



## City of Watkinsville

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May 10, 2022

Council,

Please find attached for your review the proposed Capital and Operating Budget for Fiscal Year 2023 (FY23) for the period beginning July 1, 2022 and ending June 30, 2023. This budget is balanced with no proposed change to the current millage rate of 2.081. The budget goals for FY23 are as follows:

- To ensure the continued effective and efficient delivery of services to city residents and businesses that they have come to expect,
- To support the employees who deliver the services,
- To address the need for new programs and/or expanded services requested by Council and citizens, and
- To accurately identify sustainable sources of financial resources required to implement the programs, projects, and policies identified and prioritized by Council.

The Council's prioritization of the city's Strategic Initiatives, which were reviewed and discussed at the annual Retreat in February informed and guided the development of this proposed budget. Department Directors worked diligently to construct their budget requests keeping these initiatives in mind while ensuring existing city services continue to be delivered efficiently and effectively to our citizens. We remain appreciative of the effort and thoughtfulness that the city's Department Directors put forth through this budget process and in their daily jobs.

### **EXECUTIVE SUMMARY**

#### **OVERALL BUDGET FINANCIAL SUMMARY**

The Fiscal Year 2023 (FY23) begins July 1, 2022 and continues through June 30, 2023. The proposed General Fund Operating and Capital Budget request for FY23 is \$2,559,574. See Attachment A.

## REVENUES

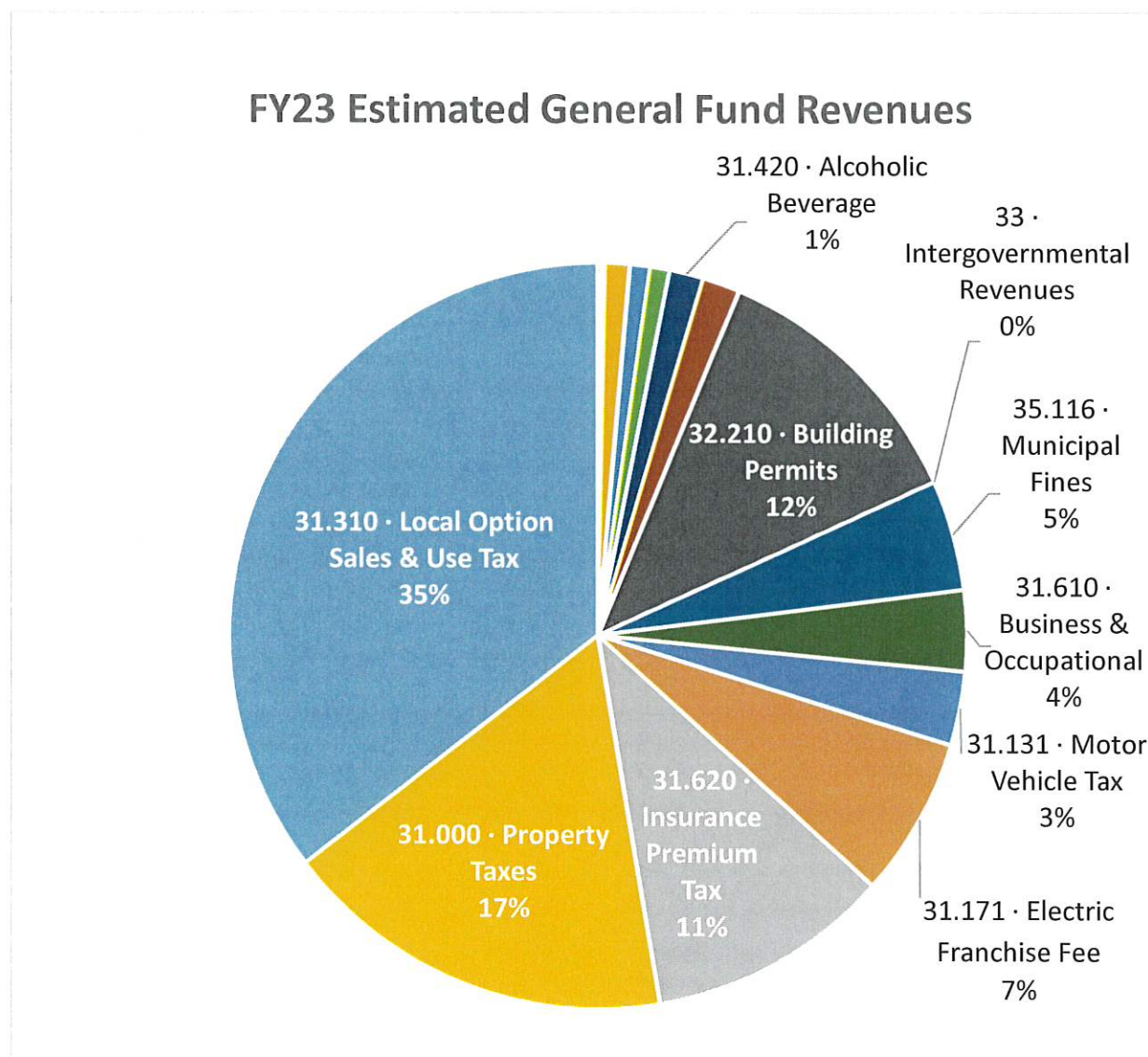
The General Fund revenue projection for FY23 is conservatively estimated to be \$2,349,118 an increase of \$113,554.04 or five (5) percent higher than the FY22 Approved & Amended Budget revenues. **See Attachment B.** The following are revenue stream highlights:

- Local Option Sales Tax (LOST). Revenues are estimated at \$829,988. This reflects an anticipated annual *decrease* of \$16,012 in sales tax collections during FY23 based on the actual FY22 average monthly revenue received of \$70,500 the city has received over the past 9 months. This revenue decrease reflects the ongoing negotiations with the County which could reduce the city's current LOST distribution from 8.637% to 8% (or lower) of countywide LOST proceeds. Agreements between cities and counties for the distribution of LOST are for 10 years and are commonly triggered for renegotiation when the decennial census is conducted. The LOST revenue stream does not include anticipated sales tax revenues of \$6,000 per month (based on an 8% revenue share) anticipated from the development of COSTCO at Epps Bridge Center. Construction of COSTCO is expected to be complete by September 2022. Please also note that should our percentage of LOST go lower than 8% then our revenues will be impacted negatively. As negotiations continue, we will update this budget line item for future public hearings as it is a significant portion of our revenues.
- Building Permits. The city is projecting \$281,027 in revenues during FY23 from plans review and building permit fees associated with new or continued construction of developments within the city limits. As a reminder, these fees are charged to developers to cover the cost of spending city resources to review, evaluate, and/or inspect development projects within the city limits. This figure is approximately \$129,000 *less* than the anticipated revenues approved in FY22, as it is expected that developers will continue to face supply chain and labor shortage issues into FY23. **See Attachment C.**
- Property Taxes. Oconee County Tax Appraiser Allen Skinner has provided data showing that the city's property tax digest has increased roughly 20% over 2021. This projection reflects the increase in new development and/or improvements to existing properties within the city limits. As a result, the city estimates property tax revenues of \$403,849 for the FY23 budget; an increase of 16.62% or \$67,139 over FY22 at the existing millage rate of 2.081. Property taxes are based on the value of property on January 1 of each year with payment of those taxes due before the end of any given calendar year. Since the city budgets on a fiscal year (July 1 through June 30), the property valuation occurs in one fiscal year but is not realized by the city until the following fiscal year. A property tax rate of 2.081 mills generates an estimated \$2.081 for every \$1,000 in assessed property tax value within the city. While we have rolled back the millage rate to offset

the increase in the digest in six (6) of the past (7) years and eight (8) of the previous 15 years, we do not recommend a roll back this year given the level of service our citizens expect and the growth we are projecting in 2022-2023 and beyond. **See Attachment D.**

- Insurance Premium Tax. Revenues are expected to *increase* \$11,000 or five percent (5%) in FY23. This estimate is based on the actual average annual increase of 5% over each of the previous three fiscal years. This is a tax on insurance premiums collected by insurance companies doing business in Georgia. Under O.C.G.A. 33-8-3.2(a), cities receive 2.5 percent of the gross receipts of insurance (excluding life insurance). The Georgia Commissioner of Insurance collects and distributes these proceeds to local governments.

Although somewhat steady, these revenue sources can also fluctuate based on the economy. See the pie chart below for the main sources of the city's General Fund Revenues.



The revenues driving the current year's growth are expected to continue to rise due to increased development within the city limits, but they are anticipated to be partially offset by the continued loss of Motor Vehicle Tax which continues to decrease each year after being replaced by the Title Ad Valorem Tax for new vehicles. The ongoing challenge for small municipalities like ours is that the sources of General Fund revenue available are limited and it is becoming more difficult to rely solely on these revenues to cover the cost of providing services to our citizens.

**Hotel/Motel Tax.** Although the city does not currently levy and collect an excise tax on charges made for rooms, lodging, or accommodations furnished by hotels, motels, inns, lodges, Airbnb's, tourist camps, or campgrounds, this is an option which will be brought before Council at an upcoming meeting for consideration. By law, cities in Georgia may levy and collect an excise tax of a rate of up to 3 percent or at a rate of 5, 6, 7 or 8 percent for this purpose. The law provides several different provisions for levying the hotel-motel tax and the amount of the levy and expenditure requirements varies depending on which alternative is chosen. Staff has evaluated the options and is proposing the Council consider establishing a 5 percent hotel/motel tax. Based on the existing inventory of lodging accommodations within the city limits, including Short Term Vacation Rentals (such as Airbnb's, VRBOs, etc.), staff anticipates an annual revenue stream of \$6,700 from a 5 percent hotel/motel tax. **See Attachment E.**

**American Rescue Plan Act (ARPA).** Although the city is anticipating \$548,204.50 in revenues during FY23 from ARPA, the use of these funds to balance the proposed FY23 budget is *not* being recommended. These ARP funds were provided due to the extraordinary circumstances of the pandemic and are encouraged to be used on transformational local government projects, like investments in infrastructure and support of essential employees.

As a reminder, early in 2021 Congress passed the American Rescue Plan Act (ARPA), a historic \$1.9 trillion economic stimulus bill which provided funding to states, municipalities, counties, tribes, and territories throughout the U.S. meant to address the effects of the Coronavirus pandemic. The city was allocated \$1,096,409 in ARPA funds based on our population. The ARPA established distribution of funds in two equal tranches or allocations. The city received its first allocation of \$548,204.50 in July 2021 and expects to receive its second and final allocation in July 2022. The Bill requires local governments to encumber all funds received by no later than December 31, 2024 and spend them by no later than December 31, 2026. The ARPA funds are nonrecurring, so once they are spent, the city could experience a revenue shortfall.

The U.S. Treasury's Final Rule for these ARP funds allows for the following eligible uses: responding to the pandemic or its negative economic impacts, providing premium pay to essential workers during the pandemic, providing government services that could not be supported due to reduction in revenues as a result of the pandemic (with a Revenue Loss Standard Allowance of up to \$10 million), and investing in water, sewer, or broadband. On April 20, 2022, the Council adopted a Resolution selecting the Revenue Loss Standard Allowance of up to \$10 million. This action allows the city to use the funds received (up to \$10 million) for the

delivery of local government services during the period of performance (i.e.: through December 31, 2026).

## **CAPITAL AND OPERATING EXPENDITURES**

### **Capital Budget Expenditures.**

As explained at the March 23, 2022 budget work session with Council, the Capital Budget is comprised of a Capital Improvement Program (CIP) and one-time capital requests.

**Capital Improvement Program (CIP).** The CIP is a community planning and fiscal management tool used to coordinate the location, timing, and financing of capital improvements needed over a multi-year period. The CIP includes items like vehicles, building improvements, and equipment with a minimum value of \$5,000. **See Attachment F.** Funding the CIP is done by identifying the annual depreciation expense for the item based on its anticipated useful life. The depreciation expense is placed in a department's operating budget and once the annual budget is approved, the funds are transferred into the Capital Improvement Fund so funds will be available in the future to purchase the replacement asset.

After establishing the CIP and funding it over the past four years, there are now sufficient funds available in the Capital Improvement Fund (CIF) to ensure, with a continued nominal annual contribution, the future replacement of the assets identified in the CIP. Therefore, we are recommending the city shift to begin making a flat annual contribution to the CIF instead of a specific line-item expense for each asset based on its future cost over a specified useful life. **See Attachment G.** The idea is to make sure sufficient funds are available each year for the items identified in the CIP for replacement and not simply continuing to fund the CIF resulting in funds sitting unused for (potentially) long periods of time until an asset is due for replacement. The flat annual amount of \$90,000 which has been recommended will still be funded through department operating budgets and be based on the department's overall proportional share of equipment in the CIP.

With that said, we are recommending not to make the planned operating budget contribution of \$90,000 to the Capital Improvement Fund in FY23. The city has accumulated a significant amount of funds (\$382,000+) in the Capital Improvement Fund over the past few years. In FY23, the only programmed replacements we have are two, zero turn lawn mowers for which the estimated total replacement cost is about \$18,000. Of this amount, \$14,400 would come from the Capital Fund and \$4,000 from SPLOST III (which was designated by Council in the FY22 budget). By not contributing \$90,000 in FY23 (but staying on schedule in FY24 and forward with contributing \$90,000 annually to the Capital Improvement Fund), based on our existing, programmed capital, the Capital Fund would go into the red one year earlier in FY37 (-\$79,318.43) instead of in FY38 (-\$152,718.43). This does not consider any offsets of capital expenses from the surplus of property and the use of those proceeds to purchase equipment. It also does not contemplate the purchase of used equipment (such as police vehicles) which Chief Brock has been able to accomplish and save the city considerable money.

We have relatively good access to capital funds (i.e.: Capital Improvement Fund, SPLOST III, ARPA, anticipated Infrastructure Bill grants, etc.), but it is, and will continue to be, a challenge to find operating funds. This recommendation will relieve the city of \$90,000 of operating costs in FY23 and buy us some time to see how the current growth in the city (and for that matter, the county) will affect and/or impact the city's budget.

**One-time capital requests.** This year, staff has identified the following one-time capital budget requests:

- **City Hall Doors.** Replacement of front entrance doors and window inserts for back doors at City Hall (est. \$8,000)
- **Police Department Office Space.** Construction of room(s) within the Police Department that would provide for the processing of victims or offenders as well as additional office space for officers (est. \$15,000)

**Operating Budget Expenditures.**

A total of \$2,536,574 is needed to cover the anticipated General Fund operating expenses. **See Attachment H.** The operating budget does not include an annual contribution to fund future capital needs of several departments as described above and identified in the Capital Improvement Program (**See Attachments F and G**). The operating budget covers the cost of 18 Full Time Equivalent (FTE) employees and the proposed 6-month funding (January 2022 – June 2023) of an additional FTE to serve as a Downtown Development Authority Director. The current 18 essential employees, along with contracted service providers, deliver the following municipal services within the city limits of Watkinsville:

- Weekly Garbage and Leaf & Limb Collection.
- 24/7 Police Services
- Plans Review and Zoning Administration
- Building Permits & Inspections
- Municipal Court Operations
- Government Administration and Management
- Legal Services
- Business and Alcohol Licensing
- Code Compliance
- Parks Operation & Maintenance (Harris Shoals, Rocket Field, and Watkinsville Woods)
- Public Works (Repair and maintenance of city rights-of-way, signage, roads, stormwater conveyance systems, Cemetery, downtown Comfort Station, and buildings; weekly Garbage and Leaf & Limb Collection services)

Through the city's Service Delivery Strategy with the County, including in some instances additional voluntary supplemental financial support and/or intergovernmental agreements with



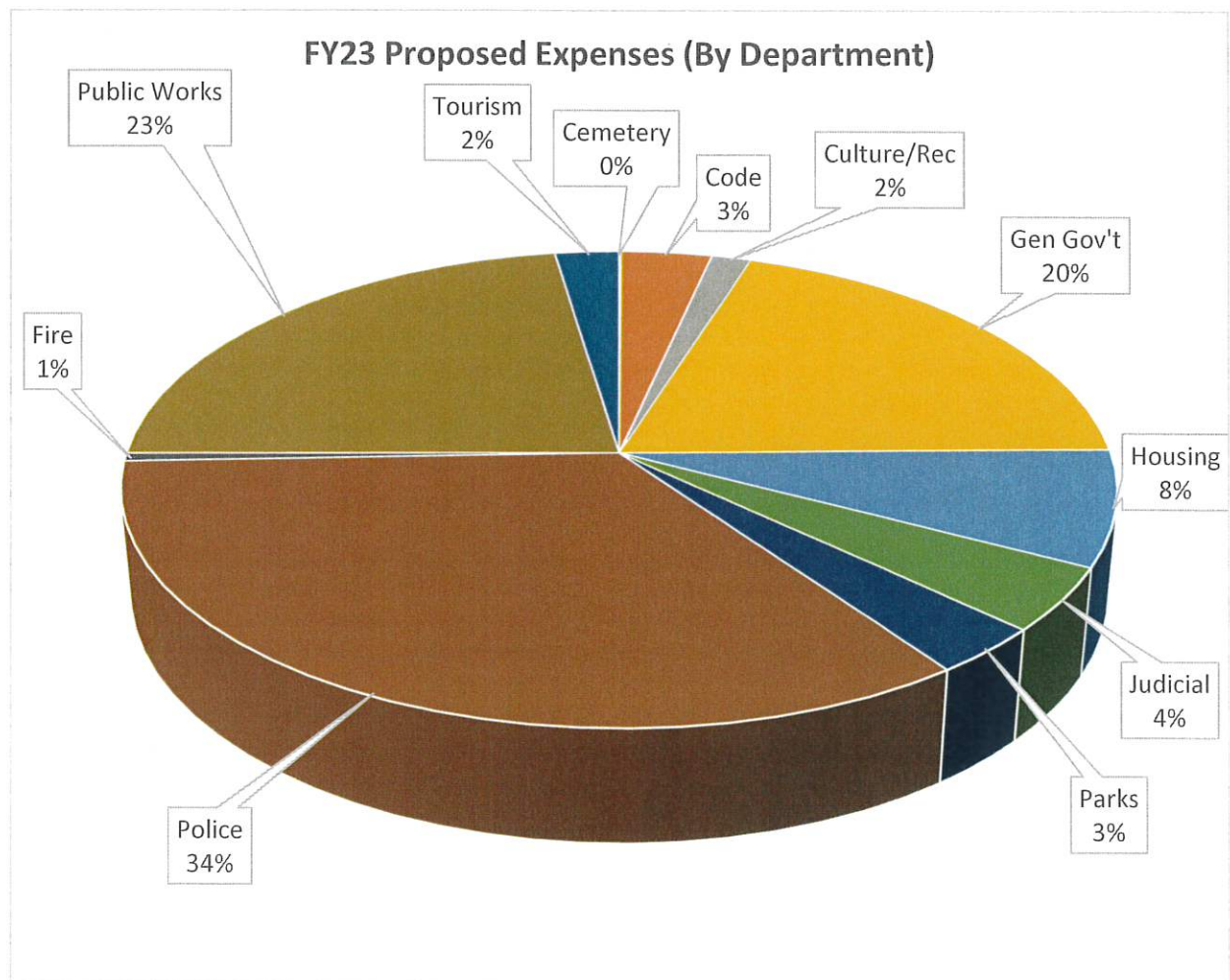
the County, the city also causes to be delivered the following services to city residents:

- Animal Control Services
- Elections
- Fire & Emergency Services
- Library Services
- Public Health Services
- Tax Collection
- Water & Sewer

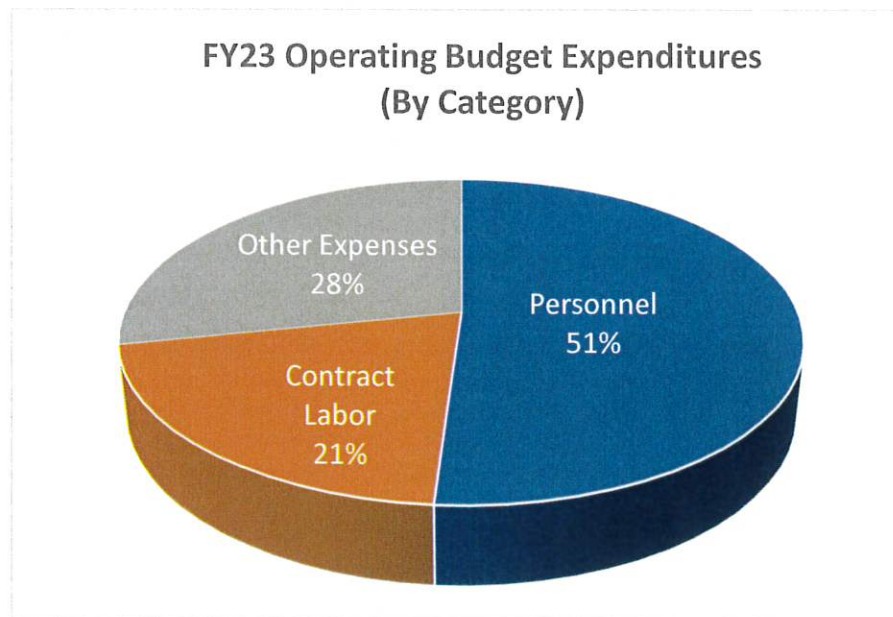
The following are the two largest expenditures which account for \$1,444,302 or 57% of the city's proposed FY23 budget:

- 24/7 Police Services - \$869,580
- Public Works - \$574,722

Below is the percentage of the proposed FY23 operating budget expenditures by department:



By category, the cost of personnel (salary and benefits) continues to be the largest expense for the city making up \$1,338,742 or 51% of the operating budget across all departments. **See pie chart below.** However, when including the cost of contract labor for expenses associated with the Attorney, Engineer, Municipal Court (Judge, Solicitor, Public Defender), Bureau Veritas, and Garbage/Leaf & Limb Collection Services, then the percentage increases to 72% or \$1,884,359.



The proposed FY23 Operating Budget includes the following notable expenses and/or changes:

- Downtown Development Director. The budget proposes 6-months of funding (January 2023 – June 2023) for an additional Full Time Equivalent (FTE) employee (with benefits) to serve as a Downtown Development Authority Director at an estimated cost of \$57,528. Expenses budgeted include salary, benefits, liability and workers compensation insurance, computer supplies and maintenance, travel, education and training, and lease of office space.
- Community Celebrations & Engagement. The budget reflects continued funding for a TBD July 4<sup>th</sup> Celebration (\$1,000), a School Street Dance - *New!* (\$2,000), Downtown Trick or Treating (\$1,000), and the Annual Christmas Parade & Tree Lighting Festivities scheduled for Sunday, December 4, 2022 (\$4,000).
- General Government Administration. The Employee Pay & Classification Study was approved and put into place four years ago in 2018 and now needs to be refreshed and updated. The estimated cost for conducting the update is \$15,000 and has been included in this budget request.



- Housing & Development. Anticipated building permit expenses of \$198,444 are expected in this budget and have been pared back from the \$284,393 approved in the FY22 budget due to the supply chain and labor force issues impacting the construction industry. The expenditures in this Department are based on local development projects that are either already underway or anticipated to occur within the FY23 budget year, including Wire Park, the Trove residential development, Waters Walk (the Age-Restricted Senior Living Multi-Family Development, and anticipated plans for the old Smith Setzer Concrete Pipe Plant on Greensboro Highway. The city contracts with Bureau Veritas (BV) for building permits review and inspection services. BV receives 67% of the revenues generated from application fees charged which are set and approved by the Council. Based on the anticipated \$257,380 in revenues that are projected to be collected in fees, the city will pay BV an estimated \$172,444 (67%) to provide building permitting and inspection services associated with these development projects. Estimated revenues generated from plans review fees (\$23,403) along with the remaining balance of revenues (33% or ~\$84,936) from building permits and inspection fees, total \$108,339 and will be used to help offset the additional expenses incurred by the city for these projects, such as legal and engineering costs. **See Attachment C.**
- Cost-Of-Living Adjustment (COLA) for employees. The budget includes a proposed \$5,000 COLA for all employees across the board. Since July 1, 2019, the only non-merit salary increases granted were 2% COLAs on July 1, 2021. Currently, the city's average wage per fulltime employee is \$47,005. According to the Bureau of Labor Statistics' Consumer Price Index, consumer inflation surged to another historic high in February 2022. In fact, the inflation rate rose to 7.9%, the fastest increase since January 1982. The city has been fortunate to find and retain employees to help run the city; however, it is a job-seekers market. Employees are walking away from their employers in record numbers in what some are calling the "Great Resignation." A Prudential survey even reported that at the end of 2021, 46% of workers were actively looking for or considering finding a new job. Helping employees, especially those with lower salaries, is one way the city can work to retain employees. In addition, a total of \$5,850 has been budgeted to fund merit pay increases for employees who go above and beyond in the performance of their jobs.
- Increase in medical and dental insurance costs. Medical insurance costs reflect a 6% increase in the proposed budget while dental premiums rose 3%, and vision rates remained unchanged. The city currently covers 75% of the premium cost for employee medical/dental/vision insurance; a benefit which aids in retaining employees. The FY23 proposed Budget includes an employer contribution across all departments of \$205,414 which is \$9,704 more than FY22 expenses. The 6% increase in the city's insurance premiums are nearly half what other employers have experienced and is directly correlated to the overall good health of the city's employees. Note that the proposed FY23 budget includes the estimated cost of insurance for four (4) currently vacant Police Officer positions and assumes the premium selected by each will be for the "Employee + Spouse."

- The Police Department's General Fund budget increased by \$221,906 over FY22; however, technically it is only increasing by \$89,815 because the Council approved \$132,090 in eligible ARPA funds in FY22 to supplement the Police Department's General Fund budget. The increase is attributed mostly to the following expenses:
  - Personnel & Benefits. The Police Department has nine (9) authorized Full Time Equivalent (FTE) officer positions. Last year, one of these positions was funded for only six months. This year, the department must fund that position for the entire fiscal year which results in an increase of about \$51,000 in salary and benefits.
  - Gasoline. Based on existing fuel usage data of current officers, the average cost of fuel is \$380/officer/month. Along with the Chief and Deputy Chief, there are 7 patrol officers using fuel. The average fuel cost to date is \$350/month. Over an entire 12-month budget year that totals \$37,800 in fuel expenses. The FY23 budget anticipates a 35% increase in fuel costs, so that number rises to \$51,030 or \$29,817 more than the FY22 budget.
  - Contract Labor. Chief Brock is requesting Contract Labor funds for a part-time/no benefits Assistant Terminal Agency Coordinator (TAC) to be shared between the Police Department and Municipal Court at an annual cost to each department of \$8,500. The fulltime TAC is Lee Black who also serves as the Municipal Court Clerk, Assistant City Clerk, and Finance Director. As a small government, it is not unusual to have employees serving in multiple roles. However, the responsibilities of the TAC can be rigorous and demanding at times. The TAC is a role required by the FBI Criminal Justice Information Services (CJIS) Security Policy. The position is responsible for ensuring agency compliance with policies and procedures of the FBI CJIS, managing user accounts, ensuring data quality of National Crime Information Center records, ensuring correct fingerprint submission process is used, and participating in FBI CJIS and Department of Justice audits. Not having any relief or assistance could impact the other duties which Ms. Black is already performing. During the FBI and GBI audits of the Police Department in 2019, both agencies highly recommended that the city hire an Assistant TAC.
- Oconee Cultural Arts Foundation (OCAF) request. The budget includes a request for \$7,500 to fund the commissioning of either a downtown mural or a sculpture for the Greensboro Highway art pad or possibly both. This is an increase of \$5,000 over FY22.
- Oconee County Library funding. The proposed FY23 budget includes \$30,000 to financially support the Watkinsville branch of the Oconee County Library. This is an increase of \$14,531 over the FY22 budget and has been guaranteed per the Council's approval of the Library Services Agreement in March 2021.

- Oconee County Fire Department budget request. A total of \$14,000 in funding has been included in this budget request and covers \$1,500 for travel, \$600 for meals, and \$11,900 for general supplies.

### **BALANCING THE FY23 BUDGET**

As noted previously, the General Fund Revenues projection for FY23 is conservatively estimated to be \$2,349,118, an increase of \$113,554 or five (5) percent higher than the FY22 Approved & Amended Budget revenues, and the proposed General Fund Budget for FY23 is projected to be \$2,536,574 in Operating expenses (a 14% increase over the approved FY22 Budget) and \$23,000 in Capital expenses for a total of \$2,559,574 in expenditures. Based on the conservatively projected FY23 General Fund Revenues of \$2,349,118 and the General Fund Operating and Capital Budget requests of \$2,559,574, there is an estimated revenue shortfall of \$210,456. To resolve this, we are recommending the city utilize reserves available in the Fund Balance rather than increasing the millage rate.

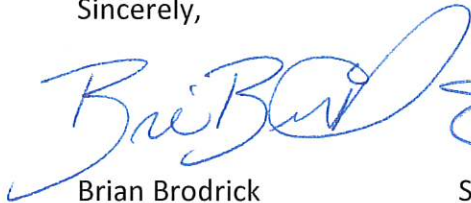
We do not make the recommendation to use fund balance lightly, but the reality is that Watkinsville has excess reserves by every measure. Currently, the city's Fund Balance is \$1.236 million. This does not include \$500,000 in Restricted Fund Balance set aside as an emergency reserve or \$210,000 that has been designated to cover excess costs (up to 15%) for the \$1.4 million SPLOST I and II funded construction of Sewer Line A through the Industrial Park.

Over the next few years, we anticipate continued increases in LOST revenues on a percentage basis and continued growth in the property tax digest that will allow us to continue budgeting on a net zero basis generally. Use of funding reserves is a common practice of local governments and in fact, one that the city has employed previously. One of the fundamental reasons to use reserves is to protect against reducing service levels or raising taxes and/or fees because of projected revenue shortfalls. Fortunately, the city has been prudent in setting aside revenues during budget years when revenues have exceeded expenditures.

### **CLOSING**

Please let us know of any questions on the proposed FY23 Capital and Operating Budget. As a reminder, we will review the proposed FY23 Budget during a scheduled Work Session on Wednesday, May 18 at 5:00 PM at City Hall.

Sincerely,



Brian Brodrick  
Mayor



Sharyn E. Dickerson  
City Manager