



# BUDGET OVERVIEW

CITY OF SOUTHLAKE  
ADOPTED BUDGET 2023

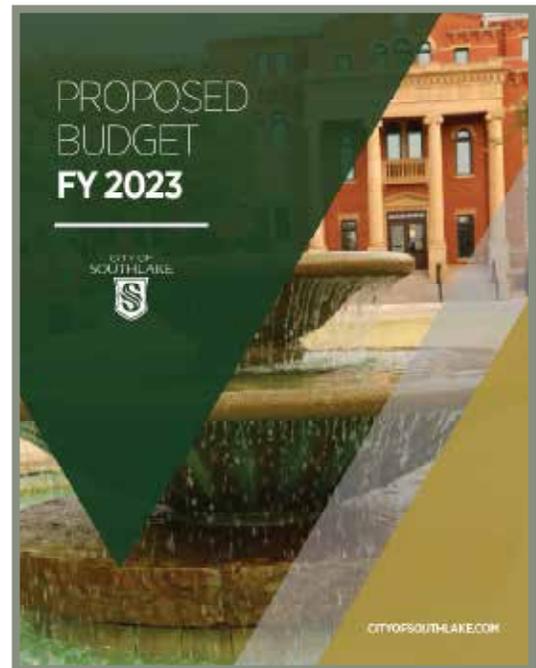


# **GUIDE TO THE BUDGET DOCUMENT**

### BUDGET 101

A former world leader once said, “It’s clearly a budget. It has a lot of numbers in it.” And while that’s a true statement about this budget document, it should be noted that each of these numbers has purpose and meaning behind it. The annual budget serves as a policy document, a financial plan, an operations guide, and a communications device for the City. It is the foundation for the City’s allocation of resources toward high quality service delivery plans, targeted investments, and continued improvements. It also encapsulates incremental changes addressing service requirements and builds upon initiatives funded in prior years, while establishing new direction for programs.

This section explains the meaning behind the numbers which are presented in subsequent chapters. It gives perspective to the City’s budgeting process, basis of budgeting and accounting, how the budget is amended, and the fund accounting system. All of these components, combined with the City’s Strategic Management System make up the primary foundation for every City of Southlake budget document.



### BUDGET SECTIONS

The Budget Document is arranged in 17 sections that are separated by their respective tabs. Below is a brief description of the materials found in each of the sections.

**Transmittal Letter** - The Transmittal Letter is written to the City Council by the City Manager and provides a high-level preview of the City Manager’s adopted budget. It contains information including the adopted tax rate and adopted fund summaries as well as overviews of the departmental plans. The letter helps tie together the core elements which make up the adopted budget and illustrates how those elements further the City’s goals found within the Strategic Management System.

**Budget Overview** - This section helps explain the meaning behind the numbers presented in subsequent chapters. It gives perspective to the City’s budgeting process, basis of budgeting, fund accounting system, and an explanation of factors included in budget development.

**City Profile** - This section of the budget document offers a quick, effective visual of the City’s financial condition. We believe the ability to monitor and evaluate the financial condition of a local government is critical to that government’s successful, prosperous future. Recognizing that trends can provide early warning signals, staff regularly monitors numerous financial indicators. A list of Council members, an organizational chart, location and a history of the City is also provided in the City Profile.

**Strategic Direction** - This section provides information about the City’s Strategic Management System (SMS). Several years ago the City adopted the SMS, which drives the way the City conducts its business. The department directors contribute to the SMS by developing a department business plan and aligning their yearly budget proposals to that plan.

**City Department Overview** - This section provides an overview of the various departments and divisions of the City via department highlights, strategy maps, scorecards and goals. This section is intended to give the reader an

understanding of the core services each department provides as well as performance data related to those services.

**Fund Summaries** - This section provides an analysis of each separate fund including revenues, expenditures and fund balance. For comparative purposes, the immediately preceding fiscal year's audited figures are illustrated, as well as current year budget, revised current year and adopted budget for the impending fiscal year.

**General Fund Expenditures** - This section provides the General Fund Summary. The General Fund is the City's principal operating fund which is supported by taxes, fees, and other revenues that may be used for any lawful purpose. This fund accounts for all activity not specifically accounted for in other funds and includes funding for operations such as police, fire, engineering, planning, finance and administration.

**Strategic Initiative Fund** - This section provides information about the Strategic Initiative Fund. This fund was created in 2005 for the purpose of taking General Fund balance reserves in excess of the City identified optimal fund balance level and using them for one-time expenditures for high-impact projects such as infrastructure maintenance, community enhancement, technology and capital acquisition.

**Facility Maintenance Fund** - This section provides information about the Facility Maintenance Fund. The purpose of this fund is to build capacity for annual or future maintenance projects as we will have many needs to address as our facilities age. The Strategic Initiative Fund has provided regular transfers for this fund, an important element of our budget given the size and complexity of the City's facility infrastructure.

**Technology Infrastructure & Security Fund** - This section provides information about the Technology Infrastructure & Security Fund. This fund was created in 2017 to build capacity for current and future technology needs. Expenditures in this fund are used to maintain, enhance and replace technology infrastructure and enterprise software to ensure the City receives the most reliable and best value with technology investments.

**Economic Development and Investment Fund** - The Southlake 2035 Economic Development & Tourism Strategic Plan includes the following as recommendation 4.3: "Southlake should establish a fund to use to attract and retain employers, as well as to help retain and expand existing businesses." This fund was created in 2013 for that purpose.

**Utility Fund** - This section provides the Utility Fund Summary. The Utility Fund is an enterprise or business fund. This means that the direct beneficiaries of the "business" pay for all costs through fees or rates. Water, sewer service, and solid waste service revenues generated through our rates, as well as the expenses for providing these services are accounted for in the Utility Fund.

**Vehicle Replacement Fund** - This section provides a fund summary and detailed spending plan for funds to manage the purchase of vehicles for the City's fleet. The establishment and funding of the vehicle replacement program was designed to even out expenses for the City's fleet from year to year and provide a logical method for purchasing and retiring vehicles.

**Debt Service Funds & Debt Schedules** - This section provides a summary of the annual principal and interest payments for all outstanding bonded debt and capital leases. Also included are some fast facts about the City's use of debt and how that debt is funded both through property tax revenue and through dedicated, self-supporting revenue streams such as sales tax revenues for park development.

**Special Revenue Funds** - This section provides a detailed spending plan for funds generated from the proceeds of specific revenue sources that are legally restricted for certain purposes.

**Capital Improvements Program** - A Capital Improvements Program is for the purchase, construction or replacement of the physical assets of the City. This section includes a listing of adopted projects for the capital budget as well as projects that are planned for implementation over a five-year period.

**Appendix** - This section includes a list of acronyms, a budget glossary, Southlake’s financial policies and frequently asked questions. Also included is a personnel schedule, tax rate allocation information and the Financial Wellness component of the Southlake 2030 Sustainability Plan.

### BUDGET PROCESS

How does the City of Southlake spend taxpayer money? It’s a simple question with a complex answer. What follows is a high-level explanation of the City of Southlake’s budget process.

The formal budget process in Southlake begins each January / February with a City Council work session designed to review the City’s strategy as it relates to the Strategic Management System (SMS) and make any changes necessary to ensure that the strategy still aligns with City Council and citizen priorities. To read more about the SMS, see the Strategic Direction section.

Using Council’s direction at this work session, staff begins working on their departmental work plans for the upcoming fiscal year. The initiatives in these plans determine what budgetary requests are necessary to meet service level needs. Once each department has finalized its own plan, and it has been approved by the City Manager, staff prepares their departmental budget requests which are also submitted to and reviewed by the City Manager. For more information about the City’s organizational structure, see the Strategic Direction section of this book.

The Charter of the City of Southlake mandates that a adopted budget be filed by the City Manager with the City Secretary’s Office no later than August 15th for the new fiscal year beginning October 1. Following filing, the City Council begins their review leading up to budget adoption in September.

When filed with the City Secretary’s Office on August 15th, the budget presents in summary form the revenues and expenditures from each of the City’s funds. From there it is discussed during City Council work sessions and then formally presented by staff during public hearings at regularly scheduled City Council meetings.

**HOW THE BUDGET IS AMENDED**

The City of Southlake Charter Sections 9.20 through 9.25 defines the process for budget amendments (see Appendix). To meet these charter requirements, budget amendment requests, if necessary, are evaluated and processed each year and presented to City Council for review and approval.

### HOW THE BUDGET IS AMENDED

The City of Southlake Charter Sections 9.20 through 9.25 defines the process for budget amendments (see Appendix). To meet these charter requirements, budget amendment requests, if necessary, are evaluated and processed each year and presented to City Council for review and approval.

### CITIZEN INPUT AND COMMUNICATION

The process leading to the budget adoption is participatory and includes a communications plan that encourages input from citizens, boards and commissions, City departments, and the City Council.

FY 2023 BUDGET CALENDAR	
JANUARY 2022	CITY COUNCIL - STRATEGY WORK SESSION
MARCH 2022	STAFF BUDGET KICK-OFF
MAY 2022	DEPARTMENTAL BUDGETS DUE
AUGUST 2022	CITY COUNCIL BUDGET PREVIEW CITY COUNCIL WORK SESSION CITY MANAGER FILES BUDGET
SEPTEMBER 2022	CITY COUNCIL WORK SESSION 1ST READING AND PUBLIC HEARING CITY COUNCIL 2ND READING AND PUBLIC HEARING
OCTOBER 1 2022	FISCAL YEAR 2023 BEGINS

FIGURE 1: FY 2023 BUDGET CALENDAR

The communications plan includes:

- Public hearings;
- Live, televised coverage of City Council work sessions, meetings and public hearings;
- Presentations to City boards and commissions;
- Access to all volumes of the Adopted and Adopted budgets through the Southlake Public Library system; and,
- Internet access to all budget documents and videos of public meetings at [www.CityofSouthlake.com](http://www.CityofSouthlake.com).



**HAVE A BUDGET COMMENT OR SUGGESTION?**

CONTACT THE CITY MANAGER'S OFFICE AT 817-748-8400 OR AT [TALKTOUS@CITYOFSOUTHLAKE.COM](mailto:TALKTOUS@CITYOFSOUTHLAKE.COM)

In addition to communication provided during the budget process, the budget is developed using feedback from the City’s biennial Citizen Satisfaction Survey. In this survey residents tell the City what they think are the most important services and what they are most satisfied with. Using this information, the budget is developed to ensure that these service priorities are continually met. Figure 2 below shows the services rated with the highest importance in the last survey, conducted in October 2021. This survey data will be used to inform budget recommendations for FY 2024 as well. The next survey will be conducted in October 2023.



FIGURE 2: 2021 CITIZEN SURVEY TOP 10 MOST IMPORTANT SERVICES

**BASIS OF ACCOUNTING**

The City of Southlake utilizes the modified accrual basis of accounting which is a method of accounting for revenues and expenses when earned or incurred instead of when cash is received or spent.

### **BASIS OF BUDGETING**

The City of Southlake's basis of budgeting for its major fund groups (General Fund, Utility Fund, Storm Water Utility Fund, Southlake Parks Development Corporation Fund, Crime Control & Prevention District Fund and Tax Increment Finance District Fund) and for all Special Revenue Funds is modified accrual, per the Generally Accepted Accounting Principles (GAAP).

Revenues are budgeted according to when they are both measurable and available. Revenues are considered to be available when they are collected within the current period, or soon enough thereafter to pay liabilities of the current period. The City considers property taxes, franchise taxes, licenses, and interest associated with the current fiscal period susceptible to accrual if they are collected within 60 days of the end of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received.

Expenditures are budgeted according to when the liability is incurred, regardless of the timing of related cash flow. The exceptions are debt service, compensated absences, claims and judgments, which are budgeted as expenditures according to when the payments are due. The City's basis of budgeting is the same as the basis of accounting, as reflected in the City's Comprehensive Annual Financial Report.

### **FUND ACCOUNTING**

Funds are unique to governmental type agencies. In the corporate world, "Funds" do not exist. The company receives revenues and writes checks to pay for its expenses and reports them for the company as a whole. Governments handle this process differently.

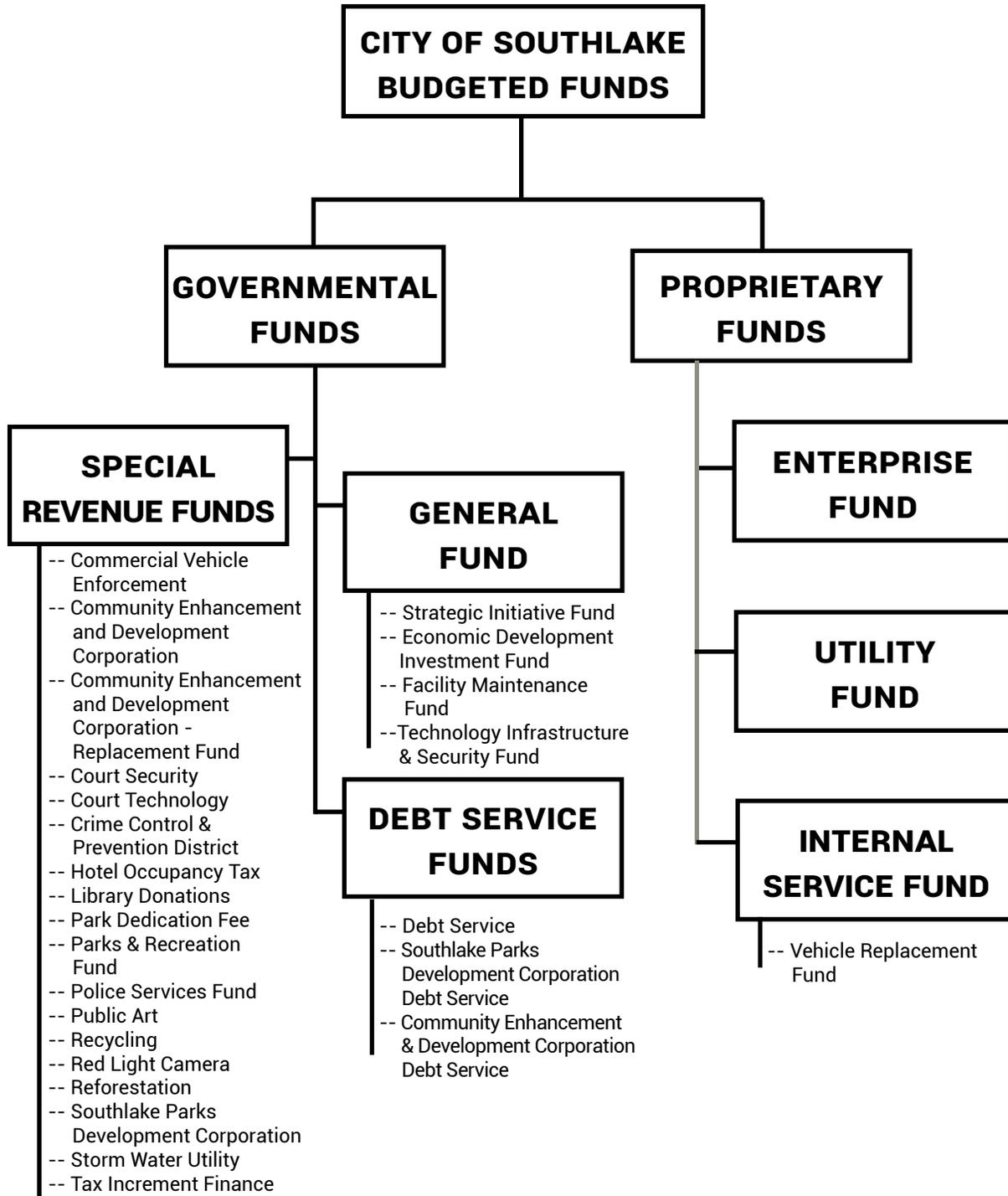
The City of Southlake has 55 funds with specific purposes which are defined by federal, state, or local laws. They include the General Fund which is used for general City operations, the Utility Fund which is used to support the City's water, sewer, drainage, and solid waste service, and a multitude of Special Revenue, Debt Service Funds, and Capital Project Funds. Simply stated, funds are set up like separate companies which must operate under specific parameters.

For example, the City receives \$0.02 of sales tax for every dollar spent in our city limits. One of those pennies goes to the General Fund and can be spent on general operating costs, like supplies, salaries, and general maintenance. The other penny is split between our Crime Control and Prevention District, the Community Enhancement and Development Corporation, and the Southlake Parks Development Corporation. These three units of the City of Southlake were voted on by the residents, but state law determines how that money is spent. The City can only use it for the purposes outlined in the original referendum presented to the voters, so the separate funds were set up to account for the revenues and expenditures of each unit.

In another example, the City receives proceeds from bonds issued for various projects. The Official Statement for a bond issue outlines how much money the City will receive, how that money will be repaid, and how the money can be spent. This document is legally binding on City officials and is enforced by federal, state, and local laws. If the Official Statement says we received \$12,000,000 for roadway improvements, City Council and management may not opt to spend it on equipment or supplies. The money is recorded in a Capital Project Fund for roadway improvements and can only be spent on roadway improvements.

Although these examples are for three very specific funds, the same concept of expense restrictions applies to all 55 funds. As a result, reporting revenues and expenses for the City of Southlake includes 55 miniature financial statements in addition to a Citywide financial statement. It may appear that money is available to spend when in fact the majority of the money is restricted by law.

# CITY OF SOUTHLAKE FUND STRUCTURE CHART



What follows is an explanation of the funds themselves and how they contribute to the overall budget.

### **General Fund:**

The City's principal operating fund, which is supported by taxes, fees, and other revenues that may be used for any lawful purpose. This fund accounts for all activity not specifically accounted for in other funds. It includes such operations as police, fire, engineering, planning, finance and administration. It is City policy to maintain an undesignated fund balance (reserves) for emergencies or unforeseen circumstances equivalent to 15-25% of planned expenses.

### **Strategic Initiative Fund:**

This fund was created in 2006 for the purpose of taking General Fund balance reserves in excess of the City identified optimal fund balance level and using them for one-time expenditures for high-impact projects such as infrastructure maintenance, community enhancement, technology and capital acquisition.

### **Economic Development Investment Fund:**

The Southlake 2035 Economic Development & Tourism Strategic Plan includes the following as recommendation 4.3: "Southlake should establish a fund to use to attract and retain employers, as well as to help retain and expand existing businesses." This fund was created in 2013 for that purpose and its use is governed by a City Council-adopted policy.

### **Facility Maintenance Reserve**

The purpose of this fund is to build capacity for future maintenance projects as we will have many needs to address as our facilities age. The Strategic Initiative Fund (SIF) has provided regular transfers for this fund, an important element of our budget given the size and complexity of the City's facility infrastructure. For the upcoming fiscal year, we will continue our practice of transferring SIF money into this fund, but we are also budgeting expenses in the operating budget for facility projects.

### **Technology Infrastructure & Security Fund**

The Technology Infrastructure & Security Fund was created in 2017 to build capacity for current and future technology needs. Expenditures in this fund are used to maintain, enhance and replace technology infrastructure and enterprise software to ensure the City receives the most reliable and best value with technology investments. In order to keep up with the increasing number and complexity of security threats, this fund also supports technology security projects and programs.

### **Utility Fund:**

The Utility Fund is an enterprise or business fund. This means that the direct beneficiaries of the "business" pay for all costs through fees or rates. Water, sewer service, and solid waste service revenues generated through our rates, as well as the expenses for providing these services are accounted for in the Utility Fund. As with the General Fund, prudent financial management and bond requirements make it necessary to have healthy reserves. Rather than stating the reserves as a percentage of operating expenses, it is stated as days of working capital. It is our goal to have no less than 60 to 90 days of working capital on hand.

### **Vehicle Replacement Fund:**

This fund accounts for the resources needed to manage the purchase of vehicles for the City's fleet. The establishment and funding of the vehicle replacement program was designed to even out expenses for the City's fleet from year to year and provide a logical method for purchasing and retiring vehicles.

### **Debt Service Fund:**

Although the Strategic Initiative Fund provides cash for pay-as-you-go capital projects, the City still must borrow to build needed infrastructure. As mentioned, a portion of the revenue generated by the property tax rate is allocated to support

long-term bond projects through the Debt Service Fund. A Capital Improvements Program details the projects and costs for a five-year period and identifies future unfunded projects. The Debt Service Fund provides the needed money to build these projects.

**Special Revenue Funds:**

These funds are general government funds where the source of revenue is dedicated to a specific purpose:

**Commercial Vehicle Enforcement**

This fund accounts for fines collected from commercial vehicle violations. Use of these funds is restricted for commercial vehicle enforcement, per State law.

**Community Enhancement and Development Corporation (CEDC)**

The Community Enhancement and Development Corporation was formed when Southlake voters approved the special levy of a 3/8 cent sales tax in 2015. The funds are dedicated toward the construction of Champions Club at The Marq Southlake, a community events and recreation facility. Funds are used to support operational expenses related to The Marq as well as special economic development projects.

**Community Enhancement and Development Corporation - Replacement Fund**

The Community Enhancement and Development Corporation - Replacement Fund accounts for the resources needed to manage the purchase of replacement equipment and capital outlay at The Marq Southlake. The establishment and funding of the Community Enhancement and Development Corporation - Replacement Fund was designed to even out expenses for the Community Enhancement and Development Corporation from year to year and provide a logical method for purchasing and retiring needed equipment and capital outlay.

**Court Security**

This fund accounts for a percentage of the monies collected from the payment of fines and forfeitures. Use of these funds is restricted for the purchase of court security items, per State law.

**Court Technology**

This fund accounts for a percentage of the monies collected from the payment of fines and forfeitures. Use of these funds is restricted for purchase of court technology, per State law.

**Crime Control and Prevention District (CCPD)**

The half-cent sales tax collection to fund the Crime Control and Prevention District began in April 1998, with the first sales tax check received in June 1998. State law provides that a district's initial life is limited to five years. Voters may continue the district by approval of a referendum. In February 2002, Southlake voters approved the continuation of the CCPD for 15 years and in May 2015, voters approved the reduction of the sales tax to 1/8 cent, and in May 2017 voters reauthorized the CCPD through 2038. This fund has been used to build facilities for and to support the Southlake Police Department. This fund also supports the City's School Resource Officer Program.

**Hotel Occupancy Tax**

The Hotel Occupancy Tax is authorized under the Texas Tax Code, Chapter 351. The City of Southlake adopted Ordinance No. 769 in February 2000, levying a 7% tax on room receipts. The tax on rooms is providing the revenues to the City in this category. The first expenditures from this fund were made in FY 2008. Use of these funds is restricted. Expenses must be authorized uses under the Texas Tax Code, Chapter 351.

**Library Donations**

This fund accounts for library donations collected. Use of these funds is restricted for library purposes.

### **Park Dedication**

This fund accounts for dedication fees on new development. Use of park dedication fees is restricted to park improvements and primarily used for capital expenses.

### **Parks and Recreation Fund**

This fund accounts for resources restricted for event and other sponsorship funds collected through the City's sponsorship program.

### **Police Services Fund**

The Police Services Fund was formed to account for the revenues and expenses allowed under Chapter 59 of the Code of Criminal Procedure, in addition to other special revenues associated with policing. Expenses from this fund may be used for officer training, specialized investigative equipment and supplies, and items used by officers in direct law enforcement duties.

### **Public Art**

The Public Art Fund was established to account for funding that is available for public art promotion, creation, and/or installation throughout the City of Southlake.

### **Recycling**

This fund accounts for an annual payment to the City made by the City's solid waste services provider, per the terms of the service contract.

### **Red Light Camera**

This fund accounts for funds collected from violations issued from the City's red light enforcement camera system. Funds collected by the City of Southlake as a result of violations/citations issued, must be used for traffic safety programs, per State law. Governor Greg Abbott signed a bill into law banning the use of red light cameras on June 1, 2019. Under the new law, the City's red light camera program immediately ceased operation.

### **Reforestation**

This fund accounts for monies derived from assessments related to the tree preservation ordinance and policies.

### **Southlake Parks Development Corporation (SPDC)**

The Southlake Parks Development Corporation was formed when Southlake voters approved the special levy of a half-cent sales tax in the mid-1990s. The half-cent, which generates about \$5 million per year, is dedicated toward the acquisition and development of Southlake's park land. The specific projects are identified in the City's Capital Improvements Program. State law permits these funds to be used for operational costs, as well as capital costs.

### **Storm Water Utility**

This fund accumulates dollars collected by the storm water utility fee paid monthly by the owners of all of Southlake's developed properties. These fees provide a funding source for maintenance, repair, and construction of storm water facilities, and can only be spent for these purposes. The monthly storm water fee is the same for all residential dwelling units. Residential properties are charged \$8 per month for each dwelling unit that is on the property. Fees for non-residential properties are calculated individually in proportion to each property's storm water runoff potential.

### **Tax Increment Finance District**

Tax Increment Reinvestment Zone (TIRZ) Number One or the Tax Increment Finance (TIF) District was created in 1997, with an effective beginning date of January 1, 1998. It was designed to encourage quality commercial development in the City. Incremental values subsequent to January 1997 are taxed at the City's tax rate; however, 100% of the "captured" ad valorem revenues are utilized within the zone, rather than being allocated to the City's overall budget. Overlapping taxing entities, including Tarrant County, Tarrant County College District, Tarrant County Hospital District, and the Carroll Independent School District have participated at varying levels as investors in TIRZ #1 by assigning their ad valorem tax dollars as well. These funds pay for public projects in Town Square, such as water, sewer and roads within the District. In 2018, TIRZ #1 was extended for an additional 20 years. This means that funds will continue to be collected on the incremental tax value and invested in the zone for an additional twenty years. The City of Southlake and Carroll ISD are the only participating entities with the 20 year extension.

## **FUND BALANCE**

It should be noted that each fund summary for all of the City's funds ends with a line named "fund balance." Fund balance is defined as, "The excess of an entity's assets over its liabilities in a particular fund." In other words, it is the balance that remains once the fund's expenditures have been deducted from its revenues. In the City of Southlake, the amount of fund balance for each fund is dictated by different parameters. In the case of the General Fund and the Utility Fund, fund balance is defined in the City's Statement of Financial Policies (see the Appendix). Balances for other funds are determined by other parameters such as bond covenants. Fund balance is a fundamental barometer of fiscal wellness and it is important to note that the fund balance for all funds meets every established requirement.



# **BUILDING THE BUDGET**

### OVERVIEW

Building a budget requires careful consideration of a number of environmental factors to ensure that it is structurally balanced. This section describes the key factors, growth assumptions, and priorities that are evaluated when developing the annual budget.

### CITY COUNCIL POLICY DIRECTION

City Council holds two strategic planning sessions with staff annually to discuss policy direction and strategic priorities. For FY 2023, the City Council prioritized financial principles for this budget as shown in Figure 3. These financial principles serve as a guide to staff during the development of the budget. A discussion of how these financial principles are implemented in this budget can be found in the Transmittal Letter.



Economic and fiscal wellness is a balance between today’s financial position and the financial needs of tomorrow. It is maintaining control over current reserves, debt and expenditures to ensure the City is able to meet the financial requirements of the future. In addition to the annual feedback from City Council, the City’s budget and policy direction is

guided by adopted 2030/2035 Comprehensive Plans. These City Council adopted long-term plans are linked to new requests for the annual operating budget and the Capital Improvements Program. More information about these plans and how they impact operations can be found in the Strategic Direction section or at [www.Southlake2035.com](http://www.Southlake2035.com).



FIGURE 3: FINANCIAL PRINCIPLES

It is also important to note that in 2015, the City Council adopted the Southlake 2030 Sustainability Plan, which works to protect and enhance the quality of life for present and future generations in Southlake through both environmental and financial sustainability. The priorities identified in this plan provide a map for the long term economic and fiscal wellness of the city. The plan recommendations can be found below in Figure 4. The full Economic/Fiscal Wellness section of the plan, which includes plan recommendations and financial modeling through 2035 can be found in the Appendix.

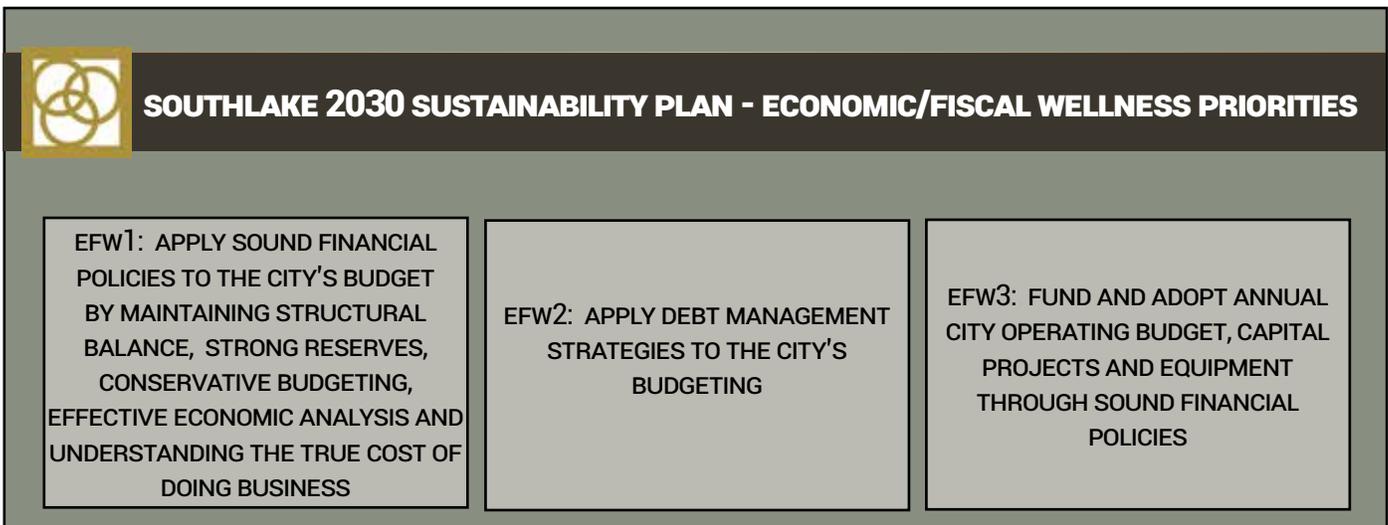


FIGURE 4: ECONOMIC / FISCAL WELLNESS PRIORITIES IDENTIFIED IN THE SOUTHLAKE 2030 SUSTAINABILITY PLAN

### CITY REVENUES AND RESOURCES

The City relies on many sources of revenues and the strategic use of reserves to fund services to the community at a stable and sustainable level. The largest revenue categories are ad valorem (property) and sales taxes, followed by franchise fees, charges for services, and usage fees.

#### Taxes

Taxes, both property and sales, imposed by a government for the purpose of raising revenue to support governmental activities, are distinct from fees in that a tax does not need to be levied in proportion to the specific benefit received by a person or property. The majority of the City’s tax revenues are received by the General Fund, the primary general purpose fund of the City. Taxes account for nearly 87% of revenues in the General Fund supporting many of the City’s most essential services such as police, fire, road maintenance, library and parks. In addition to funding the General Fund, a portion of the sales tax goes to funding the Crime Control Prevention District, Southlake Parks Development Corporation, and Community Enhancement Development Corporation as allowed by state law. More about each of these funds can be found in the Special Revenue Fund section of this book.

#### Fees

Service fees are another source of the revenue for the City. A diverse set of fees are charged to recover all or a portion of the City’s costs for providing a service or access to public property, or for mitigating the impacts of the fee payer’s activities on the community. Intended for cost recovery, a fee may not exceed the estimated reasonable cost of providing the service or facility for which the fee is charged. Due to this requirement and legal restrictions related to their expenditure, many of the City’s fees are accounted for in separate funds. By far, the largest source of fee revenue comes from the provision of water, wastewater and solid waste collection services. Other significant service fees include development related fees and impact fees. Impact fees are especially volatile as they are driven by specific requirements from development to mitigate the impact of new development on city infrastructure. As they are paid and received by developments, they express volatility. This is not a year over year issue however as they are restricted to the construction of new facilities or renovation and upgrade of existing facilities and not used for ongoing expenditures.

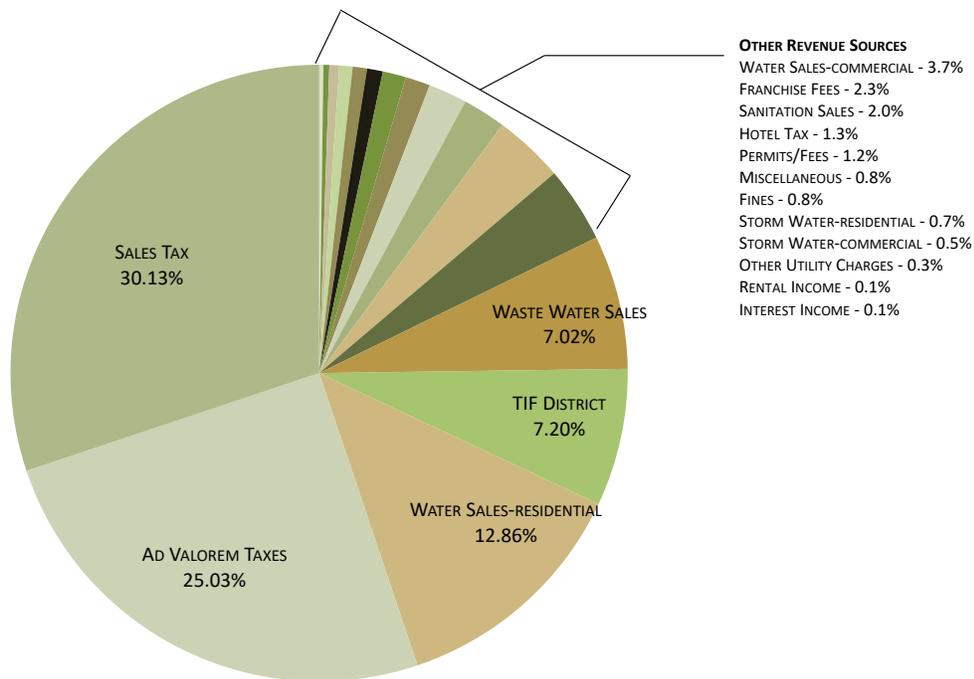


FIGURE 5: ALL FUNDS REVENUE BY SOURCE

### FORECAST REVENUES

Forecasting these key revenues correctly and conservatively is critical to ensuring the budget is balanced for the coming fiscal year and for the health of future budgets. In addition to preparing a forecast prior to the adoption of the annual budget, the City of Southlake continually forecasts throughout the year as trends in the market, economy, or other environmental factors are observed.

Major revenue assumptions in the forecast include the impact of rising inflation, the economic recovery of commercial industries, decline in permit revenues as the city reaches build out, and the pass-through costs of utilities. For the period of FY 2023 to FY 2026, major revenue growth rates were forecasted as follows:

FIVE YEAR FINANCIAL FORECAST REVENUE ASSUMPTIONS FY 2023 - FY 2027					
REVENUE	FY 2023 ADOPTED BUDGET*	FY 2024 FORECAST	FY 2025 FORECAST	FY 2026 FORECAST	FY 2027 FORECAST
AD VALOREM TAX	1.2%	0.5%	0.5%	0.5%	0.5%
SALES TAX	1.0%	1.5%	1.0%	0.5%	0.5%
FRANCHISE FEES	.4%	-2.5%	-3.15%	0.4%	0.5%
PERMIT FEES	-39.5%	8.7%	5.2%	-2.3%	-5.8%

\*Growth rates compared to the FY 2022 Estimate as of August 2022

FIGURE 6: FIVE-YEAR FINANCIAL FORECAST REVENUE ASSUMPTIONS FOR FY 2022 - FY 2026.

### PROVIDING CITY SERVICES

City expenditures fall into three broad categories: personnel, operations, and capital outlay. As a service delivery organization, salaries and benefits costs for personnel make up the majority of operating expenditures. The City of Southlake implements a number of strategies to manage the growth of expenditures.

### EXPENDITURE GROWTH

As a service delivery organization, personnel expenses make up more than 70% of the City's General Fund budget. Managing total compensation costs is a key component of long-term financial sustainability. To manage the growth of salaries, the City Council has set a policy to aim for Southlake's pay plan to compensate employees at the 70th percentile and the 85th percentile for public safety employees. This is just one strategy that the City uses to manage cost growth. The FY 2023 Adopted Budget contains several assumptions to related to the rising cost of health care and other benefits.

Another strategy that the City uses to manage General Fund cost growth is to mirror the cost of existing services to the growth of the Consumer Price Index (CPI) for the Dallas/Fort Worth Area, less food and energy. This includes any contract increases, salary increases, or any expenses that relate to the

CONSUMER PRICE INDEX (CPI) REPORTING	
ALL URBAN CONSUMERS, DALLAS-FORT WORTH	
MONTH	CPI GROWTH
NOVEMBER	7.45%
JANUARY	7.83%
MARCH	9.05%
MAY	9.14%
JULY	9.35%
<b>AVERAGE</b> <small>(USED TO CALCULATE GENERAL FUND EXISTING SERVICE GROWTH)</small>	8.56%

FIGURE 7: CONSUMER PRICE INDEX BIMONTHLY REPORTING CHANGES FOR FY 2022 USED TO PROJECT FY 2023 GENERAL FUND GROWTH.

current cost of doing business. Any expenses that are service enhancements or unfunded legislative mandates are not included in this self-imposed limit. The CPI used in the FY 2023 budget is shown in Figure 6. These are just some of the strategies that are used to manage expenses.

**MAINTAINING OPTIMUM FUND BALANCES**

Another important financial goal is ensuring the maintenance of optimum fund balances in operating funds, in accordance with City policy, which can be found in the Appendix. Maintaining proper reserves increases the organization’s ability to absorb or respond to temporary changes in the environment or circumstances, such as an unanticipated event or changes related to operating revenues. Per the Fund Balance Policy, the undesignated fund balance in the General Fund should range between 15% and 25% of operating expenses. For FY 2023, 25.39% of General Fund operating expenses are reserved for unanticipated or emergency needs.

**FORECAST EXPENDITURES**

The City of Southlake conducts a five year forecast for the General Fund, Utility Fund, Hotel Occupancy Tax Fund, and sales tax funds. These forecasts reflect the annual projected expenditures required to sustain the current adopted level of service, meet debt obligations, and the obligations of the adopted Capital Improvements Program. In addition to forecasting using the assumptions shown in this section, the financial model conducts several scenarios to understand the health of the fund in the event of an impact on revenues. The forecast for the General Fund is shown in the chart below.

<b>GENERAL FUND FIVE YEAR FINANCIAL FORECAST*</b>					
<b>FY 2023 - FY 2027</b>					
<b>REVENUE</b>	<b>FY 2023 ADOPTED BUDGET*</b>	<b>FY 2024 FORECAST</b>	<b>FY 2025 FORECAST</b>	<b>FY 2026 FORECAST</b>	<b>FY 2027 FORECAST</b>
<b>REVENUES</b>	\$53,954,094	\$54,308,170	\$55,143,011	\$55,850,507	\$56,060,037
<b>EXPENSES</b>	\$48,266,972	\$50,357,555	\$52,537,745	\$54,343,128	\$56,212,873
<b>SURPLUS/ (DEFICIT)</b>	<b>5,687,122</b>	<b>3,786,504</b>	<b>2,605,266</b>	<b>1,507,379</b>	<b>(152,836)</b>
<b>NET TRANSFERS</b>	(\$3,298,760)	(\$3,786,504)	(\$2,524,186)	(\$11,807)	\$634
<b>RESERVES</b>	\$12,257,247	\$12,421,358	\$12,502,437	\$13,998,009	\$13,845,807
<b>RESERVES AS A % OF OPERATING EXPENSES</b>	25.39%	24.67%	23.80%	25.76%	24.63%

\*Forecast is not a budget, but is a preliminary estimate of FY 2023 to FY 2027 financial results.

**FORECAST RESULTS**

The FY 2023 to FY 2027 five year financial forecast indicates a structurally balanced budget, while aligning with the City’s financial principles. Under this forecast, the City of Southlake does not anticipate the need for service reductions to meet the needs of today’s service levels. This forecast is continually updated throughout the fiscal year to ensure continued accuracy of these projections.

### CHANGES FROM FY 2023 ADOPTED TO ADOPTED BUDGET

Before adopting the budget, City Council may choose to change any aspect of the adopted budget, as long as the changes result in a balanced budget. A copy of the budget, as finally adopted, is filed with the City Secretary's Office and the County Clerk of Tarrant County. The final budget is made available for the use of all departments, offices and agencies of the City, and for the use of interested persons, agencies, and civic organizations.

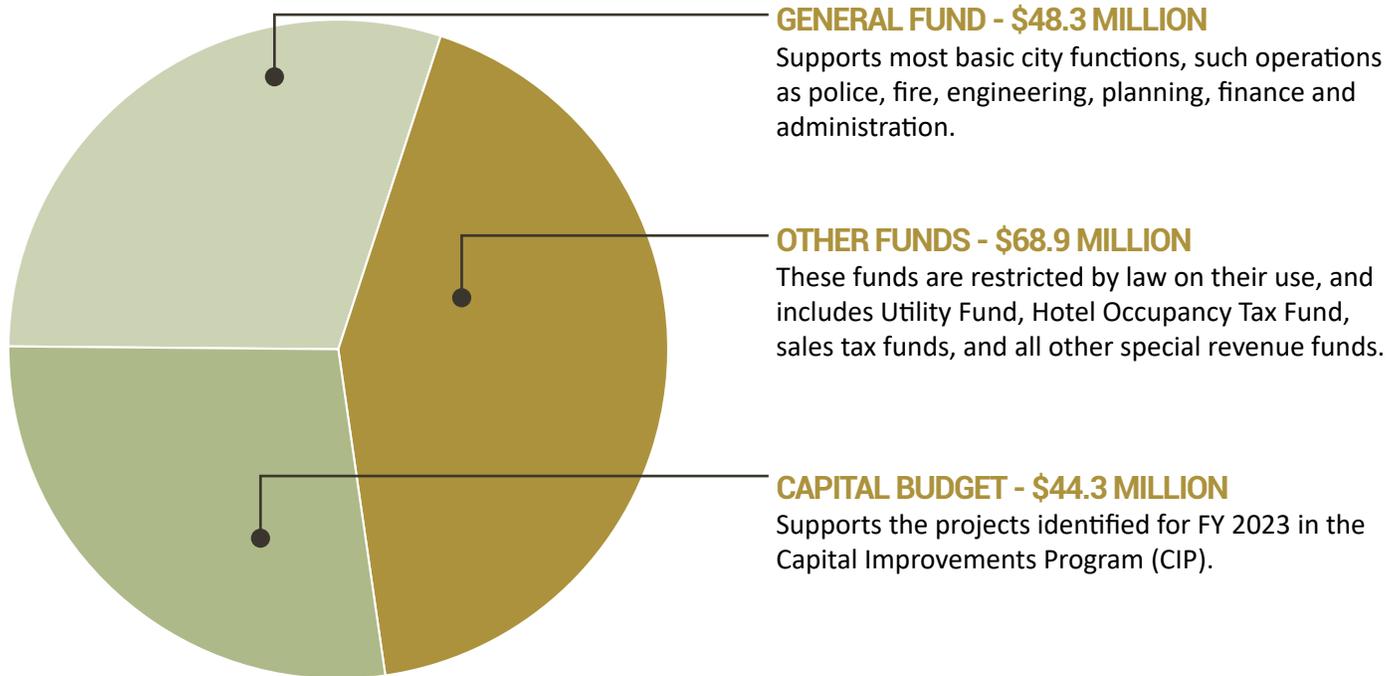


FIGURE 8: FY 2023 BUDGET TIMELINE

# BUDGET IN BRIEF

# FY 2023 ADOPTED BUDGET

## FY 2023 ADOPTED BUDGET - \$161.5 MILLION



## FY 2023 BUDGET FAST FACTS



### STRUCTURAL BALANCE

The FY 2023 adopted budget is a structurally balanced budget while maintaining alignment with our financial principles and without reducing service levels.



### TAXPAYER RELIEF

In FY 2023, the City of Southlake is proposing a 3.0 cent tax decrease. The tax rate decrease will complement the exemptions adopted by Council, including the 20% homestead exemption which is the maximum percentage allowed by State law.



### OPTIMUM FUND BALANCES

Maintaining proper reserves increases the organization’s ability to absorb or respond to temporary changes in the environment or circumstances, such as an unanticipated event or changes related to operating revenues. This budget provides for optimum fund balances in all funds.



### AAA BOND RATING

The City of Southlake maintains a AAA bond rating from by Moody’s, Fitch Ratings and Standard & Poor’s. This is the highest possible rating given to a credit. Not only does it reinforce that the City has strong financial management tools, it also allows for favorable borrowing conditions when the time is right.



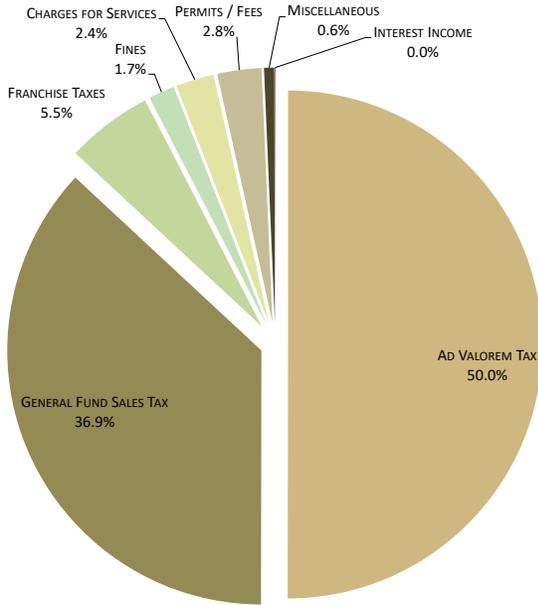
### CASH FUNDING OF CAPITAL PROJECTS

The FY 2023 Capital Budget is funded 70% with cash, reducing the need to borrow debt to fund capital projects. This is just one of the City’ strategies used to manage debt obligations.

# FY 2023 ADOPTED GENERAL FUND BUDGET

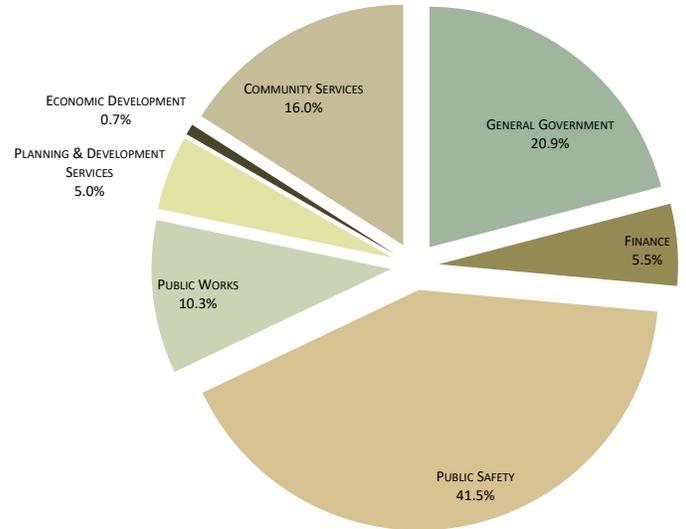
## GENERAL FUND REVENUES

General Fund revenues are largely made up of ad valorem taxes and general fund sales tax. In FY 2023, the General Fund anticipates revenues of \$53,954,094.



## GENERAL FUND EXPENSES

General Fund expenses support basic city services, with the largest portion going toward Public Safety. The FY 2023 General Fund budget by service area is shown in the chart below. The FY 2023 Adopted General Fund budget is \$48,266,972.



# FY 2023 FUNDING PRIORITIES



### \$11.2M FOR ROADS

This funding is in addition to the road maintenance that is included in the Streets operating budget.



### \$1.56M FOR SIDEWALKS

This sidewalk funding will allow the City of Southlake to construct 8,805 linear feet of new sidewalks.



### \$6.77M FOR PARKS

This funding is in addition to the park maintenance that is included in the Community Services operating budget.



### \$550K IN SCHOOL SAFETY ENHANCEMENTS

This budget proposes adding three School Resource Officers (SROs) and a Captain to enhance school safety, which will be funded through sales tax using the Crime Control Prevention District fund.



### \$1.79M FOR DRAINAGE IMPROVEMENTS

The Capital Improvements Program includes funding for drainage improvements in addition to funding included with other projects.



### NO SERVICE REDUCTIONS

This budget proposes no reduction to services, and returns many services to pre-pandemic levels.

