Town of Westlake

Fiscal Model and Fiscal Sustainability Planning

FINAL REPORT

October 2024

bakertilly

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October 31, 2024

Mr. Wade Carroll
Town Manager
Town of Westlake
1500 Solana Blvd., Building 7
Westlake, TX 76262

Dear Mr. Carroll:

Baker Tilly is pleased to transmit our report that summarizes the Town's baseline financial forecast (fiscal model) and our analysis of ways to address future fiscal gaps to the extent that ongoing operating budget deficits or increased infrastructure investment indicate the need for budget strategies to maintain an appropriate level of reserves.

The initial baseline estimates indicate projected budget surpluses for the Town's General Fund, even when considering the ongoing subsidy required to fund the Town Academy. However, underfunded and unfunded capital improvement projects currently not within the Town's existing budgets will reduce those surpluses significantly and may lead to ongoing structural budget deficits without strategies to address those deficits.

In this report, we summarize the outcome of the baseline fiscal model based on the Town's adopted FY 2025 budget, which includes a separate fiscal model for the Town Academy that informs the Town's ongoing subsidy requirements.

Sincerely,

Carol Jacobs

Carol Jacobs
Managing Director

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Executive Summary

The Town of Westlake engaged Baker Tilly to develop a baseline financial forecast ("fiscal model") for the Town's use that is primarily focused on the General Fund. The baseline fiscal model is used to help tell the story about the Town's financial health and provide insights for Town councilmembers and staff to make informed policy decisions and their impacts on the Town's long-term financial resources. Based on the outcomes of this financial forecast, the Town then asked us to provide a set of budget strategies that would form the basis of a fiscal sustainability plan to address any current or future gaps that may exist in the Town's General Fund. This report provides our analysis of the outcomes of the fiscal model and budget strategies we believe the Town could explore in the future to ensure that reserves stay at or near our recommended General Fund reserve goal of 33% of annual operating expenditures to provide long-term solvency and financial sustainability to the Town.

The Town is in a state of development. It has an incorporated area of nearly 7 square miles and a current population estimated at less than 2,000. Existing development to date has focused on a blend of commercial office campuses and office developments with limited retail and residential development focused primarily on single homes within larger planned developments governed by homeowners' associations (HOAs). The historically significant development activity has led to one-time revenue sources in the form of planning and building permit fees that have contributed to the Town's General Fund reserves.

The Town is less than 40% built out in terms of population, with a significant amount of undeveloped land currently held by two primary landowners – one private developer that focuses on commercial and residential construction, and a private trust that owns prior farmland that has the potential for development of residential and commercial properties. While the Town can determine land use designations and acceptable development, future development will primarily be driven by these two landowners/developers. These will generate new, ongoing General Fund revenue sources in the form of property taxes and sales taxes, the volume of which will depend on the mix of retail and sales-taxable uses. However, new revenue sources will be offset by increased staffing needs to serve the growing daytime and residential population.

The Town is unique in that while being a relatively small community, it provides a full slate of services either through Town staff or through contracted services, the latter of which includes police services provided by the City of Keller. The Town currently has no significant municipal-owned parks and recreation services. However, it does maintain various walking trails that connect HOA areas. The Town is the only municipality in Texas that operates a charter school – Westlake Academy – and is financially responsible for its operations and capital needs. The Town has increased its contribution to the Academy over the years, and most recently, due to increases in staffing, the annual subsidy to the Academy totals over $1.7 million from the Town's General Fund. The relatively stagnant growth of state funding for charter schools cannot keep pace with the anticipated increases in personnel and operating costs. Moreover, no capital set-asides have been anticipated for the school's long-term operations to replace facilities or equipment.

Baker Tilly has incorporated the Town's separately adopted FY 2025 budgets for the Town and the Academy, respectively, to inform the development of the long-range fiscal model. We have used several key baseline assumptions, including existing population and service levels, known revenue sources and expenditure requirements, modest population growth, and the exclusion of any significant capital infrastructure investments for the Town or the Academy. Based on this set of realistically conservative assumptions, the Town's General Fund forecast would indicate an annual surplus averaging $2.6 million per year that could see General Fund reserves stay above a recommended minimum reserve target of four months (or 33%) of annual operating expenditures plus operating transfers and subsidies. From this baseline perspective, the Town would appear to be in good financial shape.

However, there is likely to be a significant amount of capital expenditures that will come due over the next several years. Much of the Academy's facilities will need repairs and maintenance, including key building systems (e.g., HVAC, carpet, roof, paint), outdoor hardscape, athletic fields, and lighting over the next several years. While most of the non-building improvements have been funded through the gracious donations of the Academy fundraising foundations, it is currently not reasonable to expect that maintenance of those improvements will be funded through donations in a similar fashion. In addition, while much of the Town's streets and landscaping needs are the responsibility of HOAs, the arterial roads, street lighting, and hardscapes/softscapes are the responsibility of the Town. Moreover, the Town has a fire station with requisite building systems as mentioned above, and fire apparatus that will need to be maintained and/or replaced over the next several years. As such, we believe the Town currently has an unfunded capital infrastructure investment requirement of at least $2 million per year for the Academy and Town infrastructure and equipment that will need to be funded.

When the Town's fiscal model includes these unfunded capital requirements, the annual surplus becomes an average annual fiscal gap (deficit) of $4.1 million that would grow to $8 million by FY 2035. Reserves would fall below the Town's minimum reserve target by 2033 and be fully depleted by 2035 without corrective action.

In this report, we identified over 20 high-level budget strategies for future consideration. Action will need to be taken by 2030 to address the long-range fiscal gap. Additionally, we provided an overview of fiscal sustainability planning. The Town would need to prepare a fiscal sustainability plan that includes a set of budget strategies to address the gap in time to maintain General Fund reserves above the minimum reserve target and eliminate the fiscal gap by the end of the 10-year forecast period.

Fiscal Model

This project started with developing a baseline fiscal model (or financial forecast) for the Town to understand the impacts of the existing baseline FY 2025 budget and a set of realistically conservative revenue and expenditure assumptions on the Town's long-term fiscal health. Separate fiscal models were created for the Town and the Academy. We primarily focused on the General Fund in both models but also included their respective other operating funds to determine any potential fiscal impact on the General Fund in the form of transfers to/from those other funds. For the Academy's fiscal model, the projected surplus/deficit would result in a corresponding decrease/increase in the Town subsidy to the Academy. The following sections discuss the outcomes of the fiscal modeling efforts.

Baseline Budget

We used the approved FY 2025 budgets for the Town and the Academy. The Academy's fiscal year end is different from the Town, separated by three months. For fiscal modeling purposes, we assumed both agencies had the same fiscal year.

The proposed Town General Fund budget projected a surplus in FY 2025 of $1.5 million on annual operating expenditures plus transfers of $15 million. These figures included a projected subsidy of $1.7 million to the Academy's operations. The Academy General Fund budget of $11.5 million was assumed to be "made whole" by the Town's General Fund subsidy. In essence, agency-wide, the Town of Westlake expected a surplus equivalent to 5.6% of annual operating expenditures, increasing the Town's reserves to $32.2 million, or 215% of annual operating expenditures plus transfers.

The level of reserves is considered healthy for the Town as a starting point in the fiscal model. These levels of reserves have happened over the past several years, primarily as a result of one-time revenues in the form of use tax and permit revenues related to significant development projects. In addition, the Town's capital infrastructure is relatively limited as most of the residential community is within homeowners' associations that have private responsibility for the maintenance of roads, landscaping, and parks/recreation amenities.

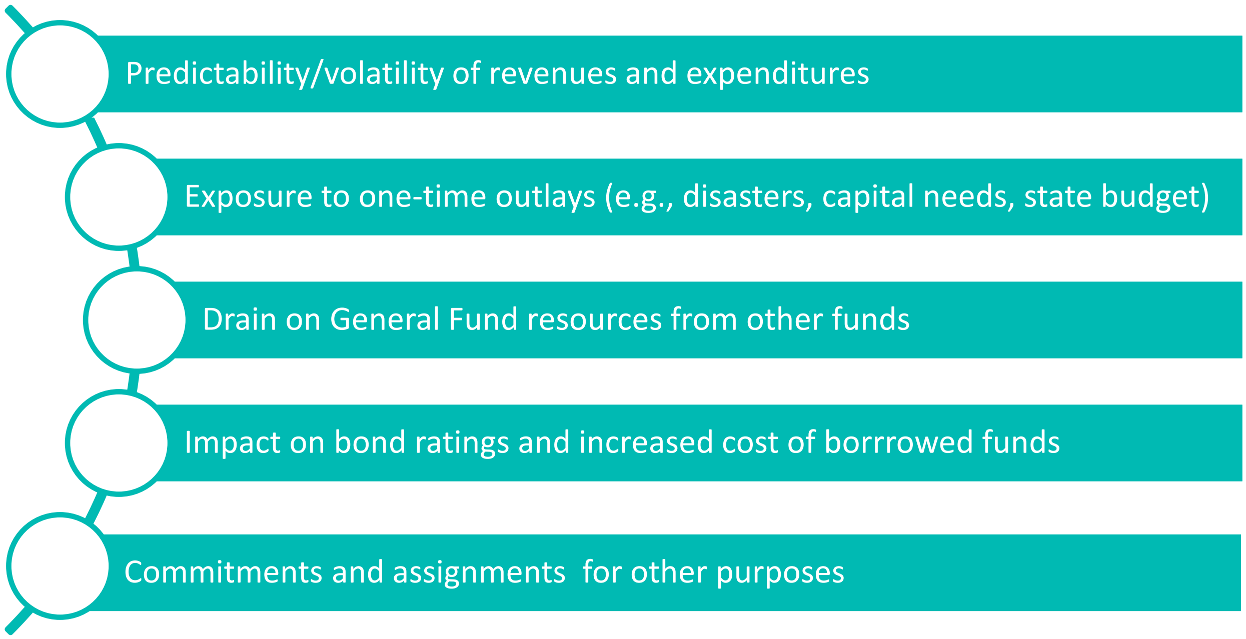
In short, the Town's existing fiscal status is strong with healthy reserves. However, the question becomes whether Town operations and funding Academy operations are sustainable long-term based on growing costs and underfunded capital improvements that will require funding in future years as discussed below.

Fund Balance/Reserve Policies

The Town has an existing minimum fund balance (reserve) policy for its General Fund equivalent to 180 days (or 50%) of annual operating expenditures. There are no separate minimum reserve policies for its capital funds. It is essential that municipalities maintain adequate levels of reserves to mitigate current and future risks such as revenue shortfalls or unanticipated expenditures, and to ensure stable tax rates. In most cases, discussions of fund balance tend to focus on a government's general fund, as that is where most of the necessary services are funded by general tax revenue sources.

Minimum reserve levels are used in long-range forecasting to assist decision makers in understanding whether sufficient reserves are planned for future years. The adequacy of an agency's reserves is different for each agency depending on its unique circumstances. For example, an agency vulnerable to natural disasters or with economically volatile revenue sources might require a higher level of reserves. Establishing a minimum reserve policy is based on several factors as presented in Figure 1.

Figure 1. Key Factors Upon Which General Fund Reserve Policies are Based



A best practice based on Government Finance Officers' Association (GFOA) recommendations for municipalities in the United States is to establish a minimum reserve policy for the General Fund of at least two months (or 17%) of annual operating expenditures and recurring transfers. However, the unique circumstances, as indicated above, are considered in establishing those reserve policies.

The Town of Westlake's unique circumstances indicate that the existing minimum reserve policy of 180 days (or 50%), which is above the standard established by GFOA recommendations, is prudent. This is based on the following:

- Over 70% of the Town's annual General Fund revenues are reliant on economically volatile revenue sources, including:
  - Sales taxes, which total $9.9 million or 60% of revenues, and
  - Development-related permit revenues that total $1.8 million or nearly 11% of revenues.
- Ongoing capital improvements to replace existing infrastructure or provide new infrastructure for the Town (e.g., arterial roadways, Town facilities, fire station facilities, and apparatus) and the Academy (e.g., previously donation-funded amenities, capacity expansion) will increase the potential for significant one-time capital needs.
- The Academy, which is already planned to operate at a loss and upon which state revenues grow at low rates, will continue to drain the Town's General Funds, requiring a higher level of reserves.

For fiscal model planning purposes, we included the Town's minimum General Fund reserve policy of 50% of annual operating expenditures for long-term planning purposes. This level of reserves addresses revenue volatility, provide time to address gaps in Academy operational funding, and provide a fallback for unanticipated one-time capital expenditures.

Key Assumptions Used in Baseline Forecast

The adopted FY 2025 budgets for the Town and the Academy were used as the baseline in developing the fiscal models for both agencies. The key assumptions used to develop the respective fiscal models are summarized in Tables 1 and 2 below.

Table 1. Key Assumptions Use in Town Baseline Forecast for FY 2025-2035

General Assumptions	Reserves
• **Recessions** – No recessionary impacts are assumed in the baseline forecast. • **Service levels** – Maintain existing service levels	• **Minimum reserves** – General Fund minimum reserve of 180 days (50%) of annual operating expenditures plus recurring operating transfers • **Capital project reserve funding** – No significant assumptions related to unfunded capital projects to be funded from the General Fund other than recurring operating transfers for vehicles and maintenance/repairs of Town facilities
Revenues	**Expenditures**
• **Development activity** – No anticipated significant development projects in future years pending entitlement and submittal of development plans for plan check; new residential unit construction of 30 units per year through 2031, and 60 units per year thereafter; new non-residential space of 160,000 square feet in 2026 only; population increase averaging 4% per year through 2026, 6% thereafter • **Property taxes** – Annual increases of 2.5% based on historical tax rate increases approved by the Town Council • **Sales taxes** – Growth based on revised 2025 projections of 4% per year thereafter • **Franchise fees** – Annual growth of 2.5% based on growth in gas/electric utilities offset by "cord-cutting" and reductions in telecommunication-related costs • **Permit revenues** – Annual growth of 2.5% based on historical averages excluding significant one-time development projects • **Investment income** – Reduction in interest rates on fixed income securities reducing to 3% in 2026 and 2.5% thereafter based on the Town's investment holdings and interest rate reductions anticipated by the Federal Reserve in future years • **Other** – modest growth of 2% to 3% of other revenue sources	• **Salary, benefits and other adjustments** – Long-term assumption of salary adjustments averaging 3% per year, a vacancy rate of 3% per year • **Healthcare and other health-related insurance benefits** – Costs anticipated to increase by 4% per year based on historical trends • **Inflationary impacts** – Assumed long-term inflation for the Dallas-Fort Worth-Arlington metro region of not greater than 3% based on pre-pandemic averages and the latest September 2024 year-over-year CPI index change of 2.6%. • **Contracted services, supplies, utilities and other non-personnel costs** – Long-term growth of 3% per year mirroring inflation assumptions • **Capital assets** – No capital equipment funding in FY 2026 and beyond • **Debt service** – No new debt service obligations to be borne by the General Fund • **Academy Subsidy** – Baseline of $1.7 million from FY 2025, increasing based on outcomes from the Academy fiscal model which grows from $2.2 million in 2026 to $7.2 million by 2035

Table 2. Key Assumptions Use in Academy Baseline Forecast for FY 2025-2035

General Assumptions	Reserves
• **Student capacity/attendance** – No changes anticipated in student capacity or attendance based on projected FY 2025 levels throughout the life of the forecast • **Service levels** – Maintain existing service levels	• **Minimum reserves** – Equivalent to 45 days (12.5%) of annual operating expenditures • **Capital project reserve funding** – No significant assumptions related to unfunded capital projects to be funded by the Academy

Revenues	Expenditures
• **Town operating contribution** – full subsidy from the Town for any annual operating deficits • **State per capita apportionment** – No increase in state per capita amounts based on FY 2025 levels • **State Foundation School Program (FSP) entitlements** – No increases in FSP entitlement funding by the State based on FY 2025 levels • **Foundation Campaign Contributions** – no growth on FY 2025 anticipated contributions • **Investment income** – Reduction in interest rates as described in Table 1 • **Other** – Low to no growth on other revenue sources	• **Salary, benefits and other adjustments** – Long-term assumption of salary adjustments averaging 4% per year, no assumed vacancy savings • **Healthcare and other health-related insurance benefits** – Costs anticipated to increase by 4% per year based on historical trends • **Inflationary impacts** – Assumed long-term inflation for the Dallas-Fort Worth-Arlington metro region of not greater than 3% based on pre-pandemic averages and the latest September 2024 year-over-year CPI index change of 2.6%. • **Contracted services, supplies, utilities and other non-personnel costs** – Long-term growth of 4% per year as historical purchases have shown increased needs and costs • **Capital assets** – No capital equipment funding in FY 2026 and beyond other than existing capital leases • **Debt service** – No new debt service obligations

Baseline Financial Forecast

The results of the baseline forecast are presented below. The Academy's long-range forecast indicates an ongoing fiscal gap that requires additional Town funding that increases by $457,000 in FY 2026 and grows to an increased funding requirement of $5.5 million in FY 2035. In FY 2025, the Town anticipated backfilling the Academy over $1.7 million, which represented nearly 15% of annual operating costs. By the end of the ten-year forecast, the Town will be contributing more than $7 million per year to subsidize school operations, equivalent to over 40% of the Academy's annual operating budget. The primary reason is that revenues are not anticipated to grow at the same pace as the cost of providing services, exacerbating an already fiscally unsustainable situation. The two largest revenue streams – the State's per capita and FSP entitlement funding – cannot be guaranteed to grow in future years, while it is expected that costs will continue to rise by funding compensation and benefits to recruit and retain employees and the costs of services and supplies. The trend of projected revenues and expenditures before the Town's subsidy (Figure 2) and the growth in the Town subsidy itself (Figure 3) are displayed below.

Figure 2. Westlake Academy Projected Revenues and Expenditures (Excludes Town Subsidy)

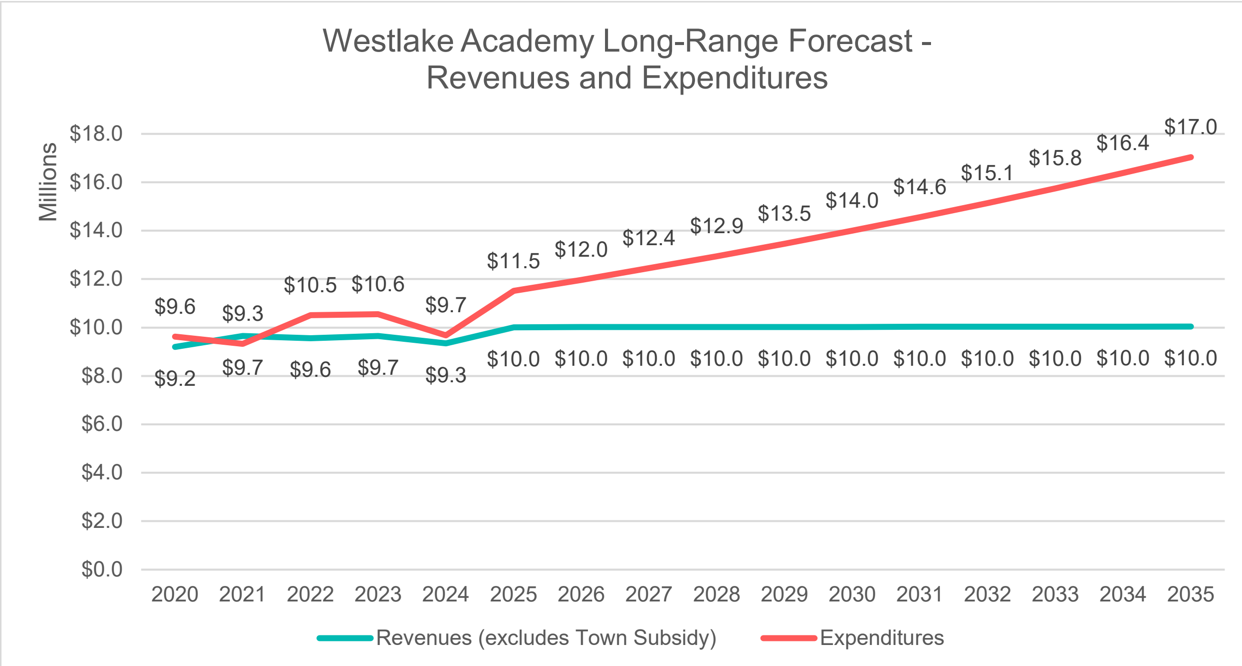
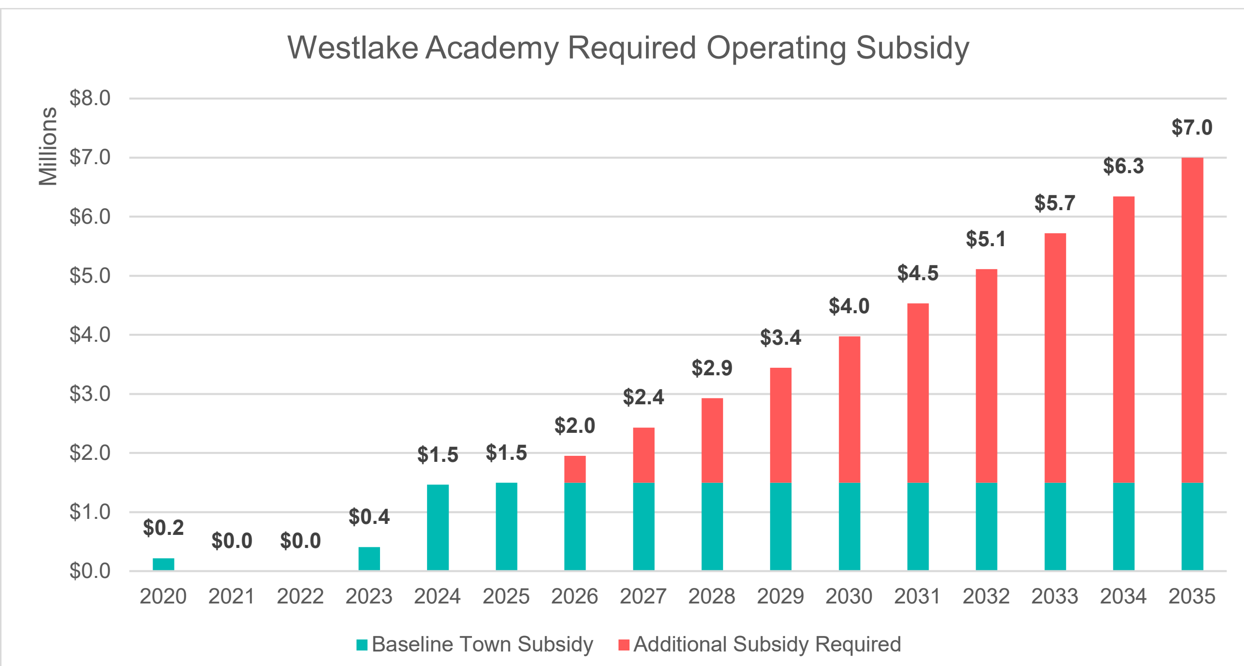


Figure 3. Town Subsidy of Westlake Academy's Annual Operating Budget



NOTE: The Academy's approved annual operating budget for FY 2025 indicated an operating subsidy of $1.5 million. The Town's operating budget included an annual operating subsidy of the Academy of $1.7 million.

The foregoing results have a dramatic impact on the Town's long-range forecast. The healthy reserves with which the Town finds itself allow the baseline forecast reserves to stay above the minimum reserve policy of 50% of annual operating expenditures throughout the forecast period. Before the additional Academy subsidies, the Town enjoyed a projected surplus averaging $2.6 million per year throughout the 10-year forecast period that would have slightly reduced over the period due to projected revenues not keeping pace with the costs of providing services. With the increased subsidy of Academy operations, starting in FY 2031, the Town will experience a baseline fiscal gap that grows from $350,000 in 2031 to over $4.3 million by 2035 without corrective action. The resulting level of reserves compared to the minimum reserve target (Figure 4) and the annual surplus/deficit (Figure 5) are shown in the graphs below.

Figure 4. Town of Westlake General Fund Long-Range Baseline Forecast – Projected Reserves

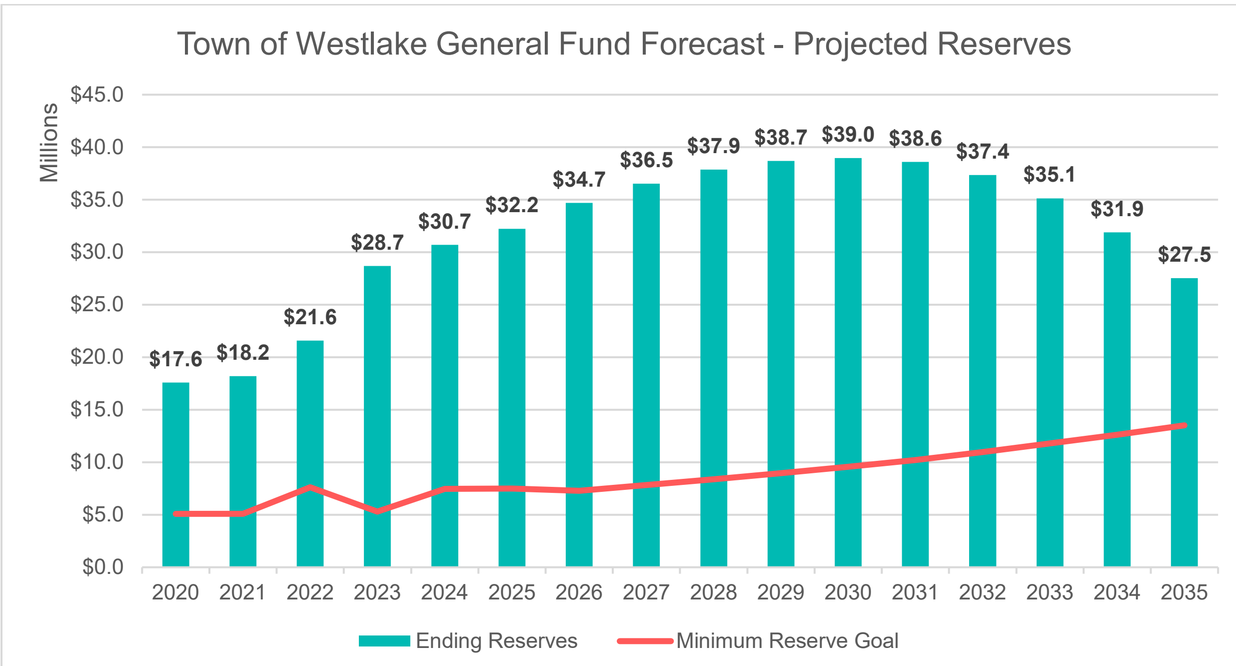
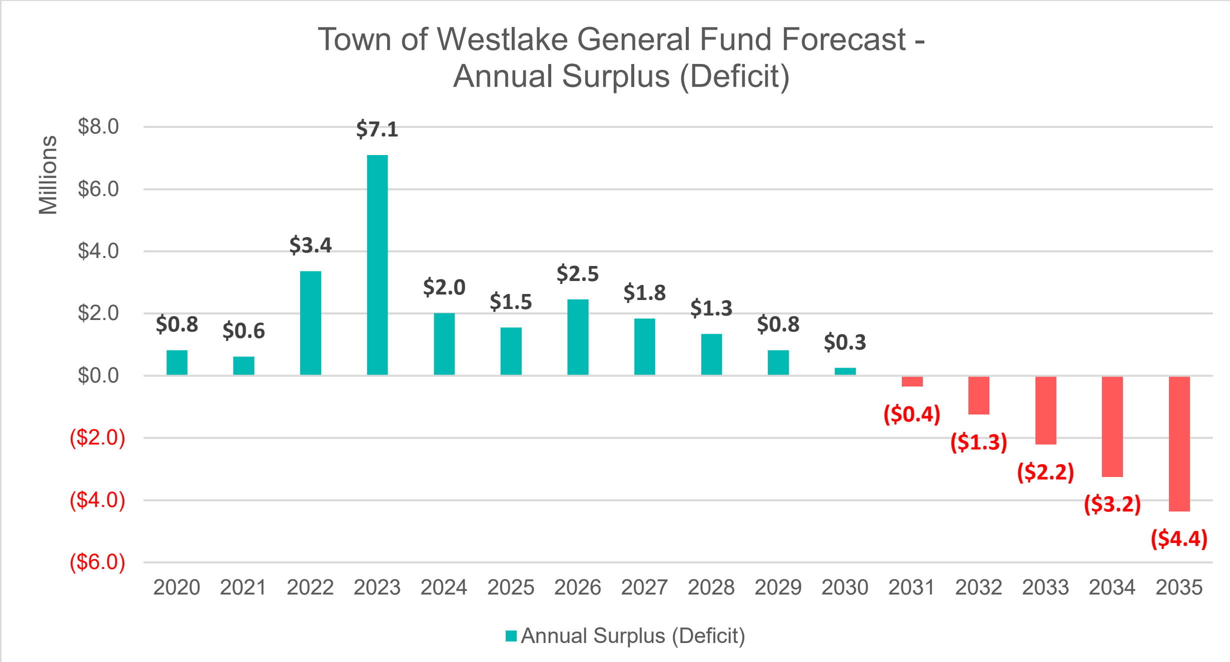


Figure 5. Town of Westlake Long-Range Baseline Forecast – Projected Annual Surplus (Deficit)



Impact of Underfunded/Unfunded Capital Needs

The baseline forecast does not include any significant capital funding in future years. Neither the Town nor the Academy has a long-range capital improvement plan (CIP) as part of its annual budget. Town staff indicate that a water system master plan is currently underway (which is expected to be fully paid by water ratepayers), as is a pavement master plan that will identify long-range road improvement investments for future years (likely requiring General Fund contributions). Staff expressed interest in a future facilities master plan as well, but nothing is in the works. Without formal master plans that might indicate long-range cost considerations, we relied on our experience working with agencies of similar size as Westlake. We also relied on the historical costs associated with non-utility infrastructure investments as indicated in the Town's annual comprehensive financial report (ACFR) for FY 2022. Agencywide capital assets and infrastructure investments as of June 30, 2022, totaled $36.3 million using historical costs. Using an average expected life of 20 years, an average annual set-aside to replace those assets would be $1.8 million. Knowing that these are historical costs and given the inflationary impacts on replacing these assets for future years, a conservative $2 million is used to estimate the impact of future improvements that will need to be replaced. The Town does not impose a development impact fee to help pay incremental infrastructure costs associated with development projects.

Revised Financial Forecast

In developing a revised forecast, we incorporated two factors not present in the baseline forecast.

1. Impact of Underfunded/Unfunded Capital Needs - Based on our discussion above, we have introduced a placeholder assumption of $2 million per year starting in FY 2026, growing at the inflationary assumption rate of 3% per year throughout the forecast period.

2. Recessionary Impacts – It is not uncommon for Texas agencies, like other agencies across the United States, to experience revenue losses during regional recessions. On average, agencies will experience mild- to moderate-recessionary periods that will typically impact sales and use taxes and development-related revenues. Property taxes may also be affected to the extent of significant declines in property values, but those usually are in more urban areas or areas where speculative development has taken place. For Westlake, we have introduced into the revised forecast mild recessionary impacts in sales tax and development fee revenues every seven years starting in 2027 and every seven years thereafter that recover over three years. We assume the Federal Reserve and other economic factors will continue to temper inflationary pressures and stave off any significant recessionary impacts in the short term.

Using these two factors that we believe represent a more comprehensive look at the Town's long-range fiscal trends, General Fund reserves are depleted at a faster rate. In this case, the General Fund will begin to experience annual deficits starting in FY 2027 that grow from $221,000 to $8 million by FY 2035 without corrective action. This dramatically changes the long-term fiscal sustainability for the agency. Reserves would fall below the minimum reserve target by FY 2033 and will be fully depleted by FY 2035 without corrective action. The revised forecast of General Fund reserves (Figure 6) and the annual surplus (deficit) (Figure 7) are displayed below.

Figure 6. Town of Westlake General Fund Long-Range Revised Forecast – Projected Reserves

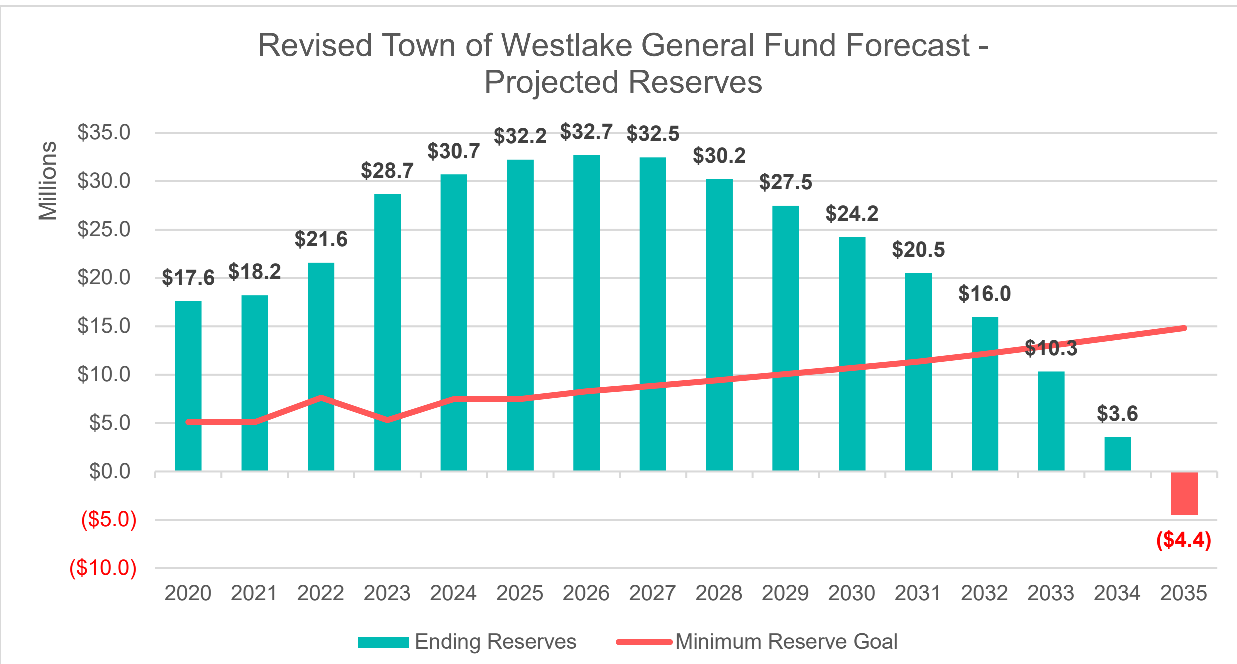
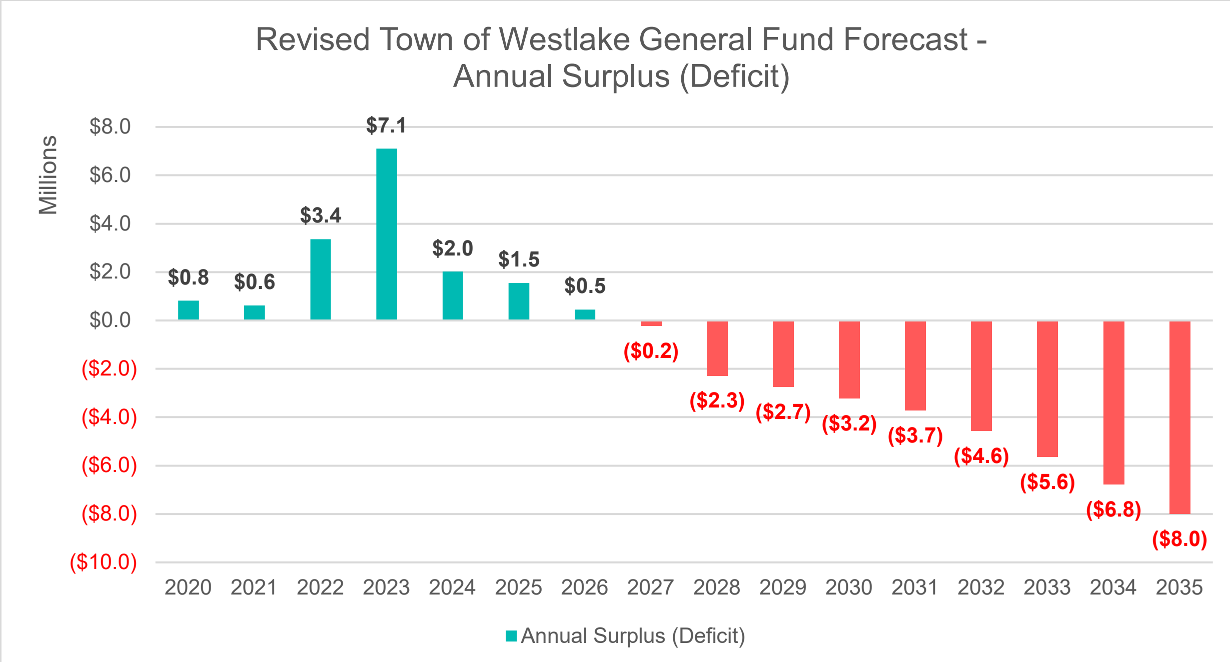


Figure 7. Town of Westlake Long-Range Revised Forecast – Projected Annual Surplus (Deficit)



To address this gap, the Town would need to develop budget strategies to provide nearly $7 million in new revenues and/or expenditure reductions by FY 2030 phased in over three years (e.g., $2 million in 2030, an additional $3 million in 2031, and an additional $2 million in 2032) that would grow by at least 3% per year thereafter. The following section discusses strategies that could address this gap for the Council's future consideration.

Fiscal Sustainability Plan

Based on the long-range forecast, **total ongoing budget strategies of $7 million per year** would be required starting by FY 2030 to ensure that the General Fund maintains minimum reserves above the Town's policy of 50% of annual operating expenditures and eliminate the annual fiscal gap.

This represents the goal in the budget strategies analysis that is the subject of this section of the report. However, the Town does not need to wait until 2030 to begin implementing budget strategies to achieve fiscal sustainability.

Overview of Fiscal Sustainability Planning

A fiscal sustainability plan is a plan that includes a variety of budget strategies that will address any fiscal gap identified in a long-range forecast that accomplishes two objectives:

1. It ensures that fund balance/reserves stay above the minimum reserve goal established by the governing body throughout the period covered in the long-range forecast, and
2. Eliminates the annual fiscal gap not later than the last year of the long-range forecast.

A fiscal sustainability plan is different than a fiscal solvency plan, the latter of which is focused primarily on cash liquidity of the agency to meet its debt obligations. A fiscal solvency plan has the ability to use debt financing or find means by which to extinguish or absolve the agency of its existing debt obligations, among other tools, to avoid the event of fiscal insolvency (which some might refer to as bankruptcy). Rather, a fiscal sustainability plan is focused on attempting to maintain services to the fullest extent possible to address a budgetary shortfall that is projected in future years. It is less focused on liquidity and more focused on managing reserves.

Types of Budget Strategies

Budget strategies are used to address any fiscal gap present in the long-range forecast. They are developed along a continuum that includes four categories:

- **Expenditure control/cost shifts –** strategies that focus on reducing the cost of service delivery through such means as process improvements, organizational restructuring, renegotiating existing contracts for services/supplies, updating cost allocation plans within an organization, or otherwise shifting costs borne by the General Fund to other funding sources that currently exist;
- **Service delivery changes –** strategies that focus on changing how services are delivered that reduce costs while maintaining service levels. Examples might include contracting for services, shared service delivery with other agencies, providing services with existing capacity to other agencies, and public-private partnerships; and
- **Revenue enhancement opportunities –** strategies that seek to increase the financial resources available to provide services such as economic development, new taxes, existing tax increases, and increasing cost recovery through new/enhanced/increased fees and charges.

To the extent that these three categories fail to deliver fiscal sustainability in a timely manner, the agency might then need to exercise strategies from the fourth category:

- **Service level reductions –** identifying services or programs that can be reduced or eliminated, typically based on a prioritization strategy.

Determining Budget Strategy Feasibility

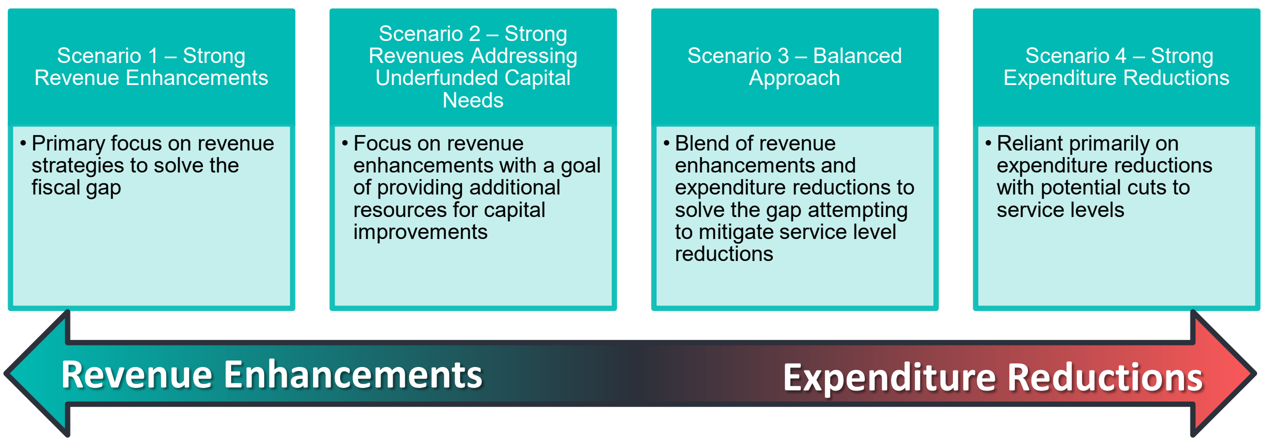
Budget strategies are then typically analyzed in terms of fiscal impact and their potential for success, considering such factors as the following:

- Community values
- Organization goals, policies and culture
- Technical and operational feasibility
- Timing of implementation
- Service delivery
- City operational structure and practices

Budget Strategy Scenario Packages

Strategies that are deemed worthy of future consideration can then be placed into various scenario packages along a continuum ranging from revenue-centric enhancements to expenditure-centric reductions, as indicated in Figure 8 below.

Figure 8. Budget Strategy Scenario Packages



Fiscal Sustainability Implementation Action Plan

Once a scenario package and the related budget strategies are chosen, the agency then creates an implementation action plan to implement the strategies that includes timing, responsible party for implementation, and resources (time or investment in funds) to implement the chosen strategy. This ultimately comprises the fiscal sustainability plan.

Baker Tilly's Assignment

Our assignment in this project is to identify potential opportunities for the Town to consider that could collectively address the fiscal gap. We were not asked to evaluate individual strategies but rather to provide a slate of options that the Town Council and staff could use as a starting point for its long-term fiscal sustainability efforts. It is clear that the long-range financial forecast indicates there is a fiscal gap that will need to be addressed. How the agency addresses it will need to be considered in its strategic planning and economic development planning efforts in sufficient time to bring fiscally sustainable operations and service levels to the community today and for years to come.

With that, we have identified a series of budget strategies for the Town to consider in future years to address the fiscal gap identified in the long-range forecast. They are discussed below.

Budget Strategies

Each of the budget strategies identified herein was based on our review of various Town documents, interviews with councilmembers and staff, review of other agencies in Texas, and our deep experience working with agencies across the country. Each strategy identified will include a brief description, the potential fiscal impact, and comments to help inform the evaluation of the strategies for future consideration.

Expenditure Controls and Cost Shifts

The following expenditure control and cost shift alternative were identified in our analysis.

#	Description	Long-range Annual Fiscal Impact	Comments
1	Organizational assessment of Academy administration	$250,000	Review the organizational structure of administration and administrative support functions to identify staffing reduction alternatives that mitigate classroom/educational programs. Administrative staffing might exceed state standards which could jeopardize long-term state funding.
2	Compensation standards	$200,000	Review compensation of Town and Academy staff to establish a standard between median and top quartile compensation with comparable agencies; establish an appropriate peer agency group based on objective criteria from which to compare compensation and benefits.
3	Maintain only public infrastructure and amenities	$100,000	The Town has been taking over maintenance of HOA-owned amenities where they abut public spaces (e.g., fountains, landscaping). Yet we also understand that the Town owns property maintained by HOAs. The distinction between public/private maintenance responsibilities requires careful consideration to avoid “maintenance creep” of public responsibilities that require additional funding resources through increased tax revenues or reduced costs in other places.
4	Conduct City Hall facilities study	TBD	Conduct a study to determine cost-benefit of building a City Hall facility rather than renting office space. Savings may only be driven if low-interest debt financing, grant funding, and value-engineering principles are used to mitigate long-term costs of ownership and maintenance.
5	Cooperative purchasing	$100,000 or more	Exercise cooperative purchasing arrangements with other agencies locally, within the region, and through statewide and nationwide procurement options. The most significant savings might be achieved in capital projects and maintenance services and supplies.

Service Delivery Alternatives

The following service delivery alternatives were identified in our analysis.

#	Description	Long-range Annual Fiscal Impact	Comments
1	Academy privatization	Up to $5.5 million	Privatize charter school operations to allow for tuition or (if approved by the state in the future) voucher-based revenue, offloading the costs from the General Fund. Hybrid approach of a public-private partnership could be explored in some areas with a focus on protecting state funding to the fullest extent possible.
2	Municipal courts – shared service delivery	$150,000	Identify opportunities to reduce the cost of court services by sharing with another agency, either by leveraging existing capacity or outsourcing with a nearby jurisdiction.
3	Consolidated fire management – shared service or federation model	$250,000	Create a shared fire management model with the nearby agency(ies) to consolidate top-level positions and command staff.
4	Public works services – shared services	$150,000	Identify opportunities to share public works maintenance services, including streets, facilities, fleet, and landscaping.

It should be noted that we reviewed the existing arrangement with the City of Keller Police Department regarding the cost for law enforcement services. While Westlake could potentially explore options for reduced costs from the Sheriff's office or other local agencies, we are not certain that Westlake would see significant cost savings unless there were greater regional sharing of law enforcement services. The cost of law enforcement services as it currently stands appears to be a good value to the Town.

Revenue Enhancements

The following revenue enhancements were identified in our analysis.

#	Description	Long-range Annual Fiscal Impact	Comments
1	Property tax – increase tax rate up to voter-approval tax rate (VATR) of $0.21 per $100	$500,000	The town can increase the tax rate by state statute to VATR without voter approval; increases property taxes up to 25% over time.
2	Sales tax – reallocate 1/8% of 4B Economic Development fund sales tax to Property Tax Reduction fund	$1,200,000	The 4B fund is projected to be overfunded based on existing debt service. Approximately 25% of the sales tax revenues could be reverted to the General Fund. This would require voter approval.
3	Cost recovery for fees and charges – new study to increase cost recovery to 100%	$250,000	Conduct a comprehensive fee study to determine existing cost recovery levels and establish parameters around improving cost recovery.

#	Description	Long-range Annual Fiscal Impact	Comments
4	Crime control and prevention district (CCPD) – establish a CCPD to fund crime prevention and reduction efforts	$600,000	Allowed under Texas Local Government Code Section 363 et seq. Voter approval is required of those within the proposed district. Need not cover the entire incorporated area. CCPD is funded through sales and use tax up to 0.5% and counts against the 2% local maximum. To implement this would require one of the other sales tax measures to be sunset (e.g., 4B Economic Development fund).
5	Sales tax leakage – leakage study to improve sales tax generation	TBD	Conduct a sales tax leakage analysis to determine opportunities to attract sales tax generators where demand might support them. Fiscal impact will depend on leakage and whether the Town wants to pursue sales tax deficit industries.
6	New retail development – focus economic development efforts on significant sales tax producers	$100,000 to $2,000,000	New retail in development areas can provide ongoing additional revenue sources, albeit more volatile to economic swings. A thriving restaurant will only generate up to $100,000 annually in sales tax, whereas larger department stores/retailers can generate up to $2 million in annual sales tax.
7	Development impact fees – implement fees to pay for new construction of infrastructure	TBD	Funds could only be used for new infrastructure or significantly enhanced infrastructure that increases capacity to serve the increased population/impacts on the community. Fiscal impact is dependent on what impact fees are implemented and future development activity.
8	Stormwater utility district (SWUD) – implement a SWUD to cover costs associated with stormwater management	<$200,000	The Town has an existing stormwater management program. SWUD provides the opportunity to fund it through utility fees. Operating costs are not currently allocated based on stormwater management. Future infrastructure costs could be funded through SWUD as well as ongoing maintenance costs.
9	Education-based donations – expand fundraising to tap private and/or public funding opportunities	$500,000	Focus on fundraising efforts that can support existing programs as opposed to creating new programs. Identify and pursue funding options from federal programs or private foundations where the Academy's existing services fit the niche of those grant programs.

Additional comments regarding strategies identified:

- **Local sales tax rate capacity –** The Town has already implemented the maximum local sales taxes that are allowed under State law with its three sales tax categories: 1) General Fund of 1%; 2) Property tax reduction of 0.5% to reduce the property tax burden; and 3) 4B Economic Development Fund of 0.5% to fund qualified development projects. The latter is committed to repaying the debt on what was referred to as the "Civic Campus project"; however the 4B fund projects sales tax revenues in excess of projected debt service which might provide some capacity to divert those funds to a different use.

- **Charter school funding –** the funding for charter school operations such as Westlake Academy is limited. Based on our research, the Town may not levy assessments to fund operating costs like a school district can. As such, education assessment levies are not a viable option to provide additional ongoing funding of school operations. The Academy also is limited in charging anything similar to a tuition to students to address the gap as that would violate state funding that the Academy would receive.

Service-Level Reductions

If the strategies in the three categories listed above are not pursued, not timely, or insufficient to address the growing fiscal gap, then service-level reductions would need to be exercised to achieve fiscal sustainability. We recognize the Town would least prefer these options, but the Town will need to explore these types of options to be able to provide community services long term.

#	Description	Long-range Annual Fiscal Impact	Comments
1	Reduce or eliminate Academy education services	Up to $5.5 million	Operating a charter school is not considered a municipal service in Texas. The Academy is a unique amenity that sets Westlake apart from other communities, but if core municipal services (e.g., public safety, fire prevention, street infrastructure maintenance, etc.) are not maintained, no other agency can provide those services.
2	Reduce General Fund staffing by 10% for both Town and Academy	$1,600,000	Identify staff positions to eliminate to achieve a 10% reduction in General Fund costs for both the Town and the Academy using a priority-based approach.
3	Implement priority-based budgeting and reduce/eliminate non-essential services	$2,400,000	Implement a priority-based budgeting process to identify programs along a prioritization continuum and either reduce or eliminate the least essential municipal programs or services to achieve a 10% reduction in total operating costs. Both the Town and the Academy would be subject to this process.

Conclusion

Westlake is a unique community in the Dallas-Fort Worth metro area. There is a lot of potential for the Town to grow into a thriving community as it expands toward full build-out. Development of its mix of HOA-centric residential areas and commercial spaces has provided significant revenues in the form of permits and use taxes that have generated General Fund reserves. The Town has the potential to provide a mix of property and sales taxes long term. The Town's reliance on sales tax by maintaining one of the lowest property tax rates in the region places a risk for economic volatility – when times are good, sales tax revenues will boom, but when recessions hit, the Town is subject to significant reductions in its highest revenue source.

The Town will need to identify nearly $7 million in ongoing, reliable budget strategies by 2030 if it wants to continue the same types of services it provides today. Economic development will provide some relief for property tax and sales taxes; however, the mix of retailers and properties to generate that level of sustainable revenues long term will press the community into decisions about the character of its residential and commercial spaces into the future.