# BUDGET MESSAGE

August 27, 2020

Dear Mayor & City Council,

Like so many communities, the City of University Park faces unprecedented challenges in the wake of the COVID-19 pandemic. Public health and security are at the forefront of our collective concerns, with cities playing a vital role in responding to the public health crisis. The virus has also created financial uncertainty across all sectors of the economy, municipalities included. Municipal budgets depend on a variety of revenue sources, yet the majority (over 80 percent) of revenues are derived from property taxes, sales taxes, franchise fees and other fines and fees. The virus has placed downward pressure on all of these revenue sources. When coupled with recent legislative changes, the revenue generating capacity of the City of University Park is limited.

Despite these challenges, I am pleased to submit the Fiscal Year 2021 budget for your review and consideration. The FY2021 budget totals $55,229,327 across all budgeted funds, with total budgeted expenditures remaining largely unchanged from the previous year. I am grateful for the work of our department directors who submitted operational budgets that have kept expenditures consistent with the previous year. This budget strategy allows the City to maintain core public services, while providing additional funding for needed infrastructure improvements.

The presentation of the budget to the City Council is the culmination of a process that began in April with the input of proposed expenditures by senior staff, followed by a thorough review and vetting by numerous resident committees throughout the months of July and August.

## FY2021 Budget Summary & Highlights

The budget is a forward-looking document used to allocate financial resources for the provision of core public services. The City of University Park is a full-service, home-rule city that allocates financial resources through the use of fund accounting. The budget is divided into the following four funds that are segmented by the type of service provision:

| Fund | Core Services | Primary Revenue Sources |
|---|---|---|
| General | Police, Fire, Parks, Street Maintenance, Traffic Management, Building Inspections, Library, and General Administration | Property Taxes<br>Sales Taxes<br>Fines & Fees<br>Franchise Fees |
| Utility | Water Distribution & Wastewater Collection | Utility Fees |
| Sanitation | Sanitation (Trash) Collection | Utility Fees |
| Storm Water | Storm water Collection, Street Sweeping, Pond Maintenance | Utility Fees |

Highlights of the FY2021 Budget include the following items:

- Increased funding for capital projects, including reorganizing in-house crews within Public Works to assist with the capital replacement of water and sewer infrastructure;
- Increased funding for public safety, including fully funding pension liabilities;
- Enhanced cyber security and hardening of data networks; and
- Implementation of a user application to track real-time water consumption.

## Property Taxes & Long-Term Financial Planning

While the proposed budget maintains expenditure levels of the prior year, the continuing loss of non-property tax revenue and declining property valuations require a slight tax rate increase to balance the General Fund budget. The City's non-property tax revenues within the General Fund are declining for a second consecutive year. Within the past two fiscal years, the City has experienced an overall decrease in non-property tax revenues of approximately $1 million. During the prior fiscal year, revenues decreased nearly $500,000 due to legislative changes for red light cameras and franchise fees. Due to declining franchise fee collections and declining interest rates, decreases proposed within this fiscal year total in excess of $450,000.

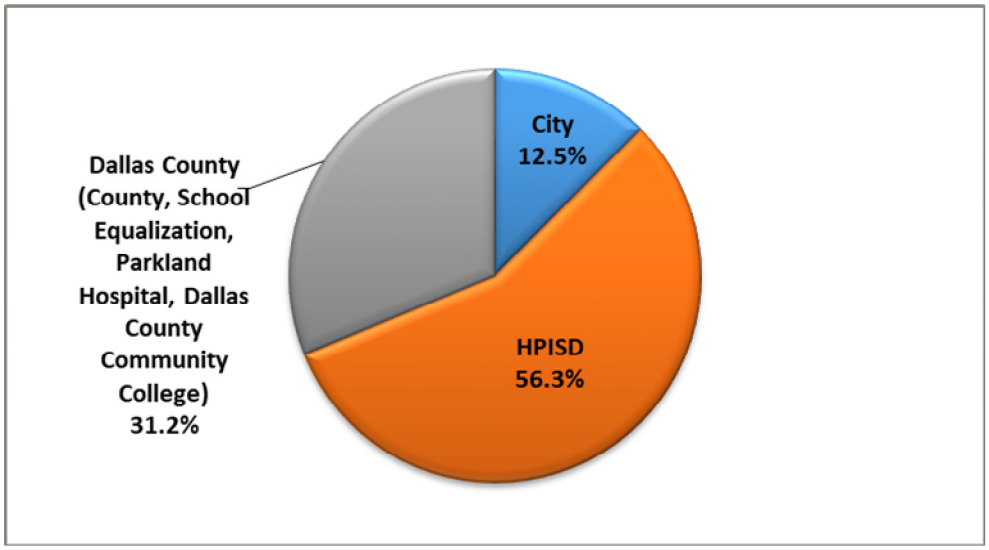
With the passage of SB2 during the 86th Legislative Session, cities have a new set of budgetary guidelines and obligations. The overall impact of SB2 limits property tax growth to no more than 3.5 percent year-to-year without voter approval to exceed. For University Park, this limitation caps revenue growth to no more than $750,000. This is particularly challenging when cumulative losses of non-property tax revenue approach the amount of revenue growth potential in property taxes. Given these realities, expenditure limitation is especially important. In addition to property tax limitations, SB2 redefined longstanding budgetary terms.

> **No New Revenue Tax Rate** – a benchmark tax rate needed to raise the same amount of property taxes on the existing property as the previous year. This was previously known as the Effective Tax Rate.
>
> **Voter Approval Tax Rate** – the rate necessary to raise precisely three and one half percent (3.5%) more tax revenue as the year before taking into account appraisal fluctuations. If a city passes a rate in excess of the Voter Approval Tax Rate, an election is automatically triggered. This was previously known as the Rollback Rate, which was set at eight percent (8%).

The Dallas Central Appraisal District (DCAD) provides the City with both market and taxable property valuations each year. In addition to significant delays in processing due to COVID-19, DCAD received a record number of property protests in 2020. With DCAD's certified taxable values indicating a modest increase of 0.9 percent, the rates necessary to generate revenues equivalent to the prior year have slightly increased. The No New Revenue Rate for FY2021 is $.255517 and the Voter Approval Rate is $.267626.

Based on proposed expenditures and the taxable value of all property in University Park, the FY2021 budget recommends an increase of the tax rate to $0.264750 cents per $100 of taxable value, which is one of the lowest municipal property tax rates in the state. The average single-family homeowner with a homestead exemption will pay approximately $12 more per month in City property taxes. The increase in property taxes is needed to offset the loss of non-property tax revenue and declining tax value of

properties. Despite a small increase to the overall tax rate, the City remains one of the smallest overall percentages of the overall tax bill. When combined with the other taxing entities, the City's portion of the tax bill is just over 12 percent.




The City has undertaken extensive planning to model budgetary needs from a multi-year perspective. Members of the Long-Term Financial Planning Subcommittee (LTFP) began meeting in March 2018 with the goal of reviewing and developing a long-term financial model to supplement the annual budgeting process. Given the importance of annual contributions from ad valorem tax revenue for the City's pay-as-you-go capital program, the model helps guide planning efforts related to available cash flow. The financial model shows projected expenditures and revenue increases over a five-year period.

**CITY OF UNIVERSITY PARK, TX**
**Five Year Financial Plan, Fiscal Years**
**General Fund and Emergency Fund**

| $ in '000's | | 2020 PROJECTED | 2021 BUDGET | 2022 FORECAST | 2023 FORECAST | 2024 FORECAST | 2025 FORECAST |
|---|---|---|---|---|---|---|---|
| **Beginning Fund Balance** | | **27,288** | **28,284** | **28,284** | **28,198** | **28,178** | **28,233** |
| **Revenues** | | | | | | | |
| Real Property Taxes | | 21,354 | 22,291 | 22,937 | 23,739 | 24,570 | 25,430 |
| Sales Tax | A | 4,792 | 4,790 | 4,934 | 5,082 | 5,234 | 5,391 |
| Permits/Licenses | B | 1,829 | 1,692 | 1,726 | 1,760 | 1,796 | 1,831 |
| Interest Earnings | C | 586 | 300 | 212 | 141 | 70 | 71 |
| Other Revenue | B | 4,367 | 4,918 | 5,015 | 5,115 | 5,216 | 5,319 |
| **Total Revenues** | | **32,928** | **33,991** | **34,824** | **35,837** | **36,886** | **38,043** |
| Transfers from Other Funds | | 800 | 800 | 816 | 832 | 849 | 866 |
| **Total Revenues and Transfers In** | | **33,728** | **34,791** | **35,640** | **36,669** | **37,735** | **38,909** |
| **Expenditures** | | | | | | | |
| Salaries and Benefits | D | 22,080 | 23,457 | 24,044 | 24,645 | 25,261 | 25,892 |
| Professional Fees | B | 2,503 | 2,760 | 2,815 | 2,872 | 2,929 | 2,988 |
| Other | | 4,007 | 4,419 | 4,508 | 4,598 | 4,690 | 4,784 |
| **Total Expenditures** | | **28,590** | **30,637** | **31,367** | **32,115** | **32,880** | **33,664** |
| Capital Projects Contribution | E | 3,873 | 4,067 | 4,270 | 4,483 | 4,707 | 4,943 |
| Other Transfers | B | 269 | 87 | 89 | 91 | 93 | 95 |
| **Total Expenditures and Transfers Out** | | **32,732** | **34,791** | **35,726** | **36,689** | **37,680** | **38,701** |
| **Surplus (Deficit)** | | **996** | **0** | **-86** | **-19** | **55** | **207** |
| **Ending Fund Balance** | | **28,284** | **28,284** | **28,198** | **28,178** | **28,233** | **28,441** |
| Non-Spendable/Committed | | 18,322 | 18,322 | 18,322 | 18,322 | 18,322 | 18,322 |
| **Unrestricted Fund Balance** | | 9,963 | 9,963 | 9,876 | 9,857 | 9,912 | 10,119 |
| **Required Minimum Balance Per Policy** | | 2,728 | 2,899 | 2,977 | 3,057 | 3,140 | 3,225 |
| **Excess/(Deficiency)** | | **7,235** | **7,064** | **6,899** | **6,800** | **6,772** | **6,894** |
| **ASSUMPTIONS** | | | | | | | |
| Increase in Taxable Assessed Value | | **3.5%** | **3.5%** | **3.5%** | **3.5%** | **3.5%** | **3.5%** |
| Anticipated Sales Tax Growth | A | **3.0%** | **0.0%** | **3.0%** | **3.0%** | **3.0%** | **3.0%** |
| Anticipated Rate of Inflation | B | **2.5%** | **2.5%** | **2.0%** | **2.0%** | **2.0%** | **2.0%** |
| Anticipated Interest Rate | C | **2.0%** | **1.0%** | **0.8%** | **0.5%** | **0.3%** | **0.3%** |
| Anticipated Salary Increase | D | **3.0%** | **3.0%** | **2.5%** | **2.5%** | **2.5%** | **2.5%** |
| Capital Projects Transfer Growth | E | **5.0%** | **5.0%** | **5.0%** | **5.0%** | **5.0%** | **5.0%** |

## Priorities & the Budget

The City Council, City Manager's Office and Department Directors develop a series of priorities during planned retreats on an every-other-year basis. These retreats provide an opportunity for the Governing Body and Staff to discuss issues facing the community and what actions are necessary to address those issues. The City Council developed Success Factors that are designed to give staff a work plan based on community priorities and objectives. Through the City's operational and capital budgets, the City Council seeks to address the following strategic priorities:

- Successful Commercial Districts
- Well-Maintained Infrastructure
- Excellent Municipal Services and Quality City Staff
- A Safe Community
- A Welcoming Community
- A Well-Planned, Beautiful Community
- Collaborative City Leadership

The annual budgeting process begins each year in April with the submission of operational budget requests from Department Directors. Several items within the operational budgets of each department target the City Council's strategic priorities. All line items within the operational budgets are reviewed and refined throughout the ensuing months by staff within the Finance and Executive Departments. Following the internal review, a final proposed budget is presented to the following resident committees for review and recommendation to the City Council:

- Finance Advisory Committee;
- Employee Benefits Committee;
- Property, Casualty, & Liability Insurance Committee;

The final review process culminates in September with workshops and public hearings with the City Council.

## Budget Schedule

I commend the Department Directors and the various staff members who prepared our operational budgets for their continued efforts to limit discretionary expenditures. The City remains committed to providing exceptional municipal services with prudence and care.

Staff proposes the following schedule to satisfy the public hearing and notice requirements for the FY2021 budget's adoption:

| **Date** | **Day** | **Description** |
|---|---|---|
| August 11 | Tuesday | Approve resolution adopting maximum tax rate |
| August 14 | Friday | Submit proposed draft budget to the City Council and City Secretary |
| August 20 | Thursday | Receive certified appraisal roll from DCAD |
| September 1 | Tuesday | Conduct Budget Hearing |

| | | |
|---|---|---|
| September 15 | Tuesday | Conduct Tax Rate Hearing & Adopt Budget |

The remaining information contained in this budget overview provides greater detail and explanation of the proposed expenditures and revenues within the FY2021 Budget. The following items are included within that information:

- Major Expenditure Analysis
- Fund Balance & Analysis
- Future Considerations

Staff looks forward to meeting with the City Council and advisory committees to discuss the budget in more detail. We will be happy to provide any additional information that will be helpful during your consideration.

Respectfully submitted,

Robbie Corder
City Manager

# MAJOR EXPENDITURE ANALYSIS

Proposed expenditures across all budgeted funds for the next fiscal year total $55,229,327 which is a 0.5% or $296,585 increase from the previous year. The table below compares the total expenditures for the City's four budgeted funds – General, Utility, Sanitation and Storm Water. Three other funds – Capital Projects, Equipment Services and Self-Insurance are not included in the formal budget, because their revenues are generated from the four budgeted funds as transfers.

| Fund | FY2019 Actual Expenditures | FY2020 Adopted Budget | FY2021 Proposed Budget | $ Change | % Change |
|---|---|---|---|---|---|
| General | $ 32,903,022 | $ 34,588,761 | $ 34,790,883 | $ 202,122 | 0.6% |
| Utility | 15,652,767 | 16,448,852 | 16,400,289 | (48,563) | -0.3% |
| Sanitation | 3,101,512 | 3,440,955 | 3,561,553 | 120,598 | 3.5% |
| Storm Water | 286,658 | 454,174 | 476,602 | 22,428 | 4.9% |
| Total | $ 51,943,959 | $ 54,932,742 | $ 55,229,327 | $ 296,585 | 0.5% |

Over 85 percent of expenditures in the proposed budget are attributable to the expenditure categories shown in the table below. Collectively, these expenditures account for over half of the expenditure increase in the FY2021 budget. The financial impact of these six categories is demonstrated in the following table with additional information detailed below.

| Category | FY2019 *ACTUAL* | FY2020 BUDGET | FY2021 BUDGET | Change $ | Change % |
|---|---|---|---|---|---|
| Personnel costs | $ 27,004,714 | $ 29,295,345 | $ 29,189,273 | $ (106,072) | -0.4% |
| Treatment charges | $ 8,061,251 | $ 8,470,637 | $ 8,684,435 | $ 213,798 | 2.5% |
| Capital project funding | $ 6,492,520 | $ 6,817,137 | $ 7,158,014 | $ 340,877 | 5.0% |
| Utilities/Telephone | $ 576,765 | $ 592,403 | $ 585,050 | $ (7,353) | -1.2% |
| Equip. Replacement | $ 1,020,741 | $ 1,099,552 | $ 1,131,843 | $ 32,291 | 2.9% |
| Fuel costs | $ 293,531 | $ 401,326 | $ 332,278 | $ (69,048) | -17.2% |
| **Subtotal** | **$ 43,449,522** | **$ 46,676,400** | **$ 47,080,893** | **$ 404,493** | 0.9% |
| All Other Expenses | $ 8,494,437 | $ 8,256,242 | $ 8,148,434 | $ (107,808) | -1.3% |
| Total adopted budget* | $ 51,943,959 | $ 54,932,642 | $ 55,229,327 | $ 296,685 | 0.5% |
| **Percent of budget** | **84%** | **85%** | **85%** | | |

Over the past year, the Consumer Price Index (CPI) for the Dallas-Fort Worth region has increased 0.4 percent and the Municipal Cost Index (MCI), which more closely tracks services and goods municipalities purchase, decreased 0.2 percent. The MCI is a statistic developed by *American City & County* magazine designed to show the specific effects of inflation on the costs of providing municipal services. It differs from the CPI by including elements common to cities such as health care, fuel and construction materials.

The City's nearly flat expenditure growth of 0.5 percent reflects a consistent increase in costs associated with inflation.

# Personnel Costs

Salaries and benefits represent the single largest expenditure category, accounting for nearly fifty-three percent (53%) of the total budget. The pay plan is formally adopted by ordinance at the time of budget adoption. Each budget year, the City evaluates salaries and benefits throughout the budget process with the Employee Benefits Committee. There are two types of salary adjustments that may occur as part of the adoption of the pay plan. The first is an across-the-board market adjustment to account for increased wages amongst comparable cities and inflationary pressures. The second adjustment is a merit-based increase available to those employees with room within the pay range and meeting performance standards. The proposed changes to salaries and benefits are highlighted below.

**Salaries:** The City completed a classification and compensation study last year to align pay with a set of benchmark cities. The benchmark cities as established by the study include Coppell, Dallas, Farmers Branch, Frisco, Garland, Highland Park, Keller, Plano, Richardson, Southlake and The Colony. The City also adopted a pay philosophy to be at least the average of the market comparison cities to attract and retain the quality staff expected by those we serve.

Overall implementation of the pay plan was completed last year; however, cost constraints resulted in the postponement of all merit-based pay for the FY2020 budget. The proposed budget reinstates the merit-based pay for the upcoming budget year at a cost of approximately $425,000 for all funds. The proposed budget does not include an across-the-board market adjustment or additional personnel.

**Benefits**: The City also offers a comprehensive benefit package to its employees, including insurance, retirement, and longevity pay. The proposed budget for FY2021 includes the following adjustments to employee benefits:

- *Employee Health Insurance:* Health care costs continue to increase with the City experiencing a 7 percent increase in medical claims over a rolling 12-month period. Pharmacy claims have also increased at a rate of 1.1 percent over the same period of time. While overall claims have increased, conservative cost projections within the Self Insurance Fund will result in a budget surplus of approximately $230,000 for the current plan year. Based on input from the City's health insurance consultant and at the recommendation of the Employee Benefits Committee, the proposed budget allocates the expected surplus to next year's estimated plan costs of $4.4 million. By utilizing the surplus from the current plan year, contributions from both the City and its employees can remain the same as last year. Overall, the City maintains a strong fund balance of $7 million within the Self Insurance Fund.

- *Retirement Funding:* In recent years, the City has taken significant steps to secure long-term funding for the City's various retirement plans. For the past two budget cycles, the City has paid above the recommend actuarial contribution to the Texas Municipal Retirement System (TMRS). Based upon these payments and one-time transfers, the retirement plan is 97 percent funded. The FY2021 budget proposes a decreased contribution rate of 8.8 percent, which is the recommended actuarial contribution from TMRS.

The City also increased funding for Fire Department personnel who remain in the Firefighters Relief and Retirement Fund (FRRF) as a result of legislation passed in the 85th Legislative Session. While the plan is currently closed to all new hires, the FRRF plan will remain the primary retirement system for all current retirees and plan members hired before the passage of this legislation. The City has financially guaranteed the current plan with its existing benefit structure, and capped member contributions at ten percent (10%) of gross pay.

Based on the most recent actuarial valuation of the plan, the annual contributions needed to ensure the actuarial funding of the plan is $1.365 million. This results in a net year-over-year increase of $433,000. To assist with the increased costs, the budget recommends a phased approach to funding the increased contributions. The FY2021 budget recommends a transfer of fund balance to cover the full increase of $433,000. In subsequent years, the phased program will reduce fund balance transfers by 20 percent; however, yearly budgeted contributions will be slowly increased up to the full $1.365 million.

# Water & Wastewater Treatment Charges

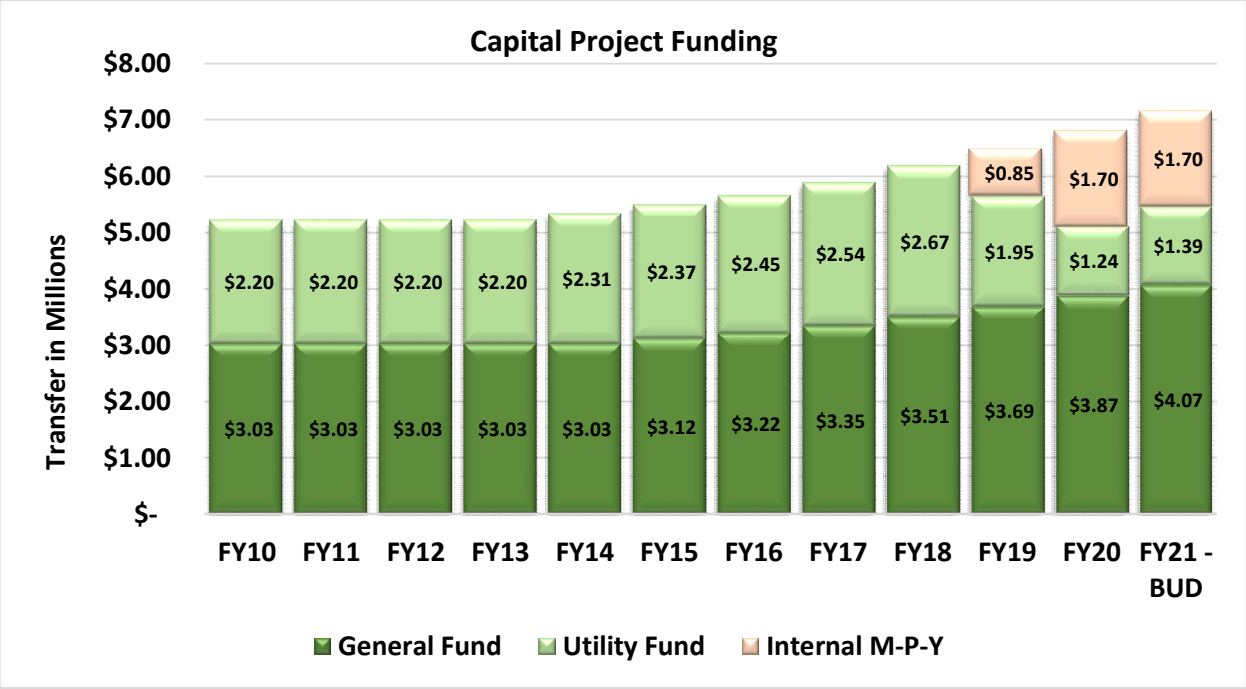
The Dallas County Park Cities Municipal Utility District (DCPCMUD) provides water to the City of University Park and the Town of Highland Park, while wastewater treatment services are provided by the City of Dallas Water Utilities (DWU). The amount budgeted for outside treatment can vary dramatically from the amount actually expended, depending largely on weather and watering patterns. Hotter, drier years tend to result in higher water volumes. Higher volumes in turn may drive an increase in the subsequent year wastewater treatment costs, due to winter averaging.

For FY2021, the combined costs of water and wastewater treatment are expected to increase, with the rates charged to the City by the DCPCMUD for the treatment of potable water decreasing 1.6% and wastewater treatment charges from DWU increasing 7.6 percent. When combined with expected water sales (derived from an average of the previous ten years actual sales volumes) and winter consumption, the decreased rate of $2.47 per 1,000 gallons from DCPCMUD and the increased rate of $3.07 per 1,000 gallons of wastewater treated from DWU will result in a combined gross cost increase of $213,798.

# Capital Expenditures

The proposed budget continues the tradition of funding capital projects for public works, technology, public safety and parks through a pay-as-you-go system. The City established a separate Capital Projects Fund that receives annual transfers from the General Fund and Utility Fund. Since the adoption of the FY15 budget, the City has steadily increased the General Fund transfer into the Capital Projects Fund by 5 percent annually. However, the City increased the overall percentage of funding to the Capital Projects Fund by 11 percent last year. This increase was to assist with funding shortfalls identified in the five-year Capital Improvement Program. The FY2021 budget recommends returning to a 5 percent increase in budgeted transfers into the Capital Projects Funds for a total transfer of $5.46 million.

The Utility Fund will retain $1.7 million to assist with the transition to an in-house water and sewer operations division.




The Capital Projects Review Committee is responsible for reviewing proposed projects and recommending an annual capital budget and five-year Capital Improvement Program (CIP) to the City Council. Each year, staff and the Capital Projects Review Committee review the status of ongoing projects, and prioritize future projects on a funding schedule. The City Council approves the capital budget in October of each year through separate action to this budget. Recommended changes to the capital budget must be reviewed by the Capital Projects Review Committee before authorization by the City Council.

The Capital Projects Fund has funded traditional capital maintenance items such as the City's mill and overlay program for city streets, water/sewer main replacement in alleys, and park enhancements. In addition, the Capital Projects Fund allocates funds for specialized projects such as the public safety radio replacement, Snider Plaza utility improvements, and Miracle Mile improvements. The City continues to spend considerable resources to better understand the extent of needed improvements to the City storm water system. The scale of needed improvements is exceedingly large, with an estimated cost of approximately $45 million just to address the northeast portion of University Park. As a planning tool, the City's 5-year capital improvement program helps identify resources and potential projects. The following table representing the current FY2020 Capital Budget clearly shows insufficient financial resources to address the infrastructure needs of the City. Advance planning, prioritization, and diversification of financial resources (fund balance and/or debt) will be undertaken with the Capital Projects Review Committee, Finance Advisory Committee, and City Council.

| AFTER APPROPRIATIONS ROLLOVER | FY2020 YEAR-TO-DATE ACTUAL RESULTS | FY2020 YEAR 1 AMENDED BUDGET | FY2021 YEAR 2 ESTIMATED SPENDING | FY2022 YEAR 3 ESTIMATED SPENDING | FY2023 YEAR 4 ESTIMATED SPENDING | FY2024 YEAR 5 ESTIMATED SPENDING | 5 YEAR TOTAL FY2020 - FY2024 |
|---|---|---|---|---|---|---|---|
| **Beginning Balance** | **8,655,354** | **8,655,354** | **(3,749,301)** | **(10,853,553)** | **(19,543,352)** | **(20,780,355)** | **8,655,354** |
| Revenues | | | | | | | |
| Transfer from General Fund | 1,028,713 | 3,872,859 | 4,066,502 | 4,269,827 | 4,483,318 | 4,707,484 | 21,399,991 |
| Transfer from Utility Fund | 488,523 | 1,244,297 | 541,512 | 696,088 | 853,392 | 1,023,812 | 4,359,101 |
| Other | - | | | | | | - |
| Investment income | 32,601 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 1,000,000 |
| | | | | | | | - |
| Other Revenues -DART | - | *4,017,832* | *1,951,734* | *2,010,286* | 2,010,286 | 2,010,286 | 12,000,424 |
| Other Revenues -DART OLD | | 138,000 | - | - | - | - | 138,000 |
| Other Revenues -HPISD | - | - | - | - | - | - | - |
| Other Revenues - DC/MCIP Reimbursement | - | | 1,700,000 | 1,375,000 | 2,000,000 | 2,000,000 | 7,075,000 |
| Other Revenues - Building Permit Transfer | - | | | | | | - |
| Other Revenues - Revenue Transfers | | 250,000 | - | - | - | - | 250,000 |
| **Total Revenues** | **1,549,837** | **9,722,988** | **8,459,748** | **8,551,201** | **9,546,996** | **9,941,582** | **46,222,516** |
| **Total Available Resources** | **10,205,191** | **18,378,342** | **4,710,447** | **(2,302,352)** | **(9,996,355)** | **(10,838,773)** | **54,877,870** |
| Expenditures | | | | | | | |
| Personnel and Other | 0 | 0 | 0 | 0 | 0 | 0 | - |
| Information Technology | 32,419 | 603,852 | 472,000 | 0 | 0 | 0 | 1,075,852 |
| Parks | 331,177 | 1,346,950 | 400,000 | 0 | 0 | 0 | 1,746,950 |
| Public Safety | 3,225 | 852,425 | 100,000 | 1,300,000 | 0 | 0 | 2,252,425 |
| Public Works | 5,033,152 | 19,024,416 | 14,292,000 | 15,641,000 | 10,484,000 | 5,526,000 | 64,967,416 |
| Unplanned Proj/Emergency Repairs | *300,000* | *300,000* | *300,000* | *300,000* | *300,000* | *300,000* | 1,500,000 |
| Project expenditures | 5,699,973 | 22,127,643 | 15,564,000 | 17,241,000 | 10,784,000 | 5,826,000 | 71,542,643 |
| **Total Expenditures** | **5,699,973** | **22,127,643** | **15,564,000** | **17,241,000** | **10,784,000** | **5,826,000** | **71,542,643** |
| **Ending Balance** | **4,505,218** | **(3,749,301)** | **(10,853,553)** | **(19,543,352)** | **(20,780,355)** | **(16,664,773)** | **(16,664,773)** |
| EMERGENCY RESERVE | **1,800,000** | **1,800,000** | **2,100,000** | **2,400,000** | **2,700,000** | **3,000,000** | **3,000,000** |
| STORMWATER PROJECTS RESERVE | **3,000,000** | **500,000** | **500,000** | **3,500,000** | **6,500,000** | **6,500,000** | **6,500,000** |
| PUBLIC SAFETY RADIO RESERVE | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **RESERVE ADJUSTED BALANCE** | **9,305,218** | **(1,449,301)** | **(8,253,553)** | **(13,643,352)** | **(11,580,355)** | **(7,164,773)** | **(7,164,773)** |

# Equipment Replacement, Fuel & Electricity

The City has established a sinking fund for all new and replacement vehicles. Each department incurs yearly expenditures based on the depreciation schedule of the vehicles in its fleet. Once a vehicle is scheduled for replacement, the contributions made by the department are available within the fund to purchase a new vehicle. Contributions to the Equipment Services Fund will increase by $32,291 this fiscal year, to a total budgeted amount of $1,131,843.

The proposed budget continues a new policy for vehicle replacement funding so that the fund balance maintains a minimum level of no less than 20 to 25 percent of the current replacement value of the City's entire fleet. To ensure future purchases are adequately funded through the expected life cycle, departmental fees for the annual depreciation of vehicles are set to 105 percent of the vehicle cost. This will ensure that adequate funding will be in place at the time of future vehicle purchases.

Vehicles and equipment anticipated to be replaced in FY2021 are as follows:

| Unit # | Dept | YR | Make | Model | Estimated Service Life | Estimated Replacement Cost |
|---|---|---|---|---|---|---|
| 7089 | 22 | 2009 | CHEVROLET | C-3500 | 10 | $ 50,000 |
| 6708 | 35 | 2005 | FORD | F-450 | 15 | 30,000 |
| 6957 | 40 | 2007 | CHEVROLET | SUBURBAN | 14 | 60,000 |
| 1576 | 50 | 2016 | CHEVROLET | TAHOE | 5 | 60,000 |
| 1577 | 50 | 2016 | CHEVROLET | TAHOE | 5 | 60,000 |
| 1578 | 50 | 2016 | CHEVROLET | TAHOE | 5 | 60,000 |
| 7123 | 60 | 2010 | FREIGHTLINER | M2102 | 10 | 180,000 |
| | | | | | | $ 500,000 |

Note: Not all items will be replaced with identical models/features.

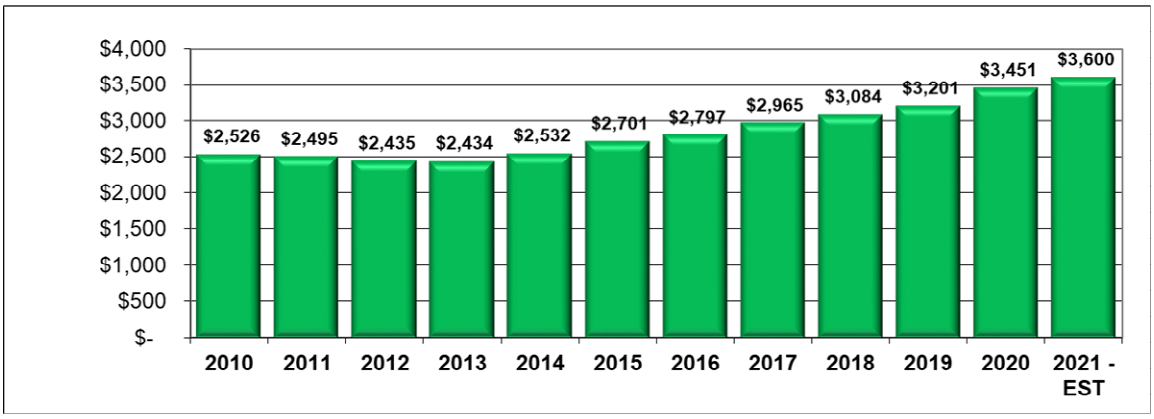
The City's fuel costs are expected to decrease this year. Last year, the City budgeted fuel costs at a rate of $2.75 per gallon of gasoline and $3.29 for diesel in accordance with U.S. Energy Information Administration (EIA) estimates. Using the new EIA estimates of $2.23 and $2.59 for gasoline and diesel respectively, budgeted fuel expenditures are expected to decrease $69,408 (17.4%) this fiscal year to a total budgeted cost of $332,278.

The proposed budget also provides for a slight increase in the overall costs of utility services (electric, gas, water and certain phone services) provided to City facilities. By far the largest driver of this cost category is electricity, which the City purchases through participation in the Texas Coalition for Affordable Power (TCAP), which is a pool of cities that aggregate power needs to negotiate better electric prices for its members. Overall, the City anticipates a 1.2 percent decrease to budgeted utility costs, decreasing cost from the previous year by $7,353.

# General Fund

Fund balance within the General Fund follows a predictable cash flow with receipts from property taxes coming in at the beginning of each calendar year. As the primary revenue source for the General Fund, the FY2021 budget anticipates revenues from current year property tax totaling $22,160,883. Additional details of major revenue sources for the General Fund are provided below.

**Property Tax:** The FY2021 budget recommends a 2.4 percent increase in the property tax rate to 26.4750 cents (per hundred dollars of value) from 25.8548 cents the previous year. Combined with a 0.9 percent growth in city-wide taxable property value, the corresponding increase in property tax revenue is 3.3 percent, or $711,122. The average single-family property with a 20 percent homestead exemption will pay $3,600 in property taxes to the City next fiscal year, an annual increase of $149. The following table provides a historical perspective of property taxes related to the average single-family property.




**Truth in Taxation:** The Texas Tax Code requires the calculation of a No New Revenue Rate (NNRR), which represents a calculated tax rate that would produce the same amount of taxes if applied to the same properties taxed in both years. The City's tax collector, the Dallas County Tax Office (DCTO), performs the NNRR calculation. The NNRR is significant, because it determines the notice and hearing requirements a City must meet to comply with the Texas Truth in Taxation laws.

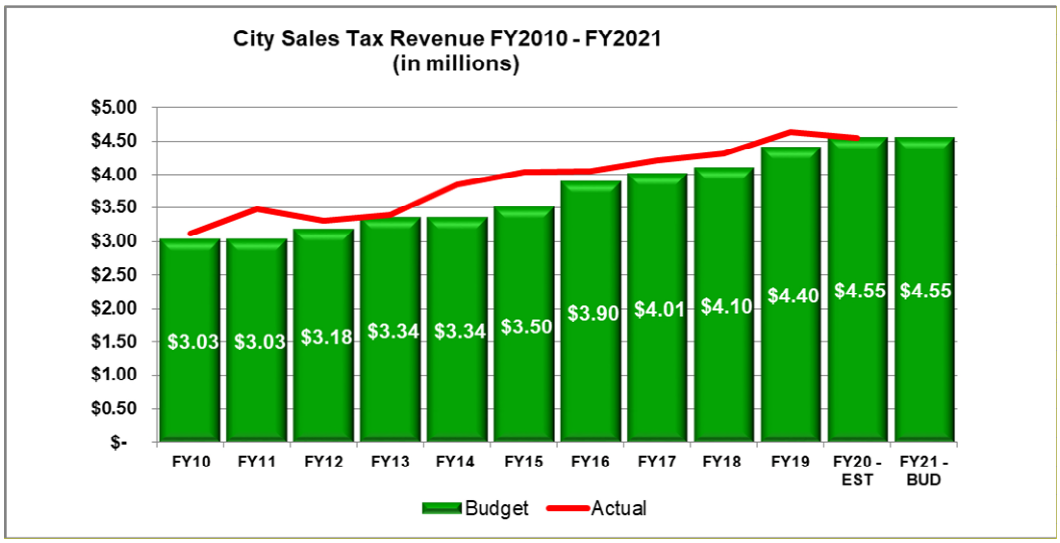
For FY2021, the proposed tax rate of 26.4750 cents per hundred is higher than the NNRR of 25.5517 cents; therefore, the City is required to conduct one public hearing before adopting the FY2021 tax rate.

Revenues that support the General Fund that are derived from sources other than current year property taxes (and related amounts) account for 36 percent or $12,500,000 of the General Fund's revenues. These revenues are derived from a variety of sources, and a brief overview of these revenues is provided in the charts and graphs below. The downward trend of non-property tax revenue is contributing to the increased reliance upon property taxes for General Fund operations and maintenance.

**Sales Tax:** Revenue collected from City sales taxes has steadily risen for the last several years. However, the long-term impact of the COVID-19 virus on retail sales is unknown, with online sales

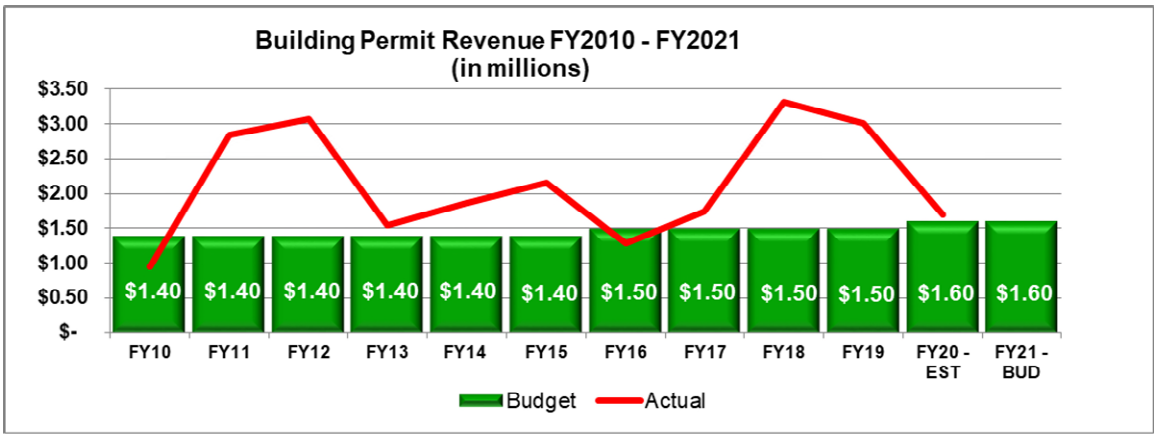
increasing as traditional "brick and mortar" sales have declined. Based on sales tax collections during the virus outbreak, the City has projected sales tax to remain the same as the previous year with anticipated revenues of $4,790,000.

The potential loss of traditional brick and mortar sales highlights the need to invest in infrastructure projects that help improve vitality within the traditional retail shopping centers of University Park. Investment in the public spaces of these shopping centers may include expanded parking, improved pedestrian mobility, and enhanced landscaping. Improvements to the Miracle Mile (Lovers Lane from Douglas to the Tollway) and Snider Plaza highlight this approach to investing in retail centers.




**Building Permits:** A number of factors can cause the revenue from building permits to fluctuate from year-to-year. Generally, the City receives most of its permit revenue from residential construction. When the local economy supports a strong construction market, the City will typically issue over 100 new single-family home permits in a year, and permit revenues exceed budgeted amounts. Since 2014, the City has seen a year-to-year decrease in the number of new single-family construction starts, with just under 70 permits issued last year. However, the loss of permit revenue from residential construction has been offset by commercial construction projects on the campuses of Southern Methodist University (SMU), HPISD, and various churches.

As the table below indicates, the City selects a middle-of-the-road revenue projection for building permits to account for the fluctuation in construction activity. The FY2021 budget continues this practice, with anticipated revenues remaining at $1.6 million. According to the City's financial policies, revenues that exceed 120 percent of budget are directed into the Capital Improvement Funds. Since adopting this policy, the Capital Projects Fund has received $2.7 million in transfers from excess building permit revenue.



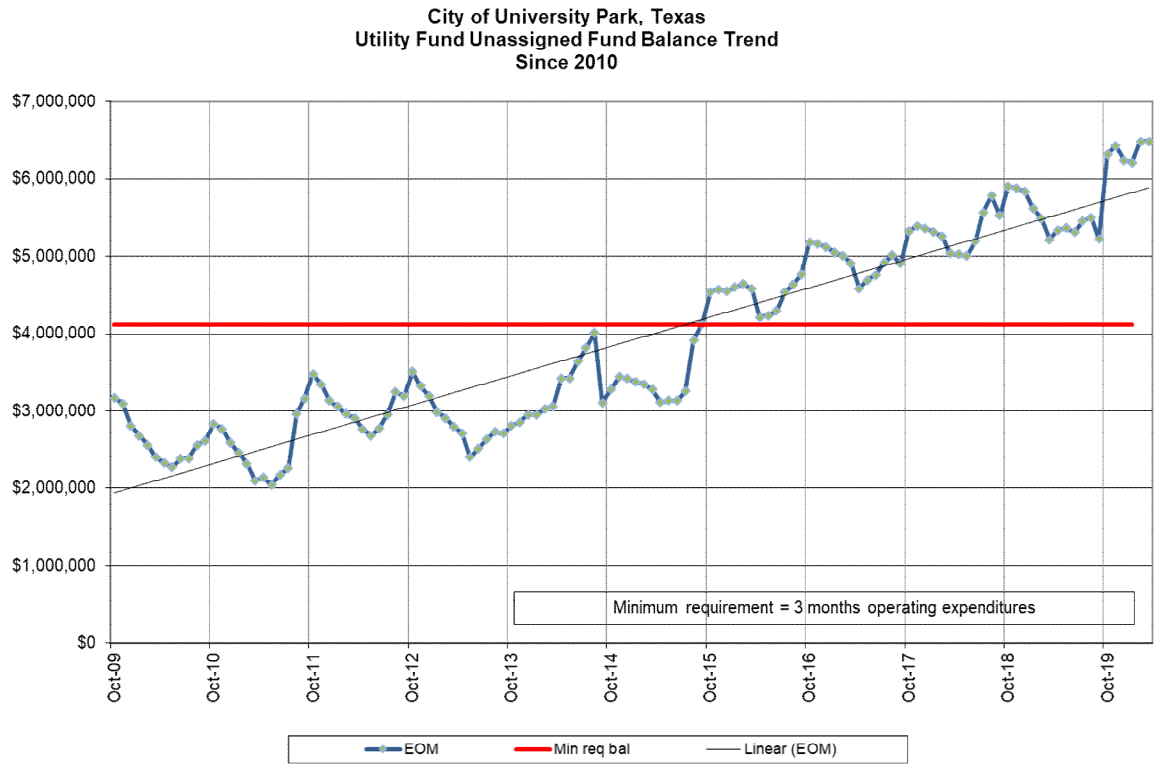

**Franchise Fees:** Cities collect fees for the use of municipal right-of-way from utility companies such as Atmos, AT&T, and Charter. These fees are established through a franchise agreement either at the local or state level. The FY2021 budget includes a revenue projection of $1.88 million for all franchise fees, a $65,000 decrease from the previous year. Recent historical trends support this reduction, and future budgets will continue to experience this downward trend.

There are a number factors that help explain the decline of franchise revenue. While utility-based revenues remain mostly consistent, as the market presents alternatives to traditional services for television and data consumption, revenues from the traditional providers may vary. Similarly, the electrical consumption marketplace has seen a variety of cost-saving applications for consumers, which take advantage of the lowest rate provided by retail electric companies. Lastly, the City has experienced reductions in franchise fees as a result of recent legislative changes that modified the formula for telecommunications franchises.

# Utility Fund

Despite the increased operational costs of providing potable water and wastewater collection, the FY2021 budget does not propose any rate increases for the upcoming year. The Utility Fund will continue to experience upward expenditure pressure to maintain the City's goal of replacing a mile-per-year of water and sanitary sewer mains. Given these cost drivers, and the addition of significant staffing levels to bring water and sewer replacement in-house, future consideration will be given to rate increases above and beyond the pass-through increases expected from DCPCMUD and DWU.

Since utility revenues and expenditures are so heavily volume dependent and may change dramatically from one year to the next, the Utility Fund balance shows an operational surplus of $59,011 for FY2021. As staff monitors revenues and expenditures, the City Council may consider a mid-year rate increase or the use of existing fund balance if water sales do not meet expected volumes.

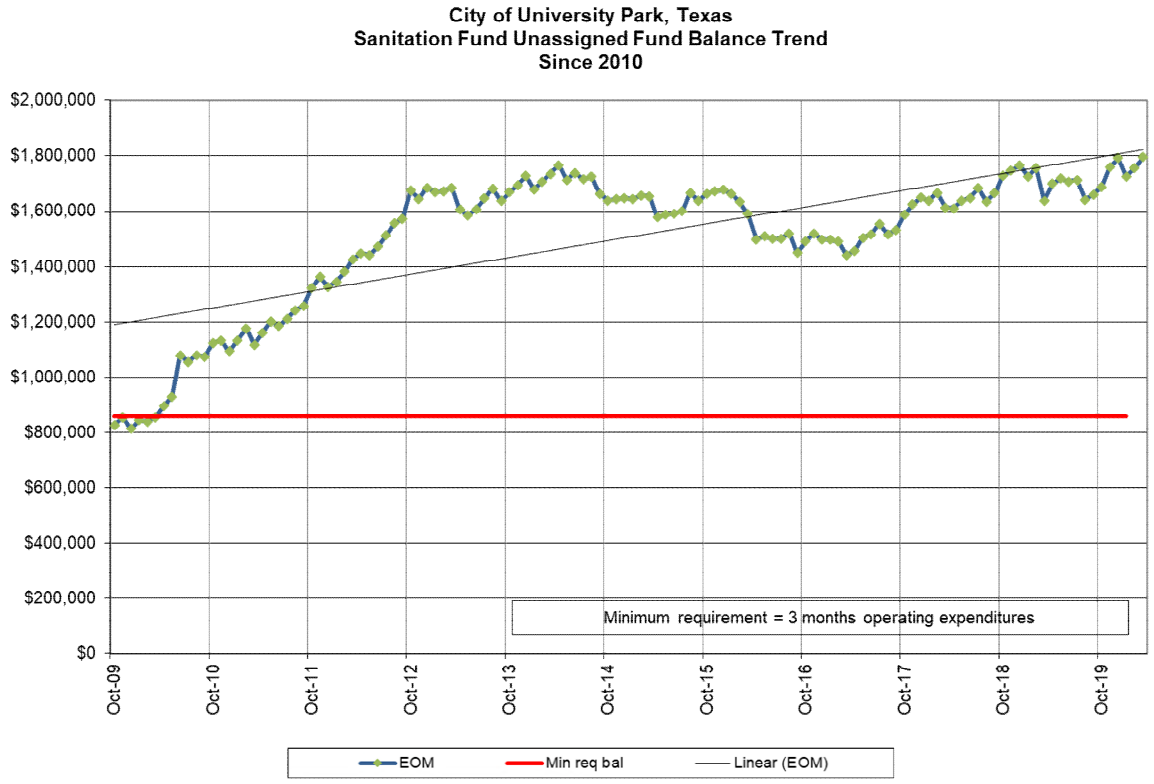



# Sanitation Fund

The City created the Sanitation Fund in 1994 to remove expenditures for the collection of solid waste from the General Fund. The Sanitation Fund has struggled to maintain a positive cash flow in the recent and distant past, factoring out the reserves. The City currently has an operating agreement for landfill services with the City of Garland that provides a credit to the City of University Park against market-based tipping fees at the landfill. This credit is set to expire in 2027, which will result in significant increases to landfill tipping fees.

To help alleviate the expected increase in these fees, the operating budget for the Sanitation Division includes a $110,000 contingency line item to help with the overall fund balance and assist with the eventual transition to market-based fees. While these costs are expected in the future, the Sanitation Division continues to experience annual operational cost increases. The FY2021 recommends a fee increase of 5 percent to all sanitation fees to offset the increased costs of tipping fees ($50,000), recycling fees ($65,000), and personnel expenses ($37,000). This is the first year the City will be charged a fee by recycling vendors for recyclable goods.

Based on a recommendation of the Long-Term Financial Planning Subcommittee, the City created a new transfer within the FY2020 Sanitation Division budget. The new transfer from the Sanitation Fund to the Utility Fund operates much like a franchise fee; whereby the Sanitation Division provides payment to the Utility Fund for utilization of streets and alleys. The proposed transfer in the FY2021 budget remains $30,000, with the ultimate goal of phasing in a maximum transfer of $150,000. To minimize the fee increase for the FY2021 budget, the transfer amount is remaining the same from the previous year.




# Storm Water Fund

The Storm Water fund derives its revenue from a line item on monthly utility bills based on the zoning district of the property owner. The fees that are directed to this fund are dedicated to pay for projects and operational expenses directly related to the City's storm water system. The fees pay for ongoing street sweeping and pond dredging.

The City's Storm Water Master Plan has identified major deficiencies in the City's storm water capacity, especially in the northeast portion of University Park. The estimated cost for the needed improvements in this portion of University Park is in excess of $45 million. Construction is currently underway in Caruth Park of an underground detention basin, which will hold 3.5 million gallons of storm water runoff. The Caruth Park project is the first of a three-phased storm water project to address flash flooding in this area. The City is currently designing the second and third phase of the project that will include significant storm water capacity improvements to Southwestern, Hillcrest, and Airline.

All potential improvements to the storm sewer system will be reviewed and funded through the Capital Projects Fund; however, future increases to storm water fees should be considered to allow for additional transfers to the Capital Projects Fund from the Storm Water Fund. Alternatively, the City may consider debt against the revenues of the Storm Water Fund to pay for the capital improvements to the system.

# FUTURE CONSIDERATIONS

The proposed FY2021 budget provides the funding needed to continue the outstanding services that enhance the public health, safety and welfare of University Park residents. However, several of the items discussed in this memo will span beyond the limitations of a fiscal year, and future consideration must be given beyond the FY2021 budget. The following items represent a quick overview of these issues:

- *Infrastructure Funding: The City has undertaken several planning efforts in three critical areas of the City: Snider Plaza, Miracle Mile, and the northeast drainage basins. The planning efforts have sought to build consensus around long-term goals and overall project scope. Collectively, these projects will take up the majority of funding resources identified in the City's five-year Capital Improvement Program (CIP). When the financial needs of these three large projects are combined with other capital needs such as the ongoing responsibilities of the mile-per-year replacement of water and sewer lines, technology upgrades, public safety enhancements, and various park improvements, the long-term sustainability of a pay-as-you-go financing plan is in doubt. This becomes especially true when taking a long-term approach to addressing the storm water issues throughout the remainder of the City. For example, with an overall project cost of $5 million, the Caruth Park drainage project represents only a small fraction (10 percent) of the funding needed to address drainage in the northeast portions of University Park.*

  *Meeting the infrastructure needs of the City will require a critical analysis of the pay-as-you-go financing program and the use of existing fund balances to meet the infrastructure needs of the City. Prior to the outbreak of the COVID-19 pandemic, a sub-committee comprised of citizens from the Finance Advisory Committee and Capital Projects Review Committee recommended the use of debt specific to the storm water projects. The Finance Advisory Committee formally adopted this recommendation, with an additional recommendation to secure any debt (certificates of obligation) against future fee increases in the Storm Water Fund. The City Council has not discussed the recommendation from the Finance Advisory Committee.*

- *Non-Property Tax Revenue: One of the subplots of the past two budget cycles has been the overall decline in revenue from non-property tax sources – franchise fees, red light cameras, investment income, and library operational contributions from the Friends of the Library. The FY2021 budget projects non-property tax revenue totaling $12,500,000, which is an overall two –year decline of $664,000. The loss of non-property tax revenue can be addressed through two approaches: expenditure reductions or additional property taxes. The last two budgets have highlighted a combined approach to the declining revenues. With upward pressure on capital project funding and personnel expenditures, the operational departments have taken steps to reduce expenditures where possible. Unfortunately, the decline in non-property tax revenue is likely to continue its downward trend as interest rates remain low, changes in consumer behavior negatively affect franchise fees, and contributions for the Library continue to decrease. Further complicating the revenue picture is the unknown, long-term impact of COVID-19 on sales tax. While the pandemic has created uncertainty for traditional retail, the opportunity for sales tax growth through investment in the City's retail shopping centers could provide a boost to brick and mortar businesses. This investment is needed to address aging below-ground and above-ground infrastructure within the public spaces of these shopping centers.*

- *Recycling: The City has successfully operated a single-stream recycling program since 1995. Over the years, the program has been expanded to maximize the amount of waste diverted from the landfill to a recycling center. This has helped the bottom line of the Sanitation Fund, and it has provided residents and businesses with an environmentally friendly waste program. However, the recycling markets have undergone tremendous contraction within the past few years. Overall demand for recycled goods such as glass, paper, and certain types of plastics has dropped, with the international markets now rejecting these items. Consequently, the City has been forced to renegotiate contracts with its recycling vendors to address these market adjustments. The City's contracts have evolved in the wrong direction from vendors offering revenue sharing programs for recycled good to offering recycling services at no cost without revenue sharing to now charging the City to take recyclable items. For the first time since the City created a recycling program, the City will pay a vendor for recycling. The Public Works Advisory Committee will evaluate the City's recycling program and offer the City Council options for moving the City's recycling program.*