

FROM THE CITY MANAGER.....

October 1, 2015

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 2015-2016 (FY 2016) 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, 2015 and concluding September 30, 2016. 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 2015-2016 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 sixteen 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.



Our rainfall for the last two years has been well below average levels. Since September 2011, we have been in Stage 1 Water Restrictions which asks customers to curtail water use to nonessential purposes on a voluntary basis. Stage II Water Restrictions are being considered.

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 have continued to remain strong with the City collecting \$2,706,835 in FY 2014. Budgeted sales taxes for FY 2015 were \$2,775,000 and are \$2,895,000 for FY 2016. The property tax rate FY 2016 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 3 years.



Other issues concerning FY 2016 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.
- We have 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. During 2016 we plan to accumulate funds and will not replace vehicles and equipment unless absolutely necessary.
- Pending acceptance of a loan application with the Texas Water Development Board for \$5.5 million, The City plans on constructing a new elevated water storage tank to replace 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 32% of our total water revenues. A 6% loss of revenue was experienced during FY 2015. Potential water sales for oil drilling activities could alleviate that loss of revenue; however although it was budgeted in 2015, the City did not feel the severe drought conditions permitted 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.

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 Treatment

The 8.0 MGD capacity water treatment plant utilizes state of the art membrane filtration technology. The water sales for fiscal year 2015 average 2.2 MGD. We completed a pilot study to determine suitability of a new membrane filtration system. Purchase of the new membrane system is contingent upon the capacity condition of Oak Creek Lake and as mentioned above, a loan from the TWDB. Consequently, this project was not budgeted.

FY 2015 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. Transparency Award

The City was awarded the 2015 Texas Comptroller Leadership Circle Platinum Member award for meeting a high level of local government transparency on the City's website.

3. 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.

4. New Police Station Construction

Construction is complete on a new police station replacing the old station housed in a municipal building built in the 1920's. The new building, completed in January 2015, is an efficient state of the art meeting and law enforcement training facility. The building was paid for with capital improvement reserves accumulated over several years. No debt was necessary.

6. Landfill

The City has purchased land and is progressing through the permitting process and development of plans for the new Type IV landfill site.

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 185), Purification Plant (page 191), Water Distribution (page 195), Wastewater Collection (page 199), Wastewater Treatment (page 203), Refuse Collection (page 235), and Refuse Disposal & Recycling (page 239). 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 unemployment rate for Nolan County is 3.5% as compared to the rate of 5.1% 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 1,250 towers producing approximately 1,950 megawatts of wind energy. Nolan County produces about 25% of Texas wind power and approximately 8% of USA wind energy. Currently, Texas leads the Western Hemisphere in wind energy generation and the USA is the largest global producer.



The City of Sweetwater's Fiscal Year 2015-2016 Annual Operating Budget totals \$25,236,511, a decrease of \$751,393 for appropriations for FY 2014-2015. Capital outlay in FY 2015 for a new police station and major water system improvements account for this decrease.

**Total Appropriations
(Budget Basis)**

<u>Fund</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>% Change</u>
General	10,445,221	9,053,783	(13.32%)
SNAP	438,742	439,153	.09%
Hotel/Motel	450,000	550,000	22.22%
Water & Wastewater	8,082,500	8,265,489	2.26%
EMS	1,771,758	1,878,369	6.02%
Refuse Collection & Disposal	1,984,204	2,032,474	2.43%
Central Garage & Stores	1,213,881	1,415,404	16.60%
Employees' Benefit	1,555,933	1,555,933	0%
Cemetery Fund	45,665	45,906	.53%
Total Appropriation	\$25,987,904	\$25,236,511	(2.9)%

Honorable Mayor and City Commission
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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 2016 General Fund expenditures including transfers out total \$9,053,783, a decrease of \$1,391,438 or 13.32%. This budget does include a cost of living adjustment. General Fund revenue will increase 3.82%. The decrease in expenditures is mainly attributed to capital outlay for the new completed police station.

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 for the Economic Development Corporation. The non-profit corporation has sole control over the expenditure of these funds, expected to be \$965,000 for FY 2016, 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 2016 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 .09%. Revenues are anticipated to increase 1.6% 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.

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 2016 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 three active bond issues: 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	\$460,063,070
Debt Limit @ \$1.50 per \$100 value	\$ 6,900,946
Debt Applicable to limitation	\$ 0
Legal Debt Margin	\$ 6,900,946

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 increase 1.9% (GAAP Basis) and increase 2.26% (Budget Basis). Water sales have leveled off with average daily sales at approximately 2.1 million gallons per day. Budget basis increases are due to higher cost of employee benefits as well as higher costs of contracted services for continued maintenance and improvements to the water and wastewater system.

Emergency Medical Service Fund: Expenses for this fund are budgeted to increase 7.8% (GAAP Basis) and increase 6.02% (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 increase 2.4%(Budget Basis). As with most of the other funds, the increase is due to a cost of living adjustment, health insurance, and Type IV landfill development costs.

Central Garage and Stores Fund: Although capital expenditures will again be postponed except when absolutely necessary, the budgeted expenses are expected to increase 16.6% (Budget Basis) for FY 2016. 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 2016; 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 increase in Cline Shale oil exploration and production has resulted in the loss of some employees. We expect the loss of truck drivers, equipment operators, office personnel and manual laborers to become a problem in the near future. In general, City employees are loyal and remain employed by the City for long periods of time. This 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 2016. 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 very well 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. It gives us a chance to take appropriate actions in a timely manner. Of course, the sooner a need is scheduled to arise, the more attention it will receive.

Some of the needs we foresee with 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.



- **Our purification plant is filtered by a membrane system which will need to be replaced at a cost of around \$1.9 million to be completed within a year.**
- **Engineers completed an inspection of the City's water storage facilities in FY 2014. It was recommended that the City replace our elevated 750,000 gallon storage tank originally built in 1930. Cost estimated at \$1.7 million to be completed within a year.**
- **We are in the process of evaluating City owned assets not in use for potential sale or lease.**
- **We continue to experience challenges dealing with Civil Service law for a City our size. We are constantly researching legalities of situations and are limited in our management of Public Safety employees.**
- **The current type IV landfill owned by the City has a useful life of less than 3 years. We have purchased a satisfactory site for a Type IV landfill and are developing plans and are in the permitting process.**

Some of the issues that face the City beyond 5 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 which is at 16% of capacity. Water has been and always will be an issue in this area. Therefore, it is a top priority to find a solution to this problem. Currently, we are brainstorming with other cities in our area faced with similar problems; however, a solution has not been formulated.**
- **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 less than \$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. We currently tear down one to two buildings a month.**
- **The Emergency Medical Service Department sustained an audited operating loss of \$648,430 in the fiscal year 2013 and is anticipated to be higher in FY 2014 and 2015. 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.**
- **Consideration of future annexation sites for incorporation into City boundaries.**

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 taxable value of the property roll for the tax year 2015 increased by \$32.2 million. All fees will remain unchanged for FY 2016. 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 3.2% less (GAAP Basis) than the budget approved for last year (FY 2015). Total appropriations on a Budget Basis are 2.9% less than 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 three months' operating costs. Retained earnings in Enterprise Funds fluctuate annually depending on projected need. All FY 2016 year-end balances projected for Governmental, Capital Projects, Proprietary and Fiduciary Funds are considered adequate and appropriate. The tax rate is \$.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 2016. The staff and I pledge ourselves to the task of ensuring that the citizens of Sweetwater enjoy the best municipal services possible with the resources that are provided.

Sincerely,

Edward P. Brown
City Manager