

FROM THE CITY MANAGER.....

October 1, 2016

**Honorable Mayor and City Commission
City of Sweetwater
Sweetwater, Texas 79556**

Members of City Commission:

Introduction

I am pleased to transmit to you the City of Sweetwater's Fiscal Year 2016-2017 (FY 2017) Annual Operating Budget. The budget is submitted in accordance with the Civil Statutes of Texas and the Charter of the City of Sweetwater and presents sources of income and the plan of expenditures for all areas of the Sweetwater city government for the year beginning October 1, 2016 and concluding September 30, 2017. The annual city budget is perhaps the single most important document of the City because it is the financial plan and program of work for the City for the fiscal year.

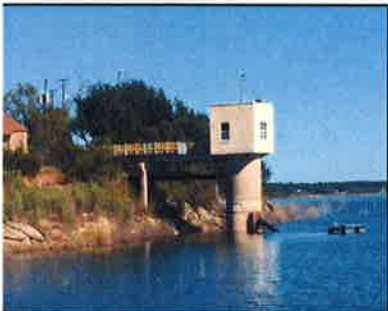
This document is the result of months of intensive effort by all departments and staff personnel. All city operations are carefully monitored during the year and it is my opinion that the budget requests, as presented, are both reasonable and realistic. I believe the goals and objectives, as presented are achievable because of competent and dedicated department heads and staff and the continued positive leadership of the City Commission.

This budget is the plan our City will live by for the next twelve months. It is a plan developed by the staff, reviewed by you, the City Commission, and includes your input. The expenditure levels as approved by you will be a control on the overall expenditures for City programs, services, and projects. The City staff is responsible for the use of these funds subject to your policies and controlled by your reviews. It is important to note that there are no timing differences between the procedures and the budget; appropriations lapse at the end of the fiscal year and subsequent appropriations are not necessary based on current expenditures.

Major Issues

The 2016-2017 fiscal year budget was prepared balancing citizens' needs and expectations with available resources. Some of the main issues in the budget year are recurring and we seem to be hard pressed to find long term solutions to these issues.

The most important issues we are faced with in both the near term and in the long term are water related. Our water supply consists of surface water and ground water. Continuing drought conditions have had an adverse impact on City water supplies. Oak Creek Reservoir, the City's surface water supply is at fifty-four percent of capacity. A barge pump has been placed in the main channel to pump into the intake tower. The City's ground water source, a 2,500 acre water well field consisting of both owned and leased land southwest of Sweetwater, has 40 municipal water wells producing an average 2.5 million gallons of water a day. The following pictures depict Oak Creek Lake when full and in its present condition.



The last year brought welcome above average rainfall, which continues to this day. The City was able to remain in Stage 1 Water Restrictions which asks customers to curtail water use to nonessential purposes on a voluntary basis. Stage II Water Restrictions will be considered if severe drought conditions return this summer.

The City expends over \$1,000,000 per year on electricity with almost 75% of the total being used for pumping water, water treatment and wastewater treatment. With electricity prices soaring and deregulation the City has continued membership with Texas Coalition for Affordable Power (TCAP) to ensure that we maximize opportunities to purchase power at the lowest price possible.

Sales tax collections were strong in the previous three years due to oil and gas production activities in the surrounding area but starting mid-2016, those activities receded and sales tax collections have started to slump. The City collected \$2,841,342 in FY 2015. An optimistic \$2,895,000 in sales tax was budgeted for FY 2016 and actual collected was \$3,411,405 due to a large one time sales tax payment on construction inventory. After the large onetime payment mentioned above, the sales tax payments have steadily decreased so the sales tax collections for FY 2017 has been budgeted for \$2,850,000, a decrease of 2% from the previous year's budget. The property tax rate for FY 2017 remains at \$.48 per \$100 valuation.

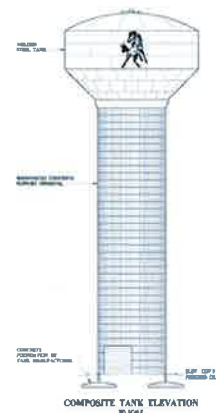
The 2010 Census indicated a drop in the population of the City of Sweetwater from 11,415 in 2000 to 10,906 in 2010. Various statistics can be found in a detail schedule in the budget document.

An issue that continues to garner attention through citizen complaints and through the media is the large amount of junk and debris accumulation on private property throughout the City, the constant illegal littering of public alleys and street right-of-ways, and a number of sub-standard structures which no longer meet the City code of ordinance requirements. We emphasize the use of our clean up truck placement program in order to stem the illegal littering of the alleys. Our type IV landfill and citizens' collection center have continued to allow home owners, on our refuse system, a place to dispose of discards on a "no extra charge" basis. However, since our type IV landfill is permitted as arid exempt, which limits the amount of incoming waste, the demolition and disposal of substandard structures have been delayed to some extent. Currently, we are in the process of permitting a location as a new type IV landfill for future use. Our current landfill has an estimated life of less than 2 years.



Other issues concerning FY 2017 budget are replacement of aging equipment, continuing the well field rehabs, water meter replacement, well-field levels and unstable water sales.

- The City has an internal policy for replacing water meters on a yearly rotation which systematically replaces all meters over a 10 year period. This is a very important policy to continue due to the potential loss of revenue if meters are not reading water flows correctly.
- The City has an internal service fund established to purchase equipment and vehicles. Our internal policy has a basic years/mileage replacement schedule to replace our vehicles and equipment. The Internal Service Fund rents vehicles and equipment to City's departments and accumulates the payments as a replacement fund but during a couple of years where replacement of high dollar fire and EMS equipment was required, the Internal Services Capital fund was drastically reduced. Funding of it in full has been difficult. During 2017 the City plans to replace high mileage vehicles and equipment costing their departments in high maintenance repair costs and unproductive time.
- A low interest loan for \$5.5 million from the Texas Water Development Board was acquired late FY 2016. The City will use the loan proceeds for construction on a new elevated water storage tank to replace the one built in 1930, replace water treatment membranes, and to implement other critical system improvements.
- Water sales have fluctuated due to high rates, lack of rain and economic conditions. The top six users in the City make up 35% of our total water revenues. A 11% increase of revenue was experienced during FY 2016 due to a water rate increase. Potential water sales for oil drilling activities could boost revenue; however it has not been budgeted, and the City does not feel the drought conditions permits the sale to these activities.



Water Supply

As previously mentioned, the City purchased and/or leased approximately 2,500 acres of land south of Roscoe (southwest of Sweetwater) for the purpose of developing a ground water well-field. The well field project consists of 40 wells, a pump station, a storage facility and almost 50 miles of pipeline. The field can deliver over 6.0 million gallons per day. The well-field is capable of meeting the peak daily demands of 4.5 million gallons per day; however, high demand is presently 2.5 million gallons per day.

Due to the excellent rainfalls of this year at Oak Creek Lake, 40.73 inches, the City of Sweetwater was able to utilize the Oak Creek Reservoir to relieve and recharge the wellfield. Oak Creek Lake provided 37.80% (272 million gallons) and the wellfield provided 62.20% (447.5 million gallons) of the treated water in FY 2016.

Wastewater Treatment

The wastewater treatment plant was completed in 2003 and utilizes aeration basin technology with disinfection accomplished through a dual channel ultraviolet light system. The plant discharges an average of 1.0 MGD of effluent water. The reclamation of effluent water is being studied at this time. Additionally, the City, through a grazing lease, maintains an irrigation pivot system to provide a local rancher/farmer treated effluent water for feed and cattle.

Water Treatment

The 8.0 MGD capacity water treatment plant utilizes a state of the art membrane filtration technology. The water sales for fiscal year 2016 average 1.9 MGD. We completed a pilot study to determine suitability of a new membrane filtration system. As mentioned earlier, a portion of loan proceeds from the TWDB has been budgeted to replace the current membrane system.

FY 2016 Accomplishments

1. GFOA Awards

The City received the Certificate of Achievement for Excellence in Financial Reporting and Distinguished Budget Presentation Award from the Government Finance Officers Association. The City of Sweetwater is one of very few cities of its size to receive both awards each year.

2. Grants

The City participated in several grants in the past fiscal year including:

- Texas Department of Agriculture Home-Delivered Meal Grant Program: provides additional funding for our Senior Nutritional Activities Program.
- Criminal Justice Department – Funding for police equipment.
- Awarded a low interest loan through the U.S. Department of Environmental Protection Agency, Drinking Water State Revolving Fund, passed through the Texas Water Development Board, to be used for the new elevated storage tank and other much needed water system improvements.

3. Landfill

The City has purchased land and completed the permitting process. Development of the new Type IV landfill site is underway.

4. Water and Wastewater

The City of Sweetwater's Water and Wastewater Utilities Department participated in the Texas Rural Water Association's Financial, Managerial and Technical Assessment audit. This audit was a voluntary assessment of the City's strengths and weaknesses of the water and wastewater systems. After conducting a 48 page report, TRWA found lots of strengths and the weakness issue was that the City lacked a Source Water Protection Plan for the wellfield. The Utility Department is actively participating in the USDA and FSA Source Water Protection Program to quickly resolve this issue.

Service Efforts and Achievements

The Government Accounting Standards Board (GASB) initiated research into ways to improve the ability of public entity financial reports to present information "Useful in assessing not only how much and on what an entity is spending its resources, but also what its citizens are getting from the use of public funds and how efficiently and effectively those funds are being used." (Research Report: Service Efforts and Accomplishments Reporting: Its Time Has Come, GASB). City of Sweetwater budgets provide departmental goals, objectives, indicators and the service efforts and accomplishments (SEA) suggested in GASB research reports where possible. Uses of GASB SEA's can be found in sections detailing the following departments: Police (page 111), Source of Supply (page 186), Purification Plant (page 191), Water Distribution (page 195), Wastewater Collection (page 199), Wastewater Treatment (page 203), Refuse Collection (page 237), and Refuse Disposal & Recycling (page 241). We believe this information will be helpful for interested citizens in assessing the City's accomplishment of their responsibilities. For additional information, please visit our website at cityofsweetwatertx.com.

Economic Conditions

Fortunately, Sweetwater's economic diversity places the community in a more favorable economic position than most other small cities in West Texas. United States Gypsum Co. and Georgia Pacific Co. (wallboard manufacturing), Ludlum Measurements (radioactive detection equipment manufacturing), Buzzi Unicem (cement production), TST (aluminum recycling), Texas State Technical College, and Rolling Plains Memorial Hospital are all major employers.

Cline Shale oil exploration activities have slowed down. Several new large oil field servicing businesses have established in Sweetwater. Plans for new hotels are being reviewed.

The most current unemployment rate for Nolan County is 4.0% as compared to the rate of 4.7% for the United States. Sweetwater is a production hub for cotton, oil and cattle. Our diverse economy has insulated us somewhat from the oil and gas downturn.



Nolan County has been a major player in the wind energy industry for the past few years. There are more than 1,300 towers producing more than 2,000 megawatts of wind energy. Nolan County produces about 9% of Texas wind power and is ranked 25th in the world as a wind energy producing area/country.

Not all of our local economy is based on energy. Manufacturers find Nolan County a desirable location with great weather most of the year, a major interstate running through it, and the availability of a trained, quality workforce. Nolan County has 12% of the population employed in the manufacturing sector.

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The City of Sweetwater's Fiscal Year 2016-2017 Annual Operating Budget totals \$31,501,944, an increase of \$6,230,433 for appropriations for FY 2015-2016. Capital outlay in FY 2017 for major water system improvements account for this increase.

Total Appropriations (Budget Basis)			
Fund	FY 2017	FY 2016	% Change
General	9,309,462	9,053,783	2.82%
SNAP	449,406	439,153	2.33%
Hotel/Motel	750,000	550,000	36.36%
Water & Wastewater	13,658,546	8,265,489	65.25%
EMS	1,978,354	1,878,369	5.32%
Refuse Collection & Disposal	2,020,051	2,032,474	(.61%)
Internal Services & Stores	1,729,934	1,450,404	19.27%
Employees' Benefit	1,555,933	1,555,933	0%
Cemetery Fund	50,258	45,906	9.48%
Total Appropriation	\$31,501,944	\$25,271,511	24.65%

The numerous departments, which make up this budget, are divided into three major groupings: Governmental Funds, Proprietary Funds and Fiduciary Funds. The General Fund is the primary operating fund for current governmental services, providing most traditional tax-supported municipal services, such as police and fire protection. Other city services are organized as enterprise funds and internal service funds, based on the premise that they should be conducted as a business, with user fees covering expenditures. The enterprise activities include Water and Wastewater, Emergency Medical Service and Refuse Collection and Disposal. The internal service funds include Central Garage and Stores and the Employees' Benefit Fund.

General Fund: The approved FY 2017 General Fund expenditures including transfers out total \$9,309,462, an increase of \$255,679 or 2.82%. This budget does include a cost of living adjustment. General Fund revenue is expected to increase 1.9%. The increase in expenditures is mainly attributed to a planned airport capital improvement project set to begin mid-summer.

In May, 1990, the voters of Sweetwater approved an additional one-half cent increase in sales tax, the proceeds of which must be dedicated to economic development. The City Commission appointed, by statute, a board consisting of five members who provide leadership and oversight to the Economic Development Corporation. The non-profit corporation has sole control over the expenditure of these funds, expected to be \$941,000 for FY 2017, and the money can only be used for economic development purposes in accordance with the laws of the State of Texas. These funds are not included in this budget as the City will act only as a conduit for transfer of the sales tax receipts from the State Comptroller's Office to the Economic Development Corporation. The City will have no control over these funds other than the indirect control exercised in the board appointments and provisions within the By-laws of the Corporation.

All governmental and internal service funds capital outlay for FY 2017 will be paid for on a pay-as-you-go basis. Planned replacement items will be purchased in accordance with the five-year Capital Improvement Plan.

Senior Nutrition Activities Program (SNAP): Proposed expenditures have increased 2.3%. Revenues are anticipated to increase .2% from the previous year. Staff and participants will continue to make every effort to raise money for support of operations.

Hotel/Motel Fund: A law passed in 1989 by the 71st Legislature of the State of Texas placed some constraints on how hotel/motel taxes may be spent. The funds can only be spent to expand, enhance and promote tourism, convention and hotel industry in the community. Accordingly, in order to comply with the intent and letter of the law, tax revenues in this fund will be used to support the convention and tourism function of the Sweetwater Chamber of Commerce, to support the operations of the Pioneer City-County Museum, and the Nolan County Coliseum. Hotel Motel taxes experienced an increase for several years due primarily to wind farm construction and Cline Shale oil exploration and construction in our area. There are eleven Hotels and Motels in the City and a new one under construction.

Cemetery Fund: This fund was established with the intent to build a corpus sufficient to maintain the cemetery. From the inception, only non restrictive fund balance plus eighty-five percent of interest from investments is available to offset expenditures. Interest revenues for FY 2017 are not anticipated to be adequate to cover expected expenditures. General Fund transfers will be necessary for continued operation. No major capital outlay or changes from current operating methodology within the next ten years are expected.

Debt Service: The City has four active bond issues: Combination Tax and Surplus Revenue Certificates of Obligation, Series 2016; General Obligation Refunding Bonds, Series 2015; Combination Tax & Revenue Certificates of Obligation, Series 2014; and Combination Tax & Revenue Refunding Bonds, Series 2011.

The legal debt margin for the City of Sweetwater is restricted by law to the maximum \$2.50 per \$100 assessed valuation for all purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for general obligation debt service. The City has no active General Obligation bond issues.

Legal Debt Margin Calculation:

Assessed Value	\$462,977,285
Debt Limit @ \$1.50 per \$100 value	\$ 6,944,659
Debt Applicable to limitation	\$ 0
Legal Debt Margin	\$ 6,944,659

Municipal Rating: The City of Sweetwater maintains an “AA-” rating from Standard & Poor’s Rating Service on tax supported debt. At the current time, there are no short or long range plans to issue or refund and refinance bonds.

Water and Wastewater Fund: Expenses for this fund are scheduled to decrease .54% (GAAP Basis) and increase 65.2% (Budget Basis). Water sales have leveled off with average daily sales at approximately 1.9 million gallons per day. This budget does include a cost of living adjustment. Budget basis increases are mainly due to major improvements to the water and wastewater system as mentioned earlier.

Emergency Medical Service Fund: Expenses for this fund are budgeted to increase 5.3% (Budget Basis). The majority of the increase is related to changes in Doubtful Accounts. We also expect to have an increase in fuel and utility cost. We strive to continue to provide advanced life support and service for the citizens of Nolan County during difficult financial times in the health care field. Subsidies to support this fund from the City’s General Fund and Nolan County are expected to increase slightly.

Refuse Collection and Disposal Fund: Expenses for this fund will decrease .6% (Budget Basis). The increase is due to a cost of living adjustment, health insurance, and Type IV landfill development costs.

Central Garage and Stores Fund: The budgeted expenses are expected to increase 3.6% (GAAP Basis) and 19.3% (Budget Basis) for FY 2017. The retained earnings in this fund are intended to be used for capital item purchasing. Revenue is the income from rentals and charges assessed to departments that use the vehicles and equipment and interest earnings from investments. An Information Technology department was established in this fund, consisting of a CIO and assistant. Computer systems, telephone, internet and complex public safety applications made the addition necessary.

Employee Benefit Fund: The City has a self-funded employee benefit plan which funds City employees' health claims and premiums. No significant changes have been made to benefits for FY 2017; however, employees will be asked to contribute an additional \$25 per month for family coverage.

Personnel: Our ability to provide quality service to our citizens is dependent upon an efficient and professional work force. The City cannot pay the highest wages in the area but it strives to provide each employee good health and life insurance for themselves and their families at a very low cost. In general, City employees are loyal and remain employed by the City for long periods of time. This high retention rate is beneficial in the aspect of experience and training.

Financial Forecast and Outlook: Retail growth has stabilized with sales tax revenue projected to be about \$2.9 million for FY 2017. The economic outlook is sound with stable retail sales, energy, including both oil and wind, and manufacturing. These factors contribute to the City's success in continuing all of the current City services offered.

Economic development is vital to the existence of small rural communities and it is always a primary goal of both the City Commission and Sweetwater Enterprise for Economic Development. We feel that we are in a favorable position to entice new industry into our area with substantial reserves and strategically located property held by Sweetwater Enterprise for Economic Development. The advent of a dedicated sales tax for economic development has contributed to the reserves and they continue to grow yearly.

As we look forward, many needs and issues will arise unexpectedly and require immediate attention. However, with some forward planning, we can foresee those needs and either bring them forward with no immediate plan of action or we can schedule a timeline of action to plan for the event. The City Commission develops strategic plans and conducts long-range financial plans during their annual budget retreat. At this time, an in depth evaluation of the City's financial condition is performed as well as a review of goals for future years. We consider the needs that we can foresee as an opportunity, as it gives us a chance to take appropriate actions in a timely manner. Of course, the sooner a need is identified, the more attention it will receive.

Some of the needs we foresee within the next five years:

- The City pool was constructed in 1978 and will require major capital expenditures to update it to meet safety standards. We modified the drain system to be compliant with the Virginia Graeme Baker Pool and Spa Safety Act and constructed ADA compliance requirements in the previous fiscal year. Most of the pumping and filtering equipment and piping need to be replaced. The pool needs to be resurfaced and the gutters need to be replaced. This will be done over several years due to the amount of money involved.



- We are in the process of evaluating City owned assets not in use for potential sale or lease.
- EMS struggles to keep expenses down with costly government regulations and doubtful account expense. The City will have to replace an old 1999 Ford ambulance in the next two years to continue to meet safety standards.
- The current type IV landfill owned by the City has a useful life of less than 2 years. We have purchased a satisfactory site for a Type IV landfill and are in the process of developing it.
- The City has contracted with a parks planning firm to provide a parks master plan for Sweetwater. The plan will allow the City to apply for grant funding from Texas Parks and Wildlife for eligible parks projects. This plan should be presented to the Commission for approval in the summer of 2017.
- The City and SEED are working on how to create an environment for investment in housing development in Sweetwater. We have a challenge in the lack of housing subdivisions that have been built here over the last 20 years, so this issue is being studied with the goal of providing strategies to the City Commission and the SEED Board of Directors in 2017.

Some of the issues that face the City beyond five years:

- Probably the most important issue facing the City is securing a long term water supply. The well-field has a roughly estimated life of 22 years or less and it will be costly to repair the piping and pumps in order to transport water from Oak Creek Lake. Water has been and always will be a challenge in our region. Therefore, it is a top priority to find a solution. Currently, we are brainstorming with other cities in our area faced with similar challenges, and we are confident we will find reasonable solutions to this important issue.
- The dams at Oak Creek Reservoir and Lake Trammell will need a major re-facing within the next 15 years to continue to meet legal regulations. Cost estimates indicate this to be approximately \$100,000.
- Most new residential construction has occurred on the outskirts of the City, and we are faced with the undertaking of condemning and tearing down a large number of abandoned and rundown buildings. This project will require a tremendous amount of manpower and landfill space. Currently, our landfill does not have the space available. This project will be pending until we have a new landfill opened.

**Honorable Mayor and City Commission
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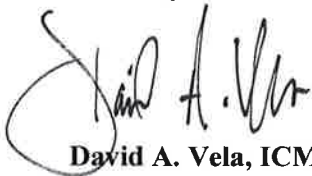
- **The Emergency Medical Service Department continues to sustain audited operating losses. Operation of this department is a burden on City resources and could be more efficient. Financial support is currently unbalanced with City residents paying a higher proportion of costs for services. We have discussed formation of an Emergency Services District by election of the voters. The District would have the footprint of the County as its tax base. The value of the property in that area would be available and a small tax rate could be assessed. Fire and Emergency Medical Services would be provided by the District and a fair tax rate would be applied across the District. A petition by 100 voters and approval by the County Commissioners Court could bring this election. City staff continues to research this issue, and to have discussions with key stakeholders in the community about the viability of creating a District at some point.**
- **Consideration of future annexation sites for incorporation into City boundaries is worth additional discussion.**

The City has been fortunate to be able to provide such a wide variety of services to the citizens of Sweetwater for a relatively low tax rate and with only moderate fees. We maintained the tax rate this year at the rate of 48 cents per \$100 dollar valuation. The assessed taxable value of the property roll for the tax year 2016 decreased by \$2.7 million. All fees will remain unchanged for FY 2017. Of course, in case of unfunded mandates or unexpected unusual large expenditures, our fees will be adjusted appropriately.

Summary: The budget set forth on the following pages is a 2.4% increase (GAAP Basis) than the budget approved for last year (FY 2016). Total appropriations on a Budget Basis increased 24.7% from the previous year. All city services will be maintained at existing levels. You, the City Commission, have deemed it prudent to maintain balances in operating funds equal to or in excess of three months' operating costs. Retained earnings in Enterprise Funds fluctuate annually depending on projected need. All FY 2017 year-end balances projected for Governmental, Capital Projects, Proprietary and Fiduciary Funds are considered adequate and appropriate. The tax rate is \$0.48 per \$100 of value.

I believe that this budget represents the goals of the City Commission for the operation of the City organization in FY 2017. The staff and I pledge ourselves to the task of ensuring that the citizens of Sweetwater continue to enjoy the best municipal services possible with the resources that are provided.

Sincerely,



**David A. Vela, ICMA-CM
City Manager**