— City of San Antonio, Texas —

FIVE YEAR *financial* FORECAST

FY 2016 - FY 2020

A current and long-range assessment of financial conditions and costs for City Services

CITY OF SAN ANTONIO

Five Year Financial Forecast

Fiscal Year 2016-2020

PREPARED BY:

OFFICE OF MANAGEMENT AND BUDGET

MAY 13, 2015

CITY OF SAN ANTONIO

FIVE YEAR FINANCIAL FORECAST

FY 2016 – FY 2020

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OVERVIEW AND SUMMARY

The Financial Forecast provides a current and long-range financial assessment addressing revenues, City services and programs, and financial reserve policies. The primary objective of the Forecast is to provide the City Council and the community with an early financial assessment and identify significant issues that need to be addressed in the budget development process.

The forecast information presented in this document combines projected resources, current service expenditures, and mandated expenditures to illustrate the financial impact to the General Fund, Development Services Fund, Hotel Occupancy Tax (HOT) Funds, and the Solid Waste Operating Fund. Recent revenue trends and economic assumptions (many of which can be found in the Economic Outlook section of this document) are used to develop these figures. Service expenditures required to sustain the current (FY 2015) level of services are used throughout the forecast period based in part on the rate of inflation. The net result of this combined data highlights the adjustments needed over the forecast period to maintain a balanced budget as required by State law. Many of the assumptions, projections, and cost estimates within this document are based on early and preliminary information that will be refined and adjusted as the FY 2016 Proposed Operating Budget is developed and presented to City Council on August 6, 2015.

GENERAL FUND

During the forecast period, total General Fund revenue is expected to grow annually at rates ranging from 2.8% to 4.1%. The FY 2015 Revenue Estimate is approximately $19.9 million higher than the FY 2015 Adopted Budget, or an overall increase of 1.9%. This increase over the budget is primarily due to CPS revenues which are projected $13.4 million, or 4.2%, more than budgeted. The rate of revenue growth projected in FY 2016 over the FY 2015 Estimate is approximately 3.7%. Revenue growth beyond FY 2016 is forecasted at rates of 4.1% in FY 2017, 4.0% in FY 2018, 2.8% in FY 2019, and 2.8% in FY 2020.

The growth in expenditures over the forecast period is primarily due to increases in health care costs, contractual and inflationary increases and mandated operational costs associated with 2012 Bond Projects and other capital projects. The General Fund Schedule reflects the annual projected expenditures required to sustain the current Fiscal Year 2015 level of service.

In FY 2016, the forecasted General Fund ending balance reflects a manageable financial challenge of $0.7 million. Beyond FY 2015, the General fund is structurally balanced. These projections assume no new spending and inclusion of the City’s March 20, 2015 public safety collective bargaining proposal.

In the FY 2015 Adopted Budget, the City Council approved several financial policies. Consistent with these policies, the Five Year Financial Forecast maintains a General Fund Ending Balance at 15% of General Fund Revenues every year of the forecast.

FORECAST METHODOLOGIES AND ASSUMPTIONS

REVENUES

Departments responsible for administering the services and/or collecting the associated revenues work with the Office of Management & Budget to develop revenue projections based on an analysis of various factors. These include historical trends, current economic conditions, projected economic activity, and known future factors such as contracts and inter-local agreements. Revenue projections do not include fee or rate increases and are based on current service levels.

EXPENDITURES

Expenditures assumed in the Forecast are based on the current service level, or funding needed to provide today's level of recurring City services. Fiscal Year 2015 budget estimates are based on an analysis of current fiscal year expenditure trends by using six months of actual expenditures to project estimated expenditure levels at the end of FY 2014. The FY 2016 base projection modifies current service costs for price changes and assumes the removal of one-time improvements and adds second year costs for improvements included in the FY 2015 Adopted Budget. Inflation rates are also used to project certain non-personal services expenditures derived from the San Antonio Consumer Price Index (CPI) projections for each year from 2016 through 2020 (See Economic Outlook section for more detail on CPI projections used).

Expenditures in the Forecast include funding for current contract obligations, funding for the City's March 20, 2015 collective bargaining agreement proposal, continued maintenance of the civilian pay plan for step employees, performance-based pay for Civilian non-step employees, and operations and maintenance costs for the FY 2012 Bond Program projects, as well as other mandated expenditures. Mandated expenditures are described in more detail later in this document.

The city of San Antonio is financially strong and strives to provide high quality public services to the community while maintaining fiscal responsibility and affordability for taxpayers. As part of these efforts and per City Council policy direction, the forecast maintains budgeted financial reserves at 10% of General Fund revenues and increases the Two-Year Budget Plan reserve from 3% to 5% of General Fund revenue. This total reserve of 15% achieves a structurally balanced General Fund through the forecast period assuming no new spending and inclusion of the City's March 20, 2015 public safety collective bargaining proposal.

GENERAL FUND FORECAST

GENERAL FUND FORECAST

General Fund Forecast
($ in Millions)

	FY 2015 Budget	FY 2015 Estimate	FY 2016 Projection	FY 2017 Projection	FY 2018 Projection	FY 2019 Projection	FY 2020 Projection
RESOURCES							
Beginning Balance (Excluding Reserves)	$0.0	$0.0	$0.0	$0.0	$1.5	$8.3	$13.2
Use of Reserve for Two Year Balanced Budget Plan	63.2	76.0	60.7	54.7	56.8	59.1	60.7
CURRENT REVENUES							
Property Tax	$268.5	$268.5	$290.8	$309.7	$323.6	$333.3	$343.3
Sales Tax	253.4	262.8	274.6	287.0	299.9	310.4	319.7
CPS Energy	316.0	329.3	335.9	346.0	356.4	365.3	374.4
Other	194.1	191.3	190.0	193.0	201.2	205.5	211.1
TOTAL CURRENT REVENUES	$1,032.0	$1,051.9	$1,091.3	$1,135.7	$1,181.1	$1,214.5	$1,248.5
TOTAL RESOURCES	**$1,095.2**	**$1,127.9**	**$1,152.0**	**$1,190.3**	**$1,239.4**	**$1,281.9**	**$1,322.5**
TOTAL EXPENDITURES	**$1,048.4**	**$1,053.0**	**$1,092.0**	**$1,127.6**	**$1,167.5**	**$1,204.6**	**$1,238.3**
FINANCIAL RESERVES/TWO-YEAR BALANCED BUDGET							
Budgeted Financial Reserves for 10% (Incremental)	14.2	14.2	5.9	4.4	4.5	3.3	3.4
Reserve for Two-Year Balanced Budget Plan	32.6	60.7	54.7	56.8	59.1	60.7	62.4
ADJUSTED ENDING BALANCE/(ADJUSTMENT REQUIRED)	**$0.0**	**$0.0**	**($0.7)**	**$1.5**	**$8.3**	**$13.2**	**$18.4**
BUDGETED RESERVES SUMMARY							
Budgeted Financial Reserves	103.2	103.2	109.1	113.6	118.1	121.5	124.9
Reserve for 2-year Balance Budget	32.6	60.7	54.6	56.8	59.1	60.7	62.4
Total Financial Reserves as % of Revenues	**13.2%**	**15.6%**	**15.0%**	**15.0%**	**15.0%**	**15.0%**	**15.0%**

GENERAL FUND REVENUES

Total FY 2015 General Fund revenue is anticipated to be $19.9 million, or 1.9%, above the FY 2015 Adopted Budget. Over the forecast period, these revenues are expected to increase at an average annual rate of 3.5%, with annual rates of change ranging from 4.1% in FY 2017 down to 2.8% in both FY 2019 and FY 2020.

General Fund Forecast of Current Revenues
-$ in Millions-

Revenue	FY 2015 Budget	FY 2015 Estimate	FY 2016 Projection	FY 2017 Projection	FY 2018 Projection	FY 2019 Projection	FY 2020 Projection
Current Property Tax	$ 268.5	$ 268.5	$ 290.8	$ 309.7	$ 323.6	$ 333.3	$ 343.3
City Sales Tax	253.4	262.8	274.6	287.0	299.9	310.4	319.7
CPS - Recurring	316.0	329.3	335.9	346.0	356.4	365.3	374.4
Business and Franchise Taxes	31.1	31.3	30.7	31.5	32.7	33.5	34.4
Liquor by the Drink Tax	6.6	7.6	7.7	7.9	8.2	8.4	8.6
Delinquent and Penalties	4.8	4.8	4.8	5.0	5.2	5.3	5.4
Licenses and Permits	8.0	7.9	7.9	8.1	8.4	8.6	8.9
San Antonio Water System	13.4	13.5	13.9	14.3	14.8	15.2	15.6
Other Agencies	8.2	8.2	7.5	7.3	7.1	6.9	7.1
Charges for Current Services	63.6	59.3	59.4	61.0	63.3	64.7	66.5
Fines	13.4	12.4	12.5	12.8	13.3	13.6	14.0
Miscellaneous Revenue	10.3	11.3	11.2	12.9	14.7	16.1	16.5
Transfers from Other Funds	34.7	35.0	34.3	32.1	33.3	33.2	34.1
Total Revenue	**$ 1,032.0**	**$ 1,051.9**	**$ 1,091.3**	**$ 1,135.7**	**$ 1,181.1**	**$ 1,214.5**	**$ 1,248.5**

CITY PUBLIC SERVICE ENERGY (CPS ENERGY)

Projected Annual Rates of Change for CPS Recurring Revenues

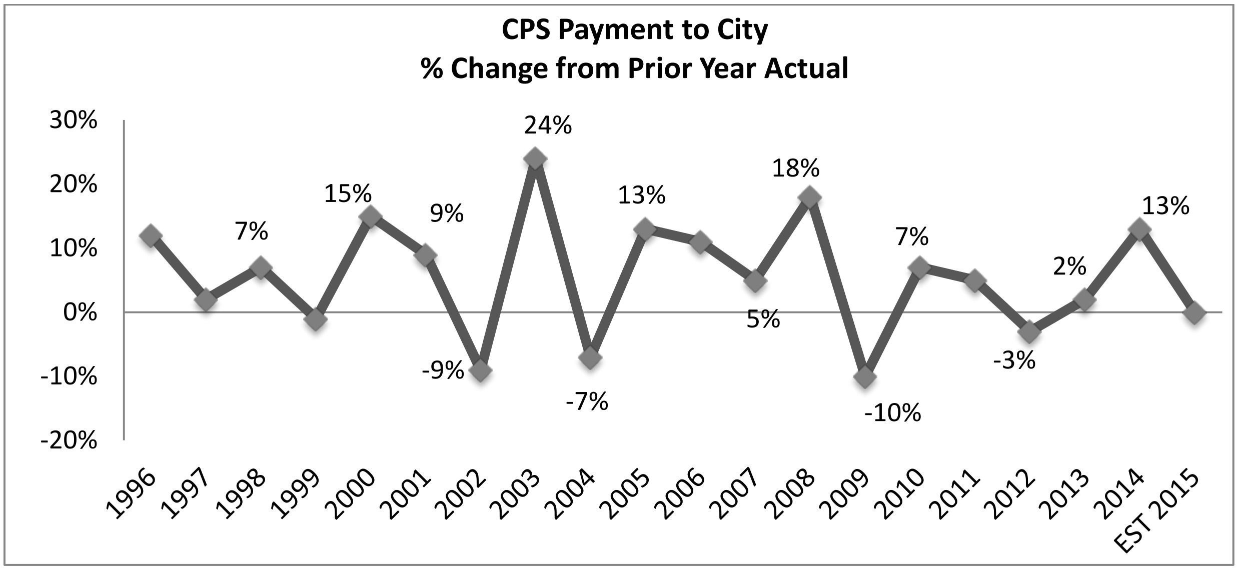
FY 2016[1]	FY 2017	FY 2018	FY 2019	FY 2020
2.0%	3.0%	3.0%	2.5%	2.5%

The City's payment from CPS Energy represents the largest source of revenue to the General Fund, accounting for 30.6% of the FY 2015 General Fund Adopted Budget. 14% of CPS Energy gas and electric gross revenue is paid to the City as a return on investment. The estimated revenue of $329.3 million for FY 2015 is $13.4 million higher than the $316.0 million budgeted in FY 2015 due to increases in off-system sales, electric sales, and fuel adjustment revenue. One-time CPS revenues are not projected in the forecast.

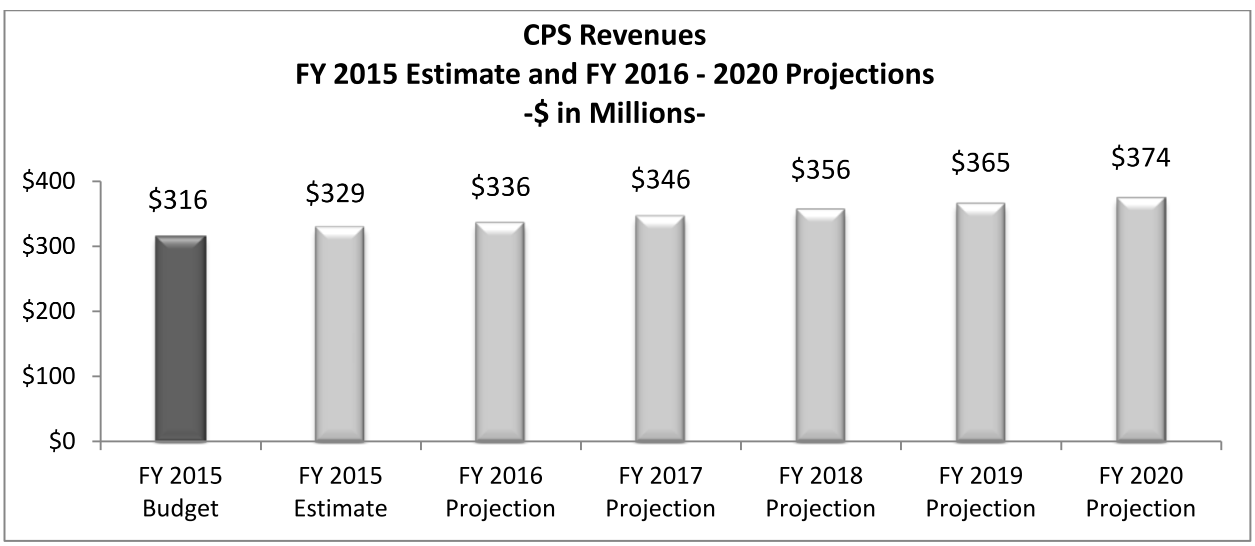
Accurately forecasting the CPS Energy payment revenue is challenged by a number of variables such as the weather, growth of the system, changes in per capita consumption, fuel prices, generation mix, and unscheduled maintenance on generation plants. Historically, instability in natural gas prices coupled with fluctuations in demand due to weather have resulted in significant variances in the City's payment from CPS Energy from year to year.

[1] CPS revenue is projected 2.0% above the FY 2015 Estimate and 6.3% above the FY 2015 Adopted Budget.

To further illustrate the fluctuations in demand, the graph below depicts the percent change in the City's annual payment from CPS Energy year-over-year.



In addition, natural gas cost and other fuel costs (i.e., solar, wind, coal, etc.) can result in significant fluctuations in the City's payment from CPS Energy. Consequently, the City's projections of the payment from CPS Energy remain conservative. The projections over the five-year period take into consideration factors such as a multi-year forecast outlook, managing the City's reliance on revenues from CPS Energy, and the current level of reserves within the City's General Fund.



The forecast for FY 2016 of $335.9 million is $20.0 million, or 6.3%, higher than the FY 2015 Adopted Budget and is $6.6 million, or 2.0%, higher than the FY 2015 Estimate.

The forecasted amounts for FY 2017 through FY 2020 are based on the FY 2016 Projection adjusted by an average growth rate of 2.8% for FY 2017 through FY 2020.

CURRENT PROPERTY TAX REVENUE – MAINTENANCE & OPERATIONS

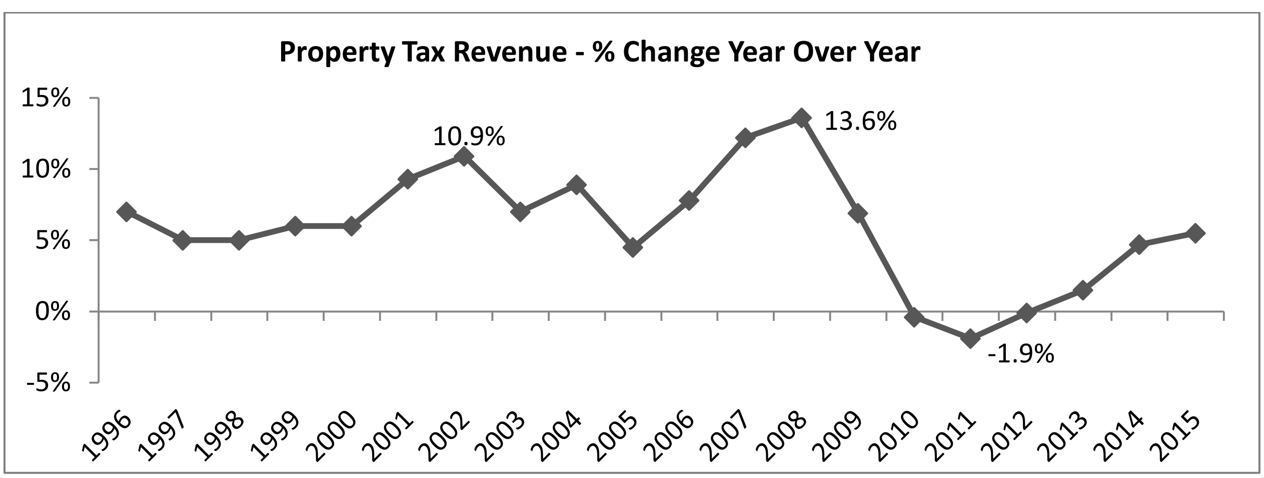
Projected Annual Rates of Change

FY 2016[2]	FY 2017	FY 2018	FY 2019	FY 2020
8.3%	6.5%	4.5%	3.0%	3.0%

Property tax revenue accounts for 26.0% of the total FY 2015 General Fund Budget. This revenue category is comprised of current property tax revenues only. Additional property tax revenues collected by the City that are accounted for in the Other Resources category include delinquent property tax and revenues from penalties and interest on delinquent property tax. Property tax revenue is generated from the City's ad valorem tax rate levied against taxable values as determined by the Bexar Appraisal District and in conformance with State law. The FY 2016 projected property taxable value is based on preliminary data from the Bexar Appraisal District. The final Certified Property Tax Roll will be available by the end of July 2015.

The City of San Antonio has long recognized the need to provide senior citizens and disabled veterans with property tax relief. The property tax revenue projections used in the budget and over the forecast period are derived from the City's total assessed value less exemptions such as the Over-65 and Disabled Residence Homestead and Disabled Veterans exemptions. City property taxes for the elderly and disabled are frozen and may not increase as long as the residence is maintained as a homestead by the owner. Additional tax relief provided by the City includes Tax Abatement/Phase-Ins exemptions, Freeport exemptions, Historic Property exemptions, and the 10% limitation on Residence Homestead Taxable Valuation.

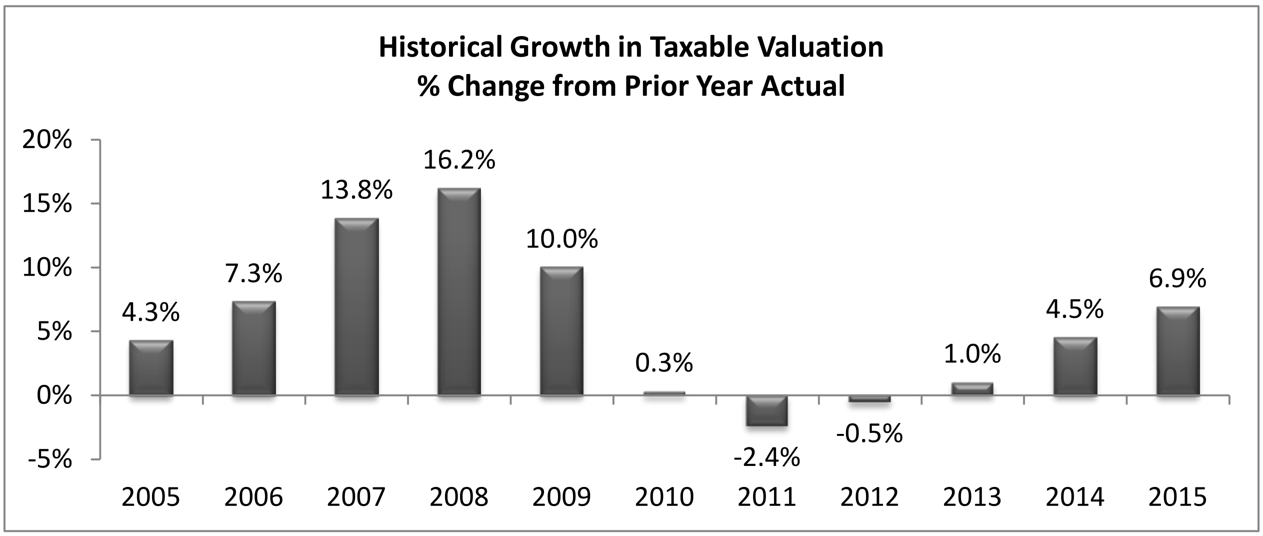
The revenue estimated to be generated in FY 2015 includes the current property tax rate of 56.569 cents per $100 of taxable valuation. The General Fund maintenance and operation portion is 35.419 cents with the remaining 21.150 cents used to support the City's debt service requirements. The revenue projected to be generated through the forecast period assumes no change in the City's Property Tax Rate. The City has not increased the property tax rate for twenty-two years and has decreased it six times over that same period.



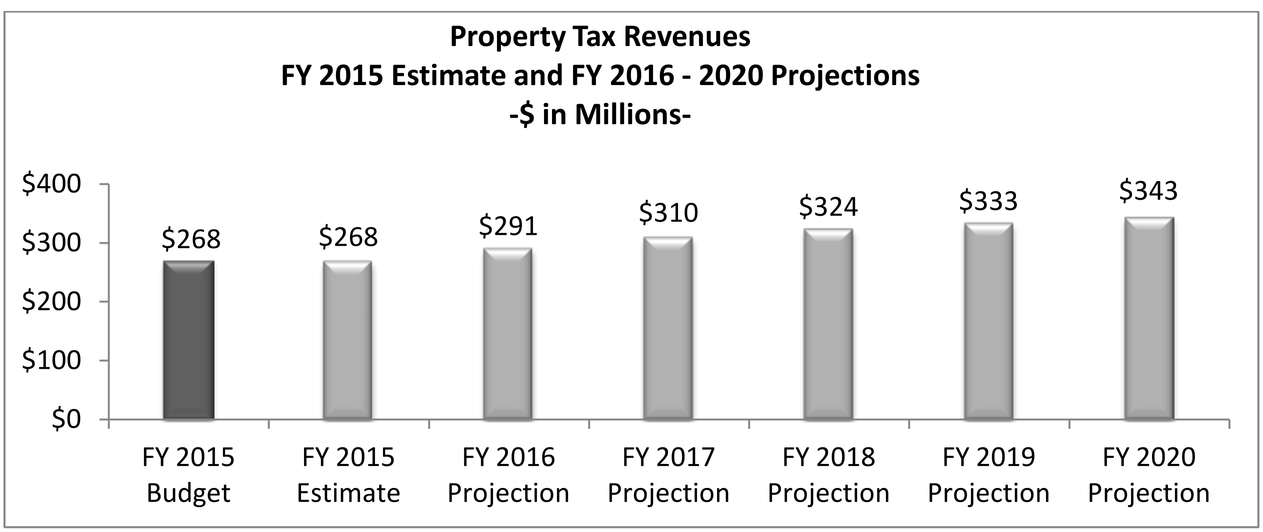
[2] Property Tax revenue is projected 8.3% above the FY 2015 Estimate and 8.3% above the FY 2015 Adopted Budget.

Taxable valuations are estimated to increase by 9.5% in FY 2016 as compared to the FY 2015 Adopted Budget. Thereafter, taxable valuations are projected to increase by 6.5% in FY 2017, 4.5% in FY 2018, and 3.0% in both FY 2019 and FY 2020. These estimates are a result of projections of base value change and new property improvements.

Assessed Valuation Category	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Base	6.45%	4.00%	1.50%	1.50%	1.50%
New Improvements	3.05%	2.50%	3.00%	1.50%	1.50%
Total % Change - Taxable Value	9.50%	6.50%	4.50%	3.00%	3.00%



The projections in assessed valuations result in City property tax revenue projections throughout the forecast period and are represented in the following graph.

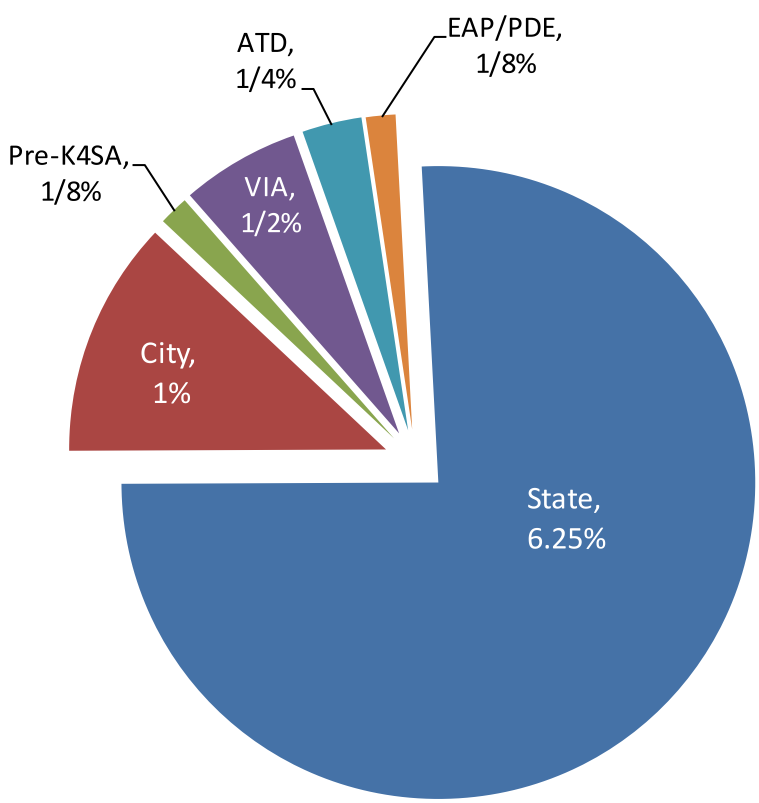


CITY SALES TAX REVENUE

Projected Annual Rates of Change

FY 2016[3]	FY 2017	FY 2018	FY 2019	FY 2020
4.5%	4.5%	4.5%	3.5%	3.0%

Sales tax revenue collected to support maintenance and operations of services in the General Fund accounts for 24.6% of the FY 2015 General Fund Budget. San Antonio's current sales tax rate is 8.25%. Several entities receive percentages of all sales tax proceeds as summarized in the chart below.

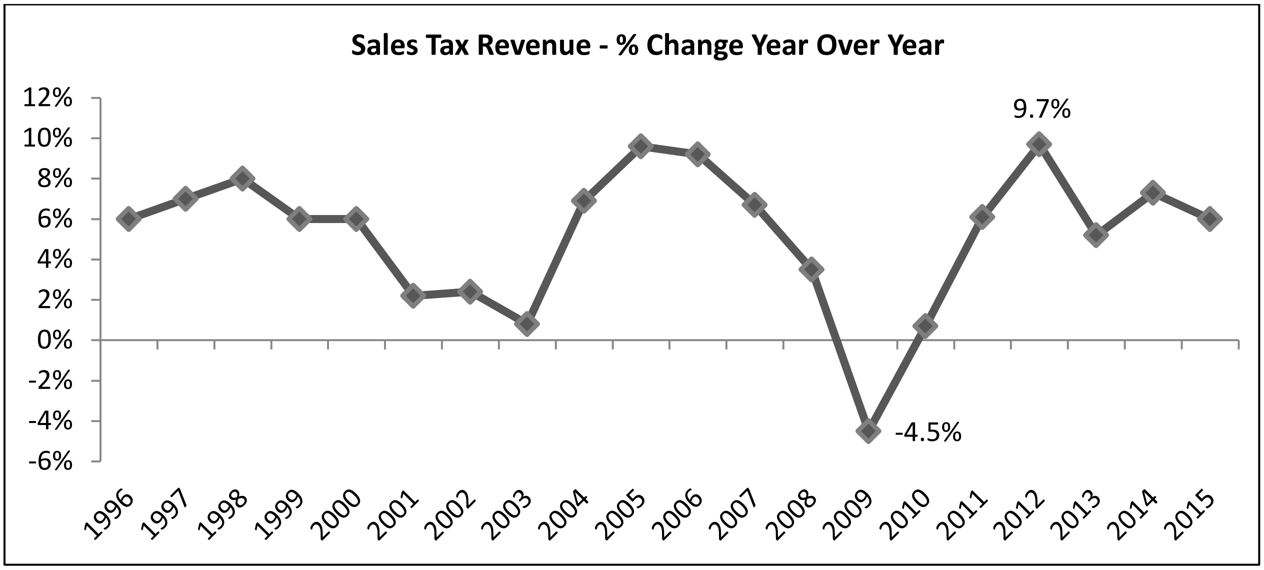


ATD: Advanced Transportation District
EAP: Edward Aquifer Protection
PDE: Parks Development & Expansion

Actual sales tax collections for the current year are projected to be $262.8 million. This amount is $9.4 million, or 3.7%, more than the $253.4 million budgeted in FY 2015 for sales tax revenue. General Fund sales tax revenue in FY 2016 is projected to increase by 8.4% over the FY 2015 Adopted Budget and 4.5% over the FY 2015 Estimate. Beyond FY 2016, revenue levels from this source are expected to grow at an average rate of 3.9%. Future years' projections are based on historical trends, retails sales, and projected employment and population growth. These

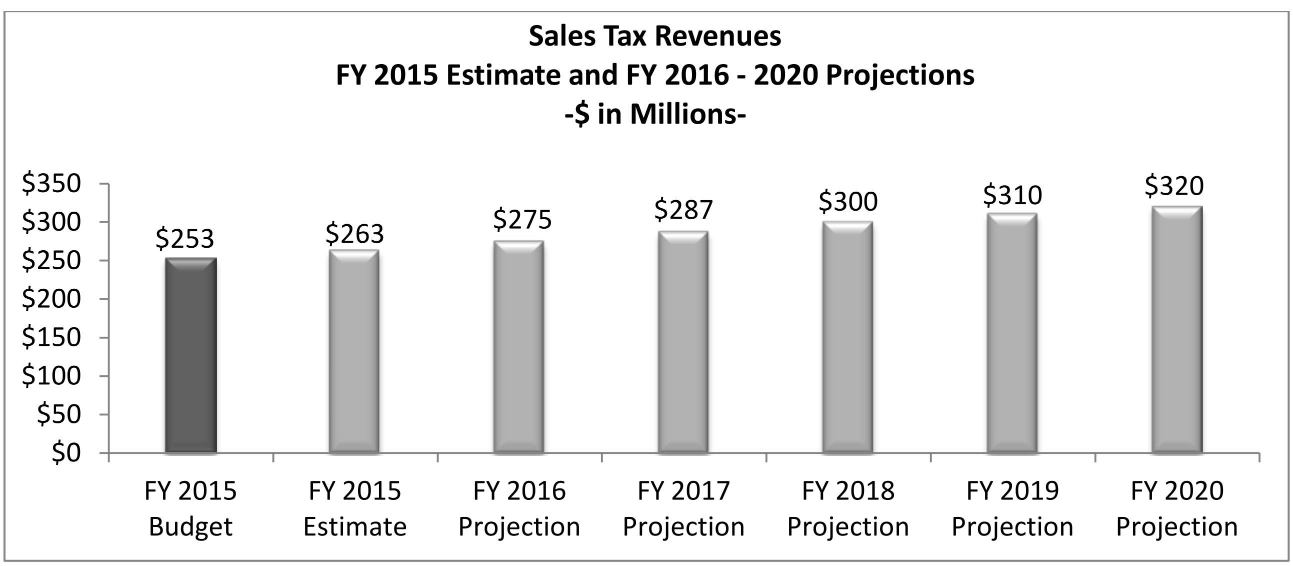
[3] Sales Tax revenue is projected 4.5% above the FY 2015 Estimate and 8.4% above the FY 2015 Adopted Budget.

estimates and the projections for the forecast period exclude the sales tax collected by the City for the Edwards Aquifer Protection and Parks Development & Expansion venues and the City's Advanced Transportation District.



Sales tax collections have a strong correlation to national and local economic conditions. As described in the Economic Perspective & Outlook Section, both the local and national economies have begun to show signs of growth. Local economic measures, such as the unemployment rate and employment growth rate, have been stronger than national rates in recent years, and the local employment growth rate is projected to perform slightly better than the national trend for each year of the forecast period.

The projections in sales tax throughout the forecast period are shown in the following graph.



CHARGES FOR CURRENT SERVICE

Projected Annual Rates of Change

FY 2016[4]	FY 2017	FY 2018	FY 2019	FY 2020
0.1%	2.8%	3.8%	2.3%	2.7%

This comprehensive category includes revenues related to recreation and culture such as the River Barge and Tower of America revenue contracts, Market Square lease revenues, and library fines and fees; various general government service charges such as Municipal Court administrative fees associated with criminal cases tried in Municipal Court; Public Safety related revenues such as those generated by EMS Ambulance Service fees and alarm permit fees; and Health revenues generated by birth and death certificates. Actual revenues for the current year are projected to be $4.3 million, or 6.8%, under budget primarily due to lower than anticipated revenues from the Ambulance Supplemental Payment Program. Projected increases over the forecast period are based on estimated demands or known changes in revenue contracts.

BUSINESS AND FRANCHISE TAXES

Projected Annual Rates of Change

FY 2016[5]	FY 2017	FY 2018	FY 2019	FY 2020
-1.9%	2.8%	3.8%	2.3%	2.7%

The Business and Franchise Tax revenue category is primarily comprised of telecommunication providers' rights-of-way access line fees and cable television franchise fees. Compensation from telecommunication providers is governed by state law and is comprised of a monthly fee paid to the City on a quarterly basis for each business line ($4.20) and each residential line ($1.26). These fees change every July 1 and the adjustment is based on ½ of the current CPI. The new fees on July 1, 2015 will be $4.24 for business lines and $1.28 for residential lines. The forecast for FY 2016 of $30.7 million is $608,000 lower than the FY 2015 Estimate. The forecasted amounts for FY 2017 through FY 2020 grow at an average of 2.9% annually.

Revenue derived from Certified Telecommunications Providers (CTPs) has been declining based on a decrease in actual line counts as reported by CTPs on a quarterly basis to the Public Utility Commission of Texas. Other Cities throughout Texas, both large and small, are experiencing similar CTP revenue declines. The CTP forecast for FY 2016 is $14.0 million, which represents a $300,000 decrease from the FY 2015 Estimate of $14.3 million.

[4] Charges for Current Service are projected 0.1% above the FY 2015 Estimate but 6.6% lower than the FY 2015 Adopted Budget.

[5] Business and Franchise Tax revenues are projected 1.9% lower than the FY 2015 Estimate and 1.2% lower than the FY 2015 Adopted Budget.

SAN ANTONIO WATER SYSTEM (SAWS) PAYMENT

Projected Annual Rates of Change

FY 2016 [6]	FY 2017	FY 2018	FY 2019	FY 2020
2.7%	2.8%	3.8%	2.3%	2.7%

The SAWS revenue payment to the City is based on 2.7% of SAWS' total projected revenue for each year of the forecast period. This payment agreement was initiated in April 1992 when certain City of San Antonio water and waste water systems were consolidated into the San Antonio Water System. The projected revenue for FY 2016 from SAWS is $13.9 million. This is an increase of $0.5 million, or 3.9%, from the FY 2015 Adopted Budget of $13.4 million and $0.4 million, or 2.7%, from the FY 2015 Estimate of $13.5 million. Projections for the forecast period are based on the current rate structure as approved by the City Council and the historical revenue experience of SAWS for each of its core businesses.

OTHER RESOURCES

Projected Annual Rates of Change

FY 2016 [7]	FY 2017	FY 2018	FY 2019	FY 2020
-1.3%	0.2%	4.8%	2.0%	2.7%

Other revenues received by the General Fund include delinquent property tax, penalties and interest on delinquent tax, licenses and permits, fines, liquor by the drink, interest earnings, transfers from other funds, and other miscellaneous revenue. Other resources for the current year are projected to be approximately $87.2 million compared to the FY 2015 Adopted Budget of $86.2 million. This $1.0 million increase is largely attributable to an increase in liquor by the drink revenue.

For FY 2016, total other General Fund revenue is expected to be $86.0 million, which is 0.2% lower than the FY 2015 Adopted Budget and 1.3% lower than the FY 2015 Estimate. Included in the projections for FY 2016 through FY 2019 is the decrease of revenues received from Bexar County in exchange for providing county residents access to the City's libraries. During this time period, revenues associated with providing library access are reduced by $300,000 each year. Beyond FY 2016, other resources are projected to increase by an average of 2.4%.

[6] SAWS revenues are projected 2.7% above the FY 2015 Estimate and 3.9% above the FY 2015 Adopted Budget.
[7] Other resources are projected 1.3% lower than the FY 2015 Estimate and 0.2% lower than the FY 2015 Adopted Budget.

MANDATED EXPENDITURES AND COMMITMENTS

Mandates are defined as programs which the City is required to support as stipulated by Federal, State, or Local Law, contractual obligation, or in order to support operations and maintenance costs for completed capital improvement projects.

The following table projects the cost requirements of mandated expenditures and commitments over the FY 2016 to FY 2020 forecast period and the impact to the General Fund. All expenditures shown are incremental.

Mandate Title	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
CAPITAL IMPROVEMENTS OPERATING & MAINTENANCE					
Parks Linear Greenway Program	$ 728,287	$ 260,756	$ 520,756	$ 22,796	0
Parks Acquisition / Development	1,011,734	75,598	0	0	0
2012 Bond Program Projects	982,009	1,285,932	186,623	0	0
Subtotal	**$ 2,722,030**	**$ 1,622,286**	**$ 707,379**	**$ 22,796**	**0**
OTHER MANDATES					
Other Mandates	1,451,252	291,263	144,458	144,103	176,628
Subtotal	**$ 1,451,252**	**$ 291,263**	**$ 144,458**	**$ 144,103**	**$ 176,628**
Total Mandated Costs	**$ 4,173,282**	**$ 1,913,549**	**$ 851,837**	**$ 166,899**	**$ 176,628**

PARKS LINEAR GREENWAY PROGRAM

This mandate provides for the maintenance and security of new creek way and multi-use trails acquired through the Sales Tax Venues. During the forecast period (FY 2016 to FY 2020), the City anticipates development of 23.4 miles of additional greenway trails and acquisition of approximately 430 additional acres at various locations throughout the City.

PARKS ACQUISITION AND DEVELOPMENT

This mandate provides for maintenance and security of new facilities and park components. During the forecast period (FY 2015 to FY 2019) the City anticipates acquiring about 24 additional components in approximately 6 parks, with approximately 23.3 new park acres to maintain. Park components include fitness stations, picnic units, playground, dog park and basketball court.

2012 BOND PROGRAM PROJECTS OPERATIONS & MAINTENANCE

This mandate provides for operations and maintenance for new branch libraries, one in District 2 and the other in District 6. The District 2 Library is a 12,000 square foot branch library located on a 5.7 acre site on Hwy 87 East near Fosters Meadow Road; construction is estimated to be completed in August of 2016. The new District 6 Library will make up 5,000 square foot portion of a 40,000 square foot YMCA recreation facility located off Hwy 151, which is scheduled to open in May of 2016.

CONTRACT REQUIREMENT – UT HEALTH SCIENCE CENTER

The San Antonio Fire Department maintains an inter-local agreement with the University of Texas Health Science Center at San Antonio for medical direction and training. The next agreement which will begin October 2015 will have increased costs associated with medical supplies, training and the addition of an infectious control nurse to assist with vaccinations.

OTHER MANDATES

These mandates provide for increases to lease agreements, inter-local agreements, and management agreements.

POLICY ISSUE TO BE CONSIDERED DURING FY 2016 BUDGET

The City continues to pursue and promote orderly and sustainable growth through the implementation of the annexation process. Annexation is the legal process that adds land to the corporate limits of a city. Annexation allows formerly unincorporated properties to receive municipal services such as police protection, fire protection, and garbage collection. Controlled annexation can yield a more logical land development pattern responding to population growth and economic development opportunities, while minimizing urban sprawl and ensuring effective delivery of services.

In 2012, the City updated the Annexation Policy to in order to provide guidance and rationale for consideration of areas for annexation within the City's extraterritorial jurisdiction (ETJ). The intent of the Annexation Policy is to implement the Comprehensive Plan by providing City Council with specific, objective, and prescriptive guidance for making decisions about annexation and other issues within the ETJ.

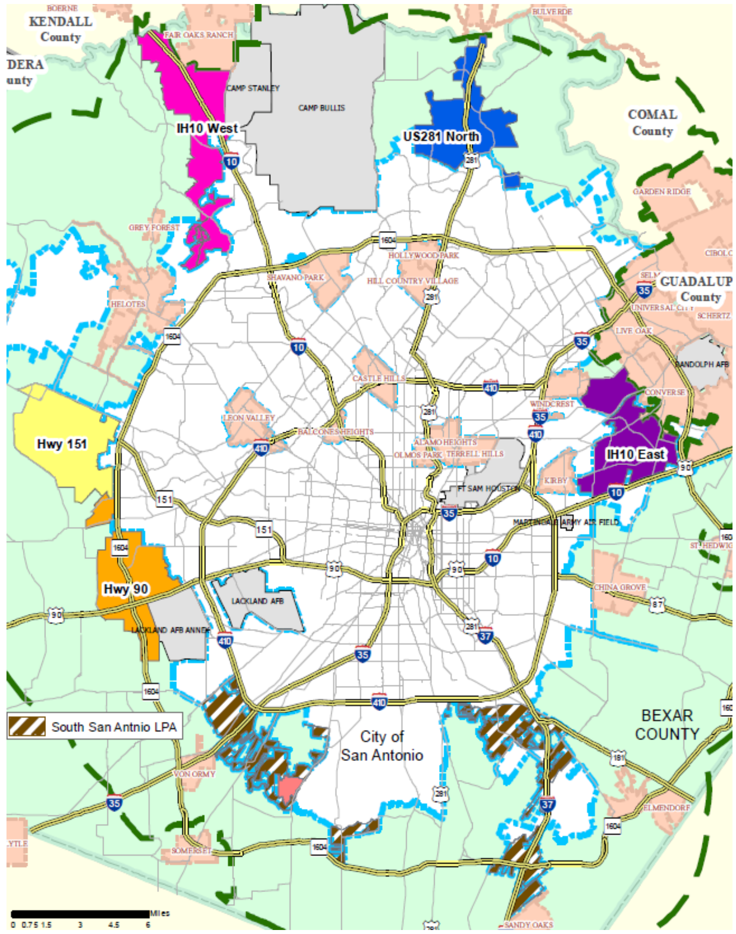
During the five-year forecast period, the City has identified six major areas for annexation that would have a financial impact on the City. For these areas, there are two major types of annexation. Under limited purpose annexation, San Antonio enforces planning and zoning ordinances, and selected city codes. The property owners do not pay City property taxes, and the City does not provide police or fire protection, roadway maintenance, or other services.

Within three years of the limited purpose annexation, the City is required to complete certain actions that lead up to annexation for full purposes. When the area is annexed for full purposes, municipal services are provided to residents.

Of the six identified areas only the area of South San Antonio has entered limited purpose annexation. The annexation area of South San Antonio is highlighted with diagonal lines at the bottom of the map on the right. The City annexed these areas for limited purposes in January 2014 and may choose to enter into full-purpose annexation before January 2017.

Costs associated with full-purpose annexation will be considered during the FY 2016 budget development process.

Additionally, there are five other areas identified for limited and full-purpose annexation over the forecast period. Since these areas have not yet been formally approved by City Council for annexation, they are not included in the financial forecast. Three areas (I10 West, 281 North, and I10 East) are anticipated to be annexed for limited purpose in December 2015, and two (US90/1604 and HWY 151) in December 2016.



FINANCIAL RESERVES

The establishment and maintenance of appropriate reserves within the General Fund is critical to prudent financial management. Currently, the City holds a ‘AAA’ general obligation bond rating by the three major bond rating agencies - Standard & Poor’s, Fitch, and Moody’s. The ‘AAA’ bond rating is the highest credit rating an organization can receive and it allows the City to pay the lowest possible interest rates in the market. San Antonio is the only major city with a population of more than one million to have an 'AAA' bond rating from any one of the major rating agencies.

Consistent with the financial policies adopted by City Council in the FY 2015 Budget, the financial forecast maintains a 15% General Fund Ending balance every year of the forecast.

HOTEL OCCUPANCY TAX RELATED FUNDS

CONVENTION, TOURISM, AND ENTERTAINMENT SERVICES

HOTEL OCCUPANCY TAX FUND

The Hotel Occupancy Tax (HOT) Fund accounts for revenues received from Hotel Occupancy Tax Collections. The fund supports the City's convention and tourism activities through transfers to the Community and Visitor Facilities Fund (CVF), the Convention and Visitors Bureau Fund (CVB), and the Culture & Creative Development Fund. The fund also supports various visitor-related activities including maintenance of the River Walk, HemisFair Park, and La Villita through a transfer of a portion of its HOT revenues to the General Fund under History and Preservation.

The following is the Financial Forecast for the Hotel Occupancy Tax Fund. It reflects projections for a five year period from FY 2016 through FY 2020. The Forecast includes as its starting point the current fiscal year budget and preliminary estimated projections for the fiscal year. The Forecast includes financial projections on revenues, expenditures, ending balances, and potential adjustments.

Hotel Occupancy Tax Fund Forecast
($ in Millions)

	FY 2015 Budget	FY 2015 Estimate	FY 2016 Projection	FY 2017 Projection	FY 2018 Projection	FY 2019 Projection	FY 2020 Projection
RESOURCES							
Beginning Balance	$0.0	$0.2	$0.0	$0.0	$0.0	$0.0	$0.0
Transfer from Redemption & Capital Reserve Fu	0.0	0.0	0.1	0.0	0.0	0.0	0.0
NET BALANCE	$0.0	$0.2	$0.1	$0.0	$0.0	$0.0	$0.0
REVENUES							
Hotel Occupancy Tax	$60.5	$61.3	$63.6	$65.7	$67.9	$70.0	$72.2
Miscellaneous	0.1	0.1	0.1	0.2	0.2	0.2	0.3
TOTAL REVENUES	$60.6	$61.5	$63.7	$65.9	$68.1	$70.2	$72.5
TOTAL RESOURCES	**$60.6**	**$61.6**	**$63.8**	**$65.9**	**$68.1**	**$70.2**	**$72.5**
TRANSFERS OUT							
Convention & Visitors Bureau Fund (CVB)	$17.5	$17.3	$19.9	$19.3	$18.8	$19.0	$18.6
Community & Visitor Facilities Fund (CVF)	19.8	20.1	20.4	20.8	21.2	21.6	22.1
Culture & Creative Development (DCCD)	8.7	8.7	9.3	9.5	9.8	9.9	10.3
Support for History and Preservation	8.7	8.7	9.3	9.5	9.8	9.9	10.3
Transfer - Hotel/Dome Impvt & Contingency Fund	0.0	0.0	0.0	0.5	1.0	1.0	1.0
Transfer to Redemption & Capital Reserve Fund	0.2	2.3	0.0	1.0	1.8	1.4	3.6
Transfer to Debt Service	2.7	1.6	1.8	2.2	2.6	4.2	3.4
Other Transfers	3.0	3.0	3.1	3.1	3.1	3.2	3.2
TOTAL TRANSFERS	**$60.6**	**$61.6**	**$63.8**	**$65.9**	**$68.1**	**$70.2**	**$72.5**
ENDING BALANCE	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
NET ENDING BALANCE	***$0.0***	***$0.0***	***$0.0***	***$0.0***	***$0.0***	***$0.0***	***$0.0***

ANALYSIS OF REVENUE VS EXPENDITURES

The Hotel Occupancy Tax Fund Forecast table presents a comparison of projected yearly revenues, projected current services expenditures, projected mandates, and resulting projected balances over the forecast period. The ending balance reflects the difference between the beginning balance plus operating revenues and operating expenditures.

Revenues - The current Hotel Occupancy Tax (HOT) rate of 16.75% levied on every room night charge is comprised of 6% for the State, 7% for the City, 2% for the Convention Center Expansion Debt Service and future Convention Center Projects, and 1.75% for Bexar County's Venue Tax Projects which were approved by voters in May 2008.

HOT revenue projections are based upon an analysis of anticipated lodging demand, projected number of room nights sold, projected average daily room rates, estimated hotel room supply, and the projected inflation rate discussed in the Economic Perspective and Outlook section of the Forecast.

The City's 7% HOT collection is used to support tourism and convention activities, as well as arts and cultural programming. It includes funding up to 15% for Arts, up to 15% for History and Preservation, Convention Facilities, and the Convention and Visitors Bureau. The 2% HOT can only be used to support expansion of the Convention Center facility. The Texas State Code requires that no more than 15% of City HOT revenue can go towards arts and cultural programs, and a maximum of 15% that can be used for history and preservation.

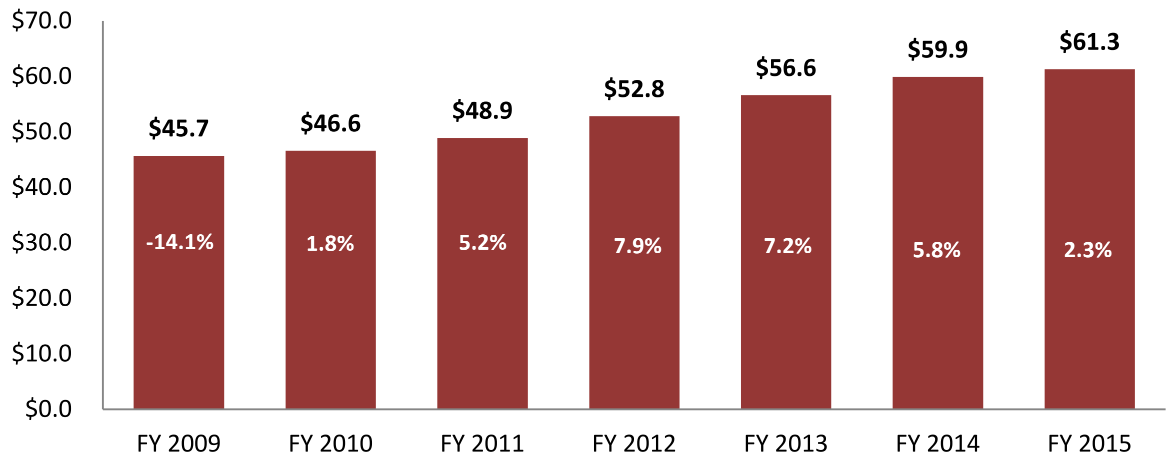
In FY 2012 City Council approved the issuance of debt for the Convention Center Expansion. The City will utilize all of its 2% Expansion HOT along with a portion of the incremental annual growth from the 7% HOT to make the required annual debt payment. The amount of 7% HOT required to be contributed towards debt payments will be applied first, leaving a Net 7% HOT which will be utilized for aforementioned operating categories. The allocation of up to 15% for Arts and History and Preservation will be applied to the Net 7% HOT.

HOT revenue is estimated to be $61.3 million for FY 2015, which is 1.4% higher than the FY 2015 Adopted Budget of $60.5 million. HOT revenues are projected to increase at annual rates of 3.6% (FY 2016), 3.4% (FY 2017), 3.3% (FY 2018), 3.2% (FY 2019) and 3.1% (FY 2020) during the Forecast period.

San Antonio's position as one of Texas's top leisure destinations continues to be a source of support for the hotel industry as San Antonio remains home to the State's top two tourist attractions – the Alamo and the River Walk, according to the State of Texas Office of Economic Development and Tourism.

As the historical 7% HOT Collections graph shows below, between FY 2009 and FY 2015, the City's 7% HOT Tax Collections grew 34.14%.

7% Hotel Occupancy Tax Collections
($ in Millions)



The dedicated 2% HOT revenue collections for the Convention Center Debt Service is recorded within a separate fund and is not reflected in HOT revenue projections within the Hotel Occupancy Tax Fund. However, should an event occur which would slow the collection of the 2% HOT to the extent that the costs of the Convention Center Debt Service could not be covered; the City would be required to transfer up to 5.25% of all HOT collections from the Hotel Occupancy Tax Fund to support the Convention Center Debt Service shortfall. Such a transfer would only occur if the anticipated 2% dedicated tax revenue stream did not produce the expected revenue amounts. The Forecast for the Hotel Occupancy Tax Fund assumes the FY 2015 Estimate as the starting point for projecting future years' revenues.

Current Services Expenditures - Expenditures are based on the current services level and include anticipated mid-year adjustments within the HOT-supported departments. The current services level assumes that Arts and Cultural Agencies Funding and Support for History and Preservation will remain at 15% of HOT collections net of debt service payments related to the Convention Center Expansion. The expenditures also include mandated expenditures such as hosting obligations for booked conventions and sporting events, as well as the City's contribution towards the Tobin Center for the Performing Arts.

The inflation rates used to project certain non-personal services expenditures reflect the Consumer Price Index (CPI) projections for the San Antonio area. These rates and their underlying assumptions were described in the Economic Perspective and Outlook chapter. Shown below are the assumed inflation rates for each year of the Forecast period:

FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
2.54%	2.87%	3.00%	2.85%	2.57%

COMMUNITY AND VISITOR FACILITIES FUND

The Community and Visitor Facilities Fund (CVF) accounts for revenues and expenditures generated from convention, tourism, sports, and entertainment related activities. The primary sources of revenue for the Convention and Sports Facilities Department are facility rentals, catering and concession commissions, reimbursable expenses, parking revenue, and various event-related fees from the Alamodome, Henry B. Gonzalez Convention Center, and Lila Cockrell Theater. Revenues for the facilities are based on event mix projections for each of the years in the Forecast period.

The forecast includes anticipated expenses for 19 new positions, building maintenance, and utility costs for the expanded Henry B. Gonzalez Convention Center, which is expected to be completed in December 2015 and open in February 2016.

The following is the Financial Forecast for the Community and Visitor Facilities Fund:

Community and Visitor Facilities Fund
($ In Millions)

	FY 2015 Budget	FY 2015 Estimate	FY 2016 Projection	FY 2017 Projection	FY 2018 Projection	FY 2019 Projection	FY 2020 Projection
RESOURCES							
Beginning Balance	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Convention Center Revenues	12.3	12.8	13.1	13.4	13.8	14.3	14.6
Alamodome Revenues	10.2	10.2	10.2	10.4	12.4	12.5	12.7
Miscellaneous Revenues	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Transfer from HOT 2% Tax Fund	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transfer from HOT 7% Tax Fund	17.5	17.3	19.9	19.3	18.8	19.0	18.6
TOTAL RESOURCES	**$40.2**	**$40.5**	**$43.4**	**$43.3**	**$45.2**	**$46.0**	**$46.1**
EXPENDITURES							
Base Budget	$40.2	$40.5	$38.7	$39.3	$41.8	$42.7	$43.7
Mandates (Incremental)	0.0	0.0	4.7	4.0	3.4	3.3	2.4
TOTAL EXPENDITURES	**$40.2**	**$40.5**	**$43.4**	**$43.3**	**$45.2**	**$46.0**	**$46.1**
NET ENDING BALANCE	***$0.0***	***$0.0***	***$0.0***	***$0.0***	***$0.0***	***$0.0***	***$0.0***

CONVENTION AND VISITORS BUREAU FUND

The Convention and Visitors Bureau Fund accounts for revenues and expenditures related to sales, marketing, and promotion of San Antonio as a premier leisure and convention destination. It is supplemented by revenues generated by the Convention and Visitors Bureau as well as a transfer from the Hotel Occupancy Tax Fund.

The following is the Financial Forecast for the Convention and Visitors Bureau Fund:

Convention and Visitors Bureau Fund
($ In Millions)

	FY 2015 Budget	FY 2015 Estimate	FY 2016 Projection	FY 2017 Projection	FY 2018 Projection	FY 2019 Projection	FY 2020 Projection
RESOURCES							
Beginning Balance	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Miscellaneous Revenues	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Transfer from HOT 7% Tax Fund	19.8	20.1	20.4	20.8	21.2	21.6	22.0
TOTAL RESOURCES	**$20.1**	**$20.4**	**$20.7**	**$21.1**	**$21.5**	**$21.9**	**$22.4**
EXPENDITURES							
Base Budget	$20.1	$20.4	$20.7	$21.1	$21.5	$21.9	$22.4
TOTAL EXPENDITURES	**$20.1**	**$20.4**	**$20.7**	**$21.1**	**$21.5**	**$21.9**	**$22.4**
NET ENDING BALANCE	***$0.0***	***$0.0***	***$0.0***	***$0.0***	***$0.0***	***$0.0***	***$0.0***

CULTURE AND CREATIVE DEVELOPMENT FUND

The Culture and Creative Development Fund accounts for the operating expenditures of the Department of Culture and Creative Development as well as the contributions made to art and cultural agencies. It is supported through a transfer from the Hotel Occupancy Tax Fund. The Forecast assumes the art funding level at 15% of HOT budgeted collections every year of the forecast net of debt service payments related to the Convention Center Expansion.

The following is the Financial Forecast for the Culture and Creative Development Fund:

Culture and Creative Development Fund Forecast
($ in Millions)

	FY 2015 Budget	FY 2015 Estimate	FY 2016 Projection	FY 2017 Projection	FY 2018 Projection	FY 2019 Projection	FY 2020 Projection
RESOURCES							
Beginning Balance	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Transfer from General Fund (Luminaria)	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transfer from HOT 7% Tax Fund	8.7	8.6	9.2	9.4	9.8	9.9	10.3
TOTAL RESOURCES	**$8.8**	**$8.7**	**$9.3**	**$9.5**	**$9.9**	**$9.9**	**$10.4**
EXPENDITURES							
Base Budget	$8.8	$8.7	$9.3	$9.5	$9.9	$9.9	$10.4
TOTAL EXPENDITURES	**$8.8**	**$8.7**	**$9.3**	**$9.5**	**$9.9**	**$9.9**	**$10.4**
NET ENDING BALANCE	***$0.0***	***$0.0***	***$0.0***	***$0.0***	***$0.0***	***$0.0***	***$0.0***

Arts Funding - Through HOT revenues, San Antonio is able to fund art and cultural programs and agencies across the City. The Texas State Tax Code requires that not more than 15% of City HOT revenue go towards arts and cultural programs. In FY 2007, the City Council approved an increase in funding to the maximum 15% allowed. In FY 2012 City Council approved the issuance of debt for the Convention Center Expansion. The funding for arts and cultural programs is equivalent to 15% of the HOT revenue collections net of debt service payments related to the Convention Center Expansion.

Art program funding is distributed on a competitive basis and is managed by the City's Department of Culture and Creative Development. There are six funding programs summarized as follows:

- Cultural Arts Operating Program
- Festivals and Community Celebrations Program
- stART Place Program
- Artist Re-Granting Program
- City-Owned Facility Agency (COFA) Deferred Maintenance Program
- Technical & Economic Development Assistance Program

The Cultural Arts Operating Program provides support to arts and cultural agencies that have a budget of over $50,000 and meet a designated matching requirement. The Festivals and Community Celebrations Program encourages artistic presentations and performances at festivals and community celebrations with a clear and credible programmatic focus area of arts, culture, or heritage. The stART Place Program encourages partnerships between artists, artist collectives, and non-profit community based agencies to stimulate neighborhood vibrancy with arts and culture opportunities. Funding is specific to activities and neighborhoods. The Artist Re-Granting Program supports arts and non-profit organization that have a mission that includes providing financial support to local professional artists. The City-Owned Facility Agencies (COFA) Deferred Maintenance Program is for Cultural Arts Operating Program recipients who reside in City-owned facilities or have a long term lease. This program provides funds set aside to address deferred maintenance at City-owned facilities. The Technical and Economic Development Assistance Program supports the organizational stability, development, and professional growth of arts and cultural organizations and artists. All the programs are competitive with specific review committees providing input on the major focus areas of each program.

The FY 2016 to FY 2020 Forecast assumes the art funding level at 15% of HOT budgeted collections net of debt service payment for the Convention Center Expansion every year of the forecast.

DEVELOPMENT SERVICES FUND

DEVELOPMENT SERVICES FUND

INTRODUCTION

The Development Services Fund (the Fund) was established in FY 2007 to account for revenues and expenditures generated from all development-related activities and to ensure development revenues are used to support development expenses. In addition to accounting for the revenues and expenses associated with the Development Services Department (DSD), the Fund collects revenue for the San Antonio Fire Department's Fire Prevention Division, revenue which is distributed to the General Fund via a transfer of like amount.

The Development Services Department is responsible for protecting the health, safety, and quality of life for the residents of San Antonio through regulation of land and building development. In addition, the Department seeks to provide an efficient and effective development process that supports City growth and economic development. This process includes consulting, educating, reviewing, permitting, inspecting, and granting authority to develop land and occupy buildings within the City. The Department is also responsible for master development plans, vested rights, subdivision mapping/parcel addressing, zoning administration, subdivision administration, building codes administration, landscaping, tree preservation, sign regulation, and development review of streets and traffic.

Since the development process involves review by other City departments and outside agencies, the Development Services Department seeks to facilitate the coordination of these reviews to provide quality customer service throughout the development process. The creation of the Development Services Fund has provided the following benefits to City departments and their customers:

- Greater trust by stakeholders and improved perception of the department

- Enhanced accountability by appropriately aligning revenues with expenses and adjusting to economic trends

Establishment of the Fund has also allowed the City to expand and reduce staffing levels and resources when needed to (1) ensure a positive fund balance, (2) make continuous improvements in the cycle time for permitting, (3) ensure consistency and quality of plan review and inspections, and (4) enhance customer service.

FIVE YEAR FINANCIAL FORECAST

Below is the Financial Forecast for the Development Services Fund. The Forecast reflects projections for a five year period from FY 2016 through FY 2020 and includes as its starting point the current fiscal year budget and preliminary estimated projections for the fiscal year. The Forecast includes financial projections for revenues, expenditures, ending balances, and reserves.

Development Services Fund Forecast
($ in Thousands)

	FY 2015 BUDGET	FY 2015 ESTIMATE	FY 2016 PROJECTION	FY 2017 PROJECTION	FY 2018 PROJECTION	FY 2019 PROJECTION	FY 2020 PROJECTION
AVAILABLE FUNDS							
Beginning Balance	**$145**	**$1,605**	**$615**	**$703**	**$1,335**	**$2,202**	**$2,424**
Accounting Adjustment	-	(166)	-	-	-	-	-
Use of Reserves	5,538	5,538	4,266	2,182	309	-	-
Net Balance	**$5,683**	**$6,977**	**$4,881**	**$2,885**	**$1,644**	**$2,202**	**$2,424**
REVENUES							
Development Services Revenues	28,553	27,755	28,460	29,336	30,065	30,719	31,196
Transfer from General Fund - ICRIP	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Total Revenues & Transfers	30,053	29,255	29,960	30,836	31,565	32,219	32,696
TOTAL AVAILABLE FUNDS	**$35,736**	**$36,232**	**$34,841**	**$33,721**	**$33,209**	**$34,422**	**$35,120**
APPROPRIATIONS							
Current Service	27,241	27,055	27,158	27,796	28,045	28,678	29,323
Mandates (O&M for New Software System)	-	-	554	573	592	651	634
Transfer To Capital Projects	5,538	5,538	4,266	3,550	309	-	-
TOTAL APPROPRIATIONS	**$32,778**	**$32,593**	**$31,978**	**$31,918**	**$28,946**	**$29,330**	**$29,957**
GROSS ENDING BALANCE	**$2,958**	**$3,640**	**$2,862**	**$1,802**	**$4,263**	**$5,092**	**$5,164**
LESS: BUDGETED FINANCIAL RESERVES							
Budgeted Financial Reserves (Incremental Amt)	528	525	160	159	61	168	151
Reserve for Capital Projects (Incremental Amt)	2,430	2,500	2,000	309	2,000	2,500	2,500
NET ENDING BALANCE	**$0**	**$615**	**$703**	**$1,335**	**$2,202**	**$2,424**	**$2,513**
BUDGET RESERVE SUMMARY							
Budgeted Financial Reserves (Cumulative)	5,916	5,913	6,073	6,231	6,292	6,460	6,611
Reserve for Capital Projects (Cumulative)	5,113	4,448	2,182	309	2,000	4,500	7,000
Financial Reserve as % of Annual Operating Costs	25%	25%	25%	25%	25%	25%	25%

ANALYSIS OF REVENUES AND EXPENDITURES

The Development Services Fund Five Year Financial Forecast represents a comparison of projected yearly revenues, expenditures, reserves, and balances in the Fund over the Forecast period. In addition to the costs associated with current service delivery, the Forecast assumes costs associated with the replacement of the Hansen Permitting System. The Forecast also calculates the added costs of policy issues such as Employee Performance Pay and the continued implementation of the Pay Plan. The Fund's ending balance reflects the beginning balance and operating revenues, less operating expenditures, transfers, and allocations for both budgeted financial and capital projects reserves.

Revenues – Through the first six months of the current fiscal year (October 2014 – March 2015), Development Services revenues, including transfers, are $13,731,140, or approximately 4% below the 6-month planned amount. Total revenue for FY 2015 is projected to be approximately $800,000, or 3%, less than budgeted, due primarily to smaller commercial projects than anticipated. Although the number of commercial permits (new and existing) is up 280 permits, or 20%, through March compared to the same period in FY 2014, and conservatively projected to be up 5% by year end, commercial permit valuation is projected to be $413 million, or 14%, lower than FY 2014. Included in the FY 2014 total building permit project valuation is $237 million attributable to the Henry B. Gonzalez Convention Center expansion. Excluding this project, FY 2015 commercial valuation is projected 7% lower than FY 2014.

Development Services operating revenues reflect conservative growth in out years. Departmental revenue-generating activities were identified as relating primarily to New or Existing Commercial Construction, New or Existing Residential Construction, or a combination thereof, and growth rates applied thereafter based upon such designation. Given the aforementioned revenue components and the growth rates assigned to each category, total revenues increase by the following amounts over the Forecast period:

FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
2.41%	2.92%	2.37%	2.07%	1.48%

All told, FY 2020 revenues are projected to surpass $32.6 million, compared to a year-end projection of $29.3 million for the current fiscal year.

Expenditures – This section of the Forecast projects expenditures based in part on the current service level, but also assumes additional capital expenditures related to the replacement of the Hansen Permitting System and mandated operating and maintenance costs associated with the new permitting system.

The inflation rates used to project non-personal services expenditures were derived from the Consumer Price Index (CPI) projections for each year from FY 2016 through FY 2020. These rates and their underlying assumptions are described in the Economic Outlook and Perspective section.

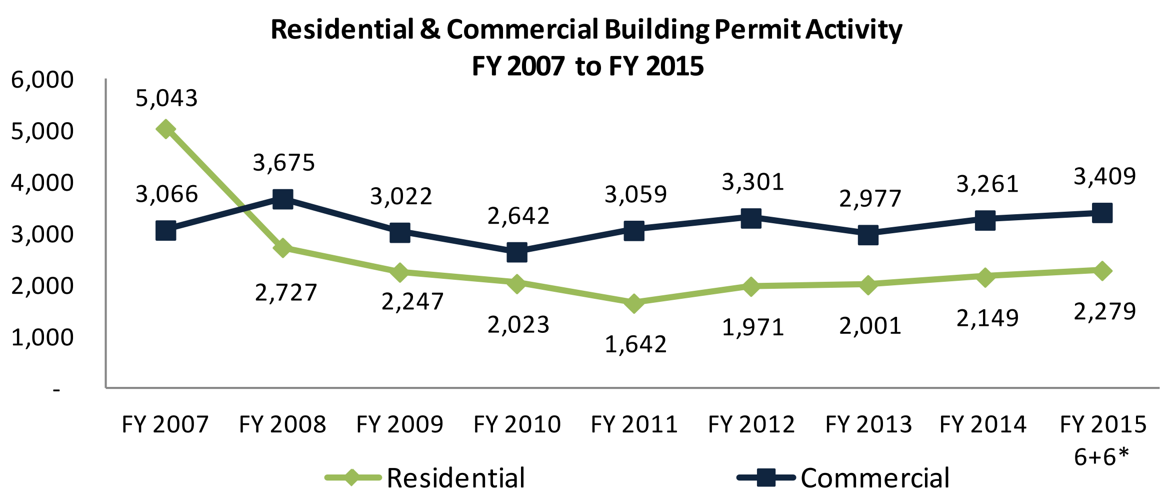
Below are the assumed inflation rates for each fiscal year of the forecast period:

FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
2.54%	2.87%	3.00%	2.85%	2.57%

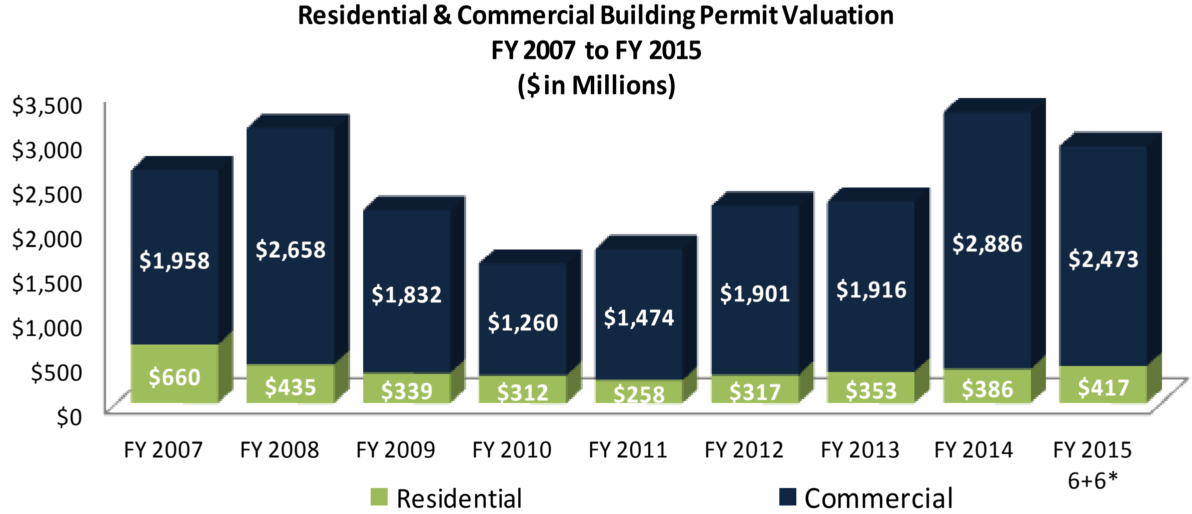
Employee compensation policy issues shown in the Forecast illustrate the impact of Performance Pay for eligible positions, as well as the cumulative impact of the Pay Plan Implementation for each year of the Forecast period. Also included are the corresponding increases to both the Budgeted Financial Reserves and Reserve for Capital Projects. The Net Ending Balance takes into account the full impact of all transfers and operating expenses, including employee compensation issues and improvement requests.

The establishment and maintenance of appropriate financial reserves within the Development Services Fund is critical to prudent financial management. Budgeted Financial Reserves assist in smoothing fluctuations in available resources from year to year and stabilizing the budget. The Development Services Fund maintains Budgeted Financial Reserves equivalent to 25%, or three months of Operating Expenses each year of the Forecast. In FY 2013, a reserve for replacement of the Hansen Permitting System was also established within the Fund. This reserve, now more generally a Reserve for Capital Projects, allows funds to be set aside for substantial upcoming Development Services projects. From FY 2015-2018, this reserve would be used for developing and implementing a new permitting system. Subsequent to FY 2018, this reserve would again be funded for capital projects to be determined at a later date. From FY 2015-2018, $13,662,202 is allocated and expended for the development and implementation of the Department's new permitting system.

Permit Activity and Valuation - The following graphs illustrate trends for both building permit activity and project valuation. The number of residential permits, after sharp declines from FY 2007-09, has grown moderately in recent years and is projected in FY 2015 to be at its highest level since FY 2008. The number of commercial (new and existing) permits has remained steadier over the last decade, averaging 3,125 permits per year from FY 2007-2014. Commercial permit activity in FY 2015, like residential, is projected to be at its highest level since FY 2008.



*April-September permit counts are projected



*April-September permit valuations are projected

Building permit project valuation is an indication not only of the number of permits issued, but also of the size, scope, and complexity of the projects involved. Since at least 2008 when residential valuation was in decline, valuation of commercial projects, both new and existing, has been the primary catalyst for permit-related revenues. In fact, FY 2014 valuation for commercial projects accounted for 88% of total permitting project valuation, compared to just 12% deriving from residential construction. FY 2014 was an historic year for commercial permits valuation and included four projects with valuations exceeding $60 million and 24 others exceeding $20 million. Included in these totals was the Henry B. Gonzalez Convention Center expansion, the largest project of FY 2014, with a building permit project valuation of $237 million. Commercial permit valuation in FY 2015, though not anticipated to reach FY 2014 levels, is expected to reach its second highest level in the past seven years.

Residential permit valuation, like residential permit counts, has steadily grown since FY 2011 and is expected to be at its highest level since FY 2008. A similar level of valuation for both commercial and residential permitting is expected to continue into FY 2016, with no market trends indicating otherwise.

SOLID WASTE OPERATING AND MAINTENANCE FUND

SOLID WASTE OPERATING AND MAINTENANCE FUND

The Solid Waste Operating and Maintenance Fund records all revenues and expenditures for services provided by the Solid Waste Management Department (SWMD) and the Office of Sustainability (OS).

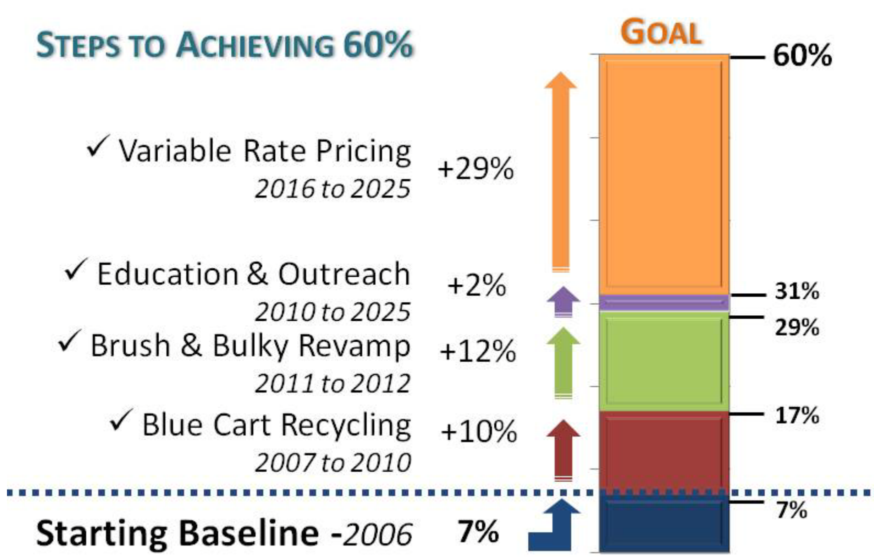
SWMD is composed of several divisions: Solid Waste, Recycling, Brush, and Environmental Management. These divisions contribute to reaching the Department's operational goals and the goals detailed in the Recycling and Resource Recovery Plan. The Department is also responsible for maintenance and repair of heavy equipment for the City.

RECYCLING AND RESOURCE RECOVERY PLAN

In June 2010, City Council adopted a 10-Year Recycling and Resource Recovery Plan (Recycling Plan). On January 31, 2013, the Recycling Plan was revised to a multi-year Recycling Plan and adopted by City Council. The strategic goals outlined in the Recycling Plan are to ensure that all single-family and multi-family residents have access to convenient recycling programs, to improve recycling opportunities for businesses, and to recycle 60 percent of all residential curbside materials collected by SWMD by the year 2025.

The Department has undertaken a variety of initiatives in order to reach these goals. Since the adoption of the Recycling Plan, the Department has revamped the brush and bulky collection process to increase brush recycling, constructed and opened a new brush recycling center in the City's South Side, increased blue cart recycling outreach, increased recycling education to schools, opened four bulky drop off centers, and obtained City Council approval of an ordinance requiring multifamily complexes to provide recycling.

Since the implementation of the Recycling Plan, the Department has increased the amount of materials recycled from 7 percent to 30 percent. Currently, the Department is preparing for the next major step to achieve 60% recycling, Variable Rate Pricing (VRP). The graphic below illustrates the steps outlined in the Recycling Plan to achieve a 60 percent residential recycling rate by the year 2025.



FIVE-YEAR FINANCIAL FORECAST

The Financial Forecast for the Solid Waste Operating and Maintenance Fund reflects revenue and expenditure projections for a five year period from FY 2016 to FY 2020. As its starting point, the Forecast includes the budget and preliminary estimated projections for the current fiscal year.

Solid Waste Fund Five-Year Forecast
($ in Thousands)

	FY 2015 Budget	FY 2015 Estimated	FY 2016 Projection	FY 2017 Projection	FY 2018 Projection	FY 2019 Projection	FY 2020 Projection
RESOURCES							
Beginning Balance	$ 2,067	$ 5,091	$ 9,322	$ 6,858	$ 4,425	$ 2,389	$ 76
Use of Budgeted Reserve			-	-	-	850	1,300
CURRENT REVENUES							
Solid Waste Fee	$ 78,384	$ 78,504	$ 79,484	$ 88,166	$ 92,906	$ 92,506	$ 94,516
Environmental Fee	15,282	15,341	15,454	15,590	15,727	15,865	16,005
Organics Fee	585	585	-	-	-	-	-
Recycling Revenue	3,213	3,419	4,071	4,664	5,070	5,544	5,872
Other Revenues	2,103	2,202	2,244	2,252	2,259	2,267	2,274
TOTAL CURRENT REVENUES	**$ 99,567**	**$ 100,051**	**$ 101,253**	**$ 110,672**	**$ 115,962**	**$ 116,182**	**$ 118,667**
TOTAL RESOURCES	**$ 101,634**	**$ 105,142**	**$ 110,575**	**$ 117,530**	**$ 120,387**	**$ 119,421**	**$ 120,043**
EXPENDITURES/RESERVES							
Base Service	$ 100,923	$ 95,820	$ 98,160	$ 99,926	$ 103,354	$ 105,330	$ 108,687
POLICY ISSUES							
Variable Rate Pricing			5,558	13,179	14,645	14,015	11,323
TOTAL EXPENDITURES	**$ 100,923**	**$ 95,820**	**$ 103,718**	**$ 113,105**	**$ 117,999**	**$ 119,345**	**$ 120,010**
Incremental Reserve			-	-	-	-	-
NET ENDING BALANCE	**$ 711**	**$ 9,322**	**$ 6,857**	**$ 4,425**	**$ 2,388**	**$ 76**	**$ 33**
BUDGETED RESERVE	$ 4,552	$ 4,552	$ 4,552	$ 4,552	$ 4,552	$ 3,702	$ 2,402

REVENUES

MONTHLY SOLID WASTE FEES

The primary source of revenue for the Solid Waste Fund is the monthly solid waste fee assessed to customers and billed and collected by CPS Energy. The solid waste fee is assessed to single-family residential households who receive waste collection services from the City. The second major source of revenue is the environmental fee which is charged to all residential customers and commercial entities within the City. This is also billed and collected by CPS Energy. Forecasted revenues are based on annual growth factors of 0.49% and 0.88% respectively for solid waste and environmental customers from FY 2016 through FY 2020, along with any proposed rate increases.

The following table is a five-year history of the total monthly rate (solid waste fee and environmental fee) per household associated with the Solid Waste Fund.

History of Total Monthly Rates per Household

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Total Monthly Rate	$18.74	$19.43	$19.43	$19.93	$20.93
Rate Adjustment	$0.00	$0.69	$0.00	$0.50	$1.00

Beginning in FY 2016, the new garbage collection rates (Variable Rate Pricing) will go into effect. Pricing will be based on the size of the garbage cart. The rates are designed to provide funding for the additional personnel and equipment needed for VRP conversion and to incentivize recycling behavior. The table below reflects the projected rates for VRP customers. Customers in areas where Variable Rate Pricing is not available would continue to pay the regular monthly rate of $20.93 until all customers are incorporated into Variable Rate Pricing in FY 2017.

Total Monthly Rates for Variable Rate Pricing

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Small Cart	$20.43	$20.43	$19.93	$19.93	$19.43
Medium Cart	$20.93	$21.68	$22.43	$23.18	$23.18
Large Cart	$22.18	$24.43	$26.93	$29.93	$33.18
Small to Large Difference	***$1.75***	***$4.00***	***$7.00***	***$10.00***	***$13.75***

EXPENDITURES

VARIABLE RATE PRICING

In FY 2016, SWMD will begin Variable Rate Pricing (VRP) conversion. Conversion to VRP will be a major driver in achieving the 60% residential recycling goal by 2025. Residents will select from 3 garbage cart sizes, and rates will vary according to cart size. The larger a garbage (brown) cart a resident desires, the higher the assessed rate will be. The new rate structure will incentivize residents to divert more waste to the organics (green) and recycling (blue) carts. The rate structure will also create equity between solid waste customers by having customers who throw away less trash pay a lower rate. Also beginning in FY 2016, the City will transition away from a subscription-based Organics Recycling Program. The organics (green) cart will be automatically available to customers on VRP. Residents that currently subscribe to the Organics Recycling Program will no longer pay the $3.00 per month subscription fee beginning FY 2016. The change is due to a restructuring of the VRP conversion to provide customers with the green carts and different sized brown carts simultaneously.

The following two tables illustrate the planned VRP conversion timeline and required resources. By the end of FY 2016, over half of solid waste customers will be on VRP. VRP conversion will be completed by mid FY 2017.

Variable Rate Pricing – Conversion Timeline

Fiscal Year	Phase	Timeline	Additional VRP Customers	Total VRP Customers
FY 2016	Initial Rollout 1	Oct 2015 – Mar 2016	30,000	30,000
	Initial Rollout 2	Apr 2016 – Sep 2016	160,000	190,000
FY 2017	Final Rollout	Oct 2016 – Mar 2016	159,624	349,624

Variable Rate Pricing – Additional Personnel, Carts, and Trucks

Input	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Personnel	13	27	1	1	1
Carts	340,318	70,866	90,664	1,463	19,554
Trucks	18	1	2	1	0

OTHER EXPENDITURES

Other expenditures assumed in the Forecast are based on a continuation of current service levels and includes inflationary increases. Inflationary increases in non-personal services expenditures were derived from the Consumer Price Index (CPI) projections for each year from 2016 through 2020. These rates and their underlying assumptions are described in the Economic Perspective and Outlook section. The FY 2016 base budget also assumes the removal of one-time improvements included in the FY 2015 Adopted Budget. Lastly, the forecast includes debt service for the new proposed northwest service center on Leslie Road as well as estimates for the cost of anticipated annexations.

DEBT SERVICE FOR NORTHWEST SERVICE CENTER ON LESLIE ROAD

A new service center for use by the SWMD and Transportation & Capital Improvements Department (TCI) has been proposed. The service center would provide crew quarters, vehicle maintenance, truck and equipment parking, fueling, and wash areas. In addition, the center would provide a bulk materials yard for TCI. The service center would cost $34.6 million and would be funded through issuance of debt which would be paid by the Solid Waste Operating Fund and the Stormwater Operating Fund. The first debt service payment would occur in FY 2017.

ECONOMIC OUTLOOK & PERSPECTIVE

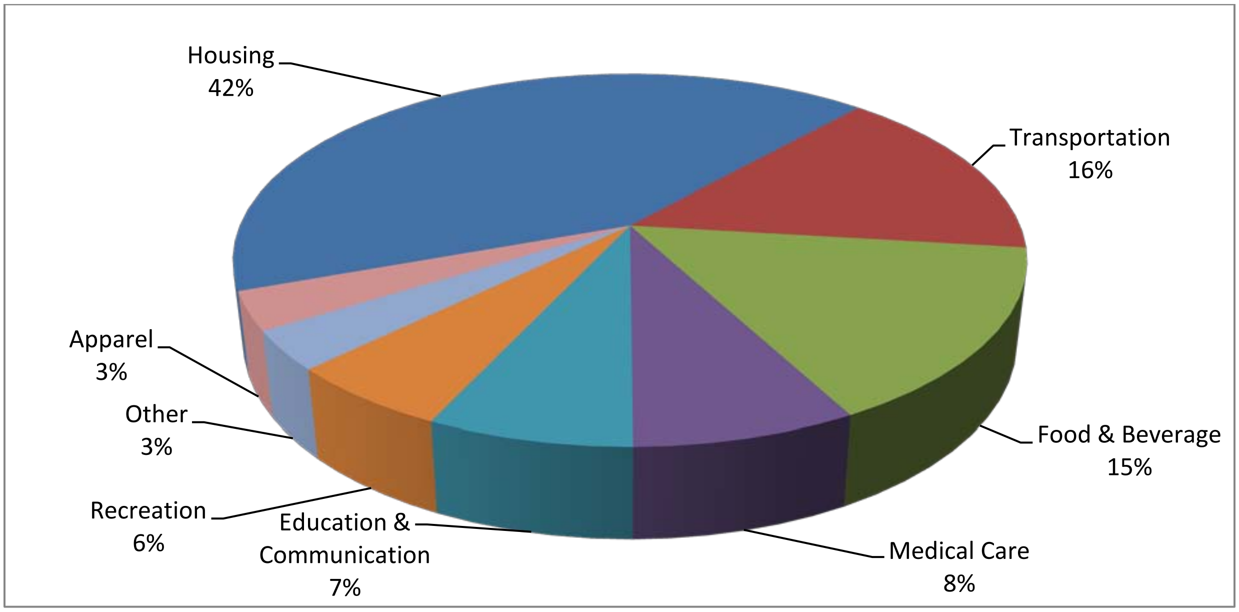
ECONOMIC OUTLOOK

OVERVIEW

A forecast of the City's finances recognizes that the City's fiscal health is directly linked to the success of the local, national, and global economies. In light of this relationship, the fiscal projections provided in this document are based, in large part, upon an analysis of historical and current economic trends. The historical data and forecast projections in this section are provided by government and private organizations. This section provides projections for the local and national economies, which support the fiscal projections presented in this document.

INFLATION

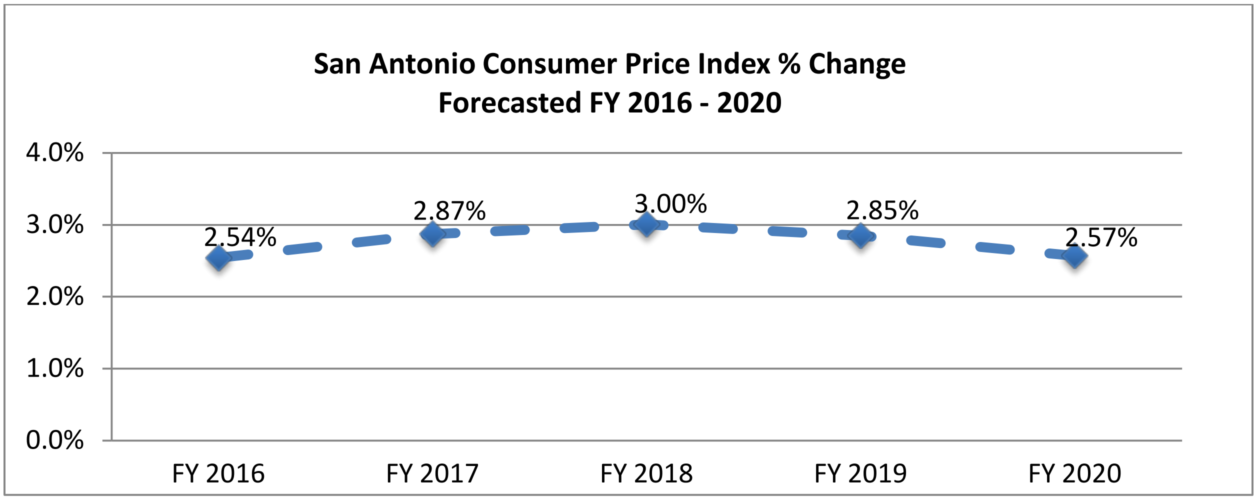
The Consumer Price Index (CPI), commonly referred to as the inflation rate, measures the average price change for a market basket of consumer goods and services. This basket of goods contains a wide array of items, ranging from food and gasoline to college tuition and medical supplies. The CPI does not, however, include investments such as stocks or real estate.



The Bureau of Labor Statistics has classified each expenditure item in this basket of goods into more than 200 categories. Each one of these categories is cataloged into eight major groups, as shown in the adjacent figure. For example, gasoline is a category located in the transportation grouping and makes up 3.9% of the total basket of goods in the index.

The Consumer Price Index is used as the inflationary factor for specific non-personnel services expenditures to develop the General Fund and other funds' forecasts. This allows the City to plan for possible increases in certain commodities and other costs in the next five years by accounting for rising prices.

Additionally, CPI serves as a cost of living index. With assistance from Moody's Financial Services, the projections for CPI have been developed and modified to reflect the City's budget cycle based on a fiscal year lasting from October 1 to September 30.

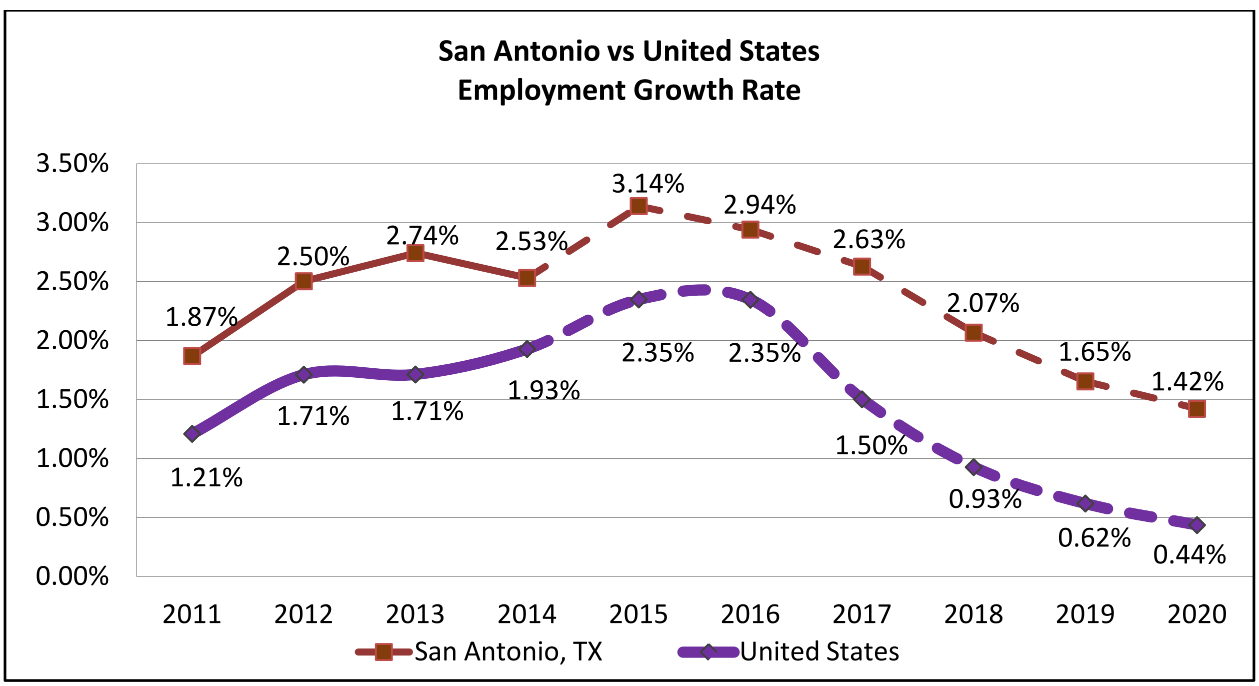


Source: Projection Data from Moody's Economy.com

SAN ANTONIO ECONOMY

EMPLOYMENT

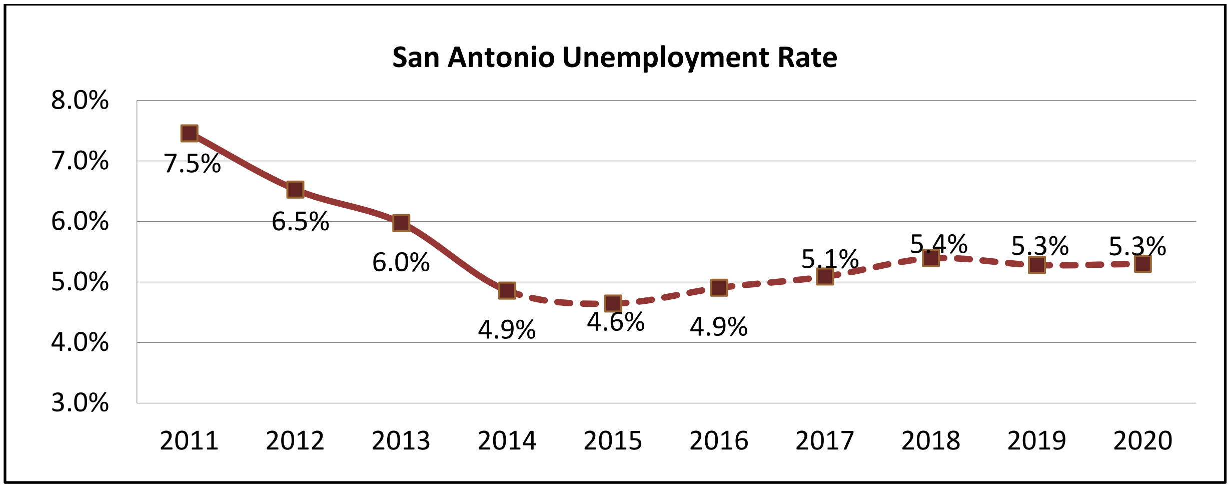
Increases in the total number of employed in a particular region can be attributed to either job creation from within the area or the migration of jobs into the region. The figure below provides employment growth rate historical and projected data for San Antonio and the United States.



Source: Projection Data from Moody's Economy.com

UNEMPLOYMENT

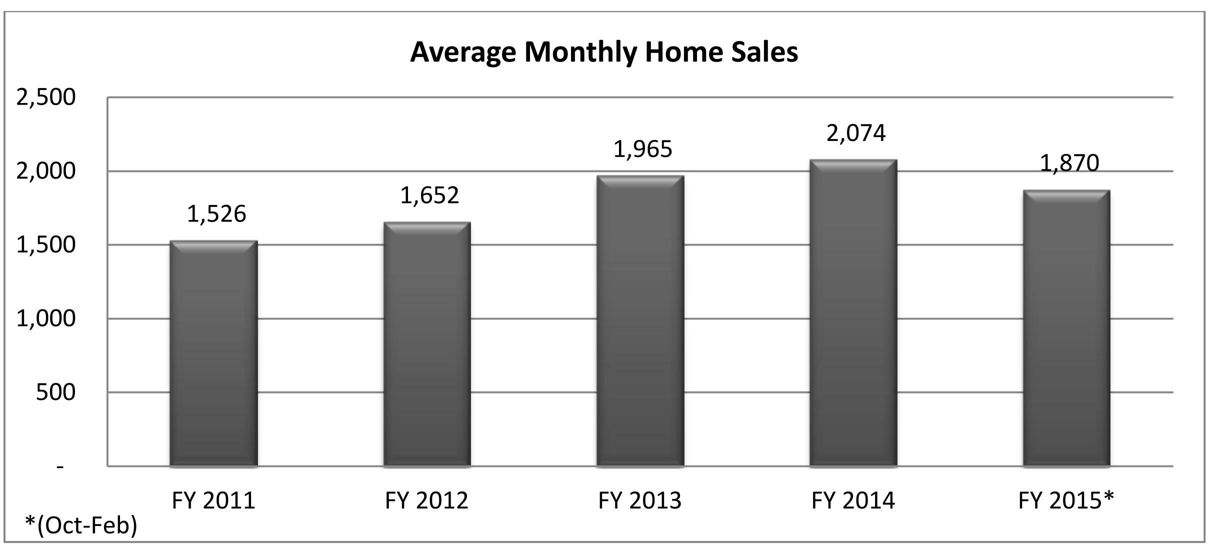
The Unemployment Rate represents the number of unemployed persons as a percent of the labor force. An unemployed person is defined as someone 16 years or older who has been looking for employment for at least four weeks. The national Unemployment Rate has steadily decreased from 8.9% in 2011 to 6.2% by the end of 2014. The City of San Antonio's Unemployment Rate has remained below the national average each of the past four years.



Source: Projection Data from Moody's Economy.com

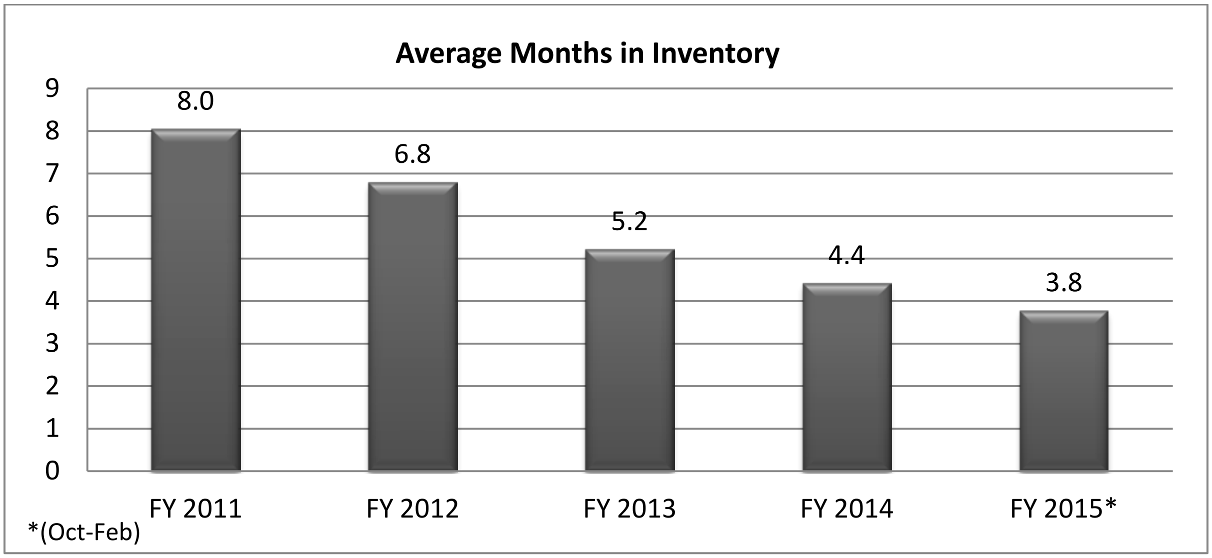
HOUSING

The Housing Market in San Antonio has continued its recovery from recession levels, with Average Monthly Home Sales and the Median Housing Price steadily rising from 2011 to 2014, while Average Months in Inventory steadily decreased over that same period.



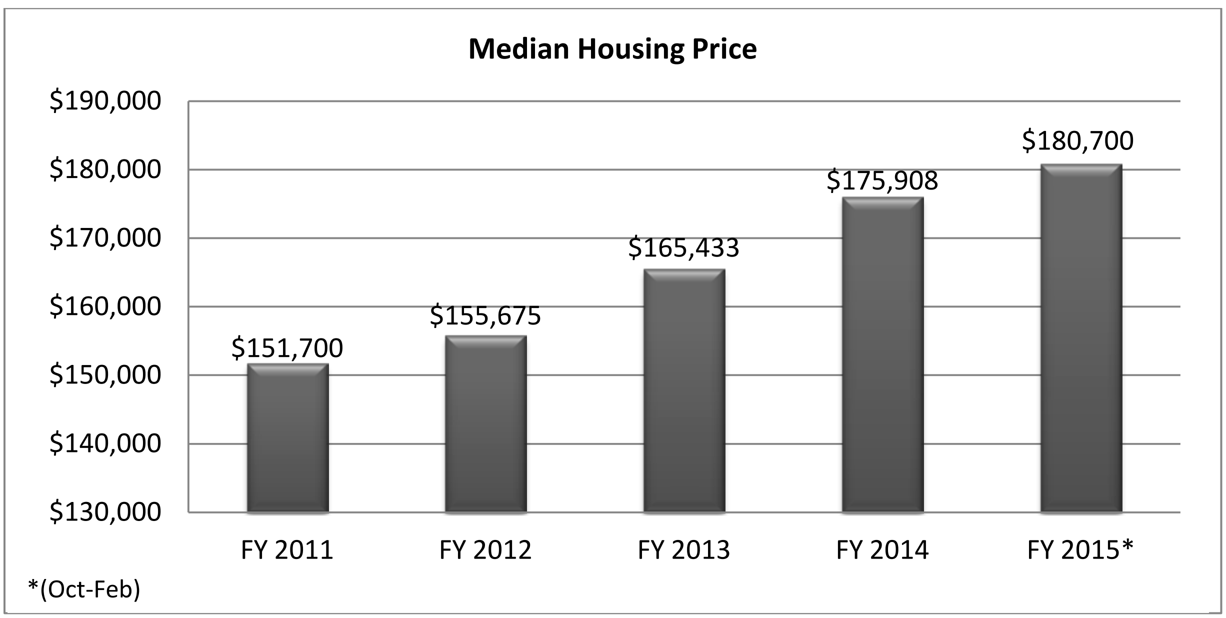
Source: Real Estate Center at Texas A&M University

Months in Inventory measures the amount of time it would take to sell the current housing inventory or supply if no other homes were added to the current inventory. The San Antonio housing market saw this number increase steadily between FY 2007 and FY 2009, but it has decreased since FY 2010. The current average is 3.8 months in inventory, compared to 4.4 last year, and 5.2 in FY 2013.



Source: Real Estate Center at Texas A&M University

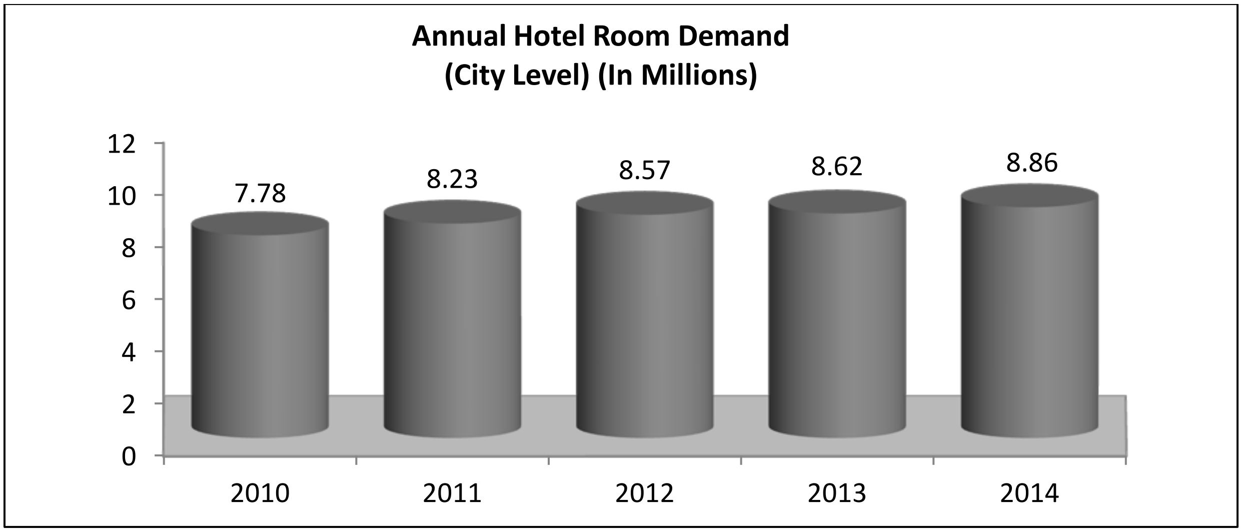
Median Housing Price is the midpoint price of home sales in each year at which half the homes are sold above this price and half the homes are sold below this. The median prices for home sales increased each of the past three years, with a 6.3% increase from 2013 to 2014.



Source: Real Estate Center at Texas A&M University

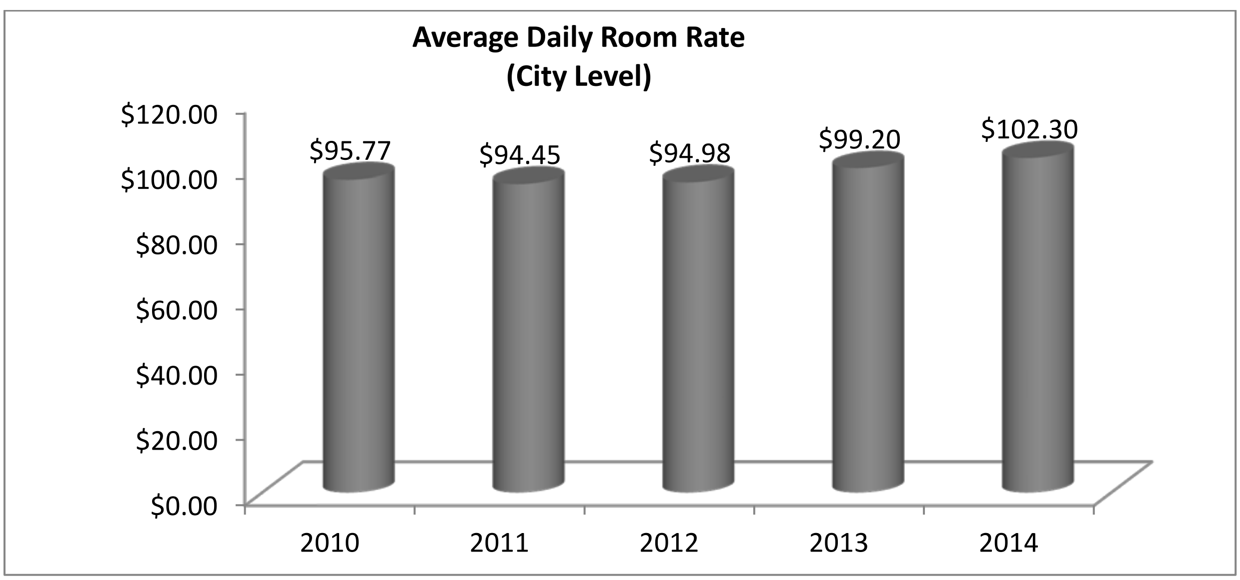
HOSPITALITY INDUSTRY

Despite national economic challenges, the San Antonio hospitality industry continues to be one of the top leisure/convention cities in the country and benefits from being located within driving distance from Dallas, Houston, and other Texas cities. Hotel Room Demand has increased each year since 2010, tallying an increase in annual demand for over 1 million additional rooms during that period.



Source: Data obtained from Smith Travel Research based on hotels in San Antonio Market reports dated January 2011, February 2012, March 2013, March 2014 and February 2015

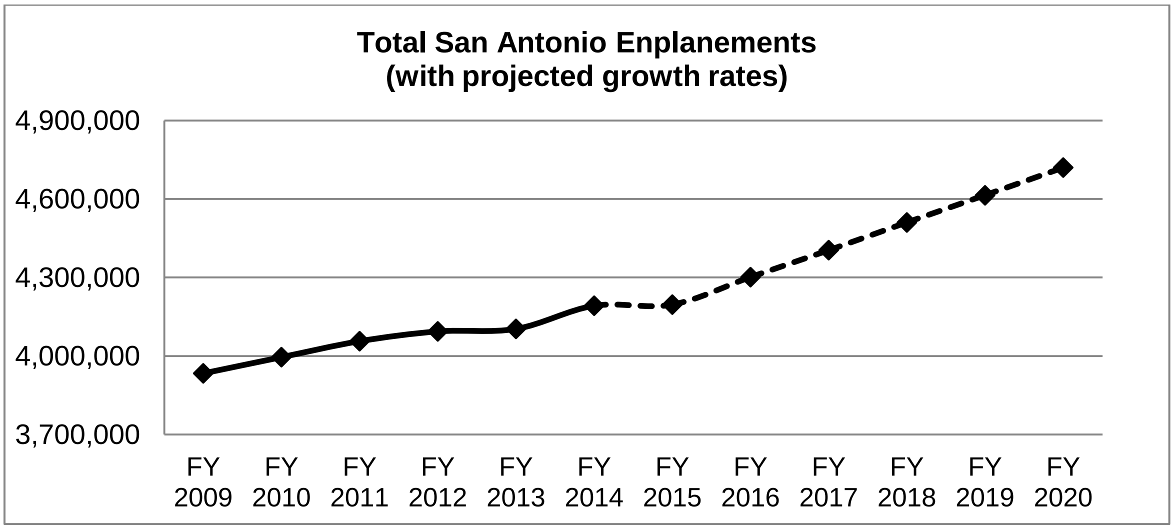
Average Daily Room Rate (ADR) is the average price of a room night in San Antonio. ADR is indicative of the hospitality industry's health, and is also affected by the supply of hotel rooms. San Antonio's ADR sustained growth in 2014, rising 3.1% above the 2013 rate.



Source: Data obtained from Smith Travel Research based on hotels in San Antonio Market reports dated January 2011, February 2012, March 2013, March 2014 and February 2015.

ENPLANEMENTS

San Antonio International Airport is the only commercial service airport serving the City and the San Antonio metropolitan area. A strong local economy along with a significantly improved airline industry had resulted in substantial growth at the airport in the last decade. From FY 2008 through FY 2009 the number of passengers traveling to San Antonio by air dropped off due to deteriorating economic conditions. However, since FY 2009 total enplanements have continued to grow, most recently increasing by 2.2% in FY 2014, and are projected to grow by more than 2% annually each year from FY 2016-2020.



Source: Aviation Department