City of New Braunfels

CITY OF NEW BRAUNFELS
FIVE YEAR
Financial Forecast FY26-FY30

The following information was prepared and submitted to City Council prior to the development of the FY 2026 Proposed Budget. Some figures in this section were estimates at the time when this document was prepared, not the actual figures used for the Proposed Budget.

Definition and Purpose

The forecast is an assessment of the General Fund and Debt Service Fund's financial position should the assumptions used in creating projections materialize. ***A forecast is not a prediction.*** A forecast is a result based on assumptions; if the assumptions change, the financial position and projections change as well. Moreover, the projections for FY 2026 are not representative of the proposed budget or a recommendation. However, the results of the five-year forecast assist in developing budget policy. For example, the forecast illustrates how sales tax volatility and a continued slowdown in property value growth are impacting General Fund capacity. In comparison to recent forecasts, the current capacity for supporting new initiatives is materially lower.

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, consider the impact of New Braunfels' tremendous growth on service delivery.

For FY 2026, 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. As the forecast suggests, the June retreat will provide an opportunity to present some policy considerations to continue to try and close the gap between identified resource needs and projected General Fund capacity. As a reminder, the creation of additional General Fund capacity is a component of our 2024-2029 strategic plan.

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 provide value to our citizens through sound management of the City's financial resources.

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 revenue 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.

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 on 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 2026 Projection	FY 2027 Projection	FY 2028 Projection	FY 2029 Projection	FY 2030 Projection
Beginning Fund Balance	$ 32,530,186	$ 34,913,127	$ 39,259,053	$ 45,158,970	$ 53,280,363
Revenue					
Property Taxes	$ 29,712,570	$ 30,752,510	$ 31,828,848	$ 32,942,857	$ 34,095,857
Sales Taxes	35,335,980	36,042,700	36,763,554	37,498,825	38,248,802
Other Taxes and Franchise Fees	15,289,987	16,829,766	18,165,642	19,822,634	21,145,767
Licenses and Permits	5,700,000	5,550,000	5,400,000	5,250,000	5,100,000
Charges for Services	6,018,000	6,138,360	6,261,127	6,386,350	6,514,077
Fines and Forfeitures	1,450,000	1,450,000	1,450,000	1,450,000	1,450,000
Parks and Recreation	1,850,000	1,850,000	1,850,000	1,850,000	1,850,000
Das Rec	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000
Interest Income	2,000,000	1,750,000	1,500,000	1,250,000	1,250,001
Miscellaneous	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000
Interfund Transfers	1,158,984	1,193,753	1,229,566	1,266,453	1,304,446
Total Recurring Revenue	*$ 106,615,521*	*$ 109,657,089*	*$ 112,548,736*	*$ 115,817,120*	*$ 119,058,950*
Total Revenue	**$ 106,615,521**	**$ 109,657,089**	**$ 112,548,736**	**$ 115,817,120**	**$ 119,058,950**
Expenditures					
General Government	$ 11,725,338	$ 11,783,763	$ 11,843,356	$ 11,904,141	$ 11,966,142
Planning and Development Svs	4,947,674	4,976,734	5,006,374	5,036,608	5,067,446
Police	28,923,034	28,990,485	29,059,286	29,129,462	29,201,042
Fire	27,640,667	28,568,994	28,998,387	29,053,867	29,110,458
Municipal Courts	1,012,994	1,014,639	1,016,316	1,018,027	1,019,773
Public Works	9,086,841	9,157,364	9,229,297	9,302,668	9,377,508
Transportation and Capital Programs	2,440,823	2,457,350	2,474,208	2,491,403	2,508,941
Parks and Recreation	7,922,476	7,982,509	8,043,742	8,106,201	8,169,908
Das Rec	3,454,003	3,473,065	3,492,509	3,512,341	3,532,570
Library Services	3,279,849	3,296,820	3,314,131	3,331,788	3,349,798
Interfund Transfers	1,082,766	1,093,434	1,104,316	1,115,415	1,126,736
Non-Departmental	2,441,115	2,241,007	2,291,898	2,918,806	2,971,752
Contingencies	275,000	275,000	275,000	275,000	275,000
NBU Facility Partnership			500,000	500,000	500,001
Total Recurring Expenditures	**$ 104,232,580**	**$ 105,311,164**	**$ 106,648,819**	**$ 107,695,727**	**$ 108,177,074**
Ending Fund Balance	**$ 34,913,127**	**$ 39,259,053**	**$ 45,158,970**	**$ 53,280,363**	**$ 64,162,239**
Fund balance Percentage	***33.5%***	***37.3%***	***42.3%***	***49.5%***	***59.3%***
Fund Balance Surplus	**$ 3,643,353**	**$ 7,665,703**	**$ 13,164,325**	**$ 20,971,645**	**$ 31,709,117**
Recurring Revenue/Rec Exp	**$ 2,632,941**	**$ 4,345,926**	**$ 5,899,918**	**$ 8,121,393**	**$ 10,881,876**

Baseline Expenditures Forecast- Discussion and Analysis

General Fund- Revenue Projections (Recurring)

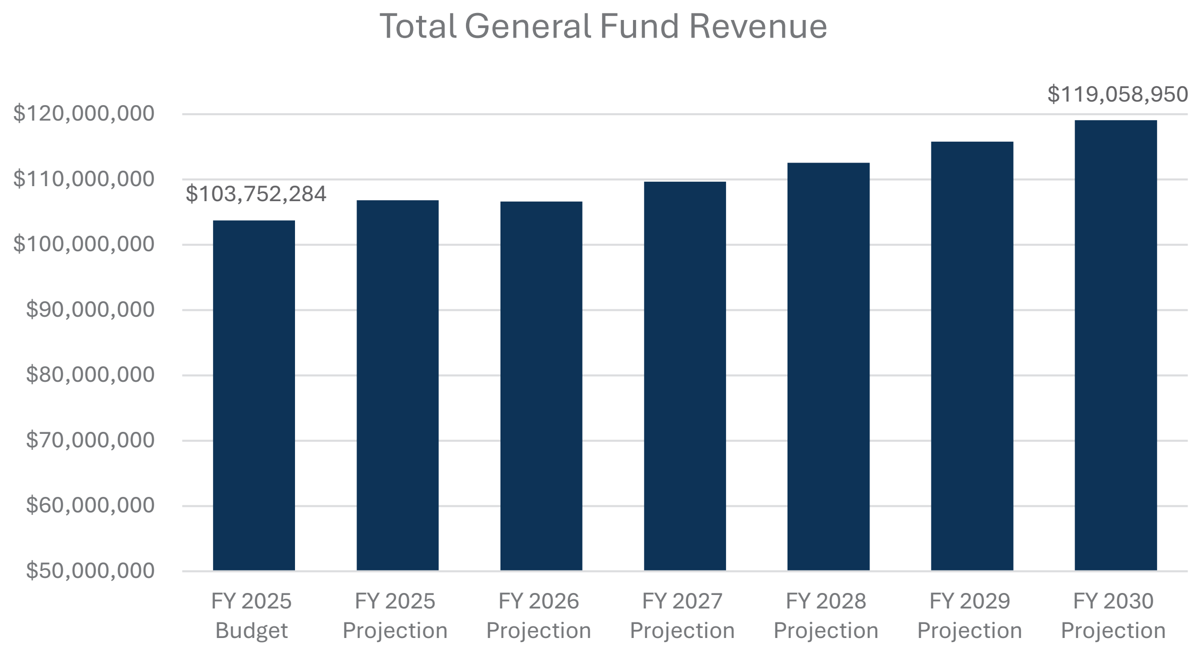
The average annual growth in General Fund revenues during the forecast period is 2.2 percent. The table below reflects the projected annual growth in total General Fund revenues for each year during the forecast period.

Projected Total General Fund Growth Rates (Recurring)

	FY 2026*	FY 2027	FY 2028	FY 2029	FY 2030
Growth Rate	-0.2%	2.85%	2.6%	2.9%	2.8%

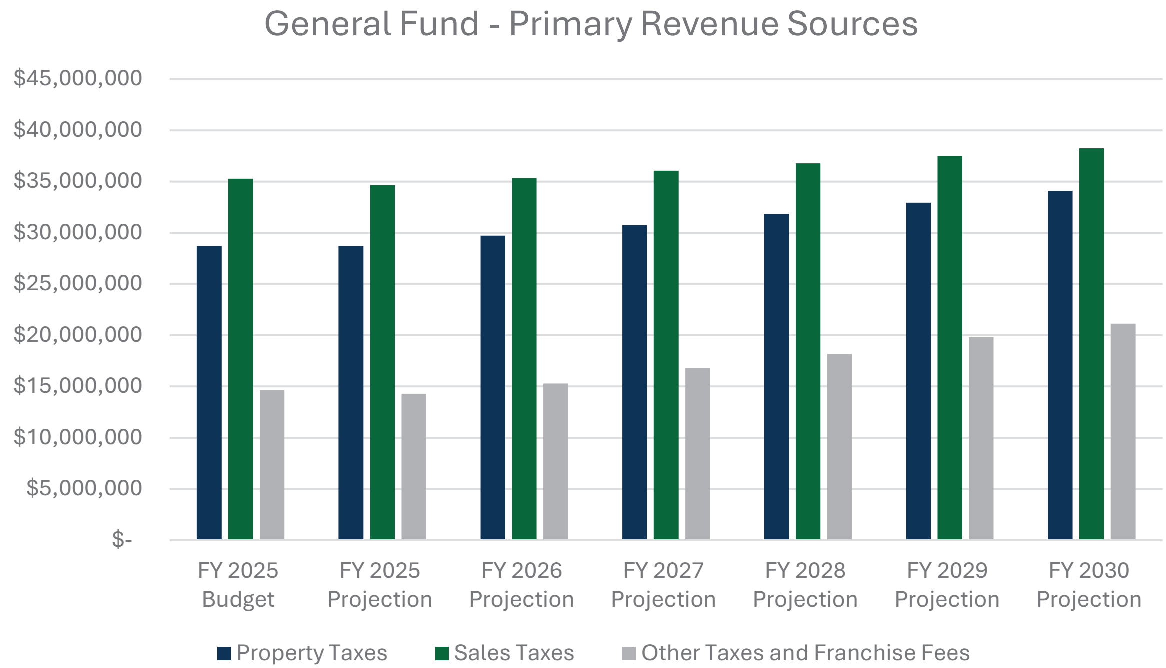
*** The projected reduction in revenue in FY 2026 is in comparison to the FY 2025 projection. This is primarily driven by the conservative approach to projecting licenses and permits and interest earnings, which is explained in further detail later in this section.**

As the graph illustrates, FY 2025 revenues are estimated to exceed budget. This is driven primarily by higher than anticipated growth in the following categories: interest earnings, licenses and permits and fines and forfeitures. The following section provides categorical detail on revenue projections during the forecast period.



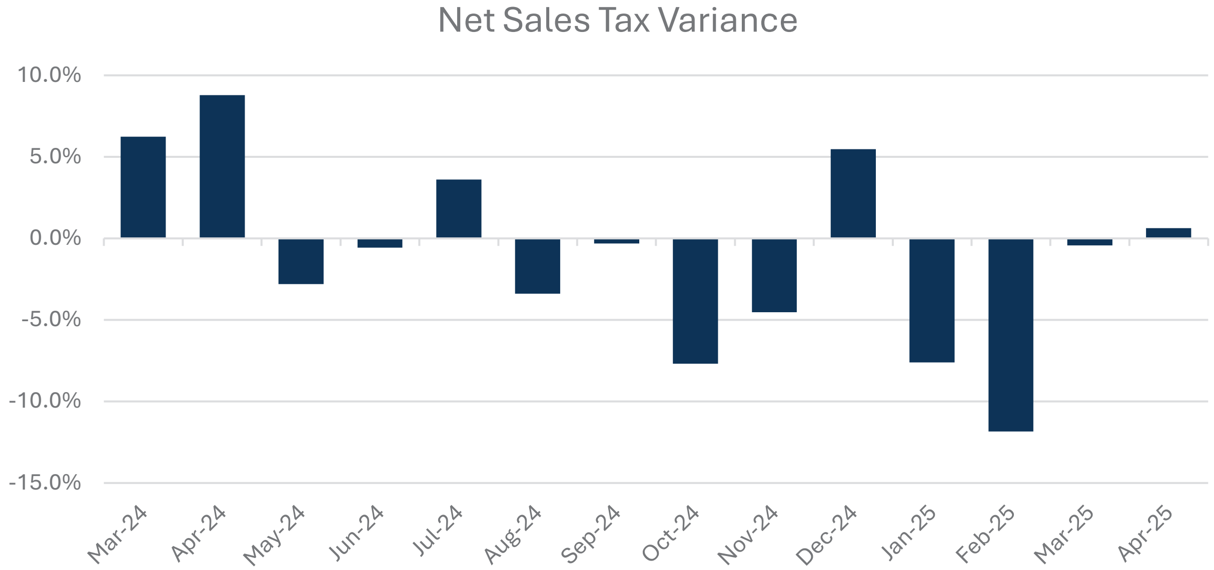
Primary Revenue Sources

Throughout the forecast period, the General Fund's three largest revenue sources (Sales Taxes, Property Taxes, and Franchise Fees) make up approximately 75%-79% of total revenues. The growth rates for total General Fund revenue are driven primarily by projected fluctuations among these three sources.

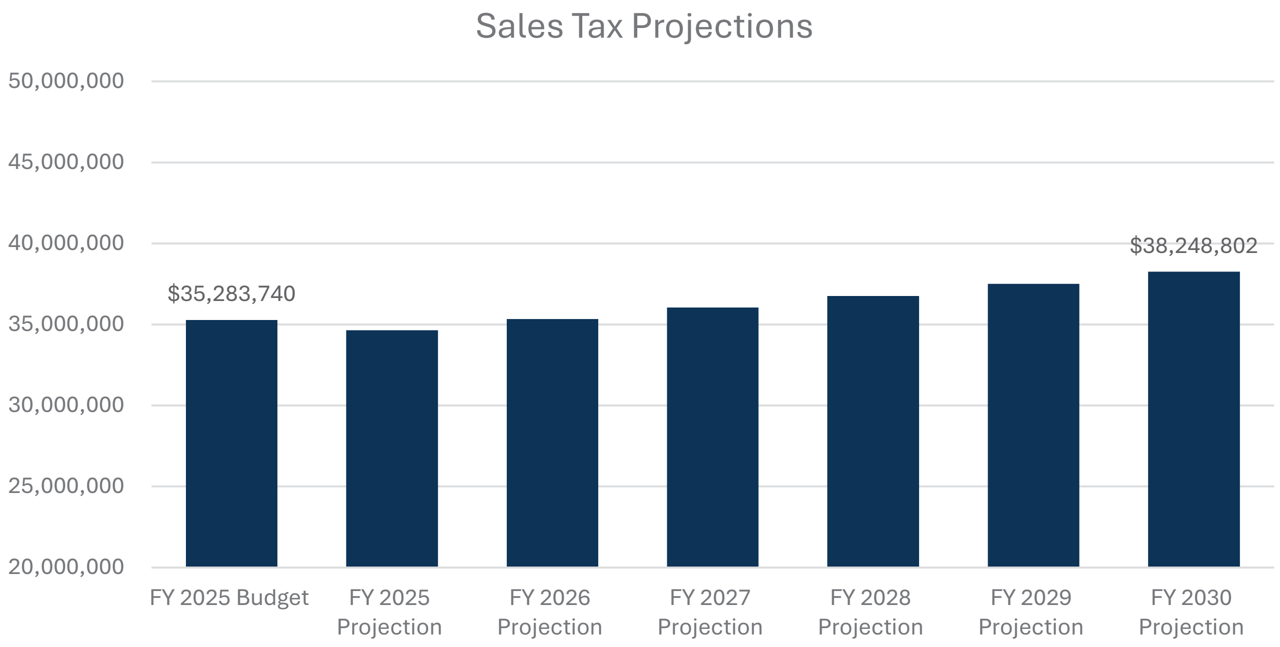


Property Tax Revenue – Due to statutory limitations and a diminishing amount of developable land available to add new value to the tax rolls, property tax revenue projections for the General Fund are conservatively held at 3.5% annual growth.

Sales Tax Revenue – The General Fund's largest source of revenue has experienced volatility towards the end of FY 2024 and throughout FY 2025, as illustrated by the graph below. This volatility and recent declines were preceded by record levels of growth from 2022 to 2024.

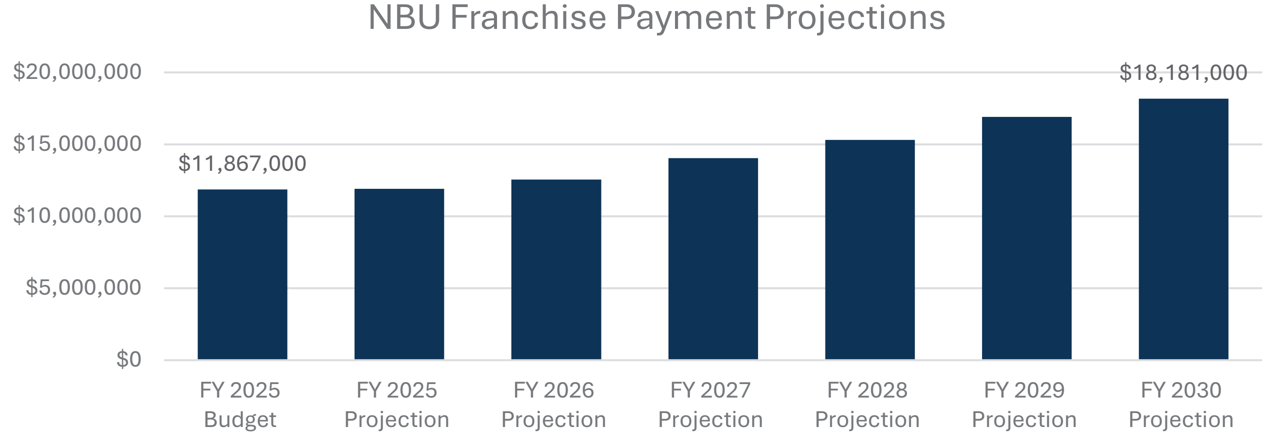


There are a number of factors to consider when evaluating the recent volatility in this revenue source, such as an overall slowdown in consumer spending amid economic uncertainty, However, when evaluating the compounded annual growth rate of sales taxes in New Braunfels over the past 10-15 years, as well as the commercial projects that are in the pipeline, there is justification to continue to include projected growth in sales taxes. Therefore, a 2% annual increase in sales tax revenue is incorporated into the forecast period.



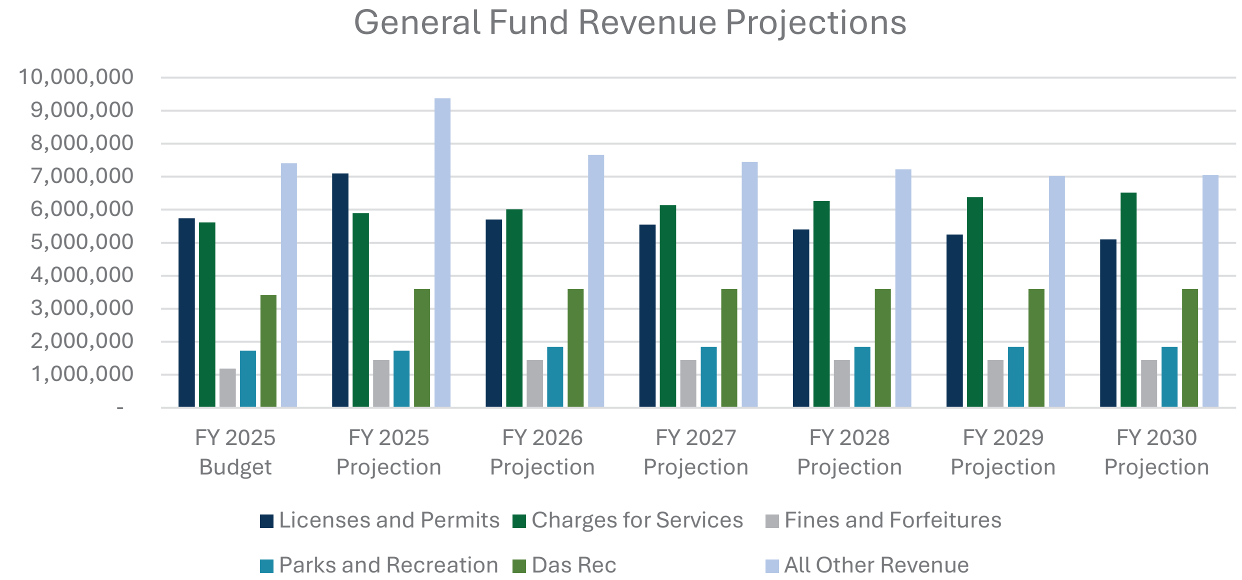
Franchise Fees

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 projected rate model. 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.

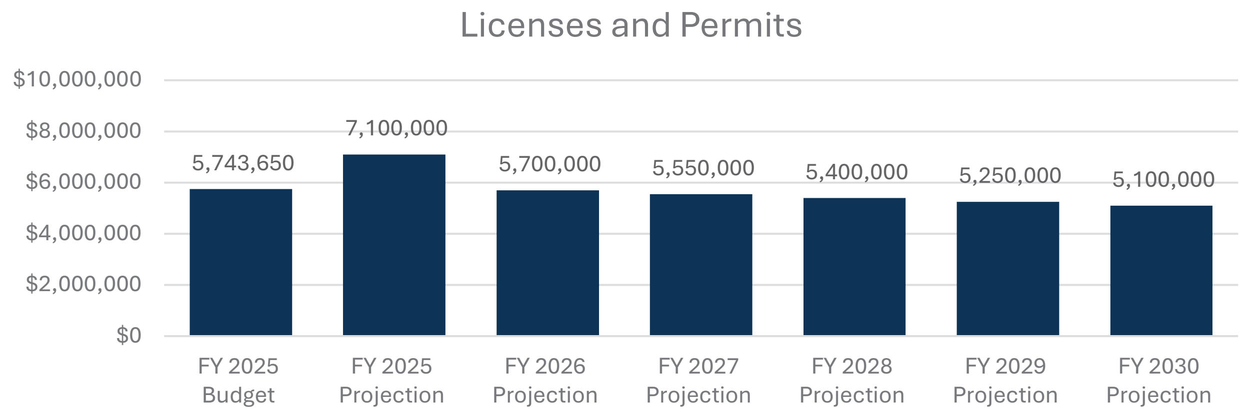


All other General Fund Revenues

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. However, as a result of our development agreements with both Veramendi and Mayfair, it is likely that the leveling-out period may not be as sudden as originally thought. While that continues to be evaluated and impacted significantly by economic factors such as interest rates and the overall economy, the forecast continues to assume a conservative projection and leveling out of this revenue source.



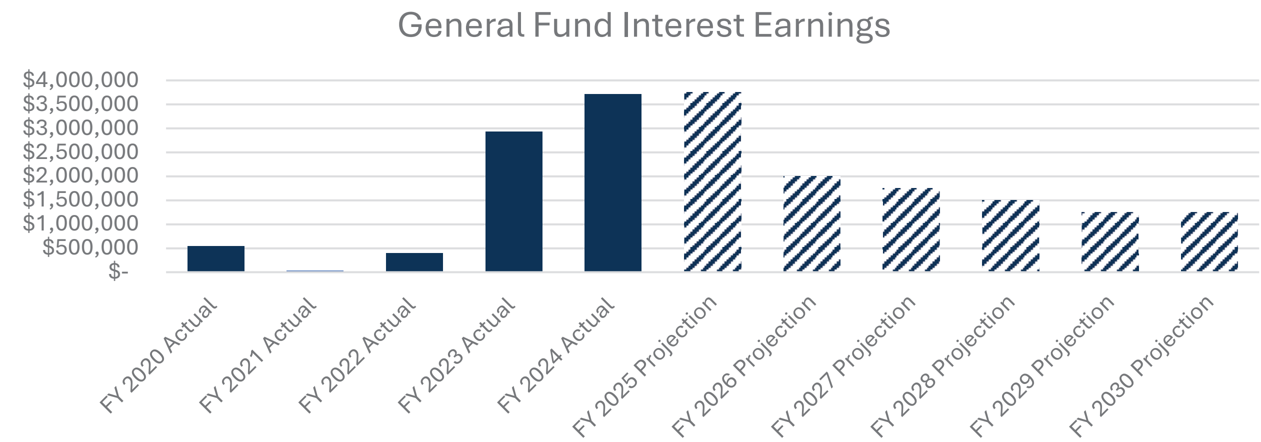
Charges for services – this revenue source is driven primarily by ambulance-related collections and the contractual payment from Emergency Services District #7. A portion of that revenue includes the payment from the state for ambulance services provided to the uninsured and those on Medicaid. This revenue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

Fines and Forfeitures – Given that this revenue source is impacted by many factors, fines and forfeiture revenue is held flat at current collection levels throughout the forecast period.

Parks and Recreation revenue –While the forecast assumes that this revenue source is held flat, the organization has begun to adjust fees for programs and facilities that could achieve better cost recovery for various programs and facilities. The majority of the fees that have been approved have not been adjusted for years, in some instances, decades.

Das Rec – The recreation center currently has membership levels at an all-time high at over 20,000 members. 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. These revenues are either held flat due to unpredictability or include minimal growth throughout the forecast period. This category also includes interest earnings, which can fluctuate significantly based on economic factors and is forecasted to decline somewhat to conservatively project the interest rate environment over the next several years.



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 is 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 2026, given that most of those positions were only funded for six or nine months in FY 2025.

SAFER Grant – In FY 2024, the City of New Braunfels was awarded the Staffing for Adequate Fire and Emergency Response (SAFER) grant. This injection of funding allowed our organization to add ten additional firefighters to improve emergency response and staffing levels on heavy fire apparatus. The grant provides all salary and benefit costs for the additional ten positions for approximately three fiscal years; however, in FY 2027, the General Fund will need to begin absorbing the costs of these positions. The net effect of absorbing the costs of these positions is $875,000 in FY 2027 and $1.25 million in FY 2028.

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).

In recent history, inflationary pressures have been more impactful than they have been over last 40 years. The FY 2023 and FY 2024 Adopted Budgets included strategic allocations to operating budgets to address inflationary pressures at the commodity/service level. The baseline forecast includes the following assumptions for inflationary adjustments.

Inflationary Adjustments to Operating Budgets					
	FY 2026	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**
Growth Rate	3%	2%	2%	2%	2%

Facility Partnership (NBU)

In 2020, the City Council approved a facility and land transfer agreement that 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.

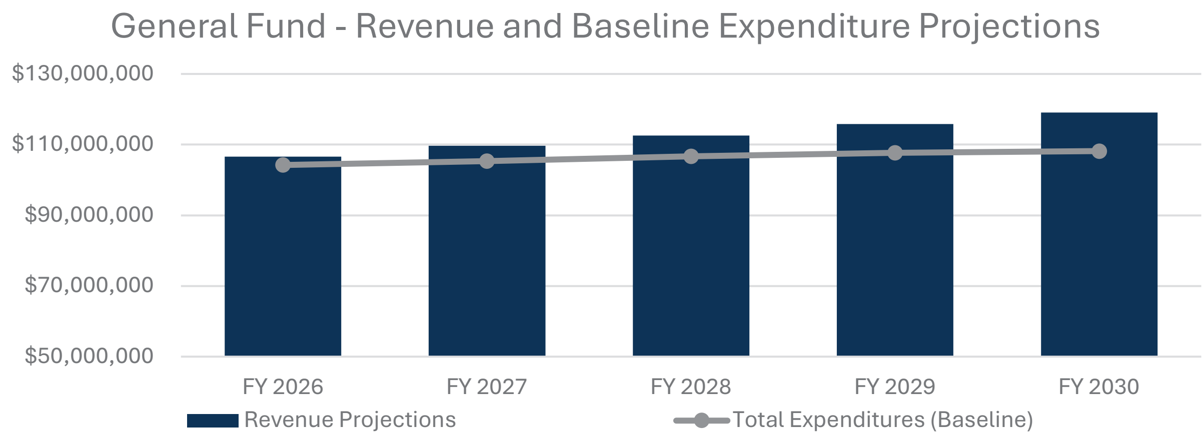
The funding strategy to support the transfer involved approximately 50% of the payment upfront, with the remainder paid over a ten-year period, originally beginning in FY 2023 ($500,000 annually for ten years). However, the subsequently approved real estate transfer agreement for the previously occupied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

Workday Recurring Costs

In FY 2022 and FY 2023, one-time funding was set aside for the implementation of a new Finance/Human Resources operating software. For reference, this software has not been fully replaced since 2001. The set-aside funding was sufficient to cover the implementation and training costs as well as the recurring costs for the first several years after the system goes live in FY 2025. However, those recurring costs of $575,000 are recognized to be absorbed by the General Fund in FY 2029.

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. As mentioned earlier, sales tax volatility and the continued downward trend in growth in property values are resulting in a materially lower projected General Fund capacity for FY 2026.



The figures in the graph represent the funds available throughout the forecast period each year after annual expenditures is 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 2026	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**
Compounded Annual Surplus	$2,633,000	$4,346,000	$5,900,000	$8,121,000	$10,882,000

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

Fund Balance Surplus

The Baseline Expenditures Forecast shows a surplus in fund balance throughout the forecast period. ***It is important to remember that any commitment of funds made in FY 2026 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) shows a different result. ***The resource demands forecast shows a fund balance deficit of $43 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 the City Council or recommended by City Management. The purpose of this schedule is to forecast the impact on 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 the 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 to 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
- Resources to staff and operate completed capital improvement projects
- All other departments staffing – current identified unmet needs
- 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 2027. In fact, the resource demands forecast is no longer structurally balanced immediately in FY 2026, 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.

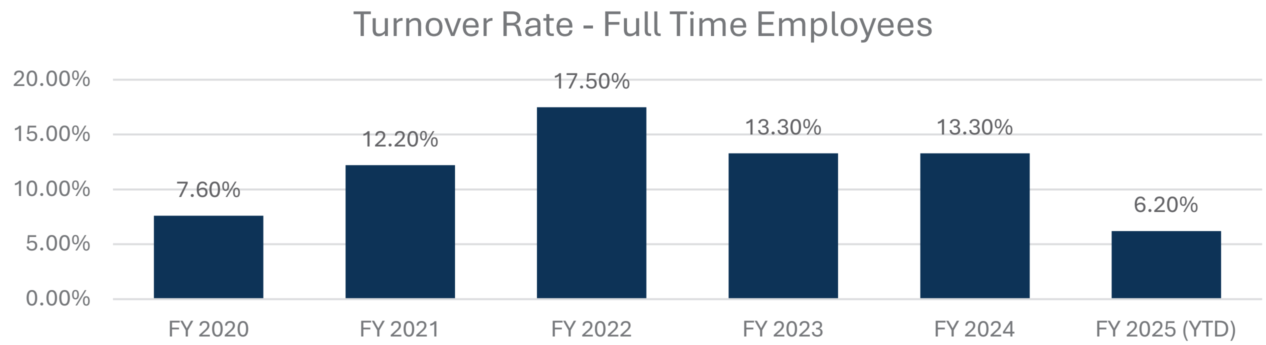
General Fund Forecast - Resource Demands

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Beginning Fund Balance (adjusted)	$ 32,530,186	$ 29,247,794	$ 23,421,482	$ 14,481,235	$ 2,980,223
Total General Fund Revenue	$ 106,615,521	$ 109,657,089	$ 112,548,736	$ 115,817,120	$ 119,058,950
Total Available Funds (adjusted)	$ 139,145,707	$ 138,904,883	$ 135,970,218	$ 130,298,355	$ 122,039,173
Adjusted Baseline Expenditures - Includes impact from recurring resource demands	$ 104,232,580	$ 109,684,914	$ 115,503,643	$ 121,192,129	$ 126,428,842
Current Resource Demands					
Uniformed Personnel - Step Plan/COLA/Market Based Compensation Increases	$ 1,816,211	$ 1,861,046	$ 1,906,988	$ 1,954,064	$ 2,002,302
Non-Uniform Personnel - Merit/COLA/Market Based Compensation Increases	$ 1,126,679	$ 1,143,933	$ 1,161,451	$ 1,179,238	$ 1,197,296
Operating Expenditures from CIP/Bond Projects					
Zipp Family Sports Park (net)	$ 100,000	$ 150,000			
Southeast Library Branch			$ 350,000	$ 350,000	
Mission Hill Park		$ 150,000			
Address current unmet needs - positions	$ 1,130,860	$ 1,176,095	$ 1,223,139	$ 1,272,064	$ 1,322,947
Re-Establish Facilities Maintenance Fund	$ 200,000				
Address current unmet needs - one time capital and initiatives	$ 1,291,582	$ 1,317,414	$ 1,343,762	$ 1,370,637	$ 1,398,050
Total - Additional Annual Resource Demands	$ 5,665,333	$ 5,798,488	$ 5,985,340	$ 6,126,003	$ 5,920,595
Total Expenditures (adjusted)	**$ 109,897,913**	**$ 115,483,402**	**$ 121,488,983**	**$ 127,318,132**	**$ 132,349,437**
Ending Fund Balance	**$ 29,247,794**	**$ 23,421,482**	**$ 14,481,235**	**$ 2,980,223**	**$ (10,310,264)**
Target Fund Balance - 30% of Recurring Expenditures	**$ 27,151,583**	**$ 28,541,497**	**$ 30,036,305**	**$ 31,486,874**	**$ 32,737,847**
Fund Balance Surplus/(Deficit)	**$ 2,096,211**	**$ (5,120,015)**	**$ (15,555,070)**	**$ (28,506,651)**	**$ (43,048,111)**

Compensation Adjustments

Recruitment and retention of public sector talent continues to be a strategic issue for the organization. The strategic plan includes several objectives that focus on employee retention, such as the development of formal succession plans at the department level and tracking the percentage of full-time resignations associated with compensation and/or better opportunities. The forecast includes annual funding for compensation increases equal to 4% of base pay. For reference, this would require an additional $3 million annually to support.

The graph below illustrates the City's current turnover rate trend. As the graph illustrates, the trend for FY 2025 (October-June) has continued to shift in a positive direction; however, the end-of-year trend for the current fiscal year will likely align to FY 2024 levels or slightly lower. As a reminder, the strategic plan includes a performance measure to maintain a full-time turnover rate of 15% or lower.



FY 2025 Market Compensation Study – The City conducts market compensation studies every two years. 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.

The Human Resources Department completed the market compensation study recently and are currently finalizing costing strategies for implementation. However, the approximate cost is projected to be approximately $3.5-$4.0 million for full implementation of the study, which is more than what is currently incorporated into the forecast.

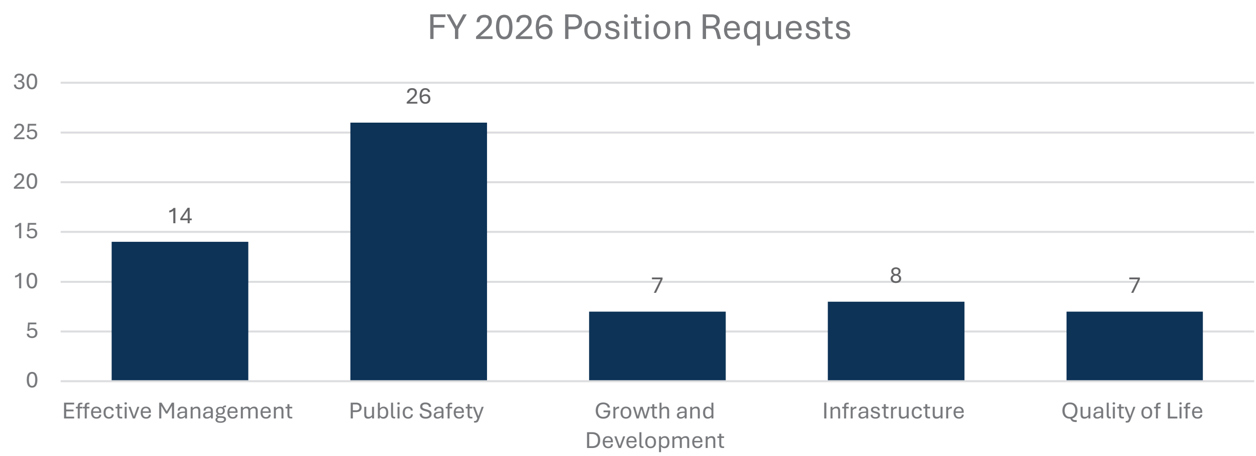
Operating expenditures stemming from CIP/Bond Projects

The FY 2026-30 Five Year Forecast recognizes the remaining annual operating costs associated with the Zipp Family Sports Park ($250,000 annually), Southeast library branch ($700,000 annually), and Mission Hill Park ($150,000 annually).

The figures for the southeast library branch and Mission Hill Park should be considered as placeholders. Once these facilities are fully designed, staff can begin determining operating costs and revenue projections to determine the net impact on the General Fund.

Other Departments Staffing – Current Identified Unmet Needs

As staff develop the FY 2026 Proposed Budget and Plan of Municipal Services, nearly every department has requested positions to meet increased demand for services. Over 60 positions (General Fund Departments) have been requested for consideration in the FY 2026 Proposed Budget. The forecast assumes these positions are authorized and funded over the five years to illustrate the annual and total impact of absorbing these positions ($6.1 million annually).



Re-establish Facilities Maintenance Fund

Prior to the economic recession, the City had established a Facilities Maintenance Fund. This fund primarily serves 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 is currently inactive.

Currently, the only funding source our organization has available in the event of an emergency impacting our infrastructure/facilities is the General Fund reserves as well as our budgeted contingencies, which are typically around $200,000 annually. As our inventory of facilities increases, re-establishment of the facilities maintenance fund should be a consideration of the City Council. To recognize this, the forecast includes a $200,000 recurring transfer beginning in FY 2025.

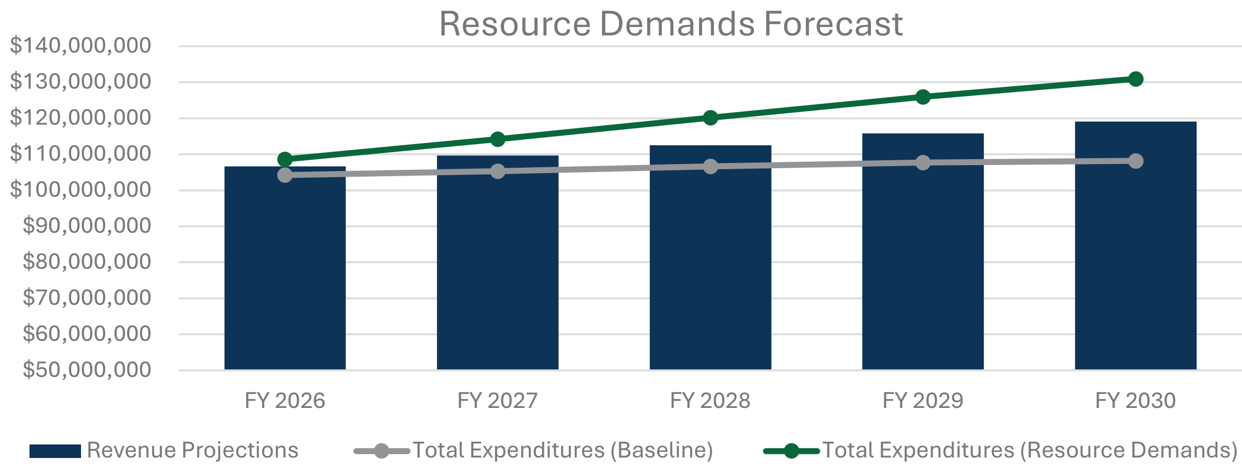
A one-time transfer of $1.5 million was included in FY 2022 to re-establish the Fund; however, these funds were reallocated to the Zipp Family Sports Complex project.

One-time Costs – Current Identified Unmet Needs

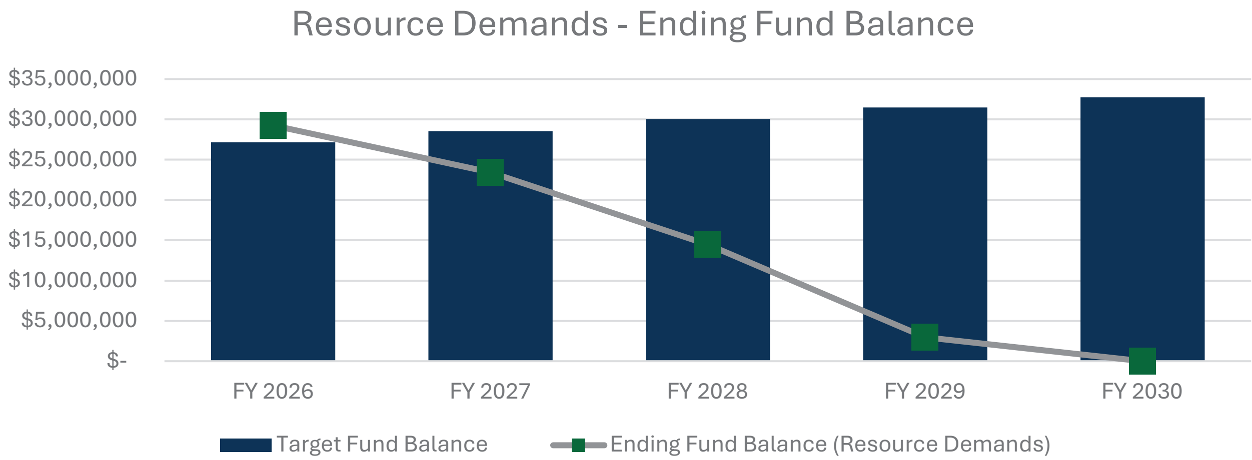
Various non-personnel initiatives were identified by General Fund departments during the FY 2025 budget process. The amount listed represents allocating those costs over a five-year period. Again, as a reminder, these costs are only those associated with current needs. Increased service demands and new programs will impact one-time equipment and initiative needs.

<u>General Fund –Baseline and Resource Demands Forecast Projections</u>

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 a fund balance deficit, as illustrated in the graph below.

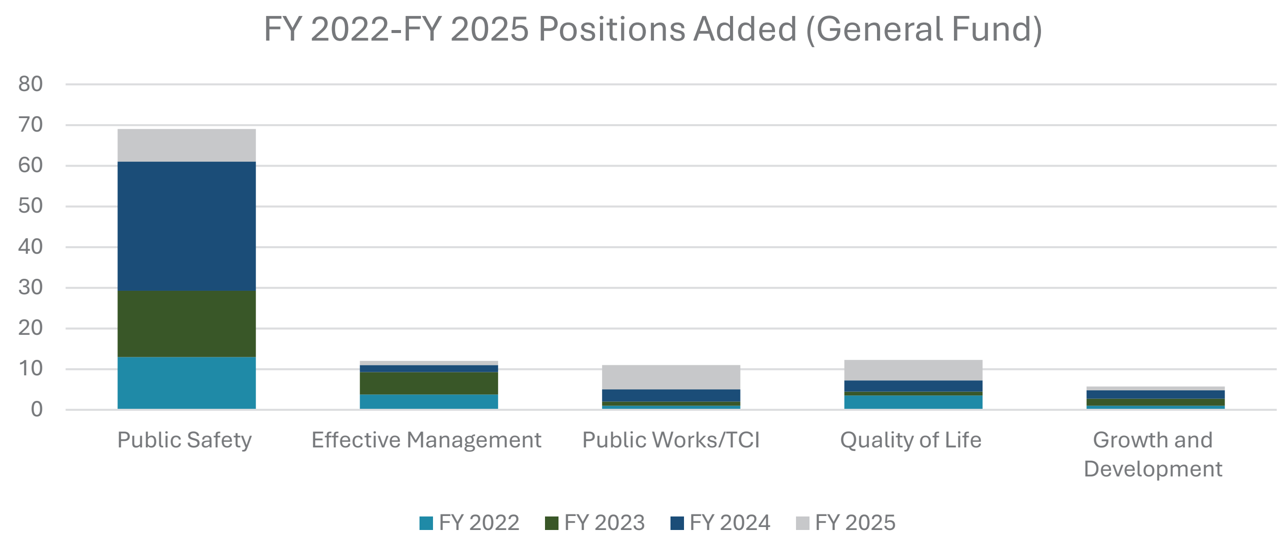


Policy Considerations

The City has been preparing five year financial forecasts for over ten years. While the methodology and assumptions have changed, the results have been relatively consistent, which is that the General Fund does not have the capacity to support the <u>current</u> identified needs across the organization over the next five years.

The budget process will continue to be where the organization attempts to utilize every available dollar strategically to address as many needs as possible while remaining fiscally conservative. Over the past several years, the organization has been able to add a number of resources to better meet demands for service, while at the same time, prioritizing investments in compensation for city employees.

As the graph suggests, the organization has added positions consistently over the past several years. In fact, since FY 2022, over 100 full-time equivalent positions have been added to General Fund departments



However, as suggested earlier, to try and make additional progress towards allocation of current and future resources needed to meet the demand for services, additional General Fund capacity above what the budget process is projected to yield will be needed.

During the June City Council retreat, city staff will present several opportunities that could generate additional capacity in the General Fund to expedite the allocation of resource needs and other citizen/City Council budget priorities that have been and will continue to be identified.

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 20.39 cents per $100 of valuation.
- Property tax values grow at 3.5%-4.0% through FY 2028 and flat 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 refunding/refinancing has been included in the forecast.
- Vehicle/Equipment Tax Notes are issued in accordance with the following schedule:
    - FY 2024 – currently no planned issuance
    - FY 2025 - $6,000,000
    - FY 2026 – no planned issuance
    - FY 2027 - no planned issuance
    - FY 2028 – no planned issuance
    - FY 2029 - $8,000,000
- 2023 General Obligation Bonds are issued in accordance with the following schedule:
    - 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 2026 Projection	FY 2027 Projection	FY 2028 Projection	FY 2029 Projection	FY 2030 Projection
Beginning Fund Balance	$ 3,568,854	$ 4,144,297	$ 4,948,510	$ 5,879,687	$ 6,810,519
Revenue					
Taxes	$ 29,470,205	$ 30,501,662	$ 31,721,729	$ 31,721,729	$ 31,721,729
Interest Income	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 100,000
Contributions	$ 2,808,456	$ 2,810,056	$ 2,811,581	$ 2,808,931	$ 2,811,931
Interfund Transfers	1,238,788	641,097	642,460	568,725	570,050
Total Revenue	$ 33,617,449	$ 34,052,815	$ 35,275,770	$ 35,199,385	$ 35,203,710
Expenditures					
Debt Service	33,042,006	33,248,602	34,344,593	34,268,552	34,278,013
Total Expenditures	**$ 33,042,006**	**$ 33,248,602**	**$ 34,344,593**	**$ 34,268,552**	**$ 34,278,013**
Ending Fund Balance	**$ 4,144,297**	**$ 4,948,510**	**$ 5,879,687**	**$ 6,810,519**	**$ 7,736,216**

Forecast Analysis

The forecast above incorporates the debt service commitments associated with the 2023 bond and rolling tax note equipment program. The following section provides additional detail on capacity as well as other policy considerations as they relate to capital financing strategies and goals.

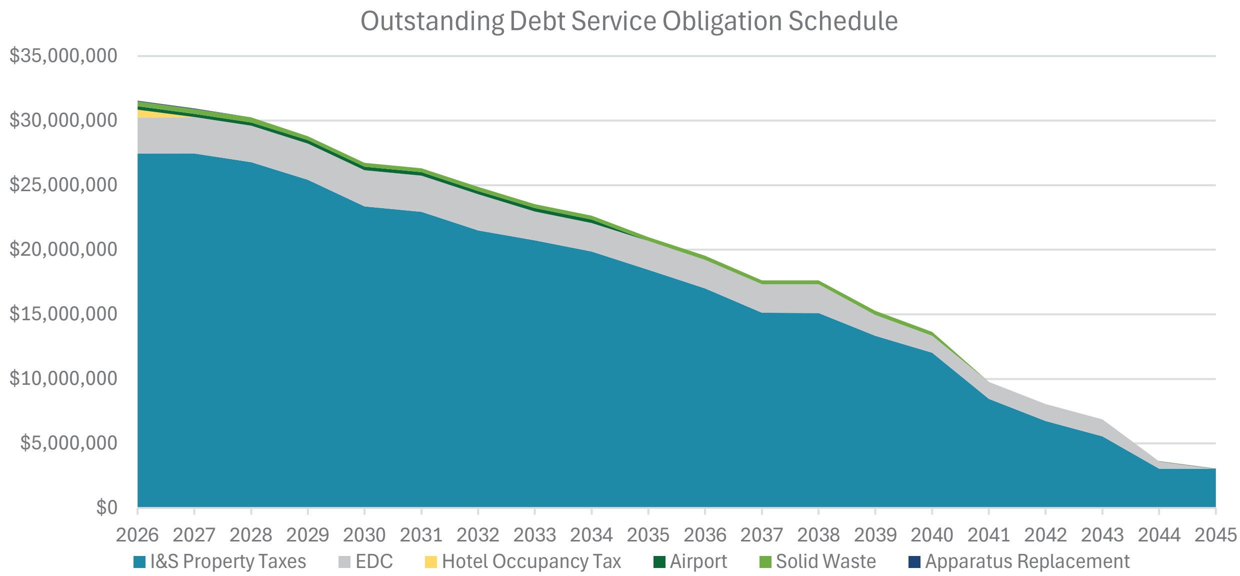
Growth in Property Values

As mentioned earlier, the projection for growth in values in is 3.5%-4.0% for FY 2026 – FY 2028. Specifically for FY 2026, the projection of 3.5% could be considered conservative. However, the preliminary values for Comal and Guadalupe County are currently showing growth of approximately 6%, based on previous years, a portion of that growth is likely to be eliminated through the protest process. For the Debt Service Fund, assuming no growth beginning in FY 2028 provides flexibility and, more importantly, assurance that there is capacity to issue the remaining 2023 bonds and projected tax notes without an increase to the I&S portion of the rate. Higher levels of growth and potentially lower interest rates will increase capacity and provide more flexibility to structure the debt service for the issuances more strategically.

Projected Debt Service Commitments

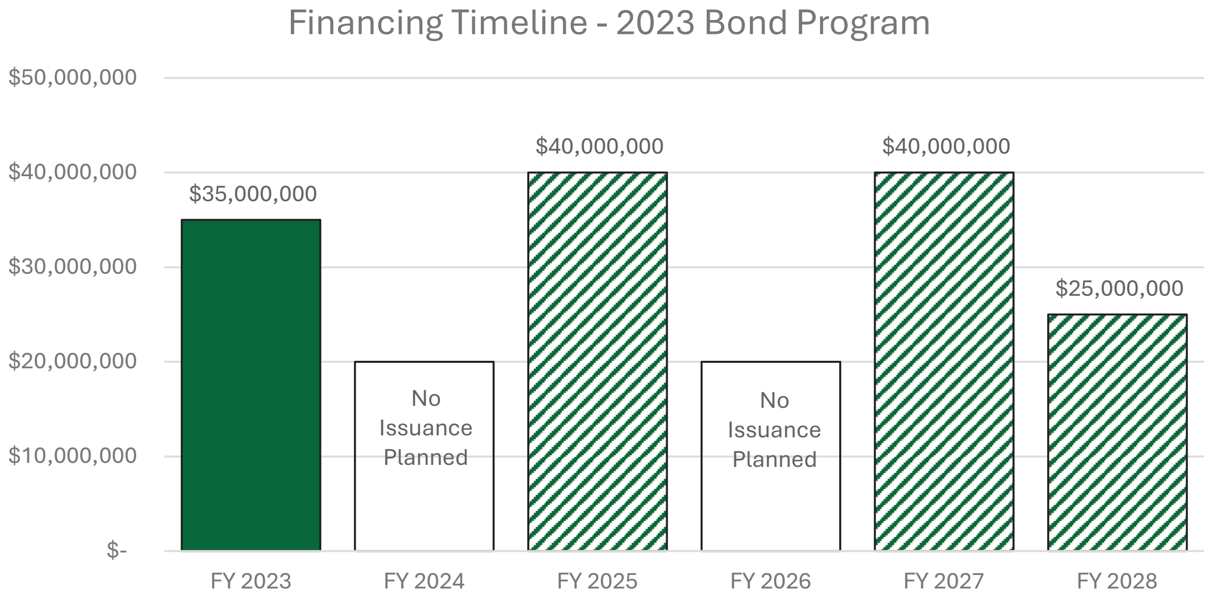
The majority of the annual debt service commitment is supported by property taxes. However, other sources have been committed to support debt service where statutorily allowable.

The graph below illustrates the annual debt service commitment by funding source.



2023 Bond Program

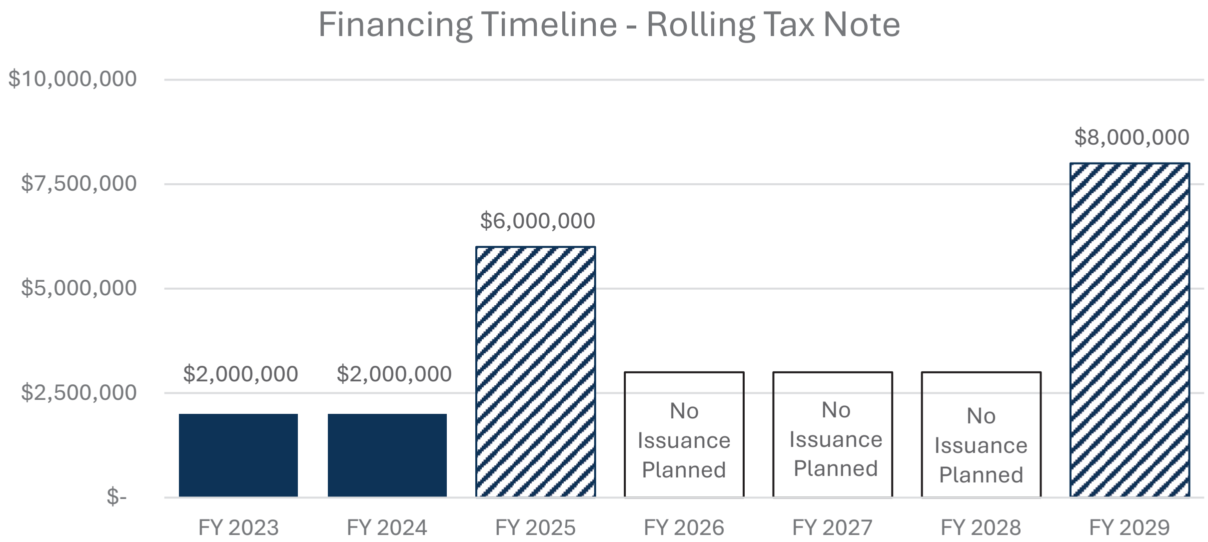
The graph below illustrates the issuance schedule associated with the 2023 bond program. As suggested earlier, this schedule will likely change based on actual growth in values, project funding needs, etc.



Rolling Tax Note Program

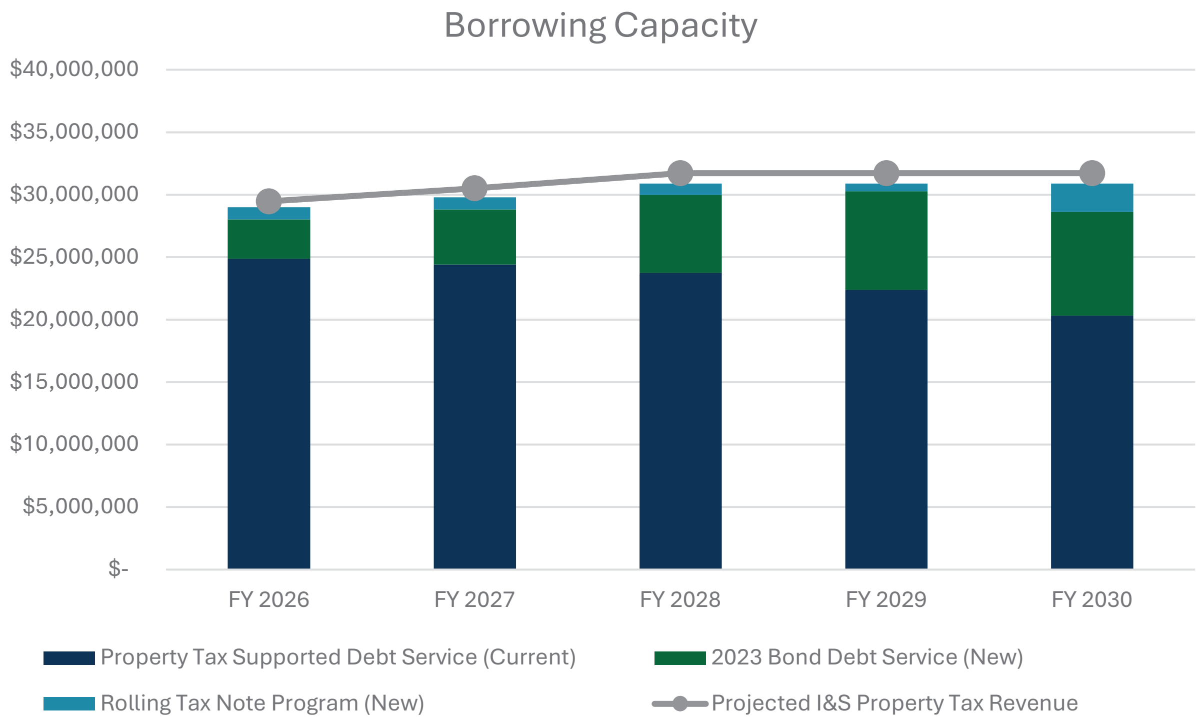
A long-term strategic issue had been securing a recurring funding source for light vehicle replacements as well as the Fire Department's SCBA equipment. The City once had a well-established vehicle replacement fund and program. However, annual contributions were suspended as a budget-balancing strategy and never restored due to the necessary prioritization of recurring funding for compensation and new positions.

In FY 2024, the City Council authorized a creative split to the City's I&S rate, which dedicates a portion of the rate to rolling tax notes that can be leveraged to meet vehicle replacement needs. In addition, this program can be utilized to support certain critical heavy equipment needs that also do not have a dedicated funding source. The initial projection for tax note issuance(s) is illustrated in the graph below.



FY 2026 Financing Strategy

Based on the previous financing timeline(s) of both the 2023 bond program and rolling tax note program, while evaluating the current revenue projections for the Debt Service Fund, there is projected to be capacity available in FY 2026 at the current I&S rate.



Policy Consideration

As the graph suggests, based on the conservative projections for growth in property value, the current I&S rate can support the remaining 2023 bonds that have yet to be issued and additional tax notes to support vehicle replacement. However, the reduced growth in existing values does continue to provide flexibility to consider additional shifting of the I&S rate to the O&M rate (General Fund). While this could impact the capacity for the rolling tax note program, it could also provide critical recurring revenue for the General Fund. As previously mentioned, the General Fund Resource Demands forecast resulted in a projected $43 million deficit.