

BUDGET MESSAGE



August 16, 2023

Honorable Mayor & City Council,

The City of University Park will celebrate its Centennial in April 2024. While the City Council has appointed a committee to oversee commemorative festivities and related special events, the continued success of the community will rely on well-established traditions of community engagement and planning. The recently adopted Centennial Master Plan is illustrative of this tradition that pairs advance planning with community participation. The proposed budget seeks to provide funding solutions to address many of the action items and goals contained within the plan.

Totaling \$65.8 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 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. A detailed analysis at the fund level is provided later in this letter, but it is worth mentioning the most notable pressures facing expenditures and revenues.

Inflation continues to persist in the national and local economies. The Bureau of Labor Statistics reports that the Consumer Price Index for the DFW Region rose 4 percent from the prior year. While this is a significant improvement from last year, it continues to increase expenditure pressure for this year. Wages also continue to increase, with the Dallas Federal Reserve reporting that wages in DFW are up 1.4 percent, which is less than gains of 4.2 percent in Texas and 4.3 percent in the U.S. Given this environment, total expenditures in the FY2024 budget represent a 7.4 percent increase from the previous year. While expenditure increases in the past five budget cycles have averaged a more modest 2.2 percent, higher expenditure growth in this fiscal year continues to be driven by inflationary pressures and wage growth.

While inflation contributes to rising expenditures, it also provides added non-property tax revenue with increased sales tax and franchise fees. However, growth in non-property tax revenues is slowing from last year's pace. For example, budgeted sales tax is up 10 percent this year compared with 20 percent last year. Revenue from franchise fees are also projected to increase, primarily due to strong sales from Atmos Energy. However, all other franchise fees are remaining steady or decreasing.

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.

FY2024 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:

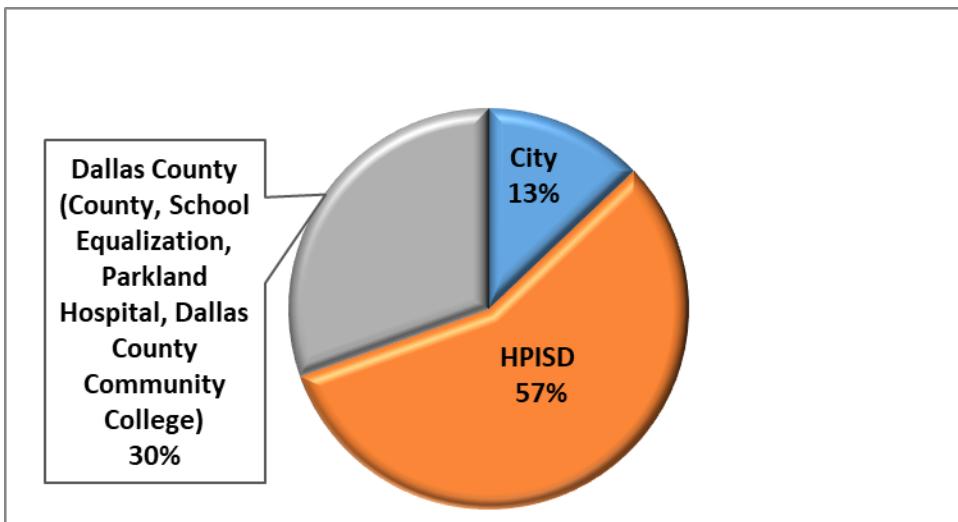
| Fund | Core Services | Primary Revenue Sources |
|------------|--|---|
| General | Police, Fire, Parks, Street Maintenance, Traffic Management, Building Inspections, Library, and General Administration | Property Taxes Sales Taxes Fines & Fees Franchise Fees |
| Utility | Water Distribution & Wastewater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

Highlights of the FY2024 Budget include the following items:

- Wage and salary adjustments that are necessary to recruit and retain talented public sector employees;
- Enhanced Direct Alarm services;
- Funding for a community survey;
- Increased financial reserves for the Sanitation Division;
- Increased funding for pension liabilities;
- Increased funding for expanded hours of operation for the Holmes Aquatic Center and providing competitive salaries for aquatics staff;
- Continued funding increases for capital projects.

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 FY2024 budget recommends a tax rate decrease from 24.5975 to 23.6226. The average single-family homeowner with a homestead exemption will pay approximately \$59 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 13 percent.



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 Texas Legislature passed SB2 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 \$825,000, depending on actual prior year collections. The financial model provides an extended view of budgetary pressures given the new property tax caps. Both expenditure limitations and the need to grow non-property tax revenues are essential for long-term budgetary sustainability. However, the additive pressures of inflationary environments, pension obligations, and the desire to enhance city services could result in a future budget that requests voter approval above the 3.5 percent cap.

| 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 Centennial Master Plan is 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, project consultants, and over 4,000 community participants, the plan was adopted by the City Council in June 2022 with 72 action items organized by the following five themes:

1. **Affirming Sense of Place** – Goals organized around preserving the beauty, character, safety, and sense of cohesion in University Park.
2. **Assuring Connectivity** – Goals related to streets, parking, trails, utilities, communication, and programs that allow residents to move freely, do their business, and connect.
3. **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.

4. **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

Funding for many of these priorities are included in the proposed FY2024 budget. Other items will be funded through the City's Capital Improvement Program.

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 budget 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 FY2024 budget's adoption:

| Date | Day | Description |
|--------------|----------|---|
| August 8 | Tuesday | Approve resolution adopting maximum tax rate |
| August 17 | Thursday | Final Finance Advisory Committee Review |
| August 18 | Friday | Submit proposed draft budget to the City Council and City Secretary |
| September 5 | Tuesday | Conduct Budget Hearing |
| September 19 | 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 FY2024 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 \$65,817,493 which is a 7.4 percent or \$4,548,608 increase from the previous year. The table below compares the total expenditures for the City's four budgeted funds – General, Utility, Sanitation and Stormwater. 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 four budgeted funds as transfers.

| Fund | FY2022 Actual | FY2023 Adopted | FY2024 Proposed | \$ Change | % Change |
|--------------|----------------------|----------------------|----------------------|---------------------|-------------|
| | Expenditures | Budget | Budget | | |
| General | \$ 38,777,398 | \$ 38,109,447 | \$ 40,810,416 | \$ 2,700,969 | 7.1% |
| Utility | 16,935,481 | 18,457,353 | 20,338,784 | 1,881,431 | 10.2% |
| Sanitation | 3,638,419 | 3,805,422 | 4,068,047 | 262,625 | 6.9% |
| Storm Water | 514,401 | 896,663 | 600,246 | (296,417) | -33.1% |
| Total | \$ 59,865,699 | \$ 61,268,885 | \$ 65,817,493 | \$ 4,548,608 | 7.4% |

Over 80 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 FY2024 budget. The financial impact of these six categories is demonstrated in the following table with additional information detailed below.

| Category | FY2022 ACTUAL | FY2023 BUDGET | FY2024 BUDGET | \$ Change | % Change |
|-----------------------------|----------------------|----------------------|----------------------|---------------------|-------------|
| Personnel costs | \$ 29,403,619 | \$ 30,308,039 | \$ 32,511,624 | \$ 2,203,585 | 7.3% |
| Treatment charges | \$ 9,399,967 | \$ 9,568,477 | \$ 11,041,415 | \$ 1,472,938 | 15.4% |
| Capital project funding | \$ 8,022,010 | \$ 7,591,710 | \$ 7,086,296 | \$ (505,414) | -6.7% |
| Utilities/Telephone | \$ 698,455 | \$ 887,449 | \$ 945,413 | \$ 57,964 | 6.5% |
| Equip. Replacement | \$ 1,062,442 | \$ 1,152,109 | \$ 1,151,534 | \$ (575) | 0.0% |
| Fuel costs | \$ 385,152 | \$ 437,342 | \$ 419,045 | \$ (18,297) | -4.2% |
| Subtotal | \$ 48,971,644 | \$ 49,945,126 | \$ 53,155,327 | \$ 3,210,201 | 6.4% |
| All Other Expenses | \$ 10,894,055 | \$ 11,323,759 | \$ 12,662,166 | \$ 1,338,407 | 11.8% |
| Total adopted budget | \$ 59,865,699 | \$ 61,268,885 | \$ 65,817,493 | \$ 4,548,608 | 7.4% |
| Percent of budget | 82% | 82% | 81% | | |

Over the past year, the Consumer Price Index (CPI) for the Dallas-Fort Worth region has increased 4 percent and the Municipal Cost Index (MCI), which more closely tracks services and goods municipalities purchase, increased 0.3 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.

Personnel Costs

Since the City adopted its new pay plan in 2019, labor markets across all sectors of the economy have struggled to adapt to new employee expectations for work environment and pay. While the rate of turnover has cooled, employers are still struggling to attract and retain quality employees. Recognizing that the services provided by the City of University Park are performed by talented individuals with the ability 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.

Consistent with previous years, the City re-engaged Public Sector Personnel Consultants to evaluate a number of positions within the pay plan that 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 \$495,000.
- Cost of Living: Funding has been provided for a 2 percent across the board increase to all positions (excluding Public Safety) within the pay plan. This cost-of-living adjustment for these positions is \$225,000.
- Market Adjustments (Public Safety): Based on market data of comparator cities, compensation for sworn positions in the Police and Fire Departments have experienced substantial growth within the last year. When added to the 2 percent cost-of-living adjustment, the proposed market-based adjustment for sworn personnel results in an increase of 5 percent. The estimated cost of the market and cost of living adjustments for the Police and Fire Departments is \$358,000.
- Market Adjustments/Reclassifications (Non-Public Safety): Market-based and classification adjustments have also been identified for 37 civilian 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 \$153,000.

Personnel: There is one additional position recommended in the FY2024 Budget. The Police Department has requested a Direct Alarm Technician Specialist to assist with expanded service offerings. The salary and benefits of the new position will cost \$76,000.

Benefits: The City also offers a comprehensive benefit package to its employees, including insurance, retirement, and longevity pay. The proposed budget for FY2024 includes the following adjustments to employee benefits:

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

- *Juneteenth Holiday* – City staff proposed the addition of a new holiday to recognize Juneteenth. The Employee Benefits Committee reviewed the existing list of observed employee holidays with comparator cities and recommended the City add this holiday.
- *Retirement Funding* – In recent years, the City has taken significant steps to secure long-term funding for the City’s various retirement plans. For the past two budget cycles, the City has paid above the recommended actuarial contribution to the Texas Municipal Retirement System (TMRS). Based on these payments and one-time transfers, the retirement plan is 97.8 percent funded. The FY2024 budget proposes an increased contribution rate of 8.59 percent, which is the recommended actuarial contribution from TMRS. The City typically provides a cost-of-living adjustment/updated service credits to this plan every five years. The last COLA and updated service credit that was approved for this plan was in 2018. While this budget year would typically include these benefit changes for retirees, the added contribution cost of \$800,000 was not financially feasible. Staff will look to include these benefit changes in the FY25 Budget.

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 most recent actuarial valuation of the plan, the annual contribution needed to ensure full actuarial funding is \$1.450 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 FY2024 budget recommends an increase in the FRRF contribution rate of approximately 11 percent, or \$141,800 and a transfer of 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 FY2024, the combined costs of water and wastewater treatment are expected to increase, with the rates charged to the City by the DCPCMUD for the treatment of potable water increasing 27 percent and wastewater treatment rates charged by DWU increasing 4.4 percent. A second component of the DWU water charge (known as “Infiltration and Inflow”, or “I&I”) allocates to customer cities any unreported

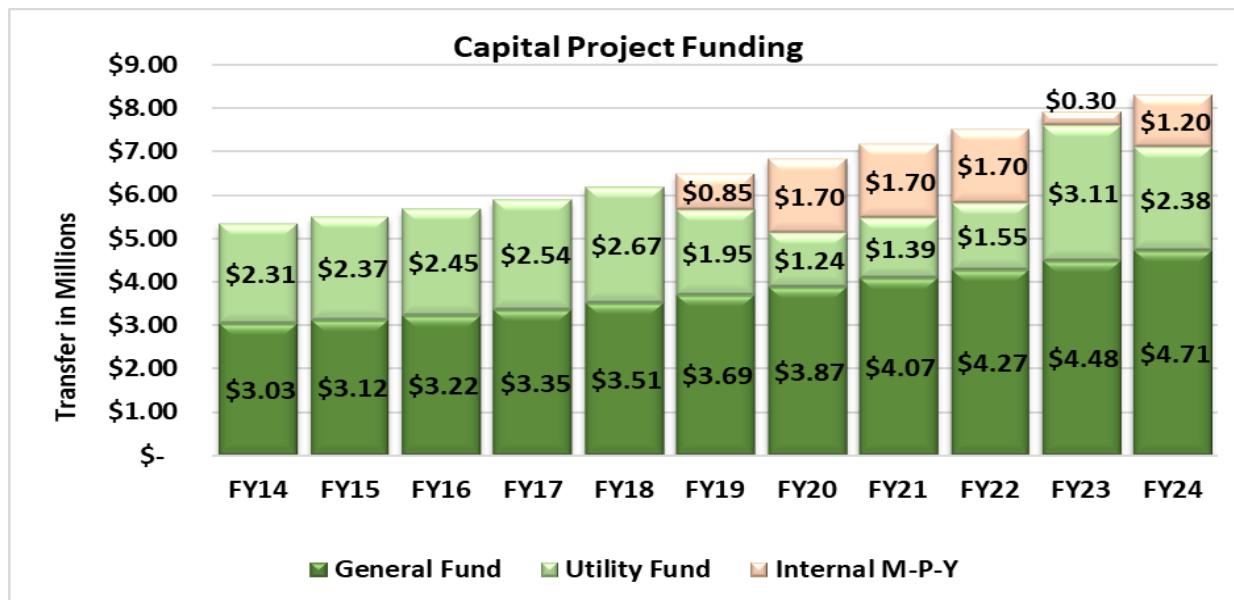
water that entered the treatment system, regardless of origin. This rate decreased by seven percent from the prior year.

Based on expected water sales (derived from an average of the previous five years actual sales volumes) and the increased rate of \$3.76 per 1,000 gallons, the cost of treated water from the DCPCMUD is expected to increase by \$1,990,552 (36.7%) in FY24. Based on lower winter average consumption (as measured from December 2022 to March 2023), a decrease in the I&I factor, and an increased rate of \$3.10 per 1,000 gallons of wastewater treated, overall costs from DWU are expected to decrease by \$517,600. The combined DCPCMUD and DWU costs for FY24 will result in a net cost increase of \$1,472,938. Significant water rate increases will be needed to cover the increased cost of treated water.

Capital Expenditures

The City issued \$15 million in certificates of obligation (CO) in 2021 to fund various stormwater improvements. The CO issuance is backed by the City's full faith and credit, but the debt service is 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 five-year period, which were approved by City Council during the FY2022 fiscal year. The increase for fiscal 2024 is 22 percent, which equates to approximately \$2.22 per month. With design work currently underway for additional stormwater improvements, additional bond issuances will be needed to fund this new infrastructure.

The proposed budget also continues the tradition of funding capital projects for Public Works, Public Safety and Parks through a pay-as-you-go system. The City established a separate Capital Projects Fund that receives annual transfers from the General Fund and Utility Fund. Since the adoption of the FY15 budget, the City has steadily increased the General Fund transfer into the Capital Projects Fund by five percent annually. The FY2024 budget recommends continuing the five percent increase in Capital Projects funding, at a gross cost of \$8,290,000.



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 FY2023 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.

| | FY2023 YEAR 1 ESTIMATED SPENDING | FY2024 YEAR 2 ESTIMATED SPENDING | FY2025 YEAR 3 ESTIMATED SPENDING | FY2026 YEAR 4 ESTIMATED SPENDING | FY2027 YEAR 5 ESTIMATED SPENDING | 5 YEAR FORECAST TOTAL |
|--|---|---|---|---|---|-----------------------------|
| Beginning Balance | 25,290,922 | (4,691,742) | (17,082,844) | (22,562,882) | (31,643,944) | 25,290,922 |
| Revenues/Cash In | | | | | | |
| Transfer from General Fund | 4,483,318 | 4,707,484 | 4,942,858 | 5,190,001 | 5,449,501 | 24,773,162 |
| Transfer from Utility Fund | 3,108,392 | 3,278,812 | 3,457,753 | 1,395,641 | 1,592,923 | 12,833,521 |
| Investment income | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 | 125,000 |
| Other Revenues -DART | 2,070,594 | 2,132,712 | 2,196,694 | - | - | 6,400,000 |
| Other Revenues - ARPA FUNDING | - | - | - | - | - | - |
| DEBT ISSUANCE | - | - | - | - | - | - |
| Other Revenues - DC/MCIP Reimbursement | 2,600,000 | 2,500,000 | 500,000 | 3,000,000 | 2,000,000 | 10,600,000 |
| Other Revenues - Building Permit Transfer | | | | | | |
| Other Revenues - Grants (Dispatch Project) | 550,000 | - | - | - | - | 550,000 |
| Total Revenues/Cash | 12,837,304 | 12,644,008 | 11,122,305 | 9,610,642 | 9,067,424 | 55,281,683 |
| Total Available Resources | 38,128,226 | 7,952,266 | (5,960,539) | (12,952,240) | (22,576,519) | 80,572,605 |
| Expenditures | | | | | | |
| Personnel and Other | 137,000 | 141,110 | 145,343 | 149,704 | 154,195 | 727,352 |
| Information Technology | 650,000 | 0 | 350,000 | 0 | 0 | 1,000,000 |
| Parks | 2,982,865 | 811,000 | 665,000 | 725,000 | 615,000 | 5,798,865 |
| Public Safety | 2,260,782 | 1,375,000 | 0 | 0 | 200,000 | 3,835,782 |
| Public Works | 36,489,321 | 22,408,000 | 15,442,000 | 17,817,000 | 12,083,000 | 104,239,321 |
| Unplanned Proj/Emergency Repairs | 300,000 | 300,000 | 0 | 0 | 0 | 600,000 |
| Project expenditures | 42,682,968 | 24,894,000 | 16,457,000 | 18,542,000 | 12,898,000 | 115,473,968 |
| Total Expenditures | 42,819,968 | 25,035,110 | 16,602,343 | 18,691,704 | 13,052,195 | 116,201,320 |
| Ending Balance | (4,691,742) | (17,082,844) | (22,562,882) | (31,643,944) | (35,628,714) | (35,628,714) |

Equipment Replacement, Fuel & Electricity

The City has established a sinking fund for all new and replacement vehicles. Each department incurs yearly expenditures based on the depreciation schedule of the vehicles in its fleet. Once a vehicle is scheduled for replacement, the contributions made by the department are available within the fund to purchase a new vehicle. Contributions to the Equipment Services Fund are essentially flat with last fiscal year, at a total budgeted amount of \$1,152,000.

The proposed budget continues a policy for vehicle replacement funding whereby the fund balance is maintained at a minimum level of no less than 20 to 25 percent of the current replacement value of the City's entire fleet. To ensure future purchases are adequately funded through the expected life cycle,

departmental fees for the annual depreciation of vehicles are set to 105 percent of the vehicle cost. This helps ensure that adequate funding will be in place at the time of future vehicle purchases.

Vehicles and equipment anticipated to be replaced in FY2024 are as follows:

| Unit # | Dept | Year | Make | Model | Service Life | Estimated Replacement cost |
|---------------|-------------|-------------|--------------------|--------------------|---------------------|-----------------------------------|
| 7139 | 22 | 2010 | CHEVROLET | C3500 | 12 | \$63,000.00 |
| 7140 | 22 | 2010 | CHEVROLET | C3500 | 12 | \$63,000.00 |
| | | | | | | \$126,000.00 |
| 10006 | 40 | 2011 | CHEVROLET | TAHOE | 12 | \$60,000.00 |
| 6855 | 50 | 2007 | CHEVROLET | TAHOE | 15 | \$50,000.00 |
| 1588 | 50 | 2019 | CHEVROLET | TAHOE | 5 | \$65,000.00 |
| 1589 | 50 | 2019 | CHEVROLET | TAHOE | 5 | \$65,000.00 |
| 1590 | 50 | 2019 | CHEVROLET | TAHOE | 5 | \$65,000.00 |
| | | | | | | \$245,000.00 |
| 6958 | 60 | 2008 | INTERNATIONAL | 5500 | 15 | \$185,000.00 |
| 10092 | 60 | 2013 | FREIGHTLINER | M2106 | 10 | \$190,000.00 |
| 10096 | 60 | 2013 | FREIGHTLINER | M2106 | 10 | \$190,000.00 |
| 10097 | 60 | 2013 | FREIGHTLINER | M2106 | 10 | \$190,000.00 |
| | | | | | | \$755,000.00 |
| 7049 | 70 | 2009 | FORD | F-550 | 15 | \$60,000.00 |
| 7082 | 70 | 2010 | FORD | FOCUS | 15 | \$40,000.00 |
| 6396 | 70 | 2002 | INTERNATIONAL | 4700 | 20 | \$180,000.00 |
| 6472 | 70 | 2002 | INTERNATIONAL | 4300 | 20 | \$150,000.00 |
| | 70 | | ENCLOSED TRAILER | | | \$8,000.00 |
| | 70 | | MOBILE LIFT SYSTEM | | | \$10,300.00 |
| | | | | | | \$448,300.00 |
| | | | | GRAND TOTAL | | \$1,634,300.00 |

The City's fuel costs will decrease slightly in FY2024, due to cost expectations. Last year, the City budgeted fuel costs at a rate of \$2.95 per gallon of gasoline and \$3.39 for diesel in accordance with longstanding methodology of discounting U.S. Energy Information Administration (EIA) estimates, to approximate local wholesale costs. Using undiscounted 2024 EIA estimates of \$3.34 and \$3.84 for gasoline and diesel respectively, the City is estimating its cost of fuel at \$3.01 and \$3.07. Based on average usage, budgeted fuel expenditures are expected to decrease \$18,300 (-4.2%) this fiscal year to a total budgeted cost of \$419,000. The City currently has an internal staff team evaluating the introduction of an electric vehicle fleet to replace existing ICE (internal combustion engine) vehicles.

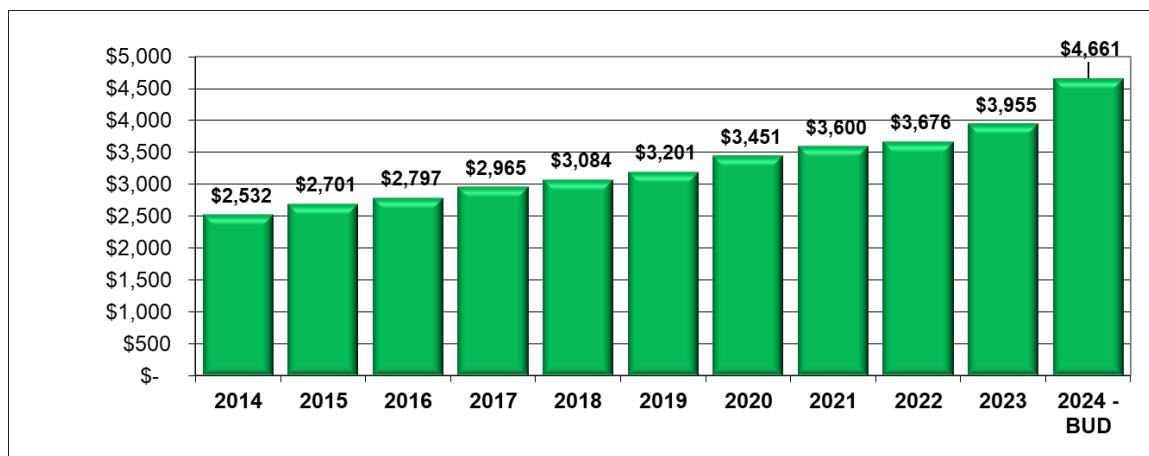
The proposed budget also provides an increase in the overall costs of utility services (electric, gas, water and certain phone services) provided to City facilities. The largest component of this cost category is electricity, which the City purchases through participation in the Texas Coalition for Affordable Power (TCAP), which is a pool of cities that aggregate power needs to negotiate better electric prices for its

members. Overall, the City anticipates an 18 percent increase in budgeted utility costs, to \$525,000 from \$446,100 the year before.

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 FY2024 budget anticipates revenues from current year property tax totaling \$25,260,666. Additional details of major revenue sources for the General Fund are provided below.

Property Tax: The FY2024 budget recommends a property tax rate of 23.6226 cents (per hundred dollars of value), which is 0.97 cents, (3.96 percent) lower than the previous year's rate. Combined with an 11.7 percent growth in city-wide taxable property value, the corresponding increase in property tax revenue is 7.3 percent, or \$1,710,969. The average single-family property with a 20 percent homestead exemption will pay \$4,661 in property taxes to the City next fiscal year, an annual increase of \$706. The following table provides a historical perspective of property taxes related to the average single-family property.

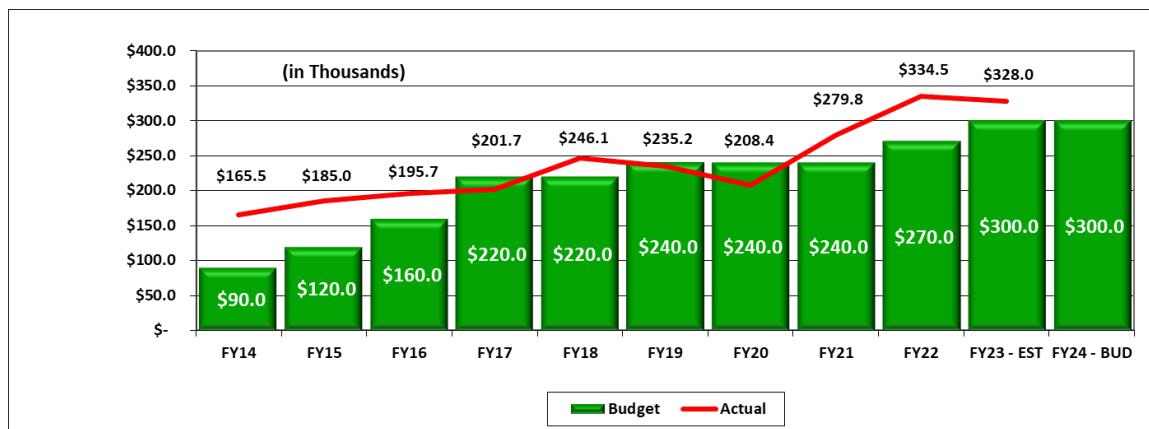
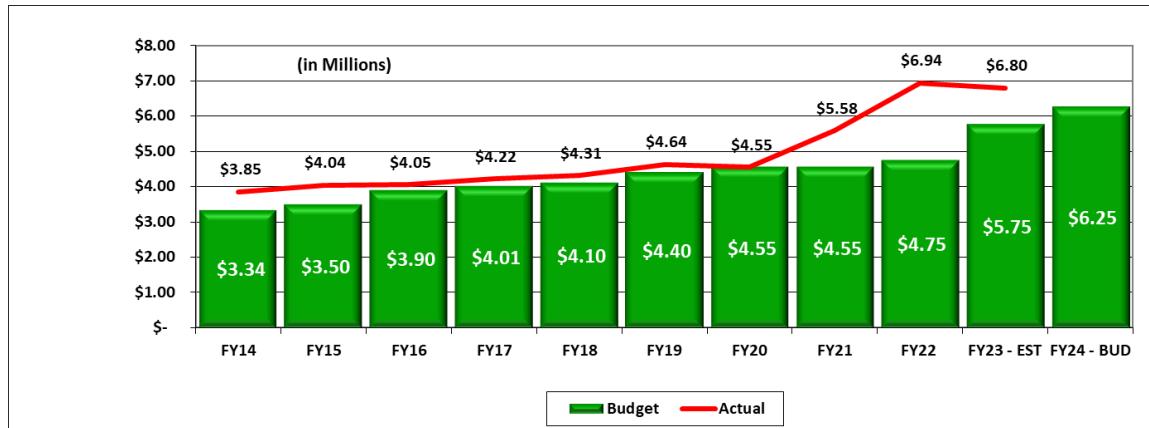


Truth in Taxation: The Texas Tax Code requires the calculation of a No New Revenue Rate (NNRR), which represents a calculated tax rate that would produce the same amount of taxes if applied to the same properties taxed in both years. The City's tax collector, the Dallas County Tax Office (DCTO), performs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

For FY2024, the maximum proposed tax rate of 23.8613 cents per hundred is higher than the NNRR of 21.6697 cents; therefore, the City is required to conduct one public hearing before adopting the FY2024 tax rate.

Revenues supporting the General Fund that are derived from sources other than current year property taxes (and related amounts) account for 38 percent or \$15,401,250 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: Recognizing that revenue collected from City sales taxes has steadily risen for the last several years, the proposed FY2024 budget includes a modest increase for sales tax. Based on sales taxes collected (or projected) during fiscal 2023, the City anticipates sales tax to increase 8.3 percent - with anticipated revenues of \$6,550,000 (including Mixed Beverage Taxes).

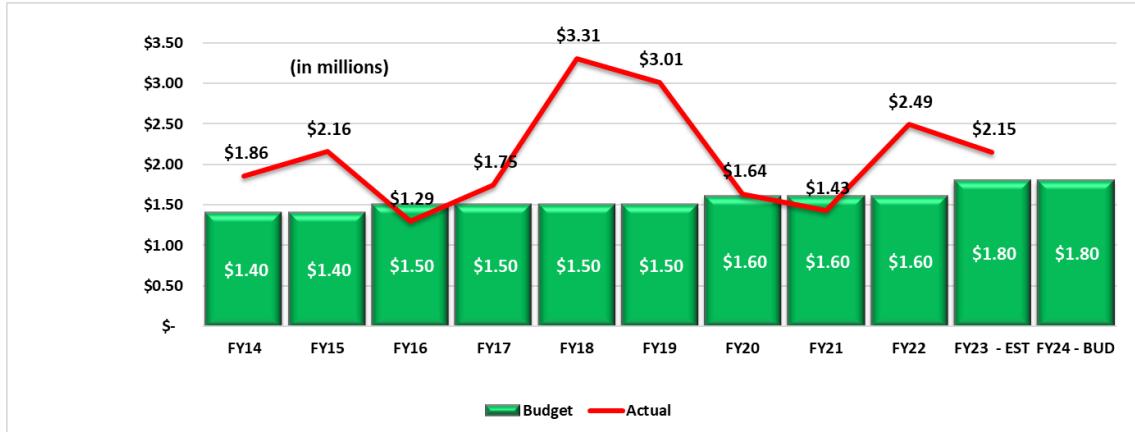


Given the new limitations on property tax growth, it is important that the City continue to invest in infrastructure projects that help improve vitality within the traditional retail shopping centers of University Park. Investment in the public spaces of these shopping centers may include expanded parking, improved pedestrian mobility, and enhanced landscaping. Improvements to 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.

Since housing can be a volatile market, and revenues were increased last year, the FY2024 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 FY2024 budget includes a revenue projection of \$1.87 million for all franchise fees, a \$75,000 (4.2 percent) increase from the previous year. While the telecom sector continues to constrict, increases are primarily attributable to the gas sector, due to increased costs of energy.

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 for consumers, which has resulted in cost-savings to the consumer. Unfortunately for consumers, energy prices continue to rise, resulting in higher collections for gas franchise fees. Lastly, the City has experienced reductions in franchise fees as a result of recent Texas legislative changes that modified the formula for telecommunications franchises.

Utility Fund

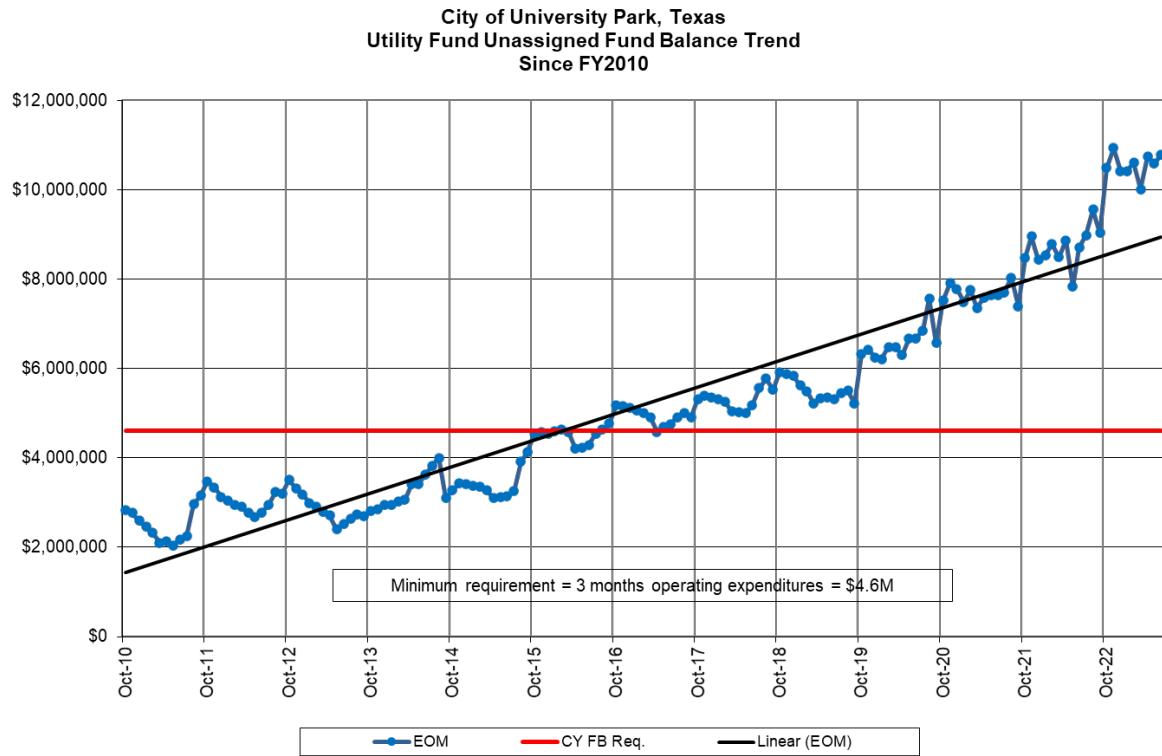
The Utility Fund is responsible for providing the resources necessary to deliver clean drinking water and the collection/treatment/disposal of wastewater. The Utility Fund accomplishes this with long-standing partnerships involving three entities: Dallas County Park Cities Municipal Utility District (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 operational costs of all three entities. The FY2024 budget recommends a 25 percent increase to water rates. 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 is experiencing 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 wholesale rate charged to the City of University Park for potable water will increase 27 percent in FY2024, as will the projected gallonage, resulting in an expected overall increase of \$1,990,552.

Dallas Water Utilities – The City of Dallas provides wastewater treatment services to 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 cost of service study, the City of Dallas will charge a rate of \$3.10 per 1000 gallons, which will decrease anticipated treatment cost by \$517,614 for FY2024.

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 determined that a new operational unit devoted to water, sewer, and alley reconstruction could provide overall cost savings to the City. The City would like to reestablish the in-house construction crew in the FY24 Budget. Funds that were set aside for contracting the MPY projects in the last fiscal year, will be repositioned in FY24 for the in-house construction program.

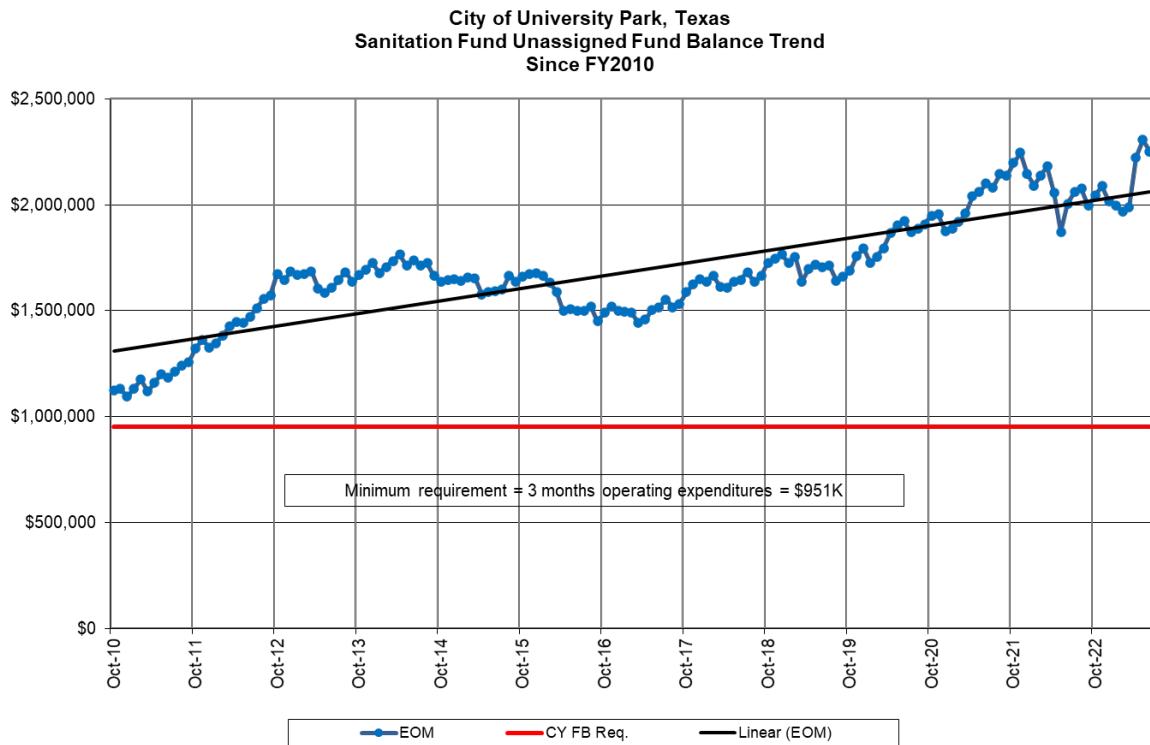


Sanitation Fund

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 continues to include 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 increased operational expenses.

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 FY2024 budget remains \$30,000, with the ultimate goal of phasing in a maximum transfer of \$150,000. To mitigate a fee increase for the FY2024 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 monthly utility bills based on the zoning district of the property owner. The fees that are directed to this fund are dedicated to pay for projects and operational expenses (such as street sweeping and pond dredging) directly related to the City's stormwater system. The City has been operating a pilot program to provide street sweeping services with existing City personnel; however, staff believes additional providers are now available. Given the large operational and capital costs of owning a street sweeper, staff believes that the traditional use of a private provider is the best way to provide street sweeping. The proposed FY2024 budget includes funding for contracting these services through a private provider.

The City's Stormwater Master Plan has 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.

All potential improvements to the storm sewer system will be reviewed and funded through the Capital Projects Fund; however, the City issued \$15 million in certificates of obligation to fund the first three phases of the stormwater improvements. The FY2024 budget proposes the third of five fee increases that will cover the costs of the new debt service. Generally speaking, 70 percent of all customers currently pay

between \$5.57 and \$7.12 per month for stormwater fees. Once the fifth and final fee increase is implemented in 2026, the fees will increase 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 FY2024 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 FY2024 budget. The following items represent a quick overview of these issues:

- *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 objectives that seek to expand or enhance City services, the City will need to carefully examine 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.
- *Stormwater Capital Funding:* The City has developed 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 on varying rainfall intensities. This model has assisted 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 use 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. However, the City's remaining infrastructure needs and high inflationary environment related to construction make funding this pay-as-you-go program more and more challenging.

- *Public Safety:* The Centennial Master Plan identifies a number of community priorities related to public safety. These goals range from new personnel 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 that is scheduled to come online in FY2026.
2. New personnel for school resource officers.

3. Pension liabilities for the Firefighters Relief and Retirement Fund.
4. Replacement of 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.