

Memo

From: Zane Miller, General Manager

To: 1-A Board of Directors
1-E Board of Directors

Date: August 7, 2008

RE: Preliminary FY 2008/09 Budget Addendum

The following items are specific to District 1-E and should be considered separately from the FY 2008/09 FOMB.

Undesignated Reserves

1-E is estimated to end this current fiscal year and the upcoming fiscal year with a positive cash balance in both the operating and debt funds. It is estimated that 1-E will end the FY 07/08 with a positive fund balance of approximately \$246K in the operating fund (Pooled Cash) and \$74K in the Debt Fund. The FY 08/09 Debt Fund will end with an estimated ending balance of \$83K. Based on the preliminary FY 08/09 budget, 1-E will have approximately \$111K of undesignated revenues in the Utility Fund. The Board has discussed over the past year that I develop a plan to eliminate all outstanding obligations which is outlined in this memo.

Currently, 1-E has one primary outstanding obligation of un-reimbursed developer costs that needs to be eliminated, which, according to the 2007 audit, is \$2.90M.

As discussed in the general Budget Memo, this year we will be shifting to a fund based accounting system to separate property tax revenue from other revenue streams. This is being done to have a clear revenue source that can be clearly justified as available for developer advances since they cannot be done with property tax income. Our past accounting practices

prevent us from using accumulated reserves for developer advance payments since the source of funds is not clearly identifiable.

In the preliminary budget, the Utility Fund will end with approximately \$111K of undesignated reserves, which can be utilized for developer advance payments. By shifting the allocation percentage of M&O costs to a valuation based methodology, 1-E will begin to substantially reduce the pro-rata portion of the M&O portion of the budget, over time, creating excess revenues each year for the developer advance payments. My recommendation would be to leave the excess Utility Fund revenue as undesignated until July/August, 2009, to ensure that current year expenses are covered and no budget adjustments need to be made. At that time, the 1-E board should plan on reimbursing the developer most, if not all of those funds. If that process can be done at a maximum amount over time, they can be eliminated.

In addition to the Utility Fund being able to provide Developer Reimbursements in future years, the Strategic Partnership Agreement with the City of Lewisville will require that any revenue received by the District, over and above the police/EMS obligations must be utilized for developer advance reimbursements. Once the developer advance reimbursements have been satisfied, the funds can be utilized for M&O purposes. This will be another revenue stream to utilize in the future.

I would advise that each District develop and maintain a capital reserve fund of \$200,000 for each department: streets, drainage, water, sewer, parks and administration over the next few years. As our current year budget has shown, major failures to the system are very expensive and have a significant impact to overall budgets. By developing the perpetual reserve balances, these types of projects can be covered through a capital account and not effect the base budget which is designed to handle routine maintenance and operation expenses.

Additional Exemptions

Staff has been approached by residents over the past year about providing an Over 65 or Disability exemption. Currently, the 1-E District provides to its residents a Homestead

exemption of 2% or \$5,000 minimum. The certified tax roll indicates that there are 581 single family residences (SFR) and 477 claim the exemption, totaling \$376,166. That translates to a net loss of \$3,385, less than \$.01 to the tax rate.

The Tax Code allows a taxing unit to provide an Over 65 or Disabled Person exemption of unlimited rate, except ISD's are limited to a maximum, if authorized by the governing body. In looking at the Denton County exemption rates, they range from \$0 to \$100,000, however, none of the other FWSD's provide the exemption. The Castle Hills Districts are the only Districts that provide a homestead exemption. The main challenge that we have is accurately determining the number of residents that would claim the exemption, which could have significant budget impacts. For example, assuming that 10% of the residents would utilize the Over 65 or Disabled Person exemption, and we authorized a \$5,000 exemption rate, that would have a budget impact of \$2,610. Based on the average home value of 1-E for this year, the exemption would provide an average \$45 annual reduction to the homeowner. The average HS exemption is \$8,576, and if that rate was applied to the Over 65 or Disable Person, the budget impact would increase to \$4,477 or an annual savings to the resident of \$77. However, it is unknown at the time of this memo an estimated number of residents that would qualify, but we are still trying to get that information.

The Tax Code also states that the exemption must be authorized by the governing body by July 1 in order for the exemption to be granted. Since we have missed the opportunity for this tax year, I would recommend that we reevaluate the exemption at the mid-year budget process.