



# STRATEGIC INITIATIVE FUND

CITY OF SOUTHLAKE  
ADOPTED BUDGET 2023

The Strategic Initiative Fund (SIF) was created in FY 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.

The City of Southlake is recognized for its strong financial management as evidenced by the assignment of 'AAA' ratings by both Standard and Poor's and Fitch Rating Services and a Aaa from Moody's. Three 'AAA' ratings put the City into a small and elite group of municipalities that enjoy the highest possible credit ratings assigned from all rating agencies.

In the most recent credit report issued, S&P noted "Very strong management with strong financial policies and practices," stating "When drafting the budget, management uses historical trends and statistical information to forecast revenue and expenditures, and works closely with department heads during the budget process to identify departmental needs. Officials monitor the budget monthly and adjustments are typically made at midyear, although management has the flexibility to make amendments throughout the fiscal year. The city has a comprehensive formal long-term financial plan and a formal long-term capital improvement plan (CIP), with identified funding sources. It also has a written, in-depth, and conservative investment policy, and gives monthly updates regarding holdings and earnings to the governing body. It also has a formal debt management policy that it has historically adhered to, identifying targets for refunding parameters and the types of debt that are acceptable for issuance. Finally, the city has a formal reserve policy that targets reserves of at least 25% of operating expenditures for emergencies, which it has historically maintained above this target."

The Fitch Rating report notes, "Robust planning and prudent cost management support maintenance of a strong financial position... Fitch expects Southlake to demonstrate exceptionally strong financial resilience during an economic downturn, consistent with past performance. The 'aaa' resilience assessment is informed by the city's revenue raising capabilities, solid expenditure flexibility and ample financial cushion."

The Moody's report details why the City's credit rating was upgraded to Aaa, and states " The upgrade to the Aaa Issuer Rating reflects...a steady history of robust reserves supported by multiple years of strong operating performance. The Aaa rating incorporates the city's modest debt and pension burden that will remain affordable supported by a stable local economy, and prudent financial practices. One of the innovative tools that the City uses to help manage our strong financial performance is the Strategic Initiative Fund, also referred to as the SIF.

### SIF HISTORY

The SIF concept was first used with the FY 2006 budget. The concept was simple: the City would strive to maintain its optimal General Fund undesignated fund balance of 25% of operating expenses, and sweep any excess funds that had accumulated in the fund balance over time into the SIF to be used for one-time, high impact projects.

The following sections describe Southlake's budgeting goals, helping to provide context for the development and use of the SIF.

Structural Balance. Good budgeting practices require a city to achieve structural balance; that is, to have enough annual revenue to cover planned expenses for any given year. Balancing a city's operating budget by dipping into reserves is considered a poor budgeting practice for a city, in the same way that borrowing money from a personal retirement account to pay for monthly household expenses would be considered unwise. Using reserves to balance the annual budget can mean that the revenue base is not strong enough to support current service levels and could result in an unsustainable budget over time.

The City of Southlake is committed to maintaining a budget with structural balance, not only with its current year budget, but also for future years. Staff uses multi-year budgeting to determine if revenues are strong enough to support the services of the City for future years.

**Fund Balance.** City policy originally adopted in August 1993 and amended in 2011 sets a fund balance range of 15-25% of operating expenses for the General Fund. Fifteen percent is considered the minimum fund balance to achieve. The policy defines 25% as the optimal reserve level for the General Fund. Council and staff are committed to having a structurally balanced budget while maintaining the optimum fund balance of 25%.

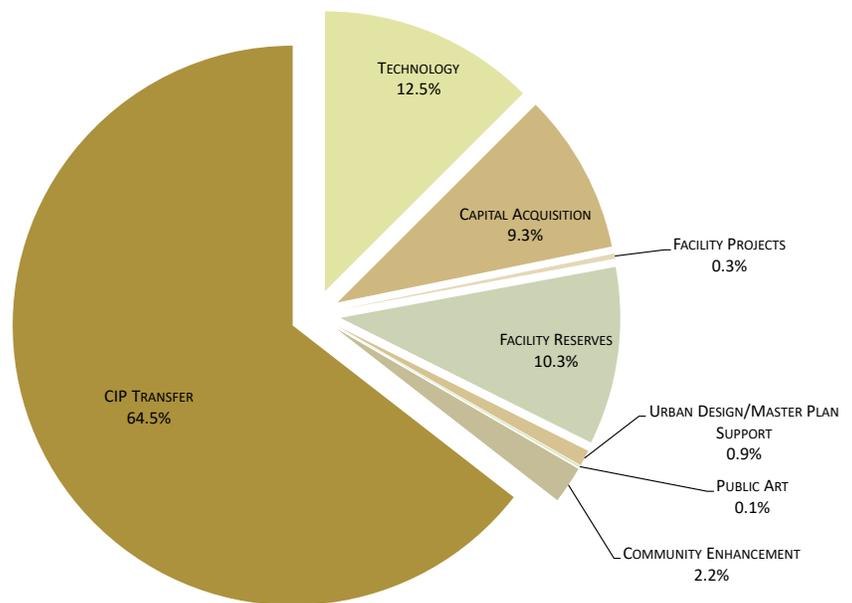
**Budget Performance.** In any given year, the City’s revenue can perform better than expected. This is especially true when revenue estimates are conservative. Likewise, City departments sometimes do not spend their entire budget allocation. Adjustments are made throughout the year, but when year-end numbers show excess revenues and unspent appropriation, this operating surplus “rolls” into the fund balance for the subsequent fiscal year.

Assuming that the fund balance is maintained at its optimal level, this creates options for the use of the excess reserve funds above the optimum level.

One option is to put these funds to work as one-time revenue to fund needed projects that are non-recurring expenses. In this way, the City uses the one-time funding for one-time costs, and can avoid borrowing money for these projects. This is the basic idea of the Strategic Initiative Fund.

Another option the City Council has exercised has been the granting of a homestead exemption. The City implemented a one-time general homestead exemption in FY 2009 and again in FY 2013 to complement the ongoing over-65 exemption (\$75,000), disabled exemption (\$75,000), and the over-65 tax freeze. This reduced the taxes levied against Southlake taxpayers for tax years 2008 and 2012, years that the City could afford the reduced revenue, and the City applied the exemption to its revenue projections for the budget year. For FY 2014, a 3% exemption was adopted on a permanent basis, and for FY 2015, a 10% exemption was adopted. For FY 2016, a 12% exemption was included, for FY 2017, the exemption was increased to 16%, and in FY 2018, City Council approved increasing the exemption to 20% which is the maximum allowed by State law. For FY 2019, City Council approved the 20% homestead exemption and reduced the tax rate by \$0.015. For FY 2020, City Council approved the 20% homestead exemption and reduced the tax rate by \$0.037, bringing the adopted tax rate below the no new revenue tax rate. For FY 2021, City Council approved the 20% homestead exemption and reduce the tax debt rate by \$0.005, continuing to keep the adopted tax rate below the no new revenue tax rate. For FY 2022, City Council continued the 20% homestead exemption and reduced the tax operating rate by \$0.005 and the tax debt rate by \$0.01, continuing to keep the adopted tax rate below the no new revenue tax rate. For FY 2023, we are proposing to continue the 20% homestead exemption and reduce the tax operating rate by \$0.03, continuing to keep the adopted tax rate below the no new revenue tax rate.

**Capital Improvement Program (CIP).** In 2006, the City had identified over \$22 million in General Fund capital projects that needed to be addressed, but were unfunded for the five-year planning period. Given that the City’s annual General Fund bond program was \$3 million, it was difficult to see how the City would be able address the critical infrastructure projects in a timely manner. The SIF presented a way for the City to infuse cash into its CIP. For FY 2006, almost \$750,000 was transferred from the SIF to the CIP, allowing the City to address more projects than initially thought possible.



**STRATEGIC INITIATIVE FUND EXPENDITURES BY TYPE, FY 2006 - 2023**

Since that time, the City has been able to increase its cash funding for the CIP, lessening the debt the City has to take on to make appropriate investments into needed street, sidewalk, drainage, facility, and other improvements. About sixty-five percent of the SIF allocations since 2006 have been used as cash funding for CIP projects, which ultimately means the City avoids borrowing costs for addressing those projects.

The City has also used the SIF to purchase expensive, but necessary equipment, such as fire apparatus and ambulances, make improvements to City facilities such as the Senior Activity Center, improve the City's technology infrastructure, and establish a much needed facility maintenance reserve fund.

The chart on the previous page details SIF projects funded since 2006.

Like many other municipalities, the City was impacted by the recent economic recession and had to make decisions during those years to freeze pay, leave certain positions unfilled, and defer the purchase of needed equipment in order to achieve structural balance with its budget. But the impact of the recession was minimized by the SIF. The SIF has been an important tool for the City of Southlake to use to weather economic events like the recession by allowing the City to move forward with capital projects without compromising the City's fund balance, raising taxes, or increasing the City's debt load.

The City's budget is sustainable and healthy, and able to withstand the effects of unforeseeable economic impacts. This is due, in part, to the City's use of innovative financial practices, such as the SIF.

### **RATING AGENCY ASSESSMENT AND PERSPECTIVES**

Bond rating agencies review financial information to inform investors of key metrics associated with debt issuances. Ratings are assigned based on the investment risk. Three rating agencies have reviewed the City's financials, including its debt profile and economic prospects, management decision-making, and governance. All three have assigned their highest credit rating to the City of Southlake's property-tax-supported debt. Recent reports from the City's rating agencies complimented the City's financial management.

S&P's rating report notes:

*"The rating reflects our view of the city's:*

- *Very robust and strong economy, with access to the Dallas-Fort Worth MSA;*
- *Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology and a strong institutional framework score;*
- *Historical trend of operating surpluses in the general fund and maintenance of reserves over 65% during the past three fiscals; and*
- *Manageable debt profile, despite the potential for additional debt plans"*

Fitch reported:

*"Fitch expects the city's pace of spending to remain generally in line with revenue growth. Fitch does not anticipate pressure on service levels given anticipated modest population growth.*

*The city of Southlake exercises full control over work force spending providing a sound level of expenditure flexibility. Fiscal 2018 carrying costs were moderately elevated at about 20% and reflect a front-loaded principal payment schedule.*

*Robust planning and prudent cost management support maintenance of a strong financial position, evidenced by high reserves in excess of policy targets."*

Moody's reported:

*"The Aaa rating incorporates the city's modest debt and pension burden that will remain affordable supported by a stable local economy, and prudent financial practices."*

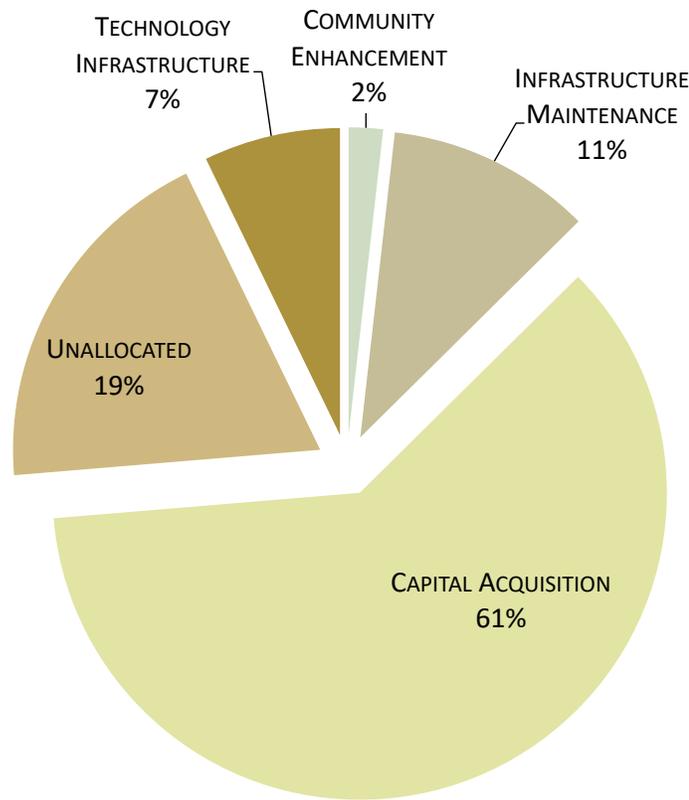
**CURRENT CONSIDERATIONS**

The use of the SIF as a budget technique for future years depends on several factors:

- The City’s ability to meet its operational expenses with a structurally balanced budget for the current budget year and in a multi-year context;
- The City’s ability to maintain a fund balance within policy parameters;
- The City’s capital needs and its ability to fund those in a timely manner to ensure infrastructure needs are addressed appropriately; and,
- Tax rate management.

**SUMMARY**

The SIF is an innovative budgeting technique that provides funding for one-time, high impact projects. Since the City began using the concept in 2006, more than 64.5% of the funds have been directed to the CIP for cash funding of infrastructure needs. The fund has also been used for equipment purchases and to build a facility maintenance reserve fund, among other things.



**STRATEGIC INITIATIVE FUND EXPENDITURES BY TYPE, FY 2023**

# STRATEGIC INITIATIVE FUND

*The City of Southlake’s Fund Balance Policy states, “The City of Southlake’s goal shall be to maintain a fund balance in the General Fund equal to a minimum of 15% of General Fund budgeted operating expenditures, with the optimum goal of 25%.” Since 2006, any dollars beyond the optimal goal of 25% have been transferred to the Strategic Initiative Fund with uses limited to one-time, non-recurring expenses.*

	2021 Actual	2022 Adopted	2022 Amended	\$ Increase/ (Decrease) Adopted	% Increase/ -Decrease	2023 Proposed	\$ Increase/ (Decrease) Adopted	% Increase/ -Decrease
<b>REVENUES</b>								
Interest	3,803	9,500	2,000	(7,500)	-78.9%	2,000	(7,500)	-78.9%
<b>Total Revenues</b>	<b>\$3,803</b>	<b>\$9,500</b>	<b>\$2,000</b>	<b>(\$7,500)</b>	<b>0.0%</b>	<b>\$2,000</b>	<b>(\$7,500)</b>	<b>-78.9%</b>
<b>EXPENDITURES</b>								
Infrastructure Maintenance	\$0	\$0	\$0	\$0	0.0%	\$0	0	0.0%
Community Enhancement	92,766	200,000	200,000	0	0.0%	250,000	50,000	25.0%
Technology Infrastructure	0	0	0	0	0.0%	0	0	0.0%
Capital Acquisition	0	443,462	68,462	(375,000)	-84.6%	1,218,688	775,226	174.8%
<b>Total Expenditures</b>	<b>\$92,766</b>	<b>\$643,462</b>	<b>\$268,462</b>	<b>(\$375,000)</b>	<b>-58.3%</b>	<b>\$1,468,688</b>	<b>\$825,226</b>	<b>128.2%</b>
<b>Net Revenues</b>	<b>(\$88,963)</b>	<b>(\$633,962)</b>	<b>(\$266,462)</b>	<b>\$367,500</b>		<b>(\$1,466,688)</b>	<b>(\$832,726)</b>	
Transfer from other funds	\$8,750,000	\$5,800,000	\$21,338,170			\$2,500,000		
Transfer to other funds	(5,625,000)	(8,000,000)	(16,038,170)			(11,000,000)		
<b>Total Other Sources/(Uses)</b>	<b>\$3,125,000</b>	<b>(\$2,200,000)</b>	<b>\$5,300,000</b>			<b>(\$8,500,000)</b>		
Beginning Fund Balance	\$4,559,073	\$7,595,110	\$7,595,110			\$12,628,648		
<b>Ending Fund Balance</b>	<b>\$7,595,110</b>	<b>\$4,761,148</b>	<b>\$12,628,648</b>			<b>\$2,661,960</b>		

## FY 2023 HIGHLIGHTS:

**Infrastructure Maintenance Funding:** We are proposing that \$1,500,000 be transferred from the SIF to the Facility Maintenance Fund. 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.

**Community Enhancement Funding:** This category of funding is set aside as a way to provide pay-as-you-go funding for initiatives which will enhance the quality of life or aesthetics of Southlake. For FY 2023 community enhancement projects include: \$150,000 for 2035 Master Plan updates and \$100,000 for an engineering record archive program.

**Capital Acquisition Funding:** We are proposing to transfer \$8,500,000 from the SIF to the Capital Improvements Program for the purpose of building infrastructure. This cash funding will reduce the amount of bonds the City will need to issue for General Fund CIP projects in FY 2023. Additionally, this budget includes: new fire department radios for \$750,386, a tanker truck for \$375,000, 75,000 for an automated flagger assistance device (AFAD), and a UniMac extractor for \$18,302 to clean firefighting gear after structure fires.

**Technology:** We are proposing to transfer \$1,000,000 from the SIF to the IT Infrastructure & Security Fund to cover certain technology expenses.