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**CITY HALL**  
622 E. Market Street  
Rockport, TX 78382  
**Mayor & City Council**  
City Manager  
City Secretary  
Finance Office  
Municipal Court  
Utility Customer Service  
Phone: 361-729-2213  
Fax: 361-790-5966 &  
361-790-1165

**SERVICE CENTER**  
2751 SH 35 Bypass  
Rockport, TX 78382  
**Building Department**  
Building, Inspections,  
Permits & Code Enforcement  
Phone: 361-790-1125  
Fax: 361-729-6476  
Inspection Request Line:  
361-790-1177  
**Public Works Department**  
Building Maintenance  
Environmental  
Fleet Maintenance  
Natural Gas  
Streets & Drainage  
Water & Wastewater Utility  
Fax: 361-729-7672

**BAY EDUCATION CENTER**  
**Parks Department**  
Administration  
121 Seabreeze  
Rockport, TX 78382  
Phone: 361-727-2158  
or  
361-790-1136  
Fax: 361-727-9393  
**Community Aquatic Park  
and Skate Park**  
2001 Stadium Drive  
Rockport, TX 78382  
Phone: 361-727-9989

**PUBLIC SAFETY CENTER**  
**Police Department**  
714 E. Concho Street  
Rockport, TX 78382  
Administration  
Communications  
**Criminal Investigation Division**  
Patrol Division  
Phone: 361-729-1111  
Fax: 361-790-3461

August 12, 2013

To the Honorable Mayor and City Council Members:

### Introduction

In accordance with Article VII of the City of Rockport Charter and Chapter 102 of the Texas Local Government Code, I am pleased to present for your consideration the proposed annual budget for fiscal year 2013-2014, beginning October 1, 2013. This balanced budget is intended to serve as:

1. A plan of financial operations embodying an estimate of expenditures for the next fiscal year and the means of financing them.
2. A management and operational plan for allocation of resources during FY 2013-2014.

The budgetary and accounting policies contained in the budget conform to generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB). The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate budgetary and accounting entity. Within the budget, the City's various funds are grouped into general fund types and proprietary fund types. The budget is prepared on the GAAP basis, with all governmental funds accounted for using the modified accrual basis of accounting and proprietary funds accounted for using the accrual basis of accounting.

Citizens of Rockport are proud of and enjoy the high quality of life they have come to expect. The City plays an important role in defining quality of life by developing and maintaining standards that contribute to a pleasant, attractive, dynamic and healthy community. In addition to continuing this role, staff was given the charge at the beginning of the budget process to (1) continue to look for efficiencies in operations, (2) reduce expenses where possible, and (3) maintain levels of service. Consequently, staff developed budget proposals for their departments assuming essentially the same expenditures as allocated in FY 2012-2013. Requests for additional items were submitted with justifications and were reviewed by the City Manager and Director of Finance. The following sections highlight points of interest in the budget.

## **Economic Outlook**

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Rockport is somewhat unique from most communities in that we are a destination point for tourists and seasonal visitors throughout the year. Consequently, our permanent residents total around 9,357 but we have the physical and human infrastructure to accommodate more than 15,000 – 20,000 people. This uniqueness has a definite impact on the City's fiscal needs. In addition, like all other local governments, Rockport faces inflationary pressures that are historically higher than what most citizens and businesses experience. The U.S. Municipal Cost Index (designed by *American City and County* magazine to show the effects of inflation on the cost of providing municipal services) was 3.4 percent higher for the 12-month period ending in May while the U.S. Consumer Price Index (CPI) was up 2.5 percent during the same period. In the previous 12 months, Rockport's recovery from the national economic recession is well underway, even compared to other communities in Texas, as shown by the following economic indicators (see additional detail in supporting graphs in the Statistical Section):

- Building permits increased 16.2 percent from 2011 to 2012;
- Building permit values increased 85.7 percent from 2011 to 2012;
- Commercial water accounts increased by 7.6 percent year-to-date July 2012 to 2013;
- The number of residential and land sales increased 18.7 percent in 2012 compared to 2011;
- Residential, commercial, and land sale values increased 19.7 percent in 2012 over a three-year rolling average;
- Gross retail sales increased 12.1 percent from 2011 to 2012;
- Sales tax collections in 2012 were a record and collections are now higher than they were pre-recession;
- Hotel occupancy taxes continue to surge past the pre-recession high in FY 2007-2008 of \$540,624 to a projected FY 2013-2014 revenue of \$661,281; and
- La Quinta is constructing a new 71 room hotel that will open in the second quarter of FY 2013-2014 and a 44-66 room Motel 6 is beginning plan review.

Average annual growth in assessed value (AV) for the past six years has been 0.9 percent. Following a year of AV decline from FY 2008-2009 to FY 2009-2010, AV bounced back and has risen a cumulative 4.9 percent since then. Assessed value is expected to remain stable with continued slight growth from year to year into the foreseeable short- and medium-term future.

## **Notable Policy and Program Changes**

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### **Fund Balance Policy**

While there is no statutory or regulatory requirement for a minimum fund balance, the generally accepted practice and rule of thumb is to have a fund balance of about 90-120 days. It has been several decades since Rockport has been hit by a catastrophic storm; however, as a coastal community surrounded on three sides by water, such a storm is always a possibility. Consequently, Rockport has felt a need to have a fund balance greater than 90-120 days so that the City is better prepared to respond to a disaster and maintain continuity of government and operations. The FY 2012-2013 budget first established the policy of maintaining a minimum

fund balance of 180 days. The FY 2013-2014 budget maintains a fund balance of 150 days by September 30, 2014, the same as the previous year.

### **Hotel Occupancy Tax Policies**

Rockport has historically allocated all of its anticipated hotel occupancy tax (HOT) funds and not maintained a budgeted fund balance or contingency, limiting the City's ability to accommodate unplanned opportunities. The FY 2012-2013 Budget established a policy of budgeting a contingency to give the City some flexibility throughout the year and that policy continues in the FY 2013-2014 budget. In addition, prior to FY 2012-2013, annual requests have been evaluated on their merits for that year, regardless of funding in previous years. The FY 2012-2013 Budget adopted a policy stating that an awardee should be weaned from HOT funding over one to three years after an awardee has received funding for several years (particularly in cases where the City helps fund new events and those events have become successful). In light of healthy prospects for HOT revenue, the FY 2013-2014 Budget reverses the policy of weaning.

### **Disaster Recovery Supplemental Grants**

The City received two \$1,000,000 grants for drainage improvements from the Disaster Recovery Supplemental 2.1 and 2.2 Grant programs. The projects are integrated and will serve the Southside of Rockport. The 2.1 project is expected to be completed in late FY 2012-2013 and the 2.2 project will be completed in FY 2013-2014.

### **Southside Sewer**

The City executed a developer agreement in January 2013 with the Islands of Rockport for construction of a force main down Highway 35 Business. The \$1.94 million project is expected to be completed by December 2013 and will have a capacity of 868 living unit equivalents. It is expected that the lack of sewer along the south Highway 35 Business is the primary obstacle to development along this corridor and sewer availability, together with the improved overall economy, will lead to a noticeable increase in development and property values in the short- and medium-term.

### **CNG Fill Station**

Since 2010 the City has been in discussions off and on with Aransas County Independent School District (ACISD) about converting our respective vehicle fleets to compressed natural gas (CNG). Converting ACISD's bus fleet to CNG provides the City with a steady gas customer and provides ACISD with significant fuel savings. The FY 2013-2014 Budget includes \$250,000 for the construction of a CNG fill station with fast-fill and slow-fill capability at the ACISD Transportation Department. The project is utilizing the construction manager at risk method and anticipates a completion date in the second quarter of the fiscal year.

### **Interest Earned**

Interest rates have improved ever so slightly from last year but FY 2012-2013 was a significant improvement over historical lows the previous few years; consequently, interest is budgeted 7.9 percent higher than last fiscal year.

## **Health Insurance**

Employees are provided medical insurance through the Texas Municipal League Intergovernmental Employee Benefit Pool (TML-IEBP). Premiums will increase by \$13.97 (3.0 percent) to \$479.83 per month. The City will continue the practice it began in FY 2011-2012 and split the increase evenly with employees so that the City and employees will both pay an additional \$6.99 per month.

## **Personnel**

The City has a very lean operation for a service organization, where 70-75 percent of expenses would not be unusual for personnel. In the General Fund personnel costs account for 57.4 percent of expenditures, 18.1 percent in the Utility system fund, and 22.1 percent in the Gas System Fund (these percentages do not factor in most of the capital requests, which would drive the percentage even lower). Although very lean, personnel costs still represent the single largest cost center and any further attempts to decrease expenses cannot ignore that fact. Funding for employee merit increases up to 3 percent is restored for 12 months, reversing the 90-day delay implemented in the FY 2012-2013 budget. A new air ambulance benefit through Halo Flight has been added for employees at a total cost of \$1,500 (\$887.24 in General Fund, \$363.92 in Utility System, and \$85.10 in the Natural Gas System Fund).

## **General Fund**

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### **Revenues**

1. **Tax Rate.** In October 2012 the City refinanced a 2005 bond issue to take advantage of much lower interest rates, generating an average annual savings of around \$47,000 a year (\$658,458 total). As a result, the effective tax rate, i.e. the rate that generates approximately the same amount of revenue as FY 2012-2013, decreases \$0.005076 to \$0.320748 and the rollback rate is \$0.32603. Since the City maintained the effective tax rate for the seven years prior to FY 2012-2013, the effect of inflation over that time was to effectively create an operational decrease in the level of service. To help offset the inflationary effects of previous years, the proposed budget assumes a 9 percent increase in the ad valorem tax rate to \$0.327728 and has a net effect on the median residential property of increasing their ad valorem taxes by \$11.89.
2. **Sales Taxes.** As a tourist destination, sales taxes can be a direct indicator of the local economy. Sales tax collections in 2012 were a record and collections are now higher than they were pre-recession. Based on multiple local indicators, there is a high degree of confidence that sale tax receipts will continue to improve and the 5.8 percent increase over the FY 2012-2013 budget amount is a conservative estimate.
3. **Franchise Fees.** In 2012 many cable subscribers dropped cable and switched to satellite due to the cable system temporarily dropping the NBC network from its channel lineup. Since satellite services do not use municipal rights-of-way, they cannot be assessed franchise fees. As a result of this and an overall trend of consumers moving to satellite, cable franchise fees are predicted to be 10.9 percent lower than FY 2010-2011 but a slight improvement over FY 2011-2012.

4. **Court Fines.** Revenue from Municipal Court fines is budgeted 26.4 percent lower than FY 2012-2013, reflecting a reduction in the number of citations issued over the last two years. Revenue may be higher than budget by the end of FY 2013-2014 because Municipal Court will begin conducting warrant roundups; however, the results are not predictable and the budgeted figure is conservative.

### **Expenditures**

1. **Municipal Court.** A thorough examination and retooling of Municipal Court operations in FY 2012-2013 revealed that the existing three full-time positions and one part-time position were not necessary. The FY 2013-2014 budget includes a net reduction of two full-time positions, saving \$102,803.
2. **Information Technology.** The City's information technology (IT) infrastructure, both hardware and software, has suffered from several years of limited investment and no strategy for replacement or updating. As a consequence, the City's IT systems are very vulnerable and will require significant investment over the next 2-3 years. Recognizing the scope of the problem and the need to make strategic investment, the budget includes \$24,000 for development of an IT master plan. In addition, due to the large user base and expansion of network and hardware, an Information Technology Technician will be added at the beginning of the third quarter.
3. **Police Patrol.** The proposed budget includes a continuation of the Police Officer added as a result of the April 2013 interlocal agreement with the Town of Fulton for law enforcement services.
4. **Code Enforcement.** A mid-year addition of a Code Enforcement Officer is included to continue the City's focus on improving neighborhoods and in anticipation of future annexations.

### **Utility System Fund**

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#### **Revenues**

**Charges for Services.** The annual water and wastewater cost of service study recommended keeping the demand (base) rates the same and increasing the volumetric rates by 5.25 percent for FY 2013-2014, leaving a positive balance of \$99,475. The net effect on an average residential water and sewer customer inside the city limits is \$2.55 and \$4.47 for a customer outside the city limits.

### **Natural Gas System Fund**

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#### **Revenues**

**Water and Sewer Charges.** The winter of 2012-2013 was another very mild season, causing lower than normal consumption and therefore lower than predicted revenues. In addition, the FY 2013-2014 budget includes \$250,000 for the CNG fueling station and \$75,000 for the Distribution Integrity Management Program required by the Texas Railroad Commission. The annual cost of service study recommended adding \$3.85 to the demand (base) rate and \$0.22 to the volumetric rate. The average natural gas customer will see a net increase of \$3.85 to their monthly bill.

## **Conclusion**

The desire of city councils to maintain the lowest ad valorem tax rate as possible is understandable, particularly given the overall economic climate. It is also important for attracting residents and businesses to have a tax rate and services that are competitive with other communities. The City of Rockport has attempted to do this for several years by maintaining the effective tax rate (i.e. the rate that raises the same amount of revenue) and cutting expenses; however, creating an artificially low tax rate by deferring maintenance and/or failing to plan for known future expenses is not successful in the long-term and usually creates a more painful fiscal environment for the future. Fortunately, over the years the City of Rockport has recognized the need to continually reinvest in its infrastructure and, beginning in FY 2012-2013 and continuing with FY 2013-2014, has adopted tax rates that are higher than the effective rate in order to position the City for the future.

Not included in this budget is the proposal for the City of Rockport to assume operation of Animal Control, currently run by Aransas County Environmental Services Department but funded through a *pro rata* expense allocation formula based on call volumes in Aransas County, City of Rockport, and Town of Fulton. Discussions are ongoing but, should an interlocal agreement be adopted, Animal Control could become part of the City of Rockport in January 2014. The expense allocation formula will remain the same so little to no net change in budgeted expenses is expected.

There are eight issues with revenue and expense impacts that bear consideration in the short- to medium-term, specifically:

1. Completion of the Southside Force Main Project along Highway 35 Business to the Islands of Rockport;
2. Necessary investment in the City's information technology;
3. Possible relocation of a natural gas main along Highway 35 North;
4. Planning for annexation of the area north and south of Market Street more or less between Highway 35 Business and Highway 35 Bypass;
5. Additional statutory obligations incurred by passing the threshold of 10,000 citizens;
6. Expanding opportunities with the planned compressed natural gas fueling station and fleet conversion;
7. The ongoing, near record drought has resulted in revised, more restrictive drought contingency and water conservation plans that will lead to reduced water consumption and a corresponding change in base and volumetric rates. In addition, overall demand

and availability of supply may lead to higher costs to the City from our supplier, San Patricio Municipal Water District; and

8. Impact of the Affordable Care Act, particularly on any requirement to provide health insurance to part-time and seasonal employees.

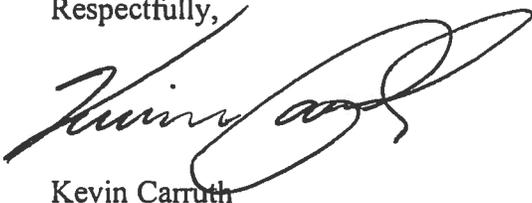
Each of these issues will require thoughtful and deliberate consideration by the City Council, together with city staff, for the development and commitment to a budget strategy to meet these future demands.

Despite the improved economy, the proposed FY 2013-2014 budget is conservative in its revenue estimates and expenditures. The budget maintains a high level of reserves in order to mitigate the risks posed by Rockport's somewhat limited economy, modest scale, reliance on tourism, and threat of strong storms. The City's conservative fiscal policies and budgeting resulted in a July 2013 Fitch Ratings report reaffirming the City's AA- rating with a stable outlook, recognizing the City's healthy financial flexibility.

City government is the form of government that has the widest ranging impact on the daily lives of our citizens. Meeting the fundamental health, safety, and welfare needs of our citizens is essential to a progressive and successful community and as presented, this budget will ensure the safety of our citizens and enhance their quality of life while providing an environment for successful development.

I appreciate the efforts of staff during the preparation of the proposed budget under another year of difficult fiscal circumstances. In addition, I wish to extend my thanks to the City Council for its willingness to take the time at the annual planning retreat and the budget workshops to understand each department's operations and share the Council's vision with staff. Such understanding provides context and background to better understand the budget and also enlightens staff's understanding of Council's priorities.

Respectfully,

A handwritten signature in black ink, appearing to read "Kevin Carruth", written in a cursive style.

Kevin Carruth  
City Manager

**CITY of ROCKPORT, TEXAS**

