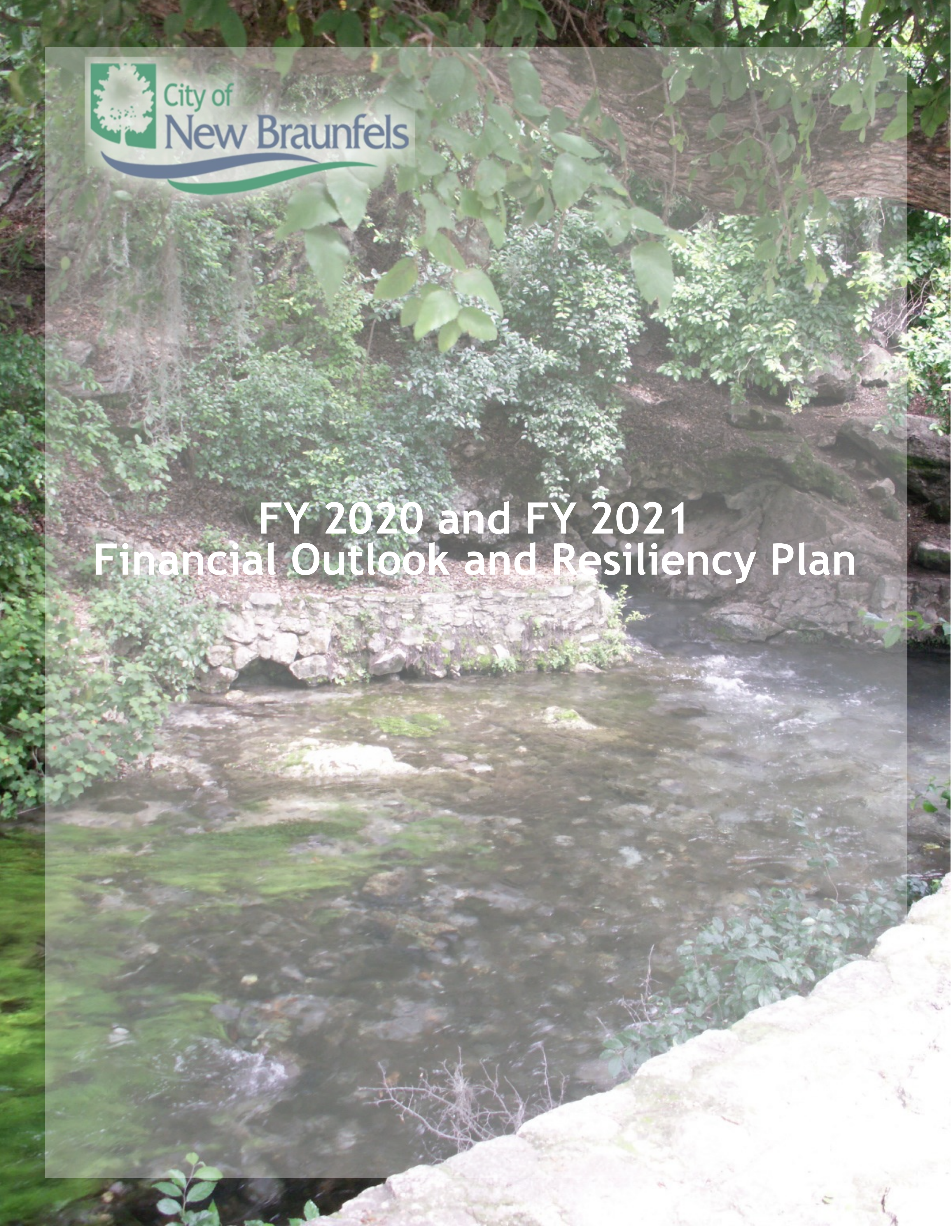

City of New Braunfels

FY 2020 and FY 2021 Financial Outlook and Resiliency Plan

Financial Outlook and Resiliency Plan

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Executive Summary - Fiscal Outlook and Resiliency Plan

For the past six years, the City of New Braunfels has produced a five year financial forecast. The document included an economic benchmark and outlook section, a comprehensive identification of strategic issues and a five year outlook for the General Fund, Debt Service Fund, Equipment Replacement Fund and Self Insurance Fund. However, the COVID-19 crisis has brought uncertainty as it relates to nearly all major revenue sources in the General Fund. In addition, the crisis is forcing us to focus heavily on the solvency projections of the City's four enterprise funds. Lastly, there are several critical fiscal policy issues, both COVID and non-COVID related that need to be thoroughly considered. These include, but are not limited to:

- Property Tax Rate and Senate Bill 2 considerations
- 2019 Bond Program Delivery
- 2019 Bond Projects Impact to General Fund Expenditures
- Potential Sales Tax Sourcing Rule Changes by State Legislature

As a result of these policy issues and the uncertainty of the fiscal impacts stemming from COVID-19, this document focuses on the FY 2020 and FY 2021 outlook and resiliency efforts of our organization. The document includes the four following sections:

1. Economic Conditions and Outlook
2. General Fund – FY 2020 and FY 2021 financial outlook
3. Fiscal Policy Considerations
4. Enterprise Funds – FY 2020 and FY 2021 financial outlook

The budget process continues to be where decisions regarding service levels and funding sources for the associated costs of services will be determined by City Council. This document is meant to educate, internally and externally the most pressing fiscal challenges and opportunities as it relates to COVID-19 and other factors.

Economic Recovery and Adaptation

The Covid-19 pandemic clearly had a measurable negative toll on global health, economic conditions and growth. In addition to more than 434,000 deaths worldwide, most developed nations' responses included full or partial societal shutdowns to reduce the transmission of the coronavirus. In the United States, the virus had a larger impact in some states versus others but nearly all responded with containment strategies. While these moves resulted in some abatement of the virus and toll on human life, it also resulted in adverse economic conditions with rapid and massive unemployment as one of the most visible effects. The federal government and central bank took unprecedented fiscal and monetary actions that stemmed some of the impact. The nation is now almost certainly in an economic recession and the damage throughout the nation, state and local New Braunfels community is becoming more evident as data becomes available. Although the economic impacts to the New Braunfels community do not initially appear as deep and overwhelming as some other cities, we are operating with uncertainty as to how governments and consumers will respond in a world where the coronavirus is ever-present.

Employment Impacts

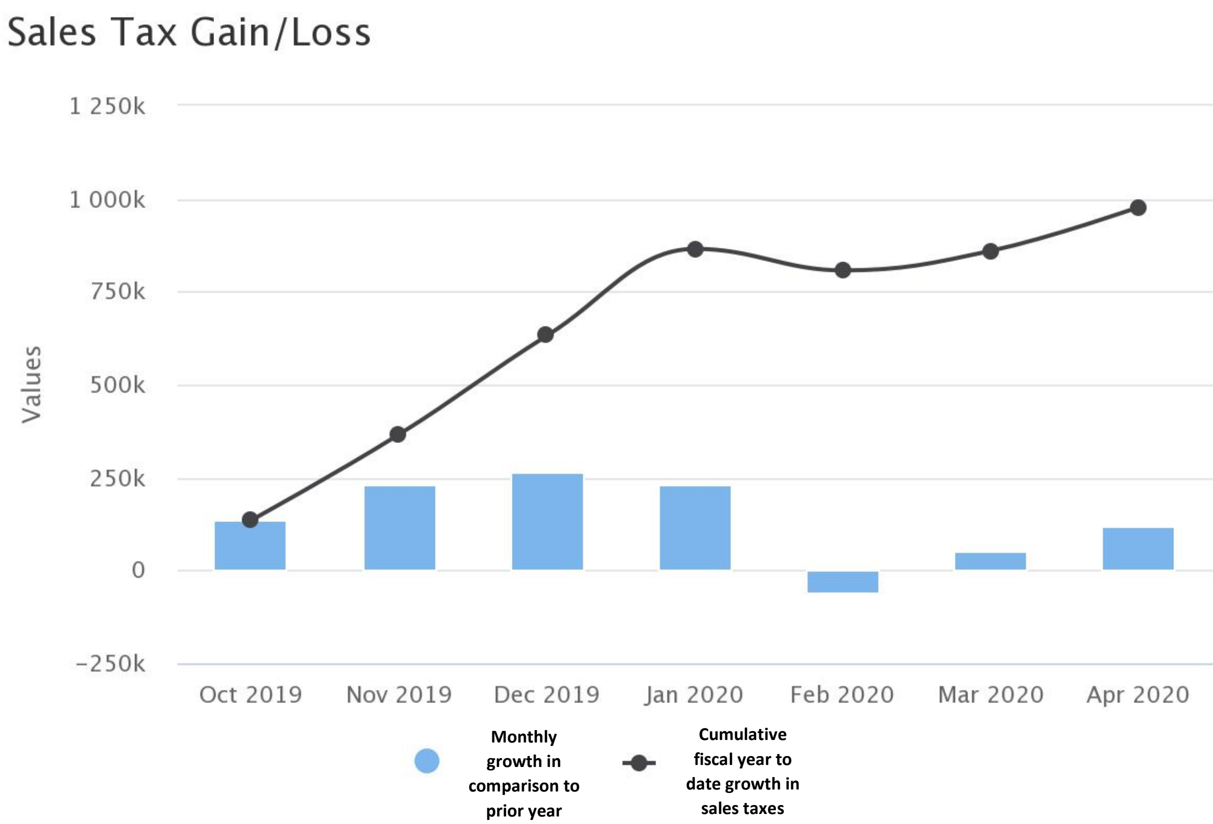
Unemployment and household incomes are down, jobs have been reduced or eliminated and many will not come back or may take years to return. The current data illustrated below show the local employment impacts from the pandemic and resulting shutdowns through April 2020:

Metric	Pre COVID	Post COVID (Apr. 20)	Change
Regional Unemployment Rate (MSA)	2.9%	12.3%	324%
Local Unemployment Rate	3.1%	13.3%	329%
Number of Unemployed	1,336	5,332	299%
Local Employment	42,647	34,817	(7,830)
Jobs lost in leisure & hospitality (Alamo area)	-40%		
Jobs lost in food services (Alamo area)	-45%		

In the Alamo workforce area (which includes New Braunfels), the leisure and hospitality, as well as food services sectors are estimated to have lost approximately 40% and 45% of all jobs, respectively.

Sales and Property Taxes

The virus' immediate impacts to traditional economic indicators such as sales and property tax are not yet fully understood. With just approximately six weeks of data from the initial shutdowns, sales tax collections for the month of April were down 10% from the same period last year. Fiscal year to date collections are up approximately 5% but the sales tax collections for the months of May through August will be significant indicators of the city's future collections trajectory. The chart below shows cumulative and previous period gains or losses for the 2019-2020 fiscal year collections:

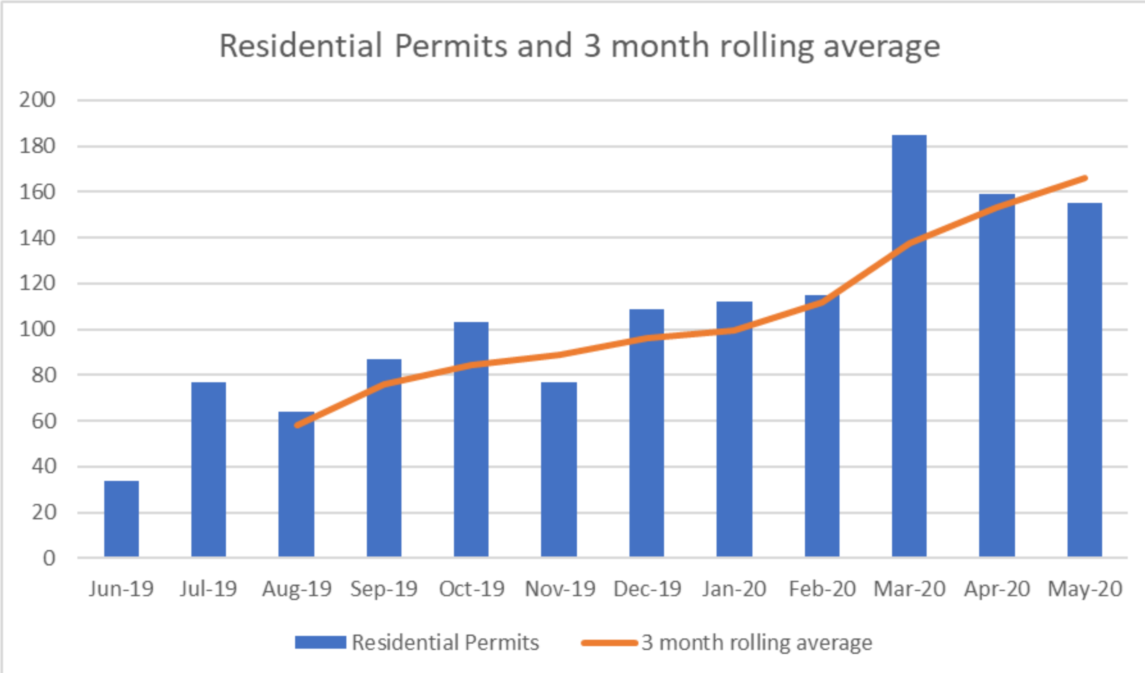


Property Taxes

Although property valuations were up for tax year 2020, these valuations are supposed to reflect conditions as of January 1, 2020. The virus' economic toll did not begin to materialize until mid to late March so staff does not believe there will be material impacts to property tax revenues in the FY 2021. While it is likely the appraisal district will see many protested appraisals with owners arguing that income from their commercial buildings have dropped in 2020, these arguments should only have salience in the 2021 tax year. The property valuations for commercial properties in the FY 2022 could possibly *decline* as the fair market values of many properties will likely drop because of reduced and deferred rent collections and increased vacancies likely to materialize in 2020. As more data becomes available through the summer months, staff will have a clearer picture of the likelihood of this scenario.

Building and Construction Activity

Construction activity in the single-family home market appears steady for the time being. Although the market area saw some declines of approximately 10% in April and May, generally the number of issued residential permits had been continuing to increase through March:



Metric	April 2019	April 2020	Change
Median Housing Price	$239,300	$253,000	5.7%
Closed Home Sales	186	134	-28.0%

Moving Forward in a Slower Growth Environment

Staff anticipates cumulative fiscal impacts from the pandemic and shutdowns primarily resulting from an increase in unemployment, reduced household incomes and changes in consumer spending. The continued endurance of the virus has some important implications.

The disaster recovery efforts of the pandemic are different than what we are accustomed to. In New Braunfels' experience, a disaster response requires a relatively short operational period from the Emergency Operations Center and first responders, with a subsequent clean up, rebuild and return to normal. The coronavirus has necessitated anything but a return to normal because it is on-going, slow moving and dynamic. Businesses and consumers have begun to adapt but the community is dealing with a virus that is still very much present. This has important implications for how consumers will choose to behave and respond in this environment. For example, as people are reluctant to proceed with traditional summer travel plans, New Braunfels could be the preferred choice for many of these altered vacations or intrastate trips. This could provide an upswing in visitors during the summer months or a different tourist profile that would help soften the economic toll of the recession. The psychological effects could have an opposite effect, however, if the state does not see declines in the virus' spread. Public health experts are already warning that a slow increase in infections nationwide could lead to a resurgence in the fall. The likelihood of an increase of cases and the resulting responses to it make the chances of a "v-shaped" recovery less likely. This has several important implications for the City of New Braunfels as it plans its fiscal approaches for FY 2021 and beyond.

The question the community should be asking itself is how can the city- both as an organization and the community itself- respond and adapt to a future that appears likely to be a period of slower or stagnated growth? The economic downturn will affect the City's primary revenue sources- sales and property tax- and do so at different times. While sales tax reporting is relatively timely (although we have only now received one month's sales taxes reflecting the full shutdown), we still have not realized the effects of some of the shutdowns and reduced operating capacities for many of the city's important industries. For example, the Gruene district is a significant draw for regional and statewide tourists. The robust live music scene throughout the community help propel these trips and resulting economic activity but artists are either not allowed to perform or are doing so to limited crowds. Occupancies at the area's hotel and other overnight accommodations are down as traditional summer season draws like Schlitterbahn are only allowing restricted attendance numbers. We have yet to understand the fiscal implications when businesses like this, as well as the support and accommodation services that provide the basic tourism infrastructure for the New Braunfels community, are not allowed to operate at full capacity during their critical operational periods. This likely means less revenue realized, less income received by employees and subsequently fewer dollars circulating in the community.

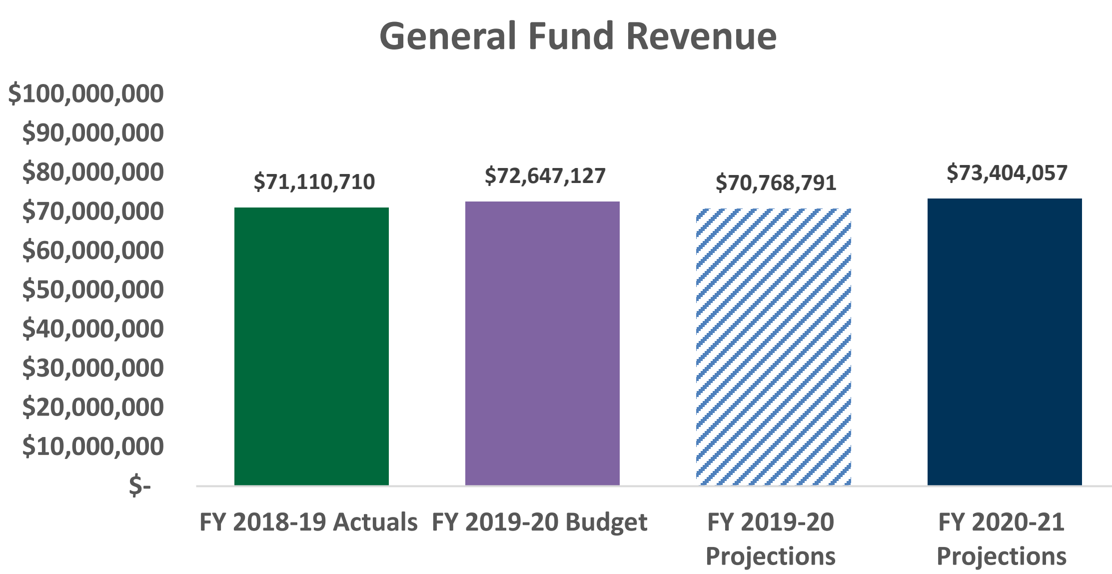
The new COVID-19 world we are experiencing is just now starting and the "getting back to normal" does not appear to be on the immediate horizon. It most likely will take two or more years for emotional and financial normalization because of so many unknowns and the lag effect. The lag effect refers to the time it takes to recognize an issue, develop a policy and implement a response and the additional time it takes to observe the effects of the policy. Because of these uncertainties, it is impossible to forecast how a recovery looks. The community response should be to begin identifying activities and initiatives that will have a deeper impact on recovery and relief for citizens.

Overview

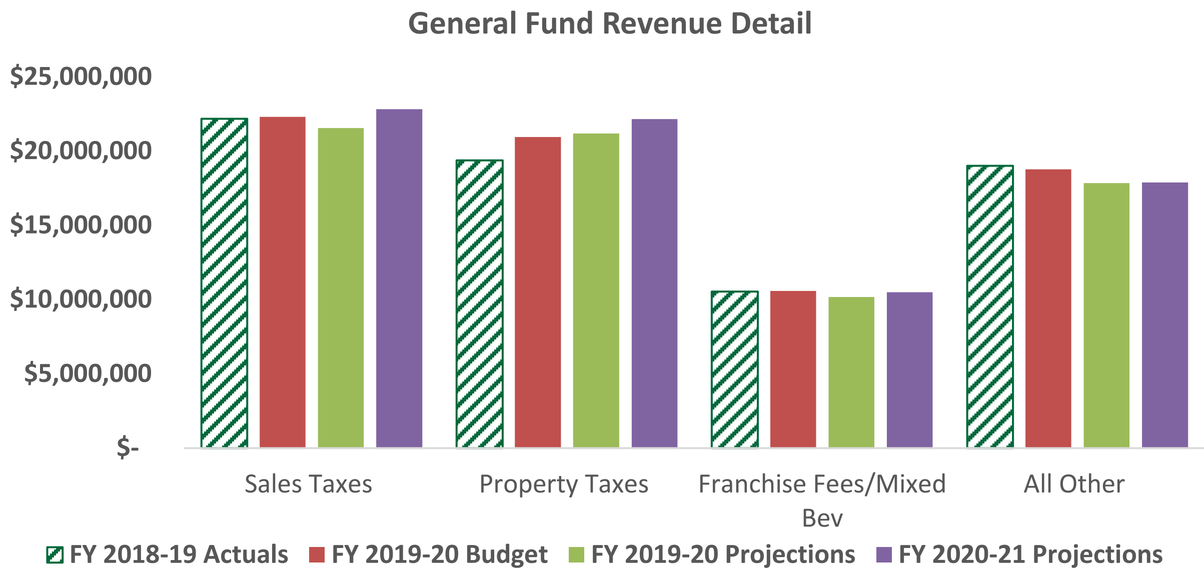
This section focuses on providing context and detail on the current projections for General Fund revenues, expenditures and changes in fund balance for FY 2020 and FY 2021. At the time this report was finalized, staff will still be in the early stages of budget development; however, the fiscal projections described in this section help to set the stage for the FY 2021 Proposed Budget and more importantly illustrates how the organization plans to weather the fiscal impacts anticipated by COVID-19 as well as other challenges that were in place prior to the pandemic. These figures don't include expenditures and offsetting revenue associated with the small business grant program currently underway. However, that program will have a net no impact to the General Fund.

General Fund Revenue

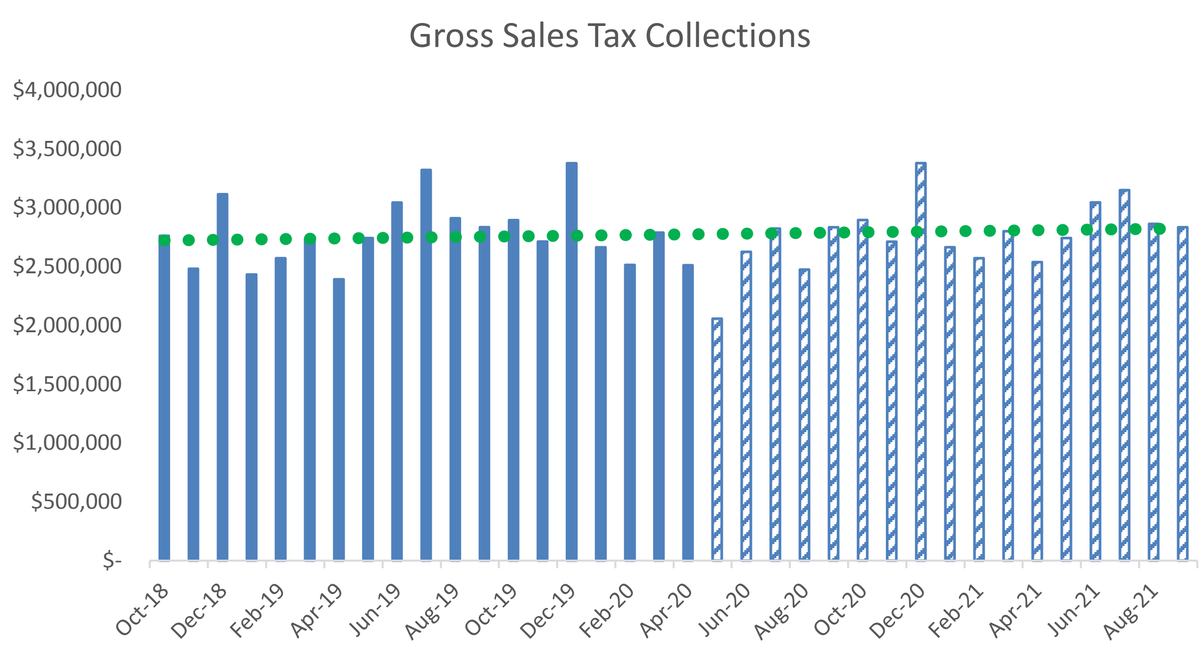
Prior to the pandemic, many of the City's General Fund revenue sources were trending above budget. This provided a cushion to the impacts that we are beginning to see in March, April and May as well as what we are projecting to continue for the remainder of the fiscal year. The FY 2021 revenue projections are preliminary and will change prior to the proposed budget being delivered. In General, the projections for next fiscal year assume a return to Pre-COVID conditions while assuming a slowdown in areas that may have a lingering and/or delayed impact from the COVID-19 crisis. As the graph illustrates, the FY 2019-20 projections are approximately $1.8 million lower than the current budget.



Major General Fund Revenue Sources – Collectively, property taxes and sales taxes make up approximately 60% of total General Fund revenues. Franchise Fees/Mixed Beverage Taxes represent an additional 15%. Therefore, these three sources make up 75% of total General Fund revenue. However, as the graph below illustrates, our our other revenue sources are projected to decrease in FY 2020 and FY 2021.



Sales Taxes – The largest source of revenue in the General Fund Is sales taxes. Sales tax is also a very seasonal revenue source in the City of New Braunfels given the tourism impact to our community during the summer months. Prior to COVID-19, sales taxes were trending above budget. The following graph illustrates our gross sales tax projections, month by month from May 2020 – September 2021. Gross sales tax projections represent both the General Fund and NBEDC portions prior to any TIRZ or economic incentive adjustments. Therefore, the amounts reflected below will not directly tie to net General Fund Sales tax revenues.



FY 2020 Sales Tax Projection Detail – In a regular year, projecting summer sales tax revenue is challenging. When adding in the uncertainty as to how the COVID-19 crisis has affected our baseline economy as well as its affect to summer tourism activity forces our projections to be mainly speculative. As a result, we are hopeful that the projections below are conservative. As the press release issued earlier this month, gross April collections were up 4.9%, however this is entirely driven by a $330,000 negative audit adjustment that was included in the 2019 April payment. When all adjustments to the payment are netted out, the current collections decreased by 10% when comparing April 2020 to April 2019.

Month of Sales Activity	Projected Variance against prior year
May	-25%
June	-14%
July	-15%
August	-15%
September	0% (flat)

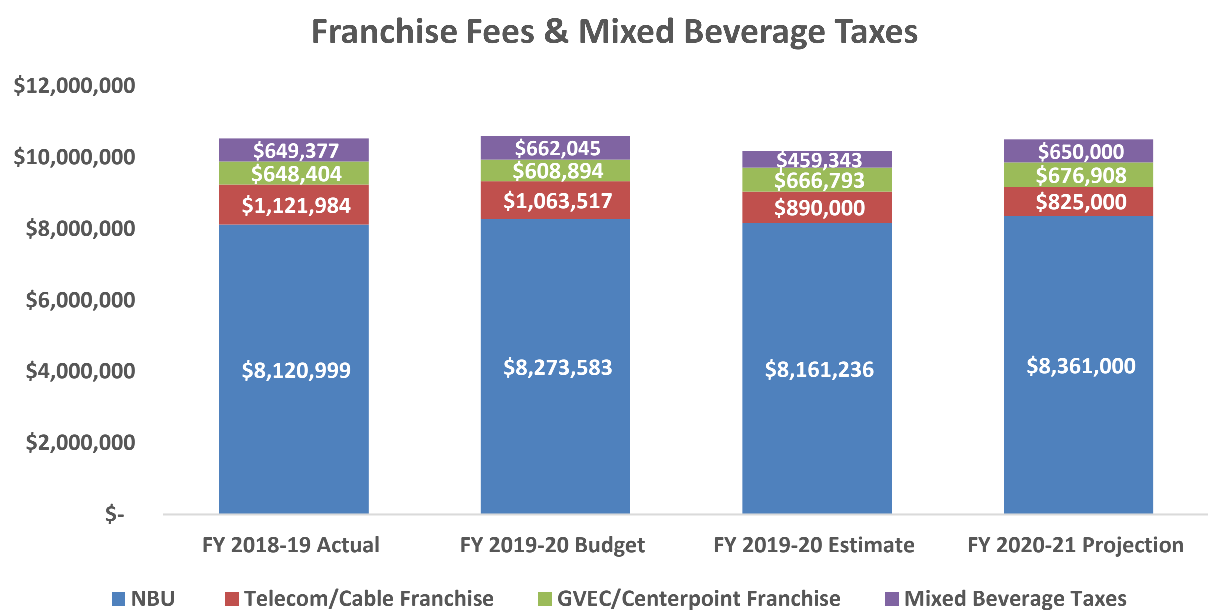
General Fund Net Sales Tax Revenue			
FY 2018-19 Actuals	FY 2019-20 Budget	FY 2019-20 Projection	FY 2020-21 Projection
$22,176,256	$22,319,783	$21,552,136	$22,832,182

FY 2021 Sales Tax Projection Detail – Revenue for FY 2021 is essentially projected to be flat or level to the collections pre-COVID. Therefore, if there was a second wave of infections that resulted in the closure of various businesses, it may be difficult to realize the current FY 2021 projection target. However, if the local economy returned to pre-COVID conditions, we would expect to start seeing growth in sales taxes, which could result in higher sales tax collections that the projections illustrated above ($22.83 million). There is also a threat to our sales tax revenue that could impact our collections as early as FY 2022. This pertains to the impending decision by the state comptroller regarding the sourcing of internet sales. Additional information on this issue can be found on page 19.

Property Taxes – The second largest revenue source in the General Fund is property taxes. This revenue source is less volatile in the short term to economic downturns. In fact, there is no projected negative impact to this revenue projected for FY 2020 and FY 2021. The FY 2021 projection assumes that taxes remain within the new statutory limit (3.5% for existing property owners). Given the complexity and significance of property tax as it relates to the General Fund and 2019 bond program, there is a section in the document dedicated to property tax considerations and policy on pages 22-25.

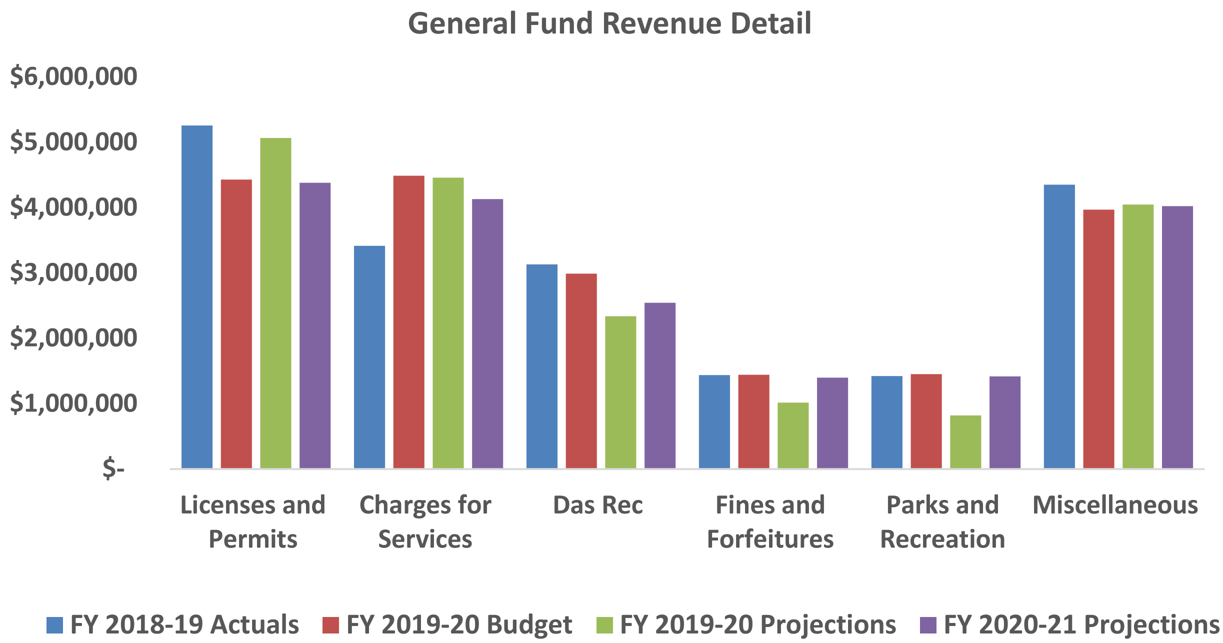
Franchise Fees/Mixed Beverage Taxes – The third largest revenue source in the General Fund is sales taxes. As the graph on the following page illustrates, the majority of which comes from NBU (93%). The payment from NBU is based on a 3 year rolling average of their gross revenues. Therefore, there is the potential that if COVID-19 impacts their revenues, it will impact the payment to the City, however it would be smoothed out over a three year period.

During the 86th Legislature, senate bill 1152 was passed which allows a telecommunication and cable provider to only pay the higher of the two franchise taxes. In other words, prior to FY 2020, a company that offered cable and telecommunication in the City of New Braunfels was paying two franchise fees for placing the cable and telecommunication infrastructure in city right of way. With the passage of this new law, that same company only pays the higher of the two fees. The projected revenue loss from this new law is approximately $275,000 annually. As the graph illustrates, our projections also include a significant impact to mixed beverage taxes. These payments are made to the city quarterly. Therefore, we know the extent of the April, May, June impact until late July/early August.



Franchise Fees & Mixed Beverage Taxes			
FY 2018-19 Actuals	**FY 2019-20 Budget**	**FY 2019-20 Projection**	**FY 2020-21 Projection**
$10,540,764	$10,608,039	$10,177,372	$10,512,908

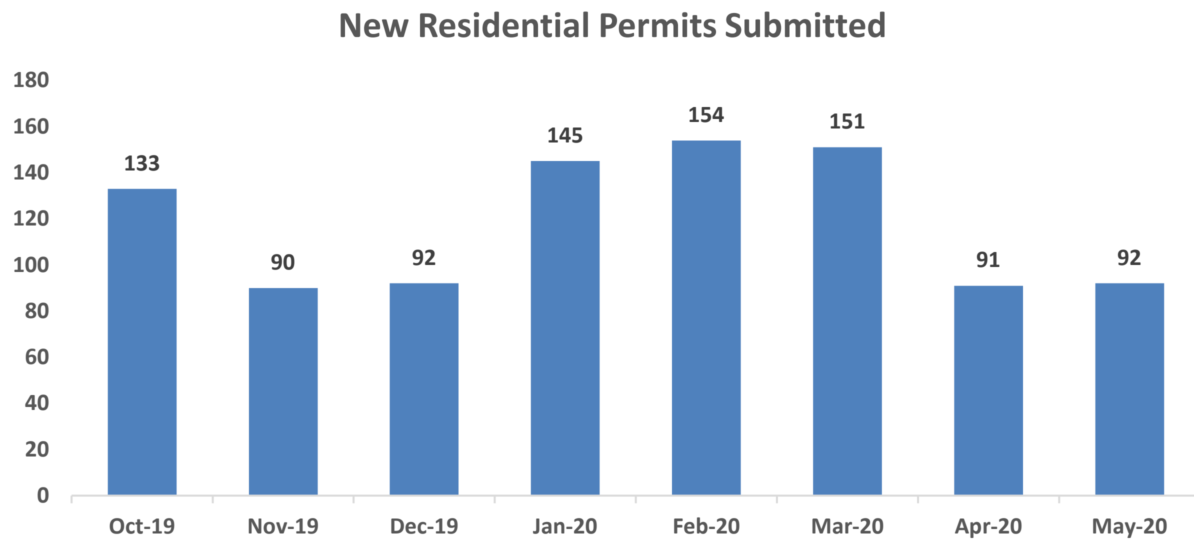
Other Revenue Sources – As previously stated, all other sources in the General Fund account for the remaining 25% of total General Fund revenue. The following section breaks down those sources in further detail and the potential impacts from both COVID and non-COVID factors.



Licenses and Permits – Development and building permit revenue is a source that we have budgeted conservatively over the past several years. Prior to COVID-19, Licenses and permit revenue was trending significantly over budget and last fiscal year. However, the projection for the remainder of the fiscal year assumes a slowdown in residential permit issuance(s). However, there are several commercial permits that are anticipated to occur prior to the end of FY 2020; which is another factor as to why it appears that there is no fiscal impact in the above graph with respect to this category.

The Planning and Development Services Department just recently started to see a slowdown in the number of monthly new residential permit submissions, which is illustrated in the graph below. While the month to month comparison illustrates a significant reduction, this revenue source does experience some seasonality. When comparing April and May to the same time period last fiscal year, the reduction is only 10%.

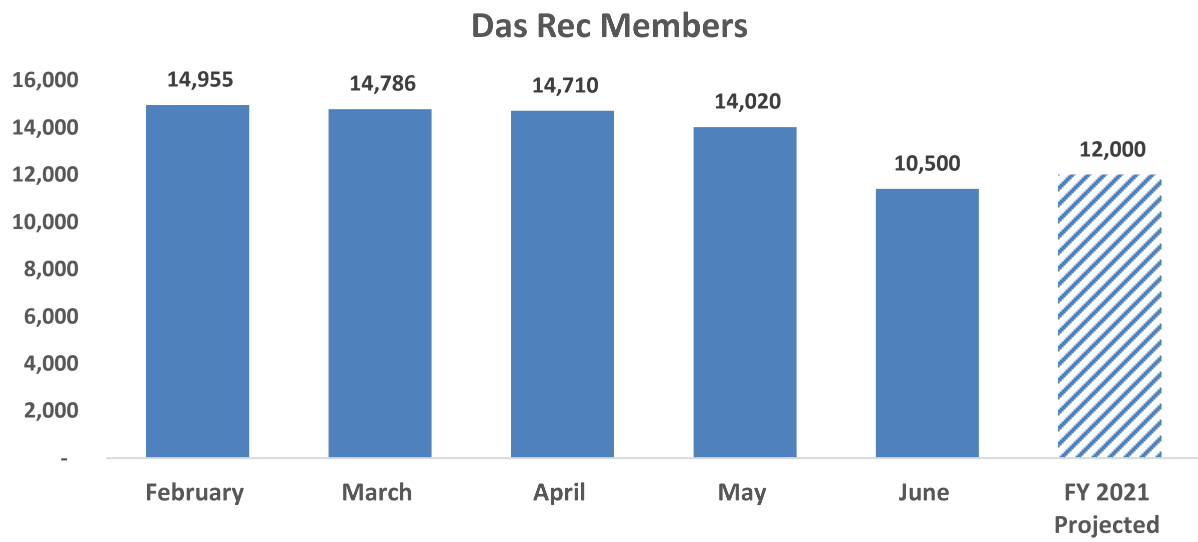
Licenses and Permits			
FY 2018-19 Actuals	**FY 2019-20 Budget**	**FY 2019-20 Projection**	**FY 2020-21 Projection**
$5,255,529	$4,428,747	$5,067,339	$4,378,300



Charges for Services – The primary revenue in this category stem from ambulance operations and our service contract with Emergency Services District #7. While ambulance operations decreased approximately 20% for the month of April, they normalized for the month of May. Therefore, we aren't projecting a material impact to this revenue source for the remainder of the fiscal year. As the table indicates, this revenue source is impacted by an accrual that was not posted to FY 2018-19 as it should have been. If that entry had been recorded in FY 2018-19, total charges for services would be relatively flat when comparing the FY 2018-19 actual to FY 2019-20 projection. Also included in this category is revenue from the state for ambulance operations provided to uninsured or those enrolled in Medicaid. We are anticipating this payment to decrease next year. The allocation from the state is projected to remain the same, however additional cities and medical providers have gained eligibility for the program, reducing the share that New Braunfels is likely to receive.

Charges for Services			
FY 2018-19 Actuals*	**FY 2019-20 Budget**	**FY 2019-20 Projection***	**FY 2020-21 Projection**
$3,413,856	$4,488,740	$4,461,460	$4,130,160
*Impacted by accrual that was not posted back to FY 2018-19.			

Das Rec – With Das Rec closed for approximately 10 weeks, approximately 20% of annual revenues were lost simply as a result of the closure. As the facility opens up with phased capacities in place; we are unable to bring on new members. In addition, we are also experiencing a steady flow of membership cancellations. These cancellations could be for a myriad of reasons such as reduced access to the facility, re-prioritization of personal finances, etc. Staff feels confident that we will gain many of these members in addition to new members once the facility and programming are back to full capacity. However, to be conservative, the projection for FY 2020 and FY 2021 assume that membership stablizes to approximately 12,000 members in FY 2021. This would represent approximately a 20% decrease to membership prior to the pandemic.



DAS REC			
FY 2018-19 Actuals	**FY 2019-20 Budget**	**FY 2019-20 Projection**	**FY 2020-21 Projection**
$3,131,985	$2,990,045	$2,338,500	$2,547,000

Fines and Forfeitures – When the stay home/work safe orders were implemented, our patrol divisions shifted their efforts to assist with education and compliance efforts. To better support those protective community measures, our participation in the traffic enforcement STEP Grant was temporarily suspended as well. As a result, fine and forfeiture revenue is projected to be approximately 30% or $400,000 lower than budget in FY 2020.

Fines and Forfeitures			
FY 2018-19 Actuals	**FY 2019-20 Budget**	**FY 2019-20 Projection**	**FY 2020-21 Projection**
$1,436,711	$1,443,623	$1,014,932	$1,401,000

Parks and Recreation – This revenue source has been impacted significantly by COVID-19. As the graph and table illustrates, the FY 2020 projections assume revenue approximately 43% or $600,000 below budget. This projection will change throughout the summer as we better understand our ability to fully reopen the Landa Park Aquatic Complex and Tube Chute. There is also the opportunity for increased Park rental activity for the remainder of the fiscal year given that restrictions continue to be eased for the size of allowable gatherings.

Parks and Recreation			
FY 2018-19 Actuals	**FY 2019-20 Budget**	**FY 2019-20 Projection**	**FY 2020-21 Projection**
$1,421,805	$1,455,000	$823,476	$1,420,000

Miscellaneous – Interest Earnings and Industrial District Agreements are the primary revenue sources in this category. The latter isn't projected to be impacted in FY 2020 and FY 2021. However, interest earnings have reduced nearly 80% by April. To be conservative, we aren't anticipating any change to the investment environment through FY 2021.

CARES Funding – the FY 2020 and FY 2021 projections do not include any reimbursement revenue from the CARES ACT. We will access these funds once we have determined exactly what eligible costs have been incurred to react and respond to COVID-19.

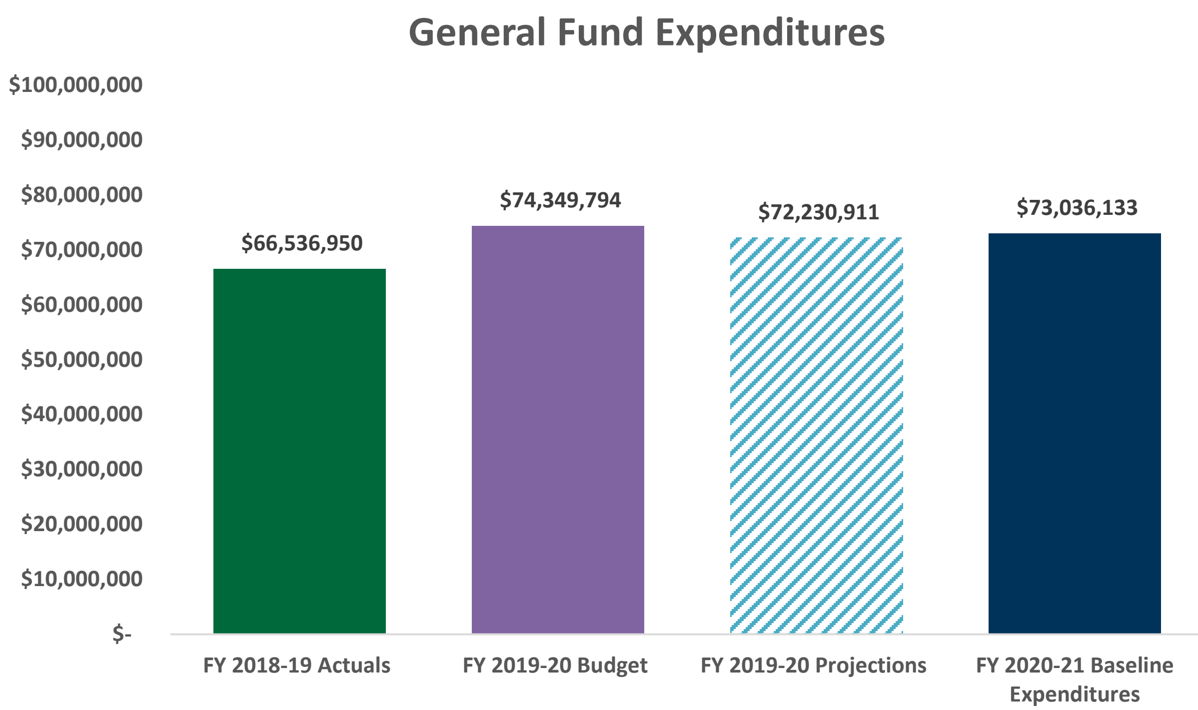
Miscellaneous			
FY 2018-19 Actuals	**FY 2019-20 Budget**	**FY 2019-20 Projection**	**FY 2020-21 Projection**
$4,349,515	$3,971,541	$4,046,796	$4,021,925

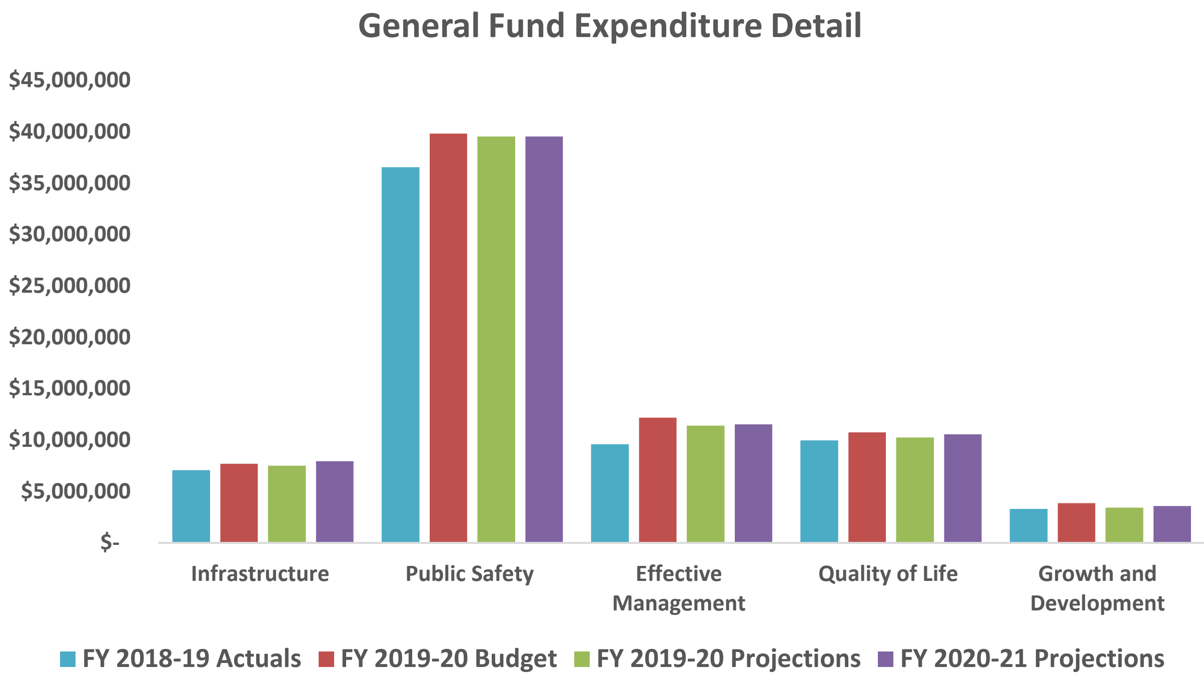
Summary – General Fund Revenues

All the figures explained and illustrated in the previous section are subject to and likely to change prior to the submission of the FY 2021 Proposed Budget and Plan of Municipal Services. However, the snapshot and narrative for the various sources speak to our efforts in ultimately delivering revenue projections in the proposed budget that are based on the best information and data available to us at that time.

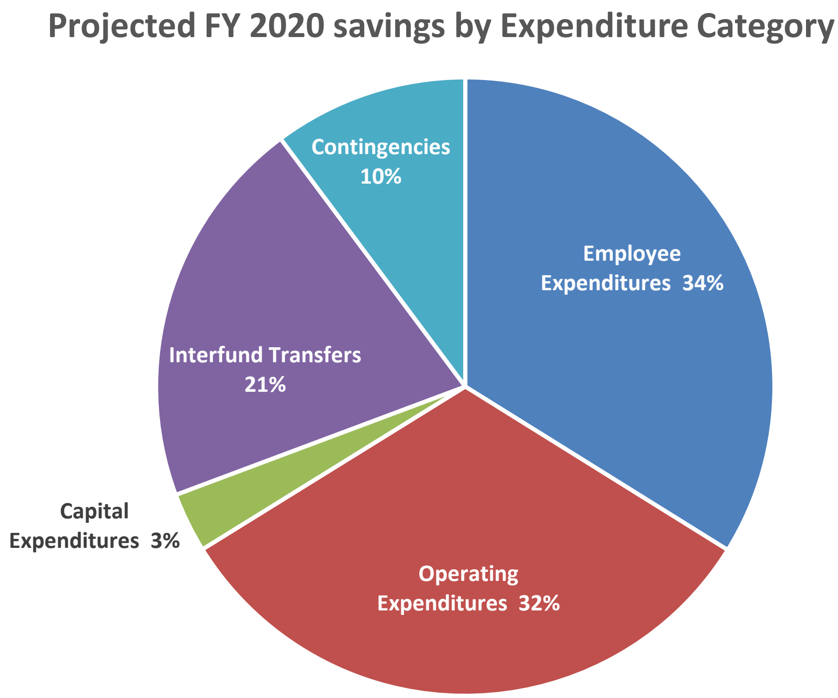
General Fund Expenditures

Staff is anticipating savings in FY 2020 in comparison to the current year budget. These savings are one of the major factors in our ability to maintain core services in FY 2021. Additional information on current year expenditure projections and FY 2021 baseline expenditures are included in this section. As with revenues, these figures will change throughout our budget development process as additional information is made available.



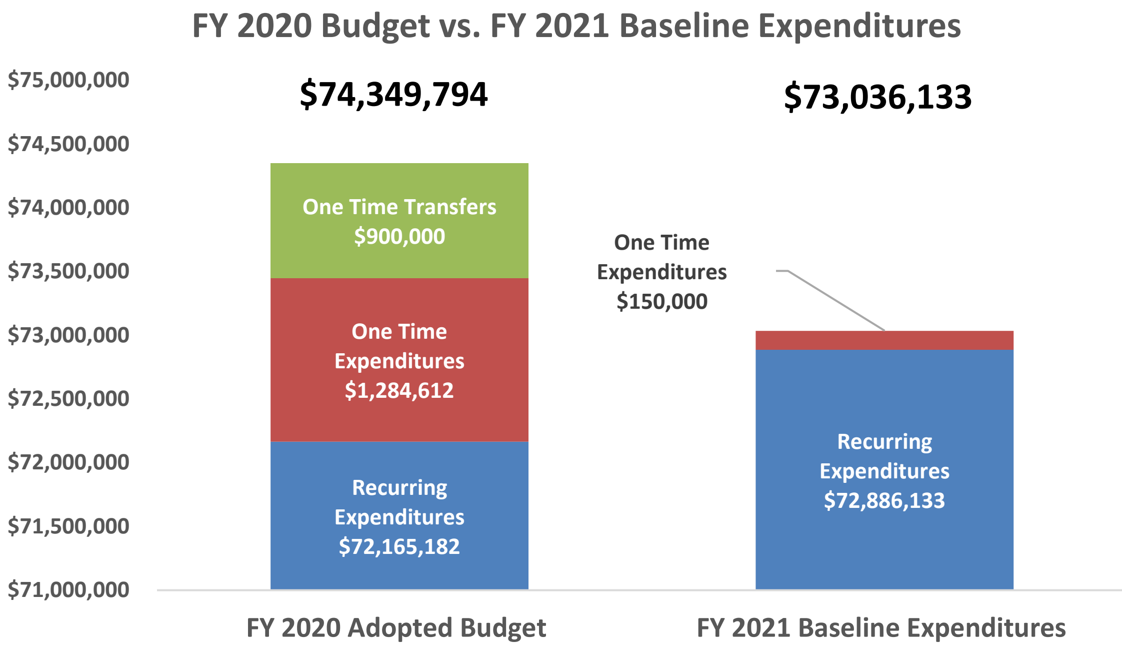


FY 2019-20 Projections – Conservative budgeting practices and the subsequent savings will serve us well in dealing with the projected impacts to our General Fund revenue. We budget nearly 100% full employment across the General Fund; therefore, any vacancies result in immediate savings. Additional savings are coming by way of deferring or forgoing one time expenditures, the most significant of which was a planned $450,000 transfer to the Facilities Maintenance Fund. Operating expenditure savings are being realized across nearly every department as well. These savings are coming both from the effect of closed facilities as well as departments intentionally creating savings where possible and appropriate. The following graph illustrates the FY 2020 projected proportionate savings by expenditure category.

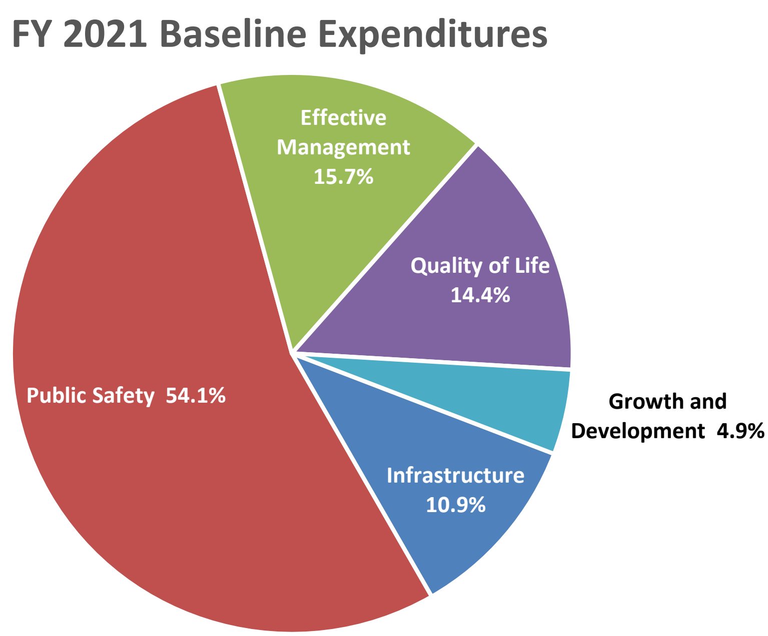


FY 2021 Baseline Expenditures – As indicated above, baseline expenditures total approximately $73.04 million. It is important to note that baseline expenditures represent existing resources supporting existing service levels. There are no inflationary increases to operating budgets, and no one time funding allocated for equipment and initiatives. The baseline expenditures also don't include funding for our multi-year budget initiatives that are in progress, such as the second half of the implementation of the CPSM recommended power shift for the Police Department. More information on the CPSM shift can be found later in this section. Lastly, there is no funding for planned market based compensation increases included in the baseline expenditures.

When comparing the FY 2020 Budget to the FY 2021 projected baseline expenditures, the decrease is driven by the removal of one time investments and transfers that were incorporated into the current year. Maximizing one-time investments and initiatives was a primary component of our FY 2020 budget strategy to create capacity for the following year to absorb the projected impact from Senate Bill 2. In other words, recurring budgeted revenue exceeded recurring budgeted expenditures in FY 2020. This is illustrated in the graph below.



The graph below reflects the breakdown of the FY 2021 Baseline Expenditures. Again, these numbers will change throughout the budget development process. Effective Management includes all non-departmental expenditures such as our payments to the appraisal districts, tax office, AACOG for on-demand transit, contingencies as well as all interfund transfers (Equipment Replacement Fund, EAHCP, River Activities Fund, etc.).



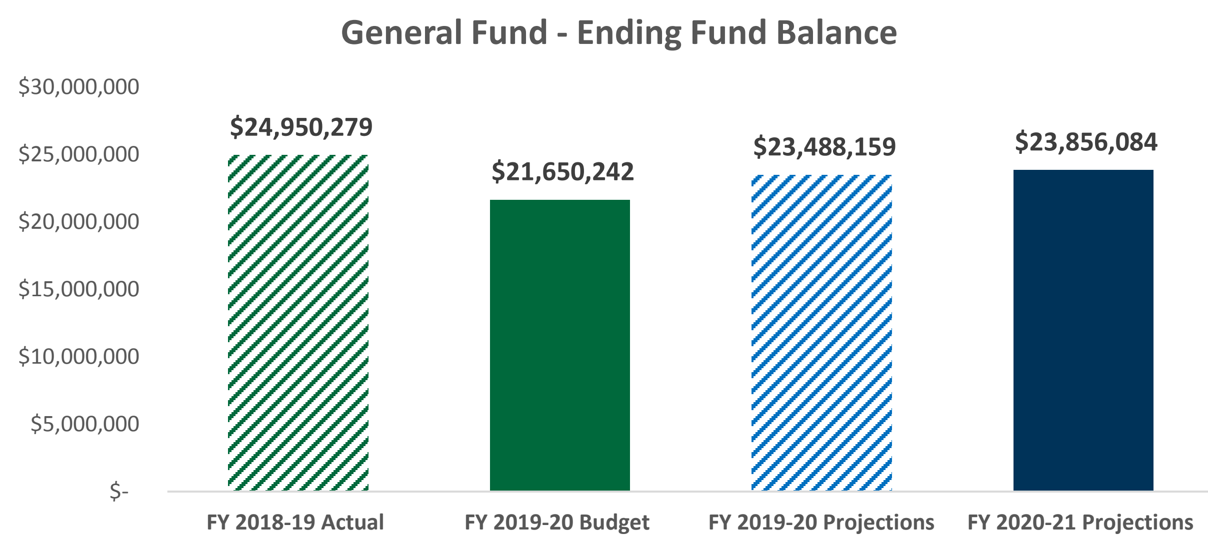
Summary – General Fund Expenditures

As mentioned above, the projections for FY 2020 and FY 2021 will change as the development of the proposed budget moves forward. However, the current year estimates and baseline expenditures help demonstrate our ability to manage the impact from declining revenues to a certain extent. While our conservative budgeting over the past several years has created capacity as it relates to maintaining baseline services in the midst of this economic uncertainty; the previous section also begins to demonstrate the difficulty in continuing to absorb the support associated with current council budget priorities such as:

- Maintaining competitive and market comparative salaries and benefits to attract and retain a highly talented and dedicated workforce
- Implementation of current multi-year budget initiatives (NBPD additional/power shift)
- Increased funding for street maintenance and repair
- Continued investment in equipment and technology to increase efficiency and productivity
- Absorb the O&M impact from capital and bond projects
    - Westside Library
    - Sports Complex
    - Fire Station #7

General Fund – Fund Balance (Reserves)

Conservative budgeting has been referenced multiple times throughout this section. However, the primary benefit of conservatively budgeting General Fund revenues and expenditures is the impact to our fund balance (reserves). For example, in FY 2019, by way of revenues coming in higher than anticipated and expenditures lower, approximately $1.6 million in surplus fund balance is available in FY 2020 and FY 2021 to serve as the primary resource to mitigate the potential impacts to General Fund revenue. Managing the impact of an economic downturn or disaster is the leading justification for maintaining strong General Fund reserves; therefore, leveraging these funds to maintain core services is an appropriate strategy.



Summary - General Fund - Fund Balance

Ending Fund Balance – The City's Financial Policy requires that the General Fund maintain at least a 25% reserve, which is the equivalent of 90 days of operating expenditures. However, the City Council has long had a target that exceeds our policy. The current target is 30% of recurring expenditures. The projected FY 2021 ending fund balance represents approximately 32.7% of recurring expenditures. Again, this figure will change as the proposed budget development continues. However, if these figures were to hold, there would be funding available in the FY 2021 Proposed Budget to support critical one time investments, initiatives and potential increases to our contingency allocation.

As mentioned earlier, the utilization of fund balance is a typical response to an emergency. In fact, our susceptibility to flood events is the primary factor behind a fund balance target that exceeds our policy.

Fiscal Challenges – FY 2021 and Beyond

Potential legislative changes to internet sales tax sourcing - The state of Texas has traditionally sourced sales taxes at the place of business. However, several bills were passed during the 86th legislature that provided for the collection of sales taxes for online marketplaces such as Wayfair and eBay. Given that these marketplace providers don't have a physical location in Texas that qualifies as a place of business, the statute governs that all sales be sourced at the point of delivery. In addition, Amazon currently does not qualify as a place of business, therefore sales taxes collected have traditionally been disbursed to the point of delivery as well. According to the comptroller, the increase in online commerce and passage of the previously referenced bills provided the justification to update various parts of the administrative rules associated with online sales tax collections. To the surprise of many, when the draft rule was published in January 2020, it included language that would result in the significant redistribution of sales tax collected on all online transactions.

The significance of this rule to the City of New Braunfels is that it threatens the partnership that we have with HD supply. More importantly, the rule, if implemented could result in a loss of approximately $1-$1.5 million in General Fund revenues as early as FY 2021-22. Cities in Texas are unfortunately divided on this issue. Cities with significant distribution and call center operations stand to lose those sales taxes currently sourced to the place of business. Those with dense and high populous areas could gain from an online sourcing model based mostly on destination sourcing. Unfortunately, the comptroller has not completed a comprehensive economic impact analysis of the potential reallocation of internet based sales. However, a handful of cities are projecting major impacts to their collections, some are even projecting losing up to 70% of their sales tax base. It is assumed that many others have not had the time or capability to analyze the potential impact to their sales tax collections.

In February and March, city staff partnered with various other cities, our chamber of commerce and HD supply to voice our opposition to the rule. We participated both in a comptroller and House Ways & Means Committee. Our opposition focuses on the significant amount of business functions and infrastructure that operate out of the New Braunfels location. The comptroller's rule appears to assume all internet sales are similar to amazon and other consumer based applications. However, business to business sales are much more comprehensive and complex, which is why it takes a near 600 person operation for HD supply to adequately support their customers.

Ultimately, the comptroller filed the new rule at the end of May. Fortunately, the section on the redistribution of sales tax collected on internet sales was completely removed. However, the rule states that internet based sales are no longer sourced at the place of business beginning on October 1, 2021. Therefore, the legislature will be required to weigh in on the final decision as it relates to internet sales sourcing. To improve our chances for a positive outcome for the City of New Braunfels, we will need to develop a comprehensive strategy as it relates to our presence on this issue during the 87th legislature.

Multi-year Budget Strategies – In FY 2016-17, the City engaged the Center for Public Safety Management (CPSM) to perform a comprehensive public safety needs assessment. The report provided many recommendations for both Police and Fire, many of which were operational changes that increased efficiency and effectiveness. The primary recommendations were the implementation of an additional and overlapping power shift in the police department as well as the construction and staffing of Fire Station #7.

NBPD Power Shift – As mentioned above, the recommendation of the additional shift is meant to alleviate the patrol division during peak demand hours of the day. By layering the additional shift over the two shifts that experience the most calls for service, Police Officers are more available to support proactive and community based policing efforts. To implement the additional shift, it requires an additional 16 Police Officers and 2 Sergeants. City Council ultimately decided to implement this recommendation over a four year period. Prior to the COVID-19 crisis, the 3rd year of implementation would have been a budget priority for the upcoming fiscal year. The total cost to implement the remaining two years of the additional shift is an annual commitment of approximately $875,000 and an additional $500,000 in equipment and vehicles.

Authorized and Funded		**Not Yet Funded**	
FY 2018-19	**FY 2019-20**	**TBD**	**TBD**
4 Officers	4 Officers	4 Officers	4 Officers
1 Sergeant		1 Sergeant	
Amount Invested - $875,000 (recurring) and $500,000 (one-time)		Additional Funding Needed - $875,000 (recurring) and $500,000 (one-time)	

Fire Station #7 staffing – The location of Fire Station #7 will be within the Creekside Tax Increment Reinvestment Zone (TIRZ) area. The TIRZ will provide the funding necessary to construct and equip the station as well as the planned adjacent fire training facility. Construction is anticipated to begin at some point during FY 2021. The General Fund will ultimately need to absorb the recurring staffing and operating expenditures of the station once it is complete. There are various approaches that could be taken as it relates to the level of staffing assigned to the station. The two options below illustrate the level of service and response based on varying staffing plans.

<u>6 - 9 New Positions</u>

Adding six (6) additional positions, in combination with reassigning several staff from Station #1, will staff Fire Station #7 with a truck and a seventh ambulance. Six additional positions is necessary to comply with Texas Department of State Health Services (DSHS) which requires a minimum of two (2) certified EMTs on every ambulance. New Braunfels Fire Department (NBFD) works a three-platoon system, with A, B, and C shifts. The six (6) new personnel allow for the staffing of a seventh ambulance at station #7. However, hiring six (6) will cause an increase in overtime as a result of employees taking required annual leave and participating in training, which is why NBFD staffs all other stations with a relief factor. The annual cost to add six firefighters is approximately $515,000. Hiring nine (9) would provide an adequate relief factor, reducing the amount of overtime we pay each year as well as providing increased staffing on Truck 7 when we are not a minimum staffing. The annual cost to add nine firefighters is approximately $770,000

12 New Positions

Hiring twelve (12) additional positions, combined with the reassignment of several staff from Fire Station #1, will allows NBFD to staff a seventh ambulance, and have two extra firefighters for relief factor. When the station(s) are not at minimum staffing, they would be assigned as the fourth firefighter on Truck 7 and Truck 1, which will improve truck company performance. 12 additional personnel will also move our relief factor to slightly higher level than 1.4, which has been a goal of the department in an effort to reduce overtime.

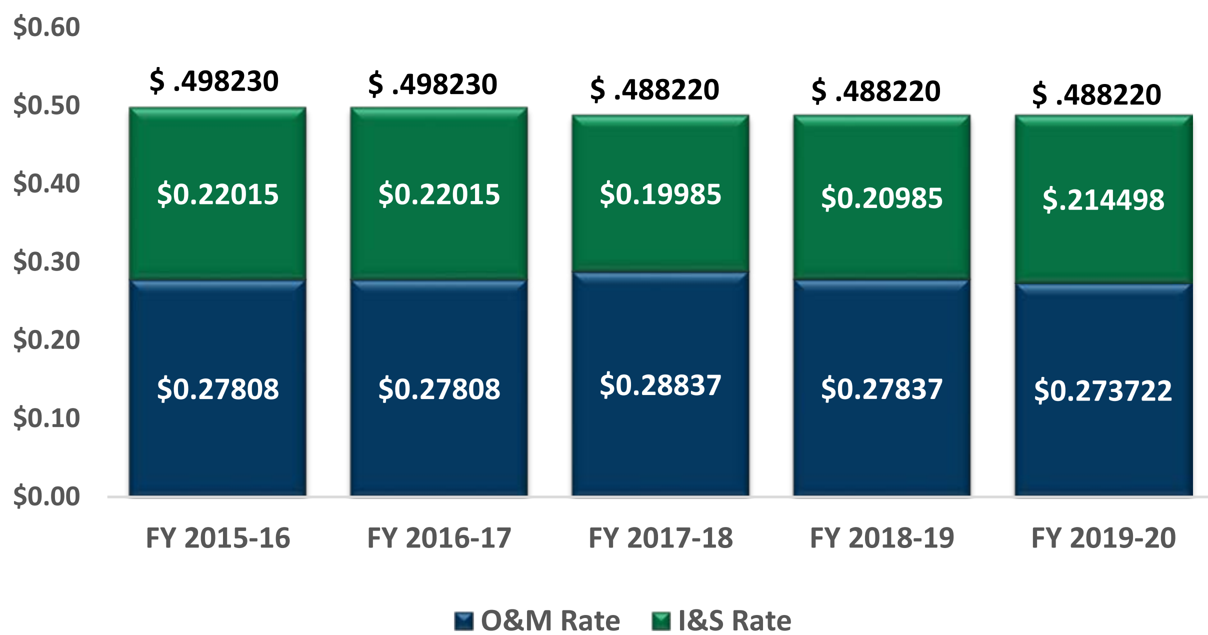
Additionally, we have submitted and application for a Staffing for Adequate Fire & Emergency Response (SAFER) grant from FEMA to support this particular staffing option. If awarded, the grant will provide 100% of base salary and FLSA overtime for all twelve (12) personnel for three (3) years. After that, the city would be required to absorb 100% of the salary costs, which is projected at approximately $1,050,000 annually.

Fiscal Policy Considerations

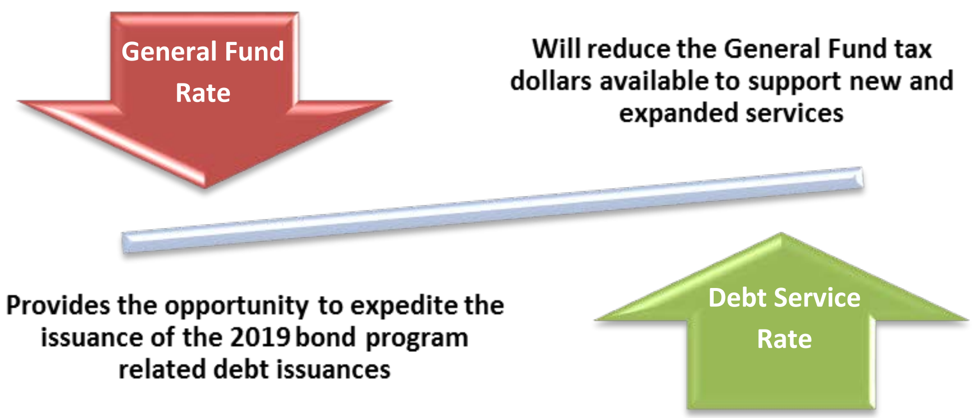
Property Tax Rate

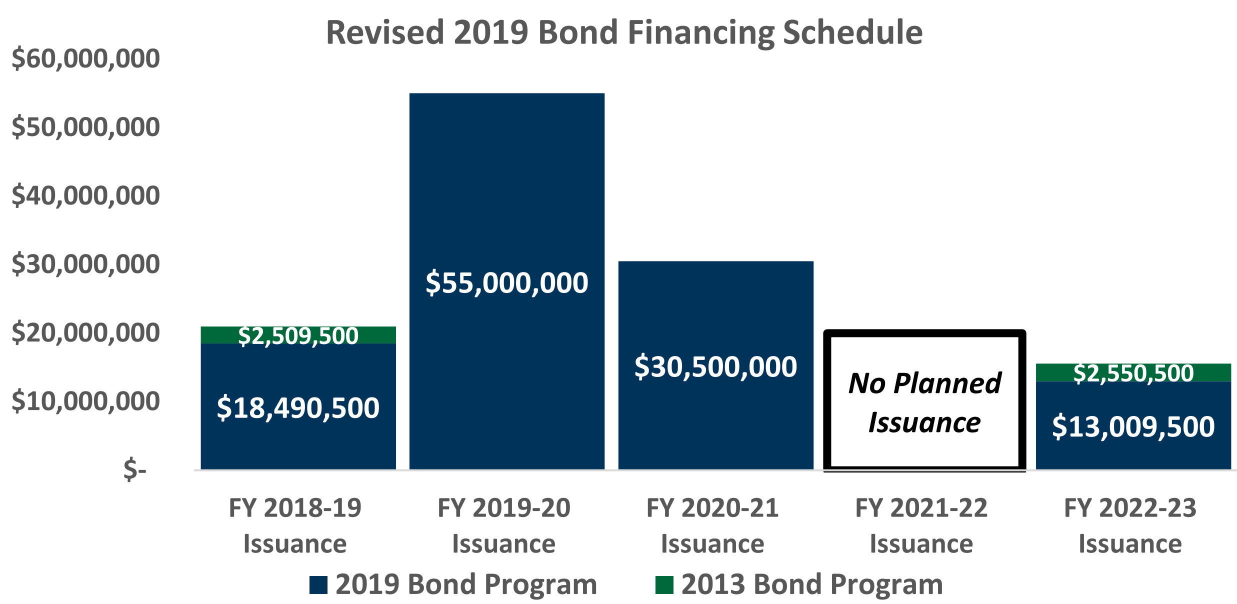
Heading into FY 2021, the organization was already bracing for significant changes driven by the passage of Senate Bill 2 during the 86th Texas Legislature. As a reminder, Senate Bill 2, among many other changes, limits the increase on property taxes levied for existing properties to support the General Fund (O&M portion of the tax rate). Therefore, taxes levied collectively on the General Fund portion of the tax rate can only be increased by 3.5% for existing properties. Previously, the increase was limited to 8%. In addition, if a rate is adopted that increased taxes on existing properties for the General Fund that exceeds the 3.5%, it would require a mandatory election for approval. New value added from new construction annually to the tax roll is exempted from the calculation. The Debt Service portion of the tax rate (I&S) is also unaffected by the calculation. Therefore, total taxes paid (General Fund & Debt Service) from existing properties could increase by more than 3.5% if the organization is in the midst of a bond program/capital investment program.

City of New Braunfels Tax Rate – The City of New Braunfels has either maintained or reduced the tax rate for the past five years.

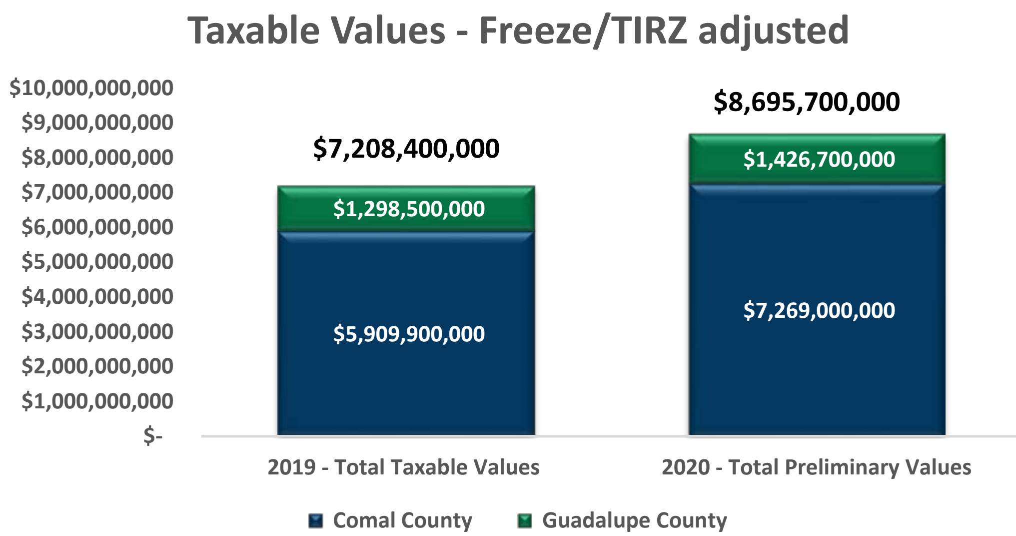


2019 bond program – The $117 million in General Obligation Bond financing necessary to support the 2019 bond projects are intended to be supported without an impact to the overall tax rate. This is accomplished by assuming a certain level of growth in assessed valuation as well as absorbing available capacity from the full repayment of previous debt issuances. The compounded annual growth rate in assessed values over the past six years is 9.3%. Our projections assume a leveling off period of growth (9%-5%) from 2020-2024. Utilizing projected growth and capacity created resulted an initial financing schedule of approximately 6 years (final issuance in 2025). However, in 2019 City Council directed staff to develop strategies to expedite the issuance schedule and projects. Indirectly, Senate Bill 2 provided a relatively simple solution to increase financing capacity while maintaining the overall tax rate. As mentioned above, the lowered 3.5% threshold on increases to General Fund property taxes from existing properties will result in a lower General Fund portion of the rate (as long as existing values continues to increase). However, as was done in FY 2020, all or a portion of the decrease to the General Fund rate could be shifted to the Debt Service rate. With this strategy in place, the 2019 bond program financing strategy can be expedited significantly. The revised financing schedule was presented to the City Council at the November 2019 retreat and assumed that we would leverage only one penny from the General Fund to Debt Service portion of the tax rate throughout the bond program.





2020 Preliminary Values – Preliminary values were provided by the Comal and Guadalupe County appraisal districts in late April. Taxable values increased significantly more than anticipated. Comal County specifically grew by approximately 20%, driven by market factors and real estate transaction data substantiating the increase. As a reminder, the 2020 values are established by transactions that occurred mainly in 2019 and are representative of market conditions on January 1, 2020. The graph below illustrates the increase in taxable values from 2019 to 2020 (preliminary). Taxable values reflect the adjustment from the TIRZ and frozen values.



Unfortunately, even though these values are calculated in accordance with state statute and standard appraisal processes, the timing of these appraisals don't correlate to the economic environment that we are in today. The appraisal district(s) are expecting significant increases in protests and it is unknown what approach the appraisal review board(s) (ARB) will take to these protests. According to state law, existing market conditions are not supposed to impact 2020 valuations. Those affects wouldn't be expected to impact appraisals until next year (2021 valuations). However, we are anticipating a sizeable reduction to the 2020 values from protests. Even with that, the increase in 2020 values will likely be larger than what we have seen over the past several years. In addition, we should begin anticipating a potential decrease or leveling off of values in 2021 as a result of how the current economic conditions stand to impact appraisals next year.

FY 2020-21 Tax Rate Considerations – There are an infinite number of approaches the Council could consider as it relates to setting the tax rate for next fiscal year. However, the following examples help to demonstrate potential opportunities and drawbacks as it relates to various tax rate policies. In addition, it is likely that a combination of the first two options described could be incorporated into the proposed tax rate and budget.

As the financing strategy described above explains, the significant increase in values and reduced calculation from Senate Bill 2 (3.5% vs. 8%), would provide the opportunity to keep the overall rate the same, but increase the Debt Service portion of the rate equal to whatever the decrease in the General Fund rate generated by the calculation. In doing so, it would increase General Fund taxes on existing properties by 3.5% and increase the borrowing capacity to deliver the 2019 bond program to a higher level than the graph referenced on the previous page ($55 million-$80 million).

Secondly, the council could entertain setting the General Fund rate at the “no new revenue” level. This would result in a General Fund rate that levies the same amount of property tax revenue for existing properties in comparison to the prior year. The Debt Service rate would be set at the level needed to continue to deliver the 2019 bond program schedule above. In other words, the Debt Service rate would be set at the level necessary to support existing debt service plus the annual payment for the $55 million issuance. In this situation, property taxes from the City of New Braunfels for existing property owners would increase to continue supporting the voter approved 2019 bond program. By doing so it reduces the property tax available in the General Fund to support new and expanded services and programs. In addition, there are various factors (COVID and non-COVID) that could have a significant negative impact on our General Fund revenue (sales taxes, franchise fees, parks and recreation, fines and forfeitures, interest earnings, etc.). Limiting our ability to leverage General Fund property tax revenue will impact our ability to maintain core services based on the impact to our other revenue sources in FY 2022 and beyond.

While not recommended, the council could consider adoption of a rate that doesn’t increase property tax collections across both portions of the rate (General Fund and Debt Service). Therefore, in FY 2020-21 the total property taxes levied on existing properties would equal to that which was levied in FY 2019-20. The General Fund portion would be the same as referenced in the second option, along with the same concerns and considerations for the impact to new and existing services. In this scenario, the Debt Service portion would essentially be held flat, meaning that there would be little to no capacity to issue proceeds this year to support the 2019 bond projects. With the uncertainty surrounding 2021 values as well, it will also indirectly limit our ability to issue bonds in the following year as well. As a result, the 2019 bond program would be materially delayed with a tax rate adoption strategy of this manner.

Summary – these three scenarios help demonstrate the secondary and tertiary benefits and consequences associated with property tax rate policies. As mentioned earlier, it is likely that a rate and policy couple be implemented that incorporates the advantages of the first two options.

2019 Bond Program Project Scheduling

As discussed, the 2021 property valuations are anticipated to be adjusted to some extent by the economic downturn caused by COVID-19. Given the uncertainty of property tax assessments in 2021 and beyond, staff is planning to only recommend moving forward (construction) on the 2019 bond projects that can be supported by the year 1 and year 2 issuances ($18.5 million and $55 million). This conservative approach protects the organization in the event that property valuation limits our ability to support additional issuances (without an increase to the tax rate). In an effort to maximize the projected funds available at the end of this fiscal year, the following projects would move forward as design is completed and they are ready to be bid for construction.

Total Funding Available ($18.5M + $55M)	**$ 73,500,000**
Citywide Streets and Sidewalks	$ 11,750,000
All Abilities Park Enhancements	$ 500,000
Cemetery Walls	$ 5,262,500
FS #2	$ 7,367,500
FS #3	$ 6,736,000
Police Dept and Veterans Memorial	$ 36,311,250
Westside Library	$ 5,525,340
Total Project Expenditures	**$ 73,452,590**

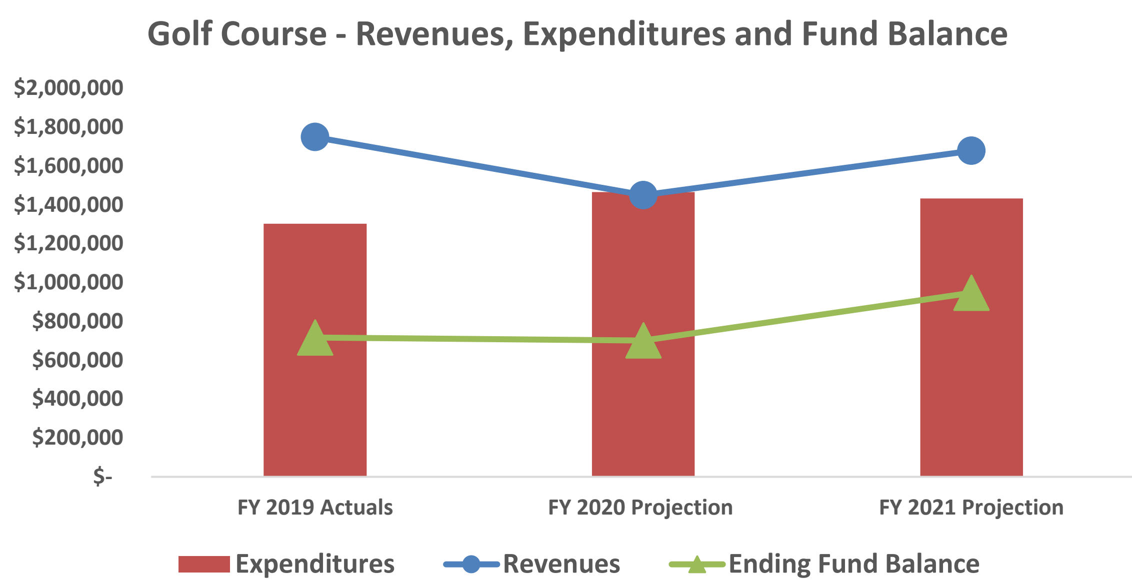
Hopefully, the impact to property values is marginal in 2021 and 2022 and we can proceed with the full issuance schedule depicted earlier in this section. Fortunately, the only project that would be deferred with the strategy (at this point) is the sports complex. The major road projects already have a two year period between design and construction to allow for ROW acquisition and utility relocation(s). However, staff also feels confident that the Citywide Street and Sidewalk project can be expedited, which will be discussed in greater detail at the June 23rd retreat.

Overview

The City has four enterprise funds. Enterprise funds are those functions that are intended to support operational and capital expenditures entirely from the charges for services assessed by that particular enterprise or business type activity. The City's four enterprise funds include the Golf Course Fund, Airport Fund, Civic/Convention Center Fund and Solid Waste Fund. COVID-19 has impacted all four of our enterprise fund operations. In the event that revenues were no longer able to support operating expenditures and existing commitments, the General Fund would need to provide a subsidy. Therefore, the solvency of these functions is critical to the overall fiscal health of the organization.

Just as with the General Fund section, these numbers will change as we progress through the budget development process.

Golf Course

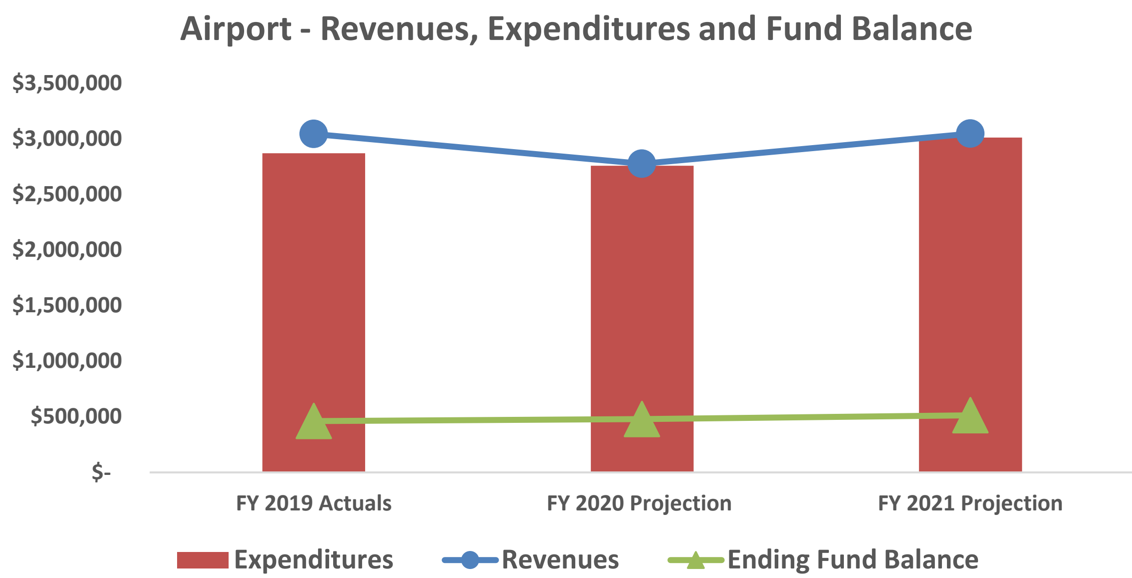


As the graph illustrates, COVID-19 has impacted our FY 2020 projected revenue at the golf course. The course was essentially closed for the entire month of April. In May, the course was reopened, but with various restrictions such as single occupancy golf carts and limited use of the restaurant/beverage service. However, May was impacted less from those restrictions than previously expected (down 11.5% in comparison to May 2019). To be conservative, staff is projecting a slow recovery back to pre-COVID conditions at the golf course for the remainder of the fiscal year.

Expenditures in FY 2020 were impacted by the replacement of various course maintenance equipment, which is entirely why the budget increased from FY 2019. As the graph illustrates, FY 2021 baseline expenditures decreases in comparison to the current year as it currently does not include any scheduled equipment replacements at this point.

Policy Consideration – The golf cart fleet is currently scheduled for replacement in FY 2021. However, prior to the pandemic, staff was planning to expedite the order of the new fleet to the current fiscal year. The existing fleet is beyond its useful life. Multiple times per week, staff has to replace several carts mid-round due to various mechanical and battery issues. The cost to replace the fleet is approximately $385,000. As the graph above shows, the fund has the capacity to support this purchase.

Airport Fund

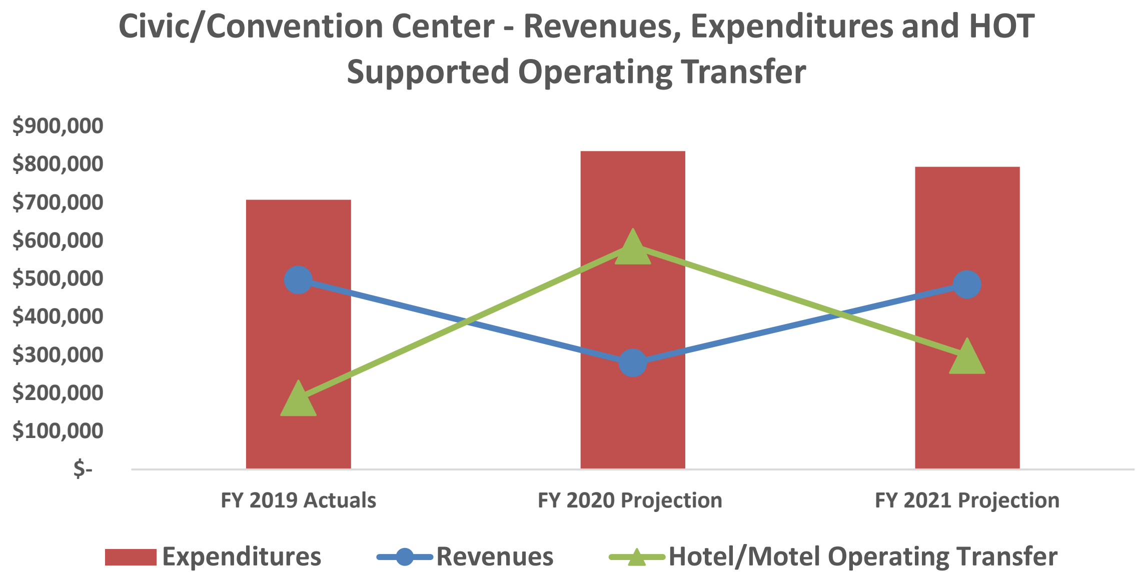


The aviation industry was impacted immediately by COVID-19. The majority of the revenue from the Airport Fund is derived from fuel sales. Therefore, the reduction in FY 2019-20 projected revenue is directly from lower fuel sales for the months of March, April and May. This projection assumes a 50% reduction in fuel sales for the third quarter of the fiscal year (April, May and June) and no growth for the fourth quarter of the fiscal year (July, August and September). Fortunately, the decrease in revenue is also offset by reduced expenditures as less fuel is being purchased during this lower period of demand. In addition, the Airport Fund is scheduled to receive approximately $69,000 from the Federal Aviation Administration (FAA), allocated from the CARES act to assist airports managing through reduced revenue and demand for services. Those funds are factored into the projection above.

As the graph illustrates, as long as airport operations and subsequent demand for fuel rebounds in the fourth quarter of the fiscal year, the Airport Fund can maintain solvency.

Future Capacity and Commitments – Fortunately, the Airport Fund is scheduled to pay off several pieces of equipment in FY 2021, which will provide some capacity in FY 2022 for investments at the airport. However, the Fund is also scheduled to begin the repayment of a loan from the NBEDC for the taxiway extension in FY 2022 as well. The loan payment will absorb approximately 65% of that capacity.

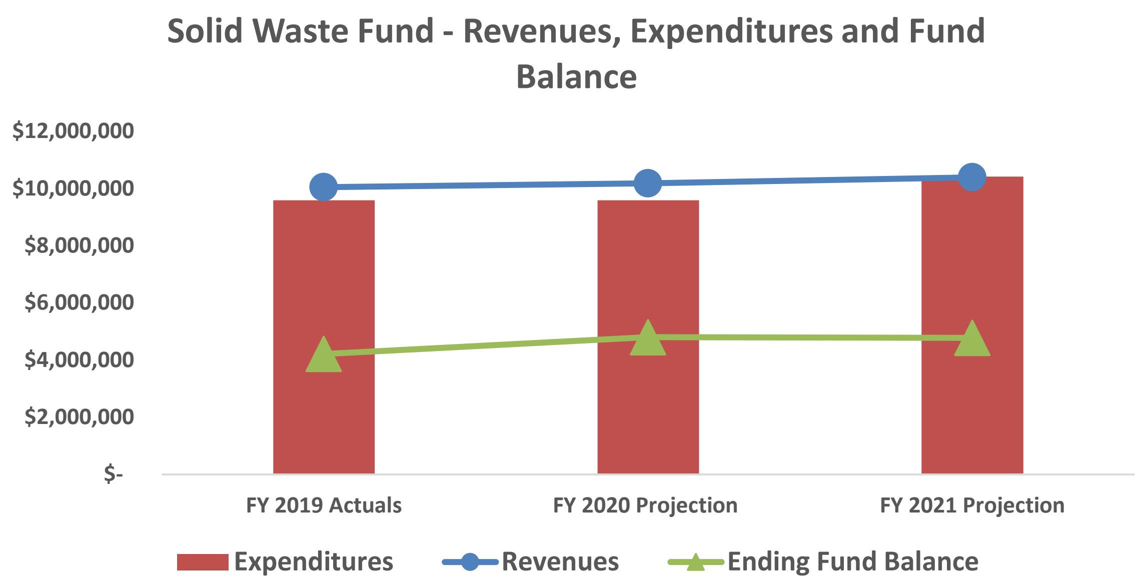
Civic/Convention Center Fund



Of the City's four enterprise funds, the Civic/Convention Center has been the one most significantly impacted by COVID-19. As can be expected, prohibiting gatherings of more than 10 has essentially closed the facility for the past two months. Given that our facility takes reservations 18 months in advance, there simply aren't a great deal of available dates to recapture the revenue from the cancelled events. As a result, FY 2020 projected revenues is approximately $215,000 or 43.7% lower in comparison to FY 2019.

Hotel/Motel Operating Transfer – The City utilizes a portion of the local occupancy taxes to support the annual debt service for the Civic/Convention Center as well as a transfer equal to the amount necessary to cover operating expenditures and maintain reserves of 25%. As the graph illustrates, the reduced revenue in FY 2020 results in a projected transfer of over $550,000. Given the impact to Hotel Occupancy Tax collections, it is unknown whether or not the HOT fund could support this transfer in addition to the other demands on that funding source in FY 2020. As opposed to making the full transfer, a portion of the Civic/Convention Center Fund reserves could be utilized to reduce the reliance on Occupancy taxes in FY 2020.

Solid Waste Fund



The Solid Waste Fund has not been impacted materially as a result of COVID-19. Special pick ups and roll off container rentals were temporarily suspended to support the increased demand for residential service, however, total revenues in FY 2020 are still projected to meet or exceed budget.

FY 2021 Projection – The projected expenditures in FY 2021 increase for several reasons. First, additional funding has been added for refuse disposal for residential and recycling services. In addition, the interfund transfer to the Debt Service Fund increases to support the planned $5 million issuance for the current NBU 306 facility.