



## *Basic Budget Information*

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 budgeting 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 and make any changes necessary to ensure that the strategy still aligns with City Council and citizen priorities.

Using Council's direction at this work session, staff begins working on their departmental business 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 structure, see the organizational chart (opposite).

The Charter of the City of Southlake mandates that a proposed 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.

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.

This plan includes:

- Public hearings;

- Televised coverage of City Council work sessions, meetings and public hearings;

- Presentations to advisory boards and commissions;

- Distribution of, and internet access to, responses to City Council, citizen and media budget questions;

Access to all volumes of the Proposed and Approved budgets through the Southlake Public Library system; and, internet access to all budget documents at [www.cityofsouthlake.com](http://www.cityofsouthlake.com).

### **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, Stormwater Utility Fund, Southlake Parks and Development Fund, Crime Control & Prevention District Fund and Tax Increment Financing 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 (CAFR).

### **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 are evaluated and processed each year in March and presented to City Council for review and approval in April.

### **Structural Balance**

The budget is structurally balanced which means the expenditures do not exceed the City's projected revenues. Each department operates from a base budget, in other words the monies need-

ed to operate at the current level of service. For FY 2012 department directors were asked to scrub their base budgets and defer any base budget expenses if possible. In its review of the submitted budgets, the City Manager's office not only reviewed any new base budget numbers but any supplemental requests made by the department director. This process prevents incremental budget "creep," requiring departments to justify their supplemental requests each year, rather than embedding them in line items where they are not easily identified. This process allows us to review the budget more thoroughly before it is submitted to City Council.

### **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 their expenses and reports them for the company as a whole. Governments handle this process a little differently.

The City of Southlake has 48 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 refuse service, and a multitude of Special Revenue and Capital Project Funds. Without going into too much technical jargon, funds are set up like separate companies which must operate under the parameters that were set up when the fund was created.

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 of the City, like supplies, salaries, and general maintenance. The other penny is split between our Crime Control and Prevention District (CCPD) and the Southlake Parks Development Corporation (SPDC). These two units of the City were voted on by the residents, but state law determines how that money is spent. We can only use it for the purposes outlined in the original referendum presented to the voters, so we set up separate funds to account for the revenues and expenditures of each unit. This money cannot not be spent on general operations.

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 on what 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 re-

strictions applies to all 48 funds. As a result, reporting revenues and expenses for the City of Southlake includes 48 miniature financial statements in addition to a City-wide financial statement. It may appear that money is available to spend when in fact the majority of the money is restricted by law.

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. The fund of the City that 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.

**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 garbage 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 days of working capital on hand.

**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. This budget proposes that thirteen cents of the current tax rate be allocated to support the City's debt. A Capital Improvements Program (CIP) 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.

**Stormwater Utility Fund:**

This fund accumulates dollars collected by the stormwater 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 stormwater facilities, and can only be spent for these purposes. The monthly stormwater 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 stormwater runoff potential.

**Strategic Initiative Fund:**

This fund was created in 2005 for the purpose of taking fund balance reserves in excess of the City identified optimum fund balance level and using them for one-time expenditures for high-impact projects such as infrastructure maintenance, community enhancement, technology and capital acquisition.

**Special Revenue Funds:**

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

**Bicentennial Concessions**

This fund accounts for revenues and expenditures dedicated for Bicentennial Park use. These funds are derived from the Coca-Cola contract, with uses restricted as specified by the contract.

**Court Security**

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

**Court Technology**

This fund accounts for 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 Fund**

The half-cent sales tax collection to fund the Crime Control and Prevention District (CCPD) began in April 1998, with the first sales tax check received in June 1998. State law provides that a district's life is limited to five years, unless voters continue the district by approval of a referendum. In February 2002, Southlake voters approved the continuation of the CCPD for 15 years. This fund has been used to build facilities for the Department of Public Safety.

### **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 has provided seed money for this fund, an important element of our budget given the size and complexity of the City's facility infrastructure. For FY 2012 we will continue our practice of transferring SIF money into this fund, but we are also beginning to budget expenses in the operating budget for facility projects.

### **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 at the Hilton Hotel in Town Square 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. Planned 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 funds from dedication fees on new development. Use of park dedication fees is restricted to park improvements and primarily used for capital expenses.

### **Public Art**

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

### **Recycling Fund**

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.

### **Reforestation**

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

**Southlake Parks Development Corporation Fund (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 \$4.5 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 (CIP). The City may spend the funds for operational or capital projects, but it is our preference to focus primarily on one-time, non-recurring costs at this time.

**Tax Increment Financing District Fund**

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 to encourage quality commercial development in the City. Incremental values subsequent to January 1997 are taxed at the City's tax rate of \$.462 per \$100 of assessed value; however, 100% of the ad valorem tax revenues are utilized within the District, rather than being allocated to the City's overall budget. These funds pay for public projects in Town Square, such as water, sewer and roads within the District. Overlapping taxing entities, including Tarrant County, Tarrant County College District, Tarrant County Hospital District, and the Carroll Independent School District have agreed to participate at varying levels in the TIF District by assigning their ad valorem tax dollars as well.

**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.