

City of Weslaco

"The City on the Grow"



Buddy de la Rosa, Mayor
John F. Cuellar, Mayor Pro-Tem, District 2
Soyla R. Gonzalez, Commissioner, District 1
Rene Rodriguez, Jr., Commissioner, District 3
Adrian Gonzalez, Commissioner, District 4
Lupe V. Rivera, Commissioner, District 5
Patrick B. Kennedy, Commissioner, District 6

ANTHONY COVACEVICH, City Manager

December 23, 2008

Honorable Mayor and
Members of the City Commission
City of Weslaco
255 South Kansas
Weslaco, TX 78596

It is my pleasure to present the budget for the fiscal year October 1, 2008 through September 30, 2009. This budget represents the tenth year in a row that the property tax rate was either reduced or remained the same. This has been an ongoing commitment by the City Commission which has lowered the property tax rate by 8.92 cents in the last 10 years. Also, for the eleventh year in a row we have received the Distinguished Budget Presentation Award from the Government Finance Officers Association for FY 2008.

The Government Finance Officers Association of the United States and Canada (GFOA) presented the award of Distinguished Presentation to the City of Weslaco for its annual budget for the fiscal year beginning October 1, 2007. 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 communication 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.

The City Commission has been guided by a "vision" that was adopted by the City in 1994. In line with this vision, the Commission developed our "mission" to help define who we are and what we hope to accomplish.

Weslaco's Vision

An International Center of Growth
Friendly People with Vision, Courage and Integrity

Weslaco's Mission

Commitment to excellence in public service
POSITIVE Attitude of Courtesy & Integrity
Doing it **RIGHT** the First Time
SENSITIVE to the Citizens' Needs
Friendly **RESPECT** for All
SERVICE without Hassle

Goals

Throughout the years and this budget process there have been several goals that have guided our decisions.

- **To Provide a Good Quality of Life** – This is a broad goal that includes everything that makes Weslaco a safe and enjoyable place to live.
- **Attract Tourists, Businesses, and Individuals** – We want Weslaco to grow and to be the kind of City that welcomes others from outside of the community.

Financial Strategies

The following strategies are recommended to maintain the financial stability of the City and provide adequate services at a sustainable level.

- A. **Fund Balance-** Sufficient funds should be available for emergencies and unique capital investments. The target amount is 25% of annual expenditures with any excess being spent on capital improvements. Most importantly, we need to be aware of future impacts of current actions.
- B. **Enterprise Systems-** Funds such as the Water, Sewer, and Sanitation Fund should be self-supporting. They should generate sufficient funds through fees charged to the users.
- C. **Assets-** This includes real and personal property. Surplus assets should be identified and liquidated. Also, criteria for replacement of assets should be defined.
- D. **Rates-** Rates should be reviewed annually and adjusted gradually to avoid radical changes. The passage of the Master Fee Ordinance at the end of FY 2004 brought many user fees into line with the actual costs of service. Since then we have implemented several small rate adjustments based on the Consumer Price Index.
- E. **Outsourcing-** City services should be examined periodically to see if outsourcing would be beneficial to the City. In addition, services that are already outsourced should be reviewed to see if they remain beneficial to the City. Presently, the City is



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outsourcing its brush pickup as well as management of its water and sewer treatment plants.

Current Year Priorities

- A. Prepare a Balanced Budget
 - B. Revenue Enhancement/Adequacy
 - C. Maintain/Lower the Property Tax Rate
 - D. Project Revenues Conservatively
 - E. Hold the Line on Personnel and Related Costs
 - F. Maintain/Build Adequate Fund Balances
- A. **Prepare a Balanced Budget** – By definition a balanced budget means that total budgeted expenditures do not exceed budgeted revenues plus available fund balance. It is also important to compare annual revenues with annual expenditures to ensure that annual expenditures do not exceed annual revenues. When expenditures exceed revenues the shortfall is usually made up by reductions to fund balance or from borrowed funds. This year we are happy to announce that we have a balanced budget with an overall surplus of \$282,569.

There is only one fund that is projecting a budget deficit but does not exceed the fund balance. The Hotel/Motel Fund is projecting an ending fund balance of \$495,304 after a projected decrease of \$177,652. This fund is different from a normal operating account in that eligible items are funded if funds are available. Also, the hotel taxes can not be utilized for ongoing operations of the City.

This does not mean that the year will be without its challenges. In order to balance the budget we had to remove most capital outlay and equipment. We will then monitor our cash flows as the year progresses and buy needed capital outlay and equipment on a priority basis as funds become available.

- B. **Revenue Enhancement/Adequacy** – During FY 2004 the City reviewed all rates charged by the City and enacted sweeping rate adjustments that took effect during the first quarter of FY 2005. For FY 2007 and FY 2008 the City adjusted the rates in the Water, Sewer, and Sanitation Funds to cover the costs of inflation utilizing the consumer price index. For FY 2009 the rates in the Sanitation Fund were increased. In addition a rate study was recently completed for the Water and Sewer Funds that will be considered when proposing rate adjustments in early 2009. These proposed rates provide a discounted rate for the elderly, handicapped and our veterans. These



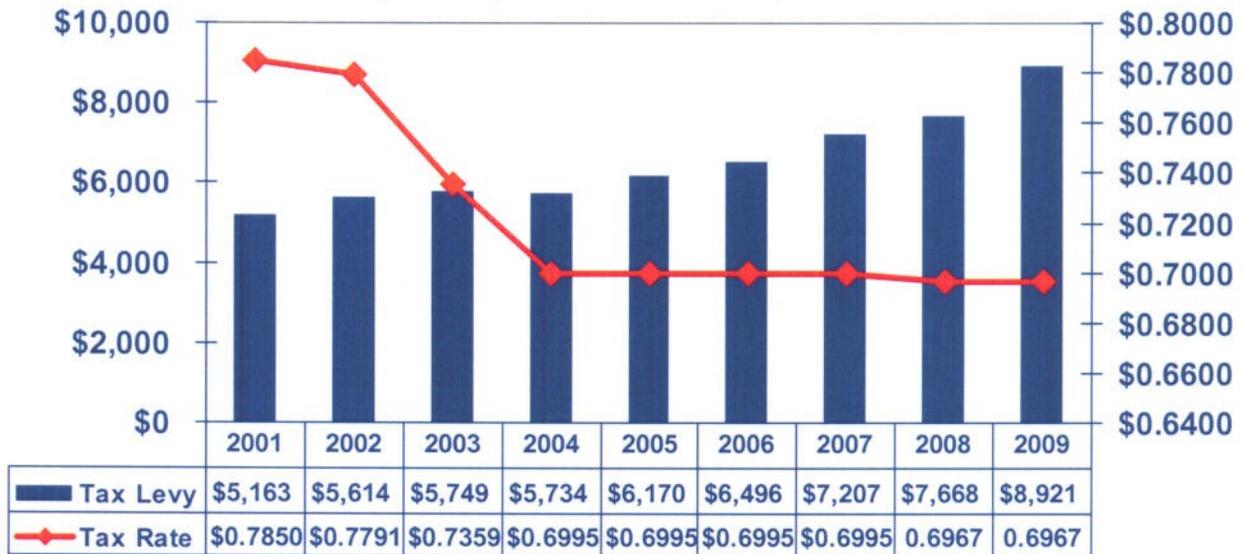
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increases are described in more detail with the discussion of the affected funds later in this letter. By reviewing our rates every year we are able to adjust for increasing costs and inflation with smaller, more incremental adjustments than would be necessary if the rates were not adjusted as often.

- C. **Maintain/Lower the Property Tax Rate** – The reason that the tax rate was lowered so dramatically in the recent past was because of a concerted effort by the City Commission to attract businesses and residents to locate in Weslaco. The Commission had also stated that if the projected growth does not occur that they are willing to make the hard choices necessary to ensure the financial stability of the City. This year the City Commission maintained the tax rate at \$.6967.

Tax Rate vs. Tax Levy

(Tax Levy Shown in Thousands)



While some tend to focus on the City’s property tax rate it is really only part of the bigger picture and the overall tax rate that results in the final property tax bill to property owners. Based on the property tax rates for tax year 2008 (the taxes used to fund FY 2009) the table shown on the next page demonstrates that the City of Weslaco is very competitive with larger neighboring cities and even lower than a city that has a population and a tax base that is almost twice as large as Weslaco’s.



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Comparison of Overall Property Tax Rates with Other Cities (For Tax Year 2008)

| Taxing Entity | McAllen | Mission | Edinburg | Weslaco | Pharr |
|---------------|------------------|------------------|------------------|------------------|------------------|
| Population | 123,622 | 60,146 | 62,735 | 31,442 | 58,986 |
| Valuation | \$ 7,106,943,956 | \$ 2,913,058,674 | \$ 2,889,144,931 | \$ 1,282,303,871 | \$ 2,103,546,339 |
| City | \$ 0.4213 | \$ 0.5666 | \$ 0.6350 | \$ 0.6967 | \$ 0.6819 |
| County | 0.5900 | 0.5900 | 0.5900 | 0.5900 | 0.5900 |
| ISD | 1.1450 | 1.2400 | 1.1898 | 1.1397 | 1.2710 |
| Drainage | 0.0700 | 0.0700 | 0.0700 | 0.0700 | 0.0700 |
| STISD | 0.0492 | 0.0492 | 0.0492 | 0.0492 | 0.0492 |
| STC | 0.1498 | 0.1498 | 0.1498 | 0.1498 | 0.1498 |
| Total | \$ 2.4253 | \$ 2.6656 | \$ 2.6838 | \$ 2.6954 | \$ 2.8119 |

- D. **Project Revenues Conservatively** – With the inherent complexity and difficulty of putting together a balanced budget it is at times tempting to be overly optimistic and increase revenue projections in order to provide for the projected needs. If however the projections do not materialize it leaves the City with the need to freeze or reduce the budget mid-year, subsidize the shortfall with available fund balance, or look for alternative funding solutions. This problem can then carry forward into future years since operating costs tend to continue to rise. With this in mind we have made every attempt to ensure that the projections used in this budget document are not only possible, but also probable.
- E. **Hold the Line on Personnel and Related Costs** – This year there were no increases to the number of personnel positions in the budget. Personnel costs are more than half of the budget so when we are looking to cut costs it makes sense to do what we can to reduce the growth in our largest expenditure category. A deliberate attempt is made when a vacancy occurs to assess the value of the position and RIF (reduction in force) the position when possible. We realize that new positions are inevitable with the growth of the City, however, we felt that we could maintain the same level of service in FY 2009 without additional increases in the number of personnel.

We are always trying to utilize technology to reduce costs and make our operations more efficient. The City has begun the process of converting the water meters in the City to a radio read system. This will allow the water meters to be read from as far away as 500 feet without physically being at the water meter. This will enhance employee safety in those instances where the meters are difficult to get to and will enable the meter reader to gather data from more meters in less time. They will also help to resolve usage disputes by recording actual usage on an hour by hour basis. Both the Municipal Building and the new Public Facility Building were constructed

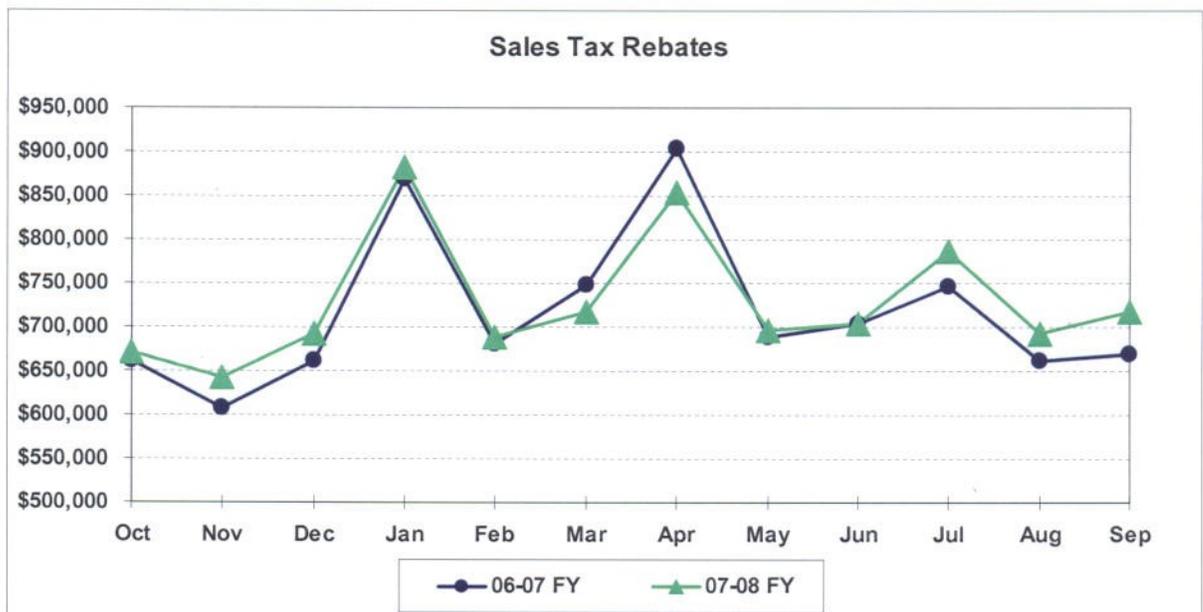


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utilizing energy efficient technology. The purchase of four motorcycles for police enforcement also follows the energy efficient trend. Utilizing technology like this helps the City to reduce costs, improve energy efficiency and reduce the need for additional employees.

- F. **Maintain Adequate Fund Balances** - The General Fund has continued to pose a challenge. During the budget process the City worked with our Financial Advisor to develop a fiscal forecast model. This tool will help the City as it works to increase the fund balance to our target of 25% of annual expenditures. By updating this forecast on a periodic basis it will help to project the effect of current actions on future years and assist the City in reaching its long term goals. We are currently projecting a General Fund balance equal to 25% of operating expenditures (approximately \$6,000,000) by the end of FY 2012.

A very good indicator of economic health is the sales tax rebates that the City receives. Sales tax increased by 1.67% during FY 2008 and has averaged a 6.06% increase over the last five years. We projected a 3% increase for the FY 2009 budget and have seen average increases over 18% for the first two months of the current fiscal year. In January 2009 we will present a proposal to the City Commission concerning the use of sales tax increases above the annual budgeted amount. Under this proposal 50% of the additional increase would be retained in the General Fund to bolster the fund balance, and 50% would be transferred to the Water and Sewer Funds to reduce amounts due to those funds from the General Fund.

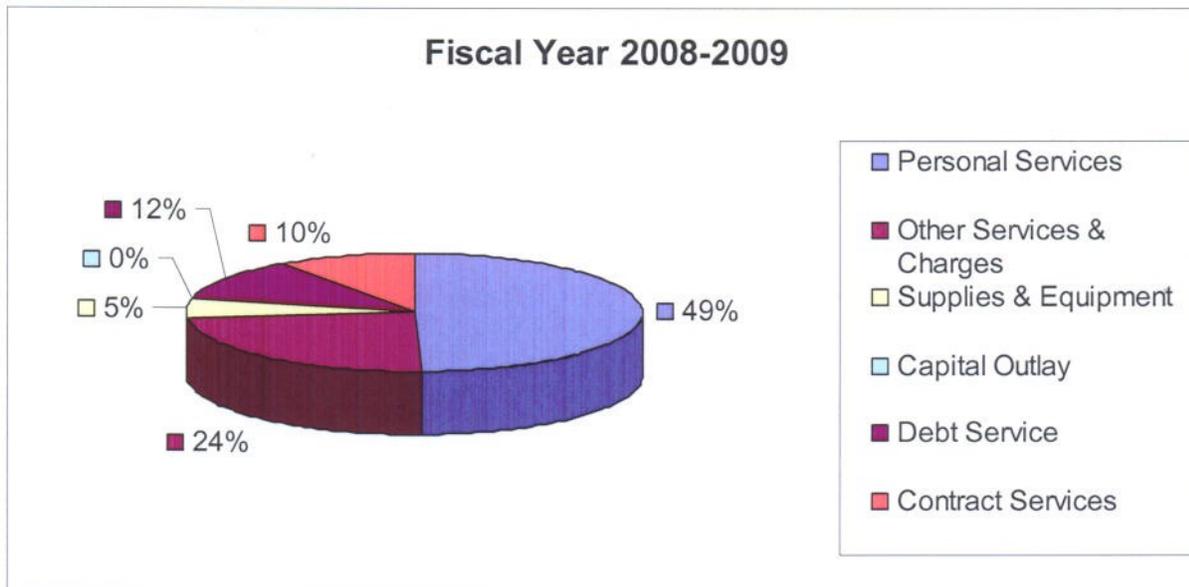


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Budget in Brief

The operating budget for FY 2009 totals \$37.9 million and represents an increase of \$2.6 million or 10.8% from the previous year's budget of \$34.2 million. Revenues from all funds total \$38.1 million which is an increase of \$3.1 million over the prior year. Most of that increase in revenues is due to growth in property tax valuations, increased sales tax revenues, and rate adjustments in the Sanitation Fund, as well as projected increases in the Water & Sewer Funds. Factors that contributed to the increase in the operating budget include high fuel costs, escalation in materials costs, debt service, increased wages and benefit costs, and other operational costs due to Hurricane Dolly.

| Fund | Adopted Budget | Adopted Budget |
|-------------------------------|---------------------|---------------------|
| | 2007-08 | 2008-09 |
| General | \$19,675,995 | \$21,370,760 |
| Debt Service | \$ 2,064,145 | \$ 2,216,568 |
| Sanitation | \$ 3,483,315 | \$ 3,800,595 |
| Water | \$ 4,271,863 | \$ 4,786,952 |
| Sewer | \$ 3,634,705 | \$ 4,273,856 |
| Airport | \$ 569,382 | \$ 769,689 |
| Hotel/Motel | \$ 458,412 | \$ 639,152 |
| Total Operating Budget | \$34,157,817 | \$37,857,572 |
| % Change | 8.1% | 10.8% |

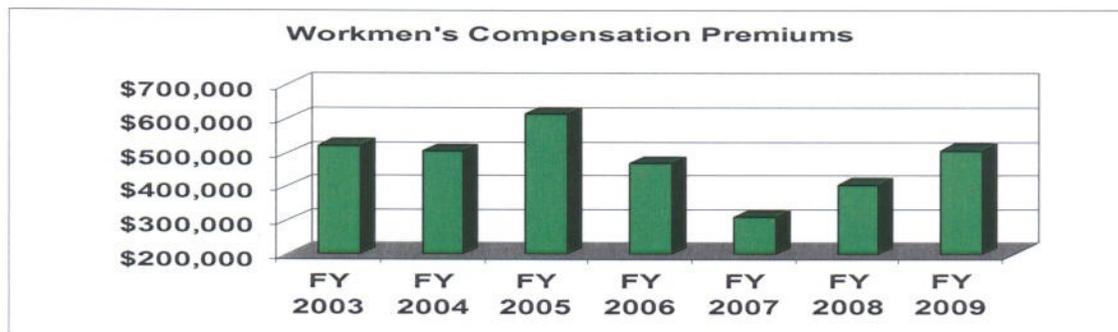


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General Fund- Many issues facing the General Fund have already been described in the earlier discussion of current year priorities. The budget in the General Fund continues to be a tight budget with no capital outlay (except for \$43,600 budgeted for books for the Library) and reductions in areas such as travel and training, and supplies. Departments have been challenged to find ways to be more efficient while still maintaining service levels. The impact of unexpected expenses in the 2007-08 budget related to higher fuel and material prices, Hurricane Dolly, and legal settlement costs hit Weslaco like a “perfect storm”.

Beginning with FY 2008 we have accounted for the Library Fund as a separate department within the General Fund. The Library Fund was funded for the most part with sales tax revenue that would have otherwise remained in the General Fund. This will still allow us to account for the activity of the Library while minimizing the number of funds that are used.

An effort to increase safety awareness was instituted several years back due to high costs of Workmen’s Compensation Insurance. We are starting to see the results of those efforts in the form of reduced premiums. The premium for FY 2005 was \$615,869 compared with \$508,369 for FY 2009 for a reduction of \$107,500 in premium costs compared with FY 2005. Even though it is an increase over FY 2007 it still shows a decrease over the past few years. Accidents on the job are very costly and we can always find better uses for that money.



Interest & Sinking – The Interest & Sinking Fund is used to accumulate funds for interest and principle payment of debt that is paid for with property tax revenue. The property tax has a portion that is for debt service and one that is for maintenance and operations. In FY 2009 the Interest & Sinking portion of the property tax rate is \$.1757 cents per \$100 of valuation compared to \$.1814 cents in FY 2008.

Sanitation Fund- The City has contracted with Allied Waste Services (formerly BFI) to provide services to commercial customers that were already serviced by Allied Waste Services or that the City can not service. Under this arrangement the City pays Allied Waste Services directly for the service and bills the customers on their regular water bills. Under the agreement the City will receive a franchise fee of 5% of revenues net of disposal fees. For FY 2009 Allied Waste Services raised the rates that they charge the City for commercial garbage service by 8.28%. This increase was based on their contract with the City. One of the major factors in this increase is the gasoline portion of the Consumer Price Index (CPI) which

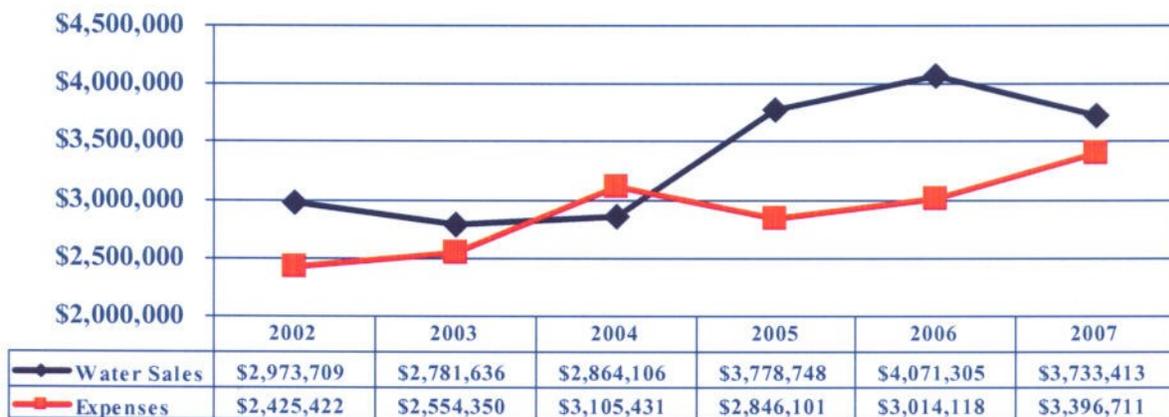


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increased by 41% during the last year. The City implemented a corresponding 8.28% increase to the garbage rates charged to the citizens in order to keep pace with our rising costs.

Allied Waste Services also provides brush service on behalf of the City for all residential accounts. Under the contract they haul away branches, yard waste, and other bulky items. Allied Waste Services has increased the amount that they charge the City to \$9.55 per month per customer compared with the old rate of \$8.82 and the amount charged on a monthly basis to the customers will be from \$6.18 to \$14.50 depending on the size of their lot frontage. The removal of brush and bulky waste helps to improve the appearance and cleanliness of our City.

Water Fund Sales vs. Expenses (Less Transfers & Capital Outlay) (In Thousands)



Water & Sewer Funds- Although we had concerns in FY 2004 concerning the declining retained earnings in the Water and Sewer Funds, it appears that the rate adjustments enacted were sufficient to address this issue. During FY 2005 we were able to lower the expenses in the Water Fund compared with the prior year. Due to excess rainfall during FY 2008 we saw a decline in water sales. During the first part of 2009 we will be reviewing a recently completed water and sewer rate study and recommending a rate adjustment. In the Sewer Fund the expenses have continued to rise due to increasing service demands. Sewer charges declined slightly in FY 2007 as well since they are tied directly to water usage.

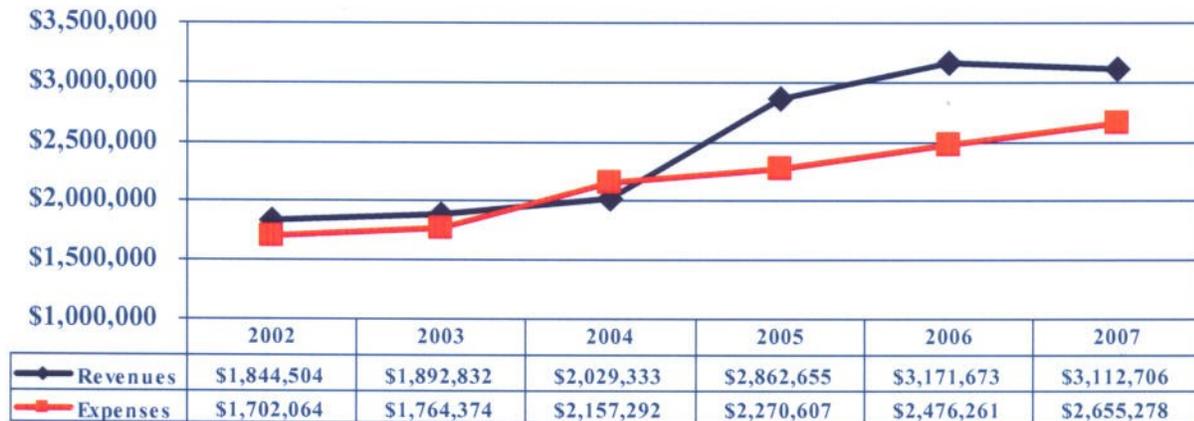
The rates in the Water fund had not been adjusted for 10 years prior to the increase made in FY 2005 and the rates in the Sewer Fund had not been increased in 6 years. Although no rate increase was made in FY 2006 it was determined that it would be prudent to implement small increases in FY 2007 and FY 2008 to adjust for inflation and increased costs. An increase of 4.3% was implemented in FY 2007 and 3% in FY 2008 based on CPI. The Commission also voted to give a 30% discount on the monthly base fee for water and sewer to veterans, disabled, and individuals over 65 years of age. By adjusting our rates incrementally on an



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ongoing basis we can keep the increases small and manageable while still providing adequate resources for ongoing operations and capital improvements. The resulting rates are still competitive with similarly sized cities in the State of Texas.

Sewer Fund Sales vs. Expenses (Less Transfers & Capital Outlay) (In Thousands)



Hotel/Motel Tax Fund– The occupancy tax is expected to increase by about 3.5% to \$440,000 for FY 2009. These funds are utilized to attract tourists to Weslaco and increase the number of people staying in area hotels. We believe that we have a lot to offer tourists such as: several world class birding sites, year round golfing, close proximity to Mexico, as well as being strategically situated in the Mid-Valley.

Airport Fund– The airport is a great asset to the City of Weslaco and underscores that fact that we are a “full-service” community. For FY 2009 we have planned for a transfer to the Airport Fund from the General Fund in the amount of \$287,000. The airport, located in the industrial park, is a real enhancement to the transportation infrastructure in our community. We continue to take advantage of grants from the Texas Department of Transportation - when possible – to maintain and enhance the airport. Recent actions to approve an “on call” custom inspection service will enable international flights to land in Weslaco by May, 2009. We anticipate that the airport will bring in revenue in the amount of \$483,075 during FY 2009 from fuel sales and hangar rentals.

2007 Certificates of Obligation

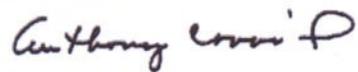
On August 15, 2007 the City issued \$28,175,000 of Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation. We have been using these funds for tax and revenue supported projects. Some of the larger projects include: two new garbage trucks, purchase and renovation of a new public works building, a new water plant, and a new sewer plant along with various system upgrades. A more detailed list of projects is provided in the supplemental section of this document.



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As the City continues to grow, there will continue to be new challenges for us to meet. It is very rewarding to be a part of this progress during this exciting time in our City's history. I would like to thank the City Commission, staff, and citizens for their support and contributions to our City's future.

Sincerely,



Anthony Covacevich
City Manager



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