City Of San Antonio, Texas

FY 2015 - FY 2019

FIVE YEAR

FINANCIAL FORECAST

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

CITY OF SAN ANTONIO

Five Year Financial Forecast

Fiscal Year 2015-2019

PREPARED BY:

OFFICE OF MANAGEMENT AND BUDGET

MAY 14, 2014

CITY OF SAN ANTONIO

FIVE YEAR FINANCIAL FORECAST

FY 2015 – FY 2019

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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 2014) 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 2015 Proposed Operating Budget is developed and presented to City Council on August 7, 2014.

GENERAL FUND

During the forecast period, total General Fund revenue is expected to grow annually at rates ranging from 2.6% to 4.1%. The FY 2014 revenue estimate is approximately $34.4 million higher than the current year adopted budget, or an overall increase of 3.6%. This increase over the adopted budget is primarily due to $20 million in one-time CPS revenues from an unusual colder winter. Additionally $6.4 million from the CPS rate increase approved in November after the Budget had been adopted. The rate of revenue growth projected in FY 2015 over the FY 2014 Estimate, without including one-time revenues, is approximately 4.1%. Revenue growth beyond FY 2015 is forecasted at rates of 2.7% in FY 2016, 2.8% in FY 2017, 2.8% in FY 2018, and 2.6% in FY 2019.

Projections show that expenditures are growing at a faster pace than revenues. This increased growth in expenditures over the forecast period is primarily due to increases in Healthcare cost, contractual and inflationary increases and mandated operational costs associated with 2012 Bond Projects and other capital projects. The General Fund Schedule reflects the aggregate annual projected expenditures required to sustain the current Fiscal Year 2014 level of service.

In FY 2014, the General Fund Adopted Ending Balance, which represents the difference between the City's total available resources and total expenditures, is a positive $51.5 million. However in FY 2015, the forecasted General Fund ending balance reflects a deficit of $27 million. Beyond FY 2015, negative ending balances continue through the forecast period.

In September 2013, the FY 2014 General Fund Budget was adopted by the Mayor and City Council which includes a Two-Year Budget Plan. The plan projected a negative fund balance of $30 million for FY 2015. Since the adoption of the FY 2014 Budget, several factors have impacted the projection for FY 2015 to include an increase in the costs of Healthcare benefits, and increasing the City's budgetary reserves consistent with the City's financial policies.

In the FY 2014 Budget Development process, City Council requested a briefing on the City's financial policies and practices before the development of the FY 2015 Budget. City Council was briefed and recommendations were provided to update the City's financial policies. Several of these recommendations are reflected in the General Fund Forecast. The Forecast includes increasing the City's Financial reserve from 9% to 10% of revenue and a target reserve of 1% to 3% of revenues for the two-year balanced budget plan.

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 interlocal 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 2014 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 2015 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 2014 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 2015 through 2019 (See Economic Outlook section for more detail on CPI projections used).

Expenditures in the Forecast include funding for current contract obligations, maintenance of the civilian pay plan, performance pay for Civilian non-step pay plan employees, and operations and maintenance costs for the FY 2012 Bond Program projects, as well as other mandated expenditures. The forecast increases budgetary reserves from 9 to 10% of General Fund revenues and allows for a 1 to 3% reserve of General Fund revenue for the 2-year Balanced Budget plan.

GENERAL FUND FORECAST

GENERAL FUND FORECAST

General Fund Forecast
($ in Millions)

	FY 2014 Budget	FY 2014 Estimate	FY 2015 Projection	FY 2016 Projection	FY 2017 Projection	FY 2018 Projection	FY 2019 Projection
RESOURCES							
Beginning Balance (Excluding Reserves)	$28.2	$41.7	$44.0	$0.0	$0.0	$0.0	$0.0
Use of Reserve for Two Year Balanced Budget Plan	6.8	6.8	7.6	30.5	31.3	32.2	33.1
CURRENT REVENUES							
Property Tax	$254.3	$252.1	$262.8	$271.9	$281.4	$289.9	$298.4
Sales Tax	234.9	243.6	253.4	262.2	271.4	279.6	287.9
CPS Energy	292.2	299.2	316.0	325.3	334.9	344.7	354.9
Other	180.3	180.9	184.0	184.1	185.2	189.0	191.1
TOTAL CURRENT REVENUES	$961.6	$975.8	$1,016.1	$1,043.6	$1,072.9	$1,103.2	$1,132.4
CPS Energy-One Time Revenues		$20.2					
TOTAL REVENUES	$961.6	$996.0	$1,016.1	$1,043.6	$1,072.9	$1,103.2	$1,132.4
EXPENDITURES							
Current Service	$988.3	$992.2	$1,045.5	$1,076.4	$1,101.1	$1,123.2	$1,150.0
Mandated Service Delivery Costs (Incremental)			6.5	8.0	5.0	3.7	3.3
TOTAL EXPENDITURES	$988.3	$992.2	$1,052.0	$1,084.4	$1,106.1	$1,126.9	$1,153.3
FINANCIAL RESERVES/TWO-YEAR BALANCED BUDGET							
Budgeted Financial Reserves for 10% (Incremental)	0.8	0.8	12.6	2.7	2.9	3.0	2.9
Reserve for Two-Year Balanced Budget Plan	7.6	7.6	30.5	31.3	32.2	33.1	34.0
ADJUSTED ENDING BALANCE/(ADJUSTMENT REQUIRED)	$0.0	$44.0	($27.4)	($44.4)	($37.0)	($27.6)	($24.7)
BUDGETED RESERVES SUMMARY							
Budgeted Financial Reserves	89.0	89.0	101.6	104.4	107.3	110.3	113.2
Reserve for 2-year Balance Budget	7.6	7.6	30.5	31.3	32.2	33.1	34.0
Budgeted Financial Reserves as a % of Revenues	9%	9%	10%	10%	10%	10%	10%
Reserve for 2-year Balance Budget as a % of Revenues	1%	1%	3%	3%	3%	3%	3%

GENERAL FUND REVENUES

Total FY 2014 General Fund revenue is anticipated to be $34.4 million, or 3.6%, above the FY 2014 Adopted Budget. Over the forecast period, these revenues are expected to increase at an average annual rate of 2.6%, with annual rates of change ranging from 2.0% in FY 2015 (over the FY 2014 estimate) to 2.6% in FY 2019 (over the FY 2018 projection). The FY 2015 Revenue projection, not including one-time revenues, is 4.1% over the FY 2014 Estimates.

General Fund Forecast of Current Revenues
-$ in Millions-

Revenue	FY 2014 Budget	FY 2014 Estimate	FY 2015 Projections	FY 2016 Projections	FY 2017 Projections	FY 2018 Projections	FY 2019 Projections
Current Property Tax	$ 254.3	$ 252.1	$ 262.8	$ 271.9	$ 281.4	$ 289.9	$ 298.4
City Sales Tax	234.9	243.6	253.4	262.2	271.4	279.6	287.9
CPS - Recurring	292.2	299.2	316.0	325.3	334.9	344.7	354.9
CPS - One Time		20.2					
Business and Franchise Taxes	31.0	31.1	31.1	31.2	31.4	31.6	32.0
Liquor by the Drink Tax	5.3	6.4	6.6	6.9	7.2	7.4	7.7
Delinquent and Penalties	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Licenses and Permits	7.5	7.4	7.6	7.7	7.9	8.0	8.1
San Antonio Water System	11.9	12.5	13.4	13.6	13.8	14.1	14.4
Other Agencies	7.4	8.1	6.9	5.7	4.4	4.4	4.5
Charges for Current Services	57.5	57.1	60.9	60.8	61.0	61.2	61.5
Fines	14.4	13.2	13.2	13.2	13.2	13.2	13.2
Miscellaneous Revenue	10.2	9.8	9.7	10.4	11.7	14.4	15.1
Transfers from Other Funds	30.2	30.4	29.7	29.8	29.8	29.8	29.8
Total Revenue	**$ 961.6**	**$ 996.0**	**$ 1,016.1**	**$ 1,043.6**	**$ 1,072.9**	**$ 1,103.2**	**$ 1,132.4**

CITY PUBLIC SERVICE ENERGY (CPS ENERGY)

Projected Annual Rates of Change for CPS Recurring Revenues

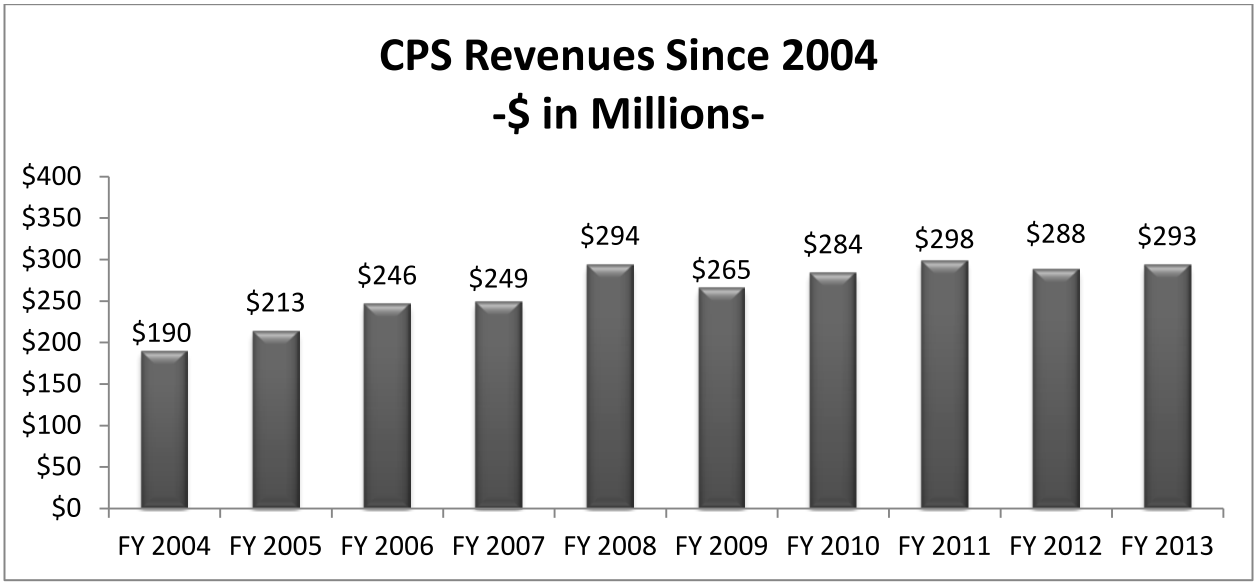
FY 2015[1]	FY 2016	FY 2017	FY 2018	FY 2019
5.6%	3.0%	3.0%	3.0%	3.0%

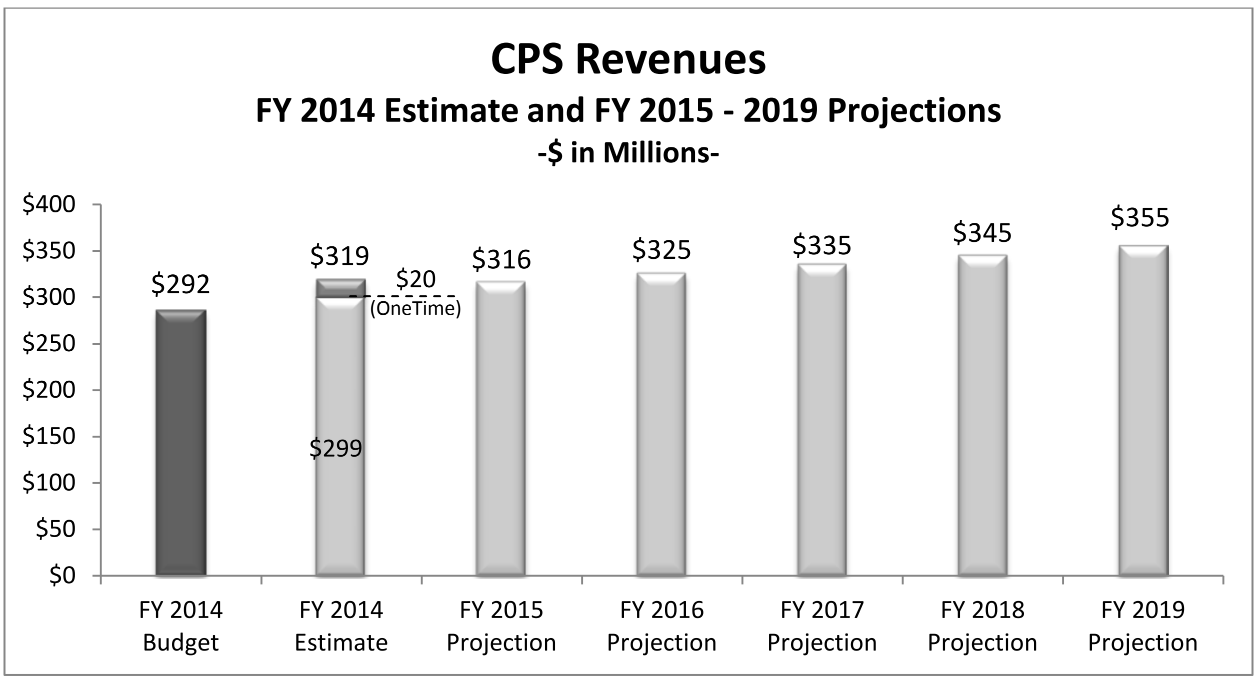
The City's payment from CPS Energy represents the largest source of revenue to the General Fund, accounting for 30% of the FY 2014 General Fund Adopted Budget. 14% of CPS Energy gas and electric gas gross revenue is paid to the City as a return on investment. The estimated revenue of $319.3 million for FY 2014 is $27.2 million, higher than the original $292.2 million budgeted in FY 2014. Of the $319.3 million in estimated revenue, $20.2 million is one-time revenue related to an unusually colder winter. One-time CPS revenues are not projected in the forecast.

[1] CPS revenues projected at 5.6% over FY 2014 Estimate.

The forecast for FY 2015 of $316.0 million is $23.8 million, or 8.1%, higher than the FY 2014 Adopted Budget and is $16.8 million, or 5.6%, higher than the FY 2014 Estimate.

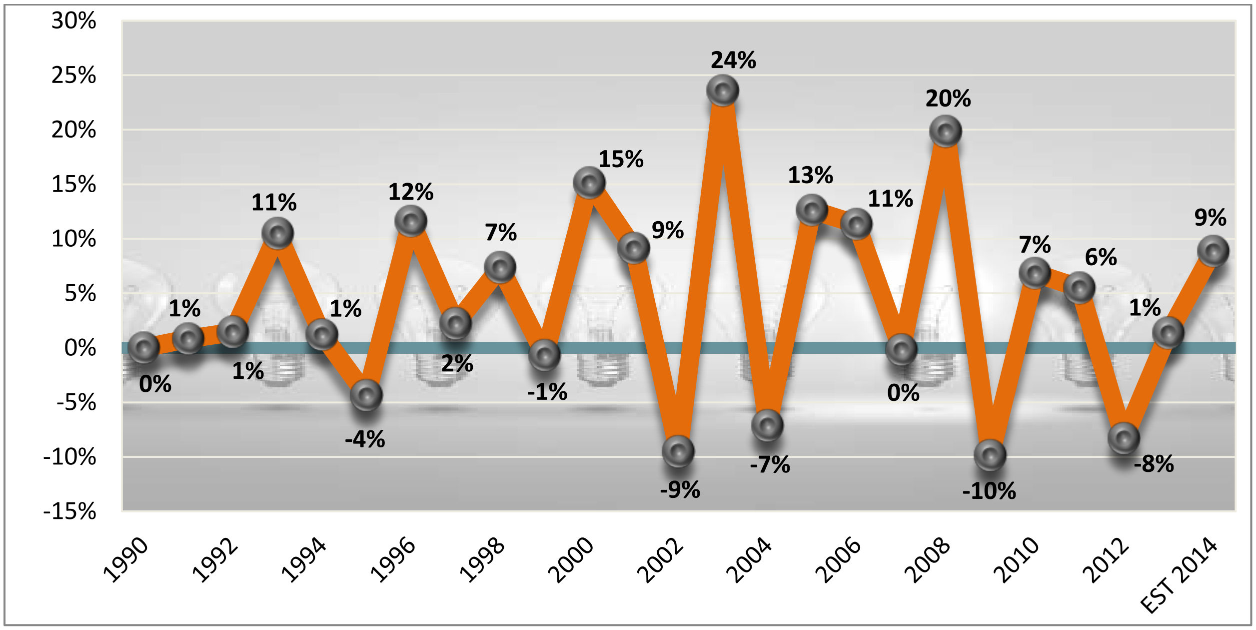
The forecasted amounts for FY 2016 through FY 2019 are based on the FY 2015 Projection adjusted by an average growth rate of 3.0% for FY 2016 through FY 2019.





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, as illustrated in the following graph.

CPS Payment to City
% Change from Prior Year Actual



To illustrate the fluctuations in demand, the above graph 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 and these primary factors. 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.

CURRENT PROPERTY TAX REVENUE – MAINTENANCE & OPERATIONS

Projected Annual Rates of Change

FY 2015[2]	FY 2016	FY 2017	FY 2018	FY 2019
4.2%	3.5%	3.5%	3.0%	3.0%

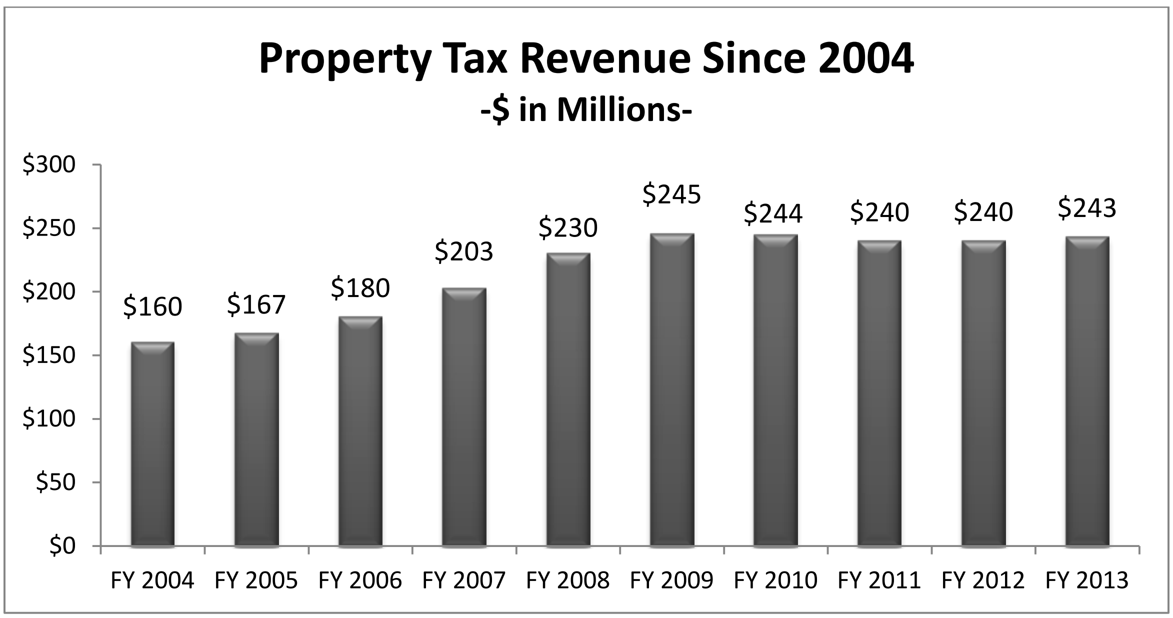
Property tax revenue accounts for 26% of the total FY 2014 General Fund Budget. This revenue category is comprised of current property tax revenues only. Additional property tax revenues collected by the City that are accounted for in the Other Resources category include delinquent property tax and revenues from penalties and interest on delinquent property taxes. Property tax revenue is generated from the City's ad valorem tax rate levied against taxable values as determined by Bexar Appraisal District and in conformance with State law.

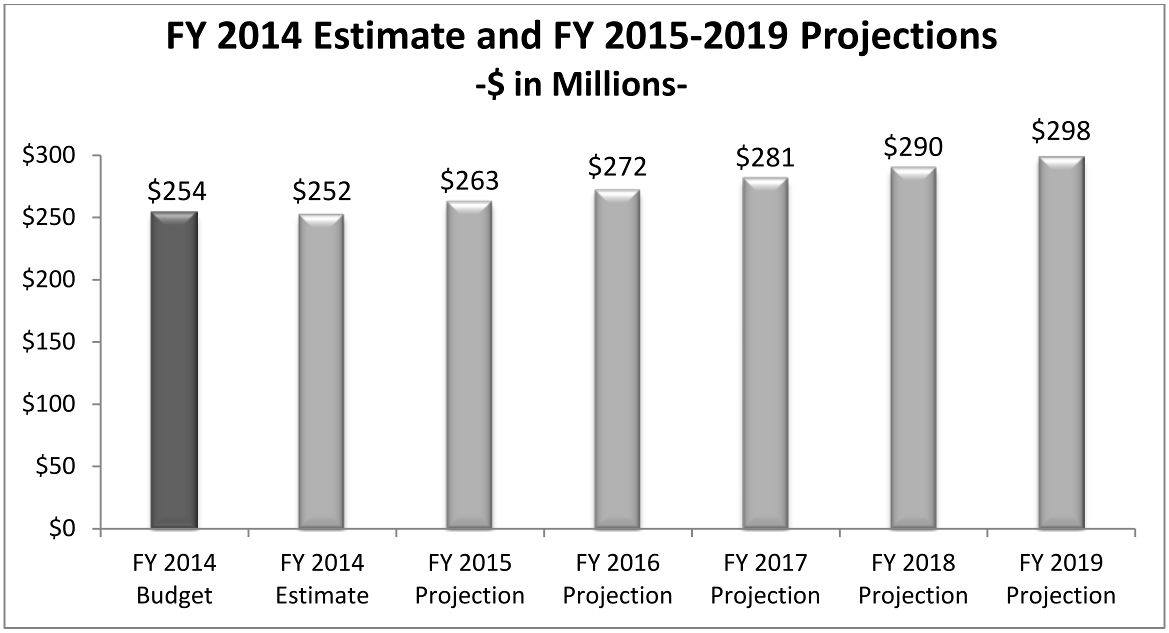
The FY 2015 projected property taxable value is based on preliminary data from the Bexar Appraisal District. The final Certified Property Tax Roll will be available by the end of July 2014.

[2] Property Tax Revenue projected at 4.6% over FY 2014 Estimate and 3.3% above the FY 2014 Budget.

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.

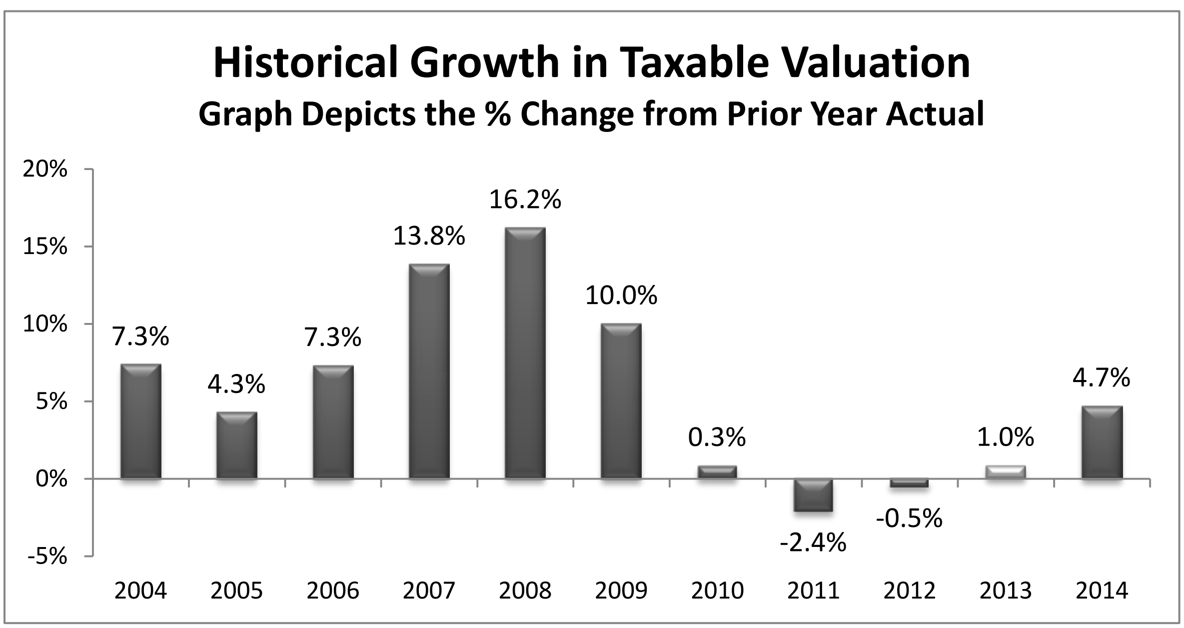
The revenue estimated to be generated in FY 2014 includes the current property tax rate of 56.569 cents per $100 of taxable valuation. The General Fund maintenance and operation portion is 35.419 cents with the remaining 21.150 cents used to support the City's debt service requirements. The revenue projected to be generated through the forecast period beyond FY 2014 (FY 2015-FY 2019) assumes the property tax rate of 56.569 cents per $100 of taxable valuation. The City has not increased the property tax rate for twenty years and has decreased it six times over that same period.





Taxable valuations are estimated to increase by 3.9% in FY 2015 as compared to the FY 2014 Adopted Budget. FY 2016 and FY 2017 taxable valuations are projected to increase by 3.5%; FY 2018 and FY 2019 are estimated to increase by 3.0%. These estimates are a result of projections of base value change, new property improvements, and annexations.

Assessed Valuation Category	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Base	2.13%	1.00%	1.00%	1.00%	1.00%
New Improvements	1.77%	2.50%	2.50%	2.00%	2.00%
Total % Change - Taxable Value	3.90%	3.50%	3.50%	3.00%	3.00%

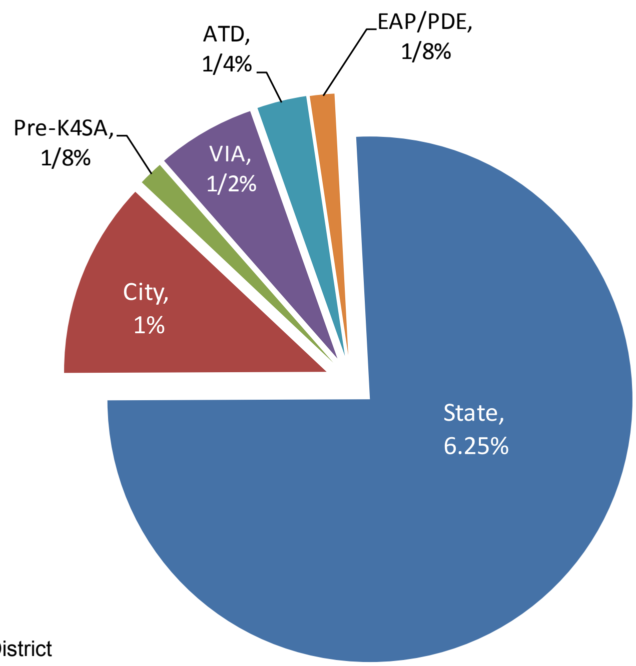


CITY SALES TAX REVENUE

Projected Annual Rates of Change

FY 2015[3]	FY 2016	FY 2017	FY 2018	FY 2019
4.0%	3.5%	3.5%	3.0%	3.0%

Sales tax revenue collected to support maintenance and operations for the General Fund within the FY 2014 Adopted Budget accounts 24% of the FY 2014 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.

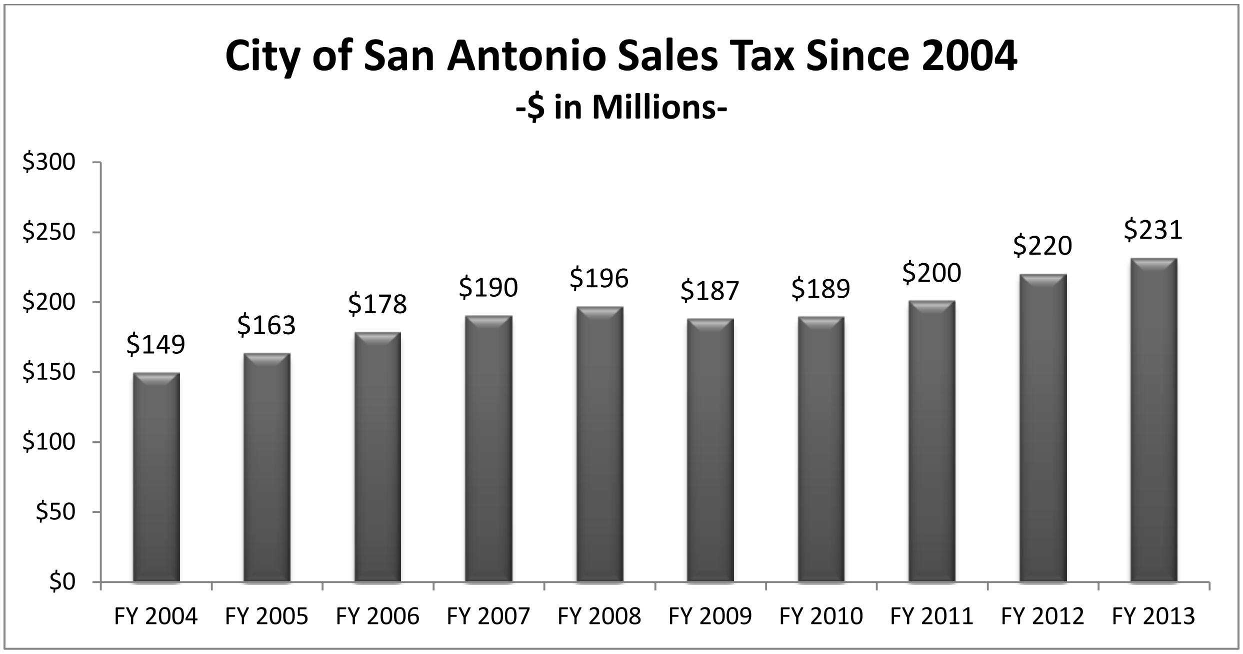


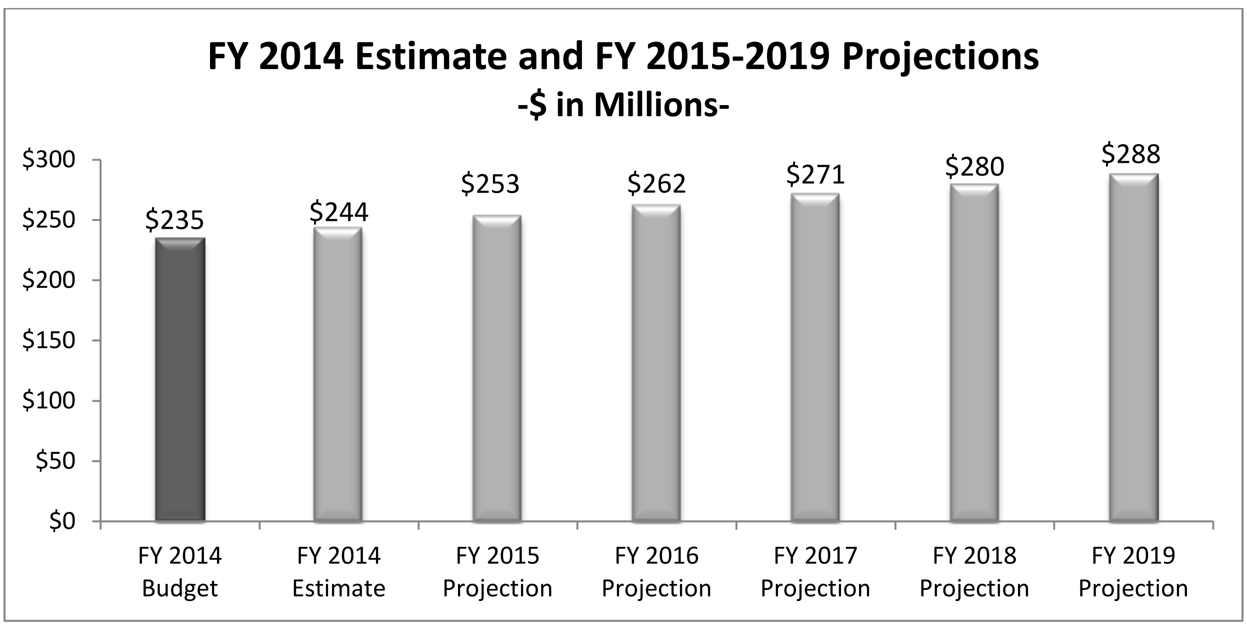
ATD: Advanced Transportation District
EAP: Edward Aquifer Protection
PDE: Parks Development & Expansion

Actual sales tax collections for the current year are projected to be $243.6 million. This amount is $8.8 million or 3.7% more than the $234.9 million budgeted in FY 2014 for Sales Tax revenue. General Fund sales tax revenues in FY 2015 are projected to increase by 7.9%, over the FY 2014 Adopted Budget and 4.0% over the FY 2014 Estimate. Beyond FY 2015, revenue levels from this source are expected to grow at an average rate of 3.3%. Future years' projections are based on historical trends and regression analysis utilizing U.S. Consumer Price Index, San Antonio Gross Metro Product, and San Antonio Area Unemployment. These 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.

[3] Sales Tax is 4% above the FY 2014 Estimate and 7.9% above the FY 2014 Adopted Budget.

The following graph illustrates General Fund sales tax revenue growth over the last 10 years.





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 conditions, such as the unemployment rate and economic output, are projected to perform slightly better than national trends for every year throughout the forecast period.

CHARGES FOR CURRENT SERVICE

Projected Annual Rates of Change

FY 2015[4]	FY 2016	FY 2017	FY 2018	FY 2019
6.60%	-0.12%	0.30%	0.28%	0.50%

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 the EMS Ambulance Service fees, and alarm permit fees; and Health revenues generated by birth and death certificates. Actual revenues for the current year (FY 2014) are projected to be $415,000 or 0.7% under budgeted levels primarily due to lower than anticipated revenues from the River Barge and Tower of America contracts. Projected increases over the forecast period are based on estimated demands or known changes in revenue contracts.

The forecast for FY 2015 is $3.4 million, or 5.8%, higher than the FY 2014 Adopted Budget due to an expected increase in revenues from the Ambulance Supplemental Payment Program. The forecasted amount for FY 2016 is slightly lower than the forecasted amount for FY 2015 due to the expiration of the licensing agreement with the Botanical Gardens and decreases in sales of death and birth certificates.

BUSINESS AND FRANCHISE TAXES

Projected Annual Rates of Change

FY 2015[5]	FY 2016	FY 2017	FY 2018	FY 2019
-0.15%	0.39%	0.63%	0.82%	0.96%

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 ($4.16) and each residential line ($1.25). These fees change every July 1 and the adjustment is based on ½ of the current CPI. The new fees on July 1, 2014 will be $4.20 for business lines and $1.26 for residential lines. The forecast for FY 2015 of $31.1 million is $45,000 lower than the FY 2014 estimate. The forecasted amounts for FY 2016 through FY 2019 grow at an average of 0.70% 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; there was a small change in the CTP forecast for FY 2015 of $14.5 million, which represents a $183,000 decrease from the FY 2014 estimate of $14.7 million.

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[4] Charges for Current Service are 6.6% over the FY 2014 Estimate and 5.83% above the FY 2014 Adopted Budget.

[5] Business and Franchise Tax Revenues are 0.15% lower than the FY 2014 Estimate and 0.21% over the FY 2014 Adopted Budget.

SAN ANTONIO WATER SYSTEM (SAWS) PAYMENT

Projected Annual Rates of Change

FY 2015 [6]	FY 2016	FY 2017	FY 2018	FY 2019
6.83%	1.50%	2.00%	2.00%	2.00%

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 2015 from SAWS is $13.4 million. This is an increase of $1.5 million, or 12.3%, from the FY 2014 Adopted Budget of $11.9 million and $0.9 million, or 6.8%, from the FY 2014 Estimate of $12.5 million. Projections for the forecast period are based on the 2014 and 2015 rate increases 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 2015[7]	FY 2016	FY 2017	FY 2018	FY 2019
-1.84%	-0.11%	0.55%	3.89%	1.42%

Other revenues received by the General Fund include delinquent and penalties from property taxes, licenses and permits, fines, liquor by the drink, interest earnings, transfer from other funds, and other miscellaneous revenue. Other resources for the current year are projected to be approximately $80.1 million compared to the FY 2014 Adopted Budget of $79.8 million. This $290,000 increase is largely attributable to an increase in liquor by the drink revenue. For FY 2015, total other General Fund revenue is expected to be $78.7million or -1.5% lower than the FY 2014 Adopted Budget. Beyond FY 2015, other resources are projected to increase by an average of 1.4%.

Included in the projections for FY 2015 to FY 2017 is the phase out of revenues received from Bexar County in exchange for providing access to the City's libraries to County residents. During the phase out process revenues are reduced by an average of $1.3 million each year.

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.

[6] SAWS revenues are 6.83% above the FY 2014 Estimate and 12.25% above the FY 2014 Adopted Budget.
[7] Other resources are 1.84% less than the FY 2014 Estimate and 1.49% lower than the FY 2014 Adopted Budget.

The following table projects the cost requirements of mandated expenditures and commitments over the FY 2015 to FY 2019 forecast period and the impact to the General Fund. All expenditures shown are incremental.

Mandate Title	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
CAPITAL IMPROVEMENTS OPERATING & MAINTENANCE					
Parks Linear Greenway Program	$ 640,229	$ 757,156	$ 221,616	$ 530,350	$ 45,149
Parks Acquisitions / Development	102,276	73,207	167,814	15,050	0
2012 Bond Program Projects	2,102,079	2,663,418	1,518,598	41,596	6,525
Subtotal	**$ 2,844,583**	**$ 3,493,782**	**$ 1,908,028**	**$ 586,996**	**$ 51,674**
CONTRACT REQUIREMENT-COLLECTIVE BARGAINING					
Evergreen Clause	2,875,082	2,891,713	2,923,614	2,958,541	3,058,777
Subtotal	**$ 2,875,082**	**$ 2,891,713**	**$ 2,923,614**	**$ 2,958,541**	**$ 3,058,777**
OTHER MANDATES					
Other Mandates	805,017	1,523,014	176,164	106,032	184,096
Subtotal	**$ 805,017**	**$ 1,523,014**	**$ 176,164**	**$ 106,032**	**$ 184,096**
Total Mandated Costs	**$ 6,524,683**	**$ 7,908,509**	**$ 5,007,806**	**$ 3,651,569**	**$ 3,294,547**

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 2015 to FY 2019), the City anticipates acquiring 31.9 miles of additional greenway trails and acquisition of approximately 400 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 18 additional components in approximately 6 parks, with approximately 92 new park acres to maintain. Park components include picnic units, playgrounds, sports fields, and walking trails.

2012 BOND PROGRAM PROJECTS OPERATIONS & MAINTENANCE

This mandate provides for operations and maintenance of a new District 9 Branch Library, Hemisfair Park Play Escape play area and a new District 5 Senior Center. The District 9 Branch Library is located at 2515 East Evans Road and is 10,500 square feet. Construction of the new facility is estimated to be completed in Summer 2015. The Hemisfair Park Play Escape play area is located at the southwest corner of Hemisfair. Construction of this play area is estimated to be completed in Spring 2015. The District 5 Senior Center is located at 700 Culberson and is 15,000 square feet. This facility will serve as a multi-use Senior Center and Community Center to provide multi-generational services. Construction of this facility is estimated to be completed in Spring 2015.

CONTRACT REQUIREMENT – COLLECTIVE BARGAINING

The clause in collective bargaining, referred to as the Evergreen Clause, stipulates that the current agreement shall remain in effect until such time when a new agreement succeeds it. The current agreement is scheduled to end September 30, 2014. This mandate provides for the annual costs associated with employing uniformed public safety employees beyond the length of the current collective bargaining agreement. These costs relate to scheduled step increases based on years of service and related benefits.

OTHER MANDATES

These mandates provide for increases to lease agreements, interlocal agreements, and management agreements.

FINANCIAL RESERVES FUNDS

The establishment and maintenance of appropriate reserves within the General Fund is critical to prudent financial management.

The City of San Antonio strives to maintain a strong and solid financial position coupled with flexibility to adapt to economic conditions. The City's financial reserve levels have increased from just under 4.0% in 2006 to 9.0% in 2014. This represents a total reserve amount of $89 million in FY 2014. The budget financial reserves could be utilized for one of the following events:

- Unforeseen operational or capital requirements which arise during the course of the fiscal year
- An unforeseen or extraordinary occurrence such as a natural disaster, catastrophic change in the City's financial position, or the occurrence of a similar event
- To assist the City in managing fluctuations in available General Fund resources from year to year in stabilizing the budget

The FY 2014 to FY 2015 Forecast reflects a recommended increase in budgeted financial reserve from 9% to 10% of General Fund Revenues. The Forecast also includes a 3% financial reserve for the 2-year Balanced Budget Policy. If the City Council approves the increases to financial reserves, the FY 2015 Adopted Budget will reflect the new policy.

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 Cultural Affairs 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 2015 through FY 2019. 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 2014 Budget	FY 2014 Estimate	FY 2015 Projection	FY 2016 Projection	FY 2017 Projection	FY 2018 Projection	FY 2019 Projection
RESOURCES							
Beginning Balance	$0.0	$0.2	$0.0	$0.0	$0.0	$0.0	$0.0
REVENUES							
Hotel Occupancy Tax	$57.8	$58.7	$60.5	$62.7	$64.8	$66.9	$69.1
Miscellaneous	$0.1	$0.1	$0.1	$0.3	$0.0	$0.0	$0.0
TOTAL REVENUES	$57.9	$58.8	$60.6	$63.0	$64.9	$67.0	$69.1
TOTAL RESOURCES	**$57.9**	**$58.9**	**$60.6**	**$63.0**	**$64.9**	**$67.0**	**$69.1**
TRANSFERS OUT							
Convention & Visitors Bureau Fund (CVB)	$19.5	$19.9	$20.0	$20.4	$20.8	$21.2	$21.6
Community & Visitor Facilities Fund (CVF)	17.8	14.8	17.6	19.0	18.5	17.8	18.0
Culture & Creative Development (DCCD)	8.0	8.0	8.8	9.1	9.4	9.6	9.9
Support for History and Preservation	8.0	8.0	8.8	9.1	9.4	9.6	9.9
Transfer - Hotel/Dome Impvt & Contingency Fund	0.0	0.0	0.0	0.5	0.5	1.0	1.0
Transfer to Redemption & Capital Reserve Fund	0.0	3.7	0.9	0.0	1.0	1.9	2.5
Transfer to Debt Service	1.7	1.7	1.6	2.0	2.4	2.8	3.2
Other Transfers	2.9	2.9	2.9	3.0	3.0	3.0	3.1
TOTAL TRANSFERS	**$57.9**	**$58.9**	**$60.6**	**$63.0**	**$64.9**	**$67.0**	**$69.1**
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.

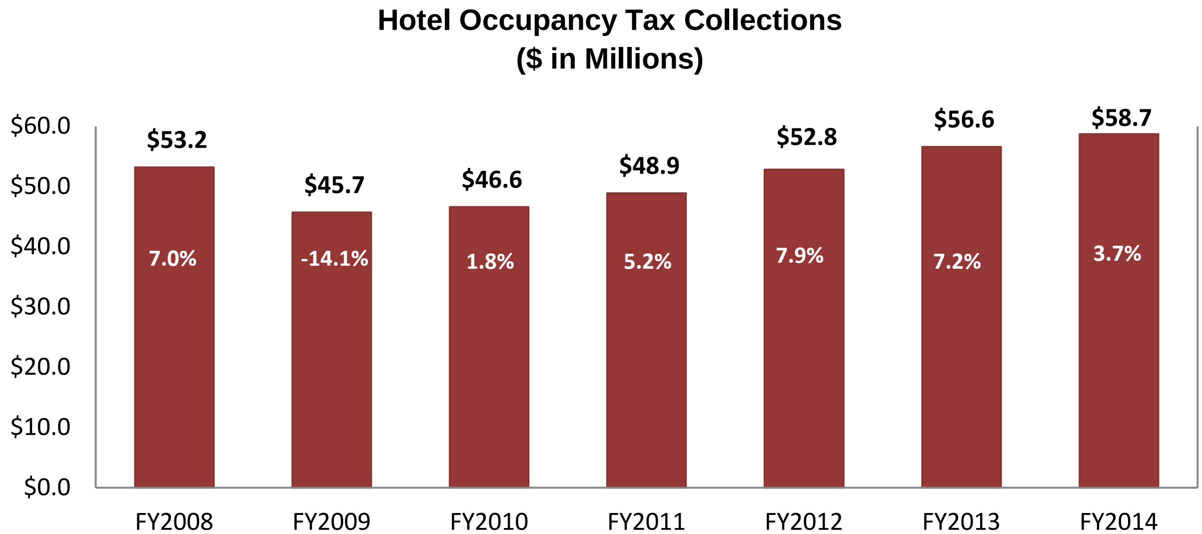
The City's 7% General HOT collection is used to support tourism, convention activities, as well as arts and cultural programming. It includes funding up to 15% for Arts, up to 15% for History and Preservation, Convention Facilities, and the Convention and Visitors Bureau. The 2% HOT can only be used to support expansion of the Convention Center facility.

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% General HOT to make the required annual debt payment. The amount of 7% General HOT required to be contributed towards debt payments will be applied first, leaving a Net 7% General 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% General HOT.

HOT revenue is estimated to be $58.7 million for FY 2014, which is 1.6% higher than the FY 2014 Adopted Budget of $57.8 million. HOT revenues are projected to increase at annual rates of 3.1% (FY 2015), 3.6% (FY 2016), 3.4% (FY 2017), 3.3% (FY 2018) and 3.2% (FY 2019) during the Forecast period years.

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 HOT Collections graph shows below, between FY 2008 and FY 2014, the City's HOT Tax Collections grew 10.34%.



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% tax 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 not produce the expected revenue amounts.

The Forecast for the Hotel Occupancy Tax Fund assumes the FY 2014 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 2015	FY 2016	FY 2017	FY 2018	FY 2019
2.30%	2.60%	2.80%	2.80%	2.50%

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 Facility 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 following is the Financial Forecast for the Community and Visitor Facilities Fund.

Community and Visitor Facilities Fund
($ In Millions)

	FY 2014 Budget	FY 2014 Estimate	FY 2015 Projection	FY 2016 Projection	FY 2017 Projection	FY 2018 Projection	FY 2019 Projection
RESOURCES							
Beginning Balance	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Convention Center Revenues	11.7	13.7	12.3	12.4	13.4	13.8	14.1
Alamodome Revenues	7.3	8.6	8.0	8.2	8.3	8.5	8.7
Miscellaneous Revenues	0.1	0.1	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	17.8	14.8	17.6	19.0	18.5	17.8	18.0
TOTAL RESOURCES	**$37.0**	**$37.3**	**$38.1**	**$39.8**	**$40.4**	**$40.3**	**$41.0**
EXPENDITURES							
Base Budget	$37.0	$37.3	$35.3	$37.0	$38.9	$39.3	$40.3
Mandates (Incremental)	0.0	0.0	2.7	2.8	1.5	1.0	0.7
TOTAL EXPENDITURES	**$37.0**	**$37.3**	**$38.1**	**$39.8**	**$40.4**	**$40.3**	**$41.0**
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 generated in Marketing and Promotion of San Antonio as a premier leisure and convention destination. It is supported from 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 2014 Budget	FY 2014 Estimate	FY 2015 Projection	FY 2016 Projection	FY 2017 Projection	FY 2018 Projection	FY 2019 Projection
RESOURCES							
Beginning Balance	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Miscellaneous Revenues	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Transfer from HOT 7% Tax Fund	19.5	19.9	20.0	20.4	20.8	21.2	21.6
TOTAL RESOURCES	**$19.7**	**$20.2**	**$20.2**	**$20.7**	**$21.1**	**$21.5**	**$21.9**
EXPENDITURES							
Base Budget	$19.7	$20.2	$20.2	$20.7	$21.1	$21.5	$22.0
TOTAL EXPENDITURES	**$19.7**	**$20.2**	**$20.2**	**$20.7**	**$21.1**	**$21.5**	**$22.0**
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 2014 Budget	FY 2014 Estimate	FY 2015 Projection	FY 2016 Projection	FY 2017 Projection	FY 2018 Projection	FY 2019 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	8.0	8.0	8.8	9.1	9.4	9.6	9.9
TOTAL RESOURCES	**$8.0**	**$8.0**	**$8.9**	**$9.2**	**$9.4**	**$9.7**	**$9.9**
EXPENDITURES							
Base Budget	$8.0	$8.0	$8.9	$9.2	$9.4	$9.7	$9.9
TOTAL EXPENDITURES	**$8.0**	**$8.0**	**$8.9**	**$9.2**	**$9.4**	**$9.7**	**$9.9**
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 2015 to FY 2019 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 was established as an Enterprise Fund 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.

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 departments
- Enhanced accountability by appropriately aligning revenue 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 balance department, (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.

Below is the Financial Forecast for the Development Services Fund. The Forecast reflects projections for a five year period from FY 2015 through FY 2019 and 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 reserves.

Development Services Fund Forecast

($ in Thousands)

	FY 2014 Revised Budget	FY 2014 Estimate	FY 2015 Projection	FY 2016 Projection	FY 2017 Projection	FY 2018 Projection	FY 2019 Projection
AVAILABLE FUNDS							
Beginning Balance	**$2,821**	**$2,821**	**$145**	**$341**	**$217**	**$330**	**$523**
Use of Reserve for Capital Projects	0	0	4,800	3,200	0	0	0
Net Balance	**$2,821**	**$2,821**	**$4,945**	**$3,541**	**$217**	**$330**	**$523**
Current Revenues							
Development Services Revenues	$27,475	$29,057	$30,053	$30,874	$31,709	$32,594	$33,312
Transfer from General Fund - Planning Positions	145	145	0	0	0	0	0
Total Revenues & Transfers	$27,620	$29,202	$30,053	$30,874	$31,709	$32,594	$33,312
TOTAL AVAILABLE FUNDS	**$30,441**	**$32,023**	**$34,999**	**$34,415**	**$31,927**	**$32,924**	**$33,835**
EXPENDITURES							
Personal Services	$15,596	$15,504	$16,324	$16,910	$17,516	$18,139	$18,788
Contractual Services	1,129	1,153	837	847	858	870	880
Commodities	285	281	291	297	304	311	317
Other Expenditures	3,957	3,967	3,992	4,037	4,081	4,136	4,176
Capital Outlay	83	102	834	218	0	0	0
Total Operating	$21,051	$21,007	$22,278	$22,310	$22,760	$23,456	$24,161
Transfers Out							
To General Fund	$4,047	$4,234	$3,572	$3,593	$3,614	$3,635	$3,656
To Capital Projects	595	595	4,800	3,200	0	0	0
Total Transfers Out	$4,642	$4,829	$8,372	$6,793	$3,614	$3,635	$3,656
TOTAL APPROPRIATIONS	**$25,693**	**$25,836**	**$30,650**	**$29,103**	**$26,374**	**$27,091**	**$27,818**
GROSS ENDING BALANCE	**$4,747**	**$6,187**	**$4,348**	**$5,312**	**$5,553**	**$5,833**	**$6,017**
FY 2014 MID-YEAR IMPROVEMENTS							
Additional Positions Requested	$0	$546	$1,061	$1,082	$1,105	$1,130	$1,157
ADJUSTED GROSS ENDING BALANCE	***$4,747***	***$5,641***	***$3,287***	***$4,231***	***$4,449***	***$4,703***	***$4,860***
Budgeted Reserve for Financial Stabilization	$115	$278	$447	$13	$118	$180	$183
Budgeted Reserve for Capital Projects	4,487	5,218	2,500	4,000	4,000	4,000	4,000
NET ENDING BALANCE	***$145***	***$145***	***$341***	***$217***	***$330***	***$523***	***$677***
RESERVE SUMMARY							
Reserve for Financial Stabilization (Cumulative)	$5,225	$5,388	$5,835	$5,848	$5,966	$6,146	$6,330
Reserve for Capital Projects (Cumulative)	5,987	6,718	4,418	5,218	9,218	13,218	17,218

ANALYSIS OF REVENUES AND EXPENDITURES

The Development Services Fund Forecast represents a comparison of projected yearly revenues, expenditures and reserves, and balances in the Fund over the forecast period. The forecast assumes costs associated with FY 2014 Mid-Year Improvement requests in the form of personnel additions, in addition to current service delivery.

Revenues – Through the first six months of the current fiscal year (October 2013-March 2014), Development Services revenues, including transfers, are $15,290,111, or approximately 11% above the 6-month planned amount. Total revenue for FY 2014 is projected to be approximately $1.5 million more than budgeted, due primarily to surging permit valuation during the fiscal year. Commercial and residential permit valuation is up more than $550 million and $13 million, respectively, year-to-date and FY 2014 Estimates are $2.71 billion and $374 million respectively.

Development Services operating revenues reflect steady growth in out years. Departmental revenue-generating activities were identified as relating primarily to new commercial construction or existing commercial/residential construction and growth rates applied thereafter based upon such designation. In FY 2015, 4.0% growth is expected for revenues related to new commercial construction, followed by 3.0% in FY 2016 and 2.5% thereafter. Existing commercial and residential construction revenues are expected to grow at more modest levels over the forecast period: 3.0% in FY 2015, 2.0% in FY 2016 and FY 2017, and 1.5% in FY 2018 and FY 2019. Lastly, minimal growth of 1.0% per year is expected for Fire Prevention-related revenues, and transfers are assumed constant from FY 2015 to FY 2019. Given the aforementioned revenue components and rates, total revenues increase by the following amounts over the forecast period:

FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
2.9%	2.7%	2.7%	2.8%	2.2%

Expenditures - This section of the Forecast projects expenditures based in part on the current service level, but also assumes additional expenditures related to increased service levels based upon FY 2014 Mid-Year Improvement requests. The improvement requests include the addition of 16 positions aimed at improving cycle time, customer service, and c onsistency. The positions are designed to specifically address and improve upon the time needed to provide review of major plats and complex commercial plans, the percent of inspections performed as scheduled, and the wait time for customers visiting the Cliff Morton Development and Business Services Center.

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 are described in the Economic Outlook and Perspective section.

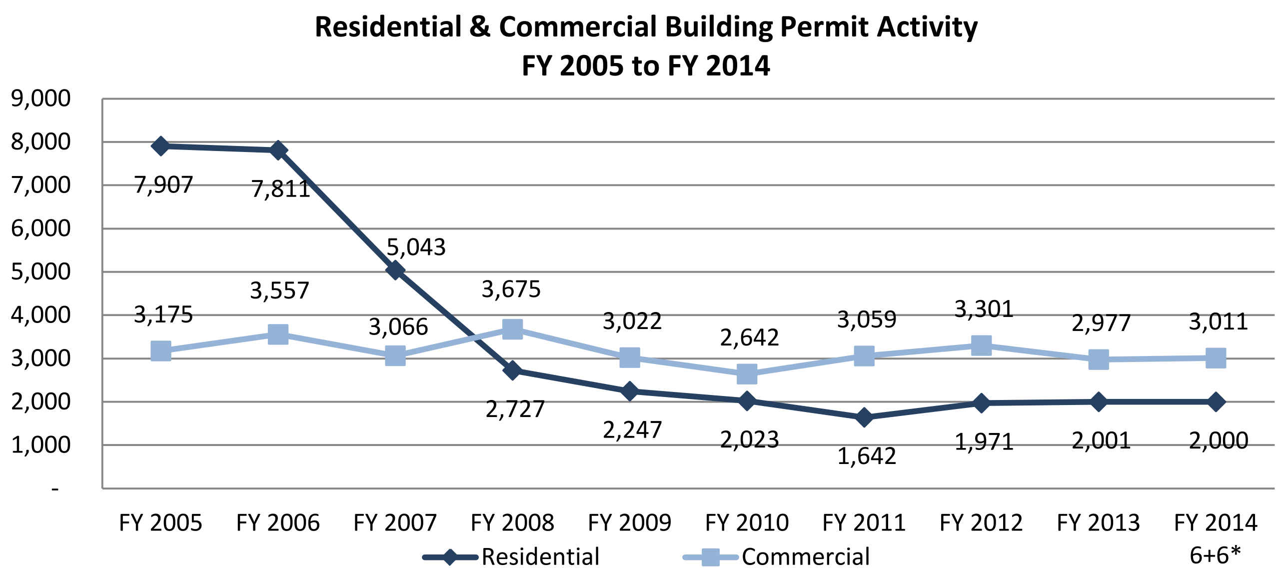
Below are the assumed inflation rates for each year of the forecast period:

FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
2.30%	2.60%	2.80%	2.80%	2.50%

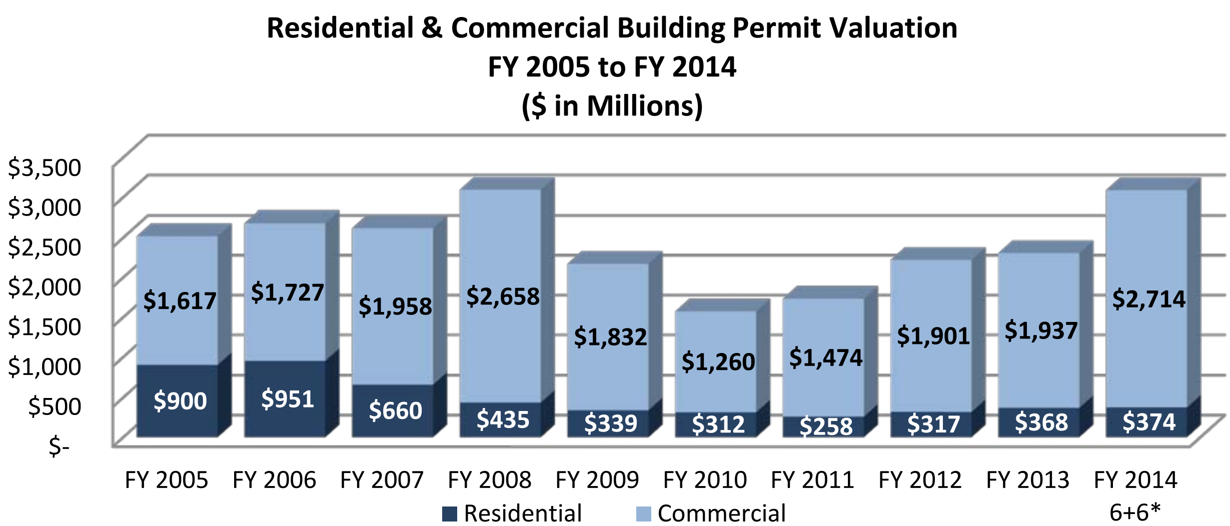
The forecast includes the continuation of the Step Pay Plan and a Performance Pay for non-Step Pay Plan positions. Also included are the corresponding increases to both the Reserve for Financial Stabilization and Reserve for Capital Projects. The Net Ending Balance takes into account the full impact of all transfers and operating expenses, including employee compensation issues and FY 2014 Mid-Year Improvement requests.

The establishment and maintenance of appropriate financial reserves within the Development Services Fund is critical to prudent financial management. The Budgeted Financial Reserves goal is three months of operating expenses (excluding transfers) and is achieved during the five-year forecast period. In FY 2013, a reserve for replacement of capital projects was also established within the Fund. This reserve will allow for the replacement of the Development Services permitting system, technology upgrades, and facility improvements

Permit Activity and Valuation - The following graphs illustrate trends for both building permit activity and valuation. The number of residential permits, after sharp declines from FY 2007 to FY 2009, has leveled out in recent years. The number of commercial (new and existing) permits has remained steady over the last decade, averaging 3,164 permits per year from FY 2005 to FY 2013, with only moderate growth expected in the near future.



Building permit project valuation is an indication not only of the number of permits, but also of the size, scope, and complexity of the projects involved. Since 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 FY 2013 valuation for commercial projects accounted for 84% of total permitting project valuation, compared to just 16% deriving from residential construction. FY 2014 will mark the fourth consecutive year commercial permit valuation has increased. Through six months of the current fiscal year commercial valuation was $1.42 billion, $550 million higher than the same period last fiscal year. While the total number of permits, both commercial and residential, has not returned to FY 2005 to FY 2008 levels, total permitting valuation is projected at year-end to surpass $3.08 billion. A similar level of valuation is expected to continue into FY 2015.



*April-September permit counts and valuations are projected

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 four 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 for Residential and Commercial Services.

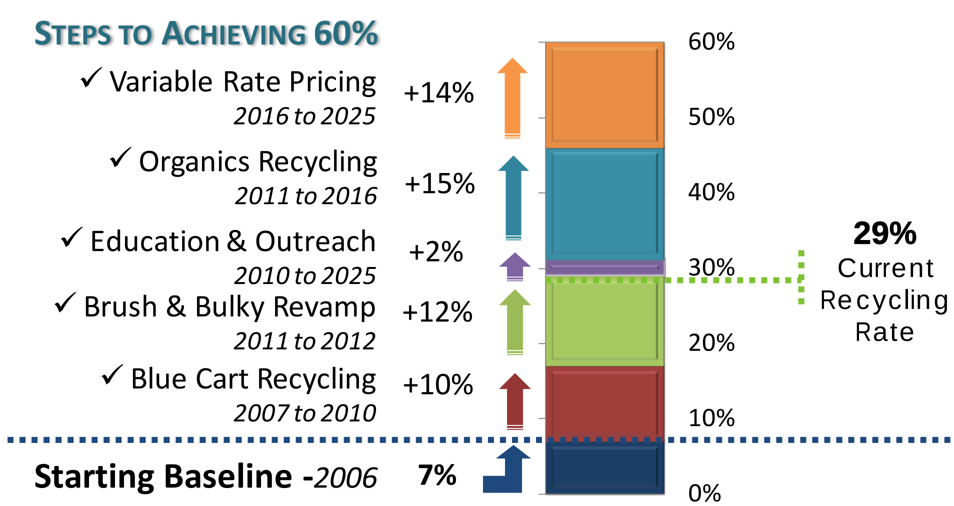
Recycling and Resource Recovery Plan

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 new 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 two bulky drop off centers, and obtained City Council approval of an ordinance requiring multifamily residences to provide recycling.

Since the implementation of the Recycling Plan, the Department has increased the amount of materials recycled from 7 percent to 32 percent. The graphic below illustrates the steps outlined in the Recycling Plan to achieve a 60 percent residential recycling rate by the year 2025.

Steps to Achieving 60% Residential Recycling Goal



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 2015 to FY 2019. 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)

RESOURCES	FY 2014 Budget	FY 2014 Estimated	FY 2015 Projection	FY 2016 Projection	FY 2017 Projection	FY 2018 Projection	FY 2019 Projection
Beginning Balance	$ 4,201	$ 4,201	$ 2,060	$ 2,188	$ 703	$ 712	$ 759
Use of Budgeted Reserve			3,500	1,052	-	-	-
CURRENT REVENUES							
Solid Waste Fee	$ 74,471	$ 73,937	$ 74,615	$ 77,608	$ 86,930	$ 88,969	$ 89,543
Solid Waste Fee- Rate Adjustment			$ 4,218	$ 7,429	$ 8,545	$ 8,601	$ 8,656
Environmental Fee	15,171	15,125	15,283	15,442	15,603	15,766	15,931
Organics Fee	907	378	694	-	-	-	-
Recycling Revenue	5,153	4,409	3,213	3,471	4,332	4,496	4,525
Other Revenues	2,068	2,276	2,182	2,190	2,198	2,206	2,214
TOTAL CURRENT REVENUES	**$ 97,771**	**$ 96,125**	**$ 100,205**	**$ 106,141**	**$ 117,608**	**$ 120,038**	**$ 120,869**
TOTAL RESOURCES	**$ 101,972**	**$ 100,326**	**$ 105,765**	**$ 109,380**	**$ 118,311**	**$ 120,750**	**$ 121,628**
EXPENDITURES/RESERVES							
Base Service	$ 98,764	$ 98,265	$ 102,440	$ 102,842	$ 108,929	$ 118,072	$ 119,772
POLICY ISSUES							
Variable Rate Pricing			1,137	5,184	6,057	(179)	95
NW Service Center			-	652	614	98	3
TOTAL EXPENDITURES	**$ 98,764**	**$ 98,265**	**$ 103,577**	**$ 108,677**	**$ 115,600**	**$ 117,991**	**$ 119,870**
Incremental Reserve					2,000	2,000	1,000
NET ENDING BALANCE	**$ 3,208**	**$ 2,060**	**$ 2,188**	**$ 703**	**$ 712**	**$ 759**	**$ 757**
Proposed Rate Increase			**$ 1.00**	**$ 0.75**	**$ 0.25**	**$ -**	**$ -**
BUDGETED RESERVE	$ 4,552	$ 4,552	1,052	0	2,000	4,000	5,000

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 bi lled and c ollected 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 0.65% and 1 .04% respectively for solid waste and environmental customers from FY 2015 through FY 2019, 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 Operating and Maintenance Fund.

History of Total Monthly Rates per Household

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Total Monthly Rate	$18.74	$18.74	$19.43	$19.43	$19.93
Rate Adjustment	$0.00	$0.00	$0.69	$0.00	$0.50

Fee increases are included in each year for the life of the forecast to support the additional equipment and personnel needed to implement a Variable Rate Cart Pricing Program and provide Organics Recycling services to all Solid Waste residential customers. The table below reflects the impact on the total monthly rates for these programs.

FY 2015 - FY 2019 Projected Monthly Rate Adjustments

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Total Monthly Rate	$20.93	$21.68	$21.93		
Variable Rate Pricing					
Small Cart		$19.68	$19.93	$19.93	$19.93
Medium Cart		$24.68	$24.93	$24.93	$24.93
Large Cart		$29.68	$29.93	$29.93	$29.93
Rate Adjustment	***$1.00***	***$0.75***	***$0.25***	***$0***	***$0***

EXPENDITURES

VARIABLE RATE PRICING & ORGANICS

In FY 2012, the Solid Waste Management Department implemented a pilot program for Organic Recycling. Distribution of green carts for organic material began in September 2011, and collection for the entire 30,000 pilot homes began November 2011. In FY 2013, City Council approved the expansion of the Organic Recycling Subscription Program to the rest of the City. Subscribers to the Organics Recycling Program were assessed an additional $3.00 per month.

In FY 2016, SWMD is recommending to implement Variable Rate Pricing. The Variable Rate Pricing program will be a major driver in achieving the 60% residential recycling goal by 2025. Residents will select from three cart sizes, and rates will vary according to cart size. The larger a cart a residents 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. Also beginning in FY 2016, the City would transition away from a subscription-based Organics Recycling Program. The organics cart will be automatically available to all customers. This recommendation is due to a lower than anticipated subscription rate for the Organics program.

The planned subscription rate for the program was 35% however the subscription rate is estimated to be only 18% for FY 2014. With this lower subscription rate, the subscription based Organics program is not self-sustaining. The Organics program is vital to achieving the 60% recycling goal and incorporating the Organics program with Variable Rate Pricing will ensure the goal is attainable.

The following table illustrates the planned implementation schedule, including the additional carts and collection trucks required. In FY 2015 no expansion will occur in either the Organics or Variable Rate Pricing programs. By the end of FY 2016 about half of the City will be incorporated into Variable Rate Pricing. All solid waste customers will have a green Organics cart available and be on Variable Rate Pricing by the end of FY 2017.

Variable Rate Pricing Implementation

	FY 2014 Estimate	FY 2015 Projected	FY 2016 Projected	FY 2017 Projected
Homes with Organics Available (end of year)	120,000*	120,000	190,000**	351,000
Homes with Variable Rate Pricing (end of year)	0	0	190,000	351,000
Additional Carts	0	160,000	153,000	241,000
Additional Trucks	4	9	16	0

*18% of the total service area (21,600 subscribers) is projected to participate in Organics in FY 2014
**Mandatory Organics begins with a projected 80% of service area accepting the Organics cart.

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 2015 through 2019. These rates and their underlying assumptions are described in the Economic Perspective and Outlook section. The FY 2015 base budget also assumes the removal of one-time improvements included in the FY 2014 Adopted Budget. Lastly, the forecast includes debt service for the proposed northwest service center on Leslie Road.

DEBT SERVICE FOR NORTHWEST SERVICE CENTER ON LESLIE ROAD

A new service center for use by the SWMD and Transportation & Capital Improvements (TCI) Departments has been proposed. The service center will provide crew quarters, vehicle maintenance, parking, fueling, and wash areas. In addition, the center will provide a bulk materials yard for TCI. The proposal is to fund the construction of the service center through the issue of debt. The first debt payment will occur in FY 2016 for approximately $650 thousand and will be approximately $1.3 million each subsequent year.

ECONOMIC OUTLOOK & PERSPECTIVE

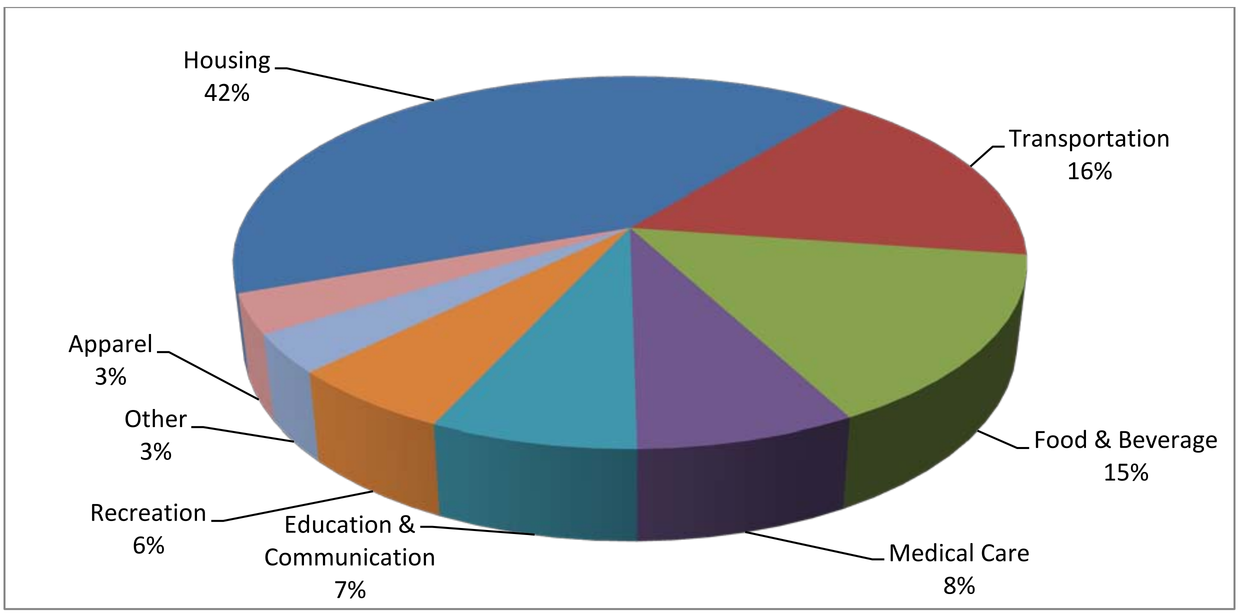
ECONOMIC OUTLOOK

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 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

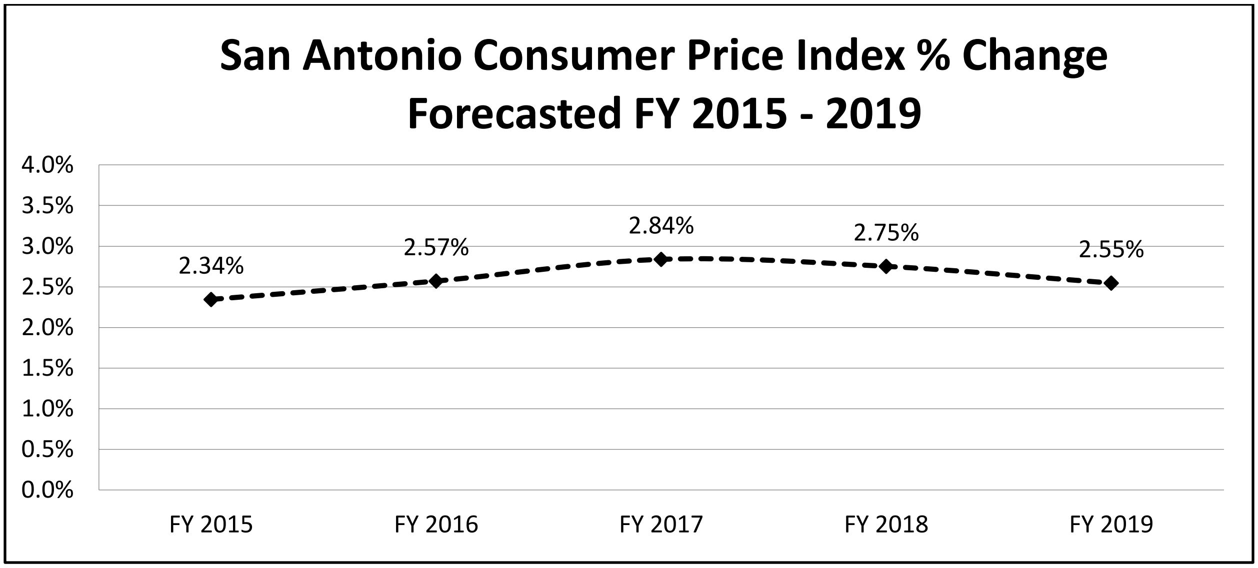
The Consumer Price Index (CPI) commonly referred to as the inflation rate, measures the average price change for a market basket of consumer goods and services. This basket of goods contains a wide array of items, ranging from food and gasoline to college tuition and medical supplies. The CPI does not, 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 listed under the transportation category and makes up 4.9% of the basket of goods.

The Consumer Price Index is used as the inflationary factor for specific non-personnel services expenditures to develop the General Fund and other fund's budget forecast. 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 also 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 from October 1 to September 30.

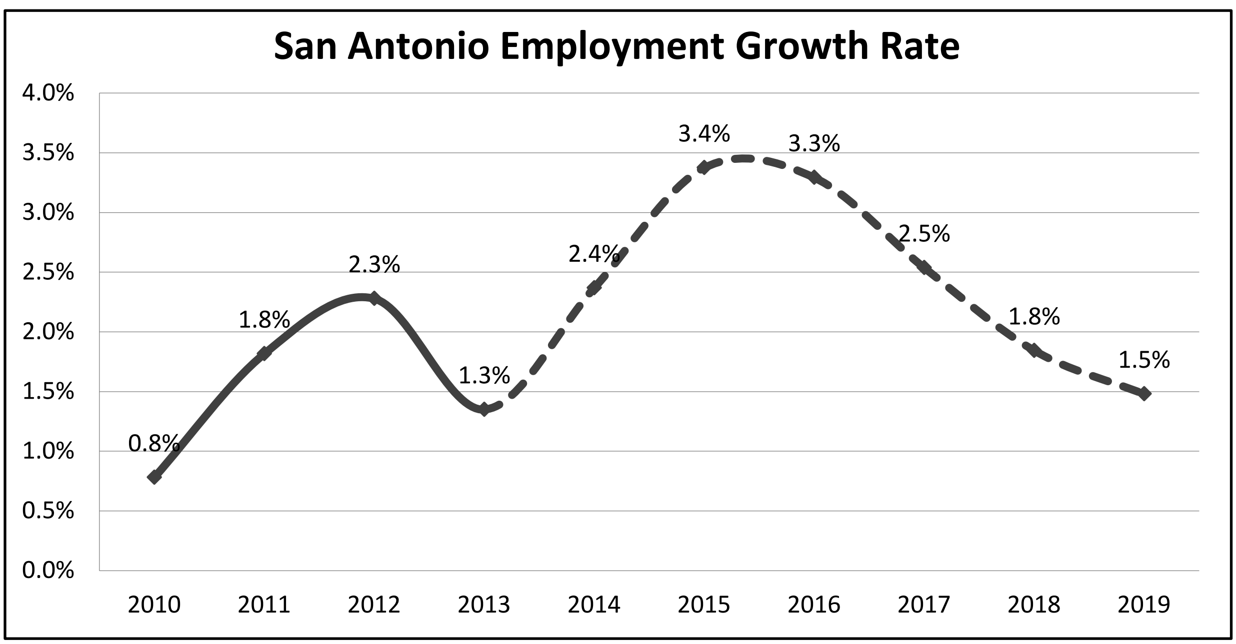


Source: Projection Data from Moody's Economy.com

SAN ANTONIO ECONOMY

EMPLOYMENT

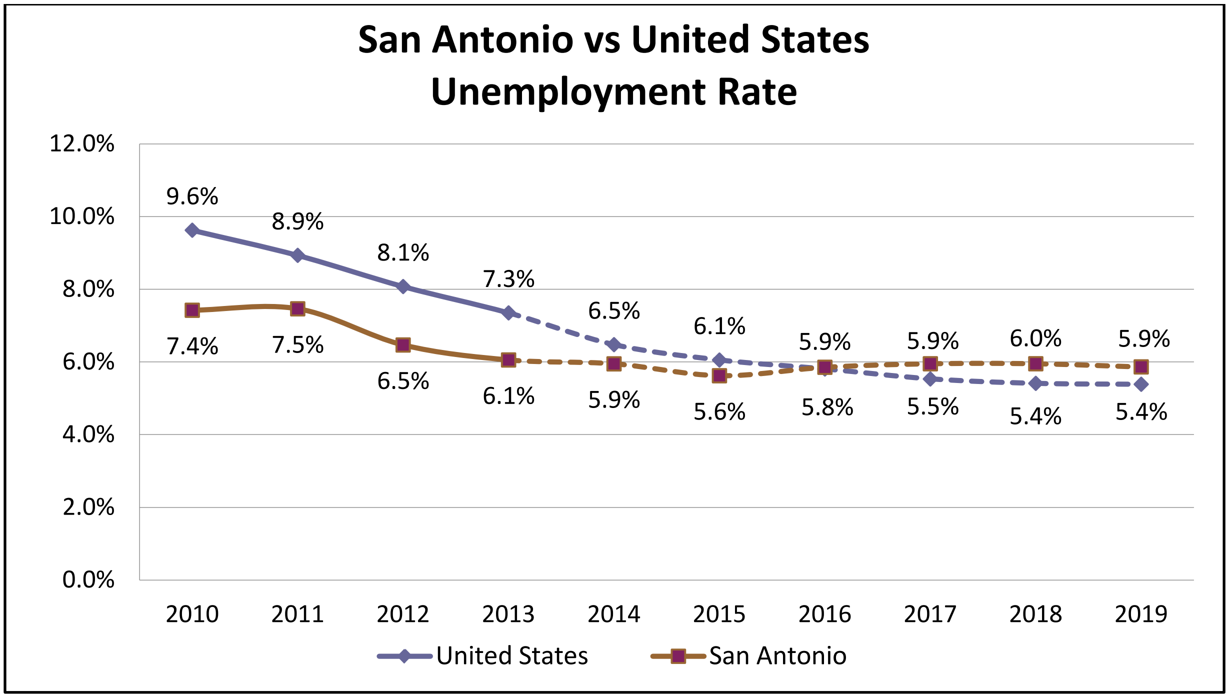
Increases in the total number of employed in a particular region can be attributed to either job creation from within the area or the migration of jobs to the region. The figure below provides historical and projected data on San Antonio's employment growth rate.



Source: Projection Data from Moody's Economy.com

UNEMPLOYMENT

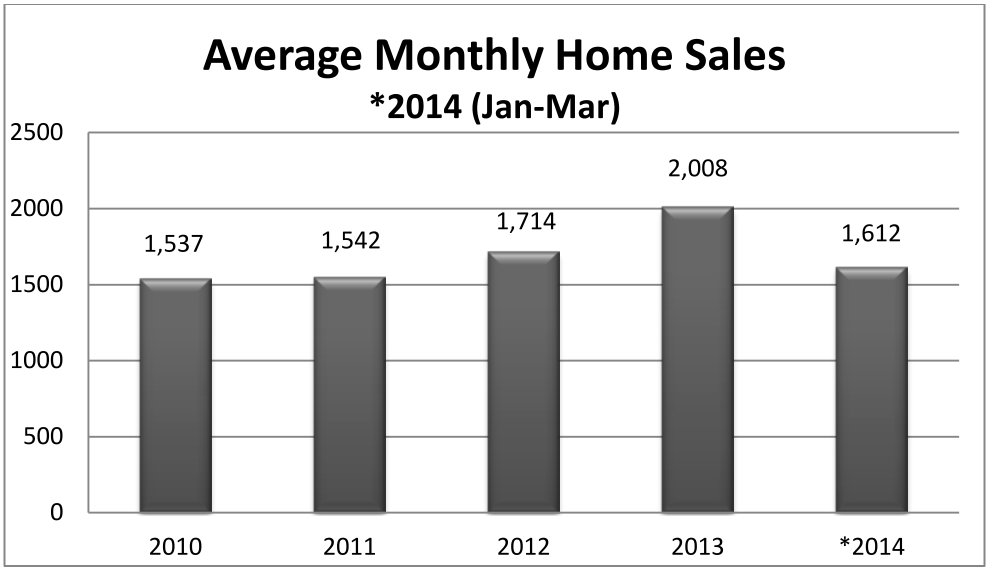
The Unemployment Rate represents the number of unemployed persons as a percent of the labor force. An unemployed person is defined as someone who is 16 years and older and has been looking for employment for at least four weeks. The national Unemployment Rate increased to 9.63% in 2010. Since that time it has steadily decreased to 7.35% by the end of 2013. The Unemployment Rate is expected to continue decreasing through 2019. The City of San Antonio's Unemployment Rate has remained below the national average. Both the national and San Antonio Unemployment rates are expected to return to pre-recession levels later this decade.



Source: Projection Data from Moody's Economy.com

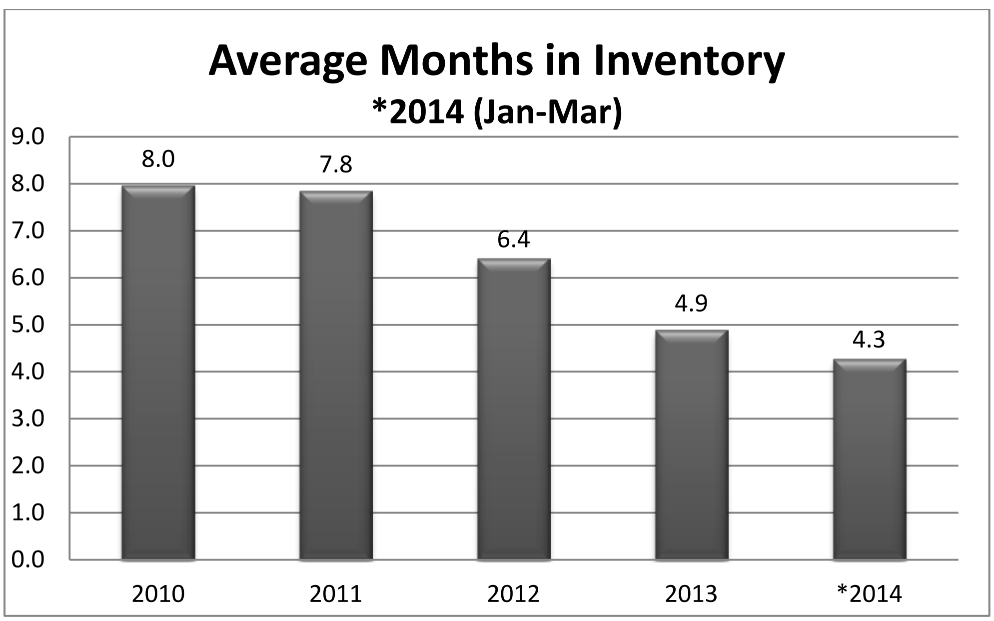
HOUSING

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 2010 to 2013, while Average Months in Inventory steadily decreased over that same period. Most recently, Average Monthly Home Sales increased 17% from 2012 to 2013.



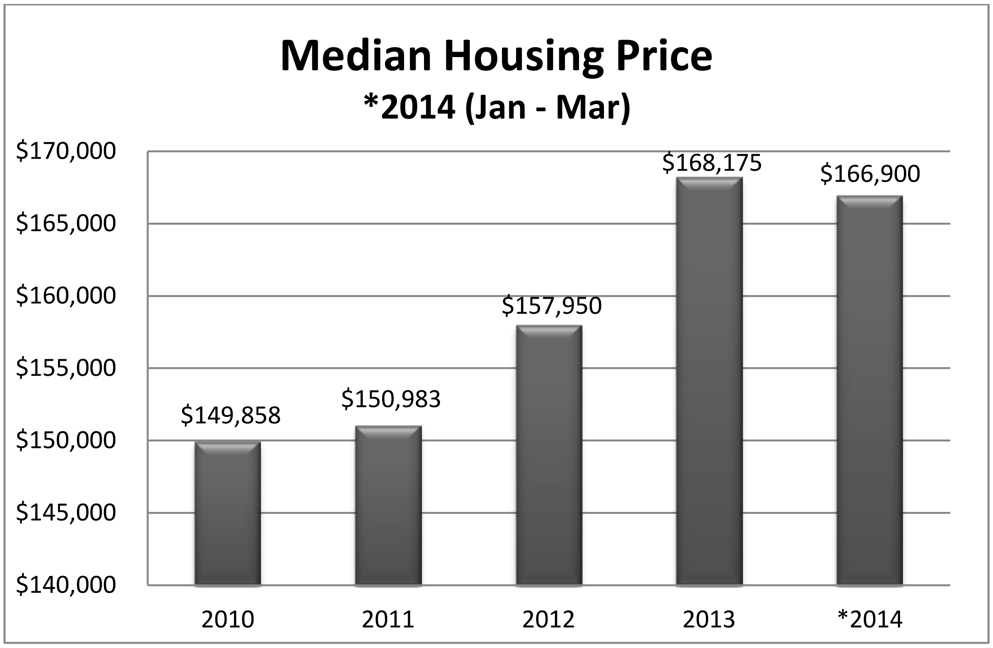
Source: Real Estate Center at Texas A&M University

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 2007 a nd 2009, but it has decreased since 2010. The current average is 4.3 months in inventory, compared to 4.9 last year, and 6.4 in 2012.



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 6.5% increase from 2012 to 2013.

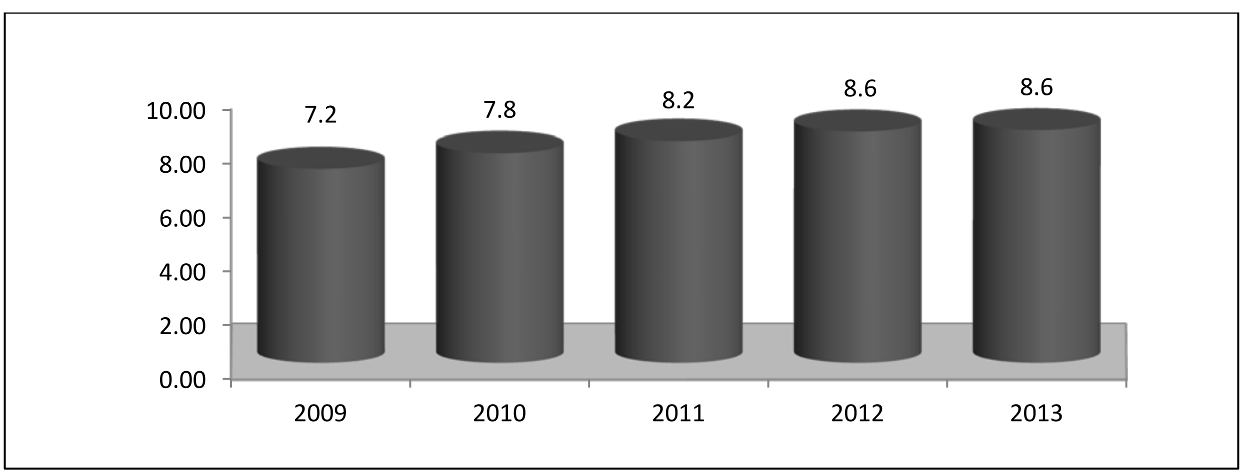


Source: Real Estate Center at Texas A&M University

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 bene fits from visitors within driving distance from Dallas, Houston, and other Texas cities. Hotel Room Demand has increased each year since 2009, and has increased a total of 19.7% over that same period.

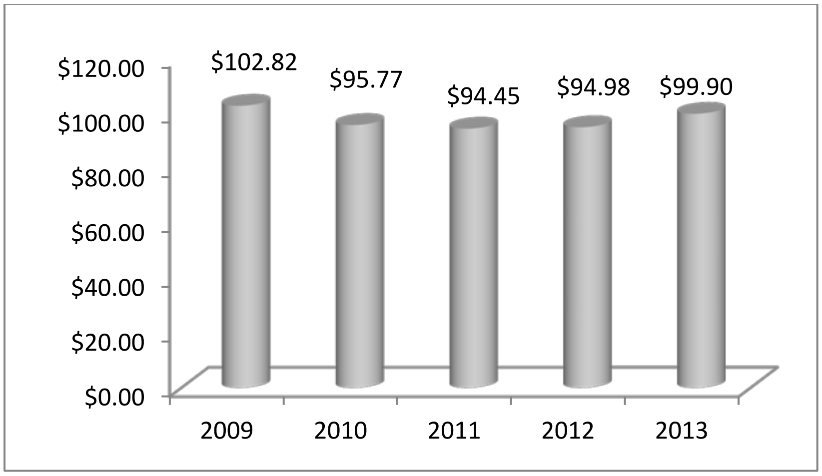
Hotel Room Demand (City Level)
(In Millions)



Source: Data obtained from Smith Travel Research based on hotels in San Antonio Market reports dated February 2009, January 2011, February 2012, March 2013, and March 2014.

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, which has been increasing in San Antonio over the last five years. ADR rebounded in 2013, rising 5.2% above the 2012 rate.

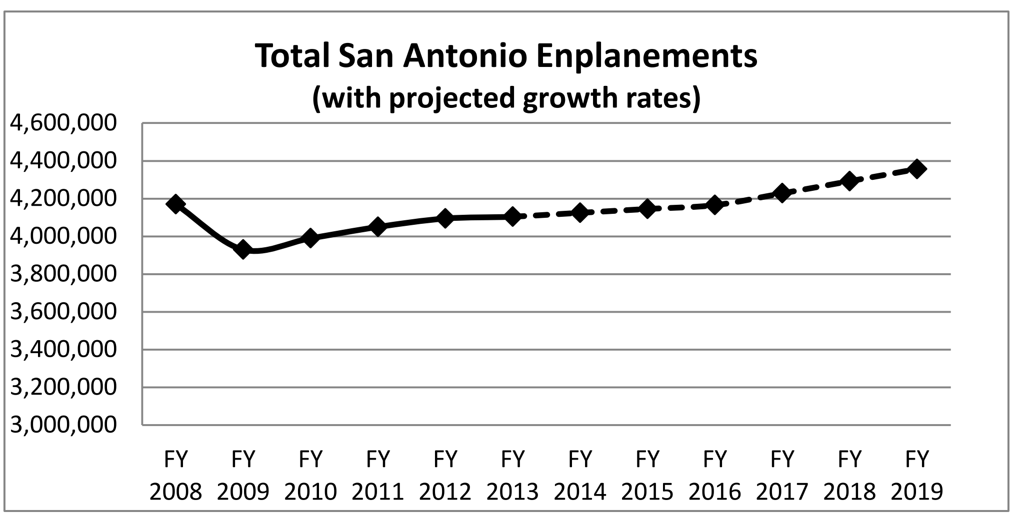
Average Daily Room Rate (City Level)



Source: Data obtained from Smith Travel Research based on hotels in San Antonio Market reports dated February 2009, January 2011, February 2012, March 2013, and March 2014.

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 2003 through 2008 the number of passengers traveling to San Antonio by air increased 19%, but this number dropped off during 2009 due to deteriorating economic conditions. However, since 2009 total enplanements have continued to grow, most recently increasing by 0.2% in FY 2013, and are projected to grow by 0.5% from FY 2014-2016, and 1.5% thereafter.



Source: Aviation Department