

SPOTLIGHT ON SHENANDOAH

APRIL 2016



Budget Process

The City operates on a fiscal year that begins on October 1 and ends on September 30. The budget for the City is adopted each September after a thorough review process involving staff and City Council. Budget requests are driven by various items, including strategic plans, the major thoroughfare plan, and the parks/pathways plan. The budget is drafted using a modified zero based budgeting model; new budgets are not derived merely by increasing previous years budgets, but are based on analyzing each request on an as-needed basis without the assumption that funding exists. The budget process is as follows:

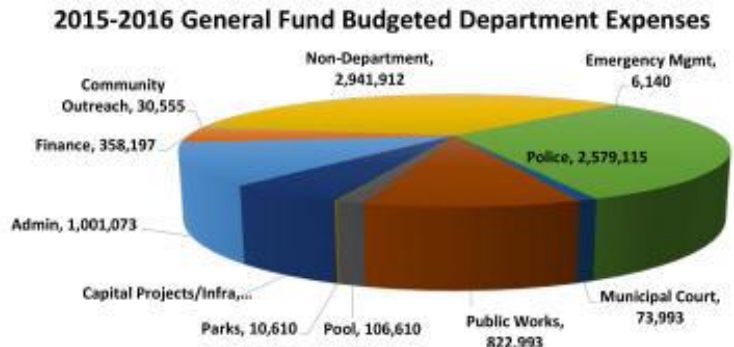
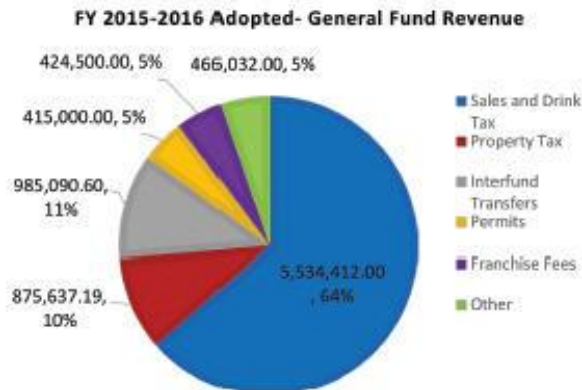
- April - May: department staff discuss and enter budget data; City Administrator meets with directors to evaluate budget requests;
- May: capital project requests from staff and Council Members are submitted to the City Administrator for review;
- June: capital projects are discussed in Council workshop sessions held second Tuesday of each month;
- July - August: proposed budget is drafted and available for review; budget workshop held in open public meeting; tax rate discussed and vote taken if necessary;
- September: public hearings held and vote taken on budget and tax rate.



A series of workshop meetings are held where the tax rate is adopted, and revenue, expenses, major purchases, capital projects and other relevant items are discussed in detail. Based on these discussions, City Council determines how to set the final budget for the upcoming fiscal year. Any unused funds for budgeted expenditures are saved for capital projects. This year, the annual budget workshop meetings will be held on Friday and Saturday, August 5 and 6, 2016. All budget workshops are open to the public and citizens are welcome.

Reserves & Expenses

The City finances are managed in several funds:



- **General Fund:** used for general municipal operations to include all departments other than Water/Sewer and CVB. Funding sources include sales tax, building permits, alcohol tax, etc.
- **Hotel/Motel Fund:** a seven percent tax on hotel stays provides funding for operations directly related to promoting the hotels and generating tourism.
- **Debt Service Fund:** used to pay the City's long term debt; the funding source is property tax.
- **Capital Projects Fund:** used to pay the City's approved Capital Projects. Funding source is budgeted transfers from other funds (General, Hotel/Motel and Water/Sewer).
- **Enterprise Fund (Water/Sewer) Fund:** water and sewer fees charged to residents provide the funds for operating the water treatment plant, lift stations, sewer plant and administrative costs.
- **Municipal Development District Fund:** used to pay for economic development. Funding source is sales tax.

Reserves

The Council chose to strive for 12 months of unrestricted fund balance, or operating cash, in the bank. On average, the City has eight months unrestricted fund balance, four times the recommended minimum. The Government Finance Officers Association (GFOA) best practice recommends no less than two months unrestricted fund balance. Council has also agreed that any unused budgeted expenses will go back into the unrestricted fund balance.

Debt Service

Voters approved bonds in the amount of \$19,500,000, for Shenandoah Valley infrastructure improvements. The City came in under budget by over \$3,000,000 and has not taken out new debt since 2011. Debt service is used to fund major capital projects such as streets, drainage and building construction. Council only issues the debt when the funds are needed for construction. The City's total outstanding debt is \$23,940,000.

- 2007 Series: General Obligation and Certificates of Obligation
 - o Principle: 7,175,000
 - o Streets, drainage, purchase of land, construction of Public Works Building/Fire Station
 - * Refinanced in 2013 for lower interest rates and renamed "General Obligation Refunding, Series 2013".
- 2008 General Obligation and Certificates of Obligation
 - o Principle: \$6,135,000
 - o Shenandoah Valley stormwater and streets
 - * Refinanced in December of 2015 and renamed "General Obligation Refunding Bonds, Series 2015".
- 2009 General Obligation and Certificates of Obligation
 - o Principle: \$6,845,000
 - o Shenandoah Valley stormwater and streets
- 2011 General Obligation
 - o Principle: \$3,785,000
 - o Shenandoah Valley streets and drainage

A significant portion of the debt, 78%, is paid for with property taxes. Total anticipated property tax collections for 2015 are \$1,847,540. The Water/Sewer portion, paid for from water/sewer rates, is \$508,642. The remaining balance is paid for with sales tax. All property taxes go toward paying for the debt approved by voters and Council Members; however, it does not fund all debt payments due for the year.

TOTAL PRINCIPLE DUE	\$ 23,940,000.00
TOTAL PRINCIPLE DUE FOR VOTER APPROVED DEBT	\$ 21,025,000.00
Total Voter Approved Principle Due as a Percentage of Total Principle Due	88%
Debt Service Principle and Interest Due for Fiscal Year 2015-2016	\$ 2,379,756.00
Ad Valorm Tax Revenue Budgeted for Fiscal Year 2015-2016	\$ 1,847,540.00
Water/Sewer Revenue Budgeted for Fiscal Year 2015-2016	\$ 508,642.00
Debt Subsidized by Sales Tax	\$ 23,574.00

Rating Date	Rating	Outlook
2015	AA+	Stable
2014	AA+	Stable
2013	AA-	Positive
2011	AA-	Stable
2009	AA-	Stable
2008	AA-	Stable
2007	A	

The City's Bond Rating, as determined by Standard & Poor's (S&P) is AA+. The credit rating is an opinion on the City's creditworthiness and is a scale from B to AAA. The image on the left is a historical view of the City's credit rating. The 2015 rating letter can be found on the website under the Financial Transparency Page, Debt Information tab at www.shenandoahtx.us/financial-transparency.cfm.

Ad Valorem Taxes and Effective Tax Rate

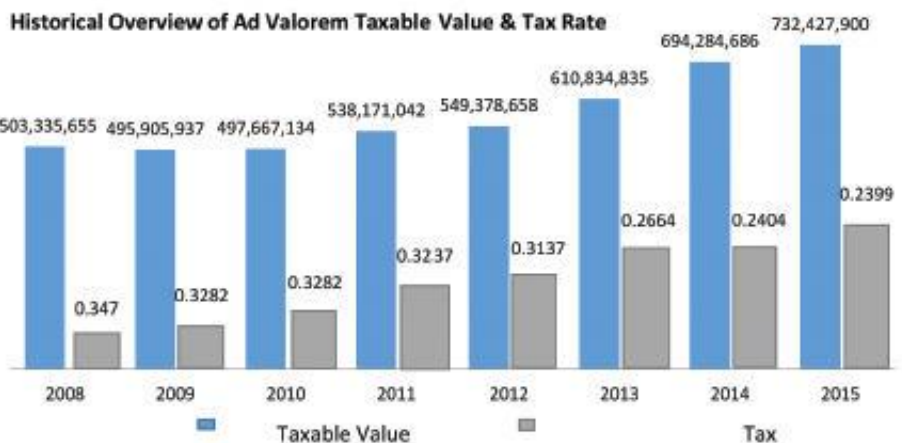
The City's ad valorem tax rate has decreased by 31% since 2008. If the taxable value increases, the effective tax rate decreases, and vice versa. The effective tax rate is the rate (ad valorem/property tax rate), calculated by the Tax Assessor/Collector, which will provide the same amount of revenue as the previous year based on the taxable value. The tax rate is determined by taking the amount of taxes produced last year and dividing it by the current year appraised value. For example, in 2015 the tax assessor calculated the tax rate by taking the 2014 taxes, \$1,655,193 and dividing by the 2015 adjusted taxable value of \$732,427,900 and multiplying by 100 to get a tax rate of \$0.2259 per \$100 valuation.

The City Council can choose to increase, decrease or generate the same amount of property tax revenue based on what they adopt as the effective tax rate. In previous years, with the exception of 2013 and 2015, Council has adopted the effective tax rate provided by the Tax Assessor/Collector. For 2013, the City Council adopted a rate of \$0.2664/\$100 valuation, \$0.0272 lower than the effective tax rate of \$0.2936/\$100 valuation. For 2015, the effective tax rate adopted is \$0.2399.

As mentioned previously, the property tax revenue is used for paying outstanding debt.

- 78%, is paid for with property taxes;
- 21% is paid for with water/sewer revenue;
- 1% is paid for with sales tax.

The graph below shows a historical view of the tax rate adopted by City Council as compared to the taxable value from 2004 to 2014.



Capital Projects

Capital projects and purchases are budgeted during the normal budgeting process, unless they are emergency in nature. Any revenue received above budgeted revenue is designated for capital projects. The renovation of the City Park was funded from reserves. The City plans for capital projects each year, which may include improvements, new construction, or continuation of ongoing projects. An extensive evaluation process helps Council decide which projects are priorities and how to fund them. Proposed capital projects are discussed and ranked for consideration, and the final decision on which projects to approve is made in the budget workshop.

Equipment Replacement Program

The City has an equipment replacement program that sets aside funds for the replacement of vehicles and equipment based on expected service life. This works to keep equipment and vehicles up to date, reduce down time due to repairs, minimize higher maintenance costs, and replace vehicles before they lose significant resale value. Funds are allocated each year during the budget process to provide for the replacement of vehicles and equipment. The program is reevaluated annually to confirm service life and sufficient funding.

The program applies points to vehicles based on factors such as model year, mileage, type of use, reliability, maintenance costs, condition, and how essential it is to the operation of the City. Equipment is evaluated based on the same factors, except it considers run hours versus mileage, and the condition rating is not based on Kelly Blue Book criteria. The City implemented a point system in 2015 that identifies vehicles and equipment for replacement, provides for better tracking, and allows the City to keep items that are in excellent condition for a year or two longer. It also allows for "lemon" vehicles to be replaced sooner. This program helps the City assess the true condition and use of vehicles and equipment rather than scheduling replacement based on age alone.

Financial Transparency

The City participated in the Texas Comptrollers Leadership Circle Award in 2014 and 2015, achieving the highest award available in each of those years. In 2016, the new comptroller changed the program from the Leadership Circle to Transparency Stars, and City staff is in the process of submitting the application for the Traditional Finances Star, which must be achieved before a government can apply for other Stars. More information can be found at www.TexasTransparency.org

The City has a Financial Transparency webpage which provides information to include five years of budget documents and annual financial reports, financial statements and expense reports as well as debt service information. Additional information can be found at www.shenandoah.tx.us/financial-transparency.cfm.





News

Toddler Park Coming Soon

The park will feature pre-school age play equipment with ample shade areas and seating. The project is scheduled to complete by May 2016.

Pool Schedule for 2016 Now Available Online

You can find the schedule online at ShenandoahTx.us

City General Election

The Mayor and City Council Positions 1 and 5 will be up for election on May 7, 2016