

THIS BUDGET WILL RAISE MORE TOTAL PROPERTY TAXES THAN LAST YEAR'S BUDGET BY \$5,488,561 OR 25.2%, AND OF THAT AMOUNT \$959,727 IS TAX REVENUE TO BE RAISED FROM NEW PROPERTY ADDED TO THE ROLL THIS YEAR.

OF THE \$5,488,561 ADDITIONAL PROPERTY TAXES GENERATED, \$3,712,431 IS DUE TO THE PROPOSED TAX RATE INCREASE OF 8.37 CENTS APPROVED BY VOTERS DURING THE MAY 2017 BOND ELECTION.

TAX RATE	ADOPTED FY 2018	ADOPTED FY 2017
PROPERTY TAX RATE	.6139	.5302
EFFECTIVE TAX RATE	.5252	.5143
EFFECTIVE M&O RATE	.5532	.5504
ROLLBACK RATE	.6228	.5743
DEBT RATE	.2539	.2117

COUNCIL MEMBER	9-15-17 VOTE
JOHN THOMAIDES	YES
LISA PREWITT	YES
SAUL GONZALES	YES
ED MIHALKANIN	YES
JANE HUGHSON	YES
SCOTT GREGSON	YES
MELISSA DERRICK	YES



CITY OF SAN MARCOS

2017-18 ANNUAL BUDGET

CITY COUNCIL

JOHN THOMAIDES.....	MAYOR
LISA PREWITT.....	PLACE 1
SAUL GONZALES.....	PLACE 2
ED MIHALKANIN.....	PLACE 3
JANE HUGHSON.....	PLACE 4
SCOTT GREGSON.....	PLACE 5
MELISSA DERRICK.....	PLACE 6

APPOINTED OFFICIALS

BERT LUMBRERAS.....	CITY MANAGER
MICHAEL COSENTINO.....	CITY ATTORNEY
JAMIE CASE.....	CITY CLERK
JOHN P. BURKE, JR.....	MUNICIPAL COURT JUDGE

CITY MANAGER'S OFFICE

COLLETTE JAMISON.....	ASSISTANT CITY MANAGER
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BUDGET DOCUMENT PREPARATION

STEVE PARKER.....	ASST CITY MANAGER/CHIEF FINANCIAL OFFICER
HEATHER HURLBERT, CPA, CGFO.....	DIRECTOR OF FINANCE





GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of San Marcos
Texas**

For the Fiscal Year Beginning

October 1, 2016

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented an award for Distinguished Budget Presentation to the City of San Marcos, Texas for its annual budget for the fiscal year beginning October 1, 2016.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communications device.

The award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.



CITY OF SAN MARCOS

2017-18 ANNUAL BUDGET

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The Mission of the City of San Marcos

The goals of the City Government are to safeguard the health, safety and welfare of the City's residents, provide for a high quality of life, foster intergovernmental liaison and communication, encourage responsible citizenship, promote sound community and economic development, conserve and protect the City's natural resources and environment.

– San Marcos City Charter



TO: Honorable John Thomaides & Members of the City Council
FROM: Bert Lumbreras, City Manager
SUBJECT: 2017-2018 Adopted Budget
DATE: September 19, 2017

I am honored to present the adopted Fiscal Year 2017-2018 City of San Marcos Operating Budget and Capital Improvements Plan. This budget is structurally balanced, with operating revenues meeting operating expenditures. The annual budget is the outline of the programs and services to be provided to our citizens during the upcoming year and will stand as the foundation for enhancing the City's vision as adopted by the City Council in September 2017. It also lays the groundwork for future growth and development through the planning of capital improvements and new service levels expansions. A structurally balanced budget will set the foundation for prudent fiscal management of City operations in the coming years and ensure the City will have the tools to achieve the City Council goals.

The Fiscal Year 2018 Adopted Budget uses the goals set by City Council in 2016 as a framework. These goals will make the City of San Marcos fully sustainable long into the future:

- ✓ Assess, present a plan for, and begin the update of City facilities
- ✓ Beautify and Enhance the Quality of Place for San Marcos
- ✓ Continue Downtown redevelopment
- ✓ Economic Development
- ✓ Maintain and improve the City's infrastructure
- ✓ Continue to build on positive working relationships between Council and staff to enhance communication, decision making, and execution
- ✓ Maintain Fiscal Responsibility
- ✓ Provide for the efficient and effective delivery of services

The development of the adopted budget focused on the capitalization of the local and regional economic projections which have continued to remain extremely strong over the past several years. San Marcos and the surrounding areas have been recognized as one of the fastest growing areas in the United States. Property tax appraisals have increased by 11 percent for Fiscal Year 2018 and the City is seeing indications of continued new growth for the future with the addition of new residential developments and new businesses moving to the area.

General Fund revenue increased \$1.9 million from the fiscal year 2017 budget. This is primarily due to the sales taxes anticipated to be generated by the new Best Buy Call

Center which began operation in late 2016 and the voter approved tax increase of 8.37 cents per \$100 valuation for the construction of and operations for public safety and library projects. As a result of the strong residential growth, the average home value has increased from \$153,696 in 2017 to \$167,188 in 2018, an 8.8% increase.

Many of the additions to the San Marcos budget over the past several years will help transform it into one of the most beautiful, clean and well-maintained cities in the central Texas corridor. One of the additions adopted by City Council in fiscal year 2016 is the Community Enhancement Fee, which provides a funding source for enhancements to existing beautification programs and new neighborhood, downtown, and citywide projects.

The Water/Wastewater Utility is continuing to move forward to secure the future water supply for the next 50 years. Rates have been increased steadily, in small annual increments, over the past 5 years in preparation for this project. The first phase of the project of building a water line between Kyle, Buda and San Marcos is under construction and the second phase will begin in fiscal year 2019.

San Marcos has experienced repeated flooding over the last several years. Flood mitigation projects have been identified but the City lacked funding under the current rate structure in the Drainage Utility. The City was awarded \$32.2 million in Community Development Block Grant-Disaster Recovery (CDBG-DR) funding to fund selected projects and for use in community and housing needs. Six infrastructure projects have been identified and approved for funding by City Council. These projects will be completed over the next five years. In addition to the CDBG-DR funding, City Council increased the Drainage Utility rate 15% to provide funding for additional drainage/storm water projects across the City.

We believe the adopted budget reflects a fiscally responsible approach that allows the City to improve the current infrastructure and meets growth demands while maintaining the City's strong financial position. This budget ensures the quality services our citizens expect and focus the resources necessary to meet the demands of future growth and development while maintaining an affordable cost of services. This budget was created with guidance and input from the City Council on behalf of the Citizens of San Marcos. We feel this budget and the policies that guide it will make San Marcos sustainable for many years into the future.

Respectfully submitted,

Bert Lumbreras
City Manager

Executive Summary

The fiscal year 2018 proposed budget totals \$214,149,795 and meets the highest standards in budgeting as expected by the community and City Council. The budget represents a partnership between City Council and staff responding to the Council’s vision for the community. The budget contains financial summaries, missions, objectives, accomplishments, plans for achievement, and program outlines that invoke our commitment to using best business practices in providing quality services to our citizenry.

Staff used the City Council’s Budget Policy Statement and Goals as a guide for developing the Adopted budget. The Executive Summary explains the key choices and decisions made during the budget process to meet the priorities and guidelines established by City Council for the major City funds.

Budget Overview

The adopted budget of \$214,149,795 is an increase of \$22.7 million or 11.9% from the adopted fiscal year 2017 budget. Increases in recurring expenses are attributable to numerous issues related to contract obligations in water and electric supply agreements, CPI adjustments to existing contracts, commitments to adopted merit increases increased health insurance costs, economic development agreements, and additional adopted personnel as well as debt service increases. The decrease in one-time expenses is primarily related to the reduction in the transfer in capital reserves in the utility funds.

2017/2018 Annual Budget Expense Summary

	FY 2017 Original Budget	FY 2018 Adopted Budget	Dollar Change	Percent Change
General Fund	65,905,990	73,277,859	7,371,869	11.19%
Debt Service Fund	13,285,457	17,393,311	4,107,855	30.92%
Special Revenue Funds	10,005,249	10,574,294	569,045	5.69%
Permanent Funds	-	-	-	0.00%
Enterprise Funds	104,614,952	112,808,152	8,193,200	7.83%
Total	193,811,647	214,053,615	20,241,968	10.44%

2017/2018 Annual Budget Revenue Summary

	FY 2017	FY 2018		
	Original	Adopted	Dollar	Percent
	Budget	Budget	Change	Change
General Fund	63,244,026	71,380,286	8,136,261	12.86%
Debt Service Fund	13,804,890	18,903,349	5,098,459	36.93%
Special Revenue Funds	8,707,984	9,550,409	842,424	9.67%
Permanent Funds	6,000	4,000	(2,000)	-33.33%
Proprietary Funds	105,668,625	114,311,751	8,643,126	8.18%
Total	191,431,525	214,149,795	22,718,270	11.87%

Fund Balances

A healthy fund balance represents sound fiscal management and measures our capacity to sustain current and future operations. Overall, the budget will bring our fund balances to a total of \$50.3 million, or 23.5% of total expenses. The percentage in 2017 was 24.8%. The change in Fund Balance is primarily due to increased budgeted expenses. The budget continues our commitment of maintaining appropriate fund balances while meeting City Council priorities. These fund balances can be used toward:

- One-time emergency expenses
- Counter-cyclical reserves to minimize the effects of an economic downturn
- Ensuring financial security in the event of a disaster
- Bond rating and creditworthy assessments
- Other one-time expenses such as economic development incentives

2017/2018 Annual Budget Fund Balance Summary

	Actual	Approved	Revised	Adopted
	FY 2015-16	FY 2016-17	FY 2016-17	FY 2017-18
Beginning Fund Balance	46,779,857	49,805,526	49,805,526	50,170,667
Total Revenues	180,711,745	191,431,525	187,670,912	214,149,795
Total Funds Available	227,491,602	241,237,051	237,476,438	264,320,463
Total Expenses	177,686,076	193,811,647	187,305,770	214,053,615
Ending Fund Balance	49,805,526	47,425,404	50,170,667	50,266,848
Percentage	28.03%	24.47%	26.79%	23.48%

General Fund

Revenues

Property Tax-The property tax rate is proposed to increase from 53.02 cents per \$100 valuation to 61.39 cents per \$100 valuation. This increase of 8.37 cents per \$100 valuation was approved by voters in the May 2017 bond election for debt service of and operational expenses for public safety and library expansion projects. The taxable property base increased by \$506.6M and new improvements were \$156.3M of that total. This budget will raise \$5.5M more in total property tax revenue than last year's budget, and of that \$960K is due to new construction.

Sales Tax-The sales tax revenue of \$32.0M includes a 2% increase to the base sales taxes (\$356K), 1% increase to the sales taxes attributed to the Tanger and Prime Outlet Malls (\$90K), and 75% of the anticipated revenues generated by the new Best Buy Call Center located in San Marcos (\$4.7M).

Franchise Fees-Franchise fee revenue includes revenue produced by the increase from 7% to 8% in the franchise fees collected from the City owned electric and water/wastewater utilities.

All Other Revenues-All fees will be increased by the annual CPI calculated at 1% for FY19. Cost of service studies are in progress for fees charged by Marshal's Office, Code Compliance, Animal Services, and Police. These results will be brought back after budget adoption and any fee changes will be adopted separately.

Expenses

Expenses were increased by \$7.8M for required operating expenses including:

- Year 3 of Meet and Confer contract
- 5% increase for Health Insurance
- 4% FY18 Merit/COLA increase and full year of FY17 increase
- Software Maintenance increases
- Facility Maintenance increase
- EMS annual funding increase
- Annual contracted services increases
- Police Public Outreach funding
- Economic development incentive increases including \$4.6M for Best Buy sales tax rebate and \$876 for the Amazon 380 agreement

New expenses included:

- Fire GIS Data Analyst (partially funded through existing budget)
- Reclass of HR intern position to a full time position
- Body Cameras for Animal Control officer, Bailiffs, Code Compliance officer, and Park Rangers
- Increase to budgeted personnel costs for Park Rangers

All other expenses remained flat.

Electric Fund

Revenues

The current year rate modeling does not indicate a need for any rate adjustment so no rate adjustment is recommended by the Citizens Utility Advisory Board (CUAB) for the electric rates. Revenues are budgeted based on system and customer anticipated growth and historical trends.

Expenses

The current rate supports the addition of \$753,800 in operating expenses and \$419,000 in capital expenses including:

- Engineering Tech I
- Inventory Technician
- Additional tree trimming services
- Pole attachment and health assessment survey
- Professional services to augment Engineering staff
- Integration services of OMS, SCADA, Milsoft, and CAD
- Professional Services for Electric Utility construction standard update
- Line locating services
- Professional Services for transformer testing for CT metered accounts
- Strava Metro data services
- Lineman's College Metering Course
- 45 foot material handling bucket truck
- 12 foot dump trailer
- URD Cable pulling machine
- Lecia Viva GS16

Expenses also include an increase from 7% to 8% in the franchise fee paid to the General Fund.

Water/Wastewater Fund

Revenues

The current year rate modeling indicates a need for a 5% rate adjustment for Water and a 2% rate adjustment for Wastewater. This rate adjustment is recommended by the Citizens Utility Advisory Board (CUAB) and is consistent with the anticipated small steady increase in rate to support efforts to secure future water supplies through the year 2060 as a member of Alliance Regional Water Authority (ARWA), formally Hays Caldwell Public Utility Authority. Revenues are budgeted based on system and customer anticipated growth and historical trends.

Expenses

The current rate supports the addition of \$376,000 in operating expenses and \$310,000 in capital expenses including:

- Cross Connection Control BFP Tech
- Water Quality Technician
- EPA Mandated water sampling
- AMI Supplies, Meter Supplies
- Contracted services for capping two wells at the Oakridge Tank Site
- Backhoe
- Rubber Track Excavator
- Vac-Hunter hydro excavator replacement skid
- ISCO flow meter replacement

Expenses also include an increase from 7% to 8% in the franchise fee paid to the General Fund.

Drainage Fund

Revenues

The current year rate modeling indicates a need for a 15% rate adjustment to support needed capital improvement projects. Projects totaling \$66.1M have been identified as needed over the next 5 years to properly handle the storm water drainage in the City. A 15% rate adjustment each year for the next 5 years is needed to properly fund these projects. Revenues are budgeted based on system and customer anticipated growth and historical trends.

Expenses

The proposed rate supports the addition of \$317,200 in operating expenses and \$49,000 in capital expenses including:

- Drainage maintenance Operator I
- Drainage Engineer to support the CIP program
- Citywide chemical waste collection and disposal
- Citywide SPCC plan
- Increase in several line items including herbicide, supplies, and vehicle maintenance
- Replacement vehicle to support the herbicide program
- Dump trailer
- High velocity nozzles

Hotel Motel Fund

Revenues

Revenues are budgeted to increase \$59,200 from the FY17 budget. The City has added a total of 655 hotel rooms over the last 5 years and anticipates the addition of another 262 in fiscal year 2018. Of the total \$4.1M in revenue collected, \$1.7M is dedicated to the debt service for the debt issued for the construction of the City of San Marcos Conference Center.

Expenses

Expenses totaling \$4.2M are relatively flat with a reduction of \$430K. This reduction is primarily due to the one time fund budgeted for replacement of the lighting at the Ramon Lucio Baseball fields in FY17.

Budget Discussion

Employee Medical Plan

The City's Employee Medical Plan benefits are provided through a self-funded arrangement that utilizes a plan administrator and obtains insurance for excess claims. The plan is funded by the contributions of the City and City employees. For many years the medical plan operated with minimal rate increases. During fiscal years 2012 and 2013 the plan experienced significant cost increases. As a result of these increases, a large portion of the funds reserves were used and the City directly contributed \$400,000 to the fund. As a result of these, steps have been taken to address the long term viability of the plan including:

- Contracting with an employee benefits consultant to assist in managing the plan and responding to the impact of National Healthcare.
- Completed a market analysis to compare benefit levels and identify changes in benefit and contribution levels within the plan which will continue to be competitive and support attracting and retaining a quality workforce. The City engaged employees during the process through a survey and focus groups.
- Implemented benefit changes, employee contributions and a revised rate structure to provide an incentive for participation in a new "Well Life Program". The goal of the well life program is to educate and engage employees in their health for the long term viability of providing a cost effective medical plan.

As a result of these initiatives along with the continued education of employees about their benefits, the health plan reserves are being rebuilt and the premium increases for fiscal years 2015 and 2016 were limited to 5% and fiscal year 2017 was increased to 7%. For fiscal year 2018, analysis showed a 5% premium increase was sufficient to continue building the reserves and properly fund the continuing expenses of the fund.

Police and Fire Meet and Confer

The Meet and Confer process is established through the Texas Local Government Code, Chapter 142, Subchapters B & C, which establish the manner by which a municipality with a population of 50,000 or more and its Police and Fire Associations can discuss wages, hours of employment and other working conditions. This process provides an opportunity to pre-empt state statutes. On February 7, 2006 the City Council approved the San Marcos Police Officers’ Association and the San Marco Professional Fire Fighters’ Association petitions to become the sole and exclusive bargaining agent for the City of San Marcos Police Officers and Fire Fighters.

The first negotiation between the City and Associations was in 2009 and resulted in three year agreements with each Association effective October 1, 2009 through September 30, 2012. The City completed negotiations in fiscal year 2015 to develop the third agreement with each Association effective October 1, 2015 through September 30, 2018. The budget includes an amount of \$532,570 to fund the third year of the agreement.

Compensation Program

During Fiscal Year 2012, the City of San Marcos contracted with an independent human resource consulting firm to conduct an extensive compensation and classification study. The analysis was layered with various levels of criteria including job descriptions, market variance, job classifications/grades as well as pay for performance, which is traditionally a goal of City Council. The results of that study showed that overall the City of San Marcos non-civil service employees were paid close to market averages with approximately fifty percent of City staff falling below market and fifty percent above market, thus making us competitive overall. The compensation program for fiscal years 2013 thru 2016 made adjustments to those employees falling below market while still rewarding outstanding employees through an evaluation based merit program. In fiscal year 2017, the City will conduct another compensation and classification study to evaluate the current market environment and make sure that the City continues to attract and retain quality employees.

The following chart shows the cost of the compensation program by fund.

COMPENSATION PROGRAM INCREASE BY FUND					
	2014**	2015**	2016**	2017**	2018**
General Fund Non-Civil Service	\$302,500	\$406,800	\$413,734	\$443,850	\$465,830
General Fund Civil Service	140,000	107,500	1,000,000	397,000	532,570
Water/ Wastewater	44,300	62,400	60,183	71,490	79,650
Electric Utility	58,000	86,200	83,145	89,542	96,950
Drainage	3,000	3,100	9,992	7,920	10,950
Resource Recovery		2,432	2,160	2,973	5,390
WIC	26,000	26,400	22,829	23,538	25,200
Main Street/CVB	2,300	2,870	2,554	3,293	13,850
Transit	295	1,436	1,942	2,040	2,200
TOTAL	\$576,395	\$699,138	\$1,596,539	\$1,041,646	\$1,232,590
**Non-civil service increases given in April-6 months of expense					

New Personnel

IT Support Analysis

As the City grows, so does the technology needs. The addition of this position will add a third Business Analyst to help with the advancement of the IT Department's technology and project management of the active and pending projects across the City. This position is partially funded through existing contracted services budget.

Human Resources Assistant

With the addition of new positions over the last several fiscal years, the demand on HR has increased. This reclass of an intern position to a full time position will help increase the efficiency of the new hire process including maintain job descriptions, posting vacant positions, and onboarding of new employees.

Fire GIS Analyst

As GIS services and technology in the fire service continue to expand, there is an ever-expanding need for data, maps, and analysis. Firefighters are relying more heavily on technology today than ever before. From the time the 9-1-1 call is placed, there is technology available to help protect not only our citizens, but our first responders as well. This position will be dedicated to keeping these systems up and running, while also performing the data analytics necessary to ensure the department meet best practices. This position is primarily funded by reclassifying an existing fire fighter position to this new function.

Fire Battalion Chief Aid

This will convert three Driver/Engineer positions that serve as Battalion Chief Aids to Captain. This reclassification will greatly improve firefighter safety by always having the same Captain who drives for the Battalion Chief act as the Battalion Chief when they are off. It will also reduce overtime expenses associated with hiring back a Battalion Chief to fill that position when the regular Battalion Chief is off. This change is funded through existing overtime budget.

Public Services Inventory Tech

Currently there is only one inventory control technician assigned to each division of Public Services (W/WW, Electric, & Transportation). If one of these three employees is out for any reason (vacation, sick leave, training, etc.) there is no one to cover the position leaving a storeroom unattended. This additional position would act as a floater between the three storerooms providing additional support to the department, improving control of the inventory and insuring consistent assistance in the storerooms.

Water Quality Tech

This position will help maintain compliance with new and revised EPA and TCEQ regulatory requirements that went into effect in March 2017. The Water Quality Section is currently responsible for annually collecting approximately 6,000 public drinking water and wastewater samples required by the EPA and TCEQ. Due to the expanding economic and population growth in the City, the EPA and TCEQ is requiring additional sampling for regulatory compliance. The Water Quality Division will be responsible for complying with a TCEQ mandated workload increase (>20% more drinking water samples collected and reviewed for regulatory compliance) that is not currently sustainable at the present staffing level).

Cross Connection Control BFP Tech

BFP devices in the City have increased by 37% in the last two years primarily due to growth in commercial businesses and irrigation systems requirements. This tech position will have knowledge of State Plumbing Codes, State Fire Codes, and TCEQ 290 Rules. The potential contamination hazards controlled by BFP are up to 7780, an increase of 33% from 2015. Device test notifications and site surveys have increased to 1,500 since 2016. These job duties are currently being conducted by the W/WW Utility Coordinator and there is no backup to this position.

Electric Engineering Tech

The existing Electrical Engineering Department technicians will be eligible to retire in the near future and there is no existing program to provide for future technicians. This position will provide an entry level engineering technician to work with senior electrical engineering technicians to learn about SMEU, how to design and estimate cost of installations, the limits of the SMEU service areas, and how to use GIS mapping Systems. The demands placed on the engineering technicians has steadily increased as they support distribution construction and other departments. The requirements of GIS mapping, Maximo work orders, material management, and other programs require more highly technical inputs from the engineering technicians.

Senior Engineer-Drainage

The City has experienced several flooding events over the past several years and as a result, the number of drainage CIP projects to mitigate flooding has increased. The current staffing levels in Engineering is unable to support and manage these additional projects. This position will be dedicated to supporting and managing these drainage projects.

Drainage Equipment Operator I

As additional storm water infrastructure is installed in San Marcos additional maintenance staff are required to maintain and keep system functioning. Maintenance of storm drain system includes gray infrastructure such as underground storm sewer pipe and related inlets, detention ponds, concrete channels. Maintenance also includes green infrastructure such as rain gardens, bio-retention ponds, sand filters, and in-ground water quality devices.

Resource Recovery Specialist

Resource Recovery programs have increased within the past 3 years. Staff is conducting a city-wide cart audit, attending more events, and has identified the need for more outreach to multifamily apartments for education to lessen contamination. The position will assist the Community Enhancement Initiatives Manager with programs and educational outreach for the Resource Recovery division

Communication Enhancement Specialist

As the Community Enhancement and Beautification activities have increased, so has the need for assistance with these activities. This position is reclassified from a part time to a full time position to assist the Community Enhancement Initiatives Manager in research and development of programs for the Community Enhancement Fee, and assist with the Keep San Marcos Beautiful program, Adopt a Spot, and events.

City Beautification

In recent years the City conducted several a citizen satisfaction surveys that compared the City of San Marcos to regional and national standards across America. The results of several of the studies indicated that the citizens of community are concerned with the overall beautification of the City. Over the past few budget cycles, the City has appropriated funds to ensure that this concern is addressed. This includes: funding to increase the frequency of mowing within city parks and rights of way; additional street sweeping; graffiti removal; business sign and façade enhancement programs; art mural programs. Capital Improvement enhancement projects such as: IH35 underpass lighting; entryway beautification; park improvements. Sidewalks and streets are receiving attention with an increase in the street maintenance budget of over \$1.2 million over the last 4 years and the addition of two dedicated sidewalk crews to maintain and enhance the walkability of the City.

In fiscal year 2016 the City Council approved the Clean Enhancement fee that provides a source of additional funding for continuing and one-time projects, programs, education and enhanced services. This monthly fee is set at \$1.00 per household and \$5.00 per business that receive any of the City's utilities and is expected to generate \$410,000 in revenue for fiscal year 2018.

Economic Development and Small Business Development

This year's budget allocates \$375,000 for economic and small business development along with \$214,000 for legislative representation with the expense being shared equally between the General Fund, Water/Wastewater Fund, and Electric Fund since development benefits all funds. The City also has budgeted \$200,000 each fiscal year since 2015 to establish an economic war chest that could be used to replicate 4A/4B funding in order to potentially attract a prospective new employer in future years. City staff has created an incentive policy which outlines how these funds can potentially be used.

Social Services

City Council budgeted social service program funding from the general fund for fiscal year 2018 at \$450,000. The Human Services Advisory Board (HSAB) is tasked with developing a recommendation for distributing the social service program allotment to the various social service agencies operating within San Marcos. The HSAB implemented an appeals process in Fiscal Year 2007.

Hotel Occupancy Tax Fund

In Fiscal Year 2008, voters adopted a 2% venue tax to be implemented in the Hotel/Motel Fund to help offset debt payments associated with the City of San Marcos Conference Center. Revenues collected from the Embassy Suites Hotel along with the 2% venue tax are restricted for the debt service related to the City's Conference Center which opened November 2009. The Conference Center has performed well and has exceeded revenue projections. In fiscal year 2014 a portion of the bonds issued for the conference center were refunded and the City was able to apply \$3.5 million of the excess hotel occupancy tax and venue tax collections against the debt principal lowering the debt service payments. If collections continue at the current pace, the City will be able to pay off the bonds several years early.

In fiscal year 2017, the Convention and Visitors Bureau (CVB) was brought into the City as a city

department. The CVB has been part of the Chamber of Commerce’s organization, but the City has provided the majority of the funding for the operations through the Hotel Motel Tax Fund. During City Council Visioning for fiscal year 2017, Council directed staff to begin negotiations to bring the CVB organization into the City as a city department. The integration of the CVB into the City as a City department was effective October 1, 2016.

Capital Outlay

In fiscal year 2016 the City began a program of leasing light duty fleet vehicles for the General Fund using a five year replacement cycle. This program was expanded to all funds in fiscal year 2017. The City expects to realize savings through reduced maintenance cost and improved fuel efficiency as a result of replacing older vehicles in the fleet.

The funding for capital outlay in the General Fund has increased incrementally over the last few fiscal years in an effort to build funding to an appropriate level with \$1,900,000 budgeted in fiscal year 2017 for existing positions and facilities. Incremental increases to the current funding has allowed the City to continue catching up on a backlog of equipment and vehicle replacements, technology infrastructure and other one-time expenses and to maintain a timely replacement schedule going forward. In fiscal year 2018 the funding level was temporarily reduced to \$1,600,000 to create more capacity in the General Fund operating budget. Prior years’ savings in the capital outlay budget will be used to fund the gap created by the reduction.

In the Water/Wastewater Utility, \$597,700 is allocated for replacement of equipment, software and vehicles, including existing equipment financing, \$276,000 for recurring expenses related to meters, and \$50,000 for technology related projects. In the Electric Utility, \$609,300 is allocated for replacement of equipment and vehicles, \$650,000 for recurring expenses related to transformers, meters, and customer extensions, and \$50,000 for technology related projects.

Cash Funded Capital Maintenance

The fiscal year 2018 budget continues to allocate amounts into the Cash-Financed Capital Funds for Information Technology, Parks Improvements, and Facility Improvements. These funds are budgeted annually as one-time expenses and are funded if revenues allow. These funds will be used to finance capital projects in these areas through cash funds instead of bond funding.

The Cash-Financed Capital Funds provide a funding source for capital projects such as:

- Non-routine infrastructure improvements
- Continuing Technology infrastructure upgrades and improvements
- Street rehabilitation and maintenance projects
- Park improvements, rehabilitation, and acquisition

The capital funds along with other one-time expenses are listed below:

• Routine Capital Outlay-Parks	\$ 50,000
• Routine Capital Outlay-Police	\$ 50,000
• Routine Capital Outlay-Fire	\$ 50,000
• Capital Outlay	\$1,600,000
• Library Books	\$ 142,725

- Building Capital Maintenance \$ 200,000
- Parks Capital Maintenance \$ 200,000
- Technology Capital Maintenance \$ 200,000

Capital Improvements Program – Certificate of Obligation Projects

For the 2018 budget, projects were submitted by all departments and prioritized. Staff vetted all projects and totals were constrained to maintain the City’s 50/50 debt to operations ratio. The compiled projects were then presented to Planning and Zoning Committee. Planning and Zoning made their recommendations and the recommended projects were taken to the City Council for approval. The total planned total CIP by fund is as follows:

Capital Improvements Program

	FY 2018	FY 2019	FY 2020	Total
General Fund	16,270,000	25,639,000	28,570,000	\$70,479,000
Water/Wastewater Fund	14,954,500	46,835,000	21,965,000	\$83,754,500
Drainage Fund	10,075,000	11,225,000	19,450,000	\$40,750,000
Electric Fund	9,995,000	8,401,179	12,503,247	\$30,899,426
Total Projects	51,294,500	92,100,179	82,488,247	225,882,926

May 2017 Bond Election

In May 2017 voters approved a \$32M bond package for public safety and library expansion. The projects include the Police Facility renovation, construction of a Fire Training Field, relocation of Fire Station #2, construction of a new Fire Station #8, and expansion of the Library. The total tax rate impact for construction of and operational expense for the projects was 8.37 cents. City Council chose to increase the full amount for fiscal year 2018. The initial debt issuance will occur in spring of 2018. Revenues generated by the debt service portion of 4.60 cents will be used to pay future bond debt. The revenues generated by the operations portion of 3.77 cents will be held in reserve as a contingency for the projects. The projects are expected to be completed within 5 years.

Fund Balances

In the Budget Policy Statement, the City Council directed that the Water/ Wastewater Utility and General Fund meet a fund balance level of at least 25%. The Electric Utility is building fund balance to be the equivalent of 60 days of operating expenses including the cost of purchase power. Previously, the Electric Utility maintained funds equivalent to 25% of operating expenses excluding purchase power. During a ratings review with Standard and Poor’s, the agency felt the inclusion of purchase power in the calculation was more appropriate and the City has changed the methodology. These percentages indicate what percentage of annual recurring operation expenses are maintained in the fund balance, or reserve, of each fund. This goal was established to provide a minimum of three months operating capital for each of the major funds.

Individual Fund Discussion

The General Fund

The General Fund is the primary operating fund for the City. It is viewed as the general government fund and accounts for most of the City's financial resources, except for resources required to be accounted for in other funds.

Revenues

Revenue forecasting is a complex and difficult task that involves collecting historical data, researching economic data, and formulating forecasting assumptions. At a minimum, ten years of historical data are compiled and analyzed as part of the forecasting procedure. Qualitative and quantitative forecasting techniques such as consensus forecasting, expert forecasting and trend analysis are utilized when preparing revenue estimates. In some cases, more than one technique is used to predict revenues for the next fiscal year. Expert forecasting is perhaps the most useful technique because it relies on extensive technical knowledge of the economic activity that generates the revenue and is sensitive to changes in the national, regional, and local economies.

This method is quite useful for the City because a significant amount of our sales tax base is generated through retail sales from the Prime and Tanger Outlet Malls. The General Fund receives revenues from a variety of sources, including taxes, licenses and permits, fines and penalties, interest income, other agencies, service fees, and transfers for indirect costs. Revenue projections are based on a variety of factors such as the economy, historical collections, known changes that will occur, and growth factors. In all events, conservative estimates are used.

2017/2018 Annual Budget General Fund Revenue Summary

	Actual FY 2015-2016	Revised FY 2016-17	Adopted FY 2017-18	Percent of Total
Ad Valorem Tax	11,892,702	13,334,509	15,918,827	22.30%
Sales Tax	28,429,649	27,250,186	32,002,025	44.83%
Franchise Fees - City	5,897,290	6,244,977	7,763,206	10.88%
Franchise Fees - Other	1,388,041	1,422,335	1,449,869	2.03%
Other Taxes	679,699	754,716	783,999	1.10%
Licenses and Permits	2,100,716	2,900,427	2,856,423	4.00%
Fines and Penalties	1,419,472	1,651,195	1,742,457	2.44%
Interest Income	142,388	114,000	134,000	0.19%
Cultural and Recreational	727,269	762,454	815,242	1.14%
Other Agencies	473,363	483,169	457,764	0.64%
Current Services	603,191	778,635	764,093	1.07%
Other Revenue	1,016,700	962,982	903,267	1.27%
Reimbursements from Other Funds	4,712,476	5,165,441	5,789,115	8.11%
Total	59,482,956	61,825,026	71,380,286	100.00%

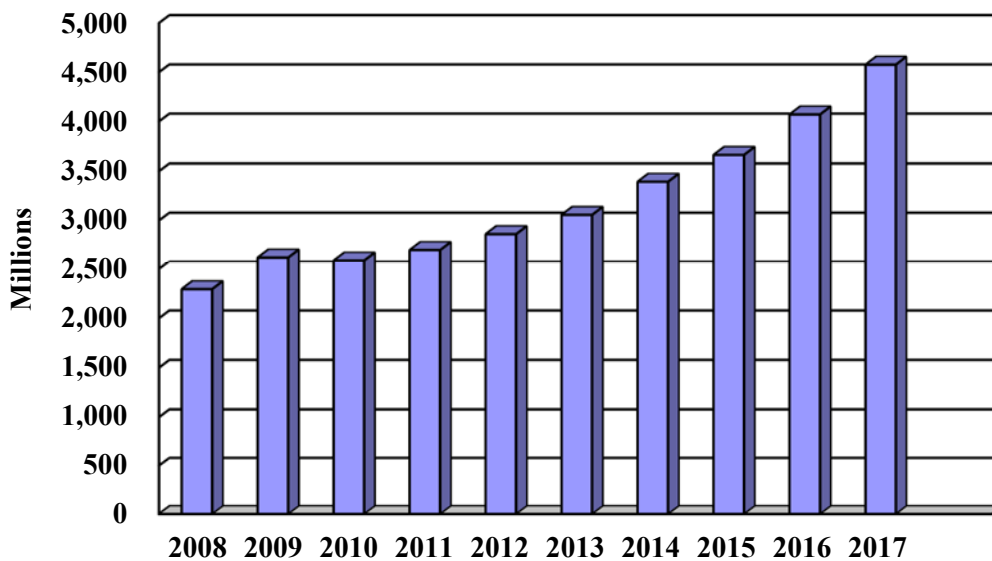
Ad Valorem Tax

In the budget, property taxes represent 22.3% of total General Fund revenue. Property taxes are based on the assessed value of land, buildings and structures in the City as appraised by the Hays, Guadalupe, and Caldwell County Appraisal Districts. Certified assessed values in San Marcos are estimated at \$4.6 billion an increase of 11% above the previous tax year assessed values. The City has experienced rapid growth over the last few years and expects this trend to continue. As a result of this growth, the City was named as the Fastest Growing City three years running but was unseated by several surrounding cities in 2016. A 98.0% current tax collection rate and a 2.0% delinquent tax collection rate are assumed for the budget. Revenue forecasting techniques are not used with the ad valorem tax, as the revenue is relatively simple to calculate. The calculation for ad valorem tax revenue is based on the certified assessed value using the tax rate.

The adopted property tax rate for 2018 is 61.39 cents per \$100 valuation. This is an increase of 8.37 cents from the prior fiscal year tax rate of 53.02 This increase was approved by voters in May 2017 for the construction of and operating expense for public safety and library facilities. The operations and maintenance tax rate will pay operations and maintenance (O&M) costs in the General Fund, producing revenues of \$15.9 million. The debt service rate is allocated to repay tax supported debt in the Debt Service Fund. The debt service revenue of \$11.5 million will be used to pay long-term debt. One-cent of the property tax rate will generate \$457,734 in revenue.

Historically, property taxes represent a relatively stable source of revenue for the City. In general, property tax revenues tend to increase and are not subject to dramatic shifts in the economy. There was a slight decline in tax year 2010 of 1.2%. The City’s property tax base has grown consistently since the decline in 2010 and due to the current economic climate this trend should continue.

10-Year Appraisal Roll History (Property Tax Year)



Sales Taxes

Sales taxes represent 44.8% of total General Fund revenue projected for fiscal year 2018. Sales tax receipts are the largest single revenue source supporting general governmental services in San Marcos. Consistent retail sales have kept this revenue stream steady for the past several years. When comparing historical sales tax collections by segment, the percentage represented by retail collections has decreased while other segments have increased, indicating a small diversification in the sales taxes produced in the City. It is important to note that sales tax revenues are a volatile funding source and are subject to shifts in local, state and national economies. Our reliance on this revenue source is approached with caution.

The City’s adopted Financial Policy utilizes conservative forecast guidelines for projecting budgetary sales tax estimates. The following illustration shows the actual percentage increase for the most recently completed fiscal year (2016).

FY 2015 Actual	FY 2016 Actual	Percentage Increase
\$25,876,300	\$28,429,630	9.9%

The current financial policy states that the estimated percentage increase in sales tax revenue may not exceed the actual percentage increase of the most recently completed fiscal year that resulted in a positive increase. The previous financial policy was revised in 2011 to account for those years when a decrease in sales tax occurs within the City, as was the case in 2009 when sales taxes decreased by 1.95%. Per the budget policy statement that was adopted by City Council, an estimate of 3% increase in base sales tax, 1% increase in sales taxes from the outlet malls, and 75% of the sales taxes expected to be generated by the new Best Buy call center was used along with the adjustments for known one time collections to estimate the \$32.0 million in 2018. The fiscal year 2017 collections are below the fiscal year 2016 collections due to significant one-time revenue generated by the construction and purchase of construction materials and robotics for the Amazon Distribution Center in fiscal year 2016.

As sales taxes represent 44.8% of the total General Fund revenues, they represent the greatest single source of revenue for the General Fund. Any excess collection above the fiscal year 2018 estimate goes directly into General Fund balance or the budget can be amended to allocate these amounts. The City Council has entered into a performance based 380 economic development agreements which include sales tax and/or property tax rebates with several businesses including HEB for construction of additional warehouse space and job creation, CTMC for facility expansion and related job creation, Humpty Dumpty LTD for the Springtown Shopping Center redevelopment, Tanger Properties for improvements at the Tanger Outlet Mall, Amazon.com for the construction and operations of a distribution center, and anticipate more as the City continues to grow and attract quality businesses.

A new 380 agreement in effect this year with Best Buy for sales tax revenues generated by the call center located in San Marcos. The City agrees to rebate 75% of sales tax revenues generated by the call center. The budget contains the revenue and related rebate expense for 75% of the forecasted revenues, but it does not contain budget for the 25% of the revenue the City will retain. As these revenues are recognized, budget amendments will be taken to City Council to fund

priority items discussed during budget workshops.

The City of San Marcos collects one and one-half cents on every dollar spent on taxable goods and services within the City limits. The State of Texas allows home rule cities like San Marcos to adopt a one-cent sales tax to support general governmental services. Local voters authorized another half-cent in 1987 dedicated solely to the reduction of property taxes. The one and one half cents collected by the City represents the maximum we may adopt.

10-Year Sales Tax Collection History			
Fiscal Year	Annual Collection	Percentage Increase	
2007	17,405,977	7.2	%
2008	18,347,135	5.4	%
2009	17,989,392	-1.9	%
2010	18,398,707	2.3	%
2011	19,854,399	7.9	%
2012	21,079,582	4.2	%
2013	22,852,364	8.4	%
2014	24,020,618	5.1	%
2015	25,876,302	8.3	%
2016	28,429,630	9.9	%
*2017	27,364,449	(5.2)	%

*Estimated

The half-cent sales tax alone is expected to generate \$10,667,350 in the next fiscal year, a sum that is equivalent to 23.62 cents on the property tax rate. Without the half-cent sales tax dedicated to property tax reduction, the City’s ad valorem tax rate would have to be 23.30 cents more, or 84.69 cents per \$100 of assessed value, to support the programs and services provided to San Marcos residents. Sales tax revenue, much of it generated by tourists and non-residents, represent significant savings to property taxpayers in San Marcos. Sales taxes are a primary source of funds for many vital services ranging from police and fire protection, to parks and recreation, library, environmental services, planning, and much more. The reliance on sales tax revenues requires vigilant monitoring of our revenue sources to assure they will keep pace with the demands and the rising costs of operating a complex municipal government.

Franchise Fees

The General Fund receives revenues from franchise fees paid by public and private utilities which use City streets, alleys and rights-of-way for their utility lines and mains. Franchise revenues are budgeted at \$9.2 million, or 12.9% of total General Fund revenues. The majority of this revenue source, \$7.8 million, is generated through electric, water and wastewater utility franchise fees paid from City-owned utilities. Historically, the City of San Marcos has assessed a 9% franchise fee on gross water, wastewater and electric utility revenue. In fiscal year 2012 as part of the Sound Finances initiative, City Council moved to lower the franchise fees collected from city utilities from 9% to 7% over a four year period. The 7% for Water/Wastewater was achieved in fiscal year 2013, two years ahead of schedule and the 7% for Electric as achieved in fiscal year 2015. The move to lower franchise fees helps reduce some pressure on the utility rates in future years. City Council temporarily raised the franchise fees to 9% for fiscal year 2018.

The remaining portion of franchise fees, \$1.5 million, is collected from telephone, cable and gas utility companies operating within the jurisdictional limits of the City. These smaller franchise fees are estimated through the conservative forecasting technique. This conventional technique assumes that historic collections will remain constant and that the revenue source is stable. Several outside entity franchise agreements were renegotiated in 2010 and several more agreements expire in future years. City staff will be examining other providers to ensure that all agreements are consistent and in the best interest of the City.

Licenses and Permits

Licenses and permits represent the various fees collected for such activities as construction, plumbing, electrical, development and food service operation. Various permits such as building, mechanical, plumbing, zoning, site development, food handler, moving and alarm permits are required for business operation. These monies are used to fund the operating costs of functions associated with enforcing codes and building regulations.

The following table depicts building permit growth over the last ten years.

10-Year Building Permit History			
Fiscal Year	Building Permit Market Value	Percentage Increase/Decrease	
2007	153,000,000	2.0	%
2008	138,000,000	-9.8	%
2009	98,000,000	-29.0	%
2010	172,000,000	75.5	%
2011	67,000,000	-61.0	%
2012	191,000,000	185.1	%
2013	255,000,000	33.5	%
2014	152,000,000	-40.4	%
2015	208,000,000	36.8	%
2016	161,000,000	-22.6	%

In fiscal year 2013, new fee structures were adopted by City Council that increased the fees associated with issuing development permits in San Marcos. A fee study is underway and revised fees will be brought to City Council for approval with the adoption of the budget. The City has experience steady growth in the past few years and have seen tremendous growth in all areas of construction including single family, commercial and especially multi-family structures. Approximately 60% of all multi-family structures constructed since 2007 have been student oriented. The fiscal year 2018 budgeted revenue from licenses and permits is \$2.9 million or 4.0% of total General Fund revenues. This amount is consistent with the previous budget growth and reflects a conservative estimate of the future commercial and residential development occurring within the City. Projections are based on an assessment of development trends in the area.

Fines and Penalties

Revenues from fines and penalties for fiscal year 2018 are budgeted at \$1.7 million, or 2.4% of

total General Fund revenues. The City once again participated in the regional warrant round-up in March 2017. Eighteen regional courts participate in the warrant round-up which gains tremendous media coverage leading to the actual round-up. In 2006, a Deputy Marshal position was added to improve the professionalism of the court operations and to further increase our collection rate and in 2010, an additional part-time Deputy Marshal position was added to further improve the City's collection efforts.

Interest Income

Total revenues from interest for fiscal year 2018 are budgeted at \$134,000 or .2% of total General Fund revenues. Anticipated interest earnings are based on market projections of interest rates, which have been at historic low rates since 2010. The current rate of return is approximately 1.2%. Some funds are invested over longer periods for a higher return and in the current fiscal year, the Investment Policy was modified to allow for 5-year investments for Reserve Funds.

Cultural and Recreational

Total revenues from cultural and recreational services for fiscal year 2018 are budgeted at \$815,200 or 1.1% of total General Fund revenues. Cultural and recreational revenue sources include library fees, and other various fees and service charges from Parks and Recreation programs and Activity Center usage fees. The program fees and service charges are dependent upon usage of City facilities and program attendance. The City operates a wide variety of recreational programs throughout the year. The City has entered into revenue participation contracts with fitness service providers that give the City 30% of gross revenues from various fitness courses taught at the Activity Center. Included in these fees is the Hays County contribution of \$80,000 per year that helps in the funding of the City Library. In fiscal year 2013 new fees were adopted by City Council that increased some of the fees charged in the library, activity center, and for the parks and recreation programs. A fee study is scheduled to be updated in fiscal year 2018 with adjusted fees adopted in fiscal year 2019.

Charges for Current Services

Total revenue from current services is estimated at \$764,000 or 1.1% of General Fund revenues. Revenues within this category include animal shelter charges, birth and death certificate fees, passport fees, various fees assessed through the Police Department such as accident report fees, and the new Clean Community Fee. The Fire Revenue rescue that began in fiscal year 2016 has been discontinued as the cost of billing and collections exceeded the amounts collected. Revenue projections are based on historical collection data. A fee study is underway and new fees will be adopted after the first of the calendar year.

Other Revenues

Other revenues includes reimbursements from other governmental agencies for various services performed by the City and from a variety of other sources that do not meet the classification requirement of other categories. The total other revenues for fiscal year 2017 is estimated at \$903,000, or 1.3% of total General Fund revenues.

The City and SMCISD are parties to a contract that calls for the school district to reimburse the City for 50% of the annual salaries and benefit costs for providing four uniformed officers within the school system. Another significant portion of this revenue source is a reimbursement received

from Texas State University-San Marcos. The University reimburses the City 50% of the cost of salary and benefits for our Habitat Conservation position. Also, the City of Kyle and Hays County participate in the City's Animal Shelter funding each year. That contribution commitment is set at \$236,309 in 2016.

The other revenues include ordinance copies, insufficient funds service charges, rebates generated from the purchase card program and sales tax discounts. Revenue assumptions for this category are based on historical collection data.

Reimbursements from Other Funds and Operating Transfers

The General Fund bears the costs for administrative services such as legal, human resources, purchasing, finance, administration, information technology, and building and equipment usage. These costs are reviewed and calculated annually by an independent firm, which then recommends the reimbursements assigned to each fund. Reimbursements from other funds represent \$5.8 million, or 8.1% of total general fund revenues.

Expenditures

The General Fund is the primary operating fund for city government. Several internal service departments, including City Manager's Office, Legal, City Clerk, City Council, Finance, Human Resources, and Technology Services, have costs allocated among the General Fund, Enterprise Funds and Special Revenue Funds, reflecting the cost of providing these services. Total General Fund expenditures for fiscal year 2018 are budgeted at \$73,277,900 a 11.2% increase from the adopted FY 2017 budget. General Fund departments include:

- **General Government** (City Manager, City Clerk, Communications, and Legal)
- **Human Resources**
- **Finance**
- **Technology Services** (Information Technology, GIS)
- **Municipal Court**
- **Development Services** (DS Admin, Planning, Permit Center, Inspections)
- **Marshal's Office** (Marshal's Office, Animal Services, Animal Shelter, Park Rangers, and Code Enforcement)
- **Fire Services**
- **Police Services**
- **Capital Improvement Department/Engineering**
- **Library**
- **Community Services** (CS Admin, Parks and Recreation, Activity Center, Grounds and Maintenance, Fleet, PARD Contracts,)
- **Public Services** (Transportation Admin, Traffic Control, and Streets)
- **General Services** (Social Services and Special Services)

2017/2018 Annual Budget
General Fund Expenditure Summary by Department

	Actual FY 2015-2016	Revised FY 2016-17	Adopted FY 2017-18	Percent of Total
General Government	2,997,016	3,153,272	3,287,976	4.49%
Human Resources	1,047,879	1,154,626	1,238,382	1.69%
Finance	1,646,070	1,717,007	1,901,227	2.59%
Municipal Court	675,163	715,163	809,564	1.10%
Technology Services	1,896,336	2,021,593	2,141,814	2.92%
Development Services	1,947,999	2,233,034	2,404,603	3.28%
Engineering	1,644,813	1,917,389	2,180,421	2.98%
Fire Services	8,452,764	8,340,611	8,916,676	12.17%
Police Services	15,176,052	14,818,301	15,925,054	21.73%
Public Services	4,659,990	4,991,560	5,251,691	7.17%
Community Services	10,367,437	11,220,243	12,068,556	16.47%
General Services	8,665,028	9,521,165	17,151,894	23.41%
Total	59,176,549	61,803,964	73,277,859	100.00%

Fund Balance

Each fund maintains a fund balance that is available to cover operating expenses in the event of revenue shortfalls or other unforeseen events. The anticipated General Fund balance at the end of fiscal year 2018 is \$15.7 million or 25.11% of expenditures. This large fund balance represents our commitment to using best business practices and conservative revenue estimates.

The Debt Service Fund

The Debt Service Fund is used to account for the debt service portion of property tax revenues received. Debt service taxes are specifically assessed for the payment of general long-term debt principal and interest. The use of a separate fund ensures that debt service tax revenues are not commingled with other revenues and not used for any purpose other than debt repayment. Debt limits regarding general obligation debt can be found within the City's Financial Policy in this document.

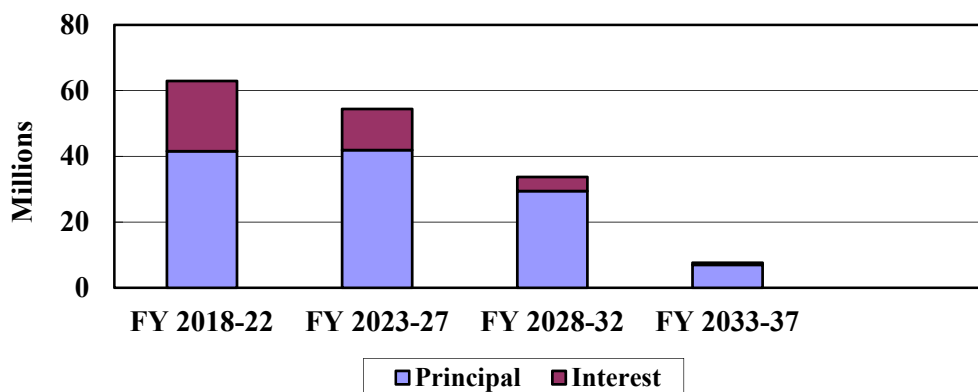
Revenues and Expenditures

Ad valorem (property) taxes provide the main revenue source for the Debt Service Fund. Of the total anticipated property tax collections, 41.57% of the revenue is allocated to debt service, while the remaining portion of 58.43% pays for operations and maintenance (O&M). This accumulated fund balance is a function of a combination of annual interest earnings, final appraisals higher than budgeted, and savings on budgeted debt service due to refunding prior debt issuances at lower interest rates. This fiscal year budget maintains a debt service percentage below 50% which was a goal of City Council as a part of the Sound Finances initiative. This percentage reached a high

of 60% in 2011 and the City has achieved and maintained this lower percentage through the deferment of debt issues in 2011 and 2012, constraining the 2013 debt issuance to \$4 million and constraining debt issuances to maintain the 50/50 ratio.

In the new fiscal year, \$0.2552 of the \$0.6139 property tax rate is dedicated to debt repayment. Principal and interest payments along with TIZ payments are budgeted at \$17.4 million but tax supported payments are budgeted at \$9.1M. The City’s total General Obligation outstanding principal debt is \$77.0 million as of September 30, 2017, including voter-authorized bond programs in elections held in 1998 and 2005, and bond refinancing every year since 2009 to take advantage of the lower interest rates. Maturity dates for individual bond issues are scheduled annually through 2037.

20-Year Principal and Interest Payment Schedule



The types of projects financed through long-term general obligation debt include major street projects, public safety facilities and equipment, library, parks and recreational facilities. Debt payments for revenue bonds which finance water, wastewater, electric and drainage projects are repaid separately through those respective enterprise funds.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of certain specific revenue sources that are legally restricted to expenditures for specified purposes. The City utilizes this type of fund to account for revenues such as hotel occupancy tax, grants, special fines authorized by the State, and forfeiture revenue from seized assets.

Hotel Occupancy Tax Fund

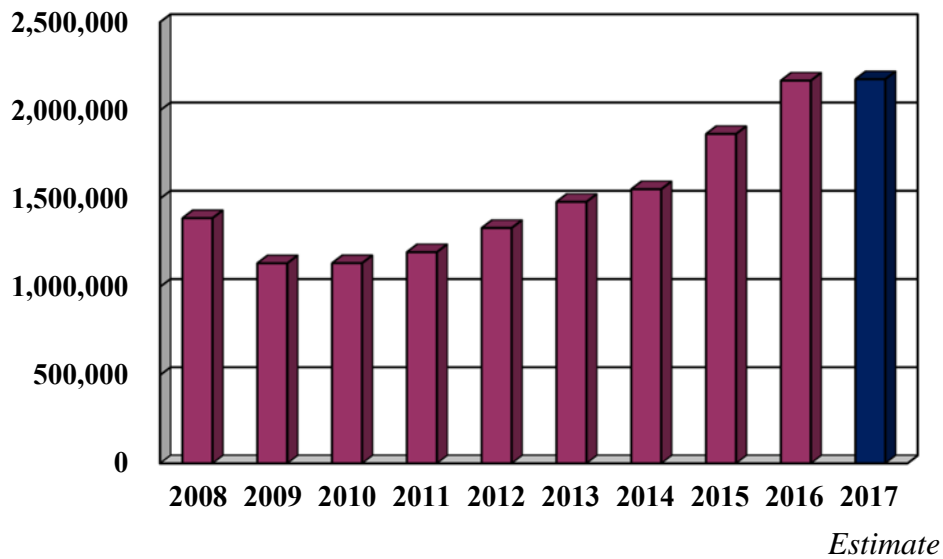
The Hotel Occupancy Tax Fund is used to account for a local bed tax of 7%. During fiscal year 2008, San Marcos residents approved an additional Venue Tax of 2% to pay for the debt related to the City’s Conference Center. Tax monies collected are used for tourist development activities in accordance with State law.

Revenues

The 9% occupancy tax is charged to occupants of rooms rented from hotels, motels and inns

located in the City. The tax is collected by owners of each facility and is remitted to the City monthly. Hotel Tax receipts received from the Embassy Suites Hotel are restricted solely for the repayment of conference center debt. Unrestricted occupancy tax revenues are budgeted at \$2.4 million which is an increase of \$175,000 from the anticipated 2017 revenue. Revenue generated by the Embassy Suites is projected to stay level. Since fiscal year 2012, 655 rooms have been added with the majority of these being branded hotels. The City expects to add an additional 262 rooms during fiscal year 2018. Even with the addition of this large number of rooms, occupancy rates have remained high and average room rates have increased.

10-Year Hotel Occupancy Tax Collection History (Fiscal Year)



Expenditures

The Hotel Occupancy Tax Fund supports tourist development activities, downtown revitalization and the arts. In fiscal year 2017, the Convention and Visitors Bureau (CVB) was brought into the City as a city department. The CVB has been part of the Chamber of Commerce's organization, but City has provided the majority of the funding for the operations through HOT funding. During City Council fiscal year 2017 Visioning, Council directed staff to bring the CVB organizations into the City as a city department. Effective October 1, 2016 the CVB is part of the City organization.

The following table depicts the revenue distribution made from hotel occupancy taxes.

Program	FY 2017 Adopted	FY 2018 Adopted
Convention & Visitors Bureau	1,531,000	1,563,000
Arts Commission	275,000	250,000
Main Street Program	320,000	366,000
Tanger Marketing Program	150,000	150,000
Conference Building Repairs	30,000	10,000
CAF Repairs	50,000	0
Tourist Account	5,000	5,000
Downtown Marketing Coop	50,000	30,000
Eco Tourism	40,000	40,000
Sports Tourism	*510,000	60,000
Mural Funding	35,000	35,000
Transportation	10,000	5,000
TOTAL	3,006,700	2,514,000

*Included \$450K in one time funding for lighting at the baseball fields

Community Development Block Grant Program Fund

In fiscal year 1994, the United States Department of Housing and Urban Development designated the City of San Marcos as an Entitlement City for the Community Development Block Grant (CDBG). The program is designed to eliminate slum and blight conditions and to serve the needs of low to moderate-income residents. New funding totals \$562,800, an increase of \$37,640 from the prior fiscal year. In fiscal year 2014 the amount awarded was less than originally estimated and awarded so a difference of \$60,000 was funded from the general fund budget. The 2014 budget was amended to award an additional \$40,000 from the general fund for programs that did not receive sufficient funding through the 2015 allocation. In this fiscal year, there is no supplemental funding appropriated in the general fund.

Women, Infants and Children (WIC) Program Fund

The Women, Infants and Children Program provides nutritional food supplements, nutritional counseling, clinical assessments, and education to pregnant women, breast-feeding mothers, infants and children up to five years of age. The City of San Marcos operates a five-county regional WIC program that is funded through the Texas Department of Health and Human Services and the United States Department of Agriculture. The budget of \$2.0 million will provide nutritional food supplements, nutritional counseling, clinical assessments, and education to pregnant women, breast-feeding mothers, infants and children up to five years of age who live in Hays, Caldwell, Comal and Guadalupe Counties. San Marcos is unique in being a municipality in Texas that

administers a multi-county regional WIC program. The entire program is reimbursed with state and federal funds.

Seized Assets Fund

This fund, established in 2001, provides budgeting and accountability for revenues collected from the sale of forfeited and seized assets belonging to various criminals engaged in certain illegal activities. Revenues from these seized assets are used to fund various technology improvements in our Police Department. These revenues are projected at \$5,000 for the fiscal year. Projections are based on historical collection assumptions. Expenditures for this fund include the annual audit of this fund and specific police projects and enhancements.

Other Special Revenue Funds

The Cemetery Operations Fund provides for maintenance and upkeep of the historic San Marcos City Cemetery. The Cemetery Operations Fund, with a budget of \$236,275 provides for maintenance of the historic San Marcos City Cemetery. The General Fund transfer is the largest source of Cemetery Operations Fund revenue. Revenues such as burial permits, monument permits, and cemetery lot sales are calculated based on the current fees and the annual estimated number of sales. The transfer from the General Fund is \$150,500 for operations and includes an additional appropriation for \$50,000 to make improvements to the cemetery and perform needed repairs.

In its 1999 legislative session, the Texas Legislature established the Municipal Court Technology Fund through Senate Bill 601 to provide a funding source to local municipal courts for future technological enhancements to their respective court systems. In response, the City of San Marcos established the Municipal Court Technology Fund to provide budgeting and accountability for the funds received through the collection of the technology fee. The revenues collected are legally restricted for making technological enhancements to the Municipal Court, which may include computer systems, networks, hardware, software, imaging systems, electronic kiosks, electronic ticket writers or docket management systems. Revenue is projected at \$30,000. Revenue estimates are based on historical trend information and follow the same assumptions as Fines & Penalties revenues within the General Fund. Expenditures for technology improvements are estimated at \$30,000.

The Municipal Court Juvenile Fee was established in 2009. This sole use of this fund is to establish a funding source for a Juvenile Case Manager position, which is now being budgeted as a full-time position and funded equally by the General Fund and the Juvenile Fee. The revenue for this fund is estimated at \$40,000.

The Municipal Court Security Fee was established to help enhance security within municipal courts. This sole use of this fund is to enhance security within the court operations. Revenue from the fund is used to wholly fund one of the Municipal Court Marshal's. The revenue for this fund is estimated at \$22,000.

The Tax Increment Reinvestment Zone #2 Blanco Vista Development Fund was established in

2010. This fund tracks property tax revenues from the City and Hays County which are specifically restricted for the repayment of debt to the developers of the Yarrington Road Overpass. The restricted property tax revenues are estimated to be \$1,298,500.

The Tax Increment Reinvestment Zone #3 Conference Center Fund was established in 2010. This fund tracks property tax revenues from the City and Hays County which are specifically restricted for the repayment of debt related to the building of the City of San Marcos Conference Center. The restricted property tax revenues are estimated to be \$219,850.

The Tax Increment Reinvestment Zone #4 Kissing Tree Development Fund was established in 2011. This fund tracks property tax revenues from the City and Hays County which are specifically restricted for the repayment of improvements to the developers. The restricted property tax revenues are estimated to be \$60,000.

The Tax Increment Reinvestment Zone #5 Downtown Fund was established in 2012. This fund tracks property tax revenues from the City and Hays County which are dedicated source of sustainable funding for downtown improvements in support of the adopted Downtown Master Plan. The restricted property tax revenues are estimated to be \$431,900.

The Transportation Reinvestment Zone #1 Loop 110 Fund was established in 2013. This fund tracks property tax revenues which are specifically restricted for the repayment of debt related to the construction of Loop 110. The restricted property tax revenues are estimated to be \$443,700.

The Transportation Investment Zone #1 Lone Star Rail Fund was established in 2013. This fund tracks property tax and sales tax revenues which are specifically restricted for the future operating expense for the Lone Star Rail. The restricted property tax revenues are estimated to be \$4,000.

Capital Improvements

The City adopts a 10 year Capital Improvements Program plan annually with the first year of the 10 year plan constrained. The CIP plan is a budgetary tool for community decision-makers and suggests a variety of possible projects and particular years in which projects might be authorized. Each year the CIP plan reflects the priorities established by the City Council in their budget policy statement. The project list for the General Fund is shown below:

Capital Improvements Program				
Project List	FY 2017	FY 2018	FY 2019	Total
Parks and Public Buildings				
Animal Shelter-Phase II	275,000			275,000
City Facility HVAC Replacement	150,000		150,000	300,000
City Facility Parking Lots	200,000		150,000	350,000
City Facility Renovations	400,000	400,000		800,000
City Hall Reconstruction		1,000,000	14,000,000	15,000,000
City Park ADA Playground			100,000	100,000

Gary Softball Complex Renovation	1,250,000		1,250,000	2,500,000
Library Expansion & Renovation	1,000,000	13,500,000		14,500,000
Park Development of Undeveloped Park Land			500,000	500,000
Public Services and Community Services Complex	4,000,000			4,000,000
Purgatory/Willow Creek Trail Corridor	250,000	1,000,000		1,250,000
San Marcos Youth Baseball Complex	150,000	1,000,000		1,150,000
Sheltered Bus Stops		80,000		80,000
Spray Pads Eastside/Westside		100,000	400,000	500,000
Public Safety				
Fire Department Command Vehicle Replacement for Battalion Chiefs	150,000			150,000
FD Relocation Station #2		5,200,000		5,200,000
Fire Department Replacement Brush Truck #2 (52-319)			250,000	250,000
FD Replacement Ladder Truck (52-300)	1,320,000			1,320,000
Fire Department Replacement Engine (52-614)			785,000	785,000
Fire Department New Station District #8			350,000	350,000
Fire Department Training Airport Facility			2,000,000	2,000,000
700 mhz Radio's replacements for Public Safety	1,200,000			1,200,000
Airport				
Airport - CAF Hanger Rehabilitation	25,000			25,000
Airport - City Facilities	50,000	100,000		150,000
Airport - FM 110 Connection Drive	100,000		1,000,000	1,100,000
Airport - Ramp and Taxiway Repairs		124,000		124,000
Airport Routine Maintenance Grant Match	50,000			50,000
Airport - Taxiway System, Ramp Rehab Design and Stormwater Master Plan	50,000			50,000
Development Services				
Comprehensive Plan	100,000			100,000
Streets				
Belvin Street Improvements		60,000		60,000

Chestnut Street Improvements			375,000	375,000
Coers Drive Improvements	600,000			600,000
Hopkins Sidewalk Widening CM Allen to Thorpe	100,000			100,000
Hwy 123 12" Water AC Line Replacement		25,000		25,000
Leah Drive	200,000			200,000
Linda Drive Improvements			150,000	150,000
Pat Garrison Improvements from Comanche to Guadalupe			75,000	75,000
Roadway Flood Access Gates		50,000		50,000
Technology Services (3 Funds)				
Network Cabling Infrastructure for City Facilities	225,000			225,000
Fiber Optic Infrastructure Expansions/Maintenance	80,000	80,000	80,000	240,000
Storage Area Network (SAN) replacement - IT Technology Infrastructure for Public Svs/Comm Svs Complex			200,000	200,000
		150,000		150,000
CIP General Funds				
Bishop Street Improvements	200,000		800,000	1,000,000
Cemetery Land Acquisition	500,000			500,000
Downtown Master Plan	100,000			100,000
Downtown Reconstruction Ph II			500,000	500,000
E. Aquarena Springs Drive Reconstruction		100,000		100,000
Guadalupe/LBJ Improvements	200,000		4,175,000	4,375,000
Hopkins Street Improvements Project (Bishop to Moore)		1,800,000		1,800,000
Kingwood and Sherwood Improvements		70,000		70,000
Mill Street Reconstruction	400,000			400,000
Mockingbird Hills Subdivision Imps			750,000	750,000
Putgatory Creek Improvements	500,000			500,000
Ramsay St. Reconstruction			150,000	150,000
Reconstruction of Downtown Alleys			80,000	80,000
Sessom Creek Bank Stabilization & WWW Replacement- N.LBJ to Canyon Rd	20,000	50,000		70,000

Sessom/Academy Intersection Improvements	600,000			600,000
SH 21 San Marcos River Bridge Prel Eng. Rpt		200,000		200,000
Sunset Acres Subdivision Study	25,000			25,000
Surface Water Treatment Plant Access	50,000			50,000
Transportation Oversize	100,000	100,000	100,000	300,000
Travis St/Heritage Imps	500,000			500,000
Whisper Roadway Participation	1,800,000			1,800,000
Total Projects	16,270,000	25,639,000	28,570,000	70,479,000

The Capital Improvements Operating Fund was established during the realignment of the organization in October of 2009. The primary objective of this department was to streamline the capital improvement process in order to ensure that projects were completed in a timely manner thus reducing unnecessary expenses related to delayed projects. Salaries related to CIP staff were charged directly to CIP Bond Funds or Capital Improvement Projects in relation to the completion of streets and drainage projects, water/wastewater projects, and electric projects. Many of the project management duties were outsourced to outside firms. In 2012, the City changed this policy and began moving the CIP project management back to City employees and moving operating expenses from bond funding to directly charging the expenses to the City's General Fund. Fiscal year 2016 was the last year of the multi-year planned transition from bond to general fund operating funding and there are no operating expenses included in the fiscal year 2018 budget.

Enterprise Funds

Enterprise funds are used to account for governmental activities that are similar to those found in private businesses. The major revenue source for these funds is the revenue generated from customers who receive the services provided. Revenues generated through the rates pay the operating costs and debt retirement for these funds.

In 2012, a Citizens Utility Advisory Board (CUAB) was formed at the direction of the City Council. This board is made up of 5 citizens and the Mayor who is a non-voting member. The charge of the board is to bring recommendations for budget and rates for both the Water/Wastewater and Electric utilities to the City Council. The Board met with staff to gain an understanding of how the utilities operate, the composition of the rates and the issues facing the utilities in the upcoming years.

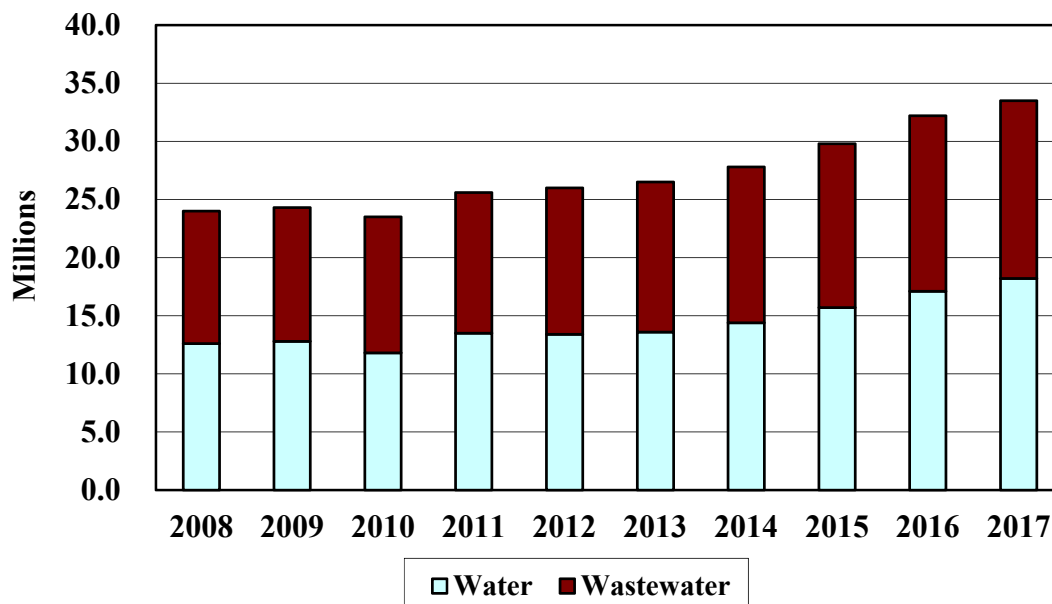
Water and Wastewater Utility Fund

The City of San Marcos operates a superior water production, distribution and wastewater collection and treatment system for the community. This fund is used to account for the revenues and expenses of this utility system.

Revenues

The Water/Wastewater Utility Fund receives revenue from residential, multi-family and commercial customers based on their monthly water consumption. San Marcos water and wastewater rates are provided in detail within the Miscellaneous and Statistical section of the budget.

10-Year Water/Wastewater Service Revenue History (Fiscal Year)



Revenue projections for water and wastewater revenues are based on factors such as historical collections, known changes that will occur, system growth factors and weather predictions. Projected revenues from all sources are budgeted at \$40.4 million. Revenues from water service are estimated at \$19.4 million and wastewater revenues are estimated at \$17.6 million. Other revenue sources include sales of effluent, pretreatment charges, wheeling sales, service and connection charges, and interest income.

Prior to fiscal year 2012, there had not been consistent rate adjustments to support the utility but since there have been small, consistent rate increase to support the growing utility. In fiscal year 2014, the CUAB chose to implement a new tiered structure for rates instead of recommending a rate adjustment. The resulting rate structure emphasizes conservation with charges beginning at the first gallon used and modifications to the tiers to more closely resemble non irrigation usage in the lower levels. The City implemented winter averaging in early 2008.

A Water/Wastewater Rate Study has been conducted every year for the last several years including 2017. For the 2018 budget, the CUAB recommends a 5% rate adjustment in water and a 2% rate adjustment in wastewater. The CUAB spent several months looking at the updated rate study modeling, the impacts of the newly implemented rate structure, and the long range plans on the water/wastewater utility including the effect of the Alliance Regional Water Authority (ARWA), formally Hays Caldwell Public Utility Authority (HCPUA).

2017/2018 Annual Budget
Water/ Wastewater Utility Fund Revenue Summary

	Actual FY 2015-2016	Revised FY 2016-17	Adopted FY 2017-18	Percent of Total
Water Service	17,040,995	18,242,026	19,379,216	47.96%
Wastewater Service	15,027,152	15,336,472	17,590,204	43.54%
Effluent Sales	363,189	424,343	373,843	0.93%
Pretreatment Charges	442,508	514,561	514,561	1.27%
Interest Income	105,767	108,000	108,000	0.27%
Penalties	322,336	310,671	325,000	0.80%
Service Charges	158,198	174,282	179,510	0.44%
Connection Charges	145,369	200,673	201,327	0.50%
Debt Service Reimbursement	777,026	338,866	500,000	1.24%
Other Revenue	831,373	914,653	1,232,129	3.05%
Total	35,213,913	36,564,547	40,403,790	100.00%

Expenses

The Water and Wastewater Fund supports several divisions, including:

- Wastewater Collection
- Water Quality Services
- Water Distribution Maintenance
- Water Conservation
- Water/ Wastewater Administration

The fiscal year 2018 appropriations for the Water/ Wastewater Utility Fund operating and capital expenditures are \$39.5 million, which is a \$2.6 million or 7.1% increase from fiscal year 2017. The increase is primarily due to contractual agreements with OMI and GBRA to operate the processing plants, personnel, increased debt service, and capital expenditures. The adopted rates support the addition of several positions including an Water Quality Technician and Cross Connection Control BFP Tech.

Historically, the Water/Wastewater fund has reimbursed the Electric Utility Fund related to the proportional use of the Meter Operations, Public Services Administration and Utility Business Office which are expensed within the Electric Utility Fund. In fiscal year 2018, the cost of these shared departments is \$3.4 million. Reimbursement from the Water/Wastewater fund is \$1.5 million.

The Alliance Regional Water Authority (ARWA), formally Hays Caldwell Public Utility Authority, is a joint venture between San Marcos, Kyle, Buda, and some regional water corporations to firm up future water supplies through the year 2060. The City of San Marcos' share of the total construction cost related to Phase 1 of the project is approximately \$70.0 million and the majority of the construction is anticipated to begin in 2019. A small project related to Phase I was begun in 2016 and will construct a pipeline between San Marcos, Kyle and Buda. The City is still exploring water supply alternatives in hopes that this future expense can be reduced as much as possible. The City has set aside cash reserves along with steady rate increases to make sure there is capacity to fund the future infrastructure costs related to this project without large rate increases.

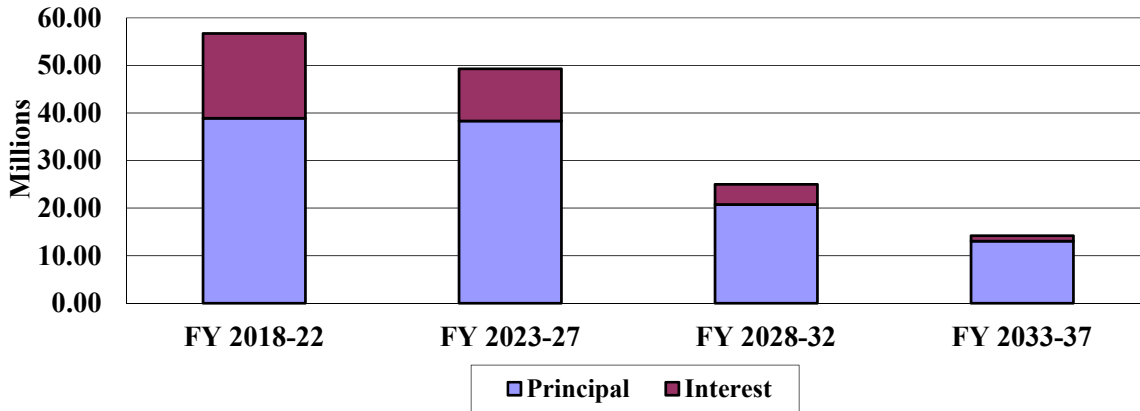
2017/2018 Annual Budget
Water/ Wastewater Utility Fund Expense Summary by Category

	Actual FY 2015-2016	Revised FY 2016-17	Adopted FY 2017-18	Percent of Total
Personnel	3,886,500	4,327,849	4,969,044	12.59%
Contracted Services	8,094,736	9,854,983	10,579,994	26.80%
Materials and Supplies	1,023,166	1,207,799	1,395,330	3.53%
Other Charges	7,336,055	8,036,855	9,048,055	22.92%
Operating Transfers	61,274	63,137	69,856	0.18%
Capital Outlay	351,948	880,000	400,000	1.01%
Transfer to Capital Reserves	2,325,000	775,000	400,000	1.01%
Rate Stabilization Fund	-	-	-	0.00%
Debt Service	10,528,892	11,503,817	12,613,639	31.95%
Total	33,607,571	36,649,439	39,475,918	100.00%

Debt Service

Debt service in the Water/Wastewater Fund is budgeted at \$12.6 million. The total outstanding debt of the utility system is \$111.0 million as of September 30, 2017. It is important to note that the significant investments in water and wastewater infrastructure projects undertaken by the City of San Marcos were required to respond to regional, state or federal mandates. Significant investments in upgrading the wastewater treatment plant and collection system were made to meet high level treatment standards mandated by the U.S. Environmental Protection Agency and the Texas Commission on Environmental Quality, and to add plant capacity for future growth. Debt payments on these significant projects are scheduled through fiscal year 2037.

20-Year Principal and Interest Payment Schedule



Fund Balance

We anticipate an ending fund balance of \$9.7 million or 25.1% of operating expenses. Fund balance transfers are incorporated into this budget to reduce the fund balance down to 25%. The transfers will be used to fund or offset future debt issuances related to capital improvement projects.

Rate Stabilization

This budget establishes a rate stabilization fund which is funded at 10% of water revenues and 5% of wastewater revenues. This will help the City alleviate future rate increases that are needed due to fluctuations in seasonal weather patterns. This is a component in achieving our sound finance initiative.

Drainage Utility Fund

The City of San Marcos began assessing a drainage utility rate in fiscal year 2000 on all residential and commercial property located in the City. The drainage charge was established to provide funding for the planning, engineering, construction, maintenance, improvement and reconstruction of drainage projects throughout the City.

Revenues and Expenses

The San Marcos Drainage Utility Fund is an enterprise fund supported by assessment of drainage utility fees. The Drainage Utility was created in July 1999 by Council to address the need for drainage improvements throughout the City. Revenues from the fees are used to maintain drainage areas and right of ways and providing debt service in future years to pay for future bond issuances related to drainage improvements. Over the past four years the rate has been adjusted as follows: 2014-5%, 2015-5%, 2016-12%, and 2017-10%. In fiscal year 2018 a 15% rate adjustment was adopted to fund the large amount of CIP projects needed to improve storm water and drainage improvement projects. Projected revenues from fees are budgeted at \$5.0 million.

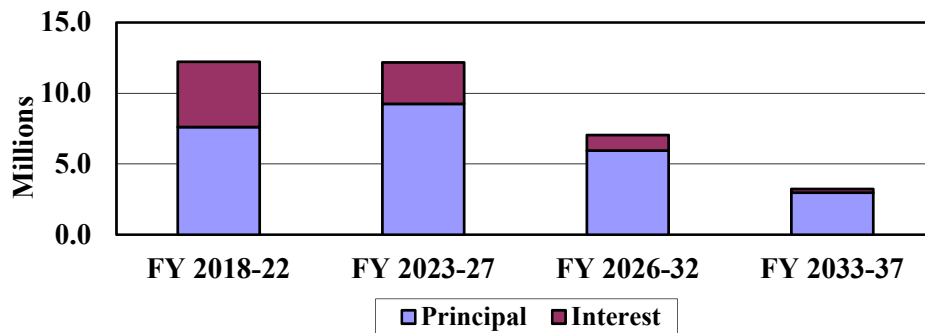
Operating expenses are budgeted at \$4.7 million, which includes the addition of a Senior Engineer to support CIP projects, Drainage Equipment Operator I to maintain the expanded stormwater infrastructure, and capital expenses are budgeted at \$55,000. Historically, the Water/Wastewater

Utility paid a 9% franchise fee on Gross Revenue to the General Fund. A reduction from 9% to 7% over 4 years began in fiscal year 2012 and the reduction was achieved in two years instead of the planned 4 year period. City Council approved a temporary increase to 8% for fiscal year 2018.

Debt Service

Debt service in the Drainage Utility Fund is budgeted at \$2.5 million. As of September 30, 2017 the Drainage Utility has outstanding debt of \$25.8 million for improvements to the drainage utility system. The current debt will be repaid annually until fiscal year 2037.

20-Year Principal and Interest Payment Schedule



Fund Balance

We anticipate an ending fund balance reserves of \$1.2 million in the Drainage Utility Fund at September 30, 2017.

Electric Utility Fund

The City of San Marcos purchases and distributes electric power to the San Marcos community. San Marcos has some of the lowest electric rates in Texas. The utility operates at a 99.9997% reliability rate and has a system capacity of 145 megawatts.

Revenues

The Electric Utility Fund is an enterprise fund established to purchase and distribute electric power to the San Marcos community. The utility receives revenues through rates charged to customers for electric service, from other operating revenues and interest income. The projected revenues from all sources are budgeted at \$63.4 million with \$59.2 million generated by electric services. This is an increase of \$5.0 million primarily due to the PCRf charge, the pass-through of the cost of power to the customer. The increase in PCRf revenue is a result of the higher projected cost of power for fiscal year 2018 and customer growth. In 2012, the City of San Marcos opted to purchase 10% of its load from a provider other than LCRA. The City chose Nextera to act as an alternative power supplier with lower cost options. In 2015, the contract expired with Nextera and the City signed a contract with Calpine for 15% of its load. The cost of power is passed through to the customer at the LCRA rate.

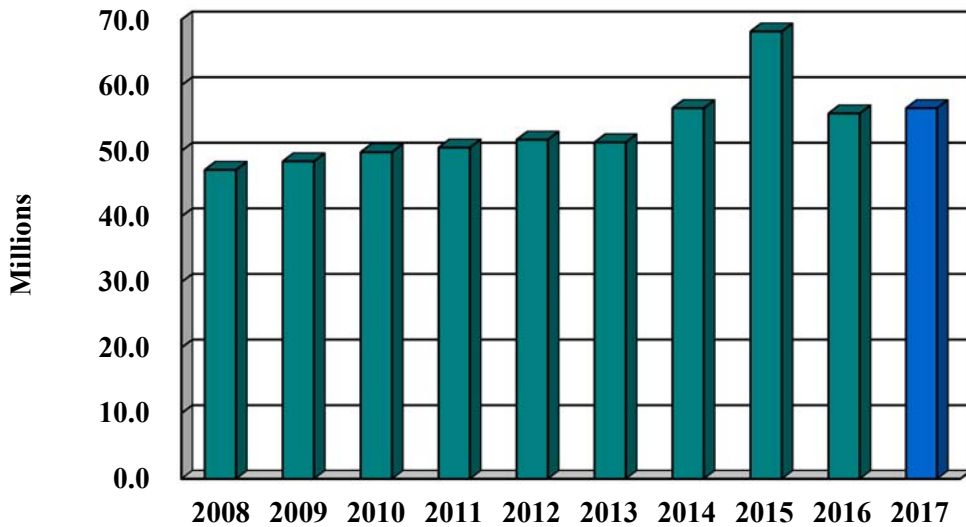
2017/2018 Annual Budget
Electric Utility Fund Revenue Summary

	Actual FY 2015-2016	Revised FY 2016-17	Adopted FY 2017-18	Percent of Total
Electric Service	51,651,894	52,319,400	59,195,959	93.08%
Interest Income	95,043	142,554	143,420	0.23%
Penalties	533,131	539,086	550,000	0.86%
Service Charges	115,065	107,410	108,797	0.17%
Connection Charges	709,502	706,358	720,000	1.13%
Other Revenue	783,904	661,000	799,163	1.26%
Indirect Costs	1,758,302	1,975,278	2,054,289	3.23%
Operating Transfers	22,919	22,918	21,977	0.03%
Total	55,669,760	56,474,004	63,593,605	100.00%

The City and LCRA executed an amended and restated Wholesale Power Agreement in March of 2011 and in the agreement was a provision that granted the City a right and option to participate in ownership of any future generation capacity constructed by LCRA on a load proportional basis. LCRA has started construction on the Thomas C. Ferguson replacement plant project, creating the opportunity for the City to exercise this right and option. Staff researched the financial requirements and forecast financial net revenue associated with the plant over the life cycle of the facility and presented information to the Council on the risk/benefit issues related to the option. Participation in ownership of the facility is forecasted to enhance revenue to the City Electric Utility and benefit the ratepayers. The City of San Marcos issued Electric Utility System Revenue Bonds in July 2013 totaling \$18.5 Million to finance this project. The project came in on-time and within the construction budget. The plant began producing power during the summer of 2014 and the electric utility has benefited from the participation not only from the operations of the plant, but also the opportunity to receive power at a reduced cost to the city.

For the 2018 budget, the CUAB recommends no rate adjustment. The CUAB spent several months looking at the updated rate study modeling and the results indicated that no rate adjustment is necessary in fiscal year 2018 and possibly in fiscal year 2019.

10-Year Electric Service Revenue History



Estimate

Expenses

The Electric Utility Department provides efficient electric service to the San Marcos community. The expenditures for fiscal year 2018 are budgeted at \$63.3 million. At \$40.0 million, the cost of wholesale power from LCRA represents the largest expense in this fund. Departmental divisions include:

- Public Services Admin
- Conservation
- Meter Operations
- Administration
- Maintenance
- Customer Billing and Collections

The current rate supports the addition of a Engineering Tech I and \$809,300 in capital outlay for equipment, technology, and vehicles needed by the utility. Historically, the Electric Utility paid a 9% franchise fee on Gross Electric Revenue to the General Fund. A reduction from 9% to 7% over 4 years began in fiscal year 2012. City Council approved a temporary increase to 8% for fiscal year 2018.

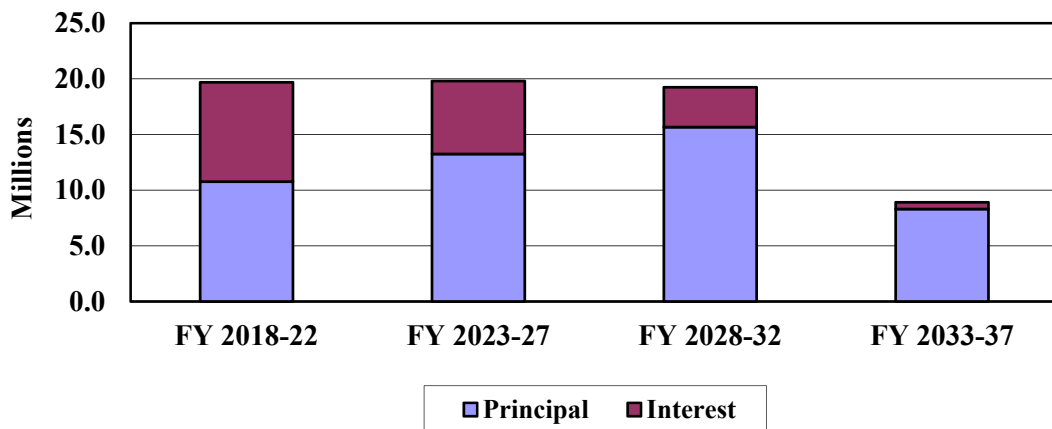
2017/2018 Annual Budget
Electric Utility Fund Expense Summary by Category

	Actual FY 2015-2016	Revised FY 2016-17	Adopted FY 2017-18	Percent of Total
Personnel	4,516,786	5,597,973	6,072,152	9.59%
Purchase of Power	31,606,026	32,308,955	40,016,327	63.22%
Contracted Services	1,653,322	2,450,248	2,937,169	4.64%
Materials and Supplies	1,314,944	1,061,853	1,069,953	1.69%
Other Charges	6,350,114	6,882,467	8,356,752	13.20%
Capital Outlay	638,272	665,000	809,310	1.28%
Transfer to Capital Reserves	6,400,000	3,750,000	-	0.00%
Rate Stabilization Fund	-	-	-	0.00%
Debt Service	2,890,961	3,421,309	4,031,194	6.37%
Operating Transfers	-	-	-	0.00%
Total	55,370,426	56,137,805	63,292,857	100.00%

Debt Service

Debt service in the Electric Utility fund during fiscal year 2018 is budgeted at \$4.0 million. As of September 30, 2017, the City of San Marcos has outstanding debt of \$48.0 million which includes \$18.5 million for the Ferguson Power Plant project. The current debt will be repaid annually until fiscal year 2037. Revenue bond covenants and the City’s Financial Policy require the City maintain a 1.20 Times Coverage Ratio. The Times Coverage Ratio calculations for enterprise funds can be found in the Miscellaneous and Statistical Section of this document.

20-Year Principal and Interest Payment Schedule



Fund Balance

Fund balance at the end of fiscal year 2018 in the Electric Utility Fund is budgeted at \$9.7 million or a reserve totaling 60 days of expenses. The Electric Utility, with millions of dollars worth of valuable substations and aboveground distribution facilities, is particularly vulnerable to weather-related disasters.

Rate Stabilization

This budget also establishes a rate stabilization fund which is funded at 5% of electric revenues. This will help the City alleviate future rate increases that are needed due to fluctuations in seasonal weather patterns. This is an initiative in achieving sound finances.

Municipal Airport Fund

The Municipal Airport has three runways and is situated on 1,356 acres. Additionally, there are 60 acres of maintained parking ramps and 38 City-owned hangars and shelters. Revenue sources such as storage rentals, hangar rentals, storage rentals, gross receipts fees and land leases partially support the daily operational costs. There are more than 300 based aircraft at the airport and more than 100,000 annual takeoffs, landings and approaches.

Revenues and Expenses

The San Marcos Municipal Airport Fund is an enterprise fund supported by revenues from hangar and shelter rentals, commercial and agricultural leases, and if required, a transfer from the General Fund for airport management. For the first time in many years the Airport will not require a general fund transfer to support operations in fiscal year 2018 and operating revenue will exceed operating expenses. The Airport serves the general aviation needs of our residents and citizens in the surrounding region. Other revenues are relatively minor and are simple to forecast. Revenues such as T-hangar rentals, storage area rentals, facility rentals and shelter rentals are calculated based on the rental charge and the number of rental units rented. Other revenues such as gross receipt revenues are forecasted based on historical data.

The operational budget for the Airport Fund is \$609,000. The Airport is managed by Texas Aviation Partners who oversees the daily operations and ongoing development. The Airport works closely with the Texas Department of Transportation and the Federal Aviation. Due to City Council and lobbying efforts, the City continues to receive federal appropriations funding. The City of San Marcos opened a new Air Traffic Control tower at the end of Fiscal Year 2011. Incentive payments to Texas Aviation Partners based on performance of the airport are estimated to be \$79,200 in 2018.

Resource Recovery Utility Fund

The City of San Marcos outsources its residential solid waste collection through the use of a competitive bidding process. The solid waste collection company charges its monthly fee to the City on a per customer basis. This fee along with expenses for administration, education, household hazardous waste disposal and brush collection is used to set the rates charged to each resident within the City.

Revenues and Expenses

The Resource Recovery Utility Fund is an enterprise fund supported by assessment of residential waste collection, recycling service, and administrative and education charges. Projected revenues from service charges are budgeted at \$4.2 million. Expenditures are \$4.1 million for solid waste hauling, recycling and household hazardous waste collection and disposal. Also included is \$40,000 for one-time improvements to the system. In fiscal year 2009 the City Council added single stream recycling to the services provided, Green Waste Collection was added for all residential customers fiscal year 2016. Hazardous Household Waste expenses are now budgeted within this fund.

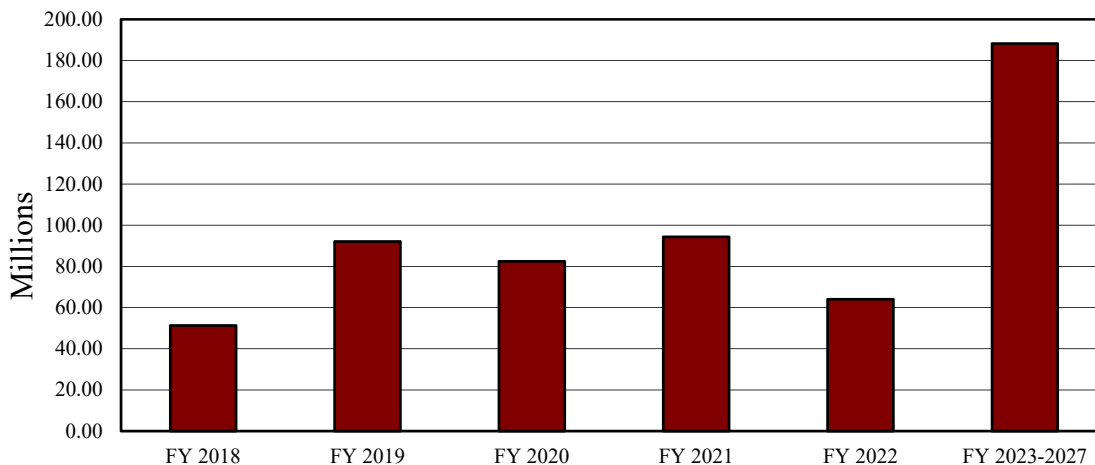
Permanent Funds

The City serves as trustee for funds collected through its cemetery perpetual care fee. This fee is assessed on all municipal cemetery plots sold. Interest earned from the Cemetery Perpetual Care Fund is used to support the maintenance costs at the municipal cemetery. The principal amount of the fund cannot be used for any purpose. A true-up is done at the end of each year to ensure that estimated interest income budgeted is aligned properly with actual revenues received after a fiscal year has been closed. Interest earnings were not sufficient to make a transfer out of the Perpetual Care Fund and into the Cemetery Operations Fund since fiscal 2012.

Capital Improvements Program

The City of San Marcos has established an on-going ten-year Capital Improvements Program (CIP) to plan for major capital expenditures and identify funding sources for these projects. The CIP provides a ten-year strategic plan for important infrastructure investments for fiscal year 2018 to fiscal year 2027. The CIP is a budgetary tool for community decision-makers and suggests a variety of possible funding sources, ranging from operating budgets, state and federal grants, to future voter-approved bond programs. The CIP also suggests the particular year in which projects might be authorized. Only the first year of each CIP cycle is as part of the fiscal year's expenditures; the nine subsequent years are considered to be planning years.

Ten-Year Capital Improvements Program Outlay Schedule



Summary

The budget provides San Marcos with a balanced budget of \$214.1 million to support essential public services and programs. We enter the new fiscal year with the most diversified property tax base in our history at \$4.6 billion and healthy fund balances. We continue to direct our resources to fulfilling the City Council's priorities in providing for our community development, infrastructure and excellent public service for our residents.

City staff feels that the FY2017-2018 Adopted Budget takes great strides toward achieving the City Council's #1 Strategic Initiative of Sound Finances. Several issues have been addressed:

- Limiting future general debt issuances to maintain at least a 50/50 ratio.
- Addressing non-civil service and civil service compensation issues which will allow the City to retain our valued employees.
- Additional staffing in critical customer service areas and areas highlighted during the citizen's survey.
- Addition of beautification programs in response to citizen surveys.
- Moving forward with the bond projects approved by voters in May 2017.



City of San Marcos 2018 Proposed Budget Policy Statement

I. Fund Balance Goals

- General Fund: Minimum of 25% (of recurring operating expenses)
- Water/ Wastewater Fund: Minimum of 25% (of recurring operating expenses)
- Electric Utility Fund: Minimum of the equivalent of 60 days of operating expenses including purchased power
- Drainage Utility Fund: Minimum of 25% (of recurring operating expenses)

II. Capital Improvements Program

- In-depth review of Capital Improvements Projects underway. Will evaluate funding needs on existing projects, staff capacity to complete current and future projects. Initial Recommendations will be presented to Council
- Total general fund project cost, not including any voter approved bond projects, will be limited to approximately \$10 million annually
- Issue only up to an appropriate amount of debt in the general fund to maintain at least a 50/50 debt to operations ratio
- Utility CIP capacity calculated through the rate model

III. Revenue Goals

GENERAL FUND

- Property tax rate increase will be limited to voter approved amounts
- Property Values increase based on a conservative trend estimated at 8%
- Maintain utility fund franchise fee transfers to the General Fund at 7%
- Sales tax will be projected based on current trends with a maximum 3% increase to recurring revenues over prior year
- Adjust Community Services fees based on the results of the cost of service study
- All other revenues will be adjusted based on historical trends
- Fees for services will be adjusted 1% based on the average CPI index for the calendar year 2016

WATER FUND

- Rate study to determine possible rate increases and structure changes
- Recommendations related to rate structure and future rate increases will be made by Citizens Utility Advisory Board
- Preliminary rate study results available in June

ELECTRIC FUND

- Rate study to determine possible rate increases and structure changes. No rate adjustment anticipated.
- Recommendations related to rate structure and future rate increases will be made by Citizens Utility Advisory Board
- Preliminary rate study results available in June

DRAINAGE FUND

- Explore needed rate increase to support operations and needed capital improvement projects
- Drainage Master Plan anticipated completion by end of summer. Will provide recommendations for additional funding that may include drainage impact fees, fee-in-lieu of fees, and/or traditional rate increases.

DEBT SERVICE FUND

- Maintain at least a 50/50 property tax debt to operation ratio between the general fund and the debt service fund

IV. Fund Expenditures

The FY2017-18 Operating Budget and CIP Plan will strive to support the goals and objectives as outlined in the Vision San Marcos: A River Runs Through Us Comprehensive Master Plan.

GENERAL FUND

- Additional personnel based on need and capacity with emphasis on code enforcement, inspectors and park rangers
- Funding year 3 of the Meet and Confer agreement with Police and Fire
- Estimated 5% increase in health insurance premium beginning January 1, 2018
- Continued required contribution of an estimated 17.66% for TMRS
- Base operations budgets flat. Additions to the department budgets must be requested, justified, and ranked by priority.
- Fuel/Contractual Obligations/Consumer Price Index increases allowed
- Capital Outlay funding of \$1.95M to include utilizing the planned replacement of vehicles scheduled through the Enterprise Fleet Management agreement, replacement of a minimum of 1/7 of the police pursuit and essential vehicles fleet, the third year of financing 18 police pursuit vehicles purchased in FY2016 and financed over 3 years, and other capital related requests based on need and capacity
- Continue to budget recurring expenses less than recurring revenues to continue building capacity for future expenses such as:
 - Fire Based EMS
 - Facility expansion
 - Potential debt service related to a future bond election

WATER/WASTEWATER FUND

- Additional personnel based on need and capacity
- Estimated 5% increase in health insurance premium beginning January 1, 2018
- Continued required contribution of an estimated 17.66% for TMRS
- Base operations budgets flat. Additions to the department budgets must be requested, justified, and ranked by priority.
- Fuel/Contractual Obligations/Consumer Price Index increases allowed
- Utility fund transfers to the General Fund budgeted at 7%
- Capital Outlay amounts determined through the rate model based on the planned replacement of vehicles scheduled through the Enterprise Fleet Management agreement, needed new and replacement large equipment, and other requests based on need

ELECTRIC UTILITY FUND

- Additional personnel based on need and capacity
- Estimated 5% increase in health insurance premium beginning January 1, 2018
- Continued required contribution of an estimated 17.66% for TMRS
- Base operations budgets flat. Additions to the department budgets must be requested, justified, and ranked by priority.
- Fuel/Contractual Obligations/Consumer Price Index increases allowed
- Utility fund transfers to the General Fund budgeted at 7%
- Capital Outlay amounts determined through the rate model based on the planned replacement of vehicles scheduled through the Enterprise Fleet Management agreement, needed new and replacement large equipment, and other requests based on need

V. Other Initiatives

- ★ **Continue funding Capital Maintenance Funds and additional one-time funds related to:**
 - Maintain Building Maintenance, Parks Maintenance, and IT Maintenance-same level as FY2017
 - Maintain Police, Fire, and Activity Center Routine Capital-same level as FY2017
- ★ **Endeavor to determine and budget for sufficient funding levels for routine maintenance and capital replacement**
- ★ **Education and Youth Initiatives**
 - Continue allocation of \$150,000 to fund the existing Youth Services Manager position and youth focused programs identified in the youth master plan
- ★ **Social Services**
 - Maintain funding levels at \$450,000

★ **Hotel Motel Fund**

- Revenue based on conservative trends reflecting new hotel rooms
- Funding for special programs remains flat. Organizations can request increases during the budget process for specific programs
- Evaluate funding for potential events and projects

★ **Economic Development Funding**

- Continued funding by the three major funds of a total of \$200K annually to provide a funding source for potential economic incentives in the absence of 4A/4B funding. Fiscal year 201 will be the 4th year of annual funding.
- Use of existing funds from fiscal years 2015 and 2016 to fund the BIG (Business Improvement and Growth) program. Funding may be added in future fiscal years based on need.

★ **Potential Bond Election**

- Two bond propositions will be decided by voters in May 2017
- Budget will be adjusted appropriately based on the results of the election

City of San Marcos Financial Policy

I. Purpose

The broad purpose of this policy is to enable the City to achieve and maintain a long-term stable and positive financial condition through the use of sound financial management practices. The watchwords used to epitomize the City's financial management include integrity, prudent stewardship, planning, accountability, full disclosure and communication.

The more specific purpose of this policy is to provide guidelines to the Director of Finance in planning and managing the City's daily financial affairs and in developing recommendations to the City Manager and City Council.

The City Council will annually review and approve this policy as part of the budget process.

The scope of this policy covers the operating budget, revenues, expenditures, capital improvements program, financial planning, accounting, auditing, financial reporting, treasury management, debt management, and financial condition and reserves, in order to:

- A. Present fairly and with full disclosure the financial position and results of the financial operations of the City in conformity to generally accepted accounting principles (GAAP).
- B. Determine and demonstrate compliance with finance-related legal and contractual issues in accordance with provisions of the City's Charter, the City's Code of Ordinances, the Texas Local Government Code and other pertinent legal documents and mandates.

II. Operating Budget

A. Preparation – Budgeting is an essential element of the financial planning, control, and evaluation process of municipal government. The "budget" is the City's annual financial operating plan. The budget includes all of the operating departments of the governmental funds, special revenue funds, enterprise funds, and permanent funds of the City. The budget includes expenditures for personnel, contracted services, materials and supplies, other charges, operating transfers, social services, indirect costs, capital outlay and debt service. The budget is prepared by the City Manager and Director of Finance with the participation of all the City's Department Directors within the provisions of the City Charter, on a basis that is consistent with GAAP.

B. Multi-Year Planning – The Director of Finance will prepare a multi-year financial forecast of the General Fund. This forecast is an integral part of developing the adopted budget.

1. Adopted Budget – The City Manager presents a budget to the City Council. The budget provides a complete financial plan for the ensuing fiscal year, and shall contain a budget message explaining the budget, containing an outline of the adopted financial policies of the City for the ensuing fiscal year, setting forth the reasons for salient changes from the previous fiscal year in expenditure and revenue items, and explaining any major changes in financial policy.

- a) The budget should include four basic segments for review and evaluation. These segments are: (1) actual revenue and expenditure amounts for the last completed fiscal year, (2) original revenue and expenditure amounts budgeted for the current fiscal year, (3) revenue and expenditure amounts estimated for the current fiscal year, and (4) revenue and expenditure amounts for the ensuing fiscal year.
- b) The City Manager, not less than 30 days prior to the time the City Council makes its tax levy for the current fiscal year, shall file with the City Clerk the adopted budget.

2. Adoption – The City Council shall call and publicize a public hearing to allow for citizen participation. The City Council will subsequently adopt by Ordinance such budget, as it may have been amended, as the City's annual budget effective for the fiscal year beginning October 1st. The budget should be adopted by the City Council no later than the expiration of the fiscal year.

C. Balanced Budget – The operating budget will be balanced with current revenues, which may include beginning fund balances less required reserves as established by City Council, greater than or equal to current expenditures.

D. Planning – The budget process will be coordinated so as to identify major policy and financial issues for City Council consideration several months prior to the budget adoption date. This will allow adequate time for appropriate decisions and analysis of financial impacts.

E. Reporting – Financial reports will be made available to Department Directors to manage their budgets and to enable the Director of Finance to monitor the overall budget. The Director of Finance will present summary financial and budgetary reports to the City Council to disclose the overall budget and financial condition of the City. The financial and budgetary reports will include comparisons of actual to budget, actual to prior year, appropriate ratios, and graphs to ensure full disclosure and present meaningful information.

F. Control and Accountability – Department Directors will be responsible to ensure that their department budgets will not exceed budgeted amounts. Department Directors will be responsible to ensure revenues generated by activities of their departments meet budgeted amounts.

G. Contingent Appropriation – A provision shall be made in the budget for a contingent appropriation of no more than three percent of total expenditures to be used in

case of emergencies or unforeseen circumstances. The contingent appropriation shall be under the control of and distributed by the City Manager after approval of the City Council. A detailed account of contingent appropriation expenditures shall be recorded and reported.

All expenditures of the contingent appropriation will be evaluated using the following criteria:

- Is the request of such an emergency nature that it must be made immediately?
- Why was the item not budgeted in the normal budget process?
- Why the transfer cannot be made within the division or department?

III. Revenue Policies

A. Characteristics – The City Finance Department will strive for the following optimum characteristics in its revenue system:

1. Simplicity – Where possible and without sacrificing accuracy, the revenue system will be kept in simple order to reduce compliance costs for the taxpayer or service recipient.
2. Certainty – There will be a thorough knowledge and understanding of revenue sources to increase the reliability of the revenue system. Consistent collection policies will be enacted to provide assurances that the revenue base will materialize according to budgets and plans.
3. Equity – Equity will be maintained in the revenue system structure; i.e., subsidization between entities, funds, services, utilities, and customer classes will be minimized or eliminated.
4. Revenue Adequacy – There will be a balance in the revenue system; i.e., the revenue base will have the characteristics of fairness and neutrality as it applies to cost of service, willingness to pay, and ability to pay.
5. Administration – The benefits of a revenue source should exceed the cost of levying and collecting that revenue. The cost of collection should be reviewed annually for cost effectiveness as a part of the indirect cost of service analysis. Where appropriate, the administrative processes of state, federal or local governmental collection agencies will be used in order to reduce administrative cost.
6. Diversification and Stability – A diversified revenue system with a stable source of income should be maintained. This will help avoid instabilities in similar revenue sources due to factors such as fluctuations in the economy and variations in the weather.

B. Issues – The following considerations and issues will guide the City Finance Department in its revenue policies concerning specific sources of funds:

1. Cost/Benefit and Financial Impact Analysis for Tax and Fee Abatements – A cost/benefit and financial impact analysis should be performed to assess tax or fee abatement economic development incentives.
2. Accounts Receivable – Accounts receivable procedures will target collection for a maximum of 30 days from service. Accounts past due more than 120 days may be sent to a collection agency. The Director of Finance is authorized to write-off non-collectible accounts that are delinquent for more than 180 days.
3. Non-Recurring Revenues – One-time or non-recurring revenues should not be used to finance current ongoing operations. Non-recurring revenues should be used only for non-recurring expenditures and not be used for budget balancing purposes.
4. Deferrals or Short-Term Loans – Deferrals or short-term loans will not be used for budget balancing purposes.
5. Property Tax Revenues – All real and business personal property located within the City is valued at 100% of the fair market value for any given year based on the current appraisal supplied to the City by the Hays County Tax Appraisal District (HCTAD). A visual reappraisal and reassessment of all real and business personal property will be done every third year. The HCTAD reappraises real and business personal property every year as a standard practice.

Conservatism will be used to estimate property tax revenues. The Hays County Tax Assessor Collector will furnish an estimated property tax collection rate to the Director of Finance. The Finance Department will endeavor with the Tax Assessor Collector to collect one hundred percent (100%) of property taxes levied in each fiscal year.

6. Interest Income – Interest earned from investment of available monies, whether pooled or not, will be distributed to the funds in accordance with the equity balance of the fund from which monies were provided to be invested.
7. User Fees and Service Charges – For services associated with a user fee or service charge, the direct and indirect costs of that service will be offset by a user fee where possible. Department Directors will annually review user fees and service charges to ensure that the costs of services are recouped through user fees and service charges. The City Council will determine how much of the cost of a service should be recovered by fees and service charges.

8. Indirect Cost Allocation – All City funds will include transfers to and receive credits from other funds for general and administrative costs incurred. The most predominant fund that receives credits from other funds is the General Fund. The General Fund receives credits for bearing such costs as administration, legal counsel, finance, personnel, data processing, engineering and other costs. An independent third party will conduct an indirect cost allocation study annually to determine the credits received.

9. Enterprise Fund Rates – The Director of Finance and the Department Directors of each Enterprise Fund will review rates annually to ensure sufficient coverage of operating expenses, meet the legal restrictions of all applicable bond covenants, and provide for an adequate level of working capital.

10. Franchise Fees – The Electric Fund and Water and Wastewater Utility Fund will include franchise fees as a component of utility rates. A 7% Water and Wastewater Utility and a 7.5% moving to 7% Electric Utility Fund franchise fee is levied on gross sales. The City will aim to keep these franchise fees similar to those charged to investor-owned utility franchises operating within the City.

11. Intergovernmental Revenues (Federal/State/Local) – All potential grants will be examined for matching requirements and the source of the matching requirements. These revenue sources will be expended only for intended purpose of grant aid. It must be clearly understood that operational requirements set up as a result of a grant or aid could be discontinued once the term and conditions of the project have terminated.

12. Revenue Monitoring – Revenues actually received will be compared to budgeted revenues by the Director of Finance and variances will be investigated. This process will be summarized in the appropriate financial report and reported to the City Manager and City Council on a quarterly basis.

IV. Budgetary Sales Tax Estimation

A. The estimated percentage increase in sales tax revenue for the ensuing fiscal year budget will not exceed the actual percentage increase of the most recently completed fiscal year in which a sales tax increase was realized.

B. The following example illustrates the limitation set by this policy.

Fiscal Year 1 Actual	Fiscal Year 2 Actual	Percentage Increase	Fiscal Year 3 Estimated	Fiscal Year 4 Budget	Percentage Increase
\$10,000,000	\$10,500,000	5.0 %	\$11,550,000	\$12,127,500	5.0 %

In the example above, the Fiscal Year 4 Adopted Budget is limited to a 5.0% increase, which is the actual percentage increase of the most recently completed fiscal year (Fiscal Year 2).

- C. This policy ensures that the ensuing fiscal year budget contains a sales tax revenue estimate based on actual completed fiscal years only.

V. Budgetary Sales Tax Revenue Shortfall Contingency Plan

- A. The City will establish a plan to address economic situations that cause sales tax revenue to be significantly less than the adopted budget sales tax revenue. The plan is comprised of the following components:

- Indicators – Serve as warnings that potential budgetary sales tax revenue shortfalls are increasing in probability. Staff will monitor state and national economic indicators to identify recessionary or inflationary trends that could negatively impact consumer spending. Staff will develop a monthly report that compares the current month’s sales tax revenue to the same month of the previous year. The report will show sales tax revenue by month for the last ten fiscal years.

- Phases – Serve to classify and communicate the severity of the estimated budgetary sales tax revenue shortfall. Identify the actions to be taken at the given phase.

- Actions – Preplanned steps to be taken in order to prudently address and counteract the estimated budgetary sales tax revenue shortfall.

- B. The actions listed in phases 1 through 3 are short-term in nature. In the event the underlying economic situation is expected to last for consecutive years, more permanent actions, such as phases 4 and 5, will be taken.
- C. Staff will apprise City Council at the regular City Council meeting immediately following any action taken through this plan. Information such as underlying economic condition, economic indicators, estimated budgetary sales tax revenue shortfall, actions taken and expected duration will be presented to City Council.
- D. The City Council may appropriate fund balance as needed to cover any estimated budgetary sales tax revenue shortfall. Appropriation of fund balance must be carefully weighted and long-term budgetary impacts must be considered in conjunction with the projected length of the economic downturn.
- E. Actions taken through this plan must always consider the impact on revenue generation. Actions taken should reduce expenses well in excess of resulting revenue losses.
- F. These are only guidelines of possible actions that may be taken in the event of sales tax revenue decreases. In the event of a catastrophic event, necessary measures will be taken by the City Manager that are in the best interest of the City.
- G. The following is a summary of phase classifications and the corresponding actions to be taken. Revenue will be monitored on a quarterly basis, with action being taken in the

month following the completed quarter that experiences the shortfall. Actions are cumulative, so each level will include all actions set forth in prior levels.

1. ALERT: The estimated annual sales tax revenue is 1.5% less than the adopted sales tax revenue budget.
 - a. Freeze newly created positions.
 - b. Implement a time delay for hiring vacant positions.
2. MINOR: The estimated annual sales tax revenue is 2.5% less than the sales tax revenue adopted budget.
 - a. Suspend funding of Capital Maintenance accounts.
 - b. Suspend capital outlay purchases.
 - c. Reduce the number of temporary workers.
3. MODERATE: The estimated annual sales tax revenue is 3.5% less than the sales tax revenue adopted budget.
 - a. Implement a managed hiring program for vacant positions.
 - b. Reduce travel and training budgets.
 - c. Reduce office supply budgets.
 - d. Scrutinize professional services expenses.
 - e. Implement a salary freeze and suspend mid-year merit increases if possible.
4. MAJOR: The estimated annual sales tax revenue is 4.5% less than the adopted sales tax revenue budget.
 - a. Scrutinize repairs and maintenance expense. Perform only critical maintenance and make only critical repairs.
 - b. Freeze all external printing and publication expenses, except for legally required notices.
 - c. Reduce overtime budgets.
 - d. Prepare a Reduction in Force Plan.
 - e. Defer payments to City-owned utilities for electricity, street lighting, water and wastewater services.
5. CRISIS: The estimated annual sales tax revenue is 5% less than the adopted sales tax revenue budget.
 - a. Service level reductions, elimination of specific programs, reduction-in-force and other cost reduction strategies will be considered.
 - b. Reduce departmental budgets by a fixed percentage or dollar amount.
 - c. Departments will prioritize service levels and programs according to City Council goals and objectives.
 - d. Consider four-day work weeks to reduce personnel costs.
 - e. Reduce external program funding – social service agencies.

VI. Expenditure Policies

- A. Appropriations – The point of budgetary control is at the department level budget for all funds. Following formal adoption, the budget is amended or adjusted as necessary.
1. Amendment- An amendment involves increasing the total expenditures of the funds over the original adopted budget or changes to the total approved FTE count. The budget is amended through a submission made by a Department Director to the City Manager. The Department Director prepares a budget amendment detailing the reason, line items and amounts to be effected which is approved by the City Finance Department after verification of available dollars. The amendment is given to the City Manager or their designee for review for overall appropriate objectives and purposes. The amendment request is submitted to the City Council for formal adoption by ordinance.
 2. Adjustment-An adjustment involves moving expenses between line items, departments or funds, but does not increase total expenditures over the adopted budget. The budget is adjusted through a submission made by the Department Director. If the budget adjustment requires a transfer between funds, or involves the use of contingent appropriations, the adjustment is submitted to City Council for approval by a motion. If the budget adjustment requires a transfer between departments, it must be approved by the City Manager or their designee. All other adjustments may be approved by the City Finance Director.
- B. Encumbrance Accounting System – An encumbrance accounting system will be used to alert Department Directors when their maximum budget limits have been reached. Encumbrances are expenditure estimates and will reduce budgeted appropriations in the same manner as an actual expenditure. Once the actual expenditure amount is paid or the encumbrance lapses, the encumbrance will be deleted. Department Directors should use the encumbrance accounting system for all purchases.
- C. Personnel Savings – No recognized or significant personnel savings in any Department will be spent by the Department Director without the prior authorization of the City Manager. This control is used to realize personnel savings each year that will be recognized in the adopted budget as a reduction in the current fiscal year's personnel appropriations.
- D. Capital Outlay-Any previously budgeted capital outlay funds not expended at year end may be moved to a cash funded Capital Improvements Projects account for expenditure in a subsequent fiscal year. These funds may be used for a capital outlay item or for other designated purpose.
- E. Impact Fees Reserves-Funds may be used to support projects identified in the impact fee study, as adopted by City Council, for new growth projects. Authorization for use of impact fee funds will be provided by the City Manager or their designee.
- F. Purchasing – All Department Directors will ensure their respective departments comply with the City's Purchasing Manual when purchasing goods or services.
- G. Prompt Payment – All invoices approved for payment will be paid by the City Finance Department within thirty (30) calendar days of receipt in accordance with the provisions of State law.

The Director of Finance will establish and maintain payment procedures that will make use of advance payment discounts. Advanced payment discounts will be used in all instances except when the City will earn more interest income than the advance payment discount through investing the idle cash.

VII. Capital Improvements Program – Major Projects

A. Purpose – The Capital Improvements Program (CIP) is a multi-year financial planning tool used to identify and plan for major capital projects which address growth, transportation, public safety, and utility infrastructure issues in conjunction with goals and priorities as determined by City Council. A major capital project generally involves a significant expenditure of funds, beyond operation and maintenance costs, for the acquisition or construction of a needed facility or infrastructure. A major capital project should exceed \$50,000 in cost. The CIP coincides with the adoption of the budget and uses a ten-year projection.

B. Preparation – The CIP will be prepared annually and on a project basis categorized by specific program; i.e., streets, drainage, public safety, public buildings, parks and recreation, water, wastewater and electric. The CIP should contain a comprehensive description of the project, funding sources, the timing of capital projects, and the impact on operations. The CIP will be prepared by the Planning Department and reviewed by the City Manager with the involvement of responsible departments. The CIP will be submitted to the Planning and Zoning (P&Z) Commission for their review. After considerable deliberation including public workshops and hearings to gather citizen participation, the P&Z will approve a recommended CIP for City Council’s approval. The City Council reviews the CIP for adherence to goals and priorities and approves the CIP for inclusion in the ensuing fiscal year budget. Capital projects within the first year of the CIP are approved for funding. Maintenance and operational costs related to capital projects are included in the ensuing fiscal year budget.

C. Funding Sources – Where applicable, assessments, impact fees, pro rata charges, or other fees should be used to fund capital projects which have a primary benefit to specific, identifiable property owners.

Recognizing that long-term debt is usually a more expensive financing method, alternative-financing sources will be explored before debt is issued. When debt is issued, it will be used to acquire major assets with expected lives that equal or exceed the average life of the debt issue. The exceptions to this requirement are the traditional costs of issuing the debt, capitalized labor for design and construction of capital projects, and small component parts which are attached to major equipment purchases such as fire trucks. The types of debt issued are listed in Section VIII of this policy.

D. Timing and Expenditure Control – The Director of Finance will work with Department Directors during the fiscal year to schedule the timing of capital projects to insure funds availability. All capital projects must be funded and appropriated. The Finance Department must certify the availability of resources before any capital project contract is presented to the City Council for approval.

E. Reporting – Financial reports will be made available to Department Directors to manage their capital projects budgets and to enable the Director of Finance to monitor the overall capital projects budget.

IX. Financial Planning, Accounting, Auditing and Reporting

A. Financial Planning – The Director of Finance provides recommendations for short-term and long-term strategic financial planning to efficiently and effectively use the City’s financial resources. This financial planning is achieved in accordance with the goals and priorities of the City Council, the City Manager, and in compliance with applicable laws and Generally Accepted Accounting Principles (GAAP).

B. Accounting System – The Director of Finance is responsible for the development, maintenance and administration of the City’s accounting system. Compliance with GAAP and applicable federal, state and local laws and regulations will be maintained. This responsibility also includes the implementation and maintenance of internal accounting controls for the City’s financial resources. Functions of the accounting system include payroll, accounts payable, general ledger, grants, capital projects, fixed assets, accounts receivable, self-insurance, utility billing and collections.

C. Financial Auditing –

1. Qualifications of the Auditor – In conformance with the City's Charter and according to the provisions of Texas Local Government Code, the City will be financially audited annually by an outside independent auditing firm. The auditing firm must demonstrate that it has the breadth and depth of staff to conduct the City's financial audit in accordance with generally accepted auditing standards and contractual requirements. The auditing firm must hold a license under the Civil Statutes of Texas and be capable of demonstrating that it has sufficient staff which will enable it to conduct the City's financial audit. The auditing firm will complete its financial audit within 120 days of the City's fiscal year end. The auditing firm will submit its Management Letter to the City Council within 30 days of the completion of its financial audit. The Management Letter will state the auditing firm’s findings of non-compliance and recommendations for compliance.

The Director of Finance shall respond within 60 days in writing to the City Manager and City Council regarding the auditing firm’s Management Letter, addressing the findings of non-compliance contained therein.

2. Responsibility of Auditing Firm to City Council – The auditing firm is retained by and is accountable directly to the City Council and will have access to direct communication with the City Council if the City staff is unresponsive to the auditing firm’s recommendations or if the auditing firm considers such communication necessary to fulfill its legal and professional responsibilities.

D. Financial Reporting –

1. External Reporting – The City Finance Department will prepare the necessary transmittal letter, financial summaries and tables, notes and miscellaneous financial information contained within the comprehensive annual financial report (CAFR). The auditing firm will audit this financial information for compliance with GAAP. The audited CAFR will be submitted to the City Council for their review and will be made available to the public for inspection.

2. Internal Reporting – The City Finance Department will prepare internal financial reports, sufficient to plan, monitor, and control the City's financial affairs. The City Finance Department will strive for excellence in its financial reporting. The following qualitative characteristics of accounting information will be incorporated in all reports that are prepared:

Definitions of Qualitative Characteristics of Accounting Information:

- Bias - Bias in measurement is the tendency of a measure to fall more often on one side than the other of what it represents instead of being equally likely to fall on either side. Bias in accounting measures means a tendency to be consistently too high or too low. Financial reporting will strive to eliminate bias in accounting measures.
- Comparability – The quality of information that enables users to identify similarities in and differences between two sets of economic phenomena.
- Completeness – The inclusion in reported information of everything material that is necessary for faithful representation.
- Conservatism – A prudent reaction to uncertainty to try to insure that uncertainty and risks inherent in financial situations are adequately considered.
- Consistency – Conformity from period to period with unchanging policies and procedures.
- Feedback Value – The quality of information that enables users to confirm or correct prior expectations.
- Materiality – The magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.
- Neutrality – Absence in reported information of bias intended to attain a predetermined result or to induce a particular mode of behavior.
- Predictive Value – The quality of information that helps users to increase the likelihood of correctly forecasting the outcome of past or present events.
- Relevance – The capacity of information to make a difference in a decision by helping users to form predictions about the outcomes of past, present, and future events or to confirm or correct prior expectations.
- Reliability – The quality of information that assures that information is reasonably free from error and bias and faithfully represents what it purports to present.
- Representational Faithfulness – Correspondence or agreement between a measure

or description and the phenomenon that it purports to represent (sometimes called validity).

- Timeliness – Having information available to a decision-maker before it loses its capacity to influence decisions.
- Understandability – The quality of information that enables users to perceive its significance.
- Verifiability – The ability through consensus among measurers to insure that information represents what it purports to represent or that the chosen method of measurement has been used without error or bias.

X. Treasury Management

A. Investments – The Director of Finance, or designee shall promptly deposit all City funds with the City's depository bank in accordance with the provisions of the current depository bank agreement. The Director of Finance, or designee will then promptly invest all funds in any negotiable instrument that the City Council has authorized under the provisions of the State of Texas Public Funds Investment Act and in accordance with the City Council approved Investment Policy.

B. Cash – The City's cash flow will be managed to maximize the cash available to invest. Such cash management will entail the centralization of cash collection centers such as utility bills, building and related permits and licenses, parks and recreation, and other collection offices where appropriate and feasible.

Idle cash position will be determined daily to maximize interest income. The underlying theme will be that idle cash will be invested with the intent to 1) safeguard assets, 2) maintain liquidity, and 3) maximize return.

The City Finance Department will use appropriate check-signing technology to sign all checks with the signatures of the City Manager and Director of Finance. Internal controls will be established to secure the technology and to prevent its misuse.

The City Manager, Assistant City Manager, and Director of Finance are authorized signatories on all City depository bank accounts. Any withdrawal, transfer or payment of City funds requires a minimum of two signatures.

XI. Debt Management

A. Policy Statement – The City Council recognizes the primary purpose of major capital projects is to support provision of services to its residents. Using debt financing to meet the major capital project needs of the community must be evaluated according to two tests - efficiency and equity. The test of efficiency equates to the highest rate of return for a given investment of resources. The test of equity requires a determination of who should pay for the cost of major capital projects. In meeting the demand for major capital projects, the City will strive to balance the load between debt financing and "pay as you go"

financing methods. The City Council realizes failure to meet the demands of growth may inhibit its continued economic viability, but also realizes that the amount of debt incurred may have a negative financial impact. The City will achieve an appropriate balance between service demands and the amount of debt incurred. The aforementioned tests and methods of financing will assist the City Council, City Manager and Director of Finance in achieving this appropriate balance.

B. Types of Debt –

1. General Obligation Bonds (GO's) – General obligation bonds will be issued to fund major capital projects of the general government, are not to be used to fund operating needs of the City and are backed by the full faith and credit of the City as well as the ad valorem taxing authority of the City as prescribed by law. The term of a bond issue will not exceed the useful life of the major capital projects funded by the bond issue and will generally be limited to no more than twenty years. GO's must be authorized by a vote of the citizens of the City.

2. Revenue Bonds (RB's) – Revenue bonds may be issued to fund major capital projects necessary for the continuation or expansion of a service which produces a revenue sufficient enough to obtain investment grade ratings and credit enhancement and for which the major capital project may reasonably be expected to provide for a revenue stream to fund the annual debt service requirements. The term of a bond issue will not exceed the useful life of the major capital projects funded by the bond issue and will generally be limited to no more than twenty years. RB's do not need a vote of the citizens of the City.

3. Certificates of Obligation (CO's) and Limited Tax Notes (Notes) – Certificates of obligations may be issued to fund major capital projects, which are not otherwise covered under either General Obligation Bonds or Revenue Bonds. Notes will be used in order to fund capital requirements which the useful life does not exceed seven (7) years as authorized by State law. Debt service for CO's or Notes may be either from general revenues or backed by a specific revenue stream or streams or by a combination of both. The term of the CO's will not exceed the useful life of the major capital projects funded by the certificate issuances and will generally be limited to no more than twenty years. Neither CO's nor Notes require a vote of the citizens of the City.

4. Method of Sale – The Director of Finance will use a competitive bidding process in the sale of bonds unless the nature of the issue or market conditions warrant a negotiated sale. In situations where a competitive bidding process is not elected, the Director of Finance will publicly present the reasons why and will participate with the City's Financial Advisor in the selection of the underwriter or direct purchaser.

C. Analysis of Financing Alternatives – The Director of Finance will explore alternatives to the issuance of debt for major capital projects. These alternatives will

include, but are limited to: 1) grants-in-aid, 2) use of fund balance or working capital, 3) use of current revenues, 4) contributions from developers and others, 5) leases, and 6) impact fees.

D. Conditions for Using Debt – Debt financing of major capital projects will be done only when the following conditions exist:

- When non-continuous projects (those not requiring continuous annual appropriations) are desired;
- When it can be determined that future users will receive a benefit from the major capital project;
- When it is necessary to provide basic services to residents and taxpayers (for example, purchase of water rights);
- When total debt, including that issued by overlapping governmental entities, does not constitute an unreasonable burden to the residents and taxpayers.

E. Costs and Fees – All costs and fees related to debt issuance will be paid out of debt proceeds.

F. Debt Limitations – The City maintains the following limitations in relation to debt issuance:

- An Ad Valorem tax rate of \$1.20 per \$100 of assessed value is the maximum municipal tax rate that may be levied for all General Fund tax supported expenditures and debt service.
- Debt payments made solely from ad valorem tax revenue should not exceed 20% of combined General Fund and Debt Service Fund expenditures.
- Total outstanding debt should not exceed 5% of the current year's taxable assessed valuation.

G. Arbitrage Rebate Compliance – The City Finance Department will maintain a system of record keeping and reporting to comply with arbitrage rebate compliance requirements of the Federal tax code.

H. Sound Financing of Debt – When the City utilizes debt financing, it will ensure that the debt is soundly financed by:

- Conservatively projecting the revenue sources that will be used to pay the debt;
- Financing the major capital project over a period not greater than the useful life of the major capital project;
- Maintaining a debt service coverage ratio which ensures that combined debt service requirements will not exceed revenues pledged for the payment of debt; and
- To the extent possible, the City will aim to repay at least 25% of the principal amount of its general obligation debt within five years and at least 50% within 10 years. The City may choose to structure debt repayment so as to wraparound existing debt obligations or to achieve other financial planning goals.

I. Credit Enhancement – The City should seek credit enhancement (letters of credit, bond insurance, surety bonds, etc.) when such credit enhancement proves cost effective. Credit enhancement may be used to improve or establish a credit rating on a debt obligation even if such credit enhancement is not cost effective if the use of such credit enhancement meets the financial planning goals.

J. Financing Methods – The City maintains the following guidelines in relation to methods of financing used to issue debt:

- Where it is efficient and cost effective, the City will use revenue or other self-supporting bonds in lieu of tax supported/pledged debt instruments.
- When appropriate, the City will issue non-obligation debt, for example, Industrial Development Revenue bonds, to promote community stability and economic growth.

K. Refunding – Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered if and when there is a net economic benefit of the refunding or the refunding is essential in order to modernize covenants, which impinge on prudent and sound financial management.

L. Full and Complete Disclosure – The City of San Marcos is committed to full and complete financial disclosure, and to cooperating with credit rating agencies, institutional and individual investors, City departments, other levels of government, and the general public to share clear, comprehensible and accurate financial information. Official statements accompanying debt issues, comprehensive annual financial reports, and continuous disclosure statements will meet, at a minimum, the standards articulated by the Municipal Standards Rulemaking Board, the National Federation of Municipal Analysts, the Government Accounting Standards Board (GASB), and the Securities Exchange Commission (SEC). The City Finance Department will be responsible for ongoing disclosure to nationally recognized municipal securities information repositories (NRMSIRs). Updates of budget, debt and financial information will be provided to credit rating agencies and investors when new debt is issued.

M. Credit Rating – The City of San Marcos seeks to maintain the highest possible credit ratings for all categories of debt that can be achieved without compromising the delivery of basic City services.

N. Elections – State law regulates which securities may be issued only after a vote of the electors of the City and approved by a majority of those voting on the issue.

1. Election Required – Securities payable in whole or in part from ad valorem taxes of the City except issues such as tax increment securities, certificates of obligation, and limited tax notes.

2. Election Not Required –

- Short-term notes (12 months or less) issued in anticipation of the collection of taxes and other revenues.
- Securities issued for the acquisition of water rights or capital improvements for water and wastewater treatment.
- Securities payable solely from revenue other than ad valorem taxes of the City.
- Refunding securities issued to refund and pay outstanding securities.
- Tax increment securities payable from ad valorem tax revenue derived from increased valuation for assessment of taxable property within a plan of development or other similar area as defined by applicable State Statutes.
- Certificates of obligation.
- Limited Tax Notes.
- Securities for the construction or improvement of public streets and/or rights-of-way in order to relieve congestion or for public safety matters.

XII. Financial Conditions, Reserves, and Stability Ratios

A. Operational Coverage – The City's Enterprise Funds will comply with all bond covenants and maintain an operational coverage of at least 120%, such that current operating revenues will exceed current operating expenses.

B. Fund Balances/ Working Capital –

1. The General Fund's fund balance should be at least 25% of the General Fund's annual operating expenditures. This percentage is the equivalent of three months operational expenditures. As a goal, the City will strive to achieve 30% fund balance.
2. The Water and Wastewater Utility Fund working capital should be maintained at 25% of total recurring operating expenses or the equivalent of three months operating expenses. Ending fund balances above 25% will be moved to cash fund future Capital Improvement projects.
3. The Electric Utility Fund working capital should be maintained at the equivalent of 60 days of recurring operating expenses. Ending fund balances above the 60 days of recurring operating expenses will be moved to cash fund future Capital Improvement projects.
4. Reserves will be used for emergencies or unforeseen expenditures, except when balances can be reduced because their levels exceed guideline minimums as stated below.

C. Capital and Debt Service Funds –

1. Monies in the Capital Improvement Program Funds should be used within twenty-four months of receipt or within a reasonable time according to construction schedules. Interest income and unspent monies from bond issuances can be used to fund similar projects as outlined by bond covenants. Any remaining monies will be used to pay the bond issuance.
2. Revenues in the Debt Service Fund are based on property tax revenues and

interest income. Reserves in the Debt Service Fund are designed to provide funding between the date of issuance of new debt and the time that property tax levies are adjusted to reflect the additional debt. Article 10, Section 10.02 of the City Charter requires that the City maintain a reserve balance of two percent of all outstanding general obligation debt.

D. Ratios/Trend Analysis –

Ratios and significant balances will be incorporated into financial reports. This information will provide users with meaningful data to identify major trends of the City's finances through analytical procedures. We have selected the following ratios/balances as key indicators:

- Fund Balance: Assets Less Liabilities
FB AL (Acceptable level)>25.0% of Expenditures
- Working Capital: Current Assets Less Current Liabilities
CA - CL AL > 25.0% of Expenses
- Current Ratio: Current Assets Divided By Current Liabilities
CA/CL AL > 1.00
- Quick Ratio: "Liquid" Current Assets Divided By Current Liquid
Liabilities
CA/CL AL > 1.00
- Debt Ratio (%): Current Liabilities Plus Long Term Liabilities
Divided By Total Assets
CL+LTL/TA AL < 1.00
- Enterprise Operational Coverage: Operating Revenue Divided By Operating
Expense
OR/OE AL > 1.20

Our goal is to develop minimum/maximum levels for the ratios/balances above through analyzing the City's historical trends and anticipated future trends. We will also analyze and compare the City to other municipalities to develop these acceptable levels.

XIII. Internal Controls

A. Written Procedures – Wherever possible, the Director of Finance will establish and maintain written procedures for all functions involving cash handling and/or accounting throughout the City. These procedures will embrace the general concepts of fiscal responsibility set forth in this policy statement.

B. Department Directors' Responsibilities – Each Department Director is responsible

to ensure that good internal controls are followed throughout their Department, that all City Finance Department directives or internal control recommendations are implemented, and that all independent auditor recommendations are addressed.

XIV. Personnel and Training

A. Adequate Personnel – Personnel levels will be adequate for the City Finance Department to operate effectively. Overtime will be used only to address temporary or seasonal demands that require excessive hours. Workload allocation alternatives will be explored before increasing personnel.

B. Training – The City Finance Department will support the continuing education efforts of all personnel. Personnel will be held accountable for communicating, teaching, and sharing with other personnel members all information and training materials acquired from seminars, conferences, and related education efforts.

C. Awards, Credentials, Recognition – The City Finance Department will support efforts and involvement which result in meeting standards and receiving exemplary recitations on behalf of any of the City's fiscal policies, practices, processes, products, or personnel. Certifications may include Certified Government Finance Officer, Certified Public Accountant, Management Accountant, Certified - Internal Auditor, and Certified Cash Manager.

The City Finance Department will strive to maintain a high level of excellence in its policies and procedures. The CAFR and budget will be presented annually to the Governmental Finance Officers Association for evaluation and consideration for the Certificate of Achievement for Excellence in Financial Reporting and the Distinguished Budget Presentation Award.

Reader's Guide

This section is meant to assist the lay reader in understanding the budget document and components. A summary of the major sections is included in this guide to make reading this document much easier.

Introduction

The Introduction is an opportunity for management to introduce the budget to the City Council and citizenry. There are two sections of the Introduction—the Transmittal Letter and the Executive Summary.

The Transmittal Letter

The Transmittal Letter formally conveys the budget document to the City Council, the governing body for the citizens of San Marcos. A summary of key initiatives is contained within this section.

Executive Summary

This section provides a detailed explanation of revenues, expenses and fund balances within each of the major budgeted funds.

Budget Policy Statement

The City Council formally adopts the Budget Policy Statement through a resolution. Staff uses the statement as a guideline for developing the budget.

City of San Marcos Financial Policy

The Financial Policy was last revised in January 2008. The financial policy provides long-term, organization-wide guidance from which budgetary and financial decisions are made. The policy is broad in scope and purpose and covers major financial areas such as budgeting, revenues, expenditures, capital improvements program, financial condition and reserves, and internal controls.

Reader's Guide

The Reader's Guide provides a brief summary of the information contained in the various sections of the budget. Supplemental data such as form of government, geographic location, population, demographics is contained within this section. This background information serves to familiarize the reader with the community's demographic and economic profile.

Budget Summary

The Budget Summary is a compilation and summary of all financial information contained in the operating detail section of the budget. All summaries are gross budget presentations—meaning that interfund transfers are included.

Consolidated Fund Balance Statement

The Consolidated Fund Balance Statement is a detailed table that analyzes fund balances for all funds and includes revenue and expense totals for the previous fiscal year and adopted budget.

Consolidated Summary of Major Revenues and Expenses

This summary is a detailed table that lists the major sources of revenue and the major categories of expenses for all funds.

Consolidated Summary of Operating Transfers

This table shows the various operating and indirect transfers made between the various funds within the adopted budget.

Consolidated Revenue, Expense and Fund Balance Comparison

This summary compares three years of revenue, expense and fund balance history (prior year's actual, current year's estimate, and adopted for next year).

Property Tax Valuation and Revenue

This detailed worksheet illustrates the method for calculating property tax revenue by providing information about the tax roll, collection rates and the division of the property tax rate between debt service and operations and maintenance.

Personnel Roster

The Personnel Roster serves as a summary of the staffing level for all departments. Information is presented in two forms, positions and full-time equivalents (FTE's). An FTE is a unit of measure that converts the hours worked by part-time and seasonal employees into equivalent hours worked by full-time employees. Full-time employees work 2,080 hours annually. An example of an FTE calculation would be a part-time employee that works 1,040 hours annually. The FTE calculation would be 0.5 ($1,040 \div 2,080$).

Budget Structure

The budget document is divided into the following fund groups. Not all funds reported in the audited financial statements are budgeted. Smaller, less significant, and rarely used funds such as grant and trust and agency funds are not budgeted.

General Fund

The General Fund is the primary operating fund for the City. It is viewed as the general government fund and accounts for a vast number of financial resources, except for resources required to be accounted for in other funds.

Debt Service Fund

The Debt Service Fund is used to account for the debt service portion of property tax revenues received. Debt service taxes are specifically assessed for the payment of general long-term debt principal and interest. The use of a separate fund ensures that debt service tax revenues are not commingled with other revenues and not used for any purpose other than debt repayment.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of certain specific revenue sources that are legally restricted to expenditures for specified purposes. The City utilizes this type of fund to account for revenues such as hotel occupancy tax, grants, special fines authorized by the State, and forfeiture revenue from seized assets.

Hotel Occupancy Tax

The Hotel Occupancy Tax Fund is used to account for a local bed tax of 7%. Tax monies collected are used for tourist development activities in accordance with State law.

Municipal Court Technology

This fund was established in fiscal year 2000 to provide budgeting and accountability for revenues collected from of a technology fee assessed through the municipal court system.

The Texas Legislature established the fee in its 1999 legislative session to provide a funding source to local municipal courts for future technological enhancements to their respective court systems. The enhancements may include computer systems, network systems, software, imaging systems, electronic kiosks, electronic ticket writers or docket management systems.

Municipal Security Fee

This fund was established in 2006 to provide budgeting and accountability for revenues collected from a security fee assessed through the municipal court system. The fee can only be used to finance security personnel or items used for the purpose of providing security services for the building that houses the Municipal Court.

Seized Assets

This fund provides budgeting and accountability for revenues collected from the sale of forfeited and seized assets belonging to various criminals engaged in certain illegal activities. Revenues from these seized assets are used to fund various technology improvements in our Police Department.

Community Development Block Grant

In fiscal year 1994, the United States Department of Housing and Urban Development designated the City of San Marcos as an Entitlement City for the Community Development Block Grant (CDBG). The program is designed to eliminate slum and blight conditions and to serve the needs of low to moderate-income residents.

Women, Infants and Children Program Fund

The Women, Infants and Children Program provides nutritional food supplements, nutritional counseling, clinical assessments, and education to pregnant women, breast-feeding mothers, infants and children up to five years of age. The City of San Marcos operates a five-county regional WIC program that is funded through the Texas Department of Health and Human Services and the United States Department of Agriculture.

Tax Reinvestment Zones

The City has several Tax Increment Reinvestment Zones across the City which have been used to stimulate development in key demographic areas.

Other Special Revenue Funds

The Cemetery Operations Fund provides for maintenance and upkeep of the historic San Marcos City Cemetery.

Enterprise Funds

Enterprise funds are used to account for governmental activities that are similar to those found in private businesses. The major revenue source for these enterprise funds is the rate revenue generated from the customers who receive the services provided. Expenses for these services are paid for through revenue generated from services provided.

Water/Wastewater Utility

The City of San Marcos operates a superior water production and wastewater collection and treatment system for the community. This fund is used to account for the revenues and expenses of this utility system.

Drainage Utility

The City of San Marcos began assessing a drainage utility rate in fiscal year 2000 to all residential and commercial property located in the City. The drainage charge was established to provide funding for the planning, engineering, construction, maintenance, improvement and reconstruction of drainage projects throughout the City.

Electric Utility

The City of San Marcos purchases and distributes electric power to the San Marcos community. The utility operates at a 99.9997% reliability rate and has a system capacity of 145 megawatts.

Municipal Airport

The Municipal Airport has four runways and is situated on 1,356 acres. Additionally, there are 60 acres of maintained parking ramps and 38 City-owned hangars and shelters. Revenue sources such as storage rentals, hangar rentals, storage rentals, gross receipts fees and land leases partially support the daily operational costs. There are more than 300 based aircraft at the airport and more than 100,000 annual takeoffs, landings and approaches.

Resource Recovery Utility Fund

The City of San Marcos outsources its residential solid waste collection through the use of a competitive bidding process. The solid waste collection company charges its monthly fee to the City on a per customer basis. This fee is passed on to each resident within the City. The waste collection revenue and expense were previously shown within the General Fund.

Permanent Funds

The City serves as trustee for funds collected through its cemetery perpetual care fee. This fee is assessed on all municipal cemetery plots sold. Interest earned from the Cemetery Perpetual Care Fund is used to support the maintenance costs at the municipal cemetery. The principal amount of the fund cannot be used for any purpose.

Miscellaneous and Statistical

Statistical and supplemental financial data is contained within this section. This background information serves to familiarize the reader with the community's economic profile.

Glossary

The glossary contains definitions of words used throughout the budget document. Most of the terminology is specific to local government budgeting and accounting and is not readily understood by a reasonably informed lay reader.

Basis of Budgeting

Fund budgets are on a basis consistent with modified and full accrual accounting basis, with exceptions, including that depreciation, amortization and bad debt expenses are not included in the budget, capital purchases are budgeted in the year of purchase, and debt principal is budgeted in the year it is to be paid. The emphasis is on cash transactions in lieu of non-cash transactions, such as depreciation and amortization. The focus is on the net change in working capital.

The General, Debt Service, Special Revenue, and Permanent funds are budgeted on a modified accrual basis, with exceptions as noted above. Revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). Substantially all revenues are considered to be susceptible to accrual. Ad valorem, sales, hotel, and franchise tax revenues are

susceptible to accrual. Licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues (except earnings on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Expenditures are recognized when the related fund liability is incurred, if measurable and the liability will be liquidated with resources included in the budget, except for (1) inventories of materials and supplies which may be considered expenditures either when purchased or used; (2) prepaid insurance and similar items which need not be reported; (3) accumulated unpaid vacation, sick pay, and other employee benefit amounts which need not be recognized in the current period; (4) un-matured interest on long-term debt is recognized when due, and (5) those exceptions noted above.

The Enterprise funds are budgeted on a full accrual basis with exceptions as noted above. Revenues are budgeted in the year they are expected to be earned and expenses are budgeted in the year the liability is expected to be incurred.

Basis of Accounting

Basis of accounting refers to the time at which revenues, expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements.

Governmental funds and agency funds are accounted for using the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenses, if measurable, are generally recognized when the related fund liability is incurred. Exceptions to this general rule include the un-matured principal and interest on general obligation long-term debt which is recognized when due and accrued vacation and sick leave, which is included in the General Long-Term Debt Account Group. These exceptions are in conformity with generally accepted accounting principles.

Property tax revenues are recognized when they become available. In this case, available means when due, or past due and receivable within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Tax collections expected to be received subsequent to the 60-day availability period are reported as deferred revenue.

Sales taxes are recorded when susceptible to accrual (i.e., both measurable and available). Sales taxes are considered measurable when in the custody of the State Comptroller and are recognized as revenue at that time. Other major revenues that are considered susceptible to accrual include utility franchise taxes, grants-in-aid earned and other intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual grant programs are used for guidance. There are essentially two types of intergovernmental revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenses recorded. In the other, monies are virtually unrestricted as to purpose of expense and are revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt, or earlier, if the susceptible to accrual criteria are met.

The accrual basis of accounting is utilized by the proprietary fund. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable (i.e., water billings and accrued interest). Expenses are recorded in the accounting period incurred, if measurable.

Organizational Relationships

A department is a major administrative segment of the City which indicates overall management responsibility for an operation or a group of related operations within a functional area (e.g., Police Department, Parks and Recreation Department, Public Department). The smallest organizational unit budgeted is the division. The division indicates responsibility for one functional area, and in many cases these functional areas are put together to demonstrate a broader responsibility. When this is done, the divisions are combined to make up one department. For example, the Public Works Department is comprised of Public Works Administration, Streets, Traffic, and Vehicle Maintenance.

Budget Amendment

Following formal adoption, the budget is amended as necessary through a submission made by a Department Director to the City Manager. A budget amendment form detailing the reason, line items and amounts to be effected is prepared. The Finance Department reviews the amendment for available dollars and the City Manager reviews the amendment for overall appropriate objectives and purposes. Should appropriations transfer between Departments, Funds, or involve fund balance or Contingency Funds, the amendment is submitted to City Council for approval; otherwise, the City Manager has authority to approve or disapprove. Budget amendments that require City Council approval are formally as an ordinance of the City.

Budget Process

- (a) **Strategic Planning and Visioning** – Early in the budget process, the City Council and administrative staff retreat to discuss community needs and challenges. City Council develops short and long-term priorities as well as a policy statement to use for the current budget and future years.
- (b) **Revenue Projection** – The Finance Department staff develops revenue projections based upon trend analysis, anticipated changes in the local, state and national economies, and discussions with other departments. The revenue projection is used to determine the financial limitations for the development of the budget.
- (c) **Budget Development** – Departments develop a budget that incorporates the goals outlined within the policy statement and the financial limitations as determined through revenue projections.
- (d) **Budget Analysis** – Once department budgets are submitted, a preliminary budget estimate is constructed. Administrative and Finance staff review the preliminary budget and hold department reviews. Funding requests and target levels are discussed in an attempt to

- reconcile department requests with financial limitations and policy statement goals.
- (e) **Budget** – The City Manager submits a budget that seeks to meet City Council’s goals as outlined in the policy statement. Council then reviews the budget for conformity to their overall direction and guidance. Workshops are held to review and discuss the budget. City Council may take action to make changes to the budget.
 - (f) **Public Hearings / Budget Adoption** – Public hearings on the budget and tax rate are held to give citizens an opportunity to speak for or against the budget. Citizens also have an opportunity to attend budget workshops that occur prior to the budget adoption. The budget and tax rate take effect on October 1st.

FY 2018 Budget Calendar

March 27	Budget Policy Workshop
April 12	Departmental Budget Kickoff
April 15	Estimate of taxable value due
April 18	Public hearing and adoption of Budget Policy
May 12	Completed Departmental Budgets Due to Finance
May 15 – May 31	Department Budget Review Meetings with Finance
June	Budget Reviewed by City Manager
July 24	1 st Budget review workshop
July 26	2 nd Budget review workshop
July 18	Set Public Hearing Dates for the budget and tax rate
July 25	Tax Rolls Certified
July 31	Proposed Budget Filed with City Clerk and Council
August 1	Budget Discussion Agenda Item
August 6 th	Publish notice for the Budget Public Hearing (no less than 30 days before the hearing)
August 15	Record vote to set the proposed maximum tax rate above effective rate; Potential agenda items to discuss any outstanding budget items from workshops.
August 20	Publish notice of effective tax rate to include the dates of two public hearings and explanation of how the increase will be used no sooner than 30 days before the hearing and later than 10 days. This notice must remain on the City website and be included on the City's television channel until the tax rate is adopted.
September 5	First public hearing on the tax rate; Budget public hearing; 1st reading of utility rates, budget and tax rate ordinances.
September 15	Second public hearing on tax rate (Packet Meeting)
September 19	2nd Reading of Utility Rates ordinance; record vote to adopt budget on second reading; ratification of the tax rate reflected in the budget; Tax Rate adoption on second reading (requires an affirmative vote of five if tax rate is increasing).

CITY OF SAN MARCOS

2017-18 ANNUAL BUDGET

DEPARTMENT/RESPONSIBILITY CENTER MATRIX

This matrix shows the correlation between departments and their respective responsibility center. Listed across the top of the matrix are the responsibility centers. The departments are shown along the side. Areas containing a check mark indicate the responsibility of the department.

Department	Responsibility Center			
	General Service	Community Service	Community Development	Public Safety
City Manager	✓			
City Clerk	✓			
Legal	✓			
Human Resources	✓			
Finance	✓			
Technology Services	✓			
Neighborhood Services			✓	
Environmental Health		✓		
Library		✓		
Parks and Recreation		✓		
Capital Improvements			✓	
Planning and Development			✓	
WIC		✓		
Fire				✓
Police				✓
Public Services			✓	
Water & Wastewater Utility			✓	
Electric Utility			✓	
Municipal Airport			✓	

CITY OF SAN MARCOS

2017-18 ANNUAL BUDGET

DEPARTMENT/DIVISION ASSIGNMENT BY FUND

The annual budget is presented by fund. This matrix shows the assignment of departments and divisions by fund within the budget. Listed across the top of the matrix are the major funds. The departments and divisions within each fund are shown below the respective fund.

General Fund	Hotel Occupancy Tax Fund	WIC Program Fund	Water /WW Utility Fund	Electric Utility Fund	CIP Fund	Municipal Airport Fund
City Manager	Main Street	Administration	Wastewater Collection	Conservation	CIP	Airport
City Clerk		Nutrition		Meter Operations		
Legal		Breastfeeding	Wastewater Treatment Facility Operations	Administration		
Finance		Peer Councilor		Maintenance		
Municipal Court				Billing & Collections		
Human Resources			Water Quality Services	Public Services Administration		
Technology Services						
Marshal's Office			Water Production/ Wastewater Treatment Facility Maintenance			
Code Enforcement						
Animal Services						
Library						
Parks & Recreation			Water Distribution Maintenance			
Activity Center						
Facilities & Grounds			Conservation			
Park Rangers			Administration			
Development Services Admin						
Planning/Permit						
Inspections						
Police Admin/ Operations						
Fire						
Transportation Administration						
Streets						
Traffic Control						
Fleet						

CITY OF SAN MARCOS

2017-18 ANNUAL BUDGET

COMMUNITY INFORMATION

The City of San Marcos is a Home-Rule municipality operating under the Council-Manager form of government and is approximately 32 square miles in size with a residential population of 54,076. The city was incorporated on July 11, 1877. San Marcos is the county seat and principal commercial, educational and recreational center of Hays County. San Marcos is located on Interstate Highway 35 and U.S. Highway 81, and at the intersection of State Highways 80, 142, 21 and 123, midway between the metropolitan areas of San Antonio and Austin. San Marcos attracts millions of visitors annually that shop at the Premium Outlet Mall, Tanger Outlet Mall, and visit the Aquarena Springs Park and Wonder World Park. Beef cattle, sorghums and cotton are the principal sources of agricultural income. Retail sales are the principal source of economic income.

The climate of San Marcos is humid sub-tropical with hot summers. The annual total precipitation is 42.41 inches. Rainfall occurs in late spring and early fall. The mean length of the growing season (without freeze) is 254 days. San Marcos receives about 63% of total possible sunshine annually. San Marcos sits between 650 and 805 feet above sea level.

There are 310 lane miles of streets and roads in the city, with approximately 99.9% of these paved. Transportation methods include two bus services, an airport, and two railways. There are four fire stations and one police station in the city.

There are six public elementary schools, four private elementary schools, two public junior high schools, 3 private junior high schools, one public high school, two private high schools, and one public alternative education school located in San Marcos.

There are currently over 30,000 registered voters within the city limits.

The City's 27,000 square-foot public library houses a collection of over 145,000 volumes. The library collection includes books, videos, audiotapes, computer software, and audiovisual equipment. All residents of San Marcos and Hays County are eligible to borrow materials and use other library services. The library offers a wide array of programs and services including GED and English as a Second Language tutoring for adults, story time and film programs for children, inter-library loan, and reference assistance. The library is open seven days per week and makes its two meeting rooms and thirty internet-accessible computers available for public use.

Recreational Facilities:

Activity Center. 62,000 square-foot facility offering programs to youth, adults and seniors.

Bicentennial Park. 4 acres – jogging trail, picnic tables.

Castle Forest. 2.6 acres – undeveloped.

Children's Park. 5.77 acres – picnic facilities jogging trails, playscape, and restroom facilities.

City Park. 18 acres – one multi-purpose football/soccer field, recreation hall, picnic facilities, two basketball courts, and playground apparatus.

Dunbar Park. 7.3 acres – recreation center, basketball court, playground apparatus, multi-purpose field, and picnic facilities.

Gary Parkland. 42 acres – 4 lighted softball fields, concession stand, restroom facilities, and 7 multi-size soccer/football fields and concession.

H-E-B Park. 3 acre – picnic facilities and playground apparatus.

Hills of Hays. 2.91 acres – playground, basketball court, and picnic facilities.

Lancaster. 2.315 acres – playground apparatus and basketball court.

Memorial Park. 12.56 acres – public library and new activity center.

Old Wastewater Treatment Plant. 12 acres – undeveloped.

Prospect Park. 9 acres – greenspace, undeveloped.

Ramon Lucio Park. 22.10 acres – 5 lighted little league fields, one lighted pony league field, jogging trails, picnic facilities, and one covered pavilion.

Rio Vista Park. 13.54 acres – swimming pool, 2 covered pavilions, 6 lighted tennis courts, picnic facilities, basketball court, jogging trails, Park Rangers and Fire Marshall.

River Ridge. 7.4 acres – 2 tennis courts, basketball courts and jogging trail.

San Marcos Riverwalk Park and Fish Hatchery. 3.4 acres with bike and hiking trails.

San Marcos Park and Wildlife Habitat. 8.8 acres – picnic facilities and jogging trails.

Schulle Canyon. 20.9 acres – greenspace, undeveloped.

Sessions Drive. 5 acres – greenspace, undeveloped.

Swift Memorial Park. 0.25 acres – playground apparatus, basketball court and greenhouse.

Verimendi Plaza. 1.25 acres – Charles S. Cock House Museum, Memorial Grove, riverwalk, gazebo, fountain, gardens, foundation and picnic facilities.

Veteran's Memorial Park. 1.25 acres – picnic facilities, one covered pavilion, playground apparatus and basketball court.

Victory Gardens. 0.25 acres – playground apparatus and basketball court.

5 mile Dam Soccer complex- 47 acres- playground, 10 soccer fields, concession, jogging trail and one covered pavilion.

Spring Lake Preserve 250 acres, natural undeveloped

Purgatory Creek 427 acres, trails, natural areas

CITY OF SAN MARCOS

2017-18 ANNUAL BUDGET

DEMOGRAPHIC STATISTICS

LAST TEN FISCAL YEARS

Fiscal Year	Population (A)	Hays County Median Family Income (A)	Hays County Median Age (A)	SMCISD School Enrollment (C)	Unemployment Rate for City of San Marcos (H)
2007	50,049 (A)	65,280 (A)	28.25 (A)	7,350	3.4% (H)
2008	50,317 (A)	72,670 (A)	28.4 (A)	7,400	3.4% (H)
2009	50,913 (A)	74,850 (A)	28.2 (A)	7,434	4.7% (H)
2010	53,913 (A)	75,200 (A)	28.2 (A)	7,500	5.4% (H)
2011	47,505 (A)	70,100 (A)	28.2 (A)	7,550	6.0% (H)
2012	46,750 (A)	70,100 (A)	28.2 (A)	7,550	4.7% (H)
2013	48,100 (A)	71,000 (A)	28.2 (A)	7,600	4.7% (H)
2014	54,100 (A)	72,500 (A)	28.2 (A)	7,800	4.9% (H)
2015	54,500 (A)	72,600 (A)	28.2 (A)	7,820	4.9% (H)
2016	55,200 (A)	72,700 (A)	30.9 (A)	7,858	3.6% (H)

Sources:

- A City of San Marcos Planning Department.
- B U.S. Department of Commerce; information for Hays County.
- C Superintendent’s Average Attendance Report (years reported are September through June).
- D Texas Statement Employment Commission, Economic Research and Analysis Department, January 1991 - Civilian Labor Force Annual Average Data Report.
- E Not Used.
- F Chamber of Commerce, San Marcos, Texas.
- G Fiscal year 1996 changed from Per Capita Income to Median Income.
- H Texas Workforce Commission labor market information.
- I US Census Bureau

CITY OF SAN MARCOS

2017-18 ANNUAL BUDGET

TEN LARGEST TAXPAYERS

<u>Business Name</u>	<u>Business Category</u>	<u>Assessed Valuation</u>	<u>Percent of Total Assessed Valuation</u>
Hays Energy LP	Energy	\$198,332,108	7.55%
H.E.B. Warehouse	Grocery Warehouse	113,520,708	4.45%
San Marcos Factory Shops	Retail Center	59,519,446	1.77%
Tanger Properties	Retail Center	57,693,771	1.68%
CFAN	Manufacturing	42,880,361	1.47%
Prime Outlets at SM	Retail Center	41,409,255	1.39%
ACC OP (Retreat SM)	Apartment Property	38,240,538	1.13%
San Marcos Properties III	Property Development	38,045,240	.88%
Copper Beech Townhomes	Apartment Property	34,731,013	.83%
CD/Park 7 SM Owner LP	Property Development	33,650,894	.79%
Total		<u>\$658,023,334</u>	<u>21.94%</u>

CITY OF SAN MARCOS

2017-18 ANNUAL BUDGET

TEN LARGEST EMPLOYERS

<u>Business Name</u>	<u>Business Category</u>	<u>Number of Employees</u>
Texas State University	University	3,606
Amazon	Warehouse	3,000
San Marcos Premium Outlets	Retail Outlet	1,600
Tanger Factory Outlets	Retail Outlet	1,540
SMCISD	School	1,209
Hays County	County Government	832
CFAN	Manufacturing	700
Central Texas Medical Center	Hospital	700
HEB Distribution Center	Warehouse	680
City of San Marcos	City Government	679

TEN LARGEST ELECTRIC CUSTOMERS

<u>Business Name</u>	<u>Amount Billed</u>
Texas State University, Cogen	\$7,434,150
H.E.B. Grocery	2,122,130
Texas State University	1,053,993
City of San Marcos	848,112
Central Texas Medical Center	810,293
SMCISD	796,499
Hays County Government Center	623,243
Embassy Suites San Marcos	551,172
Thermon Manf	502,303
Walmart Super Store	472,872

CITY OF SAN MARCOS

2017-18 ANNUAL BUDGET

CONSOLIDATED FUND BALANCE STATEMENT

	Fund Balance 10-01-2016	Estimated Revenues FY 2016-17	Estimated Expenses FY 2016-17	Fund Balance 10-01-2017	Adopted Revenues FY 2017-18	Adopted Expenses FY 2017-18	Fund Balance 09-30-2018
<u>Governmental Funds</u>							
General Fund	17,572,252	61,825,026	61,803,964	17,593,313	71,380,286	73,277,859	15,695,741
Debt Service Fund	9,114,886	15,133,533	14,854,233	9,394,187	18,903,349	17,393,311	10,904,225
<u>Special Revenue Funds</u>							
Hotel Occupancy Tax Fund	654,015	3,899,464	4,452,390	101,089	4,103,267	4,168,921	35,435
Municipal Court Technology Fund	210,252	25,025	80,000	155,277	30,025	80,000	105,302
Municipal Court Security Fee Fund	146,660	22,012	23,637	145,035	22,012	74,962	92,085
Municipal Court Juvenile Fee Fund	16,708	35,500	29,914	22,294	40,000	31,379	30,916
Municipal Court Efficiency Fee Fund	32,559	27,000	24,000	35,559	27,000	24,000	38,559
Seized Assets Fund	120,077	19,682	3,082	136,676	5,100	5,000	136,776
TIRZ #2, #3, #5, TRZ #1, TIZ #1	608,209	1,727,801	1,415,116	920,894	2,457,852	3,368,606	10,140
CDBG Program Fund	-	525,164	525,164	-	562,798	562,798	-
WIC Program Fund	-	2,048,531	2,048,531	-	1,997,355	1,997,355	-
Cemetery Operations Fund	36,358	215,000	214,672	36,686	205,000	236,273	5,413
PEG Funds	421,338	96,600	2,000	515,938	100,000	25,000	590,938
<u>Permanent Funds</u>							
Cemetery Perpetual Care Fund	1,066,634	2,500	-	1,069,134	4,000	-	1,073,134
<u>Enterprise Funds</u>							
Water & Wastewater Utility Fund	8,819,793	36,564,547	36,649,439	8,734,901	40,403,790	39,475,918	9,662,773
Drainage Utility Fund	792,805	4,209,791	4,126,765	875,832	4,993,581	4,715,520	1,153,893
Electric Utility Fund	9,072,511	56,474,004	56,137,805	9,408,711	63,593,605	63,292,857	9,709,459
Municipal Airport Fund	2,528	498,822	468,546	32,804	538,340	563,046	8,098
Resource Recovery Fund	972,038	3,820,910	3,840,509	952,439	4,172,435	4,133,188	991,687
Transit	145,904	500,000	606,004	39,900	610,000	627,623	22,277
All Funds	49,805,526	187,670,912	187,305,770	50,170,668	214,149,795	214,053,615	50,266,851

CITY OF SAN MARCOS

2017-18 ANNUAL BUDGET

CONSOLIDATED SUMMARY OF MAJOR REVENUES AND EXPENSES

	General Fund	Debt Service Fund	Hotel Occupancy Tax Fund	CDBG Program Fund	WIC Program Fund	Other Special Revenue Funds	Water & Wastewater Utility Fund	Drainage Utility Fund
Beginning Fund Balance								
October 1 2017	17,593,313	9,394,187	101,089	-	-	1,931,672	8,734,901	875,832
Major Revenues								
Taxes	57,917,925	11,681,485	3,958,786	-	-	-	-	-
Licenses and Permits	2,856,423	-	-	-	-	-	-	-
Fines and Penalties	1,742,457	-	-	-	-	100,000	-	37,698
Interest Income	134,000	90,000	1,000	-	-	137	108,000	3,000
Cultural and Recreational	815,242	-	-	-	-	-	-	-
Current Services	764,093	-	-	-	-	-	-	-
Grants	-	-	-	562,798	1,997,355	-	-	-
Water Service Revenue	-	-	-	-	-	-	19,379,216	-
Wastewater Service Revenue	-	-	-	-	-	-	17,590,204	-
Drainage Service Revenue	-	-	-	-	-	-	-	4,909,302
Electric Service Revenue	-	-	-	-	-	-	-	-
Resource Recovery Revenue	-	-	-	-	-	-	-	-
Operating Transfers	5,789,115	-	143,481	-	-	-	-	-
Other Revenues	1,361,031	7,131,864	-	-	-	2,581,852	3,326,370	43,581
One-Time Revenues	-	-	-	-	-	-	-	-
Total Revenues	71,380,286	18,903,349	4,103,267	562,798	1,997,355	2,681,989	40,403,790	4,993,581
Major Expenses								
Personnel Services	46,812,674	-	69,707	112,561	1,538,846	51,341	4,969,044	663,190
Contracted Services	7,037,556	-	2,383,032	450,237	322,961	79,000	10,579,994	1,055,642
Materials and Supplies	4,308,972	-	61,551	-	102,901	10,000	1,395,330	134,842
Other Charges	3,889,010	-	-	-	32,647	3,148,756	9,048,055	293,827
Capital Outlay and Maintenance	115,000	-	-	-	-	100,000	400,000	55,000
System Improvements	-	-	-	-	-	-	-	-
Social Services	450,000	-	-	-	-	-	-	-
Debt Service	-	17,393,311	-	-	-	-	12,613,639	2,513,019
Operating Transfers	1,451,405	-	1,654,631	-	-	219,850	69,856	-
Transfer to Capital Reserves	-	-	-	-	-	-	400,000	-
One-Time Expenses	9,213,241	-	-	-	-	-	-	0
Total Expenses	73,277,859	17,393,311	4,168,921	562,798	1,997,355	3,608,947	39,475,918	4,715,520
Ending Fund Balance								
on 09/30/2017	15,695,741	10,904,225	35,434	-	-	1,004,714	9,662,773	1,153,893

CITY OF SAN MARCOS

2017-18 ANNUAL BUDGET

CONSOLIDATED SUMMARY OF MAJOR REVENUES AND EXPENSES

	Electric Utility Fund	Municipal Airport Fund	Resource Recovery Fund	Cemetery Fund	Transit Fund	Permanent Funds	Total from All Funds
Beginning Fund Balance							
October 1 2017	9,408,711	32,804	952,439	36,686	39,900	1,069,134	50,170,668
Major Revenues							
Taxes	-	-	-	-	-	-	73,558,196
Licenses and Permits	-	-	-	-	-	-	2,856,423
Fines and Penalties	-	-	-	-	-	-	1,880,155
Interest Income	143,420	-	-	-	-	1,000	480,557
Cultural and Recreational	-	-	-	-	-	-	815,242
Current Services	-	584,340	-	55,000	-	-	1,403,433
Grants	-	-	-	-	-	-	2,560,153
Water Service Revenue	-	-	-	-	-	-	19,379,216
Wastewater Service Revenue	-	-	-	-	-	-	17,590,204
Drainage Service Revenue	-	-	-	-	-	-	4,909,302
Electric Service Revenue	59,195,959	-	-	-	-	-	59,195,959
Resource Recovery Revenue	-	-	4,117,435	-	-	-	4,117,435
Operating Transfers	-	-	-	150,000	610,000	-	6,692,596
Other Revenues	4,254,226	(46,000)	55,000	-	-	3,000	18,710,924
One-Time Revenues	-	-	-	-	-	-	-
Total Revenues	63,593,605	538,340	4,172,435	205,000	610,000	4,000	214,149,795
Major Expenses							
Personnel Services	6,072,152	-	252,491	-	125,123	-	60,667,129
Contracted Services	42,953,496	476,605	3,551,669	234,273	496,000	-	69,620,465
Materials and Supplies	1,069,953	5,000	27,000	2,000	3,000	-	7,120,549
Other Charges	8,356,752	81,441	262,028	-	3,500	-	25,116,016
Capital Outlay and Maintenance	809,310	-	40,000	-	-	-	1,519,310
System Improvements	-	-	-	-	-	-	-
Social Services	-	-	-	-	-	-	450,000
Debt Service	4,031,194	-	-	-	-	-	36,551,163
Operating Transfers	-	-	-	-	-	-	3,395,742
Transfer to Capital Reserves	-	-	-	-	-	-	400,000
One-Time Expenses	-	-	-	-	-	-	9,213,241
Total Expenses	63,292,857	563,046	4,133,188	236,273	627,623	-	214,053,615
Ending Fund Balance							
on 09/30/2017	9,709,459	8,098	991,687	5,413	22,277	1,073,134	50,266,848

CITY OF SAN MARCOS

2017-18 ANNUAL BUDGET

CONSOLIDATED REVENUE COMPARISON

	Actual Fiscal Year 2015/2016	Approved Fiscal Year 2016/2017	Estimated Fiscal Year 2016/2017	Adopted Fiscal Year 2017/2018
<u>Governmental Funds</u>				
General Fund	59,482,956	63,244,026	61,825,026	71,380,286
Debt Service Fund	14,399,362	13,804,890	15,133,533	18,903,349
<u>Special Revenue Funds</u>				
Hotel Occupancy Tax Fund	3,834,391	4,044,036	3,899,464	4,103,267
Municipal Court Technology Fund	24,967	30,025	25,025	30,025
Municipal Court Security Fee Fund	21,024	24,012	22,012	22,012
Municipal Court Juvenile Fee Fund	39,182	40,000	35,500	40,000
Municipal Court Efficiency Fee Fund	3,560	27,000	27,000	27,000
Seized Assets Fund	49,405	5,100	19,682	5,100
TIRZ #2, #3, #5, TRZ #1, TIZ #1	1,166,644	1,642,516	1,727,801	2,457,852
CDBG Program Fund	374,268	525,164	525,164	562,798
WIC Program Fund	1,685,816	2,048,531	2,048,531	1,997,355
Cemetery Operations Fund	157,630	221,600	215,000	205,000
PEG Funds	101,675	100,000	96,600	100,000
<u>Permanent Funds</u>				
Cemetery Perpetual Care Fund	3,406	6,000	2,500	4,000
<u>Enterprise Funds</u>				
Water/Wastewater Utility Fund	35,213,913	37,692,653	36,564,547	40,403,790
Drainage Utility Fund	3,710,038	4,243,339	4,209,791	4,993,581
Electric Utility Fund	55,669,760	58,724,490	56,474,004	63,593,605
Municipal Airport Fund	543,603	528,645	498,822	538,340
Resource Recovery Fund	3,640,146	3,944,498	3,820,910	4,172,435
Transit Fund	590,000	535,000	500,000	610,000
Total	180,711,745	191,431,525	187,670,912	214,149,795

CITY OF SAN MARCOS

2017-18 ANNUAL BUDGET

CONSOLIDATED EXPENSE COMPARISON

	Actual Fiscal Year 2015/2016	Approved Fiscal Year 2016/2017	Estimated Fiscal Year 2016/2017	Adopted Fiscal Year 2017/2018
<u>Governmental Funds</u>				
General Fund	59,176,549	65,905,990	61,803,964	73,277,859
Debt Service Fund	13,369,534	13,285,457	14,854,233	17,393,311
<u>Special Revenue Funds</u>				
Hotel Occupancy Tax Fund	3,564,146	4,652,731	4,452,390	4,168,921
Municipal Court Technology Fund	10,481	30,000	80,000	80,000
Municipal Court Security Fee Fund	8,527	23,637	23,637	74,962
Municipal Court Juvenile Fee Fund	18,640	29,914	29,914	31,379
Municipal Court Efficiency Fee Fund	4,232	24,000	24,000	24,000
Seized Assets Fund	34,880	1,500	3,082	5,000
TIRZ #2, #3, #5, TRZ #1, TIZ #1	1,044,450	2,251,283	1,415,116	3,368,606
CDBG Program Fund	374,268	525,164	525,164	562,798
WIC Program Fund	1,685,816	2,048,531	2,048,531	1,997,355
Cemetery Operations Fund	205,237	218,489	214,672	236,273
PEG Funds	187,334	200,000	2,000	25,000
<u>Permanent Funds</u>				
Cemetery Perpetual Care Fund	-	-	-	-
<u>Enterprise Funds</u>				
Water/Wastewater Utility Fund	33,607,571	36,872,243	36,649,439	39,475,918
Drainage Utility Fund	4,087,509	4,322,372	4,126,765	4,715,520
Electric Utility Fund	55,370,426	57,993,152	56,137,805	63,292,857
Municipal Airport Fund	436,805	526,002	468,546	563,046
Resource Recovery Fund	3,917,148	4,281,380	3,840,509	4,133,188
Transit Fund	582,523	619,804	606,004	627,623
Total	177,686,076	193,811,647	187,305,770	214,053,615

CITY OF SAN MARCOS

2017-18 ANNUAL BUDGET

CONSOLIDATED FUND BALANCE COMPARISON

	Actual Fiscal Year 2015/2016	Approved Fiscal Year 2016/2017	Estimated Fiscal Year 2016/2017	Adopted Fiscal Year 2017/2018
<u>Governmental Funds</u>				
General Fund	17,572,252	14,910,288	17,593,313	15,695,741
Debt Service Fund	9,114,886	9,634,320	9,394,187	10,904,225
<u>Special Revenue Funds</u>				
Hotel Occupancy Tax Fund	654,015	45,320	101,089	35,434
Municipal Court Technology Fund	210,252	210,277	155,277	105,302
Municipal Court Security Fee Fund	146,660	147,035	145,035	92,085
Municipal Court Juvenile Fee Fund	16,708	26,794	22,294	30,915
Municipal Court Efficiency Fee Fund	32,559	35,559	35,559	38,559
Seized Assets Fund	120,077	123,677	136,676	136,776
TIRZ #2, #3, #5, TRZ #1, TIZ #1	608,209	(558)	920,894	10,140
CDBG Program Fund	-	-	-	-
WIC Program Fund	-	-	-	-
Cemetery Operations Fund	36,358	39,469	36,686	5,413
PEG Funds	421,338	321,338	515,938	590,938
<u>Permanent Funds</u>				
Cemetery Perpetual Care Fund	1,066,634	1,072,634	1,069,134	1,073,134
<u>Enterprise Funds</u>				
Water/Wastewater Utility Fund	8,819,793	9,640,203	8,734,901	9,662,773
Drainage Utility Fund	792,805	713,773	875,832	1,153,893
Electric Utility Fund	9,072,511	9,803,849	9,408,711	9,709,459
Municipal Airport Fund	2,528	5,171	32,804	8,098
Resource Recovery Fund	972,038	635,156	952,439	991,687
Transit Fund	145,904	61,100	39,900	22,277
Total	49,805,526	47,425,404	50,170,667	50,266,848

City of San Marcos
Property Tax Valuation and Revenue
2017-18 Annual Budget

Total Market Value	\$ 4,577,343,557
Less: Exemptions & Exempt Properties	-
Net Taxable Assessed Valuations	\$ 4,577,343,557

Assessed Value X \$0.6139 Tax Rate	\$ 28,100,312
98.00% Collection Rate	\$ 27,538,306
2.00% Delinquent Rate	\$ 562,006

Total Taxes To Be Collected:

Current Collections		\$ 27,538,306
Delinquent Collections	65.00%	365,304
Penalties and Interest	35.00%	196,702
		\$ 28,100,312

Division of Tax Rate:

Debt Service	41.5707%	\$ 0.2552	\$ 11,681,485
O & M	58.4293%	0.3587	16,418,827
	100.0000%	\$ 0.6139	\$ 28,100,312

General Fund Detail:

Current Ad Valorem	\$ 16,090,450
Delinquent	213,445
Penalties	114,932
	\$ 16,418,827

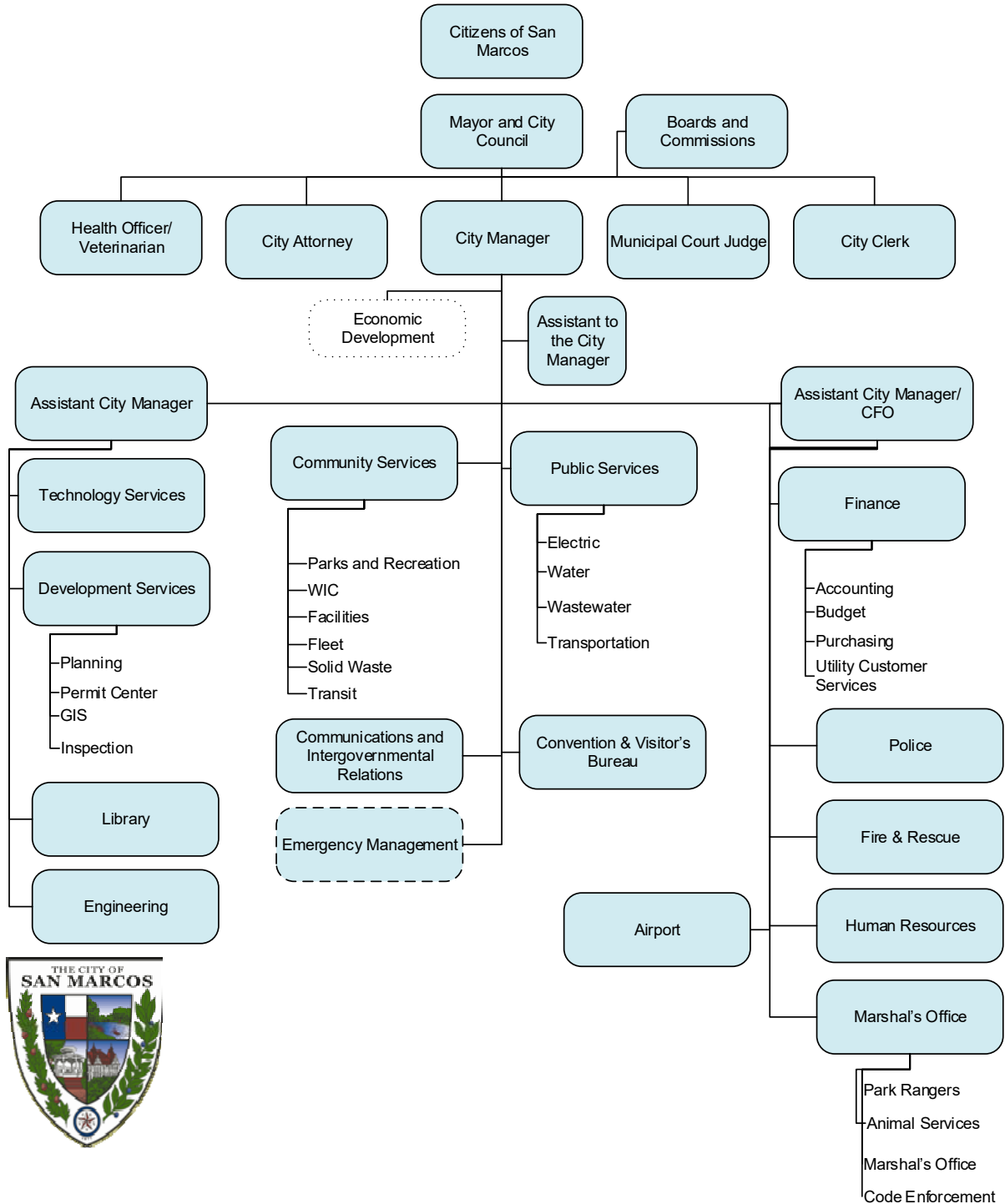
Debt Service Fund Detail:

Current Ad Valorem	\$ 9,608,283
TIZ	1,839,572
Delinquent	151,859
Penalties	81,770
	\$ 11,681,485

One-cent equals: \$ 457,734

CITY OF SAN MARCOS

2017-18 ANNUAL BUDGET ORGANIZATIONAL CHART



CITY OF SAN MARCOS

2017-18 ANNUAL BUDGET

PERSONNEL ROSTER TOTAL OF ALL FUNDS

	Positions				Full Time Equivalent			
	Actual	Adopted	Actual	Adopted	Actual	Adopted	Actual	Adopted
	2015-16	2016-17	2016-17	2017-18	2015-16	2016-17	2016-17	2017-18
General Fund	573	589	591	592	496.05	511.37	513.87	515.77
Hotel Occupancy Tax Fund	2	11	11	11	2.00	10.00	10.00	10.00
Water/Wastewater Utility Fund	58	61	61	63	58.00	61.33	61.33	63.33
Drainage Utility Fund	7	8	8	9	7.00	8.00	8.00	9.00
Electric Utility Fund	61	64	64	66	61.00	64.33	64.33	66.33
Resource Recovery	2	3	3	4	2.33	2.83	2.83	4.33
Transit	1	1	1	1	1.33	1.33	1.33	1.33
CDBG	2	2	3	3	1.50	1.50	3.00	3.00
WIC State Program	25	26	26	26	25.00	26.00	26.00	26.00
Capital Improvements Fund	2	0	0	0	2.00	0.00	0.00	0.00
Total	733	765	768	775	656.21	686.69	690.69	699.09

POPULATION GROWTH VERSUS PERSONNEL GROWTH

