

August 4, 2008

The Honorable Susan Narvaiz, Mayor
Members of the City Council
San Marcos, Texas

Dear Mayor Narvaiz and City Council Members:

I am pleased to submit to you the proposed budget of \$145,284,551 for Fiscal Year 2009 for the City of San Marcos. The budget offers a sound financial plan that provides an appropriate level of service and needed infrastructure projects for our growing community.

In 2009, we will focus on strategic planning, positioning ourselves for the future, analyzing performance, and managed competition. In addition, we will focus on the Council's stated goals of economic development, improving the community's image, enhancing the region's transportation grid and improving collaboration between the City of San Marcos and regional entities. Also, we will be focusing on succession planning and additional professional development. Following your guidance in the Budget Policy and Goals Statements, we pledge to do all we can to further these goals for the future prosperity of our community.

The City of San Marcos has the opportunity to complete the projects approved by the voters in the 2005 election during this upcoming fiscal year. This budget contains the financial plan to issue the last installment of General Obligation bonds at \$4.5 million related to this election. The Bond issuance contemplated for the Spring of 2009 in the amount of \$7.3 million still contains funding for Rio Vista Street Reconstruction, 5 mile Dam Soccer Complex and numerous other traffic improvements. Due to construction costs which have risen at unprecedented rates, these General Obligation Bonds will be supplemented by Certificates of Obligation so that the projects can be completed.

This budget maintains the current tax rate of 53.02 cents per \$100 valuation. The City of San Marcos has experienced another year of growth in taxable values. In addition, the City of San Marcos increased the exemption for our citizens who are over 65 from \$10,000 to \$25,000, and expanded the exemption to the disabled, effective January 1, 2008.

We have undertaken an intense study of our utility system, evaluating future needs for the community. That study reveals a need to increase our Water and Wastewater rates by 5% in order to keep up with the growing needs of our citizens and plan for future needs in this high-growth area. The San Marcos corridor is one of the fastest growing areas in the country, and we must be ready to fulfill the demands that significant growth will place on our infrastructure. The City of San Marcos must prepare itself for future need for water supplies, as well as significant costs related to a new wastewater treatment plant expected to be needed in 2014.

The study also revealed that our current electric rates are adequate, although our citizens will experience an increased cost due to the fuel cost passed on by our provider, the Lower Colorado River Authority. We are proposing to change our calculation method for the Fund Balance in the Electric Fund to exclude the cost of fuel, and will submit a revised Financial Policy for your approval. Including the cost of fuel in this calculation results in excessive cash balances which are unreasonable due to the low level of risk associated with these costs. Since these costs are passed on to the customer, the risk of not covering these costs is minimal.

The budget provides funding for additional staff in public safety and animal shelter, in order to keep our citizens safe. We continue to focus on economic development to keep our community vibrant, and funding continues for those programs. An exciting development which will come to fruition during this upcoming year is the opening of the Embassy Suites Hotel and the City's Conference Center. The venue tax approved by the voters last year provides funding for debt retirement on the Conference Center, and the reserves which the Council wisely set aside in previous years will provide additional security that no property taxes will be used for that project.

Our sales tax revenue continues to grow; however, we continue to forecast conservatively due to the volatility of this revenue source. We know that this revenue is extremely sensitive to economic downturns, and thus we strive to protect the community by being conservative in our forecasting.

The City of San Marcos continues to be impacted by the high cost of fuel. Fleet operations experienced significant cost increases in the current year. However, our conservative forecasting allowed the City of San Marcos to cover most of this additional cost in the adopted budget. For Fiscal Year 2009, the cost is again expected to rise, and we are doing all we can to make sure that funds are provided for this significant expenditure.

I look forward to reviewing this budget with you. I believe that this budget emphasizes the highest priorities which our citizens care about, and addresses the goals which you have told us are most important to you.

Sincerely,

Rick Menchaca
City Manager