

**BUDGET WORKSHOP
CITY COUNCIL
CITY OF NASSAU BAY, TEXAS
FEBRUARY 6, 2021
8:00 AM**

MEMBERS OF COUNCIL PRESENT: Mayor Bob Warters, Mayor Pro Tem Don Matter, Councilmembers Phil Johnson, John Mahon, Bryce Klug, Sandra Mossman, and Matt Prior

MEMBERS OF COUNCIL ABSENT: None

OTHERS PRESENT: City Manager Jason Reynolds, City Secretary Sandra Ham, Assistant City Manager Mary Chambers, Finance Director Csilla Ludanyi, Public Works Director Paul Lopez, Police Chief Tim Cromie, Fire Chief Tom George, and Planning Commission Chairman Roscoe Lee

PRESIDING: Mayor Bob Warters

CALL TO ORDER AND ROLL CALL OF MEMBERS

Mayor Bob Warters called the meeting to order at 8:05 p.m. and announced a quorum of Council was present with all elected officials in attendance.

CITIZENS' REQUEST FOR HEARING BEFORE CITY COUNCIL

Mayor Warters announced a Public Hearing for citizens to address Council regarding any issues and concerns.

The Public Hearing was opened at 8:06 a.m.

There being no one wishing to speak, the Public Hearing was immediately closed.

BUDGET WORKSHOP

Mayor Bob Warters began the discussion by overviewing the meeting agenda and requested for the discussion and comments to remain broad in nature. He respectfully requested for Council to provide City Manager Jason Reynolds with guidelines on potential debt issuance for the City. Additionally, he believed further conversations on General & Administrative expenses were warranted, and he indicated several Councilmembers have commented the General & Administrative budget to be too high. If this impression is similar amongst a majority of Council, he believes additional guidance should be given to the City Manager for the upcoming fiscal year.

Mayor Warters inquired upon Council for additional budget categories for discussion. Councilmember Klug reflected upon the previously approved budget, in which he believes Council worked aggressively to adequately fund the public safety department. Mayor Warters agreed. There was continued discussion on patrolling the lagoon and if the budget should be reflective of increased patrol throughout the City and lagoon. It was observed there was likely not a need to purchase a patrol boat for \$375,000.

Councilmember Matt Prior expressed a need for Council to provide a better collective sense of priorities to City Manager Reynolds. Councilmember Phil Johnson was in agreement. Councilmember Prior indicated Council has done a disservice to the community by not providing City Manager Reynolds concrete priorities and details, referencing a status quo budget approval process. He indicated Council's need to review the budget with explicit goals and fund those goals in which Council has a consensus.

Councilmember Sandra Mossman echoed similar sentiments and reminded all that as Councilmembers they are representatives of the community. Therefore, there is a need to begin the discussion on priorities, and establishing those priorities based on feedback heard in the community. Councilmember Mossman indicated a need for the development of the City's top ten priorities, with Councilmember Johnson agreeing, but noting four to five priorities may be a good start for today's discussion. Councilmember Mossman later noted the budget should then reflect these priorities created.

Councilmember Klug continued the discussion by remarking on a previous budget analysis performed by Councilmember Johnson. In his review, he indicated ad valorem has grown, the overall City budget has grown, with substantial increases in the General & Administration (G&A). Councilmember Johnson detailed his analysis was performed from 2012, and in reviewing nine years of data, the G&A has increased at an approximate rate of four times inflation. Councilmember Johnson encouraged more discipline, as the G&A needs to be forward focused, which will drive discretionary funds.

City Manager Reynolds commented there is a disservice to Council to not review the one-time costs within G&A that skew that category of funds. When one-time expenses, CIP, and legal expenses are excluded, the increase in G&A is not as large as estimated by Councilmember Johnson. Councilmember Johnson countered that the increases seem to be structural and chronic, and indicated a need to move forward without much emphasis on past expenses. Councilmember Johnson noted should Council project twice inflation, there needs to be more discipline in spending, which will drive discretionary funds. Mr. Reynolds concluded and noted Council is doing a disservice by not reviewing the expenditures that are one-time needs that may distort the numbers.

Councilmember John Mahon inquired on the reasoning for beginning the analysis with 2012, as 2012 was one of the all-time low revenue years. Councilmember Mahon indicated a need to review which items have grown and whether it is justified, as the growth could have been justified. If the City budget is bigger, Council should determine the reasoning and whether it was justified by Council at the time. Councilmember Klug remarked on the substantial growth from 2012 and inquired whether the balance of funds to priorities was optimal. He indicated a need to sponsor more funds towards infrastructure. Councilmember Johnson emphasized how the analysis shows the City has evolved in the expense line items. He is less interested in specifics, but rather the arc over time.

City Manager Reynolds provided for context there has been much growth in the G&A, yet Council has been provided the opportunity over years to decrease the tax rate. In those opportunities, Council did not approve. Councilmember Johnson countered that driving the tax rate down may not be the overall goal, but rather efficiencies in spending the revenue. Mr. Reynolds stated that many of the projects are funded by the G&A, and an increased tax rate translate to funds that are required to be spent. Mayor Pro Tem Don Matter indicated he would never support a tax reduction, as a reduction in the tax

rate would mean less funds for debt repayment. Any excess funds should be utilized for debt repayment.

Mayor Warters stated a need to provide the City Manager a lever for the budget process, as it is premature to go through each line. Although, he does recognize there are opportunities to reduce expenses in the G&A.

Mr. Reynolds continued and acknowledged today's meeting was a Debt Workshop. As a precursor to discussing the City's debt, there may be a need to align the current budget in order to realize how to move forward. Councilmember Prior inquired on the top items of discussion for today's meeting, with Mr. Reynolds responding for a need for Council to list their top three priorities. This is a prelude to the budget season.

Discussion began on the City's priorities. Mayor Warters began with his view of Council's priorities. He voiced concern on the expenditures within the G&A and believed the G&A budget to be unreasonable for the City. Additionally, an average increase in budgets year to year of 2.5% of inflation is not acceptable. Public safety, Public Works, and the Water/Sewer Fund should be the priority. He inquired on the true cost of daily operation for the City. He questioned why expenses have grown.

Mayor Warters continued by asking Council to explore a reduction in the cost-of-living adjustment (COLA) in the City's TMRS pension plan. Seabrook recently reduced their TMRS COLA to 30%, which he believes to be a more sustainable number for the City to maintain. Secondly, the City has been making additional payments to bring the TMRS pension plan funding to 100%, but he doesn't believe 100% should be the goal, as most cities benchmark 80% funded as adequate. As Nassau Bay is close to 80% funded, there is a need to terminate the additional payment every year to the pension plan, especially as TMRS already charges the City an amount to offset the lack of complete funding. Mr. Reynolds indicated the City allocated an additional \$100,000 and keeps the payment rate the same year to year, which is additional funds from the budget each year. Mayor Warters agreed that those additional funds can be utilized for other items in the City. Councilmember Johnson agreed that 80% funded is considered exemplary.

Councilmember Klug recounted the reasoning for the increase of the TMRS plan over the years, as it began when City Manager John Kennedy noticed that lowest paid employees were not adequately funded in their retirement plan. This is when changes began in the matching and further upgrade to a 2:1 match. He inquired whether it is sustainable for the City to have the Cadillac of pension plans. A COLA reduction is a reasonable suggestion and will reduce the debt balance. This reduction is fair to the taxpayer and City staff and will free funds for other items in the budget.

Mr. Reynolds cautioned there is still a consideration to the human side of the implementation. This is a sensitive subject and it may be uncomfortable to discuss. Mayor Warters agreed but indicated there was a need to have the discussion. The City already has a premium health insurance plan in excess of other cities. Mr. Reynolds emphasized that the TMRS COLA and Updated Service Credit (USC) are under the Council purview but the TMRS 2:1 match is not.

Councilmember Mahon acknowledged that this discussion is a topic every budget season, therefore it needs to be addressed based on how long the conversations have occurred among Council. He inquired whether the current plan is sustainable. He voiced

concern that the rate every year is unsustainable and that the topic to address is the contribution rate, not the additional payments.

Mayor Pro Tem Don Matter reasoned that other regional cities will also make benefit reductions. Councilmember Sandra Mossman understood these benefits to be something valuable to the employees, and noted the presentation of the reductions should be delicate, as there is attrition with significant changes. She believes this to be a good balance based on the City's premium health insurance coverage. Councilmember Prior agreed, and asked for further details on actual impact to the employees.

Councilmember Klug stated although the City contributes an additional \$100,000 payment each year, the unfunded liability continues to increase. He voiced concerns that the existential threat to the organization is the City's pension and recognized this happens to all communities.

City Manager Reynolds highlighted the COLA reduction, along with an USC reduction, which lowers the City's contribution rate to 10%. This is a significant expenditure decrease of approximately \$100,000 per year. Councilmember Mahon agreed a TMRS contribution in the double digits is unsustainable for the City.

Mayor Warters transitioned the discussion to sales tax revenue. Currently the City receives two cents per dollar, while a percentage also goes to the NASA Area Management District (NAMD), Economic Development Corporation (EDC), and the street sales tax fund. The NAMD and EDC have considerable administrative expenditures, and he would like Council consideration of removal of these committees and directing those funds to the City. The City can absorb those function and have other uses for those unneeded costs.

Mayor Warters stated the State didn't allow the City to raise the sales tax, therefore, the NAMD and EDC were established to capture these funds. Now that regulations have changed the City should consider recapturing these funds. He acknowledged the NAMD can perform functions that the City cannot, but he doesn't believe the NAMD operates better than what the City can do.

Councilmember Johnson commented on his previous experiences on the NAMD, and stated the NAMD has the ability to raise revenue. There was a brief discussion on allocated funds for the NASA 1 median, specifically the palm trees. Councilmember Johnson emphasized NAMD's importance to the business community and it was agreed by all that the entire City benefits from the beautification of the NASA 1 median.

There was consensus on staff creating timeline and processes, along with the risks for dissolution of the EDC and NAMD. Councilmember Prior agreed there were opportunities for streamlining these committees, although Councilmember Johnson argued value for a role of the NAMD in Nassau Bay's future. Discussion ensued with a consensus to continue further investigation and research.

Councilmember Mossman inquired on the annual expenditure for legal services. Councilmember Mossman additionally requested projected future costs and value of the service. City Manager Reynold responded that the cost is approximately \$100,000 per year.

Councilmember Klug inquired on the City's reserve fund, which seems to be oriented around the 90-day policy. He countered the reserve fund should be similar to the rainy-day fund for unexpected emergencies. He acknowledged several problems, specifically with the unexpected \$2 million cost for the Southeast Water Purification Plant. The City now maintains sophisticated pumps, which are expensive and can be costly to repair. He believes there should be a larger goal than \$500,000 for the reserve fund, and asked Council's consideration to increase this fund.

Councilmember Mossman requested additional information on the cost to operate the City for one-month, with City Manager Reynolds indicating it to be \$16,000 for one day and roughly \$500,000 for one month. At the end of 2020, reserves were \$2.4 million, and it is projected the City will have \$1.7 million at the end of FY2021.

There was continued discussion on the City's reserve fund. Councilmember Klug stated he would be comfortable allocating \$1 million from the reserves for an emergency-type of fund, which allows the funds to be more accessible. Councilmember Mossman emphasized a need for safeguards to be in place, with City Manager Reynolds agreeing that parameters are needed to caution against excessing spending. Mayor Wartens agreed and recommended a plan for pursuit from City Manager Reynolds.

Mayor Pro Tem Matter indicated a need for more planned maintenance. Councilmember Johnson voiced a need for the City have a concept of critical spares, as typical for industry. Mr. Reynolds stated the City doesn't have dedicated employees for maintenance, and Councilmember Johnson argued that the City should. City Manager Reynolds noted that City Council has consistently over the years asked for budget reductions, and noted these reductions have to come from some department. Mayor Pro Tem Matter insisted this should be a future budget item, with raised taxes if needed. Councilmember Johnson emphasized properly operating infrastructure to be consensus of Council as a priority.

City Manager Reynolds countered and stated he believes the City to be meeting those goals. There was a discussion on emergencies and the process for repairs. Mayor Pro Tem Matter indicated besides additional funding, there should be a priority on maintaining storm sewers, and a maintenance plan should be established. City Manager Reynolds requested a drainage plan be completed.

City Council recessed at 9:42 am.

City Council resumed at 9:56 am.

The workshop session resumed with a brief discussion on maintenance. Councilmember Klug indicated need for a prioritization on beautification, which is natural to economic development. Councilmember Johnson requested consideration of the public safety departments, and ensuring they have the technology and tools that optimize their protection and performance. City Manager Reynolds added that if maintenance is to become a priority, the Public Works Department cannot be used as a cost-saving mechanism in terms of saving money on labor. There needs to be a balance and trade-off.

Mayor Wartens transitioned the discussion to reviewing potential projects and the accumulation of debt to fund those projects. He stressed concern on the City's streets,

and stated them to be in disrepair. He would like Council's consideration on a plan which replaces a considerable amount of streets in the City. He cited Council's previous project on sewer and drainage as a good example of prioritization of infrastructure, and would like to see similar for the City's streets.

Mayor Warters indicated as a significant portion of debt has closed, there is opportunity for new debt obligation. The City's tax rate is based on the debt, and accumulation of new debt would stabilize the rate within the City. The City has the prospect to borrow debt at a low interest rate.

Mr. Reynolds requested of Council to have a discussion on the City's debt policy. Mayor Warters agreed, and requested a future workshop session for more detailed discussion on specific projects.

Mr. Reynolds continued with comments on the overall debt level for the City historically. The City's debt payment has typically been under 20%. Councilmember Klug approved the Council guidelines of 20% of expenditures to pay service debt. He inquired on the total debt to expected revenue, as he prefers debt levels to 50%, or approximately \$3.2 million as the debt total, outside of the Water / Sewer Fund and the TIRZ.

Councilmember Klug commented on Council's failure in 2013, as he believe they debt created didn't provide firm guidelines on how the money should be expended. He requests future approval and itemization, and if changes should be made they should be presented to Council. Councilmember Johnson agreed that any debt accumulation should be specific to a project list.

Mayor Warters inquired upon Council, asking if debt accumulation was the right approach at the time. Mr. Reynolds stated Council adopts to debt level, which leave approximately \$1.2 million to borrow, leaving Council unable to borrow more funds until 2028. Mr. Reynolds stressed a need upon Council to adopt a debt policy to help manage parameters. Councilmember Johnson agreed a philosophy was needed, but also requested should an emergency or unexpected event occur, the City should have the funds to pay for it.

Mayor Warters urged that all debt should not be considered equal, as the interest rate makes an enormous impact on the debt levels. A limit based on percentage of total revenue may be too much of a restriction, as interest rate and payment load are also factors. The City should take advantage of the lower rates, as the City can't divorce the interest rate from debt capacity.

Councilmember Klug affirmed a need for consideration for a cap or maximum amount of debt. He asserted debt should be for infrastructure needs, not operational. He would be opposed to borrowing debt for the sake of borrowing. He would prefer the City have not debt, but understand that is not feasible.

City Manager Reynolds indicated there are various tranches of debt. In 2017 the City borrowed for the new Fire & EMS station, but it was funded by the TIRZ, and agrees that it is not City debt. Ultimately, \$2.3 million of debt is specific to the G&A. Extracting those from the principle, the City maintains \$1.2 million in debt, although on the City's books debt accounts for \$8 million.

Mr. Reynolds continued and stated to reach the typical guideline of 20%, the City can accrue \$4 million more. He expressed that an optimal number to borrow would be \$2.3 million, as the payment would be approximately \$700,000. Councilmember Klug stated debt to be a good decision, if the City can prudently pay it. He stated the City needs to be sure if the debt was sustainable.

Councilmember Prior underscored his more conservative approach to debt, as he cited that anytime the City needs to repair or work on a large project, the City resorts to debt. He states this approach continues to encumber future City councils from spending future money.

Mayor Pro Tem Matter inquired on the payments to Fred Griffin for the Town Square development. Finance Director Ludanyi indicated Mr. Griffin's debt obligations are not included, as they are paid from the RDA 2013 debt issuance. This debt will be complete in 2024. Ms. Ludanyi concluded that should the City consider dissolution of the RDA, there could be an additional \$650,000 unallocated for projects.

Councilmember Prior inquired to Finance Director Ludanyi on the City's current debt load perspective, specifically if there are expected projects within the next three to five years. These unknowns are what makes the debt load unsustainable.

Finance Director Ludanyi provided an overview of the interest rates for the various debt tranches. If the City chose to issue debt today, interest rates could be around 2.225%. Councilmember Johnson expressed interest in refinancing the 2.64% interest rate debt tranche. Questions continued about the rates, with Ms. Ludanyi responding she could complete more research on refinancing City debt. She cited the legislation is wanting to limit City's option to issue Certificate of Obligations as General Obligation debt is presented at an election. Due to the City's size, it only makes sense financially to do Certificate of Obligations and provided more information on the potential impacts to the M&O with a possible change of only allowing General Obligation debt. There was continued discussion on refinancing versus debts for projects.

Councilmember Klug urged consideration of the City's TMRS unfunded liability, as he would like to seek debt to offset that liability. City Manager Reynolds indicated with the COLA reduction discussion earlier there is already savings, and the unfunded liability will be reduced.

There was a continued discussion on the payments to Mr. Griffin and it was emphasized if the RDA is dissolved then the City would accrue that debt. Councilmember Johnson asked for further review of this option. Councilmember Klug acknowledged it was only shifting the debt from one fund to another, and it should be understood that the M&O would increase. He stated he was comfortable directing the funds this way if the City financially benefits.

As the workshop drew to a close, City Manager Reynolds indicated a need to still address possible projects for debt accumulation. A separate meeting should be held to understand Council's priorities.

Mayor Warters provided a summary of the session. Overall, Council is considering repayment of Mr. Griffin quicker than the payment timeline. Additionally, it was decided a tax reduction is not always the goal for the City. As for TMRS, 80% funded is a good

goal, and no additional payments per year are needed. There is a need for further review of a COLA reduction. City staff will research the dissolution of the EDC, NAMD and RDA. Council would also desire a more enhanced type of reserve fund. Finally, there is a need for a maintenance line to the budget for Public Works and it was requested of Finance Director Ludanyi to review refinance options.

City Manager Reynolds concluded the session by providing additional documents for Council to review and requested for Council to provide their priorities for the upcoming budget year.

It was announced the next meeting would be Monday, March 22nd at 7:00pm.

ADJOURNMENT

There being no further business, the meeting adjourned at 11:11 a.m.

Minutes approved as submitted and/or amended this 10th day of May A.D. 2021.

CITY OF NASSAU BAY, TEXAS

Robert L. Warters
Mayor

ATTEST:

Sandra V. Ham
City Secretary