

FY 2017-18 to FY 2021-22 Financial Forecast



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Five Year Forecast - Definition and Purpose

The five year forecast provides current and long range financial projections for the General Fund, Debt Service Fund, Equipment Replacement Fund and Self Insurance Fund. The financial performance and solvency of these funds is critical to the City's ability to provide services to citizens as well as meet existing and anticipated debt commitments. The forecast document also includes a description of strategic issues that will impact the City and may require City Council direction over the next five years. Economic benchmark and outlook information is also included in an effort to provide an overview of the New Braunfels economy and development patterns.

The forecast is an assessment of four funds' (General Fund, Debt Service Fund, Equipment Replacement Fund and Self Insurance Fund) 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 2017-18 are not representative of the proposed budget or recommendation. However, the results of the five year forecast do impact budget policy.

The forecast is a tool to assist the City Council in setting policy direction and priorities to use in developing the proposed budget and capital project planning. This document serves as the fourth financial forecast completed and presented by the City of New Braunfels. There has been a direct correlation between this document and our ability to develop and discuss policy from a multi-year perspective. Moreover, it also assists the City Council by providing a longer term look at the financial impact various programs could or will likely have, should the program be funded. The identification and description of strategic issues is also designed to assist Council in policy and priority setting.

Economic Benchmark & Outlook

The Economic Benchmarks and Outlook section highlights national, state and regional economic trends and how those trends could affect the underlying economic considerations of the local New Braunfels economy. The growth in the City's two primary sources of revenue (sales and property tax) is often correlated with broader national economic conditions. Overall, 2016 was another year of steady growth for the U.S. economy and was similar to growth seen in 2015. On balance, it appears that overall employment growth has continued to support increased domestic household spending nationally. Regionally, job growth has continued a steady climb despite the energy sector's contraction in 2015 and continued slide in 2016. Strong local primary job growth and regional population shifts have translated into a steadily increasing population, which has driven further increases in building activity and permits, sales and property tax revenue growth, and increasing city service demands. These effects are expected to continue through the forecast period as long as national, statewide and especially regional growth trends continue.

Strategic Issues

In FY 2013-14, staff developed a list of strategic issues that the organization should address during the forecast period. The forecast document summarizes each issue in an effort to define the specific problem facing the City, explain the factors that make the issues a fundamental challenge or opportunity and provide a brief description of options that are available to address the issue. Issues have been added to the section as identified or removed if no longer thought to be an issue.

The strategic issues are grouped by the five City Council adopted strategic priorities: Infrastructure, Public Safety, Effective Management, Growth and Development and Quality of Life. Below are examples of the strategic priorities that are included in this section

Infrastructure – Streets, Traffic Stormwater management

Public Safety – Planning for the future needs of the Police and Fire Department

Effective Management – Attracting and retaining a highly qualified workforce

Quality of Life – Improving Health and Wellness in the Community, Library Growth

Growth and Development – Mobility and Connectivity

In addition to the narrative of each issue, some strategic issues, mainly those that City Council has provided some direction and/or indicated an interest in the initiative moving forward, have been quantified and incorporated into the financial forecast. Moreover, action items that will help or have helped to address the strategic issue are now included in this section as well as references to the 2014 National Citizen Survey for New Braunfels (where applicable). While these strategic issues were identified and developed for inclusion in the forecast document, this information could be beneficial for the City Council in developing and modifying the City-wide Strategic Plan.

General Fund

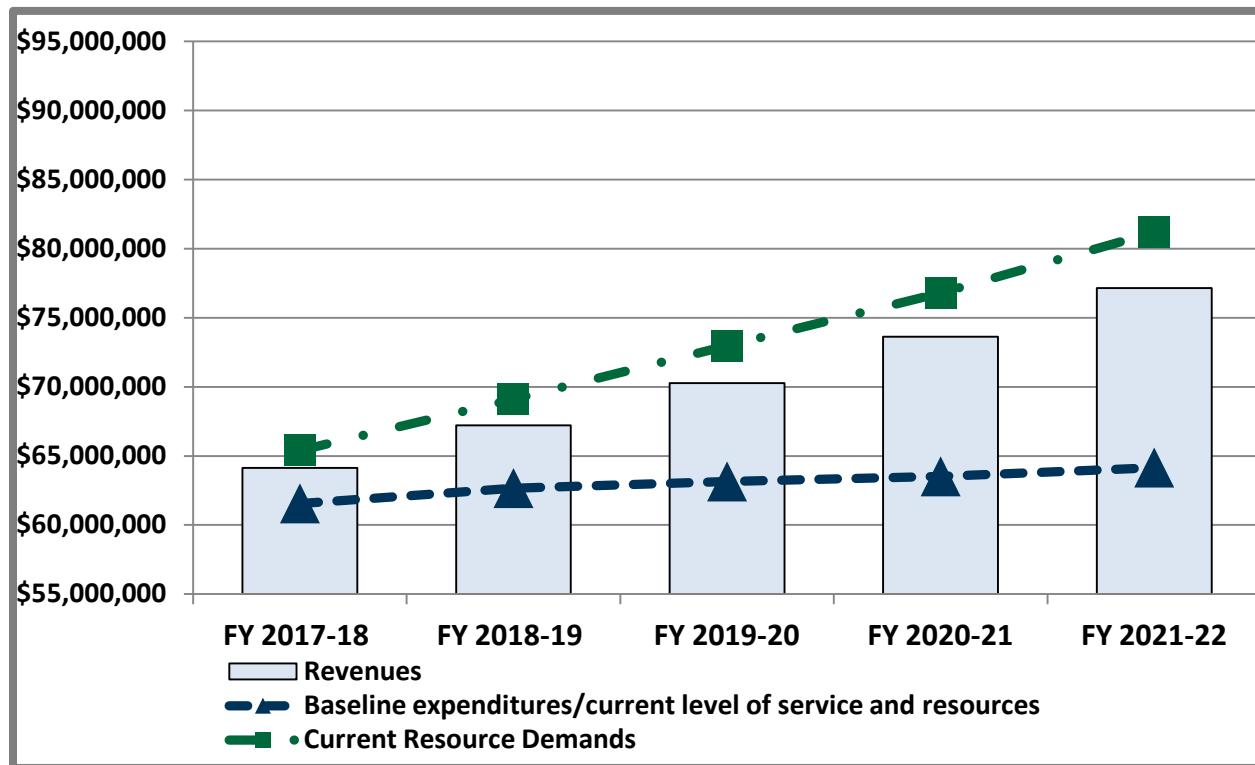
The General Fund is the City's main operating fund. The General Fund forecast includes two schedules. The first looks at the financial position of the General Fund assuming that revenues grow throughout the period but that expenditures remain fairly flat, growing only to reflect inflationary pressures. This perspective assumes that ***the current levels of service are maintained throughout the organization*** and is referred to as the "Baseline Expenditures". The baseline forecast also includes any financial impacts from future commitments such as the operating revenues and expenditures of the Community Recreation Center. Moreover, the baseline forecast schedule has accounted for all savings and deferments that were initiated in FY 2016-17 as well as the reinstatement of those costs in FY 2017-18. The second forecast schedule and illustrates the impact to the General Fund of costs associated with identified resource

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needs/program enhancements/compensation adjustments and is called the “Resource Demands”. The revenue projections are the same on both schedules; only the expenditures change. Overall, General Fund revenue is projected to increase, on average, 5.3 percent annually throughout the forecast period.

The Baseline Expenditures General Fund forecast, again, which represents current resources supporting current service levels, shows a surplus in fund balance throughout the forecast period. In FY 2017-18, the surplus is \$2.57 million and grows to \$12.99 million by the end of the fifth year. ***It is important to remember that any commitment of funds made in FY 2017-18 will reduce the fund balance and surplus throughout the remainder of the forecast period.*** The second forecast, which includes all current resource demands, shows a different result. In FY 2017-18, the General Fund forecast shows a deficit of \$2.7 million which grows to \$19.1 million by the end of the five year forecast period. The factors driving each of these forecasts are explained below. The assumptions used to develop these forecasts are described in detail in the General Fund section of this document. As stated, if these assumptions change, the forecast results will change.

The Resource Demands Forecast is not a policy or budget recommendation. It is meant to demonstrate the total fiscal impact associated with **current** unmet needs, council/voter approved capital projects and other priorities/issues previously recognized by City Council. During the forecast period, as the demand for services continue to grow, additional resource needs will likely be identified. Those needs will be recognized in the forecast and budget development process as they are identified. The forecast, as illustrated by the graph on the following page, shows that the City should be able to fund the existing service levels without increases in fees or property tax rates throughout the forecast period. In fact, funding is projected to be available to pay for some ***but not nearly all*** of the identified unmet needs – personnel, compensation adjustments and capital/equipment.



Additional information and detail concerning General Fund revenue projections as well as expenditure projections for both forecast schedules can be found on pages xx-xx.

Debt Service Fund

The Debt Service Fund is used to account for expenditures related to the principal and interest payments for all of the City's outstanding debt – tax notes, certificates of obligation and the general obligation bonds once issued. The full debt service commitment for the \$86 million in voter approved general obligation bonds and certificates of obligation for the City Hall renovation project is expected to occur during the forecast period. At the current debt service tax rate of 22.0151 cents, some but not all of the additional debt service from the general obligation bonds can be met by growth in existing and new property values. Based on cash flow analysis, staff determined there are sufficient current bond proceeds to defer the planned issuance in FY 2017-18. Therefore, the forecast assumes that there is no 2013 bond issuance in FY 2016-17, and that the remaining bonds would be issued in FY 2017-18, which is approximately \$28 million dollars. The forecast also assumes that beginning in FY 2017-18, the debt stemming from the recent golf course renovation is supported by the Debt Service Fund via the I&S rate portion of the tax rate.

During the development of the 2013 bond program, the tax rate increase needed to support the \$86 million dollars in debt issuances was estimated to be 8.8 cents over a five year period. This

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assumed annual average growth in property values of 3.0 percent. Since that time, the City has benefited from higher taxable valuation growth and lower borrowing rates than originally estimated. As additional information has become available, the tax rate projection has been updated. Based on more current data regarding property values and on updated projections for property growth, the revised estimated impact of the bond program is **1.45 cents**. This new estimate is based on projections of property tax revenue growth of 10 percent in FY 2017-18 and 6.6 throughout the remainder of the forecast period. As can be seen below, the debt service portion of the tax rate actually decreases in FY 2017-18 as a result of deferring the remaining bond issuance to FY 2018-19. The total tax rate would remain the same (49.823 cents) in FY 2017-18, the O&M portion of the rate would go up an equal amount for one year to support one time needs in FY 2017-18.

If property values and borrowing rates fluctuate at a different rate than what is projected in this forecast, the tax rate needed to fund the new debt commitment(s) will be different than the latest projection.

Tax rate requirement projections					
2013 Bond Program	City Hall CO's	2015 Tax Notes			
	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
Projected Incremental Tax Increase	0.0 ¢	0.00 ¢	0.0.¢	(1.36) ¢	2.82 ¢
Issuance Assumptions	\$14,500,000	\$22,080,000	\$28,150,000	\$0	\$28,060,000
					\$92,790,000

The debt service fund section of the document also includes a section and draft timeline addressing capital investments beyond the 2013 bond program. An analysis of debt service capacity and alternative funding sources are included as well to assist the Council in determining the appropriate time to put a plan in place for a future bond election.

Equipment Replacement Fund

The equipment replacement program was created by City Council in FY 2005-06. Revenue or contributions are made into the Equipment Replacement Fund to account for anticipated equipment replacement. The program allows for vehicles, technology equipment and the Fire Department's self contained breathing apparatus to be replaced on a regular schedule, ensuring that these service critical assets are replaced at the end of their useful life.

In FY 2013-14, the equipment replacement program was suspended as a budget balancing strategy that was necessary to develop a structurally balanced budget, therefore no contributions occurred into the fund in FY 2013-14 and only select vehicles and computers were replaced. In FY 2014-15, the program was partially reinstated and again, only a small number of vehicles

were replaced. In FY 2015-16, the planned transfer into the fund was diverted to the City's Self Insurance Fund. In the past, the forecast assumed that vehicles were replaced on a set schedule based on age and mileage thresholds. However, the forecast now assumes replacement based on a more in depth analysis of age, mileage and maintenance costs. During the past three years, the city has observed that the majority of the light vehicles can remain in operation well beyond the eight year, 85,000 mileage thresholds. Based on this analysis, the Equipment Replacement Fund will remain solvent through FY 2021-22 if vehicles are replaced on the latest schedule at projected costs. In fact, the fund is able to go without a transfer in FY 2016-17. This is positive as that transfer is intended to be reallocated again to the Self Insurance Fund. However, the forecast also shows that if the annual contribution is not fully reinstated by FY 2018-19, the fund will not be able to meet the projected replacements.

Self Insurance Fund

The Self Insurance Fund was added to the forecast document last year after the second year of dramatic increases in health insurance related costs had occurred. The sustainability of this fund is critical to providing an attractive health care plan to the employees of this organization, which directly impacts the recruitment and retention of employees. Since FY 2014-15, the City has experienced a dramatic increase in claim and administrative expenditures. Originally thought to be an anomaly, the recent costs seem to be more reflective of the total costs of providing health insurance benefits to the employees and their dependants. Several variables have led to the increase such as a high frequency of large individual health claims (over \$25,000), overall increased utilization of the health care plan, and a national increase in the cost of health procedure and prescription costs. Significant plan and premium changes were made in FY 2016-17; however, costs continue to remain higher or at the same level as they were in FY 2015-16, the most costly year since the inception of the self insurance fund program.

The Self Insurance Fund section explains the strategies being considered to ensure the FY 2017-18 is structurally balanced. The FY 2017-18 budget will be developed in a much more conservative fashion as there is near certainty that the increase that we began to see three years ago is likely the new trend as it relates to health insurance costs. More importantly, the FY 2017-18 will need to be a year that we begin to rebuild the reserve in the Self Insurance Fund so the General Fund isn't the only funding source to cover costs in excess of annual Self Insurance Fund revenues.

Forecast Summary

The forecast shows the City's General Fund in a positive position throughout the forecast period, ***assuming no increase in service levels***. However, the City currently has millions of dollars in unmet needs to meet current service demands. The forecast that includes these costs shows a

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negative financial position for the General Fund. As mentioned earlier, additional funding sources will be needed in the Debt Service Fund to pay the debt service associated with the remaining voter approved general obligation bonds.

It is the annual budget development process where the decisions regarding service levels and funding sources for the associated costs of services will be determined by City Council. The forecast is designed to set the stage for and assist in making those important decisions.

Economic Benchmarks and Outlook

The following section provides a discussion of national and regional economic trends and how those trends could affect the underlying economic conditions of the local New Braunfels economy. The growth (or decline) in the City's two primary sources of revenue (sales and property tax) is often correlated with broader economic trends. A forecast of the City's financial condition recognizes that the City's fiscal health is directly linked to success of the regional and national economies. In this section, projections regarding population and demographic trends, property valuations and sales tax collections, as well as information concerning employment and household incomes are provided and discussed.

National

Real Gross Domestic Product (GDP) in 2016 slowed to 1.6%, which is the slowest year of GDP growth since 2011. At the end of the first quarter of 2017, U.S. GDP growth missed expectations and grew by .7 percent. The biggest drags on 2016 economic growth were weak investment (both business and residential) and government spending. This is due to multiple factors but likely can be attributed to excess capacity in the industrial sector; the collapse of energy prices that lowered investment in that sector; strong value of the dollar in international markets (a strong dollar makes U.S. exports less competitive) and economic uncertainty surrounding the presidential election. Despite these factors, however, U.S. unemployment rate fell to 4.4 percent in April 2017. This is the lowest jobless rate the nation has seen since May 2007. According to its most recent policy statement, the Federal Reserve believes the outlook for growth in 2017 is generally stronger than in 2016. GDP growth is expected to increase to 2.2% and inflation will see a slight uptick to 2% from 1.4% in 2016. The housing sector is expected to continue improving and see a growth rate of investment close to 4.5% in 2017. Housing starts will rise to 1.2 million units in 2017, which is still well below the 20 year average of roughly 1.32 million starts.

In December 2015, the Federal Reserve raised its target funds rate by 25 basis points, which was the first time the rate increased in almost a decade. The one-year and ten-year treasury rates are expected to rise again in 2017 after a recent increase in March 2017. This second rate increase since December 2015 was done as inflation increased in recent quarters and is now moving closer to the Federal Reserve's stated goal of achieving two percent inflation.

Texas

Texas is positioned to return to its long-term pace of growth in 2017. Employment grew by 1.4 percent in 2016, which was near the high end of forecasts. The Dallas branch of the Federal Reserve Bank suggests jobs will grow 2.4 percent this year (287,500 jobs). The Texas Leading Index, which is a measure used by the Dallas Fed to project job growth, identifies several factors contributing to the job growth expectation. First, a decline in the Texas value of the dollar has declined, which has strengthened Texas' state export competitiveness. Initial claims for unemployment insurance and rising numbers of permits for new oil and gas wells also strengthened the index. Since March 2016, Texas added 249,000 jobs and through the first three months of 2017, the state added 67,500 jobs.

The 2016 five year forecast cited an outlook that stated Texas' economic growth would be around 2.5 percent, which was half of the 5 percent growth seen in previous years. Recent analysis suggests that Texas' real GDP grew at 2.0 percent in 2016. This growth is projected to

Economic Benchmarks and Outlook

increase to 3.2 percent in 2017 and will be buttressed by a number of factors. Increased oil production and a strong housing market have continued to drive the economy in the last year. Increased energy activity generated significant employment growth, and construction employment posted its strongest first quarter in three years. Potential headwinds in 2017 include trade uncertainty (especially with Mexico), volatile energy prices and tax policy uncertainty.

San Antonio-New Braunfels MSA

Job growth in the local metropolitan area is closely correlated with statewide job growth. The unemployment rate in the San Antonio area continued its decline in 2016, with March 2017 registering 4 percent. Economic indicators in the first quarter of 2017 were generally strong with annualized job growth of 2.7% percent. Job growth mostly came from the goods-producing industries of construction, mining and manufacturing. Professional and business services employment, food service, and finance jobs fell in the first quarter of 2017. A rebound in the retail sector helped drive hiring in the trade, transportation and utilities sector. Continued strong growth in health care, leisure and hospitality, professional and business services also helped buttress the region's employment growth.

The supply of homes remains tight in most Texas metros. The five-month moving averages reveals that residential construction remains steady across the state. The first quarter of 2017 saw a slight increase (3%) in the year-over-year total of homes sold. The median price of a home also increased three percent to \$199,400 and the average price rose five percent to \$240,057. Inventory in the San Antonio area has remained under four months for more than a year.

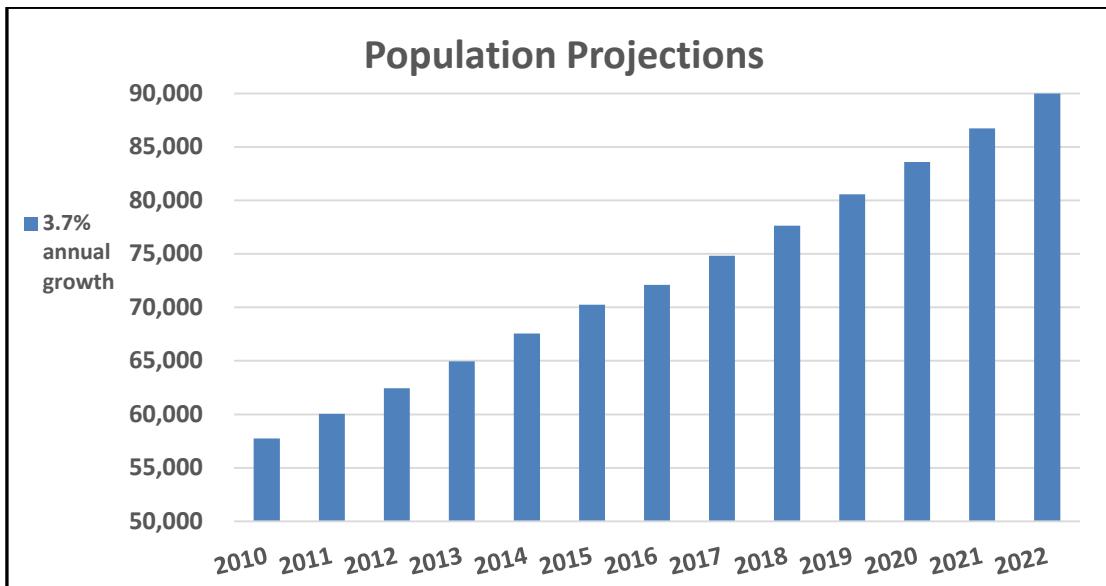
New Braunfels

The renaming of the San Antonio MSA to the San Antonio-New Braunfels MSA after the 2010 census is an acknowledgement that the two cities are linked by close economic ties and social integration. There are many parallels between the New Braunfels and San Antonio economies and discussions regarding the local economy should acknowledge those significant regional influences. City property valuations have outpaced population growth, with property appraisals increasing 79 percent since 2010. Median household income has risen 86 percent in New Braunfels since 2004, which is higher than the state and metro-area averages. Continued investments in business development and primary job recruitment have resulted in an average of 982 new primary jobs each year since 2005. This continued job growth, especially in the health care sector, should continue to drive new housing and commercial developments, along with moderate to strong growth in sales tax collections.

Population

Like other communities in the San Antonio-New Braunfels MSA, the City of New Braunfels saw significant population growth over the last decade. Between the years 2000 and 2010, the City's population grew from 36,594 to nearly 58,000. This represents a 58 percent increase in population or a compounded annual growth rate of 5 percent.

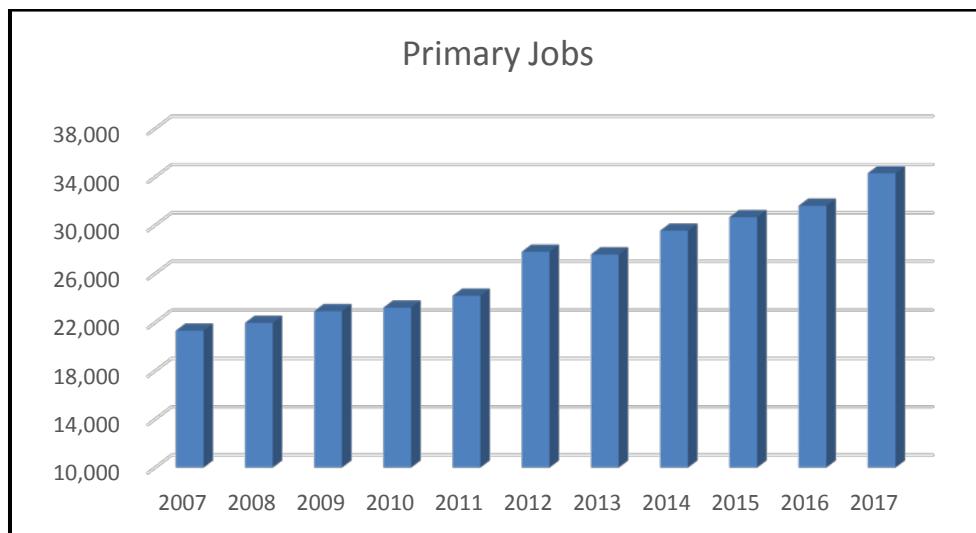
Economic Benchmarks and Outlook



The office of the State of Texas' official demographer released its January 1, 2016 population estimate for New Braunfels at 72,095. This latest estimate represents a compounded growth rate of 3.7 percent annually since 2010. For the purposes of projecting to 2022, staff is presenting a single population estimate that assumes this 3.7 percent annual growth rate will hold through 2022. This would put New Braunfels population at 90,019 by that time.

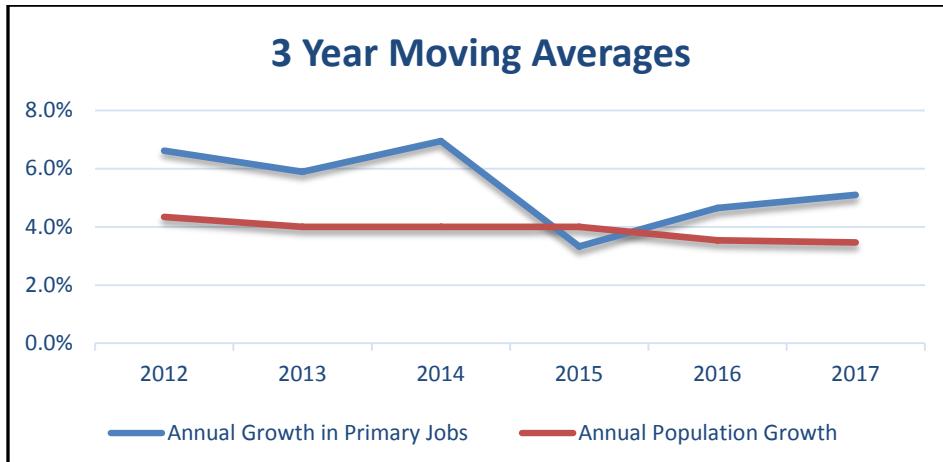
Job Growth

A metric to gauge the economic health of a community is in the growth of primary jobs. Primary jobs are provided by employers that export goods or services to regional, state, national or international markets and are the basis of local economic development efforts. The recruitment, retention and expansion of primary employers to New Braunfels imports new wealth into the community, which is then circulated throughout the community. Job growth in New Braunfels has been especially rapid since 2011:



Economic Benchmarks and Outlook

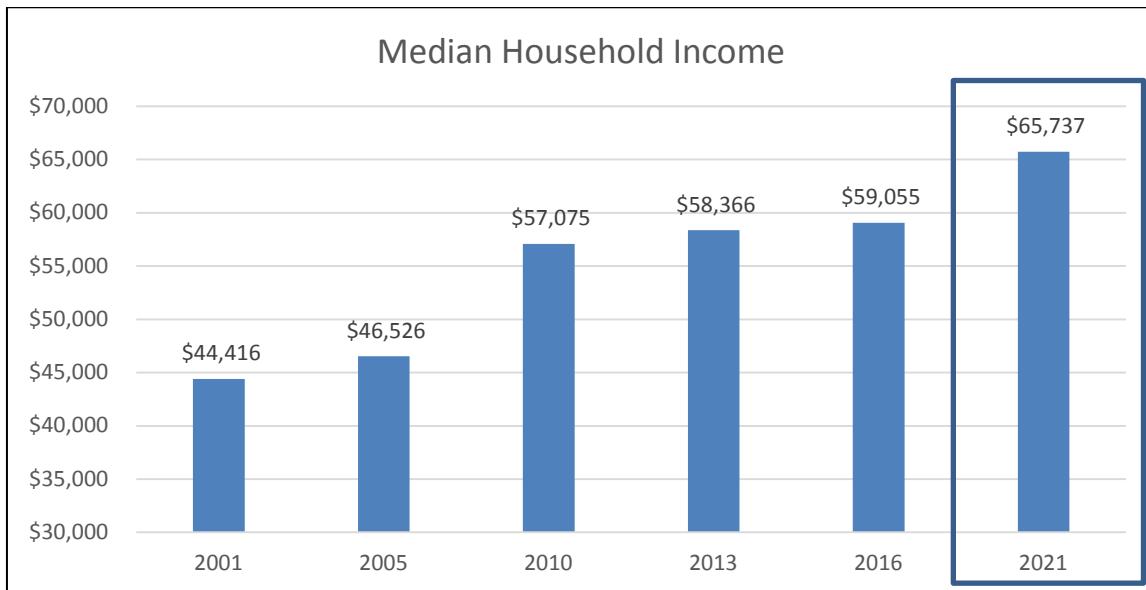
From 2002-2008, New Braunfels saw primary jobs increase at a compounded annual growth rate of 1.8%. Since 2009, this growth rate has increased by almost 200 percent to 5.2 percent annually. The community averages around 960 new primary jobs annually since 2006. Around 2012, primary job growth started to exceed the annual growth rate of the local population. This portends a relatively optimistic economic outlook for the community, and continued job growth typically is a leading indicator of continued residential development. The table below is a simple moving average of three year periods back to 2009 in primary job and population growth. A moving average is considered a “smoothed” data version and helps identify trends for a particular series of data:



Household Income

New Braunfels saw significant growth in median household incomes from 2001 to 2010 (2.8 percent annually). In recent years, household income growth seems to have leveled off, which can partially be explained by lagging effects of the recession and the loss of one of the community’s major employers in 2013. Projections estimate, however, that income growth will pick up again between 2015 to 2020 with annual increases around 3.6 percent. This should translate most directly into steady sales tax collections through the forecast period.

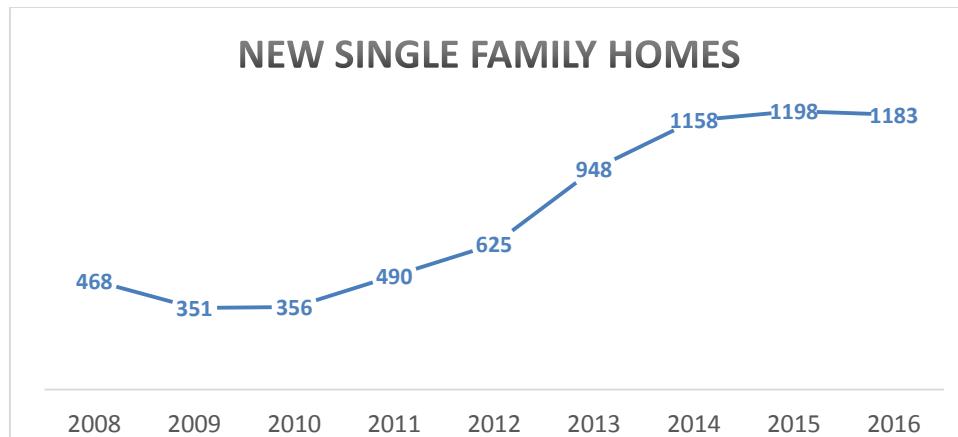
Economic Benchmarks and Outlook



Source: ESRI

Building Activity

Housing and jobs are strongly connected. When the economy is expanding, job creation promotes household formation, which in turn increases demand for rental and owner-occupied housing. Other economic drivers of housing include population growth, the need to replace or improve existing housing stock and regional population changes. At least three of these four factors are driving new housing demand in New Braunfels and will continue to do so as long as job growth and regional population changes continue on their recent trajectory. New Braunfels had approximately 1,200 new single family homes constructed each year in 2014-2016. .

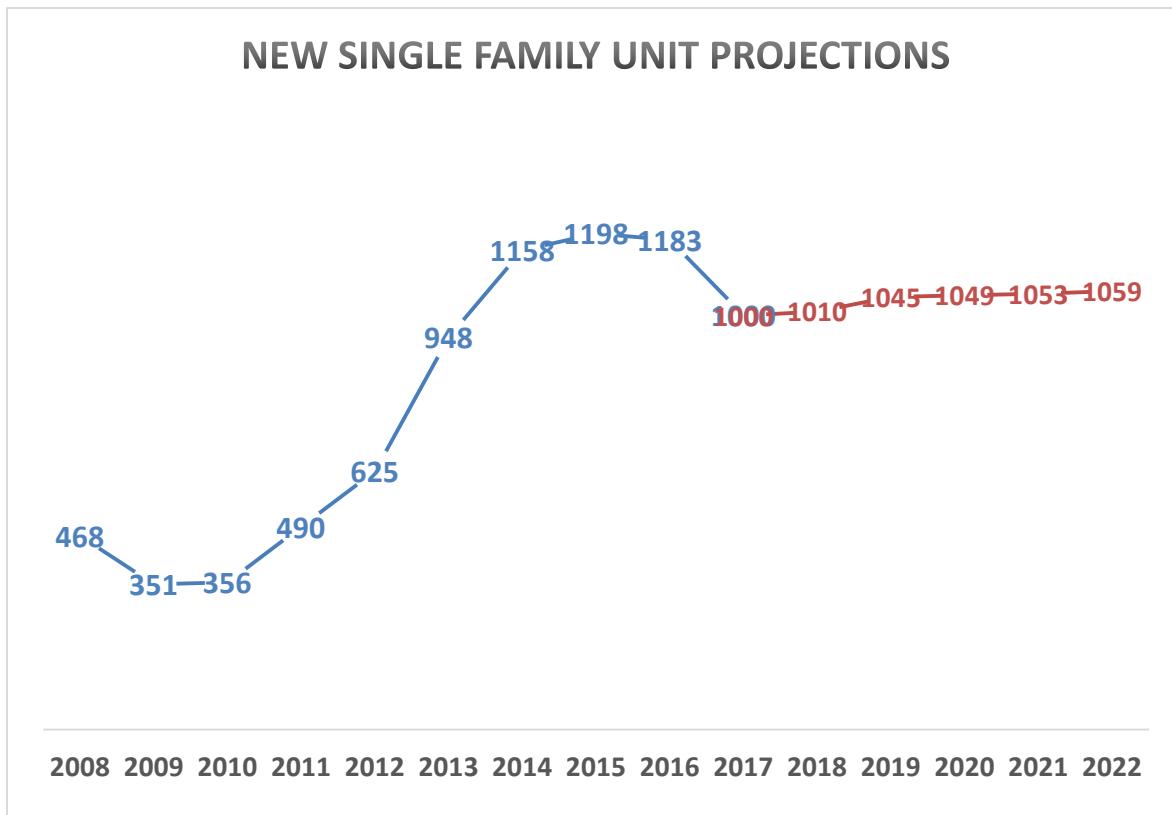


In the New Braunfels area, the Four Rivers Association of Realtors reports that the volume of home sales increased by 16.5%. The median price for a home increased 4.9 percent (\$225,000) and the average price increased six percent (\$244,833). Inventory has remained under three and a half months since 2015.

Economic Benchmarks and Outlook

Sixty-two percent (2,585 out of 4,164) of the community's multi-family units have been added since 2000. In late 2016, the apartment community occupancy held steady at 91%. This was down from 92% in 2015, which was primarily due to the addition of three new communities in the market area that added close to 600 units in 2015 and 2016. Average rents have achieved an all-time high of around \$1.22 per foot, which is a 47% increase since 2003. Occupancy rates should continue to rise through 2017 as two new projects continue lease-up.

Over the last 8 years, New Braunfels has added, on average, 185 multi-family units and 753 single-family homes annually. If New Braunfels' compounded annual population growth rate of 3.7 percent holds steady through 2022, the community will add 15,000 residents. This will be accommodated through a blend of single family home and multi-family housing development. If the ratio of single family to multi-family development holds steady, and in order to accommodate this growth, New Braunfels can expect to see another 5,200 single family homes permitted and approximately 1,350 new multi-family units constructed from 2018-2022.



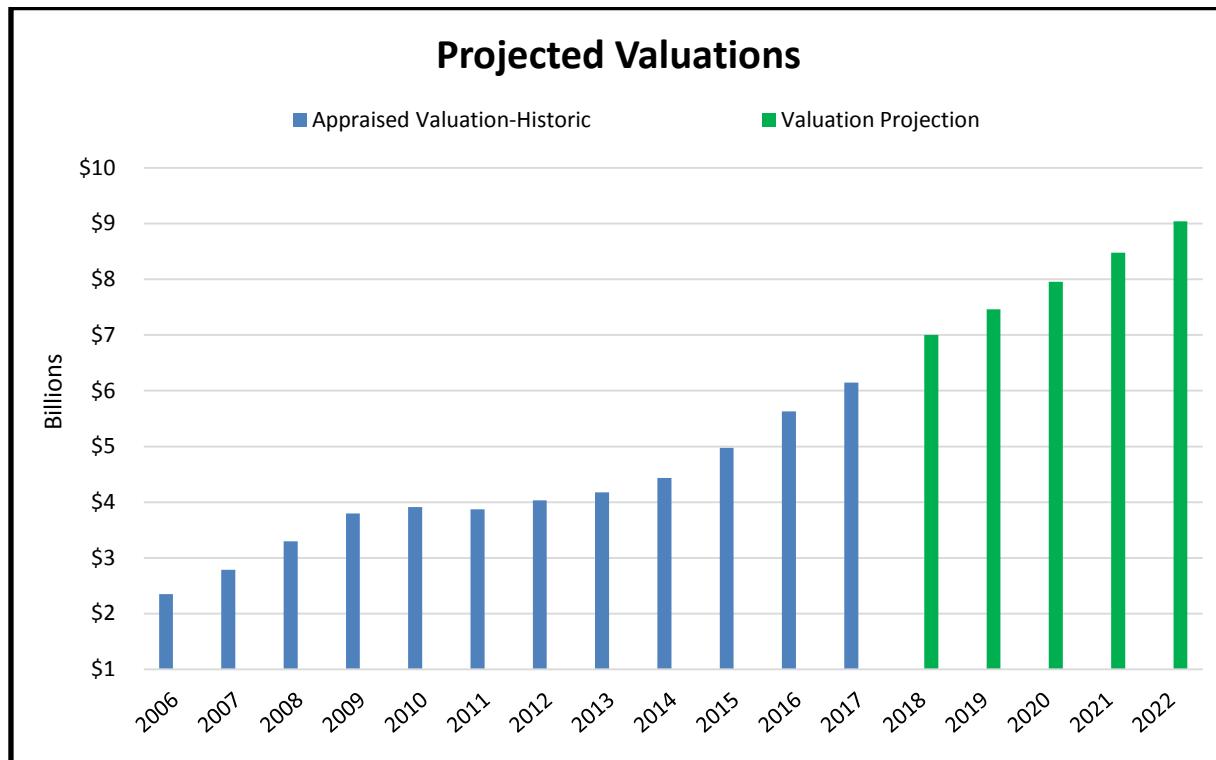
Property Valuation

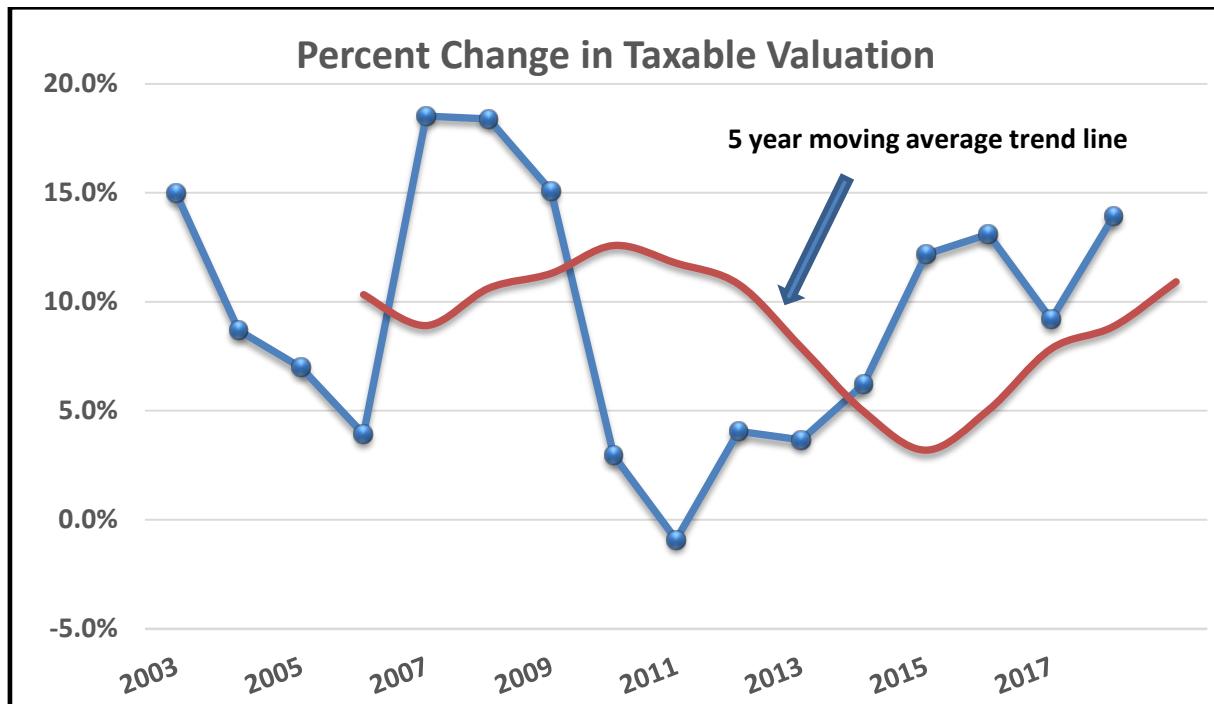
Similar to many parts of the country, New Braunfels was not immune to the effects of the housing market downtown during 2008-2009 as evidenced by the graphs above. The effects of the recession during this time resulted in a two year period where the City's total appraised values did not increase as had been customary in the decade prior. From 2001 to 2009, property values saw a compounded annual growth rate of 12 percent. From 2011 to 2015, the

Economic Benchmarks and Outlook

compounded annual growth rate was 6.5 percent. Early figures from the appraisal districts indicate significant growth in values for 2017. The five year projection assumes that appraised values (net of protests, exemptions and collection rates) will increase 10 percent in fiscal year 2017-18 and 6.6 percent through the rest of the forecast period.

The chart below provides a historical examination of the percentage change in valuations on an annual basis and demonstrates how difficult it is to predict whether property values will see a relatively small or large increase (or decrease) from year to year. The red line is a simple moving average of previous five year periods. This line highlights longer term trends and helps smooth out fluctuations that occur on an annual basis. New Braunfels has recently been on a steady upward trend of increases in taxable valuation from year to year.

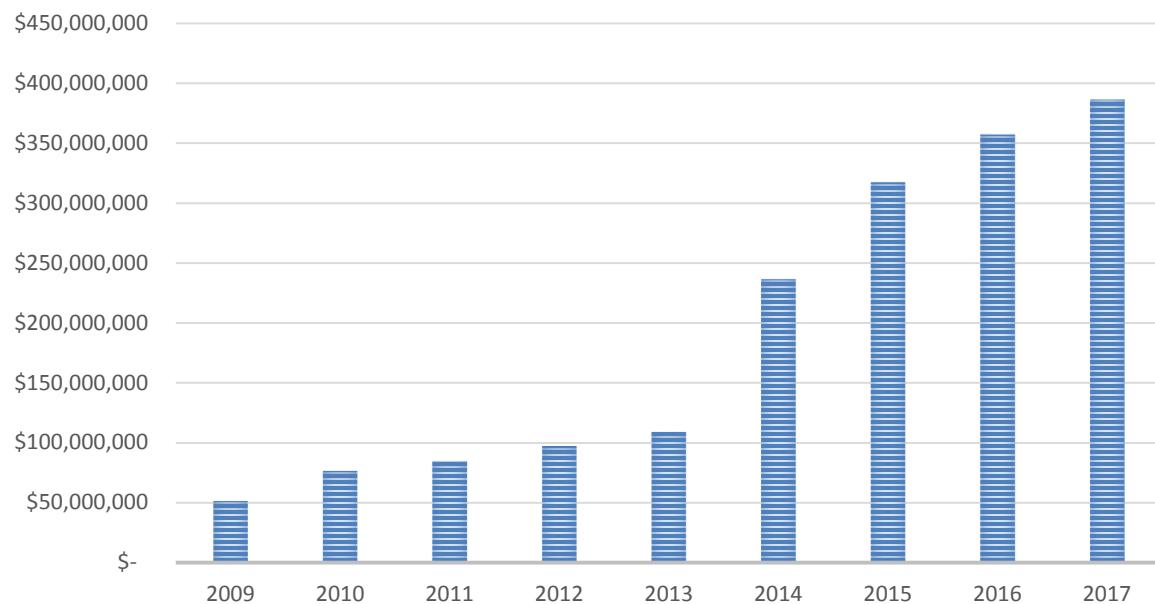




Creekside Tax Increment Reinvestment Zone (TIRZ)

Since 2011, the Town Center at Creekside development along Interstate 35 and FM 306 has seen significant growth. The development utilizes an economic development tool called tax increment financing. The Tax Increment Reinvestment Zone (TIRZ), as it is referred in state statute, allows the City to designate an area whereby incremental increases in property and sales taxes can be utilized to pay debt service for public improvements in that area. The Creekside TIRZ was created in 2007 and has seen significant increases in property and sales tax revenue since that time. In 2014, the TIRZ saw its largest percentage increase in property value from the previous year with a 117 percent adjustment upward. In 2017-2018, valuations inside the TIRZ increased by \$29 million (8%). This fund is now generating revenue in surplus of what is needed to support the annual debt service associated with public infrastructure improvements financed by the TIRZ.

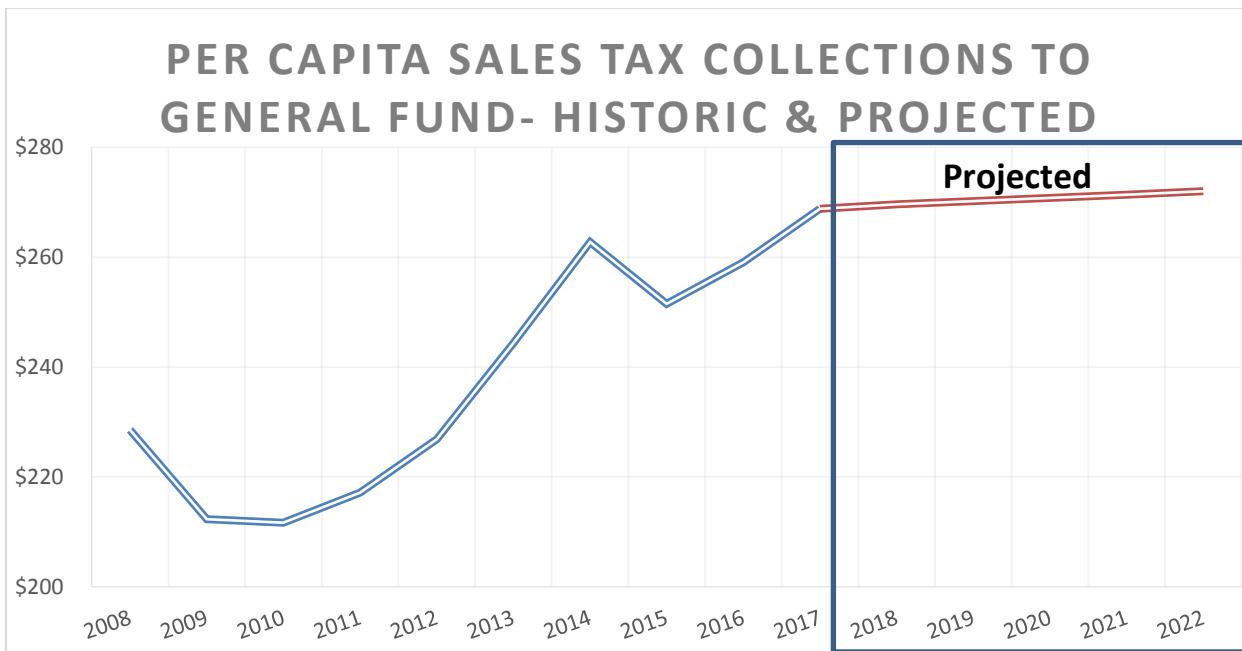
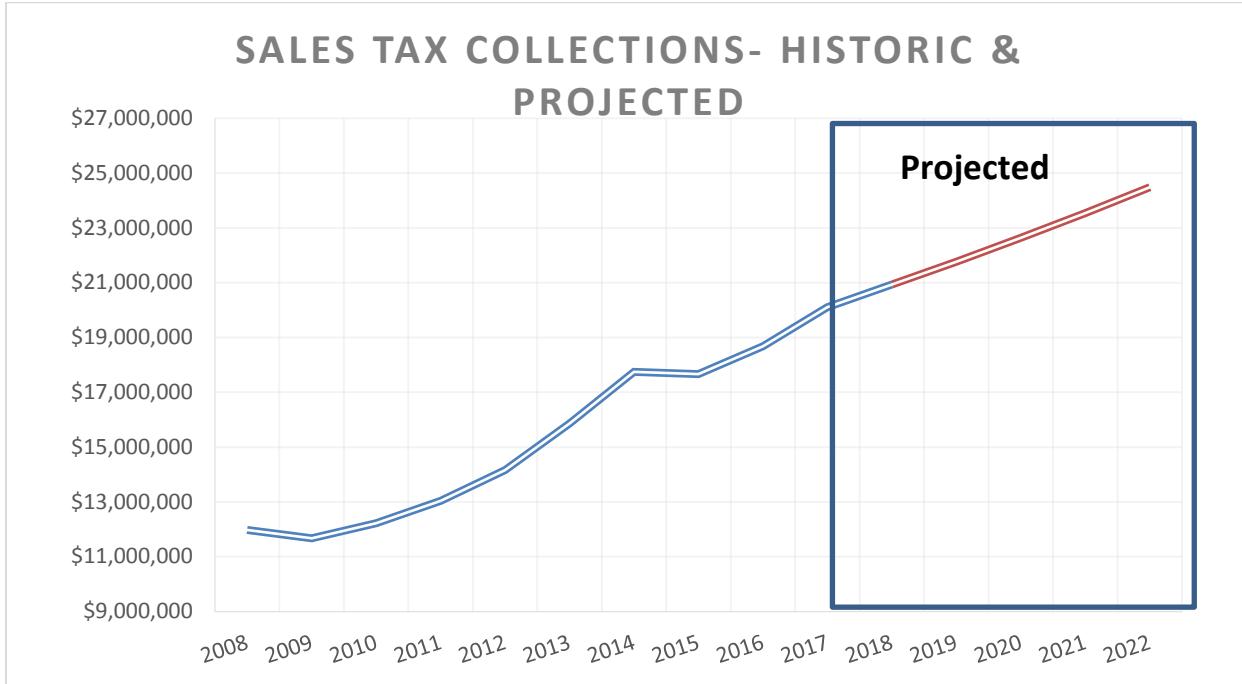
CREEKSIDE TIRZ- PROPERTY INCREMENT



Sales Tax

Data from the Texas Comptroller on retail sales are one of the best indicators of economic activity in New Braunfels. Retail sales are a good barometer of economic activity because consumer spending represents more than two-thirds (2/3rd) of gross domestic product. The rebates generally reflect a two month lag and have a strong but imperfect relationship with retail sales. One weakness is that food and prescription drugs are not taxed so city sales tax rebates do not reflect spending in these categories. An additional weakness is that net collections to the General Fund do not represent the complete sales tax collection picture because of existing economic development agreements. The City maintains a number of sales tax sharing commitments with companies through Chapter 380 agreements and the Economic Development Agreement associated with the Creekside TIRZ. Adjusting the percent of gross sales tax collections that are rebated can have a significant impact on the amount of revenue this source contributes to the general fund. The table below is a representation of the net sales tax collections after rebating the required amounts (from these tax sharing agreements) in a given year. These net sales tax collections have enjoyed relatively consistent growth except for the recession from 2008-2010. From 2008-2016, net sales tax collections to the general fund saw a compounded annual growth rate of 5.9 percent. The forecast assumes 4 percent growth in 2017-2018 and through the end of the projection period.

Economic Benchmarks and Outlook



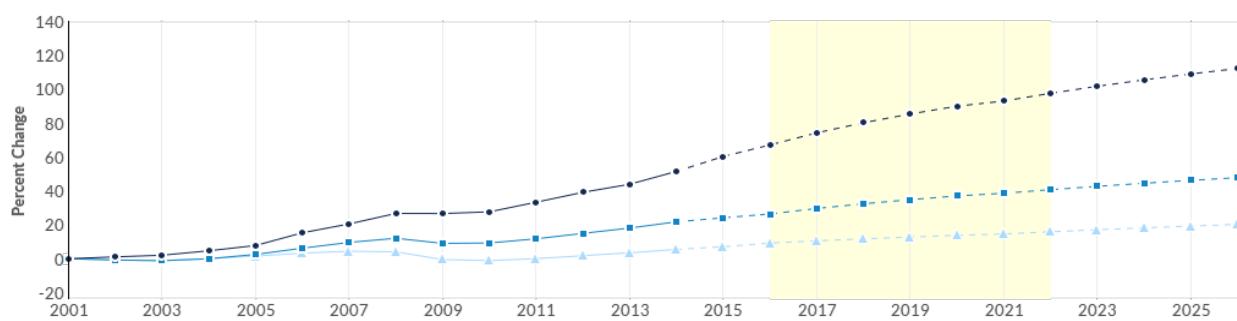
The chart above reflects the sales tax per capita collected in the General Fund for general governmental operations. Sales tax collections have historically increased at a rate faster than the annual population increase and CPI, which means that the community is reducing sales tax leakage. Sales tax leakage is when citizens purchase needed goods and services outside of the municipality. Reducing retail leakage is an effective way to increase the per capita sales tax collections, and the most recent studies indicate that New Braunfels has significantly reduced retail leakage in the last few years. While a positive for the community, this also means that sales tax growth will likely mostly coincide with population and income increases.

Economic Benchmarks and Outlook

Industry and Job Growth

Increases in job growth can be attributed to job creation from within the area or the migration of jobs to the region. In the New Braunfels region, job growth is expected to outpace that in the state and rest of the nation because of migration to the area. The figure below provides projected data on the region's and New Braunfels percent change in total employment using 2015 as a baseline. Based on this data, New Braunfels should see an increase of approximately 2.7 percent in total jobs projections annually.

Regional Trends



Region	2016 Jobs	2022 Jobs	Change	% Change
Region	37,092	43,850	6,758	18.2%
State	12,332,197	13,732,054	1,399,857	11.4%
Nation	148,092,204	157,132,291	9,040,087	6.1%

Source: EMSI, Courtesy of Chamber of Commerce

Industry Growth through 2022

The next table highlights the leading five industry sectors in terms of overall job creation in the New Braunfels area through 2022. Continued growth in the health care, retail trade and governmental sectors should lead to strong wage growth through the projection period.

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

Economic Benchmarks and Outlook

Occupation Growth through 2022

The following table helps illustrate which occupations will have the largest increases through 2022. The table projects occupational growth in real terms and not those occupations with the largest percentage increases.

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

Summary

Over the five year forecast period, many economic indicators evaluated show positive trends for New Braunfels with continued growth in population, property values, commercial/business activity and job growth. Continued increases in sales and property tax collections are strongly correlated with increases in population and can serve as a somewhat reliable predictor of future revenues. It is important to note that these projections assume that the national and state economies remain in a growth mode without any recessionary forces. Analysis of the San Antonio New Braunfels-MSA relative to the national economy shows that the annual percentage change in regional GDP is, on average, 1.5 percent greater than the national GDP. It also demonstrates that the MSA's growth closely tracks the growth of the state.

Infrastructure

Streets and Traffic

Aging streets infrastructure, accompanied by significant growth in the community, presents challenges for the City of New Braunfels (City). The maintenance and repair of the existing road infrastructure and expansion and construction of new transportation networks is important to the continued flow of people, goods and services in the community. Existing traffic and that generated by new development places added demands on the existing road and transportation network, which can result in the more rapid deterioration of streets and roadways and compound challenges in how traffic flows efficiently throughout the City. As the citizens continue to communicate, street maintenance and improvements and traffic are critical strategic issues and important to the city's quality of life.

There are over 347 lane miles of streets currently maintained by the City. Street pavement surfaces typically have a design life of 20 to 25 years. Many city streets and drainage facilities are much older, compounding the need for street restoration. In addition, there are already streets across the City less than 20 years old that are in serious need of restoration and repair. The City has made significant increases in the annual funding committed to street repair and maintenance. In FY 2016-17, approximately \$1.8 million was allocated for street repair and improvement efforts in the General Fund. This represents a

The City of New Braunfels also maintains over 40 signals on City and State roadways within the City limits. As these signals are upgraded, develop a system that is more efficient with available innovations. The end result is a traffic management system where operations can monitor and adjust signals remotely.

Action Items completed/to be completed

- Develop annual Street Improvement Plan from allocated budget.
- Develop street design for new development as it pertains to soil type and traffic.
- Develop a traffic management system as it pertains to signals.
- Develop a prioritized thoroughfare plan with regional stakeholders to address congestion.

Reference to the 2014 National Citizens Survey for New Braunfels

	Percent Rating Positively			Comparison to Benchmark Cities		
	2012	2014	2017	2012	2014	2017
Street Repair	17%	25%	24%	Much Lower	Lower	Lower

Stormwater Management

Successful stewardship of the natural environment to preserve and improve the City's resources for future generations while addressing the community's current and diverse needs requires a comprehensive approach to watershed management. The natural beauty of the City and its economic dependence upon river flows of the Comal and the Guadalupe Rivers presents a challenge in striking a balance between managing stormwater runoff and protecting property from flood damage. Therefore, implementing policy and procedures that ensure *environmental stewardship* of water resources as well managing *flood control* is a strategic issue.

Environmental Stewardship

The Edwards Aquifer is a significant groundwater resource for the City and south central Texas, serving agricultural, industrial, recreational and domestic needs. Community growth and the demand for water in the region are projected to increase beyond the limits of the Edwards Aquifer. This increase in demand creates concern for the well being of endangered species living in the Comal Springs system as well as the City's economy that depends upon spring flows from the aquifer. Growth and development must be managed in ways to ensure recharge water replenished to the aquifer is of high quality. It is imperative the City continue to be a partner in rational and sustainable management of the Edwards Aquifer and springs resources through the Edwards Aquifer Habitat Conservation Plan program and watershed protection planning for the Dry Comal Creek and Comal River.

Under federal regulation, the City is required to address stormwater runoff that might affect water quality in its rivers and streams. These new federally mandated Municipal Separate Storm Sewer System (MS4) regulations became effective for New Braunfels in December 2014 and are enforced by the U.S. Environmental Protection Agency (EPA) through the Texas Commission on Environmental Quality (TCEQ). The TCEQ approved the stormwater management program (SWMP), which was developed to implement specific control measures to regulate and address stormwater runoff. To meet the obligations of the MS4 regulations during the first year of implementation of the SWMP, the City is required to develop education/training programs for maintenance staff and inspectors, implement a public outreach program for community awareness, provide an inspection program for regulatory compliance and develop tracking and reporting processes to document compliance with state and federal regulations. The City is also required to improve treatment of stormwater runoff from both new developments and the redevelopment of existing properties. Throughout the program, City resources (existing and/or new) will need to be dedicated to this effort to effectively implement the required activities of the permit.

Action Items completed/to be completed

- Confirm enough funding allocated in the annual budget to comply with MS4 requirements.
- Implementation of a watershed protection plan for the Dry Comal Creek and the Comal River.

Flood Control

As evidenced by the flood of 2010 and other previous high water events, issues related to flood control continue to challenge the community. Currently the City is responsible for maintaining approximately nearly 200 acres of drainage ways and associated debris/trimmings. Mitigation measures to minimize flood damage include construction of detention/retention ponds, improved drainage facilities, property acquisition in flood prone areas and the promotion of on-site stormwater quality enhancement to address initial flows from a runoff event. Low impact development (LID) methods are also encouraged and are becoming an accepted option for new and redevelopment to effectively reduce stormwater runoff and enhance water quality. Incorporating LID methods into City projects and new development can be a cost effective alternative to conventional design.

Within the community, private drainage facilities operate in conjunction with public facilities. Many current owners of private facilities are not adequately maintaining these drainage areas. Because private systems are within the jurisdiction of the City, it may be important to consider assuming management control for some of these private systems to address flood control and water quality issues. As the community grows, to effectively manage stormwater flows, the City could also consider assuming maintenance responsibility for stormwater facilities in new developments.

Improvements to drainage facilities and construction of new drainage structures are also a critical issue for the City. Citizens have expressed that flood control and drainage improvements are a key issue for them. As with streets, the May 2013 general obligation bonds passed by the voters includes significant funding for drainage improvement - \$24.5 million for improvements at Alves Lane, Blieders Creek/German Creek Watershed, Panther Canyon, Live Oak/Katy Street and preliminary design at Wood/Landa Streets. Again, the capital improvement plan includes an additional \$94 million in identified drainage improvements. The Watershed Advisory Committee will continue to work with the City Council and staff to plan for additional drainage improvements.

Action Items completed/to be completed

- Develop prioritized Citywide Master Drainage Plan.

Reference to the 2014 National Citizen Survey for New Braunfels

	Percent Rating Positively			Comparison to Benchmark Cities		
	2012	2014	2017	2012	2014	2017
Storm Drainage	45%	53%	53%	Much Lower	Similar	Similar

Public Safety

Proactive Versus Reactive Policing

The goal of law enforcement is to effectively protect and serve everyone within its area of responsibility. Utilizing proactive strategies such as community policing to not only manage the criminal offenses currently taking place, but to also prevent additional crimes from ever happening, helps to successfully accomplish this goal. Currently, the New Braunfels Police Department (NBPD) is generally responding to calls for service and investigating crimes which have already occurred and has not had the opportunity to focus on crime prevention within the community. Evaluating and implementing proactive police strategies is a strategic issue.

To be more effective and proactive regarding crime prevention, we have implemented an online reporting system, saving time for both the victim of a minor crime, and the patrol officers. Implementing measures that increase efficiency will enhance efforts towards proactive policing. However, the Police Department has indicated that additional uniform officers would have the largest impact as it will immediately provide more opportunities for random patrols and other proactive strategies. Additional officers could be used to meet the objectives described here of increased crime prevention activities to reduce the occurrence of crimes. A more cost effective way to achieve the addition of more officers is to implement a Police Reserve program.

Action Items completed/to be completed

- In FY 2015-16, City Ordinance allows the addition of 15 Reserve Officers to the Police Force. The department continues to attempt to recruit a reserve force

Reference to the 2014 National Citizen Survey for New Braunfels

	Percent Rating Positively			Comparison to Benchmark Cities		
	2012	2014	2017	2012	2014	2017
Crime Prevention	68%	71%	78%	Similar	Similar	Similar

Police work from a programmatic definition of service level

As the demand for New Braunfels Police Department (NBPD) services continues to grow, the approach to the provision of services and the resources needed to effectively provide those services should be looked at programmatically. Prioritizing the services that the NBPD currently provides as well as the expanded services they have identified as needed in the community followed by determining what resources would be required to provide those services is a strategic issue. There are several opportunities to enhance the service level of the New Braunfels Police Department. The following are potential programs and the estimated resources required to deliver them.

School Resource Officer Program – The NBPD has evaluated the resources needed to implement school resource officers in the New Braunfels Independent School District. Placing seven officers in the schools will improve rapport between the students, staff, faculty, and police. Additionally, the level of interaction between the aforementioned groups would grow exponentially, resulting in an increased level of trust. The end result would be a reduction in crime incidents, bullying, and reckless driving around the schools, all resulting in a safer learning environment and school experience.

Comal County Auto Theft Task Force – NBPD has identified car burglaries (theft from contents, not necessarily the vehicle itself) as an activity that should have targeted intervention. A partnership with the Comal County task force would allow NBPD to aggressively patrol for those who are stealing from cars in the City. NBPD estimates that two additional officers would be required to implement this program.

Crime Free Multi-Housing – This program would create a partnership between the landlords of New Braunfels and the Police Department. The concept is that all renters in New Braunfels adopt a zero tolerance philosophy and share information on problem tenants. This program has been very successful in other Texas cities. Experience in other cities indicates that an active and successful crime free multi-housing program has the potential to reduce crime occurrences by up to 20 percent annually. It is estimated that three additional officers would be required to implement this program.

Enhanced Gang and Narcotics Enforcement - We have noticed a dramatic increase in gang activity in New Braunfels. In partnership with the Comal County Sheriff and District Attorney, a partnership has been formed with these agencies to both gather intelligence on local gang and narcotic sales activity and aggressively enforce the law to help to reduce this issue in our community. We expect to add additional personnel to this unit as our staffing levels allow.

Other programmatic approaches may be identified as NBPD moves through the next five years. These provide high priority examples of the proposed programmatic approach to police

resources. This approach also enhances the City Council and citizens' ability to connect changes in crime statistics to additional policing resources.

Action Items completed/to be completed

- In FY 2015-16, a gang and narcotics task force was created.

Using data to drive police policy decisions

The New Braunfels Police Department as a general practice has used calls for service and crime related data only on a limited basis in making decisions in deployment of resources. This was mainly driven by the limited data analysis tools provided by the previous dispatch software. The City has recently completed the implementation of new and upgraded dispatch software. The new system creates the opportunity for enhanced data analysis. In the future, the Police Department will utilize the data generated from the new system in an effort to deploy police resources more efficiently.

As stated, the New Braunfels Police Department has implemented a major technology enhancement and additional functionality continues to be added. In the past, the records management system had very limited capabilities. Legacy data was managed using citizen volunteers, which resulted in inconsistent data entry and standards. Therefore, the older system was unable to generate accurate reports. This problem has been solved with the installation of upgraded system known as Spillman, which went live in October of 2013. The Police Department is now able to track crime trends and patterns. The new system will also provide analysis of the investigation progress. It could generate productivity reports on investigators to see what types of cases should be assigned to what detectives to maximize efficiency of Criminal Investigation Division resources.

Once a sufficient data set is established, Police Officers can be scheduled based on the forecast of the busiest days or weeks throughout the year. In addition, the traffic unit could have current and precise reports that determine the most appropriate areas of enforcement. Prioritizing cases could reduce the backlog of detectives' cases, speeding up the investigation process. All of these changes also present organizational and cultural challenges in the Police Department as the organization looks to establish and monitor data standards to ensure data integrity. The importance of data collection and maintaining its integrity becomes an even more important component of police work and will need to be instilled into all police personnel. Implementing these various strategies not only provides an opportunity to utilize existing resources more efficiently, but helps to preserve the \$1.4 million investment in the new system. Data driven deployment is a strategic issue that the Police Department will continue to implement over the next several years.

Action Items completed/to be completed

- A Crime Analyst position will be requested in the FY 2017-18 Budget. This will ensure that we are maximizing our 1.4 million dollar investment in our technology.

Police - developing and enhancing partnerships

The New Braunfels Police Department (NBPD) has found that partnering with various local, state and federal agencies is helpful in providing law enforcement and education within the community. In fact, developing partnerships is one of the four priorities of NBPD. There are currently seven police officers assigned full time to various task forces such as the Comal County Narcotics Team and the FBI Safe Streets Task Force. However, there are opportunities with other City departments as well as additional outside agencies to develop partnerships that need to be explored. Communicating with these other groups and determining the most effective method of partnering is a strategy NBPD will use over the next several years.

Access to additional resources as well as increased levels of compliance are two potential outcomes of partnerships. For example, NBPD continues to pursue the establishment of a school resource officer program. A car burglaries partnership with Comal County could prevent much of this specific crime that is occurring by jailing the small number of offenders who are responsible for a significant portion of these crimes. Regional data sharing is another partnership that needs to be pursued. By sharing local data with neighboring jurisdictions like Schertz and San Marcos, any participating jurisdiction could take advantage of information in each other's data systems that are currently not accessible. This will help to enhance safety for patrol officers and help to solve more crimes, as most criminals don't respect jurisdictional boundaries.

Grants are a potential source of funding for additional staffing resources to establish partnerships. Staff will continue to seek grant funding as a means of providing resources for new partnerships. However, staff will also coordinate and collaborate with entities such as the school district(s), Comal County as well as other City departments to determine what other partnership opportunities could be crafted with the use of existing resources.

Action Items completed/to be completed

- A Police Communications Coordinator was hired in FY 2014-15. This position will continue to cultivate partnerships with various local and neighboring agencies and increase overall outreach efforts.

Police recruitment and retention strategies

Over the last few years, the Police Department has seen a decline in the quantity and quality of applicants to fill vacancies. This challenge is not unique to New Braunfels and is felt across

Texas. New Braunfels Police Department (NBPD) recruitment is also impacted by the demands on the police force during the summer season. One factor in this challenge could be the perception of policing as a career – whether individuals see it as a profession rather than a job.

The NBPD has now set an objective to hire individuals already certified as police officers. This reduces significantly the cost of training new employees. An individual not yet certified, once hired, faces six months of police academy training (\$35,000 cost for the academy plus salary and benefits during that time), then five months of on-the-job training (working with a field training officer) before becoming independent on patrol. This is a major investment in the new recruit. An already certified peace officer becomes independent on patrol in five months.

This emphasis on hiring certified police officers as well as searching for well qualified candidates makes recruitment even more challenging. The NBPD is exploring expanding its recruitment efforts to other states and other parts of Texas. In the past we have only recruited in our region, but we need to cast a wider net to get the best candidates. Other incentives to encourage certified police officers to choose New Braunfels could also be explored. A Reserve Unit may also be helpful in recruiting candidates.

Action Items completed/to be completed

- In FY 2014-15, a \$3,000 signing/retention bonus for all new Police Officers was implemented.
- In FY 2014-15, a Police Officer referral program was implemented.
- In FY 2017-18 a new pay plan will be introduced and likely implemented over a multi-year strategy

The Evolution of the Fire Department

The demand for New Braunfels Fire Department (NBFD) services continues to rise. The general public continues to evolve into a “911 society”. Currently, the Police Department handles all 911 calls that require law enforcement intervention; the Fire Department has the responsibility to respond to ***all other*** emergency calls. Responding to the myriad of emergencies has changed the focus and service provision of the Fire Department. About 20 percent of the Fire Department’s calls are for fire response; the remaining 80 percent are emergency/medical service calls. Shaping the Fire Department’s future service provision role and meeting service expectations is a strategic issue.

The different types of calls outside the “traditional” responsibilities of providing fire/emergency medical (EMS) services include responding to and mitigating incidents involving hazardous materials, swift water rescues, dive team responses, motor vehicle accidents with entrapments, confined spaces and vertical rescues. Responding to all non-law enforcement emergency calls has changed the preparedness and resource needs of the Fire Department.

The Fire Department adopted a comprehensive five year plan to address the resource needs to meet customer expectations and maintain our Public Protection Classification Class 1 Rating (ISO), which affects residential and commercial properties.

Reference to the 2014 National Citizen Survey for New Braunfels

	Percent Rating Positively			Comparison to Benchmark Cities		
	2012	2014	2017	2012	2014	2017
Ambulance/EMS	93%	90%	96%	Higher	Similar	Similar
Fire Prevention	78%	79%	83%	Similar	Similar	Similar
Emergency Preparedness	66%	71%	74%	Similar	Similar	Similar

Planning for the future needs of the Fire Department

Currently, the New Braunfels Fire Department (NBFD) serves the public from six fire stations. Over the last ten years, two new stations have been constructed. The current capital improvements plan calls for construction of one additional station as well as replacement of two existing, aged stations. Fire Station #2 and #3 are currently inadequate to meet the needs of the staff and service demands of the citizens. Both existing stations need to be demolished, with Station 2 being relocated to Water Ln. & I-35 and Station 3 being rebuilt at its current location on Hanz Dr. In addition, a new station 7 is planned for the IH-35 & FM 306 area. Also, a major need for our department is the development and construction of a Fire Training Facility. This training facility is necessary for our personnel to have a readily accessible, high quality facility that will allow the department to keep pace with the increased training needs associated with explosive community growth and the maintenance of an ISO 1 rated department. The estimated cost of constructing a new fire station is between \$4 million to \$5 million depending on the number of apparatus and staff to be housed. A strategy for funding construction of Fire Dept. facilities and staff (for the additional station) is a strategic issue for the City Council.

In addition to fire stations, the Fire Department's apparatus must be periodically and systematically replaced. Ambulances have an 8 yr. life expectancy, with a new ambulance costing about \$265,000. Fire engines and ladder trucks have a twelve to fifteen year useful life and cost between \$750,000 and \$1,200,000. Currently, neither the ambulances nor the fire apparatus are part of the City's vehicle replacement program, meaning the full funding needs to be identified in order purchase any additional/replacement piece of fire equipment. We are currently looking at alternative financing options to facilitate the acquisitions of these soon to be needed fire apparatus. Planning for these major acquisitions – structures and equipment – is a significant strategic issue for the City.

Action Items completed/to be completed

- The architectural firm of BRW has developed plans for the renovation of Station 1. Once the plans are approved, a Request for Qualification (RFQ) will be sent out to find a firm for construction. The plan is to start construction in the summer or fall of 2017.
- Ongoing program of replacing FD Bunker Gear (PPE). These purchases are funded through the cities equipment replacement fund. Bunker gear has a NFPA mandated lifespan of 10 yrs.

Fire Prevention

The Fire Marshal's Office is responsible for fire prevention. The Fire Marshal's Office is meant to fight the fire before it starts. Fire prevention is directly tied to the reduction in the loss of life and property and therefore is a strategic issue. There are various methods that the NBFD can implement to enhance and maintain fire prevention efforts and outreach, all of which are summarized below.

There are various initiatives that can be implemented to enhance our fire prevention efforts, such as a Home Inspection program. A majority of fire deaths occur in the home. Implementation of a voluntarily home inspection program will reduce deaths, injuries and property loss from fires. Continuation of and expansion of our smoke detector program is another initiative to enhance fire prevention efforts. Expansion of this program can be done by creating partnerships with local businesses, community organizations, and affected stakeholders. At last community outreach and education will assist our fire prevention efforts. Groups such as the elderly, low income and children should be emphasized. Increased public service announcements using high quality videos and multiple social media platforms as well as a Citizen's Fire Academy and Citizens Fire Academy Alumni Association should also be developed.

Fire Department Youth Engagement

The New Braunfels Fire Department has made a commitment to focus a substantial amount of time and effort on getting our message out to the youth of our community. The New Braunfels Fire Department feel that the sooner we can make a positive impression on children, the better chance we have to make positive impact on their decision making. Therefore, engaging the New Braunfels youth is a strategic issue. The New Braunfels Fire Department will accomplish the following initiatives.

- Continuing the Ride a Fire Truck to School program
- Conduct multiple "Burn-to-Learn" demonstrations at various locations around New Braunfels that demonstrates the importance of fire and life safety features such as smoke detectors, fire extinguishers, and home fire sprinkler systems.

- Continuing the DWI Shattered Dreams Program at our local high schools.
- Continuing the Communities in Schools (CIS) Mentoring Program
- Developing and implementing a program so all students in New Braunfels schools graduate with a CPR & First Aid certifications

Effective Management

Strategic Issue: South Castell Avenue Master Plan

City Hall Master Plan

Redeveloping the current city hall site is a strategic issue because its success aligns closely with various long-term objectives adopted by the City Council and other stakeholders to include: ensuring sustainable quality development, promoting premium mixed-use development within the community, developing year-round tourism, and expanding recreational, arts and cultural enrichment opportunities. The project also has the opportunity to fulfill multiple goals outlined in the Downtown Implementation Plan and will provide a significant catalyst for continued economic vitality in the downtown area. Catalytic projects are important because they bring renewed vitality to the area through greater urban density and enhanced civic and public space. As the master planning process has evolved, multiple questions have arisen that require serious discussion and consideration from the City Council. These issues are interrelated to some degree, but if they can be resolved in a timely and successful manner, they can each contribute to the likelihood the project can proceed towards construction and make a significant contribution to the community. Given the previous conversation highlighting efficient tax revenue production, it would appear that the South Castell project should take on an even more critical role and be viewed as a step in the right direction.

As currently designed, the project has an approximate development value of \$157 million. The estimated added annual value to existing tax rolls would be approximately \$134 million, which would generate almost \$6 million in additional property tax revenue over the first 10 years. An approximate fiscal impact analysis is included below:

City of New Braunfels - Net Benefits Over 10 Years	
	Amount
Sales Taxes	\$3,839,615
Property Taxes - Project	\$5,807,062
Property Taxes - New Residential	\$154,924
Utility Revenue	\$0
Utility Franchise Fees	\$819,683
Building Permits and Fees	\$0
Hotel Occupancy Taxes	\$13,985,487
Airport Building Lease Revenue	\$0
Airport Commercial Activity Fee	\$0
Miscellaneous Taxes & User Fees	\$727,956
<u>Subtotal Benefits</u>	<u>\$25,334,726</u>
Cost of Providing Municipal Services	(\$2,455,420)
Cost of Providing Utility Services	\$0
<u>Subtotal Costs</u>	<u>(\$2,455,420)</u>
Net Benefits	\$22,879,307
<i>Present Value (5% discount rate)</i>	<i>\$17,352,747</i>

Issue 1: Completion of Public Works and Fire Training Facility

Issue: Providing a date certain as to when the Castell Avenue properties will no longer house any city operations or personnel.

Background

The acquisition and renovation of the Albertson's building on Landa Street was a significant step towards redevelopment of the current city hall site. This facility will accommodate the staff needed to manage the City's growth for some time, and it removes a large number of municipal personnel and operations from the Castell Avenue site. However, many public works divisions (streets and drainage, fleet maintenance, facilities and solid waste) and fire training operations will continue to occupy the Castell Avenue property until facilities are built or acquired to accommodate them. In 2010, the City purchased land and began preliminary design on the public works/fire training facility, which is located on FM 1102 and Orion Road. These plans are in the design development phase and the estimated cost to develop the facility (excluding utilities) was \$15-\$20 million in 2013.

Facility Needs

Approximately 100 current staff members and 120 vehicles office/occupy the existing City Hall facilities on Castell Avenue. The new facility, after concluding schematic design in 2013, was estimated at \$15-\$20 million. An appropriate budgeting number to complete the project is likely closer to \$20 million, given cost increases and the need to bring utilities to the project site. The facility will house the divisions listed above, which includes service bays for

the city's vehicle and heavy equipment fleet, materials storage for solid waste and streets, and an administration and training building for the public works division and fire department. The project as currently scoped also includes a fire training tower and a fire apparatus maneuvering field. This portion of the project could be funded as phase two component, which would lower the initial capital investment to approximately \$16 million.

Division/Function	Personnel to New Facility	Vehicles/Equipment to New Facility
Solid Waste	45	39
Fleet	8	4
Streets and Drainage	28	68
Facilities	7	6
Fire Training	10	5
Totals	98	122

Design/Construction Timelines

If given a notice to proceed during the 2017-2018 fiscal year, the earliest remaining city staff could relocate to this facility would be in the summer of 2020. This is an aggressive schedule to complete design, bidding and construction but accurately describes the challenges left to develop the current City Hall site. The City would need to approve funding for final design of the building and utilities, complete design and bid the project by the fall of 2018. Staff recommends utilizing the Construction Manager at Risk method to expedite the project schedule and control construction costs. Construction would take approximately 18 months and could be completed in the summer of 2020.

Castell Avenue- Project Phasing

If the City can deliver a date certain as to when the site will be available for redevelopment, a phasing plan could be developed to construct around the occupied facilities. A more accurate timeline could be developed once bidding for the project was completed. Until the City commences negotiations with a master developer with a date certain as to the eventual site vacancy, it would be difficult to speculate on an exact phasing of the Castell Avenue project.

Issue 2: Acquisition of Union Pacific Tract

Issue: Gaining control of the Union Pacific rail yard by the City or related entity or, at a minimum, securing an option to purchase.

The addition of the Union Pacific property behind City Hall is a critical piece of the overall development program. First, the project adds another 4 acres of developable land to the project. This increased density leads to higher tax revenue and other benefits to the City (in addition to drawbacks such as traffic). Secondly, the mitigation of the visual and environmental blight from an active railroad fueling and maintenance yard will make the project more attractive to a greater number of potential developers. The presence of an active yard would present too much risk to potential investors and they could demand higher returns, thereby making the project more expensive. At this stage, the current master plan provides for some conceptual ideas and data related to how the project could be phased onto the railroad property over time.

The first challenge in this potential acquisition is reaching an agreement with Union Pacific to sell the property. Ongoing conversations with Union Pacific indicate a willingness to evaluate the potential for a sale sometime in the summer of 2017. From that point, the railroad would conduct a cost/benefit analysis to determine how much the property and improvements are worth. In addition to the price of the real estate and improvements, a relocation assistance package would be included in any final agreement. The challenge in this situation is understanding what the property contributes to the development's potential and assessing whether and to what degree a relocated railroad operation would benefit the ultimate marketability, investment attractiveness and costs of the development opportunity.

Issue 3: Castell Avenue Right of Way Improvements

Issue: Determining the extent of Castell Avenue and other area improvements and establishing a schedule and funding sources to undertake those improvements.

Castell Avenue is an important component of the master plan because it links the site to the rest of the downtown area and provides an opportunity to frame the right-of-way (ROW) and accompanying public space. The master plan recommends improvements to the ROW as an important and necessary contribution for the private sector investing in a major development project in the downtown area. To that extent, the master plan envisions improvements along the street in front of the site to include expanded sidewalks, street landscaping, angled parking and an overall improvement of the pedestrian experience to link the convention center project to the rest of the downtown area vis-à-vis Castell Avenue. The planning efforts have also identified a project to realign and extend Hill Avenue. The next step for the City is to determine the appropriate scope of improvements for the project. At a minimum, it likely includes underground utility work that would coincide with NBU's and the City's planned replacement of water and wastewater lines and mill and overlay projects scheduled in 2018. If there was a desire to coordinate additional improvements and enhancements, undertaking them during these construction projects would be the most appropriate time. Given the scope and complexity

associated with a project that realigns and extends a downtown street, it is recommended the City develop a phasing plan to implement the needed public infrastructure improvements.

Reacting to advances in technology

Technology continues to improve at a rapid pace and is a significant investment for municipalities. Moreover, opportunities exist for the City to implement technology enhancements that will increase efficiency and improve overall quality of service. The City will need to continue to acquire technology to respond to customer behavior and demand. Yet, how the organization adapts to new technology and effectively manages that investment is a strategic issue.

Managing employees and citizens expectations as to what technology should be made available to them is a large component of this issue. A second challenge is that it is easier to add new technology in layers rather than to reassess and replace existing system(s) or equipment. However, up-to-date and effective technology infrastructure plays a critical role in *promoting and encouraging a sustainable high-performing workforce and environment* as well as *maintaining an ongoing program to provide exemplary service*, which are both strategic priorities adopted by City Council.

A process needs to be in place that begins with the definition of the business problem that requires additional and/or replacement technology, followed by identification of the specific needs, a potential technology enhancement would need to address, ending with an analysis of all available products. Consistent implementation of this process will allow for consistency and a neutral approach to determining when and how technology enhancements should be recommended and implemented. Without consistent application of this type of process for prioritization and selection of technology enhancements, the City bears some risk as to the standardization and success of initiatives.

The city has previously invested in several pieces of technology to provide a higher level of service; however these systems are sitting in silos among departments, were not deployed properly across the organization and were not maintained/updated resulting in very inefficient usage. The city needs to strategically determine if these solutions are the right fit for the organization and if upgrading and re-deploying them are a wise investment of city resources.

Action Items completed/to be completed

- The City has created an IT Director position (reclassification of an existing vacant position) that will be responsible for developing strategies for technology implementation.
- Upgraded/replaced network infrastructure throughout the organization increasing network connectivity in most locations by a factor of 10.

- Upgraded the city-wide phone system providing enhanced redundancy and additional functionality to support department's needs.
- Evaluated Accela and developed scope of work that will add online permit submission and payments capabilities
- Developing plan to implement electronic forms and workflow system to enhance staff efficiency and enhance electronic public forms submission
- Developed data center refresh/upgrade that will offer redundant data centers, increased security and business continuity for server operations.

Securing and protecting citizen information

The city collects and stores tens of thousands of pieces public information each year through our interactions with the citizens. Almost every city department collects some form of personally identifiable information (PII) through their day to day operations; name, address, social security number, driver's license numbers, credit card number. Some of this data by itself can pose a risk to individuals if accessed by the wrong person, but if you combine multiple pieces of information it can certainly put the individual at risk of identity theft, and the city at risk of certain liability.

In addition to the data we have within our systems, we must also be concerned with the third parties we work with. We must analyze the type of data we share with them, how we share it, and ensure they are doing everything possible to protect our citizen's personal information.

Properly securing data is an ongoing process. An information technology data governance process needs to be established that identifies the data we have, the value of the data stored and where the data is stored. From there we can begin to design and prioritize a layered approach to securing the data in an appropriate, cost effective manner.

There is not a single solution that will protect our data, rather we must evaluate and utilize a combination of hardware and software solutions along with appropriate policies and staff training. By managing the risks of data loss and developing a layered approach to securing our data, we can help maintain the fiscal stability of City operations and help promote positive growth, development and quality of life by keeping the City out of the headlines.

Action Items Completed/to be completed

- Replaced 10 year old firewalls at primary internet connections in FY 2015-16
- Added employee security awareness training for all staff
- Developed data security and classification policy
- Deploying email encryption service to protect employee and public data in transit

Empowering a mobile workforce and community

Work isn't just a place anymore, it's something people do, wherever and whenever the need arises. The City has an amazing staff dedicated to this community. Approximately 50% of the City's staff is considered a mobile worker and they are looking for the ability to move beyond the traditional brick and mortar walls and have the access to their traditional resources. They want to do anything, anywhere and on devices that are most convenient to them.

Empowering a mobile workforce is a strategic issue, not just from the logistics and security of IT, but from a staff productivity and job satisfaction perspective. Developing a strategy to evaluate the various groups of mobile workers and identifying the resources and systems they need in the field will help us effectively target where we can increase productivity which should directly impact our citizen satisfaction.

Additionally our community is growing increasingly mobile and clamors to handle their interactions with the city through a mobile device or online with their personal computer; rarely does someone want to come to City Hall and conduct their business in person but today we leave the public with little choice.

Providing solutions that allow the public to interact with the City systems online or through a mobile device will *ensure community connectivity and mobility, improve our customer service and encourage a high-performing workforce*, all of which are Council strategic priorities.

Action Items Completed/to be completed

- Developed scope of work that will add online permit submission and payments capabilities to Accela
- Proposing mobile app to provide citizens immediate access to the most used online city resources

Capital improvement program update and debt service capacity

Prior to FY 2004-05, there had been minimal debt issuances and capital investment in the City's streets, drainage, parks and facilities infrastructure. In addition, the City had not completed a capital improvement (CIP) plan. Since that time, five/ten year capital improvement plans were developed that identified the full gamut of projects needed to effectively service the community's needs. In FY 2004-05, the City began issuing certificates of obligation to address the wide array of needed capital improvements. During that time, over \$135 million has been invested in various capital projects. In addition, the recently passed \$86 million bond program continues to address projects identified in the CIP plan.

When combined with the 2013 bond program, the capital investment by the City of New Braunfels from 2004-2020 will total over \$220 million. As mentioned earlier, there had been minimal capital investment in the City's infrastructure prior to FY 2004-05, and even with the consistent investment over the past ten years, \$350-\$400 million dollars in identified, unfunded capital projects remain.

The City's Capital Improvement Program was last updated in FY 2011-12. During various City Council retreats, additional capital investment needs have been identified. The Debt Service Fund section of this document does include a draft timeline for a 2019 bond program. That timeline was developed with consideration given to the completion of the existing 2013 bond projects, the South Castell redevelopment project (which includes the construction of the Public Works – Fire Training facility) as well as projected debt capacity.

Debt service capacity is created when debt is completely repaid, allowing the entity to issue additional debt without the need for additional tax revenue. Under the City's current debt structure and annual requirements, no significant debt service capacity is gained until FY 2019-20. Therefore, money for additional capital improvements will have to come from new tax revenue, alternative funding sources and partnership opportunities.

Address current unmet needs

With the rapid growth that occurred in New Braunfels from 2000 to 2017 (a population increase occurred during that period of 90 percent or 35,500 citizens), the City of New Braunfels as an organization concurrently added resources and expanded service delivery to meet the accompanying increased demand for services. Working to address current and newly identified unmet needs to ensure services are maintained within continued financial constraints is a strategic issue.

The majority of current unmet needs are driven by increased demand for services. Adequate resources are a critical component of *promoting and encouraging a sustainable high-performing workforce and environment* as well as *maintaining an ongoing program to provide exemplary customer service*, which are both strategic priorities adopted by City Council.

Additional analysis needs to occur with all identified unmet needs that begin with a definition of the problem that requires additional and/or replacement resources, followed by identification of the services that would be negatively impacted should resources not be added. Moreover, management should evaluate alternative service delivery opportunities to ensure that efficiency is maximized when adding resources. If addressing unmet needs is not financially feasible, the City must analyze and evaluate potential service level reductions so that customer expectations can be established and met by existing resources.

Action Items completed/to be completed

- The FY 2016-17 Operating Budget and Plan of Municipal Services addressed various unmet needs (page 88-97 of the FY 2016-17 Adopted Budget Document).

Increased services associated with capital projects

As capital improvement/bond projects are completed, the City needs to evaluate the service demands that are required to effectively operate and maintain the new and/or improved assets. Service and maintenance demands will have an impact on resource needs. How the City evaluates and provides service and maintenance resource requirements associated with capital improvement/bond projects is a strategic issue.

In some instances, such as street projects, the level of services and resources required to maintain the asset will initially decrease after a project is completed. Other projects include landscaping, and other amenities that require upkeep, maintenance and repair. Still others require staff to provide services to the citizens taking advantage of the new infrastructure (such as the new recreation center). The City will need to evaluate and work to provide the resources needed to meet all these demands. Establishing the resource requirements associated with new capital assets will be important to developing an *ongoing program of infrastructure construction and maintenance*, a strategic priority adopted by City Council.

Resource and service requirements/needs should be prioritized and evaluated to determine, based on financial feasibility, what services and maintenance efforts will be incorporated into the operation of new capital infrastructure. Moreover, the City should evaluate alternative service delivery opportunities to ensure that efficiency is maximized and service quality is maintained when adding resources. If adequate resources are not provided to maintain new infrastructure, the City runs the risk of the capital investment not meeting its useful life or the expectations of the citizens.

Action Items completed/to be completed

- The forecast recognizes the potential operating cost impact of two projects: The operation of fire station #7 and the development of a Sports Complex.

Adjusting fees to market rates

The City charges user fees for various services provided to the citizens. These run the gamut from alarm permit fees to pool entry fees to building permits and plans review to name just a few. The fees are intended to recover a portion – up to all – of the cost of providing the service. Many of the City’s current fees have been in place for an extended period of time and have

remained at the same level for years. Evaluating the existing fees and looking for appropriate areas to initiate new user fees is a strategic issue for the City.

As stated, many of the City's fees have been in place without change or reevaluation for many years. User fees are intended to generate sufficient revenue to offset the cost of providing the service. They are put in place in areas where it is appropriate for the user to pay for the service rather than using general tax revenue (such as sales tax or property tax) to offset the cost of the service. Fees can be influenced by market factors as well as cost factors. They also represent an opportunity to mitigate property taxes as they serve as an alternative form of revenue.

The City needs to continue to evaluate fees in all areas to ensure they are cost based and that they are in line with market factors. Fees also need to take into consideration affordability for the citizens and their ability to access the services. Over the next several years, all the City's fees should be analyzed and opportunities for new fees, where appropriate, should be presented for City Council consideration.

Action Items completed/to be completed

- In FY 2016-17, the City Council established various Planning and Community Development fees. Those fees were justified through a benchmarking and market analysis completed in FY 2015-16.

Attracting and retaining a highly qualified workforce

In today's workplace, employees are staying with organizations that demonstrate *employee value* through actions. The consequences for those that fail to demonstrate employee value could be many, including such things as increased turnover, training costs, knowledge gaps as well as degraded levels of customer service delivery. As outlined by the mission statement, *to be responsive for those we serve*, investment in human capital programs is critical for the City to maintain and attract a talented workforce to serve internal and external customers. Therefore, how the City plans and implements competitive human capital programs in an effort to attract and retain a highly qualified workforce is a strategic issue.

A comprehensive program for rewarding employees, one with multiple strategies, not just salary adjustments, is a possible approach to attracting and retaining a highly qualified workforce. The foundation of the approach leverages five elements: (1) compensation, (2) benefits, (3) work-life balance, (4) performance and recognition, and (5) development and career opportunities. For the City of New Braunfels, the first step in a more comprehensive approach has begun with a salary survey process to identify the current market pay rate that exists among all City jobs, followed by the development and/or updating of the City's compensation philosophy and policies and procedures.

The City completed a market study in FY 2013-14 and created new pay plans based upon the data and recommendations by various employee committees. That analysis was updated in FY 2016-17. However, compensation must always be evaluated on a number of variables, to include internal equity, benefits costs, legal and regulatory issues, merit increases for performance, and/or cost-of-living adjustments. An effective, comprehensive strategy should result in satisfied, engaged and productive employees, who in turn create desired business performance and results.

Action Items completed/to be completed

- A new compensation analysis is being completed in FY 2016-17 to validate the previous compensation plan, as well as to maintain market competitiveness.
- Updating and implementing the City's compensation philosophy, policies and procedures is an on-going task.
- Implementation of several alternative employee recognition programs was completed in FY 2016-17.

Health Care: Sustainability of the Self Insurance Fund

Cost of Health Care continues to increase due to various factors. This has presented a challenge to the City since FY 2014-15. The City has made adjustments to health plan designs as well as increased cost and yet the sustainability of the Self Insurance Fund is still at risk.

The City's health insurance consultants have been tasked with developing innovative controls that will provide assistance with the sustainability of the Self Insurance Fund. The first of the controls was implemented in mid FY 2016-17 with the elimination of Out of Network benefits for non-emergency claims. Increased Educational Sessions have provided employees with increased knowledge of their healthcare benefits so that they are able to obtain quality healthcare services at a lower cost. As we implement plan designs for the FY 2017-18, we will look at the following to ensure sustainability and solvency of the Self Insurance Fund:

- Referenced based pricing
- Removal of out of network coverage
- Price transparency tool and Referral management services
- Pharmacy and health expenditure audit
- Retirees offered health insurance coverage through Texas Municipal League (TML)
- Increases to deductibles, out of pocket maximums and co-insurance rates
- Premium increases

Quality of Life

Conservation of Natural Resources

As New Braunfels continues to grow, the city will need to focus on continuing to develop as a livable city through conservation and stewardship of land, water and natural resources. Protection of these resources makes the city more attractive to industry, tourists and homeowners. Parks and green spaces improve the economy of the city. Ensuring that conservation and preservation of natural resources is a component of growth related decisions is a strategic issue.

New Braunfels is known for its natural beauty including clean rivers, abundant urban forest, and green spaces. The care and preservation of these environmental features is paramount to the quality of life and economy of the city. Parks and public lands serve an essential role in preserving natural resources and wildlife habitat, protecting clean water and clean air, and providing open space for current and future generations. In addition, *protecting and improving our open space, and community connectivity and mobility* (through trails) are strategic priorities adopted by City Council.

Conservation of natural resources requires a multifaceted approach. Parks staff will need to be trained to implement sustainable maintenance practices. A system-wide needs analysis and development of criteria for acquisition of new land and facilities should be developed. Implementation of a reuse water system to irrigate parks will assist with sustainability of open space. Riparian zones should be established, where appropriate, for sediment filtration along waterways. As the city continues to grow and develop neighborhoods promoting connectivity between existing parks and neighborhoods through a trail system as well as the increased acquisition of parkland will be important.

Action Items completed/to be completed

- Preliminary Engineering Report for Reuse Water Irrigation System for Parks completed FY 2014-15. NBU began a preliminary design phase on reuse watering system to serve parks in FY 2015-16
- Riparian areas will be established in Landa Park as part of Landa Park River Front Rehabilitation Project FY 2014-15.
- Riparian areas were established on Landa Park Golf Course during course renovation
- Landa Park Master Plan developed and presented to City Council March 2017.
- Market Plaza Master Plan completed in FY 2015-16. New Braunfels Parks Foundation currently raising funds for implementation.
- Parkland Dedication Ordinance updates started FY 2015-16 for Neighborhood/Community Parks. Expected completion in FY 2016-17.

- Mission Hill Park Master Plan completed and presented to City Council August 2016.
- River Properties Master Plan completed and presented to City Council March 2017.
- Joint effort with NBU to implement future Aquifer Storage Recovery (ASR) on airport property.
- Parks, Recreation and Open Space Strategic Plan will be completed late FY 2016-17. The plan will identify levels of service for the community as well as standard operating procedures for maintenance and operations.

Reference to the 2014 National Citizen Survey for New Braunfels

	Percent Rating Positively			Comparison to Benchmark Cities		
	2012	2014	2017	2012	2014	2017
Natural areas preservation	52%	54%	67%	Much Lower	Similar	Similar

Improving Health and Wellness in the Community

As is the rest of the nation, New Braunfels is facing growing health and wellness challenges. The cost of sedentary lifestyles and related health issues can affect an entire community. The annual health care costs in the United States associated with obesity currently total \$190 billion. If trends do not change, the annual cost could increase to over \$250 billion by 2030. Parks and Recreation is uniquely situated to provide affordable programming to the community and has a well trained and educated staff for program delivery. However, developing a programming strategy targeted specifically at improving health and wellness is a strategic issue.

Inactive lifestyles result in obesity, poor nutrition, poor grades and chronic disease. All of these result in poor quality of life, reduced mental health, lack of productivity and risk of death. Public parks and recreation programs can contribute significantly to healthy communities and play a fundamental role in enhancing the physical environments. Through recreational facilities, outdoor settings, and programming services provided, they support good health for people of all abilities, ages, socio-economic backgrounds, and ethnicities.

Increased participation in active programs can be achieved by facilitating programs that are easy to find, register and afford. Developing partnerships with health institutions to align health and wellness strategies and school districts to promote youth/teen alternatives to varsity sports and fostering an appreciation of the outdoor environment are important programming initiatives. Programming at the Fischer Park Nature Center and the new Recreation Center will contribute to this. The departmental registration software should be updated to allow for online registrations that will greatly enhance the convenience for families.

Action Items completed/to be completed

- Fischer Park Nature Center opened in FY 2014-15.
- New registration software has been installed and went live April 2017.
- The Fischer Park Nature Center continues to implement additional grant funded programs for youth in FY 2016-17.
- A Sports Complex Feasibility Study and an Athletic Complex Master Plan was completed and presented to City Council November 2016.
- The Parks and Recreation Strategic Plan will conclude in late 2017 will include a programs assessment.
- The new Community Recreation Center will open in FY 2017-18 providing abundant opportunities to all ages for improving health and fitness.

Reference to the 2014 National Citizen Survey Results for New Braunfels

	Percent Rating Positively			Comparison to Benchmark Cities		
	2012	2014	2017	2012	2014	2017
Health and wellness	N/A	76%	81%	N/A	Similar	Similar
Recreational opportunities	74%	72%	80%	Much Higher	Similar	Higher
Fitness opportunities	N/A	64%	77%	N/A	Similar	Similar

Parks infrastructure

The parks system in New Braunfels is aging, much like other city facilities. 15 of the 31 parks in the city were developed prior to 1975. This equates to over 200 acres of parkland that is 40 years old or more. Facilities including Landa Haus are past or nearing life expectancies for their equipment and systems. The Landa Haus was last updated in 1998 and has various structural deficiencies. Meeting the public's expectation for the upkeep of existing parkland and infrastructure as well as maintaining safe facilities is a strategic issue.

The high amount of usage in the parks and facilities makes the continued evaluation, repair and replacement of structures, equipment and mechanical systems a challenge. As facilities and other infrastructure age, preventative and on-going maintenance becomes critical to providing access to citizens and park visitors. If aging infrastructure is not inspected, maintained, and replaced in accordance with a recommended schedule, there are various safety and liability issues that arise.

The Parks and Recreation Department has over \$49 million in identified improvements to existing park infrastructure. The list of identified improvements needs to be updated and evaluated annually. Resources should be evaluated to determine if they are appropriate to

provide ongoing maintenance and repair of existing infrastructure. This evaluation should take into consideration strategies such as contracting opportunities, existing staffing levels, as well as an analysis of the efficiency of maintenance equipment – i.e. hours of use, technology advances and repair costs.

Action Items completed/to be completed

- The Landa Park Master Plan was completed in FY 2016-17 and includes an ADA inspection/recommendation and operations analysis.
- The Parks and Recreation Strategic Plan will be completed in late 2017 and will include recommendations for park operations and maintenance.

Reference to the 2014 National Citizen Survey for New Braunfels

	Percent Rating Positively			Comparison to Benchmark Cities		
	2012	2014	2017	2012	2014	2017
City Parks	84%	83%	93%	Much Higher	Similar	Higher

Library – developing and maintaining partnerships

Library services are increasingly overlapping with other service areas including many that are not currently provided by the City. For example, a patron comes to the library to use the computer for job seeking, and in the process of assisting the patron, it becomes obvious that this person is in need of additional computer training, an email account, clothing for an interview, and possibly even food and shelter. The library is also experiencing an increase in the diversity of the service population as well as a decrease in the average age of library patrons needing services.

Library staff is not currently trained to assist with all the patrons' needs. The influx of younger patrons and families also challenges the existing staff to provide all the services needed, not just from a skills perspective but from adequate staffing levels. As a result, to effectively provide services, the Library is referring patrons to other programs that may charge a fee to provide services.

Over the five year forecast period, the Library will explore various options and opportunities to meet these service challenges. Additional staff training could be facilitated by moving more staff from part time (30 hours per week) to full time, allowing for some additional hours for training. The addition of mobile services may also help address the outstanding service needs. The Library Foundation raised enough money to purchase a bookmobile, and it was deployed in July of 2016. The bookmobile is currently serving seven senior facilities, seven schools and eight general population stops over a two week period. Over 500 people are checking out over 1500

items each month. Most of the service is to underserved populations. Renovation of the church on the grounds of the Westside Community Center is being considered as a fundraising project for the Library Foundation. In the longer term, additional library facilities will be needed to maintain/enhance service levels.

Managing the shift in literacy

Lifelong learning – a key component of the library's mission and service paradigm – used to be defined as the ability to read and access to books as physical units. Now, it is shifting to the ability to obtain and use information via a variety of formats and devices with technology a major driver. Online learning, especially secondary education opportunities, also creates additional library service demands. The pace of development of the formats and the complexity of the technology based devices creates a need for additional staff competency and training. The number and complexity of the literacy components are difficult for staff to keep current on. Customer service suffers when only a small subset of library staff can assist a patron.

The library as an industry is also moving into other literacy areas in addition to traditional reading, printed materials and technology. Cultural literacy is becoming a part of the services provided by libraries. Cultural literacy includes, but is not limited to: assisting individuals to utilize technology effectively, understanding what resources are available in a given community, bringing an awareness of the arts opportunities in the community and empowering people to make educated lifestyle and financial decisions.

As library services expand from the traditional role, the resources needed by the Library will change. Computers now compete with bookshelves for library space. Program/activity areas are needed along with reading corners. Staff needs to be competent in different areas and arenas – for example computer technology and software and how to access community resources for various assistance programs. The changing resource requirements impact the Library in their planning for the next five years. The Library needs to evaluate their staffing requirements and the skills needed from staff as they work to meet the patrons' service demands and implement the Library Master Plan recommendations.

Reference to the 2014 National Citizen Survey for New Braunfels

	Percent Rating Positively			Comparison to Benchmark Cities		
	2012	2014	2017	2012	2014	2017
Public Libraries	90%	88%	90%	Much Higher	Similar	Similar
Adult education	N/A	42%	54%	N/A	Lower	Similar

Library infrastructure positioning and development

Current library facilities are inadequate to serve the library needs of the community as it grows. The library system is now a zero growth system, meaning that the maximum number of physical items that can be housed in existing facilities has been reached. The Library Master Plan addresses the short and long term infrastructure needs to provide ongoing library services. The challenge is also to predict the future usage patterns for the facilities and plan facilities that are able to be repurposed easily and effectively as the types of library services asked for and provided changes. Stand alone facilities are also no longer necessary. City services are increasingly overlapping, and library services can be provided from other City facilities for some economy of staffing.

The trend in library infrastructure is away from large collections of physical volumes and toward electronic collections and collaborative working and meeting spaces. The total square footage needs remain constant but the usage has and will continue to change over time. A key component of the library's mission is to "provide equal access to physical and virtual environment."

The Library Master Plan includes recommendations for new and expanded library facilities. The plan includes construction of new stand alone facilities in 2 locations in strategic locations throughout the City over the next twenty years. The total financial impact is estimated at \$17 million. The plan also describes the need to expand the existing library facility at an estimated cost of \$16 million. The third opportunity to expand library facilities is to provide space for limited library services in future City non-library facilities. The cost would vary with the size of area provided and range of services offered. Mobile library services through a bookmobile are another cost-effective way to expand library "facilities."

Action Items completed/to be completed

- New Braunfels Public Library Foundation (NBPLF) raised the funds for a bookmobile which was deployed in June, 2016. Staffing was accomplished through a position reclassification. Optimizing the services delivered through the bookmobile will be a priority for the 2017-18 budget year.
- Development of a Master Plan for the Westside Community Center site. The church building is now vacant and will need additional development or will need to be demolished. A master plan for future site usage will assist in making the optimal decision for this site.

Growth and Development

Sustainable and Efficient Tax Production

Efficiency is the idea of getting the most out of a given input or achieving an objective for the lowest cost. In public policy, efficiency is not a goal in itself. Rather, efficiency helps us attain more of the things we value. Human capital and its efficiency are at the center of budget discussions and are often seen as the only roadblock for a governmental entity to finally be able to address the peoples' concerns. While important to a discussion about how to fulfill community goals, efficiency in human capital alone cannot contribute the resources necessary to address the community's issues. Instead, New Braunfels should turn its attention to how productive the existing land area is in its ability to generate tax revenue and adopt a new growth and investment model. After all, cities are finite areas of land, and how that land is used has a direct effect on municipal tax generation. This requires a reconsideration of how the community grows and a realization that the current development pattern strains the City's ability to address near term and future obligations.

Since 2000, the City of New Braunfels has experienced tremendous population growth. Between 2000 and 2015, the population almost doubled (4.2% annual growth rate) and does not appear to have slowed since the last census in 2010. This reality is reflected in various metrics such as the lane miles of roads owned and maintained in 2010 (310) versus 2017 (347), the number of uniformed police officers (101 vs. 120) and the number of residential permits issued (1,019 vs. 2,500). The infrastructure cost to the city for all this new growth has been relatively minimal. Occasionally the City is required to contribute some local funds, but TxDOT or a subdivision developer will pay for the bulk or all of a roadway's expansion or construction (FM 306, SH 46, and multiple neighborhood and collector streets). Developers then use leverage to finance a development project and business owners or families take on real estate loans or mortgages to acquire property within the development. This all occurs with the City receiving cash up front in the form of permitting revenue and impact fees and, eventually, local tax revenue from the new growth. However, the City has assumed the long-term liability of maintaining all the improvements deemed "public." This includes the sewer, electric, water and stormwater systems, as well as roads and streets that all age, degrade, break and ultimately need to be replaced. This growth characteristic, where the city trades a near-term cash advantage for a long-term financial obligation, makes one of two critical assumptions. The model assumes that the amount of tax revenue generated by the new growth exceeds the long-term maintenance and replacement cost of infrastructure or that the growth will continue at an ever increasing rate to generate the cash flow necessary to cover long-term obligations. Neither of these assumptions is correct, but many municipalities are inadvertently trapped in a development cycle that exacerbates the challenges of constructing, maintaining and replacing physical infrastructure like transportation, water, sewer, and storm water systems needed for these cities to function.

It may be true that, given the current amount of tax revenue generated relative to the scope of service delivery, New Braunfels is beginning to realize how costly decades of infrastructure maintenance deferral can be. It is a common refrain that New Braunfels is playing catch up to decades of minimal infrastructure investment but is now making strides towards the necessary investments needed. This argument recognizes that infrastructure has a lifecycle and that continuous reinvestment must occur to keep it from declining too precipitously. One rarely questions, however, how extensive the scope of the problem has become. It may be helpful to take a very limited view of the street network in order to understand the larger challenges at hand. As a general example, it costs approximately \$800,000 to maintain a mile of typical roadway over a 25 year lifetime. This includes some amount of preservation around year 8; with rehabilitation work completed around year 18 and further work completed around year 25. In addition to these costs, there are the annual costs of crack sealing, patching, traffic control and accounting for the impacts this mile of roadway contributes to the drainage system (recognizing these timelines vary depending upon the road's usage). If New Braunfels maintains a roadway system of 347 miles, it should have maintenance and repair obligations of around \$278 million over 25 years. If one were to amortize this over the system's lifetime, the City would need to spend \$11.1 million per year, every year just to maintain the roadway system. At current valuation levels, this would require a tax rate increase of approximately \$.18 (18 cents) or 36% above the current tax rate. Additionally, these obligations continue to increase as the City grows (New Braunfels accepted 24 lane miles of new streets last year). This creates an extra \$19 million in liabilities or an additional \$768,000 the City should dedicate to street maintenance annually. The tax increases necessary to address these growing obligations are likely not possible and would only address the current network as it stands today. They would not adequately fund appropriate maintenance to any expansions of the system and would be purely dedicated to streets at the expense of other critical areas of infrastructure need.

To begin addressing this gap, the City should reevaluate its development regulations and processes to encourage projects and developments that generate a high value of private investment relative to the amount of public investment. Efficient property tax production has a direct impact on the availability of funds to repair roads, provide quality education, and maintain adequate public services. Expansive developments with large footprints typically carry a higher cost to serve with public utilities (such as streets, stormwater, water and sewer). Thus, examining a development's total tax production overlooks the amount of land and public resources consumed in order to produce revenue. Indeed, the City of New Braunfels, New Braunfels Utilities and other utility companies have an enormous amount of capital invested in existing capital assets that are the platform for community wealth creation. These existing assets should be seen as opportunities to generate true prosperity to put New Braunfels on a sustainable fiscal trajectory. Secondly, the City should deploy a “per acre” analytic as a unit of productivity.

This metric normalizes overall revenues and tax values into a direct comparison, utilizing land consumed as a unit of productivity. Put another way, different cars have differently-sized gas tanks, so the gallon is used as a measurement of efficiency, not the tank. Therefore, “miles per gallon,” not “miles per tank” is a common practice to gauge efficiency. The same principle can be applied to measure the financial productivity of various development types across a community. New Braunfels should identify those developments most financially productive, understand why and how they are productive, and begin to craft development regulations and processes that encourage more of this type of development.

Identifying development that maximizes private to public investment is critical to cultivating community wealth. The public yield from the suburban development pattern — the amount of tax revenue obtained per increment of liability assumed — is extremely low. In the near term, revenue grows, while the corresponding maintenance obligations — which are not counted on the public balance sheet — are a generation away. New growth provides the illusion of prosperity but perpetual growth is neither inevitable nor likely. If the current development pattern was fiscally productive (i.e. it generated more revenue than it needed to maintain and deliver services), all the growth since 2000 should be leaving the City of New Braunfels with more revenue than it needs. However, the City is in a position where a slowdown in population growth or sales tax growth or building permit values creates a revenue gap. This is not the case if one honestly assesses the cost needed to adequately repair and replace the street network, address the extent of stormwater issues, and make necessary investments in public safety and community services such as library facilities and parks.

The City needs a development and growth model that creates more value out of its places. Ultimately, the City should deploy an investment model that leverages the most private investment relative to the public’s and begins to consider the actual long-term costs of owning and maintaining the various infrastructure (physical and human) in its development process. A first step is to begin asking whether a public project will generate enough tax revenue to sustain its maintenance over multiple life cycles. A second step is being done through the creation of a five year budget that forecasts expenses over a longer time frame. Additionally, the City (in concert with NBU and other utility providers) could consider completing a comprehensive inventory of the infrastructure currently maintained, its condition, an estimate of its remaining life and approximate cost for its replacement and maintenance. Finally, the City could begin to evaluate methods to establish a more compatible regulatory environment to encourage a revitalization of the City’s many historic neighborhoods.

Development Services

Population growth in the region is driving tremendous increases in commercial and residential development in the city and extraterritorial jurisdiction (ETJ). Subdivision platting, rezoning requests, building and sign permitting, building inspections, health inspections, animal service calls, and code compliance have all experienced significant increases. Ensuring effective and efficient development services while continuously improving service delivery is a strategic issue.

As the second fastest growing city in the nation (U.S. Census Bureau estimate, 2016), New Braunfels has and expects to continue to experience multiple impacts from the growth. Additionally, Veramendi, the 2,400 acre master planned community in the ETJ, has begun developing and will bring with it requirements for development services not typically conducted outside the city limits (land entitlements, building permitting, plan review and inspections).

Increased development submittals result in more dedicated staff review time, and increased construction results in increased numbers of building inspection requests. The building and development community expect continued rapid turn-around times. Staff must balance this customer expectation against maintaining quality and consistent reviews and inspections to ensure building safety and compliance with adopted codes.

Process Improvements

Implementation of the “one-stop shop” occurred with the physical move into the new City Hall in 2016. Various related development services divisions were formerly housed in different buildings creating a disjointed, confusing, and often lengthier customer service experience than necessary. These teams now assist customers in one large customer friendly counter area. Planning, Building, Environmental Services and Fire staff are now able to collaborate in front of the customers providing more transparency and rapid issue resolution. Increased integration with the Engineering Division of the Public Works Department who also reviews plans and handles various developer requests is also underway. To fully realize the streamlining resulting from integration of operations, these disciplines will require new or updated policies and operational procedures.

Much can be gained from identifying inefficiencies in existing processes, or “kinks in the pipe”. Such inefficiencies might include duplication of services, and outdated or unnecessary steps and procedures (“sacred cows”). Comprehensive review and flow-charting of the processes is necessary to identify and eliminate inefficiencies. Participation and input from customers is key.

Based on this review, augmenting the existing staff, either through additional FTEs or various third party/privatization, should be evaluated as one strategy to increase the speed of customer service delivery.

Technology Enhancements

Customers expect immediate answers to questions about the status of their permits. With so many different reviewing agencies involved in the plan review and permitting process, cities often implement software to track progress and monitor stage progression. The City's permitting and plan review tracking software, Accella, was implemented in 2009. Additional investments are required to provide the necessary software updates and to implement it across all divisions responsible for plan review, in order to realize the full capability of a digital permitting and tracking system, including online functionality.

Customers are also demanding the ability to pay for inspections and other services online. Implementation of online payment technology will greatly improve customer service delivery.

Many cities have implemented electronic plan review to accommodate digital submittal of building plans and permit applications. With this technology, plans are submitted by customers digitally and reviewed on computers rather than via large rolled sets of plans. Physical/paper plan and comment routing constitutes extra, unnecessary time in the development process. Digital review would allow for instantaneous and simultaneous review as paper plans would no longer have to be physically routed. Comments could be integrated into the digital system for automatic “push” to applicants, saving time and money.

Action Items completed/to be completed

- In FY 2015-2016 development community/customers dialogue was begun with regular meetings scheduled as issues arose.
- Continue documenting and formalizing all procedures and processes through Standard Operating Procedures (SOPs).
- Publish Customer Bulletins on every interpretation and process improvement implementation.
- Assess permitting/plan review software.
- Implement online payment system.
- Begin exploring electronic plan review.
- Compare costs of plan review and inspection services by third party vendors versus costs of creating and filling new positions.

Adjusting Development Application Fees to Market Rates

The City conducted a benchmark study of development related fees. The resulting recommendations for the creation of new fees for services such as future land use plan amendments and sidewalk waiver requests were approved by City Council in 2016. The study also recommended increases in some existing fees that are currently much lower than the

comparable comparison cities. Such fees include those for zoning verification letters, re-inspections, and sign permit applications, just to name a few. Completion of phase II of the study, increases to certain existing development-related fees, is necessary to ensure development is paying for itself.

Action Items completed/to be completed

- In FY 2015-16, Planning and Community Development application fees were analyzed and benchmarked.
- New fees for services previously provided at no cost were implemented in FY 2016-17.
- Phase II, recommended fee increases, will be forthcoming in FY 2017-18

Code Compliance

Increased population and aging of the built environment typically results in increased code violations. The City's adopted codes are intended to achieve overall public health and safety with a goal to work with property owners to come into compliance. When compliance is not achievable, or property owners do not cooperate, the City works within the court system and, with adequate funding and authorization from the courts, the City can abate.

Staff has experienced an increase in reported code violations. Three code enforcement officers respond to complaints, investigate, and address any confirmed violations accordingly. Additionally, reports of violations of the zoning ordinance and building codes are also increasing. These complaints are addressed in a similar fashion, but through the Planning and Building Divisions rather than Code Enforcement. As this workload increases, staff will need to analyze the current organizational structure and staff capacity to address all of the reported violations/complaints.

Comprehensive Plan

The development of long term, community wide planning is critical for all municipalities, especially those that are growing at the current pace of New Braunfels. Department or initiative specific planning and strategizing occurs within the organization. However, the development and periodic update – with active and robust community participation – of a long term, community vision for growth that specifically addresses the needs and desires of the citizens and direction of elected officials is a strategic issue.

A broad, community-driven comprehensive plan can be effectively used to assist in: zoning case decision making; future park locations; capital improvement and bond project prioritization; establishment of policies for economic development, corridor redevelopment, and housing strategies; annexation; mobility improvements; public facility locations; urban design; historic preservation; and improved community health. With an updated plan in place, staff

recommendations and eventual decisions rendered by elected officials can be made in the context of a cohesive strategy that addresses all components of development.

The current comprehensive plan process has been named Envision New Braunfels. A steering committee has been appointed by City Council and nine subcommittees or Plan Element Advisory Groups made up of over 275 citizen volunteers are working on individual elements or chapters in the plan. In addition, extensive outreach is being conducted to gather input about the future of New Braunfels from community residents. These efforts will result in a community vision for development and growth allowing residents and elected officials to identify and respond to changing community needs and desires through policy decisions based on plan goals and objectives.

Action Items completed/to be completed

- Funding is being allocated across both FY 2016-17 and FY 2017-18 to update to the Comprehensive Plan.
- Consultant, staff and citizenry are collaborating via extensive community outreach.
- Upon adoption of the plan, which will include an implementation component, strategies will need to be developed to implement all goals according to the financing and timeline parameters in the plan.

Reference to the 2014 National Citizen Survey for New Braunfels

	Percent Rating Positively			Comparison to Benchmark Cities		
	2012	2014	2017	2012	2014	2017
Land use, Planning and Zoning	42%	47%	52%	Lower	Similar	Similar

Mobility and Connectivity

The City continues to see significant increases in commercial and residential development which in turn leads to increased transportation needs to allow citizens and visitors to move throughout the community and the region safely and efficiently. As existing infrastructure ages and development continues to occur, developing a plan to ensure mobility and connectivity is a strategic issue.

The City's population has increased at a greater pace than traffic and mobility improvements. The City currently lacks adequate traffic capacities, city-wide bicycle and pedestrian accessibility/connectivity as well as alternative modes of transportation from fixed route transit, commuter transit, facilitating park and ride options, and commuter rail alternatives. Without

developing new/expanded mobility alternatives to address the current and future needs of the community, there could be negative impacts to quality of life for citizens as well as a detrimental economic impact regarding potential business relocations and tourism.

Mobility and connectivity infrastructure enhancements require a significant investment over a long time period. Creating a sound plan as well as building joint funding partnerships plays a critical role in the development of mobility and connectivity enhancements. Existing ordinances and development agreements should be evaluated to ensure that improved connectivity infrastructure is built into new developments as they occur as well as to foster the development of major density centers that promote new businesses. A phased plan for addressing public transportation opportunities, whether on demand or a fix route system should be developed that is based on the identified needs for New Braunfels residents and visitors regarding public transportation. Through a consistent and continuous review of the regional transportation plan, the City should plan and develop a unified roadway system of thoroughfares based on function and relative importance, providing a proper balance of arterials, collectors, and local streets. This is done through consistent and continuous review of the regional transportation plan and proposed development.

Action Items completed/to be completed

- There are several ongoing projects that will address mobility and connectivity such as the downtown pedestrian improvements as well as the Landa Street and Westside Transportation Enhancement project.

Reference to the 2014 National Citizen Survey for New Braunfels

	Percent Rating Positively			Comparison to Benchmark Cities		
	2012	2014	2017	2012	2014	2017
Paths and walking trails	35%	44%	56%	Much Lower	Similar	Similar
Travel by bicycle	25%	29%	32%	Much Lower	Lower	Lower
Public transportation	N/A	14%	18%	N/A	Much Lower	Much Lower

Airport Infrastructure Improvements

The New Braunfels Regional Airport has experienced rapid growth and development. The Texas Department of Transportation (TxDOT) has partnered with the City of New Braunfels to complete major improvements such as a runway extension, runway overlay and weight capacity increase, as well as additional aprons and taxiways. With TxDOT, the City invests only \$1 for

every \$9 contributed by TxDOT. The New Braunfels Industrial Development Corporation has also worked with the City to invest in Airport business development and infrastructure improvements. The U.S. military is now actively using the Airport facilities and their presence and use is expected to grow. With the acquisition of the New Braunfels Aero property, the Airport took on a significant amount of new infrastructure. The property has various hangars and buildings that require structural enhancements. The Airport's maintenance facilities have various structural and operational deficiencies. Managing the Airport's growth and associated need for new infrastructure and maintenance of existing infrastructure is a strategic priority.

Significant investment has been applied to the existing hangars and others buildings that compose the entire NB Aero leasehold. The Airport is in completing the process of renovating these facilities to bring them to par with other Airport facilities that are available for lease. Maintained, safe and aesthetically pleasing facilities are essential to marketing hangar space at the Airport. If infrastructure is not maintained and held to a certain standard, liability and operational issues will arise, negatively impacting the financial position and solvency of the Airport.

The Airport is a significant resources and economic development opportunity for the City. Providing and maintaining infrastructure is key to continued Airport growth. Maintaining the City's current excellent relationship with TxDOT is an important component of that growth. Attracting and retaining businesses located at the Airport is another key factor as those tenants and users generate revenue. The objective for the Airport is to become completely self supporting with revenue paying all operating costs as well as all debt service associated with Airport improvements. Growth is the key to meeting this objective.

Action Items completed/to be completed

- Runway 13-31 extension was completed
- The North Ramp hangars and buildings have been renovated
- New apron space for future construction of hangars has been completed
- The Airport entered into two new leases for the construction of hangars
- The Airport has started a project to extend utilities to two new hangar sites

TxDOT transfer of road maintenance

TxDOT has proposed, state-wide, a "turn back" program where some state highways within a City could be turned over to the City for maintenance and operations. In the opinion of TxDOT, benefits of a turn back program the ability to control driveway access, speed limits, on-street parking, road closures, and the ability to control maintenance scheduling that is more responsive to the needs of local residents and businesses. If the turn back program is implemented, there will be a significant increase in the number of lane miles of collector and arterial roadways becoming

the maintenance responsibility of the City. This would, of course, have a significant impact on City resources as the cost of that maintenance is significant. Currently, this program is voluntary. However, TxDOT has brought up the program multiple times in the context of their investment in new/expanded roadways. The impacts if this program became mandatory are a strategic issue.

The City of New Braunfels currently invests about \$1.8 million annually in road maintenance and repair. This investment has to be prioritized across the existing center lane miles of roadway for which the City is now responsible. If and when the program is implemented, it would likely be a phased in approach. However, as roads are added to the City's inventory, additional resources would be required to meet the increase in responsibility.

Workforce/Affordable housing

A long term, community wide strategic plan for workforce/affordable housing is critical for all municipalities, especially those that are growing at the current pace of New Braunfels. The City Council has adopted strategic priorities that include fostering opportunities for workforce/affordable housing as a high priority under the long-term objective of quality of life. Defining and documenting a community vision and strategic plan for workforce/affordable housing will allow the City to increase the supply of workforce/affordable housing while directing the development of the community. Some initiatives have been implemented to promote workforce/affordable housing expansion but an overall consensus of a strategic plan with specific action items has yet to be completed. The NBIDC identified workforce/affordable housing as a strategic issue for focus over the next five years and concrete steps are underway to define the issues. Currently, city staff is assembling a stakeholder group of 15-20 actors involved in housing throughout the community from the public, private and non-profit sectors. A summary report and recommendations are expected at the end of July 2017.

Action Items completed

- Study group formed to recommend strategies to City Council. Report expected in July 2017.
- The New Braunfels Industrial Development Corporation and City Council approved a conduit loan to a developer for an allocation of Low Income Housing Tax Credits (LIHTCs). LIHTCs are a viable and affordable method for communities to encourage the development of quality rental housing in their jurisdictions. The project is under construction and, when completed, these 96 units will fill a need in the community. Unfortunately, demand for quality affordable housing still outstrips supply.
- The City has adopted Resolutions of Support for three separate LIHTC/rehabilitation projects in the last year. One of these projects (Balcones Haus) was awarded a rehabilitation tax credit and will preserve those affordable units for the foreseeable future.

Reference to the 2014 National Citizen Survey for New Braunfels

	Percent Rating Positively			Comparison to Benchmark Cities		
	2012	2014	2017	2012	2014	2017
Housing options	58%	59%	60%	Similar	Similar	Similar
Affordable Quality Housing	43%	45%	40%	Higher	Similar	Similar

General Fund -Baseline Expenditures and Resource Demand Forecasts

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: property tax, sales tax, franchise taxes (including payments from New Braunfels Utilities), licenses and building permits, charges for ambulance services, fines and forfeitures and parks and recreation revenue among others.

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

The General Fund forecast includes two schedules that include revenues, expenditures and fund balances over the next five years in two scenarios. The revenue projections are the same for both schedules; only the expenditures change. The first, referred to as "Baseline Expenditures Forecast," looks at the financial position of the General Fund and assumes that revenues grow throughout the period and that expenses increase only to reflect inflationary pressures as well as anticipated expenditure adjustments, such as the costs associated with operating the Community Recreation Center. This scenario assumes that no additional programs or resources are added to the budget and that all current programs are fully funded at the current level of service (including the Equipment Replacement Program). The second schedule is called the "Resource Demands Forecast" and shows the impact to the General Fund of costs associated with identified resource needs, program enhancements, and compensation adjustments. These projections are the results of the assumptions used to build the General Fund forecast. If the assumptions change, the forecast results change as well.

The Baseline Expenditures Forecast in the schedule on the following page are broken down by strategic priority. The following lists what General Fund departments/divisions make up each strategic priority.

- Infrastructure – *Public Works*
- Public Safety – *Police Department and Fire Department*
- Effective Management – *City Council, City Administration, City Attorney's Office, Human Resources, Municipal Court, Finance, Information Technology and Non-Departmental*
- Quality of Life – *Parks and Recreation and Library Services*
- Growth and Development – *Planning and Community Development*

General Fund Forecast

General Fund Forecast - Baseline Expenditures/Current Level of Service and Programs

	FY 2016-17 Budget	FY 2016-17 Estimate	FY 2017-18 Projected	FY 2018-19 Projected	FY 2019-20 Projected	FY 2020-21 Projected	FY 2021-22 Projected
Beginning Fund Balance	16,818,019	16,818,019	17,863,641	20,434,784	24,987,444	32,115,488	42,219,777
Revenues							
Property Taxes	15,697,047	15,697,047	17,966,752	18,406,357	19,621,177	20,916,175	22,296,642
Sales Taxes	20,416,397	20,108,574	20,912,917	21,749,434	22,619,412	23,524,188	24,465,155
Other Taxes and Franchise Fees	10,003,870	10,003,870	10,323,994	10,654,362	10,995,301	11,347,151	11,710,260
Licenses and Permits	3,679,654	3,754,654	3,994,952	4,210,679	4,395,949	4,589,371	4,791,303
Fines and Forfeitures	1,466,766	1,466,766	1,540,104	1,617,110	1,697,965	1,782,863	1,872,006
Charges for Services	4,124,700	3,964,699	4,082,084	3,984,838	4,047,580	4,249,959	4,462,457
Parks and Recreation	1,390,857	1,390,857	2,147,741	3,274,901	3,405,897	3,542,133	3,683,818
Interfund Transfers	823,729	823,730	836,086	848,627	861,357	874,277	887,391
Miscellaneous	2,160,878	2,390,878	2,328,903	2,475,624	2,631,589	2,797,379	2,973,613
Total General Fund Revenue	59,763,898	59,601,075	64,133,534	67,221,932	70,276,226	73,623,495	77,142,647
Total Available Funds	76,581,917	76,419,094	81,997,175	87,656,717	95,263,670	105,738,983	119,362,424
Baseline Expenditures							
Infrastructure	6,910,917	6,722,668	7,033,516	7,024,115	7,127,215	7,228,110	7,343,808
Public Safety	32,656,095	32,528,485	32,944,646	33,094,860	33,292,527	33,392,351	33,610,384
Effective Management	8,912,516	8,915,070	9,083,710	9,093,663	9,091,212	9,084,647	9,187,746
Quality of Life	7,256,185	7,240,627	8,326,104	9,425,254	9,557,298	9,686,297	9,834,620
Growth and Development	3,341,165	3,148,603	3,374,416	3,207,861	3,235,822	3,263,856	3,294,791
Equipment Replacement Program	400,000	-	800,000	823,520	844,108	863,945	884,247
Total General Fund Baseline Expenditures	\$ 59,476,878	\$ 58,555,453	\$ 61,562,391	\$ 62,669,273	\$ 63,148,182	\$ 63,519,206	\$ 64,155,596
Ending Fund Balance	\$ 17,105,039	\$ 17,863,641	\$ 20,434,784	\$ 24,987,444	\$ 32,115,488	\$ 42,219,777	\$ 55,206,828
Target Fund Balance - 30%			\$ 18,468,717	\$ 18,800,782	\$ 18,944,455	\$ 19,055,762	\$ 19,246,679
Fund Balance Surplus			\$ 1,966,067	\$ 6,186,662	\$ 13,171,033	\$ 23,164,016	\$ 35,960,150

General Fund Forecast

Baseline Expenditures Forecast- Discussion and Analysis

General Fund- Revenue Projections

The average annual growth in General Fund revenues during the forecast period is 5.3 percent. The table below reflects the projected annual growth in total General Fund revenues for each year during the forecast period. The variation in growth is impacted by multiple factors, such as the impact to property tax revenue from the postponement of a debt issuance in FY 2016-17, a projected leveling off of licenses and permit revenue growth as well as the inclusion of revenue stemming from the Community Recreation Center.

Projected Total General Fund Revenues				
	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Growth Rate	7.6%	4.8%	4.5%	4.8%

Property Tax Revenue

Property tax revenue currently makes up 26 percent of all General Fund revenue. Property tax revenue growth is projected to grow 10 percent in FY 2017-18 and 6.6 percent throughout the remainder of the forecast period. The FY 2017-18 projections of 10 percent is based on the preliminary roll data provided by the Guadalupe and Comal appraisal district(s). While the preliminary rolls indicated potential growth of over 15 percent; a portion of that growth will not be realized due to protests, the over 65 tax ceiling as well as the Creekside TIRZ. Therefore, 10 percent is a conservative approach regarding actual anticipated revenue growth within this source for FY 2017-18. The 6.6 percent figure is based on the historical compounded annual growth rate (spanning from 2004-2016). During that time frame, the City experienced extreme periods of growth, stagnation and decline in property values as a result of the recession and finally, growth stemming from the economic recovery (2012-2015). Therefore, the projection factors in several different economic climates conditions.

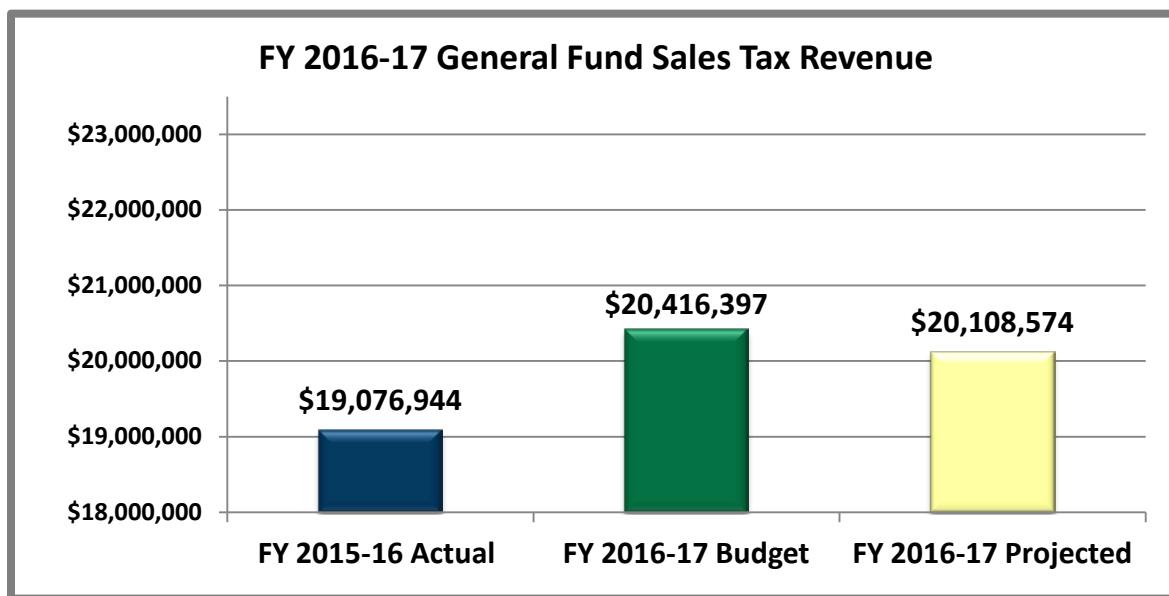
In addition to the 10 percent growth rate projected in FY 2017-18, an additional \$700,000 in estimated one time General Fund property tax revenue is included. This is driven by the strategy to postpone the 2013 bond program debt issuance originally planned for FY 2016-17. There are sufficient bond proceeds to support all the bond projects at their current cash flow schedule(s) which provides the opportunity to postpone the debt issuance to next fiscal year. This is a contributing factor in the overall FY 2016-17 General Fund growth rate in the table above (7.6 percent). As mentioned earlier, this revenue would only be realized in FY 2017-18 (one-time) as those property tax proceeds would be necessary to shift back to the Debt Service Fund and associated rate in FY 2018-19 to support the remaining 2013 bond issuance, this is why property tax revenue only grows by 2.5 percent in the forecast schedule from FY 2017-18 to FY 2018-19.

General Fund Forecast

Sales Tax Revenue

In FY 2016-17, sales taxes are projected to account for 34 percent of the General Fund's total revenue (down from 35-37 percent in prior years). It is the largest source of revenue to the General Fund. Sales tax is volatile in relation to economic conditions and consumer spending patterns. Sales tax revenue volatility and/or a potential slowdown in growth have been observed over the past several months. The recent sales tax trend(s) combined with the Self Insurance Fund's impact to the General Fund were the impetus in postponing some of the new programs included in the FY 2016-17 General Fund budget. As mentioned above, sales taxes are the largest single source of revenue to the General Fund, which is not typical for most communities. This allows the City of New Braunfels to reduce reliance on property taxes, however can create challenges in carrying out budgeted initiatives as sales taxes aren't as reliable as property tax collections.

With the exception of FY 2008-09, which was impacted significantly by the economic downturn and FY 2014-15, impacted heavily by the point of sale vs. point of distribution legislation, the General Fund has experienced consistent and often very strong growth in sales tax revenue from FY 2004-05 to FY 2014-15. Even in FY 2016-17, while the growth has slowed, the current projections still reflect 5.4 percent growth in revenue (as reflected below).



The table below reflects the sales tax growth rates included in the General Fund forecast. Four percent growth is currently reflected throughout the forecast period. During the last twelve years, sales tax growth rates have varied significantly sometimes exceeding 10 percent ("double digits") and in others dipping as low as -1.8 percent. The forecast projections regarding sales tax are designed to level out as there are no significant new developments in progress (construction).

General Fund Forecast

Developments such as Veramendi or others could impact sales tax growth during the forecast period if they were to begin generating economic activity. This is a conservative approach; however, staff feels that the historical growth rates that the City experienced are not likely to continue throughout the forecast period. Therefore, the FY 2017-18 budget process may project sales tax revenue more conservatively to ensure that the initiatives and programs included in the adopted budget can be implemented as planned and approved by City Council.

Projected Sales Tax Growth Projections – General Fund					
	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Growth Rate	4.0%	4.0%	4.0%	4.0%	4.0%

Franchise Taxes

The majority of Franchise tax revenue comes from New Braunfels Utilities (NBU). From FY 2004-05 to FY 2015-16 franchise taxes grew at a compounded annual growth rate of 5.2 percent. However, in recent history, FY 2013-14 to FY 2015-16, franchise tax growth has slowed to some extent to 3.2 percent. Therefore, the recent growth rate of 3.2 percent was utilized for projecting franchise tax revenue throughout the forecast period. NBU's payment to the City is based on a rolling three year average of gross revenue collections. Therefore, to be conservative, the forecast assumes the more recent 3.2 percent figure to continue throughout out the period.

All other General Fund Revenues

The table below reflects growth rates for the all remaining General Fund revenue categories. The majority of the remaining General Fund revenue sources are projected based on an analysis of historical compounded annual growth rates. The following chart shows the average annual growth rate for each of the remaining revenue categories in the General Fund.

General Fund - Revenue Growth Rate Projections	
Licenses and Permits	6.4%-4.4%
Fines and Forfeitures	5.0%
Charges for Services	5.0%
Parks and Recreation	4.0%
Interfund Transfers	1.5%
Miscellaneous	6.3%

Licenses and Permits – to account for a projected leveling off in the recent high level of growth within this category, licenses and permit growth is projected during the forecast period from 6.4 percent to 4.4 percent.

General Fund Forecast

Charges for services – this revenue source are driven primarily by ambulance charge related collections. A portion of that revenue includes the payment from the state for ambulance rides provided to the uninsured and on Medicaid. The funding level of this program is anticipated to decrease over the next couple of years; therefore, the revenue has been adjusted to account for that reduction.

Parks and Recreation revenue - the growth projection of 4 percent has been applied to the base revenue. In FY 2017-18 and FY 2018-19, this revenue source has been adjusted to account for the additional revenue stemming from the opening of the Community Recreation Center. In FY 2017-18, the facility is anticipated to be opened at some point during the third quarter of the fiscal year (April-June). Therefore, five months of projected revenue from the facility is included in the forecast in FY 2017-18. In FY 2018-19, the projected annual revenue of the facility is included.

General Fund- Expenditure Projections

Employee Expenditures - Current Service Levels

In the Baseline Expenditures General Fund forecast, no change in service levels, staffing, compensation or operating expenditure levels are included throughout the forecast period. To further clarify, no cost of living, merit or market adjustment compensation changes are included in the Baseline Expenditures during the forecast period. However, in FY 2016-17, most new positions and equipment purchases were postponed as well as only funded for 75 percent of the fiscal year; therefore, expenditures have been updated in FY 2017-18 to fully fund all new initiatives originally included in the FY 2016-17 Adopted Budget. In addition, Quality of Life expenditures have been adjusted to account for the opening of the Community Recreation Center. A timeline is being developed with respect to on boarding new staff that allows for ample time to advertise and market the new facility, develop operating procedures as well as the many other preparations for opening the recreation center.

Employee Resources are assumed to remain at a level that supports current service levels only. The only other increase in employee related expenditures included in the forecast relates to health insurance costs (employer contribution), which are adjusted for projected increases in these costs (4 percent annually throughout the forecast period).

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. Training related expenditures are also a component of the operating expenditure budget. In the Baseline Expenditures, operating costs are adjusted for inflation (between 2.7 and 2.9 percent throughout the forecast period). Therefore, the projections reflect current service levels. The annual inflation

General Fund Forecast

rates built into the forecast are the same that the City of San Antonio currently utilizes in the development of their five year financial forecast.

Operating expenditures are adjusted for any one time or known changes to expenditures, such as the completion of the comprehensive plan funding in FY 2017-18 as well as the beginning and/or ending of capital leases (Police, Fire and Information Technology). In FY 2016-17, one time equipment and initiatives were allocated in the budget; those funds were either removed or deferred to FY 2017-18 and have been removed prior to adjusting operating expenses for inflation throughout the forecast period.

Equipment Replacement Program

To deliver a structurally balanced budget in FY 2013-14 (recurring operating expenditures equal to recurring revenues), the equipment replacement program was suspended. In FY 2014-15, the program was only partially reinstated by allocating a \$300,000 contribution to the fund and only replacing those vehicles which were in dire need of replacement. The reinstatement continued in FY 2015-16 and FY 2016-17, increasing the contribution to \$400,000. However, in both years, the budgeted transfer(s) will be reallocated to the Self Insurance Fund to ensure the solvency of that internal service. This is described in more detail in both the Equipment Replacement Fund and Self Insurance Fund section(s) of the document.

In the Baseline Expenditures forecast, the program is assumed to be fully reinstated in FY 2017-18 and remains active throughout the forecast period. At this point, full reinstatement of the program requires \$800,000 annually. The contribution is adjusted for inflation throughout the forecast period.

Capital Expenditures

There are no capital expenditures included throughout the forecast period.

Interfund Transfers

In the baseline expenditures, interfund transfer funding remains at the current budgeted level (FY 2016-17). General Fund transfers to other funds to cover initiatives such as the support of the River Activities Fund and cash match for grants.

Baseline Expenditures Summary

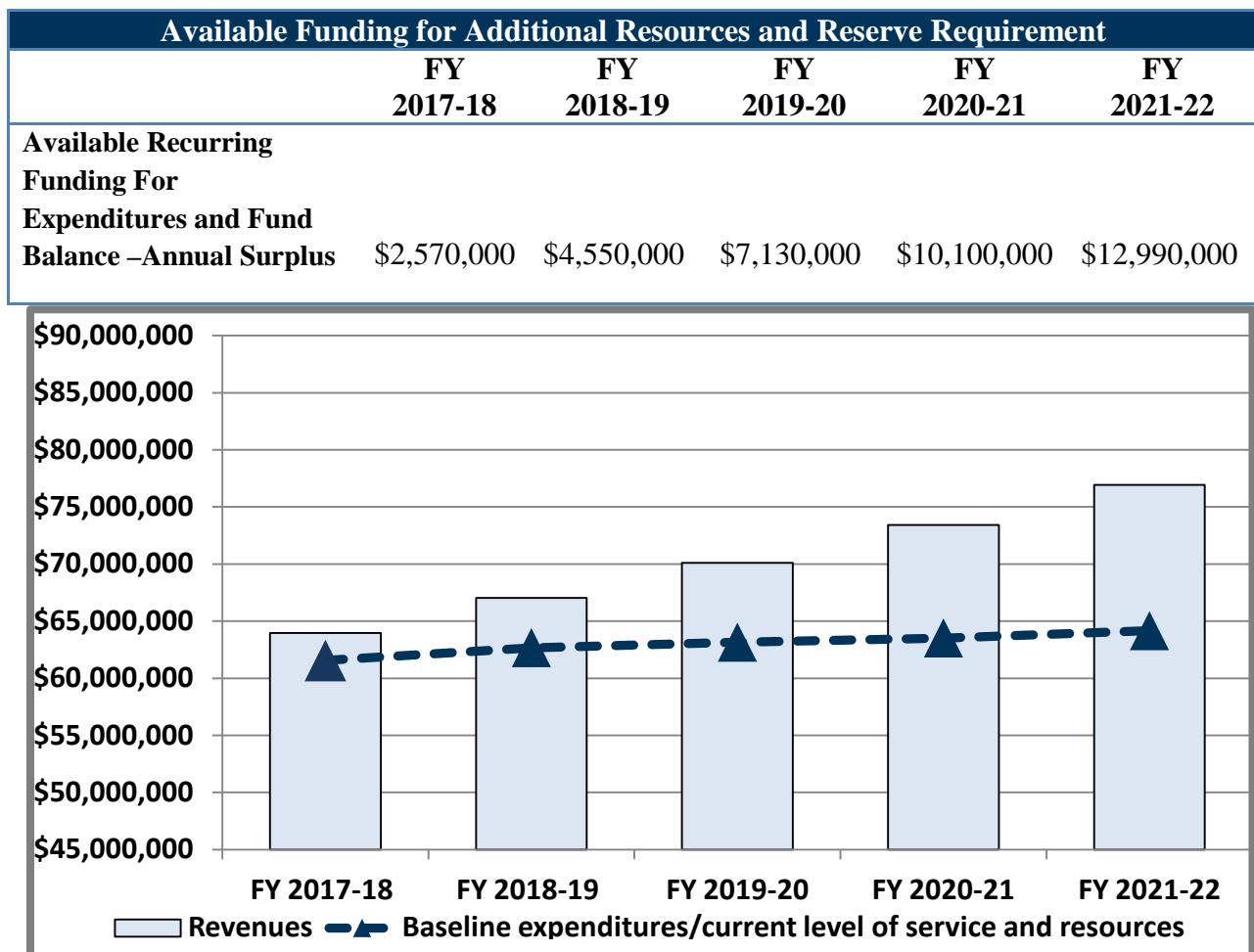
The baseline forecast demonstrates the City's ability to fund current resources at the current service level, support the postponed FY 2016-17 initiatives as well as support the Community Recreation Center expenditures. It also shows that the City has funding available for some identified resource demands to meet the current and increasing demand for municipal services. The following table reflects available funding (revenue minus expenditures) that could be

General Fund Forecast

allocated for additional resources and meeting reserve requirements throughout the forecast period.

The figures in the table and graph below represent the funds available throughout the forecast period each year after revenue projections are subtracted from the baseline expenditures. 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.

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. 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). This means, in actuality, that every \$1.00 in recurring expenditure(s) added to the General Fund requires \$1.30 in funding to satisfy the current reserve requirement.



Fund Balance Considerations

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 2017-18 will reduce the fund balance and surplus throughout the remainder of the forecast period.*** In fact, every dollar committed for new recurring expenditures in FY 2016-17 reduces the funds by a \$1.30 in the year it's spent (\$1 for the expenditure and 30 cents for the fund balance requirement). In addition, that additional dollar must be spent each year thereafter, reducing available funds in all those years as well. The forecast that includes funding for all current resource demands shows a different result. This second General Fund forecast shows a deficit of approximately \$2.7 million which grows to \$19.1 million by the end of the five year forecast period.

Resource Demands Forecast

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.

General Fund Forecast

General Fund Forecast -Resource Demands

	FY 2017-18 Projected	FY 2018-19 Projected	FY 2019-20 Projected	FY 2020-21 Projected	FY 2021-22 Projected
Beginning Fund Balance (adjusted)	17,863,641	16,602,711	14,732,851	12,047,612	8,888,929
Total General Fund Revenue	64,133,534	67,221,932	70,276,226	73,623,495	77,142,647
Total Available Funds	81,997,175	83,824,643	85,009,077	85,671,107	86,031,575
Total <u>Baseline</u> General Fund Expenditures	61,562,391	62,669,273	63,148,182	63,519,206	64,155,596
Adjusted baseline expenditures - Includes impact from <u>RECURRING</u> additional expenditures	61,562,391	65,413,439	68,449,947	72,178,784	76,236,022
Additional Annual Expenditures					
Market Adjustments					
Non-Uniform Employees	310,000				
Uniformed Personnel	950,000	950,000			
Uniformed Personnel					
Step Plan/Cost of Living Adjustments	150,000	150,000	856,486	874,481	900,715
Non Uniform Personnel					
Pay for Performance increases/Cost of Living Adjustments	370,540	465,065	479,017	493,387	508,189
Police Officers	Staffing	353,466	364,070	374,992	386,242
	Equipment	419,320	432,109	444,813	455,934
Address current unmet needs - positions	610,160	628,465	647,319	666,738	686,740
Operating expenditures from CIP/Bond projects					
Fire Station #7 Operations			1,000,000	1,000,000	1,000,000
Sports Complex					250,000
Address current unmet needs - One time capital and initiatives	668,587	688,645	708,891	726,613	743,689
Total - Additional Annual Expenditures	3,832,073	3,678,353	4,511,518	4,603,395	4,953,810
Total Expenditures - Adjusted for Additional Expenditures	65,394,464	69,091,792	72,961,465	76,782,179	81,189,831
Ending Fund Balance	16,602,711	14,732,851	12,047,612	8,888,929	4,841,744
Target Fund Balance - 30%	19,291,967	20,391,311	21,542,328	22,679,889	23,993,848
Fund Balance deficit	(2,689,256)	(5,658,460)	(9,494,716)	(13,790,961)	(19,152,104)

Resource Demands Forecast- Discussion and Analysis

The previous forecast projected baseline expenditures and assumed no change in service levels or resources throughout the forecast period. The Resource Demands forecast on the previous page reflects the cost of current identified resource needs to provide existing levels of service during the next five years. This forecast does not account for increased demands on municipal services, only those resources and needs that have been identified and quantified to an extent to meet current service levels.

During the forecast period, additional needs will be identified as service demands continue to increase. Once those needs are identified, they will begin to be recognized in the forecast and budget development process. *This forecast is not a policy or budget recommendation.* It 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 all the baseline expenditures included in that forecast and schedule (described above). In addition, expenditures associated with these 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 the included expenditures is described in greater detail. Many of these initiatives are also described in the Strategic Issues section of this document.

- Market Adjustments/maintaining market competitiveness
- Step plan/ cost of living adjustments
- Police staffing
- All other departments staffing – current identified unmet needs
- Resources to staff and operate completed capital improvement projects
- Initiatives with one-time costs – current identified unmet needs

Fund Balance – The financial policies currently adopted by City Council require a minimum of 25 percent as the fund balance requirement in the General Fund. 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).

The current unmet/identified resource needs, shown in the schedule on the previous page, shows a deficit in fund balance throughout the forecast period. In FY 2017-18, the fund balance deficit is \$2,841,000 and it grows to \$20,055,000 by the end of the fifth year. This deficit is driven

General Fund Forecast

entirely by the additional expenditures projected for staffing, salary adjustments, equipment and other capital expenditures. Each of these initiatives are described in more detail below.

As stated, the forecast on the previous pages is a recognition and inclusion of all costs associated with current/identified resource needs by the organization, an estimated cost associated with the recent market data analysis as well as annual step plan/cost of living adjustments, estimated resources to operate/maintain capital improvement projects scheduled to come online during the forecast period and estimated one-time equipment/initiative resource needs associated with General Fund departments. This forecast is not a policy or budget recommendation. However, this section does represent the five year fiscal impact of the previously mentioned initiatives, as well as indicate the affordability potential to any new initiative should they be recommended.

The following paragraphs briefly explain the assumptions and nature of the additional expenditures included in the Resource Needs forecast.

Market Adjustments

A market salary analysis had not been completed since FY 2013-14. As discussed during the budget process, staff conducted an update to that study this fiscal year (FY 2016-17). Moreover, City Council approved the list of benchmark cities to conduct that analysis from. The results of that analysis are summarized below as well as a comparison to the results from FY 2013-14

	Average % below market FY 2013-14	Average % below market FY 2016-17
Non-Uniform Employees	14.8%	6.2%
Police – Uniform	17.6%	8.2%
Fire – Uniform	22.3%	6.5%

The implementation of the compensation adjustments stemming from the FY 2013-14 study and updated pay plans were implemented over a three year period as the total cost exceeded \$4,000,000. When analyzing the current data (FY 2016-17 results above), it does suggest that our delta between current pay and market averages represent three years of 2-3 percent annual cost of living adjustments that other cities were likely providing during that time period.

The cost to implement the market adjustments is still being finalized. However, the projected costs included in the forecast schedule are \$2,210,000 (\$310,000 for non-uniform personnel and \$1,900,000 for uniform personnel).

Step Plan/Performance Pay Increases/Maintaining Market Competitiveness

Annual step plan implementation, and potential cost of living compensation increases (maintaining market competitiveness) are also included in the forecast as additional expenditures throughout the forecast period. Uniform personnel are on an annual step plan. It is important to note that step up costs are only deferrable (as long as the current plan is in place), not avoidable as they are based on time in position. There is no cost of living adjustment included for uniform personnel until the market adjustments are fully implemented (FY 2019-20). However, funding for non-uniform cost of living adjustments are included as not all non-uniform employees are entitled to a market adjustment. This is also why the cost of the market adjustment implementation is more costly for uniformed personnel when compared to non-uniform personnel.

Total Employee Compensation in FY 2017-18 - as mentioned in the Self Insurance Fund section of the document, an overly conservative approach to that fund's budget will be essential in FY 2017-18. It is likely that additional and more impactful changes to the plan will be necessary to ensure solvency of the insurance program. Therefore, ensuring that the City maintains a competitive compensation package for recruitment and retention purposes (salary, benefits, healthcare, etc.) in FY 2017-18 is a high priority but will be challenging.

Police Staffing – Current Identified Unmet Need

The Center for Public Safety Management (CPSM) is still finalizing the staffing and deployment analysis. Unfortunately, those results will not be available for incorporation into the five year forecast. Therefore, an additional twenty-five officers are projected to be added over the forecast period (five each year).

Other Departments Staffing – Current Identified Unmet Needs

Fifty-three positions were requested to meet current service demands during the FY 2016-17 budget process, all of which are currently unfunded. These positions were requested across all General Fund departments and include positions such as but not limited to: Engineering Technician, EMS Lieutenant, GIS Technician, Floodplain Manager, Special Event Supervisor and a Library Technician. For planning purposes, the addition of these 53 positions are projected to occur over a five year period (13 hired each year), from FY 2017-18 to FY 2021-22. A complete list of unmet needs can be found on pages 87-98 of the FY 2016-17 Adopted Budget document.

It is important to note that these position needs have been identified to meet current service levels. As mentioned earlier, increasing service demands will impact position needs throughout the forecast period as they are identified.

General Fund Forecast

It is difficult to determine if all the current position needs will ever be authorized and funded due to affordability. During the FY 2017-18 budget process, departments have been tasked with exploring alternative service delivery methods in an effort to satisfy needs without the requirement of additional personnel.

New Positions for FY 2017-18 – The dramatic increases in health insurance costs have been well documented over the past two fiscal years. To maintain solvency, increases to premiums, employer contributions, plan modifications and interfund transfers have been necessary. The Self Insurance Fund and health insurance program must be conservatively budgeted in FY 2017-18 to avoid transfers for a third consecutive year. One of the ways to avoid increases in costs is to limit the new positions added to the organization. Currently, every additional employee increases the covered lives by 2.1 individuals. Therefore, either not adding additional personnel to the organization or only adding service critical positions could be a budget strategy to consider in FY 2017-18.

Resources to Staff and Operate Completed Capital Improvement Projects (bond funded and others)

Funding is recognized in the forecast schedule to staff and operate Fire Station #7. The study by CPSM has recommended multiple funding and deployment options for this new station. However, the forecast schedule builds in a conservative fully staffed heavy house, which includes two pieces of apparatus and a medic unit. Once fully operational, this station could cost up to \$3,000,000 annually.

The 2013 Bond Program included land acquisition for a future sports complex. The NBIDC is moving forward with a strategy to fund various capital improvement projects that are tied to economic development and quality of life. The NBIDC highest ranked project is the construction of the sports complex. While the details surrounding operation and maintenance and fiscal impact of a sports complex have not been developed, \$250,000 has been added to the forecast in FY 2021-22 to serve as a placeholder while analysis/feasibility continues on the project.

One-time Costs – Current Identified Unmet Needs

Various non-personnel, non-equipment initiatives were identified by General Fund departments during the FY 2016-17 Budget process. A complete list of unmet needs can be found on pages 87-98 of the FY 2016-17 Adopted Budget document. 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.

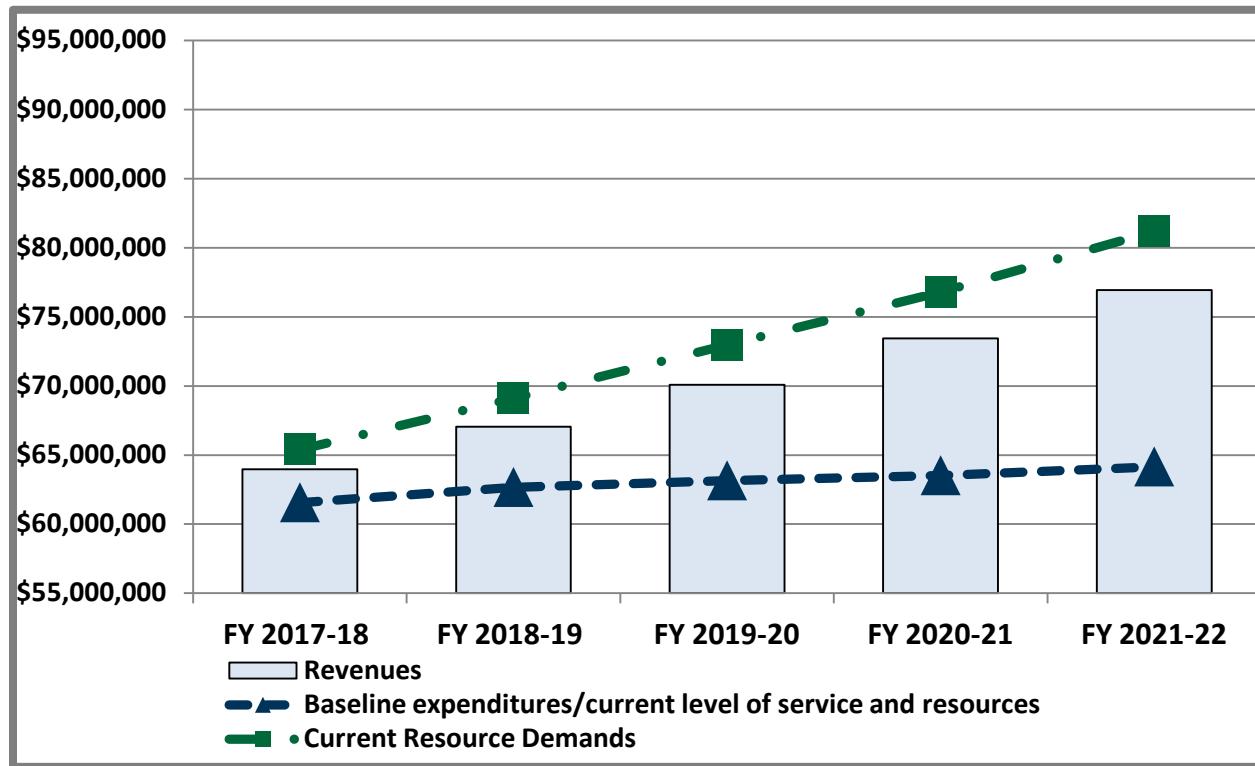
General Fund –Baseline and Resource Demands Forecast Projections

The graph below compares the two General Fund forecasts – the one that reflects only baseline expenditures (current service levels), and the projected fiscal impact of including all additional

General Fund Forecast

expenditures described in this section. The forecast illustrates that the City should be able to fund the existing resources that provide current service levels without increases in fees or property tax rates throughout the forecast period. In fact, funding is projected to be available to pay for some *but not nearly all* of the identified unmet needs – personnel, compensation adjustments and capital/equipment.

These unmet current needs, the compensation adjustments and the additional resources expected to be needed to meet current demands for service cannot be funded solely with growth from current revenue streams and sources. The City Council retreats and budget process allow for the CMO and City Council to strategize and prioritize on the use of available funds to address recurring and one time resource needs.



Debt Service Fund Forecast

The City of New Braunfels issues bonds and certificates of obligation to fund needed capital improvement projects such as streets and drainage improvements, park improvements, library and fire station construction and other major projects including the 2013 bond projects. The Debt Service Fund is used to account for expenditures related to the principal and interest payments for all of the City's outstanding debt – tax notes, certificates of obligation and general obligation bonds. The Debt Service Fund forecast reflects the projected fiscal impact to the fund of the City's existing annual debt service expenditures (principal and interest on all outstanding debt) based on the following assumptions.

- In the current tax rate schedule, the property tax rate to support debt service remains at the current rate of 22.0151 cents per \$100 of valuation throughout the forecast period. The only exception is that in FY 2017-18 the I&S tax rate actually goes down as a result of not issuing debt in FY 2016-17. The total tax rate would remain the same (49.823 cents), the O&M portion of the rate would go up an equal amount for one year to support one time needs in FY 2017-18.
- After cash flow analysis of the upcoming 2013 bond projects, staff determined there are sufficient bond proceeds to move the projects forward at their current schedule without a debt issuance in FY 2016-17.
- Property tax revenue grows at 10 percent in FY 2017-18 and 6.6 percent throughout the remainder of the forecast period (FY 2018-19 to FY 2021-22).
- Other funds' support of debt service (Solid Waste, Airport, Hotel/Motel Tax and New Braunfels Industrial Development Corporation) remains at the current levels.
- The Golf Course Debt Service is absorbed by current I&S tax revenues beginning in FY 2017-18 and continuing on throughout the forecast period.
- No debt refundings occur that would reduce the annual debt service requirement.
- No additional certificates of obligation are issued during the forecast period
- The full remaining debt service commitment for the \$86 million in voter approved general obligation bonds will occur as follows.

FY 2013-14	\$14.50 million
FY 2014-15	\$15.29 million
FY 2015-16	\$28.15 million
FY 2016-17	N/A
<i>FY 2017-18</i>	<i>\$28.06 million</i>

- The remaining general obligation bonds are assumed to have a 20 year term with interest rates assumptions of 4.5 percent in FY 2017-18

As the current tax rate schedule shows, based on the assumptions delineated above, the current tax rate can support some but not all of the additional debt service from the planned debt issuances can be met by growth in existing and new property values. The forecast also shows

Debt Service Fund Forecast

that the Debt Service Fund at the current tax rate cannot support the issuance of any other type of debt instrument to fund capital improvement projects.

The current tax rate schedule on the following page assumes the tax rate remains the same throughout the forecast period. The only exception to this is in FY 2017-18, as the rate actually decreases as a result of no debt issuance occurring this fiscal year (FY 2016-17). In FY 2018-19, the rate is adjusted back to the current total of 22.0151 cents.

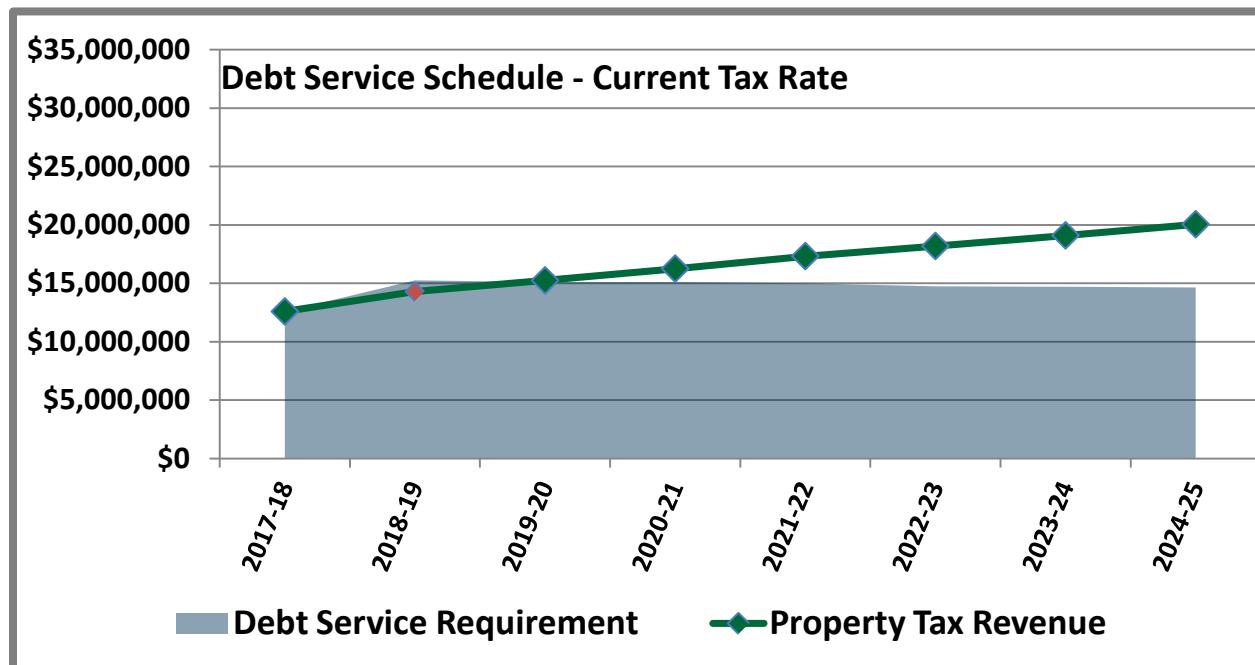
As can be seen, the Debt Service Fund is projected to be in a deficit spending position in FY 2018-19. The financial position improves in the following year; however this assumes continued growth in assessed valuation and no additional debt issuances occurring. The fund balance is also drawn down significantly from the beginning of FY 2018-19 to the end of FY 2019-20. Revenues and expenditures are essentially equal in FY 2017-18. This is driven by the reduction in the I&S tax rate (only for FY 2017-18) to align property tax revenue with debt service needs. The graph following the current tax rate schedule illustrates the projected revenue in the Debt Service Fund as well as the anticipated debt service payments (expenditures) over the forecast period should the debt service portion of the tax rate remain unchanged.

Debt Service Fund Forecast

Debt Service Fund Forecast - Current Tax Rate

Available Funds	FY 2017-18 Projected	FY 2018-19 Projected	FY 2019-20 Projected	FY 2020-21 Projected	FY 2021-22 Projected
Beginning Fund Balance	\$ 1,664,171	\$ 1,670,827	\$ 731,355	\$ 871,811	\$ 2,030,230
Revenue					
Taxes	\$ 12,584,178	\$ 14,300,616	\$ 15,244,457	\$ 16,250,591	\$ 17,323,130
Interest Income	6,657	5,990	4,759	10,047	25,614
Contributions	1,384,115	1,140,188	1,145,388	1,153,563	1,153,563
Interfund Transfers	963,861	978,482	978,526	984,726	984,726
Total Revenue	\$ 14,938,811	\$ 16,425,277	\$ 17,373,130	\$ 18,398,927	\$ 19,487,033
TOTAL AVAILABLE FUNDS	\$ 16,602,982	\$ 18,096,104	\$ 18,104,486	\$ 19,270,738	\$ 21,517,263
Appropriations					
Debt Service	\$ 14,932,154	\$ 17,364,749	\$ 17,232,675	\$ 17,240,508	\$ 17,076,878
TOTAL OPERATING APPROPRIATIONS	\$ 14,932,154	\$ 17,364,749	\$ 17,232,675	\$ 17,240,508	\$ 17,076,878
Ending Fund Balance	\$ 1,670,827	\$ 731,355	\$ 871,811	\$ 2,030,230	\$ 4,440,385
TOTAL APPROPRIATIONS	\$ 16,602,982	\$ 18,096,104	\$ 18,104,486	\$ 19,270,738	\$ 21,517,263

Debt Service Fund Forecast



The debt service portion of the City's property tax rate in FY 2016-17 is 22.0151 cents. This rate is established to meet the City's annual debt service commitment that is supported by property taxes (principal and interest payments on outstanding debt) for the current fiscal year. As the graph above illustrates, in FY 2018-19, the current tax rate is not sufficient to fund the projected annual debt service requirements for existing debt as well as the remaining planned debt issuances. However, beginning in FY 2020-21, the City gains some "debt capacity." Debt service capacity is created when a debt issue (one year's certificates of obligation for example) is completely repaid, allowing the City to issue additional debt without requiring a tax rate increase or an increase in valuation (creating additional revenues to support new debt issuances). Until capacity becomes available, funds for additional capital improvement projects will have to come from new tax revenue and/or alternative funding sources.

During the development of the 2013 bond program, the Citizens Bond Committee, City Council and the citizens were informed that the tax rate increase needed to support the \$86 million dollars in debt issuances was estimated to be 8.8 cents over a five year period. This assumed annual average growth in property values of 3.0 percent. In FY 2014-15, the City Council authorized an additional \$5.5 million in Certificates of Obligation to proceed with the renovation of the City Hall complex. At that time, staff presented Council with an updated tax rate projection of 6.02 cents inclusive of City Hall renovation funds. Moreover, \$1.255 million in limited tax notes were issued at the end of FY 2014-15 to address various critical equipment and technology related needs (\$92.8 million in total). The initial 3.0 percent projection in property values was based on the pace of the economic recovery in 2012. Prior to that analysis by City staff and the 2013 Bond Committee, the City had only seen property value increases of 2.2 percent (tax year 2011) and

Debt Service Fund Forecast

3.7 percent (tax year 2012). Fortunately, property values have increased at a much higher rate than three percent - driven by increases in new property as well as increases in existing residential and commercial properties. This is the sole reason that the tax rate projection continues to decrease year after year.

Based on more current data regarding property values and updated projections for property growth, the revised estimated impact of the bond program is 1.45 cents. *This updated figure is an estimate based on a set of assumptions, the actual impact will change based on actual net taxable assessed property valuation figures as well as projected collections rate(s).* This new estimate is based on projections of property tax revenue growth of 10 percent in FY 2017-18 and 6.6 percent throughout the remainder of the forecast period. This also assumes that the golf course debt service (\$485,000 annually) is absorbed by the I&S rate beginning in FY 2016-17 and continuing throughout the forecast period. If property values increase at a different rate than what is projected in this forecast, the tax rate change needed to fund the \$86 million dollars in general obligation bonds as well as the City Hall related debt obligation and the tax note annual payment(s) will be different than the 1.45 cents reflected below.

Tax rate requirement projections					
2013 Bond Program	City Hall CO's	2015 Tax Notes			
FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	Total
Projected Incremental Tax Increase	0.0 ¢	0.00 ¢	0.0.¢	(1.36) ¢	2.82 ¢ 1.45 ¢
Issuance Assumptions	\$14,500,000	\$22,080,000	\$28,150,000	\$0	\$28,060,000 \$92,790,000

As mentioned earlier, with no debt issuance occurring in FY 2016-17, a portion of the I&S rate will shift to the General Fund in FY 2017-18 to support one time expenditures and initiatives. In FY 2018-19, that same portion would shift back to the I&S rate to support the debt service commitment stemming from the final 2013 debt issuance.

Debt Service Fund Forecast

The adjusted tax rate schedule below represents the financial position of the Debt Service Fund if the tax rate is adjusted throughout the forecast period as the bonds are issued based on the table above.

Debt Service Fund Forecast - Adjusted Tax Rate

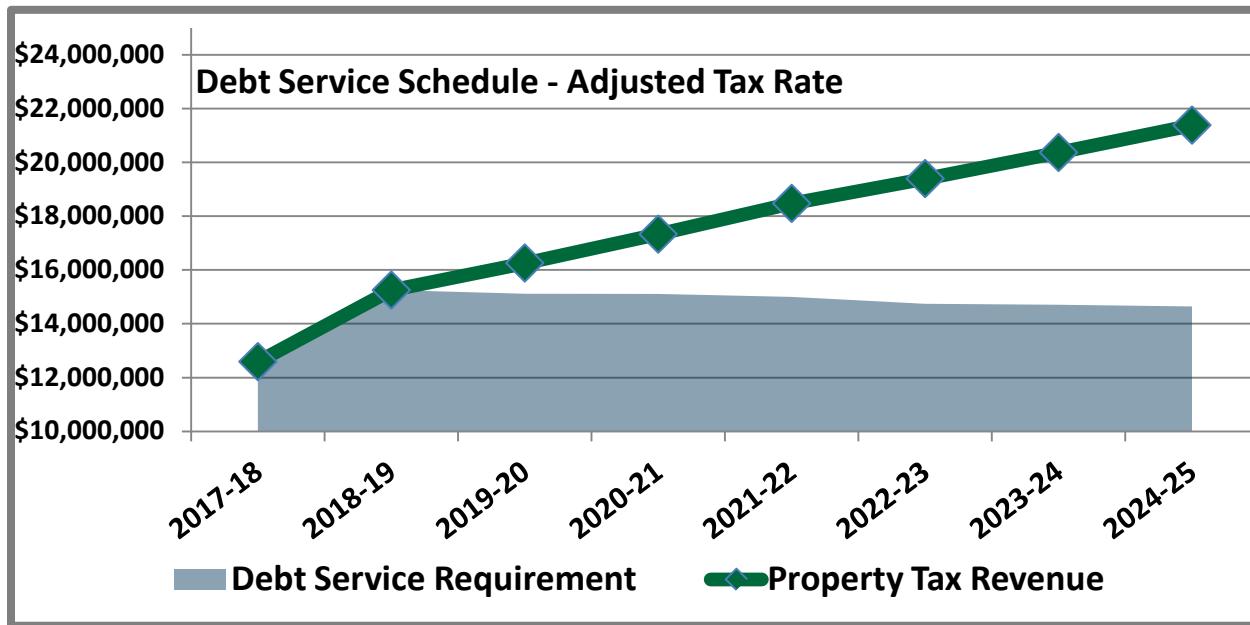
	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Available Funds	Projected	Projected	Projected	Projected	Projected
Beginning Fund Balance	\$ 1,664,171	\$ 1,670,827	\$ 1,678,745	\$ 2,835,235	\$ 5,084,858
Revenue					
Taxes	\$ 12,584,178	\$ 15,246,079	\$ 16,252,320	\$ 17,324,973	\$ 18,468,421
Interest Income	6,657	7,917	12,931	26,869	53,717
Contributions	1,384,115	1,140,188	1,145,388	1,153,563	1,153,563
Interfund Transfers	963,861	978,482	978,526	984,726	984,726
Total Revenue	\$ 14,938,811	\$ 17,372,666	\$ 18,389,165	\$ 19,490,131	\$ 20,660,428
TOTAL AVAILABLE FUNDS	\$ 16,602,982	\$ 19,043,493	\$ 20,067,910	\$ 22,325,366	\$ 25,745,286
Appropriations					
Debt Service	\$ 14,932,154	\$ 17,364,749	\$ 17,232,675	\$ 17,240,508	\$ 17,076,878
TOTAL OPERATING APPROPRIATIONS	\$ 14,932,154	\$ 17,364,749	\$ 17,232,675	\$ 17,240,508	\$ 17,076,878
Ending Fund Balance	\$ 1,670,827	\$ 1,678,745	\$ 2,835,235	\$ 5,084,858	\$ 8,668,408
TOTAL APPROPRIATIONS	\$ 16,602,982	\$ 19,043,493	\$ 20,067,910	\$ 22,325,366	\$ 25,745,286

The graph on the following page illustrates the anticipated debt service payments (expenditures) as well as projected revenue in the Debt Service Fund over the forecast period should the debt service portion of the tax rate be increased at the rate the forecast shows would be needed to meet existing and general obligation bond debt service requirements. In addition, the graph below illustrates debt capacity growth beginning in **FY 2019-20**. This capacity would provide City Council the option to issue debt at no tax rate impact to address unfunded capital

Debt Service Fund Forecast

improvement projects such as the Public Works/Fire Training Facility and a future bond program.

It is important to remember that none of the charts and graphs includes the issuance of any new debt during the forecast period other than the general obligation bonds for the bond program. As discussed in the strategic issues section of this document, the City has a significant amount of unfunded identified capital improvement projects, even after the \$86 million in bond projects are completed. These unfunded projects are not addressed in the forecast assumptions or analysis.



Debt Capacity/Capital Improvement Plan

The City Council has expressed the need to begin planning efforts for a future bond program. There are multiple factors to consider and analyze prior to embarking on the development of a new bond program. The following narrative addresses three of those factors: debt capacity, alternative funding sources and timeline.

Staff has completed analysis regarding the debt capacity that begins to realize in FY 2019-20. The amount of capacity from FY 2019-20 to FY 2024-25 is \$87,000,000 should the tax rate be adjusted to support the annual debt service commitment(s). Alternative funding sources have been recommended to support additional identified capital investment such as a stormwater utility fee. If a Stormwater Utility Fee was implemented to support new capital infrastructure, an additional \$27,500,000 in drainage related projects could be supported. A summary table of various potential funding sources is included below:

Funding Source	Project Type and Restriction
Ad Valorem Property Tax Revenues	All Project types

Debt Service Fund Forecast

Funding Source	Project Type and Restriction
NBIDC sales tax revenues	Quality of life, Economic Development
Roadway Impact Fees	Street Improvements - limited funding
Hotel/Motel Taxes	Very limited - direct connection to overnight visitation required
Tax Increment Reinvestment Zone	Economic Development and Public Infrastructure within the TIRZ boundary
Stormwater Utility Fee	Drainage and flood control related capital investments

Scheduling the bond program planning process as well as the eventual election should align with both capacity and the conclusion of the current 2013 bond projects. A draft timeline that incorporates capital improvement related milestones from now until the next bond is included below. In addition, the construction of the public works fire training facility and redevelopment of the South Casteel area is incorporated into the draft timeline.

Debt Service Fund Forecast

Dates	Milestone/Event
2017 Dates	
April-September	<ul style="list-style-type: none"> • Solms-Morningside-Rueckle begins construction • Klein Road begins construction • Alves Lane begins construction
August	<ul style="list-style-type: none"> • Bond Advisory Committee (BAC) appointments
October	<ul style="list-style-type: none"> • Initial BAC Meeting held (meetings held every 2-4 weeks from this point)
October	<ul style="list-style-type: none"> • Final design for Castell Ave complete
2018 Dates	
January	<ul style="list-style-type: none"> • NBU/City work begins on Castell Ave
March	<ul style="list-style-type: none"> • BAC makes recommendation to City Council on bond projects to consider for next election
April	<ul style="list-style-type: none"> • City Council authorizes reimbursement resolution for Certificates of Obligation to be issued in FY 2018-19 to complete the following two projects <ul style="list-style-type: none"> • Public Works – Fire Training Center (funded by I&S property taxes and Solid Waste Rates) • Preliminary Engineering Reports (PER) on all potential bond projects
May – July	<ul style="list-style-type: none"> • Community Recreation Center – Construction Completed
June	<ul style="list-style-type: none"> • Firms selected to complete PER on bond projects
June	<ul style="list-style-type: none"> • Final 2013 bond issuance completed - \$28,060,000
June	<ul style="list-style-type: none"> • RFQ/RFP for South Castell Master Plan (SCMP) solicitation creation begins with consultant
October	<ul style="list-style-type: none"> • Construction begins on Public Works Fire Training Center
October	<ul style="list-style-type: none"> • Update on Castell Ave to City Council
November	<ul style="list-style-type: none"> • Bond committee makes final recommendation to City Council for proposition and individual project totals based on PER findings and inflationary assumptions.
2019 Dates	
January	<ul style="list-style-type: none"> • RFQ draft solicitations complete and approved for SCMP
January	<ul style="list-style-type: none"> • City Council Authorized Bond Election for May
February – April	<ul style="list-style-type: none"> • RFQ Solicitation Period for SCMP.
May	<ul style="list-style-type: none"> • Bond Election held
May	<ul style="list-style-type: none"> • RFQs reviewed and developers shortlisted for SCMP.
April – September	<ul style="list-style-type: none"> • Solms Morningside-Rueckle construction completed • Klein Road construction completed • Alves Lane construction completed
July	<ul style="list-style-type: none"> • RFPs circulated (60 days) for SCMP.
July	<ul style="list-style-type: none"> • 2019 Certificates of Obligation issued – stem from reimbursement resolution approved in April 2018 for PW-FT center and 2019 bond project PER
September	<ul style="list-style-type: none"> • RFPs received, evaluated for SCMP.
October	<ul style="list-style-type: none"> • Developer Selection Notification for SCMP.
November	<ul style="list-style-type: none"> • Development Agreement Negotiations Commence for SCMP.

Debt Service Fund Forecast

2020 Dates	
May	Development Agreement Negotiations Complete for SCMP.
July	• City Council Approval of Development Agreement for SCMP.
August	• Notice to Proceed Issued for SCMP.
August	• Public Works-Fire Training Center construction completed
September	• Construction Begins for SCMP..

Equipment Replacement Fund

Equipment Replacement Program

The Equipment Replacement Fund is used to fund and purchase light vehicles, computer equipment and self-contained breathing apparatus for any function/fund that is supported by the General Fund. City Council established the equipment replacement program in FY 2005-06 to create a funding source for light vehicle and certain technology equipment replacements that would smooth out the funding requirements for this equipment while ensuring replacement according to established criteria. The program also supports the Fire Department's self-contained breathing apparatus (SCBA). Heavy equipment such as fire apparatus, ambulances, street sweepers and loaders, are not included in the program. The City's enterprise funds' equipment replacement program is accounted for in a separate fund. The criteria were set to provide reliable equipment for staff use and reduce the lifetime maintenance and repair costs. Until FY 2013-14, the City directed annual appropriations to the fund based on established standards for vehicles' and technology equipment's useful life. The Council initially set the standard of 85,000 miles or six years (whichever occurred first) for all vehicles. This formula was originally established with the intent of re-evaluating the criteria once sufficient data was available. In FY 2011-12, the criteria for replacement changed to 85,000 miles or *8 years* with one exception. Police pursuit vehicles are replaced at either *6, 7 or 8 years* due to intensive use specific to these vehicles. This change was based on the positive experience the City has had with the newer fleet, actual mileage accumulations and the recommendations of the City's Fleet Manager as a result of the improved maintenance program. However, the equipment replacement program was suspended in FY 2013-14 and only partially reinstated the most recent fiscal year. This has led to a situation where there is a large majority of the fleet that have met and/or exceeded replacement criteria. Through this experience, the City has been required to push vehicles beyond the age and mileage thresholds with great success. As a result, the Fleet Manager and Finance Department utilize a calculation that considers age, mileage and maintenance costs. Staff then utilizes those calculations to determine minimum replacement requirements in the next fiscal year. The five year forecast utilizes this analysis to project replacement needs over the forecast period.

Technology equipment – specifically computers – had an original replacement schedule of three years which has since shifted to four years. This is, again, based on the actual experience and useful life of the computers being purchased. However, since FY 2013-14, Information Technology staff has only been replacing computer equipment on an as needed basis, due to the suspension of the program. Even with full reinstatement of the program, Information Technology staff will continue to evaluate the potential to keep equipment in service beyond the four year replacement criteria, as well as alternative hardware solutions that may decrease overall replacement costs.

As noted earlier, in FY 2013-14, the equipment replacement program was suspended as a strategy to develop a structurally balanced budget. This means that no contributions occurred in FY 2013-14 and only very select vehicles and computers were replaced. In FY 2014-15, the

Equipment Replacement Fund

program was only partially reinstated. This allowed for a small number of vehicles to be replaced, all of which were above the age and mileage criteria of the program. In FY 2015-16, no transfer was made to the fund as they were diverted to the Self Insurance Fund. In FY 2016-17, a partial reinstatement continued; however, it is very likely these funds will need to be reallocated to the Self Insurance Fund again. If the program is not fully reinstated at some point, there are risks associated with allowing the fleet and technology inventory to age beyond the recommended useful life. Continuing to replace vehicles without allocating appropriate reserves replacement also challenges the ongoing sustainability of the fund.

The Fire Department's self contained breathing apparatus (SCBA) contribution was not suspended over the past three fiscal years. This equipment was replaced in FY 2015-16. Replacement of this equipment is only required every 15 years.

Equipment Replacement Fund Forecast

The forecast below reflects the projected revenue, expenditures, and fund balance in the Equipment Replacement Fund. For FY 2017-18, the contribution is assumed to be fully reinstated.

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

- Vehicle replacements are projected based on a calculation of three factors: age, mileage, maintenance costs
- Computer equipment is replaced at four years for desktops/laptops and seven years for network equipment (servers, switches, etc.)
- Salvage value estimated at 10 percent of purchase price.
- Annual contributions into the fund continue throughout the forecast period.

Forecast Analysis

As stated, the forecast for the Equipment Replacement Fund assumes that the program is fully reinstated in FY 2017-18 and remains reinstated throughout the forecast period. Fortunately, the forecast shows that the fund will have sufficient resources available to purchase all equipment on schedule. Changes in the criteria and methodology for replacement, low inflation and positive salvage values allow the contributions to only be adjusted for inflation to fund future purchases as opposed to contributing additional funds to makeup from the suspension of the contribution in FY 2013-14 and partial suspensions thereafter. Full reinstatement of the annual contribution to the fund will be a goal for the FY 2017-18 budget. However, this may not be possible when trying to fund the various City Council and City Manager initiatives. Fortunately, the forecast shows that even if the program is only partially reinstated in FY 2017-18, there will be sufficient reserves to support the replacement criteria and schedule previously discussed.

Equipment Replacement Fund

Equipment Replacement Fund Forecast

Available Funds	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
	Estimate	Projected	Projected	Projected	Projected	Projected
Beginning Balance	\$ 2,515,831	\$ 1,153,997	\$ 1,202,759	\$ 1,327,300	\$ 1,426,709	\$ 1,863,870
Revenue						
Interfund Transfers	\$ 65,000	\$ 865,000	\$ 888,520	\$ 909,108	\$ 928,945	\$ 949,247
Miscellaneous	32,000	79,970	74,140	79,365	44,330	73,535
Interest Income	3,666	3,492	3,281	4,586	7,187	13,330
Total Revenue	\$ 100,666	\$ 948,462	\$ 965,941	\$ 993,059	\$ 980,461	\$ 1,036,112
TOTAL AVAILABLE FUNDS	\$ 2,616,497	\$ 2,102,459	\$ 2,168,700	\$ 2,320,359	\$ 2,407,170	\$ 2,899,983
APPROPRIATIONS						
Technology Enhancements/Replacement	\$ 752,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Vehicles						
Infrastructure	113,500	58,300	87,450	116,600	29,150	87,450
Public Safety	540,000	653,950	479,050	385,550	151,800	414,700
Quality of Life	-	87,450	116,600	262,350	204,050	174,900
Growth and Development	57,000		58,300	29,150	58,300	58,300
TOTAL OPERATING APPROPRIATIONS	\$ 1,462,500	\$ 899,700	\$ 841,400	\$ 893,650	\$ 543,300	\$ 835,350
Ending Fund Balance	\$ 1,153,997	\$ 1,202,759	\$ 1,327,300	\$ 1,426,709	\$ 1,863,870	\$ 2,064,633
TOTAL APPROPRIATIONS	\$ 2,616,497	\$ 2,102,459	\$ 2,168,700	\$ 2,320,359	\$ 2,407,170	\$ 2,899,983

Equipment Replacement Fund

Vehicle Replacement

Staff has already completed a first assessment of replacement needs from FY 2017-18 to FY 2021-22. In FY 2017-18, the Fleet Manager currently recommends 22 vehicles for replacement based on age, mileage and service record data; this figure may change prior to the completion of the proposed budget. As mentioned earlier, preventative maintenance efforts and low mileage on many vehicles is creating the opportunity for vehicles to extend beyond the 8 year and 85,000 mile threshold(s). This year, the forecast assumes utilizing the same calculation (age, mileage and maintenance costs) to estimate vehicle replacements through FY 2021-22. These figures will change year after year, however based on low mileage and maintenance costs a large portion of the fleet has the potential to remain in service well beyond the eight year threshold previously set.

Vehicle Replacement Schedule		
Fiscal Year	Number of Vehicles	Approximate Cost
FY 2017-18	22	\$799,700
FY 2018-19	17	741,400
FY 2019-20	23	793,650
FY 2020-21	17	443,300
FY 2021-22	21	735,350
Total	100	\$3,513,400

Technology Equipment

The technology equipment supported by the replacement program includes: desktop computers and laptops, servers, plotters, mobile data terminals for police pursuit vehicles and various other network management related equipment. Like the vehicles, due to positive experience with the useful life of desktop computers, replacement criteria were extended from three to four years. In FY 2016-17, the mobile data terminals (MDT's) that are installed in every police pursuit vehicle were replaced. A detailed forecast of future replacement needs has not been developed. Therefore, \$100,000 annually is included in the forecast. This is likely a realistic and minimum investment that would need to be outlaid to meet replacement needs over the forecast period.

Technology equipment that is in good working condition and capable of performing the necessary processes will likely be kept longer than the four year replacement criteria.

Self Contained Breath Apparatus (SCBA)

As mentioned earlier, the Fire Department's self contained breathing apparatus (SCBA) are supported by the equipment replacement program. The SCBA's were replaced in FY 2015-16. This critical Fire Department life/safety equipment (used by the staff when fighting fires) has a

Equipment Replacement Fund

useful life of fifteen years. Therefore the next potential SCBA complete replacement will likely not be necessary until FY 2030-31.

Expansion of the Equipment Replacement Program

As stated, the equipment replacement program currently does not include heavy equipment – ambulances, fire trucks, Public Works street equipment, or Parks dump trucks. Nor does it include smaller maintenance type equipment like riding lawnmowers and utility vehicles. Funding has not been available to add this equipment to the program. The forecast assumes that this equipment does not become part of the program over the next five years. However, the equipment replacement program strategy is recommended to be applied to heavy equipment as well, as funding becomes available.

Policy Consideration

The Equipment Replacement Fund has been partially suspended since FY 2013-14. Moreover, no contribution for vehicle and technology replacement will have occurred in FY 2015-16 and FY 2016-17 as those budgeted funds will be redirected to the Self Insurance Fund to ensure its solvency. If the program is not fully reinstated by FY 2018-19, the fund will very likely not be able to support the projected replacement needs in the forecast. If the City were to dissolve the Equipment Replacement Program, light vehicles replacements (fleet value of approximately \$6.0 million) and technology equipment (inventory value of approximately \$1.5 million) would be competing annually in the General Fund with addressing unmet needs.

Self Insurance Fund

The Self Insurance Fund is the City's only internal service fund. An internal service fund is utilized to account for the cost associated with providing an internal operation (expenditures) as well as the reimbursement of those costs (revenues).

The Self Insurance Fund of the City of New Braunfels accounts for the employee insurance benefits program. Revenue into the fund comes from contributions/premiums paid by the City, employees and retirees. Expenses include third-party administration, stop/loss insurance premiums and actual claims expenses paid for medical and dental services. Employees must contribute to the cost of coverage for themselves and their dependents for medical, dental and vision.

As mentioned above, the City is self insured for medical and dental insurances provided to employees. This means that the City pays a per employee per month contribution. This contribution is expensed from the General Fund, enterprise funds or any other fund that allocated funding for employee expenditures (i.e. River Activities Fund). In addition, employees and retirees pay premiums into the Self Insurance Fund as well. The fund then uses that revenue to pay actual claims costs, administrative expenses and stop/loss insurance premiums. Stop/loss insurance provides the City limited exposure against individual large claims. Once a claim reaches the stop/loss level, currently \$125,000, the City's Self Insurance Fund no longer pays the claim costs; the stop/loss insurer pays the claim costs.

Since FY 2014-15, the City has experienced a dramatic increase in claim and administrative expenditures. Originally thought to be an anomaly, the recent costs seem to be more reflective of the total costs of providing health insurance benefits to the employees and their dependents. Several variables have led to the increase such as a high frequency of large individual health claims (over \$25,000), overall increased utilization of the health care plan, and a national increase in the cost of health procedures and prescription costs. Significant plan and premium changes were made in FY 2016-17; however, costs continue to remain higher or at the same level as they were in FY 2015-16, the most costly year since the inception of the self insurance fund program.

At the beginning of FY 2016-17, the City enlisted a new benefits consultant, Holmes Murphy. Immediately after the City executed a contract with Holmes Murphy, they were tasked with developing midyear modifications to the plan in an effort to curb costs. Those modifications as well as transferring all budgeted employer contributions (generates an additional \$550,000 in Self Insurance Fund revenue) and reallocation of the General Fund equipment replacement transfer (\$400,000) to the Self Insurance Fund are expected to ensure the fund is structurally balanced at the end of FY 2016-17.

City staff and Holmes Murphy are already working on strategies for FY 2017-18 to not only develop a structurally balanced budget, but also begin to establish a reserve. The Self Insurance Fund had a balance of nearly \$1,000,000 prior to FY 2014-15, all of which was utilized to begin addressing the dramatic increases in costs.

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

- FY 2017-18 revenues (premiums) and expenditures are based on preliminary scenarios that have been developed by City staff and Holmes Murphy
- Retirees will be offered coverage through Texas Municipal League beginning in FY 2017-18
- Beginning in FY 2017-18, claim expenditures and revenues (employee premiums and employer contributions) grow at a rate of 4 percent annually
- The forecast does not account for the new employees being added throughout the forecast period
- From FY 2018-19 through FY 2021-22, modifications to the plan design and offering(s) are not incorporated into the projections

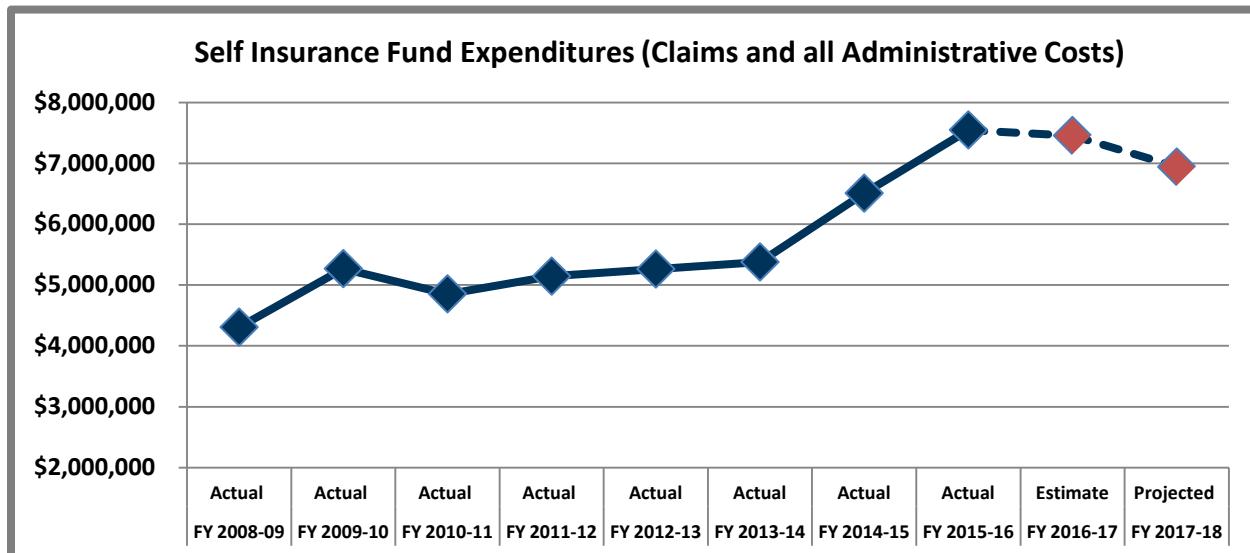
Self Insurance Fund

Self Insurance Fund Forecast - Baseline Expenditures

Available Funds	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
	Estimate	Projected	Projected	Projected	Projected	Projected
Beginning Balance	\$ 90,348	\$ 109,781	\$ 176,781	\$ 246,461	\$ 318,929	\$ 394,294
Revenue						
Premiums - Active	\$ 6,758,355	\$ 7,010,000	\$ 7,290,400	\$ 7,582,016	\$ 7,885,297	\$ 8,200,709
Premiums - Retirees	286,000	-	-	-	-	-
Miscellaneous	30,078	-	-	-	-	-
Interfund Transfers	400,000	-	-	-	-	-
Total Revenue	\$ 7,474,433	\$ 7,010,000	\$ 7,290,400	\$ 7,582,016	\$ 7,885,297	\$ 8,200,709
TOTAL AVAILABLE FUNDS	\$ 7,564,781	\$ 7,119,781	\$ 7,467,181	\$ 7,828,477	\$ 8,204,225	\$ 8,595,003
APPROPRIATIONS						
Premiums and Administrative Expenditures	\$ 7,455,000	\$ 6,943,000	\$ 7,220,720	\$ 7,509,549	\$ 7,809,931	\$ 8,122,328
TOTAL OPERATING APPROPRIATIONS	\$ 7,455,000	\$ 6,943,000	\$ 7,220,720	\$ 7,509,549	\$ 7,809,931	\$ 8,122,328
Ending Fund Balance	\$ 109,781	\$ 176,781	\$ 246,461	\$ 318,929	\$ 394,294	\$ 472,675
TOTAL APPROPRIATIONS	\$ 7,564,781	\$ 7,119,781	\$ 7,467,181	\$ 7,828,477	\$ 8,204,225	\$ 8,595,003

History – Health Insurance Costs

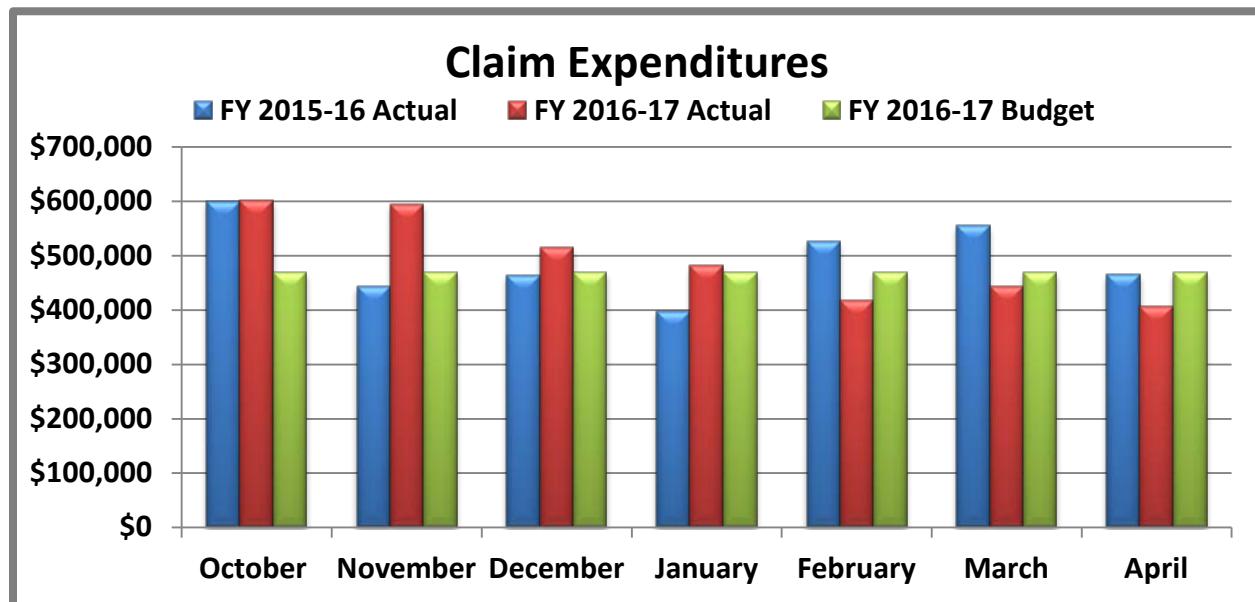
The graph below provides a more in depth look at how health insurance costs have fluctuated for the City of New Braunfels since FY 2008-09.



From FY 2010-11 to FY 2013-14, health insurance costs escalated at a very manageable rate. The increase was right in line with inflation and the impact of new employees added to the organization. The City was able to manage these minimal increases with minor plan design changes and incremental premium increases to the employee.

As mentioned earlier, the City's overall health insurance program costs have increased significantly since FY 2014-15. When developing the FY 2015-16 budget, the City was advised that the spike in FY 2014-15 was likely an anomaly and to expect costs to go down in FY 2015-16. Unfortunately, the opposite happened and costs grew at an even higher rate. Through interfund transfers, the City was able to balance the fund at the end of FY 2015-16. When developing the FY 2016-17 budget major changes were made to both premiums and plan design. The City increased the annual per employee contribution by approximately 15 percent from \$7,904 to \$9,010. Employee premiums were increased by 20 percent across the board. In addition, plan design changes affecting co-pays, deductibles as well as adjustments to coverage for various medical procedures and prescriptions. These changes were projected to bring revenues and expenditures back in line in FY 2016-17.

In FY 2016-17, claim expenditures are slightly higher through the month of March, as can be seen in the graph below. From October-January, costs were significantly higher when compared to the prior year, partially driven by an overflow of costs for claims incurred in the prior plan year. There has also been a continued increase in large claims (above \$25,000). The data for February – April look promising, showing a decrease in expenditures in comparison to the prior year as well as within the monthly budget (straight-line) allocation for claim costs.



FY 2017-18

While the more recent monthly data looks promising and reflective of the plan design changes made, the approach to developing the FY 2017-18 Budget should be overly conservative to ensure not only that we avoid additional interfund transfers next fiscal year, but that we begin to rebuild a reserve in the Self Insurance Fund. Below is a list of the strategies being considered to ensure the FY 2017-18 budget is structurally balanced.

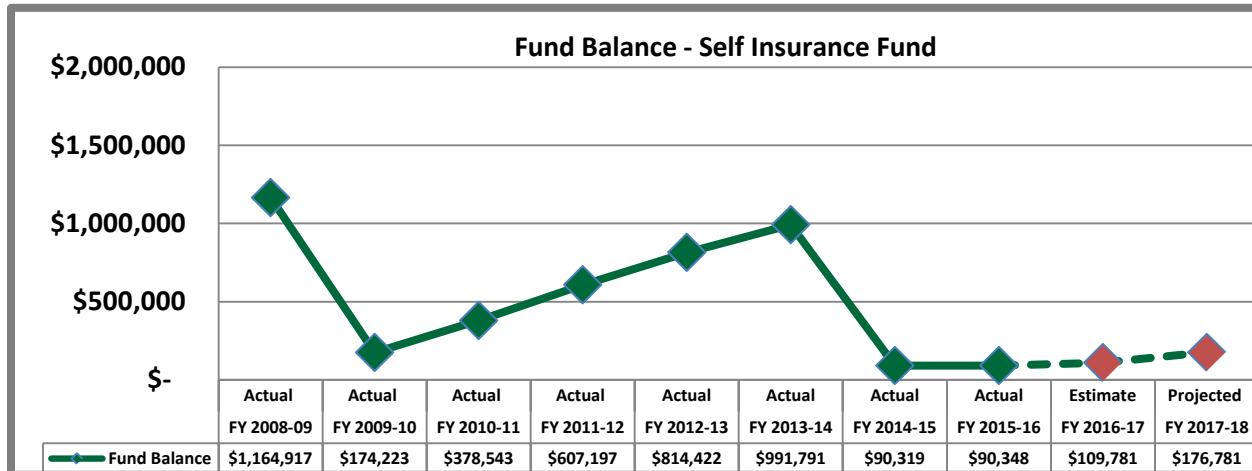
- Referenced based pricing
- Removal of out of network coverage – *already implemented*
- Price transparency tool
- Retirees offered health insurance coverage through Texas Municipal League (TML)
- Increases to deductibles, out of pocket maximums and co-insurance rates
- Premium increases

Unless the projections for FY 2016-17 and FY 2017-18 change, the modifications necessary for next year could be more impactful than in years past. The health insurance program is and continues to be one of the most attractive benefits to working at the City of New Braunfels. Therefore, the City has and should continue to strive to balance compensation increases and premium increases in a way that employees do not see a reduction in their take home pay.

As the graph(s) above illustrate, health care costs are difficult to forecast. To be prepared to respond to these sudden increases in costs, a healthy fund balance (reserve) is critical. The graph on following page illustrates the fluctuation to the fund balance since FY 2008-09.

Fund Balance

The fund balance was drawn down in response to the two years in which health care costs spiked (FY 2009-10 and FY 2014-15). After FY 2009-10, the fund balance was reestablished both with interfund transfers from the General Fund in FY 2010-11 (\$500,000) and FY 2011-12 (\$400,000) as well as manageable health insurance costs in the following four fiscal years. As mentioned before, interfund transfers have been necessary to keep the fund solvent for the past three fiscal years; therefore there hasn't been an opportunity to rebuild reserves to this point.



The fund balance (reserves) should be anywhere from 60 to 90 days worth of claims, which equates to a range of \$1,000,000 to \$1,500,000. The rate at which and the funding source for rebuilding the reserves is a policy decision. As can be seen in the forecast as the fund balance grows slowly thru the period (\$472,675 in FY 2021-22).

Policy Consideration

With health insurance costs increasing nationwide it can be assumed that many other employers, public and private have had to make similar changes to their health insurance offerings. However, balancing the City's total compensation package (salary, health insurance, retirements, etc.) is very critical to retention and recruitment. Therefore, the quality and cost to the plan is something that we need to be very cognizant of to ensure that we don't adversely affect our ability to retain and recruit.