



CITY OF FRISCO, TEXAS
GUIDE TO BUDGET AND FINANCE
FISCAL YEAR 2020



Friscos Annual Budget is our operations guide, policy guide, financial plan and communication device detailing how the City's overall goals will be achieved. Each Department includes, as a part of its description of core services, information on their mission, strategies, objectives, and measures. The work program specifics, which are included with the budget unit pages, describe the steps the operating departments are taking to align their budgets with City Council's Strategic Focus Areas and Strategic Goals. These goals are also aligned with the City Core Values:

Integrity
Outstanding Customer Service
Fiscal Responsibility
Operational Excellence
Our Employees



In 2003, the City Council established seven **Strategic Focus Areas** to guide the City's operations and provide the Council's long-term vision for the community:

1. **Long-Term Financial Health** - Responsible stewardship of financial resources balancing short and long-term needs of the community.
2. **Public Health & Safety** - Provide quality programs and services which promote community well-being.
3. **Infrastructure** - Develop and maintain transportation systems, utilities and facilities to meet the needs of the community.
4. **Excellence in City Government** - Provide effective and efficient services with integrity in a responsive and fair manner.
5. **Sustainable City** - Promote the continued development of a diverse, unique and enduring city.
6. **Civic Involvement** - Encourage civic pride, community participation and a sense of ownership in our community.
7. **Leisure and Culture** - Provide quality entertainment, recreation and cultural development to promote and maintain a strong sense of community.

The City Council conducted the 2019 Strategic Work Session in January and had a Summer Work Session in June. From the meetings, Council unanimously agreed upon specific priorities. These were formally adopted during FY 2019. The FY 2020 proposal provides funding, in most cases, to continue our progress towards achieving these priorities, either with bond proceeds or operating appropriations.

FY20 Council Top 10 Goals & Funding Status

Funding is provided in the FY20 Proposed Budget for the following Council Top 10 Goals:

- Transportation – Innovative systems and solutions for traffic systems are funded
- Performing Arts Center – Plan is being formulated
- Legislative Advocacy -Funded and staff is committed to telling our story to legislators and officials in Austin
- Downtown Infrastructure – Bond funding has been issued for the Downtown 4th Street Plaza
- Parks – the *Play Frisco Campaign* was “rolled out” in July 2019
- Reinvest Frisco – Bond funding has been issued for Downtown Frisco Street Renovations
- Grand Park – Design and compliance for development with the Corps of Engineers is funded
- Library – Facility repurpose/remodel has been funded with bond proceeds
- Corporate and Business Growth – FEDC funding includes incentives for corporate growth
- North Quadrant of City/380 – PGA project bonds have been issued and development plans are in process and construction as started



BUDGET PROCESS

How does the City of Frisco determine how your tax dollars are used? Much like a budget you would use at home, the City plans for known expenses and saves for future and unexpected expenses. There's a four-step process that the City undergoes each year to ensure that departments get the funds they need to operate, that employees are compensated fairly for the work they do, that future capital projects are funded and that reserve funds are adequate in case of emergency. All budgetary estimates are derived from working through various reviews before being finalized. Ultimately, budget decisions are based upon the City Council's Strategic Goals and Focus Areas. These goals help outline and manage daily operations while remaining focused on challenges and opportunities for the future. Goals are assessed and reworked annually at the January work session as discussed on Page 3 of this Guide.

JANUARY - JUNE **PREPARING THE BUDGET**

STEP
1

The process starts each year in January with the City Council Work Session. Council meets for two days with management staff to:

1. Review Strategic Focus Area
2. Set Long Term Goals and Short Term Goals for the Upcoming Fiscal Year

Budget Office and Project Managers spend the month of January updating:

3. Financial Models for Cost of Service, Long Range Plan and Fee Rate Models
4. Capital Long-Range Plan for Infrastructure and Facilities

Throughout February and March, the Budget Office prepares training materials and forecasts. Staff continuously monitor current year revenues and expenditures and simulate subsequent fiscal year end projections.

Each year in April, the Budget Office hosts a Budget Kickoff Meeting. At the Kickoff Meeting, forms, guidelines and training materials needed to prepare the revised budget and proposed budget requests are provided. Preparation of the budget includes three parts:

1. The current year revised budget
2. The subsequent fiscal year proposed budget
3. The subsequent fiscal year capital and supplemental requested amounts

The subsequent fiscal year proposed budget is the expected cost for maintaining the current year base operations. Increases to the operating portion due to growth or inflation of the base are limited depending on the City Manager guidelines stated during the Budget Kick Off Meeting. Capital and one-time purchases from the previous fiscal year are not included in this base estimate.

Instead, activities that require additional resources, new or replacement equipment, or new programs are included in the capital and supplemental requested amounts. These requests are submitted by the Department in a list prioritized according to need by the Department Director. Fleet and computer replacements are submitted by the Fleet Division and Information Technology Division.

Throughout May, Budget Review Meetings are held with the Department Director for each City Department. The budget staff combines the proposed requests submitted into the Revenue, Expenditure and Fund Summaries.

THE BUDGET PROCESS

JULY -
SEPTEMBER



APPROVING THE BUDGET

The City Manager is required by City Charter to submit his proposed budget to Council by August 15 each year. The Council reviews the City Manager's proposed budget, discusses their priorities and goals, asks questions of the City Manager, provides feedback and requests changes at the Council Work Session in early August. After the Council Work Session there are two public hearings. The public hearings provide citizens a chance to voice their opinions and ask for clarification on the programs and services proposed.

The City Council adopts the final budget appropriation at a City Council meeting in September (usually the 3rd Tuesday).

OCTOBER -
DECEMBER



THE NEW BUDGET YEAR

- The new budget year begins October 1. The Budget Office monitors the adopted budget regularly and meets with Departments quarterly to review any new requests or requirements that may happen during the budget year.
- Monthly Budget to Actual Reports are submitted to Council for the Operating Funds for review and to monitor the financial position of those funds.
- The City publishes the **Adopted Budget** and **Capital Investment Program (CIP)** on the website, and it is available in the City Library as a printed document. The Budget is also submitted to and evaluated by the Government Finance Officers Association for the Distinguished Budget Award Program each year, which is the national benchmark for budget reporting standards and guidelines.

JANUARY

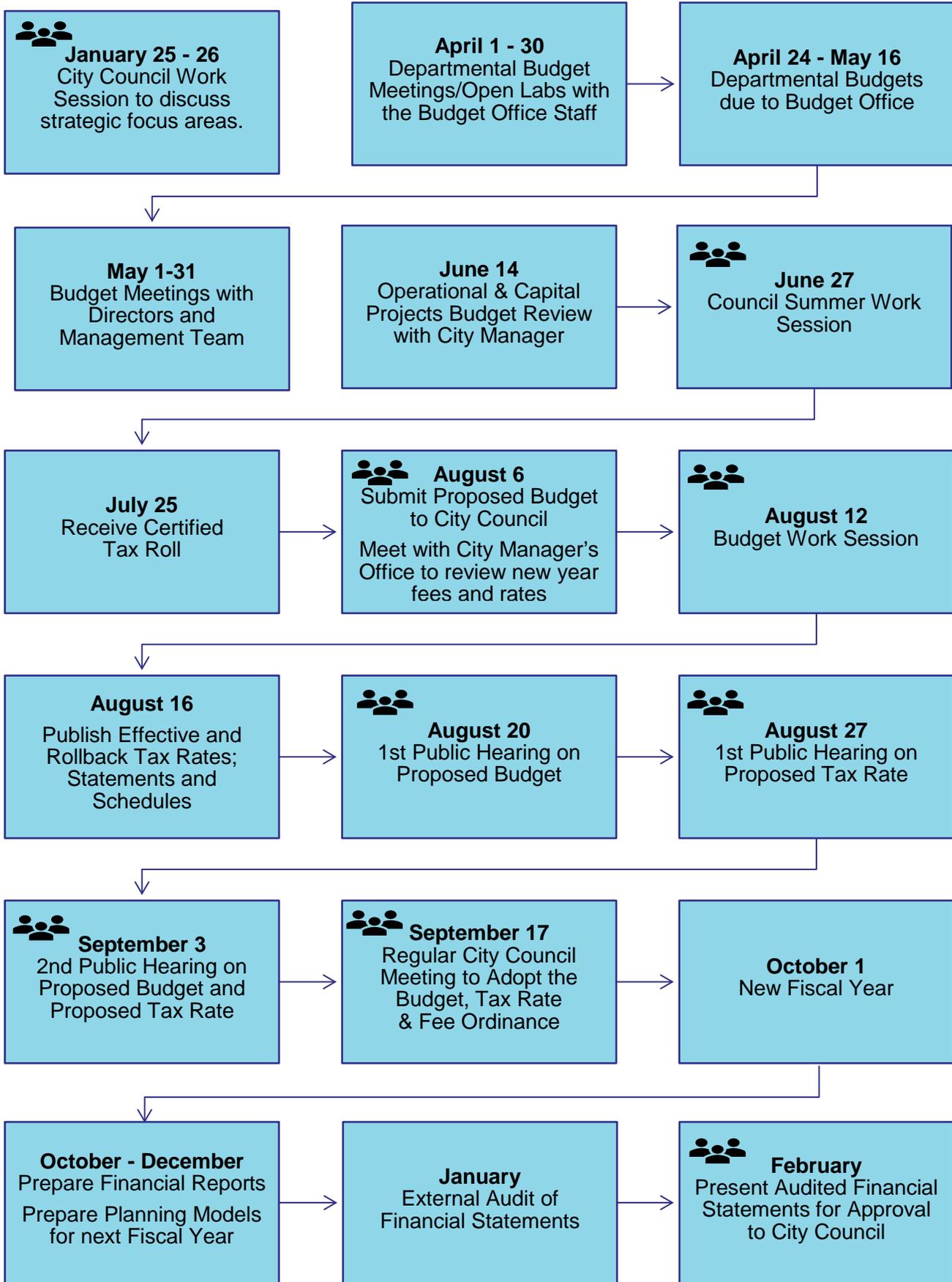


AUDITING FINANCIAL STATEMENTS

- The City's Annual Audit is completed by February by an outside CPA firm hired by the City Council. City Staff prepare the Comprehensive Annual Financial Report (CAFR) and the audit firm audits and prepares an Opinion on the financial statements. This ensures financial statements have been presented fairly. In January, the budgeting process begins yet again, with the audited prior year financials as the new baseline budget.

PROCESS TIMELINE

 Public Meeting



TYPES OF BUDGETS

Several types of budgets are prepared each year. Because we live in a complex world, the City Budget, our Financial Plan and Financial Policies are monitored year-round and are revised as needed to adjust to real world circumstances. For instance, at your home, an unexpected cost might arise if your roof begins to leak or your foundation shifts. Because you cannot wait to fix these problems, you must adjust your budget accordingly. At the same time, there are items that need to be paid for on a regular basis, such as groceries and utilities, along with long-range planned items such as home improvements or renovations.

Here are some of the various budgets that the City uses each year:

- The **Proposed Operating Budget** is the budget recommended by each department's director, after it has been approved by the City Manager. This is the recommended budget that is sent to City Council for adoption in August each year. Two public hearings are held so the public can comment on the proposal.
- The **Adopted Operating Budget** is the budget after it is approved by City Council in September after the City Manager has presented the budget and any changes have been made.
- The **Current Budget** is the active, working budget used throughout the year. It is the Adopted Budget, plus any encumbrances and/or multi-year contractual commitments (which are orders with vendors or contractors) and any budget transfers that departments may make during the year.
- The **Mid-Year Budget Amendment or Revised Budget** is an adjustment to the Current Budget which occurs mid-year or after the financial audit. The Mid-Year Budget allows departments to re-evaluate the actual amount of money they need to operate until the end of current fiscal year and request changes. This is also when any excess revenues (if any from the prior year) are transferred to the Capital Reserve Fund from the General Fund per City Council Policy.
- The **Capital Investment Program (CIP)** is the two-year financial plan for infrastructure and facility projects. While many new projects still occur, Frisco also focuses on the renovation, expansion or upgrades to existing streets, utilities and buildings.



FUND ACCOUNTING

There are three main fund types utilized by the City today: **Governmental**, **Proprietary**, and **Component Units**. Some funds are restricted, which means money can only be used as allocated, and some are unrestricted, which can be used for whatever purpose deemed necessary. Restricted budgets are like your personal IRA, for example, and are set aside to only be used for your retirement at a certain age. Unrestricted funds are like your monthly allowance and are used to pay recurring expenses. All funds are considered individual entities, per governmental accounting standards and are structured so that you cannot use restricted money to pay for ongoing operating expenses.

Governmental Funds

GENERAL FUND
(unrestricted funds)

SPECIAL REVENUE FUND
(restricted funds)

The money in this fund is restricted, which means it can only be used for specific purposes:

- Tax Increment Reinvestment Zones #1 & #5
- Court Technology
- Panther Creek PID
- Hotel Motel Tax
- Tourism PID
- Grants and Contracts
- CDBG Grant
- Public Television Franchise Tax

DEBT SERVICE FUND
(restricted funds)

This fund is money accumulated to pay interest and principal on bonds and notes

CAPITAL PROJECTS FUND
(restricted funds)

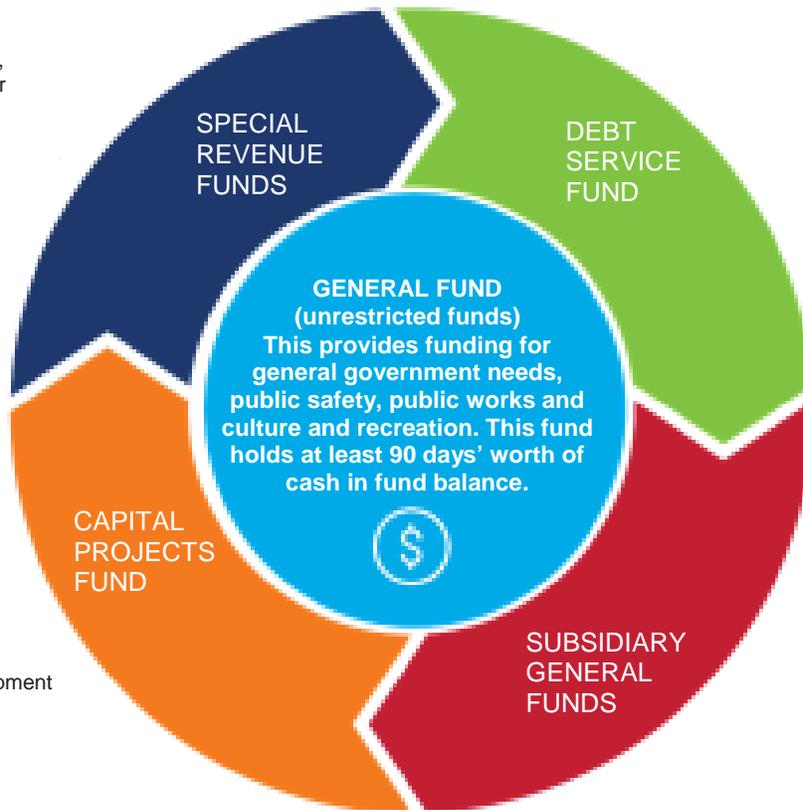
These funds are used to pay for infrastructure and facilities.

- Capital Projects
 - Streets and Drainage
 - Parks
 - City Facilities
 - Traffic Signals
 - Public Safety Facilities & Equipment
- Park Dedication Fees
- Thoroughfare Impact Fees

SUBSIDIARY GENERAL FUNDS
(unrestricted funds)

These funds are committed by City Council for specific purposes and include:

- Insurance Reserve
- Capital Reserve
- Public Leased Facilities
- Special Events
- Workforce Housing
- Public Art



Proprietary Funds

ENTERPRISE FUNDS

These funds are accounted for most like private business transactions in that the City provides a service and the user pays for the service (no taxes are charged). For example, the City provides water to residents and businesses and in turn, they pay for what they use/consume:

- Utility (Water and Sewer)
- Utility Capital Projects
- Utility Impact Fees
- Stormwater
- Environmental Services

Component Units

Component Units are organizations that operate and provide a benefit to the City:

- Community Development
- Economic Development
- Charitable Foundation

PROPERTY TAX BASICS



A property tax (or Ad Valorem) is a revenue based on the value of a property.

This value is determined by the Central Appraisal District, which is an outside agency that acts independently of the City. Frisco spans over two counties, Collin and Denton, so two Central Appraisal Districts work to determine property values in their respective counties. The Appraisal District determines the property value, but not the tax rate. City Council sets the tax rate. The City of Frisco then contracts with the Collin County Tax Collector for property tax billing and collections. We also contract with a Law Firm to collect delinquent property taxes.

Appraisals: For a detailed explanation of the appraisal process see the Collin CAD website:

[How is your Property Appraised?](#)

Exemptions: While exemptions do not affect the market value of the property, exemptions “exempt” or excuse a portion of the value of the property from assessed tax valuation. Property owners can only have one homestead property, no matter how many homes they own. Homestead exemptions include a general homestead, over 65 homestead, disabled person homestead and 100% disabled veteran’s exemption. More information regarding exemptions can be found here:

[State of Texas Property Tax Exemptions](#)

[Exemptions Video](#)

Homestead Cap Value: In the State of Texas, tax law provides a cap for homeowners each year, generally if you do not make improvements (like a pool or an addition to your home) your assessed value is capped at 10% of the prior year value. For more information - [Homestead Cap 10%](#)

The City of Frisco's Homestead Tax Exemption is 10% and homestead properties in Frisco also fall under the State of Texas' 10% Homestead Cap Value.

So, the City of Frisco offers these property tax exemptions to its homeowners:

- \$80,000 Senior/Disability Exemption is available to residents over 65 years of age or those presently disabled
- 10% Homestead Exemption for all qualified homeowners for their primary residence only

Forms and FAQs are available on the Appraisal District websites:

[Collin County CAD](#)

[Denton County CAD](#)

Tax Rate: The City Councils sets the City tax rate each year in September.

Collections: The City contracts with the Collin County Tax Collector to process billings, collect payments, issue refunds and submit delinquent tax rolls to the Law Firm to collect delinquent property taxes. The County website allows you to see how much your property tax bill is per entity and to pay your taxes on-line. [Collin County Tax Collector](#)

PROPERTY TAX BASICS

HOW TO DETERMINE THE AMOUNT OF TAXES OWED:

Let's say your property was valued at \$300,000 when you purchased it last year. Over the course of your first year living in your new home, your neighborhood experienced great popularity and your home's value increased. Your home is now valued at \$360,000 (market value), which is a 20% increase. In the State of Texas, your home's assessed tax value increase is limited to 10% per year. The 10% cap is applied to the market value.

To figure out what taxes you owe if you're a resident of Frisco:

- \$360,000 (current year market value) is 20% higher than last year's value so the cap will limit the increase to 10%
- \$300,000 (last year's value) x 10% increased value limit (or cap) = \$330,000 (assessed tax value of your home)
- \$330,000 (assessed tax value) x 10% homestead = \$33,000 (homestead exemption)
- \$330,000 (assessed tax value) - \$33,000 (City 10% homestead exemption) = \$297,000 (taxable value)
- Then, take \$297,000 and divide by 100 = \$2,970
- Next, take that amount \$2,970 and multiply by the property tax rate determined by the City of Frisco: \$2,970 x \$.4466, for a total of \$1,326.40 in City property taxes due.

$$\text{ASSESSED TAX VALUE OF HOME} - \text{10\% HOMESTEAD EXEMPTION} \div 100 \times \text{TAX RATE} = \text{TAXES OWED}$$

HOW TO DETERMINE AMOUNT OF TAXES OWED: 65+ AND DISABLED

For a Senior or disabled exemption, you would also deduct \$80,000 from the assessed tax value.

$$\text{ASSESSED TAX VALUE OF HOME} - \text{10\% HOMESTEAD EXEMPTION} - \text{SENIOR/DISABILITY EXEMPTION \$80,000} \div 100 \times \text{TAX RATE} = \text{TAXES OWED}$$

TEXAS PROPERTY LAWS – TRUTH IN TAXATION

Truth-in-taxation requires the City to make taxpayers aware of tax rate proposals and to give taxpayers the opportunity to roll back or limit tax increases. There are four guiding principles:

1. Property owners have the right to know about increases in their properties' appraised value and to be notified of the estimated taxes that could result from the new value.
2. The taxing unit must publish its effective and rollback tax rates before adopting an actual tax rate.
3. A taxing unit must publish special notices and hold two public hearings before adopting a tax rate that exceeds the lower of the rollback rate or the effective tax rate.
4. If a taxing unit adopts a rate that exceeds the rollback rate, voters may petition for an election to limit the rate to the rollback rate.

EFFECTIVE TAX RATE / NO NEW REVENUE RATE

The Effective Tax Rate is a tax rate that the City would pass to collect the same tax revenue as the previous year using the same properties in both years. If the proposed tax rate is equal or less than the Effective Tax Rate, no action is required prior to adoption. If the proposed tax rate is greater than the Effective Tax Rate, notices and public hearings are required. As of January 1, 2020, the Effective Rate will be known as the "No-New-Revenue" Rate. (Texas Senate Bill 2).

ROLLBACK TAX RATE

The Rollback Rate allows a taxing unit to raise the same amount for operations as in the prior year, plus provides for an additional 8% cushion. The 8% cushion calculation does not include debt, only operations. The debt service portion of the overall rate may rise as high as necessary, with the total tax rate not exceeding \$2.50.

Taxpayers may petition for rollback tax election if the City proposes a tax increase over the Rollback Tax Rate. The Rollback Tax Rate equals the sum of an 8% increase over the effective maintenance and operation tax rate plus the proposed year debt tax rate.

As of January 1, 2020, (FY21) the Rollback Rate will be lowered to 3.5% and be known as the "Voter-Approval Rate" (Texas Senate Bill 2). Voters will no longer be required to petition for an election, it will be automatic.

FY 20
8%
ROLLBACK RATE

FY 21
3.5%
VOTER
APPROVAL RATE

SALES TAX VOLATILITY



[Want to know more about Sales Tax?](#)

WHAT IS SALES TAX VOLATILITY?

Sales tax is a revenue source that often includes a high degree of variability and seasonality. This volatility requires Budget Office Staff to regularly analyze collections data in order to project future revenue. The ability to generate accurate assumptions based off past and current sales tax trends is vital in building a financial plan for the City each year.

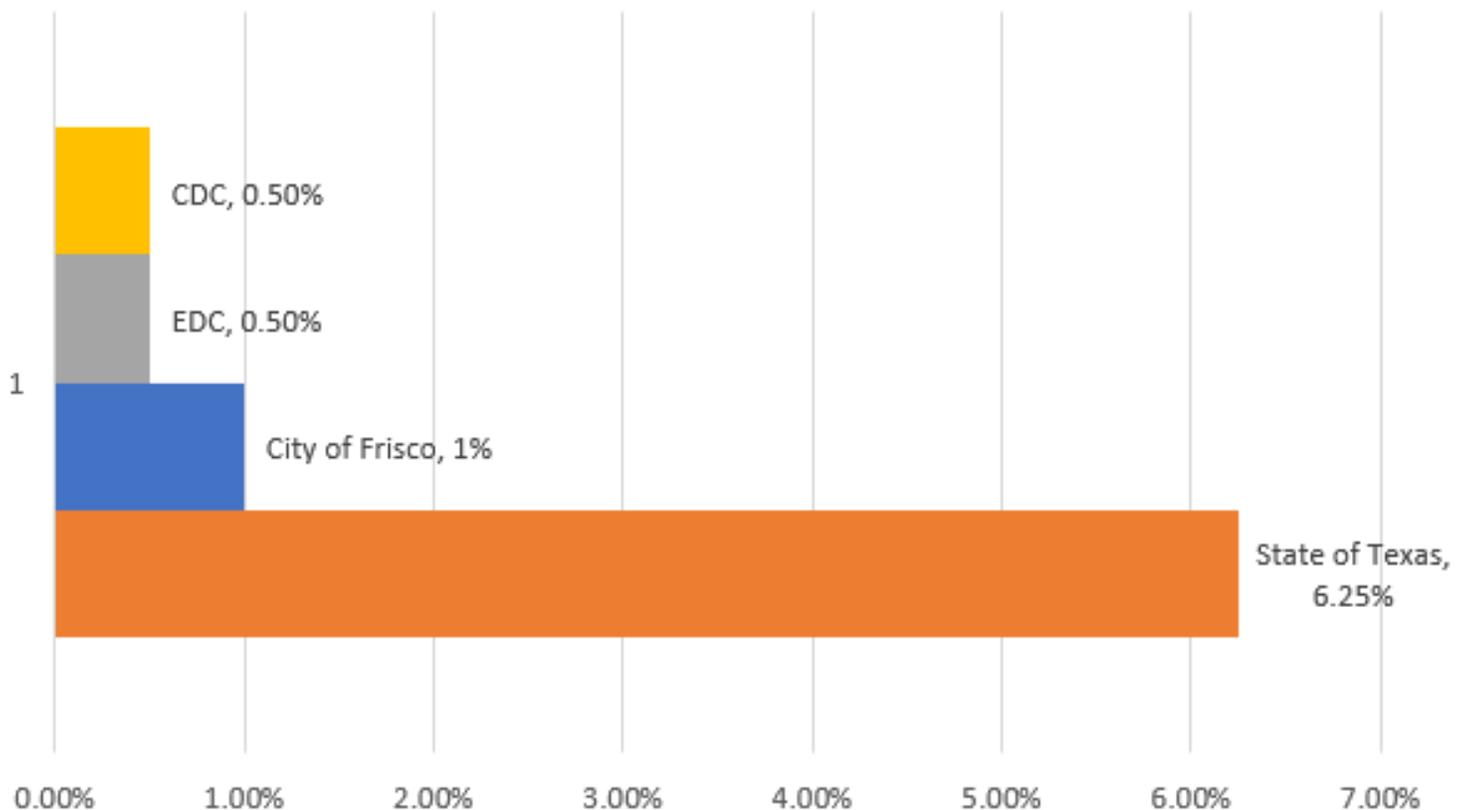
WHAT FACTORS IMPACT SALES TAX?

There are many factors influencing sales tax collections that continuously evolve over time. These include consumer spending patterns, competition from surrounding cities, on-line shopping experiences, economic conditions, government legislation, audit adjustments and sales tax holidays such as “tax-free weekend.”

Component Unit Sales Tax is used for economic development incentives and parks development.

The chart below shows the percentages of Sales Tax collected from the various entities for a total rate of 8.25% in Frisco:

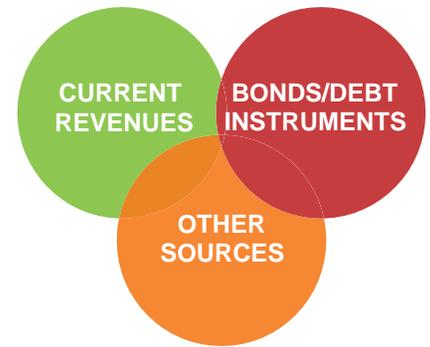
SALES TAX RATE



CAPITAL INVESTMENT PROGRAM

The Capital Investment Program is a two-year financial plan which directs development and improvement projects such as:

- Streets
- Parks and Parks Facilities
- Fire Stations and Equipment
- Libraries
- Public Safety Equipment and Facilities
- Water and Sewer utility
- Municipal drainage utility
- Technology
- Public Works Facilities



FUNDING SOURCES FROM CIP FUNDS

1. Current Revenues

- a. General Fund revenues
- b. Water and Sewer revenues
- c. Other Operating Fund revenues
- d. Component Unit Contributions

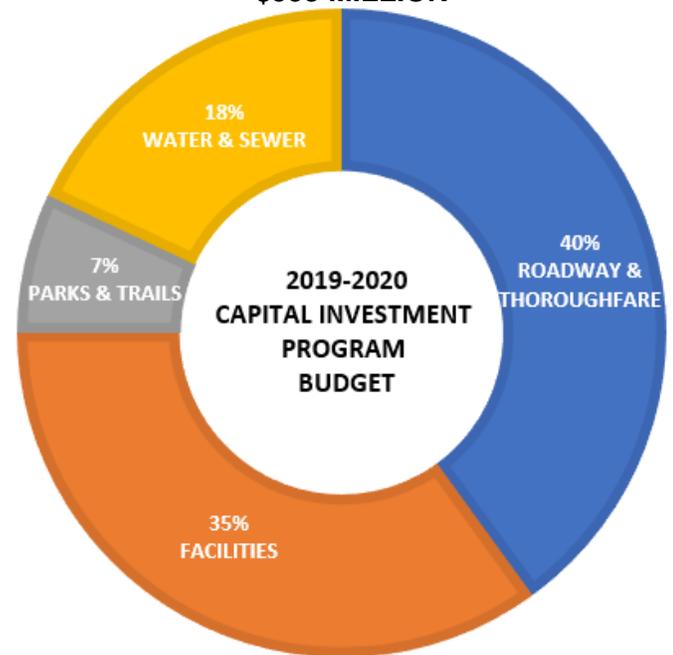
2. Bonds/Debt Instruments

- a. General Obligation (G.O.)
- b. Certificates of Obligation (C.O.)

3. Other Sources

- a. State funding
- b. County funding
- c. Developers' fees and contributions

Capital Projects – Combined Years
\$553 MILLION



HISTORY OF THE CAPITAL RESERVE FUND

In 2008 the Frisco City Council established a fund – now called the Capital Reserve Fund – to set aside resources during the years of growth to fund a reserve for years of decline and/or to fund capital from current funds for projects that would have been funded by debt financing. The City will transfer funds each year the prior year ending results have a net increase to Fund Balance. Or in other words, if the prior year revenues collected exceeds expenditures. Until the annual budget can adequately cover the yearly cost of replacement equipment this Policy will be utilized to increase the Capital Reserve Fund. At some point in the future, the recommendation could be to annually budget an amount to transfer (increasing the total each year until the amount equals at least the depreciation on vehicles and equipment for the General Fund).

Funding to date from the Capital Reserve Fund:

- Bury the Line project for Main Street, west of DNT
- IT equipment and services for disaster recovery
- Police equipment and software

WHY DOES THE CITY ISSUE DEBT?

Sometimes there are good reasons for going into debt. Some of these may include:

- Financing projects over time, with a variety of repayment options and revenue streams
- Minimizing impact on property taxes
- Ensuring that future stakeholders will pay for their share of public improvements and services
- Taking advantage of tax-exemptions that provide low cost, long-term financing



WHAT DOES IT COST THE CITY IF WE LOSE OUR AAA BOND RATING?

The City of Frisco currently holds a Aaa and AAA bond rating, which is the highest rating assigned to a borrowing entity, on general obligation bonds and certificates of obligation from two rating agencies: Moody's Investment Services and Standard & Poor's. Bond ratings measure credit worthiness. The higher the bond rating, the lower the interest rate charged to and paid by the City. Losing the high bond rating would result in the City paying more interest on bonds issued, which could delay projects or increase tax rates.

COMMON DEBT INSTRUMENTS AVAILABLE TO THE CITY

	GENERAL OBLIGATION BONDS (G.O.)	CERTIFICATES OF OBLIGATION (C.O.)	TAX NOTES	REVENUE BONDS (REV)
APPROVAL PROCESS	Bond election (Voter Authorization in May and November)	Elected officials' approval of Notice of Intent	Elected officials	Elected officials' approval of Notice of Intent
SECURITY/PLEDGE	Taxes only	Taxes and/or revenue	Taxes and/or revenue	Pledge revenues/fees
OTHER CONSIDERATIONS	If the election fails, how does the city address needs?	Subject to petition by 5% of registered voters	Maximum maturity of 7 years	Coverage requirements, additional bonds test, debt service reserve fund requirements
TYPICAL PROJECTS	Any public purpose	Any public purpose including enterprise projects and public or private partnerships	Any public purpose	Facilities or infrastructure
RATINGS	Highest rated credit based on ad valorem tax pledge			Usually 1 to 2 grades lower than a city's tax credit

The City of Frisco has only issued General Obligation, Certificates of Obligation and Sales Tax Revenue Bonds to

date. [Learn more about Debt](#)

[Frisco's Debt Summary Report](#)

FINANCIAL POLICIES

For a detailed listing of the adopted Financial Policies, we refer you to our [Annual Budget FY20](#). The most updated Polices are explained. City Council Financial Policies are the framework for our financial budgets and transactions.

FINANCIAL STATEMENTS

The [Comprehensive Annual Financial Report \(CAFR\)](#) is prepared by staff each December and provides the major statements and schedules of all funds of the City. The document is submitted to the Government Finance Officers Association and evaluated by peers to ensure that our report meets the national benchmarks and standards for financial reporting. The City of Frisco receives a Certificate of Excellence each year that we submit the CAFR.

The **Major Statements** prepared include:

Government-wide Level - These are the statements presented on a full-accrual basis of accounting and report on the government as a whole providing a consolidated financial picture with all assets and debt included, short-term and long-term. The government-wide financial statements distinguish between the governmental, proprietary and component unit funds.

- **Statement of Net Position** - The name of the **statement** reflects its emphasis on what a government would have left over after satisfying its liabilities. **Net** assets are an indicator of a government's financial **position**—its financial standing at a given point in time (typically, the end of the fiscal year).
- **Statement of Activities** – This statement **shows** the government organization's income and expenses for a specific period (again, typically, one fiscal year). The report reflects the changes to an organization's net assets resulting from income and expenses that occur during the current fiscal year on the full accrual method of accounting, or as soon as the underlying event giving rise to the item occurs, regardless of the timing of related cash flows.

Fund Level – These statements present information about each of the major funds individually and about non-major funds in the aggregate for governmental and proprietary fund types. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. These funds present a short-term view of the City's general government operations and the basic services it provides.

- **Balance Sheet** – The Balance Sheet for governmental funds reflects the current spendable assets less current liabilities. The focus is on how money flows into and out of the funds and is available for spending. The Fund Balance is the net which is usually Unrestricted. City Council can commit certain reserves in Fund Balance for future projects or expenses.
- **Statement of Revenues, Expenditures, and Changes in Fund Balances** – This statement **shows** the income and expenditures for a specific period (usually our fiscal year). This is our income statement for the governmental funds.

Other Information in the CAFR:

- Management's Discussion and Analysis – Details operations for the current fiscal year.
- Notes to the Financial Statements – Provide information that is essential to a full understanding of the data in the statements.
- Supplementary Information & Statistical Section – Pension Fund and Other Post Employment Benefit (OPEB) details and a 10-year historical analysis of many different areas of interest financially for the City.

OTHER FINANCIAL REPORTS

- [Popular Annual Financial Report](#)
- [Annual Investment Report](#)

SUMMARY

We hope that you have found this short guidebook helpful. For more information about the City Financial Services Department, please refer to our website [Financial-Transparency](#).

Here you can find our Annual Budgets, Comprehensive Annual Financial Reports, My Tax \$ Calculator, Annual Investment Reports, Monthly Financial Reports, Rating Agency Summary Reports, Pension Plan Information, videos about the Budget and much more!

CONTACT US

If you have any questions, or require more information, please contact

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