

BUDGET MESSAGE



August 16, 2024

Honorable Mayor & City Council,

I am pleased to submit for your review and consideration the Fiscal Year 2025 (FY2025) Budget. Totaling nearly \$70 million, the operational budget for the City of University Park provides the annual funding to ensure the efficient delivery of municipal services. This includes services related to public safety, sanitation, road maintenance, parks, water delivery, wastewater collection, and a public library. In addition to funding annual operations, the budget provides transfers of revenue into the Capital Projects Fund. In the aggregate, the annual budgeting process sets the spending plan for day-to-day services, while also providing a funding path for large-scale capital projects.

While the economic outlook for Texas remains strong, economic indicators and geopolitical uncertainty merit a conservative outlook. The Federal Reserve Bank of Dallas projects normal economic growth, but concerns about weakening demand persist. Additional details about the local performance of key economic indicators are provided in the expenditure analysis of this report; however, the following economic indicators are projecting slight decreases or leveling-off from the prior year:

Consumer Spending – minimal growth in revenue for local sales tax and franchise fees.

Residential Building Permits – construction permits for new homes are lower than three previous years.

Interest Earnings – anticipated interest rate decreases from Federal Reserve.

Revenue and expenditure projections within the proposed FY2025 Budget align with historical trends, but are limited by both economic conditions and statutory requirements. When combined with all funds, total expenditures for the operational budget will increase \$3.4 million or 5.3 percent from the prior year. The tax rate needed to balance the General Fund budget will decrease to 22.9964 cents. In addition, the proposed budget recommends a number of structural and transactional changes to include the following:

- Public Works Administration – creates a new department from existing personnel to reflect new organizational structure within the Public Works and Engineering Departments.
- Aquatics Proprietary Fund – removes the expenditures and revenues of the Holmes Aquatic Center from the General Fund to create a new proprietary fund.
- Fund Balance – recommended transfer of existing fund balances to provide funding to the Holmes Aquatic Center with the goal of the pool becoming a self-sustaining operational fund.
- Credit Card Processing Fees – instituting pass-thru fees that will offset expenses the City has traditionally absorbed from credit card fees.

The presentation of the proposed budget to the City Council is the culmination of a process that began in April, followed by a thorough review and vetting by numerous resident committees throughout the summer. I am grateful for the work of our Department Directors who submitted operational budgets that seek to reduce costs

while improving services to the community, and to the volunteer committee members who spent hours reviewing the proposed budget.

FY2025 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:

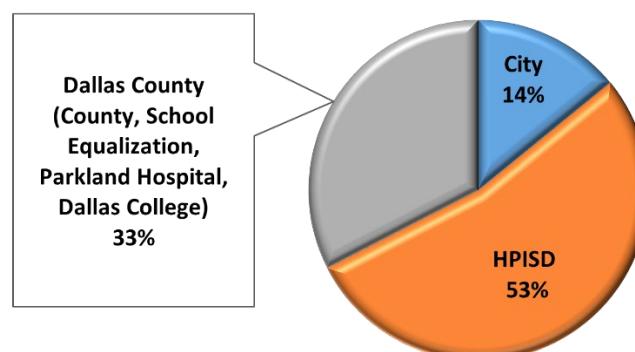
Fund	Core Services	Primary Revenue Sources
General	Police, Fire, Parks, Street Maintenance, Traffic Management, Building Inspections, Library, and General Administration	Property Taxes, Sales Taxes Fines & Fees, Franchise Fees
Utility	Water Distribution & Wastewater Collection	Utility Fees
Sanitation	Sanitation (Trash) Collection	Utility Fees
Stormwater	Stormwater Collection, Street Sweeping, Pond Maintenance	Utility Fees
Aquatics	Aquatic recreation, swim lessons and activities	User Fees, Sponsorships

Highlights of the FY2025 Budget include the following items:

- Wage and salary adjustments that are necessary to recruit and retain talented public sector employees;
- Creation of a new Aquatics Fund;
- Additional funding for health insurance and other benefits;
- Increased funding for pension liabilities;
- Funding for Centennial Master Plan Action Items; and
- Continued funding increases for capital projects; and

Property Taxes & Long-Term Financial Planning

The Dallas Central Appraisal District (DCAD) certifies the taxable value for all property within University Park. Based on proposed expenditures and the taxable value of all property in University Park, the FY2025 budget recommends a tax rate decrease from 23.6226 to 22.9964 cents. The average single-family homeowner with a homestead exemption will pay approximately \$44 more per month in City property taxes. The City remains one of the smallest overall percentages of the combined tax bill. When including the other taxing entities, the City's portion of the tax bill is just 14 percent, based on 2023 rates.



While working with various resident committees to review financial performance, the City made a committed effort to looking beyond the annual budget process to address long-term goals. 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 capital program, the model helps guide planning related to available cash flow. The financial model shows projected expenditures and revenue increases over a five-year period within the operational budget. This long-term approach to available cash flow helps policy makers with funding decisions. Capital projects are traditionally funded through a pay-as-you go program, but the City recently took advantage of historically low interest rates to fund large stormwater projects. The flexibility of the models also allows for consideration to be given to funding certain projects with existing fund balances.

During the 86th Legislative Session, the State Legislature passed SB 2 that limits property tax growth to no more than approximately 3.5 percent per year, before requiring voter approval. For University Park, this limitation caps revenue growth from property taxes at approximately \$1,000,000, depending on actual prior year collections. The financial model provides an extended view of budgetary pressures given the new property tax caps. The model highlights the need to address both sides of the income/expense ledger. Both expenditure limitations and the need to grow non-property tax revenues are essential for long-term budgetary sustainability.

The assumptions behind the model inputs can drastically affect the bottom line of the model. Of particular note for the upcoming fiscal year, the model assumes a decreased interest rate of 3 percent, followed by subsequent decreases in future years to 2 percent. This is important for forecasting interest earnings, which staff anticipates decreasing in future years. However, these inputs can be offset by other unforeseen economic conditions in the future.

CITY OF UNIVERSITY PARK, TX							
Five Year Financial Plan, Fiscal Years							
General Fund and Emergency Fund							
\$ in '000's	2022 PROJECTED	2023 BUDGET	2024 FORECAST	2025 FORECAST	2026 FORECAST	2027 FORECAST	2028 FORECAST
Beginning Fund Balance	28,405	28,587	28,587	28,684	28,523	28,121	27,785
Revenues							
Real Property Taxes	22,671	23,704	24,374	25,227	26,110	27,024	27,970
Sales Tax	A 6,692	6,050	6,353	6,670	7,004	7,354	7,722
Permits/Licenses	B 1,882	1,901	2,053	2,197	2,329	2,445	2,543
Interest Earnings	C 410	700	1,143	861	570	562	556
Other Revenue	B 4,510	5,154	5,563	5,948	6,302	6,615	6,878
Total Revenues	36,165	37,509	39,486	40,903	42,315	44,000	45,667
Transfers from Other Funds	600	600	600	600	600	600	600
Total Revenues and Transfers In	36,765	38,109	40,086	41,503	42,915	44,600	46,267
Expenditures							
Salaries and Benefits	D 23,575	24,817	25,768	26,541	27,337	28,157	29,002
Professional Fees	B 2,123	2,555	2,760	2,953	3,130	3,287	3,418
Other	5,615	6,253	6,754	7,226	7,660	8,043	8,365
Total Expenditures	31,313	33,626	35,281	36,720	38,127	39,487	40,785
Capital Projects Contribution	E 4,270	4,483	4,707	4,943	5,190	5,450	5,722
Other Transfers	B 1,000	0	0	0	0	0	0
Total Expenditures and Transfers Out	36,583	38,109	39,989	41,663	43,317	44,936	46,507
Surplus (Deficit)	182	0	97	-160	-402	-336	-239
Ending Fund Balance	28,587	28,587	28,684	28,523	28,121	27,785	27,545
Non-Spendable/Committed	18,322	18,322	18,322	18,322	18,322	18,322	18,322
Unrestricted Fund Balance	10,265	10,265	10,362	10,202	9,800	9,463	9,224
Required Minimum Balance Per Policy	3,049	3,176	3,332	3,472	3,610	3,745	3,876
Excess/(Deficiency)	7,217	7,090	7,030	6,730	6,190	5,719	5,348
ASSUMPTIONS							
Increase in Taxable Assessed Value			3.5%	3.5%	3.5%	3.5%	3.5%
Anticipated Sales Tax Growth	A		5.0%	5.0%	5.0%	5.0%	5.0%
Anticipated Rate of Inflation	B		8.0%	7.0%	6.0%	5.0%	4.0%
Anticipated Interest Rate	C		4.0%	3.0%	2.0%	2.0%	2.0%
Anticipated Salary Increase	D		3.0%	3.0%	3.0%	3.0%	3.0%
Capital Projects Transfer Growth	E		5.0%	5.0%	5.0%	5.0%	5.0%

Centennial Master Plan & the Budget

The City Council has also adopted a Centennial Master Plan that serves as a big-picture document that focuses on creating a vision for key aspects of city management and city character. Following multiple rounds of discussion involving Master Plan Steering Committee members, City staff, and project consultants, the plan was adopted by the City Council in June 2022 with 75 action items organized by the following five themes:

- Affirming Sense of Place** – goals organized around preserving the beauty, character, safety, and sense of cohesion in University Park.
- Assuring Connectivity** – goals related to streets, parking, trails, utilities, communication, and programs that allow residents to move freely, do their business, and connect.
- Innovative Governance** – goals to help the City government stay responsive and well-coordinated within the region, and to foster more ways that residents can help improve and direct their community.
- Technological Integration** – goals intended to provide University Park with vetted technological advancements that can improve city efficiency and quality of life, based on best practices from cutting edge cities.

5. **Preparing for The Future** – goals for the horizon, with the idea of beginning now to prepare for coming changes that can be readily identified, while building a culture of adaptability, resilience, and sustainability across City operations.

Following adoption of the Master Plan, the City Council met in a facilitated retreat to sort and prioritize the Master Plan Action Items. This process resulted in the following action items receiving a priority ranking:

Top Priorities:

- Explore ways to prevent contamination of waterways
- Sanitation Division should begin researching alternative waste disposal options
- Fund the development of a facility or engage in a long-term partnership with a facility to provide the Police Department with access to regular firearms training
- Analyze the best options to upgrade stand-by power generation at booster station

High Priorities:

- Increase the effectiveness of the City's Direct Alarm program
- Promote harvesting rainwater and run-off water collected in underground storage tanks for both public and private irrigation
- Create more green space throughout the City, adding to the City's charm and giving the City a more environmentally friendly look and feel

Other Priorities:

- Implement new technology for water, sewage, and storm sewer systems and use data to improve efficiency and service for customers
- Investigate areas that could be repurposed into public greenspace
- Implement an active transportation plan to explore ways to increase the walk score and bike score of University Park
- Consider strategies to decrease impermeable surfaces and increase on-site water retention
- Develop programs that encourage shared facilities and resources between SMU, HPISD, City of University Park, and residents
- Support efforts to preserve and enhance the sense of University Park's identity
- Create the University Park City Foundation for Excellence to help fund municipal projects and operations

Within the operational budgets of each department are the necessary funding resources to begin the process of tackling the action items within the Centennial Master Plan. Many of the action items also contain potential capital projects that will receive consideration for inclusion in the City's five-year Capital Improvement Program. Recent actions items within the Centennial Master Plan that have been completed include the following:

- Creation of a Parks, Recreation, Trails and Open Space Master Plan (Affirming Sense of Place)
- Implement upgrades to the University Park Traffic Preemption System (Technological Integration)
- Fund the development of a facility or engage in a long-term partnership with a facility to provide the Police Department with access to regular firearms training (Preparing for the Future)
- Improve standby power generator at Germany Park Booster Pump Station (Technological Integration)
- Creation of a pilot program to assess efficiency and effectiveness of electric vehicles in City's fleet (Preparing for the Future)

Budget Schedule

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 in the following months by Finance and Executive Department staff. Following the internal review, a final proposed budget is presented to the following resident advisory committees for review and recommendation to the City Council:

- Finance
- Employee Benefits
- Property, Casualty, & Liability Insurance - meets throughout year to review budgetary items

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

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 FY2025 budget's adoption:

Date	Day	Description
August 6	Tuesday	Approve resolution adopting maximum tax rate
August 15	Thursday	Final Finance Advisory Committee Review
August 16	Friday	Submit proposed draft budget to the City Council and City Secretary
September 3	Tuesday	Conduct Budget Hearing
September 17	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 FY2025 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 \$69,621,957 which is a 5.8 percent or \$3,804,464 increase from the previous year. The table below compares the total expenditures for the City's five budgeted funds – General, Utility, Sanitation, Stormwater and Aquatics. Four other funds – Capital Projects, Equipment Services, Technology Services, and Self Insurance are not included in the formal budget, because their revenues are generated from the five budgeted funds as transfers.

Fund	FY2023		FY2024		FY2025	
	Actual	Expenditures	Adopted	Budget	Proposed	
				Budget	\$ Change	% Change
General	\$ 38,776,832	\$ 40,810,416	\$ 42,377,197	\$ 1,566,781	3.8%	
Utility	19,006,134	20,338,784	22,063,294	1,724,510	8.5%	
Sanitation	3,741,067	4,068,047	4,151,287	83,240	2.0%	
Storm Water	435,429	600,246	576,601	(23,645)	-3.9%	
Aquatics	-	-	453,578	453,578	n/a	
Total	\$ 61,959,462	\$ 65,817,493	\$ 69,621,957	\$ 3,804,464	5.8%	

Eighty-two percent of expenditures in the proposed budget are attributable to the expenditure categories shown in the table below. Collectively, these account for over half of the expenditure increase in the FY2025 budget. The financial impact of these six categories is demonstrated in the following table with additional information detailed below.

Category	FY2023 ACTUAL	FY2024 BUDGET	FY2025 BUDGET	\$ Change	% Change
Personnel costs	\$ 30,523,594	\$ 32,511,624	\$ 34,163,114	\$ 1,651,490	5.1%
Treatment charges	\$ 10,354,526	\$ 11,041,415	\$ 11,799,541	\$ 758,126	6.9%
Capital project funding	\$ 7,931,795	\$ 7,086,296	\$ 8,600,612	\$ 1,514,316	21.4%
Utilities/Telephone	\$ 736,766	\$ 945,413	\$ 1,021,036	\$ 75,623	8.0%
Equip. Replacement	\$ 1,152,109	\$ 1,195,034	\$ 1,173,433	\$ (21,601)	-1.8%
Fuel costs	\$ 380,851	\$ 419,045	\$ 408,124	\$ (10,921)	-2.6%
Subtotal	\$ 51,079,641	\$ 53,198,827	\$ 57,165,860	\$ 3,967,033	7.5%
All Other Expenses	\$ 10,879,821	\$ 12,618,666	\$ 12,456,097	\$ (162,569)	-1.3%
Total adopted budget	\$ 61,959,462	\$ 65,817,493	\$ 69,621,957	\$ 3,804,464	5.8%
Percent of budget	82%	81%	82%		

Over the past year, the Consumer Price Index (CPI) for the Dallas-Fort Worth region has increased 5 percent and the Municipal Cost Index (MCI), which more closely tracks services and goods municipalities purchase, increased 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. Inflationary concerns will be a key metric

to monitor, as rising costs without financial flexibility could impact municipal services. The City's expenditure growth of 5.8 percent reflects a consistent increase in costs associated with inflation.

Personnel Costs

Labor markets have rebounded from the uncertainty and volatility associated with the COVID-19 pandemic. According to the Federal Reserve Bank of Texas, labor demand remains strong with wage growth in the Texas economy; however, job growth has cooled both nationally and in Texas. The City's turnover rate has also stabilized, but at 6 percent remains higher than historic averages. Recognizing that the services provided by the City of University Park are performed by talented individuals with the opportunity to work for other entities, it is imperative that the City keep pace with the rate of wage growth and benefit offerings of our comparator cities¹.

The City continues to utilize data from Public Sector Personnel Consultants and area salary surveys to evaluate positions within the pay plan that may have fallen behind the average of the market comparison or have proven especially challenging in recruiting quality applicants. Public Sector Personnel Consultants have familiarity with the City's compensation plan since providing analysis in 2019, and have one of the most extensive compensation databases in the North Texas region. Based on this evaluation, the proposed changes to salaries and benefits are highlighted below. **Salaries:**

- Merit: Funding has been included for all employees who are eligible for merit-based pay increases according to the City's performance evaluation criteria and schedule. Employees who meet performance standards will be eligible for pay increases within the different steps of the pay plan. The estimated cost of funding merit increases is approximately \$414,000.
- Cost-of-Living: Funding has been provided for a 1 percent across-the-board increase to all positions within the pay plan. This cost-of-living adjustment for all positions is approximately \$221,000.
- Market Adjustments/Reclassifications: Market based and classification adjustments have also been identified for 34 positions. These positions will be reclassified within the pay plan, since the positions either fall below the 50th percentile or the job duties of the position warrant a new classification. The estimated cost of these market/classification adjustments is approximately \$140,000

Personnel: There is one new position recommended for the FY2025 Budget. The position of Asset Management Technician is recommended for the Utility Fund at a cost of \$112,290. However, the proposed budget recommends the elimination of five positions within the In-House Construction Division of the Utility Fund. This Division was created to complete the City's mile-per-year of water and sewer replacements. Given the challenges associated with recruiting these positions, the City has shifted this funding back to the Capital Projects Fund to be completed by private sector contractors.

Benefits: The City also offers a comprehensive benefit package to its employees, including insurance, retirement, and longevity pay. The proposed budget for FY2025 includes the following adjustments to employee benefits:

- *Employee Dental Insurance* – No recommended plan changes or adjustment to employee premiums.
- *Employee Health Insurance* – No recommended plan changes or adjustment to employee premiums.

¹ The benchmark cities as established by the study include Coppell, Dallas, Farmers Branch, Frisco, Garland, Highland Park, Keller, Plano, Richardson, Southlake and The Colony.

- *Retiree Health Insurance* – No recommended plan changes or adjustments to retiree premiums.
- *Retirement Funding* – Since 1996, the City has adopted Updated Service Credits (USC) and Cost-of-Living Adjustments (COLA) within the Texas Municipal Retirement System (TMRS). The USC and COLA adoption process has occurred on 5-year increments. The last USC and COLA update for the City occurred in 2019, which is beyond the normal 5-year period. The proposed FY2025 Budget recommends USC and COLA updates with an estimated expenditure increase of approximately \$1,200,000.

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 passage of this legislation. The City has financially guaranteed the current plan with its existing benefit structure, and capped member contributions at 10 percent of gross pay.

Based on the December 31, 2022 actuarial valuation of the plan, the annual contribution needed to ensure full actuarial funding is \$1.54 million. To achieve the required level of funding, the current budget continues the “step” approach to funding the increased contributions, begun in fiscal 2021. The FY2025 budget recommends an increase in the FRRF contribution rate of approximately 8.85 percent, or \$128,400 and a transfer of additional fund balance to cover the remainder, if necessary.

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 FY2025, the costs of water and wastewater treatment are expected to increase. The cost of potable water provided by the DCPCMUD is increasing by 5%, from \$3.76 to \$3.94 per 1,000 gallons. Additionally, the DWU fee for wastewater treatment is also increasing by 5%, from \$3.10 to \$3.26 per 1,000 gallons, along with an additional 6% increase due to unaccounted-for system-wide water volume. These changes reflect rising operational costs and the need to maintain essential water and wastewater services for the community. Together, they result in a combined gross cost increase of just over \$758,000.

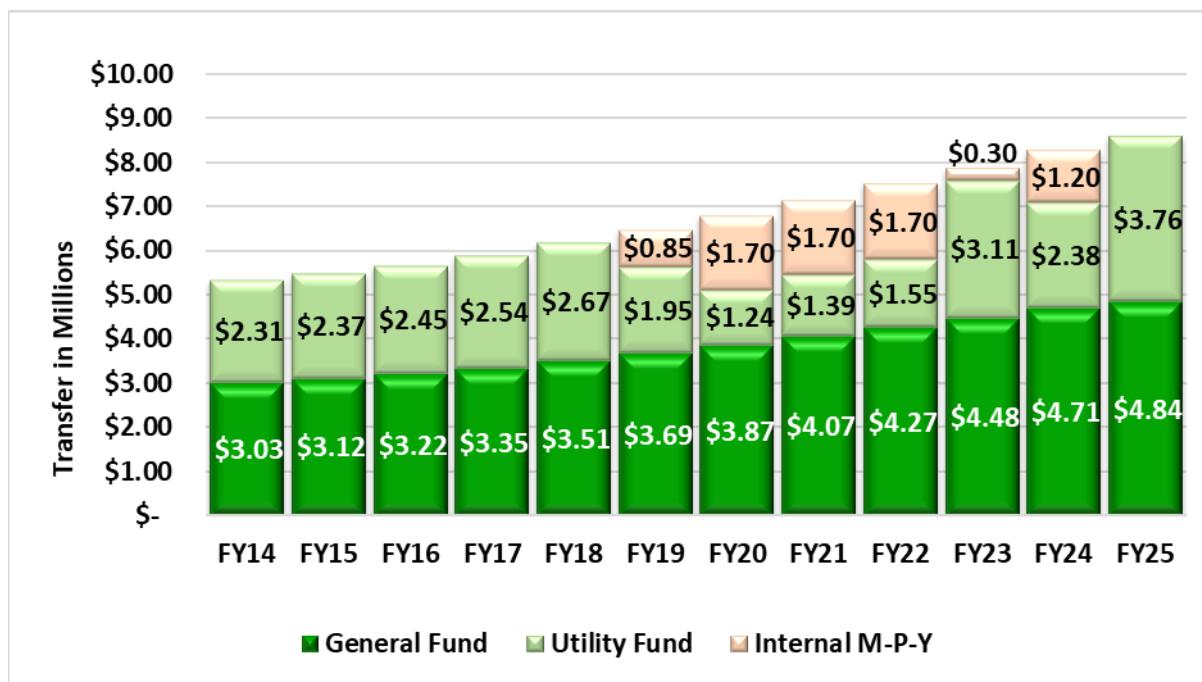
Capital Expenditures

To take advantage of historically low interest rates, the City issued \$15 million in certificates of obligation (CO) to fund various stormwater improvements. The CO issuance is backed by the City’s full faith and credit, but the debt service will be funded through the Stormwater Fund. Revenue from the Stormwater Fund is collected on monthly utility bills, with a separate line item for stormwater costs. The debt service payments require a series of stepped rate increases over a 5 year period, which were approved by City Council during the FY2022 fiscal

year. The increase for fiscal 2025 is 18%, which equates to approximately \$2.82 per month for the average household.

The proposed budget also continues the tradition of funding capital projects for Engineering, Public Works, Public Safety and Parks through a pay-as-you-go system. The City established separate Capital Project Funds that receive 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 five percent annually. The FY2025 budget recommends continuing the 5 percent increase in Capital Projects funding, at a gross cost of \$8,600,612.

Additional discussion is provided in the Utility Fund analysis section of this letter, but the City is shifting the mile-per-year (MPY) funding from an in-house function back to private contracting. Numerous issues contributed to the inability of the in-house program to realize expected cost savings and efficiencies. Therefore, the FY2025 funding includes \$1.4 million that otherwise would have been retained in the Utility Fund.



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, storm sewer, and park enhancements. In addition, the Capital Projects Fund allocates funds for specialized projects such as the replacement of the public safety radio system, Snider Plaza utility improvements, and Miracle Mile improvements. The following table representing the current FY2024 Capital Budget shows the financial planning of the five-year CIP. Large projects such as those planned for Snider Plaza and Miracle Mile will require additional funding through transfers from

existing fund balances. Note: the table does not include additional anticipated Stormwater costs, as these costs will likely be funded through the issuance of debt, if deemed necessary.

	FY2024 YEAR 1 ESTIMATED SPENDING	FY2025 YEAR 2 ESTIMATED SPENDING	FY2026 YEAR 3 ESTIMATED SPENDING	FY2027 YEAR 4 ESTIMATED SPENDING	FY2028 YEAR 5 ESTIMATED SPENDING	5 YEAR FORECAST TOTAL FY24 - FY28
Beginning Balance	23,343,745	(13,675,811)	(10,513,319)	(11,154,333)	(15,151,641)	23,343,745
Revenues/Cash In						
Transfer from General Fund	4,707,484	4,942,858	5,190,001	5,449,501	5,721,976	26,011,820
Transfer from Utility Fund	2,378,812	3,457,753	1,395,641	1,592,923	1,592,923	10,418,052
Investment income	530,000	100,000	100,000	100,000	100,000	930,000
Other Revenues/Reimbursement:						
DART - TRIP	2,132,712	2,196,694	-	-	-	4,329,406
DC/MCIP	2,500,000	500,000	3,000,000	2,000,000	2,000,000	10,000,000
DART - PTI		2,300,000				2,300,000
Dispatch Grant	530,000	-	-	-	-	530,000
Building Permit Transfer						-
Total Revenues/Cash	12,779,008	13,497,305	9,685,642	9,142,424	9,414,899	54,519,278
Total Available Resources	36,122,753	(178,506)	(827,677)	(2,011,909)	(5,736,742)	77,863,023
Expenditures						
Personnel and Other	146,178	150,563	155,080	159,733	164,525	776,079
Information Technology	650,000	350,000	0	0	0	1,000,000
Parks	3,161,492	665,000	725,000	615,000	615,000	5,781,492
Public Safety	2,834,358	0	0	200,000	0	3,034,358
Public Works	42,706,536	9,169,250	9,446,575	12,165,000	680,000	74,167,361
Unplanned Proj/Emergency Repairs	300,000	0	0	0	0	300,000
Project expenditures	49,652,386	10,184,250	10,171,575	12,980,000	1,295,000	84,283,211
Total Expenditures	49,798,564	10,334,813	10,326,655	13,139,733	1,459,525	85,059,290
Ending Balance	(13,675,811)	(10,513,319)	(11,154,333)	(15,151,641)	(7,196,267)	(7,196,267)

Equipment Replacement, Fuel & Electricity

The City has established a sinking fund for the replacement of vehicles and large machinery. Each department incurs yearly expenditures based on the depreciation schedule of the items in its fleet. Once an item is scheduled for replacement, the contributions made by that department are available within the fund to purchase a replacement. Contributions to the Equipment Services Fund will decrease slightly in FY2025, to a total of \$1,060,000 from the prior year total of \$1,171,000.

The proposed budget continues the vehicle replacement funding policy, maintaining the target fund balance at a minimum level of 20 to 25 percent of the current replacement value of the city's entire fleet. To ensure future purchases are adequately funded, a combination of policies was previously adopted. These policies included increasing the depreciation charge up to 105% of the annual amount if necessary, and continuing to charge depreciation for up to two years after the item has reached the end of its useful life, if not replaced in a timely manner. These policies help ensure that adequate funding will be in place at the time of future vehicle purchases.

Vehicles and equipment anticipated to be replaced in FY2025 are as follows:

Unit #	Dep	Year	Make	Model	Life Cycle	Estimated Replacement Cost
6945	19	2008	CHEVROLET	COLORADO	12	\$ 30,000
10033	19	2012	FORD	F150	12	30,000
10034	19	2012	FORD	F150	12	30,000
10192	20	2016	CHEVROLET	COLORADO	10	30,000
6990	22	2009	INTERNATIONAL	7400	15	280,000
10042	22	2012	CHEVROLET	3500	12	50,000
7140	22	2010	CHEVROLET	C3500	12	50,000
6989	40	2009	CHEVROLET	COLORADO	15	35,000
1591	50	2020	CHEVROLET	TAHOE	5	65,000
1592	50	2020	CHEVROLET	TAHOE	5	65,000
1593	50	2020	CHEVROLET	TAHOE	5	65,000
10051	50	2012	CHEVROLET	EQUINOX	12	30,000
10135	60	2014	FREIGHTLINER	M2106	10	190,000
6821	70	2006	SMITHCO	48-000-CB	10	50,750
10035	80	2012	FORD	F150	12	50,000
New	50		Enclosed Trailer			10,000
New	70		Supervisor Vehicle			60,000
New	23		Ravo Street Sweeper			228,000
						\$ 1,348,750

The City's fuel costs should ease slightly this year due to anticipated price stability. Last year, the City budgeted wholesale fuel costs at a rate of \$3.01 per gallon of gasoline and \$3.07 for diesel in accordance with U.S. Energy Information Administration (EIA) estimates. Applying a wholesale discount rate of 20% to the 2025 EIA estimates of \$3.50 and \$3.90 per gallon for gasoline and diesel, yields a budgeted cost of \$2.80 and \$3.12 per gallon, respectively. Given the anticipated usage of each type of fuel, budgeted fuel expenditures are expected to decrease by 2.5%, to \$413,000. In accordance with guidelines and priorities set forth in the Centennial Master Plan, the City recently purchased its first electric vehicle (EV) for the Parks department, and is considering additions to the fleet to replace existing ICE (internal combustion engine) vehicles.

The proposed budget also provides an increase in the costs of utility services (electric, gas, water and certain phone services) provided to City facilities. The largest component of this cost category is electricity, which the City purchases through participation in the Texas Coalition for Affordable Power (TCAP), a "pool" of cities that aggregate power needs to negotiate better electric prices for its members. Overall, the City anticipates a 6 percent increase in budgeted utility costs, to \$804,000 from \$760,000 the year before.

Aquatics

The FY2025 proposed Budget recommends a structural change to the General Fund to alleviate the property tax burden of increasing costs at the Holmes Aquatic Center. The Holmes Aquatic Center continues to be a major community attraction, with 25,000 admissions each year. However, pool expenses continue to increase with an average annual expenditure increase of 10 percent since FY2022. In addition, the Holmes Aquatic Center will need capital investment for major repairs to the pool plumbing and pumping equipment. To address rising costs

and to alleviate the property tax burden within the General Fund, the FY2025 Budget proposes removing the swimming pool budget from the General Fund.

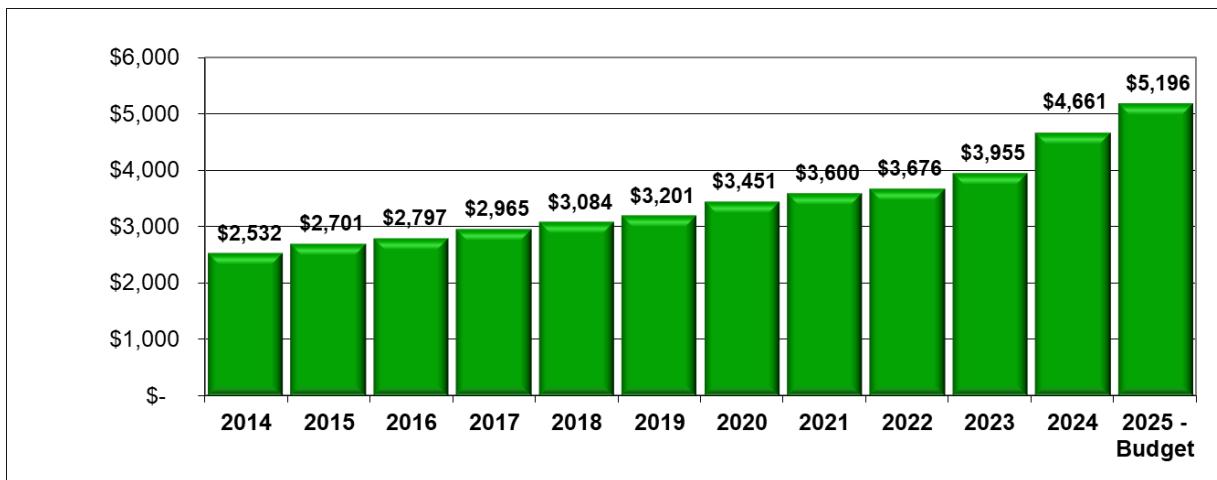
To remove the swimming pool expenses from the General Fund, the City will need to create an Aquatics Fund and provide temporary funding through a transfer of fund balance. The fund balance transfer will provide the Holmes Aquatic Center with temporary operating capital with the goal of a self-sustaining Aquatics Fund in the future. This will require a review of both expenditures and revenues to reach this goal. The general public that utilizes the pool will not see a change in the pool's operations.

FUND ANALYSIS

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 FY2025 budget anticipates revenues from current year property tax totaling \$26,931,487. Additional details of major revenue sources for the General Fund are provided below.

Property Tax: The FY2025 budget recommends a property tax rate of 22.9964 cents (per hundred dollars of value), which is .6262 cents lower than the previous year's rate. Combined with the 9.5 percent growth in city-wide taxable property value, the corresponding increase in property tax revenue is 6.6 percent, or \$1,670,821. The average single-family property (which appreciated 14.5% during the same period) with a 20 percent homestead exemption would pay \$5,196 in property taxes to the City in fiscal 2025, an increase of \$534 from the prior year. It should be noted however, that individual taxpayers are limited to a 10% increase in the taxable value of their property each year, which limits their increase accordingly. The following table provides a historical perspective of property taxes related to the average single-family property, without regards to the 10 percent "cap".



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.

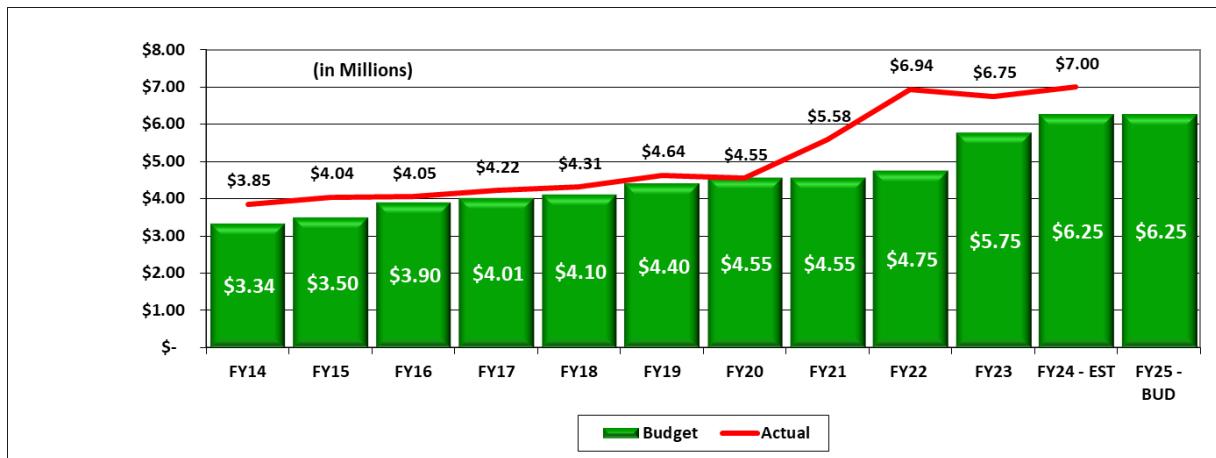
For FY2025, the maximum proposed tax rate of 22.9964 cents per hundred is higher than the NNRR of 21.1442 cents; therefore, the City is required to conduct one public hearing before adopting the FY2025 tax rate.

Revenues that support the General Fund that are derived from sources other than current year property taxes (and related accounts) account for 36 percent or \$15,321,750 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.

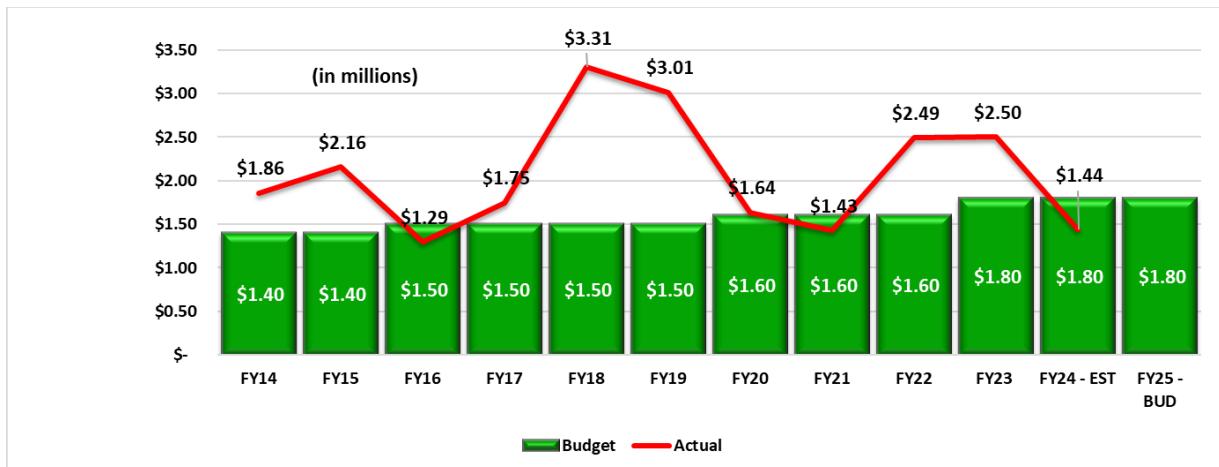
Sales Tax: While revenue collected from City sales taxes has steadily risen for the last several years (and somewhat dramatically during COVID), sales tax collections appear to be leveling-off. Therefore, the proposed FY2025 budget does not include an increase in sales tax revenue. Year-to-date, the City has collected \$6.6 million in sales tax. With two months remaining in the current fiscal year, the City projects sales tax collections to exceed the total budgeted amount of \$6,250,000 by almost \$750,000. However, according to the Bureau of Economic Activity, estimated consumer spending only increased 0.3% in June, with overall spending growth slowing.

Given the limitations on property tax growth, it is important that the City 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 Snider Plaza and the Miracle Mile (Lovers Lane from Douglas to the Tollway) highlight this approach to investing in retail centers.



Building Permits: A number of factors can cause 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 nearly 100 new single-family home permits in a year, and permit revenues exceed budgeted amounts. However, building permits for new single-family home construction has tapered-off this year. For the calendar year, the City has issued 29 permits for new single-family construction. In the previous three years (2021-2023), the City averaged 36 permits for new single-family construction.

Since housing can be a volatile market, and revenues were increased last year, the FY2025 budget recommends maintaining projected revenues of \$1.8 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 over \$2.7 million in additional funding resulting from transfers of "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 FY2025 budget includes a revenue projection of \$1.845 million for all franchise fees, a \$25,000 decrease from the previous year. Changes made to State laws regarding telecom franchise fees continue to pull revenue down, with franchise fees from AT&T trending down the last few years.

There are a number of factors that help explain the relative stagnation 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. In prior years, the electrical consumption marketplace has seen a variety of cost-saving applications, which has resulted in cost-savings to the consumer. Unfortunately for consumers, energy prices continue to rise, resulting in higher collections for gas and electric franchise fees.

Utility Fund

The Utility Fund is responsible for providing the resources necessary to deliver clean drinking water and the collection/treatment/disposal of wastewater. The Utility Fund accomplishes this with long-standing partnerships involving three entities: the Dallas County Park Cities Municipal Utility District (DCPCMUD), the City of Dallas Water Utilities (DWU), and the City of University Park. While revenues and expenditures are heavily volume dependent and may change dramatically from one year to the next, the final retail rates of water and sewer services is a function of the operational costs of all three entities. The FY2025 budget recommends a 5 percent increase to water rates, while a 10 percent increase is necessary for sewer. To better understand the proposed cost increases facing the Utility Fund, a brief summary of issues facing each entity is provided.

Dallas County Park Cities MUD - The Town of Highland Park and City of University Park receive potable water from DCPCMUD. Water from Lake Grapevine is treated at the DCPCMUD water plant located just west of Love Field, with potable water entering the City's water distribution system through the Germany Park Booster Station. The DCPCMUD continues to experience higher operational costs due to increasing chemical/material costs, water testing, and labor/wages. In addition, the Board has established new fund reserves guidelines. The overall wholesale rates charged to the City of University Park for potable water will increase 4.8 percent in FY2025, an overall increase of \$350,000.

Dallas Water Utilities – The City of Dallas provides wastewater treatment services to a number of customer cities, including University Park and Highland Park. Wastewater flows south from University Park into a shared trunk sanitary sewer main along Lakeside Avenue in Highland Park. Flows are then captured by the City of Dallas, south of Wycliff Avenue. To establish rates that cover operational costs, Dallas Water Utilities performs a cost-of-service study that evaluates a number of factors including wastewater volume, infiltration/inflow, delivery flow rate characteristics, and strength characteristics of each customer group. Based on the results of this study, the City of Dallas will charge a rate of \$3.26 per 1000 gallons, while also increasing the volume of wastewater received by 6 percent due to unaccounted infiltration/inflow into their system. The combination of these two rate changes will increase anticipated treatment costs by \$409,000 for FY2025.

City of University Park – The City of University Park serves the role of retail provider for water and wastewater services. Retail services include meter reading, billing services, and maintenance of the water and sewer infrastructure. The City of University Park maintains 89 miles of water mains and 63 miles of sanitary sewer mains. Since the adoption of the 1989 Master Plan, the City has planned to replace a mile per year (MPY) of water mains and sanitary sewer main – primarily in concert with alley replacement. Facing increasing costs and fewer bidding contractors, the City took the calculated risk of bringing these services in-house.

As a result of data obtained by performing pilot projects with existing employees as compared with recent contractor pricing, the City believed that a new operational unit devoted to water, sewer, and alley reconstruction could provide overall cost savings to the City. However, labor market disruptions during the COVID-19 pandemic, coupled with a strong labor market rebound have resulted in difficulty recruiting and retaining qualified individuals for this work. In addition, the City has modified its bidding and contracting approach for private contractors, which has resulted in a more competitive environment. Therefore, the FY2025 Budget shifts the funding from the in-house MPY program back to the Capital Projects Fund. Commensurate with that shift, the Utility Fund will revert to its previous level of Capital Project funding.

Sanitation Fund

The City created the Sanitation Fund in 1994 to remove expenditures for the collection of solid waste from the General Fund. When factoring out the reserve contingency, the Sanitation Fund has struggled to maintain a positive cash flow in the recent and distant past. 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 aid 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, with an anticipated FY2025 expenditure increase of \$83,240 or 2.1 percent. However, the proposed budget does not recommend a fee increase for the upcoming year.

Based on a recommendation of the Long-Term Financial Planning Subcommittee, the City created a new transfer within the 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 FY2025 budget remains \$30,000, with the ultimate goal of

phasing in a maximum transfer of \$150,000. To mitigate a fee increase for the FY2025 budget, the transfer amount is again recommended to remain the same as the previous year.

Stormwater Fund

The Stormwater Fund derives its revenue from a line item on the monthly utility bill, and is based on the zoning district of the property owner. The fees received by this fund are dedicated to pay for projects and operational expenses (such as street sweeping and pond dredging) that are directly related to the City's stormwater system, as well as debt service. The City has traditionally contracted street sweeping services; however, provider costs have dramatically increased and fewer contractors are performing these tasks. The proposed FY2025 budget includes funding for the purchase or lease of a street sweeper to be operated by existing City personnel.

The City's Stormwater Master Plan identified major deficiencies in the City's stormwater capacity, especially in the northeast portion of our community. The estimated cost for the needed improvements in these neighborhoods is in excess of \$70 million. Construction was completed along Hillcrest Avenue and Southwestern Boulevard to increase the capacity of storm drainage pipes and to connect the system to the new 3.5 million-gallon Caruth Park underground detention basin. The City Council awarded a design contract to address urban flooding along the Turtle Creek corridor from Northwest Highway to Lovers Lane. Staff anticipates presenting the results of the design contract in the 4Q of 2024, and discussing with City Council potential project scope and costs for this drainage area.

All potential improvements to the storm sewer system will be reviewed and funded through the Capital Projects Fund. As previously noted, the City issued \$15 million in certificates of obligation to fund the first three phases of the stormwater improvements. The FY2025 budget proposes the fourth of five fee increases necessary to cover the cost of the debt service. Generally speaking, 70 percent of all customers paid between \$5.57 and \$7.12 per month in stormwater fees in FY2021. Once the fifth and final fee increase is implemented in FY2026, those fees will have increased to \$16.71 and \$21.29 per month, respectively. The scale of proposed improvements that are currently under design will require additional debt funding.

FUTURE CONSIDERATIONS

The proposed FY2025 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 FY2025 budget. The following items represent a quick overview of these issues:

- *Community Conversation Regarding a Voter Approval Budget:* The national, state and local economies continue to remain strong with positive growth. University Park enjoys a robust housing market that continues to show overall valuation growth. However, concerns are visible with economic indicators warning that the overall economy could be cooling. With these concerns in mind, community conversations about a potential voter-approval budget in the future should begin. As outlined below, capital, operating, and public safety expenses are increasing while community expectations about the City's operational capacity and capital needs are also increasing. To address these needs and to evaluate existing expenditure levels, an ongoing policy discussion about the merits of a budget with property tax revenues above the 3.5 percent threshold is warranted.
- *Operations & Maintenance Funding:* The operational budget provides the necessary resources for the City to continue providing public services at a high level. The General Fund, which provides traditional governmental services (i.e., Police, Fire, Parks & Recreation, Code Enforcement) is subject to state-mandated annual revenue limits to ease property tax burdens. For cities with limited or no growth, the revenue limits create challenges to the City expanding services without providing new revenue sources or corresponding expenditure cuts. With a number of Centennial Master Plan goals and action items that seek to expand or enhance City services, the City will need to carefully evaluate current revenues and expenditures to determine the financial feasibility of these goals. If there are community goals that require additional staffing or large reoccurring expenditures, the City will need to evaluate a future budget that could require voter approval. Remaining competitive with surrounding cities for talented employees is crucial to the success of the City's recruitment and retention. Ongoing conversations with the Employee Benefits and Finance Advisory Committee about the City's Texas Municipal Retirement System program should continue, with a goal of adopting a reoccurring (versus the current ad hoc adoption schedule) Updated Service Credit and Cost-of-Living Adjustment by FY2030.
- *Capital Funding:* The City is in the process of working on a long-term stormwater master plan to address areas of the community that are prone to flash flooding. The master plan utilizes a model to show the effects of storms based upon varying rainfall intensities. This model is assisting staff in developing design guidelines for new capital projects. Most recently, the City completed substantial improvements to the drainage collection and detention systems around Caruth Park. This project has been successful in reducing flash flooding in the targeted areas within the northeast section of the city. However, a substantial amount of work along the Turtle Creek corridor from Northwest Highway to Lovers Lane remains before other areas can receive added protection of underground stormwater detention.

Conceptual improvements identified by the City's consulting engineers along the Turtle Creek corridor include new underground detention and collection systems with preliminary estimates of probable cost exceeding \$70 million. While the City Council awarded a contract to design these improvements, funding for construction will require the City to utilize debt financing. Utilization of debt-financing helps ease the burden of the City's traditional pay-as-you-go Capital Improvement Program by removing large

stormwater expenditures from the 5-year plan. Staff anticipates that project designs will be ready for review by City Council in the fourth quarter of 2024. The expected bond program will depend upon the scope and timing of when to start these projects

- *Public Safety* – the Centennial Master Plan identifies a number of community priorities related to public safety. These goals range from compensation objectives to enhanced facilities for training. In addition, to the master plan goals, public safety expenditures will increase in the future. Anticipated cost increases include the following:

1. Public safety radio maintenance fees that are scheduled to come online in FY2026.
2. New personnel for school resource officers, police patrol and firefighters.
3. Pension liabilities for the Firefighters Relief and Retirement Fund.
4. Replacement Fire Engine to decommission existing reserve unit.

Staff will need to work with the City Council, Public Safety Advisory Committee, and members of the public to determine how best to meet community needs related to public safety in a limited fiscal environment.

- *Aquatics Fund* – the Holmes Aquatic Center enjoys widespread support throughout the community. The proposed changes to the fund structure in the FY2025 Budget are not intended to change the user experience at the pool. However, the increased expenditures required to operate a pool warrant a new approach with a goal of operating a self-sustaining or as close to self-sustaining pool as possible. While maintaining or improving the current service level at the Holmes Aquatics Center may require on-going assistance from the General Fund, creating the Aquatics Fund will give staff, the Parks Advisory Committee, and City Council the opportunity to objectively evaluate the pool's expenditures and revenues on a stand-alone basis.