

CITY OF SAN AUGUSTINE, TEXAS

Capital Improvements Program

*Formulated: 2020-
2021*

1 CAPITAL IMPROVEMENTS PROGRAM

The condition of infrastructure is a major concern of all communities, including the City of San Augustine. Historically, in Texas as well as the rest of the United States, public infrastructure has been built to meet need which leads to factoring replacement costs as well as operations and maintenance (O&M). This is because funding and program responsibilities have been split between capital and maintenance functions. For example, during the 1950s and '60s, the federal government limited the use of the Highway Trust Fund to new construction. That constraint forced state and local governments to use their own revenues for maintenance, which was often deferred, resulting in the premature deterioration of infrastructure.

Infrastructure deteriorates with time and use, and during times of expansion, stress is placed upon the capacity of local governments to accommodate additional people. When properly developed and used, a capital improvements program (CIP) is a tool for local government to identify ongoing and long-term capital needs and assess financial capabilities to meet those needs.

1.1 Highlights

Although San Augustine is a small, lower-income community, the City has the financial capacity to carry out some of the necessary capital improvements over the next five years. Property taxes and sales tax revenue have remained strong in total over the last five years and the City's current debt service remains manageable. Most of the City's financial ratios (direct debt, debt service coverage ratio, etc.) are within standard benchmarks and indicate that San Augustine could issue more debt on top of existing debt while maintaining a conservative fiscal policy.

Projects recommended in the Five-Year Capital Improvements Program Schedule at the end of this chapter total an estimated \$11,500,000 with proposed projects ranging in cost from \$1,000,000 to \$3,900,000. The order of those projects and the exact locations of some improvements would depend on funding availability, engineering studies, and the changing needs of the community. Local financing options are discussed below.

1.2 Governmental Accounting and Reporting Practice

The City of San Augustine organizes revenues and expenses in compliance with standard governmental accounting practice. The Governmental Accounting Standards Board is a major source

of guidance, in addition to state statute in some cases. There are three groups of funds for which financial statements are prepared—governmental, proprietary, and fiduciary.

- **Proprietary funds** are employed to report on activities financed primarily by revenues generated by the activities themselves, such as a municipal utility. These are often referred to as enterprise funds as well.
- **Fiduciary funds** contain resources held by a government but belonging to individuals or entities other than the City.
- **Governmental funds** account for everything else. This is where the bread-and-butter services can be found—police, fire, social services, sanitation, and so on.

There are five types of governmental funds:

1. **The general fund** is the City's basic operating fund and accounts for everything not accounted for in another fund and is further discussed below.
2. **Special revenue funds** are intended to be used to report specific revenue sources that are limited to being used for a particular purpose, such as transportation aid. In practice, governments also use them to report all of the financial activities associated with a single function (such as road maintenance); classes of revenues (for example, all federal grants); and "rainy day" resources.
3. **Debt service funds** account for the repayment of debt. If the City is accumulating resources for the purpose of making debt service payments, it should report them in a debt service fund. In reality, some resources intended to finance debt service payments can be found in other governmental funds. Furthermore, debt transactions associated with proprietary and fiduciary activities are accounted for in those funds.
4. **Capital projects funds** account for the construction, rehabilitation, and acquisition of capital assets, such as buildings, equipment, and roads. A City is not required to account for all capital expenditures in this fund type, however, and therefore it may also appear in the general fund or even special revenue funds depending on the facts and circumstances.
5. **Permanent funds** account for resources that cannot be expended, but must be held in perpetuity. Generally, these resources are invested and the City may spend the earnings, often for a purpose specified by the provider of the resources.

The General Fund

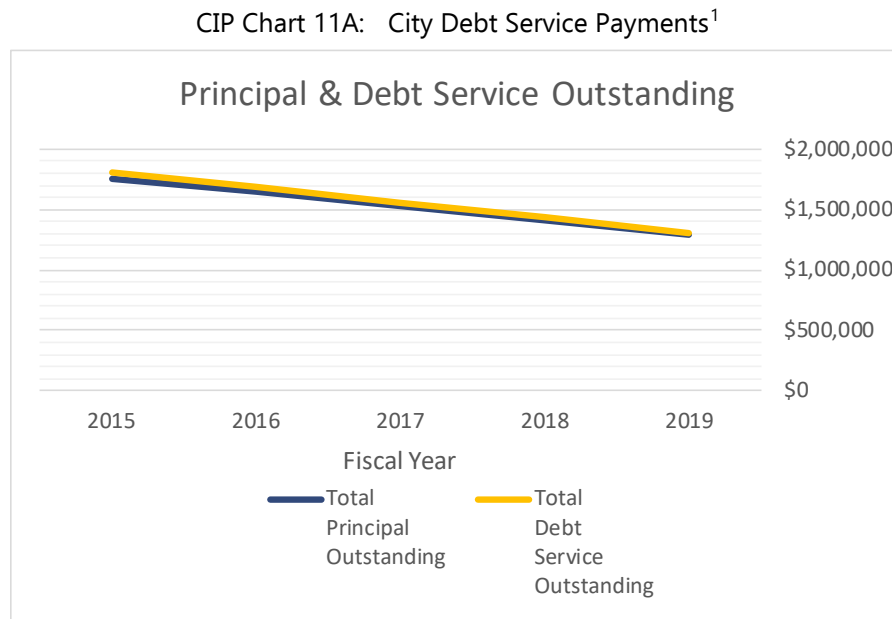
The general fund is the primary fund used by the City. This fund is used to record all resource inflows and outflows that are not associated with special-purpose funds. The activities being paid for through the general fund constitute the core administrative and operational tasks of the City. Income for the General Fund is generated primarily through taxes such as property and sales taxes collected on the behalf of the City by the Texas State Comptroller of Public Accounts. General Fund expenditures include general government costs and as well as costs to provide other public services such as police, fire protection, sanitation, public safety, and public works.

1.3 City Financial Condition

This section describes the City of San Augustine’s financial condition with regards to public debt, income and expenditures, tax revenue trends, and residents’ income levels.

1.3.1 Public Debt

Public debt information is extracted from data files submitted to the Texas Bond Review Board and are compared to the most recently applicable audited fiscal year financial statements for the City of San Augustine in order to isolate and correct any potential \$0 errors in the City’s data file. *CIP Chart 1A* illustrates the City’s outstanding debt service profile including principal and interest.



1.3.2 Income & Expenditures

¹ Source: Annual Financial Report, year ending 9/30/2019, Management’s Discussion and Analysis

Governmental Fund revenues were \$1,258,666 in 2018 and \$1,357,161 in 2019.

Governmental Fund expenditures were \$1,729,836 in 2018 and \$1,837,084 in 2019.

CIP Table 1A: Governmental Fund Revenues & Expenditures

Source: Annual Financial Report, year ending 9/30/2019, Management's Discussion and Analysis

Proprietary Funds include activities that the City operates similarly to those of a commercial business enterprise including the use of similar accrual accounting practices. Accordingly, proprietary funds are sometimes referred to as enterprise funds. Revenues come primarily from Water Sales and Sewer Charges, and expenditures result primarily from Salaries, Repairs and Maintenance, Depreciation, and Utilities and Fuel.

Proprietary Fund revenues were \$4,262,924 in 2018 and \$4,456,561 in 2019. Fund expenditures were \$3,597,872 in 2018 and \$4,469,170 in 2019.

CIP Table 1B: Proprietary Fund Revenues & Expenditures

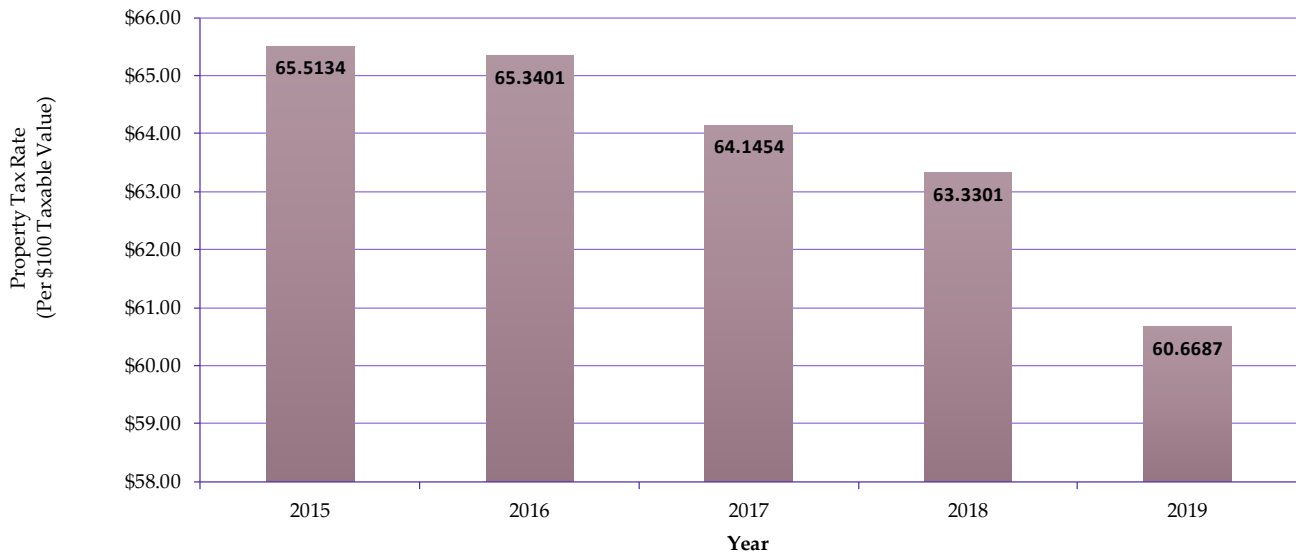
	2018	2019
Operating Revenues		
<i>Charges for Services</i>	\$4,214,311	\$4,340,415
<i>Other</i>	\$48,613	\$116,146
Total Operating Revenues	\$4,262,924	\$4,456,561
Operating Expenditures		
<i>Water and Sewer</i>	\$1,352,715	\$1,532,567
<i>Electric</i>	\$2,245,157	\$2,936,603
Total Operating Expenses	\$3,597,872	\$4,469,170
Nonoperating Revenues		
<i>Capital Grants and Contributions</i>	\$969,616	\$106,620
	\$0	\$0
Total Nonoperating Revenues (Expenses)	\$969,616	\$106,620
<i>Transfers from/(to) other funds</i>	(\$555,412)	(\$555,412)
<i>Change in net position</i>	\$1,079,256	(\$592,186)
<i>Beginning Fund Balance</i>	\$4,301,565	\$5,380,821
<i>Ending Fund Balance</i>	\$5,380,821	\$4,788,635

1.3.3 Local Taxes

Local taxes are a key source of Governmental Fund revenues. *CIP Chart 1B* depicts the historical property tax rate data from the Texas Bond Review Board for the City of San Augustine. The City's property tax rate ranged from 0.606687 to 0.655134 per \$100 taxable value during the most five

recent tax years. San Augustine's property tax rate is lower than the average for all Texas cities (\$0.5335) and higher than the average for Texas cities with a population between 2,000 and 3,000 residents (\$0.5647). Property tax and sales tax allocation trends over these five years are illustrated in Chart CIP 1C, below.

CIP Chart 1B: Property Tax Rate History (per \$100 taxable value)



CIP Chart 1C: Tax Allocation History²



² Comptroller at www.texasahead.org/texasedge/run_report.php and Texas Bond Review Board at www.brb.state.tx.us/

1.3.4 Community Income Levels

Resident income levels can affect which grant programs are available for capital improvements. The following statistics are those most often used by State agencies for grant qualification. As program requirements change frequently, individual agencies and organizations should be contacted for details prior to submitting an application.

- According to the most recent American Community Survey,³ San Augustine’s estimated annual per capita income is \$21,420. Some programs require per capita income to be 80% or less of the national or below the State-wide average.
- According to the most recent American Community Survey (ACS),⁴ San Augustine’s estimated poverty rate is 18.6%, as compared to the estimated poverty rate for San Augustine County – 24.0% the estimated rate for the state of Texas – 24.0%. Some grant programs provide additional points for areas with higher poverty rates.
- The US Department of Housing and Urban Development (HUD) sets income limits to determine who can qualify for programs such as Housing Choice Vouchers (Section 8) and HOME. HUD reports Median Family Income in 2017 for San Augustine County at \$53,100. HUD has set current income limits at those listed by family size in *CIP Table 1C, following*.⁵
- TxCDBG programs require that at least 51% of residents for community-wide projects be moderate-to-low income. In *CIP Table 1C*, that would correspond to HUD definitions of “low” to “extremely low.”

CIP Table 1C: HUD Income Limits

San Augustine County, Texas								
FY 2019 Income Limit Category	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
Very Low (50%) Income Limits*	\$20,650	\$23,600	\$26,550	\$29,450	\$31,850	\$34,200	\$36,550	\$38,900
Extremely Low Income	\$12,760	\$17,240	\$21,720	\$26,200	\$30,680	\$34,200	\$36,550	\$38,900
Low (80%) Income Limits	\$33,000	\$37,700	\$42,400	\$47,100	\$50,900	\$54,650	\$58,450	\$62,200

³ U.S. Census Bureau at <http://factfinder2.census.gov> Table B19301

⁴ The numbers used for Community Development Block Grant and Texas Capital Fund grants come from the American Community Survey 5-year estimates, Table DP03, Poverty level of “All people”, accessible from <http://factfinder2.census.gov/main.html>

⁵ HUD data available from www.huduser.org/portal/datasets/il.html

**The FY 2014 Consolidated Appropriations Act changed the definition of extremely low-income to be the greater of 30/50ths (60 percent) of the Section 8 very low-income limit or the poverty guideline as established by the Department of Health and Human Services (HHS), provided that this amount is not greater than the Section 8 50 percent very low-income limit. Consequently, the extremely low-income limits may equal the very low (50 percent) income limits.*

1.4 Key Capital Improvements Considerations

Based on the capital needs identified in other chapters of this Comprehensive Plan and the financial data described above, the City of San Augustine should focus on the following key issues related to capital improvements: public improvements debt financing options, City debt capacity, and impact of project on protected classes.

1.4.1 Public Improvements Debt Financing Options

The type of financing used to pay for infrastructure expenditures depends on several factors, most critically the annual tax revenues generated, the unmet demand for different infrastructure projects, and the jurisdiction's indebtedness. Because costs often run into the millions of dollars, multiple sources are often used to finance infrastructure expansion or replacement: general obligation bonds and certificates of general obligation, revenue bonds, operating revenues/general fund, impact fees, and State or federal funds. The following list does not include external funding options, which have been described in other chapters of this plan and include grants and below-market loans.

- General obligation (G.O.) bonds are paid out of annual general revenues. These bonds usually raise large sums of money with the debt retired over several decades. G.O. bonds are backed by the "full faith, credit and taxing powers" of the issuing jurisdiction. When G.O. bonds are sold, the jurisdiction guarantees that it will raise sufficient revenues to retire the debt on schedule, usually using property taxes. Because G.O. bonds are repaid by all taxpayers in a community, they are usually used to finance projects that benefit the community as a whole, such as public buildings, parks, recreation centers, and major street improvements. G.O. bonds require voter approval.
- Certificates of Obligation are similar to G.O. bonds. However, they are usually used to pay a contractual obligation incurred in: (1) a construction contract; (2) the purchase of materials, supplies, equipment, machinery, buildings, land, and rights-of-way for authorized needs and purposes; or (3) the payment of professional services, including services provided by appraisers, engineers, architects, attorneys, auditors, financial advisors, and fiscal agents. Debt service is paid from tax revenue and/or system revenues. C.O. bonds, unlike G.O. bonds do not require voter approval.
- Revenue bonds are sold to develop projects that produce revenues, such as municipal sewer and water systems. The guarantee of repayment comes from the revenues generated by the financed

project, which usually includes taxes or fees collected from the project's beneficiaries. Most projects financed using revenue bonds benefit a wide class of users, such as water customers, airport users, or toll road users. Unlike G.O. bonds, revenue bonds do not require the backing of the jurisdiction's "full faith, credit and taxing powers." Consequently, the local government is not obligated to raise taxes to avoid default, but revenue bonds usually carry higher interest rates than general obligation bonds. Voter approval is not usually necessary to float revenue bonds.

- Private Activity Bonds are a special type of bond administered by the Texas Bond Review Board. From the Bond Review Board website:

Private activity bonds are those bonds that meet any of the following tests: 1) Private Business Use Test - more than 10 percent of the proceeds are to be used for any private business use; 2) Private Security or Payment Test - payment on principal or interest of more than 10 percent of the proceeds is to be directly or indirectly secured by, or payments are to be derived from, a private business use; and 3) Private Loan Financing Test - proceeds are to be used to make or finance loans to persons other than governmental units.⁶

The Tax Act of 1986 limited municipality Private Activity Bond use. The Texas Bond Review Board allocates these bonds on a "first-come, first-served" basis every year. They should be contacted at 1-512-463-1741 (or at www.brb.state.tx.us) if a municipality or jurisdiction wishes to be considered for an allocation.

- Sales Tax Bonds (Texas Leverage Fund program) are available to cities that have passed the local Sales and Use Tax for Economic Development. Loans leverage future local sales and use taxes that will be due the 4A or 4B Economic Development Corporation in future years. The program is designed to give cities quick capital for business development activities approved in the legislation voters approved in forming the 4A (manufacturing or industrial activities) or 4B (business development and infrastructure activities including those that improve quality of life for the City). Loans cannot exceed \$5 million.
- General Fund Operating Revenues are funds that are derived from the income-generating functions of a local government. Financing infrastructure with operating revenues or the general fund saves the interest and fees associated with issuing bonds. However, because the operating revenue cannot usually provide the large cash flows of a bond issuance, General Fund Operating Revenues are usually used to finance smaller, lower-cost capital improvement projects that can be paid for in one year. Some cities with limited budgets have allocated a portion of their budgets annually into a fund for specific projects, such as street or drainage improvement, and allowed

⁶ TX Bond Review Board: www.brb.state.tx.us/pab/pab.aspx

the fund to accumulate and gain interest until it was large enough to fund a project.

- Exactions. A city may require that a developer fund or construct public facilities in proportion to the impact the development will have on city services. Exactions can include dedication of land for specific purposes or construction of public facilities as authorized by constitutional, statutory or charter authority, such as that enabled by a subdivision ordinance. Projects often include drainage easements and facilities, street and alley right of way, water and wastewater easements and facilities, street lighting, fire hydrants, sidewalks, street signs, and traffic control devices. Less common are park dedication (or fees in lieu); school site dedications; major public works facility dedication (e.g. water treatment plant); and public service facility dedication (e.g. fire or police stations, library branches). Cities must show that the dedication, construction, or payment in lieu is “reasonably related” to the public needs created by the new development.
- Fees include user fees, impact fees, and special assessments and are usually collected from the beneficiaries of a project. User fees include public swimming pool or golf course user fees, trash collection fees, or water meter tap fees. Impact fees, a type of exaction, include charges to property developers to defray the costs of providing off-site water, sewer, and transportation infrastructure impacted by a new development. Developers typically pass the cost of infrastructure construction to the primary beneficiaries: the residents of the new development.
- Special assessments are used to fund improvements such as water, wastewater, drainage, sidewalk, parking, library, recreation, and landscaping. While impact fees reflect the cost of the development, special assessments reflect the projected increase in a development’s value created by the improvements. They are assessed against properties affected by the improvement and must be approved by property owners representing more than 50% of the area of property to be taxed.

Additional Considerations

Cost of Financing: Each option available to pay for infrastructure carries a certain financial obligation. One objective of local governments is to incur minimal interest and finance charges, which may depend on the bond rating of the jurisdiction. If enterprise funds, revenues from general taxes, or outside assistance from state or federal sources are sufficient to pay for infrastructure development, no financing costs will be incurred. Nevertheless, most cities find that they must issue debt to provide needed services. A 2018 Texas Municipal League survey of cities indicated that, for cities with populations between 2,000 and 3,000 residents, 79% had general obligation or revenue bonds or certificates of obligation. General obligation bond debt ranged from \$35,000 to \$17.2 million. Certificate of obligation debt ranged from \$40,000 to \$17.2 million. Revenue bond debt

ranged from \$38,000 to \$14.6 million. Most of the debt paid for municipal buildings, sewer and water infrastructure, and parks.

Equity: Local governments must determine the relationship between those who receive the benefits and those who pay the costs. In some cases, it is possible to identify groups of individuals who benefit more directly from a particular project; in others, the benefit may be more widely distributed. Some forms of financing may be more burdensome to one group of citizens than another, leaving local governments to decide how the costs and benefits of infrastructure projects will be distributed. Some financing mechanisms, such as impact fees and special assessments, require the government to prove a relationship between the residents served and the fee paid.

Political Acceptability: While most communities have a range of infrastructure financing options, local political realities often play a major role in determining which option is chosen. In some communities, it may not be politically feasible to increase property taxes, while it may be acceptable to issue bonded indebtedness for a specifically earmarked purpose. In other cases, it may be more acceptable to charge fees directly to those who benefit from a project or incur debt that will be repaid by fees charged for use of the project.

1.4.2 City Debt Capacity

Debt capacity analysis is used to determine how much additional debt the City could afford. Based on the above summary of the City's finances and the following analysis, the City could consider issuing additional debt for capital improvements and still remain within accepted debt affordability benchmarks.

General Debt Indicator Observations for New Debt decisions.

Overlapping Debt	Ok for more debt
Per Capita Indebtedness	Ok for more debt
Direct Debt as % of Assessed Value	Ok for more debt
Annual Debt Service as % of Annual Receipts	Ok for more debt
Debt Service Coverage Ratios	Avoid additional debt

The analysis following uses standard benchmarks to evaluate the current debt burden of a municipality. Major debt issuance decisions would require more detailed study of market interest rates, available funding packages, loans and bonds issued by other area political entities, and other factors at the time of financing.

Direct Debt as a Percentage of Market Value: Direct debt measures total debt outstanding as a percentage of the assessed value of property in the City. Direct debt should not exceed 10%. More fiscally conservative communities use 6% as the upper limit for direct debt. Less fiscally conservative communities calculate direct debt using market value rather than assessed value.

The total assessed value of the property in San Augustine was \$61,103,740. Based on a benchmark of 6%-to-10% of assessed property value, San Augustine’s local tax base could support between \$3.67 million and \$6.11 million in general obligation debt.

The total debt obligation for the City of San Augustine is \$1,295,000. According to this measure, the City of San Augustine can conservatively incur additional direct debt of approximately million, if desired.

Per Capita Bonded Indebtedness: The amount of direct debt outstanding for each citizen of a jurisdiction should generally be kept below \$1,200 (principal only). More fiscally conservative communities set the upper limit at \$600. Direct debt includes all long-term obligations supported by general revenues and taxes, including combination bonds that are backed by taxes and general revenues. In 2019, the City had an estimated population 1,877. Based on population, San Augustine could support additional debt between -\$168,800and \$957,400..

Overlapping Debt: *The City’s debt burden from debt held by all jurisdictions should be no more than 10%.* Overlapping debt is calculated as the City’s direct debt plus the percentage of debt held by overlapping jurisdictions that will be paid by taxes from the assessed value of land within the city limits.

Table CIP 1D, represents San Augustine’s overlapping debt. Much of the debt is generated by bonds issued by the School District. San Augustine’s overlapping debt is just above this metric. According to this indicator, San Augustine should wait until more of the ISD debt is paid off before supporting additional debt service.

Table 11D: Total/Overlapping Debt (FY 2018)

Taxing Entity	Outstanding Debt	City Share of AV	City's Portion of Debt (based on AV)
San Augustine	\$1,304,096	100%	\$1,295,000
San Augustine ISD	\$13,480,810	17%	\$1,790,159
San Augustine County	\$980,366	8%	\$72,648
Total	\$15,765,272		\$3,157,807
<i>San Augustine Assessed Value</i>			<i>\$61,103,740</i>
Total Direct Percentage of Overlapping Debt as Percentage of Net Assessed Value:			5.2%

Source: <https://data.texas.gov/Government-and-Taxes/Debt-Outstanding-By-Local-Government/dyv5-3bjd>

Annual Debt Service as a Percentage of Receipts: The City’s annual debt service (principal and interest) should not exceed 20% of the City’s annual receipts.

Revenue Debt (debt service coverage ratio): The debt service coverage ratio (DSCR) refers to the amount of cash available to meet annual payments on debt, and a DSCR greater than 1.0 is required to make annual debt payments. The DSCR is calculated using the following equation:

$$\frac{\text{(Net Operating Income + depreciation and amortization + non-operating revenues)}}{\text{Annual Debt Service (principal and interest)}}$$

The DSCR is used to determine a City’s ability to pay current long-term debt obligation based on current revenues and should be based on both the Governmental Fund and the Proprietary Fund. The combined DSCR is -7.9. According to this metric the City would be able to take on new debt and still maintain a DSCR at 1 or less.

1.4.3 Impact of Projects on Protected Classes

In prioritizing projects, the City considered the locations of past infrastructure projects and the locations of projects recommended in the various studies in the plan to determine if those projects had or would inadvertently result in disparate treatment of members of protected classes. Specifically, it noted whether infrastructure projects had the impact of:

- Positively promoting affordable housing in areas outside of geographic concentration and giving members of protected classes the opportunity to move out of areas of concentration;
- Positively promoting equal treatment and access for disabled persons, particularly in public facilities;
- Negatively promoting racial concentration or disparate treatment of members of protected classes; or
- Negatively placing undesirable infrastructure in areas where protected classes reside.

Capital improvement projects are prioritized in the tables that follow and include all areas of the City of San Augustine.

1.5 Capital Needs Prioritization

This section prioritizes the capital needs identified throughout this CIP Plan and provides a consolidated overview of recommended improvements for at least the next 5 years. Due to

competition for limited funds, improvements that may be considered “mandatory” because they promote health and safety may be built after other improvements considered “desirable” or “acceptable” such as certain street construction or park improvements. A community must consider both the urgency and the feasibility of a particular capital project. If funds are likely to become available for a lower priority project before a higher priority project, the City should indicate that on its capital improvements schedule. Capital needs have been classified using the following system:

1. Mandatory (M): those which address an imminent threat to life or health;
2. Necessary (N): those which provide important public services by improving existing systems and/or replacing obsolete facilities;
3. Desirable (D): those which improve the aesthetic aspects of a community or address quality of life issues;
4. Acceptable (A): those which may fall under the “necessary” or “desirable” categories above, but are undertaken primarily to reduce operating costs to the City.

CIP Table 1F: Capital Needs Prioritization

Water Projects	Year(s)	Need/Priority	Cost
Obtain funding to harden the City's water system by replacing the High Service Pump Station at Water Plant	2020-2025	Mandatory	\$1,300,000
Obtain funding to harden the City's water system by replacing the Light Plant Booster Station. t	2020-2025	Mandatory	\$1,300,000
Obtain funding to harden the City's water system by replacing the RCCP transmission line, remove sludge from holding pond, and create a secondary transmission main from high pressure pump station to the US 96 pressure zone.	2020-2025	Mandatory	\$1,000,000

Wastewater Projects	Year(s)	Need/Priority	Cost
Obtain funding for Sewer System Improvements to eliminate I&I at the wastewater treatment plant. This will include, but not limited to, replacement of sewer line and manholes throughout the city.	2022-2026	Necessary	\$3,900,000
Obtain funding for Sewer System Improvements at the wastewater treatment plant. This will include, but not limited to, install new mechanical screen, install a grit removal system, and replace aerator in oxidation ditch.	2022-2026	Necessary	\$2,500,000

Streets Projects	Year(s)	Need/Priority	Cost
Obtain funding to repair streets in southwest section of San Augustine. The repair operations should include replacement of culverts and an overlay process for the sections of paved streets that can be salvaged.	2024-2026	Necessary	\$1,500,000

Lowest project:	\$1,000,000
Highest Project:	\$3,900,000
All Projects:	\$11,500,000