



INFORMATION MEMORANDUM

To: Mayor Robert C. Dye & City Council

Thru: Charles S. Cox, City Manager

From: Sherrelle Evans-Jones, Director of Finance

Date: September 11, 2018

Subject: 2017-18 Amended Budget & 2018-19 Proposed Budget Changes

The budget process is a yearly activity as set forth in the City Charter. The City Council adopts an annual budget prepared by City Administration, which is part of the strategic planning process the City uses to proactively forecast programs needed in a growing community. The budget process starts each year with a review of the strategic plan and city staff analyzing new projects and goals that the City Council has identified as areas of interest and would like to see developed into the strategic plan. The Finance department then updates projections of major revenue sources to determine whether total expenditures will need to be adjusted accordingly.

As part of the annual budget process, City Administration provides departments with guidelines to be used in preparing budget requests. The budget process is broken down into three parts: a year-end estimate, a base budget for the upcoming year, and identifying new programs and priorities for the new fiscal year. The City utilizes a conservative, realistic strategy when projecting revenues and expenditure. Revenue and expenditure patterns are closely monitored so that adjustments to spending can be implemented as needed. The City considers many influences and trend analysis to develop and manage the budget as the year progresses.

The first process, the year-end estimate, is a projection of revenues and expenditures for the remainder of the current fiscal year. All accounts are evaluated to determine whether they need to be adjusted from the current budget level and accounts that are over or under budget are revised to meet year-end needs. New projects are added to the year-end estimate as directed by City Council. Budget changes that do not affect the "bottom line" total for a department, but transfer dollars from one account to another within a department's operating budget, or changes between divisions within a department, are allowed at the City Manager's discretion. Any budget adjustment that brings about a change in the total appropriation for a department may be allowed by the City Manager, based on the City's ability to fund the request, provided the adjustment does not result in a change in total fund appropriations.

2017-18 YEAR-END ESTIMATES

Revenue Adjustments

The following highlights changes to the current year's primary revenue classifications for each fund as a result of the year-end budget estimate process:

General Fund Revenue Class Variations – Estimated Net Increase 1.94% (\$1,109,300)

<i>Taxes</i>	Property Taxes (current year, prior year, and penalties and interest) represent 44.90% (\$26,115,000) of 2017-18 General Fund revenues. Current year revenues are expected to increase by approximately 1.42% (\$365,000) due to higher than anticipated collections, settlements related to properties in dispute, and the removal (and subsequent adjustment) of agricultural exemptions from certain properties.
<i>Sales Taxes</i>	Sales Tax represents approximately 24.12% (\$14,032,000) of 2017-18 General Fund revenues. Current year revenues are expected to increase by approximately 3.18% (\$432,000) due to an improving economy and better unemployment rates. Although the City expected growth from existing businesses, this expected growth is offset by retention incentive rebates. Sales tax is highly responsive to changes in the economic base and inflation.
<i>Franchise Fees</i>	Franchise Fees represent 7.11% (\$4,135,500) of 2017-18 General Fund revenues and are revenues received from specific entities that provide utility services to residents and businesses in the City. Utilities (electric, telephone, gas, and cable) that operate in the city pay this fee for their use of the city's right-of-way to run their utility lines. Telephone franchise fees are based on number of access lines. Other franchise fees are based on a percentage of gross receipts or units of energy sold. Budget is based on population increase and projected utility use. Franchise Fees are expected to decline by 4.51% (-\$195,500) as customers continue to seek alternatives to these types of services and/or service providers.
<i>Licenses & Permits</i>	Licenses and Permits revenues represent 8.0% (\$4,686,200) of the total projected General Fund revenues. These revenues are made up of commercial permits, and city licensing revenues and inspection fees, and are collected by the Community Services department. They include project permits that cover all parts of construction (electrical, plumbing, and mechanical permits and certificate of occupancy fees), specific permits (fences, electric, plumbing, etc.) and service fees (re-inspections, special inspections and special services). Overall, this revenue class is projected to end the year 58.21% higher (\$1,724,200) than expected due largely in part to rapid new growth on the City's West Side.
<i>Intergov't Revenue</i>	Intergovernmental Revenue represents revenue received through a Dallas County Funding Project and is directly offset by a related expenditure within the Street Maintenance division of the Public Works department. This revenue source is generally not considered when the budget is developed due to uncertainty of the programs continuation and/or award

amount. The amount awarded for the joint Dallas County Roadway project this year is \$250,000 and represents 0.43% of current year projected revenues.

Charges for Services Charges for Services revenue represents 10.52% or \$6,120,300 of projected 2017-18 General Fund revenues. Current year revenues are expected to decline 13.05% (-\$918,900) from 2017-18 adopted budget projections due primarily to declining ambulance and 911 revenue and a delay in the expected volume increase at the City's landfill.

Fines & Forfeitures Fines and Forfeitures revenue represents 2.97% or \$1,725,500 of projected General Fund revenue. Current year revenue is expected to decline by 29.43% (-\$719,500) due to declining court receipts.

Interest/Rents Interest/Rents/Contributions revenue represents 1.54% or \$894,400 of projected General Fund revenue. Current year revenue is expected to increase by 24.57% (\$176,400) due primarily to better than expected investment returns.

Water & Sewer Fund Revenue Class Variations – Estimated Net Increase 7.53% (\$1,665,500)

Charges for Services Charges for Services are the primary revenue classification for an Enterprise Type Fund and represent 99.97% (\$23,410,800) of Water & Sewer Fund revenue. Water and Sewer revenues are collected for the sale of water and disposal of sewage for residential, commercial and apartment usage. Revenues for fiscal year 2017-18 are estimated to end the year better than expected due to higher than anticipated usage during the past two billing cycles. Water sales are expected to total \$15,632,000 and sewer charges are expected to total \$7,396,000, an increase of 4.71% (\$702,800) and 6.97% (\$482,000) respectively. Late fees are expected to generate \$235,000 for the year's end, representing a 39.05% increase over projections. In addition, a new revenue stream was implemented related to public improvements on the City's West Side. Although a temporary revenue resource, revenues are expected to total \$407,000 for the current year boosting the funds overall revenue by 1.71%.

Stormwater Utility Fund Revenue Class Variations – Estimated Net Increase 4.16% (\$54,600)

Charges for Services Charges for Services represent the only revenue classification for this fund. Revenue is expected to total \$1,368,600 by the end of the current year, representing a 4.16% (\$54,600) increase in the funds overall revenue.

Hotel/Motel Fund Revenue Class Variations – Estimated Net Decrease 6.08% (-\$186,900)

Taxes Hotel/Motel taxes are the primary revenue classification for this fund, representing 97.02% (\$2,800,000) for this fund. Hotel/Motel Tax revenue has continued to decline during the past year and is expected to end the year 6.93% (-\$200,000) less than anticipated. Construction of several new hotels is underway, which should increase revenues in future years.

Other Funds

Debt Service Fund – An adjustment of \$7,800 was made to reflect the closing of the Aquatics Center Bond fund to debt service.

Economic Development Fund – Adjustments were made to reflect the closing of the Dangerous Structures Fund earlier than planned (-\$250,000) and to provide for the upcoming sale of an asset (\$1,100,000). Total revenue adjustments are \$850,000.

Special Revenue Funds – All Special Revenue Funds were evaluated and adjusted to reflect anticipated actuals. The total change for the 16 combined revenue funds (14 are displayed as smaller funds are combined) is an increase of \$1,525,041. Of this amount, approximately \$1.0 million represents bonds issued for Residential Revitalization; \$265,446 represents unanticipated Donations presented to the City Council for acceptance throughout the year - the bulk of which (\$257,446) represents a generous endowment for animal care from Glenda Sue Moore; and, \$232,000 for adjustments and interest related to the Landfill Closure/Post-Closure Fund [including Huffine's Road Extension Fund developer's contribution totaling \$100,000]. The total dollar change by fund is as follows [note: with the exception of the Grants Funds, minor fund adjustments are not described]:

- Police Forfeiture Funds – Increase of \$10,400
- Donations Fund – Increase of \$265,446
- Youth Scholarship Fund – Decrease of \$2,300
- Grants Fund – Increase of \$14,942 related to a new Library Internet Access grant totaling \$9,738, increase in Bullet Proof Vest grant of \$7,350, decrease in an old Animal Care grant of -\$376, and a decrease in grant award for Fire Medical Supplies of -\$1,770.
- Building Security Fund – Decrease of \$8,200
- Court Technology Fund – Decrease of \$4,000
- Landfill Closure/Post-Closure Fund – Increase of \$232,000
- Photographic Light System Fund – Increase of \$7,600
- PEG Access Channel Fund – Increase of \$2,000
- Joint Fire Training Facility Fund – Increase of \$400
- TIRZ District #3 Fund – Increase of \$4,953
- Residential Revitalization Bond Fund – Increase of \$1,001,800

Fixed Asset Funds – Adjustments were made to reflect an insurance payment for a damaged vehicle and a change in the sale of assets. Total revenue adjustments are \$34,500.

Expenditure Adjustments

The following highlights changes to the current year's expenditures as a result of the year-end budget estimate process:

General Fund Expenditure Variations – Estimated Net Change 0.00% (\$0)

Staff worked diligently to maintain General Fund expenditures at the 2017-18 Adopted Budget level. Not only was this goal achieved, but savings totaling \$865,000 were used to provide funding in the Non-Bond CIP Fund for a Farmers Branch Creek Well project totaling \$800,000

and Mayor's Smart City Initiative in the General Fund totaling \$65,000. Funding for the creek well project will provide for the construction of a groundwater well into the Trinity Aquifer as part of a settlement agreement with the Town of Addison. The well serves as make-up water for evaporative losses attributed to the Vitruvian Park development in Addison.

Water & Sewer Fund Expenditure Variation – Estimated Net Increase 0.37% (\$81,700)

As with the General Fund, staff worked diligently to maintain Water & Sewer Fund expenditures at the 2017-18 Adopted Budget level. The only change in this fund is related to an increased passed through from the Trinity River Authority for the treatment of sewer.

Stormwater Utility Fund Expenditure Variation – Estimated Net Decrease 3.08% (-\$40,000)

The only change in this fund is related to a reduction in the cost of a dredging project resulting in savings of \$40,000.

Hotel/Motel Fund Expenditure Variations – Estimated Net Increase 1.37% (\$46,000)

Savings in the Hotel/Motel Fund were used to fund increased Capital Improvement costs in the Hotel/Motel CIP Fund for facility improvements at the Church and Gilbert House totaling \$146,000.

Other Funds

Health Claims Fund – Increased \$100,000 related to the new health clinic contract.

Economic Development Fund – Adjustments to this fund include an increase in Economic Development Agreements totaling \$239,000, which were made possible due to a land sale. An additional adjustment of \$84,300 was made to move \$84,300 in expenses related to the Residential Demo/Rebuild Program to a new Residential Revitalization Special Revenue Fund. A few other adjustments were made to this fund to reflect actual estimated expenditures, which resulted in reductions of \$9,900. The net increase in this fund totals \$144,800.

Special Revenue Funds – All Special Revenue Funds have been evaluated and adjusted to reflect anticipated actuals. The total change for the 16 combined revenue funds (14 are displayed as smaller funds are combined) is a decrease of \$663,267. With the exception of the Grants Funds, minor fund adjustments are not described below:

- Police Forfeiture Funds – Decrease of \$71,000 as expenditures were not necessary.
- Donations Fund – Increase of \$154,438 for the purchase of an animal trailer.
- Grants Fund – Increase of \$14,942 related to a new Library Internet Access grant totaling \$9,738, increase in Bullet Proof Vest grant of \$7,350, decrease in an old Animal Care grant of -\$376, and a decrease in grant award for Fire Medical Supplies of -\$1,770.
- Building Security Fund – Decrease of \$5,600.
- Court Technology Fund – Increase of \$1,300.
- Landfill Closure/Post-Closure Fund – Decrease of \$816,500 related to reduced costs resulting from the earlier than anticipated approval of the landfill expansion permit.

- Photographic Light System Fund – Increase of \$15,200.
- Dangerous Structures Fund – Decrease of \$250,000 related to closing of the fund due to depletion of the funds assets.
- PEG Access Channel Fund – Decrease of \$7,700.
- Joint Fire Training Facility Fund – Increase of \$300.
- TIRZ District #3 Fund – Increase of \$1,353.
- Residential Revitalization Bond Fund – Increase of \$300,000 for the anticipated reimbursement of incentives granted through the program.

Fixed Asset Funds – Planned Purchases increased a total of \$171,571 due to the following:

- Accounting – Increase of \$123,068 for the purchase of new financial software.
- Community Services – Decrease of \$10,000 related to the deferred purchase of a copier.
- Street Maintenance – Decrease of \$10,400 due to lower than expected costs for an aerial lift and a decrease of \$153,800 related to the deferred purchase of monument signs.
- Police Patrol – Increase of \$38,100 to replace a damaged vehicle. [Partially offset with insurance proceeds.]
- Historical Preservation – Increase of \$30,767 for the purchase of new financial software.
- Water & Sewer Operations – Increase of \$153,836 for the purchase of new financial software.

PROPOSED FISCAL YEAR BUDGET 2018-19

Following is an outline of changes that have been incorporated into the Proposed Fiscal Year Budget 2018-19 since the proposed budget was submitted on July 30, 2018.

- General Fund & Hotel/Motel Fund: Moved proposed split funding of two Parks positions from Hotel/Motel Fund to General Fund resulting in an increase in Staff Tourism funding and a decrease in General Fund Non-Departmental Transfers. Net Change \$0
- Hotel/Motel Fund: Increased Curator contract by \$15,000 and reduced Transportation Incentives to provide funds for accreditation purposes. Net Change: \$0
- Special Revenue Fund – Grants Fund: Added a NCTCOG Regional Transportation Grant totaling \$30,000. Net Change: \$30,000 in both revenues and expenditures.
- Fixed Assets: Removed both the Transfer & Purchase of HVAC Replacement Equipment from Police (-\$205,000) and Senior Center (-\$362,000) and added a line item for Facility Repairs & Improvements Reserve in Non-Departmental Fixed Assets (\$567,000). Net Change: \$0

- Capital Projects – Non-Bond CIP: Renamed the Trinity Well Project to Farmers Branch Creek Well Project.
- Capital Projects – Trail Improvements Bond Fund: Removed Residential Revitalization line items. Net Change: Decrease of \$600,000