

# TRANSMITTAL LETTER



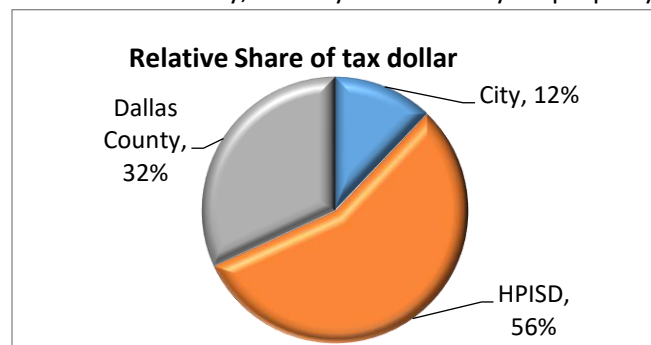
August 31, 2018

Dear Honorable Mayor and Members of the City Council,

I am pleased to present the proposed budget for Fiscal Year 2019 (FY19), which is the period October 1, 2018 – September 30, 2019. The FY19 budget totals \$53,099,375 across all budgeted funds, which represents a 4.3% increase from the prior year. Primarily, the budget is a financial document that outlines operational services and programs, but it is also a policy statement that identifies how resources are invested to meet community priorities and objectives.

The overall economic condition of the Dallas-Fort Worth metropolitan area continues to experience expansion. Indicators in the labor market show decreased unemployment, with growth across multiple sectors. While the overall housing market has shown leveling off sales, inventories of existing homes are still less than three months. A strong DFW economy benefits the economic conditions in University Park, especially in the housing market. Compared with the previous fiscal year, the housing market in University Park has experienced a slight rebound in values, with the overall taxable value of properties as assessed by the Dallas Central Appraisal District (DCAD) increasing 6.7% compared to last year's 2.19%. Given the increase in values and strong performance of other revenues, the FY19 budget recommends a decrease in the tax rate to 24.5379 cents per \$100 of taxable value. Based on this proposed rate, the average single-family homeowner with a homestead exemption will pay \$117 more annually in City property taxes – less than \$10 more per month.

Each year, the budgetary challenge is to provide a sustainable funding plan within a fiscally conservative framework. Since University Park is primarily a residential community, the City relies heavily on property taxes to fund essential services. Despite this dependence, City property taxes account for only 12 cents of every tax dollar collected, which is below the statewide average for municipalities. The proposed FY19 budget maintains this prudent approach, while providing necessary investment within the community. Consistent with the previous fiscal year, the proposed FY19 budget emphasizes investment in people, infrastructure and services.



## People

The City's workforce provides services related to public safety, waste disposal, water, sewer, roads and parks. Salaries and benefits of the City's personnel represent the single largest expenditure item within the budget, representing nearly 51% of all expenditures across all budgeted funds. To recruit and retain the most professional and dedicated public servants, the City must offer a competitive salary and benefit package commensurate to other area cities in the Dallas-Fort Worth area. While considerable details are provided later in this report, specific investments identified within the FY19 budget concerning the City's workforce include:

- Market-based adjustment of 1% for all City personnel, with position-specific adjustments to some public safety personnel;
- Additional funding for the Firefighter Relief & Retirement Fund;
- Additional funding for ad hoc Updated Service Credits (USC) and Cost of Living Adjustments (COLA) to the Texas Municipal Retirement System (TMRS);
- The addition of a 911/311 Dispatcher in the Communications Division of the Police Department; and
- A three year phased-in hiring strategy to add the necessary personnel within the Utility Fund to begin in-house capital replacement of water and sewer infrastructure.

## Infrastructure

The City maintains a variety of infrastructure and assets, some of which date back to the City's incorporation in 1924. Since retiring its debt in 2002, the City has been able to fund a Capital Improvement Program (CIP) based on a pay-as-you-go system. Without the added costs associated with debt, the City is better equipped to plan for major capital improvements to the City's water and sewer system, parks and roads. Capital projects are funded by annual transfers from the General Fund and Utility Fund into the City's Capital Projects Fund. The FY19 budget proposes transfers totaling \$5.6 million to the Capital Projects fund. While this represents a 5% increase in transfers from the General Fund (from \$3.5 to \$3.7 million), the budgeted transfer from the Utility Fund has been shifted by \$850,000 to cover the first year cost of the in-house mile-per-year water and sewer replacement program. Based on available resources from this type of capital investment, the following capital projects are anticipated in the upcoming fiscal year:

- Mile-per-Year Water & Sewer Replacement;
- Upgrades to the City's undersized storm sewer system;
- Comprehensive infrastructure investment in the retail shopping centers; and
- Replacement of the public safety radio system.

## Service

Essential public services, ongoing care for existing City facilities and the day-to-day operations of the various City departments provide a wide array of services that contribute to the high quality of life for residents in University Park. Maintaining this quality of life requires investment in materials, supplies, training, technology and equipment to ensure efficient and effective operations. The proposed FY19 budget provides the investment needed to ensure residents receive services that offer a unique, value-added experience. Examples of items funded in this budget that allow employees to provide a high level of service to residents include the following items:

Item	Number of Units	Expenditure	Department
Stop Signs	60	\$3,000	Traffic
Books & Resources	6,000	\$95,000	Library
Bunker Gear	18	\$49,000	Fire
Handguns	50	\$8,500	Police
Hamburgers	1,900	\$2,400	Swimming Pool
Desktop Computers	32	\$68,500	IT
Recycling Containers	400	\$10,000	Sanitation
Rebar	32 miles	\$40,000	Public Works
Construction Site Identification Signs	200	\$6,000	Community Development

## Budgetary & Strategic Planning Process

The City Council, City Manager's Office and Department Directors develop a series of strategic initiatives during an annual retreat. The retreat provides an opportunity for the Governing Body and Staff to discuss issues facing the community and what actions are necessary to address those issues. The strategic initiatives are designed to give staff a work plan based on community priorities and objectives.

The annual budgeting process provides the funding to accomplish the objectives of those initiatives. The objectives listed below have been placed in one of four categories: Capital Investment, Operational, Communications and Planning.

### Capital Investment

1. Commence Snider Plaza improvement program
2. Complete the update of the public safety radio system
3. Complete Phase II design for the Holmes Aquatics Center

### Operational

1. Develop and implement improvements to the Code Enforcement program

2. Remove unsightly or unnecessary signs
3. Consider improvements to restrooms in City parks

### **Communications**

1. Enhance communication with residents (especially for required public notifications)
2. Develop a strategy for the upcoming legislative session

### **Planning**

1. Develop a storm water/flood control improvement plan
2. Complete the zoning ordinance update
3. Initiate a Master Plan update
4. Develop a plan for Miracle Mile revitalization
5. Develop a list of comparable cities for benchmarking/comparative analysis purposes
6. Create a plan for improvements at the Peek Service Center
7. Develop a long-term financial plan

The annual budgeting process begins each year in April with the submission of operational budget requests from Department Directors. 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 citizen committees for review and recommendation to the City Council:

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

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

## **Conclusion**

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

The proposed budget is now ready for review by the Finance Advisory Committee. Staff proposes the following schedule to satisfy the public hearing and notice requirements for the FY2019 budget's adoption.

<b>Date</b>	<b>Day</b>	<b>Description</b>
August 10	Friday	Submit proposed budget to the City Council and City Secretary and set public hearing dates for budget review.
August 21	Tuesday	Hold first public hearing on maximum tax rate.

September 4	Tuesday	Hold second public hearing on maximum tax rate and hold first public hearing on proposed budget.
September 18	Tuesday	Continue public hearing on proposed budget.
September 18	Tuesday	Adopt budget and related ordinance to take effect October 1.

The remaining information contained in this budget overview provides greater detail and explanation of the proposed expenditures and revenues within the FY19 Budget. The following items are included within that information:

- Major Expenditure Analysis
- Fund 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 \$53,099,375, which is a 4.3% 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.

Fund	FY2017 Actual Expenditures	FY2018 Adopted Budget	FY2019 Proposed Budget	\$ Change	% Change
General	\$ 33,736,809	\$ 31,416,105	\$ 33,133,450	\$ 1,717,345	5.5%
Utility	15,182,656	15,874,252	16,270,074	395,822	2.5%
Sanitation	3,127,007	3,153,552	3,195,825	42,273	1.3%
Storm Water	176,504	450,000	500,026	50,026	11.1%
Total	\$ 52,222,976	\$ 50,893,909	\$ 53,099,375	\$ 2,205,466	4.3%

Over eighty percent (80%) of expenditures in the proposed budget are attributable to the expenditure categories shown in the table below. Collectively, these expenditures account for over ninety percent (90%) of the increase in the FY2019 budget. The financial impact of these six categories is demonstrated in the following table with additional information detailed below.

Major expenditure categories comparison					
Category	FY2017 BUDGET	FY2018 BUDGET	FY2019 BUDGET	Change \$	Change %
Personnel costs	\$ 24,956,834	\$ 25,579,235	\$ 27,032,970	\$ 1,453,735	5.7%
Treatment charges	8,028,445	8,116,852	8,266,164	149,312	1.8%
Capital project funding	5,888,916	6,183,362	6,492,530	309,168	5.0%
Utilities	1,065,662	878,571	863,247	(15,324)	-1.7%
Equip. Replacement	878,725	920,465	1,020,741	100,276	10.9%
Fuel costs	362,996	370,860	386,015	15,155	4.1%
Subtotal	\$ 41,181,578	\$ 42,049,345	\$ 44,061,667	\$ 2,012,322	4.8%
Total adopted budget*	\$ 50,266,924	\$ 50,893,909	\$ 53,099,375	\$ 2,205,466	4.3%
Percent of budget	81.9%	82.6%	83.0%		

\* - General, Utility, Sanitation and Storm Water Funds (Budgeted Funds).

Over the past year, the Consumer Price Index (CPI) for the Dallas-Fort Worth region has increased 3.9% and the Municipal Price Index (MCI), which more closely tracks services and goods a municipality purchases, increased 3.6%. 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 overall expenditure increase of 4.3% reflects these rising costs for goods and materials.

## Personnel Costs

Salaries and benefits represent the single largest expenditure category, accounting for nearly fifty-one percent (51%) of the total budget. Additional details related to personnel costs are detailed below.

**New Full-time Positions:** The FY19 budget includes funding for one additional position related to public safety. In addition, the budget outlines the creation of a new division within the Public Works Department dedicated to capital replacement of water and sewer infrastructure. This new division is scheduled for six additional positions. Details and costs of the new positions are provided in the following table.

Position Title	Annual Cost	Background
911/311 Dispatcher	\$73,361	<p>The City's 911 Dispatchers answer more than 30,000 emergency phone calls each year. Efforts are made to schedule two 911 Dispatchers on duty whenever possible. However, current staffing levels do not allow for the scheduling of two Dispatchers during each shift. Small events, such as the shooting off of fireworks in the early morning hours, overwhelm the Dispatch Center if only one Dispatcher is on duty. This can result in 911 calls going unanswered.</p> <p>The City added a Dispatcher position in the FY18 budget, and with the additional Dispatch position in this proposed budget, the City will be able to schedule two Dispatchers on every shift.</p>
Six additional positions for the in-house MPY	\$332,916	Over the course of the past year, various citizen committees have worked with staff to study the potential of adding new personnel within the Utility Fund to bring the water and sewer capital improvements program in-house. Since the inception of the City's Mile-per-Year program as identified in the 1989 Master Plan, the City has systematically programmed funding with the Capital Projects Fund. This program has traditionally been designed by

		<p>outside engineering firms and then bid out to private contractors for construction.</p> <p>At the request of these citizen committees, the City conducted a financial analysis and piloted a test program involving the replacement of water, sewer and paving by City crews. The ultimate finding determined that bringing this function in-house with additional personnel will prove beneficial. The addition of these six positions represents the first phase of a three year program to add the necessary staff and equipment to begin in-house capital replacement of water and sewer infrastructure.</p>
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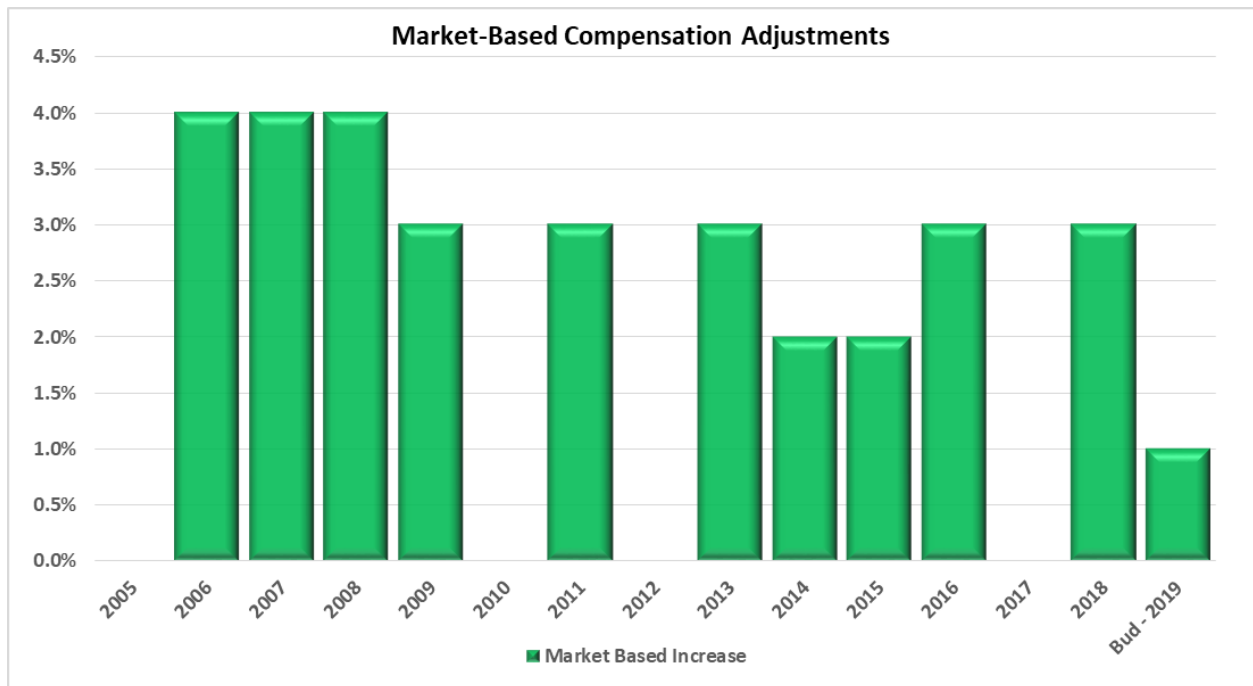
**Salaries:** Traditionally, the City has used a consulting firm to perform a salary study to identify all pay classifications with the exception of Police and Fire. Salaries for Police and Fire personnel are benchmarked separately against a select group of comparable cities within the DFW Metroplex. All other positions were evaluated for pay based on a combination of similar positions in the public and private sector only. A comprehensive compensation study will not only use private and public sector position analysis, but also geographical analysis, and a thorough evaluation of the City's current pay plan for compression and position requirement adjustments. Therefore, operational funds have been set aside in the FY19 proposed budget to perform this study with scheduled implementation of the study's recommendations in FY20.

Without the corresponding data of a compensation study, staff has utilized a salary survey conducted by the City of Grapevine to gauge employee pay classifications. Based on the results of the Grapevine salary survey, the proposed budget for FY2019 includes the following adjustments to employee salaries:

- *Market Increase: One percent (1%) market increase for all City personnel. Select positions within Police & Fire will receive slightly larger market adjustments by position. The resulting gross salary expenditure increase due to the market adjustment is approximately \$247,000.*
- *Merit Increase: For employees who achieve satisfactory performance evaluations, the proposed budget also includes merit-based increases for those employees with remaining steps within their pay range. The City has enjoyed a historical low turnover rate with long-tenured employees, and is now experiencing increased turnover primarily resulting from retirement. Approximately forty two percent (42%) of all current employees are not eligible for a merit-based increase within the City's pay plan, a decrease compared to previous fiscal years. The resulting gross salary expenditure increase due to potential merit increases is approximately \$343,000.*

The following table illustrates the City's historical commitment to market-based adjustments as a compensation tool to attract the most qualified and professional public servants.





**Benefits:** The City also offers a comprehensive benefit package to its employees, including insurance, retirement and longevity pay. The proposed budget for FY2019 includes the following adjustments to employee benefits:

- *Employee Health Insurance:* Employers continue to experience increases to healthcare costs, and the City of University Park is no exception. Uncertainty also remains regarding the future of the Affordable Care Act, and the financial implications associated with items such as the Cadillac Tax, which is an excise tax on employers offering health plans above certain premium thresholds. Although medical claims remain mostly stable on a year-to-year basis, there is an upward trend to medical claims. The proposed budget recommends funding from \$1,108.75 per employee per month (PEPM) to \$1,160.85 PEPM, resulting in a gross expenditure increase of \$139,811. This year, employees will be asked to help pay for rising health care costs through recommended increases to employee premiums. The range of monthly increases for employee premiums will be between \$1.98 up to \$22.83, depending on the health insurance plan selected by the employee.
- *Firefighter Pension:* University Park Fire Department personnel are the only City employees who do not participate in the Texas Municipal Retirement System (TMRS). The Firefighter Relief and Retirement Fund (FRRF) is a separate system governed by a local board made up of three firefighters, two local residents and two City staff members. The fund is structured as a defined benefit plan and is currently underfunded on an actuarial basis.

As a result of legislation passed in the 85<sup>th</sup> Legislative Session, the plan is currently closed to all new hires. All new Fire Department personnel hired after November 1, 2017 are enrolled into the City's primary retirement system, the Texas Municipal Retirement System (TMRS). However, 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.

With an unfunded actuarial liability of \$12,936,513 as of December 31, 2016 (the date of the last actuarial evaluation), and a recommended contribution rate of 28.72%, the proposed budget reflects the recommended increase to the City's contribution rate to 28.72%. This contribution rate is likely to increase in future years, since the last actuarial study did not include the plan closure to new hires. The FRRF Board is currently seeking a new actuary for the plan, and the City will work closely with the Board to make the necessary actuarial contributions. The gross expenditure increase for FRRF contributions is approximately \$214,000. A transfer of \$1,000,000 from the General Fund balance is recommended to offset the future increases and to take advantage of investment flexibility afforded the plan.

- *Texas Municipal Retirement System:* Along with nearly 900 other Texas municipalities, the City of University Park offers retirement benefits through TMRS. While the City has funded nearly 100% of the long-term actuarial liability within its TMRS account, the plan will experience increased costs due to proposed modifications to the Cost of Living (COLA) and Updated Service Credit (USC).

The COLA provides an increased benefit to current retirees through adjustments in benefits matching the Consumer Price Index (CPI). The USC provides for a member's benefit to maintain value over the duration of the member's career by taking into account substantial increases in the member's salary or changes to the plan. The City has traditionally elected to provide these changes in an ad hoc capacity to avoid large actuarial adjustments associated with a reoccurring plan. The last time the City approved ad hoc changes to the COLA and USC was in 2013. Prior to that date, the City had traditionally approved ad hoc changes on intervals of four or five years.

The proposed budget includes a proposed increased in TMRS contributions from 7.51% to 10.18% as a result of the ad hoc COLA and USC. A recommended one-time transfer from the Self-Insurance Fund in the amount of \$1,000,000 is recommended to offset the increase and to take advantage of investment flexibility afforded the plan. The gross expenditure increase resulting from these changes is approximately \$384,000.

## Water & Wastewater Treatment Charges

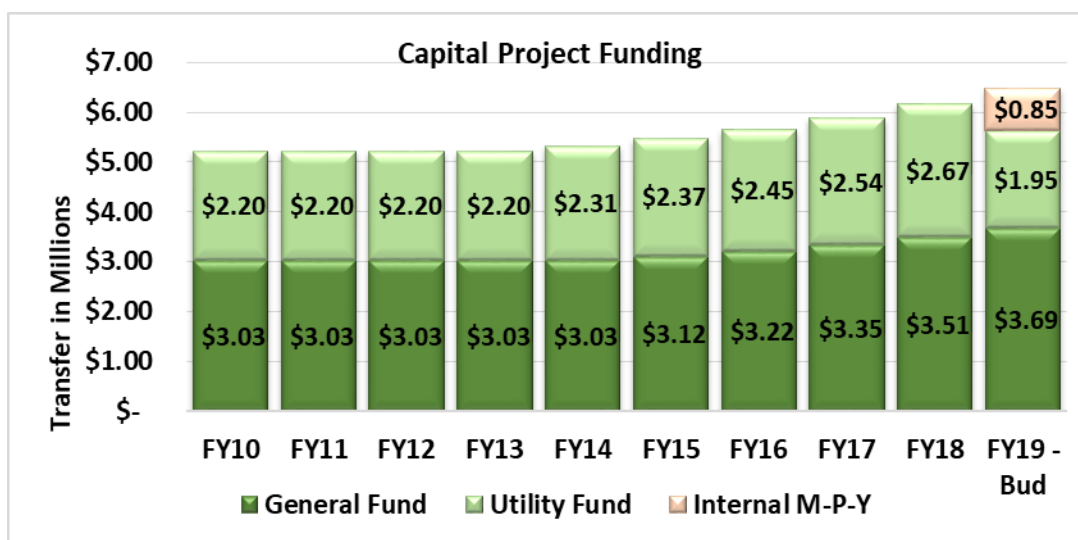
The City of University Park and Town of Highland Park are provided water through the Dallas County Park Cities Municipal Utility District (DCPCMUD) and wastewater services through the City of Dallas Water Utilities (DWU). The amount budgeted for outside treatment can vary dramatically from the amount 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 FY2019, the combined costs of water and wastewater treatment are expected to increase modestly, with the rates charged to the City by the DCPCMUD for the treatment of potable water increasing 2.6% and from DWU for wastewater treatment increasing 4.2%. When combined with expected water sales (derived from an average of the previous 10 years actual sales volumes) and winter consumption, the

increased rate of \$2.52 per 1,000 gallons from DCPCMUD and \$2.86 per 1,000 gallons of wastewater treated from DWU will result in a combined gross cost increase of \$149,312.

## 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. The proposed budget recommends increasing the General Fund transfer into the Capital Projects Fund by five percent (5%) or \$175,640, to a total of \$3.69 million. While the Utility Fund would normally have been expected to contribute \$2.80 million to capital projects as well, the actual transfer decreased to \$1.95 million, due to a change in the funding and construction of the Mile-per-Year project, more fully discussed below. The combined capital projects transfer for FY19 is \$5,642,530.



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 through separate action to this budget, and changes to the capital budget must be reviewed by the Capital Projects Committee before authorization by the City Council.

The proposed budget will adopt significant changes to the way the City funds the construction of the City's Mile-per-Year water and sewer replacement. Funds that would have been directed to outsourced contractors for this capital investment will be redirected to an internal division within the Utilities Fund. The new internal division will be dedicated solely to the replacement of water and sewer infrastructure. This is the first year of three that personnel will be added in a phased-in hiring approach.

## 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 years of depreciation contributions made by the department are available within the fund to purchase a new vehicle. Contributions to the Equipment Services Fund will increase by \$100,276 this fiscal year, to a total budgeted amount of \$1,020,741.

The proposed budget implements a new policy for vehicle replacement funding so that the fund balance maintains a minimum level of no less than twenty to twenty-five percent (20-25%) 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 will be set to 105% 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 FY2019 are as follows:

Unit #	Dept	YR	Make	Model	Service Life	Estimated Replacement Cost
6949	20	2008	FORD	F-150	10	\$30,000.00
6886	21	2007	CHEVROLET	UPLANDER	10	\$23,000.00
1360	30	1996	ADVANTAGE	LIFT	20	\$115,000.00
6818	40	2006	GEM	E2	8	\$40,000.00
1581	50	2014	CHEVROLET	TAHOE	5	\$55,000.00
1582	50	2014	CHEVROLET	TAHOE	5	\$55,000.00
1583	50	2014	CHEVROLET	TAHOE	5	\$55,000.00
6948	50	2008	CHEVROLET	IMPALA	10	\$40,000.00
6954	50	2008	CHEVROLET	IMPALA	10	\$40,000.00
6940	60	2007	FREIGHTLINER	CONDOR	10	\$180,000.00
6648	70	2004	CHEVROLET	C2500	10	\$40,000.00
1786	70	1986	PARIS	TRAILER	10	\$8,000.00
6389	80	2002	STERLING	LT9511	15	\$135,000.00
6390	80	2002	SEI	SEIPDESR-451	15	\$40,000.00
						\$856,000.00
Note: Not all items will be replaced by identical models.						

The Equipment Services Fund will also be responsible for adding a significant amount of new equipment associated with the transition from outsourced to in-house replacement of water and sewer infrastructure. Fund balances within the Equipment Service Fund will need transfers from existing fund balances to help pay for the new equipment, which is expected to cost \$898,989.

The City's fuel costs are expected to increase this year. Last year, the City budgeted fuel costs at a rate of \$2.43 per gallon of gasoline and \$2.81 for diesel in accordance with U.S. Energy Information Administration (EIA) estimates. Using the new EIA estimates of \$2.77 and \$3.07 for gasoline and diesel respectively, budgeted fuel expenditures are expected to increase \$15,155 (4.1%) this fiscal year to a total budgeted cost of \$386,015.

The proposed budget also provides for a slight decrease 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. Although FY19 is the first year that the new lower rate is in effect for all 12 months, the electric bill will remain largely unchanged from the prior year due to higher calculated consumption. Overall, the City anticipates a 1.7% reduction in budgeted utility costs, decreasing the budgeted category cost from the previous year's \$878,571 to \$863,247.

## University Park Public Library

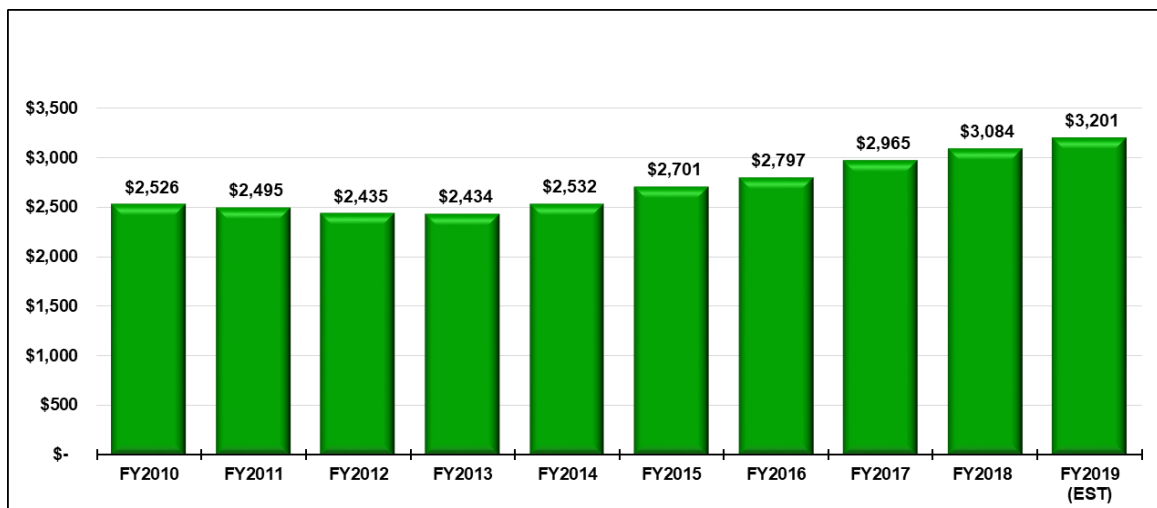
The City and the Friends of the Library will continue its pre-existing funding partnership whereby the Friends of the Library will fund \$300,000 annually towards the operation of the library. The proposed FY2019 budget for the University Public Library is \$846,875, which represents a 6% increase from the prior year.

## FUND ANALYSIS

### General Fund

To finance all of the traditional local government services such as police, fire, parks and public works, the City maintains a working balance within the General Fund financed by property taxes, sales taxes, franchise fees, building permit fees and other smaller sources. 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. The City's financial policies call for a minimum fund balance in FY19 of one month's operating expenses, which is approximately \$2.8 million. The beginning fund balance for FY18 was over \$7.1 million, well in excess of the required minimum fund balance. As the primary revenue source for the General Fund, the FY19 budget anticipates revenues from property tax totaling \$19,839,450.

**Property Tax:** The FY19 budget recommends a 1.4% reduction in the property tax rate to 24.5379 cents (per hundred dollars of value) from 24.8761 cents the previous year. Combined with a 6.7% growth in city-wide taxable property value, the corresponding increase in property tax revenue is 5.2%, or \$986,197. The average single-family property with a 20% homestead exemption will pay \$3,201 in property taxes to the City next fiscal year, an annual increase of \$117. The following table provides a historical perspective of property taxes related to the average single-family property.

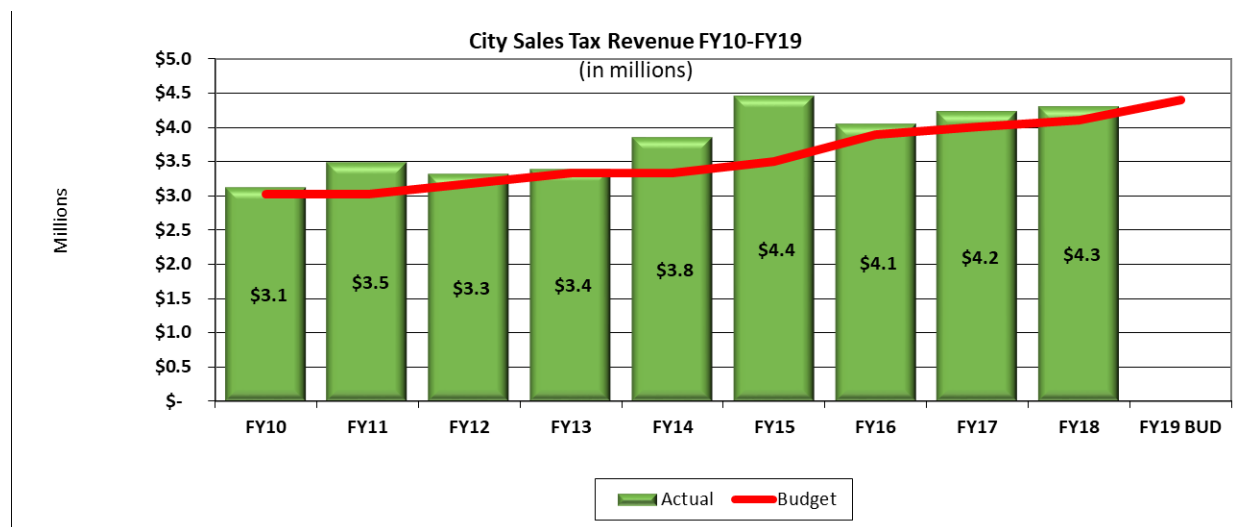


**Truth in Taxation:** The Texas Tax Code requires the calculation of an effective tax rate (ETR), which represents a calculated tax rate that would produce the same amount of taxes if applied to the same properties taxed in both years. The City's tax collector, the Dallas County Tax Office (DCTO), performs the ETR calculation. The ETR is significant, because it determines the notice and hearing requirements a City must meet to comply with the Texas Truth in Taxation laws.

For FY2019, the proposed tax rate of 24.5379 cents per hundred is higher than the ETR of 23.5241 cents; therefore, the City is required to hold two public hearings before adopting the FY2019 tax rate.

Revenues supporting the General Fund that are derived from sources other than property taxes (and related amounts) account for 40% or \$13,164,000 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.

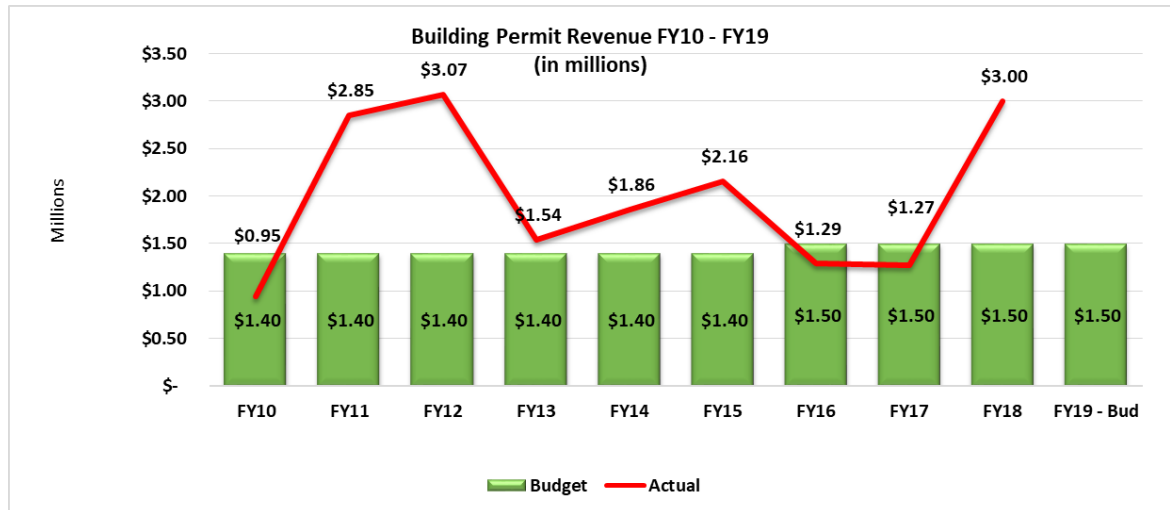
**Sales Tax:** Revenue collected from City sales taxes has steadily risen for the last several years. Projected sales tax revenues for FY2018 are expected to meet budgeted projections within the FY18 budget. The City uses a sales tax analysis and reporting service to track and monitor sales tax within the community. The service provides a forecast for sales tax collection, with ratings ranging from "Optimistic" to "Pessimistic." Given steady sales tax collections this year, the FY19 budget recommends the projected revenues from sales tax to increase from \$4,100,000 to \$4,400,000. This is a significant increase in projected revenue, slightly above the "pessimistic" sales tax growth projections for next year.



**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 over 70 permits issued last year. However, a number of large, non-residential construction projects such as the Park Plaza development, HPISD school improvements, Highland Park United Methodist Tolleson Family Activity Center and athletic facilities on the SMU campus have generated substantial permit revenues above budgeted amounts.

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 FY19 budget continues this practice and recommends a revenue projection of \$1.5 million. According to the City's financial policies, revenues that exceed 120% of budget are directed into the Capital Improvement Funds.

With expected building permit revenue set to exceed \$3.0 million for FY18, the Capital Improvement Fund is expected to receive an estimated \$1.2 million transfer as a result of this policy.



**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. 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. The FY19 budget includes a revenue projection of \$2,095,000 for all franchise fees, a \$90,000 decrease from the previous year.

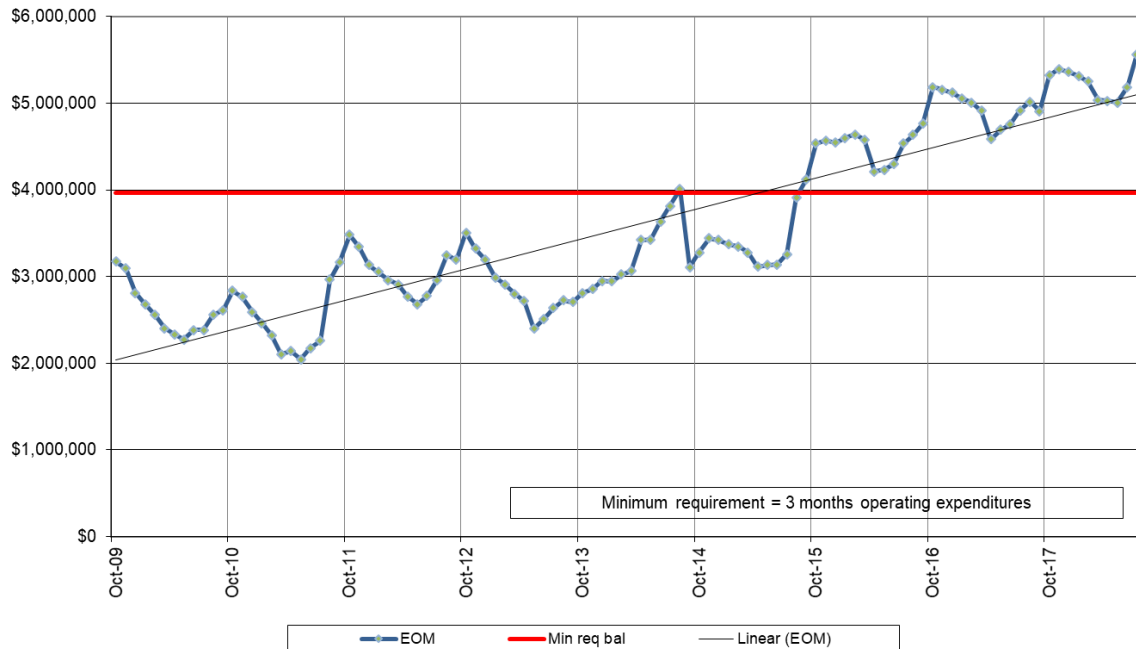
## Utility Fund

The fund continues to experience positive growth within the fund balance due to structural rate adjustments approved in 2014. Consequently, the FY19 budget does not propose to increase utility rates in the upcoming year to offset the budgeted increases from treatment charges. However, operational costs continue to rise, and significant increases to capital project funding are needed to maintain the City's goal of a mile-per-year of water and sanitary sewer replacement. 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.

When combined with higher than expected water sales, the Utility Fund balance shows a deficit of \$66,774 for FY19. Since utility revenues and expenditures are so heavily volume dependent and may change dramatically from one year to the next, no changes to the rate structure are suggested at this time. As staff monitors revenues and expenditures, the City Council may consider a mid-year rate increase.



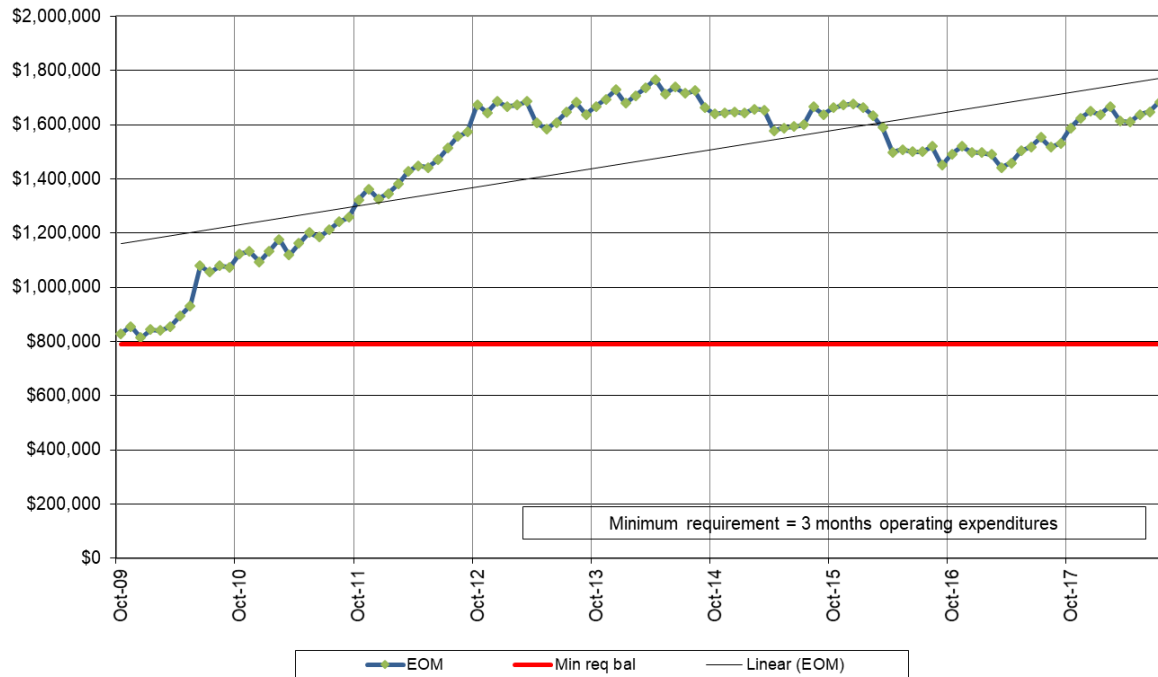
**City of University Park, Texas  
Utility Fund Unassigned Fund Balance Trend  
Since 2010**



## Sanitation Fund

The City created the Sanitation Fund in 1994 to remove expenditures for the collection of solid waste from the General Fund. The FY19 budget includes a \$110,000 placeholder to allow for the accumulation of reserves toward future landfill needs. The City's financial policies require a minimum fund balance equal to three months operating expenses, which is approximately \$800,000. The beginning fund balance for FY18 was approximately \$1.4 million. However, the Sanitation Fund has struggled to maintain a positive cash flow in the recent and distant past. Despite a 10% increase in residential fees between FY16 and FY17, the fund continues to operate with a slight loss of fund balance. While the structural deficit in the Sanitation Fund has been reduced, the greatest long-term concern for the Sanitation Fund is anticipated increases to landfill fees. The City currently has an operating agreement with the City of Garland landfill that is set to expire within the next 10 years. Tipping fees under a new contract are expected to increase dramatically, at which time rates will need to be adjusted accordingly.

**City of University Park, Texas  
Sanitation Fund Unassigned Fund Balance Trend  
Since 2010**



## 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 directly related to the City’s storm water system. The City has initiated a watershed study for a large portion of University Park to determine what improvements could be made to the system to alleviate flash flooding associated with surface water runoff. Substantial improvements to the storm sewer system have not been undertaken in several years. All potential improvements to the storm sewer system will be reviewed and funded through the Capital Projects Fund; however, future storm water fees could be increased to allow for transfers to the Capital Projects Fund from the Storm Water Fund.

## FUTURE CONSIDERATIONS

The proposed FY2019 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 FY2019 budget. The following items represent a quick overview of those issues:

- *Long Term Planning & Financial Management:* In the not too distant future, the City of University Park will begin preparations to celebrate the City's centennial, having incorporated in 1924. Since the City's inception, the City has given considerable attention to ensuring neighborhoods and other public amenities are well maintained and designed. However, as the City ages, neighborhoods and public amenities need rejuvenating. The 1989 Master Plan helped shape the character and feel of University Park as it transitioned into a redevelopment phase of the City's life-cycle. Residents volunteered their time and talents to help build a plan that addressed the physical space in which people work, play and reside. While redevelopment has occurred at the residential level for many years since the adoption of the master plan, the City's commercial and institutional sectors are currently experiencing unprecedented redevelopment. With the onset of a century-old community, schools, churches and Southern Methodist University have invested hundreds of millions of dollars in upgrading existing facilities, and the City's retail and commercial areas are poised for similar redevelopment. Given the importance of these areas and the potential financial impact to the City, an update to the City's master plan that incorporates a high-level of citizen engagement is needed. The master plan should address physical assets and land use; however, it should also consider the long-term financial management of the City. A subcommittee of members from the Finance Advisory and Capital Projects Review committees is currently addressing long-term issues. Conclusions and recommendations from this subcommittee should be shared and distributed as part of the updated master plan process.
- *Salaries and Benefits:* The City's pay plan represents an investment in the most important asset needed to provide outstanding services to residents: employees. The City has a long history of meeting the market with its pay and benefits. However, the City has not completed a systematic review of its pay plan in quite some time. A compensation study has been funded in the operational budget of the Human Resources Department to analyze every position within the City vis-à-vis private and public sector pay. The Employee Benefits Committee will have an important role in reviewing the results of this study to determine equitable funding strategies and sustainable pay structures. Review and consideration should be given to setting goals for market-based compensation and where the City seeks to fall within the market.
- *Infrastructure:* The City maintains approximately 64 miles of sanitary sewer mains and 89 miles of water mains. Funding for this program has been programmed within the Capital Projects Fund. However, increased construction costs have outpaced funding in recent years. As with prior-year budgets, the FY19 budget proposes an increase in contributions to the Capital Fund from both the General Fund and Utility Fund. However, unlike prior-year budgets, the FY19 budget creates a new operational division within the Utilities Fund. The sole purpose of this new division is to bring in-house the construction of water and sewer replacements, which in the past has been performed by private contractors. With a thorough review by the City's Finance, Public Works and Capital Projects committees, the actions taken within the FY19 budget to create this new

department represent the first year of a three-year funding strategy. Additional pressure will be added to the Capital Projects Fund as the City seeks to implement a replacement schedule for the City's storm sewer system. During heavy rainfalls, the City experiences localized flooding from surface water runoff. The improvements to McFarlin Bridge helped address one of the primary storm water bottlenecks in the community. With a major downstream bottleneck removed, the City can now address capacity issues in the undersized storm sewer system. Primary improvements to the 25-mile storm sewer network would include adding new storm sewer lines and replacing existing lines with larger diameter pipes. Infrastructure improvements to the City's utilities are a primary concern; however, other city assets including the Holmes Aquatic Center, Peek Service Center and road network also need capital investment.

- *Sustainable Tax Rate Adoption:* Through years of stewardship and prudent fiscal management, the City of University Park enjoys a high level of financial stability. This has allowed the City to fund operations, while also investing in capital assets on a pay-as-you-go basis. Instead of borrowing through various debt instruments, the City sets aside funds from property taxes and utility fees to utilize for future capital projects. To adequately plan for future capital projects and to ensure available cash balances, the City manages the property tax rate in a coordinated manner to build balances within its various funds (general, utility, sanitation, storm water and internal service). Historically, this has allowed the City to drop the tax rate as property valuations increase. Since 2002, this has been the financial model of the City of University Park. As a home rule city, the decision to determine which model works best for University Park residents has been determined at the local level. However, the ability to manage the tax rate to meet the specific needs of residents in University Park may soon be changed by proposed legislation at the State level. Caps on property tax revenue growth would remove or severely limit the financial flexibility of University Park. Given the uncertainty and potential restrictions of property tax caps, the City should strongly consider the future position of the tax rate.