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MEMORANDUM

DATE: Aug 16, 2016
TO: Honorable Mayor and Members of the City Council
FROM: Chuck Springer, Director of Finance
SUBJECT: City Council Budget Questions and Responses

Information regarding the FY 2016-17 Proposed Budget and Five Year Forecast was presented to the City Council on August 4th. Below is a summary of the questions and requests, from the City Council as I understand them, and the responses compiled to date. For the items that require further research, we will provide additional information at a future City Council meeting.

1. **Please provide a breakout of Convention and Visitors Bureau hotel occupancy tax funding request and recommended funding. Please also provide the City's policy guidelines for the use of hotel occupancy taxes.**

   On August 2, 2016, the Hotel Occupancy Tax Committee recommended total funding for the Convention and Visitor's Bureau (CVB) of $1,284,995. This amount represents an increase in funding of $167,600 from the prior year. It was the Committee's recommendation to afford the CVB the flexibility to allocate the proposed increase between General Advertising and Convention & Group Sales & Servicing. The Committee further recommended that there be no increase to the Welcome Center funding. The Welcome Center funding is to remain at $200,000.

   Attachment 1 is a detailed breakdown of the CVB's budget request and HOT Committee Recommendation for FY 2016-17.

   The City's policy guidelines for the use of hotel occupancy taxes is in Attachment 2.

2. **Please provide information regarding the liability for early cancelation of the Red Light Camera contract.**

   The City of Denton is under contract with Redflex Traffic Systems for the operation of the Red Light Camera program through May 2019. The City pays a flat monthly fee of $4,870 for each camera. There are currently 13 cameras in operation in the City, resulting in a monthly expenditure of $63,310. In addition, 50% of the annual revenues, less allowable expenses, are remitted to the State per State law. In FY 2014-2015, the City remitted approximately $660,000 to the State.

Under the provisions of the red light camera contract, if the State legislature passes a law that removes the ability of the City to operate a red light camera program, there is no obligation to the City to continue paying for any remaining months of the contract. Similarly, if a Court were to make a ruling that the red light camera program (or Chapter 707 of the Transportation Code) was unconstitutional, the City has no obligation to pay for any remaining months of the contract.

Outside of these two provisions, the City is responsible for the terms of the contract. Of primary concern would be the potential for a legislative action that required individual cities to hold a referendum election in order to operate a red light camera program. In similar referendums in several cities previously, voters have rejected the use of the camera systems. In this scenario, a referendum vote would likely occur in November of 2017. If the voters decided to end the program, there would be approximately eighteen (18) months remaining on the contract at a total cost of just under $1,140,000. The fund balance is projected to be $1.236 million on September 30, 2017.

3. Please provide financial projections for the Airport Fund.

Attachment 3 includes a five-year forecast ("Proposed Budget") based on the City Manager's FY 2016-17 Proposed Budget and a five-year forecast ("Status Quo") that assumes no changes to the Airport Fund. As reflected in the Status Quo forecast, the Airport Fund would deplete its fund balance by the end of FY 2018-19 based on revenue and expenditure forecasts. As such, the City Manager's FY 2016-17 Proposed Budget recommends that the Airport Fund's debt service (approximately $450,000 for FY 2016-17) be paid by the General Debt Service Fund. In addition, the Airport Fund would also discontinue paying a return on investment to the City's General Fund (approximately $60,000 annually). With these changes and as reflected in the Proposed Budget forecast, the Airport Fund should continue to remain financially sustainable through FY 2020-21.

4. Please provide information on the replacement of the Development Plan Line fund reserves for the Water and Wastewater Funds in a single year versus over four years.

In FY 2015-16, the entire $1,000,000 balance in the development plan line reserve for the Water Fund and approximately $865,000 of the $1,000,000 balance in the development plan line reserve for the Wastewater Fund were appropriated as part of a reimbursement grant with the Denton - Tarrant PRW, LLC (Winco / Ranger One). Details of this grant agreement are specified in Ordinance 2015-170.

Resolution R91-008 (Attachment 4) establishes specific parameters for the allocation and accumulation of development plan line reserves. Specifically, the Funding Policy section of the R91-008 states that:

"*During its annual review of the Utility Department's Capital Improvements Plan (CIP), the Public Utilities Board shall consider the allocation of up to $500,000 annually to* *finance the construction of infrastructure water or sewer lines. This allocation shall consist of $250,000 from the Water CIP and $250,000 from the Wastewater CIP. That portion of each annual allocation that remains unobligated at close of the fiscal year shall carry forward into the following fiscal year. However, the cumulative total of said unobligated annual allocations shall not exceed $2 million at any time."*

The Water and Wastewater Department's five-year Capital Improvements Plans (CIP) are presented to the Public Utilities Board during several budget meetings that occur during May through June each year. During the presentations this year, staff brought forward a recommendation to fund the development plan line reserves at the maximum amount allowed by Resolution R91-008 for the Water Fund ($250,000 per year) and a recommendation to fund the Wastewater Fund at $200,000 per year. The goal of both recommendations is to rebuilding both development plan line reserves to the previous levels of $1,000,000 each over the course of four fiscal years. The Public Utilities Board unanimously recommended approval of this approach as a part of the overall recommendation for the CIP and Budget approval on June 27, 2016.

5. **Please provide fencing alternatives for the Police parking lot and options for road closures in proximity to this parking lot.**

   In order to increase security for personal and police fleet vehicles in the parking lot adjacent to East Oak Street and Frame Street, security fencing with controlled access, lighting and camera monitoring have been researched. City code does not allow the use of chain link fencing, so wood cedar and wrought iron fencing were explored. Masonry was not considered due to cost at $210 per linear foot. The cost for these enhancements to the parking lot is estimated at $90,000 and would provide a good short-term security solution.

   A longer-term solution would involve restricting access, to the general public, to the back area of the police department. This could be accomplished through a road closure of Oak St. between Exposition and Frame St. However, there could be an impact to access to adjacent property owners and reduction in mobility circulation around City Hall East. Staff will continue to research the options, costs and impacts for security enhancements for this area.

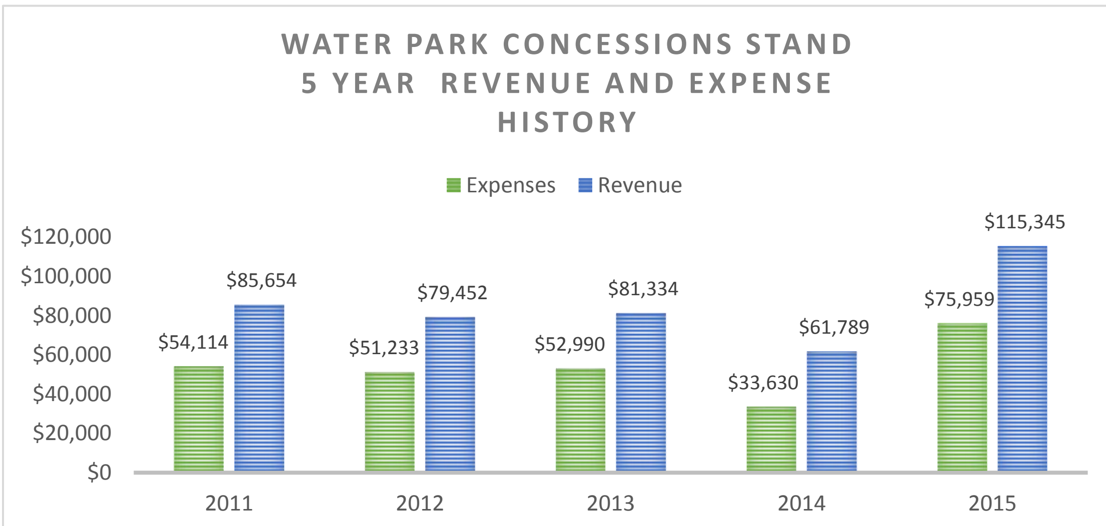
6. **Please provide information on the competitiveness of the City of Denton health plan.**

   Information on the competitiveness of the City of Denton health plans is included in Attachment 5 and Attachment 6.

7. **Please provide information on outsourcing versus City staffing of the Water Park concession stand.**

   The Denton Water Works Park operates the Pineapple Delight concession stand during the 89 operating days of the season. Concessions are a vital part of the experience at Denton Water Works, in addition to being the second largest revenue stream behind admissions.

Concessions revenue has consistently exceeded operating expenses each fiscal year to produce a net profit of at least 34% of revenue. Prior Denton Water Works Park outsourcing for concession operations has included contracts with the vendors Chuggy Bear's and Tropical Sno which provided a net profit of 15% - 25% of revenue. In addition to higher net profit, maintaining in-house concession operations allows for tighter financial controls, quality control of products, and service.



8. **Please provide information on the impacts of a rate increase lower than five percent in the Water Fund for FY 2016-17.**

It is important to understand some of the issues that are driving rate increases in the Water Utility when considering this request. These issues are being experienced by water and wastewater utilities across the United States, and are resulting in national trends of increasing rates and utilities implementing various strategies to improve resiliency. Denton Utilities have adopted strategies to meet with these challenges, as outlined in the City of Denton's Utilities Financial Strategies document. To provide a thorough response, staff has included the Utilities Financial Strategies document, a summary of challenges being faced by water and wastewater utilities across the nation, a brief summary of the recently completed Water Utilities Rate Study, and the comparisons between Denton and other Water Utilities that is provided to the Public Utility Board as a part of the budget discussions each year. The last section of the response discusses the results of various options for reducing the proposed 5% rate increase for the Water fund.

Utilities Financial Strategies

The City of Denton Utilities have developed financial strategies to help guide budget decisions. Some financial strategies are common among all utilities, and some are specific to a particular utility. These details are outlined in the Utilities Financial Strategies document, which is reviewed with the Public Utilities Board in February each year at the beginning of the budget process. The Board has an opportunity to suggest any changes to the document, and the document is brought back to the Board for formal approval as a part of the budget process later in the year. Staff performs research each year to ensure that the document reflects the current challenges that Denton utilities and utilities across the nation are facing. Examples of these challenges include aging infrastructure, managing operational and capital costs, aging workforce, increasing regulations, erosion of buying power due to inflation pressures, and the impacts of declining per capita water consumption. Most of these challenges produce upwards rate pressure, and due to the relatively large proportion of fixed costs associated with providing water service, there are only a few adjustments that can be made to the budgets to address these upwards pressures. Adjustments potentially include planned use of reserves, debt funding capital projects instead of revenue funding, choosing to defer necessary capital projects, or foregoing maintenance activities. The Utilities Financial Strategies document includes specific recommendations for the Water fund regarding reserve funding targets, targets for revenue funding versus debt funding capital, and specific targets for minimum debt coverage ratios (ratio of net income to total debt service). A copy of the current Financial Strategies document has been provided as a part of this response in Attachment 7.

Water rate increases are part of a national trend

The challenges faced by Denton's Water Department are being experienced by water and wastewater utilities across the United States. These trends are due to a variety of factors, including declining per capita water consumption, aging infrastructure, increased regulations, and system growth. Staff has provided a recent articles (Attachment 8) that describes these trends in more detail. Analyses of national statistical data can also provide some insight. For example, the consumer price index (CPI) is often used to get a sense of average price increases being faced by the consumer on a national basis. However, the CPI represents all goods and services purchased for consumption by the reference population. Expenditures that make up the CPI are representative of more than 200 unique expenditure categories or series, arranged into eight major groups. Thus, to get a sense of national trends for a specific consumer cost, expenditures from the appropriate series should be analyzed. For Water and Sewer expenditures, the Water and Sewer Maintenance Series of the CPI is the appropriate metric. Analyses of the Water and Sewer Maintenance Series of the CPI indicates that water and sewer costs across the United States have been increasing at an average rate of approximately 4.1 to 6.4 percent per year since 2011, with an overall average increase from 2011 to 2015 being approximately 5.3% annually. These trends were featured in the recently completed (June 2015) City of Denton Water Utilities Cost of Service and Rate Design Study conducted by Burton and Associates. Attachment 9 shows the rate increases of Water and Wastewater funds compared to the Water and Sewer Maintenance Series from 1990 to 2015 (actual values) with trend lines showing the anticipated increases for each line in the future. As seen in the graph, Water increases were generally in line with the Water and Sewer CPI series from 1990 to 1994. However, from 1995 through 2006 (12 fiscal years) Water had no (0%) rate increases. This caused a large departure over time from the Water and Sewer Maintenance series CPI, and eroded the financial resources of the Water department. The small rate increases in 2007 (2%), 2008 (3%), 2009 (3%), and 2010 (0%) were not enough to substantially change this trend. Ultimately, this situation resulted in the need for large rate increases over multiple years as follows: 2011(9%), 2012 (9.5%), and 2013 (8%). Staff then proposed more moderate rate increases in 2014 (4%) and 2015 (3%). These increases have helped the situation, but Water still remains substantially below the Water and Sewer Maintenance Series for this time period. Wastewater has a similar situation, although relatively recent increases in Wastewater rates have moved Wastewater closer to the Water and Sewer maintenance series level. Wastewater has gone through three cycles of zero rate increases, which occurred in 1985-1990 (not visible on the graph), 1997-2003, and 2007-2011. All three zero rate cycles were also followed by periods where substantial rate increases were needed. Water and Wastewater staff are currently managing the budget so that moderate but consistent annual rate increases occur. This approach ensures that these utilities will be able to keep up with rising costs, but minimizes the need to have large single (or multi-year) rate increases. This concept is included as part of the financial objectives of the Utilities, which state "to the greatest extent possible, rates should be incrementally adjusted to achieve revenue targets over multi-year periods in order to minimize the need to have large annual rate increases / rate spikes".

Recommendations of rate consultant and staff responses

As a procedural requirement, Water and Wastewater Utilities cost of service and rates are reviewed annually by staff. An external consultant performs a Cost of Service and Rate Design Study at approximate five year intervals. As stated above, Burton and Associates completed the Water Utilities Cost of Service and Rate Design Study in June 2015. As a part of this study, Burton and Associates provided presentations to the Public Utility Board concerning the study results and recommendations during the 2015-16 budget process.

The rate options recommended by Burton and Associates included the following increases for Water Utilities:

FY16	FY17	FY18	FY19	FY20	FY21
7.0%	7.0%	7.0%	2.0%	2.0%	2.0%

Burton and Associate included a second option for rate increases which decreased the proposed yearly rate increases, but required a larger rate increase in FY19 when compared to their proposed recommendation.

FY16	FY17	FY18	FY19	FY20	FY21
5.75%	5.75%	5.75%	5.75%	2.0%	2.0%

The decrease in initial rates in this second option required shifting some Capital Improvement Plan funding from revenue funding to debt funding, which increased debt expenditures in the long term and resulted in Denton not progressing towards the revenue funded capital goals outlined in the financial strategies document.

Staff analyzed the recommendations and modeling information from the rate consultant and attempted to reduce the magnitude of rate increases as directed by the Public Utility

Board, mainly through deferring scheduled CIP projects. The adopted (FY16) and staff's proposed (FY17-21) rates are:

FY16	FY17	FY18	FY19	FY20	FY21
5.0%	5.0%	4.0%	3.0%	2.0%	3.0%

Staff's analyses indicate that these funding levels, while lower than those recommended by the rate consultant, will provide the resources necessary to meet the operational requirements of the Water Utility and maintain the financial goals of the Utility as listed in the Financial Strategies document. It should be noted, however, that the ability to accurately predict expenses generally decreases with longer forecasting timeframes. Since it is impossible to predict future weather patterns, staff uses an "average year" when providing forecasts. Since both future expenses and future weather patterns will influence the Water budget, the rate increase estimates provided in the forecast should be considered for planning purposes only. However, staff presents the previously estimated rate increase and the currently proposed rate increase to the Public Utility Board as a part of the budget presentations during each budget cycle. If differences exist between the previously estimated and proposed rate increases, staff provides information to Board as to why these differences exist. This information in turn becomes a component of the decision making process that ultimately results in the Public Utility Board's budget recommendation.

Comparisons with local and regional utilities

During each budget cycle (usually in July), Water utilities provides the Public Utility Board with a comparison between Denton's current and proposed rate increase and the current rates local and regional water utilities. Comparisons are provided using the cost for the average residential and commercial customers. During late fall (usually November), staff provides a similar comparison using the adopted Denton rate and the adopted rates of all other utilities. For fall 2015 (FY16), the average increase for the residential customers for those utilities that increased rates was 5.4%. For the entire group (those that increased rates and those that did not), the average was 2.5%. Denton water utilities has maintained its same general location on this graph for the last 5 years, with slight deviations on a yearly basis. This indicates that the rate increases adopted by Denton are similar to the rate increases adopted by the comparison group. An example of the 2015 comparison graphs are provided as Attachment 10 and Attachment 11.

Modification of the recommended Water rate increase

Because a large amount of Water expenses are fixed expenses, there are limited adjustments that can be made to the budget to decrease the proposed 5% rate increase for FY17. For the purpose of this analysis, staff assumes that there will be no modifications to the operating budget. Staff is making this assumption because the operating budget uses an average year for planning purposes. As a result, when consumption patterns result in lower water usage than planned (due to weather and declining water use) reserves are used to cover any budget shortfalls. Annual or multiple year revenue losses due to weather can be significant. For example, during the timeframe from 2002 to 2015, the largest annual loss for Water was $3,920,999 and the largest 2 year loss was $7,142,046. Conversely, when consumption patterns exceed estimates (as can occur during a dry year), reserve levels are increased. Under this assumption, the revenue shortfall associated with the action of reducing the proposed FY17 rate increase will have to be covered by either the reserve fund, decreases in the revenue funding component of capital projects, or deferring planned capital projects. The use of reserve funds is contrary to reserve fund policies outlined in the Financial Strategies, which state that that reserves can be used for decreasing rates only when the reserve balance has exceeded the target level and is projected to continue above the target level for the next two to three years. Decreasing the revenue funding component of capital projects can result in short term rate relief, but will result in larger longer term upwards rate impacts due to the compounding interest associated with the incurred debt. The revenue funded goals for the Water fund is 100% of annual transmission and distribution infrastructure replacement costs, and 25% of annual plant replacement costs. The Water fund is currently meeting the goal for plant replacement costs, but has not met the goals for transmission and distribution infrastructure (see Attachment 12, FY16-20 CIP series). The refunding of outstanding Utility System Revenue Bonds and the associated bond covenant obligated cash (approximately $7.5 for the Water fund) have helped this situation (see Attachment 12, FY17-21 CIP series). However, revenue funded capital goals are not being met even with these one-time funds, and any decreases in the revenue funded component of the capital improvement program will move the Water Utility further away from meeting these goals. Deferring planned capital projects can also provide rate relief in the short term, but can have longer term rate implications in the form of increased debt or emergency cash funding for a large unplanned capital expenditure. It is important to point out that staff has already analyzed future capital needs and has used the approach of deferring capital projects as a means of decreasing the proposed Water rates below the recommendations of the rate consultant. Staff feels that the choices already made to defer capital projects represents a prudent balance between maintaining lower rates and system risks. Consequently, in staff's opinion, the ability to defer additional capital projects as a future rate reduction strategy is minimal without increasing risks to the system.

It is possible to maintain all aspects of the 5 year budget as currently planned and decrease the proposed rate increase of 5% for the upcoming fiscal year. The approach would allow the Water Utility to continue to work towards meeting financial objectives and would maintain the current level of system risks. However, this approach is only possible by having larger rate increases in future fiscal years. The following table provides an analyses comparing the upcoming fiscal year proposed rate increase of 5% (and associated rate increases in the 5 year pro forma) to a proposed rate increase of 3% and the associated future rate increases that are needed to generate sufficient revenue to cover projected expenses (referred to as Option 2). It should be noted that there are many rate increase iterations possible for this scenario, and staff has chosen to program a larger rate increase earlier in the 5 year cycle to minimize the need for even larger rate increases in subsequent years. As can be seen in the table, this approach results in a lower rate increase for the first year, but larger rate increases in FY18 and FY20. The net increase over the entire 5 year period is approximately 1.13% larger under Option 2 compared to the currently proposed approach.

	FY17	FY18	FY19	FY20	FY21	Net Increase	Avg. Increase
Option 1: Proposed	5.0%	4.0%	3.0%	2.0%	3.0%	18.17%	3.4%
Option 2: Lower increase in FY17	3.0%	6.0%	3.0%	3.0%	3.0%	19.30%	3.6%

Attachment 1

Back

Denton Chamber of Commerce
Convention and Visitors Bureau
Program Year 2017 Budget

	Adopted FY 2015-16	Requested FY 2016-17	HOT Committee Recommended FY 2016-17
Advertising			
General Administration:			
Salaries & Benefits	$ 162,000	$ 165,000	$ 162,000
Liability Insurance	800	800	800
Travel & Training	16,000	10,000	16,000
Memberships & Subscriptions	8,000	9,000	8,000
Computer Equipment	30,000	35,000	30,000
Copy Machine	5,000	6,000	5,000
Office Supplies	3,500	5,800	3,500
Telephones	15,000	17,000	15,000
Postage	6,000	6,500	6,000
Office Rent (Increase)	15,150	16,155	15,150
	261,450	**271,255**	**261,450**
Program Disbursements:			
Print Advertising	$ 50,000	$ 85,000	$ 50,000
DentonRadio.Com	12,000	12,000	12,000
Internet Marketing	30,000	40,000	30,000
Tourism Promotional Material	10,000	10,000	10,000
Brochures	10,000	15,000	10,000
Travel & Trade Shows	20,000	24,000	33,000
Tourism & PR Services	7,000	9,000	7,000
Event Magazine	60,345	65,000	60,345
Event Magazine Distribution	3,500	12,000	3,500
	202,845	**272,000**	**215,845**
Communications & Social Media			
Salaries & Benefits	$ 180,000	$ 180,000	$ 180,000
Memberships & Professional Development	10,000	12,000	10,000
Website (maintenance, updates, 3 new apps)	10,000	15,000	10,000
Communications (eNewsletter, email outreach)	2,500	2,400	2,500
Social & Digital Media (FaceBook, Pinterest, Twitter…)	76,000	92,000	76,000
	278,500	**301,400**	**278,500**
Convention & Group Sales & Servicing			
Salaries and Benefits	111,000	175,000	$ 196,600
Travel & Training	10,500	10,000	10,500
Electronic Advertising	8,000	41,900	8,000
Sales & Marketing Missions	1,000	34,000	16,500
Trade Shows & Conferences	7,500	34,500	7,500
Research, Mining, Lead Gen & Tracking	6,000	27,100	14,100
Site Visits & Fam Tours	1,000	8,000	1,000
Servicing	1,000	2,500	1,000
Bid Fees	500	20,000	20,500
Memberships & Professional Development	2,000	1,650	2,000
	148,500	**354,650**	**277,700**
Group Tour Marketing:			
Electronic Advertising	$ 4,500	$ 5,500	$ 29,900
Sales & Marketing Missions	5,000	6,000	5,000
Trade Shows & Conferences	12,000	12,000	12,000
Site Visits & Fam Tours	1,500	3,000	1,500
Servicing	1,000	1,000	1,000
Memberships & Professional Development	2,100	2,050	2,100
	26,100	**29,550**	**51,500**

Denton Chamber of Commerce
Convention and Visitors Bureau
Program Year 2017 Budget

	Adopted FY 2015-16	Requested FY 2016-17	HOT Committee Recommended FY 2016-17
Downtown Welcome Center & Denton Store:			
Lease	$ 57,500	$ 57,500	$ 57,500
Computer Equipment	6,000	8,000	6,000
Operations & Maintenance	12,000	15,000	12,000
Insurance	5,000	7,500	5,000
Office Supplies	6,000	6,000	6,000
F/T Manager	60,000	66,000	60,000
Professional Development		4,000	-
P/T Assistant & Paid Interns	30,000	84,000	30,000
Beginning Merchandise	23,500	-	23,500
	200,000	**248,000**	**200,000**
Total	**1,117,395**	**1,476,855**	**1,284,995**

CITY OF DENTON
Hotel Occupancy Tax Program
2017

I. PURPOSE

To actively promote Denton as a tourist destination.

II. ELIGIBILITY

A. Must be based in the City of Denton. Must present, perform, exhibit, conduct workshops or provide services and other activities that promote tourism and the hotel and convention industry.

B. Must be a governmental entity or a non-profit Texas corporation, federally tax-exempt under the Internal Revenue Code.

C. Must demonstrate corporate good standing with the state of Texas at time of application.

D. Must have a history of continuous, stable programming prior to the application date.

E. Must have an active governing body.

F. Must have programming, administrative practices and board membership that does not discriminate on the basis of race, color, national origin, sex, or handicap.

G. If previously funded, applicant must have successfully fulfilled all prior contracts.

III. USE OF HOTEL FUNDS

There is a two-part test that every expenditure of local hotel occupancy tax must pass to be valid. First, the revenue derived from the tax authorized by Tax Code 351.101(a) shall be expended in a manner directly enhancing and promoting tourism and the convention and hotel industry as permitted by Subsection (a). That revenue may not be used for the general revenue purposes or general governmental operations of a municipality.

The second part of the test is that all expenditures must clearly fit into one of the eight statutorily provided categories for expenditures of local hotel occupancy tax revenues. These six categories are as follows:

A. Convention & Visitor Information Centers - Funding the acquisition of sites for and the construction, improvement, enlarging, equipping, repairing, operation, and maintenance of convention center facilities or visitor information centers, or both.

B. Conventions - Funding the furnishings of facilities, personnel, and materials for the registration of convention delegates or registrants.

C. Advertising - Funding for advertising and conducting solicitations and promotional programs to attract tourists and convention delegates or registrants to the municipality or its vicinity.

D. Arts - Funding for the encouragement, promotion, improvement, and application of the arts, including instrumental and vocal music, dance, drama, folk art, creative writing, architecture, design and allied fields, painting, sculpture, photography, graphic and craft arts, motion pictures, radio, television, tape and sound recording, and other arts related to the presentation, performance, execution, and exhibition of these major art forms.

E. Historical - Funding for historical restoration and preservation projects or activities or advertising and conducting solicitations and promotional programs to encourage tourists and convention delegates to visit preserved historic sites or museums 1) at or in the immediate vicinity of convention center facilities or visitor information centers, or 2) located elsewhere in the municipality or its vicinity that would be frequented by tourists and convention delegates.

F. Sporting Events - Funding for a municipality located in a county with a population of 1,000,000 or less, expenses, including promotion expenses, directly related to a sporting event in which the majority of participants are tourists who substantially increase economic activity at hotels and motels within the municipality or its vicinity.

G. Sports Facility/Fields - Funding the enhancement or upgrading of existing sports facilities or sports fields (baseball, softball, soccer and flag football). The municipality must own the sporting facility, meet specific population criteria and the field/facility must have been used a combined total of more than 10 times for district, state, regional, or national sports tournament in the preceding calendar year. ***Does not apply to the City of Denton.***

H. Transportation - Funding transportation systems for tourists. A municipality of any size may cover the costs for transporting tourists from hotels to nearby tourism venues. The transportation system must be owned by and operated by the city, or financed in part by the city.

IV. ADDITIONAL USES OF HOTEL FUNDS

Expenditures listed below are allowable for organizations, to the extent that such expenditures are used exclusively to attract tourists and convention delegates or registrants to the municipality or its vicinity as governed by the State Tax Code 351.101 (a). These special allowance expenditures may not be used for the benefit of local businesses or individuals, and the benefit to tourism may not be indirect or incidental, but must be direct or purposeful.

A. Administrative Expenses - Hotel occupancy tax revenue spent for the purpose authorized by Tax Code 351.l01 may be spent for day-to-day operations, supplies, salaries, office rental, travel expenses, and other administrative costs only if those administrative costs are incurred directly in the promotion and servicing expenditures authorized under Section 351.101 (a). If a municipality or other public or private entity that conducts an activity authorized under section 351.l01 (a) conducts other activities that are not authorized under 351.101 (a), the portion of the total administrative costs of the entity for which local occupancy tax revenue may be used may not exceed the portion of those administrative costs actually incurred in conducting the authorized activities.

For Example: Organization A has a total operating budget of $500,000 which consists of $250,000 for administrative expenses, $100,000 for advertising, and $150,000 for stages, lighting, and artists. Under this example, 50% ($250,000/$500,000) is their eligible proportion for administrative expenses, only if at least 50% is devoted to the event and promotes tourism and the hotel and convention industry.

Therefore, assuming the committee approves a $100,000 budget from Hotel Occupancy Tax Funds, $50,000 ($100,000 X 50%) of this budget may be spent for administrative expenses.

The following expenses may be incurred, but may not exceed the eligible proportion, as authorized under 351.101 (e): salaries, supplies, equipment, fixed assets, utilities, event insurance, communications, technology, office space, janitorial maintenance & supplies, non-local printed matter such as newsletters, applications, and entry forms, etc.

Requests for administrative expenses, including the purchase of fixed assets and equipment, must be provided in detail to the committee for consideration during the application process.

B. <u>Promotion Expenses</u> - Expenditures for food and beverages for meetings and special events and promotional items may be funded if the focus of that event or meeting directly promotes and services expenditures authorized under Section 351.101 (a). If a municipality or other public or private entity that conducts an activity authorized under section 351.l01 (a) conducts other activities that are not authorized under 351.101 (a), the portion of the total costs of the entity for which local occupancy tax revenue may be used may not exceed the portion of those costs actually incurred in conducting the authorized activities.

Each entity that is ultimately funded by the tax shall, before making such expenditure, specify in a list each scheduled activity, program, or event that 1) is directly funded by the tax or has its administrative costs funded in whole or in part by the tax; and 2) is directly enhancing and promoting tourism and the convention and hotel industry.

The listing of meetings and special events (and purpose) where expenses for food, beverages, or promotional items will be incurred must be provided in detail to the committee for consideration during the application process.

V. LIMITATIONS OF HOTEL FUNDS

Recipients are responsible for assuring compliance with all statutory, and other legal requirements applicable to receipt, use, expenditure and accounting of hotel tax revenues. No provision, restrictions, or lack thereof, in these guidelines shall excuse the failure of a recipient to comply with all such requirements.

Hotel funds may not be used for the following:

A. Funding to individuals;

B. Reduction of deficits from, or expenditures related to, activities of previous or future fiscal, calendar, or program years;

C. Capital improvements, except for those funded by the City through bonds or are historical restoration or preservation projects;

D. Contracted auditing, accounting, or bookkeeping fees;

E. Landscaping;

F. Travel for a person to attend an event or conduct an activity the primary purpose of which is not directly related to the promotion of tourism and the convention and hotel industry or the performance of the person's job in an efficient and professional manner; or

G. Advertising materials that will be distributed inside the city limits of Denton.

VI. RECIPIENT REQUIREMENTS

A. In all publications (e.g., flyers, programs, brochures, press releases, advertisements, annual reports and all other mailing pieces), recipient shall acknowledge in some meaningful way that their organization is funded in part by the City of Denton. Such acknowledgement might take the form of inclusion on a donors list for particular events. Recipients are advised that usage of the official City logo is restricted by policy (505.02) and ordinance. Any use of the City logo must be coordinated with and approved by the appropriate City representatives, to ensure compliance with these standards. Written authorization must be obtained from the City Manager or their designee.

B. An organization with whom a municipality contracts to conduct an activity authorized by section 351.101 (a) shall maintain complete and accurate financial records of each expenditure of hotel occupancy tax revenue made by the organization and, on request of the governing body of the municipality or other person, shall make the records available for inspection and review to the governing body or other person.

All financial records and any other records relating to the contracts shall be subject to the requirements of the Public Information Act. Organizations must maintain and account for revenue provided from the tax authorized by section 351.101 (a) within one of the two forms of accounting listed below:

1. Maintain hotel occupancy tax funds in a separate checking account established for that sole purpose and may not commingle with any other money or in any other bank account or

2. Maintain segregated fund accounting, whereby the accounting of HOT revenues and expenditures may not be commingled with any other revenues and expenditures. The funds may be maintained in the same bank account. However, if the HOT funds are invested in an interest bearing account then a separate account must be established for that sole purpose and may not commingle with any other money. All interest earned on the invested account will be considered restricted Hotel Occupancy Tax funds.

C. Payments to approved recipients will be made quarterly. The quarterly payments will be equal to 25% of the fixed contract amount unless the annual base revenue is less than originally estimated for the fiscal year. In this case, the fourth quarter payment will be adjusted accordingly. Payments will be disbursed to recipients by the 25th of the next month following the quarter end. Payment will not be made until the recipients' quarterly reports are completed and approved by the Finance Department.

If during the program year the city finds that revenue receipts will not meet the estimated budget, fourth quarter allocations will be reduced for contracted recipients. Internal recipients will be required to reduce their expenditures as necessary during the last quarter of the fiscal year.

The quarterly reports should include the following:

1. Complete financial report.
2. Copies of all HOT paid invoices OR listing of invoices including check number, vendor names, budget category, expenditure description and amount paid. (If a listing of invoices is provided, an audit may be performed on randomly requested invoices to determine program eligibility.
3. Front and back copies of all cleared HOT checks written for above invoices OR bank statements.

D. Provide the Finance Department advance notice of local Board of Directors meeting schedule.

E. Return any unused or ineligible monies to the City of Denton at the end of each contract period.

F. Each required organization must have insurance coverage prior to the event. A copy must be filed with the Finance Department at least one week prior to the event.

G. New applicants must attend a training session in the Finance Department prior to the beginning of the program year.

VII. CONTRACT TERM

The program period will commence on January 1 of the program year and terminate at midnight on December 31 of the same year. However, the contract period will commence on January 1 of the program year and terminate at midnight on January 31 of the following year. A thirty-day grace period is provided which allows recipients to finalize their reporting of expenditures. Either party may terminate the contract by virtue of sixty days written notice.

Intra-city organizations that receive program funds will operate on a fiscal year that will commence on October 1 and terminate at midnight on September 30 of the program year. All Hotel Occupancy Tax expenditures must be completely incurred before the midnight deadline.

VIII. COMMITTEE AND APPLICATION OVERVIEW

The Hotel Occupancy Tax Committee is a sub-committee of the City Council. The Council will determine membership of the sub-committee. The following city staff serves as liaisons: the Assistant City Manager, Director of Finance, Assistant Director of Finance, Deputy City Attorney, and Treasury Services Specialist. The application process is summarized below.

A. Applications are distributed to all current and past recipients and to other organizations requesting Hotel Occupancy Tax funding.

B. All applications must include: a proposed budget which details the plan for expending all monies requested, financial statements from at least two previous years, letter of determination certifying tax-exempt status under the Internal Revenue Code, current W-9, poof of current status as a non-profit Texas corporation, a list of local Board of Directors, Officers, or Governing Body and schedule of meetings, constitutions and/or by-laws, a list of all prior year donations made by the organization, and a notice of events/schedules for which the hotel funds will be spent. If an organization is a current recipient during the application phase, the submission of the tax-exempt status letter and constitution and/or by-laws are required only if changes occurred since the last contract period. All applicants must provide a current W-9.

C. All applications will be reviewed by staff for completeness and adherence to hotel occupancy tax state laws and program eligibility.

D. Applications are presented to the Hotel Occupancy Tax Committee for review. Any application that is late will be forwarded to the committee for review, but the committee has the discretion to reduce or deny funding of the requesting organization.

E. An additional Hotel Occupancy Tax Committee meeting is tentatively scheduled for recipient presentations, if needed.

F. The Hotel Occupancy Tax Committee approves or declines all or part of the requests for funding.

G. Staff prepares letters and contracts for the awarded recipient's signature.

H. The contracts will be approved by the City Council at a regularly scheduled meeting in October.

Attachment 3

Back

AIRPORT FUND

Five Year Forecast (in millions)
Proposed Budget

	2015-16 Estimate	2016-17 Proposed	2017-18 Proposed	2018-19 Proposed	2019-20 Proposed	2020-21 Proposed
BEGINNING FUND BALANCE	$3.40	$2.45	$2.37	$2.15	$1.74	$1.16
REVENUES	$1.22	$1.47	$1.48	$1.39	$1.33	$1.28
TOTAL AVAILABLE RESOURCES	$4.62	$3.92	$3.85	$3.54	$3.07	$2.44
TOTAL EXPENDITURES	$2.17	$1.55	$1.70	$1.80	$1.91	$2.03
NET INCOME (LOSS)	($0.95)	($0.08)	($0.22)	($0.41)	($0.58)	($0.75)
ENDING FUND BALANCE	$2.45	$2.37	$2.15	$1.74	$1.16	$0.41

AIRPORT FUND

Five Year Forecast (in millions)
Status Quo

	2015-16 Estimate	2016-17 Proposed	2017-18 Proposed	2018-19 Proposed	2019-20 Proposed	2020-21 Proposed
BEGINNING FUND BALANCE	$3.40	$2.45	$1.84	$1.10	-$0.11	-$1.47
REVENUES	$1.22	$1.47	$1.48	$1.39	$1.33	$1.28
TOTAL AVAILABLE RESOURCES	$4.62	$3.92	$3.32	$2.49	$1.22	-$0.19
TOTAL EXPENDITURES	$2.17	$2.08	$2.22	$2.60	$2.69	$2.90
NET INCOME (LOSS)	($0.95)	($0.61)	($0.74)	($1.21)	($1.36)	($1.62)
ENDING FUND BALANCE	$2.45	$1.84	$1.10	-$0.11	-$1.47	-$3.09

Attachment 4
Back

RESOLUTION NO. R91-008

A RESOLUTION APPROVING THE INFRASTRUCTURE FINANCING POLICY; REPEALING R89-019; AND PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, the Denton Development Plan adopted by the City of Denton contains policies providing for the expenditure of public funds to encourage balanced growth an economic development; and

WHEREAS, in furtherance of those policies, the 1991-1995 Capital Improvement Plan approved by the City Council proposes to allocate $500,000 each year to fund Water and Sewer Line Infrastructure Financing to carry out the balanced growth and economic policies of the Denton Development Plan; and

WHEREAS, the Public Utilities Board and Planning and Zoning Commission have considered and recommended adoption of amendments to the existing Infrastructure Financing Policy; NOW, THEREFORE;

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF DENTON:

SECTION I. That the Infrastructure Financing Policy, attached hereto as Exhibit I, is approved.

SECTION II. That Resolution No. R89-019, adopted on March 7, 1989, approving the Guidelines for Funding and Selecting Development Plan Candidate Water and Sewer Lines, is repealed.

SECTION III. That this resolution shall become effective immediately upon its passage and approval.

PASSED AND APPROVED this the 19th day of February, 1991.

Bob Castleberry
BOB CASTLEBERRY, MAYOR

ATTEST:
JENNIFER WALTERS, CITY SECRETARY

BY: Jennifer Walters

APPROVED AS TO LEGAL FORM:
DEBRA A. DRAYOVITCH, CITY ATTORNEY

BY: Debra Drayovitch

INFRASTRUCTURE FINANCING POLICY

Funding Policy

The City of Denton Utilities Department policy is to facilitate local economic growth through a program of Infrastructure Financing.

During its annual review of the Utility Department's Capital Improvements Plan (CIP), the Public Utilities Board shall consider the allocation of up to $500,000 annually to finance the construction of infrastructure water or sewer lines. This allocation shall consist of $250,000 from the Water CIP and $250,000 from the Wastewater CIP.

That portion of each annual allocation that remains unobligated at close of the fiscal year shall carry forward into the following fiscal year. However, the cumulative total of said unobligated annual allocations shall not exceed $2 million at any time.

Selection Policy

- Infrastructure Financing shall be provided only to:

  1) Industrial prospects which have committed to building facilities in Denton.

  2) Commercial/retail prospects which have committed to building facilities in Denton and which:

     a) sell a majority of their goods or services to individuals or businesses outside of Denton, or

     b) manufacture goods for consumption in Denton which were previously manufactured outside of Denton.

  3) Prospects which have committed to building corporate headquarters facilities in Denton.

- All requests for Infrastructure Financing shall be subject to the economic analysis detailed in this Policy. This analysis shall determine project costs and benefits over a five year period. Infrastructure Financing may be allocated only if project benefits are equal to or exceed project costs.

For purposes of the economic analysis:

- Project costs shall consist of 100% of:
  - Debt service associated with the subject utility line's construction, and
  - Return on investment associated with the completed subject utility line
- Project benefits shall consist of 25% of:
  - Revenue from ad valorem tax on prospect's local property, plant and equipment
  - Revenue from sales tax on prospect's products and services sold by the Denton facility
  - Revenue from sales tax on local purchases by the Denton-resident labor force generated by prospect's locating in Denton

  and 100% of:
  - Revenue from sales tax on prospect's local purchase of its facility's construction materials
  - Revenue from that portion of the prospect's local consumption of Denton utilities that is contributed toward the return on investment
- Funding of projects shall be granted based on the date of submission of application; i.e., first come, first served.
- Lines under consideration shall begin at an existing City main line and end at the edge of the prospect's property which is closest to the existing main and which is technically feasible.
- The funding recommendation shall state funding limits for the total project and its construction components as well as a time limit on the funding commitment.
- Funds shall be disbursed to the prospect or the prospect's designee only:
  1) upon presentation of a Certificate of Occupancy for the prospect's Denton facility, or
  2) in intermittent payments as construction of the subject utility line progresses

Unencumbered project funds shall be returned to the Infrastructure Financing accounts.

Application Process

Step 1

- Infrastructure Financing applications shall be available from the City's Economic Development Office. This Office shall:
  - provide prospect with economic assistance information
  - provide prospect with an application form and assist with its completion
  - notify affected Departments of prospect's application
  - coordinate the prospect's access to City Departments
  - prepare an economic assistance package for the prospect

Step 2

- Completed applications shall be returned to the Economic Development Office which shall forward a copy of the prospect's completed application to:
  - Planning Department for preparation of a land use analysis; and the
  - Utilities Department for preparation of a five year economic analysis, and technical and cost assessment of providing utility service to the prospect.

Step 3

- The Public Utilities Board shall review the prospect's application, the technical issues of providing utility service to the prospect, the completed economic analysis and forward a recommendation for funding consideration to the Planning and Zoning Commission.

  Such recommendation may support the prospect's request for an exemption from those provisions of the Sub-Division Ordinance regarding the extension of utility lines.

Step 4

- The Planning and Zoning Commission shall review the prospect's application, a completed land use analysis, the economic analysis, and the Public Utilities Board's recommendation and forward both the Board's and its own recommendation to the City Council.

ADMINISTRATIVE POLICY / PROCEDURE

SUBJECT: INFRASTRUCTURE FINANCING

TITLE: INFRASTRUCTURE FINANCING POLICY

EFFECTIVE DATE:

ECONOMIC DEVELOPMENT POLICY

As expressed by the Denton Development Plan which was adopted by the Denton City Council on September 5, 1989, the major goals of the City's economic development policy are as follows:

- to strengthen and diversify the urban economic base
- to create a wide range of employment opportunities
- to expand the City's tax base

These goals will be accomplished principally through municipal efforts to:

- attract basic industries to Denton
- encourage basic industries already in Denton to expand locally.

The City of Denton Utilities Department policy is to support the City Council's economic development goals and efforts by offering basic industries economic incentives, principal among which is the Infrastructure Financing Program. This Program will lower a basic industry's total cost of locating to or expanding in Denton by allowing the City to absorb part of the cost to construct the following types of water and sewer mains:

- those water and sewer mains which are necessary to serve the new or expanded basic industry

- those water and sewer mains which are required by the City's subdivision ordinance.

Funding Policy

During its review of the Utility Department's Capital Improvements Plan (CIP), the Public Utilities Board shall consider the allocation of up to $500,000 annually to fund the Infrastructure Financing Program. This allocation shall consist of $250,000 from the Water Department's CIP and $250,000 from the Wastewater Department's CIP.

After such consideration, the Public Utilities Board shall make an Infrastructure Financing Program funding recommendation to the City Council and the City Council shall determine the Program's conditions and funding level.

That portion of each annual Infrastructure Financing Program allocation which remains unobligated at the close of the fiscal year shall be transferred to the Fund Balance and may be reallocated for Infrastructure Financing in the following year's budget. However, the total of said unobligated annual allocation shall not exceed $2 million at any time.

During its consideration of annual Infrastructure Financing Program funding, the Public Utilities Board shall evaluate the Program's results and report that evaluation to the City Council.

Selection Policy

(A) Infrastructure Financing shall be provided only to:

1) industrial prospects which have committed to building facilities in Denton

2) commercial/retail prospects which have committed to building facilities in Denton and which:

a) sell a majority of their goods or services to individuals or businesses outside of Denton, and/or

b) manufacture goods for consumption in Denton which were previously manufactured outside of Denton

3) Corporate headquarters prospects which have committed to building facilities in Denton

(B) All requests for Infrastructure Financing shall be subject to the economic analysis detailed in this Policy. This analysis shall determine the subject utility line's construction benefits and cost over a five year period.

Infrastructure Financing may be available only if the benefits of the line's construction are equal to or exceed the cost of the line's construction.

(C) For purposes of the economic analysis:

1) Construction costs shall consist of 100% of:

a) debt service associated with the subject utility line's construction, and
b) return on investment associated with the completed subject utility line.

2) Construction benefits shall consist of 25% of:

a) revenue from ad valorum tax on prospect's local property, plant and equipment,

b) revenue from sales tax on prospect's products and services sold by the Denton facility,

c) revenue from sales tax on local purchases by the Denton-resident labor force generated by prospect's locating in Denton.

and 100% of:

d) revenue from sales tax on prospect's local purchase of its facility's construction materials, and

e) revenue from that portion of the prospect's local consumption of Denton utilities that is contributed toward the return on investment.

(D) Funding of prospects shall be based on their dates of application; i.e., first come, first served.

(E) Lines under consideration shall begin at an existing City main line and end at the closest technically feasible edge of the prospect's property.

(F) The funding recommendation shall state funding limits for the total project and its construction components as well as a time limit on the funding committment.

(G) Funds shall be disbursed to the prospect or the prospect's designee only as follows:

1) upon presentation of a Certificate of Occupancy for the prospect's Denton facility, or

2) in intermittment payments as construction of the subject utility line progresses.

(H) Unobligated project funds shall be returned to the Infrastructure Financing Program account.

Application Process

Step 1

- Infrastructure Financing applications shall be available from the City's Economic Development Office. This Office shall:

  - provide prospect with economic assistance information
  - provide prospect with an application form and assist with its completion
  - notify affected Departments of prospect's application
  - coordinate the prospect's access to City Departments
  - prepare an economic assistance package for the prospect

Step 2

- Completed applications shall be returned to the Economic Development Office which shall forward a copy of the prospect's completed application to:

  - Planning Department - prepares land use analysis

  - Utilities Department - prepares five year economic analysis, and technical and cost assessment of providing utility service to the prospect

Step 3

- The Public Utilities Board shall review the prospect's application, the technical issues of providing utility service to the prospect, a completed economic analysis and forward a recommendation for funding consideration to the Planning and Zoning Commission.

  Such recommendation may support the prospect's request for an exemption from those provisions of the Sub-Division Ordinance regarding the extension of utility lines.

Step 4

- The Planning and Zoning Commission shall review the prospect's application, a completed land use analysis, the economic analysis, and the Public Utilities Board's recommendation and forward both the Board's and its own recommendation to the City Council.

CLPOLICY.DOC

EXECUTIVE SUMMARY

Staff reviewed information provided through the Metroplex Survey which consists of data from 12 cities. The City of Denton currently has two plans: Gold and Silver. Simply stated, the Gold plan has better benefits (lower deductibles, copayments, coinsurance percentage) with higher monthly premiums when compared to the Silver plan. Of the information provided in the survey, 12 cities had comparable plans to the City's gold plan and eight (8) cities had one or more comparable plans (10 total plans) to the City's Silver plan.

The plans were evaluated as either having a better benefit (lower cost to the employee) than Denton's plan, a worse benefit (higher cost to the employee) than Denton's plan, or were unable to be compared (i.e. a fixed dollar copayment versus a percentage copayment since depending on the cost of the service, it could ultimately be better or worse than Denton's benefit).

GOLD PLAN COMPARISON:

Individual Deductible:
This is the out-of-pocket amount that each individual on the plan would have to meet before the plan begins to pay a portion of the eligible expenses. The City's individual deductible on the Gold plan is $750. Of the plans compared:

- Lower individual deductible – 3
- Higher individual deductible - 8
- Same individual deductible - 1

Family Deductible:
This is a cumulative amount that once any combination of family members' out-of-pocket expenses equaled would mean that all family members would have met their deductible for the year (even if an individual(s) had not done so). The City's family deductible on the Gold plan is $1,500. Of the plans compared:

- Lower family deductible – 2
- Higher family deductible – 8
- Same family deductible - 2

Employee Coinsurance:
This is the percentage that the employee pays of eligible expenses after the deductible has been met. The City's employee coinsurance on the Gold plan is 10%. Of the plans compared:

- Lower coinsurance percentage – 0
- Higher coinsurance percentage – 9
- Same coinsurance percentage - 3

Individual Out-of-Pocket Maximum (OOP Max):
Once this amount is met during the year, the plan begins to pay 100% of eligible charges. All out-of-pocket expenses accumulate toward this amount, including deductibles, coinsurance, office visit copayments, and prescription drug copayments. The City's individual OOP Max on the Gold plan is $3,000. Of the plans compared:

- Lower individual OOP Max – 1
- Higher individual OOP Max – 8
- Same individual OOP Max – 3

Family Out-of-Pocket Maximum (OOP Max):
This benefit works just like the individual OOP Max, and like the family deductible it is cumulative for the entire family. Once the family OOP Max has been met the plan pays at 100% for the entire family. The City's Family OOP Max on the Gold plan is $6,000. Of the plans compared:

- Lower family OOP Max – 1
- Higher family OOP Max – 8
- Same family OOP Max - 3

Out-of-Network Benefits:
This describes how the plan pays for services rendered by medical providers and facilities that are not in the plans' contracted network. The City's plan eliminated out-of-network benefits beginning in 2016. Of the plans compared:

- Provide some level of benefit coverage for out-of-network providers and facilities – 8
- Eliminated out-of-network benefits - 4

Primary Care Physician (PCP) Office Visit Copayment:
This is the amount an individual pays to see a PCP and is not subject to the deductible. The City's PCP copayment on the Gold plan is $15 for a United Healthcare Tier 1 physician and $25 for all others. Of the plans compared:

- Lower PCP copayment – 0
- Higher PCP copayment – 8
- Same PCP copayment - 4

Specialty Care Physician (SCP) Copayment:
This is the amount an individual pays to see a SCP (orthopedic, neurologist, podiatrist, dermatologist, etc.) and is not subject to the deductible. The City's SCP copayment on the Gold plan is $25 for a United Healthcare Tier 1 physician and $35 for all others. Of the plans compared:

- Lower SCP copayment – 0
- Higher SCP copayment – 11
- Same SCP copayment - 1

Urgent Care Copayment:
This is the amount an individual pays to access care at a facility categorized as providing "urgent care" (CareNow, DRMC Urgent Care at Razor Ranch, etc.) and is not subject to the deductible. Typically the cost of these services are greater than in a PCP's office, but less than in an Emergency Room. The City's urgent care copayment on the Gold plan is $75. Of the plans compared:

- Lower urgent care copayment – 7
- Higher urgent care copayment – 4
- Same urgent care copayment – 1

Emergency Room (ER):
This is the amount an individual pays to access care at an ER (hospital and many free-standing ER's) and is not subject to the deductible. Typically this is the most expensive setting in which to receive care. In many situations, if the individual is admitted to the hospital from the ER, the copayment is waived. The City's ER copayment on the Gold plan is $300. Of the plans compared:

- Lower ER copayment – 6
- Higher ER copayment – 5
- Same ER copayment - 1

Out-Patient Surgery Coinsurance:
This is the percentage that an employee pays of eligible expenses after the deductible has been met for surgery performed in an out-patient setting (typically less than 23 hours). The City's out-patient surgery coinsurance on the Gold plan is 10%. Of the plans compared:

- Lower out-patient surgery coinsurance percentage – 4
- Higher out-patient surgery coinsurance percentage – 5
- Same out-patient surgery coinsurance percentage - 3

Prescription Drug Deductible:
This is the out-of-pocket amount that each individual on the plan would have to meet for prescription drugs before the plan begins to pay a portion of the eligible expenses. This is a separate deductible from the individual deductible and applies only to prescription drugs on Tiers 2, 3, and 4. The City's prescription drug deductible on the Gold plan is $50. Of the plans compared:

- Lower prescription drug deductible – 6
- Higher prescription drug deductible – 5
- Same prescription drug deductible - 1

Prescription Drug Copayments (Retail):
This is the amount an individual pays for a 30 day supply of a prescription drug at a retail pharmacy. Most plans have various "tiers" of medications depending on whether they are generic (Tier 1), formulary name brand (Tier 2), non-formulary name brand (Tier 3) or specialty medications (Tier 4). Of the plans compared:

- Tier 1 drugs (City's Gold plan - $10):
  - Lower prescription drug copayment – 0
  - Higher prescription drug copayment – 3
  - Not comparable – 2
  - Same prescription drug copayment – 7

- Tier 2 drugs (City's Gold plan - $40):
    - Lower prescription drug copayment – 6
    - Higher prescription drug copayment – 3
    - Not comparable – 2
    - Same prescription drug copayment – 1

- Tier 3 drugs (City's Gold plan - $60):
    - Lower prescription drug copayment – 5
    - Higher prescription drug copayment – 4
    - Not comparable – 2
    - Same prescription drug copayment – 1

- Tier 4 (specialty) drugs (City's Gold plan – the lesser of $125 or 20%):
    - Lower prescription drug copayment – 7
    - Higher prescription drug copayment – 5
    - Not comparable – 0
    - Same prescription drug copayment - 0

Prescription Drug Copayments (Mail Order):
This is the amount an individual pays for a 90 day supply of a prescription drug from the health plans' mail order pharmacy program. These are typically "maintenance" type medications (blood pressure, hormones, etc.) that a person takes for an extended period of time. Like the 30-day supply at a retail pharmacy, there are "tiers" of medications depending on whether they are generic (Tier 1), formulary name brand (Tier 2), non-formulary name brand (Tier 3) or specialty medications (Tier 4). Of the plans compared:

- Tier 1 drugs through mail order (City's Gold plan - $20):
    - Lower prescription drug copayment – 0
    - Higher prescription drug copayment – 5
    - Not comparable – 2
    - Same prescription drug copayment – 5

- Tier 2 drugs through mail order (City's Gold plan - $100):
    - Lower prescription drug copayment - 8
    - Higher prescription drug copayment – 1
    - Not comparable – 2
    - Same prescription drug copayment – 1

- Tier 3 drugs through mail order (City's Gold plan - $150):
    - Lower prescription drug copayment – 6
    - Higher prescription drug copayment - 4
    - Not comparable – 2
    - Same prescription drug copayment - 0

Monthly Employee Premiums:
This is the amount that is paid by an employee for healthcare coverage. The amount paid depends on the type of coverage the employee chooses, based on the status of dependents covered under the health plan. The City has four types of coverage available under the Gold plan: employee only (EO); employee + spouse (ES); employee + child or children (EC); and employee + family (EF). Of the plans compared:

- Employee Only Coverage (City's Gold plan - $84):
  - Lower monthly premium – 8
  - Higher monthly premium – 3
  - Same monthly premium – 1

- Employee + Spouse Coverage (City's Gold plan - $373):
  - Lower monthly premium – 0
  - Higher monthly premium – 12
  - Same premium – 0

- Employee + Child/Children Coverage (City's Gold plan - $302):
  - Lower monthly premium – 5
  - Higher monthly premium – 7
  - Same premium – 0

- Employee + Family Coverage (City's Gold plan - $532):
  - Lower monthly premium – 2
  - Higher monthly premium – 10
  - Same premium – 0

SILVER PLAN COMPARISON:

Individual Deductible:
This is the out-of-pocket amount that each individual on the plan would have to meet before the plan begins to pay a portion of the eligible expenses. The City's individual deductible on the Silver plan is $1,500. Of the plans compared:

- Lower individual deductible – 4
- Higher individual deductible - 4
- Same individual deductible - 2

Family Deductible:
This is a cumulative amount that once any combination of family members' out-of-pocket expenses equaled would mean that all family members would have met their deductible for the year (even if an individual(s) had not done so). The City's family deductible on the Silver plan is $3,000. Of the plans compared:

- Lower family deductible – 2
- Higher family deductible – 6
- Same family deductible - 2

Employee Coinsurance:
This is the percentage that the employee pays of eligible expenses after the deductible has been met. The City's employee coinsurance on the Silver plan is 20%. Of the plans compared:

- Lower coinsurance percentage – 3
- Higher coinsurance percentage – 2
- Same coinsurance percentage - 5

Individual Out-of-Pocket Maximum (OOP Max):
Once this amount is met during the year, the plan begins to pay 100% of eligible charges. All out-of-pocket expenses accumulate toward this amount, including deductibles, coinsurance, office visit copayments, and prescription drug copayments. The City's individual OOP Max on the Silver plan is $6,000. Of the plans compared:

- Lower individual OOP Max – 6
- Higher individual OOP Max – 3
- Same individual OOP Max – 1

Family Out-of-Pocket Maximum (OOP Max):
This benefit works just like the individual OOP Max, and like the family deductible it is cumulative for the entire family. Once the family OOP Max has been met the plan pays at 100% for the entire family. The City's Family OOP Max on the Silver plan is $12,000. Of the plans compared:

- Lower family OOP Max – 6
- Higher family OOP Max – 3
- Same family OOP Max - 1

Out-of-Network Benefits:
This describes how the plan pays for services rendered by medical providers and facilities that are not in the plans' contracted network. As with the Gold plan, the City eliminated out-of-network benefits beginning in 2016. Of the plans compared:

- Provide some level of benefit coverage for out-of-network providers and facilities – 6
- Eliminated out-of-network benefits - 4

Primary Care Physician (PCP) Office Visit Copayment:
This is the amount an individual pays to see a PCP and is not subject to the deductible. The City's PCP copayment on the Silver plan is $25 for a United Healthcare Tier 1 physician and $35 for all others. Of the plans compared:

- Lower PCP copayment – 4
- Higher PCP copayment – 2
- Not comparable - 3
- Same PCP copayment – 1

Specialty Care Physician (SCP) Copayment:
This is the amount an individual pays to see an SCP (orthopedic, neurologist, podiatrist, dermatologist, etc.) and is not subject to the deductible. The City's SCP copayment on the Silver plan is $35 for a United Healthcare Tier 1 physician and $45 for all others. Of the plans compared:

- Lower SCP copayment – 2
- Higher SCP copayment – 3
- Not comparable - 4
- Same SCP copayment - 1

Urgent Care Copayment:
This is the amount an individual pays to access care at a facility categorized as providing "urgent care" (CareNow, DRMC Urgent Care at Razor Ranch, etc.) and is not subject to the deductible. Typically the cost of these services are greater than in a PCP's office, but less than in an Emergency Room. The City's urgent care copayment on the Silver plan is $75 (same as Gold plan). Of the plans compared:

- Lower urgent care copayment – 4
- Higher urgent care copayment – 3
- Not comparable - 1
- Same urgent care copayment – 2

Emergency Room (ER):
This is the amount an individual pays to access care at an ER (hospital and many free-standing ER's) and is not subject to the deductible. Typically this is the most expensive setting in which to receive care. In many situations, if the individual is admitted to the hospital from the ER, the copayment is waived. The City's ER copayment on the Silver plan is $300 (same as Gold plan). Of the plans compared:

- Lower ER copayment – 3
- Higher ER copayment – 0
- Not comparable - 7
- Same ER copayment - 0

Out-Patient Surgery Coinsurance:
This is the percentage that an employee pays of eligible expenses after the deductible has been met for surgery performed in an out-patient setting (typically less than 23 hours). The City's out-patient surgery coinsurance on the Silver plan is 20%. Of the plans compared:

- Lower out-patient surgery coinsurance percentage – 3
- Higher out-patient surgery coinsurance percentage – 3
- Same out-patient surgery coinsurance percentage - 4

Prescription Drug Deductible:
This is the out-of-pocket amount that each individual on the plan would have to meet for prescription drugs before the plan begins to pay a portion of the eligible expenses. This is a separate deductible from the individual deductible and applies only to prescription drugs on Tiers 2, 3, and 4. The City's prescription drug deductible on the Silver plan is $50 (same as Gold plan). Of the plans compared:

- Lower prescription drug deductible – 7
- Higher prescription drug deductible – 3
- Same prescription drug deductible - 0

Prescription Drug Copayments (Retail):
This is the amount an individual pays for a 30 day supply of a prescription drug at a retail pharmacy. Most plans have various "tiers" of medications depending on whether they are generic (Tier 1), formulary name brand (Tier 2), non-formulary name brand (Tier 3) or specialty medications (Tier 4). The copayments on the Silver plan are the same as those on the Gold plan. Of the plans compared:

- Tier 1 drugs (City's Silver plan - $10):
    - Lower prescription drug copayment – 0
    - Higher prescription drug copayment – 1
    - Not comparable – 3
    - Same prescription drug copayment – 6

- Tier 2 drugs (City's Silver plan - $40):
    - Lower prescription drug copayment – 6
    - Higher prescription drug copayment – 1
    - Not comparable – 3
    - Same prescription drug copayment – 0

- Tier 3 drugs (City's Silver plan - $60):
    - Lower prescription drug copayment – 5
    - Higher prescription drug copayment – 1
    - Not comparable – 3
    - Same prescription drug copayment – 1

- Tier 4 (specialty) drugs (City's Silver plan – the lesser of $125 or 20%):
    - Lower prescription drug copayment – 5
    - Higher prescription drug copayment – 1
    - Not comparable – 4
    - Same prescription drug copayment - 0

Prescription Drug Copayments (Mail Order):
This is the amount an individual pays for a 90 day supply of a prescription drug from the health plans' mail order pharmacy program. These are typically "maintenance" type medications (blood pressure, hormones, etc.) that a person takes for an extended period of time. Like the 30-day supply at a retail pharmacy, there are "tiers" of medications depending on whether they are generic (Tier 1), formulary name brand (Tier 2), non-formulary name brand (Tier 3) or specialty medications (Tier 4). The copayments on the Silver plan are the same as those on the Gold plan. Of the plans compared:

- Tier 1 drugs through mail order (City's Silver plan - $20):
  - Lower prescription drug copayment – 0
  - Higher prescription drug copayment – 2
  - Not comparable – 3
  - Same prescription drug copayment – 5

- Tier 2 drugs through mail order (City's Silver plan - $100):
  - Lower prescription drug copayment - 6
  - Higher prescription drug copayment – 0
  - Not comparable – 3
  - Same prescription drug copayment – 1

- Tier 3 drugs through mail order (City's Silver plan - $150):
  - Lower prescription drug copayment – 6
  - Higher prescription drug copayment - 1
  - Not comparable – 3
  - Same prescription drug copayment - 0

Monthly Employee Premiums:
This is the amount that is paid by an employee for healthcare coverage. The amount paid depends on the type of coverage the employee chooses, based on the status of dependents covered under the health plan. The City has four types of coverage available under the Silver plan: employee only (EO); employee + spouse (ES); employee + child/children (EC); and employee + family (EF). Of the plans compared:

- Employee Only Coverage (City's Silver plan - $40):
  - Lower monthly premium – 6
  - Higher monthly premium – 4
  - Same monthly premium – 0

- Employee + Spouse Coverage (City's Silver plan - $130):
  - Lower monthly premium – 1
  - Higher monthly premium – 9
  - Same premium – 0

- Employee + Child/Children Coverage (City's Silver plan - $160):
  - Lower monthly premium – 2
  - Higher monthly premium – 8
  - Same premium – 0

- Employee + Family Coverage (City's Silver plan - $216):
  - Lower monthly premium – 1
  - Higher monthly premium – 9
  - Same premium – 0

Attached is a detailed spreadsheet showing all the various benefit components from each of the survey cities. The first tab (Gold Plan Comp) compares the Gold equivalent plans and the second tab (Silver Plan Comp) compares the Silver equivalent plans.

The fields in yellow represent the City of Denton's plan. The fields in green represent benefit components with a lower cost than the City's plan, while the fields in red represent benefit components with a higher cost than the City's plan. Those fields in orange show the plan components that were difficult to compare and the fields with no color show benefit components that are the same as the City's plan.

END REPORT

Gold Health Plan Comparison

	Denton Gold Plan	Allen Plan 1	Arlington 1	Ft. Worth Plan 1	Frisco Plan 1	Garland Plan 1	Grand Prairie Plan 1
In-Network Benefits							
Deductible - Individual	$750	$500	$1,500	$950	$1,000	$1,000	$500
Deductible - Family	$1,500	$1000	$3,000	$1,900	$2,000	$2,000	$1,500
Coinsurance-*Employee* Portion	10%	10%	20%	15% Tier 1 Preferred Providers/35% In-Network Providers/ 20% Facility	20%	10% / 20%	10%
Out-of-Pocket Max - Ind	$3,000	$3,000	$6,000	$4,000	$3,000	$6,350	$3,000
Out-of-Pocket Max - Family	$6,000	$6,000	$12,000	$8,000	$6,000	$12,700	$6,000
Out of Network Benefits							
Deductible - Individual	No out-of-network coverage	$1,500	No out-of-network coverage	No out-of-network coverage	$2,000	$2,000	No out-of-network coverage
Deductible - Family	N/A	$3,000	N/A	N/A	Unlimited	$4,000	N/A
Coinsurance-*Employee* Portion	N/A	30%	N/A	N/A	40%	40%	N/A
Out-of-Pocket Max - Ind	N/A	$7,500	N/A	N/A	Unlimited	$12,700	N/A
Out-of-Pocket Max - Family	N/A	$14,000	N/A	N/A	Unlimited	$25,400	N/A
Employee's Copay/Coinsurance (i.e. 10%, 20% etc) by Type of Visit							
Primary Care Physician	$15 Tier 1 / $25	$25 INN, 30% OON	20% after deductible met	$25/$45/$10 at USMD	$20/$40	$35	$25
Specialist	$25 Tier 1 / $35	$50 INN, 30% OON	20% after deductible met	$35/$55	$30/$60	$55	$35
Urgent Care	$75	$50 INN, 30% OON	$50	$60	$60	$100	$65
Emergency Room	$300 Waived if admitted	$150 WAIVED IF ADMITTED	$250	$125 waived if admitted	$200	$500 + 20%	10% after deductible
Outpatient Surgery	10% after deductible	10% INN, 30% OON	20% after deductible met	20% after deductible facility/15% Tier 1 provider/35% In-Network	Deductible + 20%	20% after deductible	10% after deductible
Lab Benefits (Employee Portion)							
Basic Coins/Copay (X-Rays, Lab)	Lab 0%, X-rays 10% ded waived	10%	20% after deductible met	0%	$0 IN / 40% OON	0 if preferred lab, other labs at 20%	10% after deductible
Advanced Coins/Copay (MRI, CT, etc)	10% after deductible	10%	20% after deductible met	20% after deductible	Ded + 20% IN 40% OON	Ded + coinsurance	10% after deductible
Prescription Benefits							
Deductible (if separate from reg ded)	$50	N/A	Coinsurance Only	$50 in Network -$150 Out of Network	N/A	$100 on all except generic Rx	$100 individual/$300 family
30-day/Local Pharmacy							
Copay Generic/Tier 1	$10	$10	15%	$10 in network	$15	$10	$10
Copay Preferred Brand/Tier 2	$40	$25	25%	$30 in network	$25	$45	$30
Copay Non-Preferred/Tier 3	$60	$50	40%	$50 in network	$50	$90	$50
Copay Specialty Drug	$125 or 20% coinsurance; whichever is less	$50	50%	No special copay; covered at tier level	N/A	$200	$100
90-day/Mail-Order							
Copay Generic/Tier 1	$20	$25	15%	$25 in network	$30	$20	$20
Copay Preferred Brand/Tier 2	$100	$62.50	25%	$75 in network	$50	$90	$60
Copay Non-Preferred/Tier 3	$150	$125	40%	$125 in network	$100	$180	$100
Copay Specialty Drug	N/A	$125	50%	No special copay; covered at tier level	N/A	$200	$100
Premiums - Active Employee Contribution (Full Time)							
Total # enrolled on plan	**765**	**238 EE's / 608 Total Member**	**455**	**4890**	**327**	**1215**	**235**
EE Only	$100	$96	$58	$71	$33	$72	$148
EE + 1/Spouse	$220	$423	$247	$446	$346	$281	$415
EE + Child	$280	$389	$146	$385	$338	$244	$326
EE + Family	$408	$468	$347	$602	$626	$398	$672
Is there any Wellness Program Premium Reduction? (amount (s) & rule to get premium subsidy)	**$480** annual savings if employee meets all Healthy Incentives Program (HIP) requirements.	Reimbursements for achievements as one-time payment in Nov to offset premiums. **Total avail. to spouse $525; to EE: $725**. See comments for achievements & amounts.	Above rates are for those FT employees that complete the wellness program (health benchmarks are completed by end of FY); **Employees not participating, pay a $22.50/mo penalty.**	**$100 premium "incentive" added on** unless complete a member health assesment, receive physical & sign tobacco affidavit or do tobacco education program.	None	If C2W Base completed $20 monthly savings on standard rate; If C2W Plus completed $30 monthly savings; **If NONE completed additional $20 cost above standard rate.**	None

LEGEND:
Better benefit than Denton Plan
Unable to compare benefits
Worse benefit than Denton Plan
Denton Plan

Gold Health Plan Comparison

	Denton Gold Plan	Irving Plan 1	Lewisville Plan 1	McKinney Plan 1	Mesquite Plan 1	Plano Plan 1	Richardson 1	AVERAGE
In-Network Benefits								
Deductible - Individual	$750	$1,000	$2,000	$500	$2,000	$1,250	$750	**$1,132**
Deductible - Family	$1,500	$3,000	$4,000	$1,000	$4,000	$2,500	$1,500	**$2,400**
Coinsurance-*Employee* Portion	10%	20%	20%	20%	20%	20%	20%	**17.73%**
Out-of-Pocket Max - Ind	$3,000	$4,500	$4,000	$2,500	$6,500	$6600 (includes annual ded, copays, co-ins, prescrip drugs)	$6,600	**$4,495**
Out-of-Pocket Max - Family	$6,000	$13,500	$8,000	$5,000	$13,000	$13,200	$13,200	**$9,717**
Out of Network Benefits								
Deductible - Individual	No out-of-network coverage	$2,000	$5,900	$1,000	$4,500	No out-of-network coverage	$1,500	**$2,550**
Deductible - Family	N/A	$6,000	$11,800	$2,000	$9,000	N/A	$3,000	**$5,543**
Coinsurance-*Employee* Portion	N/A	40%	50%	50%	40%	N/A	40%	**41%**
Out-of-Pocket Max - Ind	N/A	$7,500	$9,500	$10,000	$12,000	N/A	$13,200	**$10,343**
Out-of-Pocket Max - Family	N/A	$22,500	$19,000	$20,000	$24,000	N/A	$26,400	**$21,614**

Employee's Copay/Coinsurance (i.e. 10%, 20% etc) by Type of Visit

	Denton Gold Plan	Irving Plan 1	Lewisville Plan 1 (*After deductible is met*)	McKinney Plan 1	Mesquite Plan 1	Plano Plan 1	Richardson 1	AVERAGE
Primary Care Physician	$15 Tier 1 / $25	$25	20%	$25	20% - after deductible	$25	$30	**$23.35**
Specialist	$25 Tier 1 / $35	$40	20%	$40	20% - after deductible	$40	$60	**$41.27**
Urgent Care	$75	20%	20%	$50	$80	$50	$75	**$65.50**
Emergency Room	$300 Waived if admitted	20%	20%	$100 + 20%	$500	$200	20% after ded	**$217.86**
Outpatient Surgery	10% after deductible	20%	20%	$300 + 20%	10% - after deductible if part of BCBS high Performance Facility network; 20% - after deductible for all other in-network facilities	20%	20% after ded	**15.00%**

Lab Benefits (Employee Portion)

	Denton Gold Plan	Irving Plan 1	Lewisville Plan 1	McKinney Plan 1	Mesquite Plan 1	Plano Plan 1	Richardson 1	AVERAGE
Basic Coins/Copay (X-Rays, Lab)	Lab 0%, X-rays 10% ded waived	20%	20%	$0	0 if preferred lab, other labs are 20%	100% after deductible	Coinsurance after ded	**13.50%**
Advanced Coins/Copay (MRI, CT, etc)	10% after deductible	20%	20%	20% after deductible	20% after deductible	20% after deductible	Coinsurance after ded	**20.56%**

Prescription Benefits

	Denton Gold Plan	Irving Plan 1	Lewisville Plan 1	McKinney Plan 1	Mesquite Plan 1	Plano Plan 1	Richardson 1	Indv.
Deductible (if separate from reg ded)	$50	N/A	N/A	N/A	$150	$100	$100 Indiv / $200 Fam	**$83**

30-day/Local Pharmacy

	Denton Gold Plan	Irving Plan 1	Lewisville Plan 1	McKinney Plan 1 (Over the Counter (OTC) Medications $5 per prescription for a 34 day supply.)	Mesquite Plan 1	Plano Plan 1	Richardson 1	AVERAGE
Copay Generic/Tier 1	$10	$10	deductible then 10%	$10	$15	15% $6 min, $15 max	$10	**$11.00**
Copay Preferred Brand/Tier 2	$40	$30	deductible then 30%; up to $150 maximum per prescription	$30	$40	25% $30 min, $40 max	$50	**$33.89**
Copay Non-Preferred/Tier 3	$60	$50	deductible then 40%; up to $150 maximum per prescription	$60	$80	40% $45 min, $60 max	$85	**$62.78**
Copay Specialty Drug	$125 or 20% coinsurance; whichever is less	$50	N/A	10%	50% with $200 cap	NA	$150	**$92.87**

90-day/Mail-Order

	Denton Gold Plan	Irving Plan 1	Lewisville Plan 1	McKinney Plan 1	Mesquite Plan 1	Plano Plan 1	Richardson 1	AVERAGE
Copay Generic/Tier 1	$20	$20	deductible then 10%	$20	$30	15% $12 min, $30 max	$20	**$23.33**
Copay Preferred Brand/Tier 2	$100	$60	deductible then 25%; up to $300 max / prescript	$60	$80	25% $60 min, $90 max	$100	**$70.83**
Copay Non-Preferred/Tier 3	$150	$100	deductible then 40%; up to $300 max / prescript	$120	$160	40% $90 min, $120 max	$170	**$131.11**
Copay Specialty Drug	N/A	$100	N/A	$120	$160	N/A	$300	**$157.86**

Premiums - Active Employee Contribution (Full Time)

	Denton Gold Plan	Irving Plan 1	Lewisville Plan 1	McKinney Plan 1	Mesquite Plan 1	Plano Plan 1	Richardson 1	AVERAGE
Total # enrolled on plan	**765**	**835**	**291**	**212**	**411**	**2000**	**227**	**954**
EE Only	$100	$163	$36	$100	$74	$54	$103	**$84**
EE + 1/Spouse	$220	$410	$330	$370	$360	$268	$580	**$373**
EE + Child	$280	$397	$240	$330	$189	$168	$470	**$302**
EE + Family	$408	$650	$561	$510	$429	$422	$694	**$532**
Is there any Wellness Program Premium Reduction? (amount (s) & rule to get premium subsidy)	**$480** annual savings if employee meets all Healthy Incentives Program (HIP) requirements.	Employees can receive a discount if they either get a physical or take the biometric test along with doing the HRA. The amounts vary by plan and tier.	These rates are the lowest premiums offered. Employees and covered spouses must complete their bio-metric screening at Wellness Works Health Center **to avoid a $25/mo surcharge.**	None.	None.	The City offers a **$50/mo incentive** to employees who fulfill the Connect4Health Premium Incentive Reqs. See comments for Reqs.	If employee achieves wellness objective, **receives $25/month premium subsidy.**	**Yes - 6**

LEGEND:
- Better benefit than Denton Plan
- Unable to compare benefits
- Worse benefit than Denton Plan
- Denton Plan

Silver Health Plan Comparison

	Denton Silver Plan	Allen Plan 2	Arlington 2	Ft. Worth Plan 2	Frisco Plan 2	Grand Prairie Plan 2
In-Network Benefits						
Deductible - Individual	$1,500	$1,000	$2,000	$1,500	$2,000	$1,000
Deductible - Family	$3,000	$2,000	$4,000	$3,000	$4,000	$3,000
Coinsurance-*Employee* Portion	20%	20%	10%	15% Tier 1 Preferred Providers/35% In-Network Providers/ 20% Facility	20% after deductible	15%
Out-of-Pocket Max - Ind	$6,000	$4,000	$6,000	$4,750	$4,000	$4,000
Out-of-Pocket Max - Family	$12,000	$8,000	$12,000	$7,125	$8,000	$8,000
Out of Network Benefits						
Deductible - Individual	No out-of-network coverage	$3,000	No out-of-network coverage	No out-of-network coverage	Unlimited	No out-of-network coverage
Deductible - Family	N/A	$6,000	N/A	N/A	Unlimited	N/A
Coinsurance-*Employee* Portion	N/A	40%	N/A	N/A	Unlimited	N/A
Out-of-Pocket Max - Ind	N/A	$10,000	N/A	N/A	Unlimited	N/A
Out-of-Pocket Max - Family	N/A	$20,000	N/A	N/A	Unlimited	N/A
Employee's Copay/Coinsurance (i.e. 10%, 20% etc) by Type of Visit					*After deductible is met*	
Primary Care Physician	$25 Tier 1 / $35	$25 INN, 40% OON	10% after deductible met	15% Premium Tier 1 Providers/35% In-Network Providers/15% USMD Provider after deductible	$20-$20 network/non-network is not covered	$30
Specialist	$35 Tier 1 / $45	$50 INN, 40% OON	10% after deductible met	15% Premium Tier 1 Providers/35% In-Network Providers after deductible	$30-$60 network/non-network is not covered	$40
Urgent Care	$75	$50 INN, 40% OON	$50 after deductible met	20% after deductible	$60 copay	$70
Emergency Room	$300 waived if admitted	$150 copay then deductible and coins, copay waived if admitted	$250 after deductible met	20% facility/15% Premium Tier 1 Provider/35% In-Network Provider after deductible	$200 copay	15% after deductible
Outpatient Surgery	20% after deductible	10% INN, 30% OON	10% after deductible met	20% facility/15% Premium Tier 1 Provider/35% In-Network Provider after deductible	20% coinsurance after deductible	15% after deductible
Lab Benefits (Employee Portion)						
Basic Coins/Copay (X-Rays, Lab)	Lab 0%, X-rays 20% ded waived	20%	10% after deductible met	20% after deductible	No Charge	15% after deductible
Advanced Coins/Copay (MRI, CT, etc)	20% after deductible	20%	10% after deductible met	20% after deductible	20% co-ins after ded	15% after deductible
Prescription Benefits						
Deductible (if separate from reg ded)	$50	N/A	Included in Medical	Part of Reg Ded	N/A	$100 individual/$300 family
30-day/Local Pharmacy						
Copay Generic/Tier 1	$10	$10	10%	20% after deductible	$15	$10
Copay Preferred Brand/Tier 2	$40	$25	10%	20% after deductible	$25	$30
Copay Non-Preferred/Tier 3	$60	$50	10%	20% after deductible	$50	$50
Copay Specialty Drug	$125 or 20% coinsurance; whichever is less	$50	10%	20% after deductible	N/A	$100
90-day/Mail-Order						
Copay Generic/Tier 1	$20	$25	10%	20% after deductible	$30	$20
Copay Preferred Brand/Tier 2	$100	$62.50	10%	20% after deductible	$50	$60
Copay Non-Preferred/Tier 3	$150	$125	10%	20% after deductible	$100	$100
Copay Specialty Drug	N/A	$125	10%	20% after deductible	N/A	$100
Premiums - Employee Contribution (Full Time Actives)						
Total # enrolled on plan	**463**	**313 EE's / 883 Total Members**	**1660**	**83**	**597**	**432**
EE Only	$40	$32	$26	$0	$6	$72
EE + 1/Spouse	$130	$304	$111	$266	$145	$241
EE + Child	$160	$269	$44	$251	$168	$190
EE + Family	$216	$336	$156	$376	$366	$413
Is there any Wellness Program Premium Reduction? (amount (s) & rule to get premium subsidy)	**$480** annual savings if employee meets all Healthy Incentives Program (HIP) requirements.	Reimbursements for achievements as one-time payment in Nov to offset premiums. **Total avail. to spouse $525; to EE: $725**. See comments for achievements & amounts.	Above rates are for those FT employees that complete the wellness program (health benchmarks are completed by end of FY); **Employees not participating, pay a $32.50/mo penalty**.	**$100 premium "incentive" added on** unless complete a member health assesment, receive physical & sign tobacco affidavit or do tobacco education program.	None	None

LEGEND:
- Better benefit than Denton Plan
- Unable to compare benefits
- Worse benefit than Denton Plan
- Denton Plan

Silver Health Plan Comparison

	Denton Silver Plan	Grand Prairie Plan 3	Irving Plan 2	Irving Plan 3	McKinney Plan 2	Richardson 2	AVERAGE
In-Network Benefits							
Deductible - Individual	$1,500	$1,500	$1,250	$2,000	$1,200	$1,750	**$1,578**
Deductible - Family	$3,000	$4,500	$3,750	$6,000	$2,400	$3,500	**$3,794**
Coinsurance-*Employee* Portion	20%	20%	30%	20%	20%	30%	**21.00%**
Out-of-Pocket Max - Ind	$6,000	$5,000	$6,600	$6,500	$4,000	$6,600	**$5,459**
Out-of-Pocket Max - Family	$12,000	$10,000	$13,200	$13,000	$8,000	$13,200	**$10,281**
Out of Network Benefits							
Deductible - Individual	No out-of-network coverage	No out-of-network coverage	$2,500	$4,000	$2,400	$3,500	**$3,100**
Deductible - Family	N/A	N/A	$7,500	$12,000	$4,800	$7,000	**$7,825**
Coinsurance-*Employee* Portion	N/A	N/A	50%	50%	50%	60%	**53%**
Out-of-Pocket Max - Ind	N/A	N/A	$10,500	$13,000	$10,000	$13,200	**$11,675**
Out-of-Pocket Max - Family	N/A	N/A	$31,500	$26,000	$20,000	$26,400	**$25,975**
Employee's Copay/Coinsurance (i.e. 10%, 20% etc) by Type of Visit							
Primary Care Physician	$25 Tier 1 / $35	$35	$45	20%	$25	$30	**$31**
Specialist	$35 Tier 1 / $45	$45	$60	20%	$40	$60	**$48**
Urgent Care	$75	$75	30%	20%	$50	$75	**$63**
Emergency Room	$300 waived if admitted	20% after deductible	30%	20%	$100 + 20%	30% after ded	**$200**
Outpatient Surgery	20% after deductible	20% after deductible	30%	20%	$300 + 20%	30% after ded	**23.64%**
Lab Benefits (Employee Portion)							
Basic Coins/Copay (X-Rays, Lab)	Lab 0%, X-rays 20% ded waived	20% after deductible	30%	20%	$0	Coinsurance after ded	**19.00%**
Advanced Coins/Copay (MRI, CT, etc)	20% after deductible	20% after deductible	30%	20%	20% after deductible	Coinsurance after ded	**23.33%**
Prescription Benefits							
Deductible (if separate from reg ded)	$50	$100 individual/$300 family	N/A	Part of Reg ded.	n/a	$100 Indv / $200 Family	**See indv cities**
30-day/Local Pharmacy					Over the Counter (OTC) Medications $5 per prescription for a 34 day supply.		
Copay Generic/Tier 1	$10	$10	$10	20%	$10	$10	**$11.11**
Copay Preferred Brand/Tier 2	$40	$35	$30	30%	$30	$50	**$35.00**
Copay Non-Preferred/Tier 3	$60	$50	$50	50%	$60	$85	**$59.67**
Copay Specialty Drug	$125 or 20% coinsurance; whichever is less	$50	$50	50%	10%	$150	**$83.33**
90-day/Mail-Order							
Copay Generic/Tier 1	$20	$20	$20	20%	$20	$20	**$22.63**
Copay Preferred Brand/Tier 2	$100	$70	$60	30%	$60	$100	**$74.38**
Copay Non-Preferred/Tier 3	$150	$100	$100	50%	$120	$170	**$125.63**
Copay Specialty Drug	N/A	$100	$100	$100	$120	$300	**$146.67**
Premiums - Employee Contribution (Full Time Actives)							
Total # enrolled on plan	**463**	**423**	**585**	**201**	**634**	**614**	**581**
EE Only	$40	$34	$128	$71	$35	$69	**$49**
EE + 1/Spouse	$130	$171	$326	$192	$260	$379	**$232**
EE + Child	$160	$112	$315	$175	$220	$325	**$200**
EE + Family	$216	$270	$518	$290	$360	$447	**$355**
Is there any Wellness Program Premium Reduction? (amount (s) & rule to get premium subsidy)	**$480** annual savings if employee meets all Healthy Incentives Program (HIP) requirements.	None	Employees can receive a discount if they either get a physical or take the biometric test along with doing the HRA. The amounts vary by plan and tier.	Employees can receive a discount if they either get a physical or take the biometric test along with doing the HRA. The amounts vary by plan and tier.	None.	If employee achieves wellness objective, receives **$25/month premium subsidy.**	**Yes - 8**

LEGEND:
- Better benefit than Denton Plan
- Unable to compare benefits
- Worse benefit than Denton Plan
- Denton Plan

UTILITIES
FINANCIAL STRATEGIES
FY 2016-2017

PURPOSE

The goal of this document is to establish the financial strategies for the Denton Municipal Electric Fund (DME), Water Fund, Wastewater Fund (collectively referred to in this document as "Utilities" or "Funds") and the Solid Waste & Recycling Fund (also referenced as "Funds"). As a provider of municipal electric, water, wastewater, and solid waste services, the City of Denton must keep pace with demands, effectively manage escalating capital and operational costs, meet all infrastructure needs, and have the resiliency to recover quickly from unanticipated impacts. This Financial Strategies document addresses these goals by describing the challenges faced by Utilities and establishing strategies to manage these challenges while maintaining financial stability and resiliency. Establishing, routinely evaluating, and implementing financial strategies will help Denton to continue to provide the excellent level of reliable service expected by our customers.

The strategies included in this document should be used as guidelines for policy and management decisions. Since issues and challenges change through time, the strategies should be reviewed periodically and modified as appropriate. In general, strategies should address objectives that support and strengthen the financial health of each Fund. Strategies in this document are based in part on Government Finance Officers Association (GFOA) best practices, various utility industry financial policies and practices, and objectives specific to each Fund.

CURRENT CHALLENGES

Black and Veatch recently released a report entitled "2015 Strategic Directions: U.S. Water Industry Report". This report surveyed both Water and Wastewater Utilities in the United States with the intention of determining major challenges that Utilities are currently facing or anticipate facing in the near future. The report also compared Utility responses to questions asked in the 2012 Strategic Directions survey to responses to similar questions in 2015. The most important financial challenges reported by industry respondents in order of importance were: aging infrastructure, managing operational costs, managing capital costs, aging workforce, and increasing regulations. It is interesting to note that aging infrastructure, managing capital costs, and increasing regulations were also in the top five responses in 2012. However, the degree of importance attributed to managing capital costs and increasing regulations decreased from 2012 to 2015. Aging infrastructure and an aging workforce increased from 2012 to 2015, with concerns about aging workforce representing the largest increase in importance over the three year time period between surveys.

Denton is facing challenges similar to those faced by many utilities in the United States. Aging infrastructure and growth related infrastructure needs are concerns that require sustained, long term commitments to fully address. Increasingly stringent regulations and regulatory responsibilities, cost escalations, and the erosion of buying power due to inflation are also major challenges. Less obvious issues such as an aging workforce, succession planning, trends towards decreasing per capita consumption, changing trends in waste generation and disposal, improving technologies, and continued progress of optimization efforts also influence financial strategies and overall management. Reliability of electricity generation and distribution, and the associated regulatory compliance and infrastructure needs, continue to be major issues. The rapid growth of the City also presents challenges, and will have a large influence on future operating and capital budgets. Recent economic downturns have resulted in more stringent financial "due diligence" standards. As a result, rating agencies and institutional investors are requiring increasingly detailed information about operating and financial conditions, and are now beginning to request and evaluate more detailed reports on regulatory management, local economic conditions, and sustainability efforts as a part of municipal rating analyses. Rating agencies are also giving more scrutiny to reserve levels, capital demands versus debt service, and similar measures that gauge the resiliency of utilities and local governments. The issue of resiliency is particularly important, and was chosen as a key focus topic for the 2015 Black and Veatch study. Because these issues are constantly evolving, the Financial Strategies document should be regularly reviewed and revised to ensure strategies are effectively addressing challenges.

OBJECTIVES

One of the primary objectives of the Financial Strategies document is to summarize approaches needed to maintain financial stability and resiliency. Financial stability is, by definition, the proper balance between revenues and expenditures. Revenues must be sufficient to meet the operational requirements and bond covenants. While reserve funds may be available to help meet financial obligations on either a planned or emergency basis, stable and adequate rate revenues remain the cornerstone of both short and long term financial stability and resiliency.

It is important to distinguish between the goals of financial stability and resiliency. Although a balanced budget represents a system that is financially stable, if the system is not resilient an unanticipated external shock could unbalance the system and potentially lead to collapse. Local utilities face significant external challenges, including both short and long term economic fluctuations, cost escalations, unfavorable weather patterns, natural disasters, unanticipated capital expenditures, and policy changes from federal, state, and local levels of government.

The Financial Objectives outlined below are designed to address both financial stability and improve resiliency.

Financial Objectives

- Each Fund should operate as a self-supporting business operation (enterprise fund) through balanced revenues and expenditures.
- Rates are generally based on cost of service and other financial and pricing objectives, are reviewed annually by staff, and are supplemented by external consultant studies at approximate five year intervals.
- To the greatest extent possible, rates should be incrementally adjusted to achieve revenues targets over multi-year periods in order to minimize the need to have large annual rate increases / rate spikes.
- Financial policies will ensure to the greatest extent possible that inter-rate class subsidies are minimized or eliminated.
- Rates should be competitive and competitiveness should be routinely assessed as part of the budget process.
- Each Fund will maintain prudent reserve levels, with targets specific to the objectives of the Fund, to ensure Funds are both balanced and resilient.
- Water and Wastewater should each maintain a development plan line reserve to not exceed $1 million each to facilitate local economic growth in accordance with the City Council infrastructure financing policy Resolution R91-008.
- Water and Wastewater should maintain a separate impact fee reserve fund and use this fund to offset debt service payments on impact fee eligible capital projects. Each utility should strive to maintain the impact fee reserve level at not less than $1 million.
- Solid Waste & Recycling should continue funding the Landfill Closure & Post-closure Fund to meet Texas Commission of Environmental Quality financial assurance requirements.
- Solid Waste and Recycling should continue to strategically use the Vehicle Replacement Fund to increase cash funding of collection trucks and reduce the Funds use of debt financing.

RESERVE FUNDS

Reserves serve multiple functions. For example, reserves can be used to address variability and timing of expenditures and receipts, and to accommodate occasional disruptions in activities, costs, or revenues. The use of reserves can help limit exposure to revenue shortfalls, meet long term capital obligations, and help reduce the potential for defaults.

Reserve funds are established to provide financial stability and are a key component of resiliency. Typically, reserve fund target levels are expressed as a percentage of annual operating expenses, or as a given number of days of operating expenses. Targets in this document are provided as the number of days of operating expenses that could be sustained with the given reserve amount.

Reserve fund targets are generally based on average expenses, analyses of cash flows, volatility of revenues and expenditures, estimates of total fixed asset costs, replacement costs for critical system assets, and industry best practices. Targets are expressed as ranges that are appropriate for the unique operating characteristics of each Fund. Factors that affect the target reserve levels include revenue stability, expense volatility, infrastructure age, debt levels, unforeseen expenditures, and management plans for reserve use.

Reserve funding amounts are derived from the appropriable fund balance calculations made at the end of each fiscal year, and do not include funds that are restricted, designated, or otherwise committed for specific purposes. Since reserves are established to stabilize and strengthen Fund finances, reserves should not normally be used for recurring expenses. Reserves should be thought of as containing at least two components: a working capital reserve target as well as an operating reserve target. While these components can overlap, it is important to understand the purpose and designated uses of each component.

The working capital component of each reserve funds (or “WC”) provides a minimum unrestricted fund balance to provide the liquidity needed to allow regular management of payables and payment cycles. This includes both anticipated issues such as billing and receipt cycles and payroll, as well as small scale unanticipated changes. WC helps meet the fixed cost of doing business when short term cash deficiencies occur due to the timing of revenues and expenditures. As a general guideline, the WC target level for each Fund is established as 30 days of average total expenses (8%). The undesignated balance of each Fund will first be used to fund the WC reserves to the target level. Once the target WC reserve level is achieved, excess funds shall be applied to the operating reserve.

The operating reserve (“OR”) component provides a means of managing expense and demand volatility, ensure that funding is available for emergencies such as equipment or infrastructure failure, and serve to improve overall resiliency. Funds are vulnerable to both short term and seasonal changes in demand and expenses due to weather patterns, regulatory compliance issues, unanticipated price increases for purchasing operational commodities, economic growth, fuel price spikes, market prices for recyclable commodities sold, and other similar budgetary impacts. Appropriate reserve levels can accommodate these changes without negatively impacting rates. Operating Reserves also serve as a buffer in case of large capital needs due to unanticipated infrastructure failures or catastrophe. Operating Reserves therefore help minimize the need for large rate increases from year-to-year and decrease the likelihood of requiring unanticipated actions such as mid-year rate adjustments. In addition, the various Funds may maintain specific additional reserve components in order to maintain financial stability, resiliency, and the requirements of Federal and State Law.

In general, Funds with more stable revenue collection can consider lower OR targets. However, Funds with greater volatility should establish higher targets to provide some protection against large scale fluctuations in revenues and expenditures. Funds should review and adjust reserve targets over time, and as necessary, to protect against potential losses and to maintain overall stability. The reserve should be reviewed and recalibrated through the normal annual budget and rate-setting process. Since expenses typically increase over time, the actual dollar amount of the reserve will increase proportionally with increases in expenditures.

Working Capital and Operating Reserve targets for each Fund, expressed as a percent of expenses, are:

	Electric*	**Water**	**Wastewater**	**Solid Waste & Recycling**
Working Capital	8%	8%	8%	8%
Operating Reserves	8-12%	25-42%	20-31%	6-10%
Total	16-20%	33-50%	28-39%	14-18%
Operating Days	(60-75 days)	(120-180 days)	(100-140 days)	(52-66 days)

*does not include Texas Municipal Power Agency (TMPA) Debt payments

It should be noted that the Drainage Division maintains a specific Drainage Reserve fund of one million dollars that is separate from the Wastewater Reserve fund. The Drainage Reserve fund is reserved for emergency responses and repairs during and after catastrophic weather events. It is also important to note that Denton Municipal Electric (DME) has enacted a strategy for addressing the debt obligation to the Texas Municipal Power Agency (TMPA). The specifics of this debt reduction strategy are unique to DME and are beyond the scope of this Financial Strategies document. However, the TMPA debt strategy is important to discuss within the context of the reserves because funds accumulated and applied towards the debt are a component of the reserves for DME. As a result, the total DME reserve amount will at times exceed the reserve targets outlined in the table above. The reserve funds in excess of the target range will be applied to the TMPA debt, and the overall TMPA debt strategy and status will be reviewed and discussed with the Public Utilities Board as a part of the annual budget process.

<u>Operating Reserve Liquidation</u>

If operating reserves exceed the target range, they may be brought back to the target range through a sequential decision making process that will be at least partially contingent on the amount of surplus remaining. While the decision making process is going to be somewhat unique to a given budget year, there are common issues to consider. In general, actions for operating reserves that exceed the target level should only be considered if the reserve is projected to continue above the target level for the next two to three years. If this is the case, the excess funds could be considered for optional uses. Optional uses include, but are not limited to:

- Additional debt management through debt reduction payments
- Transfer excess funding to specific Fund project(s) (typically one -time capital outlay).
- The funding of capital assets using cash funding versus debt service.
- Retain reserves as a potential long term rate stability strategy. This option increases reserves, which would allow reserves to be available in future years to either delay or reduce rate increases or for capital and debt management. In general, this approach is a way to plan for revenue smoothing for anticipated future costs, where funds will be used to mitigate the size of a rate increase in a given (future) year.
- Use for rate reduction by reducing current proposed rates, if it is projected that the rate reduction can be sustained for a specific period of time.

SYSTEM CAPITAL AND REINVESTMENT POLICIES

The funding of capital assets should be based on the type of asset, cost, and expected life. Generally, major new infrastructure, funded via debt, should be financed with a payment schedule equal to or less than the expected asset life. Existing infrastructure strategies are more complex since existing assets lose value each year of service as the assets moves through use cycles towards eventual replacement. This decrease in value is generally reported as an annual depreciation expense, which is based on the original cost of the asset over its anticipated useful life. While this expense reflects the consumption of the existing asset and the original investment, the replacement of the asset is likely to cost more when considering adjustments for inflation and the current construction market. Thus, it is likely that the annual replacement liability may be substantially greater than annual depreciation expense.

The issue of true replacement costs becomes particularly important when considering debt funding versus rate revenue funding for existing infrastructure replacement. Debt funding existing asset replacement can have long term negative financial consequences due to the compounding issues of true replacement costs and debt interest. To ensure that utilities systems are sustainable over time, the replacement of existing assets should be financed from current revenues to the greatest extent possible. As a future goal, the target level of current revenue infrastructure replacement funding should be generally based on annual depreciation expenses, adjusted for major assets replaced at long intervals and that are too expensive to fund with current revenues. However, analyses should also include the current versus original asset cost to account for the effects of inflation and other cost escalation factors. The current revenue funded capital target for infrastructure replacement for Water and Wastewater is based on estimates of the average annual replacement costs for major infrastructure components. For the Water Department, the target is 100% of annual transmission and distribution infrastructure replacement costs, and 25% of annual plant replacement costs. Wastewater targets are 100% of the annual interceptor and collector infrastructure replacement costs, and 25% of annual plant replacement costs. Average annual replacement costs should be evaluated, adjusted and implemented on a regular basis, preferably annually and at a minimum of every 3 years.

DEBT MANAGEMENT

Debt management strategies establish acceptable outstanding debt levels, outline debt repayment, and address total debt coverage targets. Strategies for debt related to vehicles and equipment replacements are also included in this section. Debt management strategies are as follows:

- Generally, debt financing should only be considered for projects involving new capacity.

- If practical, debt repayment schedules should be based on level annual payments over the payment life.

- Bond covenants have been established to define the minimum debt coverage ratio as a means of protecting against non-payment. The Utility systems (Electric/Water/Wastewater) must maintain a debt coverage ratio of 1.25 or greater by covenant, calculated as a ratio of the most recently completed prior fiscal year net revenues divided by the projected debt service costs the first fiscal year after the current fiscal year bond sale. The goal of the Solid Waste Fund is to maintain the same debt coverage ratio of 1.25 or greater. It should be noted that the calculation outlined above is slightly different than the calculation method outlined in the Debt Service Management Policy (Policy No. 430.07).

- If needed, operating reserve funds may be used to supplement the net revenues required to achieve the utility system 1.25 debt coverage ratio per Ordinance 2002-318.

- In general, vehicles and associated equipment should be financed with a vehicle replacement fund that is self-sustaining. After vehicles or associated equipment assets are purchased, annual payments should be made into a vehicle replacement fund so that subsequent replacement of vehicles/equipment is financed from that fund. Expensive vehicles and equipment may be financed with short term debt if needed. Specialized equipment with an asset life of approximately 10 or more years may be purchased with bond funds of a term appropriate to the specific item. Less expensive equipment should be financed from current revenue to the maximum extent possible.

PRO FORMA AND FORECAST DOCUMENTS

Five year pro forma documents should be prepared annually for each Fund. Pro formas should include projections of commodity use/volumes, revenues, expenses, rate changes, and reserve balances. Pro formas serve as a five year financial planning summary document. Pro formas also identify and highlight future financial issues that must be addressed through revenue increases, cost reductions, changes in capital financing options, or rate changes.

Each Fund should also prepare an annual forecast document, covering a period not less than 20 years, that projects customer growth, production/treatment volumes, customer billings, billed usage/volumes, and other data that supports the development of budget and capital plans and similar planning documents.

CONCLUSIONS

The financial strategies outlined in this document are intended to guide policy and management decisions. In doing so, the strategies will help Denton continue to provide reliable service at competitive rates, while accommodating financial variability, population growth, and infrastructure needs. The strategies will also ensure a balanced, sustainable and resilient budget. The financial strategies document will be reviewed each year with the Public Utility Board prior to the beginning of the budget cycle.

ADDENDUM – PERFORMANCE METRICS

This section presents performance metrics that may be used for benchmarking Utility performance over time, or that may be used to compare against other utilities. For some Water and Wastewater metrics, the American Water Works Association "AWWA" Benchmarking Survey provides a comprehensive, defensible means of benchmarking for on a regional and national basis. The Fitch Ratings U.S. Water and Sewer Revenue Bond Rating Criteria, September 3, 2015also provides some qualitative metric attributes that may be useful for Water and Wastewater. Similar benchmarking surveys are available for Denton Municipal Electric through the American Public Power Annual Directory and Statistical Report. Additional sources may be identified through future research efforts.

When considering these performance metrics, it is important to note that each Utility is unique, and comparisons need to be considered with each utility's specific characteristics in mind. However, comparisons among utilities are becoming increasingly sophisticated, and measures of utility performance from studies by utility-specific professional organizations and via programs used by financial rating agencies are generally becoming more comparable over time.

The metrics included below are designed to assess and track the financial performance of the respective utilities. However, it is important to note that some performance metrics related to personnel and operational issues are also included. While these metrics may not be directly related to financial performance, the issues conveyed by the metrics have the ability impact budgets and therefore may ultimately influence financial performance.

For this budget cycle, the concept of Performance Metrics is being proposed and discussed with the PUB, and is therefore currently considered an addendum to the Financial Strategies document. However, if the approach is deemed beneficial, staff proposes to make the Performance Metrics section a permanent part of the Financial Strategies document at some point in the future. The current list of performance metrics should be evaluated on a routine basis, and additional metrics should be added as needed. Performance metrics are intended to be reviewed as a part of the budget presentations provided to the Public Utility Board, particularly with regards to evaluating trends over time. By reviewing performance metrics on a regular basis, tracking trends, and assessing metrics against benchmarks, Denton Utilities will be able to make more informed management decisions. The following table summarizes the proposed performance metrics.

Table 1. Performance metrics and benchmark sources.

Performance Metric	**Utilities**	**Benchmark**
Cash Reserves	W,WW,DME, SW	• Year over year • AWWA[1], Fitch[3] (W/WW)
Current Ratio	SW	• Year over year
Customer accounts per employee	W,WW, DME, SW	• Year over year • AWWA[1], • APPA[2] (DME)
Debt Ratio	W, WW, DME	• Year over year • AWWA[1] (W/WW) • APPA[2] (DME)
Debt Service Coverage Ratio	W,WW, SW	• Year over year • AWWA[1], Fitch[3] (W/WW)
Employee Turnover	W,WW,DME, SW	• Year over year • AWWA[1] (all)
O&M cost per account	W,WW, DME, SW	• Year over year • AWWA[1], (W/WW) • APPA[2] (DME
O&M cost per mile of pipe (W,WW) or transmission distribution lines (DME)	W,WW, DME	• Year over year • AWWA[1], • APPA[2] (DME)
Retirement eligibility	W,WW,DME, SW	• Year over year • AWWA[1] (all)
Top 10 customers as a % of operating revenue	W,WW,DME, SW	• Year over year • Fitch[3]

(W = Water; WW = Wastewater; DME = Denton Municipal Electric; SW = Solid Waste)

1 American Water Works Association "Benchmarking Performance Indicators for Water and Wastewater Utilities Survey and Analyses Report, 2014".

2 American Public Power Annual Directory and Statistical Report

3 Fitch Ratings U.S. Water and Sewer Revenue Bond Rating Criteria, July 31, 2013.

Cash Reserves (days): Calculated as the amount of undesignated cash reserves ÷ total expenditures. This metric measures the Fund's available liquid resources to meet near term liabilities and the utility's resiliency to unforeseen hardships or difficult operating conditions.

Current ratio: Calculated as current assets ÷ current liabilities. This metric summarizes liquidity and the ability to pay short-term liabilities (debt and payables) with short-term assets (cash, inventory, receivables).

Customer accounts per employee: Calculated as the number of active accounts ÷ the total number of Full Time Employees (FTEs). The total number of FTEs does not include Customer Service, Utility Administration, or Drainage.

Debt Ratio: Calculated as total liabilities ÷ total assets. This metric quantifies a utility's level of indebtedness by providing a measure of the extent to which assets are finances through borrowing.

Debt Service Coverage Ratio: calculated as the previous fiscal years net operating revenues ÷ upcoming fiscal year debt service obligations (principal and interest) to give the current fiscal year's Debt Service Coverage Ratio. This metric summarizes the amount of cash flow available to meet interest, principal, and sinking fund payments.

Employee Turnover. Calculated as the number of employees leaving the organization during the prior fiscal year ÷ total number of FTEs. The total number of employees excludes Customer Service and Utility Administration, or Drainage.

O&M cost per account. Calculated as total operation and maintenance costs ÷ total number of accounts. Higher ratios may indicate inefficiency or may be the result of aging infrastructure. Depreciation is not included in the total operation and maintenance costs.

O&M cost per mile of pipe (W,WW) or transmission distribution lines (DME) . Calculated as the total operations and maintenance costs ÷ the total miles of distribution system piping (W), collector piping (WW), or transmission and distribution lines (DME). Higher ratios may indicate inefficiency or may be the result of aging infrastructure. Depreciation is not included in the total operation and maintenance costs.

Retirement eligibility. Calculated as the number of employees eligible for retirement in the next 5 years ÷ total number of FTEs. The total number of employees excludes Customer Service, Utility Administration, and Drainage.

Top 10 customers as a percent of operating revenue. Calculated as the annual revenue from the top ten customers of each utility ÷ total annual revenue. This metric reflects volatility risks from customer concentration.

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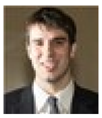
From The Editor | July 1, 2016

How To Evolve With Rising Water Prices



By Peter Chawaga, Associate Editor, Water Online

With each new regulation that is passed and source of funding that's stretched, water utilities are being asked to do more with less. While consumers demand plentiful, convenient, and remarkably clean water in their homes, they bristle at the idea of increased costs for the service. Unfortunately, continued increases in water pricing are all but inevitable.

In its annual survey of 30 major U.S. cities, Circle of Blue, a collective of journalists and scientists reporting on the condition of the world's natural resources, found that the price of water rose 5 percent last year and that the average price of water has risen 48 percent since 2010.

The survey was conducted by Brett Walton, a Circle of Blue reporter who asked utilities in each city for usage data and calculated the monthly cost of water in each city for three levels of consumption: 6,000 gallons per month, 12,000 gallons per month, and 18,000 gallons per month.

A combination of trends is converging at this moment to drive water prices up, Walton said, none of which promise to recede in the near future.

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“There are a number of factors contributing to the rising cost of water,” said Walton. “The need to repair old pipes, the need to address regulatory requirements, and, in some cases, the need to expand systems to accommodate growing populations or to build new facilities.”

These changes are being called for at a time when climate change has affected the abundance of water and technologies are requiring less of it to do more. To keep up, utilities have been forced to adapt.

Circle of Blue’s survey found that many are restructuring rates as a response. For instance, the municipality for Fort Worth, TX, altered its block rate system to cover the first 600 cubic feet of consumed water in its lowest price tier, down from 800 cubic feet. This was done to adapt to better conservation by consumers, according to Circle of Blue.

“Utilities are expanding the range of services they offer and they are becoming more efficient,” said Walton. “Some, like DC Water, are pulling nutrients out of the wastewater and selling them as fertilizer. Others, like Portland, OR, are generating hydropower from flowing water by installing small turbines in city pipes. An ongoing challenge is responding to declining water sales as residents use less water and to shifts in the weather, both of which cut revenue. One way to do this is to reexamine the water rate structure and gain more revenue from fixed charges that do not fluctuate with water use.”

Of course, restructuring rates to ensure enough revenue is coming in may not sit well with the public. While ratepayers are being asked to conserve water, it needs to be made clear to them that this cannot lead to cuts in funding for water services.

Walton points to a national Value of Water Coalition survey in which 71 percent of respondents acknowledged the importance of modernizing water infrastructure and a majority indicated a willingness to pay more for water after learning about the system’s needs.

“One of the things we have to do is educate people about the challenges that their water systems are dealing with right now,” said Abigail Gardner, communications director for the Value of Water Coalition. “Many utilities need to raise rates because these challenges come with price tags… Definitely the majority of Americans are open to the idea that these challenges require higher rates from what we could tell from our survey.”

Many of the utilities grappling with rate increases have reached out to their communities to positive effect.

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“A little education goes a long way,” Walton said. “Water utilities have been more active in public education because of this, sending out mascots to public events and operating Twitter and Facebook accounts. There will always be angry people at city council or board meetings when a rate increase is announced, but most people will understand if the needs are explained and the money is not wasted.”

With rates set to keep rising, interaction with the public will have to follow suit.

Image credit: "Wet Change," Jared Kruger © 2006, used under an Attribution 2.0 Generic license: https://creativecommons.org/licenses/by/2.0/

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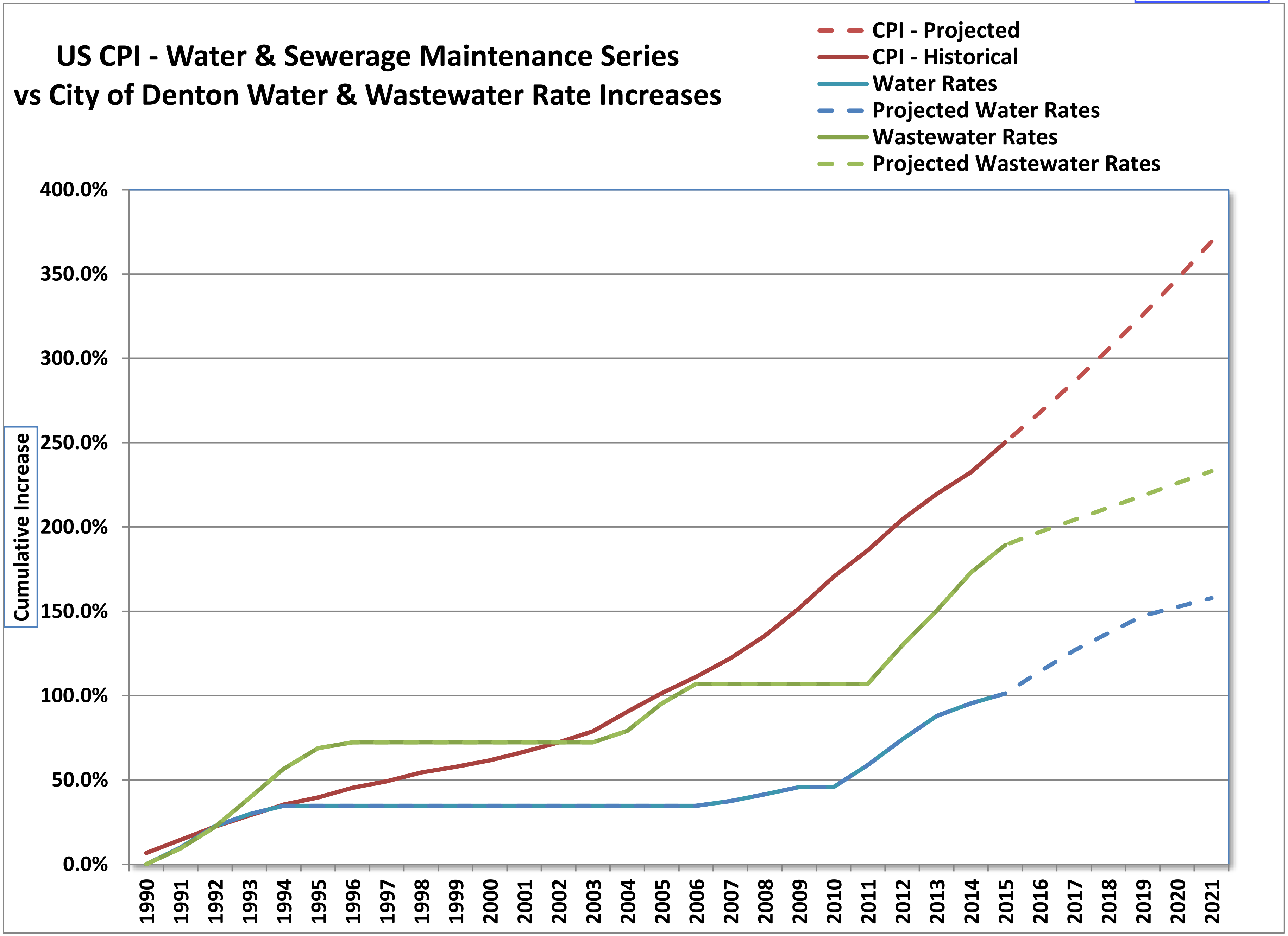

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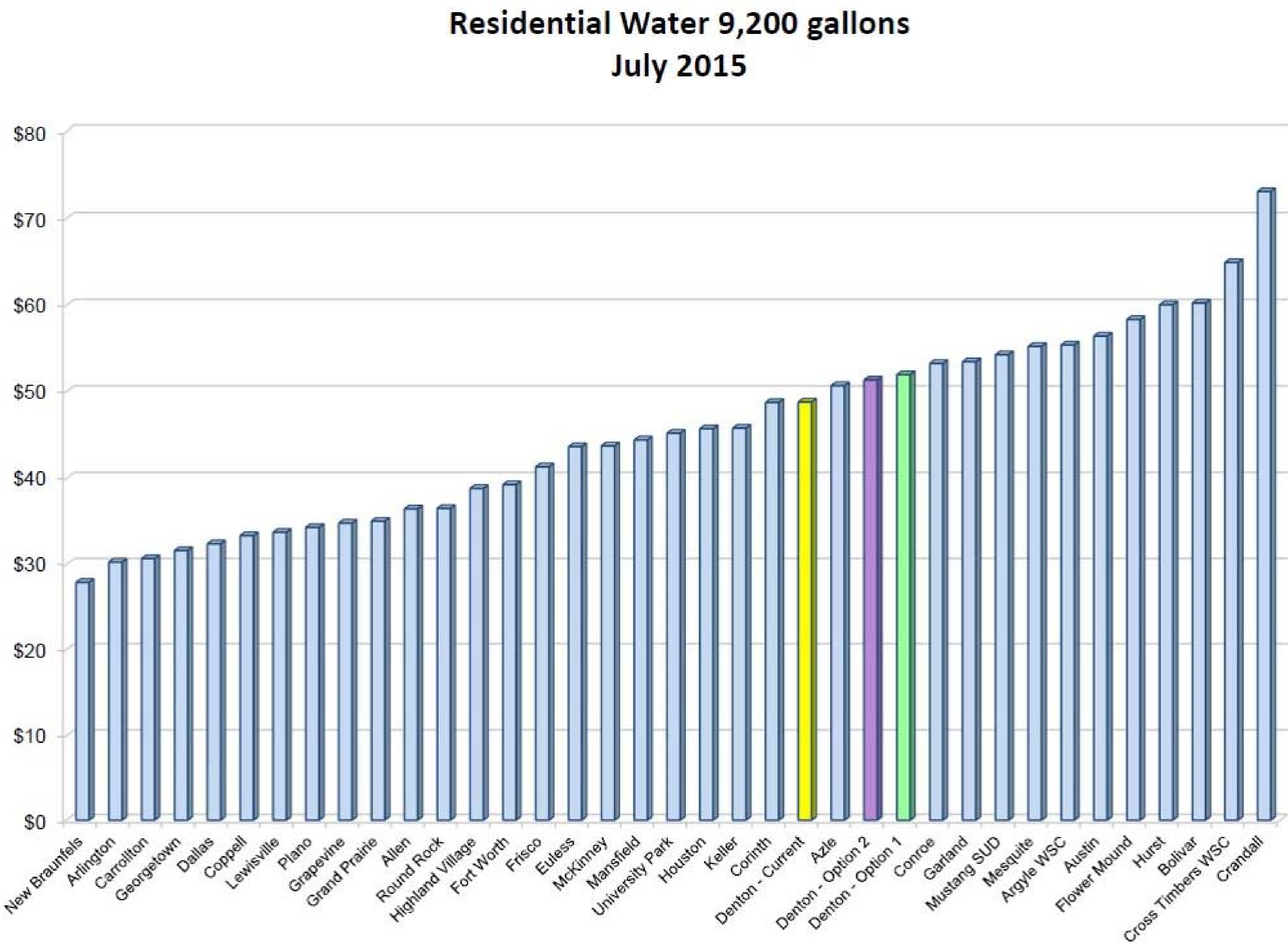

*Option 1 (Modified Cost of Service) – Adopted Rate for FY 2015 - 2016

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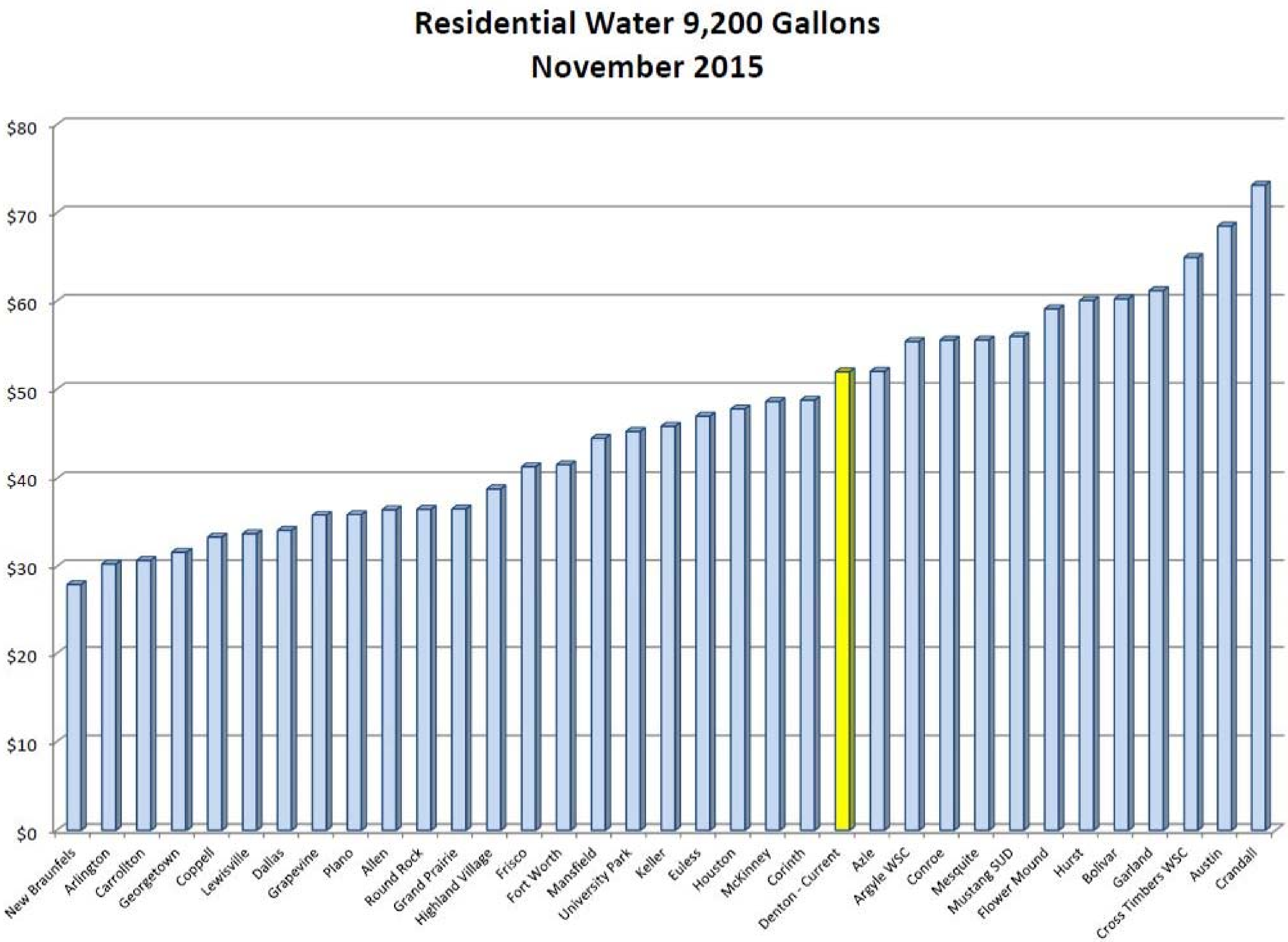

Exhibit 8-6. FY 2016-2020 and FY 2017-2021 CIP series

Table 1. FY 2016 – 2020 CIP Series

FY 2016 - 2020 CIP Water Revenue Funded Replacement 5 Year Total				Revenue Funded Goal
	Revenue	Bond	Funding	
Plant	25.8%	74.2%	$ 23,590,000	25%
Distribution	37.1%	62.9%	$ 42,043,146	100%
Transmission	65.2%	34.8%	$ 11,500,000	100%

Table 2. FY 2017-2021 CIP series, including bond covenant obligated cash from revenue bond refunding.

FY 2017 - 2021 CIP Water Revenue Funded Replacement 5 Year Total				Revenue Funded Goal
	Revenue	Bond	Funding	
Plant	23.5%	76.5%	$ 22,890,000	25%
Distribution	77.6%	22.4%	$ 28,440,413	100%
Transmission	92.7%	7.3%	$ 21,850,000	100%