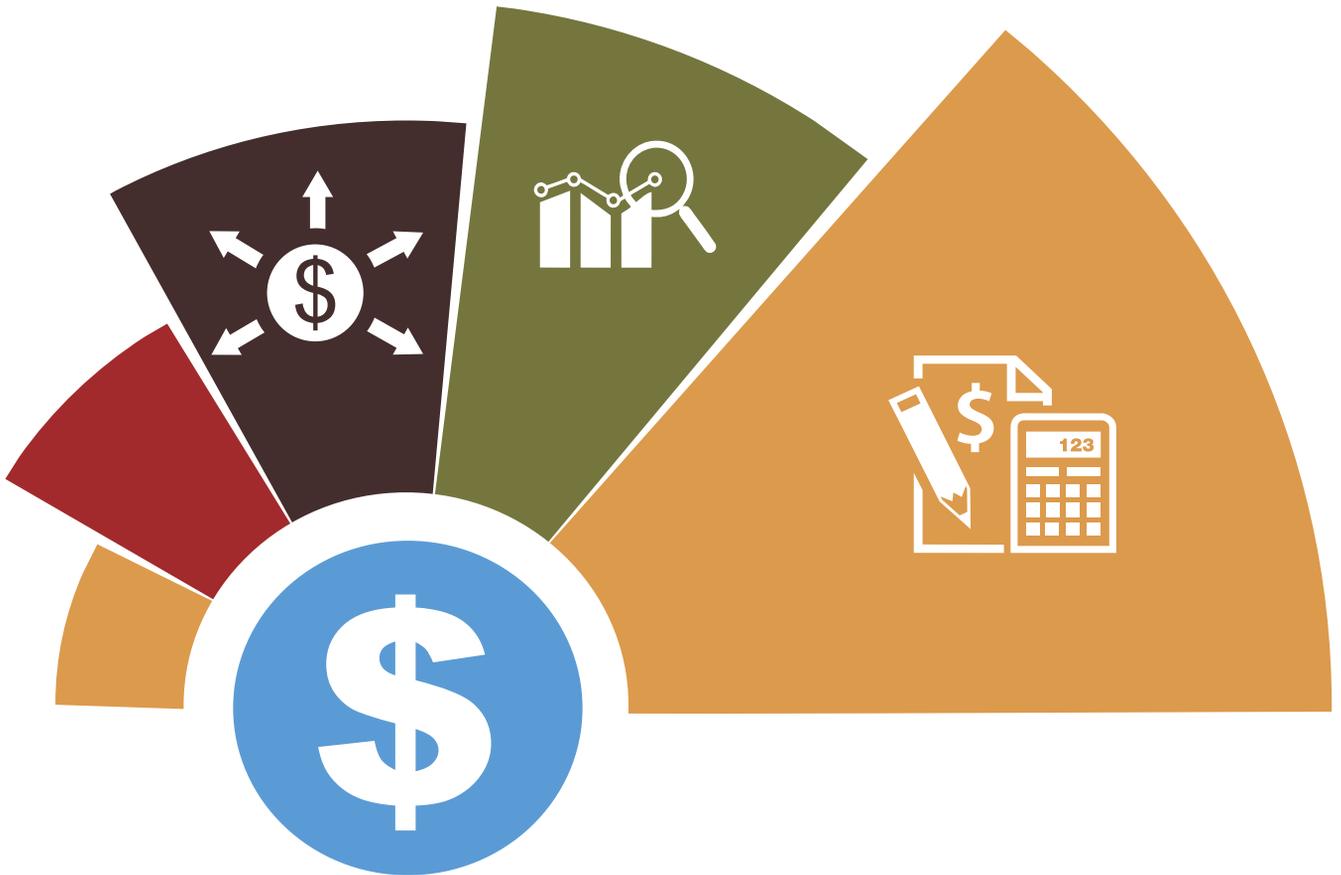


FY 2020-2024

FIVE YEAR FINANCIAL FORECAST



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

CITY OF SAN ANTONIO

Five Year Financial Forecast

Fiscal Year 2020-2024



PREPARED BY:

OFFICE OF MANAGEMENT AND BUDGET

MAY 8, 2019

CITY OF SAN ANTONIO
FIVE YEAR FINANCIAL FORECAST
FY 2020 – FY 2024

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	18
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 2019) 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 2020 Proposed Operating Budget is developed and presented to City Council on August 8, 2019.

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 a tremendous amount of pressure on the General Fund.

In March 2019, the U.S. Office of Management and Budget (OMB) released the President's Proposed Budget for FY 2020. This proposed budget gives Congress a view of the President's priorities which is the first step in the federal budget process. The President's budget proposal initiates a comprehensive examination of the federal budget and the start of extensive negotiation with Congress.

The Proposed Budget as presented in March would reduce federal support to both the City and community organizations by eliminating Community Development Block Grant (CDBG), Community Services Block Grant (CSBG), and HOME Investment Partnership Program (HOME) and reducing several other grant programs for a total potential reduction of \$21 million. In total the City receives \$20.3 million in funding from CDBG, CSBG, and HOME. These grants provide funds for community development activities such as development of affordable housing, anti-poverty programs, and infrastructure development.

The City also faces uncertainty at the Texas state level which is currently in their 86th Legislature. The Legislature is considering a number of bills which could negatively impact the City. This legislation includes 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. At the time of publication, a 3.5% revenue cap advocated by the Governor, is being considered by both the House and Senate.

If revenue cap legislation is signed into law, it would impact the City's ability to grow and continue providing basic services such as police, fire, street maintenance, park maintenance, code enforcement, and animal care services. For example, if a 3.5% revenue cap had been in place for the past 10 years, the City would have received approximately \$137 million in less revenues and the General Fund would be \$51 million smaller in FY 2019. This is equivalent to the entire Parks and Recreation Department's budget (\$53 million), or the Library's budget (\$42 million).

In addition to property tax changes, the Legislature is also considering changes to utility regulations that govern fees charged to telecommunication companies using the City's right of way. Currently, the City receives revenue from two fees paid by telecommunication companies: cable franchise fee and Right of Way Access line. The proposed bill would require the companies to pay only one fee instead of both; whichever one is higher. This change would reduce the revenue to the City by approximately \$7 million annually. The forecast assumes this reduced revenue throughout the forecast period.

GENERAL FUND

The external factors described above were taken into consideration as the Five Year Forecast was developed. The forecasted General Fund for FY 2020 reflects a positive ending balance of \$3.1 million assuming no additional expenditures related to Policy Issues.

During the forecast period, total General Fund revenue is expected to grow annually at rates ranging from 2.9% to 3.4%. The FY 2019 Revenue Estimate is approximately \$600,000 lower than the FY 2019 Adopted Budget, or an overall decrease of 0.05%. This decrease is primarily due to revenues from CPS Energy which are projected 2.1% below budget as a result of mild weather and lower fuel prices. The rate of revenue growth projected in FY 2020 over the FY 2019 Adopted Budget is approximately 2.9%. Revenue growth beyond FY 2020 is forecasted at rates of 3.4% in FY 2021, 3.4% in FY 2022, 3.4% in FY 2023, and 3.3% in FY 2024.

The General Fund Forecast reflects the annual projected expenditures required to sustain the current Fiscal Year 2019 level of service. The growth in expenditures over the forecast period is primarily due to increases in health care costs, contractual and inflationary increases, mandated operational costs associated with 2017 Bond Projects and other capital projects as well as the Collective Bargaining Agreement with Police and the Fire Evergreen clause.

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 2019 level of services. The policy section provides budget scenarios for Affordable Housing, a \$5,000 Homestead Exemption, adding 25 new Uniformed Police Officers each year of the forecast, and adding one emergency medical services unit and two ladder trucks for Fire. These expenses will be considered and evaluated during the FY 2020 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 minimum General Fund Ending Balance of 15% of 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. FY 2020 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 2019. The FY 2020 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 2019 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 2020 through 2024 (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 and Fire Evergreen Clause, continued maintenance of the civilian pay plan for step employees, performance-based pay for Civilian non-step employees, a 1% across the board salary adjustment, 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.

GENERAL FUND FORECAST

GENERAL FUND FORECAST

General Fund Forecast (\$ in Millions)

	FY 2019 Budget	FY 2019 Estimate	FY 2020 Projection	FY 2021 Projection	FY 2022 Projection	FY 2023 Projection	FY 2024 Projection
RESOURCES							
Beginning Balance (Excluding Reserves)	\$0.0	\$14.0	\$14.7	\$3.1	\$0.0	\$0.3	\$5.6
Use of Reserve for Two Year Balanced Budget Plan	101.7	101.7	64.3	63.4	65.4	67.7	70.0
Accounting Adjustment							
CURRENT REVENUES							
Property Tax	\$361.9	\$361.9	\$383.6	\$402.8	\$422.9	\$444.1	\$466.3
Sales Tax	295.3	299.7	310.2	321.1	332.3	343.9	356.0
CPS Energy	363.0	355.3	360.4	370.3	380.5	390.0	398.8
Other	209.2	211.9	213.4	214.0	217.4	221.2	224.4
TOTAL CURRENT REVENUES	\$ 1,229.4	\$ 1,228.8	\$ 1,267.7	\$ 1,308.1	\$ 1,353.2	\$ 1,399.2	\$ 1,445.5
TOTAL RESOURCES	\$1,331.1	\$1,344.6	\$1,346.8	\$1,374.6	\$1,418.6	\$1,467.1	\$1,521.0
TOTAL EXPENDITURES	1,262.1	1,260.8	1,276.5	1,314.4	1,346.2	1,387.0	1,421.2
FINANCIAL RESERVES/TWO-YEAR BALANCED BUDGET							
Budgeted Financial Reserves for 10% (Incremental)	4.7	4.7	3.8	4.0	4.5	4.6	4.6
Reserve for Two-Year Balanced Budget Plan	64.3	64.3	63.4	65.4	67.7	70.0	72.3
ENDING BALANCE	\$ 0.0	\$ 14.7	\$ 3.1	\$ (9.3)	\$ 0.3	\$ 5.6	\$ 22.9
Potential Additional Expenditures/Policy Issues							
Affordable Housing			15.0	20.0	25.0	25.0	25.0
Police - 25 Officers Each Year of Forecast			0.9	3.7	6.8	10.1	13.6
Fire - 42 New Firefighters over 5 years(2 Ladders & 1EMS Units)			1.8	4.7	5.8	7.2	7.5
Residential Homestead Exemption			3.6	3.8	3.9	4.0	4.1
TOTAL ADDITIONAL EXPENDITURES/POLICY ISSUES			\$ 21.3	\$ 32.2	\$ 41.5	\$ 46.3	\$ 50.1
ADJUSTMENT REQUIRED TO FUND POLICY ISSUES			\$ (18.3)	\$ (41.5)	\$ (41.2)	\$ (40.7)	\$ (27.2)
BUDGETED RESERVES SUMMARY							
Budgeted Financial Reserves	122.9	122.9	126.8	130.8	135.3	139.9	144.5
Reserve for 2-year Balance Budget	64.3	64.3	63.4	65.4	67.7	70.0	72.3
Total Financial Reserves as % of Current Revenues	15.2%	15.2%	15.0%	15.0%	15.0%	15.0%	15.0%

GENERAL FUND REVENUES

Total FY 2019 General Fund revenue is anticipated to be \$600,000, or 0.05%, below the FY 2019 Adopted Budget. Over the forecast period, these revenues are expected to increase at an average annual rate of 3.3%, with annual rates of change ranging from 2.9% in FY 2020 to 3.4% in FY 2021.

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

Revenue	FY 2019	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
	Budget	Estimate	Projection	Projection	Projection	Projection	Projection
Current Property Tax	\$361.9	\$361.9	\$383.6	\$402.8	\$422.9	\$444.1	\$466.3
City Sales Tax	295.3	299.7	310.2	321.1	332.3	343.9	356.0
CPS Energy	363.0	355.3	360.4	370.3	380.5	390.0	398.8
Business and Franchise Tax	28.2	27.3	20.3	20.9	21.4	22.0	22.5
Liquor By the Drink Tax	9.1	9.6	9.8	10.0	10.2	10.4	10.7
Delinquent and Penalties	2.8	2.8	3.8	3.8	3.8	3.8	3.8
Licenses and Permits	9.3	9.2	9.3	9.4	9.5	9.7	9.8
San Antonio Water System	18.3	18.4	19.3	19.8	20.1	20.4	20.7
Other Agencies	5.0	5.6	4.9	4.9	5.0	5.1	5.1
Charges for Current Services	67.4	67.7	68.2	68.7	69.7	70.7	71.8
Fines	11.7	11.3	11.3	11.3	11.3	11.4	11.4
Miscellaneous Revenue	19.1	21.7	27.4	25.4	25.7	26.0	26.1
Transfers from Other Funds	38.3	38.3	39.2	39.7	40.8	41.7	42.5
Total Revenue	\$1,229.4	\$1,228.8	\$1,267.7	\$1,308.1	\$1,353.2	\$1,399.2	\$1,445.5

CITY PUBLIC SERVICE ENERGY (CPS ENERGY)

Projected Annual Rates of Change for CPS Recurring Revenues

FY 2020 ¹	FY 2021	FY 2022	FY 2023	FY 2024
1.4%	2.8%	2.8%	2.5%	2.3%

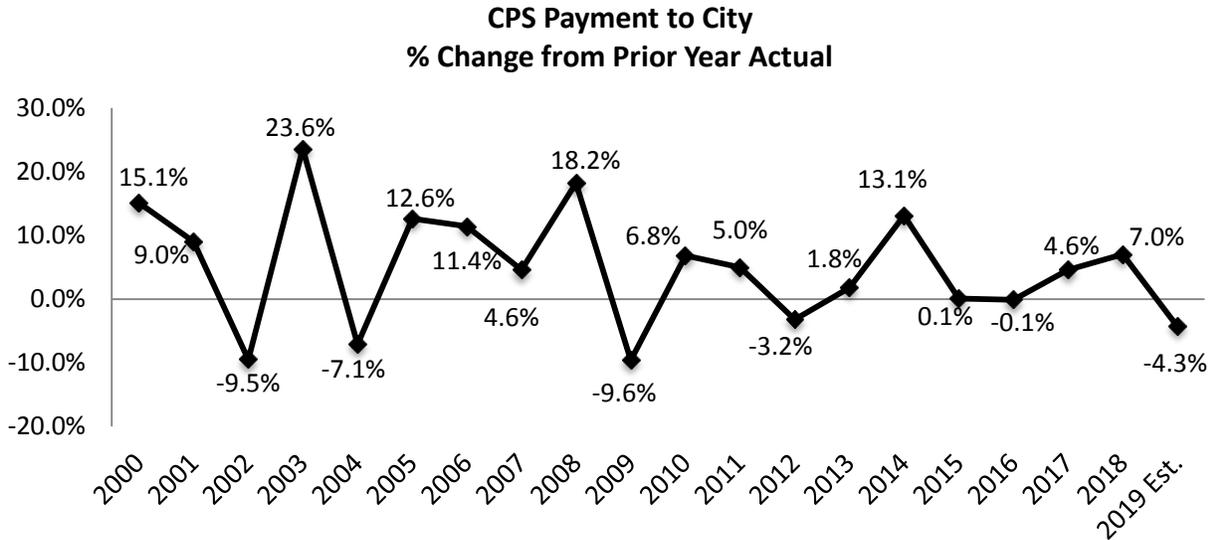
The City's payment from CPS Energy represents the largest source of revenue to the General Fund, accounting for 28.8% of the FY 2019 General Fund Adopted Budget. 14% of CPS Energy gas and electric gross revenue is paid to the City as a return on investment. The estimated revenue of \$355.3 million for FY 2019 is 2.1% lower than the FY 2019 Adopted Budget. CPS Energy has been down the first six months due to milder weather from December to February averaging 9% warmer than normal and lower gas resale prices. 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

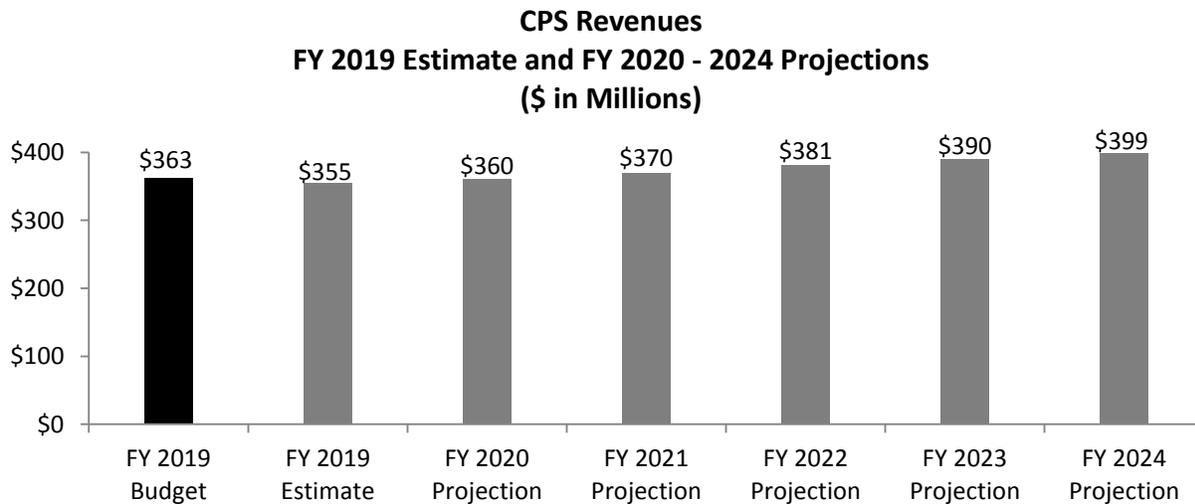
¹ CPS revenue is projected 1.4% above the FY 2019 Estimate and -0.7% below the FY 2019 Adopted Budget.

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.

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 2020 of \$360.4 million is \$2.6 million, or 0.7%, lower than the FY 2019 Adopted Budget of \$363.0 million. The forecasted amounts for FY 2021 through FY 2024 are based on the FY 2020 Projection adjusted by an average growth rate of 2.6% for FY 2021 through FY 2024.

CURRENT PROPERTY TAX REVENUE – MAINTENANCE & OPERATIONS

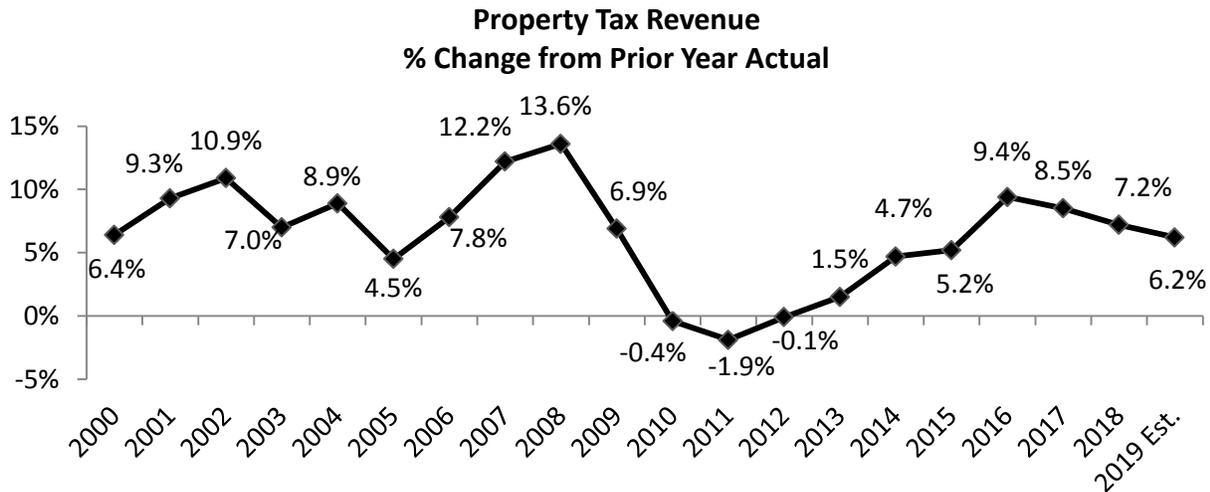
Projected Annual Rates of Change

FY 2020 ²	FY 2021	FY 2022	FY 2023	FY 2024
6.0%	5.0%	5.0%	5.0%	5.0%

Property tax revenue accounts for 28.7% of the total FY 2019 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 2020 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 2019.

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.

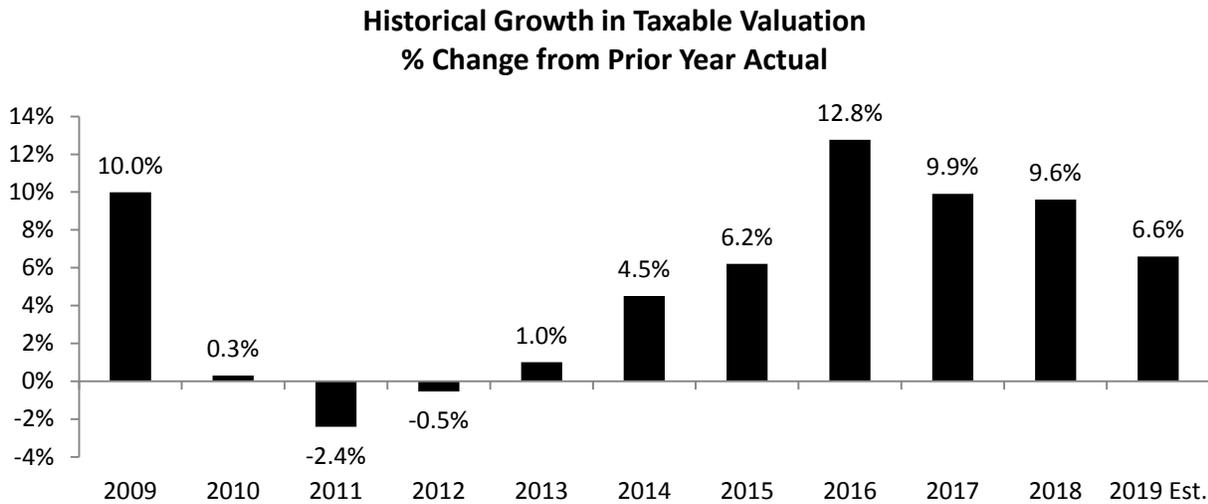
The revenue estimated to be generated in FY 2020 includes the current property tax rate of 55.827 cents per \$100 of taxable valuation. The General Fund maintenance and operation portion is 34.677 cents with the remaining 21.150 cents used to support the City’s debt service requirements. The revenue 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-six years and has decreased it seven times over that same period.



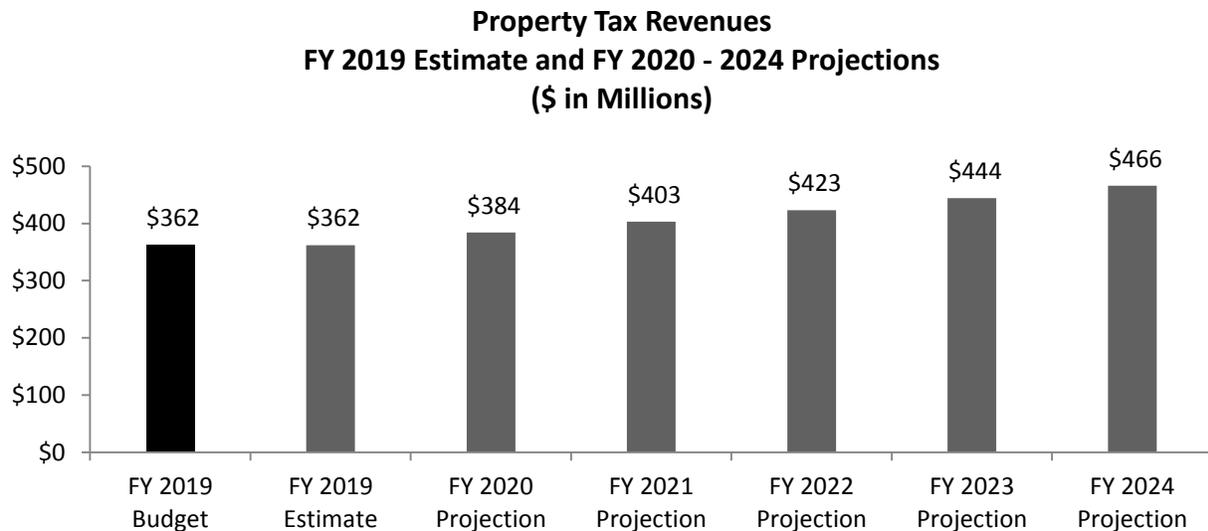
² Property Tax revenue is projected 6.0% above both the FY 2019 Estimate and FY 2019 Adopted Budget

Taxable valuations are estimated to increase by 6.0% in FY 2020 as compared to the FY 2019 Adopted Budget. Thereafter, taxable valuations are projected to increase by 5.0% in FY 2021 through FY 2024. These estimates are a result of projections of base value change and new property improvements.

Assessed Valuation Category	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Base	4.00%	3.50%	3.50%	3.50%	3.50%
New Improvements	2.00%	1.50%	1.50%	1.50%	1.50%
Total % Change - Taxable Value	6.00%	5.00%	5.00%	5.00%	5.00%



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

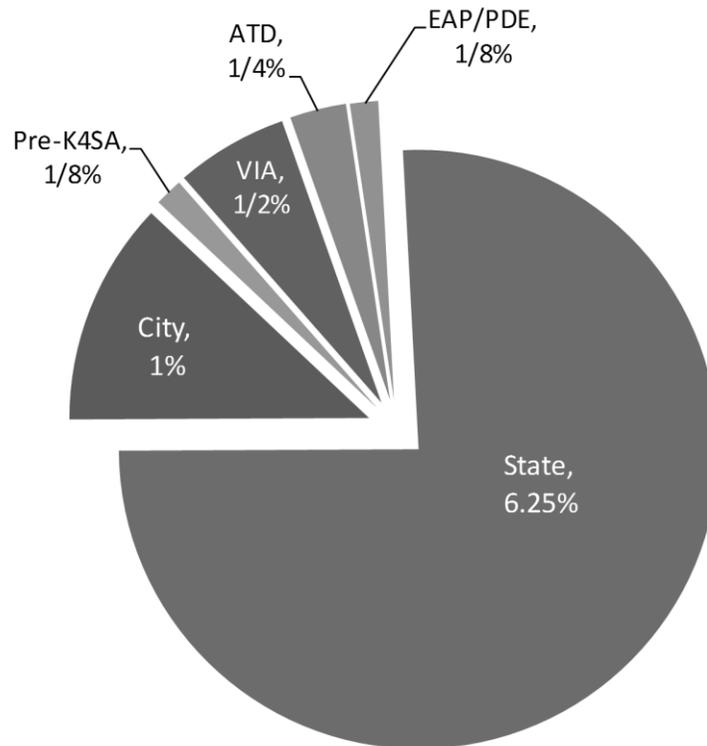


CITY SALES TAX REVENUE

Projected Annual Rates of Change

FY 2020 ³	FY 2021	FY 2022	FY 2023	FY 2024
3.5%	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 23.4% of the FY 2019 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.

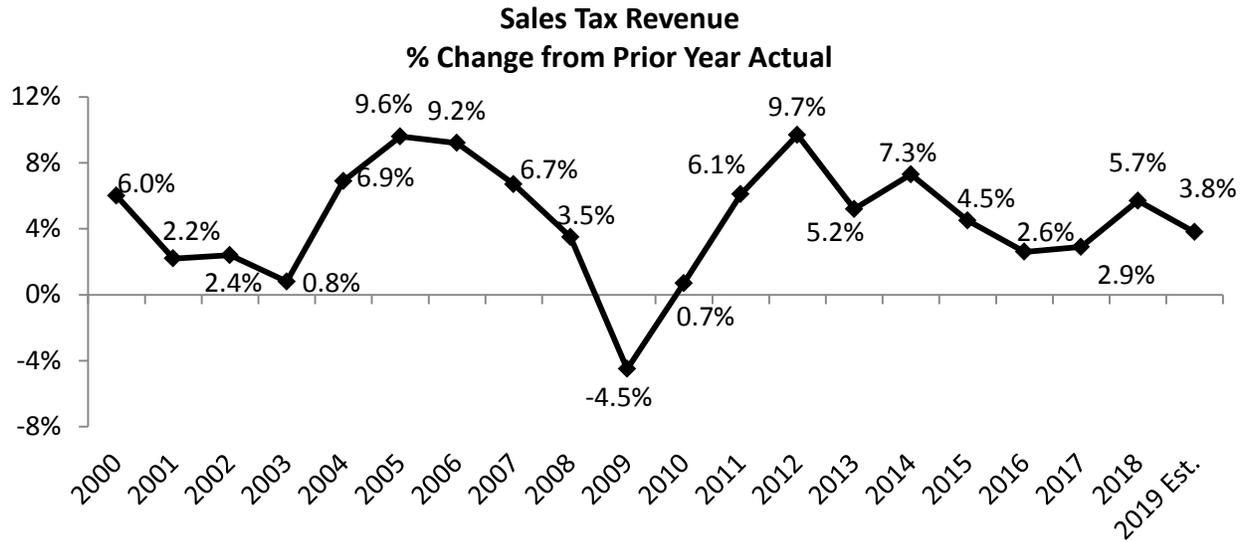


ATD: Advanced Transportation District
 EAP: Edward Aquifer Protection
 PDE: Parks Development & Expansion

Actual sales tax collections for the current year are projected to be \$299.7 million. This amount is 1.5% above the \$295.3 million budgeted in FY 2019 for sales tax revenue. General Fund sales tax revenue in FY 2020 is projected to increase by 5.1% over the FY 2019 Adopted Budget and 3.5% above the FY 2019 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.

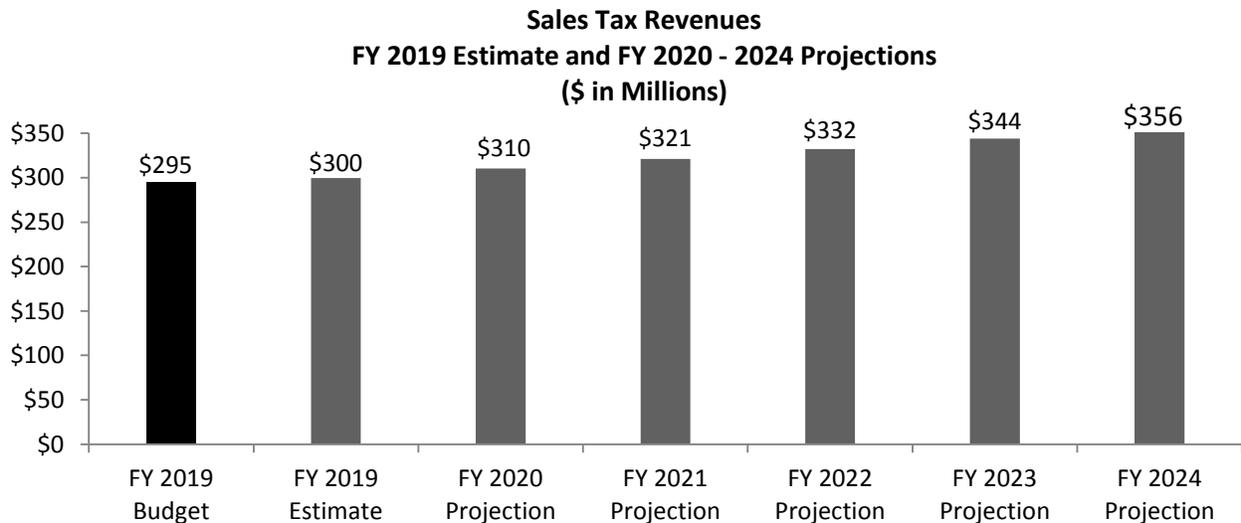
³ Sales Tax revenue is projected 3.5% above the FY 2019 Estimate and 5.1% above the FY 2019 Adopted Budget.

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 2020 ⁴	FY 2021	FY 2022	FY 2023	FY 2024
1.1%	0.7%	1.5%	1.5%	1.5%

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 \$67.7 million, or \$0.3 million above budget. 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 2020 ⁵	FY 2021	FY 2022	FY 2023	FY 2024
-25.6%	2.9%	2.4%	2.8%	2.3%

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 2020 is \$20.3 million, which is \$7 million less than the FY 2019 Estimate of \$27.3 million.

The 86th Texas State Legislature is considering a bill that would reduce the revenue paid by companies that provide both cable and telecommunication services to the City. Under current law, fees are paid for both cable and telecommunication service regardless of if the same company provides both services. The Proposed legislation would change the statute such that a company providing both cable and telecom services would pay either the cable or telecommunication fee, depending on which was greater state-wide, but not both. The legislation would be effective September 1, 2019 and would result in approximately \$7 million less revenue to the City on an annual basis. The General Fund Five Year Forecast assumes this legislation is effective September 1, 2019 and assumes a \$7 million decrease in Business and Franchise tax.

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 \$4.31 and each residential line \$1.30. 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, 2019 will be \$4.36 for business lines and \$1.32 for

⁴ Charges for Current Service are projected 0.7% above the FY 2019 Estimate and 1.1% above the FY 2019 Adopted Budget.

⁵ Business and Franchise Tax revenues are projected 25.6% below the FY 2019 Estimate and 27.9% below the FY 2019 Adopted Budget.

residential lines. The Forecast assumes a decrease in telecommunication fees as a result of pending State Legislation.

Revenue derived from telecommunication providers has been declining based on a decrease in actual line counts as reported 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 telecommunication provider forecast for FY 2020 is \$8.3 million, which represents a \$4.4 million decrease from the FY 2019 Estimate of \$12.7 million. This decrease is primarily driven by the potential new legislation.

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 2020 forecast for this revenue source is \$10.2 million, which represents a \$2.6 million decrease from the FY 2019 Estimate of \$12.8 million. This decrease is primarily driven by the potential new legislation.

SAN ANTONIO WATER SYSTEM (SAWS) PAYMENT

Projected Annual Rates of Change

FY 2020 ⁶	FY 2021	FY 2022	FY 2023	FY 2024
5.2%	2.4%	1.5%	1.5%	1.5%

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 2020 from SAWS is \$19.3 million. This is an increase of \$950,000, or 5.2%, from the FY 2019 Estimate of \$18.4 million and \$1 million, or 5.7%, from the FY 2019 Adopted Budget of \$18.3 million. The projected increase for FY 2020 is based on the anticipated rate increase to be effective January 1. Projections for the forecast period are based on the current rate structure as approved by the City Council and SAWS' historical revenues for each of its core business units.

OTHER RESOURCES

Projected Annual Rates of Change

FY 2020 ⁷	FY 2021	FY 2022	FY 2023	FY 2024
4.2%	2.0%	1.5%	1.7%	1.3%

⁶ SAWS revenues are projected 5.2% above the FY 2019 Estimate and 5.7% above the FY 2019 Adopted Budget.

⁷ Other resources are projected 4.2% higher than the FY 2019 Estimate and 7.7% higher than the FY 2019 Adopted Budget.

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 \$98.5 million compared to the FY 2019 Revised Budget of \$95.3 million. This \$3.2 million increase is largely attributable to the sale of City properties and an increase in liquor by the drink revenue.

For FY 2020, total other General Fund revenue is expected to be \$103 million, which is 4.2% higher than the FY 2019 Estimate.

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 2020 to FY 2024 forecast period and the impact to the General Fund. All expenditures shown are incremental.

Mandate Title	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
CAPITAL IMPROVEMENTS OPERATING & MAINTENANCE					
Linear Creekway Security	\$ 258,603	\$ 353,712	\$ 120,056	\$ 204,116	\$ 27,005
Outer District Parks Improvement	65,928	75,494	375,551	56,598	-
Parks Acquisition / Development	1,004,092	1,150,233	1,195,101	160,635	-
Linear Creekway Operating & Maintenance	926,588	1,010,227	640,812	650,757	28,718
2017 Bond Operating & Maintenance	-	2,995,030	1,589,739	85,762	58,403
Total Mandated Costs	\$ 2,255,211	\$ 5,584,696	\$ 3,921,259	\$ 1,157,868	\$ 114,126

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 2020 to FY 2024), the City anticipates development of 39.5 miles of additional greenway trails and acquisition of approximately 236 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 2020 to FY 2024) the City anticipates acquiring about 510 additional park improvement components and 13.5 miles of exercise trails. Park components include fitness stations, picnic units, playground, dog park, and pavilion.

2017 BOND PROGRAM PROJECTS OPERATIONS & MAINTENANCE

This mandate provides for operations and maintenance of the capital projects included in the 2017 Bond Program. During the forecast period (FY 2020 – FY 2024), the City will open new facilities including libraries, community centers, senior center, and cultural arts center. The forecast assumes adding the necessary resources to operate the new facilities.

OTHER MANDATES

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

POLICY ISSUES TO BE CONSIDERED DURING THE FY 2020 BUDGET

The following paragraphs provide brief descriptions of potential additional expenditures to the General Fund that are 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 2020 Budget.

Affordable Housing

In 2017, the City reorganized to create the new Neighborhood and Housing Services Department. The department was created to implement the city's housing policies and programs, build effective relationships with neighborhoods and implement the 2017-2022 voter approved Neighborhood Improvements bond program.

The Mayor appointed the Mayor's Housing Policy Taskforce, a five member group comprised of community leaders, to assist with the development of a comprehensive and compassionate policy framework to address the pressing affordable housing challenges that our City faces with input from diverse community stakeholders.

The Taskforce presented their final recommendation in June 2018. These recommendations included:

- Coordinated Housing System
- Under One Roof
- Housing Preservation Repair (Owner Occupied Rehab)
- Homebuyer Assistance
- Risk Mitigation
- Neighborhood Improvements and Gap Financing.

Additionally, the Housing Task Force recommended new funding for Affordable Housing in the amount of \$20 million in 2019, \$30 million in 2020, \$35 million in 2021, and \$40 million in 2022. The total housing budget for FY 2019 was adopted at \$25.1 million which includes increased spending of \$17.1 million from the General Fund, Housing and Urban Development Grants, and the San Antonio Housing Trust to address recommendations made by the Housing Policy Taskforce. The policy issues include the incremental funding needed to meet the recommendations by the Housing Policy Taskforce. This additional funding will be discussed as part of the FY 2020 Budget Process.

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 2020 Budget Process.

Fire - One Emergency Medical Services Unit and Two Ladder Companies

The Fire Chief recommends adding two Ladder Companies; one in FY 2020, 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 2020 Budget Process.

Homestead Exemption

In February 2019, a Council Consideration Request was submitted to conduct research to establish a General Homestead Tax Exemption and increase the over 65 and Disabled Exemption for City of San Antonio. The policy issues include the impact to the General Fund of implementing a \$5,000 Homestead Tax Exemption, which will be discussed as part of the FY 2020 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 two of the three major bond rating agencies - Standard & Poor's and Moody's and AA+ from Fitch. 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) and 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 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 2020 through FY 2024. 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 2019 Budget	FY 2019 Estimate	FY 2020 Projection	FY 2021 Projection	FY 2022 Projection	FY 2023 Projection	FY 2024 Projection
Beginning Balance	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Release of Reserve for Grand Hyatt Debt	2.5	2.6	2.7	2.8	2.9	3.0	3.1
Net Balance	\$2.5	\$2.6	\$2.7	\$2.8	\$2.9	\$3.0	\$3.1
REVENUES							
Hotel Occupancy Tax	\$70.8	\$72.8	\$74.7	\$77.3	\$79.9	\$82.7	\$85.5
Interest Earnings & Miscellaneous Revenues	0.1	0.3	0.3	0.2	0.2	0.2	0.1
Delinquent HOT Tax	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transfer from Redemption & Capital Reserve Fund	0.0	0.5	0.0	0.0	0.0	0.0	0.0
TOTAL REVENUES	\$71.1	\$73.7	\$75.2	\$77.6	\$80.3	\$83.0	\$85.8
TOTAL RESOURCES	\$73.5	\$76.3	\$77.9	\$80.4	\$83.1	\$86.0	\$88.9
TRANSFERS OUT							
Community & Visitor Facilities Fund (CVF)	\$18.5	\$18.9	\$20.2	\$20.4	\$21.7	\$23.4	\$21.4
Visit San Antonio	23.8	23.8	25.0	25.7	26.8	28.1	29.0
Arts & Culture	10.2	10.2	10.7	11.0	11.5	12.0	12.4
Support for History and Preservation	10.2	10.2	10.7	11.0	11.5	12.0	12.4
Transfer to Alamodome Improvt & Contingency Fund	0.5	0.5	0.5	0.8	0.8	0.8	1.0
Transfer to Redemption & Capital Reserve Fund	2.2	4.2	2.2	2.4	2.2	1.8	4.2
Transfer to Debt Service	3.0	3.0	3.4	3.8	3.4	2.4	2.7
VSA Adjustment for FY18 Surplus	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Other Transfers	2.7	2.5	2.4	2.4	2.4	2.5	2.5
TOTAL TRANSFERS	\$71.0	\$73.7	\$75.1	\$77.5	\$80.2	\$82.9	\$85.7
Ending Balance	\$2.5	\$2.7	\$2.8	\$2.9	\$3.0	\$3.1	\$3.2
Reserve for Grand Hyatt Debt	\$2.5	\$2.7	\$2.8	\$2.9	\$3.0	\$3.1	\$3.2
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 total available resources (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 on 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 referenced 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.

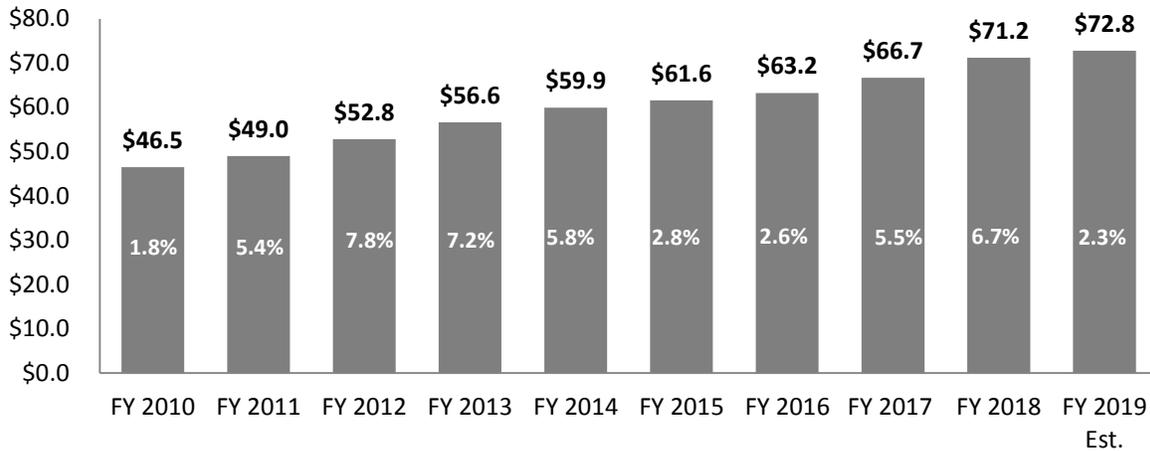
In FY 2013, City Council approved the issuance of debt for the Convention Center Expansion Project. The City utilizes all of its 2% Expansion HOT along with a portion of the incremental annual growth from the 7% HOT to make the required annual debt payments. The amount of 7% HOT required to be contributed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

HOT revenue is estimated to be \$72.8 million for FY 2019, which is \$2 million greater than the adopted budget of \$70.8 million. HOT revenues are projected to increase at annual rates of 2.6% (FY 2020), 3.4% (FY 2021), 3.4% (FY 2022), 3.4% (FY 2023), and 3.4% (FY 2024) 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 2019, the City's 7% HOT Tax Collections grew 56.6%.

**7% Hotel Occupancy Tax Collections
(\$ in Millions)**



The dedicated 2% HOT revenue collections for the Convention Center Debt Service is recorded within a separate fund and is not reflected in HOT revenue projections within the Hotel Occupancy Tax Fund. However, should an event occur which would slow the collection of the 2% HOT to the extent that the costs of the Convention Center Debt Service could not be covered, the City would be required to transfer up to 5.25% of all HOT collections from the Hotel Occupancy Tax Fund to support the Convention Center Debt Service shortfall. Such a transfer would only occur if the anticipated 2% dedicated tax revenue stream did not produce the expected revenue amounts. The Forecast for the Hotel Occupancy Tax Fund assumes the FY 2019 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.

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 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
2.25%	2.13%	2.39%	2.30%	2.31%

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 2019 Budget	FY 2019 Estimate	FY 2020 Projection	FY 2021 Projection	FY 2022 Projection	FY 2023 Projection	FY 2024 Projection
RESOURCES							
Beginning Balance	\$0.8	\$0.3	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Convention Center Revenues	19.5	20.1	20.5	20.9	21.3	21.9	23.8
Alamodome Revenues	11.5	12.2	10.8	11.4	11.0	11.1	11.1
Miscellaneous Revenues	0.4	0.5	0.2	0.2	0.2	0.2	0.2
Transfer from Other Funds	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transfer from HOT 7% Tax Fund	18.5	18.9	20.2	20.4	21.7	23.4	21.4
TOTAL RESOURCES	\$50.8	\$52.2	\$51.8	\$53.0	\$54.2	\$56.6	\$56.7
EXPENDITURES							
Base Budget	\$50.8	\$52.2	\$51.8	\$53.0	\$54.2	\$56.6	\$56.7
TOTAL EXPENDITURES	\$50.8	\$52.2	\$51.8	\$53.0	\$54.2	\$56.6	\$56.7
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 2019 Budget	FY 2019 Estimate	FY 2020 Projection	FY 2021 Projection	FY 2022 Projection	FY 2023 Projection	FY 2024 Projection
RESOURCES							
Beginning Balance	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Transfer from General Fund	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transfer from HOT 7% Tax	10.2	10.2	10.7	11.0	11.5	12.1	12.4
Misc Rev	0.7	0.7	0.7	0.8	0.8	0.9	0.9
TOTAL RESOURCES	\$10.9	\$10.9	\$11.5	\$11.9	\$12.4	\$13.0	\$13.4
TOTAL EXPENDITURES	\$10.9	\$10.9	\$11.5	\$11.9	\$12.4	\$13.0	\$13.4
NET ENDING BALANCE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

Arts Funding - Through HOT revenues, San Antonio is able to fund art and cultural programs and agencies across the City. The Texas State Tax Code requires that not more than 15% of City HOT revenue 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 2020 to FY 2024 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 generated from all development-related activities and to ensure development revenues are used to support development expenses. In addition to accounting for the revenues and expenses associated with the Development Services Department (DSD), the Fund collects revenue for the San Antonio Fire Department's Fire Prevention Division. This revenue 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 or 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 2020 through FY 2024 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 2019 BUDGET	FY 2019 ESTIMATE	FY 2020 PROJECTION	FY 2021 PROJECTION	FY 2022 PROJECTION	FY 2023 PROJECTION	FY 2024 PROJECTION
AVAILABLE FUNDS							
Beginning Balance	\$3,767	\$3,378	\$2,509	\$1,678	\$1,220	\$621	\$832
Use of Reserves	2,250	2,250	-	-	-	-	-
Net Balance	\$6,017	\$5,628	\$2,509	\$1,678	\$1,220	\$621	\$832
REVENUES							
Development Services Revenues	31,896	34,183	34,533	35,468	36,503	37,207	37,887
Transfer from General Fund - ICRIP	2,500	2,879	2,500	2,500	2,500	2,500	2,500
Total Revenues & Transfers	34,396	37,062	37,033	37,968	39,003	39,707	40,387
TOTAL AVAILABLE FUNDS	\$40,414	\$42,690	\$39,542	\$39,646	\$40,224	\$40,328	\$41,218
BASE EXPENDITURES	37,494	37,431	35,864	36,425	37,603	38,882	40,235
GROSS ENDING BALANCE	\$2,920	\$5,259	\$3,678	\$3,220	\$2,621	\$1,446	\$983
LESS: BUDGETED FINANCIAL RESERVES							
Budgeted Financial Reserves (Incremental Amt)	500	500	750	750	750	614	203
Reserve for Capital Projects (Incremental Amt)	-	2,250	1,250	1,250	1,250	-	-
NET ENDING BALANCE	\$2,420	\$2,509	\$1,678	\$1,220	\$621	\$832	\$780
BUDGET RESERVE SUMMARY							
Budgeted Financial Reserves (Cumulative)	2,969	2,969	3,719	4,469	5,219	5,832	6,035
Reserve for Capital Projects (Cumulative)	-	2,250	3,500	4,750	6,000	6,000	6,000
Financial Reserve as % of Annual Operating Costs	8%	8%	10%	12%	14%	15%	15%

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 Forecast also calculates the added costs of policy issues such as Employee Performance Pay and the continued implementation of the Pay Plan. The Fund's ending balance reflects the beginning balance and operating revenues, less operating expenditures, transfers, and allocations for both budgeted financial and capital projects reserves.

Revenues – Total revenue for the current FY 2019 budget is projected to be approximately \$2.7 million, or 7.8%, more than budgeted. Average commercial project valuation is anticipated to be 4.0% higher than FY 2018. Residential permitting remains positive but the growth trend is anticipated to slow (32.2% growth in FY 2018 vs 18.5% growth estimated for FY 2019).

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 percentages over the forecast period:

<u>FY 2020</u> ⁸	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
-0.08%	2.52%	2.73%	1.81%	1.71%

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 2020 through FY 2024. 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 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
2.25%	2.13%	2.39%	2.30%	2.31%

Employee compensation policy issues shown in the Forecast illustrate the impact of Performance Pay for eligible positions, as well as the cumulative impact of the Pay Plan Implementation for each year of the Forecast period. 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.

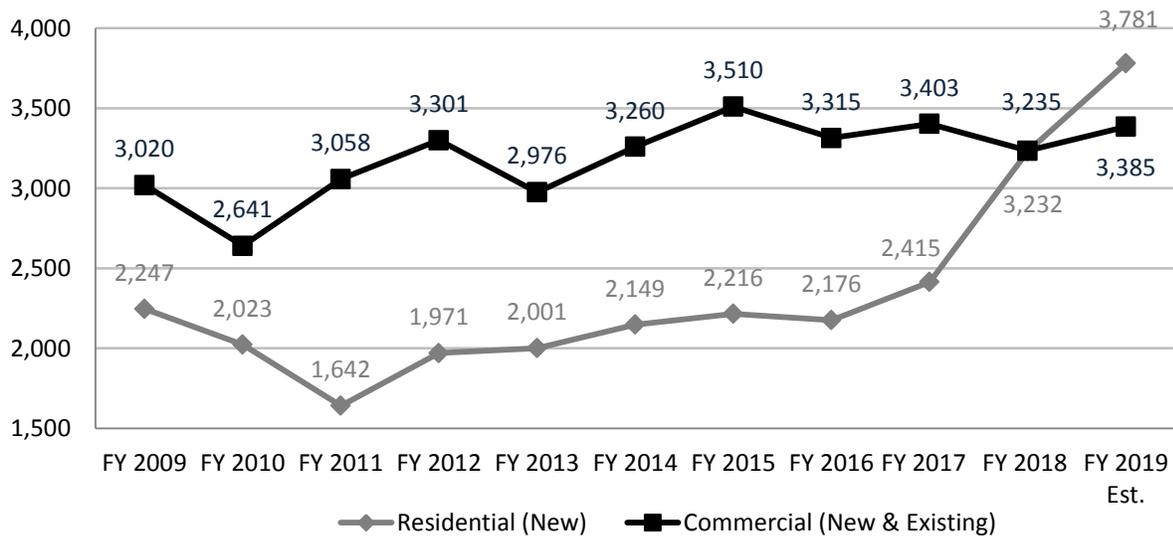
The establishment and maintenance of appropriate financial reserves within the Development Services Fund is critical to prudent financial management. Budgeted Financial Reserves assist in smoothing fluctuations in available resources from year to year and stabilizing the budget. Reserves for the DSD Fund are forecasted at 10% of appropriations in FY 2020 with a gradual

⁸ Development Services revenue is projected to be 7.7% above FY 2019 Adopted Budget and (0.08%) below FY 2019 Estimates.

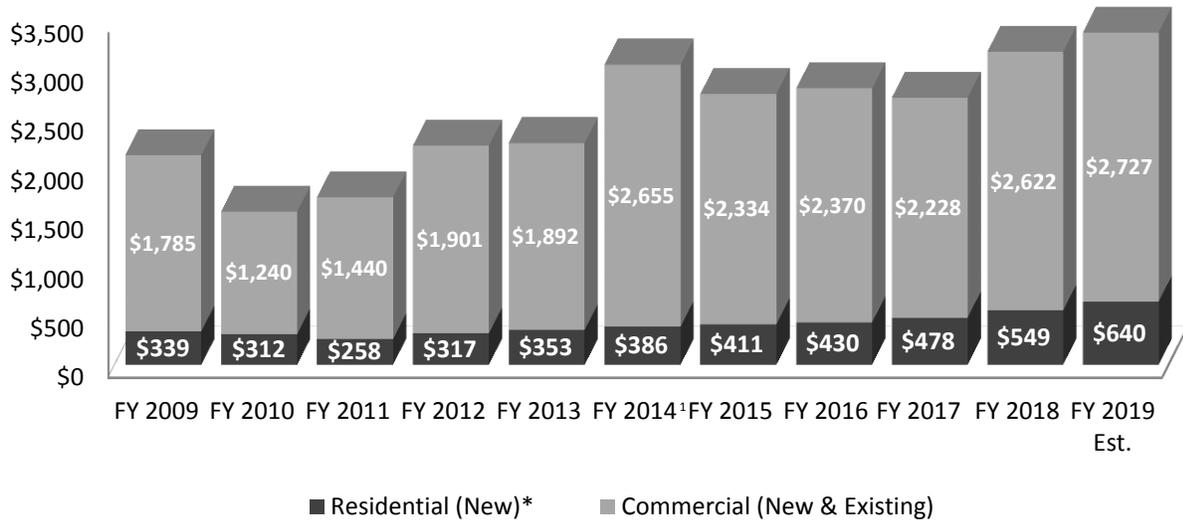
increase to 15% in FY 2024. The DSD Fund also includes a capital reserve that will be used to fund future Development Services related projects.

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 2019 up 17.0% from FY 2018. Commercial permit has experienced less volatility as compared to the residential sector. FY 2019 commercial permit activity is anticipated to end the year slightly above FY 2018.

**Residential & Commercial Building Permit Activity
FY 2009 to FY 2019
(\$ in Millions)**



**Residential & Commercial Building Permit Valuation
FY 2009 to FY 2019
(\$ 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

¹FY 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 relatively consistent 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 34%. 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 2020 to FY 2024. As shown below, the forecast begins with the budget and preliminary estimated projections for the current fiscal year.

	FY 2019 Budget	FY 2019 Estimate	FY 2020 Projection	FY 2021 Projection	FY 2022 Projection	FY 2023 Projection	FY 2024 Projection
RESOURCES							
Beginning Balance	\$ 6,252	\$ 5,254	\$ 8,956	\$ 3,061	\$ 3,466	\$ 6,370	\$ 5,755
CURRENT REVENUES							
Solid Waste Fee	\$ 102,249	\$ 109,451	\$ 106,674	\$ 103,875	\$ 108,831	\$ 108,892	\$ 104,897
Environmental Fee	16,223	16,276	16,474	16,675	16,879	17,084	17,293
Recycling Revenue	3,918	3,663	4,205	4,710	6,348	7,549	7,678
Other Revenues	3,994	4,464	4,409	4,184	4,195	4,206	4,216
TOTAL CURRENT REVENUES	\$ 126,385	\$ 133,853	\$ 131,761	\$ 129,444	\$ 136,253	\$ 137,731	\$ 134,083
TOTAL RESOURCES	\$ 132,637	\$ 139,108	\$ 140,718	\$ 132,506	\$ 139,718	\$ 144,100	\$ 139,839
EXPENDITURES/RESERVES							
Base Service	\$ 126,537	\$ 125,770	\$ 125,156	\$ 128,921	\$ 133,138	\$ 138,097	\$ 139,540
TOTAL EXPENDITURES	\$ 126,537	\$ 125,770	\$ 125,156	\$ 128,921	\$ 133,138	\$ 138,097	\$ 139,540
Incremental Reserve	\$ 381	\$ 381	\$ -	\$ 119	\$ 211	\$ 248	\$ 72
Incremental Capital Reserve	4,000	4,000	12,500	-	-	-	-
NET ENDING BALANCE	\$ 1,719	\$ 8,956	\$ 3,061	\$ 3,466	\$ 6,370	\$ 5,755	\$ 226
BUDGETED RESERVE	\$ 6,327	\$ 6,327	\$ 6,327	\$ 6,446	\$ 6,657	\$ 6,905	\$ 6,977
RESERVE FOR CAPITAL	\$ 5,000	\$ 5,000	\$ 17,500				

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 factors of 0.53% and 1.22% for solid waste and environmental customers, respectively, from FY 2020 through FY 2024 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	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Small	\$19.93	\$19.00	\$17.00	\$16.00	\$16.00	\$16.00	\$16.00
Medium	\$21.93	\$21.00	\$21.00	\$21.00	\$21.00	\$21.00	\$21.00
Large	\$24.68	\$29.00	\$29.00	\$29.00	\$32.00	\$35.00	\$38.00
<i>Small to Large Difference</i>	\$4.75	\$10.00	\$12.00	\$13.00	\$16.00	\$19.00	\$22.00

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 FY 2019 the practice of adding 1 Automated Side Loader (ASL) vehicle and 1 Side Load Equipment Operator (driver) each time customer growth exceeded 2,160 homes was adopted. In order to maintain the optimal number of homes on each route, 1 Automated Side Loader (ASL) vehicle and 1 Side Load Equipment Operator (driver) are included in the FY 2020 Projections and an additional 1 driver and 1 truck are included in FY 2022 and FY 2024 as illustrated in the table on the following page.

Projected Growth – Additional Personnel & Trucks

Input	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Side-Load Driver	1	0	1	0	1
Automated Side-Load Trucks	1	0	1	0	1
Average Routes per Day	157	157	158	158	159

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 2020 through FY 2024.

Pay As You Throw - New Cart Size Distribution

Cart Distribution	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Customers w/ Small	14%	15%	15%	20%	25%
Customers w/ Medium	12%	20%	30%	40%	45%
Customers w/ Large	74%	65%	55%	40%	30%

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, 96% 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 2020 through FY 2024. These rates and their underlying assumptions are described in the Economic Outlook and Perspective section. The FY 2020 base budget also assumes the removal of one-time improvements included in the FY 2019 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 2020 through FY 2024 Forecast recommends a Budgeted Financial Reserve in an amount equal to 5% of annual operating expenditures. In addition, the FY 2020 through FY 2024 Forecast recommends an increase to the Improvement & Contingency (I&C) Fund by \$12.5 million in FY 2020 and no increases in FY 2021 through FY 2024. The I&C Fund will assist the Solid Waste Management Department in funding future capital projects.

**ECONOMIC
OUTLOOK &
PERSPECTIVE**

ECONOMIC OUTLOOK

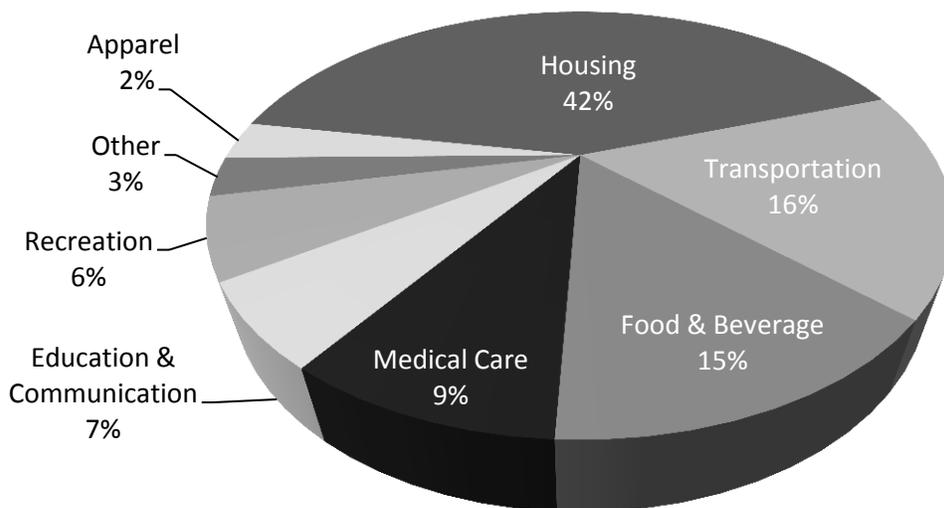
OVERVIEW

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. In light of this relationship, the fiscal projections provided in this document are based, in large part, upon an analysis of historical and current economic trends. The historical data and forecast projections in this section are provided by government and private organizations. This section provides projections for the local and national economies, which support the fiscal projections presented in this document.

INFLATION

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

2018 CPI Market Basket of Goods



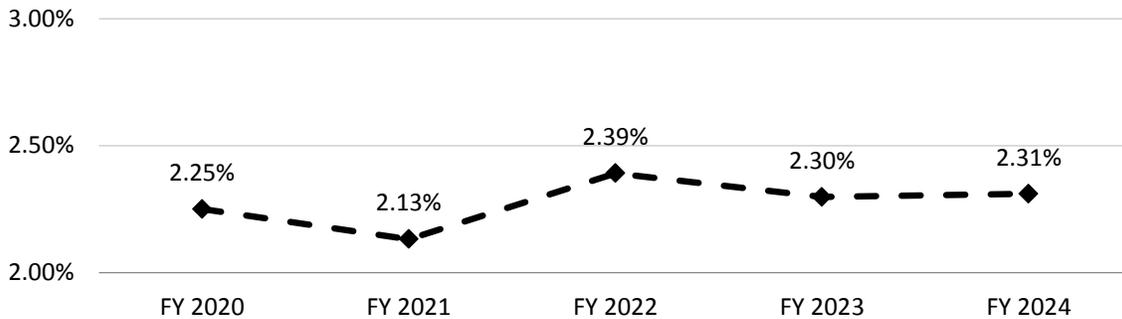
Source data: Bureau of Labor Statistics, U.S Department of Labor, *Consumer Price Index: March 2019 Release for All Urban Consumers*.

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 figure above. For example, pets and pet products is a category located in the recreation group and makes up 0.601% of the total basket of goods in the 2018 index.

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

San Antonio Consumer Price Index % Change Forecasted FY 2020 - FY 2024



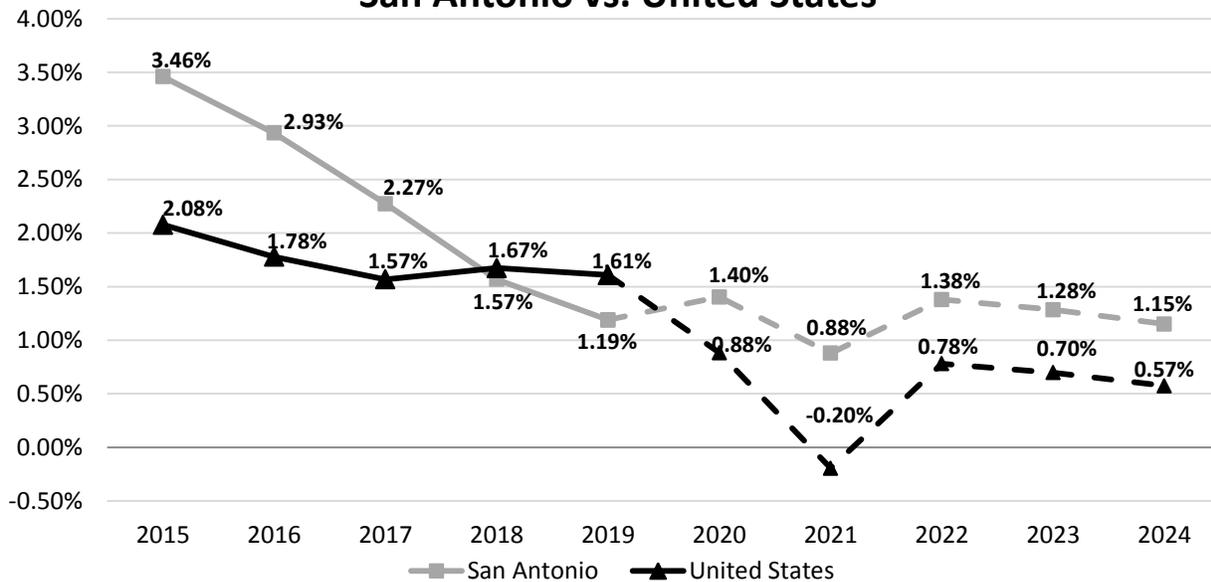
Source: Projection Data from Moody's Economy.com

SAN ANTONIO ECONOMY

EMPLOYMENT

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

Employment Growth Rate San Antonio vs. United States

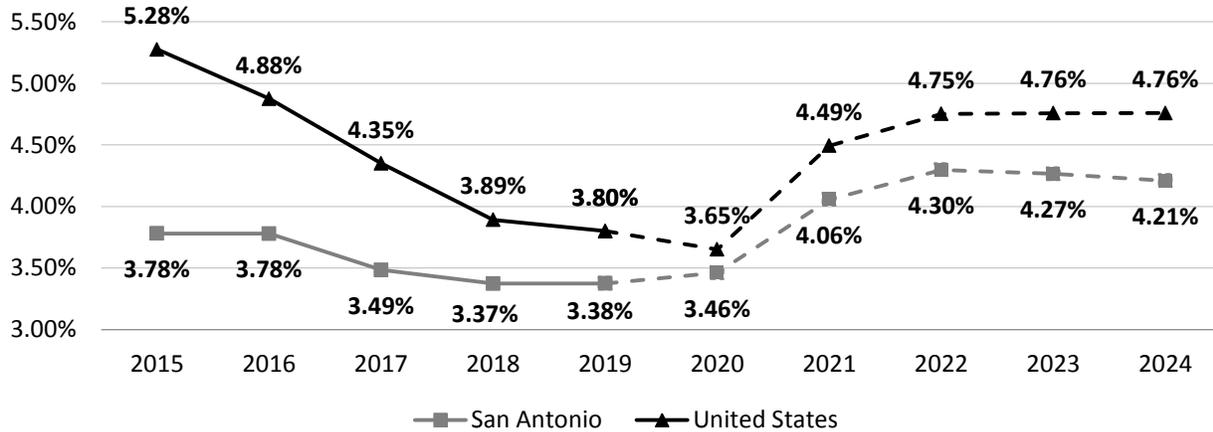


Source: Projection Data from Moody's Economy.com

UNEMPLOYMENT

The Unemployment Rate represents the number of unemployed persons as a percent of the labor force. An unemployed person is defined as someone aged 16 years or older who has been looking for employment for at least four weeks. The national Unemployment Rate has steadily decreased from 5.3% in 2015 to 3.8% by the end of 2019. The City of San Antonio's Unemployment Rate has remained below the national average each of the past five years.

Unemployment Rate San Antonio vs. United States

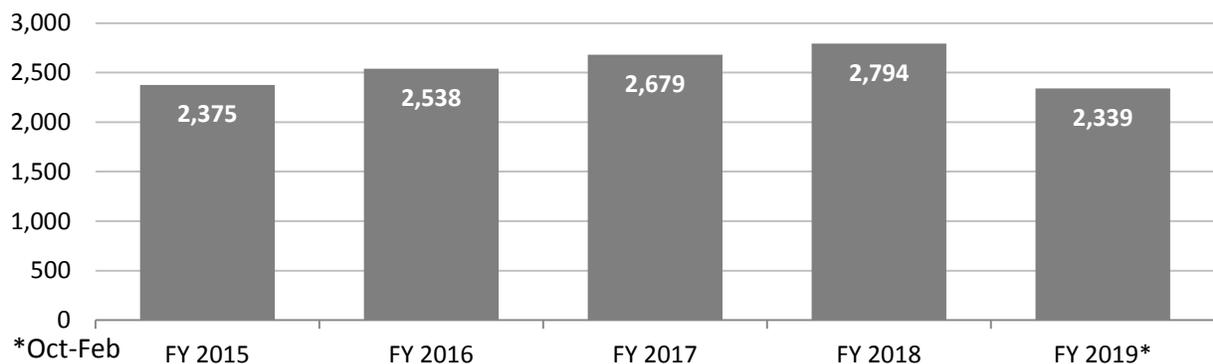


Source: Projection Data from Moody's Economy.com

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 2015 to 2018, while Average Months in Inventory steadily decreased over that same period. Current fiscal year data suggests the number of homes placed on the San Antonio market continue to increase and that prices continue to rise, but the inventory supply is trending similarly to FY 2018.

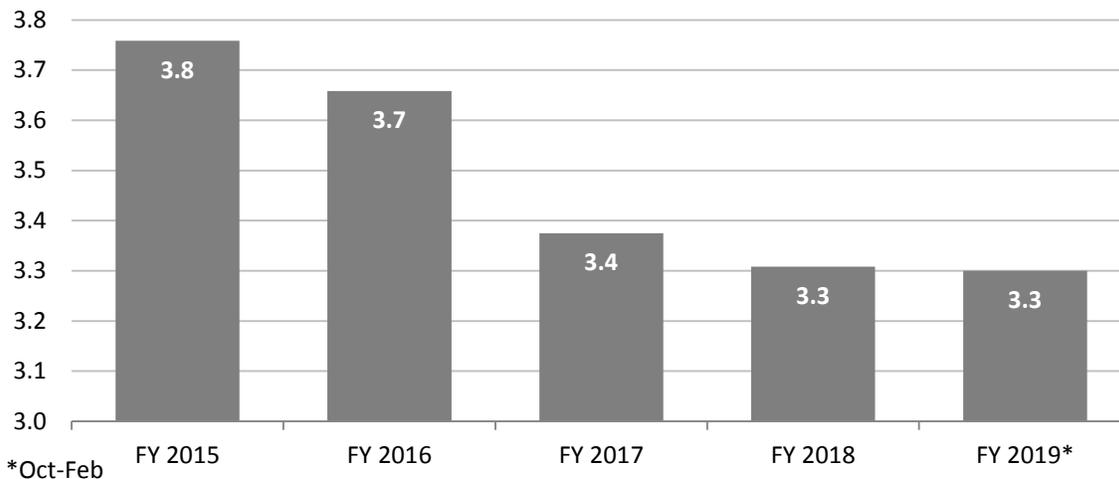
Average Monthly Home Sales



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 current year's average of 3.3 months in inventory is equivalent to last year's 3.3 months and is 13% lower than FY 2015's 3.8 months.

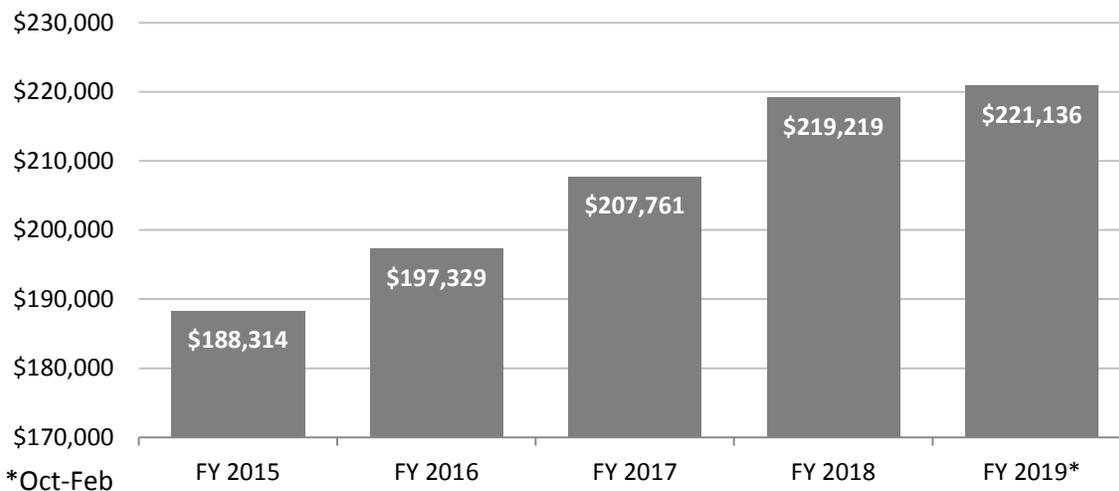
Average Months in Inventory



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. The median prices for home sales increased each of the past four years, with a 17.4% increase from FY 2015 to FY 2019.

Median Housing Price

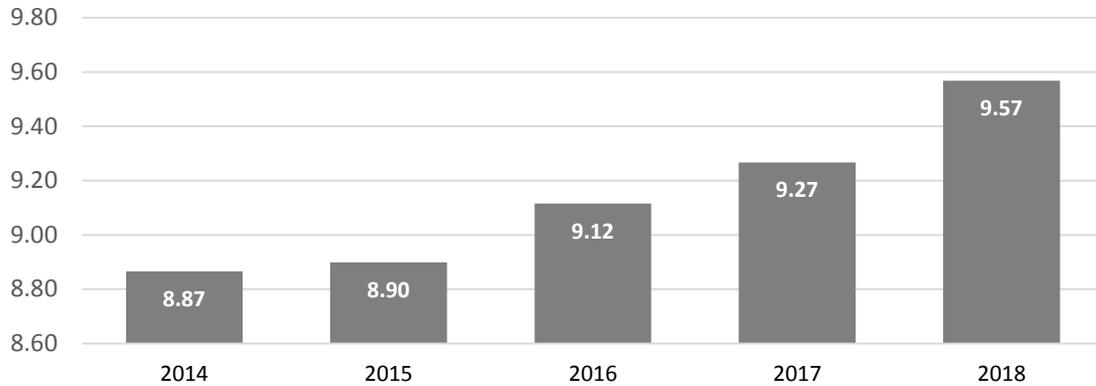


Source: Real Estate Center at Texas A&M University

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 for the San Antonio market suggests that Hotel Room Demand is continuing to increase with a 3.2% increase over last year.

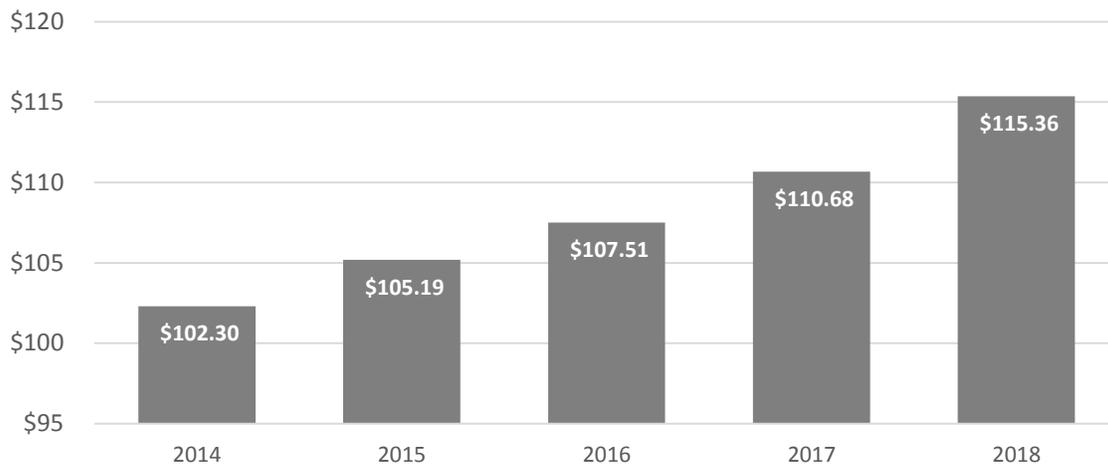
Annual Hotel Room Demand in San Antonio (Millions)



Source: 2019 STR, Inc. Data obtained from Smith Travel Research based on hotels in San Antonio Market reports dated March 2014, February 2015-2018, January 2019.

Average Daily Room 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 also affected by the supply of hotel rooms. San Antonio's ADR saw increased growth in 2018, rising 4.2% above the 2017 rate to \$115.36 a night, which is greater than the 2.9% increase that occurred in 2017.

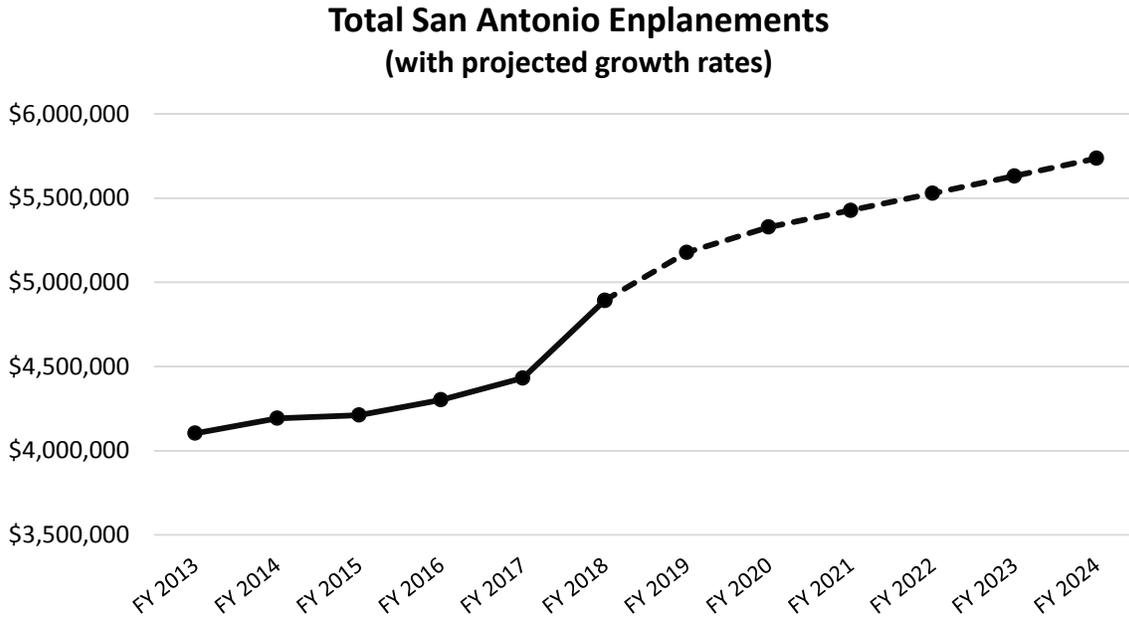
Average Daily Room Rate (City-Level)



Source: Data obtained from Smith Travel Research based on hotels in San Antonio Market reports dated March 2014, February 2015-2018, January 2019.

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 substantial growth at the airport in the last decade. Since FY 2013 total enplanements have increased by 19.2% and are projected to grow by an average of 2.1% from FY 2019 to FY 2024.



Source: Aviation Department, City of San Antonio