. The equipment fund transfer is based on depreciation and projected vehicle needs. The remaining 7% of general fund expenditures is comprised of three categories: supplies (2%), maintenance (4%), and utilities (>1%). The total budgeted expenditures for these categories are \$551,651.

## **DEBT SERVICES FUND**

The primary revenue source for the debt services fund is property taxes. Property tax revenue has increased due to the growth of the property tax base and increases in the interest and sinking (I&S) rate. The rate decreased \$0.019859 in an effort to maintain the Town's total tax rate of \$0.295. The Town is also issuing \$7,500,000 in Certificates of Obligation for the Catherine Branch Phase II sewer line. These funds will be deposited into the water capital projects fund. The debt services fund received another increase in resources due to an increase in the transfer in from the utility billing fund of \$1,041,709. Town Council took action to increase water rates to ensure utilities were paying for debt that went to fund water and sewer capital projects, namely the Series 2018 Certificates of Obligation and half of the 2020 Tax Notes.

Increases in debt service payments are largely due to large upfront payments being made on the 2021 Certificates of Obligation. By making a large one-time upfront payment, the out-year payments for the debt decrease, minimizing the impact on the future debt capacity. The increased payment is coming from a one-time transfer of \$820,000 from the Sewer Impact Fees Fund, which does result in an increase of \$47,561. The projected ending fund balance for the debt services fund is \$631,753.

## **HOTEL OCCUPANCY TAX FUND**

Northlake is home to five hotels near the intersection of SH114 and 35W. Over time, these hotels have grown the Town's hotel occupancy fund balance. In FY2020, the Town used these funds to purchase land for a future conference center in partnership with Cambria Hotels. The Town has budgeted an additional \$250,000 for design and improvements. As pandemic related travel restrictions have been lifted, the Town experienced a small increase in Hotel Occupancy Revenues in FY2021. It is expected that Hotel Occupancy Revenues will remain steady going into FY 2022 with the recent additions of Staybridge Suites and Tru by Hilton.

## **ECONOMIC DEVELOPMENT CORPORATION (EDC) AND COMMUNITY DEVELOPMENT CORPORATION FUNDS (CDC)**

Initiatives funded by EDC and CDC funds have been instrumental in attracting new businesses to Northlake. Recent additions, including Amano Italian Bistro, IHOP, Rosa's Café, PJ's Coffee, Bella Italia and Wingstop, provide a growing number of dining options for Northlake residents and visitors. The

addition of a Texas Roadhouse has boosted projected sales tax revenue for both the EDC and CDC funds to \$625,000. Town Council has prioritized increasing and diversifying the Town's sales tax base as an additional measure to decrease the Town's reliance on the property tax base. The continued growth of the EDC and CDC funds will allow the Town to offer further incentives to high-quality businesses.

## **INTERNAL SERVICE FUNDS**

The Town has three internal services funds dedicated to technology, equipment and building services. These funds allow the Town to charge departments directly for shared costs of the organization and ensure sustainable funding of needed items. The cost allocation is reviewed annually as the organization changes. The revenue for each fund is directly related to the operating costs required for each year, and therefore fluctuates with costs.

The technology services fund expenditures change annually based on technology enhancements and purchasing software subscriptions. COVID-19 brought on an increased reliance on technology as many functions of the

Town were forced to move online. Adjusting operations for remote work increased reliance on remote technology, such as laptops and online payment systems. These costs were absorbed with CARES Act funding allocated to the Town by the State of Texas and Denton County. Due to the higher than anticipated development revenues, at the end of FY 2021, the Town was able to purchase a financial software upgrade for OpenGov Cloud and a fixed asset/work order management software for public works. Next year new budgeted requests include License Plate Readers and Police Camera Video Storage. Technology tends to have a replacement cycle of 3-5 years; these replacements are spread out to ease the impact on the budget.

The equipment services fund serves three departments: police, public works, and Development Services. The fund also receives revenues from the sale of Town vehicles at auction. The costs billed to departments are based on depreciation and future needs. This year the Town is replacing two police patrol vehicles. The police department will also purchase radio back-ups, upgraded tasers, and two new patrol vehicles to be split between the three new patrol officer positions. Public works will replace an existing truck, a mower, and a backhoe. The Public Works Department will also be purchasing trench shoring safety equipment and two new public works trucks for increased staffing levels. The equipment services fund is projected to slightly decrease its fund balance drawing down on funds set aside last year for the backhoe replacement.

The building services fund charges departments for the cost of the Town's lease spaces, property maintenance, cleaning services and capital items related to the construction or repairs of facilities. The police department moved into the new leased space adjacent to Town Hall in 2020. The one budget request for the building services fund is \$400,000 in finish-out costs for the new Development Services offices being constructed near Town Hall. The new structure is slated to be complete at the beginning of 2022 and will be a leased building like Town Hall and the Police Building. The funds for the finish-out was completely paid for with excess development revenues at the end of FY 2021. Total fund balance for the building services fund is anticipated to decrease due to the drawing down of funds set aside for the Development Services Building finish-out.

## **UTILITY FUND**

The Town's utility fund has also experienced high levels of growth with the addition of over 1,000 new utility accounts last year. These new accounts brought increased revenue along with increased costs. Due to a growing reliance on fund balance, the Town allocated funds to a water and sewer rate study in the 2020 budget. The rate study showed that the utility fund was not funding all operating costs and debt

service payments. In the six years since the last rates study, wholesale, capital and operational costs have increased. After receiving the results of the rate study, Town Council voted to increase water and sewer rates to a level that funded both operational and capital costs, effective August 21, 2020.

Wholesale costs make up 62% of the total operating costs for the water and wastewater fund. Ensuring the Town has adequate water has caused increases in the Town's water subscription from Upper Trinity Regional Water District (UTRWD). The subscription cannot be decreased. Costs for upgraded subscription are also billed back to June of that year. The increased consumption can be attributed to seasonal peaks during the summer months due to irrigation and the rapid growth in population. The Town's current water subscription level is 3.8 million gallons per day from UTRWD. The Town was able to absorb both an increase in subscription level, and wholesale prices, without increasing utility rates.

To maintain service levels, personnel costs have increased in proportion to growth. The public works department submitted budget requests for an Infrastructure Inspector, Plant Operator, and Maintenance Worker. In addition to personnel costs, a transfer to the debt services fund totaling \$1,401,709 was made as payment on the 2018 CO and 50% of the payment for the 2021 Tax Notes, which is currently funding water and sewer improvements in both the north and south areas of Town. Capital Outlay increased by \$250,000 due to the rising cost of utility meters.

Increased revenues are providing resources for the utility to rebuild operating reserves. This budget projects that the ending operating balance for the utility fund will be \$2,109,036, which is 25% of operating expense. Utilities typically need at least 50% of operating expenses in fund balance; Northlake will continue to build reserves until we reach sustainable utility service operations.

## **SPECIAL TAXING DISTRICTS**

The Town has three special taxing districts within its boundaries and ETJ: Public Improvement District #1 (Harvest), Public Improvement District #2 (The Highlands) and the Tax Increment Reinvestment Zone #1 (Canyon Falls). These districts allow assessments or taxes to be collected and dedicated to specific improvements or maintenance for a designated area.

Public Improvement District #1 (Harvest) funds common area maintenance within the Harvest community by way of a \$0.21 assessment on properties within the PID. As the PID continues to build out, the revenue from assessments will grow as well. The HOA management company oversees maintenance within Harvest and submits reimbursements to the Town, which are paid out as services.

Public Improvement District #2 (The Highlands) charges an annual per-acre assessment as payment towards the bonds used to fund improvements in the area. The expenditures of the PID are limited by the creation documents of the PID, and thus are fixed to a schedule laid out in the services assessment plan.

Tax Increment Reinvestment Zone (TIRZ) #1 (Canyon Falls) was created to fund public amenities and maintenance, specifically the trail system and dog park, and utilizes \$0.0909 of the Town's \$0.295 tax rate to fund those amenities. Most of the amenities are in place as of 2022, and the developer will receive reimbursement for those improvements as the fund generates revenue. The budget for maintenance reimbursements is limited to the revenue the district can generate.

## **PUBLIC SAFETY SPECIAL REVENUE FUNDS**

The State places several limitations on the uses of funds collected through municipal court or police. Because of these statutory restrictions, funds dedicated to these sources are to be presented separately from general operating activities. This is the case for the following funds: court security funds, court

technology fund, child safety special revenue fund, court online access fee fund, police asset forfeiture fund and police special training fund.

Revenue for the special revenue court funds and the child safety fund come from special fines charged on certain violations and each have very statutorily dedicated uses. Projected revenues from Court related revenues are being projected higher than last year due to the hiring of a dedicated traffic officer. With the growth of the community has come increased traffic and an increased need to focus on traffic related issues.

The police asset forfeiture fund does not forecast revenue because of the difficulty predicting if or when seizures will be made, and if they will be awarded to the Town. The police special training fund is dedicated to grant funding from the Texas Commission of Law Enforcement for training officers in effective policing techniques to protect and serve all members of the public. The Town receives this grant each year for the training of police officers.

## **CAPITAL PROJECTS FUNDS**

The Town has two main capital project funds: the capital projects fund, which handles all road and fire protection projects; and the water capital projects fund, dedicated to water and sewer infrastructure projects. The Town also has seven impact fee funds for water, sewer and roads which provide funding for projects outside of debt issuance. Impact fees come from new, active developments in the Town and are assessed based on the level of increased use of infrastructure caused by the new development.

The capital projects fund has four current ongoing projects: Old Justin Road improvements, Canyon Falls & Dale Earnhardt road failure repairs, Florance Road, and Faught Road. These projects are funded through the remainder of the Series 2016 C.O. and the 2020 Tax Notes. Budget requests on the departmental page reflect the entire cost of the project. In the five-year capital improvement program located at the back of the budget, a detailed schedule of costs and useful life of the project are provided, along with individual project descriptions.

The water capital projects fund has five active projects. Two elevated storage tanks in the north and south areas of the Town are priority projects and take up a large portion of the water capital project fund. The south area of the Town will benefit from the construction of a pump station, ground storage tank and water transmission line. All of these assets are necessary to ensure adequate water supply and pressure to the businesses, hotels and apartment complexes located at the intersection of 35W and SH114. The last two projects are Phase 1 of water and sewer improvements for the Catherine Branch land development, which include running a water line under 35W from the east to the west side of the highway. This will allow the Town to provide water service to tracts of land north of Texas Motor Speedway, which is planned as a commercial district. To establish sewer services, a temporary wastewater treatment plant will be constructed along with lines to establish services. The provision of utility services to these areas is contingent on the annexation of these properties into the Town limits, further diversifying the property tax base. The projected tax revenue from the Catherine Branch properties once completed will be over \$1,000,000 per year. The final project being requested is a new pump for the north area of town to meet projected demands. These improvements are funded from the proceeds from the Series 2018 C.O.s and the Cost Recovery Fund. FY2022 budget requests include four additional projects: the North Area Ground Storage Tank, Catherine Branch Sewer Trunk Line Phase 2, Oversizing participation, and a study for Phase 1 of the Denton Creek Sewer Trunk Line. These projects are funded from the 2021 Certificates of Obligation being issued in fall of 2021. The projects will help to further add to the commercial tax base and begin the process of planning for the largest sewer project in Town history.

The Town charges a cost recovery fee to homes constructed in Harvest to offset the proportional costs those residents place on the water system. This year there is a budget request for cost recovery fees to

provide funding to the water capital projects fund for the construction of the North Area Ground Storage Tank. This tank is necessary to accommodate the growth in customers and daily water users associated with Harvest.

The Town has two water impact fee funds, divided into two areas: north and south. The north water impact fee fund has experienced a large amount of growth due to new homes being constructed in the north area of the Town and is paying for a portion of the North Ground Storage Tank. The south water impact fee fund has received most of its revenue from commercial construction in the south area of Town.

Northlake has only one sewer impact fee zone which encompasses the entire town. Budget requests for FY 2022 include \$820,000 in funding to be transferred to the debt services fund for a one-time lumpsum payment on the 2021 Certificates of Obligation.

Roadway impact fees are broken up into four districts: northwest, northeast, southwest and southeast. The southwest does not currently have revenue and is not projected to generate revenue in the next fiscal year, therefore there is no fund presentation. Northwest road impact fees have grown over the past year with the Stardust Ranch development contributing substantially to the fund. The primary driver of impact fee revenue for the northeast is The Ridge, Pecan Square and The Highlands developments. Each of these developments has a reimbursement agreement with the Town so that once each development has completed construction of roadway improvements on the Master Thoroughfare Plan, they can seek reimbursement for a portion of the roadway impact fees paid. Remaining fees are deposited into the impact fee fund for future planned projects. Southeast roadway impact fees have steadily come in as commercial development has occurred on the southeast section of town, but no projects or reimbursements are budgeted currently.