City of New Braunfels

FIVE YEAR

FINANCIAL FORECAST

FY24-FY28

www.newbraunfels.gov/finance

FY 2024-FY 2028 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 and Equipment Replacement 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 2024 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 2024, the City's annual budget process began in the spring as it typically does. As this document will illustrate, there continues to be a gap between identified resource needs and General Fund capacity throughout the forecast period. This is typical for most, if not all cities. The five-year forecast will assist the City Council in determining how best to strike a balance between capacity and funding of new resources. Specific to the FY 2024-2028 forecast, there are policy considerations for the City Council to evaluate that have the potential to create additional capacity in the General Fund.

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.

The completion of the Five-Year Financial Forecast is 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 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.

Economic Benchmarks and Outlook

The national economy influences the New Braunfels and larger San Antonio economy in a variety of ways. Interest rates affect individual and business purchasing and construction. Federal government spending affects the local economy through spending and employment at federal agencies, including military bases in the San Antonio region. Inflation, a noted concern for the 2022-2023 fiscal year- affects prices of local purchases and wages. An assessment of New Braunfels' economic performance and forecasting begins with a discussion around the widely documented and understood reality that New Braunfels has consistently been amongst the fastest growing cities in the United States. An examination of trends around New Braunfels' population growth suggests the city's attractiveness as a place to relocate has accelerated in recent decades.

Since 2010, New Braunfels' population growth (81%) has more than tripled that of the San Antonio-New Braunfels MSA (24%) and nearly doubled that of the Austin MSA (41%):

Population Growth (2010-2022)				
	2010	2022	Net Change	% Change
New Braunfels	57,740	104,707	46,967	81%
San Antonio MSA	2,142,508	2,655,342	512,834	24%
Austin MSA	1,716,289	2,421,115	704,826	41%
Texas	25,145,561	30,029,572	4,884,011	19%

Source: U.S. Census

Employment and Wages

San Antonio's unemployment rate has remained above the national rate (3.7%) but has consistently been below the state's 4.1% reading in May 2023. San Antonio payrolls increased by approximately 9.5%, with most sectors seeing job gains. Sectors seeing job decreases were information services and leisure and hospitality.

San Antonio economy dashboard (May 2023)			
Job growth (annualized) Feb.–May '23	Unemployment rate	Avg. hourly earnings	Avg. hourly earnings growth y/y
5.0%	4.0%	$27.94	1.6%

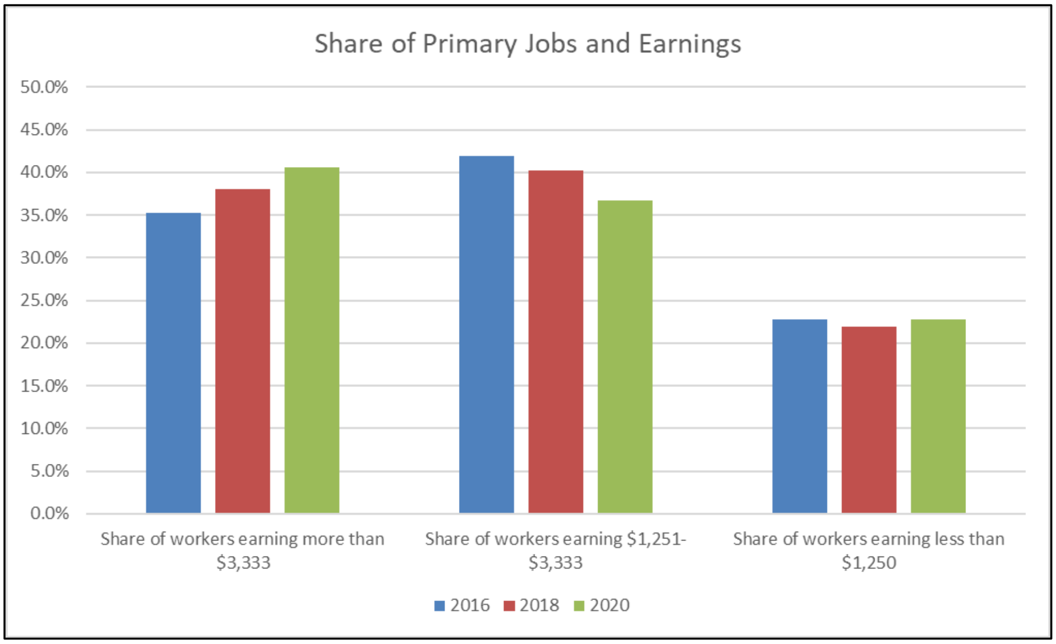
Wages in the region increased an annualized 3% in May to a three-month moving average hourly wage of $27.94. These figures still lag the state and national hourly wages of $31.21 and $33.32, respectively. New Braunfels has continued to add employment and expand the civilian labor force since the pandemic started in March 2020.

New Braunfels Employment Figures- May 2020-2023				
Year	Employment	Civilian Labor Force	Unemployment	Unemployment Rate
2020	40,557	45,456	4,899	10.8
2021	45,439	47,429	1,990	4.2
2022	47,582	49,118	1,536	3.1
2023	48,898	50,652	1,754	3.5

Payroll expansions in New Braunfels has continued to see an increase in measurements and projections of household income as shown below:

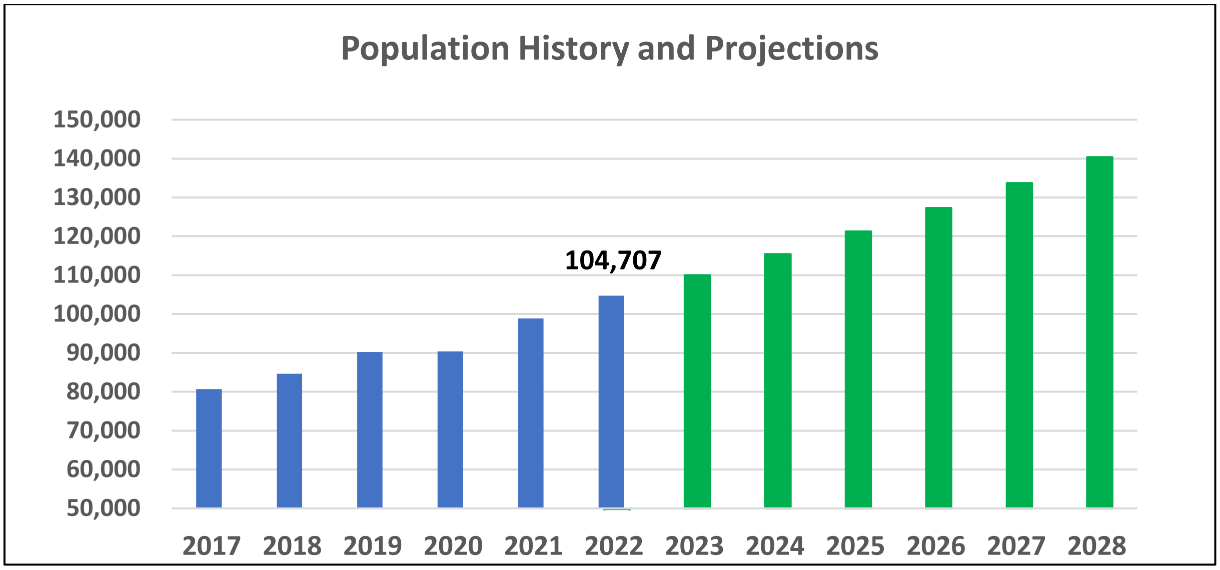
Income	2023	2028	% Change
Median Household Income	$ 81,675	$ 89,253	9.3%
Average Household income	$ 109,187	$ 123,852	13.4%
Per Capita Income	$ 41,570	$ 47,163	13.5%

More specifically, New Braunfels has continued to see a larger share of its workforce earn higher wages, on average. In 2017, only 35.3% of workers earned more than $3,333 per month. By 2020, this figure had increased to more than 40% of workers.



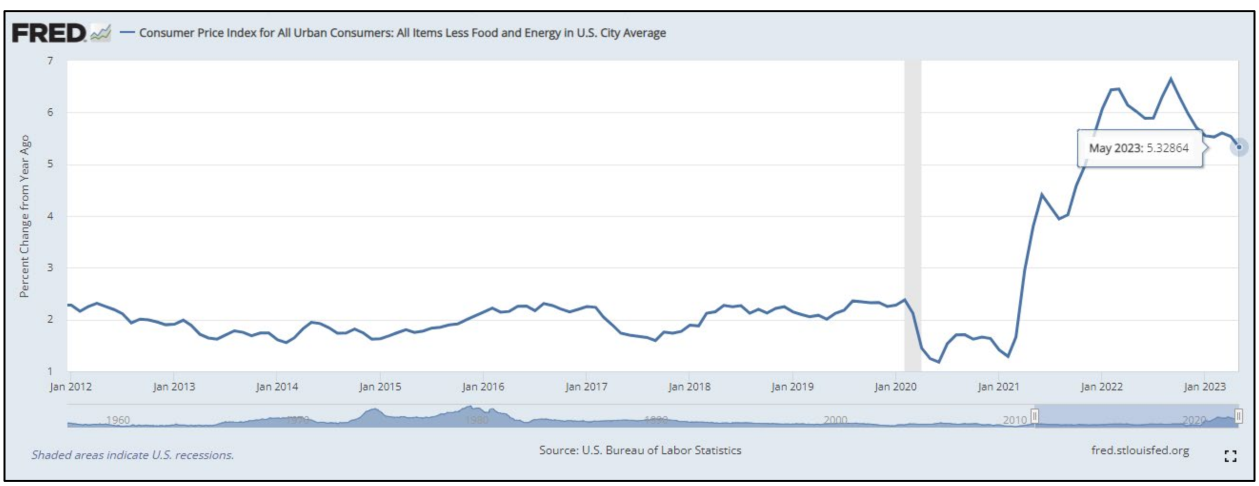
Population Projections

The latest official census information for New Braunfels provides a July 2022 population estimate of 104,707. This represents a compounded annual growth rate (CAGR) of 5% 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 3,900 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 availability of developable property and other variables such as the construction of new water and wastewater infrastructure suggest that the 3,900 figure likely represents the upper bounds of annual population growth. When a 5.01% CAGR is applied from the 2022 figures through the forecast period, this means that approximately 5,900 people are added annually for an estimated total population of 140,000 by 2028:



Housing and Construction Activity

Increased interest rates are the central economic story of the 2022-2023 period. The Federal Reserve has increased the benchmark federal funds rate 10 times since March 2022. These five percentages (5%) point increase was the fastest rate increase in decades. In June 2023, the Federal Reserve decided to pause the increase in rates to further assess how rate increases are affecting the economy. After hovering near zero percent (0%) to respond to the pandemic-induced recession, the increase in rates was intended to curtail spending and put less upward pressure on consumer prices (inflation). The "Sticky" Consumer Price Index- a measure of inflation that removes food and energy costs (which are typically more volatile) – shows that while declining since its peak in late 2022, this core measure is still outside the Federal Reserve's objectives of around two percent (2%):

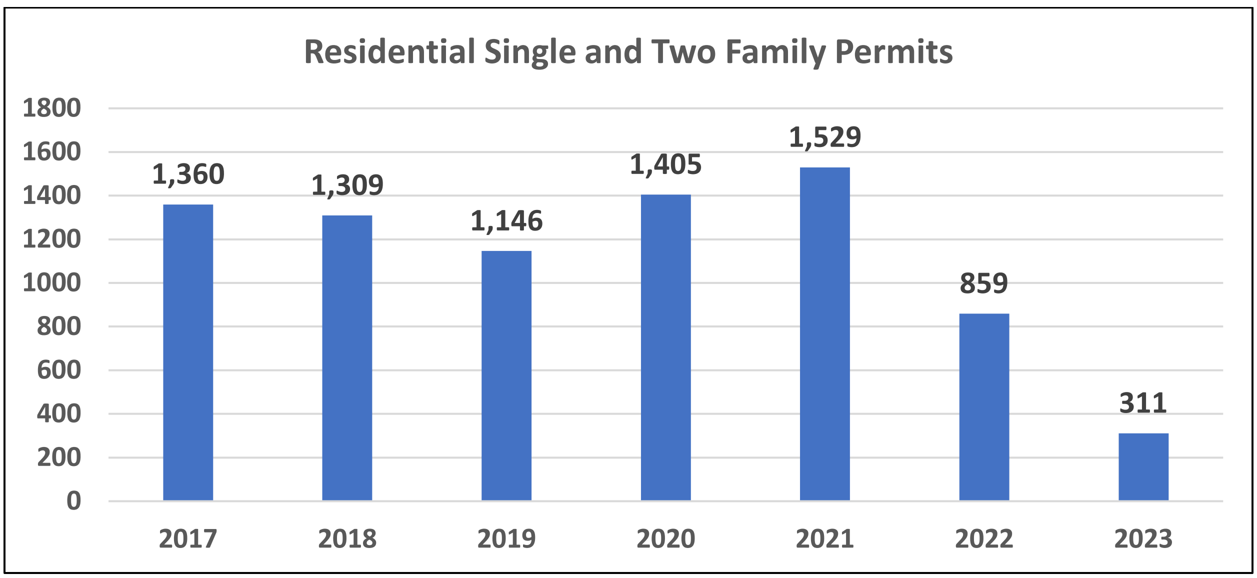


While it left interest rates intact at its June meeting, many analysts expect the Federal Reserve to raise interests rates two more times before 2024. Interest rate increases make borrowing more expensive and have rippling effects through the economy for businesses and consumers. Higher interest rates for mortgages, vehicles, and small business lending tends to constrain economic activity. Cities such as New Braunfels can expect these increases to impact its local economy as well. Given this reality, the primary economic challenge that New Braunfels can expect to encounter over the next year is significantly reduced housing construction activity. Interest rates, coupled with the declining availability of developable property within city limits as discussed in previous forecasts appear likely to compound the economic headwinds.

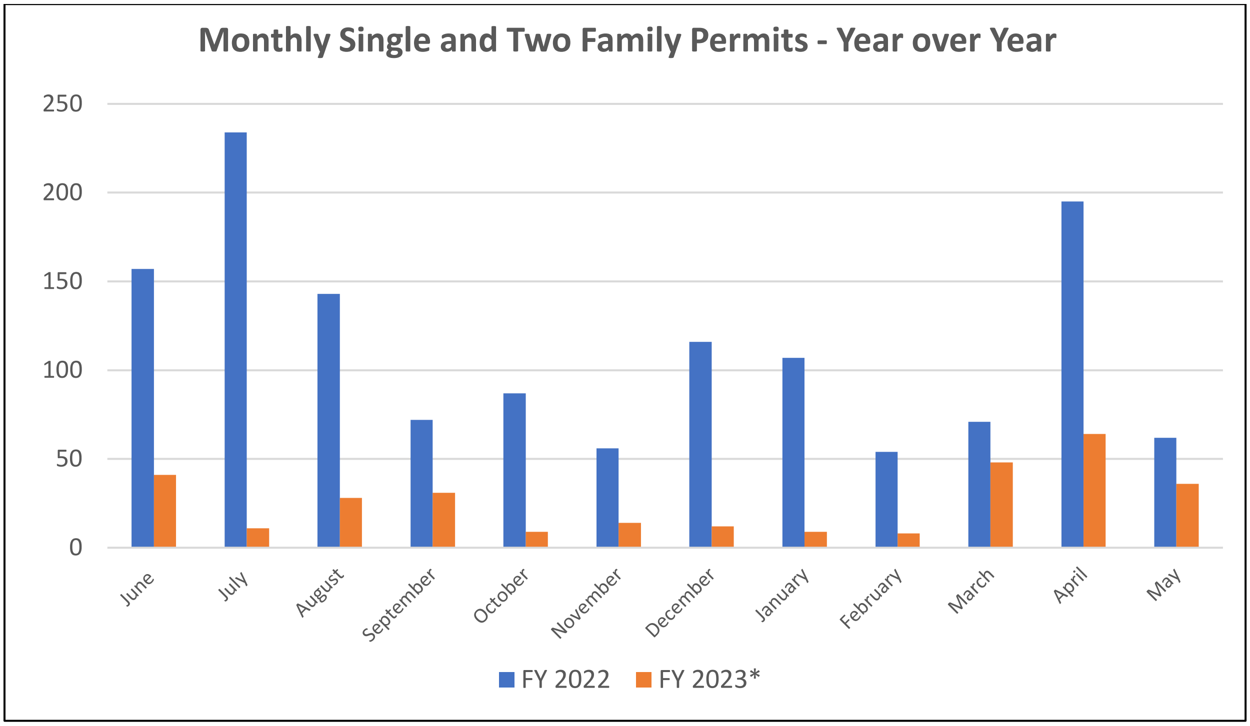
Housing is a significant part of the U.S. economy. With housing investment and construction and housing related services constituting approximately 15-18% of Gross Domestic Product, a dip in this key economic activity will impact national, regional and local economies. Higher interest rates are having the intended effect of slowing housing activity and this is evident in New Braunfels and the larger San Antonio Metropolitan Statistical Area (MSA). Sales volume for single-unit residential housing decreased 10.3% year over year in the New Braunfels market area and median prices are down approximately 4% from May 2022 after having increased by 22% over May 2021. These larger MSA trends are also borne out in New Braunfels' key housing indicators as shown below:

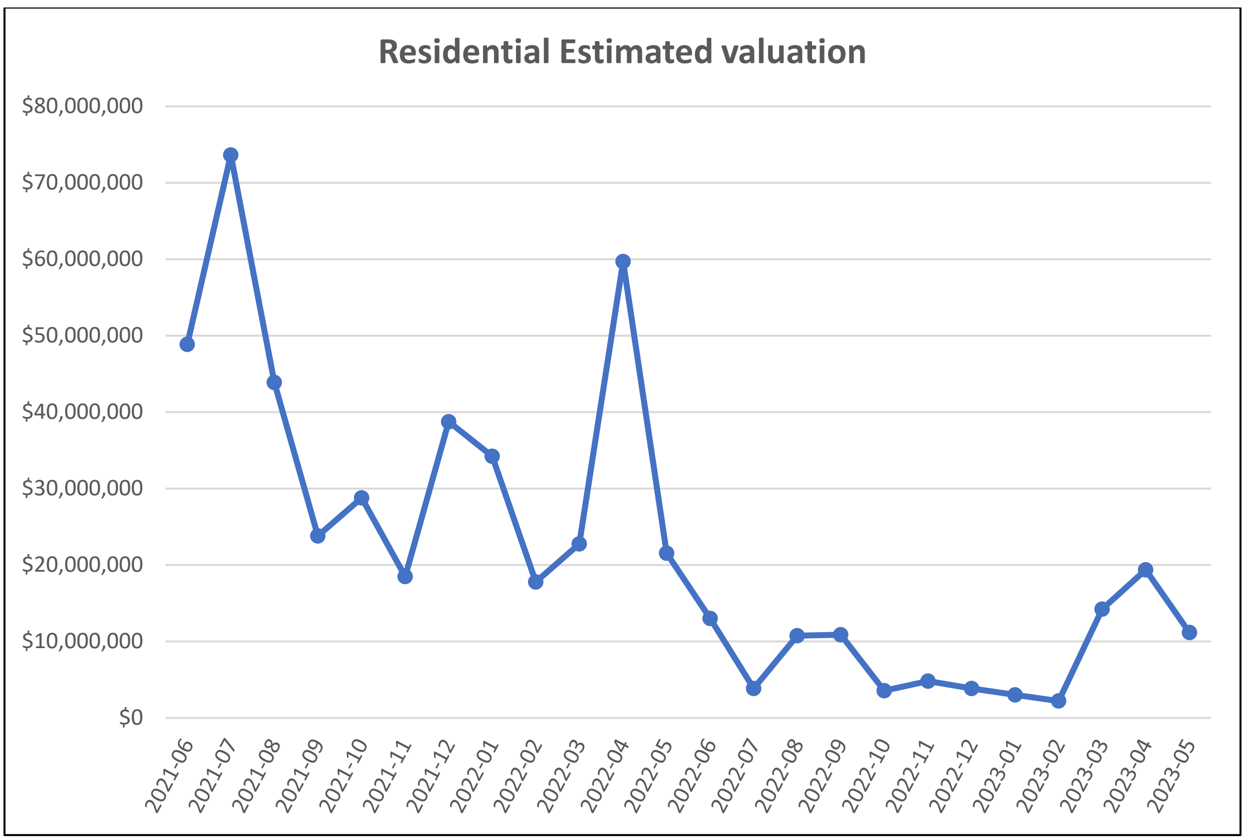
Housing Activity Indicators - Summary	Jun 21-May 22	June 22-May 23	Difference (%)
Annual single- and two-family permits issued	1,264	311	-75%
Months of housing inventory	1.2	3.6	200%
Median Price	\$384,380	\$369,950	-3.8%
Multifamily Vacancy Rate	95.6% (Q2 2022)	90% (Q2 2023)	-5.9%
YoY Rent Increase	\$1.68/ft^2	\$1.61/ft^2	-1.2%

These reduced figures represent a significant departure from previous trends around single and two family permitting figures:



New single and two family permit numbers and corresponding values are down more than 75% in 2023 compared to the same evaluation period last year (June 2021-May 2022).


Monthly Single and Two Family Permits - Year over Year
250
200
150
100
50
0
June
July
August
September
October
November
December
January
February
March
April
May
FY 2022
FY 2023*


Residential Estimated valuation
$80,000,000
$70,000,000
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$0
2021-06
2021-07
2021-08
2021-09
2021-10
2021-11
2021-12
2022-01
2022-02
2022-03
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2022-11
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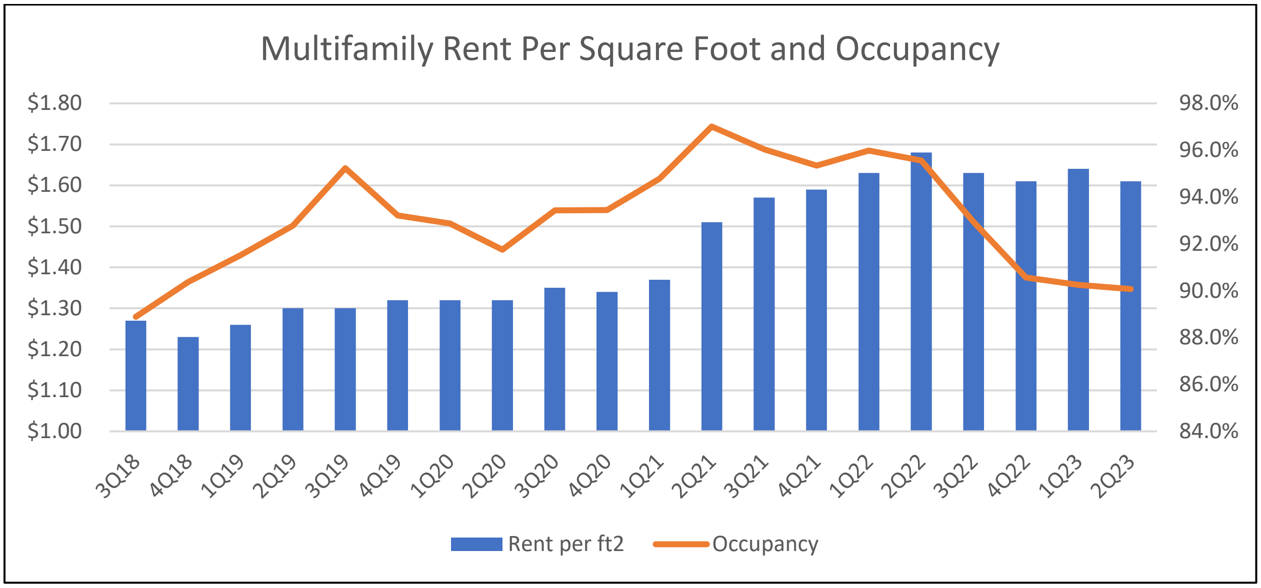
2023-04
2023-05

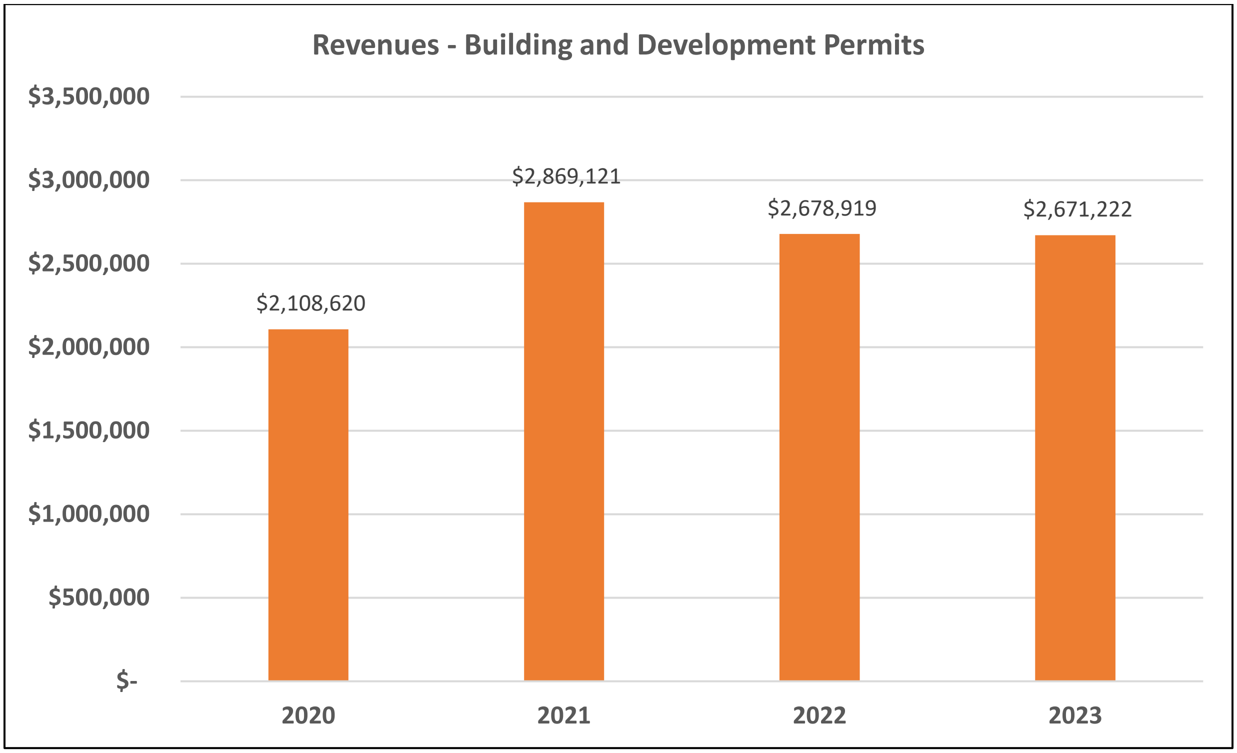
Multifamily developments in New Braunfels are seeing increased vacancy rates and some downward (or slowing pressure) on rent prices:



Multifamily occupancy has declined and rent growth has slowed. Historically, occupancy has hovered at approximately 95% but recent deliveries of around 650 units and the softening rental market has yielded slower rental growth and higher vacancies.

Estimated Value of Residential and Commercial Construction			
	2022	2023	Percentage Change
Residential	$ 433,313,307	$100,718,082	-77%
Commercial	$ 135,340,601	$342,830,728	153%
Total Values	$ 568,653,908	$443,548,810	-22%

Cumulatively, these residential permits over the last year represent an approximate $443,000,000 of new ad valorem valuation that will be reflected in 2023-2024 property value assessments. These reduced values do not appear to be affecting building permit revenue as the collections through the end of May 2023 compare similarly with a survey of previous years' collections:



Last year, staff asserted that many economists believed the housing market had begun a slight correction in early 2022 and that interest rate increases by the Federal Reserve would have the effect of reducing the mortgages originated and depressing demand for housing. It was unclear at the time whether the decreased demand would slow appreciation in existing home prices and overall taxable values. However, with more data to analyze and a sustained campaign to increase interest rates, it is clearly having an effect to soften demand and reduce prices. Many economists anticipate a small housing correction but only to have those prices return to 2021 levels.

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: City Administration, City Attorney's Office, Communications and Community Engagement, Economic and Community Development, Finance, Fire, Human Resources, Library Services, Police, Parks and Recreation, Planning and Development Services and Public Works.

The General Fund forecast section includes two schedules that reflect projected revenues, expenditures and fund balances (reserves) 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 considers opportunities and projections for revenue growth throughout the period while expenses increase only to reflect inflationary pressures as well as anticipated or previously approved expenditure adjustments.

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 - Baseline Expenditures

	FY 2024 Projection	FY 2025 Projection	FY 2026 Projection	FY 2027 Projection	FY 2028 Projection
Beginning Fund Balance	$ 33,539,978	$ 35,888,012	$ 40,717,546	$ 48,395,555	$ 58,472,411
Revenue					
Property Taxes	$ 24,643,497	$ 25,506,019	$ 26,398,730	$ 27,322,686	$ 28,278,980
Sales Taxes	33,429,540	34,265,279	35,121,911	35,999,959	36,899,958
Other Taxes and Franchise Fees	14,664,609	15,026,561	16,090,632	17,064,845	18,471,222
Licenses and Permits	5,232,750	5,082,750	4,932,750	4,782,750	4,632,750
Charges for Services	5,610,000	5,722,200	5,836,644	5,953,377	6,072,444
Fines and Forfeitures	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000
Parks and Recreation	1,625,000	1,625,000	1,625,000	1,625,000	1,625,000
Das Rec	3,150,000	3,150,000	3,150,000	3,150,000	3,150,000
Interest Income	1,250,000	750,000	750,000	750,000	750,000
Miscellaneous	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000
Interfund Transfers	1,203,031	1,221,077	1,239,393	1,257,984	1,276,854
Total Recurring Revenue	*$ 95,208,428*	*$ 96,748,886*	*$ 99,545,060*	*$ 102,306,600*	*$ 105,557,207*
Total Revenue	**$ 95,208,428**	**$ 96,748,886**	**$ 99,545,060**	**$ 102,306,600**	**$ 105,557,207**
Expenditures					
General Government	$ 9,801,549	$ 9,872,629	$ 9,945,841	$ 9,996,114	$ 10,047,391
Planning and Development Svs	4,153,536	4,170,354	4,187,676	4,199,571	4,211,704
Police	25,574,865	25,654,428	25,736,378	25,792,650	25,850,048
Fire	24,738,823	24,808,872	24,881,022	24,930,565	24,981,099
Municipal Courts	1,005,085	1,008,039	1,011,082	1,013,171	1,015,302
Public Works	7,752,907	7,851,989	7,954,044	8,024,122	8,095,601
Transportation and Capital Programs	1,998,445	2,013,615	2,029,240	2,039,969	2,050,913
Parks and Recreation	6,996,117	7,071,550	7,149,246	7,202,598	7,257,016
Das Rec	2,967,970	2,993,116	3,019,016	3,036,800	3,054,941
Library Services	2,815,702	2,834,905	2,854,684	2,868,266	2,882,119
Interfund Transfers	1,379,527	1,405,913	1,433,091	1,451,752	1,470,787
Non-Departmental	1,975,865	2,033,941	1,465,731	1,474,166	1,493,649
Contingencies	200,000	200,000	200,000	200,000	200,000
Sports Complex Contribution	1,500,000				
NBU Facility Partnership					500,000
Total Recurring Expenditures	**$ 92,860,393**	**$ 91,919,352**	**$ 91,867,052**	**$ 92,229,744**	**$ 93,110,570**
Ending Fund Balance	**$ 35,888,012**	**$ 40,717,546**	**$ 48,395,555**	**$ 58,472,411**	**$ 70,919,048**
Fund balance Percentage	***38.6%***	***44.3%***	***52.7%***	***63.4%***	***76.2%***
Fund Balance Surplus	**$ 8,029,894**	**$ 13,141,740**	**$ 20,835,439**	**$ 30,803,488**	**$ 42,985,877**
Recurring Revenue/Rec Exp	**$ 3,848,034**	**$ 4,829,534**	**$ 7,678,009**	**$ 10,076,856**	**$ 12,446,637**

FY 2024 Recurring Revenue/Rec Exp – This figure has been adjusted to account for the planned $1.5 million one time contribution to the sports complex project.

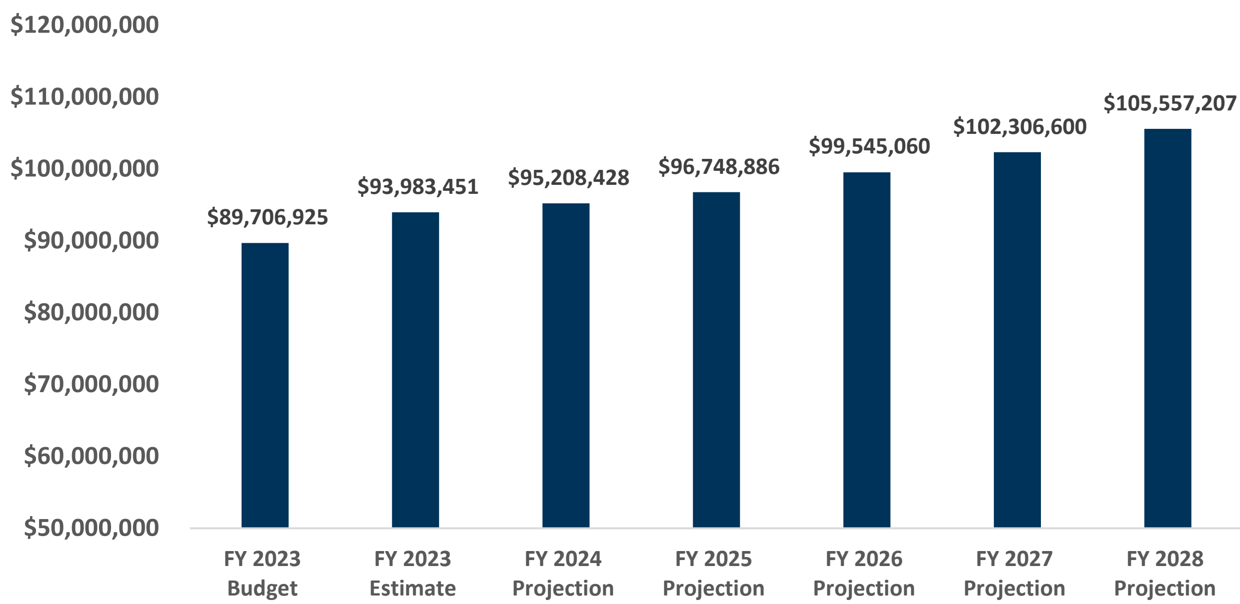
<u>Baseline Expenditures Forecast- Discussion and Analysis</u>

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.

Projected Total General Fund Growth Rates (Recurring)					
	FY 2024	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**
Growth Rate	1.3%	1.6%	2.9%	2.8%	3.2%

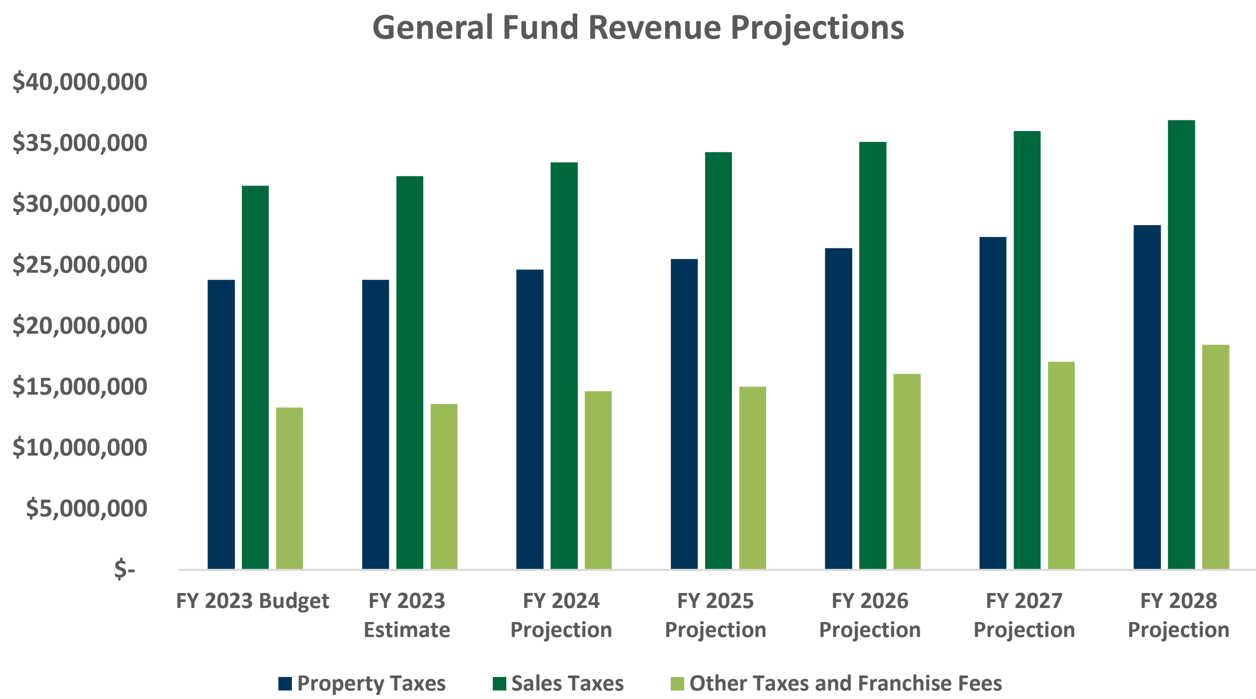
Total General Fund Revenue



As the graph illustrates, FY 2023 revenues are estimated to exceed budget. This is driven primarily by higher than anticipated growth in the following categories: interest earnings, sales taxes, licenses and permits and charges for services. The following section provides categorical detail on revenue projections during the forecast period.

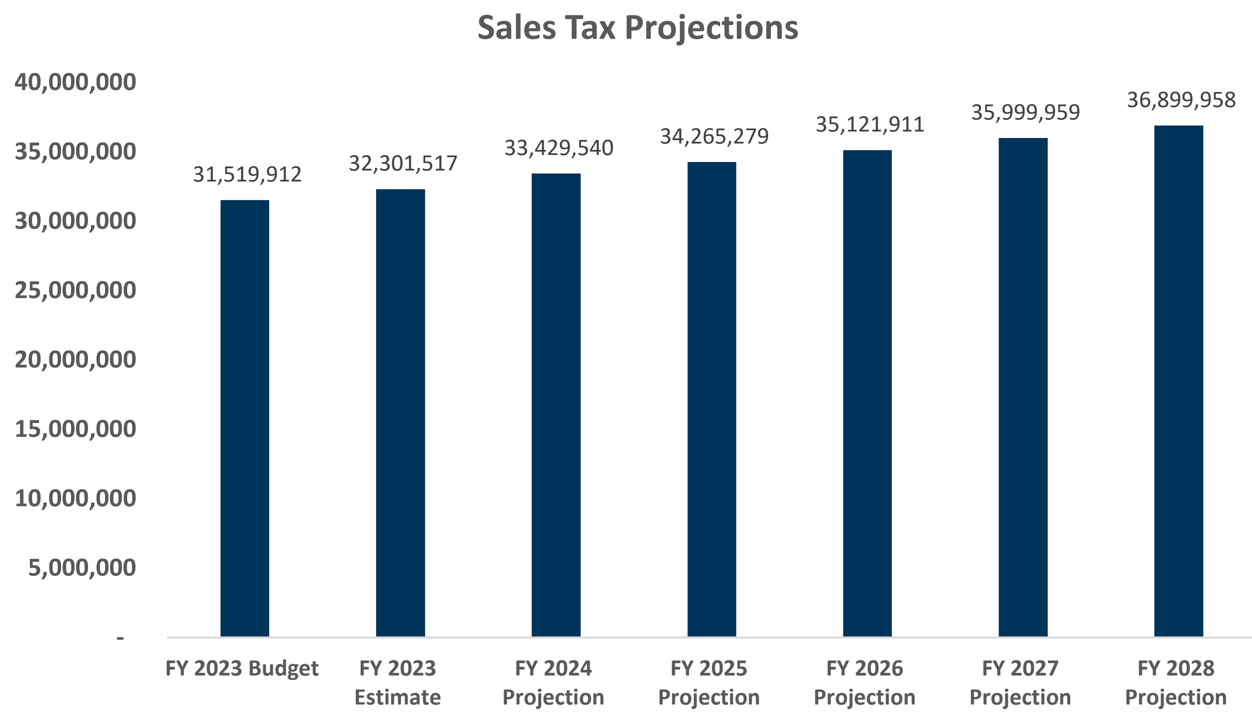
Primary Revenue Sources

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 are driven primarily by projected fluctuations among these three sources.

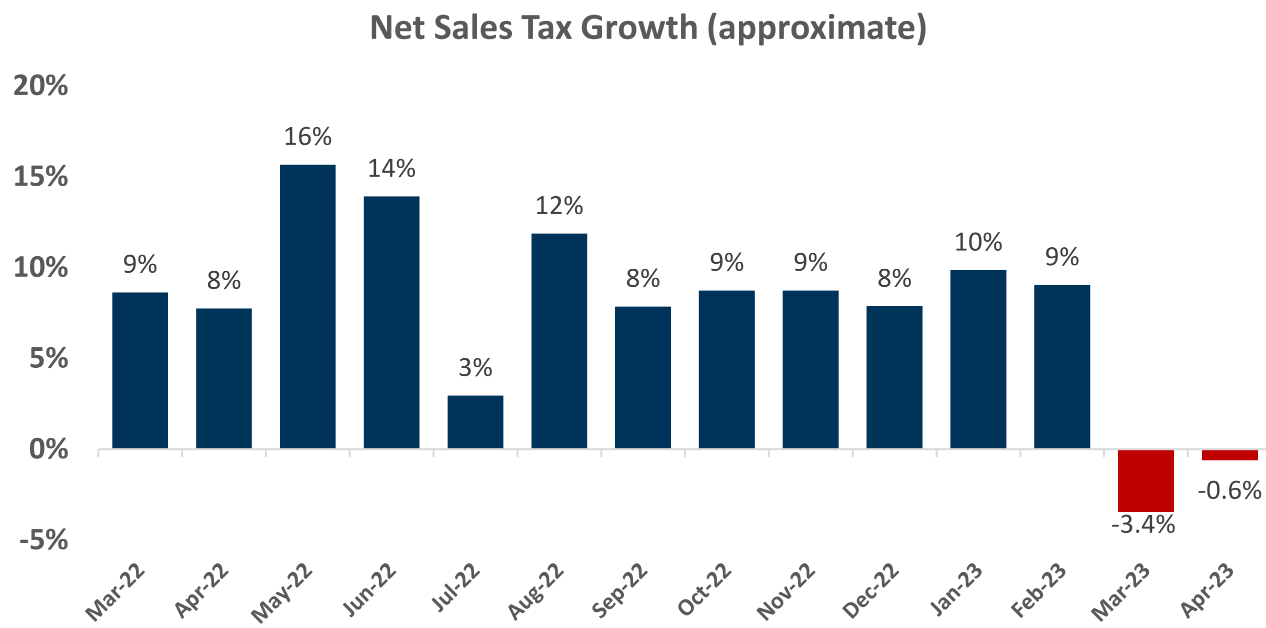


Property Tax Revenue – Due to statutory limitations, property tax revenue for General Fund purposes is capped at a 3.5% increase annually from existing property values. The forecast conservatively assumes that property taxes grow at the statutory cap over the forecast period.

Sales Tax Revenue – The General Fund's largest source of revenue has enjoyed significant growth over the last two years, the growth has been driven by various factors, primarily pent-up demand from COVID as well as inflation.

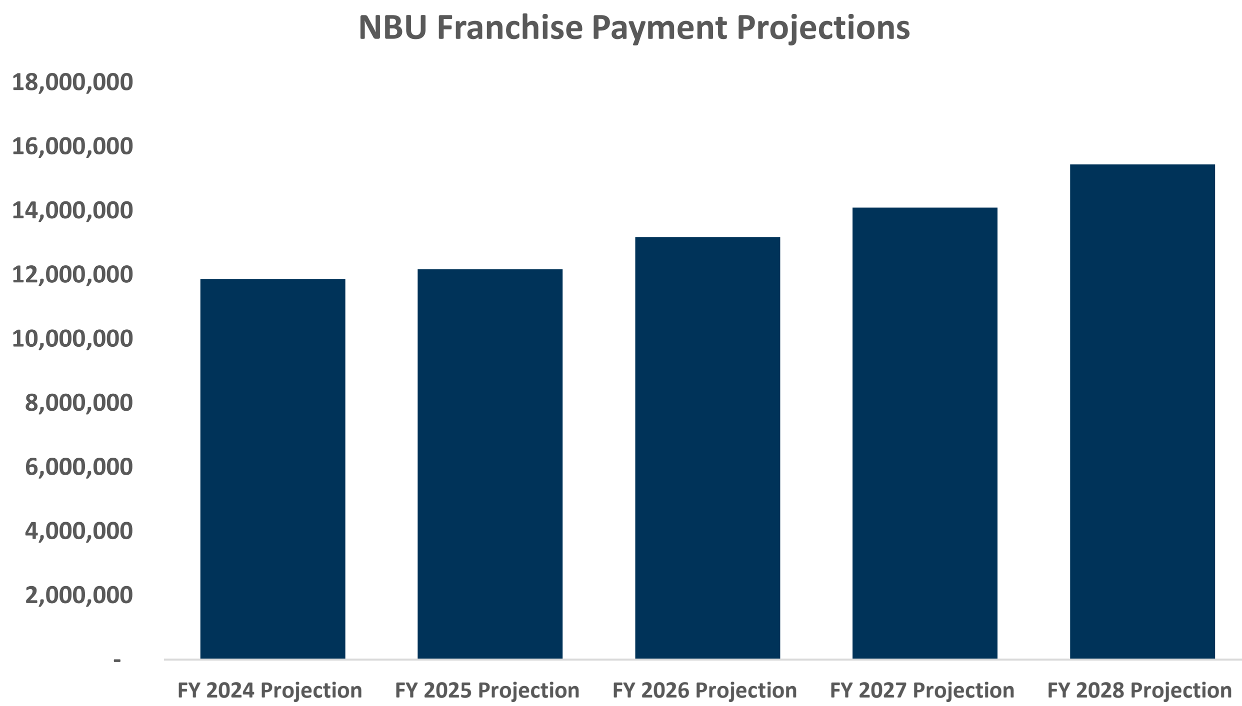


The forecast assumes approximately 2.5% in annual growth in sales tax revenue from FY 2024- FY 2028. When looking at the average net growth in sales taxes (adjusted for sales taxes) over the last couple of years, this projection may seem conservative; however, as the graph illustrates below, sales taxes are beginning to experience some decline. While two months do not make a trend, it is prudent to consider that there could be a shift in spending in New Braunfels that aligns to statewide and national economic trends. Given the latest figures, sales taxes for the remainder of fiscal year 2023 are projected to remain flat.



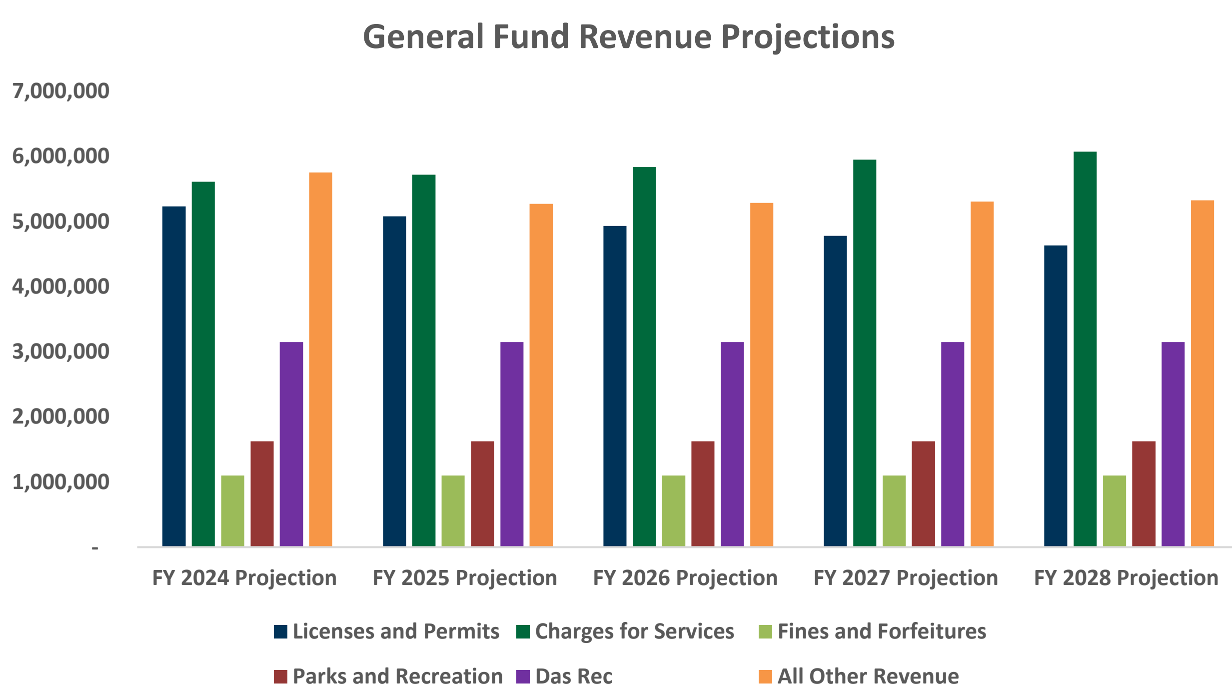
Franchise Fees

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 considerable 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 recently. The remaining 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.

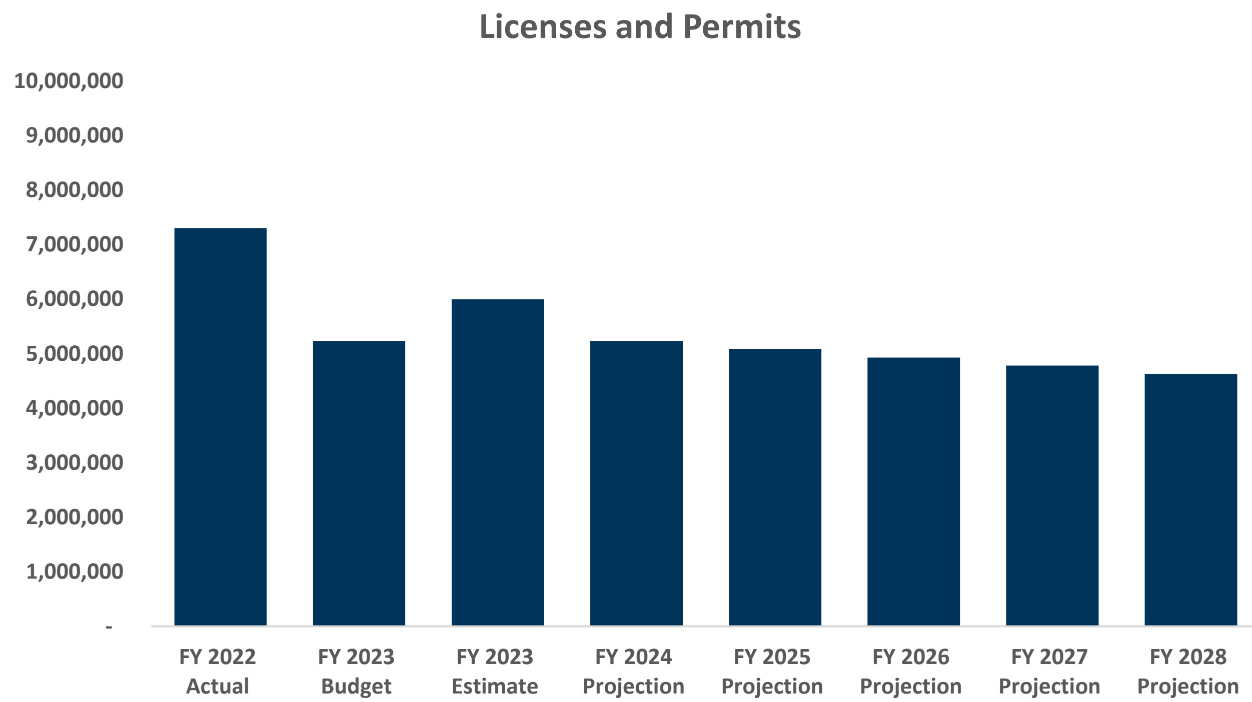


All other General Fund Revenues

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



Licenses and Permits – As the community approaches buildout, this revenue category is expected to level out, which is what the forecast assumes. While permit revenue in FY 2022 and FY 2023 are projected to be significantly higher than budget, the composition of that revenue is changing significantly as single-family permits are declining while commercial permits are increasing. The forecast recognizes this shift in development pattern by projecting this revenue source to slowly decline over the next five years.



Charges for services – this revenue source is driven primarily by ambulance related collections and the contractual payment from Emergency Services District #7. A portion of that revenue includes the payment from the state for ambulance services provided to the uninsured and those on Medicaid. This revenue source is conservatively projected to grow 2% annually during the forecast period.

Fines and Forfeitures – This revenue source has experienced sustained stagnation over the past several years. The forecast assumes the current collection levels recover to the current budget level and remain flat throughout the forecast period.

Parks and Recreation revenue –Beyond additional programming space or increases in program/rental fees, there is minimal opportunity for revenue growth in this category throughout the remainder of the forecast period. As a result, parks and recreation revenue is held flat at approximately $1.6 million.

Das Rec – The recreation center was one of the functions most impacted by COVID-19. However, memberships have not only fully recovered, but are currently at an all-time high at over 16,000 members. Similar to Parks and Recreation, it is likely that the facility is nearing capacity from a membership perspective. As a result, Das Rec membership is held flat throughout the forecast.

All Other Revenue – this category revenue 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 can fluctuate significantly based on economic factors. These revenues are either held flat due to unpredictability or include minimal growth throughout the forecast period.

General Fund- Expenditure Projections

Employee Expenditures - Current Service Levels

In the Baseline Expenditures forecast, no change in service levels, staffing, compensation, or operating expenditure levels are included. To further clarify, no cost of living, merit or market adjustment compensation changes are included in the Baseline Expenditures as well. 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 2024 given that most of those positions were only funded for six or nine month of FY 2023.

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 also adjusted for any one time costs included in the current budget or other modifications to current commitments, such as the beginning and/or ending of capital leases (Police, Fire and Information Technology).

Inflationary pressures are more impactful now than they have been over last 40 years. The FY 2023 Adopted Budget included strategic allocations to operating budgets to address inflationary pressures at the commodity/service level. The budget team is continuing to evaluate inflation adjustments at the commodity/service level for FY 2024. The baseline forecast includes the following assumptions for inflationary adjustments.

Inflationary Adjustments to Operating Budgets					
	FY 2024	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**
Growth Rate	3%	3%	3%	2%	2%

Equipment Replacement Program

During the forecast period, the transfer remains flat at the current level of $1 million 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 additional positions, primarily public safety personnel during that period. The City has implemented various strategies to manage against the partial funding to the program such as issuing tax note(s) as well as one-time transfers to the fund, all in an effort to “catch up” on vehicle and technology replacements.

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.

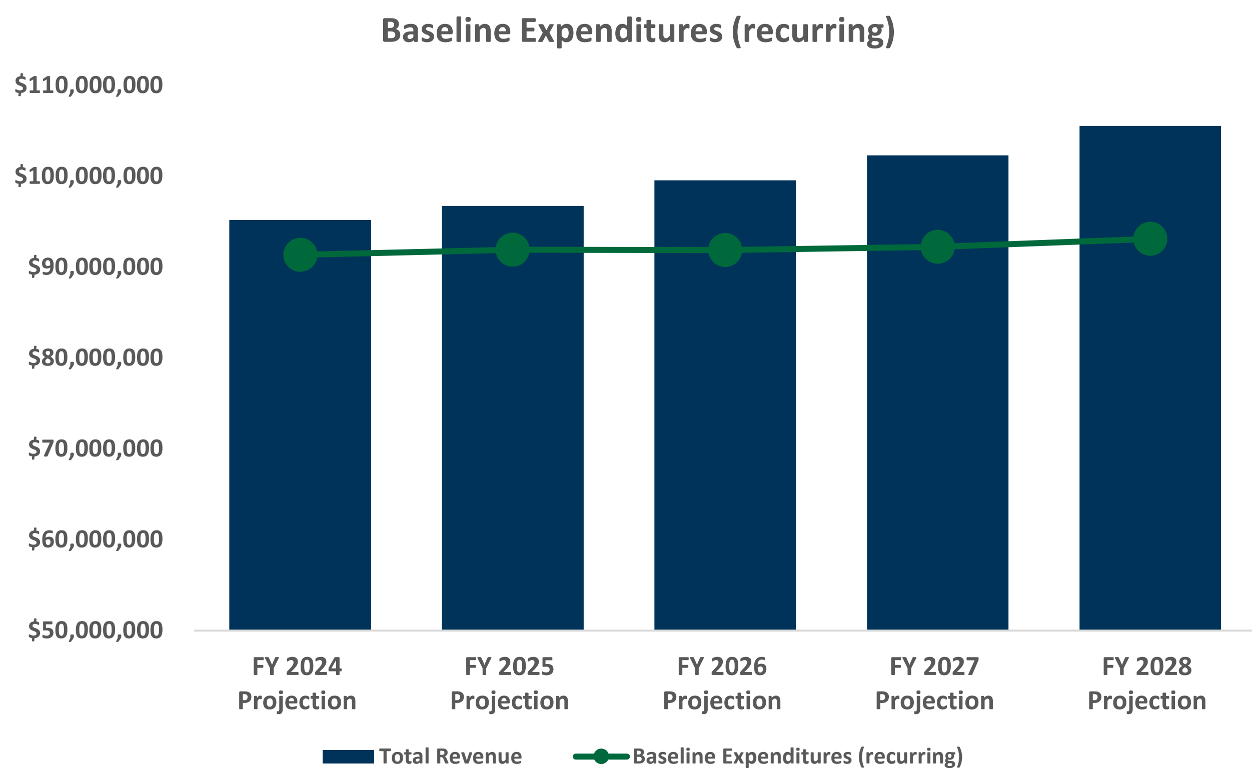
Facility Partnership (NBU)

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..

The funding strategy to support the transfer involved approximately 50% of the payment upfront, with the remainder paid over a ten-year period, originally beginning in FY 2023 ($500,000 annually for ten years). However, the recently approved transfer agreement for the old Police Department building incorporated a credit against these payments, therefore the first payment will not be due to New Braunfels Utilities until FY 2028, which is included in the 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.



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 2024*	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**
Compounded Annual Surplus	$3,848,000	$4,829,000	$7,678,000	$10,077,000	$12,447,000
*Adjusted for planned $1.5 million contribution to sports complex project.					

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 2024 will reduce the fund balance and surplus throughout the remainder of the forecast period.***

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 $31.6 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
- 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 the Facilities Maintenance Fund
- One Time Initiatives/Equipment – current identified unmet needs

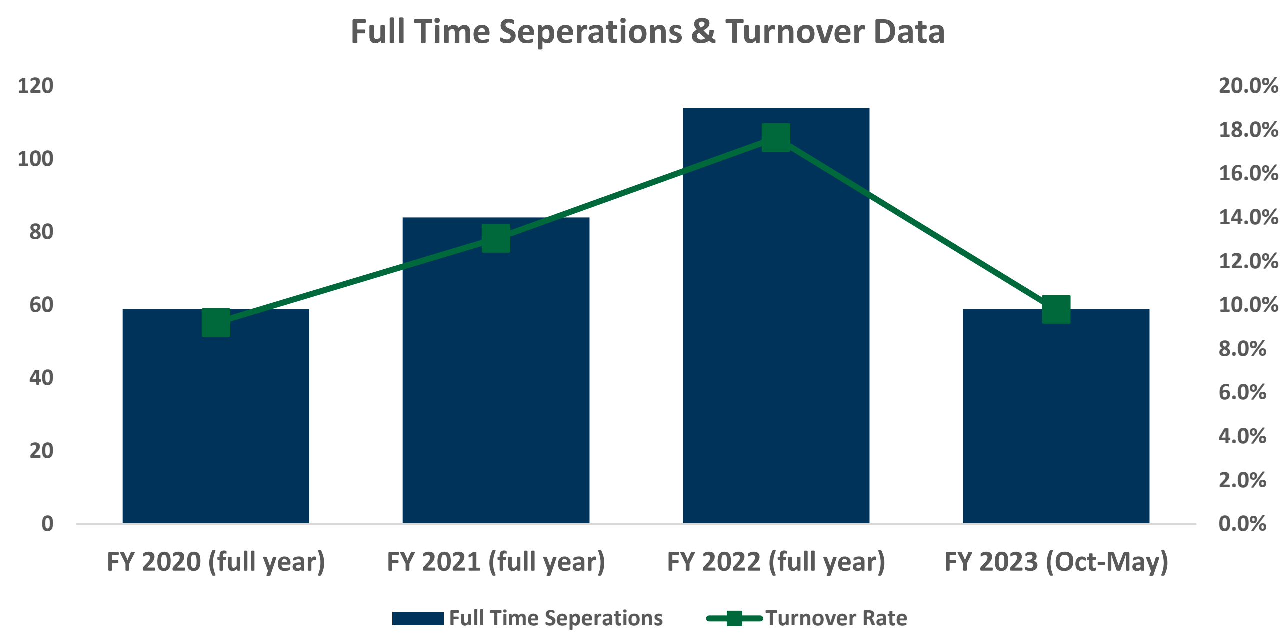
Fund Balance – The resource demands forecast shows a deficit in fund balance beginning in FY 2025. In fact, the resource demands forecast is no longer structurally balanced immediately in FY 2024 – meaning recurring revenues are less than recurring expenditures. This deficit is driven entirely by the additional expenditures projected for staffing, salary adjustments, equipment, and other capital expenditures.

General Fund Forecast - Resource Demands

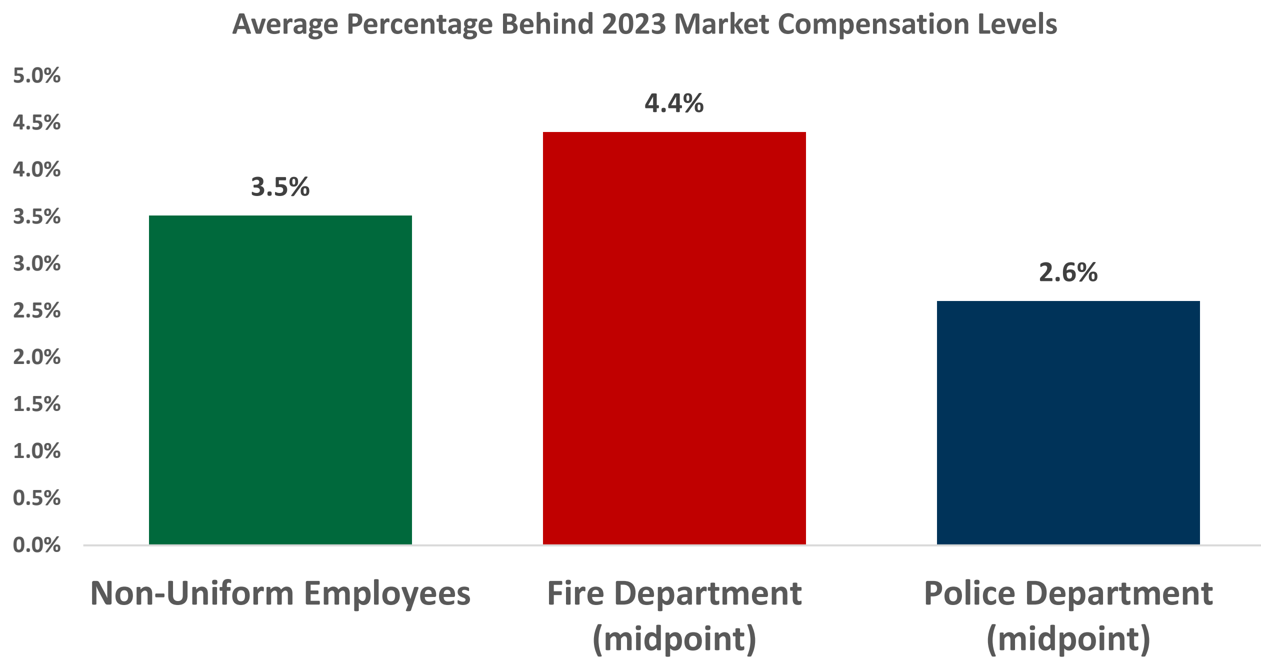
	FY 2024 Projection	FY 2025 Projection	FY 2026 Projection	FY 2027 Projection	FY 2028 Projection
Beginning Fund Balance (adjusted)	$ 33,539,978	$ 29,888,569	$ 24,630,895	$ 17,668,996	$ 8,408,141
Total General Fund Revenue	$ 95,208,428	$ 96,748,886	$ 99,545,060	$ 102,306,600	$ 105,557,207
Total Available Funds (adjusted)	$ 128,748,405	$ 126,637,455	$ 124,175,955	$ 119,975,596	$ 113,965,348
Adjusted Baseline Expenditures - Includes impact from recurring resource demands	$ 92,860,393	$ 96,657,795	$ 100,668,040	$ 105,557,707	$ 111,110,098
Current Resource Demands					
Uniformed Personnel - Step Plan/COLA/Market Based Compensation Increases	$ 2,200,200	$ 1,701,653	$ 1,769,719	$ 1,840,507	$ 1,914,128
Non-Uniform Personnel - Merit/COLA/Market Based Compensation Increases	$ 1,385,273	$ 1,015,804	$ 1,051,358	$ 1,088,155	$ 1,126,240
Patrol Officers					
Recurring Costs - 3 Officers Annually	$ 284,406	$ 295,782	$ 307,613	$ 319,918	$ 332,715
One Time Costs - Vehicles and equipment	$ 261,000	$ 266,220	$ 271,544	$ 276,975	$ 282,515
Operating Expenditures from CIP/Bond Projects					
Zipp Family Sports Park (net)		$ 250,000			
Southeast Library Branch		.	$ 450,000	$ 450,000	
Mission Hill Park			$ 125,000	$ 125,000	
Address current unmet needs - positions	$ 768,564	$ 799,306	$ 823,286	$ 847,984	$ 873,424
Re-Establish Facilities Maintenance Fund	$ 100,000				
Address current unmet needs - one time capital and initiatives	$ 1,000,000	$ 1,020,000	$ 1,040,400	$ 1,061,208	$ 1,082,432
Total - Additional Annual Resource Demands	$ 5,999,443	$ 5,348,765	$ 5,838,920	$ 6,009,748	$ 5,611,453
Total Expenditures (adjusted)	**$ 98,859,836**	**$ 102,006,560**	**$ 106,506,959**	**$ 111,567,455**	**$ 116,721,551**
Ending Fund Balance	**$ 29,888,569**	**$ 24,630,895**	**$ 17,668,996**	**$ 8,408,141**	**$ (2,756,203)**
Target Fund Balance - 30% of Recurring Expenditures	**$ 24,399,709**	**$ 25,180,085**	**$ 26,298,754**	**$ 27,557,318**	**$ 28,839,151**
Fund Balance Surplus/(Deficit)	**$ 5,488,860**	**$ (549,190)**	**$ (8,629,758)**	**$ (19,149,177)**	**$ (31,595,354)**

Compensation Adjustments

Towards the end of FY 2021 and intensifying into FY 2022, employee recruitment and retention became 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 graph illustrates, the trend for FY 2023 (October-May) has shifted in a positive direction; however, it is likely that the end of year trend for the current fiscal year will align to FY 2021 levels.



FY 2023 Market Compensation Study – The City conducts market compensation studies every two years. As the graph illustrates, the organization has made great progress towards aligning our compensation plans to current market levels. As a point of reference, the city began performing regular compensation studies in 2015. At that time, the organization's pay scales were approximately 15%-22% behind market levels.



As mentioned earlier, the organization has made significant progress in aligning pay scales to the market. However, to truly "catch up" it would require the full implementation of the market study in a fiscal year, with a cost-of-living shift incorporated. This strategy would allow the plans to keep up with adjustments that the majority of the benchmarks cities will likely implement. The approximate cost to support this compensation strategy is approximately $3.7 million (General Fund), which is included in the resource demands forecast for FY 2024 to illustrate the importance of this initiative. The remainder of the forecast period assumes 3.5% annually in funding for compensation increases for maintaining market competitiveness.

Additional Patrol Officers

Adding patrol officers continues to remain a strategic issue for the City of New Braunfels. The Center for Public Safety Management recommended strategically adding uniformed positions in certain areas such as the traffic unit. While the CPSM standard analysis did not suggest a workload issue within patrol, there were some concerns with the data by the police department. The concerns were entirely due to procedural matters that impacted the analysis. As a result, the City Manager's Office continues to work with the police department on analyzing data in an effort to better understand patrol staffing demands.

The forecast assumes that the organization adds 3 additional Police Officers annually (15 in total). The Police Department has requested 10 Police Officers for consideration in the FY 2024 Proposed Budget. Other police support positions such as Emergency Dispatchers, Crime Victims Liaisons, etc. are included in the other departments staffing listed below.

As a point of reference, 58.25 full time equivalent have been added to the department since FY 2014, a 44% increase in staffing levels in 9 fiscal years.

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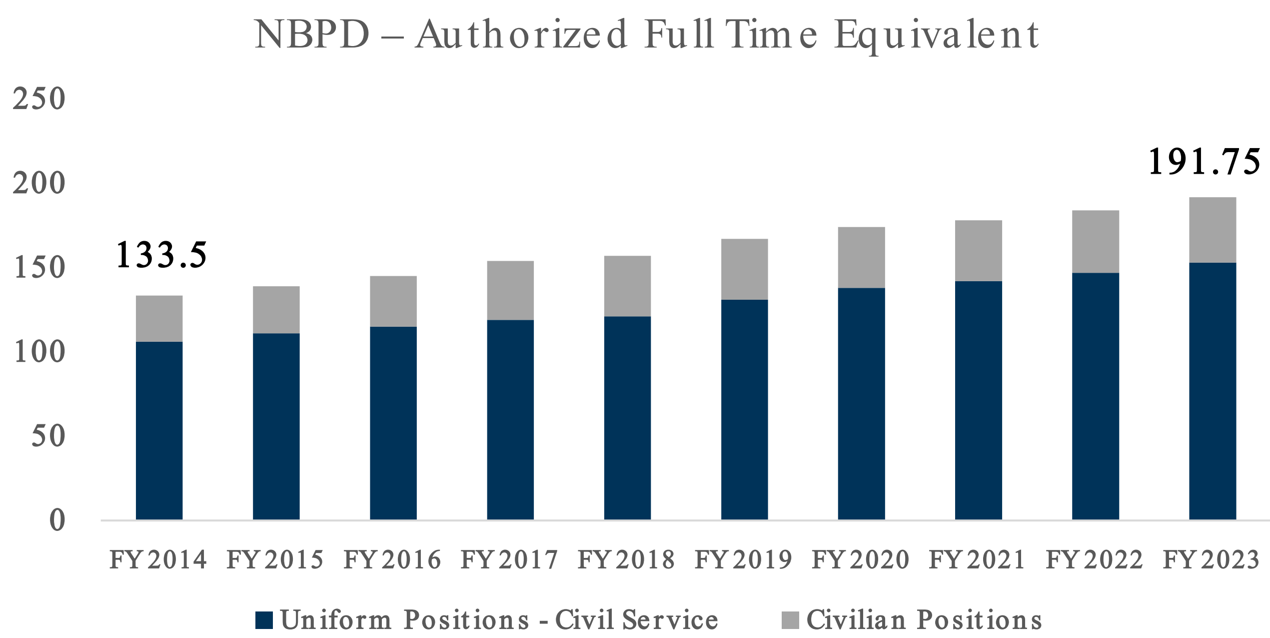


<u>Operating expenditures stemming from CIP/Bond Projects</u>

The FY 2024-2028 Five Year Forecast recognizes net annual operating costs associated with the Zipp Family Sports Park ($250,000 annually) , southeast library branch ($900,000 annually) and Mission Hill Park ($250,000 annually). The figures incorporated into the five-year forecast should be considered only as placeholders. With the sports park soon to break ground, the business plan for this project can be completed, which will provide various options for management of the complex and associated financial considerations.

The business plan and staffing analyses will likely be initiated as design is finalized for these the Sports Park and Southeast Library Branch. As those documents/analyses are completed, more refined net operating costs can be incorporated into the five-year financial forecast.

<u>Other Departments Staffing – Current Identified Unmet Needs</u>

As staff works on the FY 2024 Proposed Budget and Plan of Municipal Services, nearly every department has requested positions to meet increased demand for services. In fact, over 55 positions (General Fund Departments) have been requested for consideration in the FY 2024 Proposed Budget. This does not include the Patrol Officers that have been requested in the budget process (addressed above). As a placeholder to reflect these staffing needs, the forecast assumes these positions are added over a five-year period, which equates to approximately 11 FTE added annually.

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 or repairs. 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. To recognize this, the forecast includes a $100,000 recurring transfer beginning in FY 2024.

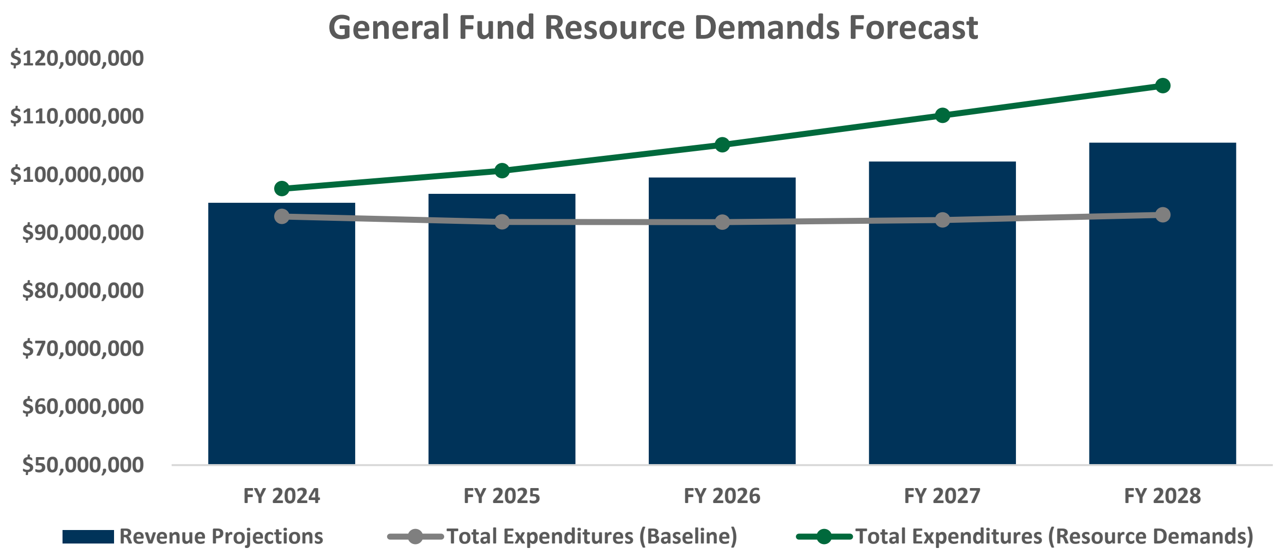
A one-time transfer of $1.5 million was included in FY 2022 to re-establish the Fund, however these funds have been reallocated to the Zipp Family Sports Complex project.

One-time Costs – Current Identified Unmet Needs

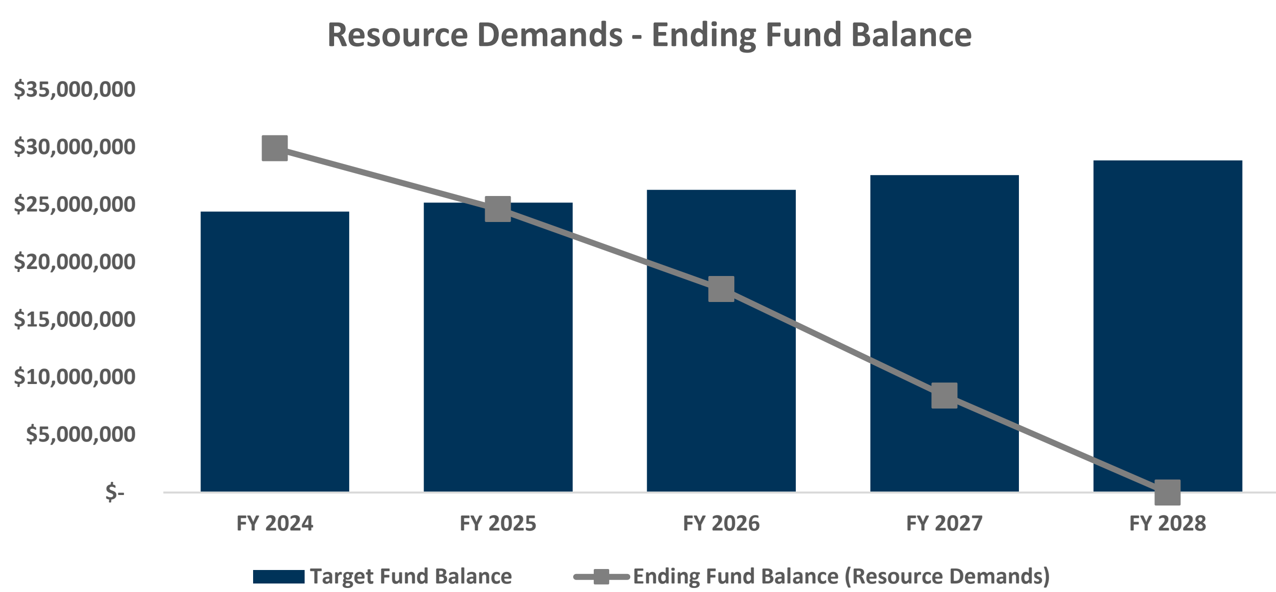
Various non-personnel, non-equipment initiatives have been identified by General Fund departments during the FY 2021, FY 2022 and FY 2023 budget processes. The amount listed represents the average amount requested for those three years, allocated over a five-year period. Again, as a reminder, these costs are only those associated with current needs. Increased service demands, and new programs will impact one-time equipment and initiative needs.

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 currently 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.



Policy Consideration

As the resource demand forecast indicates, projected General Fund revenues are not sufficient to support all currently identified resource needs of the forecast period. <u>The budget process is, and will continue to remain</u>

the opportunity to determine the best balance as it relates to addressing resource needs with available revenue sources. However, the organization should continue to evaluate oppportunities to generate additional non-primary revenue and/or create capacity through other strategies. One of these efforts is currently underway, with an annual process that evaluates all existing fees for service from a market and cost recovery perspective. The first round of fees recommended for adjustment will be presented at the July 6 retreat.

Equipment Replacement Program – Another opportunity to create General Fund capacity would be to eliminate the current equipment replacement program. This strategy will be discussed in depth during the Equipment Replacement Fund and Debt Service Fund sections of the document. The elimination of this program would create an additional $700,000-$800,000 in annual capacity.

Equipment Replacement Program

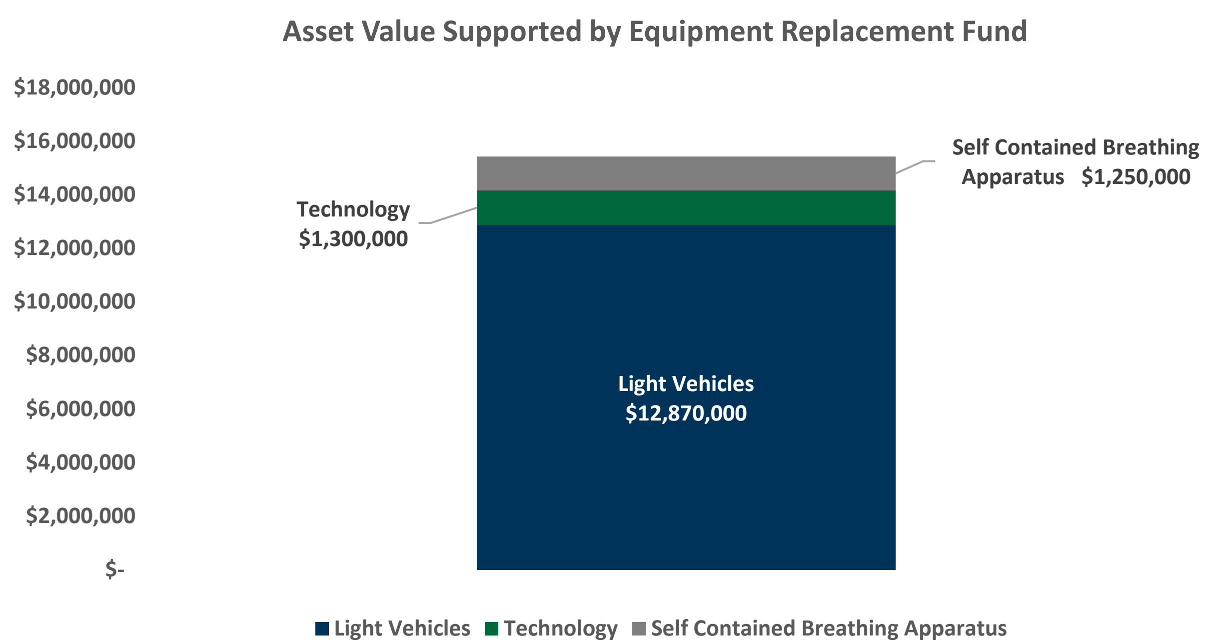
The Equipment Replacement Fund is used to fund and purchase light vehicles and computer equipment for any function/fund that is supported by the General Fund. City Council established the equipment replacement program in FY 2006 to create a funding source for light vehicles and certain technology equipment 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 staff and the departments utilize a calculation that considers age, mileage, and maintenance costs. The forecast considers this methodology to project **minimum** replacement requirements over the forecast period while ensuring solvency of the fund.

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 $15.4 million.



Equipment Replacement Fund Forecast

The forecast below 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 funding limited to $150,000 .
- Public Safety Mobile Data Terminals (MDT) replaced over a four-year period with the next cycle would begin in FY 2027
- Set aside funding for HR/Finance software replacement allocated evenly over the forecast period.
- Self Contained Breathing Apparatus (SCBA), replaced in FY 2026
- Annual contribution of $1,000,000 in FY 2024, adjusted for inflation throughout the forecast period. The transfer from the General Fund is the program's sole recurring revenue source.

Equipment Replacement Fund Forecast

	FY 2024 Projection	FY 2025 Projection	FY 2026 Projection	FY 2027 Projection	FY 2028 Projection
Beginning Fund Balance	$ 3,956,366	$ 3,522,816	$ 3,094,070	$ 1,425,462	$ 852,458
Revenue					
Interfund Transfers	$ 1,000,000	$ 1,030,000	$ 1,060,900	$ 1,082,118	$ 1,103,760
Sale of Property/Equipment	82,200	84,444	86,751	88,486	90,256
Proceeds from Insurance	30,000	30,000	30,000	30,001	30,002
Interest Earnings	25,000	20,000	20,000	10,000	10,000
Total Revenue	$ 1,137,200	$ 1,164,444	$ 1,197,651	$ 1,210,605	$ 1,234,018
Expenditures					
Debt Service (Capital Lease)					
Operating Expenditures (Computer/Tech Replacement)	$ 150,000	$ 150,000	$ 150,000	$ 300,000	$ 300,000
Operating Expenditures (Other)					
Operating Expenditures (Finance/HR ERP Implementation)	598,750	598,750	598,750	598,750	598,750
Capital Expenditures - SCBA Replacement			1,250,000	-	-
Capital Expenditures (Vehicle Replacement)					
Public Safety	710,000	730,200	750,984	766,004	781,324
All other Departments	112,000	114,240	116,525	118,855	121,232
Total Expenditures	**$ 1,570,750**	**$ 1,593,190**	**$ 2,866,259**	**$ 1,783,609**	**$ 1,801,306**
Ending Fund Balance	**$ 1,127,816**	**$ 1,297,820**	**$ 227,962**	**$ 253,708**	**$ 285,170**
Restricted Fund Balance - Finance/HR ERP Implmentation	$ 2,395,000	$ 1,796,250	$ 1,197,500	$ 598,750	$ -

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 make additional recurring revenue available to support market-based compensation increases. As a reminder in 2014, the City's pay scales were roughly 15%-22% behind the market. The reason for partial reinstatement is entirely due to recurring resources being prioritized for supporting compensation increases, additional positions, operating costs associated with bond projects and other recurring commitments.

When the General Fund budget would allow, one-time transfers were also included as a means of "catching up" from the years in which the transfer was suspended. For example, the FY 2023 budget included a $1.5 million one-time contribution. In addition, in 2018, a $2.3 million tax note was issued specifically to catch up on replacements that met the criteria yet couldn't be supported due to the fund's financial position. The one-time transfers and tax note have allowed the fleet condition to not be negatively impacted.

Light Vehicles

The forecast supports minimum replacement needs thru FY 2028. As mentioned earlier, the suspension of the program forces vehicle replacements to be made based entirely on the financial capacity of the fund.

Type of Vehicle	Base Cost (FY 2024)	Annual Replacements
Police Pursuit	$70,000	10
Police – Non-Pursuit	$35,000	2
Fire	$35,000	1
Other Departments	$27,500	4

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.

All public safety mobile data terminals (MDT) were replaced in FY 2017. This equipment has a useful life of 4-6 years. The units purchased in 2017 were replaced in phases from FY 2021 to FY 2023. The forecast assumes a similar cycle with replacement beginning in FY 2027 at $150,000 annually.

Self-Contained Breath Apparatus (SCBA)

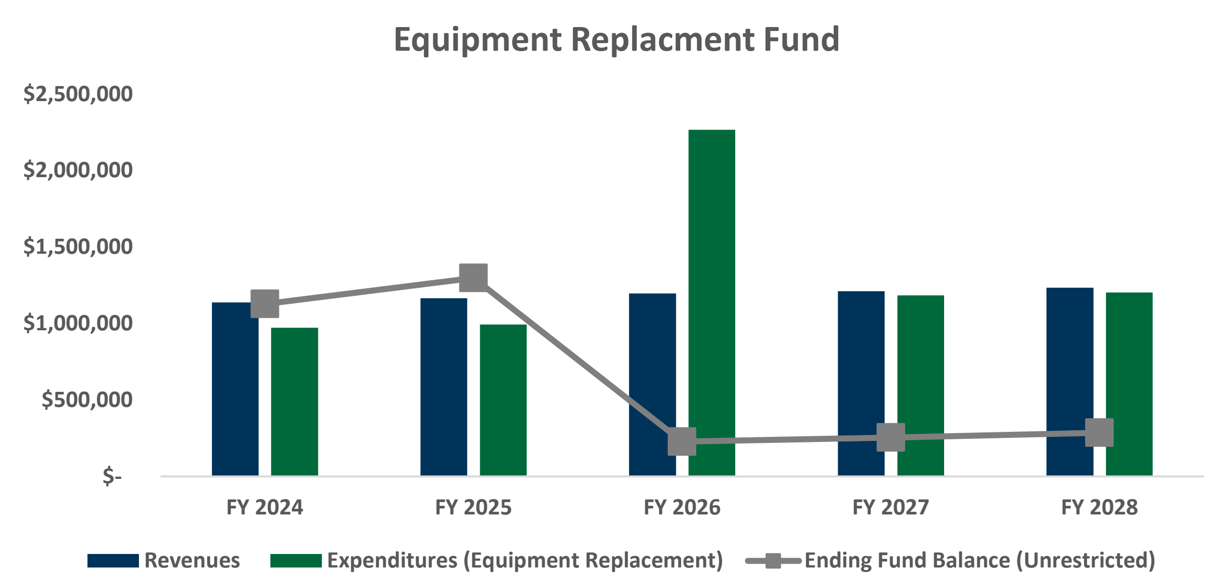
The Fire Department's self-contained breathing apparatus (SCBA) are supported by the equipment replacement program. The SCBA's were replaced in FY 2016 and have a useful life of 10-15 years. Beginning in 2025, our current units will no longer be covered by warranty. In addition, the National Firefighters 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.

HR/Finance Software Replacement

The City's current finance/HR software system was purchased in 2011 as a beta product at about 20% of the cost of a typical replacement. Prior to that, the City's last major investment in this critical software system was made in approximately 2001. The General Fund surplus in FY 2022 and FY 2023 allowed for approximately $3 million to be set aside in the Equipment Replacement Fund as a restricted reserve to support the acquisition and implementation of a new software system. While the project is expected to be completed by the end of 2024; the pricing structure has yet to be determined. Therefore, the forecast allocates the remaining funds proportionally from FY 2024-FY 2028.

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. However, the SCBA purchase all but eliminates the unrestricted reserves.



The baseline transfer of $1,000,000 will only provide enough funding to support minimum vehicle replacement needs. When projecting the long-term transfer requirement of the equipment replacement program, the annual transfer from the General should be approximately $2.6 million. This would allow for vehicles to be replaced on a more consistent schedule of 6-8 years.

As the General Fund forecast indicated, base revenue projections do not provide sufficient funding to support currently identified resource needs. Therefore, it is unlikely that the General Fund would have the capacity to increase the transfer given that funding for compensation increases, additional Police Officers, additional positions and operating costs associated with bonds projects would likely take priority.

Considering this limitation, staff began evaluating options for alternative methods to replace vehicles on a consistent schedule. Specifically, whether or not there is existing capacity to replace vehicles through a rolling tax note program. The Debt Service Fund section illustrates that through dedicating a small portion of the I&S portion of the rate, a rolling tax note program could not only support the current assets but provide opportunity for growth and potentially inclusion of various heavy equipment (dump trucks, tractors, fire apparatus, medic units) that do not have a dedicated funding source either.

If this alternative funding strategy was to move forward, it would provide approximately $700,000-$800,000 of capacity in the General Fund, all of which could be dedicated to currently identified resource needs, such as public safety staffing.

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 20.89 cents per $100 of valuation.
- Property tax values grow at 9 percent in the first year of the forecast and 4 percent thereafter.
- 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.
- 2023 bonds assume interest rates of 4.25%-5.50% throughout the forecast period
- 2023 bonds are issued in accordance with the following schedule:
    - FY 2023 - $35,000,000
    - FY 2024 – no planned issuance
    - FY 2025 – $40,000,000
    - FY 2026 – no planned issuance
    - FY 2027 – $40,000,000
    - FY 2028 - $25,000,000

Debt Service Fund Forecast - Baseline Expenditures

	FY 2024 Projection	FY 2025 Projection	FY 2026 Projection	FY 2027 Projection	FY 2028 Projection
Beginning Fund Balance	$ 3,054,565	$ 3,079,565	$ 3,104,565	$ 3,129,565	$ 3,154,565
Revenue					
Taxes	$ 26,793,290	$ 27,865,022	$ 28,979,622	$ 30,138,807	$ 31,344,360
Interest Income	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000
Contributions	$ 2,225,306	$ 2,227,631	$ 2,227,806	$ 2,223,781	$ 2,226,306
Interfund Transfers	1,233,438	1,239,919	1,238,788	641,097	642,460
Total Revenue	$ 30,277,034	$ 31,357,572	$ 32,471,216	$ 33,028,685	$ 34,238,126
Expenditures					
Debt Service	30,252,034	31,332,572	32,446,216	33,003,685	34,213,126
Total Expenditures	**$ 30,252,034**	**$ 31,332,572**	**$ 32,446,216**	**$ 33,003,685**	**$ 34,213,126**
Ending Fund Balance	**$ 3,079,565**	**$ 3,104,565**	**$ 3,129,565**	**$ 3,154,565**	**$ 3,179,565**

Forecast Analysis

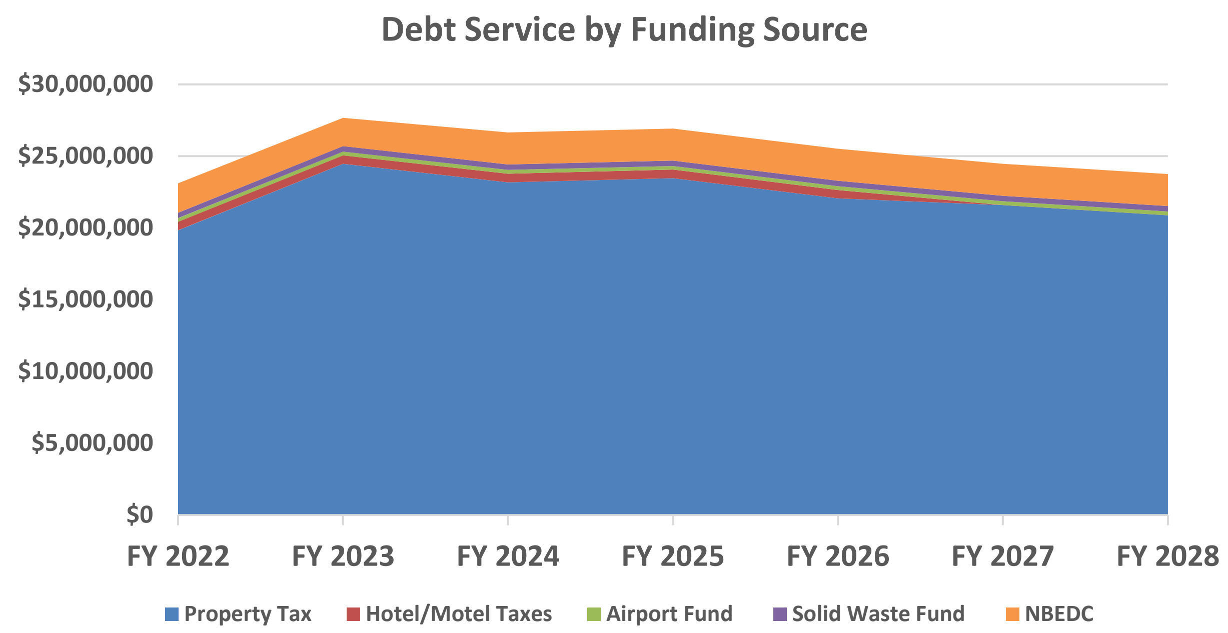
The forecast above incorporates the debt service commitments associated with the 2023 bond program. The forecast assumes that debt service payments for the 2023 bond program are structured to align to the growth in property tax revenue. The following section provides additional detail on capacity as well as other policy considerations as it relates to capital financing strategies and goals.

Growth in Property Values

As mentioned earlier, the projection for growth in values in FY 2024 is 9%, which is higher than the projections incorporated into the 2023 bond program. Growth in preliminary values for FY 2024 are approximately 18%. It's expected that a significant portion of that growth may be eliminated through the protest process. The forecast assumes 4% growth annually from FY 2025-FY 2028. While this is conservative, it provides great flexibility to ensuring that the 2023 bonds are issued without an impact to the I&S portion of the tax rate. Growth up and above these projections increases capacity and provides flexibility to structure the debt service for the bonds more strategically.

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 on the next page illustrates the annual debt service commitment by funding source.



During the forecast period, approximately 90 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 3 percent supported collectively by the Enterprise Funds and Hotel Occupancy Tax Fund.

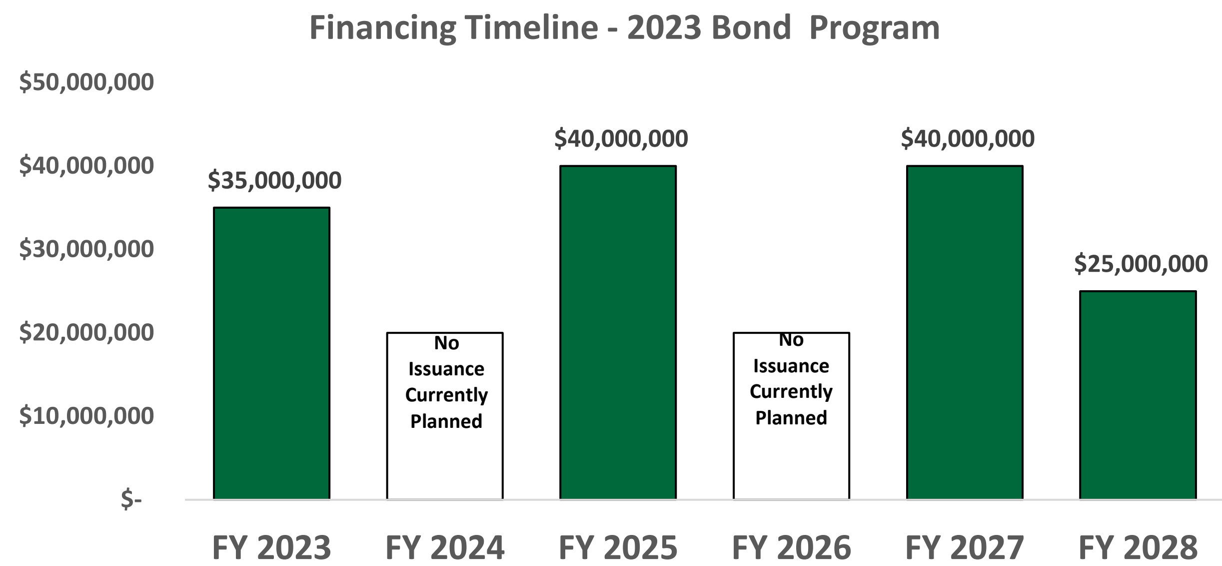
FY 2023 Financing Strategy

The financing strategy for FY 2023, with the first debt service payments due in FY 2024 includes a $35 million issuance from the 2023 bond program. These funds will be utilized primarily to support professional services and right of way costs associated with various bond projects.

It is also recommended to include a $10 million certificate of obligation, which will be supported entirely by the New Braunfels Economic Development Corporation. These funds will be used to support the Zipp Family Sports Complex Project. This $10 million issuance will complete the original NBEDC $15 million commitment to this project as the first $5 million was provided with NBEDC surplus reserves.

2023 Bond Program

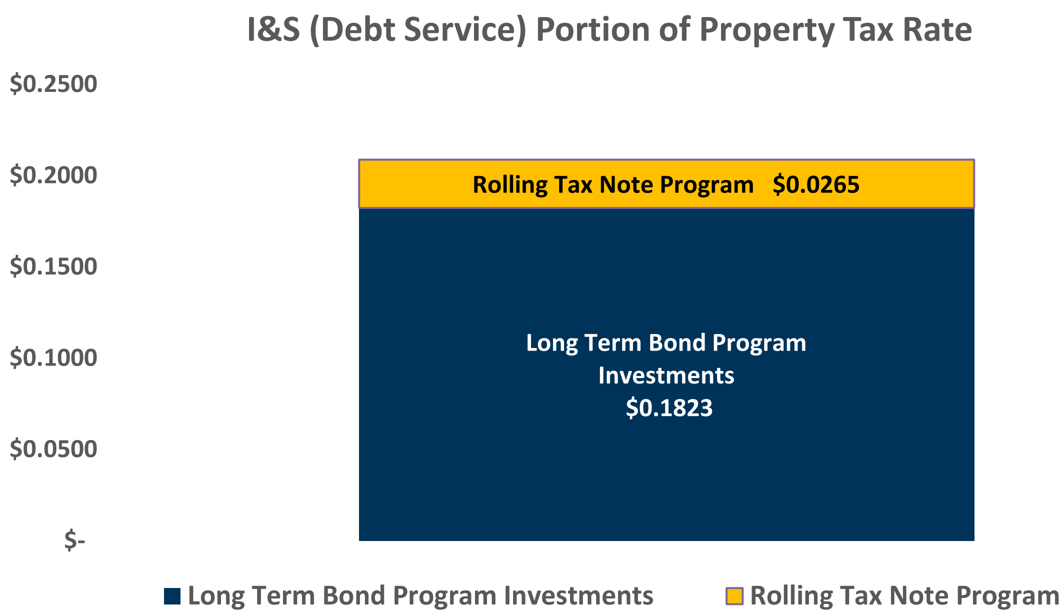
The graph below illustrates the issuance schedule associated with the 2023 bond program. As suggested earlier, this schedule will likely change based on actual growth in values, project funding needs, etc.



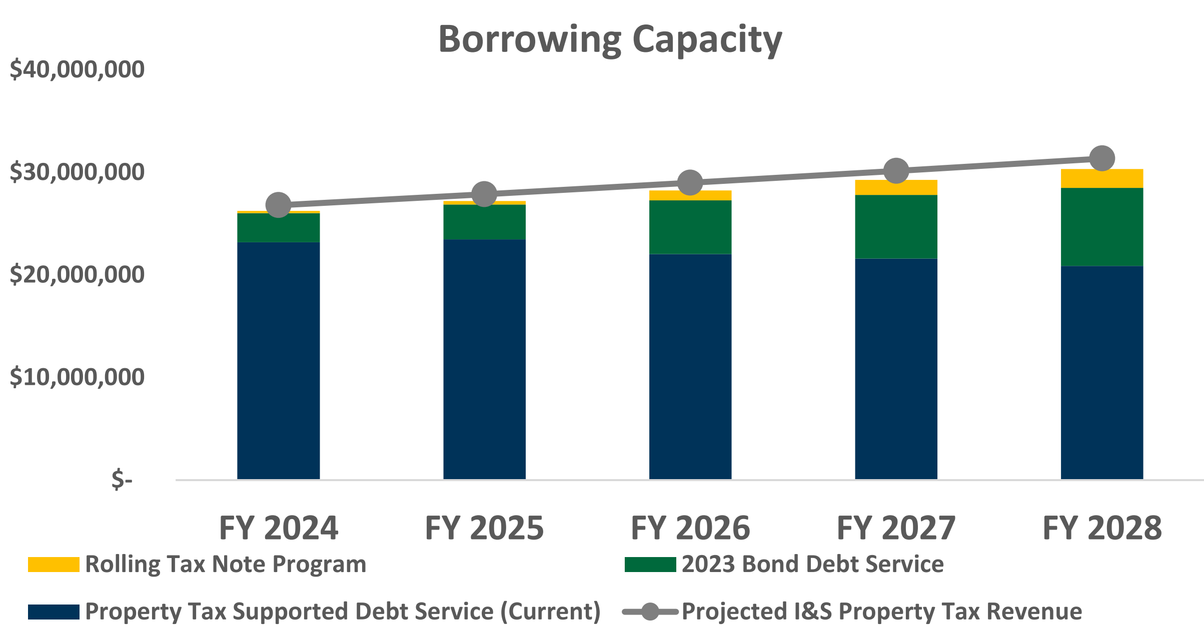
<u>Policy Considerations</u>

As mentioned in previous sections, there is a need to develop additional revenue and/or generate additional capacity in the General Fund to support currently identified resource needs. Additionally, the Equipment Replacement Fund requires additional contributions to establish an acceptable vehicle replacement schedule. Utilizing existing capacity within the I&S portion (Debt Service) of the tax rate to support the vehicle replacement needs of the organization could partially address both of these strategic issues.

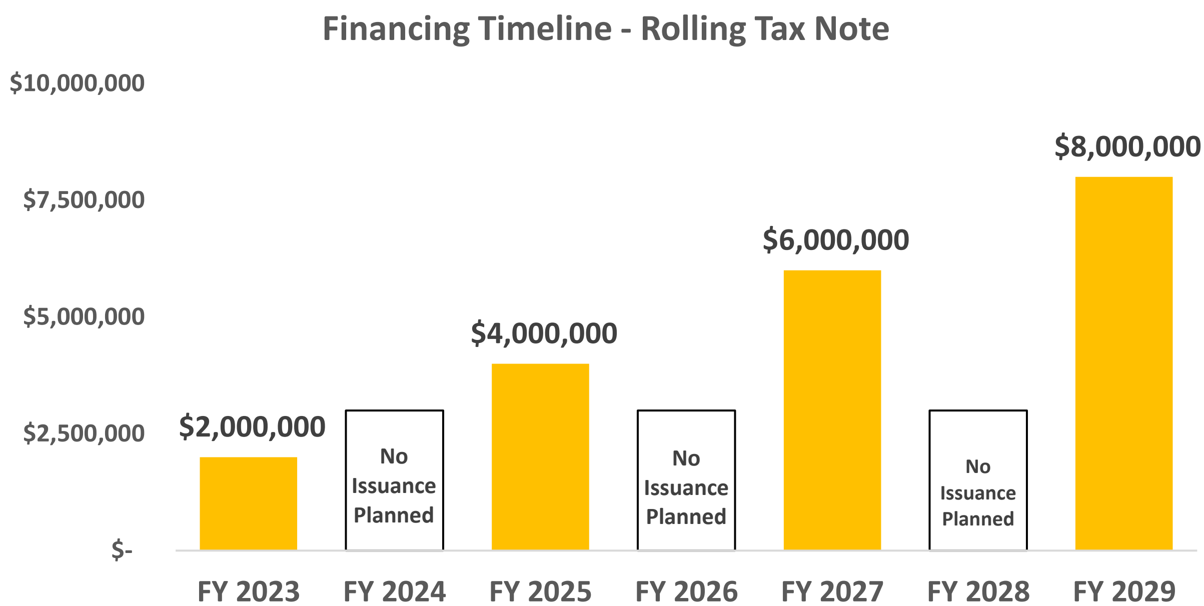
The city's existing debt portfolio currently includes several outstanding tax notes. In working with the City's financial advisors, staff evaluated the affect of dedicating the portion of the I&S rate that supports the existing notes to a long-term rolling tax note program dedicated to equipment replacement. The graph below illustrates what the structure of the tax rate would be moving forward. The results of this analysis is that 2.65 cents would be dedicated to the rolling tax note program with the remaining 18.23 cents dedicated to long term bond program investments (20.89 cents overall).



After understanding how the tax rate could be distributed between short- and long-term debt investments, the issuance schedule for the 2023 bond program was evaluated. Fortunately, the 2023 bonds can still be issued at the same schedule referenced earlier in the section. Therefore, dedicating 2.65 cents of the current I&S rate to the rolling tax note program does not impact the 2023 bond program schedule.



The rolling tax note program (2.65 cents), based on current property value projections, allows for approximately $20 million in tax notes to be issued over the next 7 years (see below). Beyond 2029, the capacity would likely be expanded as the previously issued tax notes are fully repaid. The value of the light vehicle fleet and SCBA's is approximately $14 million. Therefore, this strategy would allow for other critical infrastructure to be supported by the program such as fire apparatus, medic units, dump trucks, etc. As a reminder, the organization does not have a dedicated funding source for heavy equipment replacement.



Impact to the General Fund – The implementation of this strategy benefits the General Fund in two ways. First, it eliminates the majority of the current transfer to the Equipment Replacement Fund which is currently $1 million. Approximately $200,000-$300,000 would need to be allocated for technology replacements as it is not recommended to consider including those assets into a rolling tax note program. This would then generate approximately $700,000-$800,000 in capacity in the General Fund, which could be dedicated to any of the resource needs that have been identified, such as public safety staffing.