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**MEMORANDUM**

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**TO:** Honorable Mayor and City Council

**FROM:** Cliff Keheley, City Manager

**DATE:** September 21, 2020

**SUBJECT:** **Fiscal Year 2020-21 Proposed Budget Highlights**

The fiscal year 2020-21 budget was prepared with the continued guiding principles of focusing on City Council strategic goals and objectives while also facing the challenge of Senate Bill 2 with the 3.5% tax cap. Below is a summary of the budget highlights for the 2020-21 proposed budget as compared to 2019-20 amended budget:

General Fund:

Revenues

- Property tax rate decrease of \$0.02538 (2.538 cents), from \$0.7340 to \$.70862; however, the budget does include \$1,176,540 in new revenues through increased valuation in the tax roll and new property added to the tax roll.
- Gross Receipts are projected to remain flat.
- Sales tax from general sales tax and mixed beverage sales tax is projected to increase slightly by \$325,000.
- License and Permits are projected to increase by \$700,000 for the Rental Certificate Occupancy program.
- Fines and Forfeitures are projected to rebound from COVID-19 with an increase of \$315,500.
- Interest Income is still impacted by COVID-19 with a projected decrease of (\$100,000).
- Increase of \$762,690 for Charges for Services is primarily due to proposed \$1.00 per month increase in Residential Solid Waste fee and \$75,000 increase for commercial solid waste fees along with projected recovery from COVID-19 for other programs and user fees.
- Reduction of (\$319,000) under Other Revenue is mostly due to removing reimbursement of the Medicare Ambulance Supplemental Payment program until verification of the continuation of the program.
- Increase for \$8,200 in Contributions and Donations is a recovery from COVID-19 related to special events excluding Summer Sizzle.
- Decrease of (\$150,000) in state grant funding is because the STAR Transit program will be funded from CARES Transportation Grant instead of the General Fund for fiscal year 2020-21.
- Transfers In increase of \$25,000 is from the Special Revenue Child Safety Fund.
- Increase of \$105,620 in Enterprise Fund Payment in Lieu of Taxes (PILOT) and Franchise Fees is from the Water and Sewer Operating and Drainage Utility District (DUD) funds due to the Cost Allocation plan updates for the new fiscal year.

## Expenditures

- Five percent step increase for 55 police officers and 49 firefighters who have less than six years of service - \$252,000
- Increase in required contribution to the Texas Municipal Retirement System (TMRS) that includes 50% cost of living adjustments (COLA) for retirees non-repeating (ad hoc) - \$548,170
- Increase City's contribution to the Group Medical Insurance Fund for 3.5% increase along with plan to rebuild the fund balance - \$760,670
- Separation pay that is a portion of unused sick and vacation leave paid at retirement or resignation - \$400,000
- Overtime for Police and Fire Services - \$400,000
- Increase for 380 Agreement Incentives - \$200,000
- Decrease in debt service costs – (\$747,960)
- Increases in departmental operating expenses including full effect of merit increases from Fiscal Year 2019-20, cost allocation changes, general liability charge, worker's compensation charge, adjustments from COVID-19 reductions - \$2,843,300
- Increase for maintenance agreements including P-25 Radio System - \$550,000
- Decrease in Housing & Community Services for STAR Transit Program that will be funded by CARES Transportation Grant instead of General Fund for fiscal year 2020-21 – (\$290,220)
- Frozen vacant positions for fiscal year 2020-21 – (\$682,000)
- Program and service reductions for fiscal year 2021-21 including Vaccine Clinic, Summer Sizzle, Special Events, Fire and Police equipment and supply savings, Citizen Survey, Lobbyist, Chamber Contract, Rodeo Suite, and Library Services – (\$858,000)
- Increase due to one-time reimbursement for administration of CARES Act grants in fiscal year 2020 - \$300,000
- Proposed Budget Offers including 9 new full-time positions – \$996,550
  - Three Police Officers with a \$148,050 Federal Reimbursement for fiscal Year 2021 - \$180,750
  - One School Resource Officer with 50% reimbursement from Mesquite Independent School District (MISD) - \$55,800
  - Animal Services Expansion includes four animal services officers - \$260,000
  - Open Records Management includes 1 full-time position - \$100,000
  - Competitive Pay - \$300,000
  - Mental Health Response - \$100,000

## Water/Sewer Fund:

### Revenues

- No City water and sewer rate increases for fiscal year 2020-21. Increases in revenue are projected recovery from COVID-19.
- Increase in sale of bulk water and reconnect fees & transfer fees to match estimate for fiscal year 2020-21.
- Interest Income is still impacted by COVID-19 with a projected decrease of (\$100,000).

### Expenditures

- No increase for purchase of treated water from North Texas Municipal Water District (NTMWD).

- Increase for wastewater treatment from NTMWD of 5% – \$549,500.
- Changes in departmental operating expenses including full effect of merit increases from Fiscal Year 2019-20, required contribution to TMRS, increase of City contribution to Group Medical Insurance Fund, cost allocation charges, general liability charge, worker’s compensation charge and adjustments from COVID-19 reductions – (\$185,160).
- Decrease in capital outlay needs - (\$267,780).
- Decrease in transfer out to General Liability Insurance Fund – (\$246,420).
- Change in cost allocation of \$58,120.
- Increase debt service requirements – (\$589,770).
- Proposed Budget Offer for radio collector meter reading software and equipment - \$70,500.

DUD Operating Fund:

*Revenues*

- No increase for residential drainage fee. Slight projected revenue increase based on new customers.
- Commercial drainage fee increase of two cents per square foot of impervious area from \$0.10 to \$0.12.

*Expenditures*

- Changes in departmental operating expenses including full effect of merit increases from Fiscal Year 2019-20, required contribution to TMRS, increase of City contribution to Group Medical Insurance Fund, cost allocation charges, general liability charge, worker’s compensation charge and adjustments from COVID-19 reductions – \$128,350.
- Decrease in capital outlay needs – (\$440,000).
- Change in cost allocation of \$99,470.
- Decrease of (\$159,510) for debt service requirements.
- Increase transfer out for DUD Capital Projects in the amount of \$250,000.

Airport Operating Fund:

*Revenues*

- Increase in hangar rentals is due to new hangar fees proposed for fiscal year 2020-21.
- Decrease in fuels sales based on estimated fuel sales for fiscal year 2020-21.
- Other revenue changes due to proposed fee changes for the fiscal year 2020-21.
- Decrease of (\$69,000) in Other Revenue due to Federal CARES Act Grant that was received in fiscal year 2019-20.

*Expenditures*

- Changes in departmental operating expenses including full effect of merit increases from Fiscal Year 2019-20, required contribution to TMRS, increase of City contribution to Group Medical Insurance Fund, cost allocation charges, general liability charge, worker’s compensation charge and adjustments from COVID-19 reductions.
- Decrease in fuel supplies in relation to the decrease in estimated fuels sales.
- Capital outlay includes purchase of zero turn mower.

Golf Course Fund:

Increases in revenues and expenses are fiscal year 2020-21 are primarily related to recovery from COVID-19. Increases include full effect of merit increases from Fiscal Year 2019-20, required contribution to TMRS, increase of City contribution to Group Medical Insurance Fund, cost allocation charges, general liability charge, worker's compensation charge and adjustments from COVID-19 reductions.

Group Medical Insurance Fund:

The fund is projected to have excess revenues of \$508,240 for fiscal year 2020-21 to help reduce the overall fund deficit. Fiscal year 2020-21 budget includes an additional transfer in from the General Fund in the amount of \$500,000 to improve the fund balance along with a 3.5 percent rate increase for Employer Contributions, Employee Contributions and Retiree Contributions. There are minimal increases in expenditures with the major changes including an increase of \$360,000 in Health Claims, \$58,000 increase for Administrative Fee and \$150,000 for stop loss coverage.

General Liability Fund:

The fund is projected to have net income of \$64,990 for fiscal year 2020-21 that will be used to reduce the deficit fund balance. Revenue increases are from increase in the worker's compensation charge to departments and the establishment of a general liability charge to departments across all funds. The decrease in Personal Services is the full effect of a position change between Risk Management and Human Resources Administration in fiscal year 2019-20. Worker's Compensation Claims and Other Expenditures are estimated for fiscal year 2020-21.

Hotel Occupancy Tax Fund:

The Hotel Occupancy Tax fund revenue is projected to have a decrease of \$300,000 due to the impact of COVID-19. As a result, there are proposed reductions in all programs and entities that receive Hotel Occupancy Tax funds.

Confiscated Seizure Fund:

The Police Department will bring their requests for the Confiscated Seizure Fund to City Council for approval throughout the year. The initial budget is set at a minimal amount. There is an estimated available fund balance of \$644,778 for requests in the new fiscal year.

Photo Enforcement Fund:

The legislative changes that occurred in fiscal year 2018-19 ended the red light camera program. The current revenue source is from the photographic enforcement program for school bus arm violations. The proposed fiscal Year 2020-21 budget includes a transfer to the General Fund of \$25,000.

Child Safety Fund:

The Child Safety Fund was established in 2019 when Dallas County began charging motorist a child safety fee when they register their vehicles. This fee is distributed to the cities within Dallas County on a quarterly basis. The City anticipates receiving \$200,000 from Dallas County for Fiscal Year 2020-21. The revenue collected will be transferred to the General Fund to help offset school crossing guard expenses that are shared with MISD.

911 Service Fee Fund:

There are no revenue changes in the 911 Service Fee Fund. Transfer out to General Fund is \$800,000 for fiscal year 2020-21 to offset public safety operations.

Community Development Block Grant Program Fund:

The revenues and expenditures match the approved Program Year 2020-21 Community Development Block Grant Annual Action Plan.

Housing Choice Voucher Program Fund:

Slight increase in federal grant revenues for Section 8 Housing Voucher Program. Increase of \$250,000 in expenditures for Housing Assistance payments of the Section 8 Housing Voucher Program along with slight increases for full effect of merit increases from Fiscal Year 2019-20, required contribution to TMRS, increase of City contribution to Group Medical Insurance Fund, general liability charge, and worker's compensation charge.

Public, Educational and Government Access Fund:

No revenue changes for the fund. Expenditures include \$183,100 for new production equipment at the Mesquite Independent School District's production studio in the Technology Excellence Center and \$5,000 for new studio and field camera equipment for the City of Mesquite's video production studio.

Mesquite Quality of Life Corporation Fund:

The revenues and expenditures match the Fiscal Year 2020-21 budget approved by the Mesquite Quality of Life Corporation on Jun 24, 2020. The projects include transportation, public safety and parks and recreation improvements throughout the City. Detailed information can be reviewed in the Capital Improvement Budget for fiscal year 2020-21 located in tab 6 of the Council Budget Binder.

Municipal Court Technology Fund:

Revenues from Municipal Court Technology fee are estimated to be \$10,000 more for the fiscal year 2020-21. Expenditure increases for contractual services in fiscal year 2020-21 include cost allocation charges and TEAMS Conference hardware to record arraignments.

Capital Projects Reserve Fund:

The Capital Projects Reserve Fund includes a transfer in from the General Fund for furniture replacement and a transfer in from TIRZ Funds for TIRZ Funds' administration.

Tax Increment Reinvestment Zone Funds:

The Fiscal Year 2020-21 proposed budget reflects revenues and expenses per the most recent project and finance plan approved by the TIRZ Board for each of the active Tax Increment Reinvestment Zones in the City.

Roadway Impact Fee and Water/Sewer Impact Fee Funds:

The revenue collected from Roadway Impact Fees and Water/Sewer Impact Fees will be used to offset the debt service related to capital projects in both areas.

Conference Center Capital Replacement Reserve Fund:

Ten percent of the proceeds from rental receipts of the exhibit hall operations and a rebate of net conference center room rental charges are accumulated into this fund each year to be used for replacement of capital items defined by an agreement between the City and

Atrium Hotels, LP. For Fiscal Year 2020-21, the budget includes \$109,600 for supplies and capital replacements for the Conference Center with a remaining fund balance of \$355,087.

Capital Budget:

Below includes the major funding sources of the Capital Budget for fiscal year 2020-21.

- Certificates of Obligation - \$12,372,050
- Water and Sewer Revenue Bonds - \$17,980,000
- Drainage Utility District - \$2,250,000
- 4B Sales Tax - \$10,901,910



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Cliff Keheley  
City Manager