

Plano Budget Discussion

Summary Discussion Points

I am disappointed by the budget discussions I have observed so far. It was focused on the wrong points.

The discussion was set up by city management as the only things to discuss are whether the city can afford to reduce the tax rate by one cent. – they said to do so would require not funding \$1.4 million of a supplemental police request and \$1.7 million of other items in a bucket list.

Of course City management expected the supplemental \$1.4 million for police would be budgeted, resulting in a decrease of only 0.6 cents, which happens to be the absolute maximum tax rate the city could set without being subject to a rollback election.

And Oh, after the discussion was done, it turns out the city was holding onto \$2 million of unbudgeted 2016 sales tax revenues and other revenues that could be used to fund the bucket list. What a game is being played.

What should be discussed by council? Over the past two years, the average home in Plano has gone up by over 22% in appraised value. Even with the 1 cent decrease, that average home will experience an 18.2% increase in CITY property taxes over two years, over 9% per year.

Over the past 4 years the city has accumulated a cash surplus of over \$100 million, an average surplus of \$25 million per year. Net Cash (cash less debt) went from essentially \$0 to \$101 million. Driving this increase is that for the past 5 years the City has consistently under budgeted revenues and over budgeted expenses by an average of \$21.9 million per year, cumulatively \$109 million over five years.

That \$100 million is primarily sitting in a capital reserve fund of \$56 million at June 30, 2016 and an economic development fund of \$44 million at June 30. These are essentially rainy day funds. That are added to in the 2017 budget. We already have more development than we can handle. Others need to pay their share.

Because interest rates have gone down, the amount of property taxes needed for debt service has gone down. This means that the property tax revenues going to the general fund have increased 37% over the past three years. This is an average increase in property tax revenue of 12% per year.

Points the Council Should be Asking and Considering

The questions the Council should ask include

- Does an 18.2% increase in property taxes over two years make sense when the city has accumulated a surplus of \$100 million over the past few years? This is \$200 to the “average home” valued at 300k. Council thinks this is a token amount.
- While the city has a long list of potential projects to spend money on, shouldn't these be prioritized and well thought out in advance? Enough of showing up at the last minute with an additional \$2 million of sales tax revenue and saying lets go blow it on these unplanned items.
- At September 30, 2015, the City had \$441 million of cash and investments and \$339 million of debt outstanding. Cash and investments have grown to \$536 million at June 30, 2016. Why does the city continue to borrow money and pay interest at 2% to 5%, only to turn around and invest it at less than 1%?
- The Water & Sewer Fund had cash earnings (before depreciation) of over \$26 million in 2015 and will run a large surplus in 2016, both far in excess of budget. These surpluses were caused because the city greatly increased rates, assuming reduced water due to drought. The drought ended and watering restrictions were eased, resulting in the city collecting far more than budgeted revenue while costs did not increase. Should any of this windfall be refunded to customers or used to reduce taxes?

Property taxes

General Fund	Property Taxes	Increase	Cumulative Increase
2014	87,574		
2015	97,797	11.7%	
2016	110,976	13.5%	
2017	119,723	7.9%	37%

Calculated using 1-cent reduction for 2017

- Cumulative increase in property taxes for general fund is 37% (\$32 million) over the past three years (12% per year). While property taxes for debt decreased due to lower interest rates, all tax increases were sucked up by the general fund.
- Residential accounts for 70% of Plano property taxes and this percentage has increased slightly over the past three years. (Both commercial and residential collections have increased, but residential slightly more.) City statements that Commercial is 50% are bogus. See last page.
- Most of residential has been increased valuation. Most of commercial increase has been new construction – commercial valuations have increased far less than house prices.
- Not shown above, 25% of property taxes go directly to Debt Fund and 4% go to Economic Incentive Fund (Total Property Taxes are \$165 million for 2017). Total property tax collections increase 24% over three years but the increase to the general fund is 37%.

Property Tax Increase Effect on Typical Homeowner

Budget year	Prop ID	2015	2016	2017	2015 Tax Increase	2016 Tax Increase	2 year Tax Increase
Tax rate (proposed 2016-17)		0.004886	0.004886	0.004786			
1 Plano AVERAGE HOME							
Assessed value Average all Plano Homes		265,930	291,717	326,099			
Homestead exemption		(53,186)	(58,343)	(65,220)			
Limit to 10% increase				(4,168)			
Net Value		212,744	233,374	256,711			
City taxes AVERAGE HOME		\$ 1,039	\$ 1,140	\$ 1,229	9.7%	7.7%	18.2%
Example Homes							
2 3829 Vicksburg, Plano, TX 75023	228747						
Assessed value		353,487	382,334	420,567			
Homestead exemption		(70,697)	(76,467)	(84,113)			
Net Value		282,790	305,867	336,454			
City taxes		1,382	1,494	1,610	8.2%	7.7%	16.5%
3 3209 Pinehurst. Plano, TX 75075	103523						
Assessed value		216,782	235,097	258,607			
Homestead exemption		(43,356)	(47,019)	(51,721)			
Net Value		173,426	188,078	206,886			
City taxes		847	919	990	8.4%	7.7%	16.9%
4 3400 Langley Cir, Plano, TX 75025	1883732						
Assessed value		377,674	408,280	445,161			
Homestead exemption		(75,535)	(81,656)	(89,032)			
Net Value		302,139	326,624	356,129			
City taxes		1,476	1,596	1,704	8.1%	6.8%	15.5%
5 4596 Old Pond Dr, Plano, TX 75074	797911						
Assessed value		365,568	402,125	442,338			
Homestead exemption		(73,114)	(80,425)	(88,468)			
Net Value		292,454	321,700	353,870			
City taxes		1,429	1,572	1,694	10.0%	7.7%	18.5%
6 5809 Gallant Fox Dr, Plano, TX 75093	67638						
Assessed value		359,473	395,420	430,815			
Homestead exemption		(71,895)	(79,084)	(86,163)			
Net Value		287,578	316,336	344,652			
City taxes		1,405	1,546	1,650	10.0%	6.7%	17.4%
7 4332 Lavaca Dr., Plano, TX 75074	1260245						
Assessed value		213,476	232,118	255,230			
Homestead exemption		(42,695)	(46,424)	(51,046)			
Net Value		170,781	185,694	204,184			
City taxes		834	907	977	8.7%	7.7%	17.1%

Plano average home values are from the City's budget presentation. Individual properties are based on CollinCAD values. Typical homeowners will see a two-year increase of 15% to 18% in City property taxes from 2015 to 2017, even after the proposed 1 cent reduction in the City's property tax rate.

The City has consistently under budgeted revenues and over budgeted expenses

- The City has consistently under budgeted revenues and over budgeted expenses, resulting in property taxes that were higher than necessary. We can expect a similar result for FY2017. Here is a summary for the last five years as taken from the City's audited Comprehensive Annual Financial Report (CAFR) for the last five years.

General Fund \$	2015 Fiscal Year			5-Year Average 2011-15		
	Original Budget	Actual	Difference Bud vAct	Original Budget	Actual	Difference Bud vAct
Revenues	230,975,249	246,133,567	15,158,318	206,498,994	219,112,324	12,613,329
Expenditures	240,252,643	234,371,930	(5,880,713)	221,421,416	212,130,404	(9,291,012)
Excess (Deficiency) of revenues over expenditures (before transfers)	(9,277,394)	11,761,637	21,039,031	(14,922,422)	6,981,919	21,904,341

- Details of the budget differences are on the following slide. Most of the under budgeted revenues have been sales tax collections and licenses and fees. Most of the over budgeted expenses have been in general government, police and fire/EMT. Discussions with city staff confirm that most of these expense differences are due to over budgeted payroll and related costs. It appears that the city has consistently budgeted total authorized positions and has not factored in the impact of vacancies due to the time it takes to replace staff following resignations and retirements and to fill newly authorized positions.
- Under budgeting revenues and over budgeting expenses result in the city setting property tax levy rate that is higher than necessary. The windfall has been spent on unbudgeted expenses and capital improvements and adding to the capital reserve fund and other reserve funds such as economic development and equipment replacement and service funds.

Details of budget Vs. Actual Differences 2011-2015

Here is the Budget versus Actual detail by revenue and expense category for the City's General Fund.

GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE-BUDGET AND ACTUAL
Cumulative 5year revenue and expenditures

	5-Year total 2011-15			5-Year Average 2011-15		
	Original Budget	Actual	Difference Bud vAct	Original Budget	Actual	Difference Bud vAct
REVENUES:						
Taxes:						
Property taxes	\$422,678,201	\$421,542,043	(\$1,136,158)	\$84,535,640	\$84,308,409	(\$227,232)
Sales taxes	301,291,046	352,433,200	51,142,154	60,258,209	70,486,640	10,228,431
Other taxes	5,448,717	7,194,550	1,745,833	1,089,743	1,438,910	349,167
Franchise fees	113,669,497	115,043,132	1,373,635	22,733,899	23,008,626	274,727
Fines and forfeitures	38,214,704	37,208,430	(1,006,274)	7,642,941	7,441,686	(201,255)
Licenses and permits	33,400,632	42,096,776	8,696,144	6,680,126	8,419,355	1,739,229
Intragovernmental	44,392,688	44,392,688	-	8,878,538	8,878,538	-
Intergovernmental	5,690,730	5,315,470	(375,260)	1,138,146	1,063,094	(75,052)
Fees for services	58,678,226	60,491,106	1,812,880	11,735,645	12,098,221	362,576
Investment income	2,971,067	2,736,807	(234,260)	594,213	547,361	(46,852)
Miscellaneous	6,059,464	7,107,416	1,047,952	1,211,893	1,421,483	209,590
Total revenues	1,032,494,972	1,095,561,618	63,066,646	206,498,994	219,112,324	12,613,329
EXPENDITURES:						
General government	140,759,200	119,038,549	(21,720,651)	28,151,840	23,807,710	(4,344,130)
Administrative services	44,785,587	43,154,018	(1,631,569)	8,957,117	8,630,804	(326,314)
Police	330,587,515	323,204,614	(7,382,901)	66,117,503	64,640,923	(1,476,580)
Fire	234,132,113	232,728,297	(1,403,816)	46,826,423	46,545,659	(280,763)
Libraries	48,715,806	46,972,037	(1,743,769)	9,743,161	9,394,407	(348,754)
Development	134,861,504	129,452,201	(5,409,303)	26,972,301	25,890,440	(1,081,861)
Public services and operations	26,328,308	26,603,421	275,113	5,265,662	5,320,684	55,023
Parks and recreation	106,468,273	98,990,858	(7,477,415)	21,293,655	19,798,172	(1,495,483)
Public works	29,078,174	28,559,955	(518,219)	5,815,635	5,711,991	(103,644)
Technology services	5,000,000	5,000,000	-	1,000,000	1,000,000	-
Capital outlay	6,390,602	6,948,072	557,470	1,278,120	1,389,614	111,494
Total expenditures	1,107,107,082	1,060,652,022	(46,455,060)	221,421,416	212,130,404	(9,291,012)
Excess (deficiency) of revenues over (under) expenditures	(74,612,110)	34,909,596	109,521,706	(14,922,422)	6,981,919	21,904,341

Net Cash (Debt)

Net Cash grew from \$328 thousand to \$102 million between September 2011 and 2015, and average increase of \$25 million per year.

Year End	Cash &		Net Cash
	Investments	Debt	
2011	\$ 354,104,344	\$ 353,776,181	\$ 328,163
2012	388,918,873	348,566,247	40,352,626
2013	413,764,247	321,366,791	92,397,456
2014	431,619,924	337,378,278	94,241,646
2015	441,104,916	339,219,881	101,885,035
Jun-16	543,890,689	Not reported	

- The Net Cash Balances have primarily grown in the Economic Development Fund (\$44 million), the Capital Reserve Fund (\$56 million) and Equipment Replacement Fund (\$24 million) as of June 30, 2016. These are essentially discretionary funds. That do not need to be increased further.
- With a Net Cash Balance of almost \$102 million, why does the city need to increase property taxes on its residents?
- Why does the city continue to borrow funds at 2% to 5% interest only to turn around and invest it at 1%?

Is the Property Tax Rate Decrease Real?

- The 1¢ decrease from .4886 to .4786 is made up of 0.2¢ of property tax allocated to operations and 0.8¢ allocated to debt service fund.
- A May 2017 bond election is planned to issue new debt (streets, parks, etc.). Projected new bond sales of \$61.5 million. So tax rate appears to go down, but it may go up in 2017-18 to pay for new debt service. Thus rate decrease is temporary and solely based on timing of debt issuance. With other potential bond items (Arts, Collinwood, etc.), \$61.5 million bond issue may increase.

Other Burdens on Tax Payers

- Water sewer and trash disposal rates have increased significantly over the past three years in addition to the tax burden. Although water rates do not increase in the budget, Sewer and trash increases are projected. Additionally these enterprise funds set rates to run a surplus that is then transferred to the general operating fund to cover general expenses (\$2.5 million budgeted).

How Much Could the Tax Rate be Decreased?

- Realistic opportunity to decrease by 3 cents and still pay for new positions and raises and possibly other priorities.

Other Uses of Property Taxes

- Economic Development Fund. 2 cents of 47 cents (4% of property tax collections) is allocated to the economic development fund. This is expected to be \$6.8 million for 2017 budget year.
- The Economic Development Fund had \$44 million of cash and investments at June 30, 2016. Why are more contributions needed? Note that the past announced incentives were Toyota \$6.7 million, Liberty Mutual \$5.2 million and Fedex \$1.6 million, a total of \$13.5 million for 3 huge deals. There does a need for further incentives in this hot market. Existing homeowners should not have to pay for expanded staff. Fund could be used to help pay for staff until new property taxes come online.
- East Side TIF. The East Side TIF carves out property taxes collected in the downtown Plano area and sends them directly to a non taxable corporation that can use the funds to incentivize developers. These are being paid to apartment developers. It means that none of these property taxes are going to pay for services required by the apartment residents, including police, fire, EMT, parks, streets and other city services. Collin CAD reports that there were approximately \$600 million in Eastside TIF (\$3 million of property taxes) at January 1, 2016. That number is growing with new apartment developments. Also the TIF shows revenues of \$4.4 million in 2015 per the City financial statements and \$1.9 million of payouts to developers. The city committed to \$2.1 million of incentive payments for the Muni South apartment development at Avenue J and 14th street. Why does TIF need to continue? Hasn't the City invested enough over the years (tens of \$millions)?
- It appears new TIFs are being planned for Cotton Belt Line Transit Corridor and the Oak Point Mixed Use area.

East Side TIF

East Side TIF

Started in 1999, 15 year life (to 2014). During the 15 years, raised over \$20 million for incentives

In 2014, CC voted to extend the TIF for another 15 years. CollinCAD Reports January value in TIF is \$600 million.

That translates to \$3 million in annual property taxes not available to pay for City services. This amount will continue to grow.

East Side Village I Project

3 to 4 story, 235 apartments

- Plano paid \$2 million of incentives, plus bought the land, cleared the site and leased the land to builder for 70 years at a discounted rate
- City development fees were credited against the ground lease rents.
- Neighborhood park fee waived

East Side Village II

3 to 4 story, 229 apartments

- City gave away the land in exchange for "Public Parking rights," City also paid \$800k for "public improvements" normally the developer's responsibility.

15th Street Village

124 Condos

- City owned land sold at a bargain price. City also paid for \$124k of improvements and waived most development fees

Lexington Townhomes

98 townhomes on Avenue G and 15th St

- City sold land to developer at a discount, paid for \$1.4 million of improvements and waived most development fees

15th and I Avenue

230 apartments

- City granted 1.6 acres of land in exchange for 100 public use parking spaces
- City paid for \$1.7 million of improvements

14th and Avenue J

175 apartments

- City paid developer \$2.1 million in exchange for 70 public parking spaces and other "public improvements"
- City sold land to developer at a discount and waived most development and park fees.

Other resources and expenses

Convention & Tourism Fund is projected to spend \$11.6 million in 2017 year to support the Plano Center. The \$9 million of projected income is principally from the hotel-motel tax. The hotel-motel tax is projected to increase due to strong market and several new hotels. What is spending for? Could it instead be used to fund some of the economic development priorities that are being paid out of the general fund? Note that the Plano Center and other activities funded by this revenue stream are big money losers. The Plano Center spends \$2.50 cents cash operating expenses for every dollar it takes in for rentals, fees and concessions.

Headcount Increases

- The Budget includes over \$6 million for new positions in Fire, EMT, Police and other functions. We agree increases will be needed based on number of multi-family additions in Legacy, Plano Parkway and Downtown Plano districts. Budget appears to be prepared as if all of these positions are hired on October 1. That does not appear feasible as it takes time to identify and hire new employees. Additionally, these properties are largely not complete yet and will go through a lease up period. If it was managed that employees increased ratably throughout the year, this would be a savings of at least \$3 million.
- As these properties and the new Legacy office buildings are developed, the tax base will grow, thus providing additional funding in 2018 to fully pay for these positions. Thus it makes sense to hire over time and match with expected increases in property taxes in future years.
- Shouldn't the Eastside TIF property taxes pay for the city services (Police, Fire, Streets) required by residents in the TIF?

Other Comments

- City's statements that commercial is 50% of property taxes is misleading at best. Residential, including apartments is 70% of the total valuation. City counted apartments in commercial, but property taxes affect rent and affect citizens. For sales taxes, many businesses like "utilities" city counted as commercial, but citizens pay the utility bill. Same for professional fees and other services. Fry's Electronics included in commercial but is largely retail.