BUDGET & FINANCE COMMITTEE MEETING MINUTES
THURSDAY, JANUARY 12, 2023 @ 3:00 P.M.
CITY HALL BOARD ROOM
FRANKLIN, TENNESSEE

Committee Members		Other Attendees	
Alderman Clyde Barnhill, Chair	P	Eric Stuckey, City Administrator	P
Alderman Patrick Baggett	A	Kristine Brock, ACA/CFO	P
Alderman Ann Petersen, Vice-Chair	P	Michael Walters Young, Budget/Strategic Innovation Manager	P
Alderman Jason Potts	P	Mike Lowe, Comptroller	
		Margaret Wilson, Financial Analyst	P
		Angie Johnson, City Recorder	P
		Cayce Anderson, Deputy City Recorder	P
		Ken Moore, Mayor	P
		Chris Franklin, Public Works Operation Analyst	P
		Kevin Townsel, HR Director	A
		Sarah Schilling, Asst Deputy City Recorder	P
		Brian Wilcox, Purchasing Manager	P

CALL TO ORDER

Chairman Clyde Barnhill called the meeting to order at 3:03 PM.

NEW BUSINESS

1. Presentation Of City Of Franklin Revenue Estimates & Model For Fiscal Year 2023-2024

This is the initial step for the annual budget process. The presentation serves as a baseline and will be adjusted until the final budget is submitted in May.

Overview:

- The global, national, and local economic outlook continues to be one of mixed messages and contrasting performance.
- The immediate economic shock of pandemic closures in 2020 gave way to recurring supply chain shortages, government stimulus, and dramatic changes in worker availability and productivity in 2021 and stubbornly, generationally high inflation in 2022 (as of November 2022).
- Unemployment remains remarkably low although inflation has driven up prices at a faster rate than in the last 40 years and federal stimulus has all but ended related to the pandemic (only student loan forbearance remains).
- Still, millions of jobs are available – as of 11/30/2022, 10.5 million jobs were available (according to the Bureau of Labor Statistics) compared to 10.9 million job openings for November 2021. 223,000 new jobs were added in December despite layoffs occurring in certain sectors and industries with increasing frequency. The Federal Reserve has focused its attention over the last year increasing on controlling inflation, raising rates seven times in 2022 alone to an effective rate of 4.25-4.5%.
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Calendar 2023 Outlook Indicates:

- Continued inflationary pressures but easing. More rate hikes are possible until definitive cooling occurs.
- Continued supply chain issues but improving. Ongoing issues with COVID in China and the ongoing war in Ukraine will not help supply chains globally in the short-to-medium term.
- Continued supply available workers who have opted to leave workforce during the pandemic but a cloudy jobs outlook.

- Local economy remains overall in good shape. Jobs and people continue to relocate to middle TN and Williamson County. Known issues – affordable workforce housing, access to education/childcare, quality of the transportation network – will continue to be important factors.

However, revenues are stable, healthy, and growing.

- There are 15 funds for which budgets are annually approved.
- Low, medium, and high values are presented. Staff moves forward with the medium values.
- Preliminary Revenue Assessment is based on projections from TN State Funding Board, historical performance, and economic trends.
- January model is designed to be conservative. Future forecasts will be refined once there is more data from the current fiscal year.

Alderman Petersen entered at 3:19pm.

FY 2023 Budget-Revenue Model

- All Funds:
  - FY 2024: $202.0 M
  - FY 2023: $195.2 M
  - Increase by $6,799,194 (+3.5%)
- General Fund:
  - FY 2024: $101.5M
  - FY 2023: $94.9M
  - Increase by $5.6M (+7.0%)
  - Revenue by source – 80.6% is revenue
    - Local Sales Tax: FY 2024: $59.5M (+6.4%)
    - State Shared Sales Tax: FY 2024: $16.3M (+5.4%)
    - Property Tax: FY 2024: $24.2M (+23%)
    - Building Permits & Licenses: FY 2024 $2.41M (-8.7%). This is highly dependent on development activity.
    - Interest Income: FY 2024: $146,498 (+46%). This is part of a governmental budget where the City needs to report these investments at market value. For governmental investing, the City holds every bond to maturity. This line item requires Staff to reconcile actual cash with bond values. Currently, the City has $187M of investment maturity in the portfolio.
  - Sanitation Fund: FY 2024: $12.1M (-1.04%)
  - Development Related Funds: This includes the Road Impact Fund, the City Facilities Fund, County Facilities Fund, and Parkland Dedication Fund. All funds are heavily dependent on timing of new development, which means the forecasts could increase or decrease. For the purpose of the initial forecast, all four development funds are forecast at 75% of the last five-year average. This builds some degree of conservatism into the pandemic period and building slowdown.

Alderman Potts asked why Staff picked a five-year average knowing the COVID timeframe. Why not expand it to a ten-year average?
Answer: It mostly came down to the time-value of money. There is a large spread of valuations in a ten-year timeframe. A five-year calculation has been the general approach because it is relatively consistent with the value of what was being permitted in 2018 versus today. The further back Staff takes the calculations, the less comparable it is to current estimations.

Mr. Stuckey adds that the COVID years might have an impact on the estimation and skew the data, but to take out the COVID data could be detrimental. In some ways, the City is still dealing with long-term COVID impacts.

  - Hotel/Motel Tax Fund: FY 2024: $4.27M (+6.2%). The Hotel/Motel Fund budget was affected more than any other City fund by COVID-19 economic downturns. However, the fund rebounded to record highs in FY 2022. This growth is expected to continue with the healthy tourist activity post-pandemic in Franklin.
  - Water/Sewer Fund: FY 2024: $42.9M (+1.47%)

Alderman Petersen asked how the impact fees will affect the water/sewer fund?
Answer: They have not been included in the budget forecast. The City will not presume a fee increase until it has been passed.

PAUSED DUE TO WEATHER AND POWER OUTAGE AT 3:40PM

RESUMED AT 3:47PM

Closing:

- Cautious optimism is the dominant thought behind this revenue forecast in January. The economy has not contracted as much as feared as a result of rate hikes to date. Many industries remain on solid footing. As always, events out of our control temper expectations and uncertainty remains.
- Departmental budget reviews will start in February and run through March.
- Revised revenue projections will accompany budget recommendations in May as well as a revised five-year forecast.

Chairman Barnhill clarifies the effective date for the current rate table for the water and sewer fund.
Answer: January 1, 2023.

APPROVAL OF THE MINUTES

2. *A motion was made by Alderman Potts, seconded by Vice-Chair Petersen to approve the minutes from December 1, 2022. The motion passed 3-0.*

NEW BUSINESS CONTINUED

3. **Election Of Chairman And Vice-Chairman, Effective 2023**

A motion was made by Alderman Potts, seconded by Vice-Chair Petersen to nominate and re-elect Vice Mayor Barnhill as Chairman. The motion passed 3-0.

A motion was made by Alderman Potts, seconded my Chairman Barnhill to nominate and re-elect Alderman Petersen as Vice Chairman. The motion passed 3-0.

4. **Consideration Of Ordinance 2022-41, An Ordinance To Amend Title 5, Chapter 8, Section 5-801 Of The Franklin Municipal Code Relative To Surplus Personal Property To Increase From $10,000 To $20,000 The Minimum Value Of City Surplus Personal Property For Which Is Required Sealed Bids Or Public Auction Pursuant To Public Notice For Disposal Thereof**

The purpose of Ordinance 2022-41 is to increase the amount of the City's current threshold for disposal of surplus personal property by means of sealed bid or public auction from $10,000 to $20,000. Staff is not aware that the provisions proposed would have a negative financial impact on the City. The practice is to sell all surplus personal property of the City by electronic auction regardless of value. So that means the practical effect of this Ordinance if approved has to do with publishing legal notices and for providing flexibility on how the City treats trade-in proposals.

Staff recommends that the Budget & Finance Committee recommend to the Board of Mayor and Alderman adoption of Ordinance 2022-41.

A motion was made by Vice-Chair Petersen, seconded by Alderman Potts to recommend approval of the Ordinance. The motion passed 3-0.

5. **Consideration Of Resolution 2022-84, A Resolution To Amend And Restate Section II Of Resolution 2022-40 Regarding Authority Of City Administrator To Execute Procurement Contracts Or Agreements When An Award Has Been Made Pursuant To City Policy**

The purpose of Resolution 2022-84 is to correct an omission from Resolution 2022-40, Section 2, Part 6, which enumerated the circumstances in which the City Administrator is granted authority to negotiate and execute procurement contracts and agreements whenever the basis for pricing has been established. The one basis for pricing that was omitted is when the City's own process for establishing pricing has been followed pursuant to current law and City policy. An example is when the City conducts their own sealed bid process or solicits proposals. Resolution 2022-84 would correct that omission. Staff is not aware that the proposed resolution would have a negative financial impact on the City.

Staff recommends that the Budget & Finance Committee recommends that the Board of Mayor and Alderman approve Resolution 2022-84.

Alderman Potts asked if there was a situation that instigated this resolution or was it an administrative amendment?
Answer: This came to light when Staff was preparing a memo for a Board of Mayor and Alderman meeting. Staff then worked with the Law Department to correct that omission in the form of the Resolution before the Committee today.

A motion was made by Alderman Potts, seconded by Vice-Chair Petersen to recommend approval of the Resolution. The motion passed 3-0.

6. Budget Presentation - Debt Service Fund

Interest and principal payments, due annually for the City's General Obligation Bonds (general government projects), are appropriated and expensed within the Debt Service Fund. While a portion of property tax is allocated directly to this fund, transfers are also made from the Sanitation & Environmental Services, Road Impact, and Hotel/Motel Tax funds to pay their respective shares of debt service in accordance with policies and intentions directed by the Board of Mayor & Aldermen. Water & Wastewater Debt is budgeted separately under the Water Management Department budget.

Summary of Outstanding Debt:
- General Obligation (G.O.) Principal outstanding of $121,560,000 with final maturity in 2039.
- Water & Sewer (Revenue) Principal and Bonds outstanding (including SRF Loans) of $141,105,104 with final maturity in 2053.

Performance Measures – General Obligation:
- Current General Obligation Bond Rating(s): AAA (Standard & Poors), Aaa (Moody's)
- Debt Affordability Ratios (through FY 2023)

Performance Measures – Revenue (Water & Sewer):
- Current Revenue Bond Rating: Aa2 (Moody's)
- Debt Capacity Information – Pledged Revenue Coverage (≥ 1.25)

Budget Request:
The City had planned to issue additional debt to support the City's Capital Investment Program in FY 2023. Due to a variety of factors, however, the timing of the issuance will likely result in the issuance of an intent resolution first in FY 2023 and a formal issuance in FY 2024. As a result, the budget shown is not reflective of any issuance or servicing costs. The budget will be amended once the issuance is made, and debt payments are known. Only one interest payment will be added to the budget shown herein.

7. Budget Presentation - Development Funds (City Facilities, County Facilities, Road Impact Fund, Parkland Dedication Fund)

City Facilities Tax:
The Facilities Tax Fund is a special revenue fund used to account for the proceeds authorized by a private act of the Tennessee General Assembly of 1987 for the City to levy and collect a privilege tax on new development to provide that new development contribute its fair share of providing new public facilities made necessary by growth.

Two rules govern use of the city facilities tax fund:
1. Can only be used on police, fire, sanitation, and parks expenditures

2. Can only be spent on public expenditures related to growth

Revenues: $2,419,711 forecast; highly dependent on what is built and when it is built.
Expenses: $3,500,000 forecast initially:

1. Southeast Municipal Complex Phase I- $2,500,000
2. Bicentennial Park - $1,000,000

County Facilities Tax:
A new special revenue fund used to account for the City's share of the County's adequate school facilities tax. 30% of the proceeds are distributed to incorporated cities within the county, and another 30% is divided pro rata among the incorporated cities based on population in the last decennial census. The City began collecting a share of the County Facilities Tax in FY 2012. Prior to FY 2017, monies collected had been deposited within the Capital Projects Fund. Funds are to be used for the purpose of providing public facilities.

Revenues: $699,017 forecast; highly dependent on what is built and when it is built.
Expenses: There are no expenses forecast at this time for FY 2024. More may forecast as the CIP is further reviewed.

Vice-Chair Petersen contributes that this fund is often used for general upkeep and trails around schools. The goal is benefit school facilities with these investments.

Road Impact Fund:
The Road Impact Fund is the special revenue fund created for the accounting of expenditures in accord with City Ordinance 88-13 on the proceeds of road impact fees from new development. After completing an update of the major thoroughfare plan, the City re-examined the structure of road impact fees which was approved in April 2011. These funds can be used to pay for new arterial roads, directly or through payment of debt service on bonds associated with the projects.

Revenues: Include estimates for Road Impact Fees collected from arterial and collector roads. These estimates are highly dependent upon what is built and when it us built, but slightly higher than FY 2-23 budget.
Expenses: Three parts – 3.3 M for debt service, $3M for road offset agreements, $1M for components of approved CIC capital Projects (east McEwen Phase 5).

Parkland Dedication:
The Parkland Dedication Fund was created in FY 2015 for the purpose of satisfying requirements of Section 5.5.4 of the City of Franklin Zoning Ordinance. Funds can be used only for the acquisition or development of public parks, greenways/blueways, open space sites, and related facilities.

Revenues: Estimates are based upon analysis of projects currently within the development process in the City which are eligible to pay Parkland Dedication fees. These estimates are highly dependent upon what is built and when it is built.
Expenses: $3,757,800 of appropriation for three approved CIP projects:

- From Quadrant 1 - $1,147,800 for continued work on Liberty Park Improvements & $110,000 for design work of a Greenway from Pinkerton Park to Franklin Road.
- From Quadrant 3 - $2,500,000 for continued work on the Southeast Municipal Complex/Park.

8. Budget Presentation - Hotel/Motel Fund

Purpose of the Fund:
A special revenue fund used to account for the locally administered tax levied on the occupancy of hotel and motel rooms, in addition to sales tax. The City of Franklin Hotel /Motel Tax is 4%. The fund is used to pay debt service on the Cool Springs Conference Center and the Harlinsdale and Battlefield Parks. Also, the funds are used for tourism. The budget includes 1% of the 4% tax (based on collections in calendar year 2013) to support the Williamson County Convention and Visitors Bureau.

October 2022 was a relatively strong month with average daily rate (ADR) reaching $139, which is the second highest ADR for 2022. This is particularly good news when paired with an occupancy rate of 73%. Only June surpasses the October performance in terms of ADR and occupancy rate. Overall, sales performance is strong compared to the pre-pandemic numbers for 2019.

The Hotel-Motel Fund budget was the most affected of any City-wide by the COVID-19 caused economic downturn. However, revenues rebounded nicely in FY 2022 and exceeded pre-pandemic levels years sooner than first thought. Obligations: Debt Service, Land Acquisitions, Funding for the CVB and ongoing capital project commitments. The two Capital Projects partially funded through FY 2024 Hotel/Motel Appropriations are: $500,000 for Southeast Park and $502,200 for design for a Greenway from Pinkerton Park to Franklin Road.

9. Financial Report For 1st Quarter Of FY 2023

- Consistent with first quarters prior to the pandemic, the General Funds shows a current year deficit, as property tac billings do not occur until the 2nd quarter (October 1).
- In the General Fund, local sales taxes are 6% higher than last year.
- For development fees that are dependent on timing and type of development are being compared to 2022:
  - Building permit revenue is 0.6% higher than the previous year.
  - Road impact fees are 48% less than last year.
  - Facility taxes are 47% less than last year.
- In the Street Aid Fund, Gasoline Taxes are 1.5% higher.
- Hotel/Motel Taxes are 17% higher.

10. Monthly Reports For January 2023

- Sales Tax is holding strong month-over-month compared to this time last year.
- Collections on Gas Tax on average is 1.7% higher than last year.

Vice-Chair Petersen asked about the Williamson County Risk Reappraisal Schedule.
Answer: Williamson County moved to a 4-year Risk Reappraisal Process.

Alderman Potts asks Mr. Stuckey if Staff is able to geographically plot which areas of the City are seeing changes in local Sales Tax?
Answer: The City does not receive that information from the State Department.

OTHER BUSINESS

ADJOURNMENT

A motion to adjourn was made by Alderman Potts, seconded by Alderman Petersen. The motion passed 3-0.

Meeting Adjourned @ 4:38 PM

Clyde Barnhill

Clyde Barnhill, Chair

Minutes prepared by Sarah Schilling, Assistant Deputy City Recorder, City Administrator's Office - 2/3/2023 9:10 AM