FY 2022-FY 2026
Five Year Financial Forecast

FY 2022-FY 2026 Five Year Financial Forecast

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Five Year Forecast - Definition and Purpose

The forecast is an assessment of the General Fund, Debt Service Fund, Equipment Replacement Fund, Self-Insurance Fund and the City's four enterprise funds (Airport, Golf Course, Civic/Convention Center and Solid Waste) financial position should the assumptions used in creating projections materialize. ***A forecast is not a prediction.*** A forecast is a result based on assumptions; if the assumptions change, the financial position and projections change as well. Moreover, the projections for FY 2022 are not representative of the proposed budget or a recommendation. However, the results of the five-year forecast do impact budget policy.

For FY 2022, the City's annual budget process began with the City Council retreat in January - 2021. The retreat focused on an update on how COVID-19 and its effects on the economy have impacted the City's financial position. As we have discussed multiple times, the impacts to our revenue sources collectively have been immaterial. The retreat also provided an opportunity to discuss budget goals and priorities for FY 2022.

The next phase of our process is the publication of the Five-Year Financial Forecast. With the passage of the charter amendments in May, the completion of this document is now a charter requirement. The Five-Year Financial Forecast is a planning tool to aid the City Council and Executive Leadership Team in maintaining consistent service delivery to the community within available resources. The financial forecasts presented in this document represent one of many tools employed by staff to support the delivery of services in the community and value to our citizens through sound management of the City's financial resources.

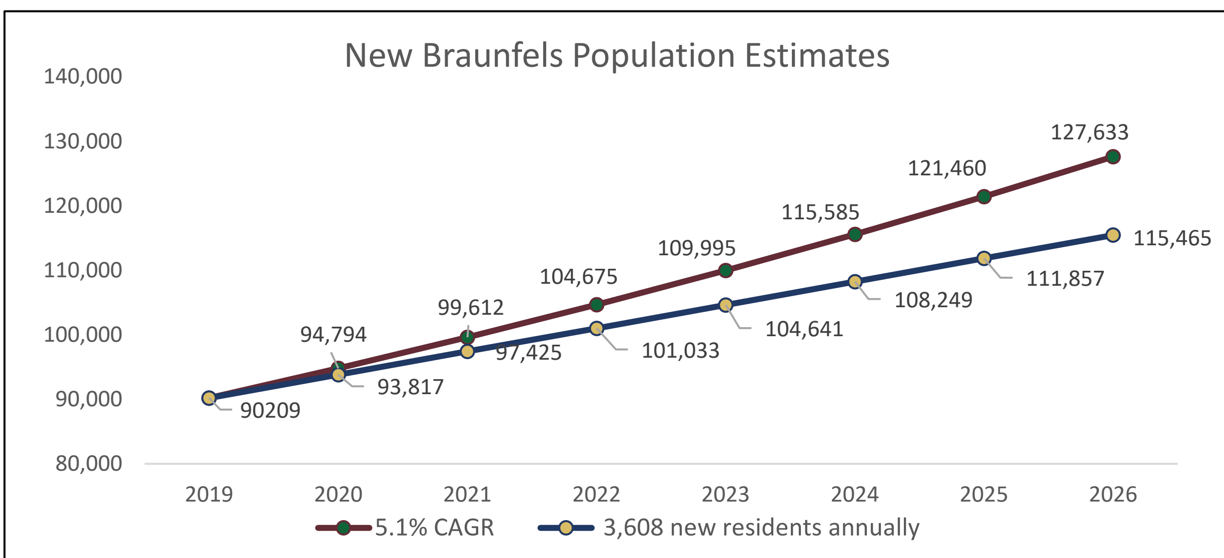
The forecast helps to illustrate the financial viability of various recurring and one-time investments. The forecast also serves as a resource in evaluating and developing multi-year budget initiatives. By looking over a five-year period, this document allows for better and more thorough vetting as it relates to developing budgetary policy. The forecasts are developed within the framework of City Council goals, fiscal responsibility and most importantly considers the impact of New Braunfels' tremendous growth on service delivery.

Staff is pleased to present the FY 2022-FY 2026 Five-Year Forecast and look forward to presenting this document with the City Council.

The following section provides a discussion of national and regional economic trends and how those trends could affect the underlying economic conditions of the local New Braunfels economy. The growth (or decline) in the City's two primary sources of revenue (sales and property tax) is often correlated with broader economic trends. A forecast of the City's financial condition recognizes that the City's fiscal health is directly linked to success of the regional and national economies. In this section, projections regarding population trends, property valuations and sales tax collections are provided. There is an additional discussion around the issue of the city's inevitable buildout and housing.

Population Projections and Household Income

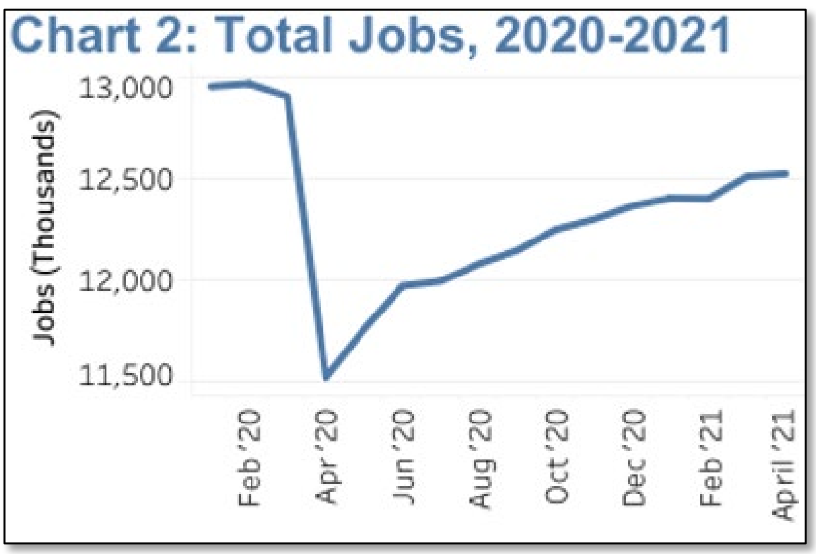
The latest official census information for New Braunfels provides a July 2019 population estimate of 90,209. This represents a compounded annual growth rate (CAGR) of 5.1% since the 2010 census estimate of 57,740. While applying the 5.1% CAGR projection through the forecast period would make intuitive sense, there is a practical limitation to the number of people that can locate within city limits in each period. This growth rate of 5.1% means that, on average, approximately 3,608 people have located to the city every year since 2010. Some years this number was higher and other years it was lower. The city's entitlement process and the provision of water and wastewater infrastructure to greenfield sites are the typical bottlenecks to this process and the 3,608 figure likely represents the upper bounds of the City's ability to permit and approve housing development projects unless there is a significant increase in the number of staff dedicated to reviewing and providing approvals. When a 5.1% CAGR is applied from the 2019 figures moving forward, this means that approximately 5,346 people are added annually through 2026. This would represent a 48% increase in the average annual number of people relocating to the City and would presume a significant increase in permitting figures. As a planning exercise both the 3,608 annual population increase, and the 5.1% increase are projected below to provide an estimate of the City's population around 2026:



Economic Recovery

The Covid-19 pandemic clearly had a measurable negative toll on global health, economic conditions, and growth during most of 2020 and parts of 2021. In addition to more than 602,000 Americans dead from the virus as of June 22, 2021, the Covid-19 global recession was the deepest since the end of World War II. The global economy contracted by 3.5% in 2020, which represents a 7% loss relative to the 3.4% growth forecast from October 2019. While the global economy is expected to recover this year, the level of GDP at the end of 2021 in both advanced and emerging economies is projected to remain below the pre-virus baseline. Economists are beginning to analyze and quantify the pandemic's 10-year economic costs. Preliminary analyses and working papers suggest a cumulative global loss of around 100% of global GDP ($87 trillion in 2019) over the next decade.

These economic costs partially manifest themselves in reduced employment and Texas does not appear to have emerged unscathed. One of the projections made in the middle of pandemic was that many jobs that were reduced or eliminated would not come back immediately or take years to return. This has proven to be mostly the case. Texas has approximately 445,000 fewer jobs (-3.4%) in April 2021 than it did in February 2020:



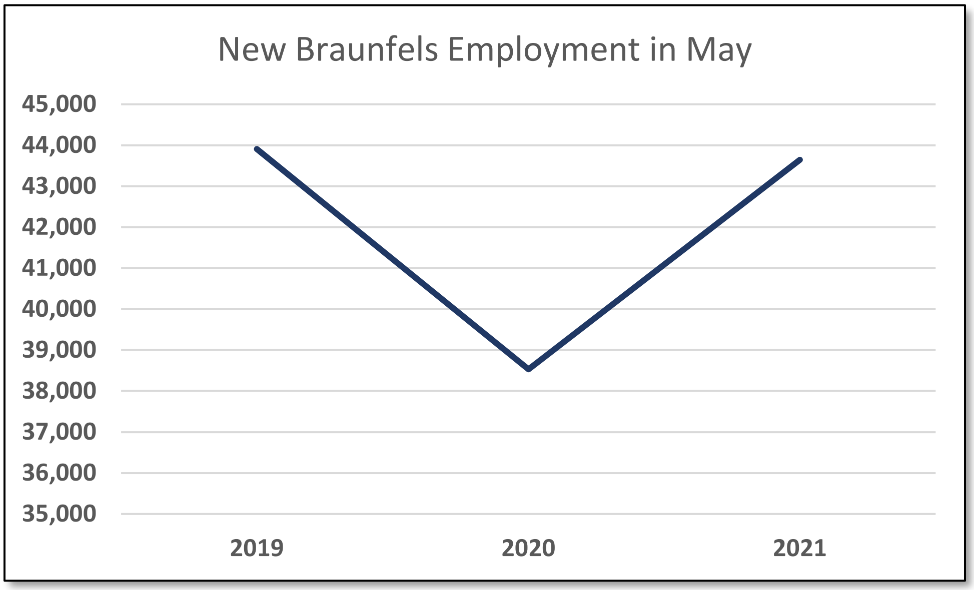
In the Alamo workforce area in May 2021 there are approximately 83,400 more employed positions than May 2020. This is still, however, below the May 2019 employment numbers by approximately 14,100 total positions, suggesting that the region still has some progress to make to restore employment to levels pre-pandemic. The biggest losses in real numbers in Texas have been in accommodation and food services businesses with 136,000 losses and health care and social assistance down with 54,600 positions lost. These losses are not necessarily abnormal, however, as only two states (Idaho and Utah) have seen small job increases (1.5% and 1.2%, respectively) between the two periods. Percentage wise, Texas industries have shrunk as noted below:

Table 1: Change in Jobs by Industry, February to August

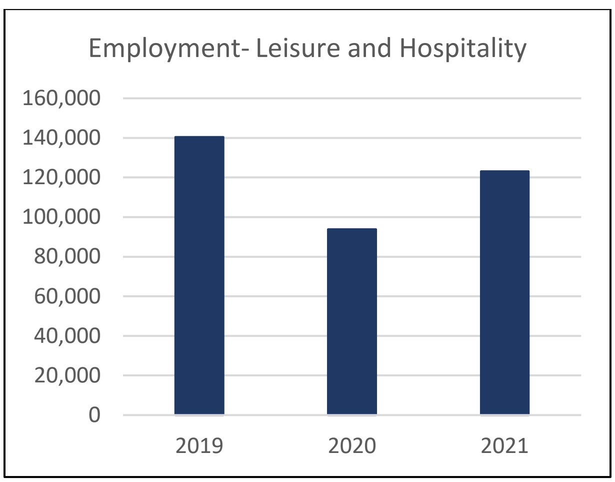
State
Texas

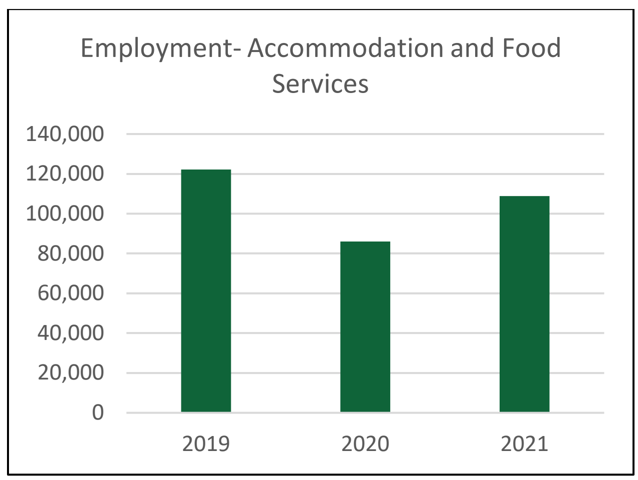
Industry	
Mining & Logging, SA	-21.6%
Arts, Entertainment, & Recreation, SA	-21.0%
Other Services, SA	-11.2%
Accommodation & Food Services, SA	-10.8%
Construction, SA	-5.7%
Information, SA	-5.0%
Manufacturing, SA	-4.5%
Educational Services, SA	-4.1%
Health Care & Social Assistance, SA	-3.5%
Real Estate & Rental & Leasing, SA	-3.3%
Management of Companies & Enterprise..	-3.3%
Local Government, SA	-2.6%
Admin & Support & Waste Services, SA	-2.1%
Wholesale, SA	-1.9%
State Government, SA	-1.1%
Retail, SA	-0.7%
Federal Government, SA	2.1%
Professional, Scientific, & Tech Services, ..	2.3%
Finance & Insurance, SA	2.7%
Transport, Warehousing, & Utilities, SA	6.1%

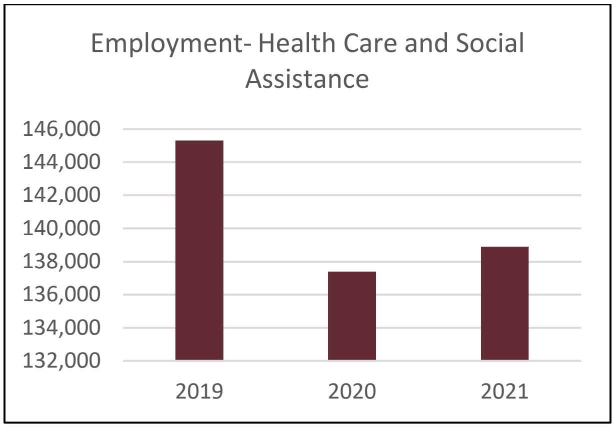
In New Braunfels, total employment in May 2021 is above 2020 levels by approximately 5,100 total positions but still below 2019 levels by 259. The employment shows mostly a V-shaped recovery relative to employment in New Braunfels between the May 2019- May 2021 timeframe:

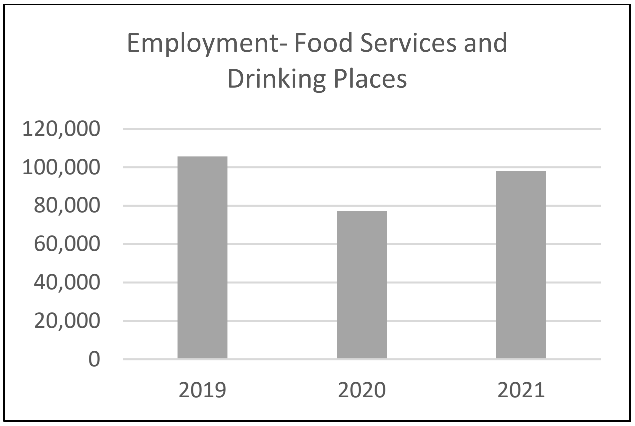


While data for industry job losses does not exist for New Braunfels specifically, we can extrapolate the data from regional trends in the San Antonio-New Braunfels Metropolitan Statistical Area (MSA):









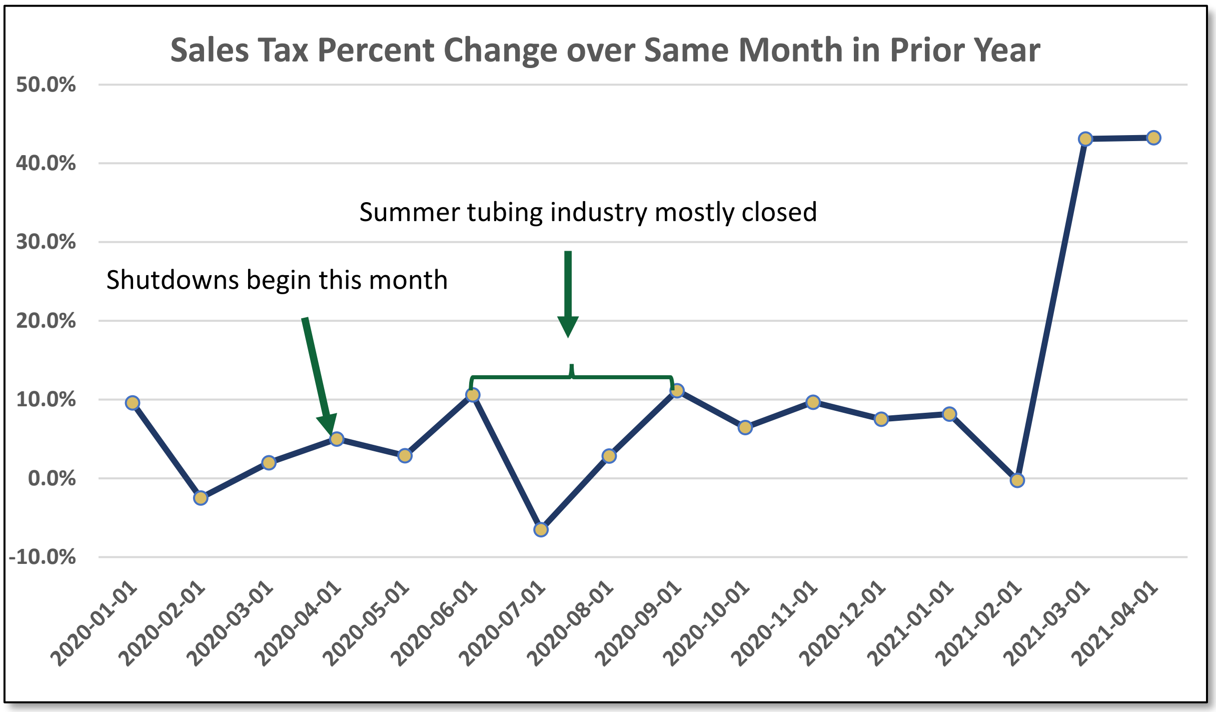
As the MSA data shows, some industries have not fully recovered from the effects of more than a year of shutdowns and business restrictions. However, the following provides a snapshot of job and industry growth in New Braunfels specifically since 2016:

Description	2016 Jobs	2022 Jobs	Change	% Change
Health Care and Social Assistance	5,557	6,977	1,420	26%
Retail Trade	5,971	6,700	729	12%
Accommodation and Food Services	5,139	5,971	832	16%
Public Sector	3,524	4,242	718	20%
Construction	2,567	2,887	320	12%

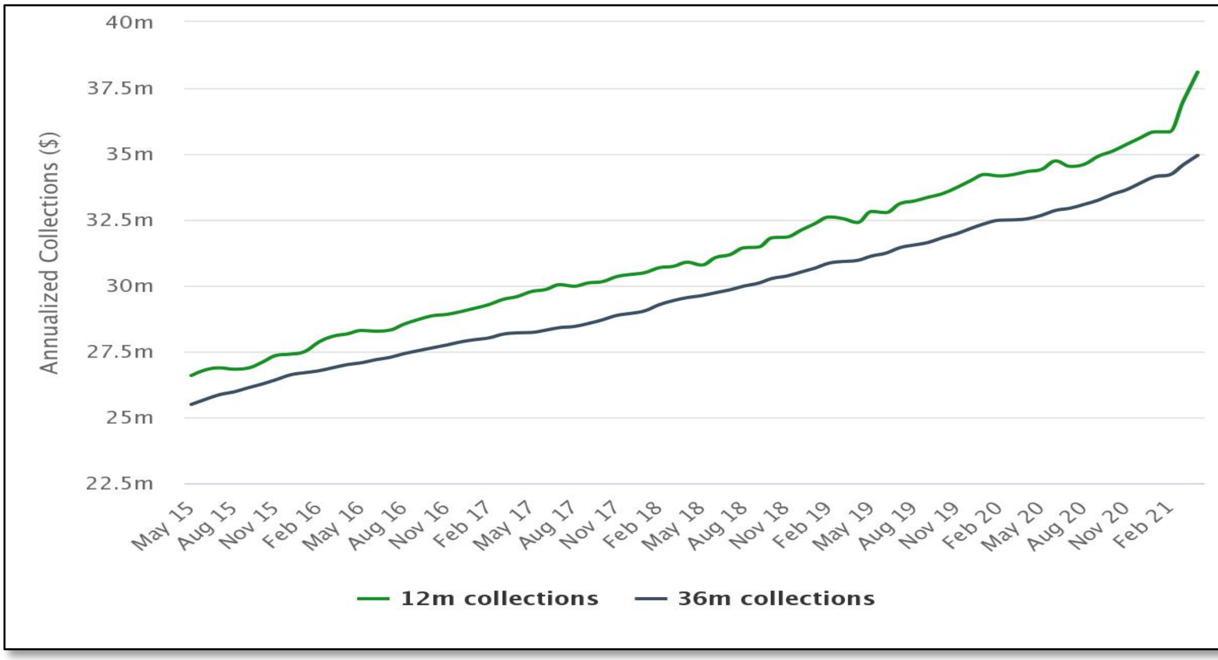
Description	2016 Jobs	2022 Jobs	Change	% Change	Avg. Hourly Earnings
Office and Administrative Support Occupations	5,651	6,510	859	15%	$14.85
Food Preparation and Serving Related Occupations	5,172	6,086	914	18%	$9.32
Sales and Related Occupations	4,843	5,599	756	16%	$16.05
Transportation and Material Moving Occupations	2,854	3,262	408	14%	$14.87
Healthcare Practitioners and Technical Occupations	2,208	2,768	560	25%	$31.10
Personal Care and Service Occupations	2,098	2,533	435	21%	$10.03
Education, Training, and Library Occupations	1,940	2,429	489	25%	$21.44
Management Occupations	1,339	1,602	263	20%	$47.95
Healthcare Support Occupations	1,169	1,505	336	29%	$12.86

Sales Taxes

Throughout 2021, economic activity within Texas continued to recover after more than a year of pandemic-related business restrictions. Initially, impacts to sales and property taxes were anticipated to be severe. Most immediately, staff believed that sales tax losses would be leading and, as always, property taxes would be a lagging indicator of a recession. However, the downturn in sales tax was not realized and for all but one month between March 2020 and June 2021, the City experienced sales tax **increases** monthly:



Even though the city clearly suffered job losses that have not been fully restored, the local economy appears more diverse than it has been in previous downturns. Year to date, sales tax collections are up by approximately 24% over last year at the same period. Instead of sustained reductions in sales tax, the City saw the opposite through most of 2020 and all of 2021. The figure below shows the rolling 12 and 36 monthly collections going back to May 2015:

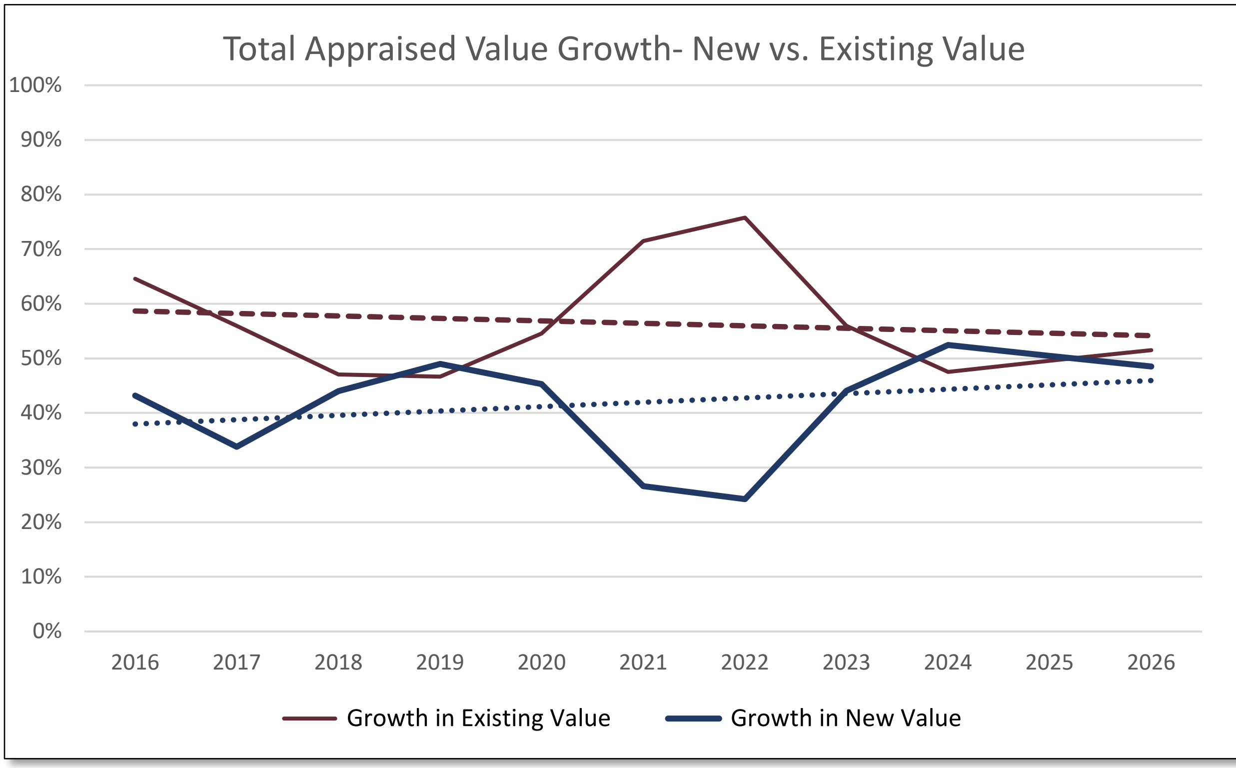


Many of the increases seen over the last year have been realized in the retail (grocery, home improvement, online sellers), wholesale (commercial building and leisure supplies) and food industries (limited and full-service restaurants):

April 2021 Sales Tax Collections by Industry							
Industry	**Amount**	**Variance**	**% Change**	**YTD**	**YTD (% Change)**	**12m Avg**	**12m Avg % Change**
Retail	$ 1,446,540	$ 421,231	41.1%	$ 5,531,403	32.5%	$ 1,390,052	21.4%
Wholesale	$ 810,784	$ 276,289	51.7%	$ 2,600,060	16.9%	$ 635,251	9.1%
Food	$ 423,850	$ 175,818	70.9%	$ 1,591,980	27.7%	$ 385,948	3.0%
General Services	$ 397,634	$ 136,521	52.3%	$ 1,312,323	21.0%	$ 289,313	-10.5%
Professional Services	$ 251,525	$ (3,496)	-1.4%	$ 864,728	-4.9%	$ 202,263	-11.6%
Manufacturing	$ 151,730	$ 38,881	34.5%	$ 606,815	11.9%	$ 155,988	18.8%
Miscellaneous	$ 122,554	$ 37,790	44.6%	$ 482,090	39.0%	$ 124,126	22.1%
Accommodation	$ 5,807	$ 4,965	589.1%	$ 18,493	49.6%	$ 4,169	-11.7%
Agricultural	$ 5,269	$ 3,608	217.2%	$ 17,647	108.4%	$ 3,641	1225.7%

Property Taxes

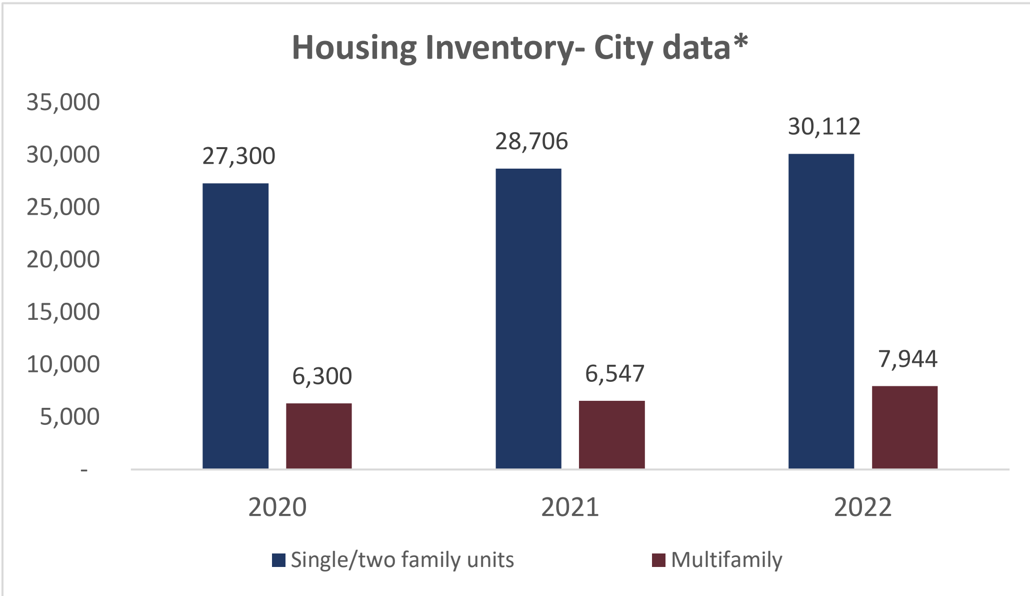
Based on the certified values of both Comal and Guadalupe County for 2020, total assessed values (including a portion of values that are still under protest) in New Braunfels grew by approximately 10.1 percent after frozen values (above 65 exemption) are removed. The graphs below provide additional detail on growth in assessed valuation as well as a breakdown of growth in new vs. existing values over the past several years. Consistent with previous years, city property valuations have continued to outpace population growth suggesting a disconnect between demand for residential and commercial properties and overall valuations.



In 2021, the City saw a sharp divergence of growth in existing and new values. However, based on conversations with the appraisal district, staff anticipates this dichotomy to not be as pronounced in future years. Growth in new value will continue to comprise a smaller and smaller share of overall valuation growth.

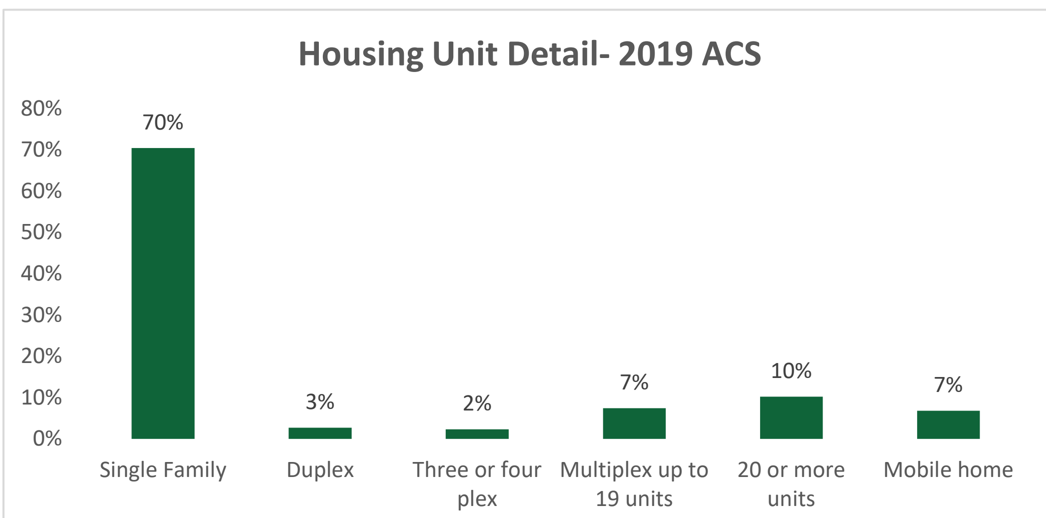
Housing Construction Activity

There are approximately 35,200 housing units in New Braunfels, with 28,700 of these units single or two family homes and the balance (6,500) of the units are multifamily. This represents an 81%/19% division between single and two family homes and multifamily in New Braunfels. Based on current residential units in the development pipeline, there will be approximately 30,000 single and two family homes and 7,950 multifamily units by mid 2022. This would change the proportional representation to 79%/21% single family to multifamily, respectively. The housing inventory data below is derived from platted lots utilizing GIS data. The estimates of multifamily units by the end of 2022 include projects currently in the pipeline and under construction:

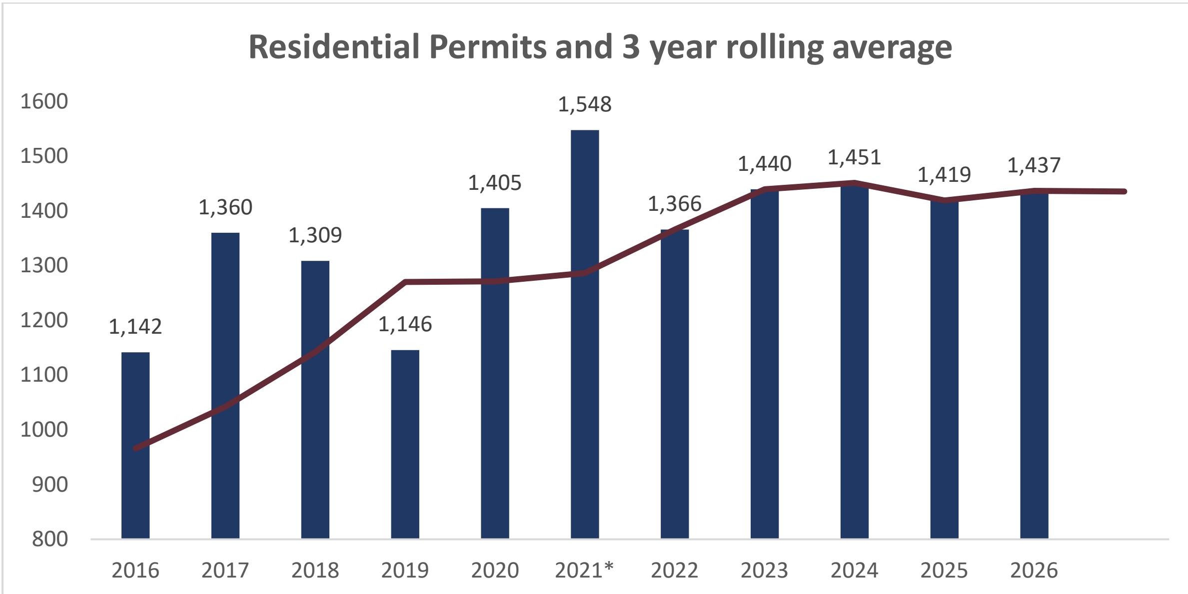


*Includes lots platted for single family development that do not have a structure currently

The 2019 American Community Survey provides a more detailed breakdown of the housing units by type for New Braunfels:



Single-family residential construction continues to be the predominant form of housing construction in the City of New Braunfels. The pandemic did not seem to stall or mitigate building permit activity for single or two-family residences. The city can expect that these growth trends will continue at least for the next five years:



*2021 and beyond are projected single family residential permits

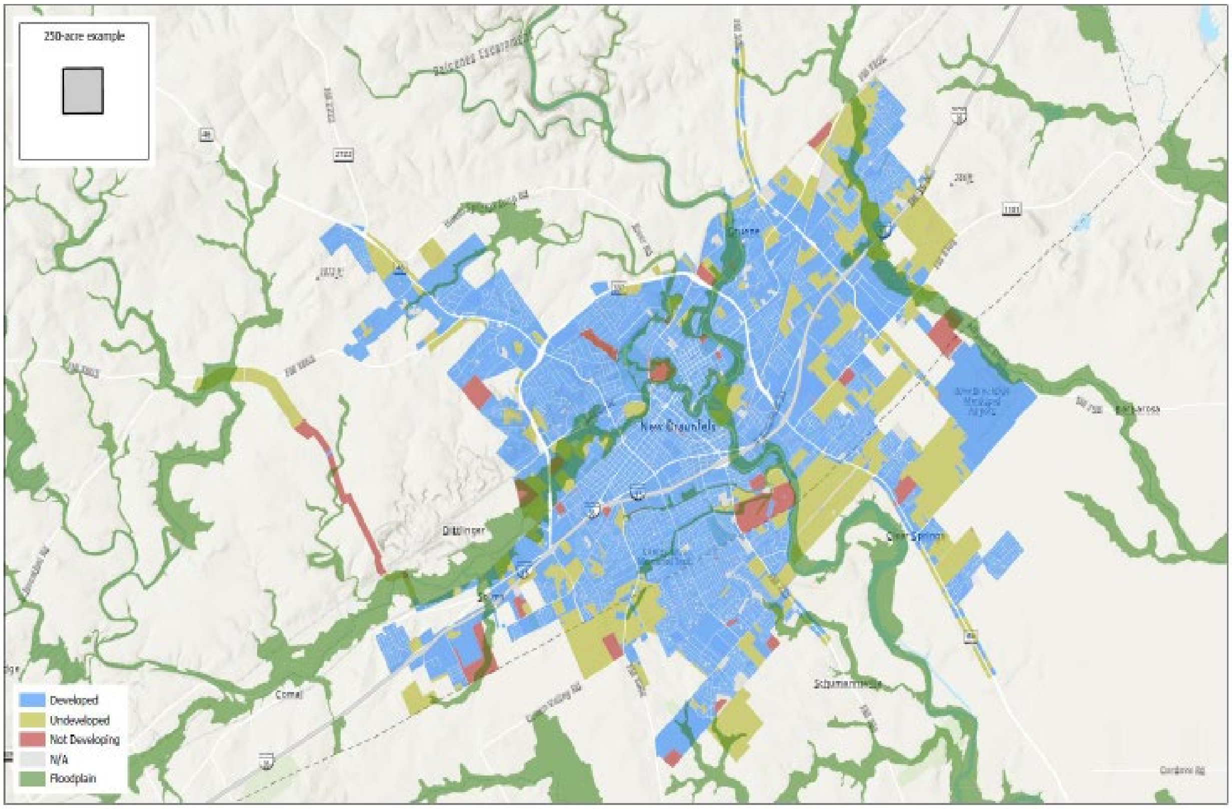
Multifamily occupancy rates hover at 95-96% for classes A, B and C units. These figures represent full occupancy and suggest that more projects will be placed in the development pipeline. Given this level of anticipated housing activity in single and multifamily residences, the consideration of how to efficiently utilize remaining greenfield development becomes even more important.

Buildout- Implications and Discussion

At the City Council's winter retreat, staff presented the idea that New Braunfels would be "built out" within 15 years given current growth trends. Buildout is the point at which development has reached a city's borders or has exhausted large-scale greenfield options. Most of the City's available land is either "developed" or has intentions for development as demonstrated by a recorded plat- 67% of land currently has an improvement or is a recorded plat.

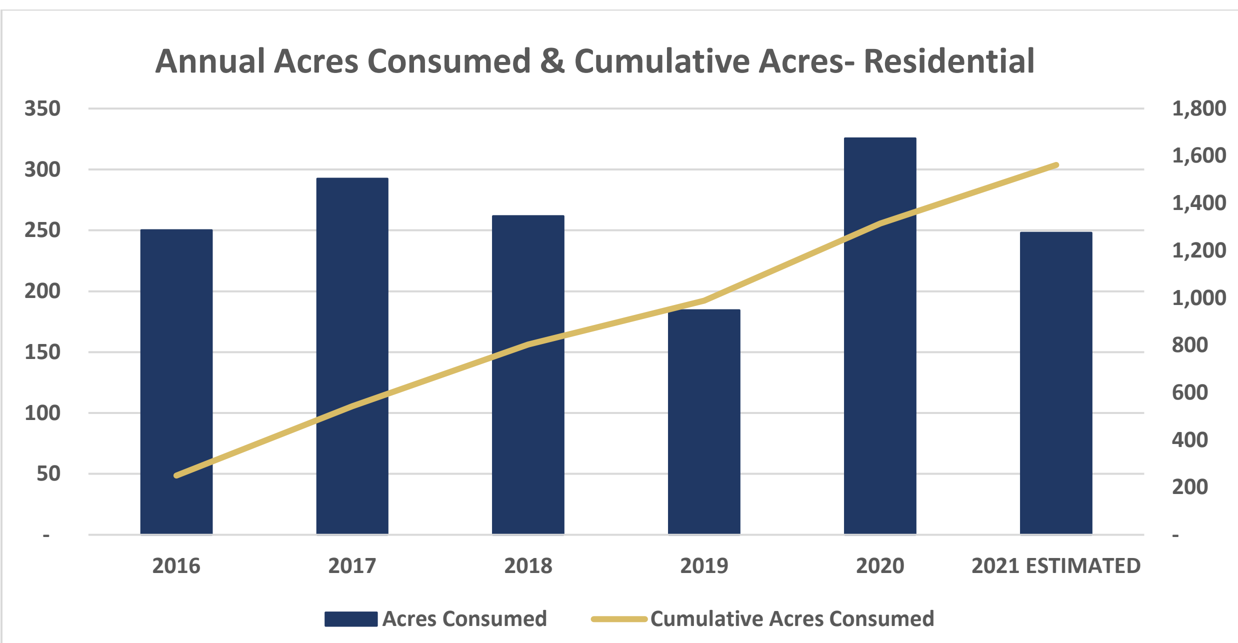
Between 2016 and 2020, undeveloped property declined by 2,448 acres and the land consumption continues in 2021- residential platted lots alone have used 1,314 acres since 2016. Over a five-year period between 2016 to the end of 2020, 6,231 single family residential permits consumed an average of 7,191 ft^2 each (210 acres annually w/out streets, drainage, parks, etc.) or about 1,029 acres over the five-year period. The best estimate for 2021 is that an additional 124 acres have received permits for construction of single- or two-family homes as of June 2021. Without a clear indication the growth is slowing through the end of the year, staff assumes that this acreage figure will approximately double (248) by the end of calendar year 2021. s

The image below visually represents the remaining "undeveloped" property within the City, as well as a scaled image of 250 acres to represent the average annual land consumption of single-family residential units in New Braunfels.



City of New Braunfels

Parcel Development Status - 2020



Given previous years and estimates, staff estimates that somewhere between 250-300 acres will be consumed by the end of calendar year 2021 just to service single family residential demand. At the winter retreat, staff's best estimate of net developable area (NDA) was around 5,800 acres. Since that retreat, the City Council has approved the rezoning of approximately 300 acres of this amount reducing the NDA to 5,500.

Communities reaching buildout should begin having conversations to clarify the desired degree of change. The desired degree of change in each area should be based on thorough analysis, input from the community, clearly defined goals and objectives, and, ideally, a detailed vision. The reason this is important is that most community members typically envision the transformative approach with widespread and dramatic change everywhere, but the reality is that many planning efforts are really targeted for more incremental change.

The suggested classification of degrees of change can be categorized as follows:

1. Maintain: smaller, more incremental changes, mostly reinforcing the existing scale of an area
2. Evolve: opportunities for small-to-medium-sized public and private investments or projects. Minor changes in scale.
3. Transform: opportunities for larger-scale changes, such as a significant increase in scale and possible mix of uses. The changes are more likely to be widespread and not constrained on individual sites or a collection of them.

Accommodating future housing development is a critical issue for the community to consider. Clearly, the City has seen significant residential and commercial development occur within and outside the City limits in the ETJ over the last 10 years. The City can have the greatest influence and improve community outcomes by focusing on development within the city limits from both an infill perspective, as well as thinking about how best to accommodate residential development on the shrinking supply of undeveloped greenfield. In order to drive and support increased business activity, job opportunities and improve the community's quality of life while keeping housing costs relatively attainable for the population, the community needs to accommodate the construction and proliferation of a variety of housing types. While many strategies are available to accomplish this, pursuing the development of a wide variety of housing types in secondary corridors and the city's edges, supporting smaller infill projects and accommodating the demand for housing in and around the downtown area can all help meet the inexorable demand for people that want to live, work and play in New Braunfels.

General Fund -Baseline Expenditures and Resource Demands Forecast

The General Fund is the City's main operating fund. All revenues and expenditures associated with the City's major services are accounted for in the General Fund. The major sources of revenues for the General Fund include: sales tax, property tax, franchise taxes (including payments from New Braunfels Utilities), licenses and building permits, charges for ambulance services, fines and forfeitures and parks and recreation revenue among other sources.

Departments and services funded within the General Fund include: Public Works, City Administration, City Attorney's Office, Human Resources, Support Services, Police, Fire, Planning and Development Services, Economic and Community Development, Communications and Community Engagement, Parks and Recreation and Library Services.

The General Fund forecast section includes 2 schedules that include revenues, expenditures and fund balances over the next 5 years. The revenue projections are the same for both schedules; only the expenditures change. The first schedule, referred to as "Baseline Expenditures Forecast" look at the financial position of the General Fund and assume that revenues grow throughout the period and that expenses increase only to reflect inflationary pressures as well as anticipated expenditure adjustments, such as full year funding the mid-year compensation increases recently approved and the annual payment associated with the NBU facility partnership approved in 2020.

The second schedule is referred to as the "Resource Demands Forecast" and shows the impact to the General Fund associated with identified resource needs, program enhancements, and compensation adjustments. These projections are the results of the assumptions used to build the General Fund forecast. If the assumptions change, the forecast results change as well.

General Fund Forecast - Baseline Expenditures

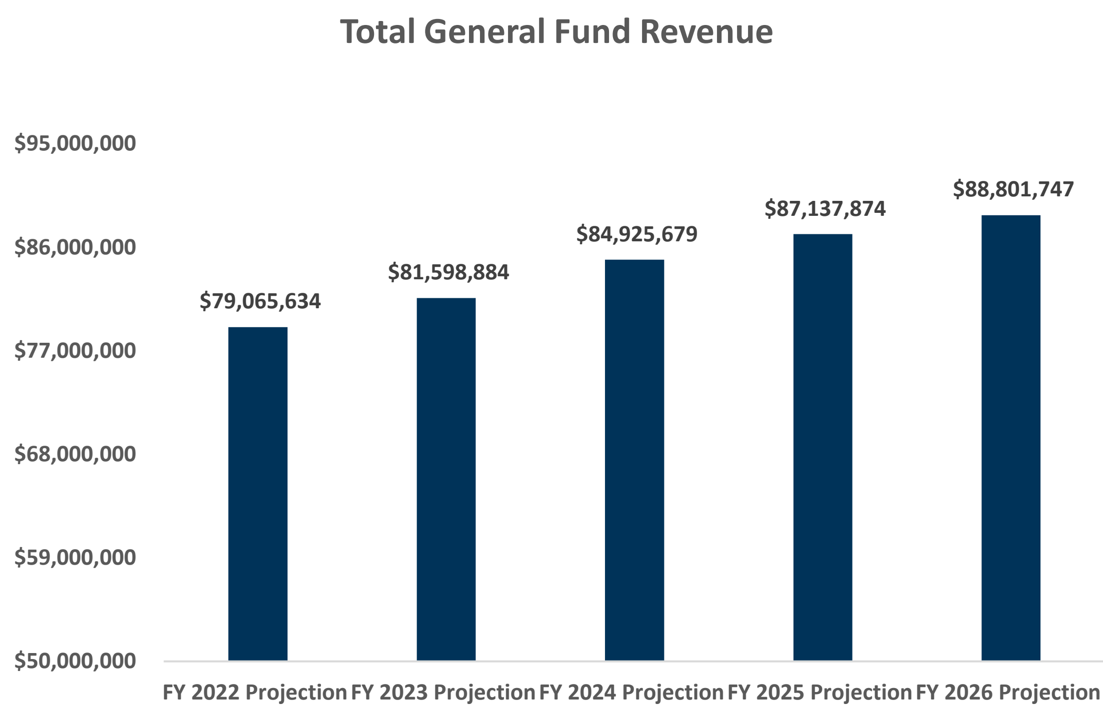
	FY 2022 Projection	FY 2023 Projection	FY 2024 Projection	FY 2025 Projection	FY 2026 Projection
Beginning Fund Balance	$ 34,646,406	$ 37,347,474	$ 42,002,863	$ 48,759,135	$ 56,484,800
Revenue					
Property Taxes	$ 23,010,176	$ 23,930,583	$ 24,827,980	$ 25,759,029	$ 26,660,595
Sales Taxes	25,236,458	25,867,370	26,514,054	27,176,906	27,856,328
Other Taxes and Franchise Fees	12,221,000	13,040,000	14,534,000	15,363,000	15,406,000
Licenses and Permits	5,200,000	4,750,000	4,750,000	4,500,000	4,500,000
Charges for Services	4,150,000	4,250,000	4,250,000	4,250,000	4,250,000
Fines and Forfeitures	1,400,000	1,450,000	1,450,000	1,450,000	1,450,000
Parks and Recreation	1,430,000	1,455,000	1,455,000	1,455,000	1,455,000
Das Rec	2,343,000	2,580,931	2,619,645	2,658,940	2,698,824
Interest Income	50,000	250,000	500,000	500,000	500,000
Miscellaneous	3,100,000	3,100,000	3,100,000	3,100,000	3,100,000
Interfund Transfers	925,000	925,000	925,000	925,000	925,000
Total Recurring Revenue	*$ 79,065,634*	*$ 81,598,884*	*$ 84,925,679*	*$ 87,137,874*	*$ 88,801,747*
CARES Funding					
Total Revenue	**$ 79,065,634**	**$ 81,598,884**	**$ 84,925,679**	**$ 87,137,874**	**$ 88,801,747**
Expenditures					
General Government	$ 9,430,000	$ 9,739,812	$ 9,885,910	$ 10,034,198	$ 10,184,711
Planning and Development Svs	3,510,000	3,619,442	3,673,734	3,728,840	3,784,772
Police	20,653,958	21,258,282	21,577,156	21,900,813	22,229,326
Fire	20,300,000	20,840,645	21,153,255	21,470,554	21,792,612
Municipal Courts	751,250	774,168	785,780	797,567	809,530
Public Works	7,900,000	8,140,647	8,262,757	8,386,698	8,512,498
Parks and Recreation	5,500,000	5,667,737	5,752,753	5,839,045	5,926,630
Das Rec	2,466,316	2,580,931	2,619,645	2,658,940	2,698,824
Library Services	2,367,000	2,439,185	2,475,773	2,512,910	2,550,603
Interfund Transfers	1,082,645	1,182,645	1,282,645	1,382,645	1,482,645
Contingencies	200,000	200,000	200,000	200,000	200,000
NBU Facility Partnership	-	500,000	500,000	500,000	500,000
Mid Year Adjustments (mkt study)	2,203,398	-	-	-	-
Total Recurring Expenditures	**$ 76,364,567**	**$ 76,943,495**	**$ 78,169,408**	**$ 79,412,209**	**$ 80,672,153**
Ending Fund Balance	**$ 37,347,474**	**$ 42,002,863**	**$ 48,759,135**	**$ 56,484,800**	**$ 64,614,395**
Fund balance Percentage	***48.9%***	***54.6%***	***62.4%***	***71.1%***	***80.1%***
Fund Balance Surplus	**$ 14,438,104**	**$ 18,919,815**	**$ 25,308,312**	**$ 32,661,137**	**$ 40,412,749**
Recurring Revenue/Rec Exp	**$ 2,701,068**	**$ 4,655,389**	**$ 6,756,272**	**$ 7,725,665**	**$ 8,129,595**

Baseline Expenditures Forecast- Discussion and Analysis

General Fund- Revenue Projections (Recurring)

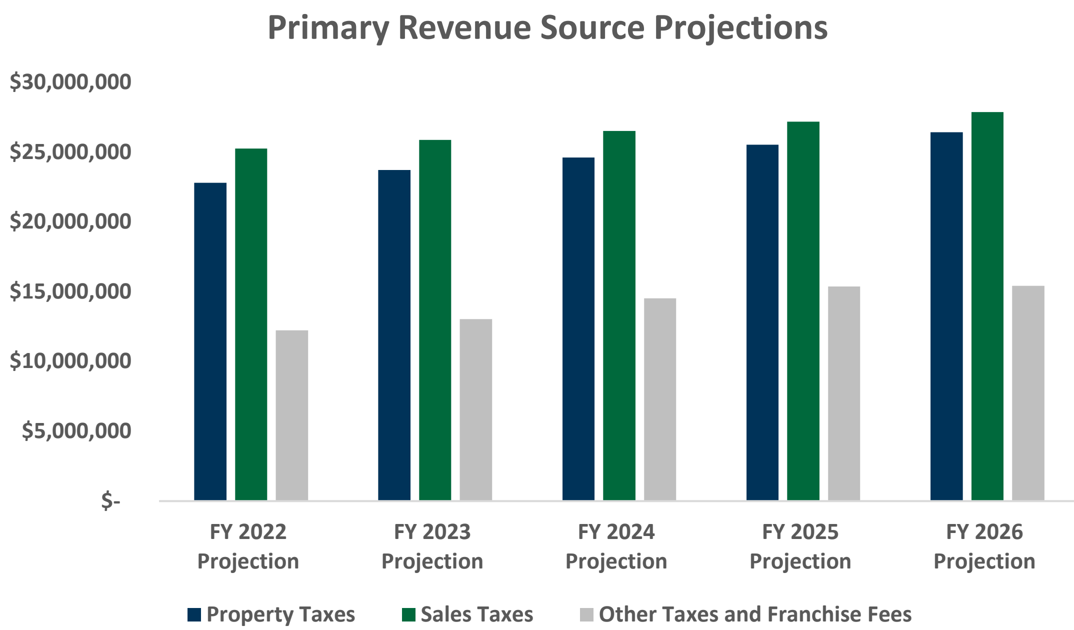
The average annual growth in General Fund revenues during the forecast period is 2.6 percent. The table below reflects the projected annual growth in total General Fund revenues for each year during the forecast period. The variation in growth is impacted by multiple factors, which are explained in greater detail below.

Projected Total General Fund Growth Rates (Recurring)					
	FY 2022	FY 2023	FY 2024	FY 2024	FY 2025
Growth Rate	1.1%	3.2%	4.1%	2.6%	1.9%



Primary Revenue Sources

Throughout the forecast period, the General Fund’s three largest revenue sources (Sales Taxes, Property Taxes, and Franchise Fees) make up approximately 78% of total revenues. The growth rates for total General Fund revenue referenced above are driven primarily by projected fluctuations among these three sources.

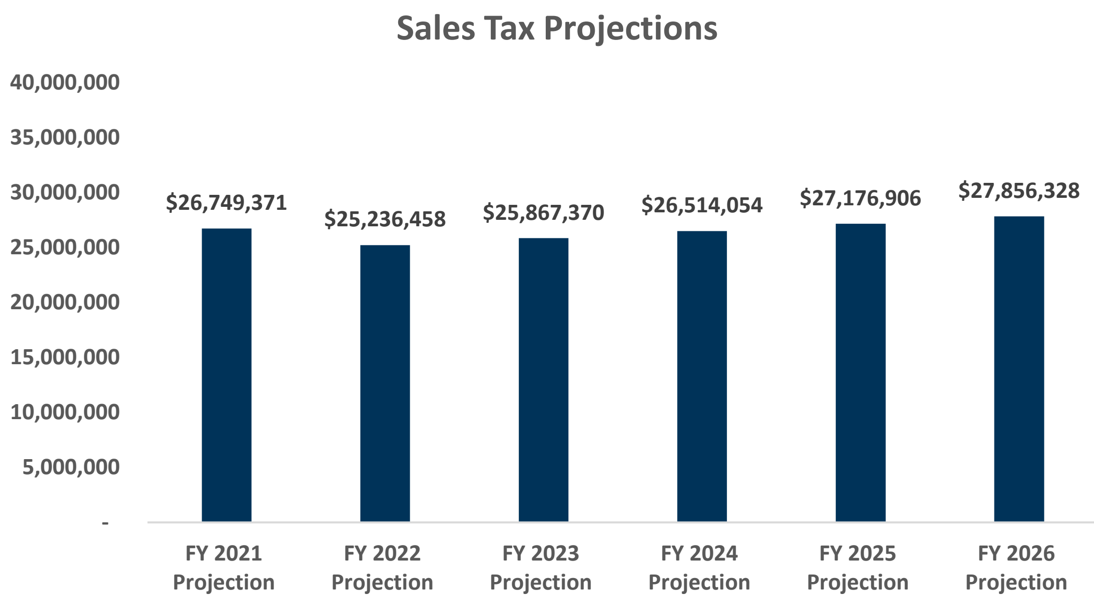


Property Tax Revenue – with the passage of SB2, property tax revenue for General Fund purposes is capped at a 3.5% increase annually from existing property owners. Additional property tax growth in the General Fund up and above the 3.5% can only come from growth in new construction. Therefore, the forecast assumes 4% growth in FY 2022 and FY 2023 (3.5% - existing and .5% - new). From FY 2024-2026, the forecast assumes new construction continues to flatten out to a point where property tax growth is essentially maintained to the 3.5% limitation.

Sales Tax Revenue – As the graph below illustrates, sales taxes are currently projected to decrease in FY 2022. A number of factors are impacting the potential change in sales tax projections. While there was no legislative action passed that would have implemented a shift from origin based (place of business) to destination-based (point of delivery) sales tax sourcing, there has been no sign from the comptroller's office that the amendments to rule 3.334 will be deferred or annulled. The rule, if it were to go into effect, would begin to source all internet sales to point of destination as opposed to point of origin, as they are today. The current effective date of the new rule is October 1, 2021. Given that it appears that this change could remain in place, the forecast assumes a reduction of $1.25 million beginning in FY 2022.

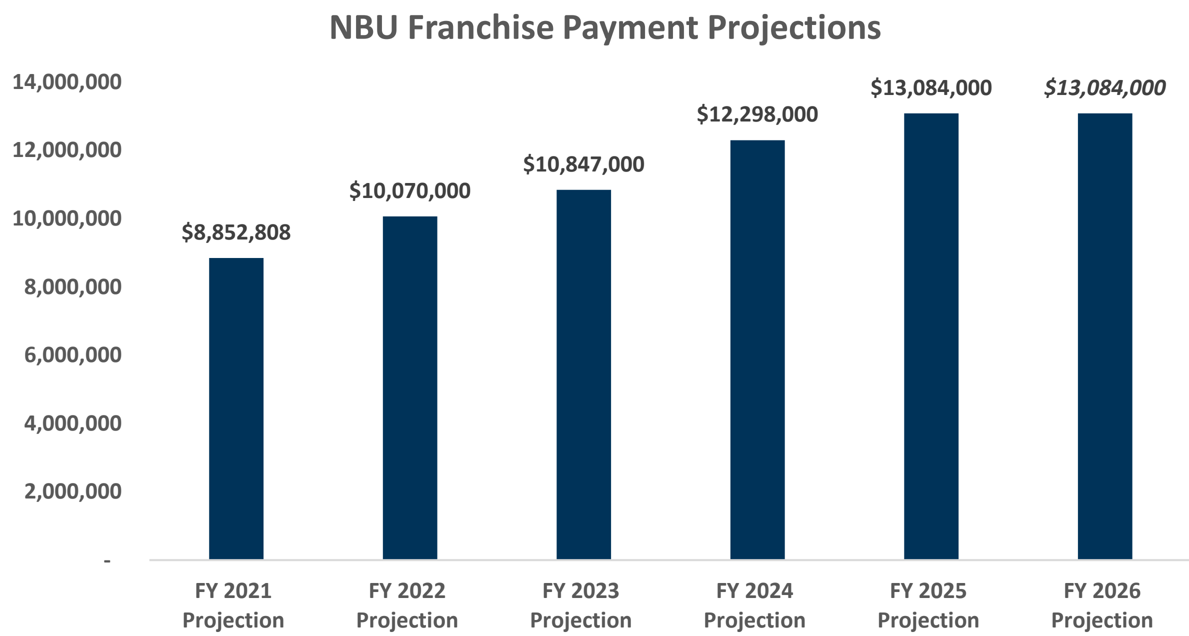
There are several factors incorporated into the sales tax projections that help to mitigate the negative impact from the loss referenced above. First, the projection includes additional sales tax revenue from the Creekside area, which is generated entirely by the reduction in sales tax contribution to the TIRZ from 1/2 cent to 3/8 cent. This is expected to generate at least $375,000 in additional sales tax revenue in FY 2022. Secondly, in FY 2021, the City fully met the financial obligations of an economic development agreement which included a sales tax rebate component. Fully meeting that obligation will generate approximately $220,000 in additional sales tax revenue in FY 2022.

The last factor impacting the current FY 2022 sales tax projections is continued uncertainty as to what the economy may look like once various federal initiatives such as expanded unemployment benefits, stimulus payments, expanded child tax credit, etc. have completely phased out. Given that uncertainty, the base sales tax projections in FY 2022 are relatively flat in comparison to the FY 2021 figures. Throughout the remainder of the forecast period (FY 2023 – FY 2026), sales taxes are projected to grow by 2.5% annually.



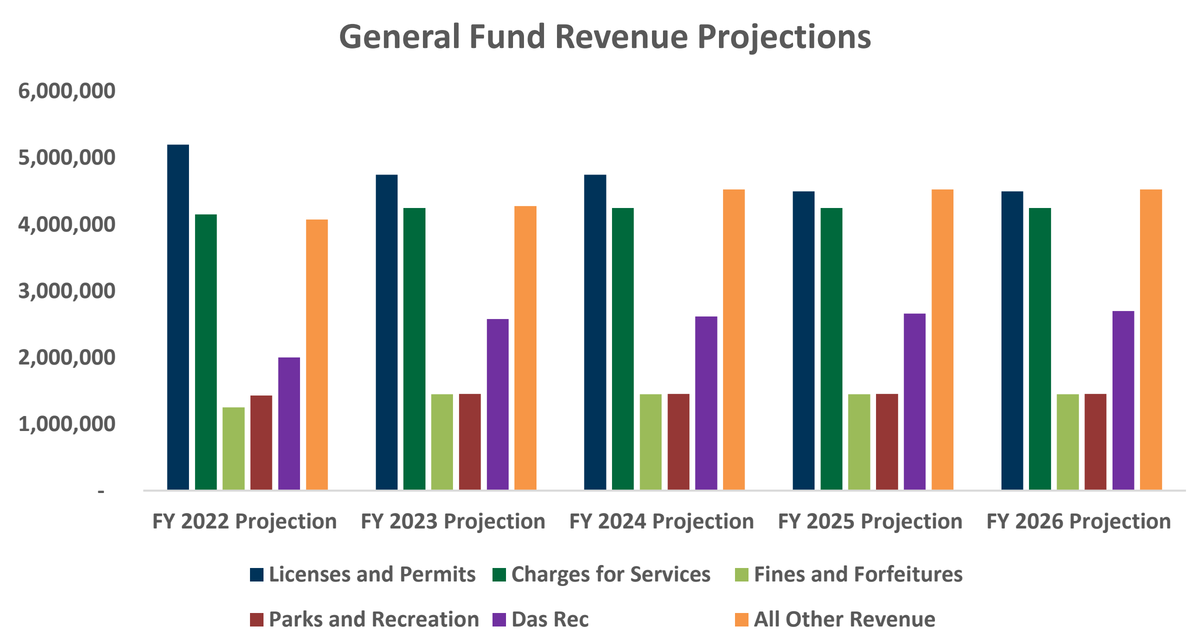
Franchise Fees

The majority of Franchise tax revenue comes from New Braunfels Utilities (NBU). NBU's current payment to the City is based on a rolling 3-year average of gross revenue collections. The graph below reflects the projected NBU franchise payment over the forecast period. As the graph illustrates, this revenue source is projected to experience substantial growth over the forecast period. The growth is driven by multiple factors, such as the overall growth in customer accounts and the rate adjustments approved last fiscal year. The payment for FY 2026 is actually projected to continue to grow but given that this figure has the potential to fluctuate based on weather patterns and other factors, the forecast holds this final year flat in comparison to the prior year payment. The other franchise payments (gas, cable, telecommunications, etc.) have fluctuated in recent years, but more or less continue to grow overall. Conservatively, they are projected to grow 2% annually.



All other General Fund Revenues

The graph below reflects growth rates for all remaining General Fund revenue categories.



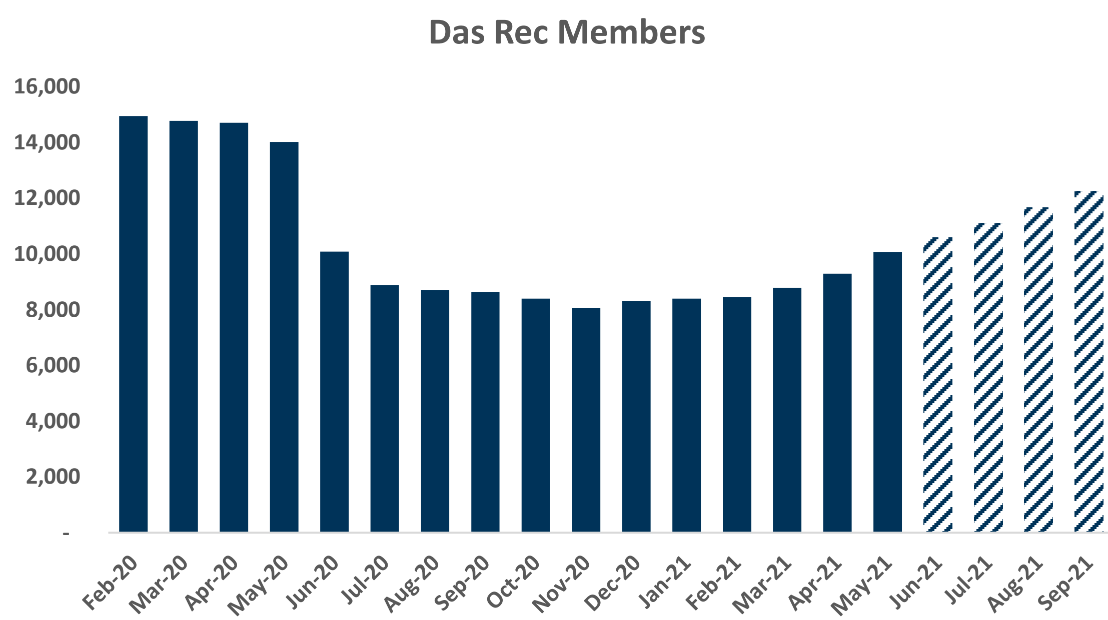
Licenses and Permits – Given that this revenue source cannot continue to grow or remain at current levels in perpetuity, the forecasts accounts for a projected leveling off of licenses and permits throughout the forecast period.

Charges for services – this revenue source is driven primarily by ambulance related collections. A portion of that revenue includes the payment from the state for ambulance services provided to the uninsured and those on Medicaid. Given that this revenue source has experienced volatility in the past, this revenue source is essentially held flat throughout the forecast period.

Fines and Forfeitures – This revenue source was impacted significantly by COVID-19. As the forecast shows, this revenue source is projected to return to pre-pandemic levels in FY 2022 and hold flat for the remainder of the forecast period.

Parks and Recreation revenue – Our latest revenue projections for FY 2021 show that parks and recreation revenue is making a much faster recovery that originally anticipated. Beyond additional programming space or increases in program/rental fees, there is not much growth for additional revenue in this category. As a result, parks and recreation revenue is held flat at approximate $1.45 million.

Das Rec – The recreation center has been one of the functions most impacted by COVID-19. Pre-pandemic, the facility was generating significantly higher membership revenue than initially projected. However, as the graph below illustrates, membership figures are recovering. During the FY 2022 Budget process, staff will present this information at a much more granular level, however based on current trends in memberships and program participation, it appears that the facility could return to full cost recovery at some point in FY 2022.



All Other Revenue – This revenue source is driven primarily by industrial district payments made by corporations such as CEMEX, Wal-Mart Distribution Center, Lhoist, etc. that are receiving services from the City of New Braunfels but are not within the incorporated city limits of New Braunfels. This category also includes interest earnings, which were impacted significantly by the pandemic. This revenue source isn't projected to fully recover until FY 2024.

General Fund- Expenditure Projections

Employee Expenditures - Current Service Levels

In the Baseline Expenditures General Fund forecast, no change in service levels, staffing, compensation or operating expenditure levels are included throughout the forecast period. To further clarify, no cost of living, merit or market adjustment compensation changes are included in the Baseline Expenditures during the forecast period. However, full year funding for the compensation increases authorized in March 2021 are included in FY 2022.

Operating Expenditures – Current Service Levels

Operating expenditures include costs such as: utilities, office supplies, professional services, software licenses, fuel, landscaping services, automotive repair, janitorial supplies etc. Operating expenditures are adjusted for any one time or known changes to expenditures, such as the beginning and/or ending of capital leases (Police, Fire and Information Technology). In FY 2022, one-time equipment and initiatives were allocated in the budget; those funds were removed prior to adjusting operating expenses for inflation throughout the forecast period. Departmental budgets are increased by 1.5% annually from FY 2024-2026 to account for inflationary adjustments.

Equipment Replacement Program

The Equipment Replacement program is a special revenue fund dedicated to the replacement of light vehicles, technology equipment and the Fire Department's Self-Contained Breathing Apparatus (SCBA). Its primary revenue source are interfund transfers from the General Fund. To deliver a structurally balanced budget in FY 2014 (recurring operating expenditures equal to recurring revenues), the equipment replacement program was suspended. In FY 2015, the program was only partially reinstated by allocating a $300,000 contribution to the fund and only replacing those vehicles which were in dire need of replacement. The reinstatement was budgeted in FY 2016 and FY 2017, increasing the contribution to $400,000. However, in both years, the transfer was reallocated to the Self Insurance Fund to ensure solvency of that fund. In FY 2018, a $120,000 transfer was budgeted. In FY 2019, the transfer was increased to $570,000 – however much of that transfer was utilized to support the capital lease payment(s) for recently completed network upgrade(s), as well as a tax note issued this fiscal year to support the backlog of vehicle replacements. In FY 2020 and FY 2021, the transfer was budgeted at $670,000.

During the forecast period, the transfer increases to the level necessary ($770,000-$1,170,000) to support minimum technology and vehicle replacement requirements. The solvency and financial capacity of the Equipment Replacement Fund is a strategic issue. There are several policy considerations for City Council to consider as it relates to the future of this program. These considerations are discussed in further detail later in this section as well as the Debt Service Fund and Equipment Replacement fund section(s).

Capital Expenditures

There are no capital expenditures included throughout the forecast period.

Interfund Transfers

In the baseline expenditures, the majority of the interfund transfers supports the equipment replacement program described above. Other forecasted transfers are to cover initiatives such as the support of the River Activities Fund, administrative costs associated with the EAHCP/WPP program(s) and cash match for grants.

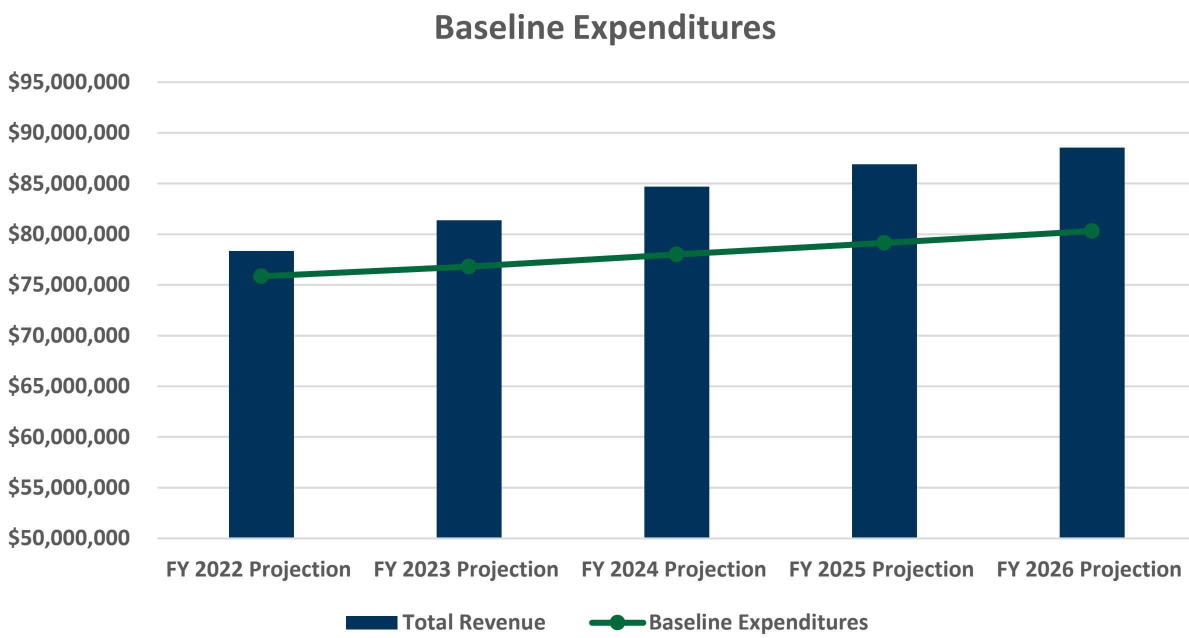
Facility Partnership (NBU)

In 2020, City Council approved a facility and land transfer agreement which allows for the City of New Braunfels to retain operational oversight of the current NBU operations facility on FM 306. This partnership will eventually allow for all current City services operating out of the property on Castell Avenue to relocate to the FM 306 facility. The facilities on FM 306 have the capacity for some additional city services to be relocated as well. Therefore, the city plans to conduct spatial planning of the current facilities to ensure that the entire property is efficiently utilized.

The funding strategy to support the transfer involved approximately 50% of the payment upfront, with the remainder paid over a ten-year period, beginning in FY 2023 ($500,000 annually for ten years).

Baseline Expenditures Summary and Policy Considerations

The baseline forecast demonstrates the City's ability to fund current resources at the current service levels. It also shows that the City has recurring funding available to address resource demands to meet the current and increasing demand for municipal services.



The figures in the table and graph below represent the funds available throughout the forecast period each year after annual expenditures are subtracted from annual revenues. It is imperative to recognize that if additional recurring expenditures such as new positions or compensation increases are added, it reduces the available funding by that amount in the year that it was appropriated as well as every year thereafter.

Available funding for Additional Recurring Resources					
	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Compounded Annual Surplus	$2,701,000	$4,655,000	$6,756,000	$7,726,000	$8,130,000

Reserve Requirement: The financial policies currently adopted by City Council require a minimum of 25 percent as the fund balance requirement in the General Fund. However, the City Council currently has a fund balance target of 30 percent of recurring expenditures to protect both the City's financial stability and bond ratings (which determine the City's interest rate opportunities for debt issued).

Fund Balance Considerations

The Baseline Expenditures Forecast show a surplus in fund balance throughout the forecast period. ***It is important to remember that any commitment of funds made in FY 2022 will reduce the fund balance and surplus throughout the remainder of the forecast period.*** The fund balance surplus is higher in the FY 2022 – FY 2026 forecast in comparison to previous five-year financial forecasts. This is primarily due to the recognition of CARES funding received in FY 2021 for the reimbursement of public safety – EMS payroll costs substantially dedicated to the pandemic. The surplus is also higher as a result of our conservative budgeting approach since the onset of the pandemic. As a result, our fund balance surplus will provide budget flexibility in FY 2022 and beyond to make critical one-time investments. Below is a list of some of the one-time investments that will likely be evaluated as part of the FY 2022 Budget process.

- Street maintenance equipment
- Park maintenance equipment
- Park maintenance/facility improvements
- Public safety equipment/vehicles
- One-time transfers to Equipment/Facility Maintenance Fund(s)
- Technology investments
- One Time professional studies
- Staff augmentation through contracted services

The forecast that includes funding for all current resource demands (Resource Demands Forecast) show a different result. *The resource demands forecast shows a fund balance deficit of $13.15 million by the end of the 5-year forecast period*.

Resource Demands Forecast- Discussion and Analysis

The "Resource Demands Forecast" shows the impact of adding costs associated with new positions, compensation adjustments and other expenditures. It is important to note that these programs/resources/compensation adjustments have not been approved by City Council or recommended by City Management. The purpose of this schedule is to forecast the impact to the General Fund should these programs move forward at some point during the forecast period. However, the programs included in the forecast schedule are those where the City Council has provided some direction and/or indicated an interest in the initiative moving forward, should funding become available

During the forecast period, additional needs will be identified as service demands increase. Once those needs are identified, they will be recognized in the forecast and budget development process. This forecast is designed to demonstrate the fiscal impact associated with current unmet needs, City Council/voter approved capital projects, and other priorities/issues previously recognized by City Council. The forecast below is based on the following assumptions.

Revenue Projections - The revenue projections in this schedule are the same as those used in the Baseline Expenditures forecast.

Projected Expenditures - The Resource Demands forecast recognizes the baseline expenditures included in that forecast and schedule. In addition, expenditures associated with various additional resource needs are estimated and added into the forecast to assess the impact these activities could have on the General Fund's financial position. Following the forecast schedule, each of these initiatives is described in greater detail.

- Cost of Living Adjustments/maintaining market competitiveness
- Completion of the NBPD Power Shift
- Resources to staff and operate completed capital improvement projects
- All other departments staffing – current identified unmet needs
- Increased transfer for equipment replacement program
- Re-establishment of Facilities Maintenance Fund
- One Time Initiatives/Equipment – current identified unmet needs

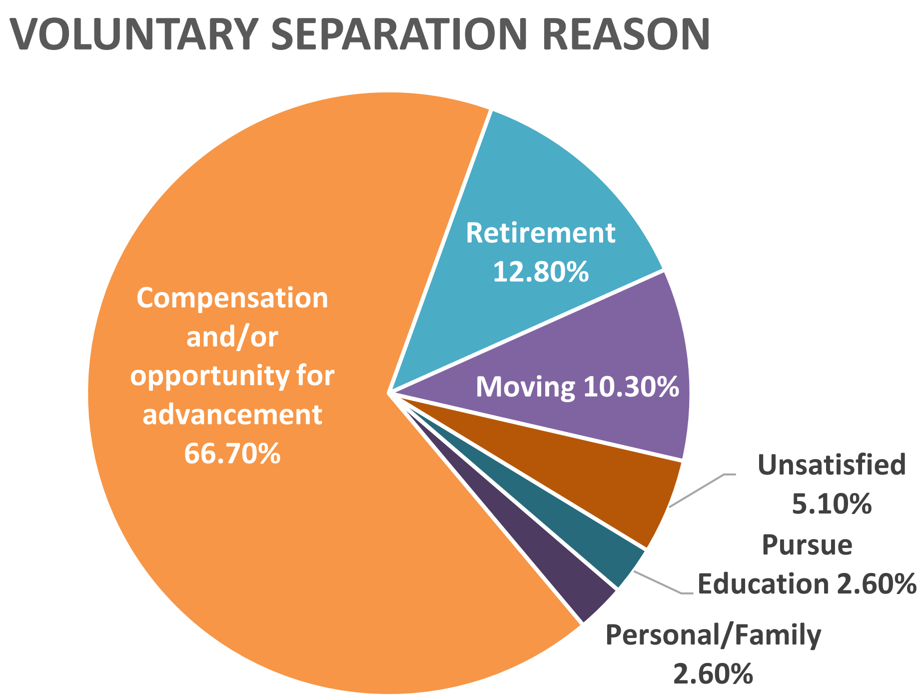
Fund Balance – The resource demands forecast shows a deficit in fund balance beginning in FY 2025. In fact, the resource demands forecast is no longer structurally balanced beginning in FY 2022 – meaning recurring revenues are less than recurring expenditures. This deficit is driven entirely by the additional expenditures projected for staffing, salary adjustments, equipment, and other capital expenditures.

General Fund Forecast - Resource Demands

	FY 2022 Projection	FY 2023 Projection	FY 2024 Projection	FY 2025 Projection	FY 2026 Projection
Beginning Fund Balance (adjusted)	$ 34,646,406	$ 32,128,881	$ 29,265,671	$ 26,110,534	$ 21,589,388
Total General Fund Revenue	$ 79,065,634	$ 81,598,884	$ 84,925,679	$ 87,137,874	$ 88,801,747
Total Available Funds (adjusted)	$ 113,712,041	$ 113,727,766	$ 114,191,350	$ 113,248,408	$ 110,391,135
Adjusted Baseline Expenditures - Includes impact from recurring resource demands	$ 76,364,567	$ 80,465,969	$ 84,457,231	$ 88,068,226	$ 91,638,464
Current Resource Demands					
Uniformed Personnel - Step Plan/COLA/Market Based Compensation Increases	$ 1,137,521	$ 1,177,334	$ 1,218,541	$ 1,261,190	$ 1,305,331
Non-Uniform Personnel - Merit/COLA/Market Based Compensation Increases	$ 749,283	$ 775,508	$ 802,650	$ 830,743	$ 859,819
Continued Implementation of Power Shift					
Recurring Costs - 4 Officers & 1 Sergeant	$ 450,511				
One Time Costs - Vehicles and equipment	$ 489,475				
Operating Expenditures from CIP/Bond Projects					
Fire Station #7 staffing and operational costs	$ 507,294	$ 353,647			
WCC Branch Library staffing and operational costs	$ 128,034	$ 128,034			
Police Department Headquarters		$ 125,000			
Zipp Family Sports Park (net)			$ 135,000		
Address current unmet needs - positions	$ 199,832	$ 205,827	$ 212,002	$ 218,362	$ 224,913
Increase Equipment Replacement Fund Transfer	$ 250,000				
Re-Establish Facilities Maintenance Fund	$ 100,000				
Address current unmet needs - one time capital and initiatives	$ 1,206,643	$ 1,230,776	$ 1,255,392	$ 1,280,499	$ 1,306,109
Total - Additional Annual Resource Demands	$ 5,218,593	$ 3,996,125	$ 3,623,585	$ 3,590,794	$ 3,696,173
Total Expenditures (adjusted)	**$ 81,583,159**	**$ 84,462,095**	**$ 88,080,816**	**$ 91,659,020**	**$ 95,334,637**
Ending Fund Balance	**$ 32,128,881**	**$ 29,265,671**	**$ 26,110,534**	**$ 21,589,388**	**$ 15,056,499**
Target Fund Balance - 30%	**$ 23,966,112**	**$ 24,969,396**	**$ 26,047,627**	**$ 27,113,556**	**$ 28,208,558**
Fund Balance Surplus/(Deficit)	**$ 8,162,769**	**$ 4,296,275**	**$ 62,907**	**$ (5,524,168)**	**$ (13,152,060)**

Compensation Adjustments

As discussed during the January 2021 retreat, talent recruitment and retention has been and continues to be a priority for City Management and City Council. The City has invested heavily in market-based compensation increases over the past seven years. However, as the graph below illustrates, approximately 67 percent of full-time employee departures are driven by factors associated with compensation and/or opportunities for advancement. Therefore, the resource demands forecast includes a continuation of compensation related investments.



Completion of NBPD Power Shift

The Center for Public Safety Management's (CPSM) staffing and deployment analysis recommended the implementation of an additional shift or "power shift." This shift would be scheduled to overlap with existing schedules during peak times. As the table below illustrates, to fully staff the additional shift, we need to authorize an additional 4 Officers and 1 Sergeant.

Authorized and Funded			Not Yet Funded
FY 2019	**FY 2020**	**FY 2021 (mid-year)**	**TBD**
4 Officers	4 Officers	4 Officers	4 Officers
1 Sergeant			1 Sergeant

Operating expenditures stemming from CIP/Bond Projects

Fire Station 7 - Funding is recognized in the forecast schedule to staff and operate Fire Station #7. The forecast schedule phases the additional staff over a two-year period (6 – FY 2022 & 3 – FY 2023). This staffing plan represents the minimum number of employees needed to open the station to allow the ambulance and engine to both deploy concurrently. Once completed, the non-personnel related operating costs are projected to total $100,000. When combined, the minimum annual recurring costs associated with operating the additional fire station is approximately $860,000.

Westside Community Center Branch Library – Approximately $250,000 in annual operating expenditures associated with the new facility is included in the forecast schedule. If the proposed operating plan was approved, it would add 3.5 full time equivalent positions. The proposed plan would also allow for operating hours that are consistent with the main library. Operating staff, costs and hours will be discussed in greater detail during the FY 2022 Proposed Budget process. The facility is scheduled to open towards the end of FY 2022, therefore the resource demands forecast assumes phasing the recurring costs over a two-year period (FY 2022 & FY 2023).

Police Department Headquarters - $125,000 in annual operating expenditures has been included as a placeholder. Staff is still working through detailed cost projections for the larger facility. This could include but is not limited to increased and/or new: custodial staff, utilities, landscape services (including veterans memorial), security costs, telecommunication costs, etc.

Zipp Family Sports Park – Staff is working with a consultant to complete a comprehensive business plan for the Zipp Family Sports Park. The consultant has not finished their analysis; however, their initial projections indicate that through intensive programming, special events and league play, the facility could operate at a net cost of approximately $135,000 annually. As the business and operating plan is finalized, cost recovery goals will be discussed and established by City Council.

Other Departments Staffing – Current Identified Unmet Needs

As staff works on the FY 2022 Proposed Budget and Plan of Municipal Services, nearly every department has requested positions to meet increased demand for services. As a placeholder to reflect these staffing needs, the forecast includes three positions annually to better meet service demands.

Increase Equipment Replacement Fund Annual Funding

As mentioned earlier, the baseline expenditures forecast only includes a transfer that supports minimum technology and vehicle replacement needs ($670,000-$1,170,000). Therefore, to recognize the need to increase this program to support more adequate levels of technology and vehicle replacements, a $250,000 increase to the annual transfer has been added to the resource demands forecast. Additional detail on the Equipment Replacement Fund capacity and projections can be found on pages 32-37.

Policy Consideration – As discussed earlier in this section, the revenue forecast assumes that the comptroller moves forward with the change to sales tax sourcing of internet purchases. The impact from this change is a loss in General Fund sales taxes of approximately $1.25 million. As described above, to adequately support the equipment replacement program, the contribution needs to be increased by at least $250K.

Given that our largest revenue source in the General Fund could be impacted significantly as well as the additional funding requirement, City Council may want to consider the following strategies to ensure adequate support of the equipment replacement program.

1. Surplus Fund Balance – As mentioned earlier, the General Fund will have a sizeable fund balance surplus to address various one-time initiatives. To defer the additional recurring commitment needed for the program, an additional one-time transfer from the General Fund could be made to ensure there is adequate funding available to support the program.

2. Elimination of the Equipment Replacement Fund – As our community grows, so does the demand for our services. As the forecast illustrates, there is not sufficient funding available to support identified resource demands. By eliminating the Equipment Replacement Fund, the recurring transfer ($670,000-$1,170,000) could be made available for other resource needs. However, this would require the organization to develop a different funding strategy to support vehicles, technology, and the Fire Department's self-contained breathing apparatus. Dedicating a portion of the I&S tax rate is a potential alternative funding strategy. However, by shifting the program to the I&S portion of the tax rate, the replacement of these assets would be supported by debt and they would begin competing with capacity for future bond programs.

Re-establish Facilities Maintenance Fund

Prior to the economic recession, the City had established a facilities maintenance fund. This fund supported a portion of the annual operating costs of the facilities division (fully supported by the General Fund currently), but it primarily served as an emergency reserve in the event of major facility damage. This Fund was utilized to make critical repairs to infrastructure after floods, as well as to address unbudgeted facility repairs. The fund currently is inactive. Had this fund been in place when the hurricane Harvey damage occurred at the Police Department Facility, it could have served as the funding source.

Currently, the only funding source we have available in the event of an emergency impacting our infrastructure/facilities is the General Fund reserves. As our inventory of facilities increases, re-establishment of the facilities maintenance fund should be a consideration of City Council.

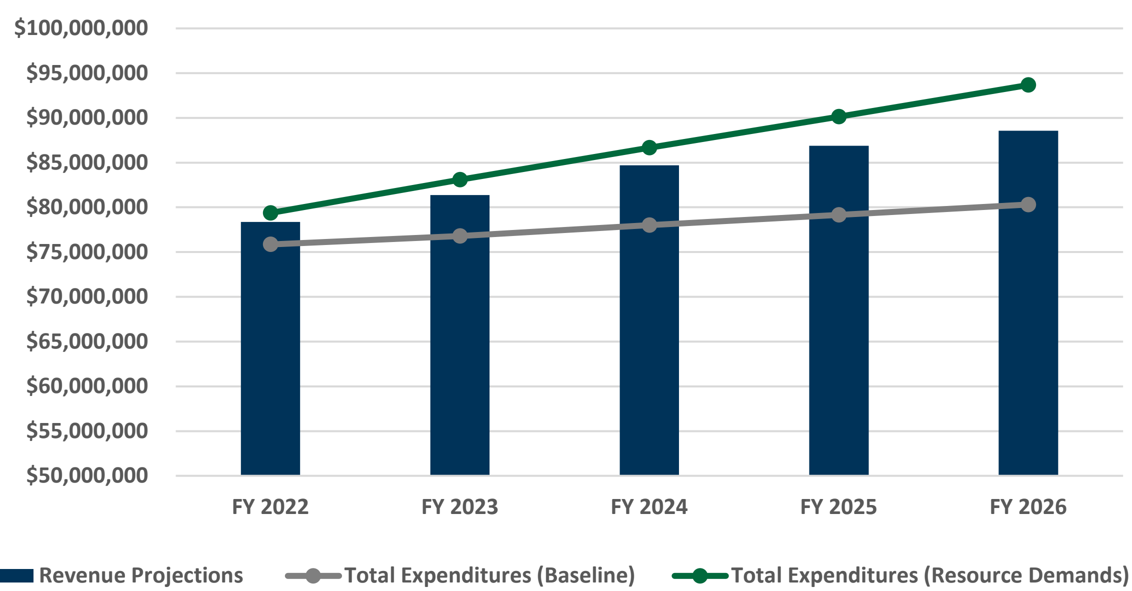
Policy Consideration – Utilizing a portion of the General Fund – fund balance surplus to re-establish the Facilities Maintenance Fund is an initiative that should be considered in developing the FY 2022 proposed budget. As mentioned, having those funds set aside could assist with emergency repairs or even leveraged to support the first payment associated with the facility partnership discussed earlier in this section ($500,000 annually beginning in FY 2023).

One-time Costs – Current Identified Unmet Needs

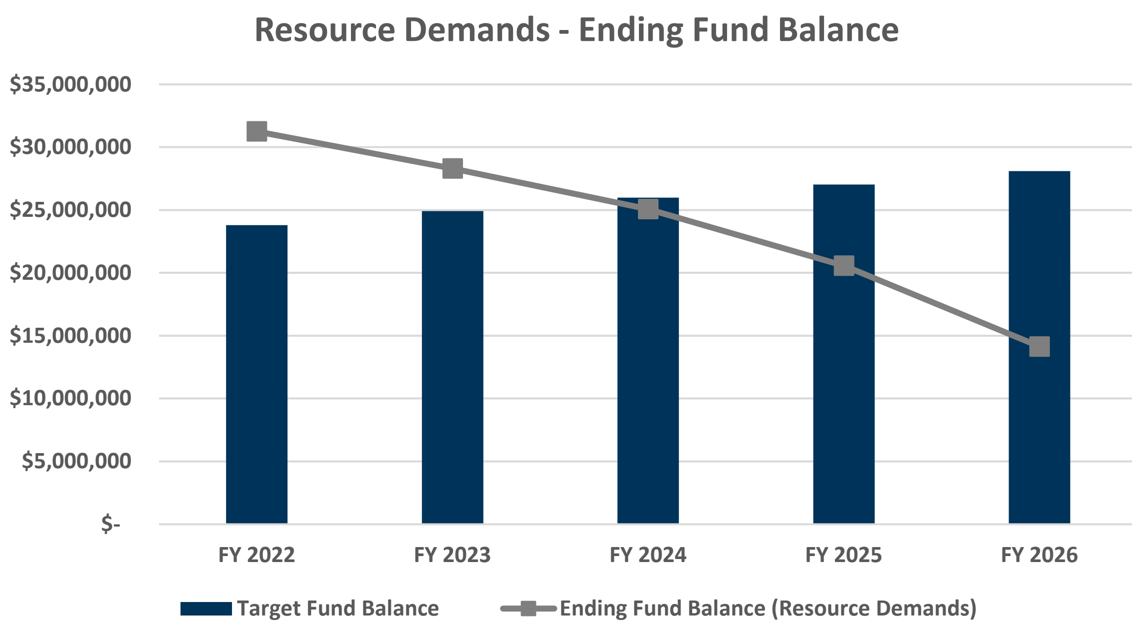
Various non-personnel, non-equipment initiatives have been identified by General Fund departments during the FY 2020 and FY 2021 budget processes. The amount listed represents the average amount requested for those two years, allocated over a five-year period. Again, as a reminder, these costs are only those associated with current needs. Increased service demands, and new programs will impact one-time equipment and initiative needs.

General Fund –Baseline and Resource Demands Forecast Projections

The following graph compares the General Fund forecast (baseline vs. resource demands). When one-time expenditures are removed from the resource demands forecast, funding is projected to be available to pay for some, ***but not all,*** of the identified needs i.e. personnel, compensation adjustments, costs associated with CIP/Bond projects and capital/equipment.



The following graph shows the resulting fund balance from the projected revenue levels and resource demands compared to the targeted 30% fund balance. The graph shows that our baseline revenues are not sufficient to cover our resource demands. If all the resource demands were allocated as previously described, it would result in an unstructured budget and fund balance deficit, as illustrated in the graph below.



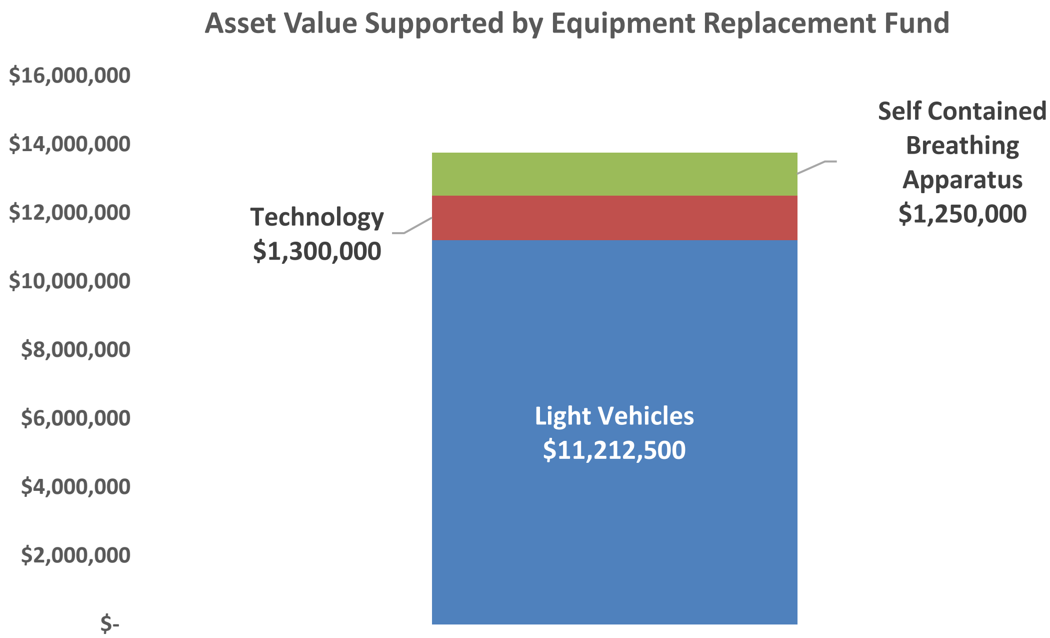
Equipment Replacement Program

The Equipment Replacement Fund is used to fund and purchase light vehicles and computer equipment for any function/fund that is supported by the General Fund. City Council established the equipment replacement program in FY 2006 to create a funding source for light vehicle and certain technology equipment replacements that would smooth out the funding requirements for this equipment while ensuring replacement according to established criteria. The program also supports the Fire Department's self-contained breathing apparatus (SCBA). Heavy equipment such as fire apparatus, ambulances, street sweepers and loaders, are not included in the program. The City's enterprise funds' equipment replacement programs are accounted for in a separate fund. The equipment replacement program was suspended in FY 2014 as a part of a budget balancing strategy and has only been partially reinstated since then. Moreover, no transfers were made in FY 2016 and FY 2017 as they were diverted to the Self Insurance Fund. In FY 2018, only $120,000 was transferred, collectively this led to a situation where a large majority of the fleet met and/or exceeded replacement criteria. In FY 2019, the City Council authorized a $2.3 million tax note to "catch up" replacements that were deferred over the past several years. In FY 2020, $670,000 as a recurring transfer was budgeted, with an additional $450,000 as a one-time transfer. In FY 2021, given our conservative budget approach, $670,000 was budgeted once again as a transfer.

The Fleet Manager and Finance Department utilize a calculation that considers age, mileage, and maintenance costs. The forecast utilizes this methodology to project **minimum** replacement requirements over the forecast period for all vehicles.

The Fire Department's self-contained breathing apparatus (SCBA) is also supported by the program. The SCBA inventory is projected to be replaced in FY 2026, the last year of the forecast period.

The graph below illustrates the total value of the assets currently supported by the Equipment Replacement program – approximately $13.75 million.



Equipment Replacement Fund Forecast

The forecast on the following page reflects the projected revenue, expenditures, and fund balance in the Equipment Replacement Fund.

The following assumptions are built into the Equipment Replacement Fund forecast.

- Minimum vehicle replacements based on evaluating three factors: age, mileage, maintenance costs
- Computer equipment is replaced at five to six years
- Public Safety Mobile Data Terminals (MDT) replaced over a four-year period (FY 2021 to FY 2024)
- Salvage value estimated at ten percent of purchase price
- Annual contributions continue and increase $100,000 annually
- Capital Lease/Tax Note Obligations
    - Network Replacement – Thru FY 2022
    - 2018 Tax Note – Thru FY 2026

Equipment Replacement Fund Forecast

	FY 2022 Projection	FY 2023 Projection	FY 2024 Projection	FY 2025 Projection	FY 2026 Projection
Beginning Fund Balance	$ 777,113	$ 381,294	$ 224,950	$ 160,197	$ 358,469
Revenue					
Interfund Transfers	$ 770,000	$ 870,000	$ 970,000	$ 1,070,000	$ 1,170,000
Sale of Property/Equipment	40,500	41,310	42,125	42,945	43,770
Proceeds from Insurance	30,000	30,000	30,000	30,000	30,000
Interest Earnings					
Total Revenue	$ 840,500	$ 941,310	$ 1,042,125	$ 1,142,945	$ 1,243,770
Expenditures					
Debt Service (Tax Note & Capital Lease)	$ 510,384	$ 363,619	$ 364,693	$ 365,222	$ 365,171
Operating Expenditures (Computer/Tech Replacement)	320,935	320,935	320,935	150,000	150,000
Capital Expenditures - SCBA Replacement					1,250,000
Capital Expenditures (Vehicle Replacement)					
Public Safety	350,000	357,000	364,028	371,085	378,170
All other Departments	55,000	56,100	57,222	58,366	59,534
Total Expenditures	**$ 1,236,319**	**$ 1,097,654**	**$ 1,106,878**	**$ 944,673**	**$ 2,202,875**
Ending Fund Balance	**$ 381,294**	**$ 224,950**	**$ 160,197**	**$ 358,469**	**$ (600,636)**

Interfund Transfers

In FY 2021, $670,000 is budgeted to be transferred to the Equipment Replacement Fund. Throughout the forecast period, the transfer is increased $100,000 annually. As a reminder, the transfer from the General Fund is the primary funding source for the program.

Light Vehicles

As mentioned earlier, the forecast supports minimum replacement needs thru FY 2026. Without the Tax Note that was issued in 2018 to "catch up" vehicle replacements, the minimum number of vehicle replacements would be significantly higher throughout the forecast period. As the forecast above illustrates, the majority of funding is allocated to replace public safety vehicles. While the number of vehicles for replacement remains the same, the cost of the vehicles are adjusted for inflation throughout the forecast period. The table below illustrates the base cost and number of vehicles included for replacement throughout the forecast period

Type of Vehicle	Base Cost (FY 2022)	Annual Replacements
Police Pursuit	$70,000	4
Police – Non-Pursuit	$35,000	1
Fire	$35,000	1
Other Departments	$27,500	2

Technology Equipment

The technology equipment supported by the replacement fund includes desktop computers and laptops, and mobile data terminals (MDT's) for public safety vehicles. Due to positive experience with the useful life of desktop computers, the replacement criteria have been extended to a maximum of five to six years. $150,000 is allocated annually throughout the forecast period to support laptop, desktop, and monitor replacements.

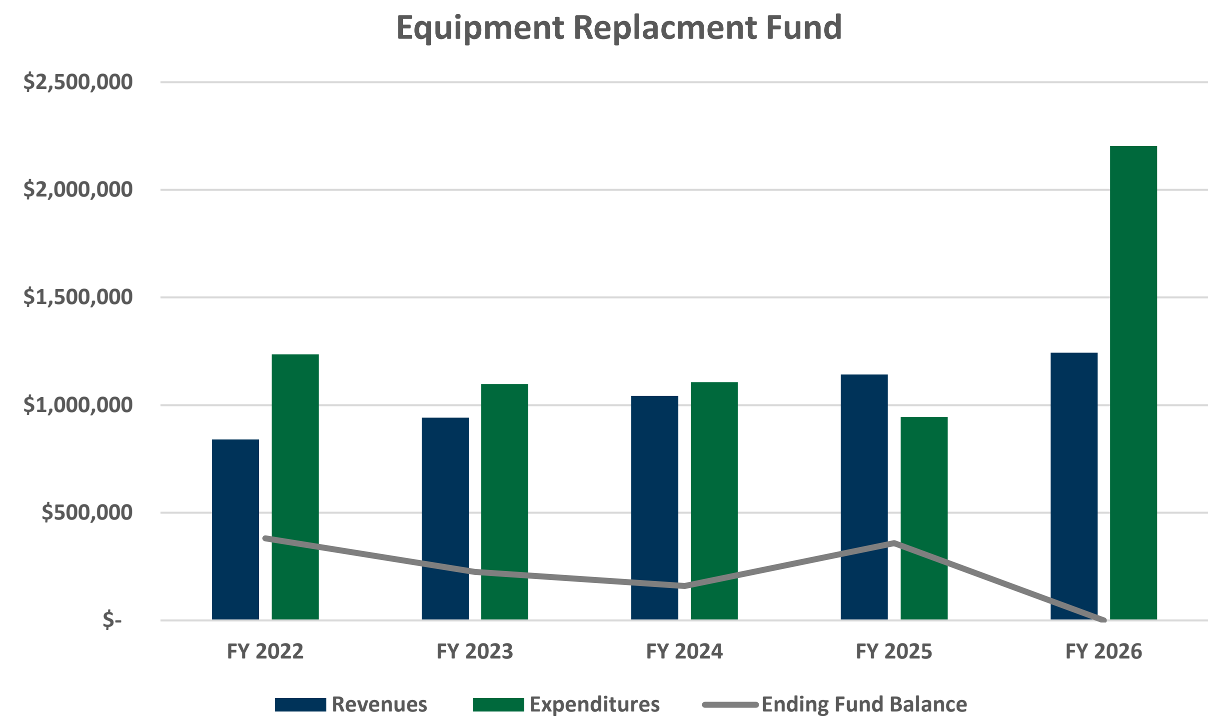
In FY 2017, the MDT's that are installed in every police pursuit vehicle and fire response vehicle were replaced. MDT's have a projected useful life of 4-5 years. Installation of these terminals is a very labor intensive process. To smooth out this process and cost, the forecast assumes that the units be replaced over a four-year period from FY 2021 to FY 2024 – approximately $170,000 annually or $680,000 in total to replace the entire inventory.

Self-Contained Breath Apparatus (SCBA)

The Fire Department's self-contained breathing apparatus (SCBA) are supported by the equipment replacement program. The SCBA's were replaced in FY 2016 and have a useful life of 10-15 years. Beginning in 2025, our current units will no longer be covered by warranty. In addition, the National Firefighters Professional Association (NFPA) will be releasing an update in 2024, which may result in our current SCBA packs not being aligned with the latest NFPA standards. Given these considerations, the next SCBA replacement is projected for FY 2026. The projected cost to fully replace the SCBA units is $1,250,000.

Future Viability of the Equipment Replacement Program

As the forecast and graph below illustrate, maintaining solvency within the Equipment Replacement Fund will be difficult, even if replacements are held to minimum standards. While the SCBA replacements impact the fund significantly in FY 2026, the fund and program should be structured financially to allow for a more standard replacement schedule without running into a deficit position.



The suspension of the program and phased reestablishment of the transfer allowed for staff to develop various strategies to stretch the life of the equipment supported by the program as well as funding strategies to "catch up" i.e. capital lease and tax note. However, to ensure that our organization has a viable funding strategy to support the replacement of the nearly $13.75 million in equipment that is supported by the fund, one of or a combination of the following strategies could be considered by City Council.

1. *Increase Annual Transfer* – As the General Fund resource demands forecast identified, increasing the annual transfer to the fund by approximately $250,000 annually would allow for the solvency of the fund to be maintained through FY 2026 and beyond.

2. *One-time Infusion/Transfer* – Also mentioned during the General Fund forecast, utilizing a portion of the fund balance surplus to support the fund/program would allow the program to continue throughout the program period. This strategy creates an opportunity to "catch up" transfers that were suspended or partially suspended from FY 2014-FY 2021.

3. *2018 Tax Note Debt Service* – The annual debt service for the 2018 Tax Note is currently supported entirely by the Equipment Replacement Fund. However, given the continued growth in taxable assessed valuation, it is likely that this could be

absorbed by the I&S portion of the rate, with an immaterial impact on future capacity for the potential 2023 bond program. By implementing this strategy, our transfers in the fund could improve replacement timelines and overall financial support of the program.

4. *Elimination of the Equipment Replacement Fund* – As our community grows, so does the demand for our services. As the General Fund forecast illustrates, there is not sufficient funding available to support identified resource demands. By eliminating the Equipment Replacement Fund, the recurring transfer ($670,000-$1,170,000) could be made available for other resource needs. However, this would require the organization to develop a different funding strategy to support the replacement of vehicles, technology, and the Fire Department's self-contained breathing apparatus.

   Dedicating a portion of the I&S tax rate is a potential alternative funding strategy. This would create a revolving tax note program to support ongoing vehicle and technology replacements. However, by shifting the program to the I&S portion of the tax rate, the replacement of these assets would be supported by debt and they would begin competing with capacity for future bond programs. There are other cities that have implemented programs like this successfully. If the City Council has an interest in this option, staff could develop more in-depth analyses on this and present at a future retreat.

Debt Service Fund Assumptions

The Debt Service Fund is used to account for expenditures related to the principal and interest payments for the City's outstanding debt – tax notes, certificates of obligation and general obligation bonds.

The Debt Service Fund forecast reflects the projected fiscal impact of the City's existing annual debt service expenditures (principal and interest on all outstanding debt) based on the following assumptions.

- The I&S portion of the tax rate remains at the current debt rate in the amount of 22.758 cents per $100 of valuation.
- Property tax values grow at 10 percent in the first year of the forecast and flattens to 4 percent by FY 2026.
- Other funds' support of debt service (Solid Waste, Airport, Hotel/Motel Tax and New Braunfels Economic Development Corporation) remains at their current levels.
- No debt refundings/refinancing have been included in the forecast.
- Outstanding 2019 bonds are issued in accordance with the following schedule:
    - FY 2021 - $30,000,000
    - FY 2022 - $13,515,000
    - FY 2023 – no planned issuance
    - FY 2024 – no planned issuance
    - FY 2025 – no planned issuance
- The remaining general obligation bonds are assumed to have a 20-year term with interest rates ranging from 3.0 percent in FY 2021 to 3.25 percent by FY 2022.

Debt Service Fund Forecast - Baseline Expenditures

	FY 2022 Projection	FY 2023 Projection	FY 2024 Projection	FY 2025 Projection	FY 2026 Projection
Beginning Fund Balance	$ 2,392,817	$ 3,904,119	$ 5,359,511	$ 7,375,411	$ 9,982,557
Revenue					
Taxes	$ 21,340,000	$ 22,407,000	$ 23,303,280	$ 24,235,411	$ 25,204,828
Interest Income	$ 10,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000
Contributions	$ 2,057,494	$ 2,060,919	$ 1,587,044	$ 1,586,294	$ 1,588,844
Interfund Transfers	1,585,607	1,598,207	1,598,131	1,605,141	1,603,959
Total Revenue	$ 24,993,101	$ 26,091,126	$ 26,513,455	$ 27,451,846	$ 28,422,631
Expenditures					
Debt Service	23,481,799	24,635,734	24,497,555	24,844,700	23,850,513
Total Expenditures	**$ 23,481,799**	**$ 24,635,734**	**$ 24,497,555**	**$ 24,844,700**	**$ 23,850,513**
Ending Fund Balance	**$ 3,904,119**	**$ 5,359,511**	**$ 7,375,411**	**$ 9,982,557**	**$ 14,554,675**

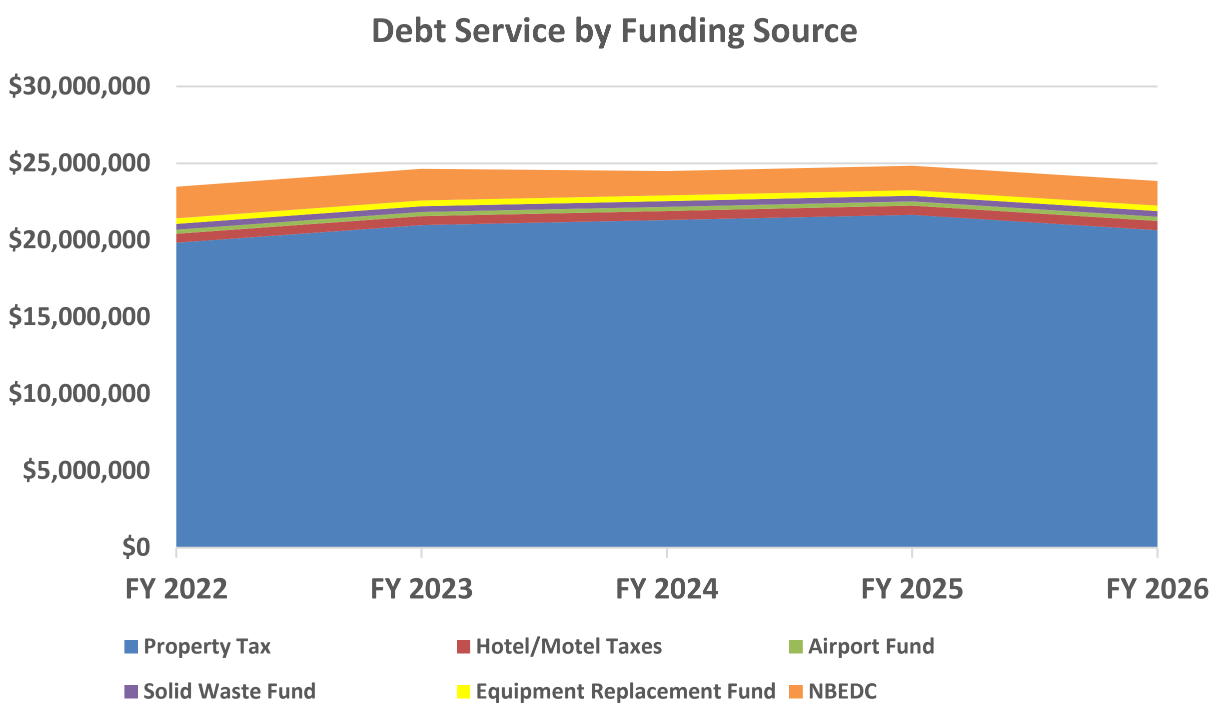
Assumption
$30 million 2019 GO Bonds in 2021 (first payment in FY 2022)
$13.515 remaining 2019 GO Bonds issued in 2022 (First payment in FY 2023)

Forecast Analysis

The forecast above incorporates the debt service commitments remaining from the 2019 Bond Program. Beyond that, there are no additional issuances assumed. As the forecast illustrates, there is additional capacity at the current I&S tax rate, even in FY 2022. The following section provides additional detail on the projected capacity as well as other policy considerations as it relates to our capital financing strategies and goals.

Projected Debt Service Commitments

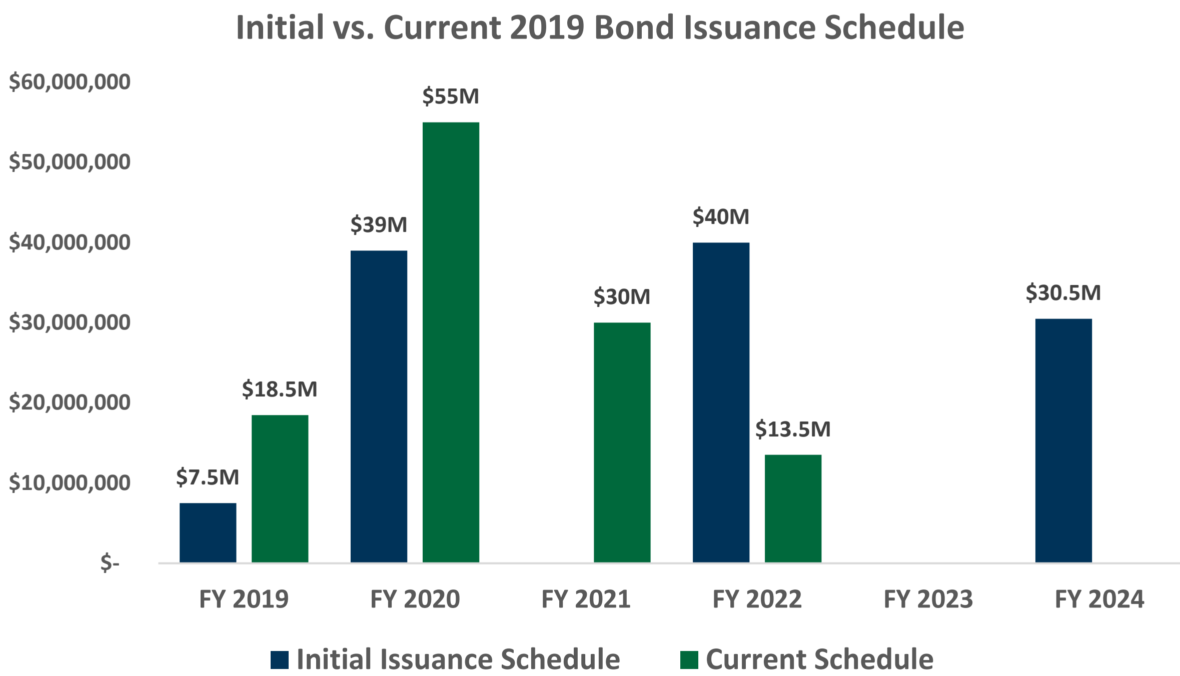
The majority of the annual debt service commitment is supported by property taxes. However, other sources have been committed to support debt service where statutorily allowable. The graph below illustrates the annual debt service commitment by funding source.



During the forecast period, approximately 86 percent of the annual debt service commitment is supported by property taxes. 7 percent is supported by the New Braunfels Economic Development Corporation (NBEDC), with the remaining 7 percent supported collectively by the Enterprise Funds and Hotel Occupancy Tax Fund and Equipment Replacement Fund.

Projected Debt Service Capacity

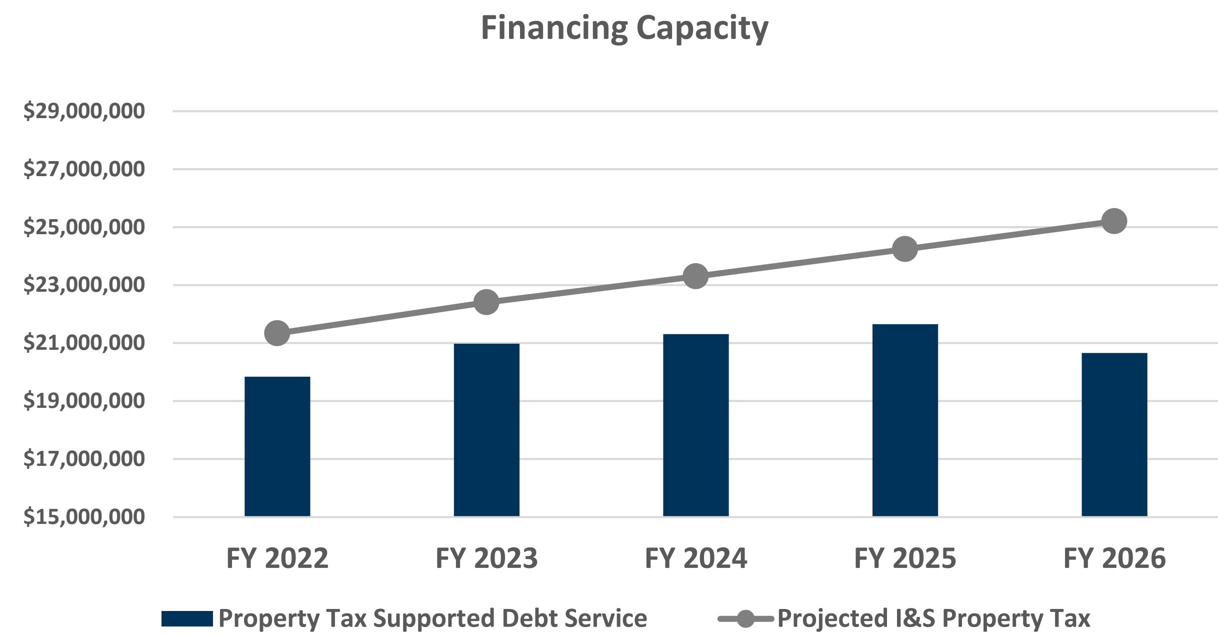
2019 Bond Program - The 2019 bond program was initially sized and scheduled to align with the projected growth in property tax values over a 6-year period as well as taking advantage of any debt capacity stemming from the repayment from previously issued bonds/certificates of obligation. However, through higher than anticipated growth in property values, as well as shifting a portion of the O&M rate that was pushed down as a result of SB2, our issuance schedule has been expedited. The graph below illustrates the variance between the initial and current issuance schedule.



The expedited issuance timeline is what allows the organization to begin planning for the next potential bond program. The table below reflects the projected growth in taxable assessed valuation throughout the forecast period. We know that at some point in the future, growth in value will decrease given the diminishing land within the incorporated boundaries of the City available for future residential and commercial development. To better prepare for that leveling off period, the current projections for valuation growth are intentionally conservative.

Fiscal Year	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Projected	10%	5%	4%	4%	4%

The graph below reflects the projected financing capacity based on the projected increases in valuations above as well as the assumption that the I&S portion of the rate remain at the current level of 22.758 cents.



The 2023 Bond program will leverage capacity (from a planning perspective) from FY 2023 to FY 2028. As mentioned during the discussion with Council earlier this year regarding an update to the City's Capital Improvement Plan (CIP), current projections for a 2023 bond program are approximately $100-$120 million. Again, this capacity is generated by the I&S portion of the rate remaining flat throughout FY 2028, the property value assumptions described above, as well as taking advantage of capacity created from the full repayment of existing issuances.

FY 2021 Financing Strategy

As mentioned earlier, the forecast assumes that $30 million be issued in General Obligation Bonds in FY 2021 (first payment in FY 2022) to continue to support the 2019 bond program projects. However, as the forecast and previous graph illustrate, there is additional capacity up and above the amount needed to issue the remaining 2019 bonds. The following policy considerations could be considered as a potential strategy to utilize that additional capacity.

1. Tax Note to support Preliminary Engineering Reports (PER) for potential 2023 Bond Projects – similar to the 2019 bond program, staff will recommend to the Bond Advisory Committee and City Council to perform preliminary engineering reports on all projects under final consideration for inclusion in a future bond program. Our current planning schedule would call for preliminary engineering to begin in early 2022. Issuing the tax note now allows the organization to take advantage of the current capacity as well as historically low interest rates. For the 2019 program, a tax note of $3 million was issued

for this effort. If we incorporated this into our financing strategy this fiscal year, it is recommended to issue a tax note at the same level to support the 2023 planning process.

2. Absorb 2018 Tax Note – As mentioned in the General Fund Forecast, as well as in the Equipment Replacement Fund forecast (pages 32-37), maintaining solvency within our Equipment Replacement program will be challenging based on our current funding levels and replacement requirements. As suggested, one strategy to provide more financial flexibility within the Equipment Replacement Fund would be for the I&S portion of the rate to absorb the debt service of the 2018 tax note, which is currently entirely supported by the Equipment Replacement Fund. Absorbing this additional debt service is not projected to materially impact the capacity for the 2023 bond program.

3. Golf Course Fund Debt Service Fund Support – This strategy would actually free up additional capacity given that the golf course does not currently contribute to the debt service associated with the renovation that was completed in 2013. Over the past several years, gold course revenues have been at a level that supports all operational costs as well as the full replacement of all maintenance equipment and the golf cart fleet. While there are additional resource demands to support the heightened level of play, it appears there is also capacity to begin making incremental contributions to the annual debt service. Additional information on the Golf Course Fund forecast and capacity can be found on pages 44-47.

Golf Course Fund – Forecast Analysis

The City's Golf Course Fund is where all employee, operational and capital costs associated with the golf course are accounted for. The Golf Course fund also makes an indirect service allocation to the General Fund (Interfund Transfer). The forecast demonstrates that the Golf Course Fund has established sizeable fiscal capacity as a result of significantly increased play over the past 2-3 fiscal years.

The course did not realize the financial success that it has today when it reopened after being renovated in FY 2014. Competition from neighboring courses, the lack of a driving range and decreased overall interest in the sport are several of the factors that led to the level of play and financial performance post renovation. However, through enhanced marketing, closure of several neighboring courses, strategic course investments, increased popularity of the sport as well as incredibly hard work by the Landa Park Golf Course team, rounds of golf are at an all time high, with demand for tournaments and daily play exceeding supply of available tee times.

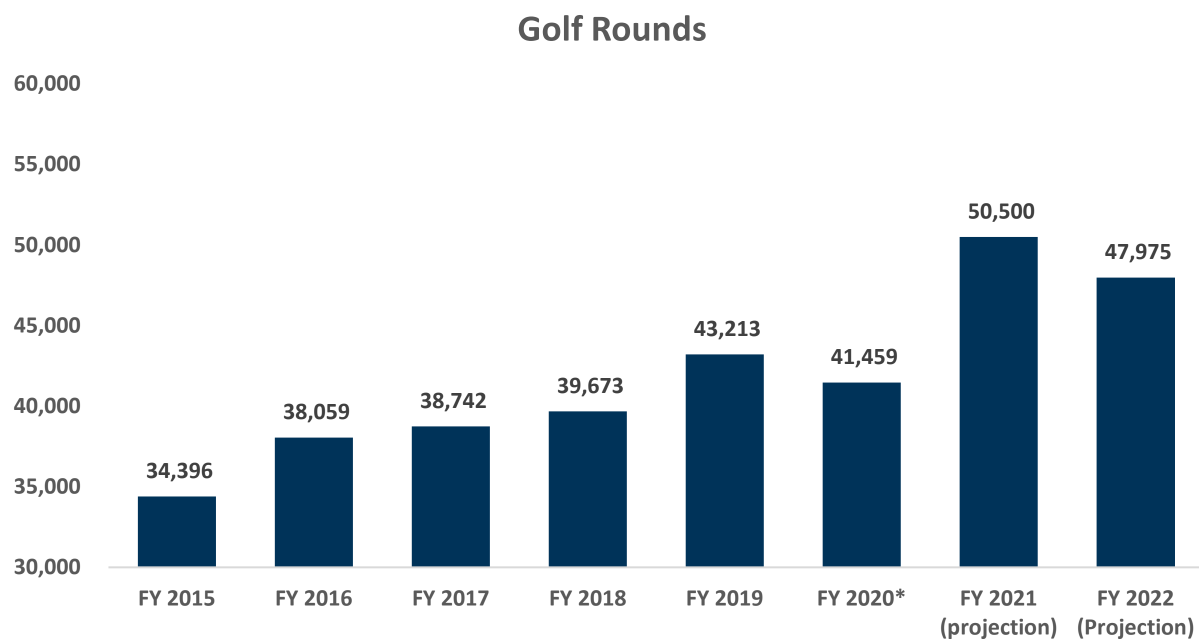
The forecast assumes that golf play levels off slightly in FY 2022 and held essentially flat throughout the remainder of the forecast. How to best leverage the financial capacity of the golf course is a policy consideration, which is described later in this section.

Golf Course Fund Forecast - Baseline Expenditures

	FY 2022 Projection	FY 2023 Projection	FY 2024 Projection	FY 2025 Projection	FY 2026 Projection
Beginning Fund Balance	$ 1,125,957	$ 1,407,171	$ 1,876,710	$ 2,380,088	$ 2,875,567
Revenue					
Charges for Services	$ 1,670,000	$ 1,670,000	$ 1,670,000	$ 1,670,000	$ 1,670,000
Pro Shop Sales	200,000	203,000	206,045	209,136	212,273
Miscellaneous	35,000	35,000	35,000	35,000	35,000
Total Revenue	**$ 1,905,000**	**$ 1,908,000**	**$ 1,911,045**	**$ 1,914,136**	**$ 1,917,273**
Expenditures					
Employee	$ 820,000	$ 820,000	$ 832,300	$ 844,785	$ 857,456
Operating	491,463	491,463	498,835	506,317	513,912
Capital	235,000	58,500	9,500	-	328,000
Interfund Transfers	77,323	68,498	67,032	67,555	84,968
Total Expenditures	**$ 1,623,786**	**$ 1,438,461**	**$ 1,407,667**	**$ 1,418,657**	**$ 1,784,337**
Ending Fund Balance	**$ 1,407,171**	**$ 1,876,710**	**$ 2,380,088**	**$ 2,875,567**	**$ 3,008,502**
Fund Balance Percentage	**86.7%**	**130.5%**	**169.1%**	**202.7%**	**168.6%**
Recurring Revenue/Expenditures	**$ 281,214**	**$ 469,539**	**$ 503,378**	**$ 495,479**	**$ 132,936**

Revenue projections

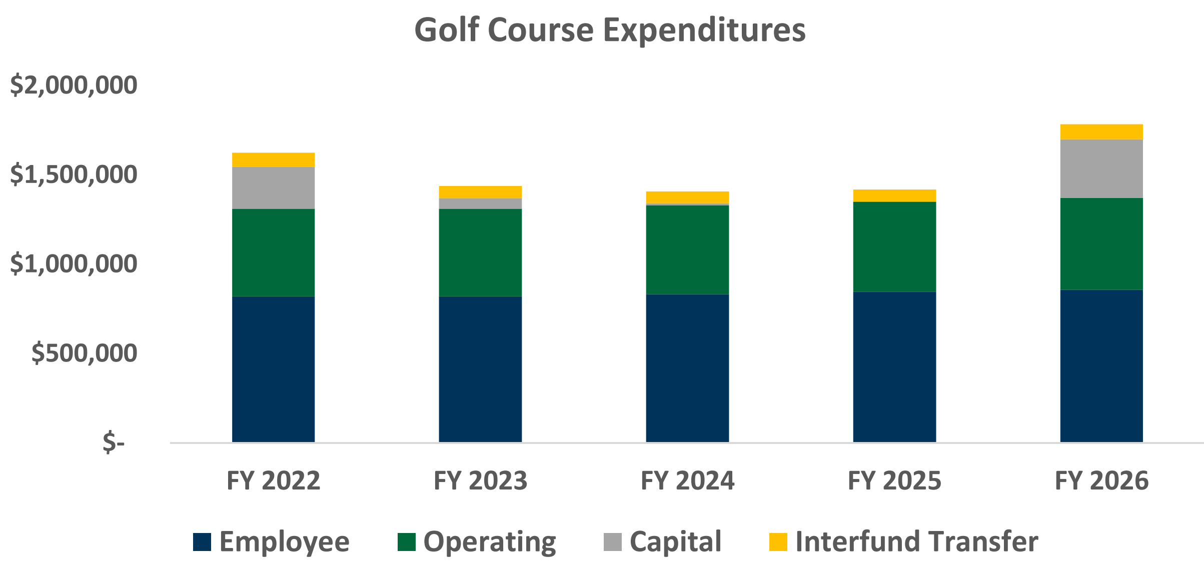
As mentioned earlier, the golf course has been experiencing record high play since the end of FY 2020. However, as the graph illustrates, revenue has been increasing steadily since FY 2018. Had it not been for the COVID related closures and occupancy restrictions i.e. single ride carts, it is likely that FY 2020 would have aligned to the current trend.



Golf rounds are currently projected to level off slightly in FY 2022. This is entirely due to a conservative assumption that play could be impacted as all COVID related closures have been eliminated. Even with the leveling off projection, there is little capacity to add rounds. Even at 47,975 rounds, that requires near full capacity during weekend play as well as the continued level of league/weekday play. Pro shop sales are adjusted for inflation of cost of goods throughout the forecast period. Collectively, the forecast assumes annual revenues that total approximately $1.9 million.

Expenditure Projections

Expenditures are adjusted for inflation from FY 2024-FY 2026. The expenditure projections do not include any additional staff or funding set aside for other course improvements. Capital expenditures are aligned to the current equipment replacement schedule. The golf carts will be up for replacement again in FY 2026, which is entirely why that is the highest capital allocation year throughout the forecast period. There is no contribution to the debt service fund incorporated into the five-year forecast. This is a policy consideration of City Council and is described in further detail below. As with the General Fund, the forecast does not assume the implementation of compensation increases.



Fund Balance

Since the golf course began their pay-as-you-go cash funded equipment replacement program, their fund balance has been well above the 25% target. This is entirely due to the fact that a large portion of the reserve is essentially restricted for the replacement of maintenance equipment and the golf cart fleet. However, as mentioned earlier, the forecast does **not** include any additional staff, set aside for future course improvements or a contribution to the debt service fund. These are all policy considerations that are addressed in the section below.

Policy Considerations

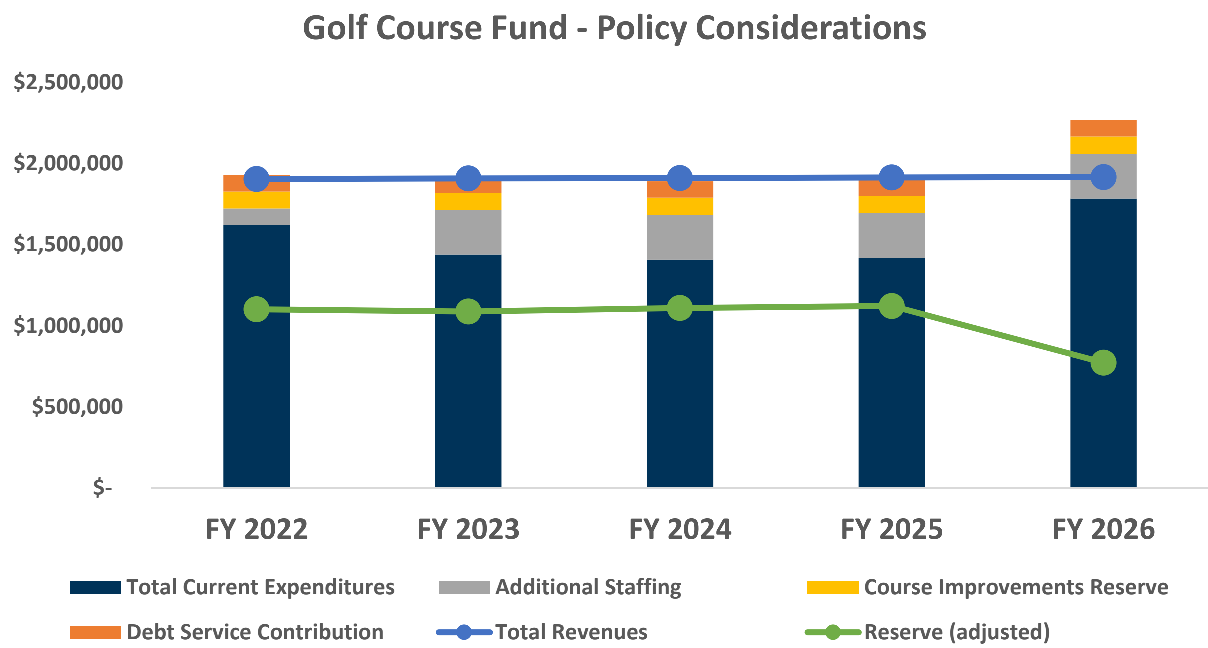
Staffing – The golf course has experienced tremendous growth in overall play over the past several years. However, no additional staff have been added since the renovation of the course in FY 2014. If staffing levels were to increase consistent with the number of rounds played at the course, an additional six full time equivalent positions would be needed. The current cost to add these positions would be approximately $275,000 annually. Staffing levels and considerations will be discussed in much greater detail during the FY 2022 Proposed Budget process.

Course Improvements – As mentioned earlier, the fund has now had great success planning for and financially supporting a full replacement program for their equipment and golf cart fleet. However, there are other major course improvements that will need to be initiated over the next 5-10 years. This includes projects such as renovating the tee-boxes, bunkers as well as a replacement of the current clubhouse back deck. An annual set aside could be budgeted to ensure the funding is available to support these projects when necessary.

Debt Service Contribution – The Golf Course Fund does not currently contribute to the annual debt service associated with the renovation of the course. The annual payment of approximately $485,000 is supported by property taxes. With the current financial capacity within the Golf

Course Fund, an incremental contribution should be considered and balanced against the previous two policy considerations (staffing and course improvements).

Summary – The graph below is included to demonstrate how a combination of the three policy considerations above would impact the golf course fund financially. This graph assumes that staffing has been increased consistent with the increase in play, an annual set aside is included for course improvements to ensure funding is available to support all projects scheduled through FY 2030 ($105,000), and an annual debt service contribution of $100,000.



Solid Waste Fund – Forecast Analysis

The City's Solid Waste Fund is where all employee, operational and capital costs for the utility are accounted for. Interfund transfers allocated in Solid Waste support a contribution to the enterprise equipment replacement fund, debt service, litter pickup along the Comal River and an indirect service allocation to the General Fund. As the forecast shows, the Solid Waste Fund is projected to have some financial capacity throughout the forecast. The majority of this will likely be leveraged to maintain route minimum standards as we continue to absorb growth in residential and commercial customer accounts.

Solid Waste Fund Forecast - Baseline Expenditures

	FY 2022 Projection	FY 2023 Projection	FY 2024 Projection	FY 2025 Projection	FY 2026 Projection
Beginning Fund Balance	$ 5,516,702	$ 5,850,569	$ 6,377,677	$ 6,977,717	$ 7,653,358
Revenue					
Charges for Services	$ 10,655,829	$ 10,868,946	$ 11,086,325	$ 11,308,051	$ 11,534,212
Miscellaneous	77,500	77,500	77,500	77,500	77,500
Total Revenue	**$ 10,733,329**	**$ 10,946,446**	**$ 11,163,825**	**$ 11,385,551**	**$ 11,611,712**
Expenditures					
Employee	$ 4,103,671	$ 4,103,671	$ 4,165,226	$ 4,227,704	$ 4,291,120
Operating	4,148,514	4,148,514	4,210,742	4,273,903	4,338,011
Interfund Transfers	2,147,278	2,167,153	2,187,817	2,208,303	2,228,614
Total Expenditures	**$ 10,399,463**	**$ 10,419,338**	**$ 10,563,785**	**$ 10,709,910**	**$ 10,857,745**
Ending Fund Balance	**$ 5,850,569**	**$ 6,377,677**	**$ 6,977,717**	**$ 7,653,358**	**$ 8,407,326**
Fund Balance Percentage	**56.3%**	**61.2%**	**66.1%**	**71.5%**	**77.4%**
Recurring Revenue/Expenditures	**$ 333,866**	**$ 527,108**	**$ 600,040**	**$ 675,642**	**$ 753,967**

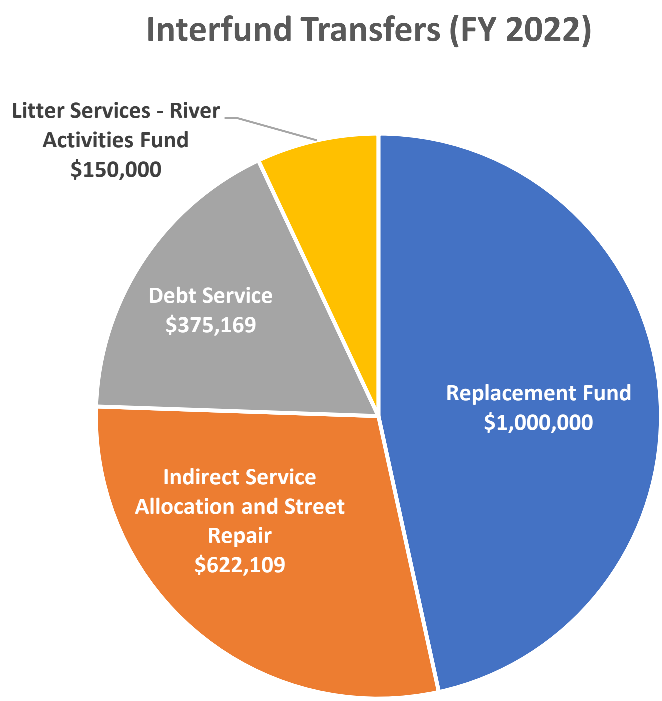
Revenue Projections

Growth in customer count typically ranges between 2%-4% annually. The forecast assumes 2% annually.

Expenditure Projections

Similar to the other funds, the expenditure projections do not include any additional staffing or compensation increases. Expenditures are adjusted for inflation from FY 2024-FY 2026.

There are several components to the interfund transfer allocation. The graph below illustrates the amounts associated with each transfer component.



Fund Balance

As the forecast illustrates, the Solid Waste fund is projected to continue to have a very strong reserve position. Similar to the General Fund, the surplus reserves provide budget flexibility as it relates to making one-time investments.

Policy Consideration

Route Standards – As mentioned earlier, the projected financial capacity of the Solid Waste Fund will primarily go to support adding additional routes to maintain industry standards. The American Public Works Association (APWA) recommends a range of 950-1,100 homes per route. Even with recent staffing additions, maintaining this standard in both the recycling and residential divisions proves difficult. Therefore, it is projected that 2-3 additional routes will be needed to ensure that all our routes remain within industry standards. Beyond adding additional staff/routes, staff intends to have some external route analysis completed in FY 2022 to identify opportunities to increase efficiency among existing and new routes.

Solid Waste Operator Recruitment and Retention – The Solid Waste Operator is typically the position that experiences the highest level of turnover in the organization. Competition with the private sector, schedule demands, and lack of career advancement are two of the primary factors behind the high level of turnover. The Human Resources Department and City Manager's Office continue to develop creative policies to improve Solid Waste Operator recruitment as well as retention.

Airport – Forecast Analysis

The City's Airport Fund is where all employee, operational and capital costs are accounted for. Interfund transfers allocated in the Airport Fund support a contribution to the enterprise equipment replacement fund, debt service, loan repayment to the NBEDC and an indirect service allocation to the General Fund.

As the forecast illustrates, the Airport Fund is projected to have capacity in FY 2023 – FY 2026. There is certainly more opportunity for development and growth that could result in additional direct revenues. However, the forecast takes a conservative approach. There are a significant amount of maintenance and capital investment needs at the airport, how these initiatives are phased and funded is a policy consideration which is addressed later in the section.

Airport Fund Forecast - Baseline Expenditures

	FY 2022 Projection	FY 2023 Projection	FY 2024 Projection	FY 2025 Projection	FY 2026 Projection
Beginning Fund Balance	$ 404,055	$ 418,808	$ 588,746	$ 801,430	$ 1,058,643
Revenue					
Charges for Services	$ 2,839,500	$ 2,924,685	$ 3,012,426	$ 3,102,798	$ 3,195,882
Interfund Transfer	99,910	99,910	99,910	99,910	99,910
Miscellaneous	50,000	50,000	50,000	50,000	50,000
Total Revenue	**$ 2,989,410**	**$ 3,074,595**	**$ 3,162,336**	**$ 3,252,708**	**$ 3,345,792**
Expenditures					
Employee	$ 657,416	$ 657,416	$ 667,277	$ 677,287	$ 687,446
Operating	1,756,640	1,756,640	1,791,773	1,827,608	1,864,160
Capital	70,000				
Interfund Transfers/Loan Payment	490,601	490,601	490,601	490,601	490,601
Total Expenditures	**$ 2,974,657**	**$ 2,904,657**	**$ 2,949,651**	**$ 2,995,496**	**$ 3,042,207**
Ending Fund Balance	**$ 418,808**	**$ 588,746**	**$ 801,430**	**$ 1,058,643**	**$ 1,362,228**
Fund Balance Percentage	**14.1%**	**20.3%**	**27.2%**	**35.3%**	**44.8%**
Recurring Revenue/Expenditures	**$ 14,753**	**$ 169,938**	**$ 212,685**	**$ 257,213**	**$ 303,585**

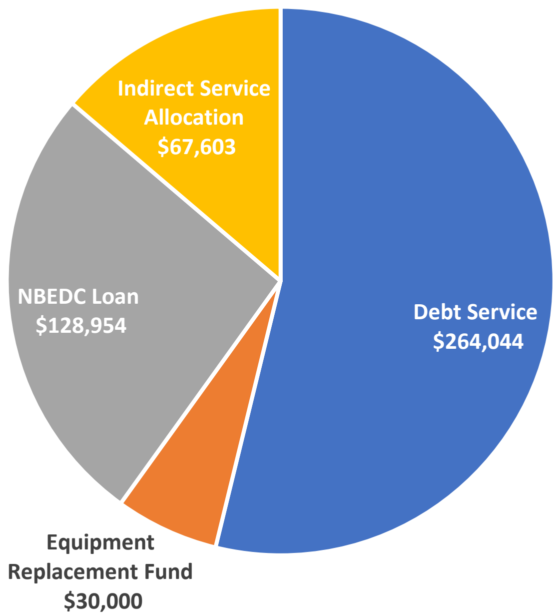
Revenue Projections

The majority of revenue in the airport comes from fuel sales (70%). The second largest revenue source is lease revenue (23%). Based on current projections, it seems as though revenue should return to pre-Covid levels in FY 2022. As mentioned earlier, the Airport has great potential for continued commercial development, however, the forecast assumes that these revenue sources grow at 3% annually.

Expenditure Projections

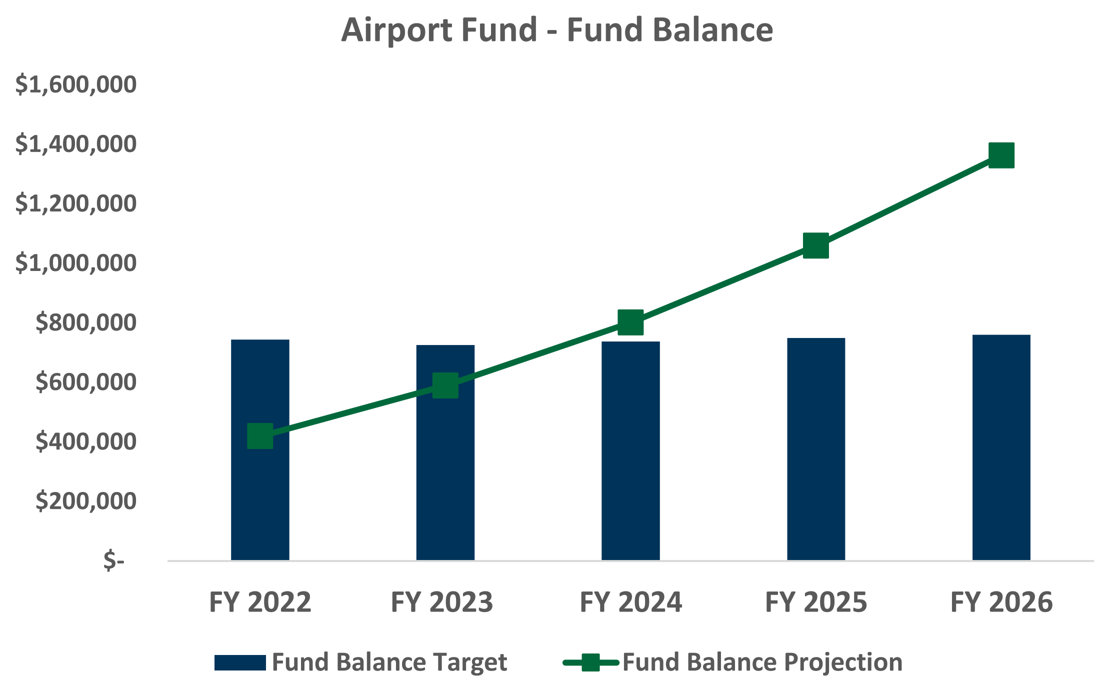
Expenditures are adjusted for inflation from FY 2024-FY 2026. Capital expenditures in FY 2022 include the match for the detention pond project, which is supported mainly by TXDOT. The interfund transfers allocation has several components, which is illustrated by the graph below. The loan repayment to the New Braunfels Economic Development Corporation (NBEDC) is new to FY 2022. The loan term is 10 years. The loan was a component to an investment by the NBEDC to extent the taxiway. The overall investment was approximately $2.4 million, of which $1.1 million was incorporated as a loan.

Interfund Transfers (FY 2022)



Fund Balance

As the graph illustrates, the Airport Fund begins meeting the fund balance target in FY 2024. While meeting our fund balance target is an objective, there should continue to be a balance as it related to establishing reserves and making capital investments at the airport. available reserves with the capital and maintenance needs of the airport. In the past, we have leveraged portions of the fund balance to make critical and/or revenue producing investments.



Policy Considerations

The Airport Fund has been self sufficient since the acquisition of the fixed base operations (FBO) in 2014. However, there is a substantial list of repair, maintenance and capital enhancement projects that need to be initiated at the airport. Making these investments and repairs will create more opportunity for development and continued business relocation within the airport. In addition, continued capital investment will also help to retain the existing aircraft that are currently located there. In fact, a lack of proper infrastructure has caused our airport to lose tenants in the past.

Civic/Convention Center – Forecast Analysis

The City's Civic/Convention Center Fund is where all facility employee, operational, and capital costs are accounted for. The Fund does not generate direct revenues sufficient to cover direct operating expenditures. However, an operating transfer from the Hotel/Occupancy Tax Fund does occur annually. The Civic/Convention Center Fund was impacted significantly by COVID-19. The decision was made to draw down the reserves to mitigate the impact to the Hotel Occupancy Tax Fund. Re-establishment of the fund balance and balancing the reliance on the Hotel Occupancy Tax Fund are policy considerations and are discussed in further detail below.

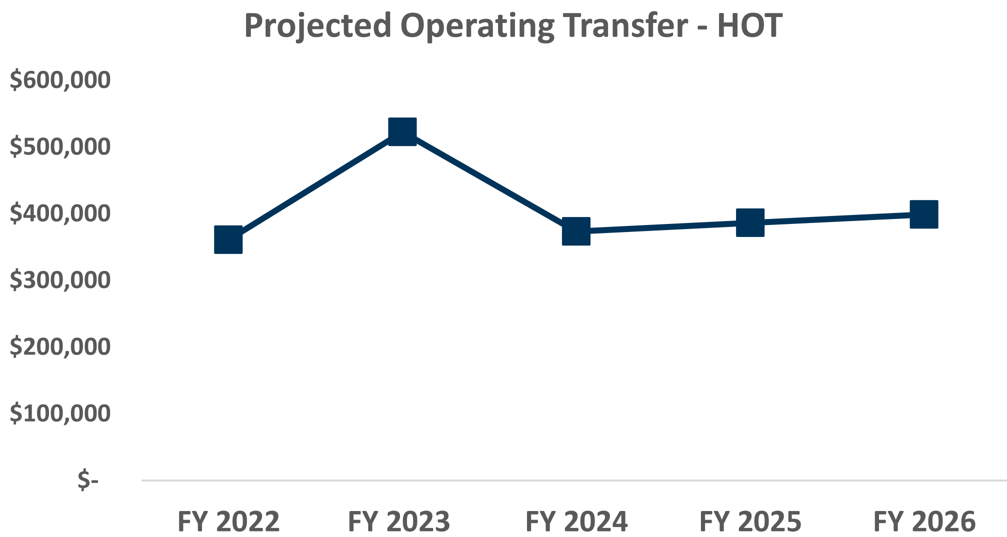
Civic/Convention Center Fund Forecast - Baseline Expenditures

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Beginning Fund Balance	$ 38,405	$ 41,406	$ 205,783	$ 208,869	$ 212,003
Revenue					
Charges for Services	$ 465,000	$ 465,000	$ 465,000	$ 465,000	$ 465,000
Interfund Transfer	361,133	522,510	373,565	386,146	398,912
Total Revenue	**$ 826,133**	**$ 987,510**	**$ 838,565**	**$ 851,146**	**$ 863,912**
Expenditures					
Employee	$ 526,871	$ 526,871	$ 534,774	$ 542,795	$ 550,937
Operating	257,065	257,065	260,921	264,835	268,807
Interfund Transfers	39,197	39,197	39,785	40,382	40,987
Total Expenditures	**$ 823,133**	**$ 823,133**	**$ 835,480**	**$ 848,012**	**$ 860,732**
Ending Fund Balance	**$ 41,406**	**$ 205,783**	**$ 208,869**	**$ 212,003**	**$ 215,183**
Fund Balance Percentage	**5.0%**	**25.0%**	**25.0%**	**25.0%**	**25.0%**
Recurring Revenue/Expenditures	**$ 3,000**	**$ 164,377**	**$ 3,085**	**$ 3,134**	**$ 3,180**

Revenue Projections

The forecast assumes that room rental revenue returns to pre-covid levels in FY 2022 and held flat throughout the remainder of the period. There is not much capacity for weekend rentals; therefore, the primary opportunity for increased room rental revenue is increased rental rates and mid-week facility utilization, which could both go hand in hand depending on how a rate increase is structured (i.e. weekend only). This is described in greater detail later in this section.

As mentioned earlier, the fund relies on an operating transfer from the Hotel Occupancy Tax fund to cover expenditures and maintain fund balance. In FY 2020 and FY 2021, the reserves were drawn down to reduce the reliance on occupancy taxes given the negative impact from COVID to that revenue source. The forecast assumes that the fund balance is not re-established to the target level (25%) until FY 2023, which should give the Occupancy Tax Fund more time to fully recover.

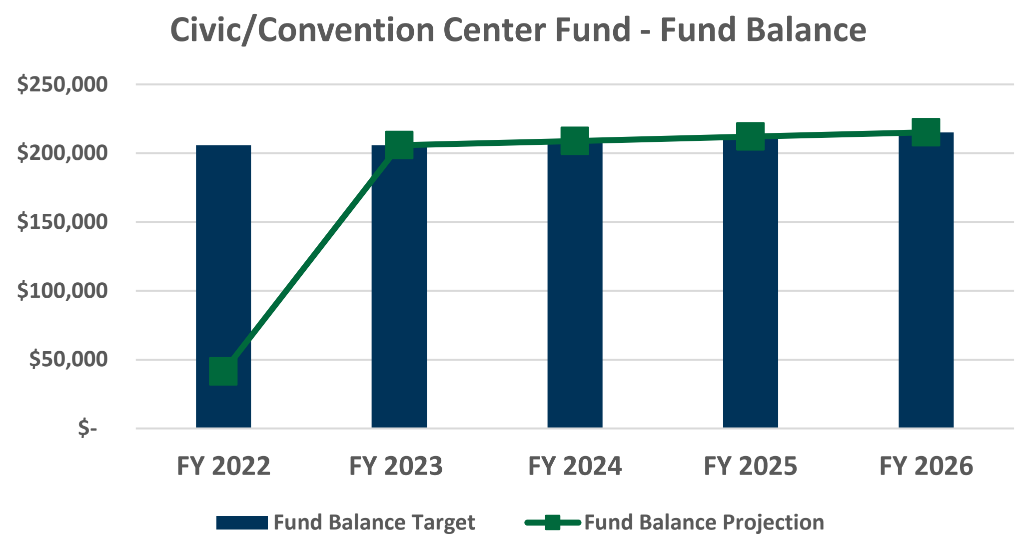


Expenditure Projections

Similar to the other funds, no compensation increases, or positions are added to the forecast. Expenditures are adjusted for inflation from FY 2024-FY 2026. The annual debt service to support the renovation of the Civic/Convention Center is not reflected in the forecast above as this obligation always been entirely and directly supported by the Hotel Occupancy Tax Fund.

Fund Balance

As mentioned earlier, the fund balance has been temporarily been drawn down. The transfer from the Occupancy Tax Fund is adjusted in FY 2023 to bring the fund balance back to the current target of 25%



Policy Considerations

Room rental fees at the Civic/Convention Center have not been adjusted since 2014. A proposal has been submitted for consideration in the FY 2022 Proposed Budget to increase rental fees on Friday, Saturday and Sunday. An increase of 10%-15% would also still be within market data when compared to other local and similar facilities. As mentioned earlier, the facility is booked most weekends. An increase in the fees would help to support a higher level of cost recovery (lower reliance on occupancy taxes) as well as potentially shift some business to Thursdays and other times during the week, where there is current rental capacity.

Self Insurance Fund

The Self Insurance Fund of the City of New Braunfels accounts for the employee health insurance program. Revenue into the fund comes from City contributions and premiums paid by employees, former employees (COBRA) and retirees. The contribution by the City is a per employee per month cost that is expensed from the General Fund, Enterprise Funds or any other fund that allows for allocated funds for employee expenditures (i.e. River Activities Fund). Because the City contribution alone is not sufficient to cover the set monthly premium, employees must offset the cost to insure themselves and their dependents. Retirees and former employees insured under Cobra pay a much higher premium into the Self Insurance Fund in comparison to active employees. Expenses to the account include administration fees, stop loss insurance fees and actual claims costs. Administration fees include a per month per employee fee to utilize the medical network as well as the cost of claims administration. Stop loss insurance provides the City limited exposure against both individual large claims and the aggregate cost of all claims. The current stop loss exposure amount is $150,000, thus once an individual's total claims for the year exceeds that amount, the city stops funding the claims through the Self Insurance Fund and the stop loss carrier begins to pay the claims. From October 2014 thru January 2017, the City experienced a dramatic increase in claim and administrative expenditures. While the City had experienced 1 year spikes in the past, this most recent multiyear period of continued increases seemed to be more reflective of the total costs of providing health insurance benefits to the employees, former employees (Cobra), retirees and their dependents. Multiple variables led to the increase such as a high frequency of large individual health claims (over $25,000), overall increased utilization of the health care plan, and a national increase in the cost of health procedures and prescription costs.

Through a variety of strategies, expenditures in the Self Insurance Fund have been maintained at a much lower level. Initially, strategies included typical responses such as increased co-pays, deductibles, out-of-pocket maximums, and premiums. However, transitioning to a new provider, increasing educational opportunities, renegotiating pharmaceutical contracts as well as strategic plan design have played a major role in maintaining overall costs. As a result, the employer contribution and employee premiums have not been increased in the last four years and the fund reserves are currently in surplus position.

The forecast on the following page reflects the projected fiscal impact to the Self Insurance Fund based on the following assumptions.

- Premium/Employer contributions are held flat in FY 2022 and FY 2023, with 5% increases annually from FY 2024-FY 2026

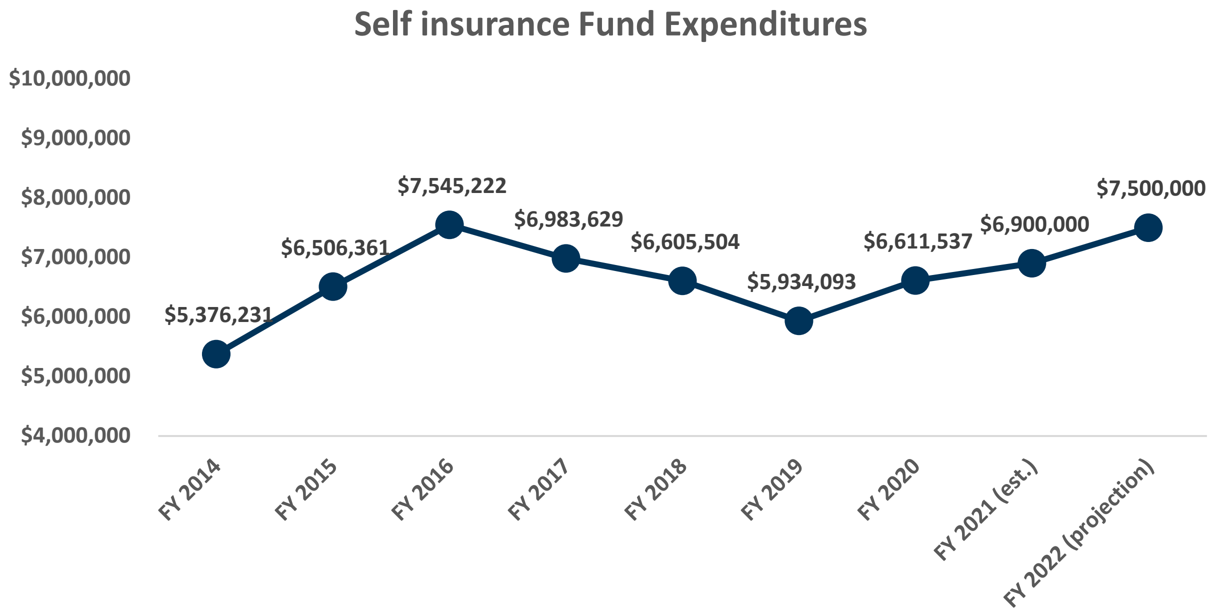
- The forecast does not account for new employees being added throughout the forecast period

Self Insurance Fund Forecast

	FY 2022 Projection	FY 2023 Projection	FY 2024 Projection	FY 2025 Projection	FY 2026 Projection
Beginning Fund Balance	$ 3,161,795	$ 3,464,795	$ 3,392,795	$ 3,317,045	$ 3,237,358
Revenue					
Premiums/Contributions - Active	$ 7,600,000	$ 7,600,000	$ 7,980,000	$ 8,379,000	$ 8,797,950
Premiums - Retirees	200,000	200,000	210,000	220,500	231,525
Interest Earnings	3,000	3,000	3,000	3,000	3,000
Miscellaneous					
Total Revenue	$ 7,803,000	$ 7,803,000	$ 8,193,000	$ 8,602,500	$ 9,032,475
Expenditures					
Claim and Administrative Expenditures	7,500,000	7,875,000	8,268,750	8,682,188	9,116,297
Total Expenditures	**$ 7,500,000**	**$ 7,875,000**	**$ 8,268,750**	**$ 8,682,188**	**$ 9,116,297**
Ending Fund Balance	**$ 3,464,795**	**$ 3,392,795**	**$ 3,317,045**	**$ 3,237,358**	**$ 3,153,536**
Target Fund Balance	**$ 2,465,753**	**$ 2,589,041**	**$ 2,718,493**	**$ 2,854,418**	**$ 2,997,139**
Fund Balance Surplus/(Deficit)	**$ 999,042**	**$ 803,754**	**$ 598,552**	**$ 382,940**	**$ 156,397**

Health Insurance Costs – Historical and Current Climate

The graph below provides a more in depth look at how health insurance costs have fluctuated for the City of New Braunfels since FY 2013-14.

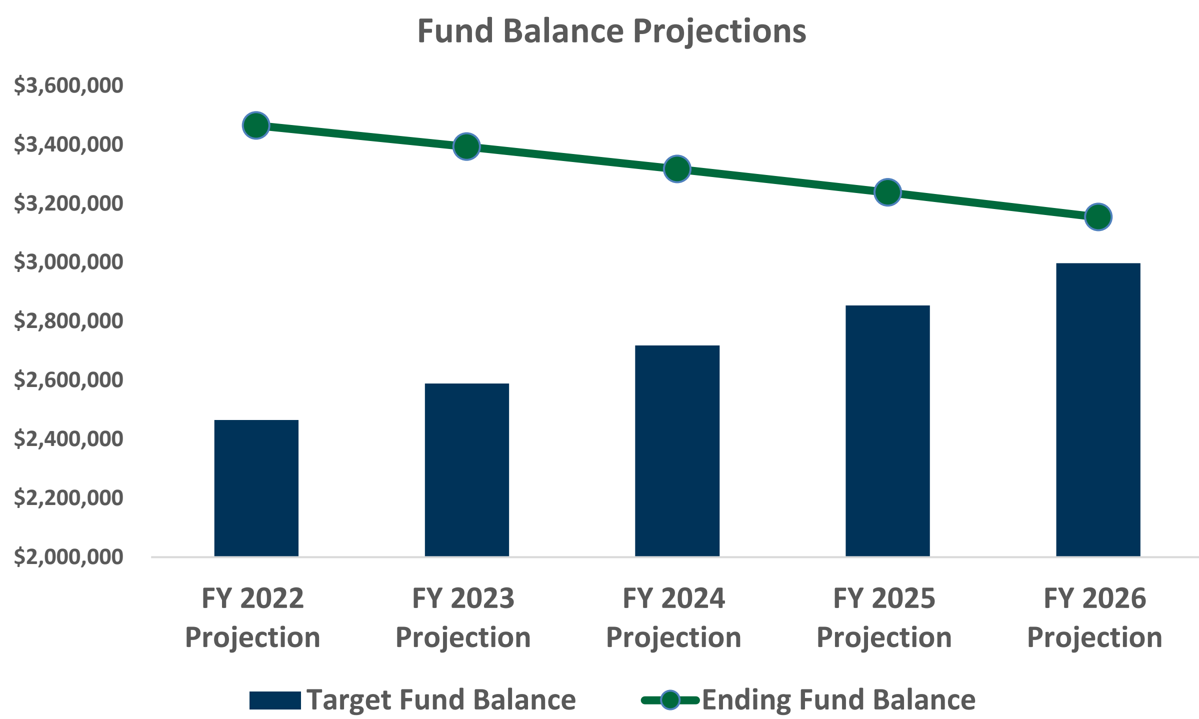


As stated earlier, the city experienced a significant increase in health insurance related costs between FY 2014 and FY 2017. To support the increased costs, the City utilized all reserves within the Self Insurance Fund as well as interfund transfers from the General Fund to ensure the fund remained solvent. From FY 2015-FY 2018, the organization implemented numerous plan design changes and premium increases. However, in FY 2018, the City selected a new third party provider, UnitedHealthcare. Their network offerings, plan design recommendations and pharmacy consultant have had a positive impact on our ability to control costs. As a result, we have not made any major plan design changes or increased premiums/contributions in the last four years.

The forecast assumes that costs increase 5% annually from FY 2024-FY 2026. While medical trend may be higher, we feel confident that we can maintain increases at this level through implementing various plan design changes and programs.

Fund Balance

As mentioned before, interfund transfers were necessary to keep the fund solvent in FY 2015 and FY 2016, The fund balance target has been set at 120 days of claim expenditures. This was an ambitious target but was based on a desire to avoid the situation experienced between FY 2014 and FY 2017. Based on our positive experience, the fund now has a surplus. In fact, our projections assumes that our reserves maintain a surplus position through the remainder of the forecast period, see below.



<u>Policy Consideration</u>

Competitive benefits remain a high priority for the organization as it relates to the recruitment and retention of talent. The strategic issues section of this document includes multiple references to the importance of competitive benefits and the solvency of the Self Insurance Fund. Listed below are several key objectives that continue to be the focus when developing the FY 2022 Self Insurance Fund budget and the accompanying health insurance plans that will be offered to our employees.

Plan Value and Cost – Design plans and premiums to ensure that employee costs and value are equitable with FY 2021.

Strategic Plan Design – As an example, plan design elements that mitigate emergency room usage while incentivizing lower cost and better outcome alternatives.

Pharmacy Costs – Continuing to evaluate prescription tier levels and ensure that step therapy and pre-authorization requirements are built into the plan.

Fund Balance Target – Ensure that revenue (employee premiums and employer contributions) and total budgeted expenditures allow the Self Insurance Fund to maintain and/or grow the current fund balance/reserves.