



FIVE YEAR FINANCIAL FORECAST FY23-FY27

FY 2023-FY 2027 Five Year Financial Forecast

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Definition and Purpose

Five Year Forecast - Definition and Purpose

The forecast is an assessment of the General Fund, Debt Service Fund, Equipment Replacement Fund and Self-Insurance Fund's financial position should the assumptions used in creating projections materialize. The forecast also includes a section on our economic outlook and considerations. ***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 2023 are not representative of the proposed budget or a recommendation. However, the results of the five-year forecast assist in developing budget policy.

For FY 2023, the City's annual budget process began with the City Council retreat in March - 2022. The retreat . The retreat also provided an opportunity to discuss budget goals and priorities for FY 2023. As we all know, the pandemic created various levels of economic uncertainty for FY 2021 and FY 2022. Like many other public sector agencies, our response was to budget conservatively. One of the outcomes of that approach is that the FY 2023 budget will have the financial flexibility to leverage surplus reserves in the General Fund to support various one-time initiatives. In addition, for FY 2023, with property values increasing more than originally anticipated, the proposed budget will likely need to strike a balance between addressing currently identified and growing demands for city services while providing property tax rate relief. The five-year forecast will assist the City Council in determining how best to strike that balance.

As a reminder, with the passage of the charter amendments last May, the completion of this document is now a 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 developed 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 improved 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 2023-FY 2027 Five-Year Forecast and look forward to presenting this document with the City Council.

Economic Outlook and Considerations

Population Projections

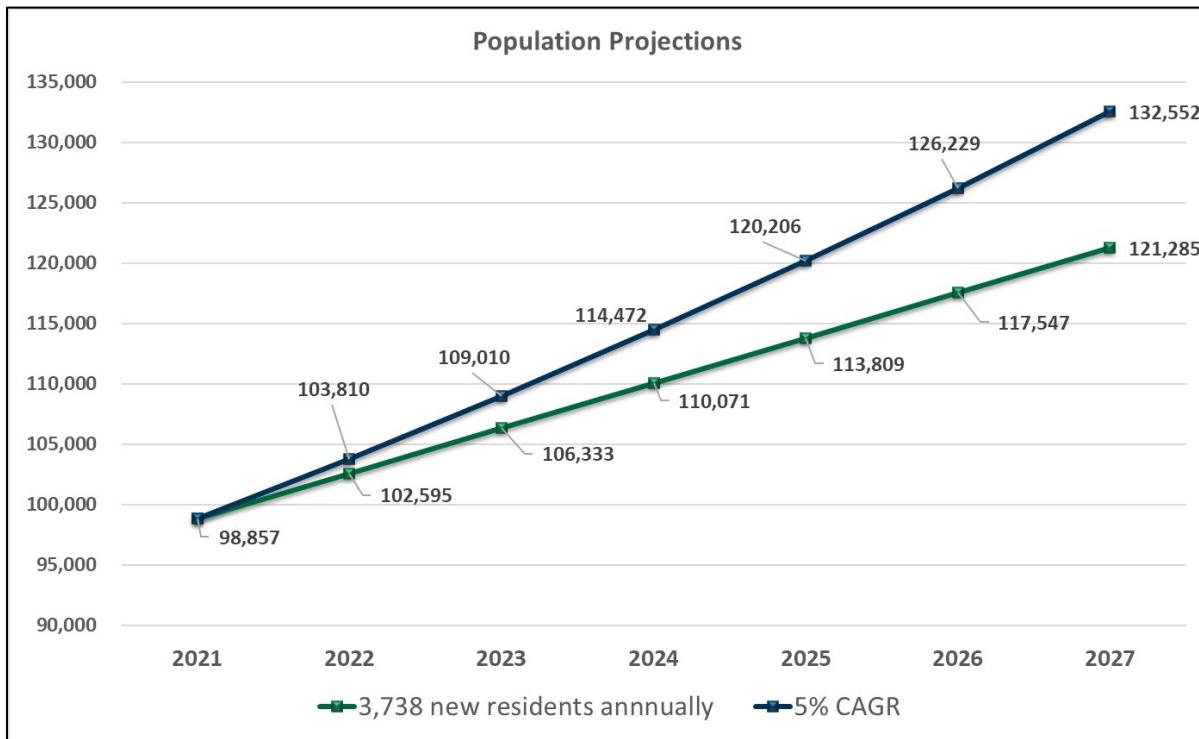
An assessment of New Braunfels' economic performance and forecasting begins with a discussion around the well-known reality that New Braunfels is consistently amongst the fastest growing cities in the United States. An examination of trends around its population growth suggests the city's attractiveness as a place to relocate has accelerated in recent decades. Since 2010, New Braunfels' rate of population growth (71%) has more than tripled that of the San Antonio MSA (21%) and nearly doubled that of the Austin MSA (37%).

| Population Growth (2010-2021) | | | | |
|-------------------------------|------------|------------|------------|----------|
| | 2010 | 2021 | Net Change | % Change |
| New Braunfels | 57,740 | 98,857 | 41,117 | 71% |
| San Antonio MSA | 2,142,508 | 2,601,788 | 459,280 | 21% |
| Austin MSA | 1,716,289 | 2,352,426 | 636,137 | 37% |
| Texas | 25,145,561 | 29,527,941 | 4,382,380 | 17% |

Source: U.S. Census

The latest official census information for New Braunfels provides a July 2021 population estimate of 98,857. This represents a compounded annual growth rate (CAGR) of 5.01% since the 2010 census estimate of 57,740. While applying the 5.01% 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 5.01% means that, on average, approximately 3,738 people have located to the city every year since 2010. In some years this number was higher and in other years it was lower. The city's entitlement process, the availability of developable property and the provision of water and wastewater infrastructure are the typical bottlenecks to this process and the 3,738 figure likely represents the upper bounds of the City's ability to permit and approve housing development project, especially considering developable land constraints as discussed in the next section. When a 5.01% CAGR is applied from the 2022 figures through the forecast period, this means that approximately 5,616 people are added annually through 2027. As a planning exercise both the 3,738 annual population increase, and the 5.01% increase are projected below to provide an estimate of the City's population around 2027 to likely be between 122,000 to 133,000 residents:

Economic Outlook and Considerations



New Braunfels shares many of the challenges and opportunities born from rapid growth with many other communities inside the I-35 megaregion (San Antonio and Austin MSAs): Cedar Park, Georgetown, Leander, and San Marcos. New Braunfels' growth is primarily driven by net migration from neighboring counties (Bexar, Guadalupe, Hays, Travis) as well as others within the I-35 megaregion (Collin, Tarrant, Williamson).

| Top 10 Sources of Net Migration, Comal County (2014-2019) | |
|--|-------|
| Bexar County, TX | 8,682 |
| Harris County, TX | 1,645 |
| Guadalupe County, TX | 1,520 |
| Hays County, TX | 1,495 |
| Travis County, TX | 593 |
| Nueces County, TX | 424 |
| Fort Bend County, TX | 402 |
| Montgomery County, TX | 311 |
| Collin County, TX | 299 |
| Riverside County, CA | 283 |

33%
of Comal County population growth from 2014–2019 is attributable to net migration from Bexar, Hays, Travis, and Williamson Counties.

Economic Outlook and Considerations

Job Growth

The local New Braunfels economy has experienced a strong recovery from the pandemic's effects through May 2022. In 2020 and 2021, the San Antonio – New Braunfels Metropolitan Statistical Area (MSA) saw significant increases in unemployment across various sectors at the beginning of the pandemic. Most employment has returned to pre-COVID levels across all sectors, including severely impacted industries previously concentrated in accommodations and food services:

| Metric | Pre COVID (2019) | COVID (Apr. 20) | Post-Covid (May 2022) |
|--|---------------------|--------------------|--------------------------|
| Regional Unemployment Rate (MSA) | 2.9% | 12.3% | 3.5% |
| Local Unemployment Rate | 3.1% | 13.3% | 3.1% |
| Number of Unemployed | 1,336 | 5,332 | 1,477 |
| Local Employment | 42,647 | 34,817 | 46,777 |
| Regional Employment in Accommodation and Food Services | 122,100 | 72,700 | 123,100 |
| Regional Employment in Accommodation and Food Services | 138,700 | 79,200 | 140,500 |

Source: Texas LMI

Over the last ten years, job growth in professional services, management of companies (HQs) and information services has exceeded the rate of overall job growth in New Braunfels. Office development and absorption is a key measure and future indicator of job growth and local business expansion. The latest office market report indicates the Comal County office submarket (of which principally comprises New Braunfels) has seen a falling vacancy rate that has placed it significantly below the 10-year average. With declining vacancy rates, rent growth and no significant deliveries anticipated in 2023, New Braunfels is likely to see increased interest in office development in the coming years:

| Office Market Overview | Comal County | | |
|---------------------------|-------------------------------|--------------|----------------------|
| 12 Month Deliveries in SF | 12 Month Net Absorption in SF | Vacancy Rate | 12 Month Rent Growth |

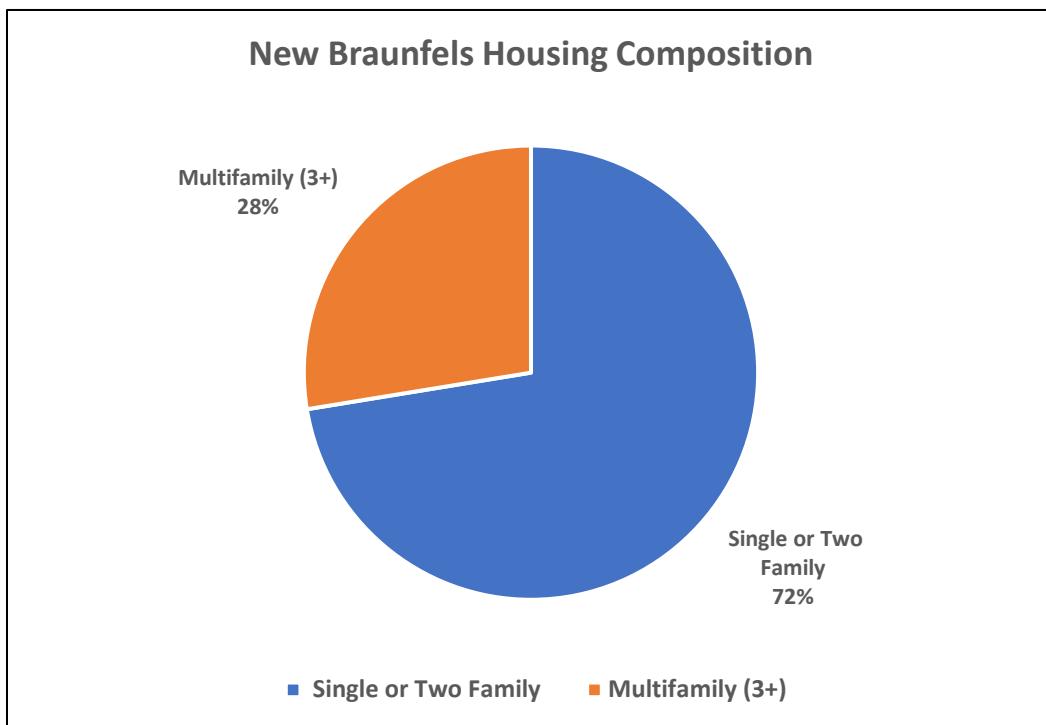
38.3K **217K** **3.80%** **1.90%**

Economic Outlook and Considerations

A targeted economic development strategy as outlined in the recently released 2022 Economic Development Strategic Plan will help the community continue to build on the recent gains in these professional services and office growth to achieve greater economic balance (in terms of commuting flows) and greater economic diversity (in terms of employment mix).

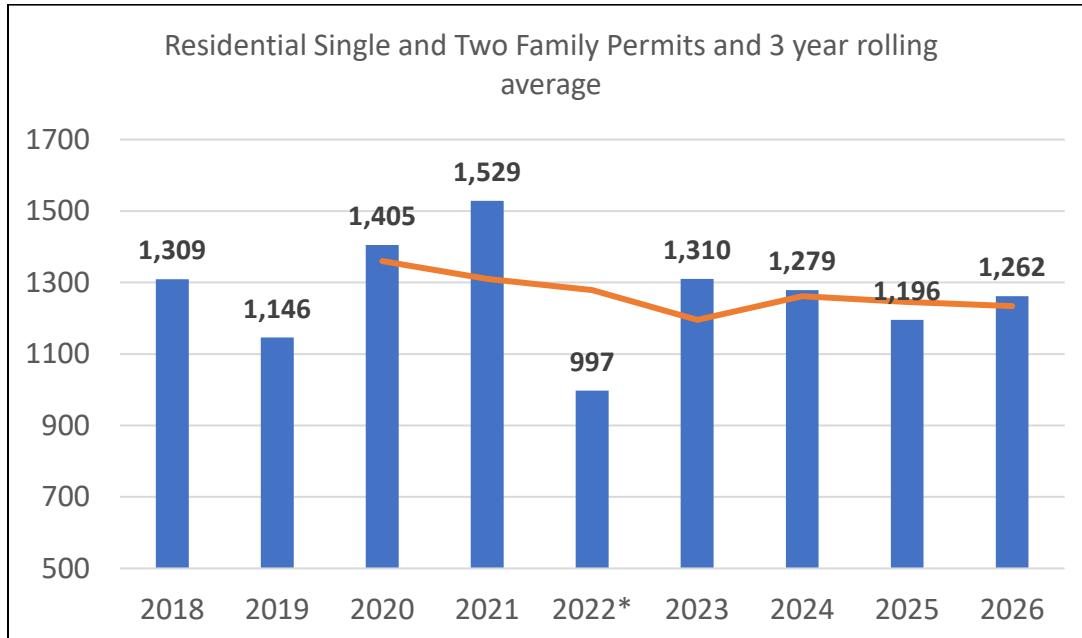
Housing and Construction Activity

New Braunfels has approximately 33,500 total housing units according to the 2020 census. New Braunfels housing market is roughly comprised of a majority single and two family detached homes (72%) and multifamily units (28%):



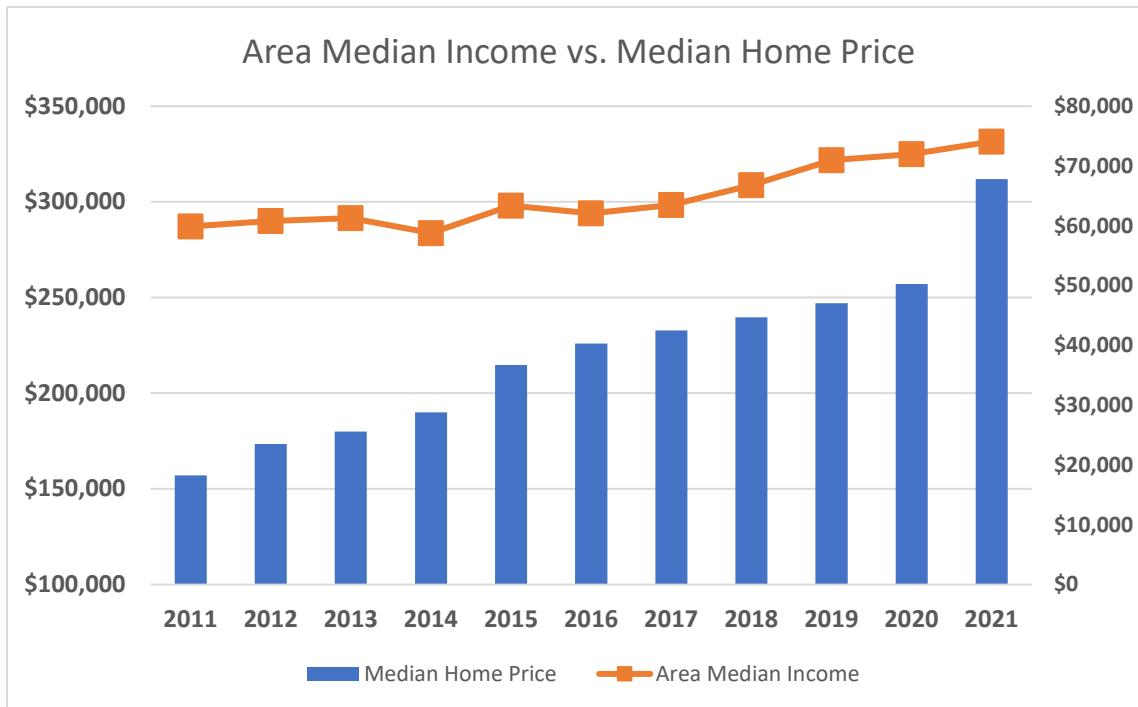
Construction activity in the single-family home market appears steady for the time being, although FY 2022 projects a marked decrease in permits from the previous four years. The 2022 estimate represents an annualized and anticipated year end permitting number based on the residential permits issued to date (this is exclusive of multifamily permitting):

Economic Outlook and Considerations



*FY2022 is an annualized estimate

Continued population growth and supply chain and labor issues challenged the supply of new units in 2020 and 2021, leading to escalating costs and home prices. Median home values continued their upward trend through the end of 2021, with the median home price in the New Braunfels market area appreciating by approximately 21% over 2020 and 99% since 2011.



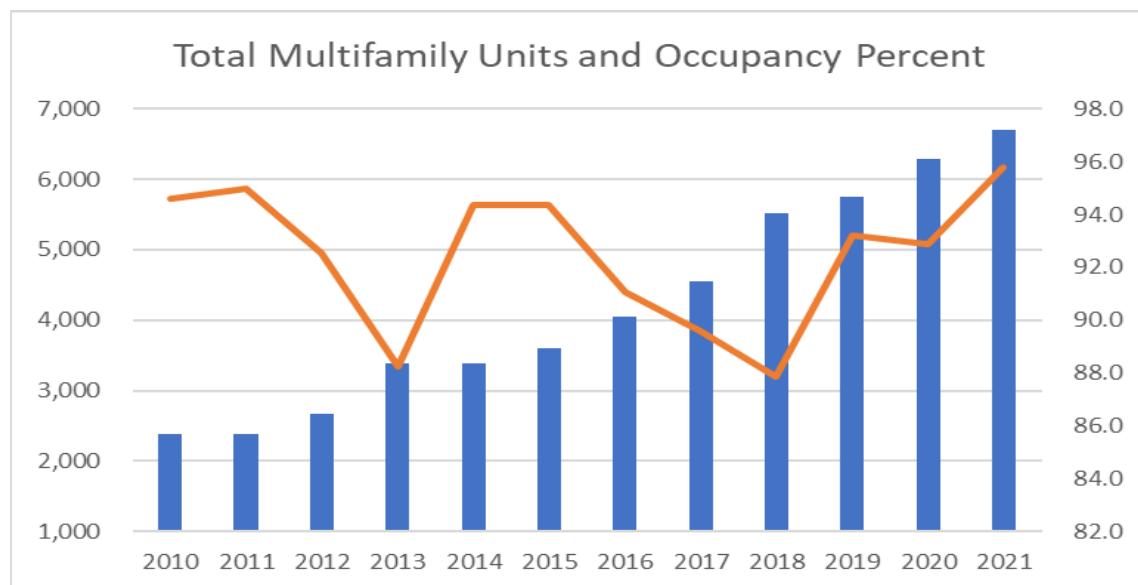
Economic Outlook and Considerations

Many economists believe that the housing market has begun a slight correction since early 2022 and the recent interest rate increase by the Federal Reserve will have the effect of reducing the mortgages originated and depressing demand for housing. It is unclear whether the decreased demand will slow appreciation in existing home prices and overall taxable values. Recent data from the Four Rivers Association of Realtors for May 2022 shows that the median home price in the market area was up over 22% since May 2021, although active listings increased by 111% over May 2021. This will have the effect of increasing the days on market and expanding the months of inventory available.

Housing demand is regional, so while the availability of properties or other regulatory factors might stop neighborhoods from growing or accommodating additional housing units, they do not reduce the market's demand for more housing in a particular locale. As home prices and values in New Braunfels have continued their climb upwards, one of the ways the private sector continues to keep pace with housing demand is through the development of multifamily units.

Multifamily Development

Out of New Braunfels' 33,500 housing units, 9,200 of these are found in developments that contain three or more units (New Braunfels' zoning definition of multifamily). A plurality (34%) of the total units are found in 12 properties across the City with approximately 200-299 units. The balance of multifamily units are mostly found in properties between 100-199 units (29%), with around 14% of the available units in properties with between 300-399 units. Many of these larger projects are new and constructed within the last 10 years as a response to a historic underdevelopment of these properties across the City. Up until the mid-2010s, New Braunfels did not see much in the way of new multifamily development. However, beginning around 2016, the number of new units produced annually increased:



Economic Outlook and Considerations

Rent increases were more than 19% in the multifamily market between 2020 and 2021, with continued vacancy rates at or below 5%. Taken together, these market statistics imply there will be continued demand for single and multifamily housing and development in New Braunfels to accommodate population growth and market pressures. Determining a strategic direction for how additional residents are accommodated within the corporate limits can provide New Braunfels with an opportunity to construct an even stronger and sustainable financial footing, but it will require a special focus and conversation around the implications of land use decisions and the built environment yet to be constructed.

Land Use and Fiscal Analysis

Land use largely determines the revenues and expenditures of municipal governments. Different land uses- including residential, commercial, industrial, agricultural and open space- generate different amounts of revenue because they are taxed at different rates, produce different revenues and require different levels of governmental services and aid. They place distinct demands on local government expenditures ranging from public education, police and fire protection, roads, utilities and other forms of infrastructure. When land uses change, the balance of municipal revenues and expenditures changes as well. Recognizing these relationships, municipalities, planners, economic developers and smart growth advocates are becoming increasingly concerned with the long-term financial implications of land-use decisions and the development patterns they foster. Understanding the impacts, however, requires an understanding of how land is being consumed in the City of New Braunfels.

Staff set the groundwork analysis for discussions around these questions in early 2021 when it completed some basic analysis around New Braunfels' anticipated "build out." This analysis examined the consumption of available greenfield properties for the purposes of residential and commercial development and quantified the historic consumption and supply of land available for development. This report quantified the extent and period to which the City would likely see continued greenfield development before the supply of developable greenfield property was diminished. The concept of "build out" is reached when a municipality exhausts its easily developable greenfield properties. A buildout analysis is a useful way to gain a vision, project and answer questions around how development ordinances and other regulations will manifest on the land if ordinances and regulations remain unchanged.

The updated analysis for 2022 shows that the total amount of developed land between 2016-2020 increased by approximately 2,230 acres:

Economic Outlook and Considerations

| Property Status | 2016 | 2020 | 2022 | Percent |
|----------------------|---------------|---------------|---------------|---------|
| | Acres (sum) | | | |
| Developed | 15,073 | 16,748 | 17,303 | 70% |
| Undeveloped | 8,219 | 6,571 | 6,042 | 24% |
| Not Developing | 1,078 | 1,276 | 1,494 | 6% |
| Unknown | 870 | 478 | 0 | |
| Total Acreage | 25,240 | 25,073 | 24,840 | |

In this analysis, “Developed” land means that property with a plat or improvement associated with the property. “Undeveloped” property typically means that property with parcel information but without improvements and currently in a “predevelopment” or “agriculture” zoning. The last category- “Not Developing”- refers to publicly held properties such as parks, streets, easements, as well as some assumptions about currently existing greenfield properties that are not likely to develop given considerations around floodplain and other development constraints.

With the latest parcel information from early 2022, it appears that **70%** of the land area in New Braunfels is “built out.” Data errors and inconsistencies in property files in 2016 resulted in approximately 870 acres classified as “unknown.” Since that time, parcel information has been updated and placed into a corresponding respective category. A summary of the developed versus undeveloped property is highlighted in the table below:

| Land Development Status | 2016 | 2022 | Difference | Average Amount Annually |
|---|--------|--------|------------|-------------------------|
| Estimated Acreage Not in Development | 8,219 | 6,042 | (2,177) | 363 acres |
| Estimated Acreage Developed or in Process | 15,073 | 17,303 | 2,230 | |

Economic Outlook and Considerations

During the 2016 through 2022 period, the primary source of land consumption by use type is shown below:

| Major Sources of Land Consumption: 2016-2022 | | |
|--|--------------------|---------------------------|
| Use | Additional Acreage | % Of Newly Developed Land |
| Residential Single Family | 983 | 45% |
| Commercial | 593 | 27% |
| Multi-Family Residential | 137 | 6% |
| Duplexes | 42 | 2% |
| Vacant Platted Tracts | 82 | 4% |

A majority of land consumed during the 2016 to 2022 period was devoted to single family residential and commercial development. Much of this property came from rezoned acreage range land and other land previously used for farming. In that time period, the City permitted 7,891 single family permits and saw approximately 3,100 apartment units constructed:

| Construction: 2016-2022 | | | |
|-------------------------|-------------|-------------------------|------------|
| | Total Units | Land Designated (acres) | Units/Acre |
| Single Family | 7,891 | 983 | 8 |
| Multifamily | 3,098 | 137 | 23 |
| | 10,989 | 1,120 | |

The major land use categories in 2022 by acreage are shown in the table below:

| Land Use Type | Count | Acreage | Percent | 2022 | |
|---------------------------------|--------|---------|---------|-------|-----------------------|
| | | | | Total | Percent Change: 16-22 |
| Residential Single Family | 26,818 | 7,134 | 29% | 4.0% | |
| Acreage Range Land | 220 | 3,805 | 15% | -5.1% | |
| Commercial | 1,795 | 5,168 | 21% | 2.4% | |
| Vacant Platted Tracts | 3,022 | 2,966 | 12% | 0.3% | |
| Improvements on D4 | 81 | 1,022 | 4% | -0.6% | |
| Residential Rural Single Family | 93 | 915 | 0% | -0.5% | |
| Acreage Use for Farming | 30 | 697 | 3% | -1.0% | |

Economic Outlook and Considerations

| 2022 | | | | |
|----------------------------|-------|---------|---------|-----------------|
| Land Use Type | Count | Acreage | Percent | Percent Change: |
| | | | Total | 16-22 |
| Unknown | 918 | 511 | 2% | -1.4% |
| Native pasture | 30 | 396 | 2% | -0.4% |
| Unfilled Land | 17 | 468 | 2% | 0.2% |
| Industrial & Manufacturing | 30 | 207 | 1% | -0.5% |
| Multi-Family Residential | 77 | 430 | 2% | 0.6% |
| Residential Mobile Home | 477 | 230 | 1% | -0.1% |
| Duplexes | 885 | 225 | 1% | 0.2% |
| | | 24,173 | 94% | |

Approximately 50% of the City's land is devoted to single family housing and commercial zoning designations. The next largest category is Acreage Range Land comprised of 220 parcels that make up more than half the developable land remaining of 6,000 acres. At this pace of development, the City can expect to consume most of its developable land within a 10 year timeframe. Indeed, the increase in requests for Municipal Utility Districts (MUDs) and other special districts outside the City limits are a direct effect of the challenges the private sector has in identifying property deemed acceptable to capture the market demand for housing and services. How the City uses the remaining land for community needs- housing, open space, public facilities, goods and services, job centers, etc.- and how it provides the infrastructure needed by its citizens is a question that will generate fiscal impacts for the community for decades. The provision of the space needed for these outstanding needs will be determined largely through the rewrite of the Land Development Ordinance (LDO)

As the City undertakes a rewrite of its land development codes and ordinances, an additional analysis should be undertaken to evaluate how development regulations (and the use of existing and remaining land) that will be codified in the LDO today affect the City's fiscal sustainability for the next generation. Communities often pay a high price for growth patterns that do not coordinate housing, jobs, services, recreation, public safety and other needed community investments. Understanding how the built environment and development pattern contributes or detracts from the many dimensions of sustainability- including those of a fiscal, environmental, and social lens should be a central question the City tries to generate consensus around.

General Fund Forecast

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 fees (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 two schedules that include revenues, expenditures and fund balances over the next five years. The revenue projections are the same for both schedules; only the expenditures change. The first schedule, referred to as "Baseline Expenditures Forecast" looks at the financial position of the General Fund and assumes 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 of compensation increases 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 result of the assumptions used to build the General Fund forecast. If the assumptions change, the forecast results change as well.

General Fund Forecast

General Fund Forecast - Baseline Expenditures

| | FY 2023 Projection | FY 2024 Projection | FY 2025 Projection | FY 2026 Projection | FY 2027 Projection |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Beginning Fund Balance | \$ 35,990,773 | \$ 39,310,888 | \$ 45,309,434 | \$ 52,984,464 | \$ 62,665,717 |
| Revenue | | | | | |
| Property Taxes | \$ 23,920,000 | \$ 24,876,800 | \$ 25,809,680 | \$ 26,777,543 | \$ 27,714,757 |
| Sales Taxes | \$ 30,287,992 | \$ 31,045,192 | \$ 31,821,321 | \$ 32,616,854 | \$ 33,432,276 |
| Other Taxes and Franchise Fees | \$ 12,958,000 | \$ 14,054,000 | \$ 14,556,000 | \$ 15,598,000 | \$ 16,605,000 |
| Licenses and Permits | \$ 5,444,000 | \$ 5,000,000 | \$ 4,750,000 | \$ 4,500,000 | \$ 4,250,000 |
| Charges for Services | \$ 4,250,000 | \$ 4,335,000 | \$ 4,421,700 | \$ 4,510,134 | \$ 4,600,337 |
| Fines and Forfeitures | \$ 1,100,000 | \$ 1,122,000 | \$ 1,144,440 | \$ 1,167,329 | \$ 1,190,675 |
| Parks and Recreation | \$ 1,552,890 | \$ 1,583,948 | \$ 1,615,627 | \$ 1,647,939 | \$ 1,680,898 |
| Das Rec | \$ 2,500,000 | \$ 2,700,000 | \$ 2,740,500 | \$ 2,781,608 | \$ 2,823,332 |
| Interest Income | \$ 50,000 | \$ 250,000 | \$ 500,000 | \$ 500,000 | \$ 500,000 |
| Miscellaneous/Intergovernmental | \$ 3,200,000 | \$ 3,200,000 | \$ 3,200,000 | \$ 3,200,000 | \$ 3,200,000 |
| Interfund Transfers | \$ 1,000,000 | \$ 1,020,000 | \$ 1,040,400 | \$ 1,061,208 | \$ 1,082,432 |
| Total Revenue | \$ 86,262,882 | \$ 89,186,939 | \$ 91,599,668 | \$ 94,360,615 | \$ 97,079,707 |
| Expenditures | | | | | |
| General Government | \$ 10,963,373 | \$ 11,245,663 | \$ 11,423,507 | \$ 11,606,685 | \$ 11,701,022 |
| Planning and Development Svcs | \$ 3,842,221 | \$ 3,882,213 | \$ 3,907,408 | \$ 3,933,359 | \$ 3,946,724 |
| Police | \$ 22,311,252 | \$ 22,437,560 | \$ 22,517,134 | \$ 22,599,095 | \$ 22,641,305 |
| Fire | \$ 22,002,051 | \$ 22,128,370 | \$ 22,207,951 | \$ 22,289,919 | \$ 22,332,133 |
| Municipal Courts | \$ 841,486 | \$ 843,144 | \$ 844,189 | \$ 845,265 | \$ 845,819 |
| Public Works | \$ 8,885,494 | \$ 9,098,826 | \$ 9,233,226 | \$ 9,371,657 | \$ 9,442,949 |
| Parks and Recreation | \$ 6,151,953 | \$ 6,269,486 | \$ 6,343,532 | \$ 6,419,799 | \$ 6,459,077 |
| Das Rec | \$ 2,500,000 | \$ 2,700,000 | \$ 2,740,500 | \$ 2,781,608 | \$ 2,823,332 |
| Library Services | \$ 2,681,027 | \$ 2,719,220 | \$ 2,743,281 | \$ 2,768,065 | \$ 2,780,828 |
| Interfund Transfers | \$ 2,063,910 | \$ 1,163,910 | \$ 1,263,910 | \$ 1,363,910 | \$ 1,463,910 |
| Contingencies | \$ 200,000 | \$ 200,000 | \$ 200,000 | \$ 200,000 | \$ 200,000 |
| NBU Facility Partnership | \$ 500,000 | \$ 500,000 | \$ 500,000 | \$ 500,000 | \$ 500,000 |
| Total Recurring Expenditures | \$ 82,942,767 | \$ 83,188,393 | \$ 83,924,638 | \$ 84,679,362 | \$ 85,137,099 |
| Ending Fund Balance | \$ 39,310,888 | \$ 45,309,434 | \$ 52,984,464 | \$ 62,665,717 | \$ 74,608,325 |
| Fund balance Percentage | 47.4% | 54.5% | 63.1% | 74.0% | 87.6% |
| Fund Balance Surplus | \$ 14,428,058 | \$ 20,352,916 | \$ 27,807,073 | \$ 37,261,909 | \$ 49,067,196 |
| Recurring Revenue/Rec Exp | \$ 4,320,115 | \$ 5,998,546 | \$ 7,675,030 | \$ 9,681,253 | \$ 11,942,608 |

General Fund Forecast

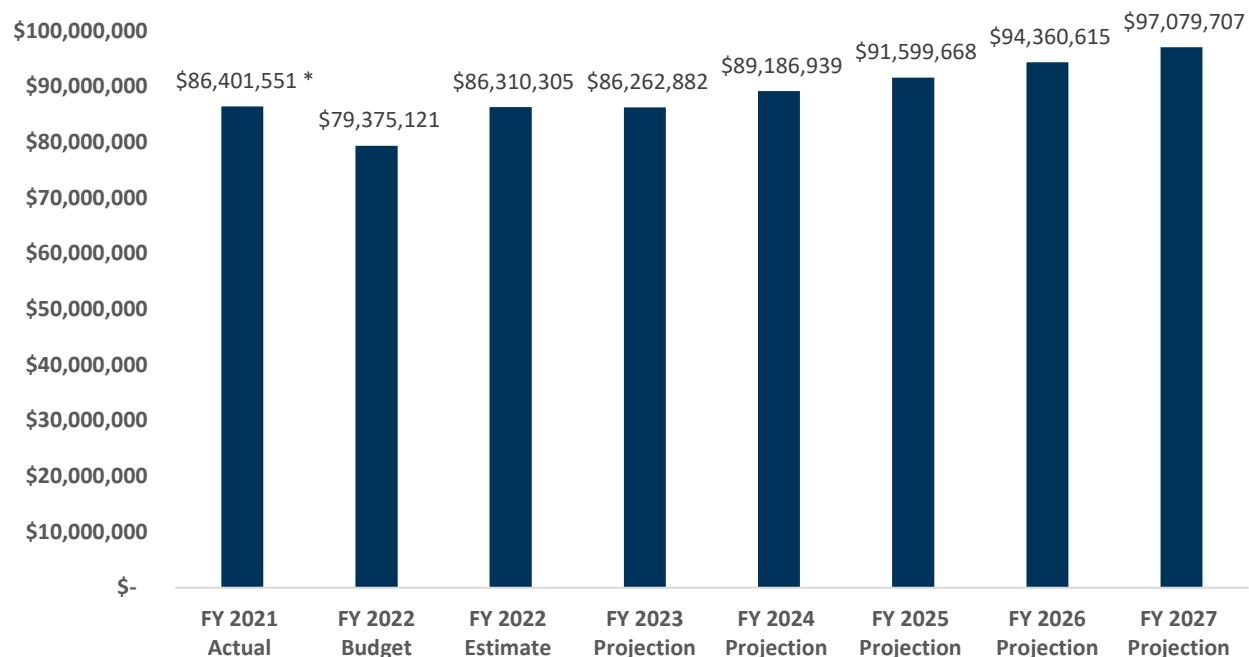
Baseline Expenditures Forecast- Discussion and Analysis

General Fund- Revenue Projections (Recurring)

The average annual growth in General Fund revenues during the forecast period is 2.4 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 2023 | FY 2024 | FY 2025 | FY 2026 | FY 2027 |
| Growth Rate | -.05% | 3.4% | 2.7% | 3.0% | 2.9% |

Total General Fund Revenue Projections



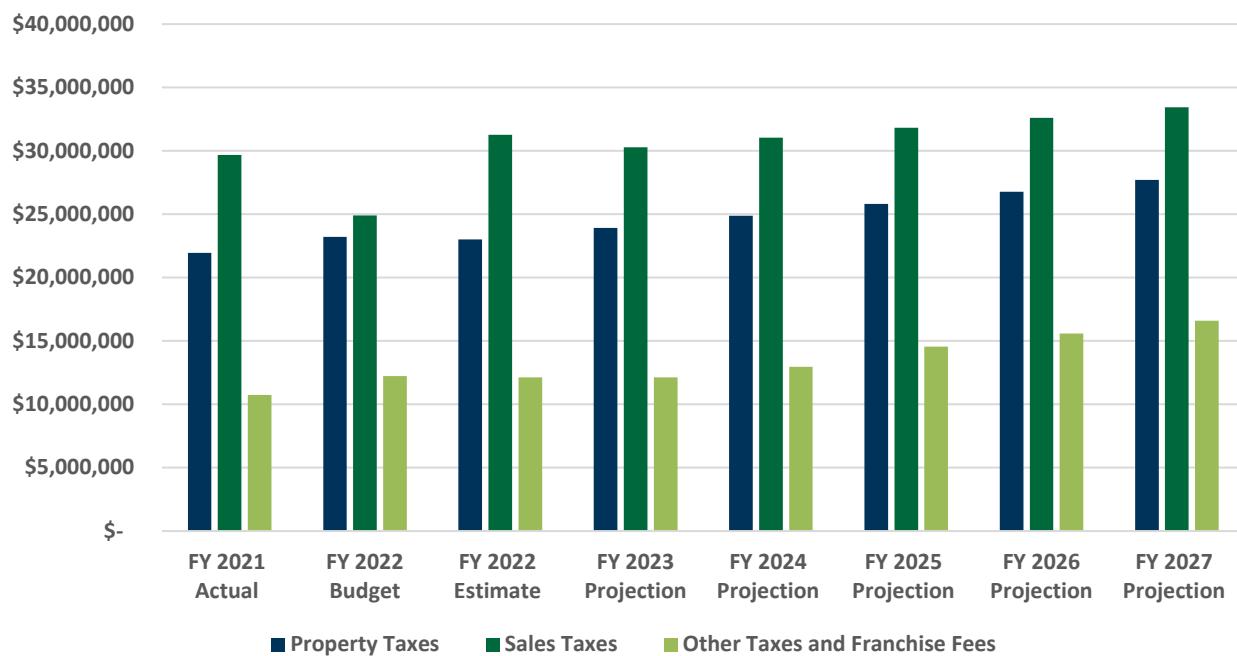
Stagnation and slight decline in revenues from FY 2021 - FY 2023 is driven primarily by two factors. First, FY 2021 included \$3.4 million in CARES funding to reimburse the COVID related staffing demands placed on our public safety personnel. Secondly, the impact from the loss of sales taxes from HD supply, which will impact collections in FY 2022 and FY 2023 most significantly. As a reminder, the loss of those sales taxes took effect on February 1, 2022.

General Fund Forecast

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 79% of total revenues. The growth rates for total General Fund revenue referenced above are driven primarily by projected fluctuations among these three sources.

Primary Revenue 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. This assumes that the O&M portion of the rate continues to be set at the voter approval level, as it has been since the passage of SB2. If the no-new revenue rate was adopted, it would reduce this revenue source by a compounded 3.5% annually. If the voter approval rate were to continue to be adopted, the only opportunity for additional property tax revenue comes from new value added to the tax rolls. The primary reason that the voter approval rate has been adopted since the passage of SB2 is to allocate funding for resources associated with meeting service demands and/or City Council budget priorities. Therefore, the forecast assumes 4% growth in FY 2023 and FY 2024 (3.5% - existing and .5% - new). From FY 2025-2027, the forecast assumes new construction flattens out to a point where property tax growth is essentially maintained to the 3.5% limitation.

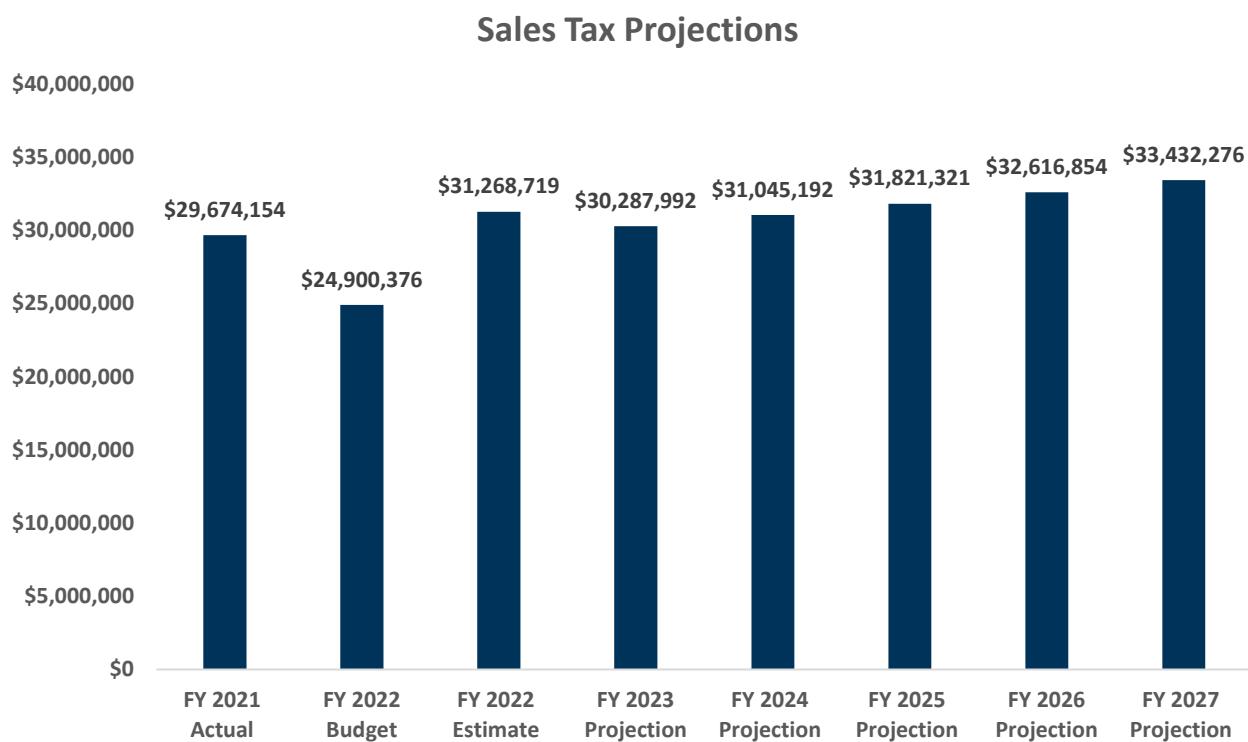
Sales Tax Revenue – During the last two budget cycles, sales tax projections have been very conservative, as illustrated in the graph below (FY 2022 Budget). However, as our sales tax returns

General Fund Forecast

have shown since mid-2021, the economic landscape for sales tax collections has significantly changed. This is driven by various economic considerations such as inflation, pent-up demand and federal stimulus initiatives. Therefore, growth in sales taxes have essentially been at an all-time high since approximately March, 2021.

Conversely, beginning in February 2022, the city no longer collects sales taxes from HD supply as mentioned earlier. As discussed throughout this fiscal year, HD supply modified their business practice in such a way that triggered the company to source intra-state sales in a different manner. While the exact fiscal impact cannot be reported specifically due to statutory confidentiality of that information, we expect the impact to the General Fund to be approximately \$2 million annually.

While that loss is a significant impact, the February – April sales tax data suggests that the overall growth in sales tax collections, anecdotally seems to be mitigating a large portion of that loss. Combined with our conservative approach to sales tax projections over the last two fiscal years, staff is hopeful that there will not be a major impact from a budget perspective. This is best illustrated by comparing the FY 2021 actual to the FY 2022 Budget, estimate and FY 2023 projections.



As it relates to the FY 2023 sales tax projections, the forecast assumes 2% growth as well as factoring in the continued loss of HD supply sales tax revenue from May 2022 – January 2023. While this could be considered a continuation of our conservative trend, staff still feels that there continues to be a great amount of economic uncertainty in FY 2023 and that our projections should reflect that.

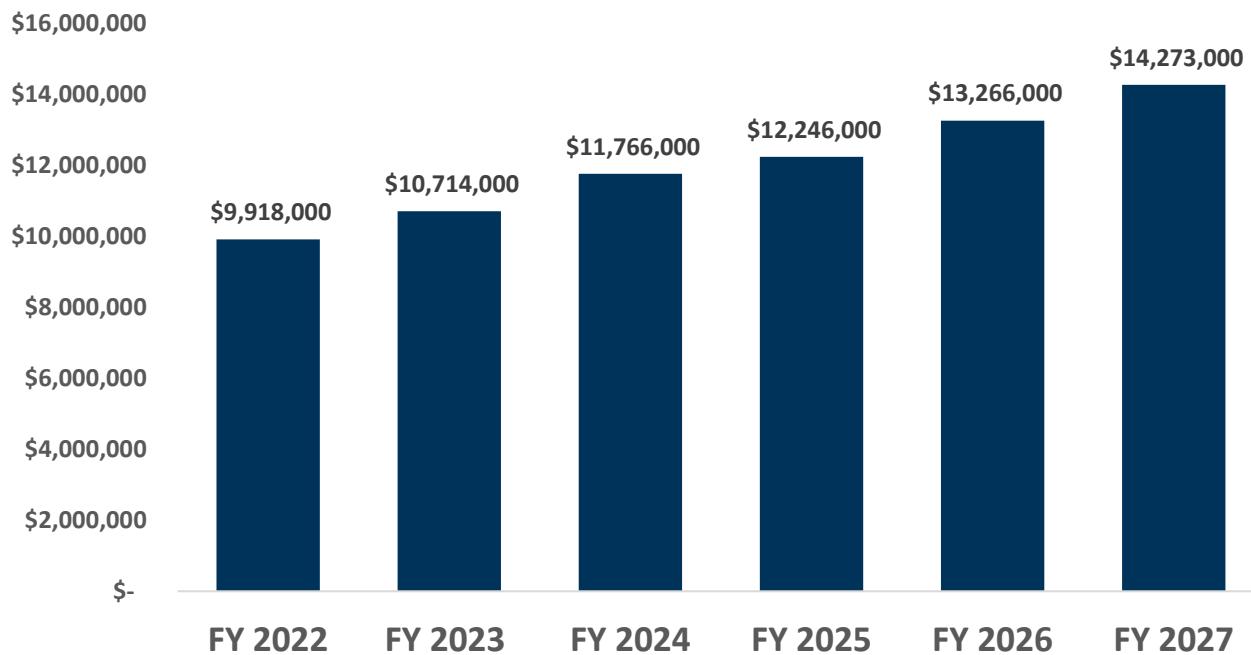
General Fund Forecast

Throughout the remainder of the forecast period (FY 2024 – FY 2027), 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 two years ago. The other franchise payments (gas, cable, telecommunications, etc.) have fluctuated in recent years, but more or less continue to grow slightly. Conservatively, they are projected to grow 2% annually.

NBU Franchise payment projections

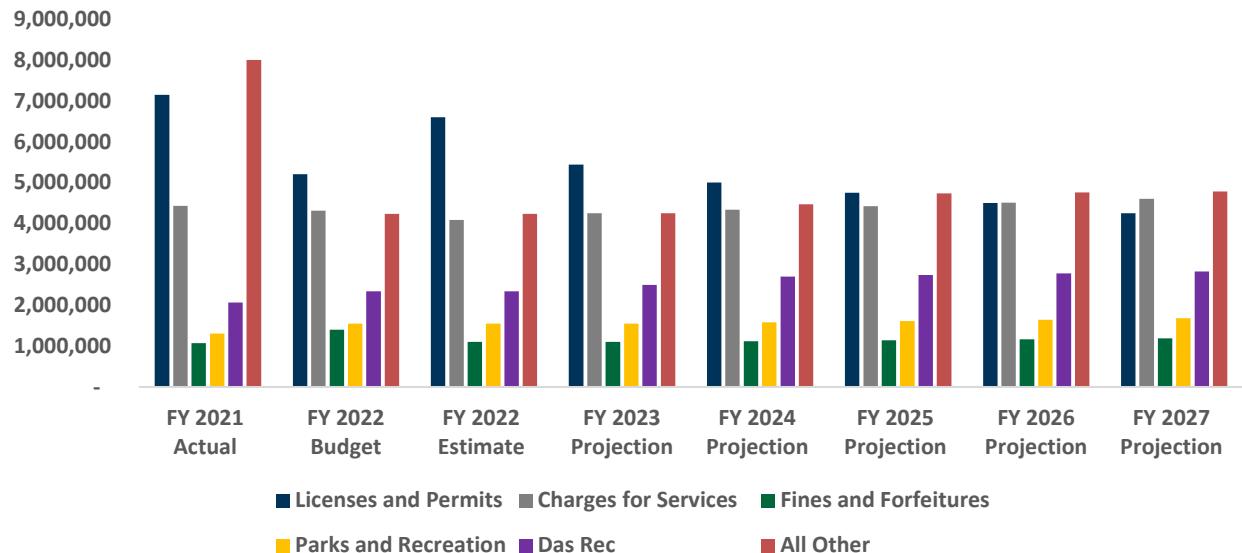


All other General Fund Revenues

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

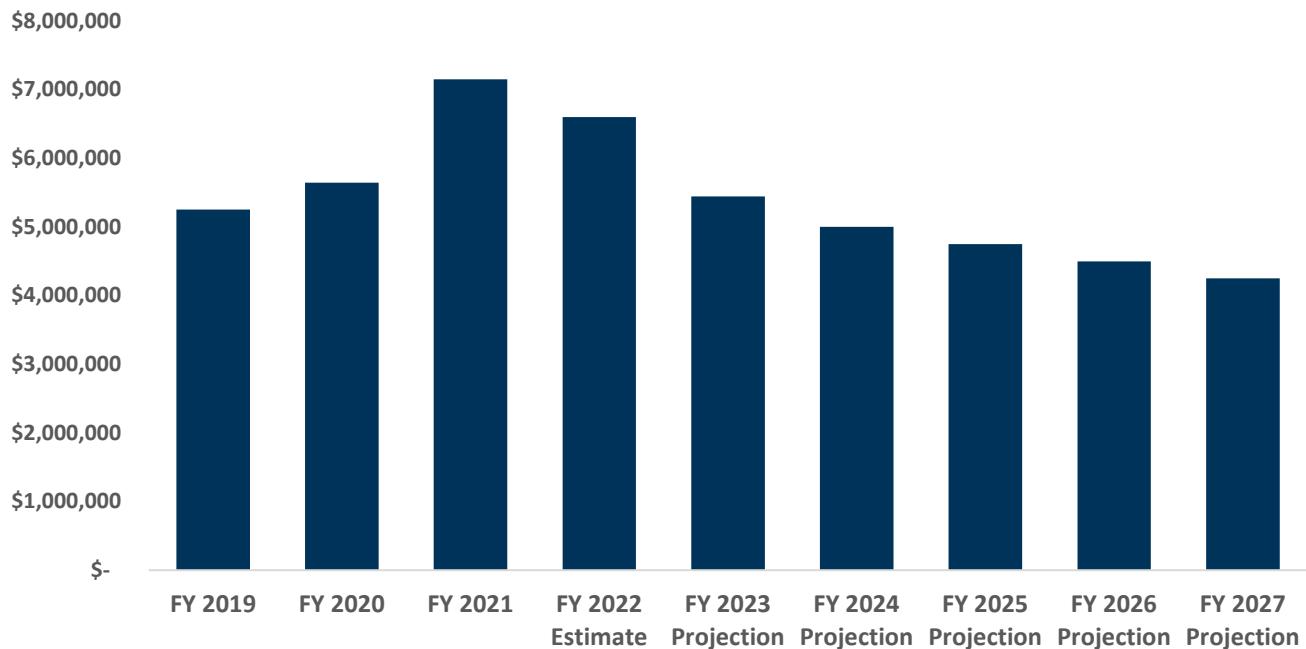
General Fund Forecast

Non-Primary Revenue Sources



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. This is illustrated in the graph below.

Annual License and Permit Revenue



General Fund Forecast

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 and other factors impacting patrol. Due the sustained stagnation of this revenue source, the forecast assumes the current collection levels remain flat in FY 2023, with a modest 2% growth level moving forward.

Parks and Recreation revenue – Our latest revenue projections for FY 2022 show that parks and recreation revenue is making a much faster recovery than originally anticipated. Beyond additional programming space or increases in program/rental fees, there is not much growth for additional revenue in this category throughout the remainder of the forecast period. As a result, parks and recreation revenue is held flat at approximately \$1.5 million.

Das Rec – The recreation center was one of the functions most impacted by COVID-19. As a reminder, Pre- pandemic, the facility was generating significantly higher membership revenue than initially projected. In FY 2022, membership figures are stabilizing close to those levels, approximately 14,000 members. The forecast does not necessarily take this recent growth in membership into consideration. However, the forecast includes relatively conservative revenue projections and assume that the revenues from the facility cover the full operating costs (100% cost recovery).

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 2025.

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 positions that were added in the most recent budget but were not funded for the full year is included in FY 2023. In addition, compensation increases that authorized in January 2022 are fully funded in FY 2023. The only other modification to baseline employee expenditures include the potential cost associated with adding two School Resource Officers (SRO's) to our current contract with NBISD. As a reminder, our

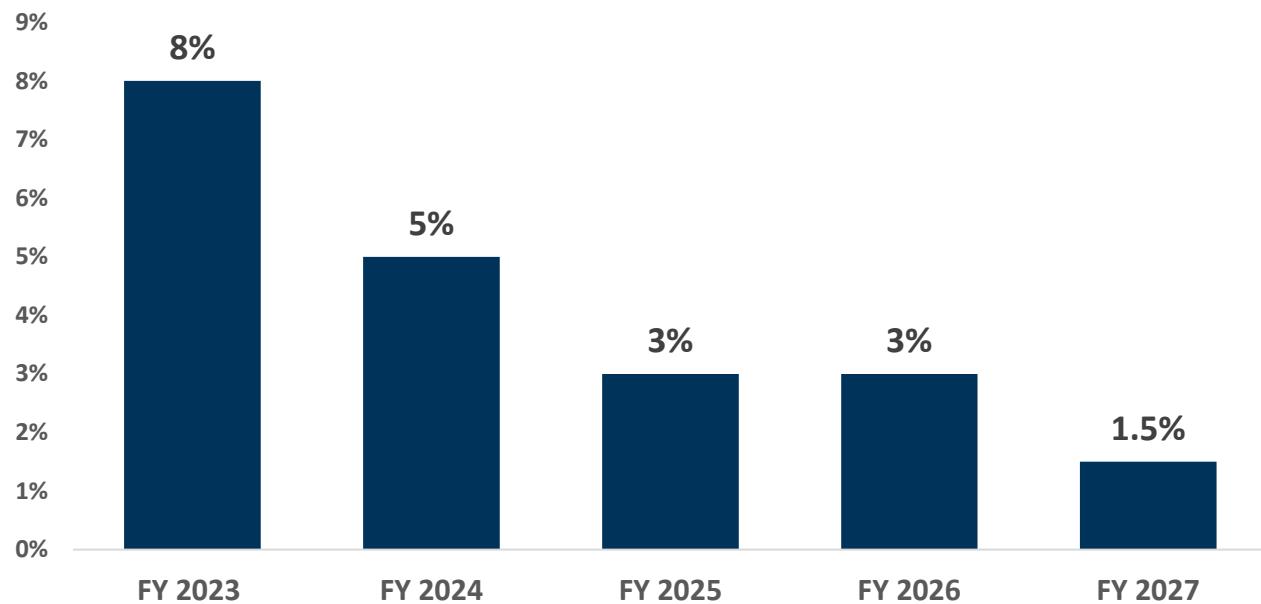
General Fund Forecast

current arrangement splits the funding for these positions by the school district paying 75% and the city covering the remaining 25%.

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). As we know, inflationary pressures are more impactful now than they have been over last 40 years. While our current operating budgets do have some contingency built within them, not to the level necessary to support those current pressures, especially for commodities such as fuel. While the budget team is considering inflation adjustments at the commodity/service level, it is unknown what the overall impact to the operating budget will be. Given that uncertainty, the baseline forecast includes the following assumptions for inflationary adjustments.

Inflationary Adjustments to Operating Budgets



Equipment Replacement Program

During the forecast period, the transfer increases to the level necessary (\$770,000-\$1,270,000) to support minimum technology and vehicle replacement requirements. The solvency and financial capacity of the Equipment Replacement Fund is a strategic issue. As a reminder, the equipment replacement program was suspended in 2014 as a budget balancing strategy. The transfer has yet to be fully reinstated since that time, as the budget has prioritized compensation increases and

General Fund Forecast

additional positions, primarily public safety personnel during that period. The City has initiated various strategies to manage against the partial funding to the program such as issuing a tax note as well as including one-time transfers to the fund, all in an effort to “catch up” on vehicle and technology replacements. The recently approved lease purchase for Police Vehicles was an additional strategy as well. To ensure the Equipment Replacement Fund has the sufficient funds available to support that program, the baseline expenditures includes another \$1 million one-time transfer.

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 EAHC/P/WPP program(s) and cash match for grants.

Facility Partnership (NBU)

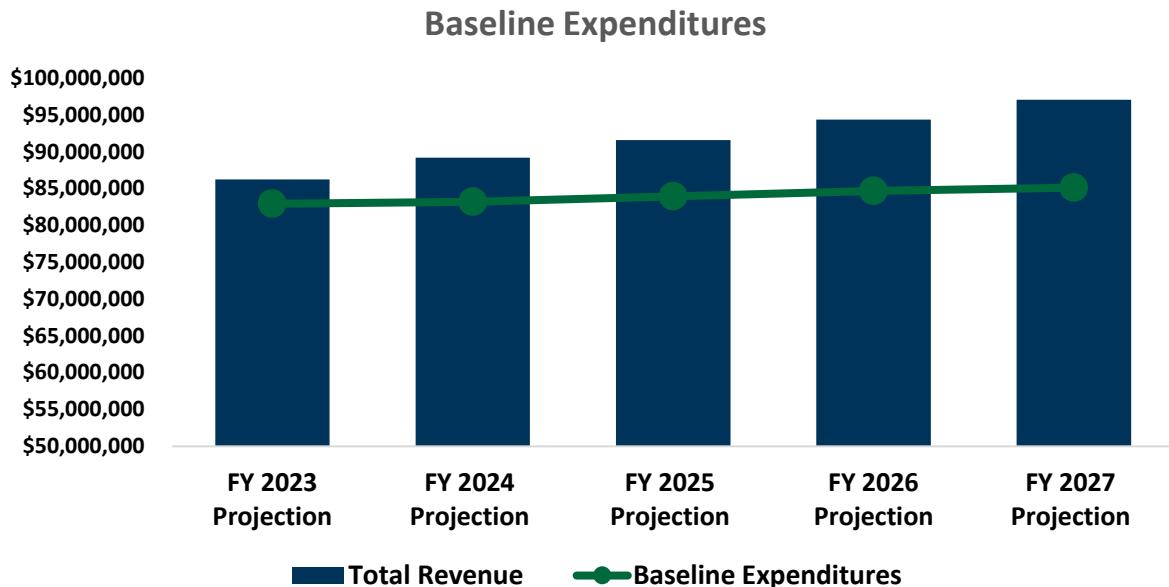
In 2020, City Council approved a facility and land transfer agreement which allows for the City of New Braunfels to retain operational oversight of the current NBU operations facility on FM 306. This partnership will eventually allow for all current City services operating out of the property on Castell 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 is currently conducting spatial planning of the 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). This payment is incorporated into the baseline forecast.

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 some of the resource demands needed to meet the current and increasing demand for municipal services.

General Fund Forecast



The figures in the graph 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 Recurring Resources | | | | | |
|---|-------------|-------------|-------------|-------------|--------------|
| | FY 2023 | FY 2024 | FY 2025 | FY 2026 | FY 2027 |
| Compounded Annual Surplus | \$4,320,000 | \$5,999,000 | \$7,675,000 | \$9,681,000 | \$11,943,000 |

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).

Policy Considerations

Fund Balance Surplus

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 2023 will reduce the fund balance and surplus throughout the remainder of the forecast period.*** The fund balance surplus is

General Fund Forecast

higher in the FY 2023 – FY 2027 forecast in comparison to previous five-year financial forecasts. This is almost entirely due to the conservative approach that we have taken . As a result, our fund balance surplus will provide budget flexibility in FY 2023 (as it did in FY 2022) 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 2023 Budget process.

- Additional Funding to support the City's Financial/HR Software Conversion
- Funding needed to support capital projects
- 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 \$20.2 million by the end of the 5-year forecast period.***

General Fund Forecast

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
- Additional Patrol Officers
- 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
- Additional Funding to support Finance/HR Software Conversion
- 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 immediately in FY 2023 – 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

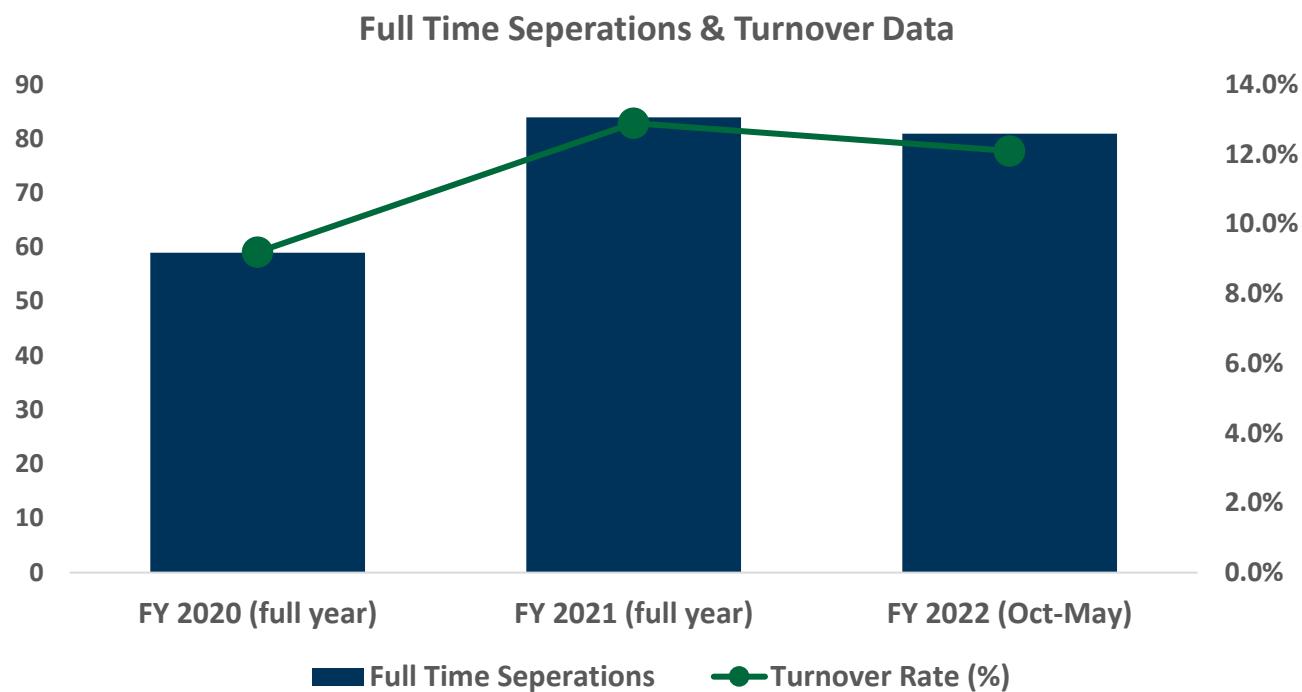
General Fund Forecast - Resource Demands

| | FY 2023 Projection | FY 2024 Projection | FY 2025 Projection | FY 2026 Projection | FY 2027 Projection |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Beginning Fund Balance (adjusted) | \$ 35,990,773 | \$ 31,915,633 | \$ 28,256,770 | \$ 23,521,168 | \$ 17,567,986 |
| Total General Fund Revenue | \$ 86,262,882 | \$ 89,186,939 | \$ 91,599,668 | \$ 94,360,615 | \$ 97,079,707 |
| Total Available Funds (adjusted) | \$ 122,253,655 | \$ 121,102,572 | \$ 119,856,438 | \$ 117,881,783 | \$ 114,647,693 |
| Adjusted Baseline Expenditures - Includes impact from recurring resource demands | \$ 82,942,767 | \$ 87,608,122 | \$ 91,574,073 | \$ 95,548,836 | \$ 99,196,436 |
| Current Resource Demands | | | | | |
| Uniformed Personnel - Step Plan/COLA/Market Based | | | | | |
| Compensation Increases | \$ 1,617,284 | \$ 1,314,493 | \$ 1,360,500 | \$ 1,408,117 | \$ 1,457,402 |
| Non-Uniform Personnel - Merit/COLA/Market Based | | | | | |
| Compensation Increases | \$ 959,258 | \$ 779,664 | \$ 806,952 | \$ 835,195 | \$ 864,427 |
| Continued Increase in Patrol Officers | | | | | |
| Recurring Costs - | \$ 264,267 | \$ 273,516 | \$ 287,192 | \$ 297,243 | \$ 307,647 |
| One Time Costs - Vehicles and equipment | \$ 293,685 | \$ 302,496 | \$ 311,570 | \$ 320,918 | \$ 330,545 |
| Operating Expenditures from CIP/Bond Projects | | | | | |
| Fire Station #7 staffing and operational costs | \$ 634,712 | | | | |
| Zipp Family Sports Park (net) | | | \$ 135,000 | | |
| Address current unmet needs - positions | \$ 594,208 | \$ 612,034 | \$ 630,395 | \$ 649,307 | \$ 668,786 |
| Increase Equipment Replacement Fund Transfer | \$ 250,000 | \$ 250,000 | | | |
| Re-Establish Facilities Maintenance Fund | \$ 100,000 | | | | |
| Additional Funding for Finance/HR Software Conversion (one time) | \$ 1,500,000 | \$ 500,000 | | | |
| Address current identified unmet needs - one time capital and initiatives | \$ 1,181,841 | \$ 1,205,478 | \$ 1,229,588 | \$ 1,254,180 | \$ 1,279,263 |
| Total - Additional Annual Resource Demands | \$ 7,395,255 | \$ 5,237,680 | \$ 4,761,197 | \$ 4,764,960 | \$ 4,908,070 |
| Total Expenditures (adjusted) | \$ 90,338,022 | \$ 92,845,802 | \$ 96,335,270 | \$ 100,313,797 | \$ 104,104,507 |
| Ending Fund Balance | \$ 31,915,633 | \$ 28,256,770 | \$ 23,521,168 | \$ 17,567,986 | \$ 10,543,186 |
| Target Fund Balance - 30% | \$ 26,658,749 | \$ 27,401,349 | \$ 28,438,234 | \$ 29,621,610 | \$ 30,748,409 |
| Fund Balance Surplus/(Deficit) | \$ 5,256,884 | \$ 855,421 | \$ (4,917,066) | \$ (12,053,624) | \$ (20,205,223) |

General Fund Forecast

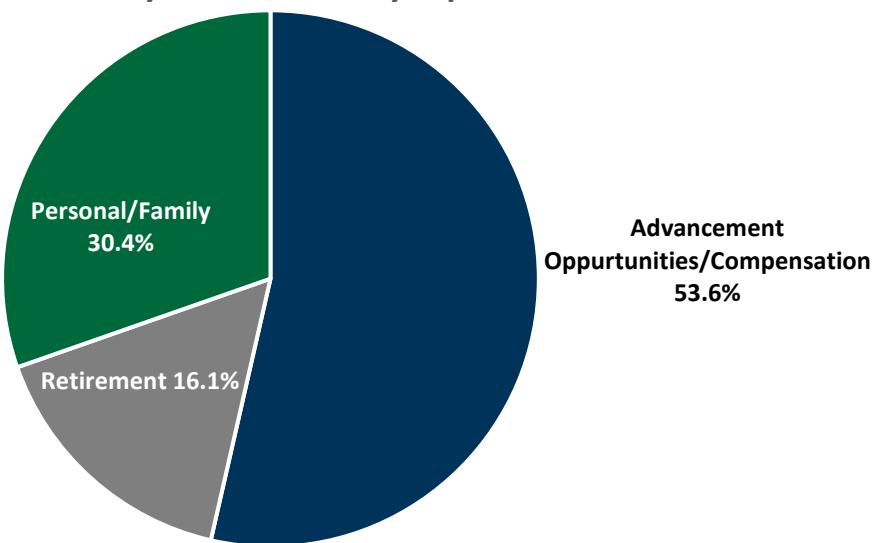
Compensation Adjustments

Towards the end of FY 2021 and intensifying into FY 2022, employee recruitment and retention has become increasingly more difficult. Our experience is similar to many public and private sector employers, being described regularly as the great resignation. The graph below illustrates the City's current trend of full-time separations and turnover rate. As the data suggests, turnover data through the first eight months of the fiscal year is almost at the same level for all of FY 2021. Therefore, it is likely that FY 2022 will produce the highest turnover statistics on record as it relates to full time voluntary separations.



As public agencies work through developing compensation strategies for FY 2023, impacts from the great resignation and inflationary pressures are likely to be the two largest factors considered when developing recommendations. As the graph below illustrates, in FY 2022, 53.6% of separations have been due to compensation and/or lack of advancement opportunities. Given these considerations, the forecast assumes 4.5% of funding included in FY 2023 to support a combination of cost of living, market-based increases and step plan increases (Police and Fire). The remaining years of the forecast assume 3.5% annually to support compensation increases. Revisiting the City's compensation strategy for FY 2023, staff will continue to evaluate inflationary pressures as well as considering the compensation increases other public agencies are planning to propose. While it is early in the budget process, several other cities have already indicated they are evaluating cost of living increases much higher than the 4.5% currently included in the five-year forecast.

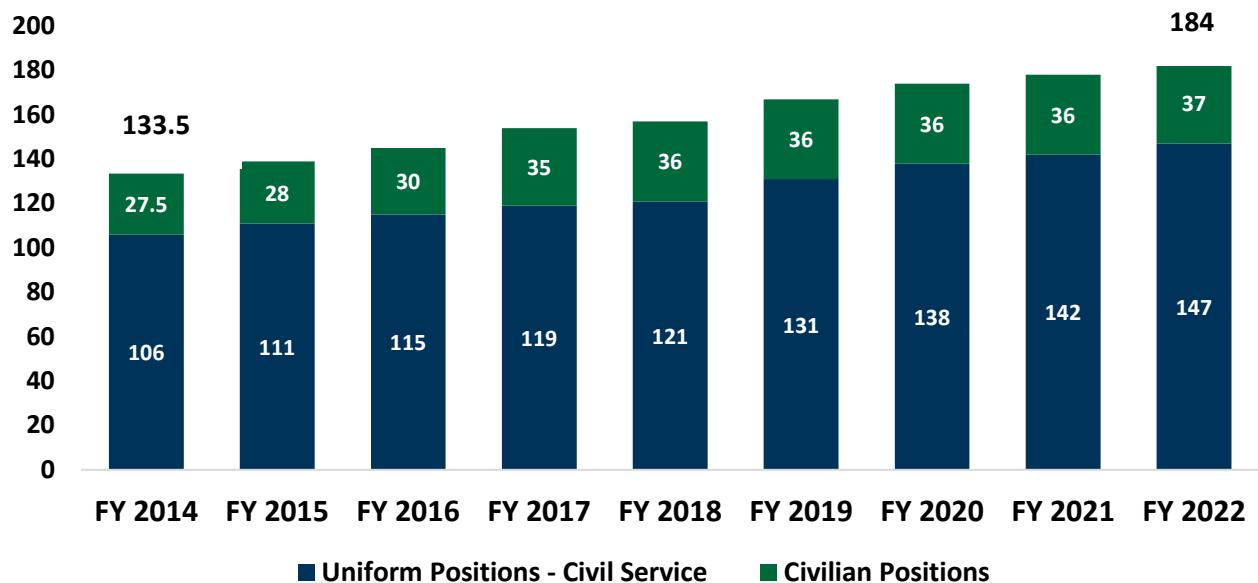
October 2021 - May 2022 Voluntary separation reason



Additional Patrol Officers

The city is currently in the process of completing an update to the Police Patrol staffing analysis. The study was initially completed in 2017 and recommended an additional 16 Officers and 2 Sergeants, all of which have been authorized and funded. In fact, additional positions have been added to the Police Department every year since FY 2014. As the following graph illustrates, since FY 2014, 50.5 full time equivalent have been added to the Police Department, representing an increase of 38%.

NBPD - Full Time Equivalent



General Fund Forecast

Given that the staffing analysis has not been completed, the forecast includes 3 additional Patrol Officers each year throughout the forecast period (15 in total). Other police support positions such as Detectives, Emergency Dispatchers, Crime Victims Liaisons, etc. are included in the other departments staffing listed below.

Operating expenditures stemming from CIP/Bond Projects

Fire Station 7 - Funding is recognized in the forecast schedule to complete the staffing additions necessary to open the new station. As a reminder, the operational plan to staff station #7 included 12 new personnel. Six Firefighters were authorized in FY 2022. The forecast assumes the remaining firefighters are added in FY 2023. The estimated annual cost to operate station #7 at this staffing level is approximately \$1.2 million annually, which includes estimated funding for operating costs such as utilities, facility maintenance, 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, which will allow for the refinement of this figure.

Other Departments Staffing – Current Identified Unmet Needs

As staff works on the FY 2023 Proposed Budget and Plan of Municipal Services, nearly every department has requested positions to meet increased demand for services. In fact, the preliminary request for General Fund positions for consideration in the FY 2023 Proposed Budget is 41.75 full time equivalent (FTE). This does not include the additional Firefighters for station #7 or additional Patrol Officers. As a placeholder to reflect these staffing needs, the forecast assumes these positions are added over a five-year period, which equates to approximately 8.25 FTE added annually.

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 (\$770,000-\$1,270,000). Therefore, to recognize the need to increase this program to support a more structured and consistent level of technology and vehicle replacements, The forecast assumes an additional \$500,000 is added to the transfer on an annual basis (\$250,000 in FY 2023 and \$250,000 in FY 2024). Additional details on the Equipment Replacement Fund capacity and projections can be found on pages 32-36.

General Fund Forecast

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 well as our budgeted contingencies, which is typically around \$200,000 annually. As our inventory of facilities increases, re-establishment of the facilities maintenance fund should be a consideration of City Council. A one-time transfer of \$1.5 million was included in the FY 2022 to re-establish the Fund, and while it is available to utilize to support emergency repairs, these funds are earmarked for modifications and improvements to the NBU facility on 306 to better support the City's operational needs. However, it would be ideal to have a recurring transfer to this fund so that it could truly serve as a funding source for repairs to our aging facilities as they arise. To recognize this, the forecast includes a \$100,000 recurring transfer beginning in FY 2023.

Policy Consideration – Continuing to utilize 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 2023 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, FY 2021 and FY 2022 budget processes. The amount listed represents the average amount requested for those three 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.

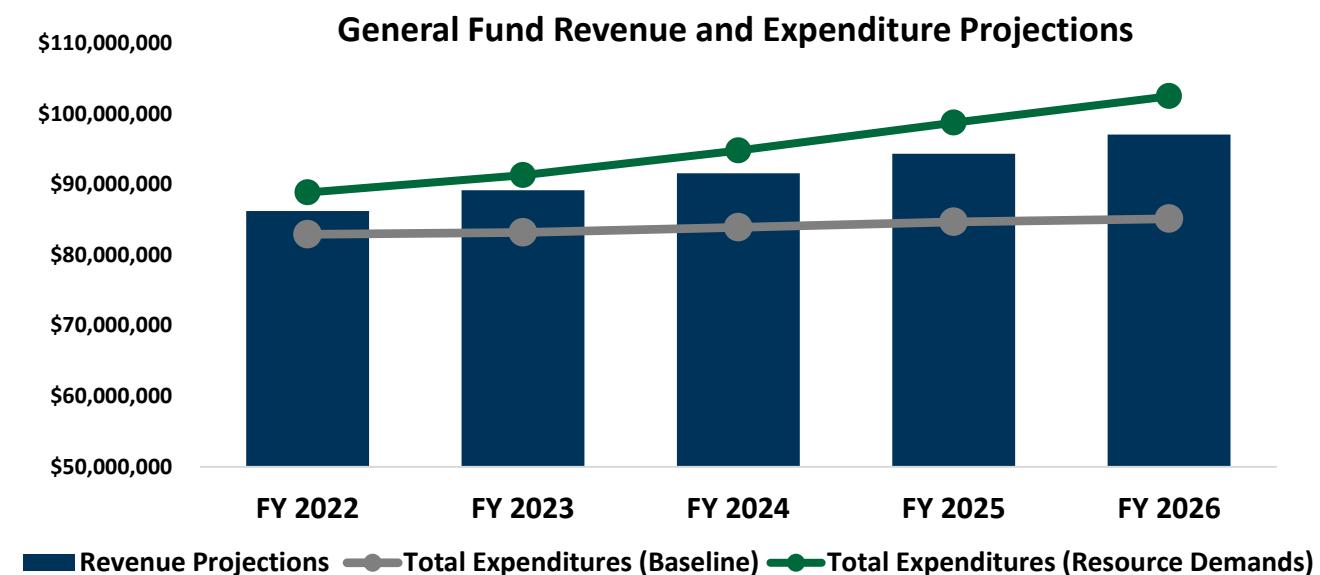
The resource demands forecast also recognizes that additional funding will be needed to support the replacement of the City's Finance and Human Resources software upgrade. As a reminder, the organization has gone nearly 20 years without a major investment in this critical piece of software and technology. The organization has been relying on a system that was purchased as a beta product in 2011. In FY 2022, \$1.25 million was transferred to the Equipment Replacement Fund to initiate the

General Fund Forecast

project. After engaging our consultant, staff has determined that the overall cost for the conversion will be significantly more than originally projected. To support the additional funding needed, the resource demands forecast incorporates an additional \$2 million in one time transfers to support this critical project and investment.

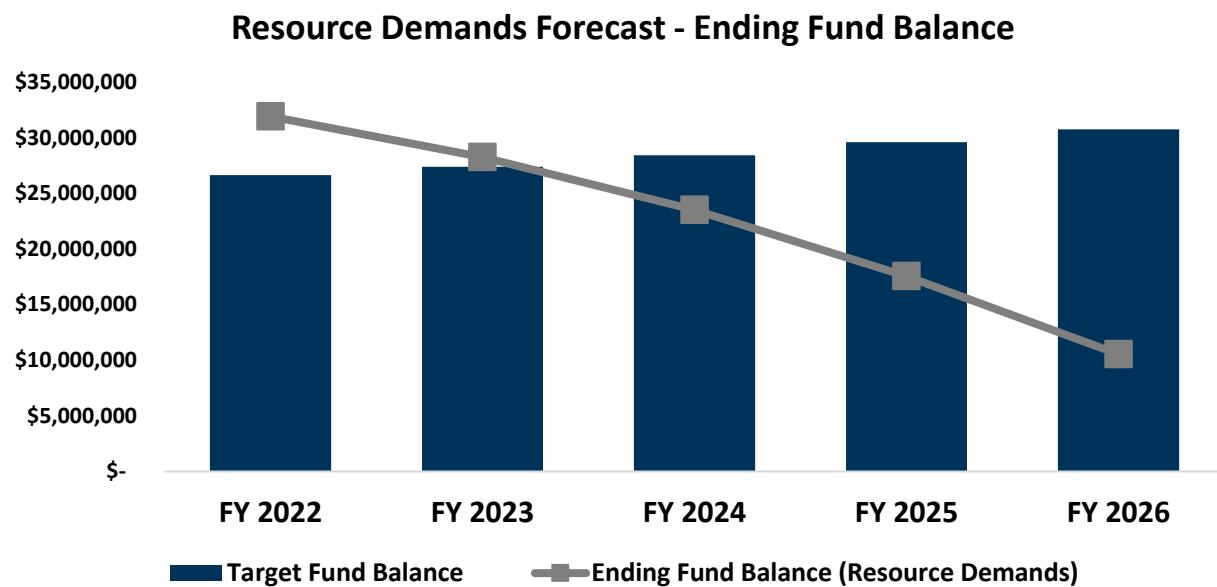
General Fund –Baseline and Resource Demands Forecast Projections

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.

General Fund Forecast



Equipment Replacement Fund

Equipment Replacement Program

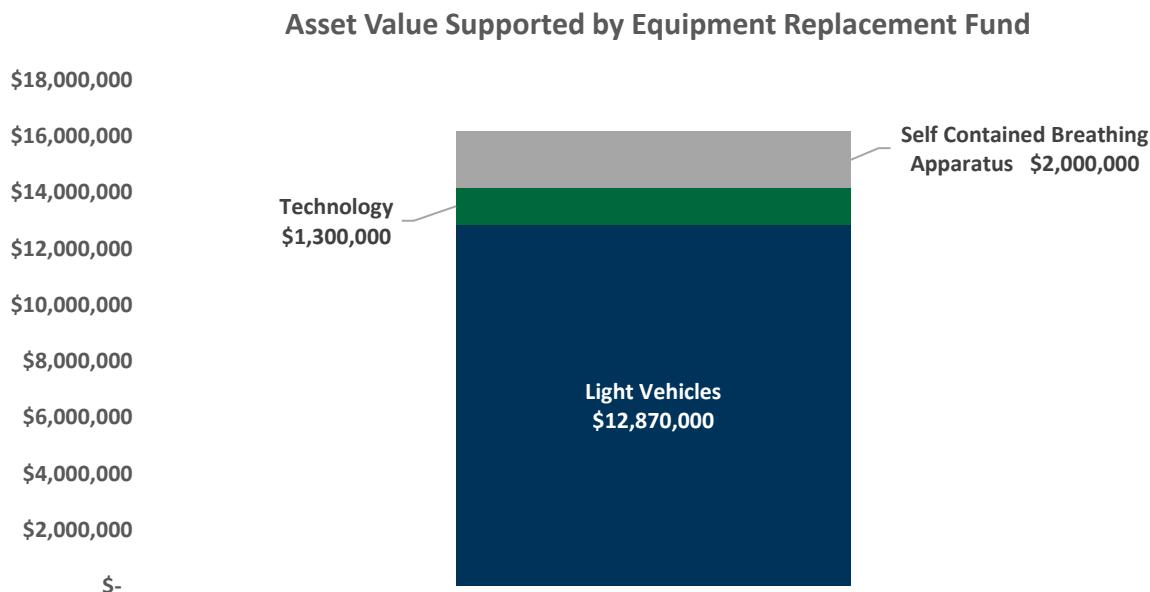
The Equipment Replacement Fund is used to fund and purchase light vehicles and computer equipment for any function/fund that is supported by the General Fund. City Council established the equipment replacement program in FY 2006 to create a funding source for light vehicle and certain technology equipment 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.

The Fleet Manager, Finance and departments 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 graph below illustrates the total value of the assets currently supported by the Equipment Replacement program – approximately \$16.2 million.



Equipment Replacement Fund

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 mainly on financial capacity.
- 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.
- Additional “catch up” transfer included in FY 2023 (\$1,000,000).

Equipment Replacement Fund Forecast

| | FY 2023 Projection | FY 2024 Projection | FY 2025 Projection | FY 2026 Projection | FY 2027 Projection |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Beginning Fund Balance | \$ 2,984,875 | \$ 2,115,440 | \$ 1,776,170 | \$ 1,943,695 | \$ 197,024 |
| Revenue | | | | | |
| Interfund Transfers | \$ 1,870,000 | \$ 970,000 | \$ 1,070,000 | \$ 1,170,000 | \$ 1,270,000 |
| Sale of Property/Equipment | 250,000 | 79,815 | 81,386 | 82,963 | 84,547 |
| Miscellaneous | 32,000 | 30,000 | 30,000 | 30,000 | 30,000 |
| Total Revenue | \$ 2,152,000 | \$ 1,079,815 | \$ 1,181,386 | \$ 1,282,963 | \$ 1,384,547 |
| Expenditures | | | | | |
| Operating Expenditures (Computer/Tech Replacement/Major Auto Repairs) | 370,935 | 370,935 | 200,000 | 200,000 | 200,000 |
| Capital Expenditures - Finance/HR Software Replacement | 750,000 | 250,000 | | | 2,000,000 |
| Capital Expenditures - SCBA Replacement | | | | | |
| Capital Expenditures (Vehicle Replacement) | | | | | |
| Public Safety | 1,818,000 | 714,000 | 728,028 | 742,085 | 756,170 |
| All other Departments | 82,500 | 84,150 | 85,833 | 87,550 | 89,301 |
| Total Expenditures | \$ 3,021,435 | \$ 1,419,085 | \$ 1,013,861 | \$ 3,029,634 | \$ 1,045,471 |
| Ending Fund Balance | \$ 1,865,440 | \$ 1,776,170 | \$ 1,943,695 | \$ 197,024 | \$ 536,100 |
| Restricted Ending Fund Balance | \$ 250,000 | \$ - | \$ - | \$ - | \$ - |

Equipment Replacement Fund

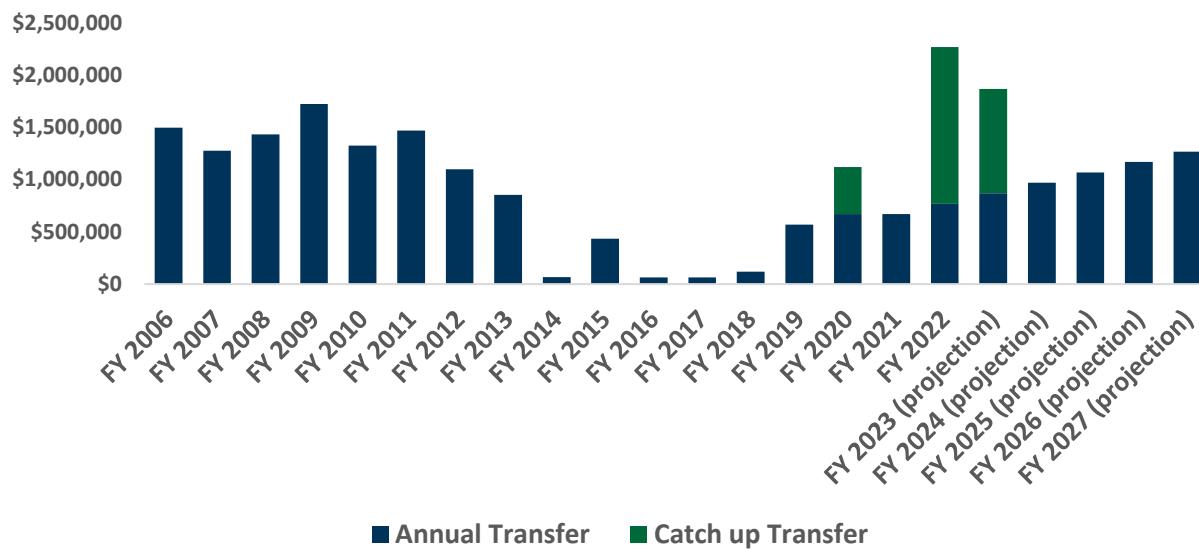
Interfund Transfers

In FY 2022, \$770,000 is budgeted to be transferred to the Equipment Replacement Fund. Throughout the forecast period, the annual transfer is increased \$100,000 annually. As a reminder, the transfer from the General Fund is the primary funding source for the program.

Equipment Replacement Fund Suspension History

As stated earlier, the Equipment Replacement Fund was suspended in FY 2014 as a budget balancing strategy and as a means to free up recurring revenue to support market-based compensation increases. As a reminder in 2014, the City's pay scales were roughly 15%-22% behind the market. As the graph illustrates, the transfer has been re-building since FY 2022.

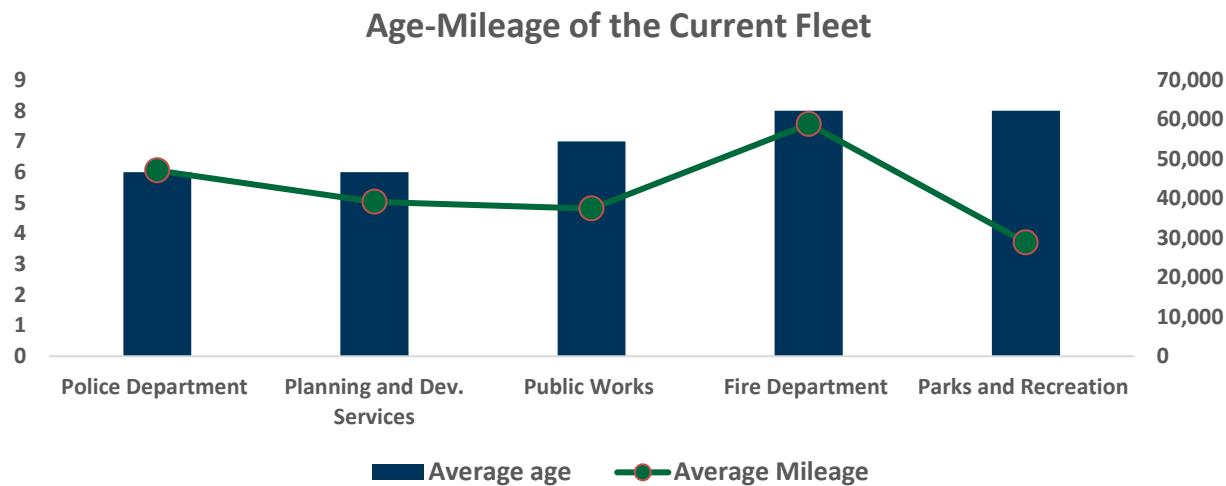
Equipment Replacement Fund Transfer History



When the budget would allow, one-time transfers have also been included as a means of "catching up" from the years in which the transfer was suspended. As the graph illustrates, the forecast assumes an additional \$1,000,000 catch up transfer in FY 2023; this will specifically help to support the outlay associated with our Police Department vehicle replacements which were approved in May (2022).

Current Fleet Condition – During the years in which the transfer was suspended, vehicle replacements were extended beyond the initial criteria that was established when the program began. However, with catch up replacements as well as the 2018 tax note (\$2.3 million), which was entirely dedicated to vehicle replacements, the age and mileage of the fleet has not been too negatively impacted. The graph below illustrates the average age and mileage of the current fleet.

Equipment Replacement Fund



While the suspension did not have too negative of an impact on the age and mileage of the overall fleet, city staff still intends to formalize a replacement schedule once again and adhere to it now that the replacement fund is better positioned financially.

Light Vehicles

As mentioned earlier, the forecast supports minimum replacement needs thru FY 2027. in comparison to last year's forecast, the number of minimum replacements was able to increase by 5 vehicles. As mentioned earlier, the suspension of the program forced vehicle replacements to be made almost entirely on the financial capacity of the fund. In FY 2023, the fleet division will work collaboratively with the finance department on reestablishing replacement criteria.

| Type of Vehicle | Base Cost (FY 2023) | Annual Replacements |
|----------------------|---------------------|---------------------|
| Police Pursuit | \$70,000 | 8 |
| Police – Non-Pursuit | \$35,000 | 1 |
| Fire | \$35,000 | 1 |
| Other Departments | \$27,500 | 3 |

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. \$200,000 is allocated annually throughout the forecast period to support laptop, desktop, and monitor replacements.

Equipment Replacement Fund

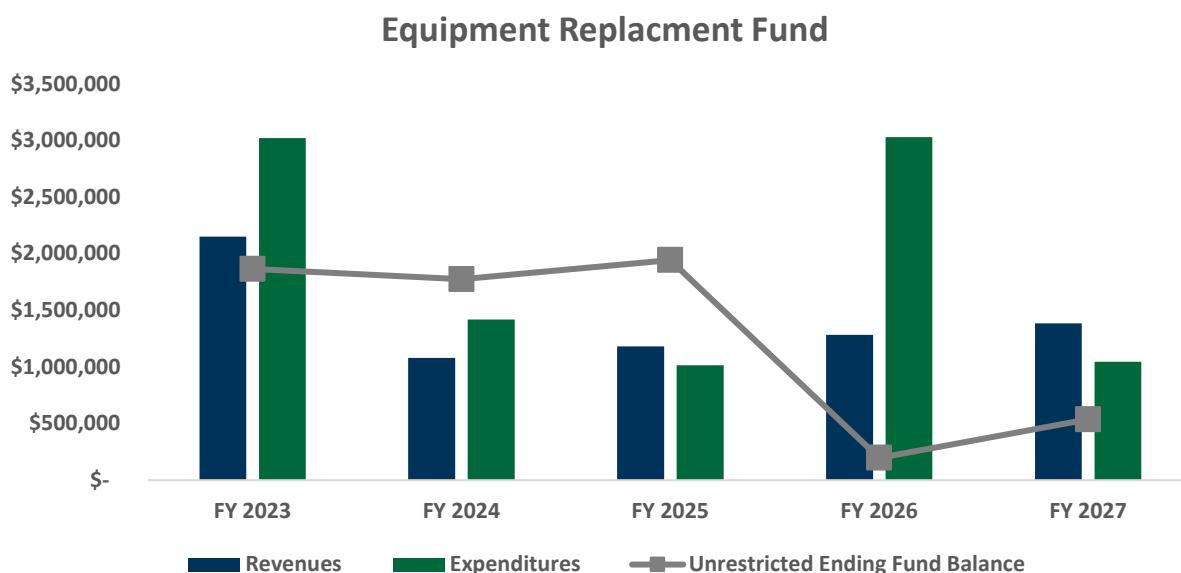
In FY 2017, the MDT's that are installed in every police pursuit vehicle and fire response vehicle were replaced. MDT's have a projected useful life of 4-5 years. Installation of these terminals is a very labor-intensive process. To smooth out this process and cost, the forecast assumes that the units 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 \$2,000,000.

Future Viability of the Equipment Replacement Program

As the forecast and graph below illustrate, the catch-up transfers in FY 2022 and FY 2023 ensure the solvency of the fund through the replacement of the SCBA units in FY 2026. As the General Fund forecast suggests, to fully re-establish the equipment replacement program, the transfer needs be increased by approximately \$500,000 annually. As the replacement criteria are reevaluated, this figure will be refined, however, the current goal is to increase the transfer to approximately \$1,750,000 annually.



Debt Service Fund Forecast

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 (CO) and general obligation bonds (GO).

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 Interest and Sinking (I&S) portion of the tax rate remains at the current debt rate in the amount of 22.80 cents per \$100 of valuation.
- Property tax values grow at 17 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 2013 and 2019 bonds are issued in accordance with the following schedule:
 - FY 2022 - \$13,515,000 (2019 Bonds); \$2,544,000 (2013 bonds)
 - FY 2023 – no planned issuance
 - FY 2024 – no planned issuance
 - FY 2025 – no planned issuance
 - FY 2026 – no planned issuance
- The remaining general obligation bonds are assumed to have a 20-year term with an interest rate of 4.0 percent by FY 2022.
- While the forecast does not assume the passage of the 2023 bond program, the document does illustrate the impact those bonds would have on our I&S rate requirement if passed by voters.

Debt Service Fund Forecast

Debt Service Fund Forecast - Baseline Expenditures

| | FY 2023 Projection | FY 2024 Projection | FY 2025 Projection | FY 2026 Projection | FY 2027 Projection |
|-------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Beginning Fund Balance | \$ 2,777,611 | \$ 5,367,366 | \$ 10,291,807 | \$ 15,944,017 | \$ 24,164,619 |
| Revenue | | | | | |
| Taxes | \$ 25,348,920 | \$ 26,489,622 | \$ 27,549,207 | \$ 28,651,175 | \$ 29,797,222 |
| Interest Income | 7,500 | 10,000 | 20,000 | 30,000 | 40,000 |
| Contributions | 1,686,006 | 1,217,881 | 1,216,406 | 1,218,756 | 1,210,831 |
| Interfund Transfers | 1,381,388 | 1,379,038 | 1,384,319 | 1,387,388 | 787,897 |
| Total Revenue | \$ 28,423,814 | \$ 29,096,541 | \$ 30,169,932 | \$ 31,287,319 | \$ 31,835,950 |
| Expenditures | | | | | |
| Debt Service | 25,834,059 | 24,172,100 | 24,517,722 | 23,066,717 | 21,958,470 |
| Total Expenditures | \$ 25,834,059 | \$ 24,172,100 | \$ 24,517,722 | \$ 23,066,717 | \$ 21,958,470 |
| Ending Fund Balance | \$ 5,367,366 | \$ 10,291,807 | \$ 15,944,017 | \$ 24,164,619 | \$ 34,042,099 |

Assumption

\$13.515M remaining 2019 GO Bonds & \$2.544M remaining 2013 GO Bonds issued in 2022 (First payment in FY 2023)

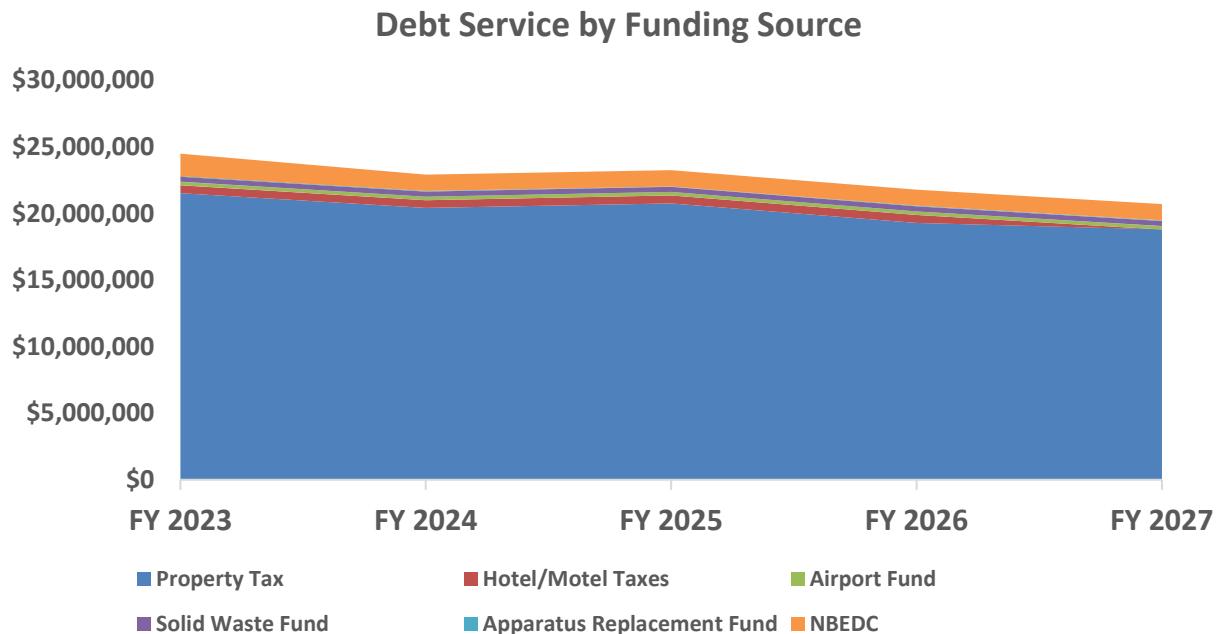
Forecast Analysis

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 2023. 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.

Debt Service Fund Forecast



During the forecast period, approximately 89 percent of the annual debt service commitment is supported by property taxes. 6 percent is supported by the New Braunfels Economic Development Corporation (NBEDC), with the remaining 5 percent supported collectively by the Enterprise Funds, Hotel Occupancy Tax Fund and Equipment Replacement Fund.

FY 2022 Financing Strategy

As mentioned earlier, the forecast assumes that the remaining 2019 and 2013 GO bonds will be issued in FY 2022 (first payment in FY 2023). If issued, all bonds associated with the 2013 and 2019 bond programs will have been issued. This timeframe is primarily the reason why there is capacity next fiscal year to initiate the proposed 2023 bond program.

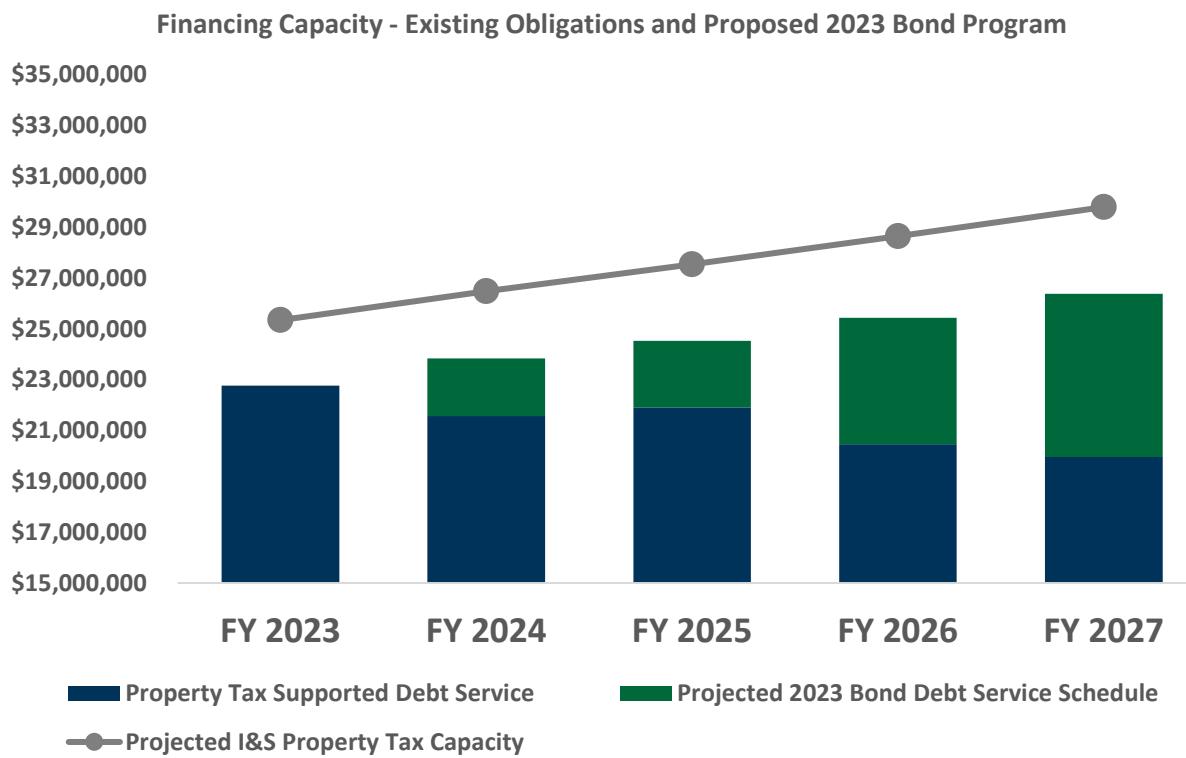
As a reminder, the \$2.5 million in 2013 bonds will be utilized entirely to support project overages associated with two 2019 bond projects, Klein Road Phase II and the Goodwin-Conrads Lane project.

2023 Bond Program

The initial capacity analysis for the 2023 bond program assumed a continued slowdown in growth. This was based on the trend in property value growth over the past two years as well as considering the data with respect to land availability and consumption.

Debt Service Fund Forecast

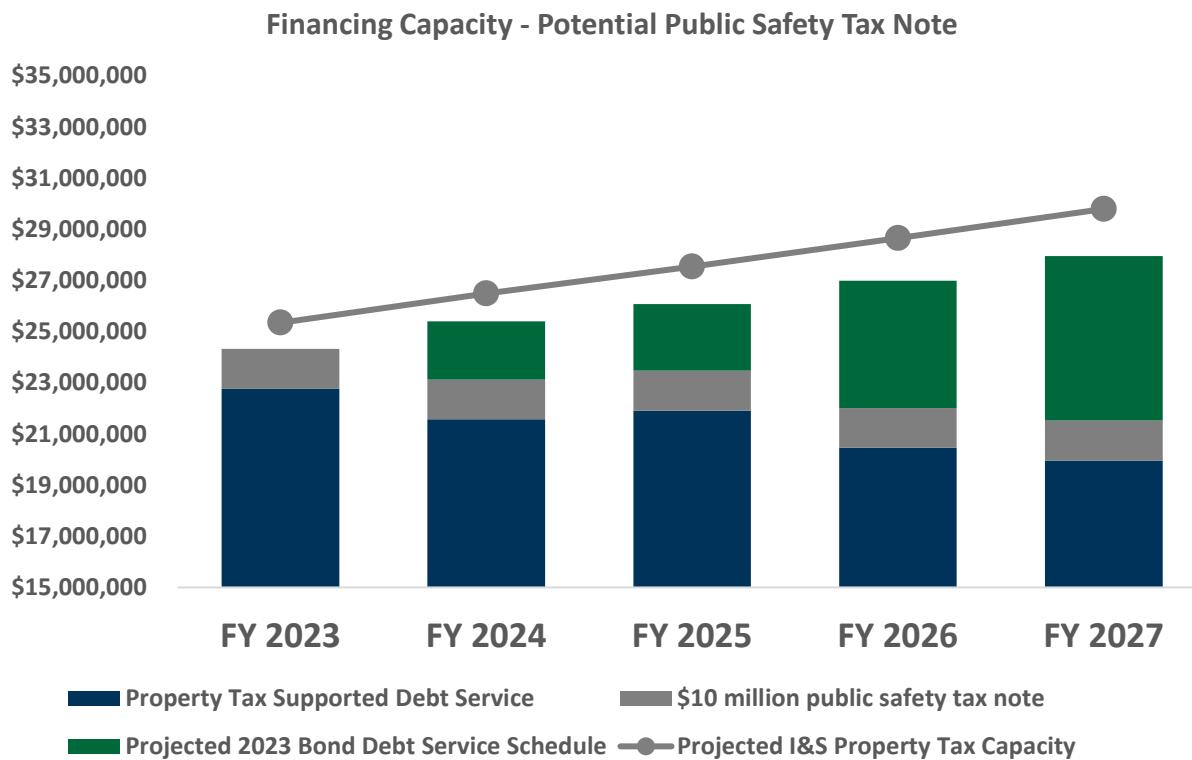
Staff certainly did not expect that preliminary values would exceed 30%. The Forecast assumes that a large portion of the growth is adjusted down through the protest process. Even with that adjustment, the growth is still significantly higher than anticipated; therefore, the city's financing capacity has been modified. As a result, there are several policy considerations to evaluate, which are described in this section.



Policy Considerations

Public Safety Tax Note Issuance – As the City Council worked through the process of evaluating the project rankings from the 2023 Bond Advisory Committee, it was suggested that staff look into other ways to support the costs associated with the public safety projects up for consideration. Staff suggested that there may be capacity to issue a tax note to support some of the public safety initiatives without impacting the 2023 bond capacity. Again, this is a direct effect of the higher than anticipated property value increases. For example, if the city were to issue a \$10 million tax note, dedicated to public safety initiatives, our projections would allow for that additional debt service to be absorbed within the current tax rate (see below).

Debt Service Fund Forecast



The consideration of shifting some of the public safety initiatives to a tax note ahead of the bond program is that these investments would not have to compete with other road, park, drainage and library projects (within the \$140 million target). In addition, given equipment lead times and inflationary pressures, it could present an opportunity to mitigate future price increases and/or ongoing operating/repair costs for equipment that is in need of replacement. As a point of reference, here were the three public safety initiatives that were under consideration by the bond advisory committee.

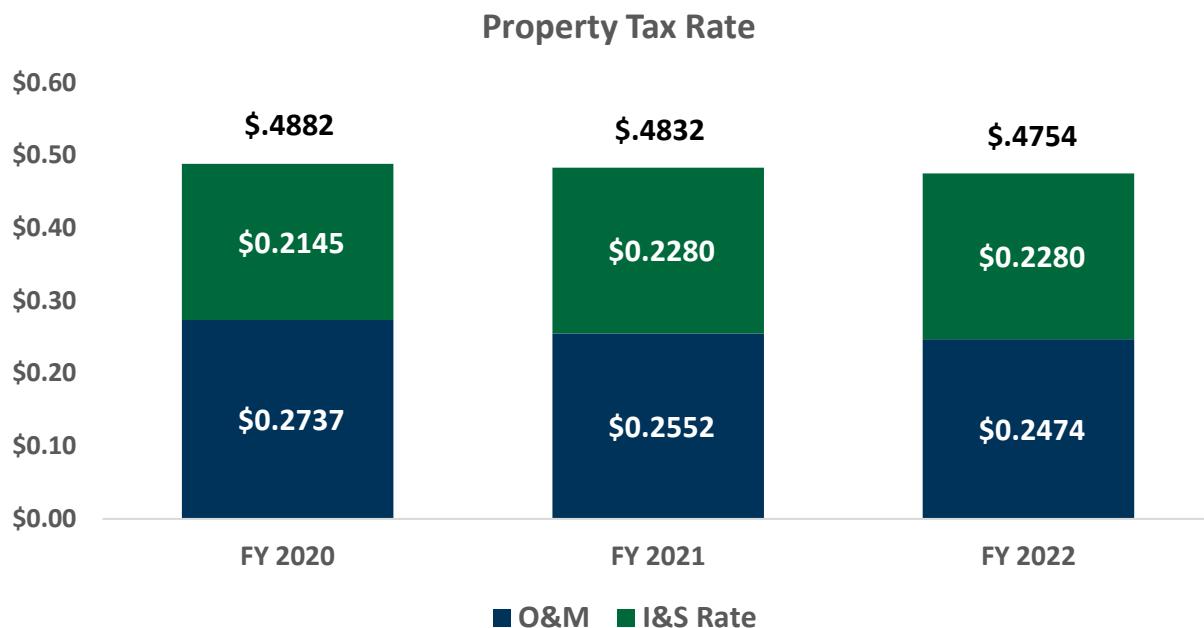
- Public Safety Radio Replacement - \$5.5 million
- Ladder Truck Replacement - \$1.825 million
- Fire Station #5 Expansion - \$1.62 million
- *Police Command Vehicle - \$450,000 (project was submitted, but was under the dollar threshold to be incorporated into the Capital Improvement Plan).*

I&S Tax Rate Adoption – As the previous graph illustrates, even with the current bonds planned to be issued as well as the additional debt service stemming from a tax note, there may still be capacity in the I&S rate for FY 2023.

As we have seen since the inception of SB2, the growth in values will require a decrease to the Operations and Maintenance (O&M) portion of the rate. However, the City Council has more

Debt Service Fund Forecast

discretion and flexibility as to how to set the first-year debt payments on new issuances and therefore the I&S rate. As the graph illustrates, since SB2, the I&S rate is moving closer to a similar proportion of our overall tax rate in comparison to the O&M rate (General Fund).



Given that the current tax rate and higher than anticipated growth in values may have additional capacity beyond the \$140 million bond and a dedicated public safety tax note, the council may want to consider utilizing any additional capacity to provide additional property tax rate relief.

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 \$175,000, 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 in recent history. 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 2023, with 5% increases annually from FY 2024-FY 2027

Self-Insurance Fund

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

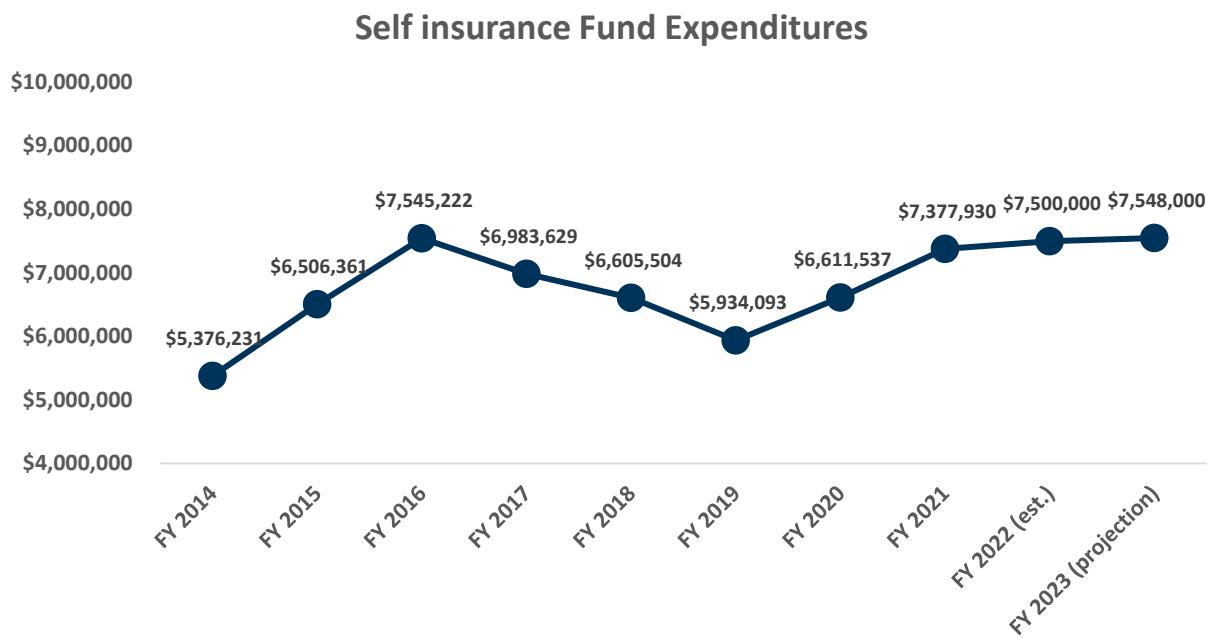
Self Insurance Fund Forecast

| | FY 2023 Projection | FY 2024 Projection | FY 2025 Projection | FY 2026 Projection | FY 2027 Projection |
|---------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Beginning Fund Balance | \$ 2,288,427 | \$ 2,323,427 | \$ 2,351,027 | \$ 2,379,857 | \$ 2,409,979 |
| Revenue | | | | | |
| Premiums/Contributions - Active | \$ 7,400,000 | \$ 7,770,000 | \$ 8,158,500 | \$ 8,566,425 | \$ 8,994,746 |
| Premiums - Retirees | 180,000 | 180,000 | 189,000 | 198,450 | 208,373 |
| Interest Earnings | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 |
| Miscellaneous | | | | | |
| Total Revenue | \$ 7,583,000 | \$ 7,953,000 | \$ 8,350,500 | \$ 8,767,875 | \$ 9,206,119 |
| Expenditures | | | | | |
| Claim and Administrative Expenditures | 7,548,000 | 7,925,400 | 8,321,670 | 8,737,754 | 9,174,641 |
| Total Expenditures | \$ 7,548,000 | \$ 7,925,400 | \$ 8,321,670 | \$ 8,737,754 | \$ 9,174,641 |
| Ending Fund Balance | \$ 2,323,427 | \$ 2,351,027 | \$ 2,379,857 | \$ 2,409,979 | \$ 2,441,456 |
| Target Fund Balance | \$ 2,233,381 | \$ 2,345,050 | \$ 2,462,302 | \$ 2,585,417 | \$ 2,714,688 |
| Fund Balance Surplus/(Deficit) | \$ 90,046 | \$ 5,977 | \$ (82,445) | \$ (175,439) | \$ (273,232) |

Self-Insurance Fund

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 needed to make any major plan design changes or increase premiums/contributions in the last four years.

The forecast assumes that costs increase 5% annually from FY 2024-FY 2027. 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.

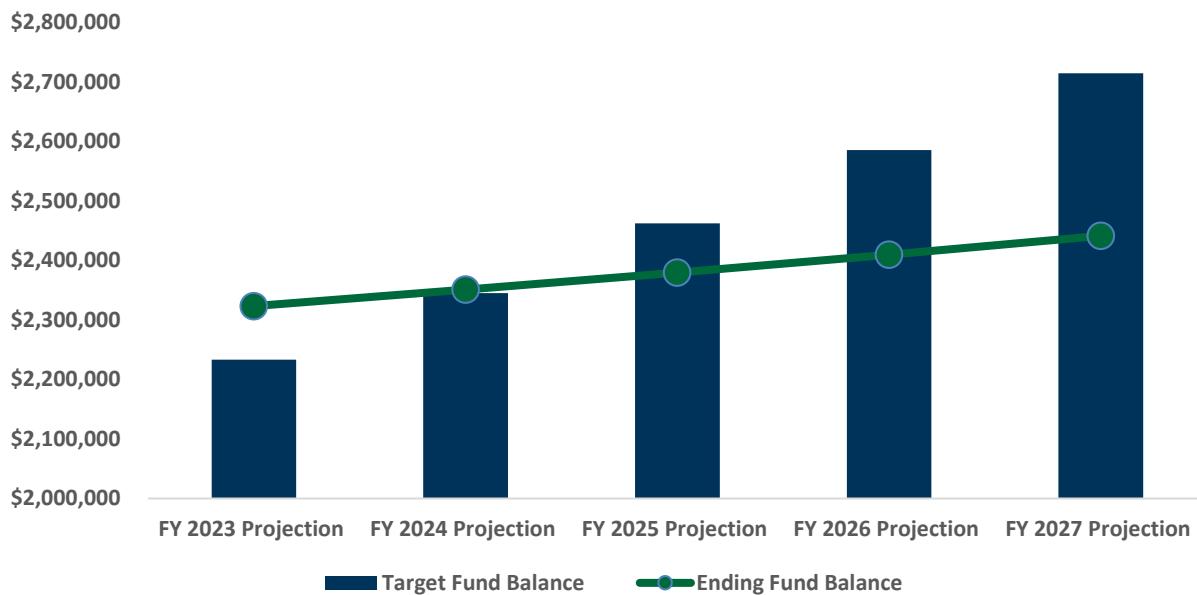
Fund Balance

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

Self-Insurance Fund

and FY 2017. Based on our positive experience, the fund now has a surplus. However, as the graph illustrates, that surplus is essentially eliminated by overall growth in claim costs beginning in FY 2025. Staff intends to be proactive in ensuring that reserve levels are maintained and costs are controlled, this is described in further detail below.

Fund Balance Projections



Policy Consideration

Competitive benefits remain a high priority for the organization as it relates to the recruitment and retention of talent. Listed below are several key objectives that continue to be the focus when developing the FY 2023 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 2022.

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.