

FY
2019-
2023

18

FIVE YEAR **FINANCIAL FORECAST**

A CURRENT AND LONG-RANGE ASSESSMENT OF
FINANCIAL CONDITIONS AND COSTS FOR CITY SERVICES

CITY OF SAN ANTONIO



CITY OF SAN ANTONIO

Five Year Financial Forecast

Fiscal Year 2019-2023



PREPARED BY:

OFFICE OF MANAGEMENT AND BUDGET

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CITY OF SAN ANTONIO
FIVE YEAR FINANCIAL FORECAST
FY 2019 – FY 2023

TABLE OF CONTENTS

<u>DESCRIPTION</u>	<u>PAGE</u>
GENERAL FUND FORECAST	
FORECAST OVERVIEW	1
FORECAST ASSUMPTIONS	3
FORECAST SCHEDULE	7
REVENUES	8
MANDATES & COMMITMENTS	16
FINANCIAL RESERVE FUNDS	17
HOTEL OCCUPANCY TAX-RELATED FUNDS FORECAST	21
DEVELOPMENT SERVICES FUND FORECAST	29
SOLID WASTE OPERATING & MAINTENANCE FUND FORECAST	37
ECONOMIC OUTLOOK & PERSPECTIVE	45

OVERVIEW AND SUMMARY

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 & Perspective section of this document) are used to develop these figures. Service expenditures required to sustain the current (FY 2018) 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 2019 Proposed Operating Budget is developed and presented to City Council on August 9, 2018.

GENERAL FUND – POTENTIAL IMPACT OF FEDERAL AND STATE LEGISLATION

The General Fund Forecast was prepared during a time of uncertainty for the City as both federal and state potential legislation could place pressure on the General Fund.

In February 2018, the U.S. Office of Management and Budget (OMB) released the President's Proposed Budget for FY 2019. The President's proposal initiates a comprehensive examination of the federal budget and the start of extensive negotiation with Congress. Congress will ultimately make final determinations on program funding levels.

The President's Budget Proposal, as presented in February, would reduce federal support to both the City and community organizations by eliminating Community Development Block Grant (CDBG), Community Services Block Grant (CSBG), HOME Investment Partnership Program (HOME), reducing the Supplemental Nutrition Program for Women, Infants, and Children (WIC), and includes reductions in other programs including a public health and immunization programs for the San Antonio Metropolitan Health District funded through the Centers for Disease Control and Prevention (CDC) and air quality programs funded through the Environmental Protection Agency. In total the City receives \$21 million in funding from these grants. CDBG, CSBG, and HOME grants provide funds for community development activities such as development of affordable housing, anti-poverty programs, and infrastructure development. Similar cuts were proposed last year by the President and ultimately rejected by Congress.

The City also faces uncertainty at the State level which will begin their 86th Legislative Session in 2019. This legislation could include property tax revenue caps which would place a cap on how much the City's property tax on existing property could grow. Currently, the City's property tax on existing property cannot exceed 8% without being subject to a petition by citizens for a roll back election.

In January 2018, Governor Greg Abbott released a proposal which would reduce the property tax rollback rate from 8% to 2.5%. Any revenue growth over 2.5% could only be used for public safety compensation and critical infrastructure and would require voter approval. Additionally, the proposal would require a 2/3rd supermajority vote by City Council to approve issuance of new local debt and it would restrict the use of Certificates of Obligation to infrastructure projects related to natural disasters. This proposal would prohibit the State from imposing future unfunded mandates on local governments.

GENERAL FUND

The forecasted General Fund for FY 2019 is structurally balanced and allows for \$23 million to be reserved for street maintenance.

During the forecast period, total General Fund revenue is expected to grow annually at rates ranging from 2.6% to 3.3%. The FY 2018 Revenue Estimate is approximately \$5.5 million higher than the FY 2018 Adopted Budget, or an overall increase of 0.5%. This increase is primarily due to receiving higher than anticipated FY 2018 EMS Supplemental Payment from the State's Ambulance Supplemental Payment Program. Additional revenues are projected from the San Antonio Water System due to a rate increase effective January 1, 2018 that was not included in the adopted budget. The rate of revenue growth projected in FY 2019 over the FY 2018 Adopted Budget is approximately 3.3%. Revenue growth beyond FY 2019 is forecasted at rates of 3.3% in FY 2020, 2.6% in FY 2021, 2.6% in FY 2022, and 2.6% in FY 2023.

The General Fund Forecast reflects the annual projected expenditures required to sustain the current Fiscal Year 2018 level of service. The growth in expenditures over the forecast period is primarily due to increases in contractual requirements such as the Police Collective Bargaining Agreement, mandated operational costs associated with the completion of capital projects, inflationary increases, healthcare costs and the continuation of the civilian pay plan.

The General Fund contains two sections – the current service budget and a section highlighting additional expenditures associated with policy issues. The current service budget section shows the aggregate annual projected expenditures required to sustain the current FY 2018 level of services.

The policy section provides budget scenarios for funding street maintenance at \$110 million annually, adding 25 new Uniformed Police Officers each year of the forecast, and adding two ladder trucks for Fire services and one Emergency Medical Services Unit. These expenses will be considered and evaluated during the FY 2019 Budget Process and are shown in the schedule to provide estimated costs and the impact to the General Fund.

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 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 2018 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 2018. The FY 2019 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 2018 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 2019 through 2023 (See Economic Outlook & Perspective section for more detail on CPI projections used).

Expenditures in the Forecast include funding for current contractual obligations, funding for the Police Collective Bargaining Agreement, a \$15 entry wage for civilian employees, a 1% cost of living adjustment, 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 2017 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 maintains the Two-Year Budget Plan reserve of 5% of General Fund revenue. This total reserve of 15% achieves a structurally balanced General Fund through the forecast period assuming no new spending.

GENERAL FUND FORECAST

GENERAL FUND FORECAST

General Fund Forecast (\$ in Millions)

	FY 2018 Budget	FY 2018 Estimate	FY 2019 Projection	FY 2020 Projection	FY 2021 Projection	FY 2022 Projection	FY 2023 Projection
RESOURCES							
Beginning Balance (Excluding Reserves)	82.4	88.4	77.1	61.1	63.1	64.8	66.5
Use of Reserve for Two Year Balanced Budget Plan							
CURRENT REVENUES							
Property Tax	342.2	342.2	358.2	372.7	383.9	395.4	407.2
Sales Tax	285.2	283.3	292.4	302.6	313.2	324.1	335.5
CPS Energy	352.5	352.5	363.0	373.9	383.3	392.9	402.7
Other	202.6	210.0	208.3	213.1	215.2	217.1	219.0
TOTAL CURRENT REVENUES	\$ 1,182.5	\$ 1,187.9	\$ 1,221.9	\$ 1,262.3	\$ 1,295.6	\$ 1,329.5	\$ 1,364.4
TOTAL RESOURCES	1,264.9	1,276.4	1,299.0	1,323.4	1,358.7	1,394.2	1,430.8
TOTAL EXPENDITURES	1,196.2	1,194.5	1,210.8	1,243.4	1,281.1	1,320.2	1,352.1
FINANCIAL RESERVES/TWO-YEAR BALANCED BUDGET							
Budgeted Financial Reserves for 10% (Incremental)	4.7	4.7	4.0	4.0	3.3	3.4	3.5
Reserve for Two-Year Balanced Budget Plan	64.0	77.1	61.1	63.1	64.8	66.5	68.2
Reserved for Street Maintenance			23.2	12.8	9.5	4.2	7.0
ENDING BALANCE	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Potential Additional Expenditures/Policy Issues							
Street Maintenance - Achieve \$110M annually			\$ 22.8	\$ 33.2	\$ 36.5	\$ 41.8	\$ 39.0
Police - 25 Officers Each Year of Forecast			0.3	3.1	6.0	9.2	12.5
Fire - 42 New Firefighters over 5 years(2 Ladders & 1EMS Units)			0	1.8	4.7	5.8	7.2
TOTAL ADDITIONAL EXPENDITURES/POLICY ISSUES			\$ 23.2	\$ 38.1	\$ 47.2	\$ 56.8	\$ 58.7
ADJUSTMENT REQUIRED TO FUND POLICY ISSUES			\$ (23.2)	\$ (38.1)	\$ (47.2)	\$ (56.8)	\$ (58.7)
BUDGETED RESERVES SUMMARY							
Budgeted Financial Reserves	118.2	118.2	122.2	126.2	129.6	132.9	136.4
Reserve for 2-year Balance Budget	64.0	77.1	61.1	63.1	64.8	66.5	68.2
Total Financial Reserves as % of Current Revenues	15.4%	16.4%	15.0%	15.0%	15.0%	15.0%	15.0%

GENERAL FUND REVENUES

Total FY 2018 General Fund revenue is anticipated to be \$5.5 million, or 0.5%, above the FY 2018 Adopted Budget. Over the forecast period, these revenues are expected to increase at an average annual rate of 2.8%, with annual rates of change ranging from 3.3% in FY 2019 to 2.6% in FY 2023.

General Fund Forecast of Current Revenues (\$ in Millions)

Revenue	FY 2018 Budget	FY 2018 Estimate	FY 2019 Projection	FY 2020 Projection	FY 2021 Projection	FY 2022 Projection	FY 2023 Projection
Current Property Tax	\$ 342.2	\$ 342.2	\$ 358.2	\$ 372.7	\$ 383.9	\$ 395.4	\$ 407.2
City Sales Tax	285.2	283.3	292.4	302.6	313.2	324.1	335.5
CPS - Recurring	352.5	352.5	363.0	373.9	383.3	392.9	402.7
Business and Franchise Taxes	30.4	28.8	28.1	27.7	27.3	27.2	27.0
Liquor by the Drink Tax	8.8	9.1	9.1	9.3	9.5	9.7	9.9
Delinquent and Penalties	4.9	3.8	3.8	3.8	3.8	3.8	3.8
Licenses and Permits	9.1	9.3	9.4	9.4	9.6	9.8	9.9
San Antonio Water System	16.4	17.6	18.3	19.9	20.6	20.8	21.1
Other Agencies	6.9	6.9	5.1	5.1	5.1	5.1	5.1
Charges for Current Services	63.4	69.0	66.7	67.4	68.1	68.9	69.7
Fines	11.9	11.4	11.2	11.3	11.4	11.5	11.6
Miscellaneous Revenue	13.9	17.4	19.3	21.6	21.8	21.9	22.0
Transfers from Other Funds	36.9	36.6	37.3	37.6	38.0	38.4	38.9
Total Revenue	\$ 1,182.5	\$ 1,187.9	\$ 1,221.9	\$ 1,262.3	\$ 1,295.6	\$ 1,329.5	\$ 1,364.4

CITY PUBLIC SERVICE ENERGY (CPS ENERGY)

Projected Annual Rates of Change for CPS Recurring Revenues

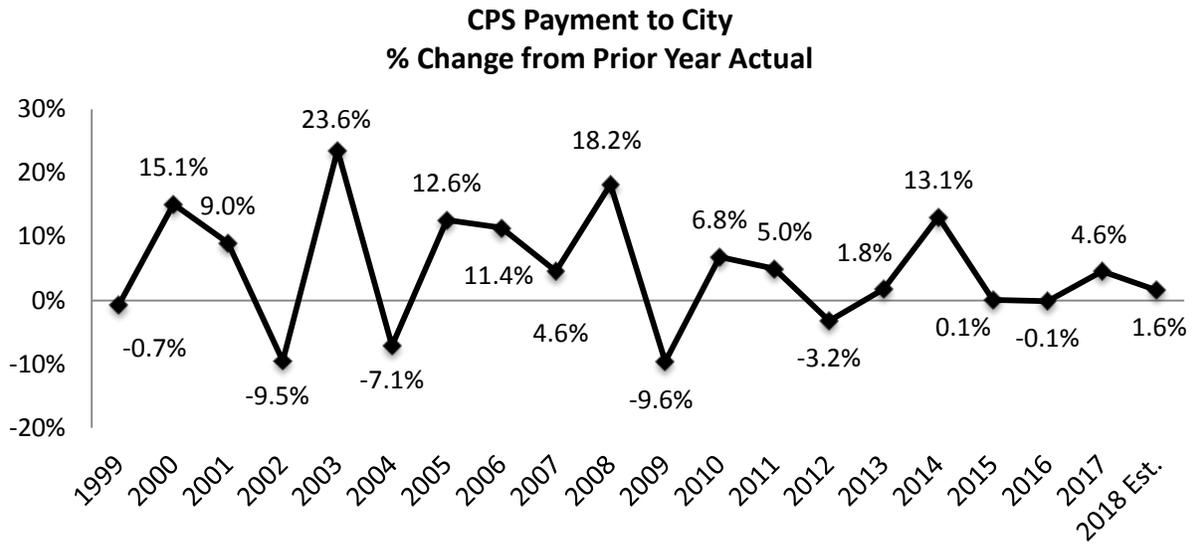
FY 2019 ¹	FY 2020	FY 2021	FY 2022	FY 2023
3.0%	3.0%	2.5%	2.5%	2.5%

The City's payment from CPS Energy represents the largest source of revenue to the General Fund, accounting for 29.5% of the FY 2018 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 \$352.5 million for FY 2018 is the same as the FY 2018 Adopted Budget. In FY 2018, revenue has remained constant resulting from typical San Antonio weather on average through the winter of FY 2018. One-time CPS revenues are not projected in the forecast.

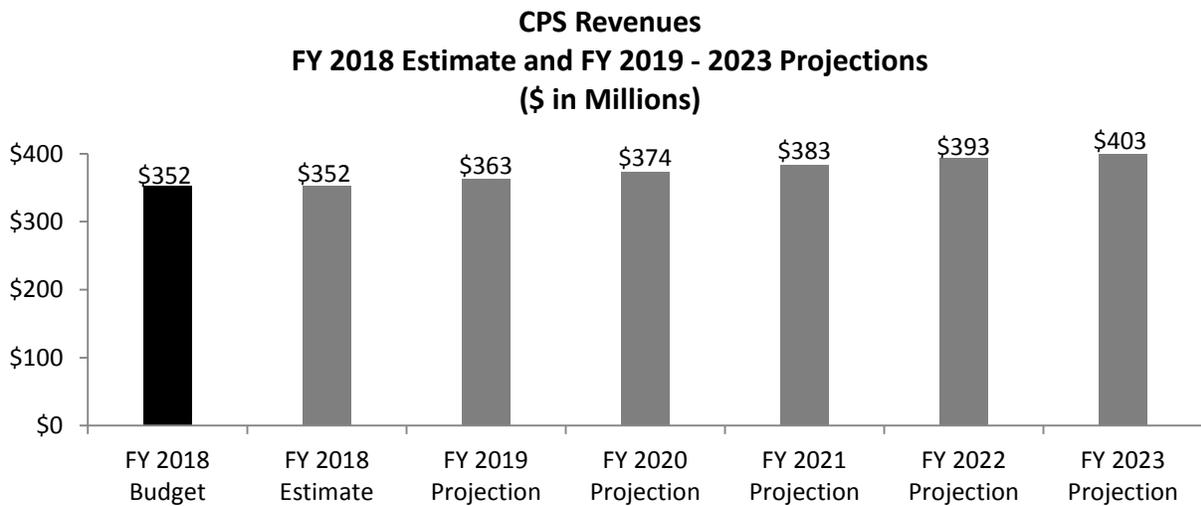
Accurately forecasting the CPS Energy payment revenue is challenged by a number of variables such as the weather, growth of the system, changes in per capita consumption, fuel prices, generation mix, and unscheduled maintenance on generation plants. Historically, instability in natural gas prices coupled 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 3.0% above both the FY 2018 Estimate and FY 2018 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 (e.g., 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 2019 of \$363.0 million is \$10.6 million, or 3.0%, higher than both the FY 2018 Adopted Budget and FY 2018 Estimate.

The forecasted amounts for FY 2020 through FY 2023 are based on the FY 2019 Projection adjusted by an average growth rate of 2.6% for FY 2020 through FY 2023.

CURRENT PROPERTY TAX REVENUE – MAINTENANCE & OPERATIONS

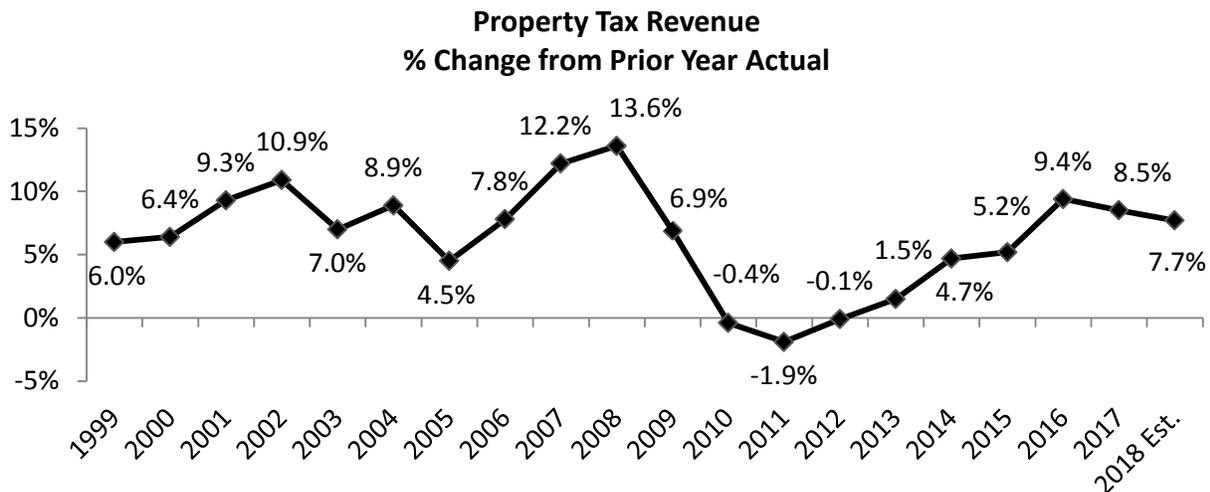
Projected Annual Rates of Change

FY 2019 ²	FY 2020	FY 2021	FY 2022	FY 2023
4.7%	4.0%	3.0%	3.0%	3.0%

Property tax revenue accounts for 28.6% of the total FY 2018 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 2019 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 2018.

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 2018 includes the current property tax rate of 55.827 cents per \$100 of taxable valuation. The General Fund maintenance and operation portion is 34.677 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-five years and has decreased it seven times over that same period.

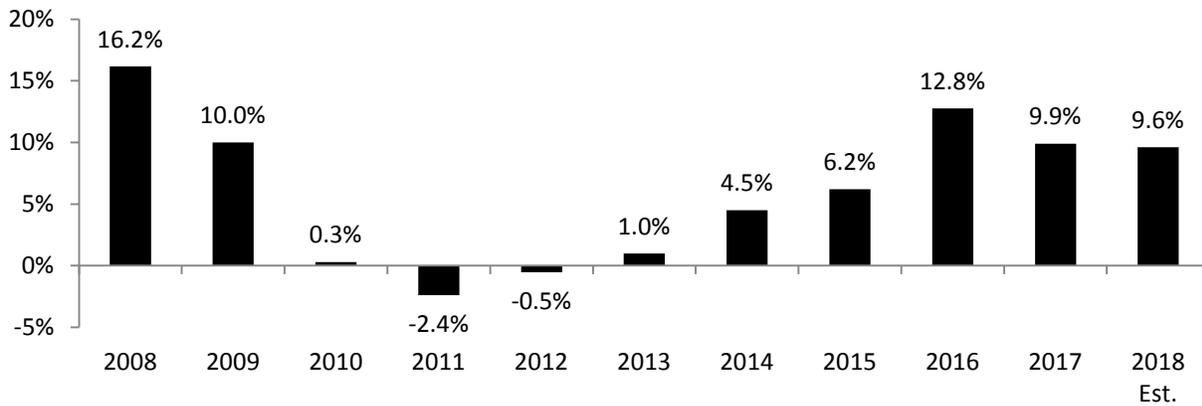


² Property Tax revenue is projected 4.7% above both the FY 2018 Estimate and FY 2018 Adopted Budget.

Taxable valuations are estimated to increase by 5.53% in FY 2019 as compared to the FY 2018 Adopted Budget. Thereafter, taxable valuations are projected to increase by 4.0% in FY 2020 and 3.0% from FY 2021 through FY 2023. These estimates are a result of projections of base value change and new property improvements.

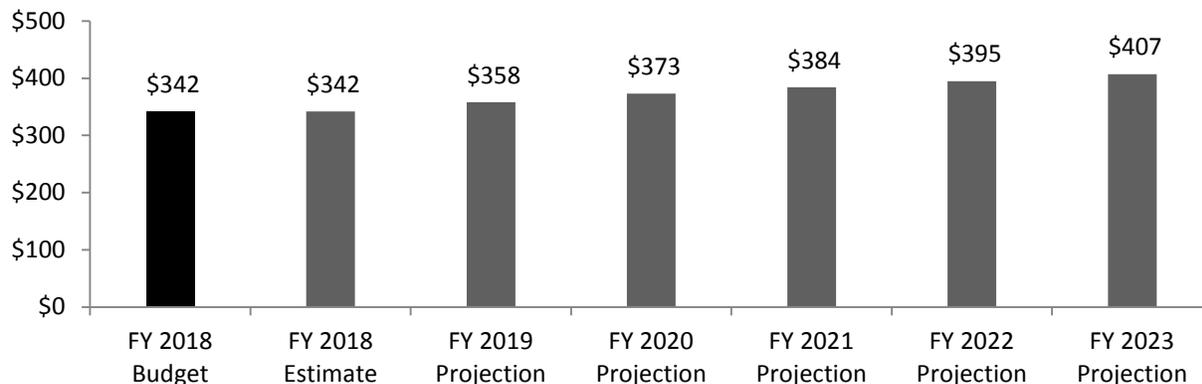
Assessed Valuation Category	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Base	3.53%	2.50%	1.50%	1.50%	1.50%
New Improvements	1.81%	1.50%	1.50%	1.50%	1.50%
Annexation	0.19%	0.00%	0.00%	0.00%	0.00%
Total % Change - Taxable Value	5.53%	4.00%	3.00%	3.00%	3.00%

**Historical Growth in Taxable Valuation
% Change from Prior Year Actual**



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

**Property Tax Revenues
FY 2018 Estimate and FY 2019 - 2023 Projections
-\$ in Millions-**

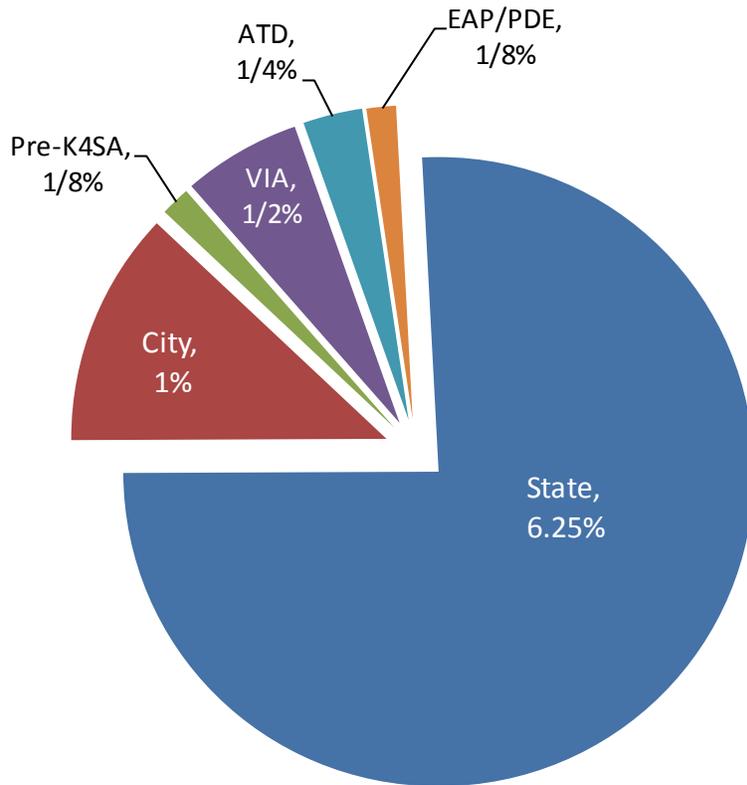


CITY SALES TAX REVENUE

Projected Annual Rates of Change

FY 2019 ³	FY 2020	FY 2021	FY 2022	FY 2023
2.5%	3.5%	3.5%	3.5%	3.5%

Sales tax revenue collected to support maintenance and operations of services in the General Fund accounts for 23.8% of the FY 2018 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.

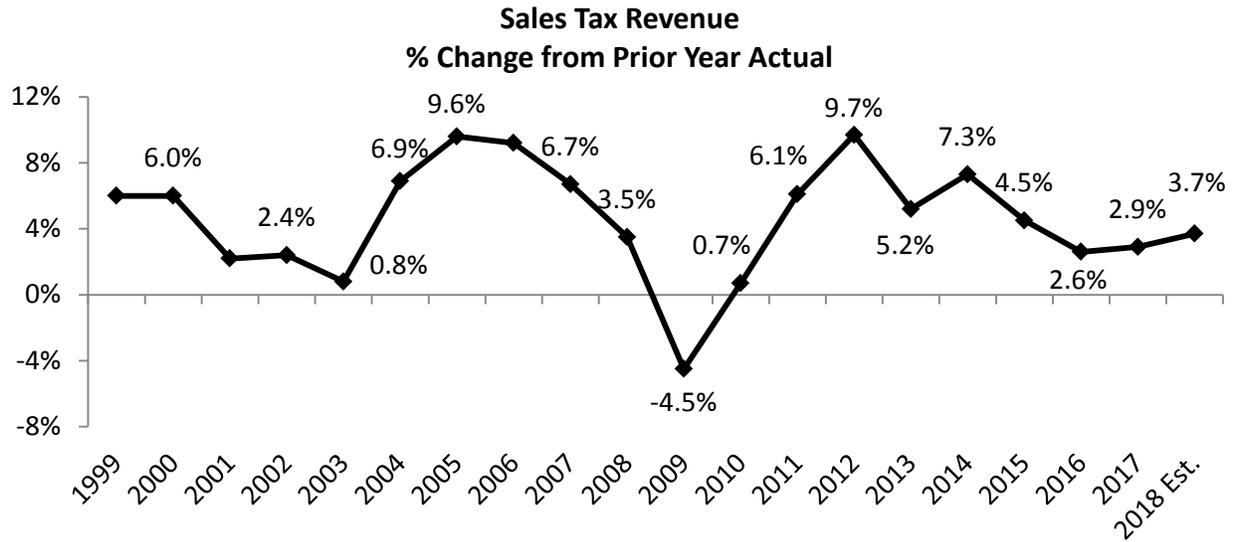


ATD: Advanced Transportation District
 EAP: Edward Aquifer Protection
 PDE: Parks Development & Expansion

Actual sales tax collections for the current year are projected to be \$283.3 million. This amount is less than the \$285.2 million budgeted in FY 2018 for sales tax revenue. General Fund sales tax revenue in FY 2019 is projected to increase by 2.5% over the FY 2018 Adopted Budget and increase by 3.2% over the FY 2018 Estimate. Beyond FY 2019, revenue levels from this source are expected to grow at an average rate of 3.5%. Future years' projections are based on historical trends, retail sales, and projected employment and population growth.

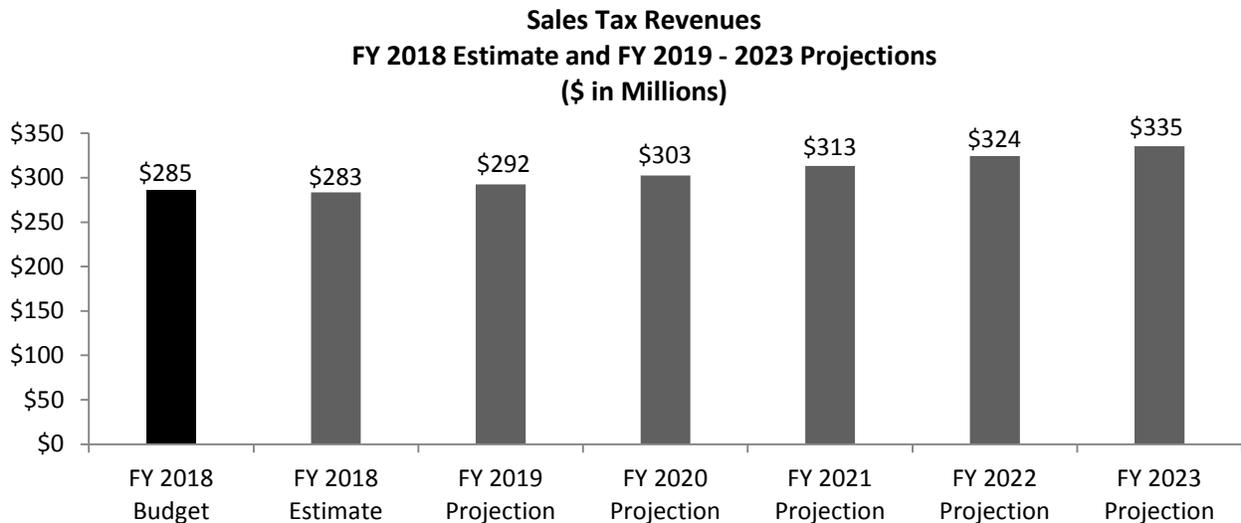
³ Sales Tax revenue is projected 3.2% above the FY 2018 Estimate and 2.5% above the FY 2018 Adopted Budget.

These estimates and the projections for the forecast period exclude the sales tax collected by the City for Pre-K 4 SA, 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 grown over the past several years. 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 2019 ⁴	FY 2020	FY 2021	FY 2022	FY 2023
5.3%	1.0%	1.1%	1.1%	1.1%

This comprehensive category includes revenues related to recreation and culture such as the River Barge and Tower of America revenue contracts 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 renewal fees, and revenues generated by birth and death certificates. Actual revenues for the current year are projected to be \$69.0 million, or \$5.6 million above the FY 2018 Adopted Budget. This is due to higher than anticipated FY 2018 EMS supplemental payment from the state's ambulance supplemental payment program. The payment is \$4.6 million more than the budgeted amount. In 2010 the state expanded the ambulance supplemental payment program to include EMS providers. Under the expanded program, the state began making supplemental payments to EMS providers in 2014 to offset uncompensated care costs for ambulance services allocated to Medicaid and uninsured patients. Projected annual rates of change over the forecast period are based on known changes in revenue contracts or estimated demand.

BUSINESS AND FRANCHISE TAXES

Projected Annual Rates of Change

FY 2019 ⁵	FY 2020	FY 2021	FY 2022	FY 2023
-7.6%	-1.7%	-1.1%	-0.7%	-0.4%

The Business and Franchise Tax revenue category is primarily comprised of telecommunication providers' rights-of-way access line fees and cable television franchise fees. The forecast for FY 2019 is \$28.1 million, slightly less than the FY 2018 Estimate. The forecasted amounts for FY 2020 through FY 2023 decrease at an average of 1.0% annually. The expected decrease in revenues is due to cable subscribers shifting away for traditional cable services to new technologies such as satellite and streaming services.

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 \$4.26 and each residential line \$1.28. These fees change every July 1 and the adjustment is based on ½ of the prior year's change in CPI. The new fees on July 1, 2018 will be \$4.31 for business lines and \$1.30 for residential lines. 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 2019 is \$13.6 million, which represents a \$43,000 decrease from the FY 2018 Estimate of \$13.7 million.

⁴ Charges for Current Service are projected 3.3% below the FY 2018 Estimate and 5.3% above the FY 2018 Adopted Budget.

⁵ Business and Franchise Tax revenues are projected 2.2% below the FY 2018 Estimate and 7.6% below the FY 2018 Adopted Budget.

Compensation from cable/video providers for use of municipal rights-of-way is governed by state law. The cable/video providers are required to pay a quarterly franchise fee of 5.0% of gross revenues. Cable revenues are declining as traditional subscribers shift to new technologies that fall outside of traditional cable services, such as satellite and streaming services. The FY 2019 forecast for this revenue source of \$12.8 million is \$599,000 lower than the FY 2018 Estimate of \$13.4 million.

SAN ANTONIO WATER SYSTEM (SAWS) PAYMENT

Projected Annual Rates of Change

FY 2019 ⁶	FY 2020	FY 2021	FY 2022	FY 2023
11.5%	9.0%	3.4%	1.2%	1.2%

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 2019 from SAWS is \$18.3 million. This is an increase of \$1.9 million, or 11.5%, from the FY 2018 Adopted Budget of \$16.4 million and \$0.7 million, or 4.0%, from the FY 2018 Estimate of \$17.6 million. The projections are based on the current rate structure approved in ordinances 2017-12-07-0928 which increased rates by an average of 5.8% and 4.7% for 2018 and 2019 respectively and ordinance 2015-11-19-0956 which approved an increase for 2020 related to the Vista Ridge water supply. The 2020 projection was moderated from the approved rate based on recent SAWS projections. Additionally, nominal growth rates were applied to all years shown.

OTHER RESOURCES

Projected Annual Rates of Change

FY 2019 ⁷	FY 2020	FY 2021	FY 2022	FY 2023
2.9%	3.2%	1.1%	1.0%	0.9%

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 \$94.6 million compared to the FY 2018 Revised Budget of \$92.4 million. This \$2.2 million increase is largely attributable to revenue received from a non-annexation 10 year development agreement approved by City Council in FY 2017. The agreement requires that the City receive an annual amount intended to represent a portion of the taxes that would have been paid to the City had the property been annexed with the City South Annexation.

For FY 2019, total other General Fund revenue is expected to be \$95.1 million, which is 0.5% higher than the FY 2018 Estimate. Included in the projections for FY 2019 through FY 2023 is the decrease of revenues received from Bexar County in exchange for providing county residents

⁶ SAWS revenues are projected 4.0% above the FY 2018 Estimate and 11.5% above the FY 2018 Adopted Budget.

⁷ Other resources are projected 0.5% above the FY 2018 Estimate and 2.9% above the FY 2018 Adopted Budget.

access to the City’s libraries. Also, the City will no longer receive revenues from Bexar County in exchange for providing services at the City of San Antonio Detention Center. Bexar County will be using a new facility constructed; therefore this payment from the County is not included in the forecast. Beyond FY 2019, other resources are projected to increase at an average of 1.6%.

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 2019 to FY 2023 forecast period and the impact to the General Fund. All expenditures shown are incremental.

Mandate Title	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
CAPITAL IMPROVEMENTS OPERATING & MAINTENANCE					
Linear Creekway Security	\$ 153,396	\$ 153,396	\$ 153,396	\$ 153,396	\$ 153,396
Outer District Parks Improvements	256,528	256,528	256,528	256,528	256,528
Parks Acquisition / Development	529,183	1,155,702	1,760,416	481,004	0
Linear Creekway Operating & Maintenance	738,992	1,080,843	421,254	438,185	458,281
2017 Bond Operating & Maintenance	0	0	22,026	3,904,582	197,327
Total	\$ 1,678,099	\$ 2,646,469	\$ 2,613,620	\$ 5,233,695	\$ 1,065,532
Total Mandated Costs	\$ 1,678,099	\$ 2,646,469	\$ 2,613,620	\$ 5,233,695	\$ 1,065,532

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 2019 to FY 2023), the City anticipates development of 36.5 miles of additional greenway trails and acquisition of approximately 175 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 2019 to FY 2023) the City anticipates acquiring about 719 additional park improvement components, 4.2 miles of exercise trails, and 116 new park acres to maintain. Park components include shade canopies, picnic units, playground, and pavilions.

2017 BOND PROGRAM PROJECTS OPERATIONS & MAINTENANCE

This mandate provides for operations and maintenance of improvements and renovations to the Central Library and several Branch Libraries located in District 1, 3, and 5. Additionally, it includes funding for operations and maintenance of a Community Center located in District 4, one Senior Center located in District 9 and a World Heritage Cultural Arts Center located in District 3.

POLICY ISSUES TO BE CONSIDERED DURING THE FY 2019 BUDGET

The following paragraphs provide brief descriptions of potential additional expenditures to the General Fund that is not included in the current level of service. These expenses are shown as budget scenarios that would be discussed as part of the development of the FY 2019 Budget.

Increase Street Maintenance to \$110 Million

The FY 2018 Adopted Budget added \$35 million in additional resources to the Streets Maintenance Program which increased appropriations to \$99 million. The increased funding of \$35 million focused on street maintenance in Districts 1, 2, 3, 5, and 10 where the average street conditions is below 70 (on a scale of 100). The goal was to increase the average street condition in these areas to 70 over a two year period. The Forecast presents a scenario to not only achieve \$99 million in street maintenance but increase it to \$110 million annually.

Police - Add 25 Officers each year of the Five Year Forecast

In order to keep up with the growth of the City, the Police Chief recommends adding 25 new police officers every year for the next five years. The cost associated with the new positions is a policy issue that would be discussed as part of the FY 2019 Budget Process.

Fire - Two Ladder Companies and one Emergency Medical Services Unit

The Fire Chief recommends adding two Ladder Companies; one in FY 2020 and the second would be added in FY 2021; and one Emergency Medical Services Unit in FY 2023, to keep up with the growth of the City. This would add a total of 42 new firefighters over the five years of the forecast. The cost associated with the new positions and equipment is a policy issue that would be discussed as part of the FY 2019 Budget Process.

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 Arts & Culture Fund, as well as through a Destination Marketing Agreement with Visit San Antonio (formerly the City's Convention & Visitors Bureau). 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 2019 through FY 2023. 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 2018 Budget	FY 2018 Re-Estimate	FY 2019 Projection	FY 2020 Projection	FY 2021 Projection	FY 2022 Projection	FY 2023 Projection
Beginning Balance	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Release of Reserve for Grand Hyatt Debt	\$2.4	\$2.2	\$2.5	\$2.5	\$2.6	\$2.7	\$2.8
Net Balance	\$2.4	\$2.2	\$2.5	\$2.5	\$2.6	\$2.7	\$2.8
REVENUES							
Hotel Occupancy Tax	\$68.9	\$68.9	\$70.8	\$73.3	\$75.8	\$78.4	\$81.1
Interest Earnings & Miscellaneous Revenues	\$0.0	\$0.1	\$0.1	\$0.1	\$0.2	\$0.2	\$0.2
Delinquent HOT Tax	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
TOTAL REVENUES	\$69.0	\$69.1	\$71.0	\$73.6	\$76.1	\$78.7	\$81.4
TOTAL RESOURCES	\$71.4	\$71.3	\$73.5	\$76.1	\$78.7	\$81.4	\$84.2
TRANSFERS OUT							
Community & Visitor Facilities Fund (CVF)	\$19.0	\$17.0	\$19.4	\$20.0	\$20.7	\$21.6	\$24.2
Visit San Antonio	\$23.3	\$23.3	\$23.8	\$24.5	\$25.2	\$26.1	\$27.1
Arts & Culture	\$10.0	\$10.0	\$10.2	\$10.5	\$10.8	\$11.2	\$11.6
Support for History and Preservation	\$10.0	\$10.0	\$10.2	\$10.5	\$10.8	\$11.2	\$11.6
Transfer to Alamodome Impt & Contg Fund	\$0.0	\$0.0	\$0.5	\$0.5	\$0.8	\$0.8	\$0.0
Transfer to Redemption & Capital Reserve Fund	\$0.7	\$2.6	\$1.3	\$1.8	\$1.6	\$1.5	\$0.8
Transfer to Debt Service	\$2.2	\$2.2	\$3.0	\$3.4	\$3.8	\$3.9	\$3.6
Other Transfers	\$3.7	\$3.7	\$2.7	\$2.4	\$2.4	\$2.4	\$2.4
TOTAL TRANSFERS	\$69.0	\$68.8	\$71.0	\$73.5	\$76.0	\$78.6	\$81.3
Ending Balance	\$2.5	\$2.5	\$2.5	\$2.6	\$2.7	\$2.8	\$2.9
Reserve for Grand Hyatt Debt	\$2.5	\$2.5	\$2.5	\$2.6	\$2.7	\$2.8	\$2.9
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, current services expenditures, mandates, and 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 collections are 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, operation and maintenance of the Convention & Sports Facilities, and funding a Destination Marketing Agreement (DMA) with Visit San Antonio of approximately 35% of HOT for promotion and marketing of the City as a destination for conventions and leisure travel. The 2% HOT can only be used to support expansion of the Convention Center facility. The Texas State Tax Code requires that no more than 15% of City HOT revenue can fund arts and cultural programs, and a maximum of 15% can be used for history and preservation.

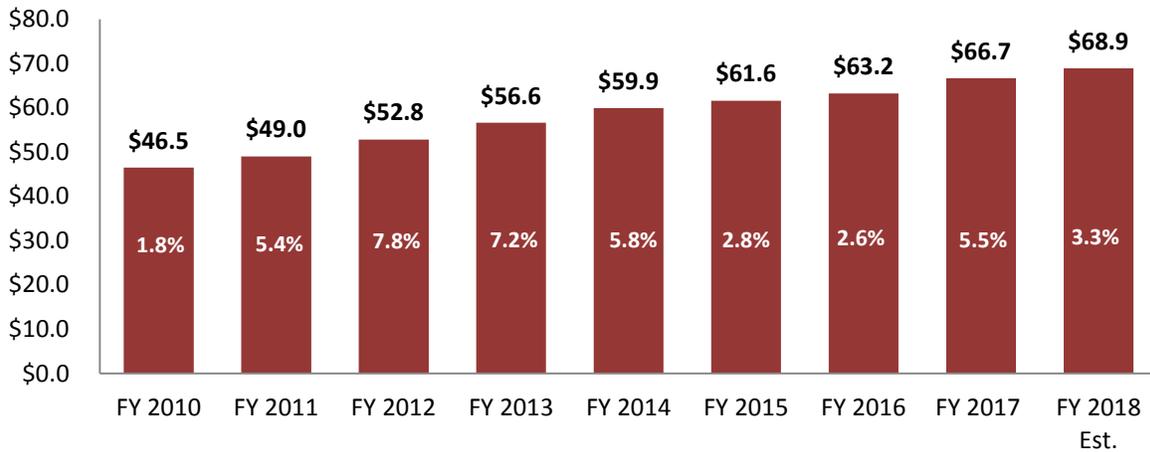
In FY 2013, City Council approved the issuance of debt for the Convention Center Expansion Project. The City utilizes all of its 2% Expansion HOT along with a portion of the incremental annual growth from the 7% HOT to make the required annual debt payments. The amount of 7% HOT required to be contributed 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, as well as the 35% target for the DMA with Visit San Antonio, will be applied to the Net 7% HOT.

HOT revenue is estimated to be \$68.9 million for FY 2018, which is in line with the FY 2018 Adopted Budget of \$68.9 million. HOT revenues are projected to increase at annual rates of 2.8% (FY 2019), 3.5% (FY 2020), 3.4% (FY 2021), 3.4% (FY 2022), and 3.4% (FY 2023) 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 2010 and FY 2018, the City's 7% HOT Tax Collections grew 48.2%.

**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 revenues from the Hotel Occupancy Tax Fund sufficient to support the Convention Center Debt Service shortfall. The Forecast for the Hotel Occupancy Tax Fund assumes the FY 2018 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 service 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.

In September 2016, the City Council approved a Destination Marketing Agreement (DMA) with Visit San Antonio (VSA) which transitioned the City's former Convention & Visitors Bureau into an independent non-profit agency. VSA's work will continue to market and promote the City as a destination for conventions and leisure travel. As part of the DMA, the City will target an annual allocation to VSA equal to 35% of the HOT revenue budget net of the debt service payments related to the Convention Center Expansion.

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 Perspective and Outlook section. Shown below are the assumed inflation rates for each year of the Forecast period:

<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
2.55%	2.51%	2.38%	2.35%	2.35%

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 ticket fees from the Alamodome, Henry B. Gonzalez Convention Center, and Lila Cockrell Theatre. Revenues for the facilities are based on a combination of event mix projections, growth assumptions, and service provider 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 2018 Budget	FY 2018 Estimate	FY 2019 Projection	FY 2020 Projection	FY 2021 Projection	FY 2022 Projection	FY 2023 Projection
RESOURCES							
Beginning Balance	\$0.2	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Convention Center Revenues	18.4	20.9	19.5	19.8	20.2	20.6	22.6
Alamodome Revenues	12.0	11.5	11.5	11.6	11.7	12.1	12.7
Miscellaneous Revenues	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transfer from Other Funds	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transfer from Hotel Occupancy Tax	19.0	17.0	19.4	20.0	20.7	21.6	24.2
TOTAL RESOURCES	\$49.8	\$49.8	\$50.7	\$51.7	\$52.8	\$54.6	\$59.7
EXPENDITURES							
Base Budget	\$49.8	\$49.8	\$48.0	\$49.2	\$50.3	\$51.9	\$53.1
Mandates (Incremental)	0.0	0.0	2.6	2.5	2.5	2.7	6.6
TOTAL EXPENDITURES	\$49.8	\$49.8	\$50.7	\$51.7	\$52.8	\$54.6	\$59.7
NET ENDING BALANCE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

ARTS & CULTURE FUND

The Arts & Culture Fund accounts for the operating expenditures of the Department of Arts & Culture 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 Arts & Culture Fund:

Arts & Culture Fund Forecast (\$ in Millions)

	FY 2018 Budget	FY 2018 Estimate	FY 2019 Projection	FY 2020 Projection	FY 2021 Projection	FY 2022 Projection	FY 2023 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 Hotel Occupancy Tax	10.0	10.0	10.2	10.5	10.8	11.2	11.6
Miscellaneous Revenue	0.7	0.7	0.7	0.8	0.8	0.8	0.9
TOTAL RESOURCES	\$10.7	\$10.7	\$10.9	\$11.3	\$11.7	\$12.1	\$12.5
EXPENDITURES							
Base Budget	\$10.7	\$10.7	\$10.9	\$11.3	\$11.7	\$12.1	\$12.5
TOTAL EXPENDITURES	\$10.7	\$10.7	\$10.9	\$11.3	\$11.7	\$12.1	\$12.5
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 funds 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.

Through its cultural plan, the Department of Arts & Culture has prioritized funding in five categories aimed to support a diverse portfolio of non-profit art organizations working across the City of San Antonio in the production of on-going, sustainable, high quality artistic activities.

1. **Festivals** – an event-based grant available to further the presentation, production and preservation of arts and cultural programs that are unique to the San Antonio experience.
2. **Artist Re-granting** – available to non-profit arts organizations whose mission is the funding of local professional artist advancement. The goal of the Artist Re-granting Program is to enhance both the creative vitality of our community and the awareness that San Antonio is an excellent destination for artists of all genres to live and work. The Artists Re-Granting Program provides funding to eligible artist granting organizations for the sole purpose of expanding their granting opportunities to San Antonio artists, with the specific intent of expanding the artist’s professional development through their creation of new works.

3. **Capacity Building** – This program assists non-profit arts organizations with administrative capacity, in various forms such as: technical knowledge, marketing assistance, marketing plans, strategic plans, and other development to perform effectively, efficiently and sustain this performance over an extended period.
4. **Cultural Specific Support** – This operational grant provides funding for non-profit organizations whose specific mission includes promoting, preserving, and enhancing the identity and character of a specific Cultural Community and/or cultural heritage, and are the primary presenter of the work. These grants are calculated on a percentage of the organization's operational expense budget and are only available to arts organizations whose mission is specific to women and minority communities as defined in the Arts Agency Funding Guidelines.
5. **Base Operational Support** – This operational grant assists arts and cultural non-profit organizations with general operating expenses of arts programming. Organizations funded in Base Operational Support must demonstrate high quality arts programming, operate with professional management and artistic staff, have a track record of stable operations, have a policy on payment of Professional Artists, provide a Board Diversity Plan or record of Board diversity, ensure their events are accessible to underserved populations, demonstrate a positive impact on the community through positive audience engagement, collaborate with other arts or community organizations and demonstrate artistic excellence and innovative programming. These grants are calculated on a percentage of the organization's operational expense budget and are prioritized for small organizations.

The FY 2019 to FY 2023 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 in FY 2007 to account for revenues and expenditures 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 which is transferred to the General Fund to offset costs incurred to provide fire prevention services.

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

The Financial Forecast for the Development Services Fund reflects projections for a five year period from FY 2019 through FY 2023 and includes as its starting point the current fiscal year budget and preliminary estimated projections for the fiscal year. As shown below, the Forecast includes financial projections for revenues, expenditures, ending balances, and reserves.

Development Services Fund Forecast (\$ in Thousands)

	FY 2018 BUDGET	FY 2018 ESTIMATE	FY 2019 PROJECTION	FY 2020 PROJECTION	FY 2021 PROJECTION	FY 2022 PROJECTION	FY 2023 PROJECTION
AVAILABLE FUNDS							
Beginning Balance	\$2,881	\$2,618	\$1,718	\$1,314	\$1,124	\$1,090	\$1,117
Accounting Adjustment	-	-	-	-	-	-	-
Use of Reserves	-	-	-	-	-	-	-
Net Balance	\$2,881	\$2,618	\$1,718	\$1,314	\$1,124	\$1,090	\$1,117
REVENUES							
Development Services Revenues	30,984	31,154	31,911	32,779	33,586	34,391	35,199
Transfer from General Fund - ICRIP	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Total Revenues & Transfers	33,484	33,654	34,411	35,279	36,086	36,891	37,699
TOTAL AVAILABLE FUNDS	\$36,365	\$36,271	\$36,129	\$36,593	\$37,211	\$37,981	\$38,816
TOTAL EXPENDITURES	\$33,065	\$32,803	\$34,315	\$35,469	\$36,121	\$36,864	\$37,811
GROSS ENDING BALANCE	\$3,300	\$3,468	\$1,814	\$1,124	\$1,090	\$1,117	\$1,004
LESS: BUDGETED FINANCIAL RESERVES							
Budgeted Financial Reserves (Incremental Amt)	500	500	500	-	-	-	-
Reserve for Capital Projects (Incremental Amt)	1,250	1,250	-	-	-	-	-
NET ENDING BALANCE	\$1,550	\$1,718	\$1,314	\$1,124	\$1,090	\$1,117	\$1,004
BUDGET RESERVE SUMMARY							
Budgeted Financial Reserves (Cumulative)	1,969	1,969	2,469	2,469	2,469	2,469	2,469
Reserve for Capital Projects (Cumulative)	2,250	2,250	2,250	2,250	2,250	2,250	2,250
Financial Reserve as % of Annual Operating Costs	7%	7%	8%	8%	8%	8%	8%

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. 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 – Total revenue for the current FY 2018 budget is projected to be approximately \$170,000, or 0.51%, more than budgeted. Average commercial project valuation is anticipated to be 7.3% higher than FY 2017. Residential permitting remains positive but the growth trend is anticipated to slow (10% growth in FY 2017 vs 1.2% growth estimated for FY 2018).

Development Services operating revenues reflect moderately conservative growth in future years. Departmental revenue-generating activities were forecasted using the following categories: new or existing commercial construction, new or existing residential construction, or a combination thereof, and growth rates applied to each designation. Total aggregate revenues are forecasted to increase by the following amounts over the forecast period:

<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
2.3%	2.5%	2.3%	2.2%	2.2%

Expenditures – Expenditures are based on the current service levels. The forecast assumes inflationary adjustments to certain line-items over the forecast period. These inflation rates were derived from the Consumer Price Index (CPI) projections for each year from FY 2019 through FY 2023. 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:

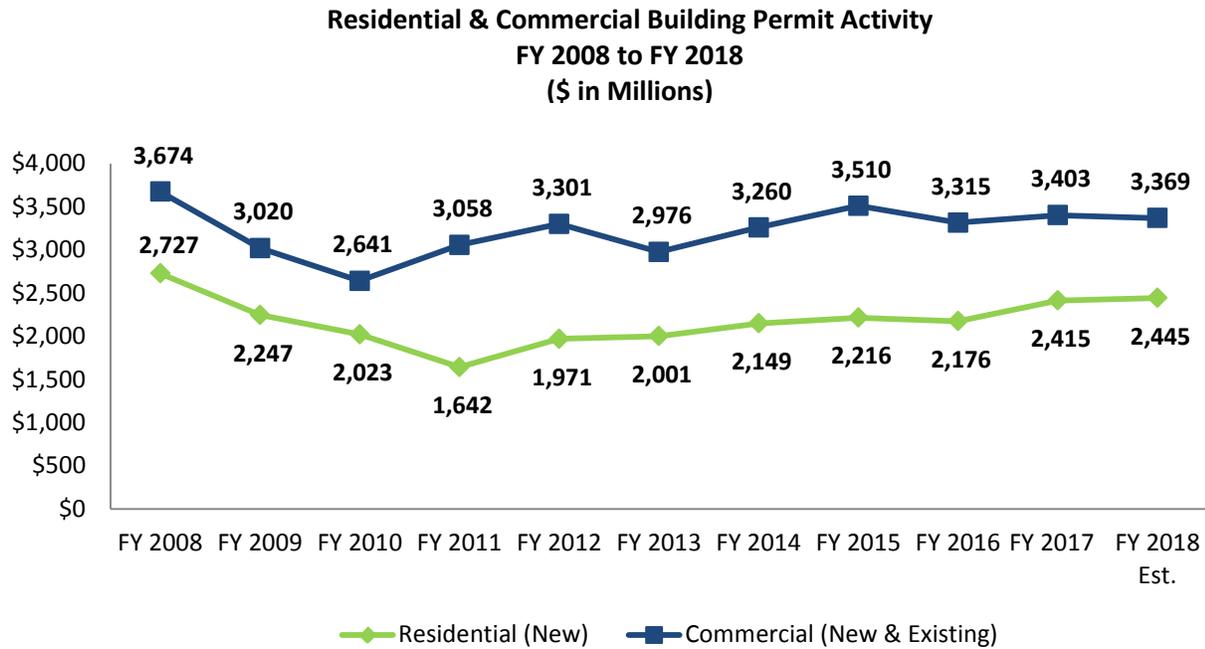
<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
2.55%	2.51%	2.38%	2.35%	2.35%

The Forecast also reflects employee compensation to include a 1% cost of living adjustment, continued maintenance of the civilian pay plan for step employees, and performance-based pay for Civilian non-step employees. The Forecast includes the corresponding increases to the Budgeted Financial Reserves. The Net Ending Balance takes into account the full impact of all transfers and operating expenses, including employee compensation issues and improvement requests.

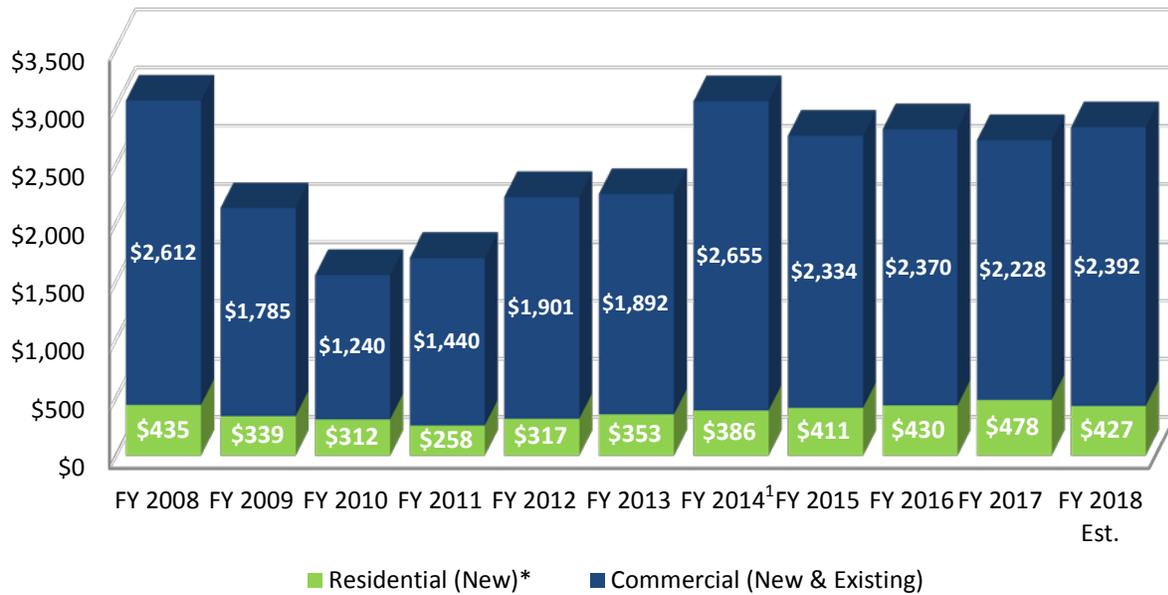
The establishment and maintenance of appropriate financial reserves within the Development Services Fund is critical to prudent financial management. Budgeted Financial Reserves assist in smoothing fluctuations in available resources from year to year and stabilizing the budget. Reserves for the Development Services Fund are forecasted at 8% of appropriations during the forecast period.

The Development Services Fund also includes a capital reserve that will be used to fund the next phase of the BuildSA software project. Phase I of the project is underway and fully funded. Phases II and III of BuildSA are anticipated to be implemented over the forecast window and will utilize the capital reserve funds as well as other funds, such as Certificates of Obligation, to complete the project.

Permit Activity and Valuation - The following graphs illustrate trends for both building permit activity and project valuation. The number of residential permits has grown moderately since FY 2011 and is projected to end FY 2018 up 1% from FY 2017. Commercial permit has experienced less volatility as compared to the residential sector. However, FY 2018 commercial permit activity is anticipated to end the year slightly below FY 2017.



**Residential & Commercial Building Permit Valuation
FY 2008 to FY 2018
(\$ in Millions)**



*Residential valuation presented for reference. Revenues for residential permitting are based on the square footage of the project rather than the project's declared valuation

¹ FY 2014 Commercial Valuation included the \$325M Henry B. Gonzalez Convention Center Expansion project

Building permit project valuation provides an additional layer of information regarding construction activities around the city. Higher project valuations give an indication of increased size, scope, and/or complexity of the building projects involved. Commercial building projects are the primary driver for development activity in the city. The contrasting visuals between the number of commercial permits issued from the chart on the previous page and the commercial project valuations shown above demonstrate that even though the number of commercial building projects is slightly down year-over-year, the projects are larger, more complex buildings.

**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).

The department is composed of the following divisions: Solid Waste, Recycling, Organics, 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. SWMD is also responsible for maintenance and repair of all 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% of all residential curbside materials collected by SWMD by FY 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, opened an additional 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, introduced Pay As You Throw (PAYT), 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% to 33%. The Department completed the roll out of PAYT in FY 2017, the final phase of the next major step to achieve a 60% recycling rate by FY 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 2019 to FY 2023. As shown below, the forecast begins with the budget and preliminary estimated projections for the current fiscal year.

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

	FY 2018 Budget	FY 2018 Estimate	FY 2019 Projection	FY 2020 Projection	FY 2021 Projection	FY 2022 Projection	FY 2023 Projection
RESOURCES							
Beginning Balance	\$ 4,760	\$ 7,121	\$ 4,892	\$ 6,662	\$ 7,907	\$ 7,687	\$ 3,178
Adjustment for Reserve	-	-	-	-	-	-	-
CURRENT REVENUES							
Solid Waste Fee	\$ 93,883	\$ 95,886	\$ 106,755	\$ 108,958	\$ 106,695	\$ 99,923	\$ 99,914
Environmental Fee	15,790	16,040	16,223	16,408	16,595	16,784	16,976
Recycling Revenue	4,067	3,434	3,918	4,381	5,888	6,989	7,096
Other Revenues	3,316	3,860	3,962	3,813	3,831	3,838	3,844
TOTAL CURRENT REVENUES	\$ 117,055	\$ 119,220	\$ 130,859	\$ 133,559	\$ 133,009	\$ 127,535	\$ 127,830
TOTAL RESOURCES	\$ 121,815	\$ 126,342	\$ 135,751	\$ 140,221	\$ 140,916	\$ 135,221	\$ 131,008
EXPENDITURES/RESERVES							
Base Service	\$ 118,910	\$ 119,056	\$ 123,843	\$ 124,292	\$ 126,137	\$ 128,905	\$ 128,645
TOTAL EXPENDITURES	\$ 118,910	\$ 119,056	\$ 123,843	\$ 124,292	\$ 126,137	\$ 128,905	\$ 128,645
Incremental Reserve	\$ 1,394	\$ 1,394	\$ 247	\$ 22	\$ 92	\$ 138	\$ -
Incremental Capital Reserve	1,000	1,000	5,000	8,000	6,000	2,000	1,000
Stabilization Reserve	-	-	-	-	1,000	1,000	600
NET ENDING BALANCE	\$ 511	\$ 4,892	\$ 6,662	\$ 7,907	\$ 7,687	\$ 3,178	\$ 764
BUDGETED RESERVE	\$ 5,946	\$ 5,946	\$ 6,192	\$ 6,215	\$ 6,307	\$ 6,445	\$ 6,445
RESERVE FOR CAPITAL	\$ 1,000	\$ 1,000	\$ 6,000	\$ 14,000	\$ 20,000	\$ 22,000	\$ 23,000
RATE STABILIZATION RESERVE	\$ -	\$ -	\$ -	\$ -	\$ 1,000	\$ 2,000	\$ 2,600

REVENUES

MONTHLY SOLID WASTE FEES

There are two major sources of revenue for the Solid Waste fund. The primary source 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 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 fee is also billed and collected by CPS Energy. Forecasted revenues are based on annual growth in customer accounts of 0.33% and 1.14% for solid waste and environmental customers, respectively, from FY 2019 through FY 2023 along with any proposed rate increases.

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

History of Total Monthly Rates per Household (Pre-PAYT)

	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 (Pay As You Throw) went into effect. Pricing is based on the size of the garbage cart. The rates are designed to incentivize recycling behavior and provide funding for the additional personnel and equipment needed for the continuation of the PAYT program. The table below reflects the projected rates for PAYT rates.

Total Monthly Rates for PAYT

Carts	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Small	\$20.43	\$19.93	\$19.43	\$18.93	\$18.43	\$17.93	\$17.93
Medium	\$20.93	\$21.93	\$21.93	\$21.93	\$21.93	\$21.93	\$21.93
Large	\$22.18	\$24.68	\$29.43	\$32.68	\$35.93	\$39.18	\$39.18
<i>Small to Large Difference</i>	\$1.75	\$4.75	\$10.00	\$13.75	\$17.50	\$21.25	\$21.25

EXPENDITURES

PROJECTED GROWTH

The PAYT conversion concluded in the Spring of FY 2017. Major components to the program include education and outreach, as well as enforcement. Residents have the option to select from three different sizes of brown garbage carts (small, medium, large). Based on the rate structure, customers who select a smaller cart and throw away less trash will pay a lower rate. The rate structure also incentivizes residents to divert more waste into the green organics and blue recycling carts.

Each truck can service about 2,160 homes each day and with the growth in customer count, the trucks are exceeding this number of homes. In order to maintain the optimal number of homes on each route, 2 Automated Side Loader (ASL) vehicles are included in the FY 2019 Projections and an additional, 1 position and truck are included in FY 2020 and FY 2022. The following table illustrates the additional personnel and trucks needed from FY 2019 through FY 2023.

Pay As You Throw – Additional Personnel, Trucks, Carts

Input	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Side-Load Driver	0	1	0	1	0
Automated Side-Load Trucks	2	1	0	1	0
Average Routes per Day	156	157	157	158	158

As the rates increase for larger carts, it is expected that more customers will shift to a smaller cart, which will require the department to purchase more of the small and medium carts. The table below illustrates the anticipated cart demand assumptions from FY 2019 through FY 2023.

Pay As You Throw - New Cart Size Distribution

Cart Distribution	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Customers w/ Small	10%	15%	20%	25%	25%
Customers w/ Medium	20%	30%	40%	50%	50%
Customers w/ Large	70%	55%	40%	25%	25%

CONTAMINATION

San Antonio, as well as nationally, must work to improve the quality of recyclables collected. Contamination is not acceptable in the City of San Antonio’s recycling or organics program. Recycling contamination consists of two components: items that are not acceptable in the program (such as diapers), and potentially acceptable items that cannot be processed due to their condition (such as bagged recyclables).

The Department has implemented several strategies to reduce contamination in both the blue recycling and green organics carts. SWMD has implemented an inspection program for both carts. Residents who place incorrect items in the carts are issued a warning tag. Subsequent violations may result in a \$25 fine. Upon receiving a warning, 97% of residents correct their behavior and avoid receiving a violation. However, the Department has experienced that without repeat inspections, some residents continue to commit violations. Due to the increase in contamination rates, improvements in education and enforcement are being recommended in order to reduce contamination and maintain consistency in inspections. The Department has also contracted with a communications firm to refine marketing materials and outreach strategies. Additionally, City Council approved an ordinance in March 2018 to implement a new Citywide fee of \$50 for diaper contamination. Despite the dropping level of general contamination in our recycling stream, San Antonio has a particular problem with dirty diapers being placed into the blue recycling and green organics cart. This \$50 fee will be administered through the same process as the \$25 contamination fee.

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 FY 2019 through FY 2023. These rates and their underlying assumptions are described in the Economic Outlook and Perspective section. The FY 2019 base budget also assumes the removal of one-time improvements included in the FY 2018 Adopted Budget.

FINANCIAL RESERVES

The establishment and maintenance of an appropriate financial reserve within the Solid Waste Operating and Maintenance Fund is critical to prudent financial management. The FY 2019 through FY 2023 Forecast recommends a Budgeted Financial Reserve in an amount equal to 5% of annual operating expenditures. In addition, the FY 2019 through FY 2023 Forecast recommends increasing the Improvement & Contingency (I&C) Fund by \$5 million in FY 2019, \$8 million in FY 2020, \$6 million in FY 2021, \$2 million in FY 2022, and \$1 million in FY 2023. The I&C Fund will assist the Solid Waste Management Department in funding future capital projects.

ECONOMIC OUTLOOK & PERSPECTIVE

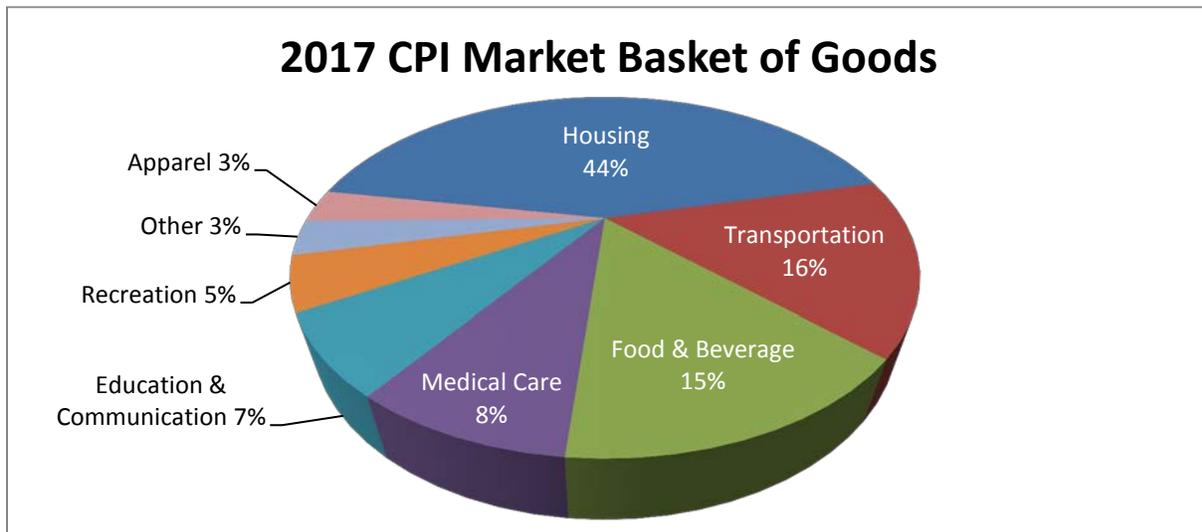
ECONOMIC OUTLOOK

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. Considering 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 both 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 and services contains a wide array of items, ranging from groceries and motor fuel to club memberships and solid waste disposal services. The CPI does not, however, include investments such as stocks or real estate.

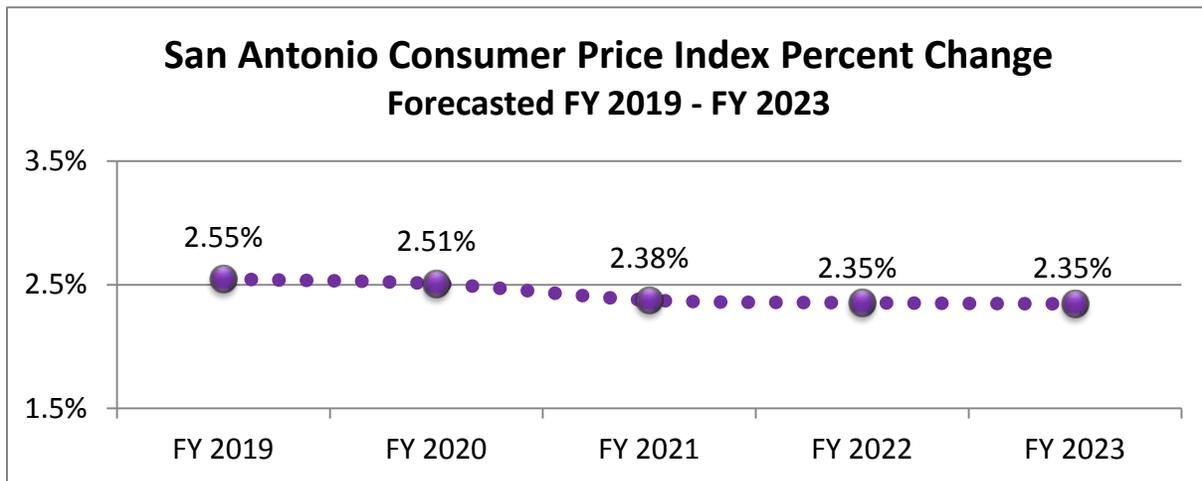


Source data: Bureau of Labor Statistics, U.S. Department of Labor, The Economics Daily, *Consumer Price Index: 2017 In Review*.

The Bureau of Labor Statistics has classified each expenditure item in this basket of goods into more than 300 categories. Each one of these categories is cataloged into eight major groups, as shown in the figure above. For example, Tuition, Other School Fees, and Childcare is a category nested within the Education and Communication group and makes up 3.046% of the total basket of goods in the 2017 index. In other words, in 2017 the cost of these services relative to the rest of the items in the basket cost the average American \$3.05 per \$100.

The CPI is used as the inflationary factor for specific non-personnel services expenditures to develop the City's 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, the 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, which spans from October 1 to September 30.

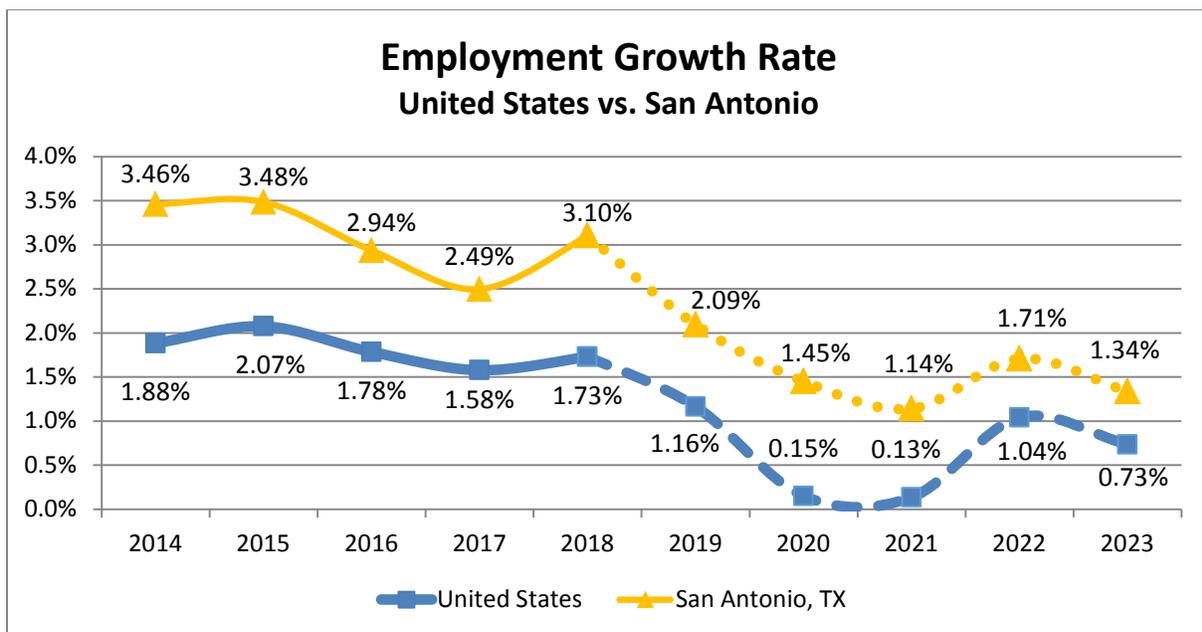


Source: Projection Data from Moody's Economy.com

SAN ANTONIO ECONOMY

EMPLOYMENT

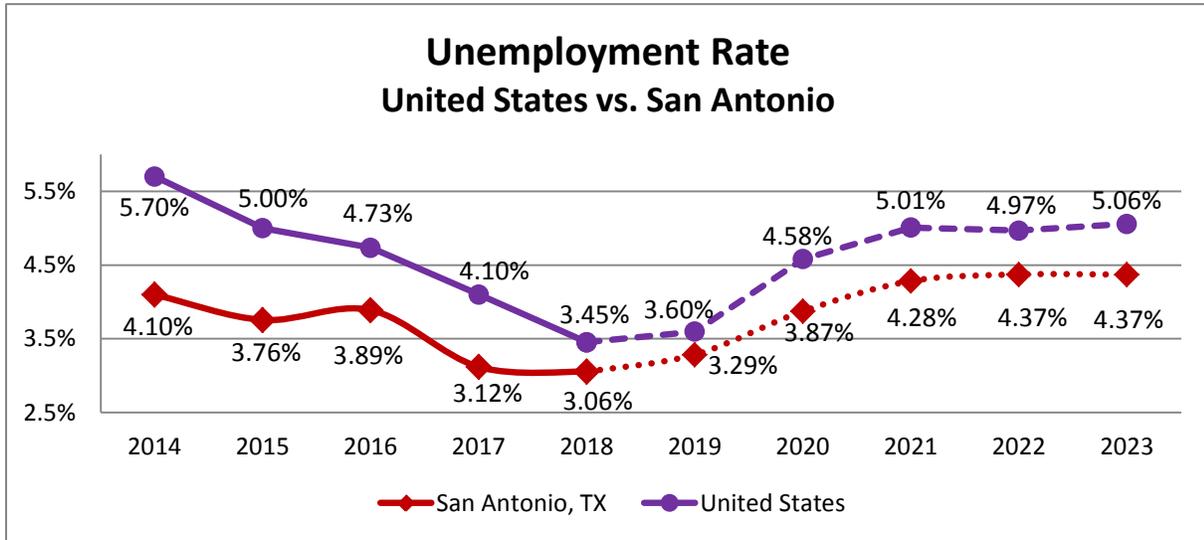
Increases in the total number employed persons in a region can be attributed to either job creation from within the area or the migration of jobs into the region. The figure below provides employment growth rate historical and projected data for San Antonio and the United States.



Source: Projection Data from Moody's Economy.com

UNEMPLOYMENT

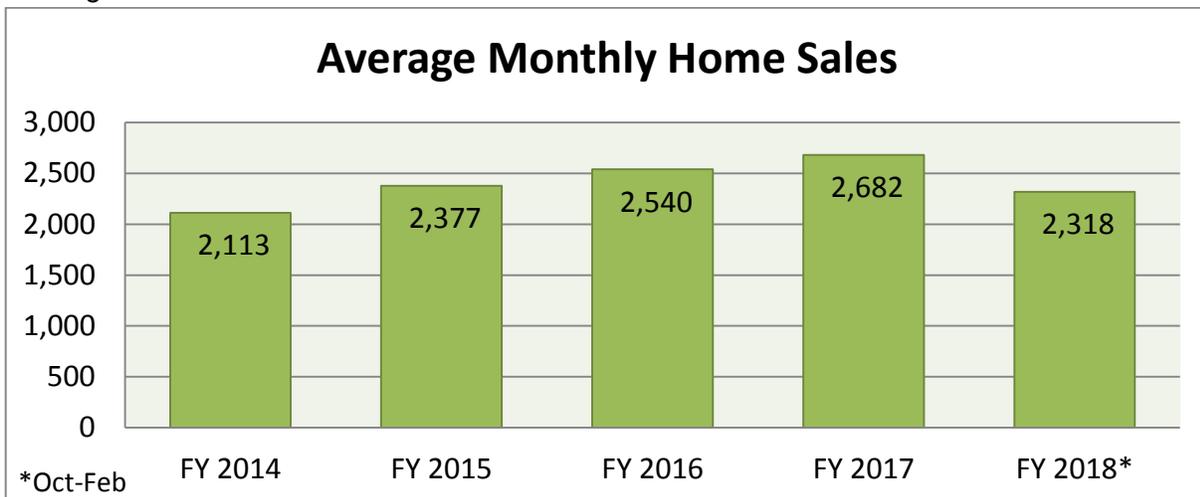
The Unemployment Rate represents the number of unemployed persons as a percent of the labor force. An unemployed person is generally defined as someone aged 16 years or older who has been looking for employment for at least four weeks. The national unemployment rate has steadily decreased from 5.70% in 2014 to 3.45% in 2018. The City of San Antonio's unemployment rate has remained below the national average each of the past five years and is projected to follow a similar trend for the next five years. At the time of publication, the local unemployment rate is the lowest observed in 19 years (March 1999 had a local unemployment rate of 2.97%).



Source: Projection Data from Moody's Economy.com

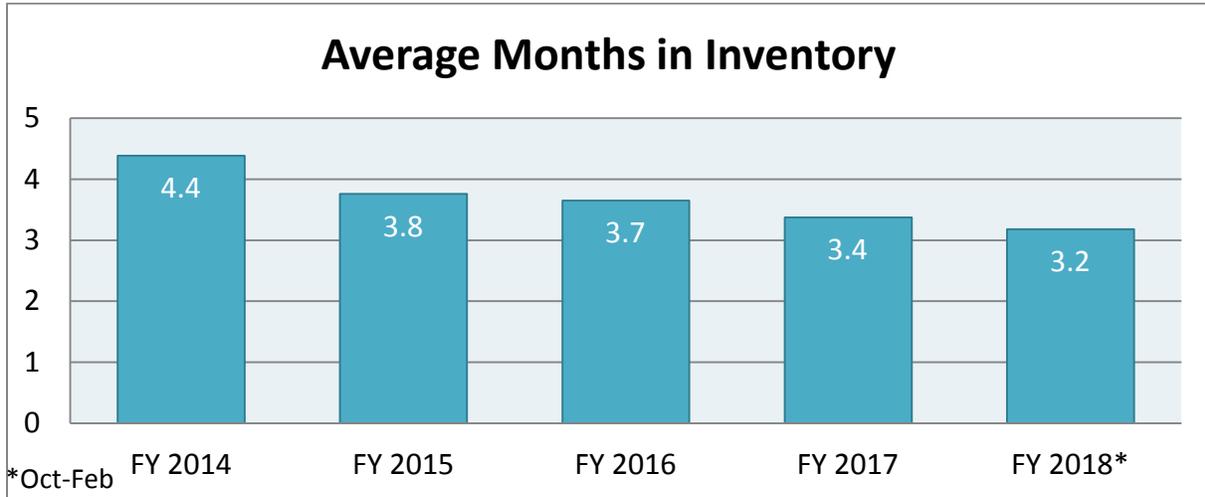
HOUSING

The Housing Market in San Antonio continues its recovery from recession levels, with Average Monthly Home Sales and the Median Housing Price steadily rising from 2014 to 2017, while Average Months in Inventory steadily decreased over that same period. Using a combination of historical trends and current fiscal year performance metrics, the data suggest the San Antonio housing market will continue these trends well into FY 2019.



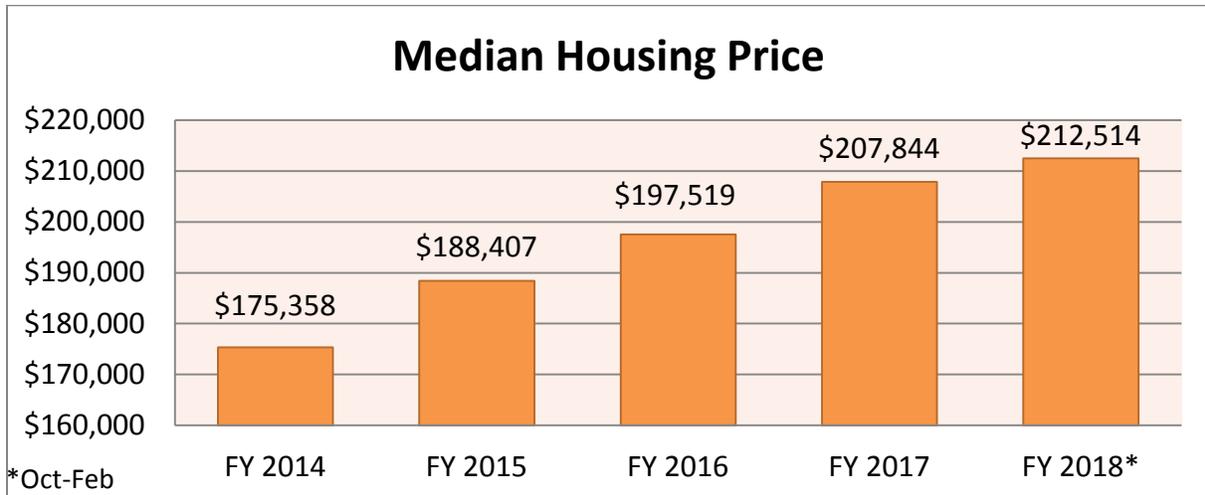
Source: Real Estate Center at Texas A&M University

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. This is the sixth consecutive year (only 2014 to 2018 data shown) in which the average months in inventory has been lower than the previous year. San Antonio has seen the average months in inventory decrease by 27% from 4.4 months in FY 2014 to 3.2 months in FY 2018.



Source: Real Estate Center at Texas A&M University

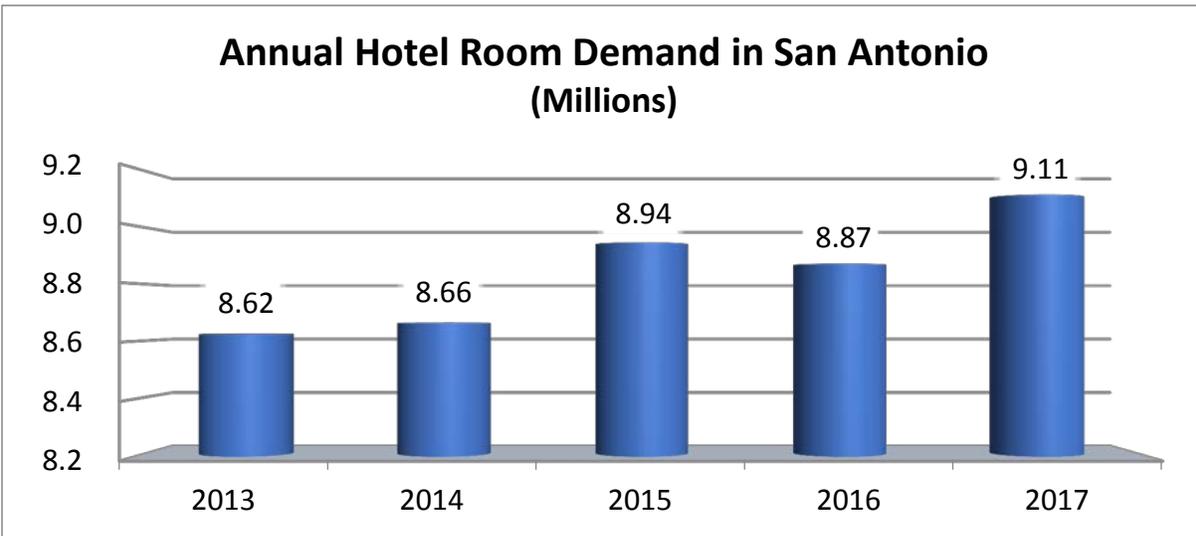
Median Housing Price is the midpoint price of home sales in each year at which half the homes are sold above this price and half the homes are sold below this price. Since FY 2014, San Antonio has experienced an average annual increase of 5.90% or \$10,646 in median housing prices year-over-year. The median prices for home sales increased each of the past four years, with a 21.2% increase from FY 2014 to FY 2017.



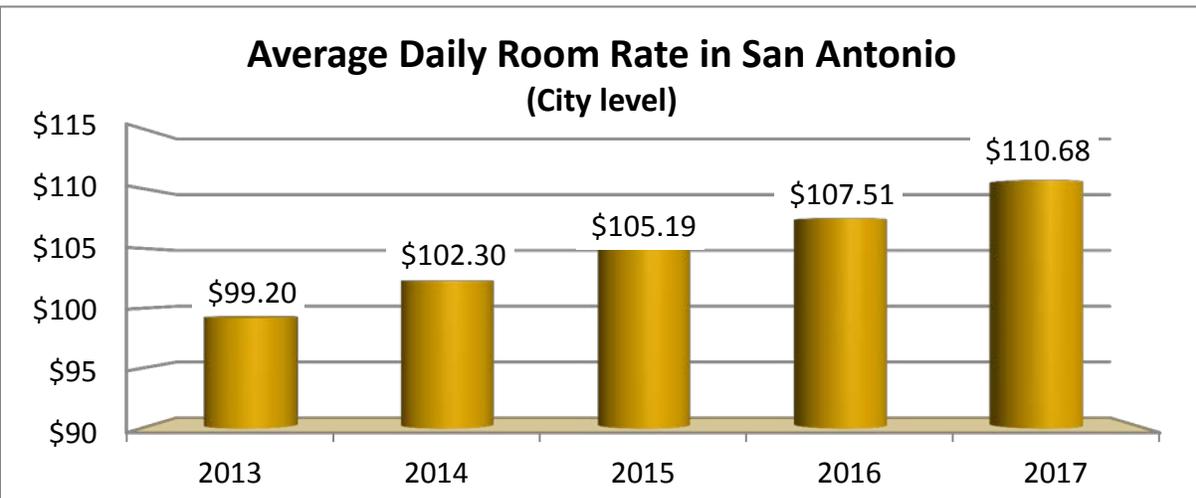
Source: Real Estate Center at Texas A&M University

HOSPITALITY INDUSTRY

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. **Annual Hotel Room Demand** is defined as the number of rooms sold or rented, excluding complimentary rooms. Industry data on the San Antonio market show 2017 hotel room demand increased by 2.7%, or 230,000 rooms, over the previous year.



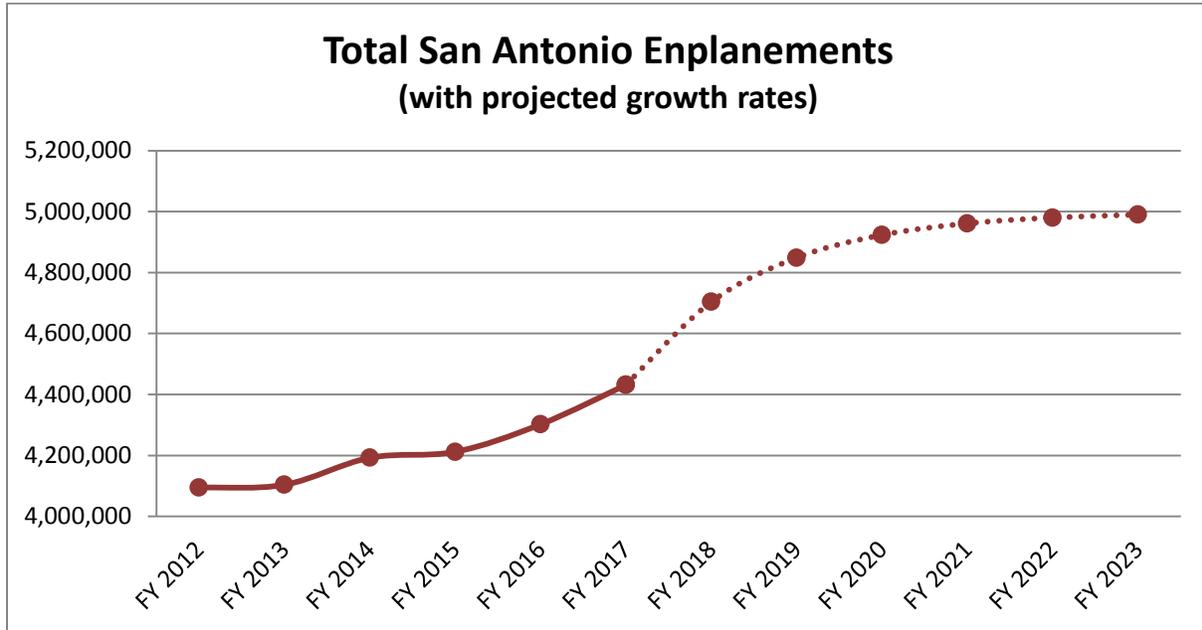
Average Daily Rate (ADR) is the average price of a single room night in San Antonio. The ADR metric is indicative of the hospitality industry's health and is influenced by the supply of hotel rooms. San Antonio's ADR saw marginal growth in 2017, rising 2.9% above the 2016 rate to \$110.68 per night for a single room.



Hospitality Data Source: 2018 STR, Inc.. Data obtained from Smith Travel Research based on hotels in San Antonio Market reports dated March 2014, February 2015-2018.

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 has resulted in exponential growth at the airport in the last decade. Since FY 2012 total enplanements have increased by 8.2% and are projected to grow 6.1% in FY 2018, 3.1% in FY 2019, and taper out from FY 2020 and beyond.



Source: Aviation Department, City of San Antonio