

CITY OF SAN ANTONIO

Five Year Financial Forecast

Fiscal Year 2014-2018



PREPARED BY:

OFFICE OF MANAGEMENT AND BUDGET

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CITY OF SAN ANTONIO
FIVE YEAR FINANCIAL FORECAST
FY 2014 – FY 2018

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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 and Solid Waste Operating Fund and the ending balances for the two funds. Recent revenue trends and economic assumptions (many of which can be found in the Economic Outlook section of this document) are used to develop these figures. Service expenditures required to sustain the current (FY 2013) 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 changed as the FY 2014 Proposed Operating Budget is developed and presented to City Council on August 8, 2013.

GENERAL FUND

During the forecast period, total General Fund revenue is expected to grow annually at rates ranging from 2.4% to 3.0%. The FY 2013 revenue forecast estimate is approximately \$4.5 million higher than the current year adopted budget, or an overall increase of 0.5%. The rate of revenue growth projected in FY 2014 over the FY 2013 Estimate is approximately 2.4%. Revenue growth beyond FY 2014 is forecasted at rates of 2.7% in FY 2015, 3.0% in FY 2016, 2.9% in FY 2017, and 2.7% in FY 2018.

Projections show that while revenue growth gradually increases over the forecast period, cost drivers over the forecast period continue to exceed revenue growth. This increased growth in expenditures over the forecast period is primarily due to contract increases, increases in employee compensation, and mandated operational costs associated with 2012 Bond Projects and other capital projects. The General Fund Schedule contains two sections – the current service budget and a section highlighting additional expenditures. The current service budget section shows the aggregate annual projected expenditures required to sustain the current FY 2013 level of services. The additional expenses section highlights projected increases for employee compensation based on historical trends, economic development incentives, and the November 2014 Charter Amendment election. These expenses will be considered and evaluated during the FY 2014 Budget Process and are shown in the schedule to provide estimated costs and the impact to the General Fund.

In FY 2013, the General Fund Adopted Ending Balance, which represents the difference between the City's total available resources and total expenditures, is a positive \$13.4 million.

However in FY 2014, the forecasted General Fund ending balance ranges from \$35 million to \$50 million when additional expenditures are considered. Beyond FY 2014, negative ending balances continue through the forecast period.

In September 2012, the FY 2013 General Fund Budget was adopted by the Mayor and City Council which includes a Two-Year Budget Plan. The plan projected a negative fund balance of \$50 million for FY 2014. Since the adoption of the FY 2013 Budget, several factors have impacted this projection; however, today the projected financial challenge for FY 2014 ranges between \$35 million to \$50 million.

FORECAST METHODOLOGIES AND ASSUMPTIONS

REVENUES

Departments responsible for administering the services and/or collecting the associated revenues work with the Office of Management & Budget to develop revenue projections based on an analysis of various factors. These include historical trends, current economic conditions, projected economic activity, and known future factors such as contracts and interlocal agreements. In some cases, a regression analysis is utilized to project revenues that are impacted by economic factors. 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 2013 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 2013. The FY 2014 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 2013 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 2014 through 2018 (See Economic Outlook section for more detail on CPI projections used).

Expenditures in the Forecast include funding for Police and Fire collective bargaining agreements, implementation of the civilian pay plan, and operations and maintenance costs for the FY 2012 Bond Program. In FY 2013, the 50 police officers previously funded by a Federal Grant are mostly funded by the City; in FY 2014 the City will absorb 100% of the cost associated with these positions. Other mandated expenditures and commitments are included in the projections as well as incremental increases to budgeted financial reserves to maintain reserves at 9% of total appropriations. Adjusted ending balances in the Forecast take into account the impact of operating expenses, mandated costs, additional expenditures, and policy issues.

GENERAL FUND FORECAST

GENERAL FUND FORECAST

General Fund Forecast (\$ in Millions)

| | FY 2013 Budget | FY 2013 Estimate | FY 2014 Projection | FY 2015 Projection | FY 2016 Projection | FY 2017 Projection | FY 2018 Projection |
|--|-------------------|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| RESOURCES | | | | | | | |
| Beginning Balance (Excluding Reserves) | \$0.0 | \$8.3 | \$13.4 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Use of Reserve for Two Year Balanced Budget Plan | 71.1 | 71.1 | 6.8 | | | | |
| CURRENT REVENUES | | | | | | | |
| Property Tax | \$242.8 | \$242.8 | \$247.6 | \$253.8 | \$261.4 | \$270.7 | \$280.2 |
| Sales Tax | 221.8 | 226.9 | 234.9 | 243.1 | 251.6 | 259.1 | 266.9 |
| CPS Energy | 285.5 | 284.1 | 292.2 | 299.4 | 306.7 | 314.3 | 322.0 |
| Other | 168.0 | 168.8 | 170.3 | 174.6 | 180.7 | 185.3 | 187.6 |
| TOTAL CURRENT REVENUES | \$918.2 | \$922.7 | \$945.0 | \$970.9 | \$1,000.4 | \$1,029.4 | \$1,056.8 |
| TOTAL RESOURCES | \$989.3 | \$1,002.1 | \$965.2 | \$970.9 | \$1,000.4 | \$1,029.4 | \$1,056.8 |
| EXPENDITURES | | | | | | | |
| Current Service | \$979.6 | \$979.0 | \$980.1 | \$1,005.0 | \$1,016.5 | \$1,028.9 | \$1,038.6 |
| Mandated Service Delivery Costs (Incremental) | | | 1.3 | 2.3 | 2.7 | 0.8 | 0.4 |
| Police Collective Bargaining (Incremental) | | | 8.7 | 0.8 | 0.8 | 0.8 | 0.9 |
| Fire Collective Bargaining (Incremental) | | | 9.2 | 0.4 | 0.4 | 0.4 | 0.4 |
| Civilian Pay Plan Maintenance (Incremental) | | | | 0.8 | 0.7 | 0.6 | 0.5 |
| TOTAL EXPENDITURES | \$979.6 | \$979.0 | \$999.3 | \$1,009.4 | \$1,021.1 | \$1,031.5 | \$1,040.8 |
| FINANCIAL RESERVES/TWO-YEAR BALANCED BUDGET | | | | | | | |
| Budgeted Financial Reserves for 9% (Incremental) | 2.8 | 2.8 | 0.8 | 1.9 | 1.1 | 0.9 | 0.8 |
| Reserve for Two-Year Balanced Budget Plan | 6.8 | 6.8 | | | | | |
| ADJUSTED ENDING BALANCE/(ADJUSTMENT REQUIRED) | \$0.0 | \$13.4 | (\$34.8) | (\$40.4) | (\$21.8) | (\$3.1) | \$15.2 |
| ADDITIONAL EXPENDITURES (Below the Line) | | | | | | | |
| Projected Employee Compensation Increases Based on Historical Trends | | | 6.3 | 24.2 | 42.2 | 60.1 | 78.1 |
| Economic Development Incentives | | | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 |
| November 2014 Charter Amendment Election | | | 0.5 | | | | |
| Budgeted Financial Reserves for 9% (Incremental) | | | \$1.2 | \$2.8 | \$4.4 | \$6.0 | \$7.7 |
| Additional Expenditures | \$0.0 | \$0.0 | \$15.1 | \$34.1 | \$53.6 | \$73.2 | \$92.8 |
| ADJUSTED ENDING BALANCE/(ADJUSTMENT REQUIRED) | \$0.0 | \$13.4 | (\$49.9) | (\$74.5) | (\$75.4) | (\$76.3) | (\$77.6) |
| BUDGETED RESERVES SUMMARY | | | | | | | |
| Total Annual Budgeted Financial Reserves | 88.2 | 88.2 | 88.9 | 90.8 | 91.9 | 92.8 | 93.7 |
| Annual Budgeted Financial Reserves as a % of Appro | 9% | 9% | 9% | 9% | 9% | 9% | 9% |

1 Includes \$2.25 Million in reserve for 50 Police Officers in FY 2013 originally funded with a Federal Grant

2 Wage increase of 3.4% for Fire and 3% for Police are included in the FY2014 Projection as mandated cost above the line. Current Collective Bargaining Agreements expire September 2014.

GENERAL FUND FORECAST SCHEDULE EXPLANATION

BEGINNING BALANCE

“Beginning Balance” reflects the amount of funds available for use at the beginning of the fiscal year. The balance is the result of the net prior year-end revenues-to-expenditures, except in years projected to have a negative ending balance. The Beginning Balance does not include the City’s Financial Reserves.

CURRENT REVENUES

“Current Revenues” highlights the major sources of current revenue – Property Taxes, Sales Tax, CPS Energy, and all other sources, including fines and fees and other charges for current service.

TOTAL RESOURCES

“Total Resources” is the sum of the Beginning Balance and Current Revenues.

CURRENT SERVICE

“Current Service” shows the aggregate annual projected expenditures required to sustain the current FY 2013 level of services throughout the forecast period.

MANDATED SERVICE DELIVERY COSTS

“Mandated Service Delivery Costs (Incremental)” are the incremental recurring and one-time mandated expenditures required each year. These expenditures constitute a change to a current service budget in order to comply with a federal, state, or local law or ordinance, a contractual obligation, or the operation and maintenance requirement needed for a completed capital improvement project.

ENDING BALANCE / ADJUSTMENT REQUIRED

“Ending Balance / (Adjustment Required)” represents the difference between Total Available Resources and Total Expenditures, but does not include the cumulative funds for the City’s Budgeted Financial Reserves. A revenue and/or expenditure adjustment is required in those years when this balance is negative.

BUDGETED FINANCIAL RESERVES

“Budgeted Financial Reserves (Incremental)” is the incremental amount needed each year to maintain annual Budgeted Financial Reserves at 9% of appropriations in FY 2014 through FY 2018 respectively.

GENERAL FUND REVENUES

Total FY 2013 General Fund revenue is anticipated to be \$4.5 million, or 0.5%, above the FY 2013 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 2.7% in FY 2018 (over the FY 2017 projection) to a high of 3.0% in FY 2016 (over the FY 2015 projection).

General Fund Forecast of Current Revenues -\$ in Millions-

| Revenue | FY 2013 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|------------------------------|------------------|------------------|------------------|------------------|--------------------|--------------------|--------------------|
| | Budget | Estimate | Projections | Projections | Projections | Projections | Projections |
| Current Property Tax | \$ 242.8 | \$ 242.8 | \$ 247.6 | \$ 253.8 | \$ 261.4 | \$ 270.7 | \$ 280.2 |
| City Sales Tax | 221.8 | 226.9 | 234.9 | 243.1 | 251.6 | 259.1 | 266.9 |
| CPS Energy | 285.5 | 284.1 | 292.2 | 299.4 | 306.7 | 314.3 | 322.0 |
| Business and Franchise Taxes | 31.1 | 31.1 | 31.0 | 31.1 | 31.2 | 31.4 | 31.6 |
| Liquor by the Drink Tax | 4.9 | 5.1 | 5.3 | 5.4 | 5.5 | 5.6 | 5.7 |
| Delinquent & Penalties | 4.4 | 4.7 | 4.7 | 4.8 | 4.9 | 5.1 | 5.3 |
| Licenses and Permits | 7.2 | 7.2 | 7.3 | 7.3 | 7.4 | 7.4 | 7.5 |
| San Antonio Water System | 10.9 | 11.8 | 11.9 | 12.1 | 12.3 | 12.6 | 12.8 |
| Other Agencies | 7.7 | 7.9 | 7.8 | 7.8 | 7.9 | 7.9 | 7.9 |
| Charges for Current Services | 49.4 | 49.6 | 53.2 | 56.5 | 56.8 | 57.2 | 57.7 |
| Fines | 14.6 | 14.4 | 14.4 | 14.5 | 14.7 | 15.0 | 15.3 |
| Miscellaneous Revenue | 12.1 | 11.3 | 9.7 | 9.8 | 14.3 | 17.1 | 17.6 |
| Transfers from Other Funds | 25.7 | 25.7 | 25.1 | 25.4 | 25.7 | 25.9 | 26.2 |
| Total Revenue | \$ 918.15 | \$ 922.65 | \$ 944.98 | \$ 970.85 | \$ 1,000.41 | \$ 1,029.35 | \$ 1,056.77 |

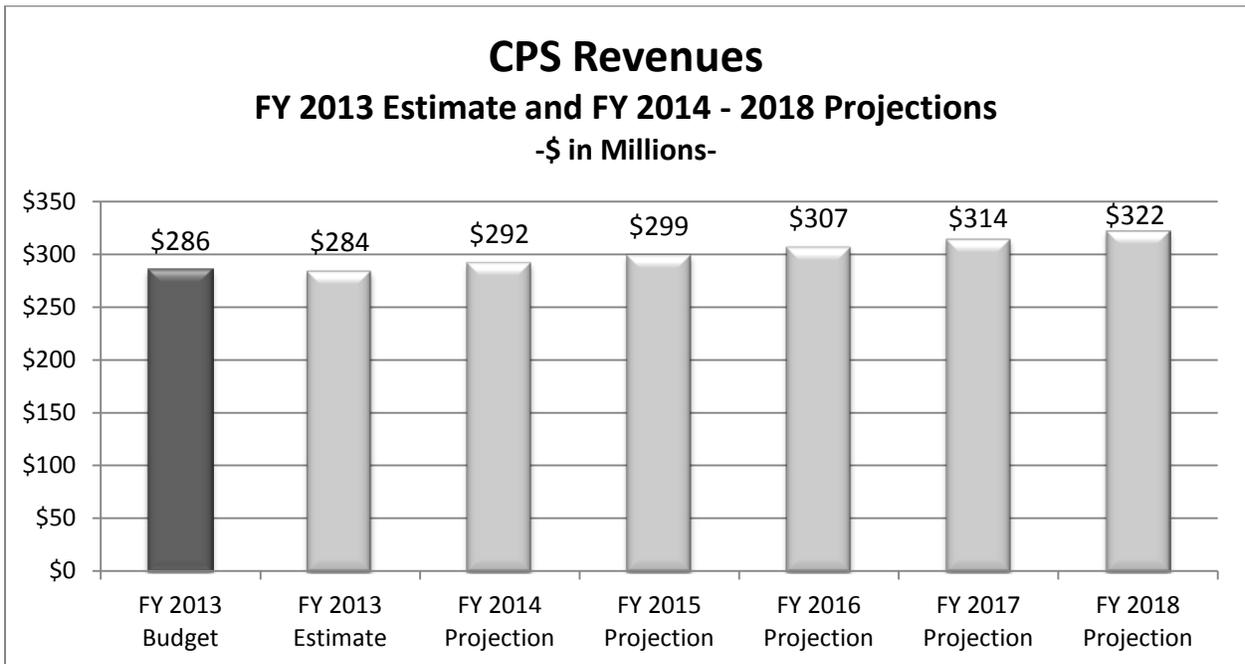
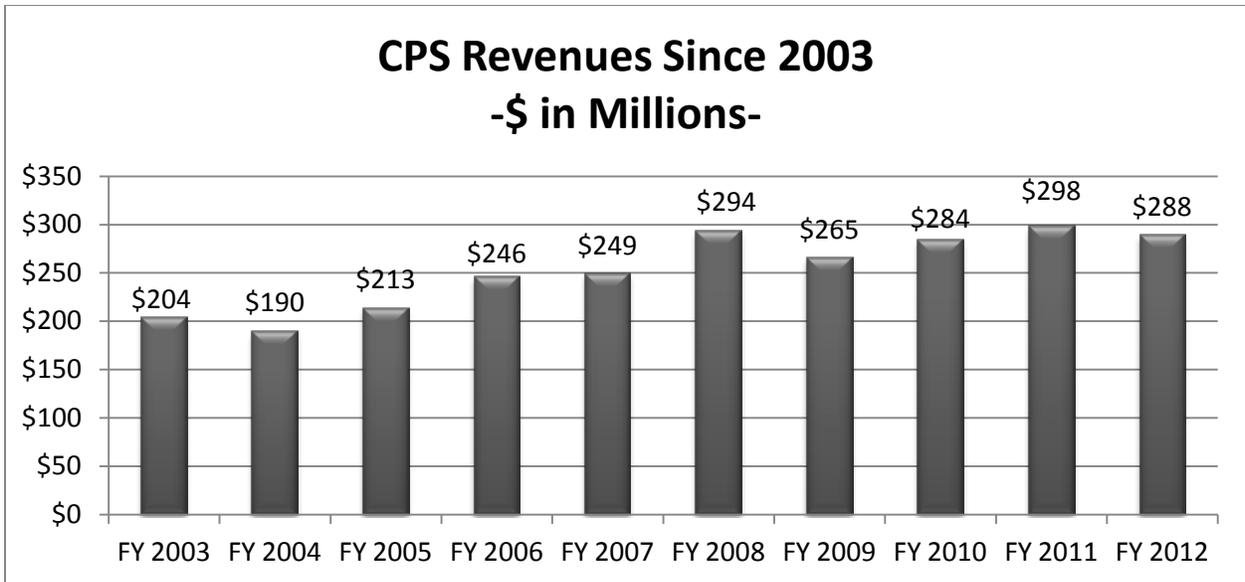
CITY PUBLIC SERVICE ENERGY (CPS ENERGY)

Projected Annual Rates of Change

| FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---------|---------|---------|---------|---------|
| 2.3% | 2.5% | 2.5% | 2.5% | 2.5% |

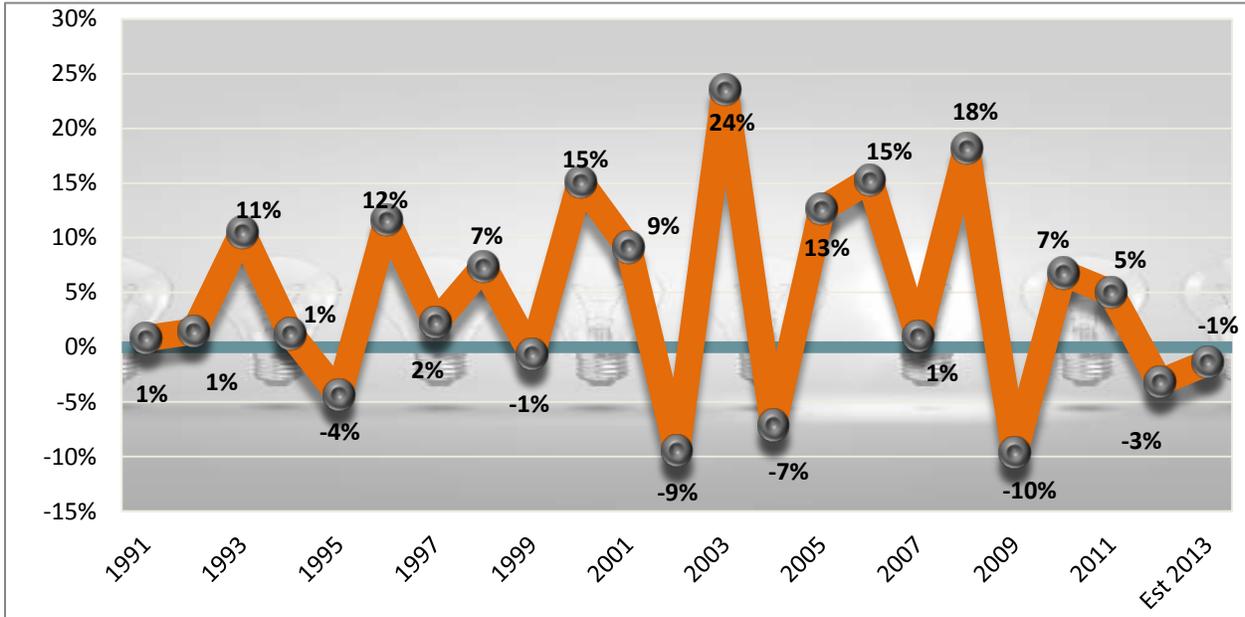
The City's payment from CPS Energy represents the largest source of revenue to the General Fund, accounting for 30% of the FY 2013 General Fund Adopted Budget. 14% of CPS Energy gas and electric gas revenue is paid to the City as a return on investment. The estimated revenue of \$284.1 million for FY 2013 is \$1.4 million, or 0.49%, lower than the original \$285.5 million budgeted in FY 2013.

The forecast for FY 2014 of \$292.2 million is \$6.7 million, or 2.3%, higher than the FY 2013 Adopted Budget. The forecasted amounts for FY 2015 through FY 2018 are based on the FY 2014 Projection adjusted by an average growth rate of 2.5% for FY 2015 through FY 2018.



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

**CPS Payment to City
% Change from Prior Year Actual**



To illustrate the fluctuations in demand, the above graph depicts the percent change in the City’s annual payment from CPS Energy year over year. In addition, natural gas cost and electric costs, can result in significant fluctuations in the City’s payment from CPS Energy and these primary factors. Consequently, the City’s projections of the payment from CPS Energy remain conservative. The projections over the five year period take into consideration factors such as a multi-year forecast outlook, managing the City’s reliance on revenues from CPS Energy, and the current level of reserves within the City’s General Fund.

CURRENT PROPERTY TAX REVENUE – MAINTENANCE & OPERATIONS

Projected Annual Rates of Change

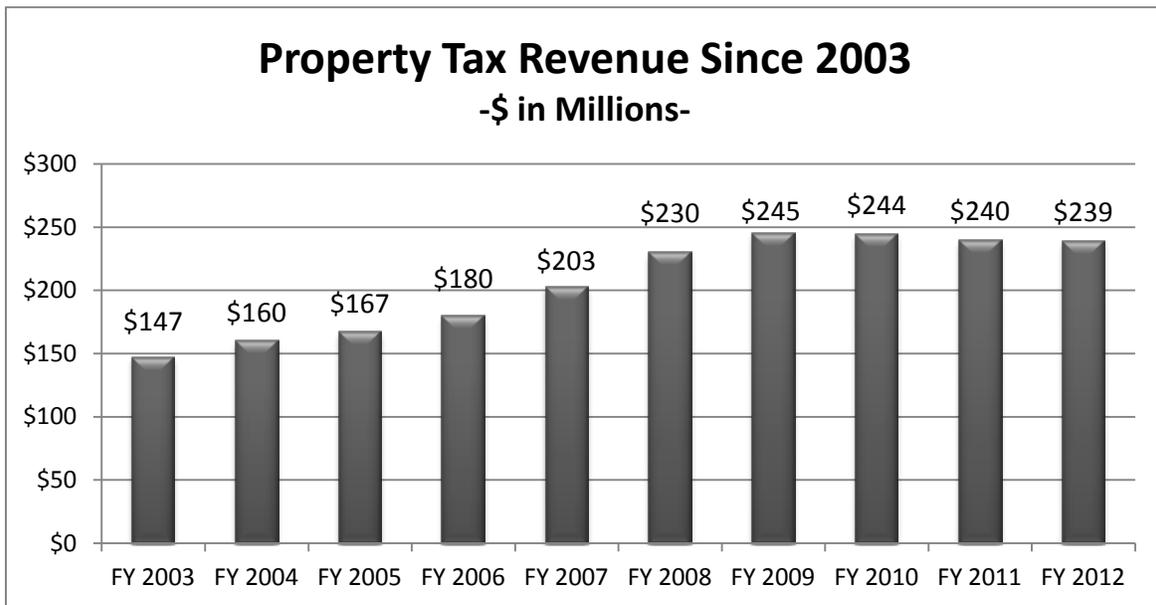
| FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---------|---------|---------|---------|---------|
| 2.0% | 2.5% | 3.0% | 3.5% | 3.5% |

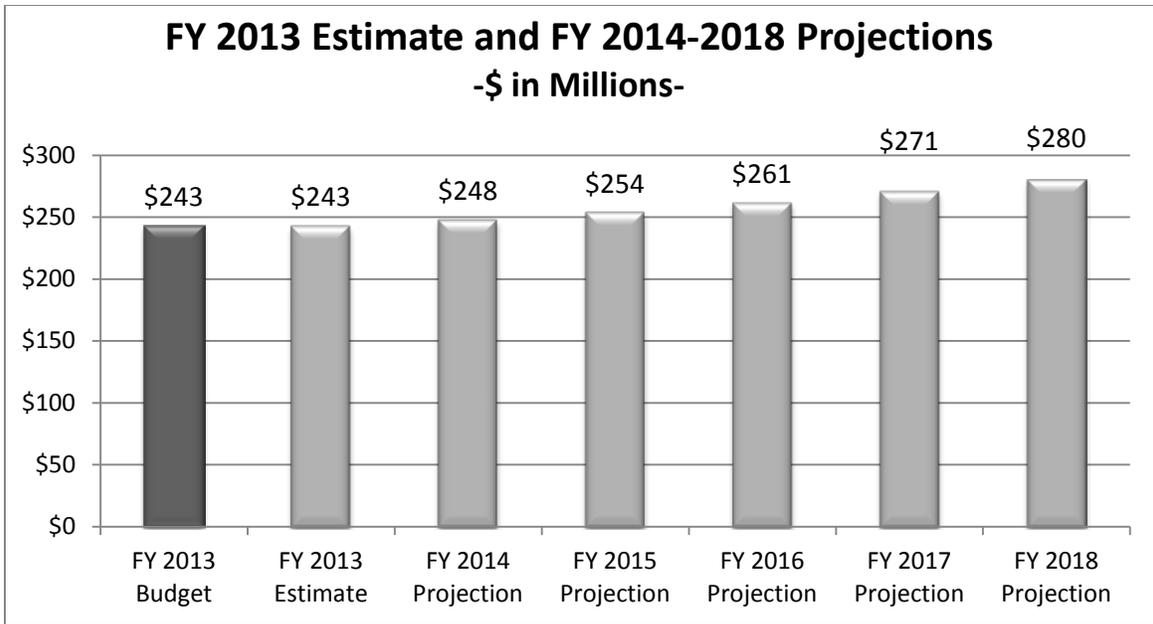
Property tax revenue accounts for 25% of the total FY 2013 General Fund Budget. This revenue category is comprised of current property tax revenues only. Additional property tax revenues collected by the City that is accounted for in the Other Resources category include delinquent property tax and revenues from penalties and interest on delinquent property taxes. Property tax revenue is generated from the City’s ad valorem tax rate levied against taxable values as determined by Bexar Appraisal District and in conformance with State law.

The FY 2014 projected property taxable value is based on preliminary data from the Bexar County Appraisal District. The final Certified Property Tax Roll will be available by the end of July 2013.

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% Residence Homestead limitation.

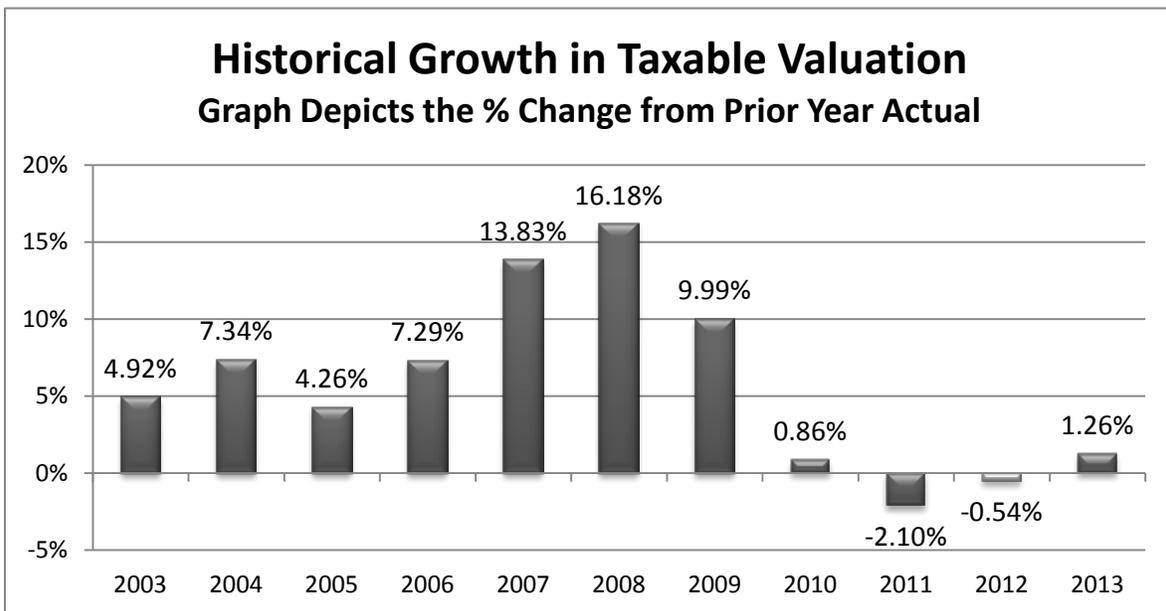
The revenue estimated to be generated in FY 2013 includes the current property tax rate of 56.569 cents per \$100 of taxable valuation. The General Fund maintenance and operation portion is 35.419 cents with the remaining 21.150 cents used to support the City's debt service requirements. The revenue projected to be generated through the forecast period beyond FY 2013 (FY 2014-FY 2018) assumes the property tax rate of 56.569 cents per \$100 of taxable valuation. The City has not increased the property tax rate for twenty years and has decreased it six times over that same period.





Taxable valuations are estimated to increase by 2% in FY 2014 as compared to the FY 2013 budget. FY 2015 taxable valuations are projected to increase by 2.50%, FY 2016 taxable valuations are estimated to increase by 3%, and FY 2017 and FY 2018 are estimated to increase by 3.50%. These estimates are a result of projections of base value change, new property improvements, and annexations.

| Assessed Valuation Category | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Base | 0.49% | 0.75% | 1.00% | 1.00% | 1.00% |
| New Improvements | 1.51% | 1.75% | 2.00% | 2.50% | 2.50% |
| Total % Change - Taxable Value | 2.00% | 2.50% | 3.00% | 3.50% | 3.50% |

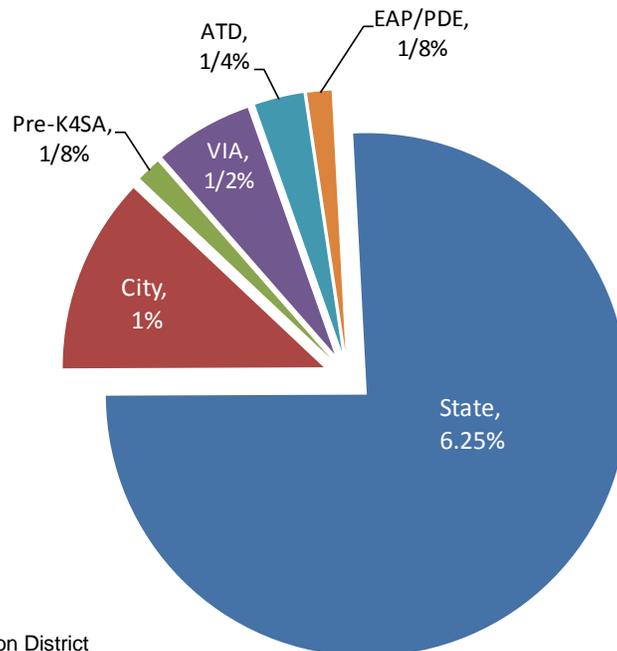


CITY SALES TAX REVENUE

Projected Annual Rates of Change

| FY 2014 ¹ | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|----------------------|---------|---------|---------|---------|
| 3.5% | 3.5% | 3.5% | 3.0% | 3.0% |

Sales tax revenue collected to support maintenance and operations for the General Fund within the FY 2013 Adopted Budget accounts 23% of the FY 2013 General Fund Budget. San Antonio's current sales tax rate is 8.25%. Several entities receive percentages of all sales tax proceeds as summarized in the chart.

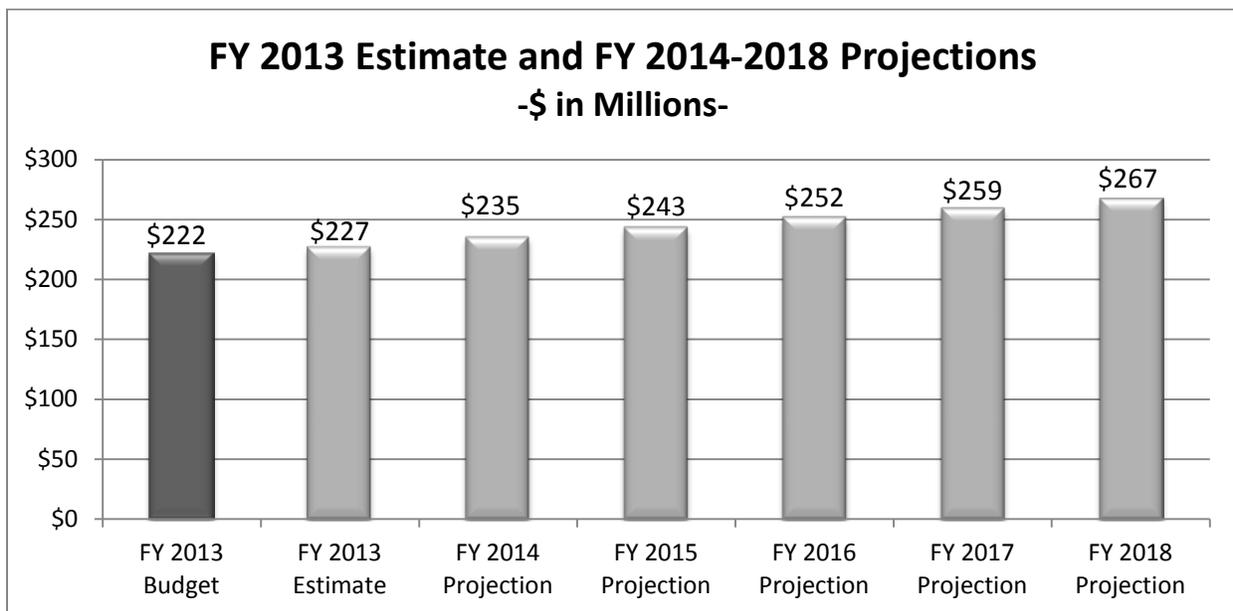
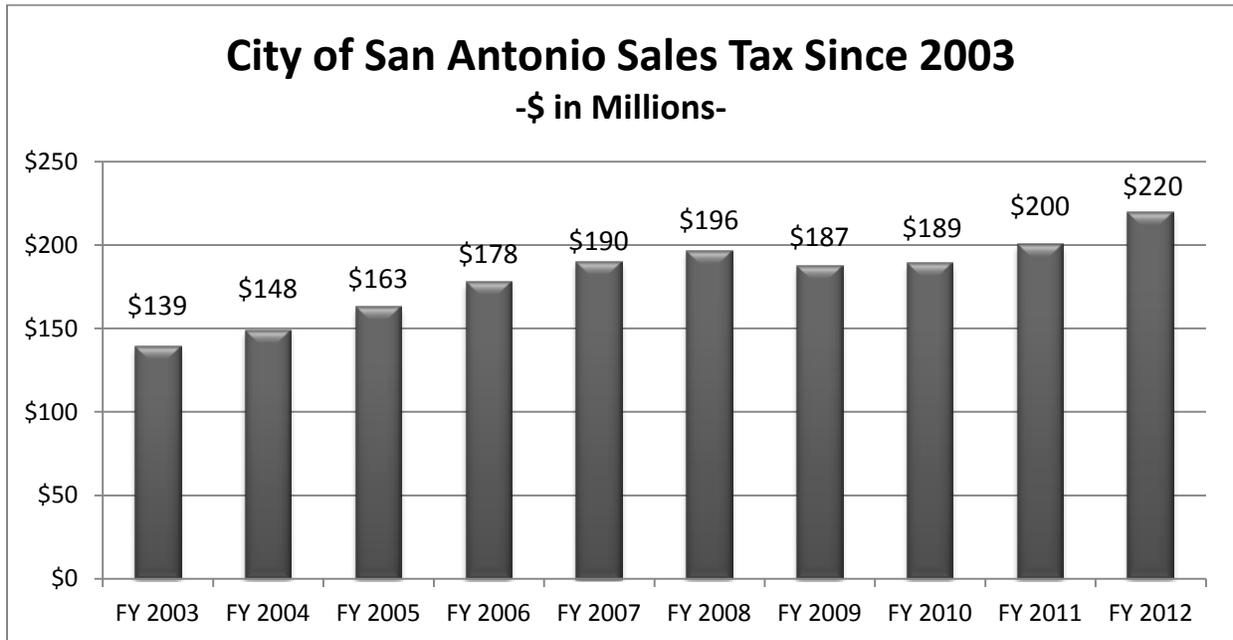


ATD: Advanced Transportation District
 EAP: Edward Aquifer Protection
 PDE: Parks Development & Expansion

Actual sales tax collections for the current year are projected to be \$226.9 million. This amount is \$5.08 million or 2.3% more than the \$221.8 million budgeted in FY 2013 for Sales Tax revenue. General Fund sales tax revenues in FY 2014 are projected to increase by 5.9%, over the FY 2013 Adopted Budget. Beyond FY 2014, revenue levels from this source are expected to grow at an average rate of 3.25%. Future years' projections are based on historical trends and regression analysis utilizing U.S. Consumer Price Index, San Antonio Gross Metro Product, and San Antonio Area Unemployment. These estimates and the projections for the forecast period exclude the sales tax collected by the City for the Edwards Aquifer Protection and Parks

¹ Sales Tax revenue is 5.9% over the Adopted Budget and 3.5% over the FY 2013 estimate.

Development & Expansion venues and the City's Advanced Transportation District. The following graph illustrates General Fund sales tax revenue growth over the last 10 years.



Sales tax collections have a strong correlation to national and local economic conditions. As described in the Economic Perspective & Outlook Section, both the local and national economies have begun to show signs of growth. Local economic conditions, such as the unemployment rate and economic output, are projected to perform slightly better than national trends for every year throughout the forecast period.

CHARGES FOR CURRENT SERVICE

Projected Annual Rates of Change

| FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---------|---------|---------|---------|---------|
| 7.62% | 6.18% | 0.63% | 0.73% | 0.80% |

This comprehensive category includes revenues related to recreation and culture such as the River Barge and Tower of America revenue contracts, Market Square lease revenues, and library fines and fees; various general government service charges such as Municipal Court administrative fees associated with criminal cases tried in Municipal Court; Public Safety related revenues such as those generated by the City's wrecker service contract, EMS Ambulance Service fees, and alarm permit fees; and Health revenues generated by birth and death certificates. Actual revenues for the current year (FY 2013) are projected to be \$225,368 or 0.5% above budgeted levels. Projected increases over the forecast period are based on estimated demands or known changes in revenue contracts.

BUSINESS AND FRANCHISE TAXES

Projected Annual Rates of Change

| FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---------|---------|---------|---------|---------|
| -0.15% | 0.18% | 0.39% | 0.63% | 0.82% |

The Business and Franchise Tax revenue category is primarily comprised of telecommunication providers' rights-of-way access line fees and cable television franchise fees. Compensation from telecommunication providers is governed by State Law and is comprised of a monthly fee paid to the City on a quarterly basis for each business line (\$4.04) and each residential line (\$1.20). These fees change every July 1 and the adjustment is based on ½ of the current CPI. The new fees on July 1, 2013 will be \$4.16 for business lines and \$1.25 for residential lines. The forecast for FY 2014 of \$31 million is \$45,000 lower than the FY 2013 Adopted Budget. The forecasted amounts for FY 2015 through FY 2018 grow at an average of 0.50% annually.

Revenue derived from Certified Telecommunications Providers (CTPs) has been declining based on a decrease in actual line counts as reported by CTPs on a quarterly basis to the Public Utility Commission of Texas. Other Cities throughout Texas, both large and small, are experiencing similar CTP revenue declines; there was a small change in the CTP estimated revenue for FY 2013 of \$14.77 million, which represents a \$10,000 decrease from the FY 2013 Adopted Budget of \$14.78.

SAN ANTONIO WATER SYSTEM (SAWS) PAYMENT

Projected Annual Rates of Change

| FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---------|---------|---------|---------|---------|
| 8.83% | 1.50% | 2.00% | 2.00% | 2.00% |

The SAWS revenue payment to the City is based on 2.7% of SAWS' total projected revenue for each year of the Forecast period. This payment agreement was initiated in April 1992 when certain City of San Antonio water and waste water systems were consolidated into the San Antonio Water System. The projected revenue for FY 2014 from SAWS is \$11.9 million. This is an increase of \$970,000 from the FY 2013 Adopted Budget of \$10.9 million. Projections for the forecast period are based on historical revenue experience of SAWS for each of its core businesses.

OTHER RESOURCES

Projected Annual Rates of Change

| FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---------|---------|---------|---------|---------|
| -3.01% | 1.03% | 7.09% | 4.70% | 1.60% |

Other revenues received by the General Fund include delinquent and penalties from property taxes, licenses and permits, fines, liquor by the drink, interest earnings, transfer from other funds, and other miscellaneous revenue. Other resources for the current year are projected to be approximately \$76.3 million compared to the FY 2013 Adopted Budget of \$76.5 million. This \$246,000 decrease is largely attributable to a decrease in fine revenue. For FY 2014, total other General Fund revenue is expected to be \$74.2 million or 3.0% lower than the FY 2013 Budget. Beyond FY 2014, other resources are projected to steadily increase by an average of 4.0%.

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. Commitments include City expenses for grants received in connection with the American Recovery & Reinvestment Act.

The following table projects the cost requirements of mandated expenditures and commitments over the FY 2014 – FY 2018 forecast period and the impact to the General Fund. All expenditures shown are incremental.

| Mandate Title | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|------------------------------------|--------------------|--------------------|--------------------|-------------------|-------------------|
| Parks Linear Greenway Program | \$ 41,436 | \$ 98,960 | \$ 165,296 | \$ 199,196 | \$ 180,808 |
| Parks Acquisitions and Development | 295,005 | 182,915 | 243,977 | 27,120 | 0 |
| 2012 Bond Program Projects | 422,746 | 2,053,659 | 2,240,656 | 574,843 | 248,744 |
| Other Mandates | 505,881 | 1,200 | 47,400 | 5,200 | 200 |
| Total Mandated Costs | \$1,265,068 | \$2,336,734 | \$2,697,329 | \$ 806,359 | \$ 429,752 |

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 2014 – FY 2018), the City anticipates acquiring 29 miles of additional greenway trails and acquisition of approximately 500 additional acres at various locations throughout the City.

PARKS ACQUISITION AND DEVELOPMENT

This mandate provides for maintenance of new facilities and park components. During the forecast period (FY 2014 – FY 2018) the City anticipates acquiring 181 additional components in approximately 57 parks, with approximately 373 new park acres to maintain. Park components include fitness stations, playgrounds, sports fields, and walking trails.

2012 BOND PROGRAM PROJECTS OPERATIONS & MAINTENANCE

This mandate provides for operations and maintenance of the 140 capital projects included in the 2012 Bond Program. During the forecast period (FY 2014 – FY 2018), the City will construct 41 Streets, Bridges & Sidewalks projects, 17 Drainage & Flood Control projects, 67 Parks, Recreation & Open Space projects, 11 Library, Museum & Cultural Arts projects, and three Public Safety Facilities projects.

EMERGENCY MEDICAL SERVICES OVERSIGHT

This mandate provides for the medical direction, training, and oversight of Fire Department Emergency Medical Service (EMS) by the University of Texas Health Science Center at San Antonio. The 2-year interlocal agreement ensures the State of Texas will continue to allow the Fire Department to provide emergency medical services.

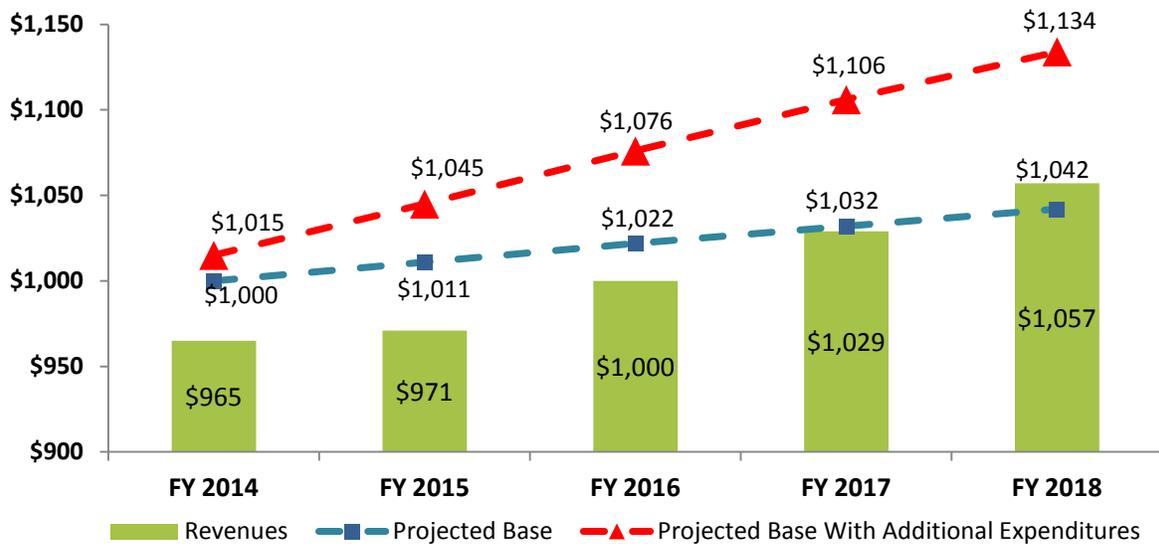
OTHER MANDATES

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

ADDITIONAL EXPENDITURES

The process for developing the Five-Year Financial Forecast entails removing one-time expenditures included in the current year Adopted Budget, updating city-wide salaries to reflect changes stemming from cost of living adjustments, pay plan progression, performance pay adjustments, new hires, and/or recent vacancies, and including second year contractual costs such as Police and Fire collective bargaining agreements. After the projected base budget is established, the forecast period adds in mandated contractual increases and anticipated inflationary increases, such as medical costs. This initial projected base budget does not include any additional expenditures to enhance service and assumes an expenditure amount required to maintain the current service level throughout the forecast period.

Along with highlighting this projected base budget service level, the forecast schedule summary included in this document provides a budget scenario should the Mayor and City Council desire to continue the current growth of expenditures seen during the last five years. The graph and table below illustrate the effect on the projected deficit should the budget increase at a level consistent with the previous five years.



| Projected Ending Balance | | | | | |
|--|---------|---------|---------|---------|---------|
| | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
| Projected Base Budget | (\$35) | (\$40) | (\$22) | (\$3) | \$15 |
| Projected Base Budget with Additional Expenditures | (\$50) | (\$75) | (\$75) | (\$76) | (\$78) |

The following paragraphs provide brief descriptions of potential additional expenditures to the General Fund that are not currently planned within the current service levels. Some of these expenditures were included as one-time expenses in the FY 2013 Budget and are shown as budget scenarios for discussion and evaluation should the Mayor and City Council wish to continue these projects in FY 2014.

ECONOMIC DEVELOPMENT INCENTIVE FUND

In order to attract, expand, and retain businesses, create new jobs, and stimulate development and investment across the City, \$4 million could be added to the General Fund Budget to maintain the same level of funding as in FY 2013.

INNER CITY ECONOMIC DEVELOPMENT INCENTIVES

Funding for inner city economic development incentives in the amount of \$3 million could be maintained in the FY 2014 Budget to provide incentives to businesses and encourage investment in the downtown areas of the City of San Antonio.

PROJECTED EMPLOYEE COMPENSATION INCREASES

The Forecast Base Budget does not include increases to Police and Fire collective bargaining agreements beyond FY 2014. Fiscal Year 2014 is the final year of the San Antonio Police Officers' Association and Local 624 International Association of Fire Fighters Collective Bargaining Contracts. Any changes to these contracts with a fiscal impact that increases wages or other benefits are not currently planned within current service level. Projected employee compensation increases for civilian and uniform employees are estimated at historical trends to provide a scenario that shows the potential impact to the General Fund.

NOVEMBER 2014 CHARTER AMENDMENT ELECTION

Funding for a potential Charter Amendment Election in November 2014 with an anticipated cost of \$540,000 could be included. The last City of San Antonio Charter Amendment Election was held in November 2008.

FINANCIAL RESERVES FUNDS

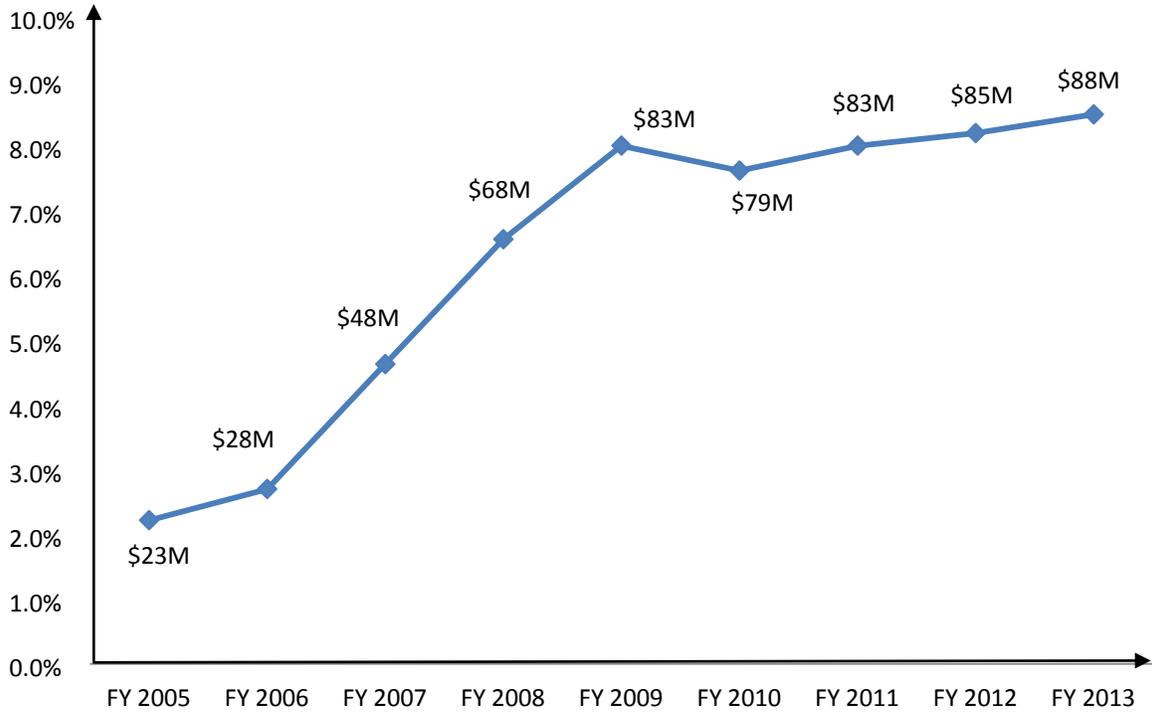
The establishment and maintenance of appropriate reserves within the General Fund is critical to prudent financial management. The Government Finance Officers Associations (GFOA) recommends that local governments, regardless of size, maintain a General Fund financial reserve amount of no less than one (8%) to two months (17%) of operating expenditures. GFOA also lists increased levels of reserves as a factor credit rating agencies use to determine a municipality's creditworthiness.

As illustrated in the graph below, financial reserve levels have increased from just under 4.0% in 2006 to 9.0% in 2013. This represents a total reserve amount of \$88.2 million in FY 2013. The Budgeted Financial Reserves will be utilized to meet one or more of the following events:

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

The use of these funds will be authorized only after an analysis has been prepared by the City Manager and presented to the City Council that outlines the cost associated with the use of the financial reserve funds. The FY 2014 to FY 2018 Forecast recommends maintaining the reserve level of 9.0% of General Fund appropriations.

General Fund Financial Reserves



**SOLID WASTE
OPERATING AND
MAINTENANCE
FUND**

SOLID WASTE OPERATING AND MAINTENANCE FUND

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

SWMD is composed of four divisions: Solid Waste, Recycling, Brush, and Environmental Management. These divisions contribute to reaching the Department's operational goals and the goals detailed in the Recycling and Resource Recovery Plan for Residential and Commercial Services.

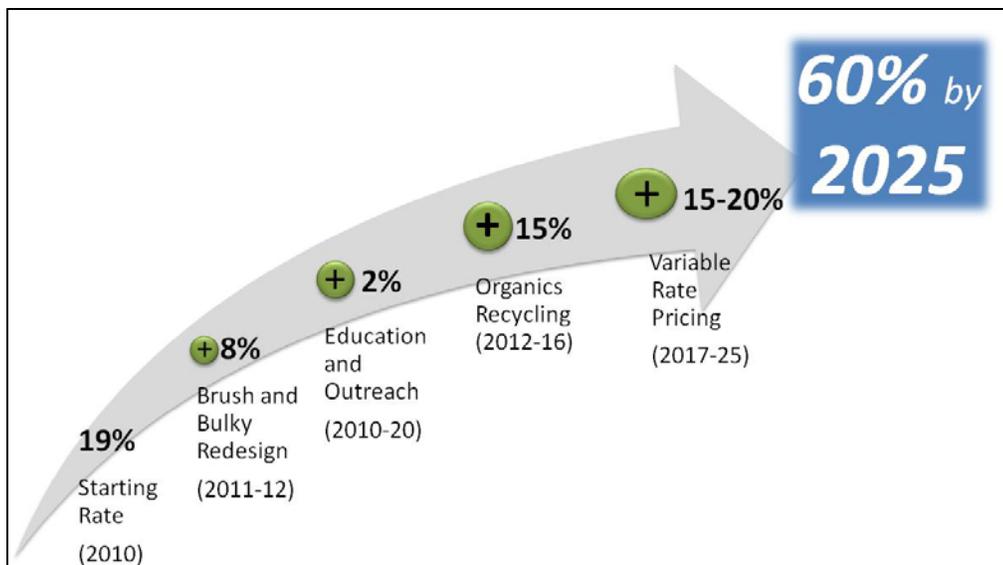
Recycling and Resource Recovery Plan

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

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

Since the implementation of the Recycling Plan, the Department has increased the amount of materials recycled from 18 percent to 28 percent. Most recently, the Department launched the Organics Subscription Program, which provides collection of yard waste and other organic materials, and will be available to all residents by FY 2015. The graphic below illustrates the steps outlined in the Recycling Plan to achieve a 60 percent residential recycling rate by the year 2025.

Steps to Achieving 60% Residential Recycling Goal



FIVE-YEAR FINANCIAL FORECAST

The Financial Forecast for the Solid Waste Operating and Maintenance Fund reflects revenue and expenditure projections for a five year period from FY 2014 to FY 2018. As its starting point, the Forecast includes the budget and preliminary estimated projections for the current fiscal year.

Solid Waste Operating & Maintenance Fund (\$ in Thousands)

| RESOURCES | FY 2013 Budget | FY 2013 Estimated | FY 2014 Projection | FY 2015 Projection | FY 2016 Projection | FY 2017 Projection | FY 2018 Projection |
|--|-------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Beginning Balance (Excluding Reserves) | \$ 3,185 | \$ 4,084 | \$ 4,523 | \$ 4,542 | \$ 2,165 | \$ 961 | \$ 951 |
| CURRENT REVENUES | | | | | | | |
| Solid Waste Fees | \$ 85,379 | \$ 86,020 | \$ 86,964 | \$ 91,011 | \$ 93,423 | \$ 94,812 | \$ 96,209 |
| Solid Waste Fees - Rate Adjustment | | | 3,707 | 2,063 | 1,035 | 1,039 | 1,043 |
| Organics Revenue | - | 80 | 1,027 | 2,350 | 3,100 | 3,111 | 4,996 |
| Recycling Revenue* | 3,951 | 2,127 | 2,371 | 2,380 | 2,388 | 2,445 | 2,946 |
| Other Revenues | 2,209 | 2,349 | 2,040 | 2,047 | 1,996 | 1,942 | 1,946 |
| TOTAL CURRENT REVENUES | \$ 91,538 | \$ 90,575 | \$ 96,109 | \$ 99,851 | \$ 101,943 | \$ 103,349 | \$ 107,140 |
| TOTAL RESOURCES | \$ 94,723 | \$ 94,659 | \$ 100,632 | \$ 104,392 | \$ 104,107 | \$ 104,310 | \$ 108,091 |
| EXPENDITURES/RESERVES | | | | | | | |
| Base Service | \$ 90,862 | \$ 90,136 | \$ 94,790 | \$ 100,762 | \$ 101,911 | \$ 102,153 | \$ 105,997 |
| Mandated Service Delivery Costs (Incremental) | | | 108 | 164 | 177 | 193 | 189 |
| Budgeted Financial Reserves | | | 193 | 301 | 58 | 13 | 192 |
| Reserve for Cart Replacement | | | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| TOTAL EXPENDITURES/RESERVES | \$ 90,862 | \$ 90,136 | \$ 96,091 | \$ 102,228 | \$ 103,146 | \$ 103,359 | \$ 107,377 |
| ENDING BALANCE | \$ 3,861 | \$ 4,523 | \$ 4,542 | \$ 2,165 | \$ 961 | \$ 952 | \$ 714 |
| BUDGETED RESERVE (CUMULATIVE) | \$ 4,552 | \$ 4,552 | \$ 4,745 | \$ 4,853 | \$ 4,803 | \$ 4,866 | \$ 4,995 |
| Annual Budgeted Financial Reserve Goal of 5% of Operating Appropriations | 5% | 5% | 5% | 5% | 5% | 5% | 5% |

*Currently negotiating new contract for the processing and sale of recyclable materials. A final estimate for the net revenue will be presented at proposed budget.

REVENUES

MONTHLY SOLID WASTE FEES

The primary sources of revenue for the Solid Waste Operating and Maintenance Fund are the monthly Solid Waste fees assessed to customers and billed by CPS Energy. The Solid Waste Processing Fee is assessed to single-family residential households in the City who receive municipal waste collection services. The Environmental Fee is charged to all residential customers and commercial entities within the City. Forecasted revenues are based on an

annual growth factor of 0.35% in the number of homes from FY 2014 through FY 2018, along with any estimated rate increases.

The following table is a five-year history of the total monthly rate (Solid Waste Fee and Environmental Fee) per household associated with the Solid Waste Operating and Maintenance Fund.

History of Total Monthly Rates per Household

| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Monthly Rate | \$18.74 | \$18.74 | \$18.74 | \$19.43 | \$19.43 |
| Rate Adjustment | \$0.75 | \$0.00 | \$0.00 | \$0.69 | \$0.00 |

Fee increases are included in each year for the life of the Forecast to support the additional equipment and personnel needed to expand the Organics Recycling Subscription Program to all SWMD residential customers, to support the development and operation of two additional Bulky Waste Collection Centers and the implementation of a Variable Rate Cart Pricing Program. The table below reflects the impact on the total monthly rates for these programs.

FY 2014 - FY 2018 Projected Monthly Rate Adjustments

| | FY 2014 Projected | FY 2015 Projected | FY 2016 Projected | FY 2017 Projected | FY 2018 Projected |
|---------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total Monthly Rate | \$20.18 | \$20.68 | \$20.93 | \$21.18 | \$21.43 |
| Rate Adjustment | \$0.75 | \$0.50 | \$0.25 | \$0.25 | \$0.25 |

RECYCLED COMMODITIES

Another source of revenue for the Solid Waste Operating and Maintenance Fund is the sale of recycled commodities. Projected recycling revenue is based on residential customer growth and an aggregate net revenue share after processing costs. Projections take into account fluctuations based on historical trends of the commodity market of the recyclable materials.

EXPENDITURES

ORGANIC RECYCLING SUBSCRIPTION PROGRAM

In FY 2012, the Solid Waste Management Department implemented a pilot program for Organic Recycling. Distribution of green carts began in September 2011, and collection for the entire 30,000 pilot homes was implemented by November 2011. In FY 2013, City Council approved the Organic Recycling Subscription Program. Residents will be offered the Organics Program

for a monthly subscription fee of \$3.00. All City of San Antonio residential households will have the opportunity to participate in the Program by the end of FY 2015. The following chart illustrates the planned implementation schedule, including the additional carts and collection trucks required to implement the program.

| | FY 2013 Budget | FY 2014 Projected | FY 2015 Projected |
|--|-------------------|----------------------|----------------------|
| Homes per Year | 48,000 | 152,000 | 143,895 |
| Cumulative Homes | 48,000 | 200,000 | 343,895 |
| | | | |
| Collection Carts (Incremental) | 8,844 | 19,676 | 36,747 |
| Collection Trucks (Incremental) | 0 | 4 | 17 |

Other expenditures assumed in the Forecast are based on a continuation of current service levels as well as increases for policy options. The FY 2014 Base Budget also assumes the removal of one-time improvements included in the FY 2013 Adopted Budget.

OTHER EXPENDITURES

The Forecast also includes other anticipated major expenditures. Included in these expenditures is an estimated Cost of Living Adjustment (COLA) of 1% for civilian employees for the life of the Forecast. This scenario is included to illustrate the impact to the Solid Waste Fund and will be evaluated and discussed further during the FY 2014 Budget Process.

The inflation rates used to project increases in non-personal services expenditures were derived from the Consumer Price Index (CPI) projections for each year from 2014 through 2018. These rates and their underlying assumptions are described in the Economic Perspective and Outlook section.

Additional expenditures, discussed in detail below, include the construction of two additional Bulky Waste Collection Center to reduce illegal dumping, and mandated increases in disposal costs and cart replacement.

TWO ADDITIONAL BULKY WASTE COLLECTION CENTERS

To help reduce illegal dumping, resources were added in the FY 2012 Adopted Budget to construct and operate two Bulky Waste Collection Centers. Centrally located to increase convenience to the customer, these centers provide residents with an opportunity to dispose of bulky waste at no cost. The Forecast includes expenditures required to acquire land, construct and operate two additional Bulky Waste Collection Centers, for a total of four Centers, one in

each quadrant of the City. The two additional centers will require 16 roll off containers and 5 roll off trucks and twelve new staff positions to operate the centers.

VARIABLE RATE PRICING

To encourage residents to increase participation in recycling and achieve the 60% residential recycling goal by 2025, the City will begin implementing variable rate cart pricing for brown garbage carts in FY 2017. Residents will select from 3 cart sizes, and rates will vary according to cart size.

MANDATED EXPENDITURES – DISPOSAL CONTRACTS

The City contracts with area landfill operators to providing refuse disposal, and currently has disposal contracts with Waste Management (WMI), Allied Waste Industries (AWI), and Texas Disposal Systems Landfill, Inc. (TDSL). Disposal contracts are scheduled for mandated price increases in accordance with the Consumer Price Index (CPI). The incremental cost for this mandate is \$87,038 in FY 2014. The following table describes the disposal contracts in more detail.

Disposal Contracts

| Company Ownership | Landfill Name | Term | Contract Beginning Date | Contract Ending Date |
|-------------------|----------------------------|--------------------------------------|-------------------------|----------------------|
| WMI | Covel Gardens Landfill | 30 yrs | 1995 | 2025 |
| AWI | Tessman Landfill | 20 yrs + seven 1 yr extensions | 1998 | 2018 |
| TDSL | Starcrest Transfer Station | Notice of termination has been given | 1993 | 2016 |

The following table summarizes the projected mandated increases in disposal costs for the Solid Waste Operating and Maintenance Fund.

| Mandate Title | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|--------------------|----------|-----------|-----------|-----------|-----------|
| Disposal Contracts | \$87,038 | \$143,741 | \$156,181 | \$172,400 | \$167,706 |

**ECONOMIC
OUTLOOK &
PERSPECTIVE**

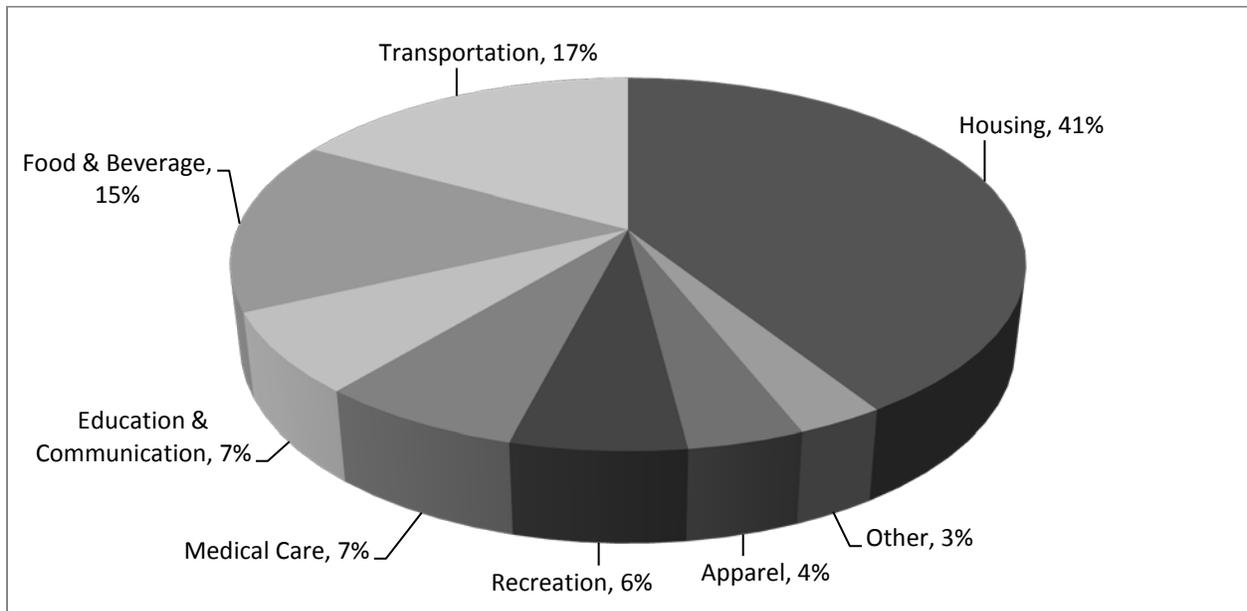
ECONOMIC OUTLOOK

OVERVIEW

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

INFLATION

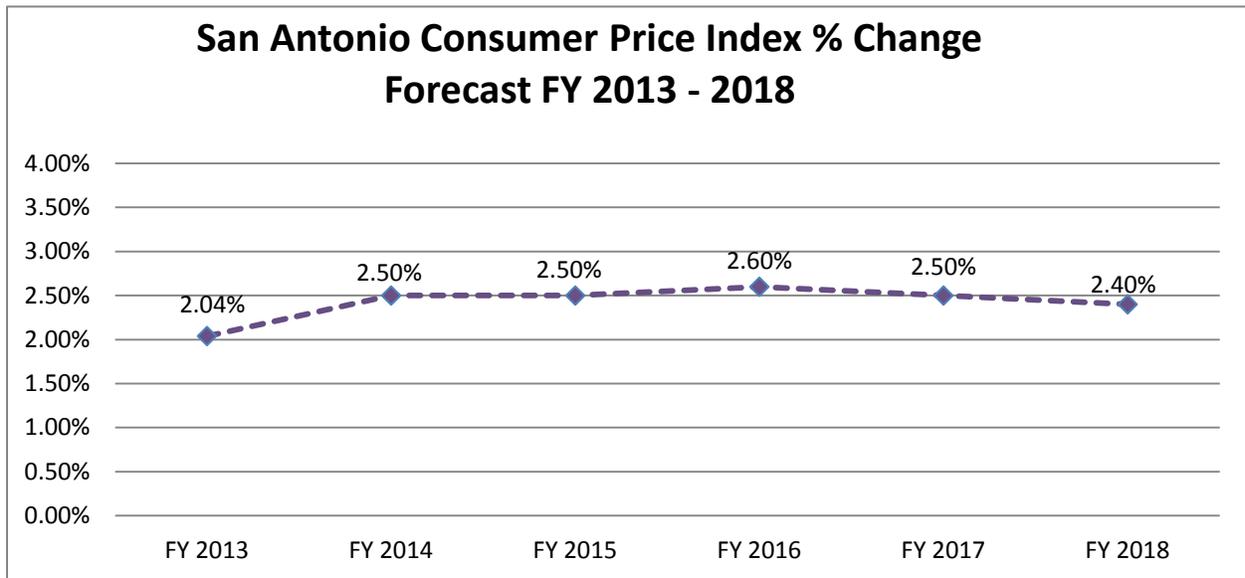
The Consumer Price Index (CPI) commonly referred to as the inflation rate, measures the average price change for a market basket of consumer goods and services. This basket of goods contains a wide array of items, ranging from food and gasoline to college tuition and medical supplies. The CPI does not,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



The Bureau of Labor Statistics has classified each expenditure item in this basket of goods into more than 200 categories. Each one of these categories is cataloged into eight major groups, as shown in the adjacent figure. For example, gasoline is listed under the transportation category and makes up 5.2% of the basket of goods.

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

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

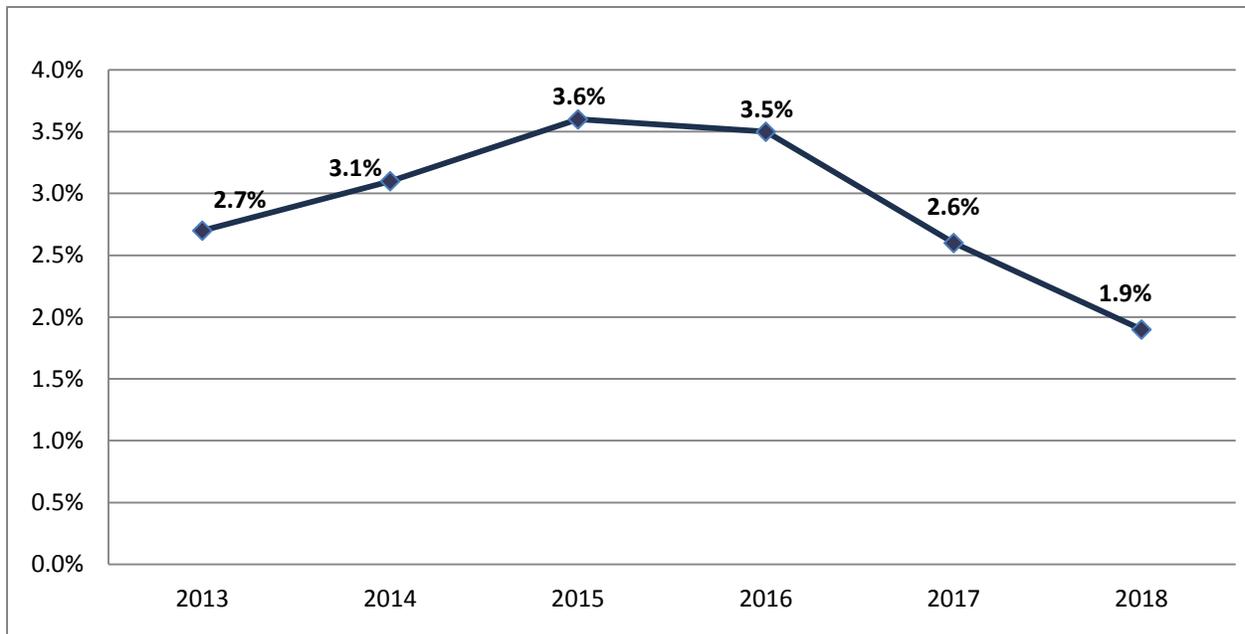


Source: Projection Data from Moody's Economy.com

SAN ANTONIO ECONOMY

EMPLOYMENT

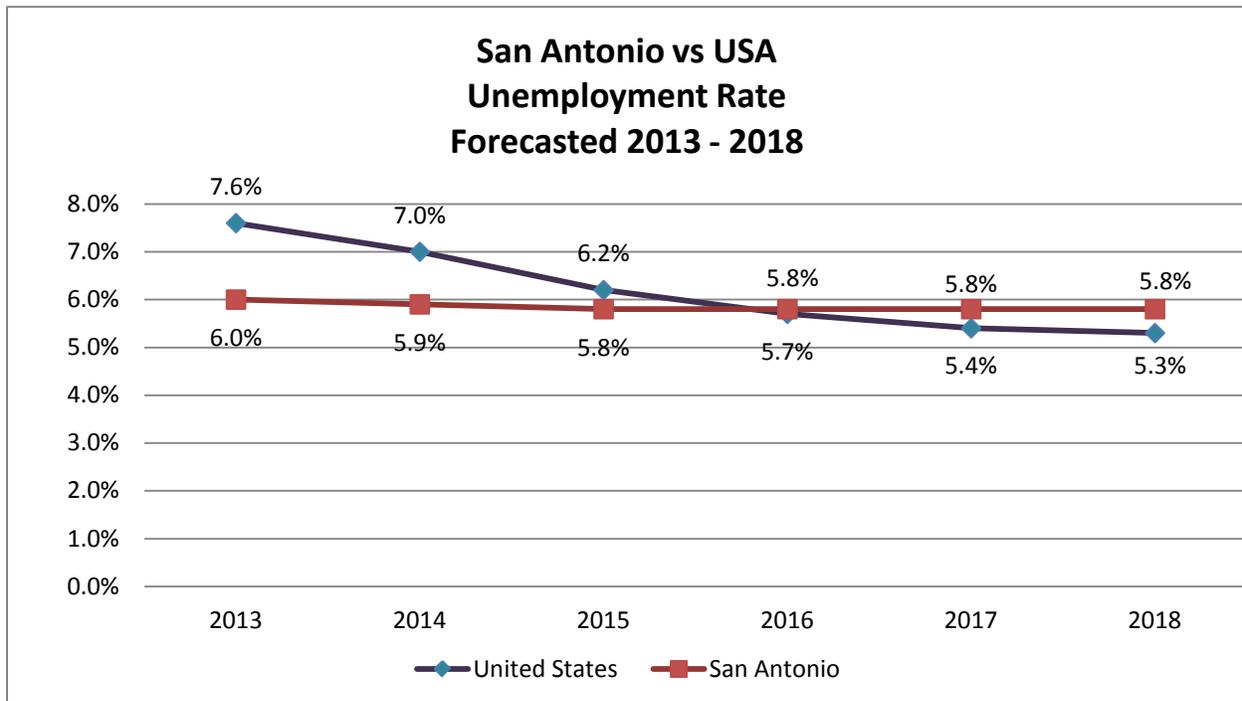
Increases in the total number of employed in a particular region can be attributed to either job creation from within the area or the migration of jobs to the region. The figure below provides historical and projected data on San Antonio's employment growth rate.



Source: Projection Data from Moody's Economy.com

UNEMPLOYMENT

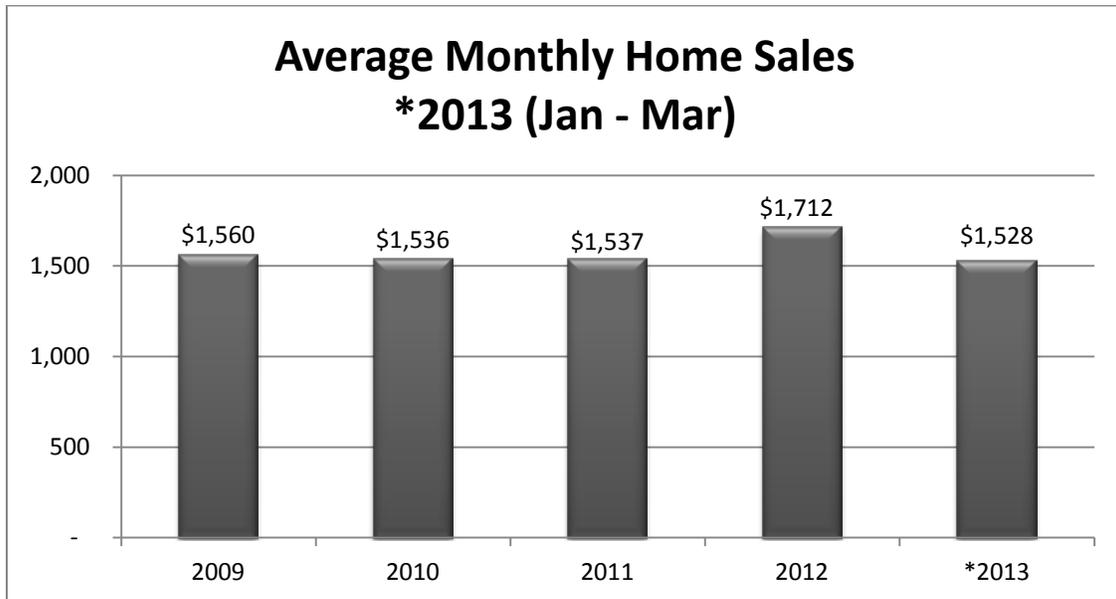
The Unemployment Rate represents the number of unemployed persons as a percent of the labor force. An unemployed person is defined as someone who is 16 years and older and has been looking for employment for at least four weeks. The national unemployment rate increased in 2009 to 2010. In 2011, the unemployment rate decreased by 0.6% and is expected to continue decreasing through 2018. The City of San Antonio's unemployment rate has remained below the national average. Both the national and San Antonio Unemployment rates are expected to return to pre-recession levels later this decade.



Source: Projection Data from Moody's Economy.com

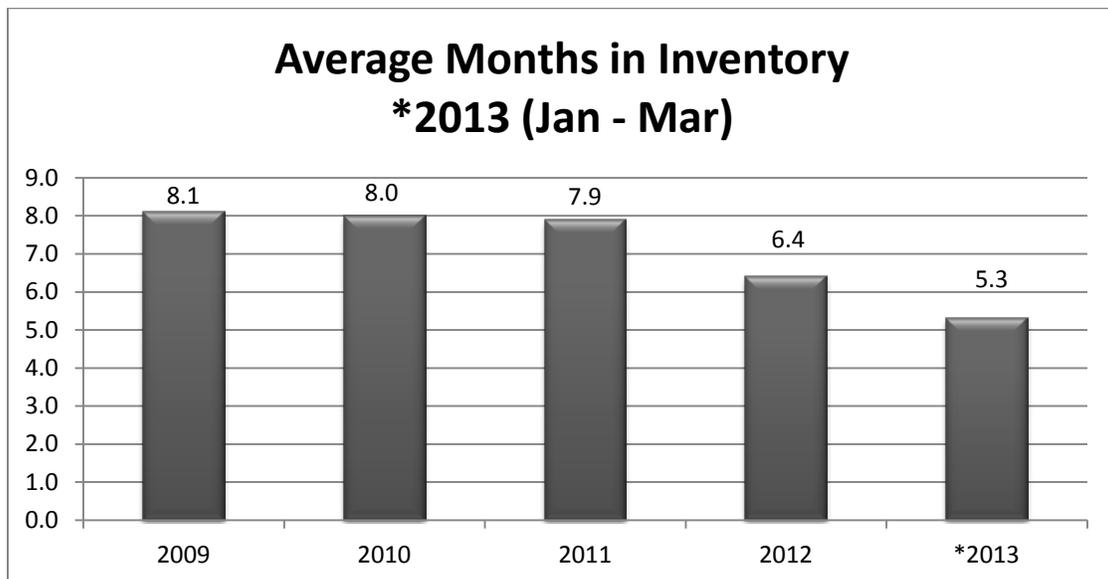
HOUSING

The Housing Market in San Antonio is beginning to recover, but is still adversely impacted by the national housing market and overall economy.



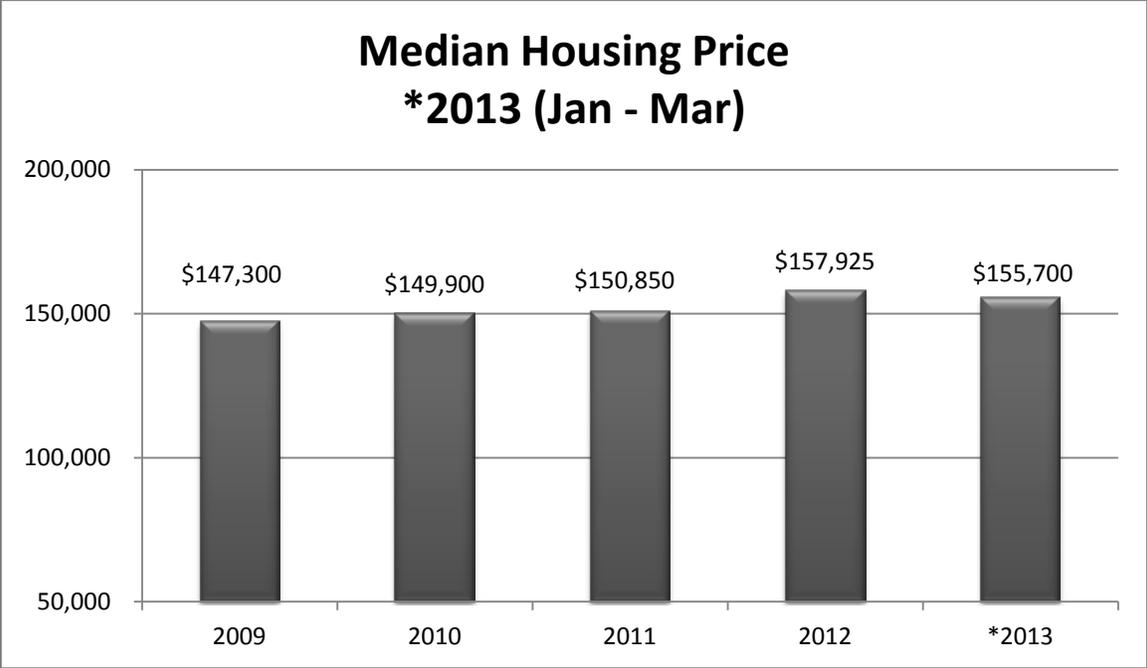
Source: Real Estate Center at Texas A&M University

Months in Inventory measures the amount of time it would take to sell the current housing inventory or supply if no other homes were added to the current inventory. The San Antonio housing market saw this number increase steadily between 2007 and 2009, but it has decreased since 2010. The current average is 5.3 months in inventory, compared to 6.4 last year, and 7.9 in 2011.



Source: Real Estate Center at Texas A&M University

Median Housing Price is the midpoint price of home sales in each year at which half the homes are sold above this price and half the homes are sold below this. The median prices for home sales have decreased in 2013 which will adversely affect property tax revenues.

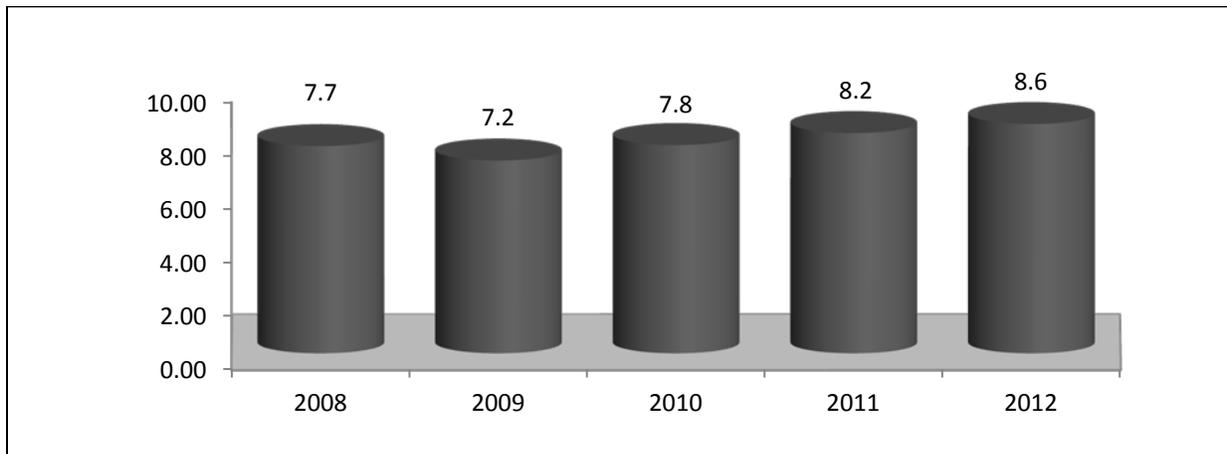


Source: Real Estate Center at Texas A&M University

HOSPITALITY INDUSTRY

Despite national economic challenges, the San Antonio hospitality industry continues to be one of the top leisure/convention cities in the country and benefits from visitors within driving distance from Dallas, Houston, and other Texas cities. During 2012, hotel room demand increased 5.6% and hotel room revenue increased 6.1% compared to 2011.

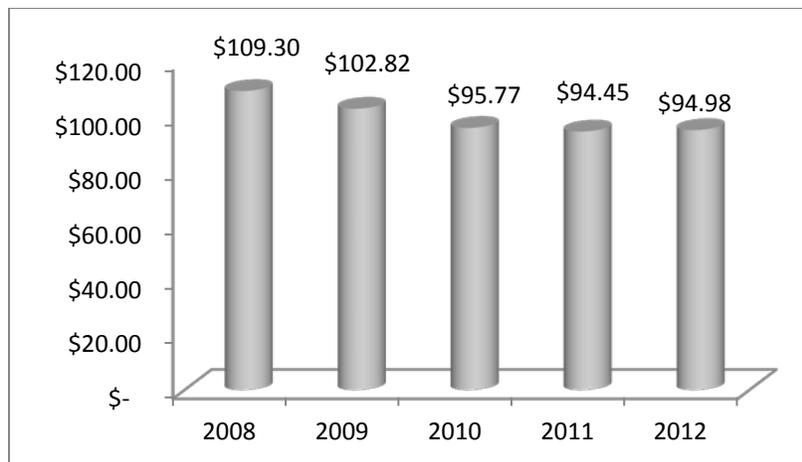
Hotel Room Demand (City Level)
(In Millions)



Source: Data obtained from Smith Travel Research based on hotels in San Antonio Market reports dated March 2007, February 2009, January 2011, February 2012, and March 2013.

Average Daily Room Rate (ADR) is the average price of a room night in San Antonio. ADR is indicative of the hospitality industry's health, and is also affected by the supply of hotel rooms, which has been increasing in San Antonio over the last five years.

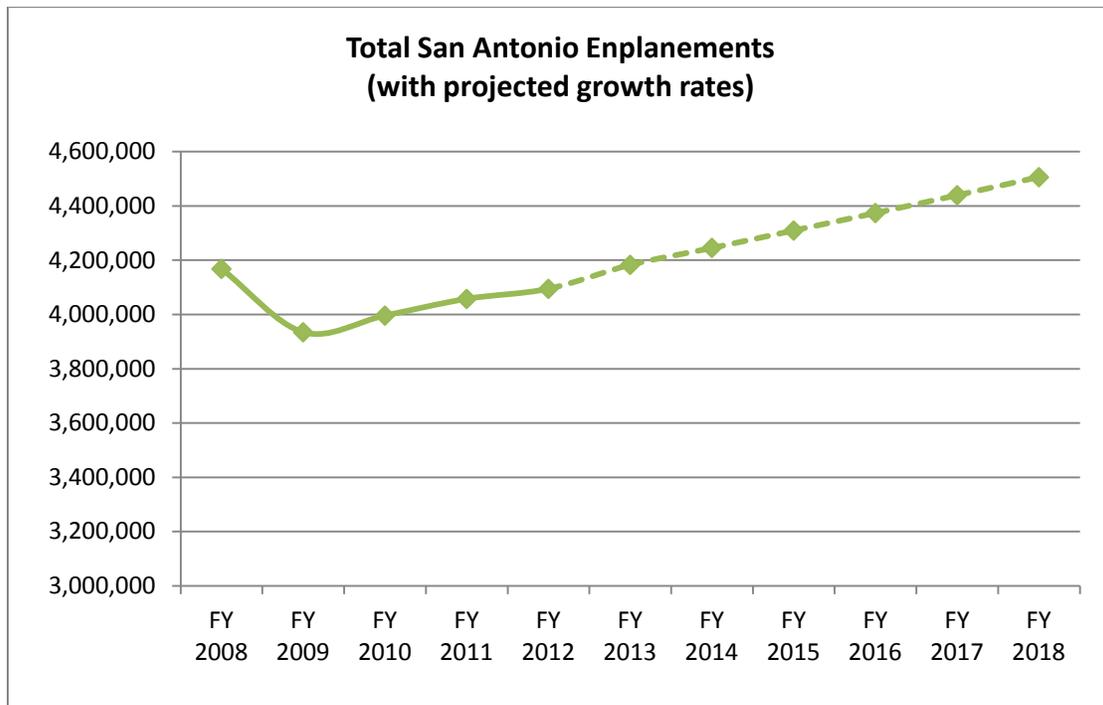
Average Daily Room Rate (City Level)



Source: Data obtained from Smith Travel Research based on hotels in San Antonio Market reports dated March 2007, February 2009, January 2011, February 2012, and March 2013.

ENPLANEMENTS

San Antonio's International Airport is the only commercial service airport serving the City and the San Antonio metropolitan area. A strong local economy along with a significantly improved airline industry had resulted in substantial growth at the airport in the last few years. From 2003 through 2008 the number of passengers traveling to San Antonio by air increased 19% but dropped off during the 2009 due to deteriorating economic conditions. Total enplanements for 2012 increased by 0.9% and are projected to grow in 2013 by 2.2% with continued growth throughout the forecast period.



Source: Aviation Department