City of New Braunfels

FIVE YEAR

FINANCIAL FORECAST

FY25-FY29

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INDEX

Five Year Forecast - Definition and Purpose

The forecast is an assessment of the General Fund and Debt Service Fund's financial position should the assumptions used in creating projections materialize. The forecast also includes a section on our economic outlook and considerations. ***A forecast is not a prediction.*** A forecast is a result based on assumptions; if the assumptions change, the financial position and projections change as well. Moreover, the projections for FY 2025 are not representative of the proposed budget or a recommendation. However, the results of the five-year forecast assist in developing budget policy.

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

As this document illustrates, there continues to be a gap between identified resource needs and General Fund capacity throughout the forecast period. This is typical for most, if not all cities. While the five-year forecast will assist the City Council in determining how best to strike a balance between capacity and funding of new resources during the budget process, creating additional capacity is an objective from our recently adopted strategic plan. Staff intends to present several opportunities for creating additional capacity at the July City Council workshop.

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

General Fund -Baseline Expenditures and Resource Demands Forecast

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

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

The General Fund forecast section includes two schedules that reflect projected revenues, expenditures and fund balances (reserves) over the next five years. The revenue projections are the same for both schedules; only the expenditures change. The first schedule, referred to as "Baseline Expenditures Forecast" looks at the financial position of the General Fund and considers opportunities and projections for revenue growth throughout the period while expenses increase only to reflect inflationary pressures as well as anticipated or previously approved expenditure adjustments.

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

General Fund - Baseline Expenditures

	FY 2025 Projection	FY 2026 Projection	FY 2027 Projection	FY 2028 Projection	FY 2029 Projection
Beginning Fund Balance	$ 35,125,249	$ 38,592,187	$ 43,783,004	$ 51,346,859	$ 60,734,111
Revenue					
Property Taxes	$ 27,560,000	$ 28,938,000	$ 29,950,830	$ 30,999,109	$ 32,084,078
Sales Taxes	35,562,185	36,451,239	37,362,520	38,296,583	39,253,998
Other Taxes and Franchise Fees	14,760,561	15,839,632	17,334,845	18,477,222	19,718,786
Licenses and Permits	5,700,000	5,550,000	5,400,000	5,250,000	5,100,000
Charges for Services	6,000,000	6,120,000	6,242,400	6,367,248	6,494,593
Fines and Forfeitures	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Parks and Recreation	1,750,000	1,750,000	1,750,000	1,750,000	1,750,000
Das Rec	3,400,000	3,400,000	3,400,000	3,400,000	3,400,000
Interest Income	2,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Miscellaneous	4,700,000	4,700,000	4,700,000	4,700,000	4,700,000
Interfund Transfers	1,261,173	1,299,008	1,337,979	1,378,118	1,419,462
Total Recurring Revenue	*$ 103,893,919*	*$ 106,247,880*	*$ 109,678,574*	*$ 112,818,280*	*$ 116,120,916*
Total Revenue	**$ 103,893,919**	**$ 106,247,880**	**$ 109,678,574**	**$ 112,818,280**	**$ 116,120,916**
Expenditures					
General Government	$ 10,996,102	$ 11,073,505	$ 11,126,655	$ 11,180,868	$ 11,236,165
Planning and Development Svs	4,839,208	4,858,733	4,872,140	4,885,815	4,899,764
Police	28,457,467	28,555,697	28,623,149	28,691,949	28,762,125
Fire	26,904,292	26,981,952	27,910,279	28,339,672	28,395,152
Municipal Courts	1,088,999	1,091,394	1,093,039	1,094,716	1,096,427
Public Works	8,418,406	8,521,109	8,591,631	8,663,565	8,736,936
Transportation and Capital Programs	2,187,465	2,211,534	2,228,061	2,244,918	2,262,113
Parks and Recreation	7,456,632	7,544,059	7,604,091	7,665,325	7,727,783
Das Rec	3,276,878	3,304,638	3,323,701	3,343,144	3,362,976
Library Services	3,133,081	3,157,797	3,174,768	3,192,079	3,209,736
Interfund Transfers	752,733	768,269	778,937	789,819	800,918
Non-Departmental	2,640,718	2,713,377	2,513,269	2,564,159	2,616,067
Contingencies	275,000	275,000	275,000	275,000	275,000
NBU Facility Partnership				500,000	500,000
Total Recurring Expenditures	**$ 100,426,981**	**$ 101,057,063**	**$ 102,114,719**	**$ 103,431,028**	**$ 103,881,164**
Ending Fund Balance	**$ 38,592,187**	**$ 43,783,004**	**$ 51,346,859**	**$ 60,734,111**	**$ 72,973,864**
Fund balance Percentage	***38.4%***	***43.3%***	***50.3%***	***58.7%***	***70.2%***
Fund Balance Surplus	**$ 8,464,093**	**$ 13,465,886**	**$ 20,712,444**	**$ 29,704,803**	**$ 41,809,515**
Recurring Revenue/Rec Exp	**$ 4,416,938**	**$ 5,440,817**	**$ 7,563,855**	**$ 9,387,252**	**$ 12,239,753**

FY 2025 Recurring Revenue/Rec Expenditures – This figure has been adjusted to account for any one-time costs that are included in the FY 2025 base budget.

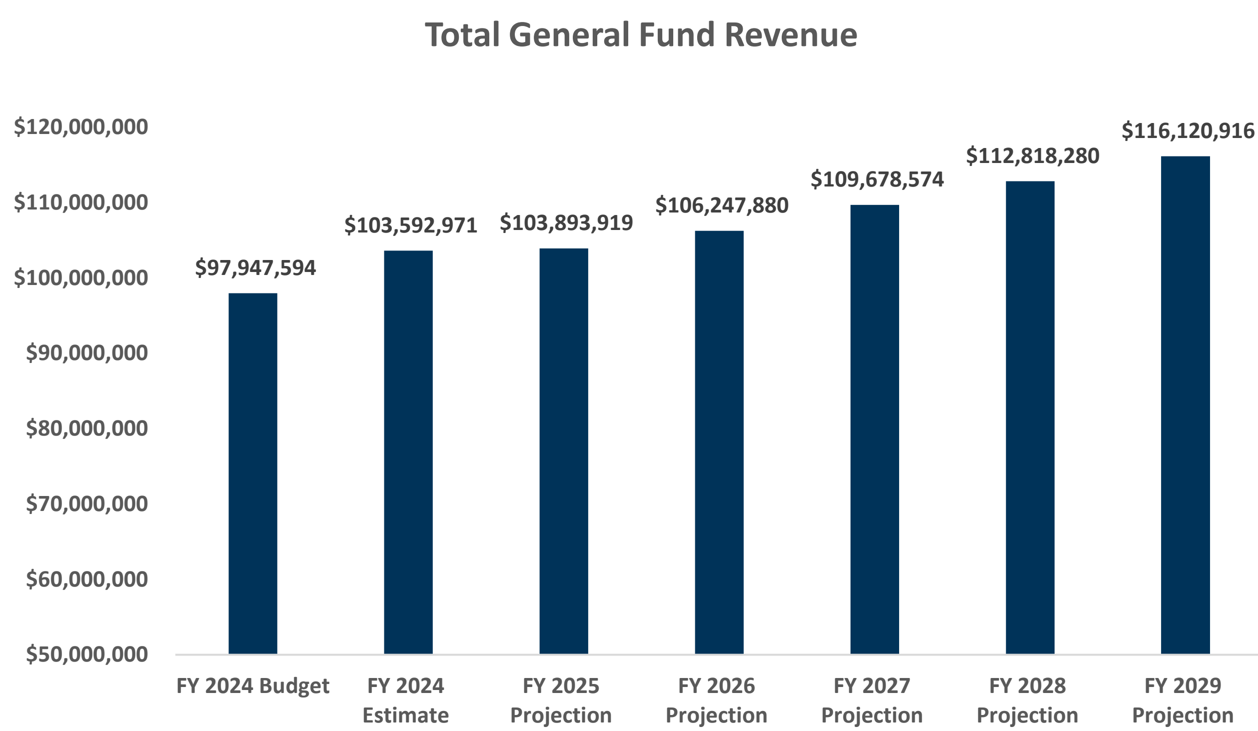
Baseline Expenditures Forecast- Discussion and Analysis

General Fund- Revenue Projections (Recurring)

The average annual growth in General Fund revenues during the forecast period is 2.3 percent. The table below reflects the projected annual growth in total General Fund revenues for each year during the forecast period.

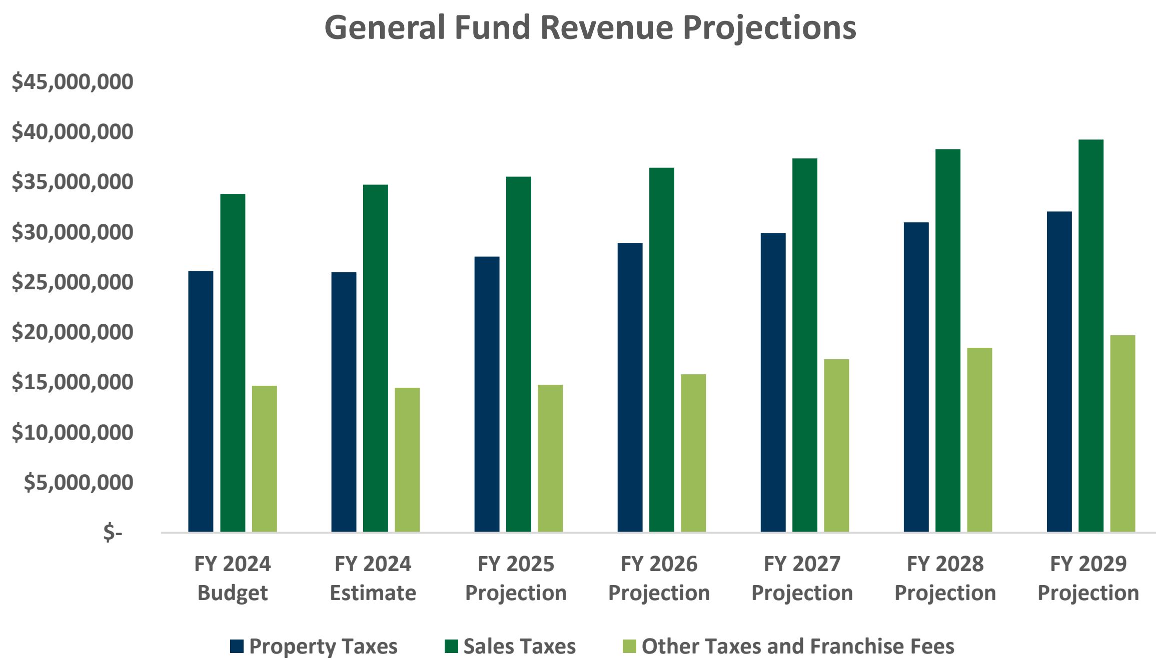
Projected Total General Fund Growth Rates (Recurring)					
	FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Growth Rate	0.3%	2.3%	3.2%	2.9%	2.9%

As the graph illustrates, FY 2024 revenues are estimated to exceed budget. This is driven primarily by higher than anticipated growth in the following categories: interest earnings, sales taxes, licenses and permits and charges for services. The following section provides categorical detail on revenue projections during the forecast period.



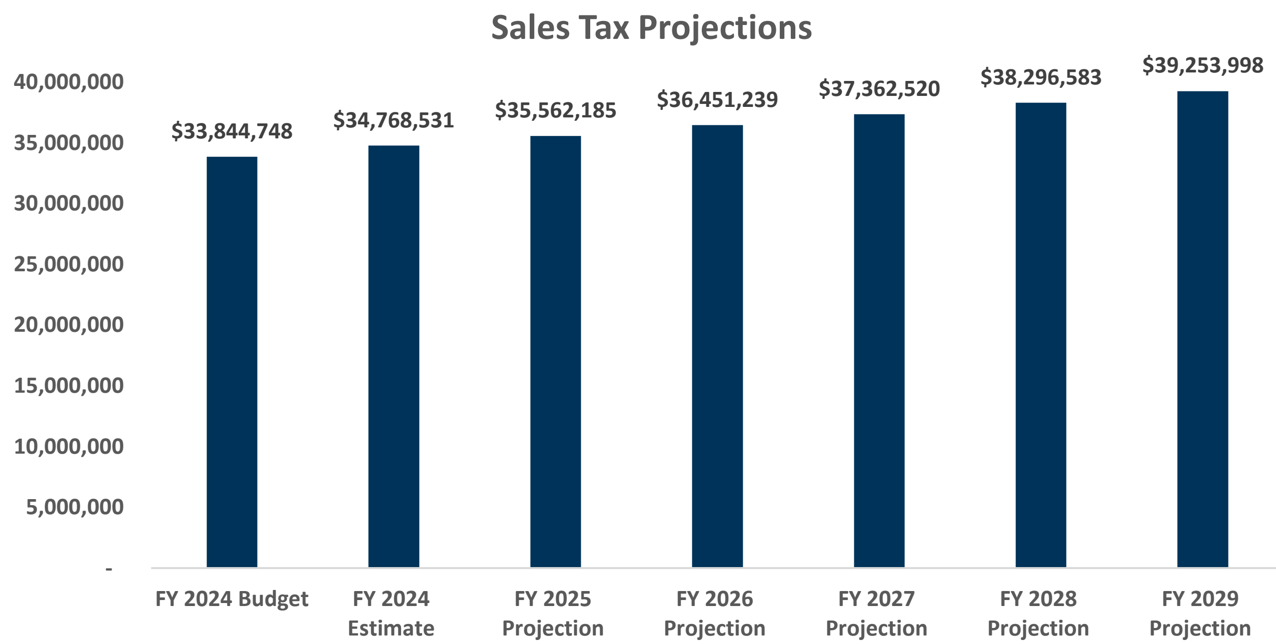
Primary Revenue Sources

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

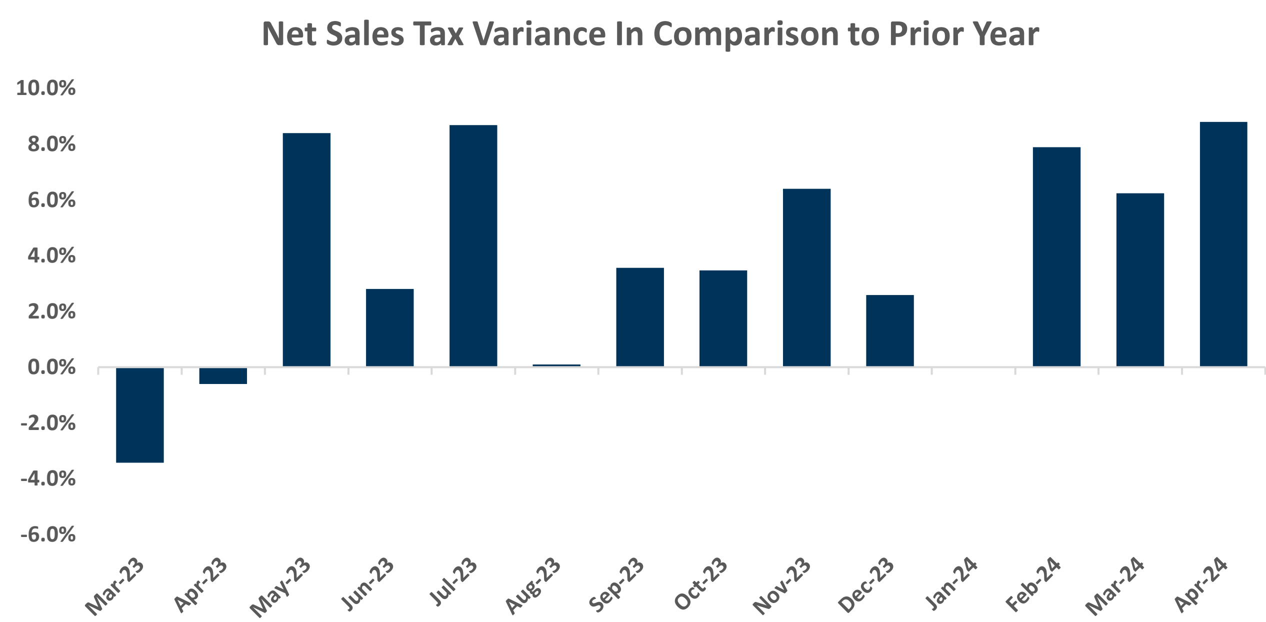


Property Tax Revenue – Due to statutory limitations and a diminishing amount of developable land available to add new value to the tax rolls, property tax revenue projections for the General Fund forecast range from 6% to 3.5% annually.

Sales Tax Revenue – The General Fund's largest source of revenue has experienced relatively consistent growth over the past several years. In addition, New Braunfels sales taxes are currently growing at a faster pace when compared to the collective average across all Texas cities.

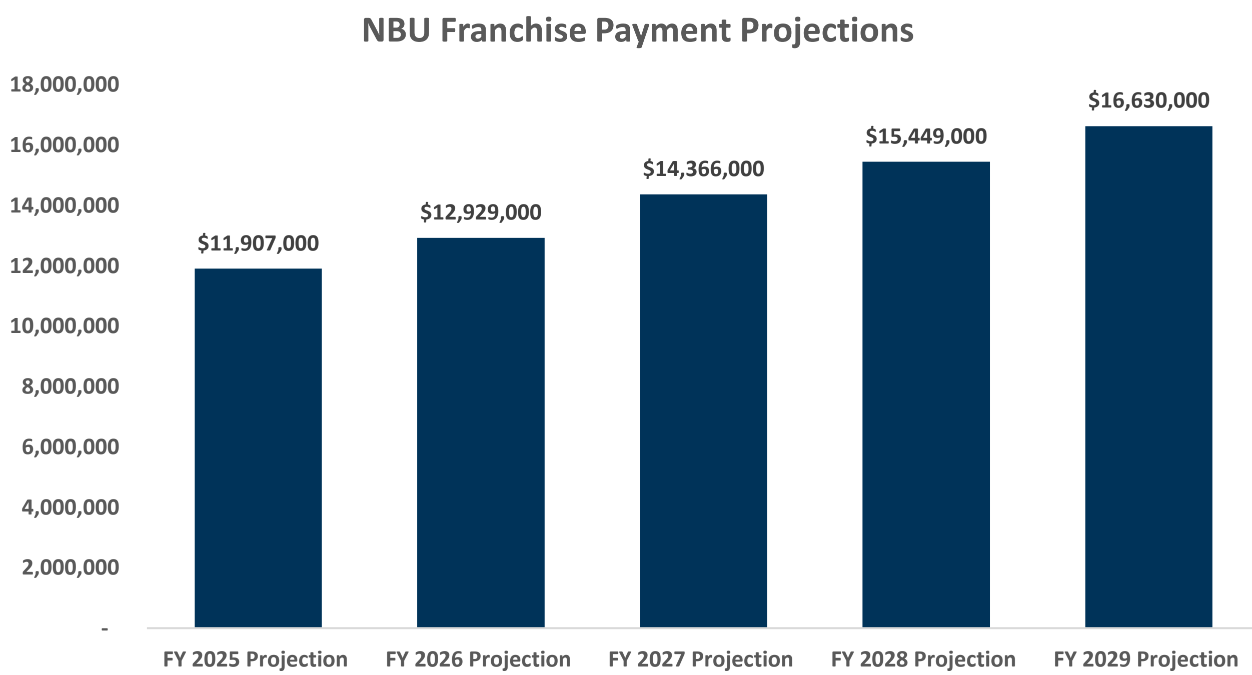


The forecast assumes approximately 2.5% in annual growth in sales tax revenue from FY 2025- FY 2028. When looking at the average net growth in sales taxes (3.9%) over the last 14 months, this projection may seem conservative; however, as the graph illustrates below, sales taxes can be volatile.



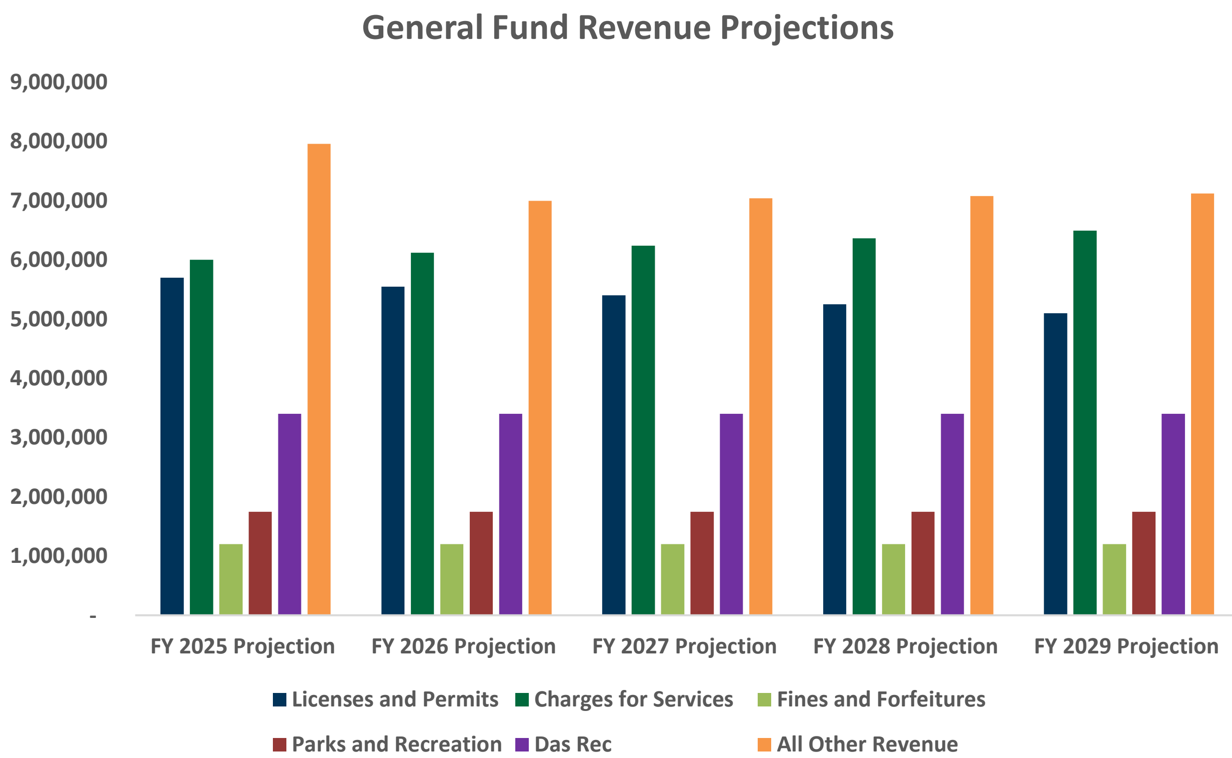
Franchise Fees

The majority of Franchise tax revenue comes from New Braunfels Utilities (NBU). NBU's current payment to the City is based on a rolling 3-year average of gross revenue collections. The graph below reflects the projected NBU franchise payment over the forecast period. As the graph illustrates, this revenue source is projected to experience considerable growth over the forecast period. The growth is driven by multiple factors, such as the overall growth in customer accounts and the rate adjustments approved recently. The remaining franchise payments (gas, cable, telecommunications, etc.) have fluctuated in recent years, but more or less continue to grow slightly. Conservatively, they are projected to grow 2% annually.

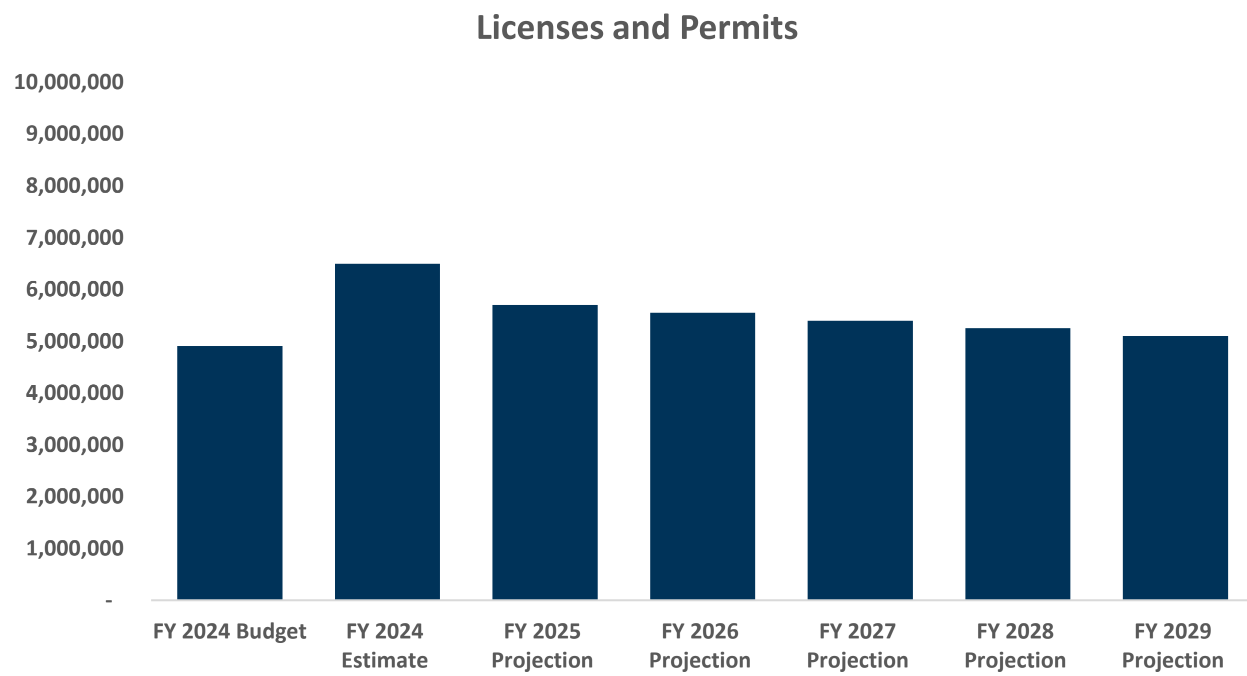


All other General Fund Revenues

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



Licenses and Permits – As the community approaches buildout, this revenue category has been expected to level out, which is what the forecast assumes. However, as a result of our development agreements with both Veramendi and Mayfair, it is likely that the leveling out period may not be as sudden as originally thought. Therefore, staff is confident that this revenue source will be able to remain at or near current levels for longer than originally anticipated.



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

Fines and Forfeitures – This revenue source has experienced sustained stagnation over the past several years. The forecast assumes that current collections remain flat throughout the forecast period.

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

Das Rec – The recreation center currently has membership levels at an all-time high at over 19,000 members. It is likely that the facility is nearing capacity from a membership perspective. As a result, Das Rec membership is held flat throughout the forecast.

All Other Revenue – this category revenue is driven primarily by industrial district payments made by corporations such as CEMEX, Wal-Mart Distribution Center, Lhoist, etc. that are receiving services from the City of New Braunfels but are not within the incorporated city limits of New Braunfels. This category also includes interest earnings, which can fluctuate significantly based on economic factors and if forecasted to decline somewhat to conservatively project the interest rate environment over the next several years. These revenues are either held flat due to unpredictability or include minimal growth throughout the forecast period.

General Fund- Expenditure Projections

Employee Expenditures - Current Service Levels

In the Baseline Expenditures forecast, no change in service levels, staffing, compensation, or operating expenditure levels are included. To further clarify, no cost of living, merit or market adjustment compensation changes are included in the Baseline Expenditures as well. However, full year funding for positions that were added in the most recent budget but were not funded for the full year is included in FY 2025 given that most of those positions were only funded for six or nine months in FY 2024.

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

Operating Expenditures – Current Service Levels

Operating expenditures include costs such as: utilities, office supplies, professional services, software licenses, fuel, landscaping services, automotive repair, janitorial supplies etc. Operating expenditures are also adjusted for any one time costs included in the current budget or other modifications to current commitments, such as the beginning and/or ending of capital leases (Police, Fire and Information Technology).

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

Inflationary Adjustments to Operating Budgets					
	FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Growth Rate	3%	3%	3%	2%	2%

Equipment Replacement Program

During the FY 2024 budget process, the strategy for vehicle replacement was shifted to a rolling tax note program, supported entirely by the existing I&S portion of the tax rate. However, the Equipment Replacement Fund will still require a transfer to support technology replacements. The forecast assumes an annual transfer of $250,000 to support that effort. The remaining interfund transfer funding covers initiatives such as administrative costs associated with the EAHCP/WPP program(s) and cash match for grants.

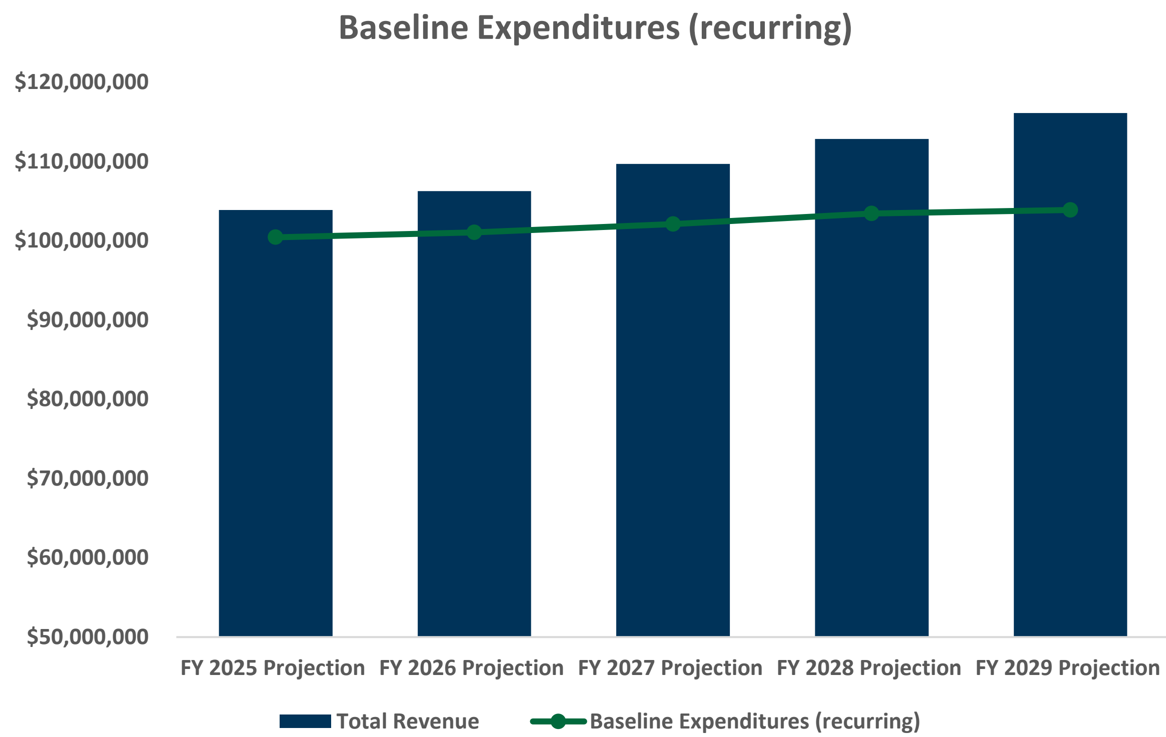
Facility Partnership (NBU)

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

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

<u>Baseline Expenditures Summary and Policy Considerations</u>

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



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

Available Funding for Recurring Resources					
	FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Compounded Annual Surplus	$4,417,000	$5,441,000	$7,564,000	$9,387,000	$12,240,000

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

Policy Considerations

Fund Balance Surplus

The Baseline Expenditures Forecast show a surplus in fund balance throughout the forecast period. ***It is important to remember that any commitment of funds made in FY 2025 will reduce the fund balance and surplus throughout the remainder of the forecast period.***

The forecast that includes funding for all current resource demands (Resource Demands Forecast) show a different result. ***The resource demands forecast shows a fund balance deficit of $26.6 million by the end of the 5-year forecast period*.**

Resource Demands Forecast- Discussion and Analysis

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

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

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

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

- Cost of Living Adjustments/maintaining market competitiveness
- Additional Patrol Officers
- Resources to staff and operate completed capital improvement projects
- All other departments staffing – current identified unmet needs
- Re-establishment of the Facilities Maintenance Fund
- One Time Initiatives/Equipment – current identified unmet needs

Fund Balance – The resource demands forecast shows a deficit in fund balance beginning in FY 2027. In fact, the resource demands forecast is no longer structurally balanced immediately in FY 2025 – meaning recurring revenues are less than recurring expenditures. This deficit is driven entirely by the additional expenditures projected for staffing, salary adjustments, equipment, and other capital expenditures.

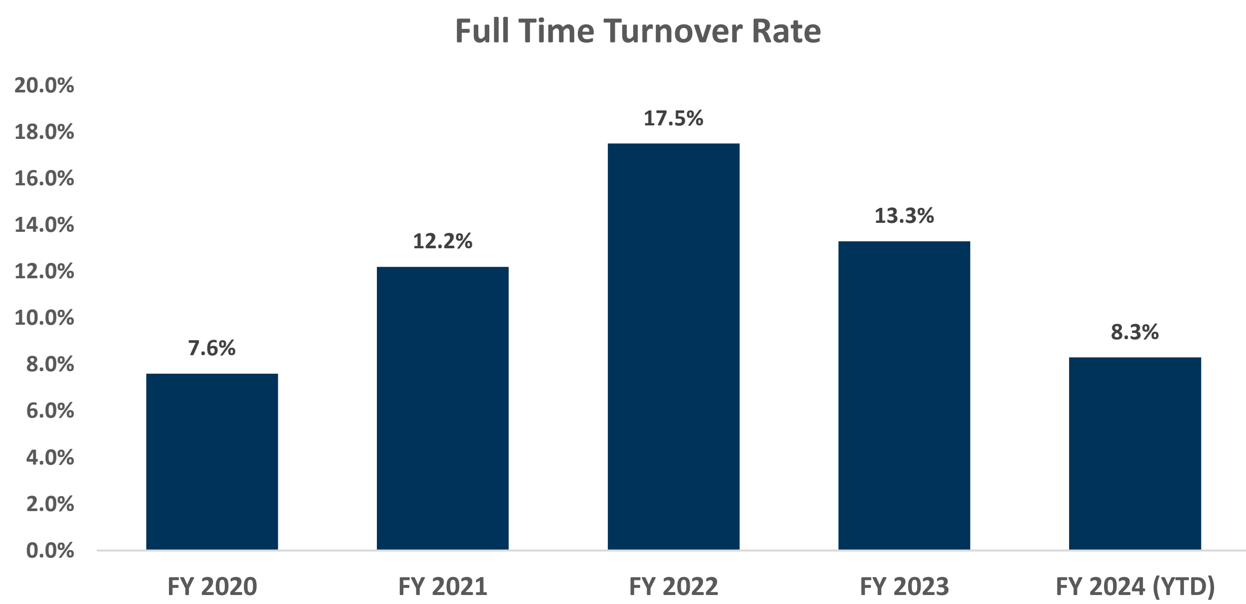
General Fund Forecast - Resource Demands

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Beginning Fund Balance (adjusted)	$ 35,125,249	$ 33,356,774	$ 29,126,250	$ 23,027,677	$ 14,411,068
Total General Fund Revenue	$ 103,893,919	$ 106,247,880	$ 109,678,574	$ 112,818,280	$ 116,120,916
Total Available Funds (adjusted)	$ 139,019,168	$ 139,604,654	$ 138,804,824	$ 135,845,957	$ 130,531,985
Adjusted Baseline Expenditures - Includes impact from recurring resource demands	$ 100,426,981	$ 105,030,841	$ 110,236,575	$ 115,767,982	$ 120,533,040
Current Resource Demands					
Uniformed Personnel - Step Plan/COLA/Market Based Compensation Increases	$ 1,784,139	$ 1,829,179	$ 1,875,356	$ 1,922,699	$ 1,971,237
Non-Uniform Personnel - Merit/COLA/Market Based Compensation Increases	$ 1,042,807	$ 1,058,194	$ 1,073,808	$ 1,089,652	$ 1,105,730
Patrol Officers					
Recurring Costs - 3 Officers Annually	$ 295,711	$ 307,539	$ 319,841	$ 332,634	$ 345,940
One Time Costs - Vehicles and equipment	$ 252,049	$ 259,610	$ 264,803	$ 270,099	$ 275,501
Operating Expenditures from CIP/Bond Projects					
Zipp Family Sports Park (net)	$ 100,000	$ 230,000			
Southeast Library Branch			$ 350,000	$ 350,000	
Mission Hill Park		$ 150,000			
Address current unmet needs - positions	$ 551,122	$ 573,166	$ 596,093	$ 619,937	$ 644,734
Re-Establish Facilities Maintenance Fund	$ 200,000				
Address current unmet needs - one time capital and initiatives	$ 1,009,586	$ 1,039,874	$ 1,060,671	$ 1,081,885	$ 1,103,523
Total - Additional Annual Resource Demands	$ 5,235,413	$ 5,447,563	$ 5,540,572	$ 5,666,906	$ 5,446,665
Total Expenditures (adjusted)	**$ 105,662,394**	**$ 110,478,404**	**$ 115,777,147**	**$ 121,434,888**	**$ 125,979,705**
Ending Fund Balance	**$ 33,356,774**	**$ 29,126,250**	**$ 23,027,677**	**$ 14,411,068**	**$ 4,552,280**
Target Fund Balance - 30% of Recurring Expenditures	**$ 26,100,190**	**$ 27,294,730**	**$ 28,612,918**	**$ 30,020,726**	**$ 31,150,170**
Fund Balance Surplus/(Deficit)	**$ 7,256,584**	**$ 1,831,520**	**$ (5,585,242)**	**$ (15,609,658)**	**$ (26,597,890)**

Compensation Adjustments

Recruitment and retention of public sector talent continues to be a strategic issue for the organization. The strategic plan included several objectives that focus on employee retention such as the development of formal succession plans at the department level and tracking the percentage of full-time resignations associated with compensation and/or better opportunities.

The graph below illustrates the City's current turnover rate trend. As the graph illustrates, the trend for FY 2024 (October-June) has continued to shift in a positive direction; however, it is likely that the end of year trend for the current fiscal year will align to FY 2023 levels or slightly lower.



FY 2025 Market Compensation Study – The City conducts market compensation studies every two years. The organization has made great progress towards aligning our compensation plans to current market levels. As a point of reference, the city began performing regular compensation studies in 2015. At that time, the organization's pay scales were approximately 15%-22% behind market levels.

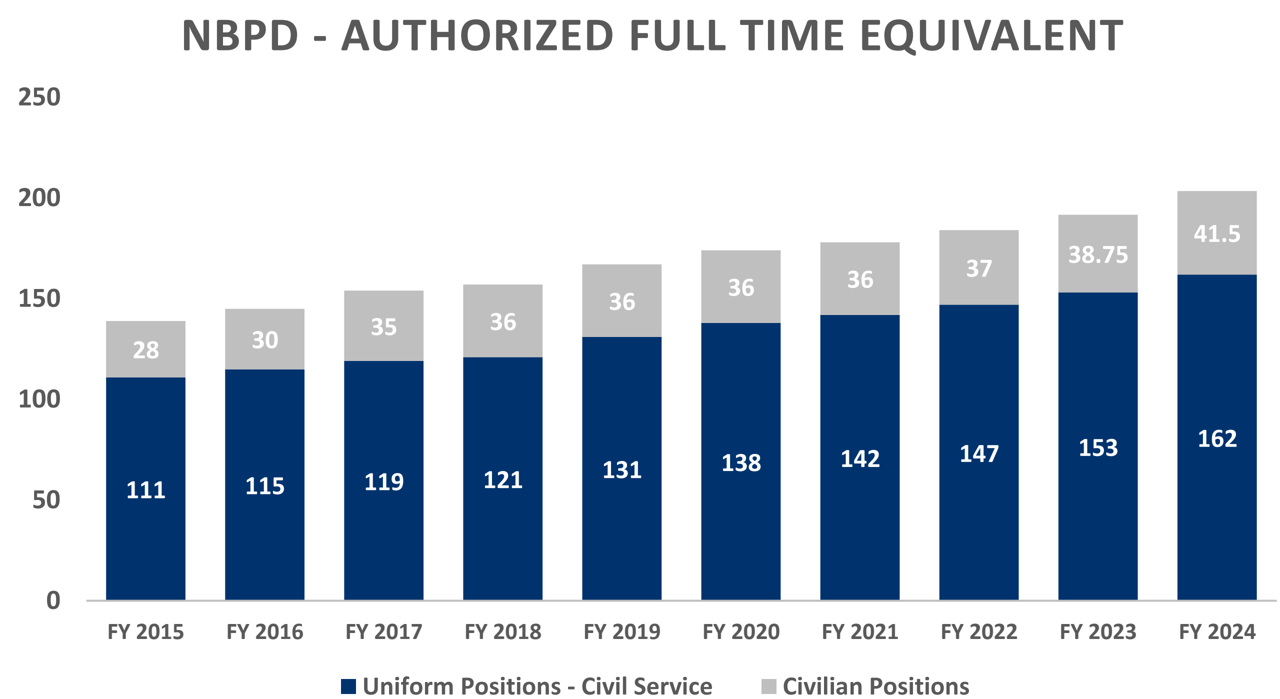
The Human Resources Department is scheduled to update the market compensation study in FY 2025. The 2023 market compensation study was able to be implemented in FY 2024 in addition to a 2.5% cost of living adjustment. For our organization to continue to keep pace with market compensation scales, single year implementations will be necessary. For this reason, compensation continues to be the organization's number one budget priority.

Additional Patrol Officers

Adding patrol officers continues to remain a strategic priority for the City of New Braunfels. The city has engaged a new consultant to evaluate patrol staffing levels. The results of that analysis are expected to be available either at the end of FY 2024 or the beginning of FY 2025.

The forecast assumes that the organization adds 3 additional Police Officers annually (15 in total). The Police Department has requested 23 positions for consideration in the FY 2025 Proposed Budget.

As a point of reference, 64.5 full time equivalent have been added to the department since FY 2014, a 46% increase in staffing levels in 10 fiscal years.



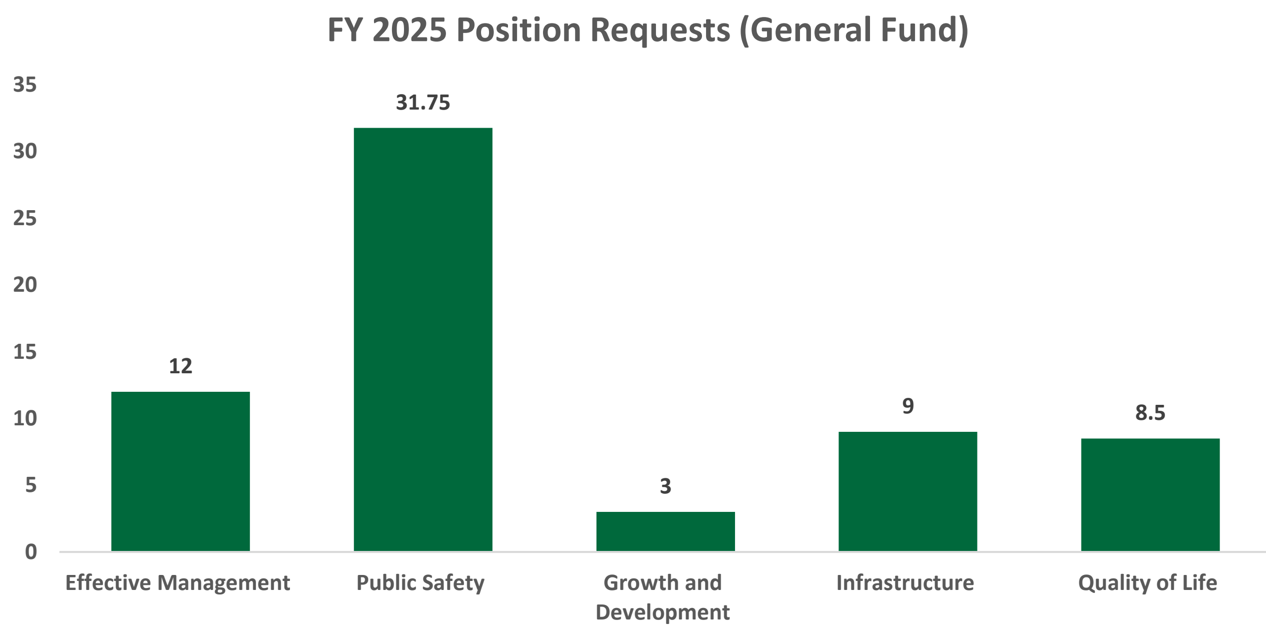
Operating expenditures stemming from CIP/Bond Projects

The FY 2025-29 Five Year Forecast recognizes net annual operating costs associated with the Zipp Family Sports Park ($330,000 annually), Southeast Library Branch ($700,000 annually) and Mission Hill Park ($250,000 annually). Staff has analyzed the net operating costs for the Zipp sports complex. The figures incorporated into the five-year forecast assume that these additional costs will be incorporated into the FY 2025 and FY 2026 General Fund budget(s) as the maintenance and programming begins.

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

Other Departments Staffing – Current Identified Unmet Needs

As staff works on the FY 2025 Proposed Budget and Plan of Municipal Services, nearly every department has requested positions to meet increased demand for services. In fact, over 64 positions (General Fund Departments) have been requested for consideration in the FY 2025 Proposed Budget. At the end of the FY 2024 budget process, there were 35 positions that were not funded, as a placeholder to reflect continued staffing needs, the forecast assumes these positions are added over a five-year period, which equates to approximately 7 FTE added annually.



Re-establish Facilities Maintenance Fund

Prior to the economic recession, the City had established a Facilities Maintenance Fund. This fund primarily serves as an emergency reserve in the event of major facility damage or repairs. This Fund was utilized to make critical repairs to infrastructure after floods, as well as to address unbudgeted facility repairs. The fund currently is inactive.

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

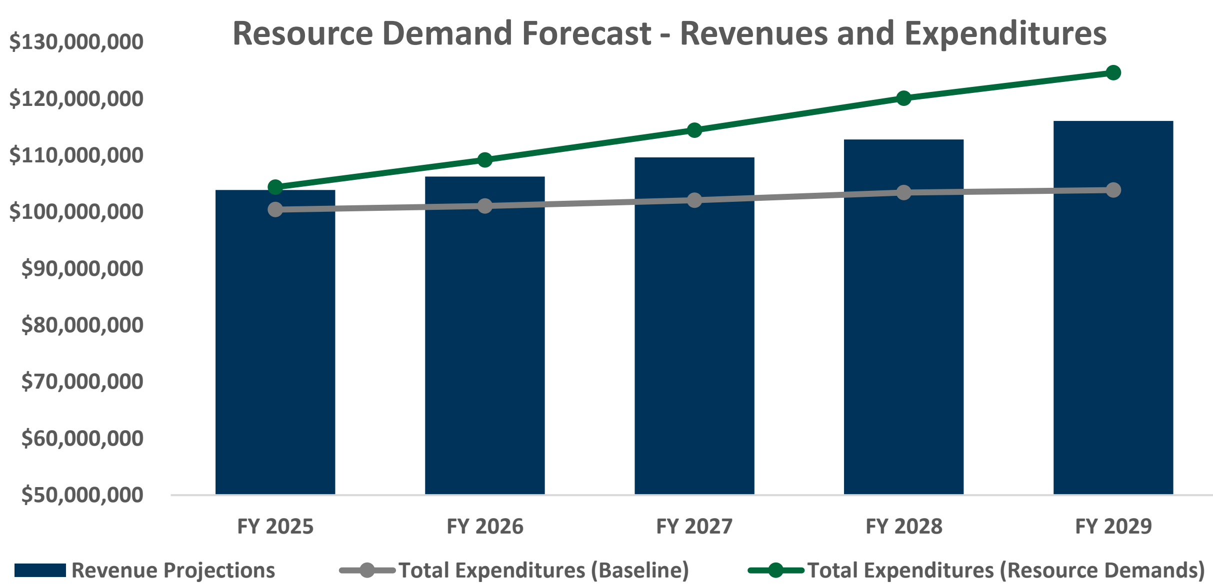
A one-time transfer of $1.5 million was included in FY 2022 to re-establish the Fund, however these funds were reallocated to the Zipp Family Sports Complex project.

One-time Costs – Current Identified Unmet Needs

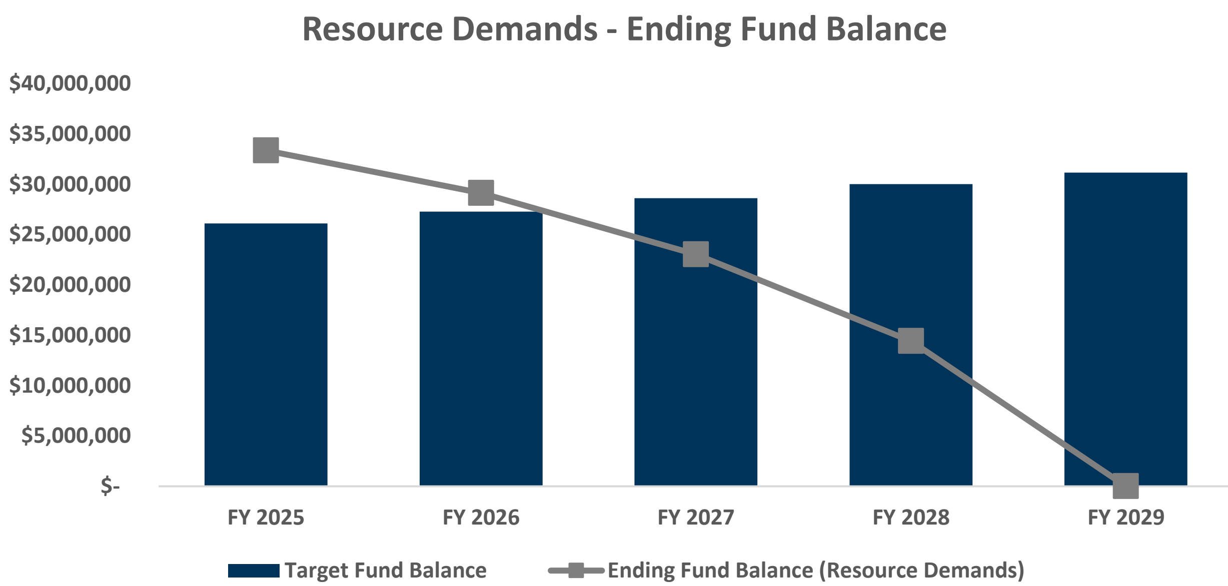
Various non-personnel initiatives were identified by General Fund departments during the FY 2024 budget process. The amount incorporated into the resource demands forecast represents allocating those costs over a five-year period. Again, as a reminder, these costs are only those associated with current needs. Increased service demands, and new programs will impact one-time equipment and initiative needs.

General Fund –Baseline and Resource Demands Forecast Projections

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



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

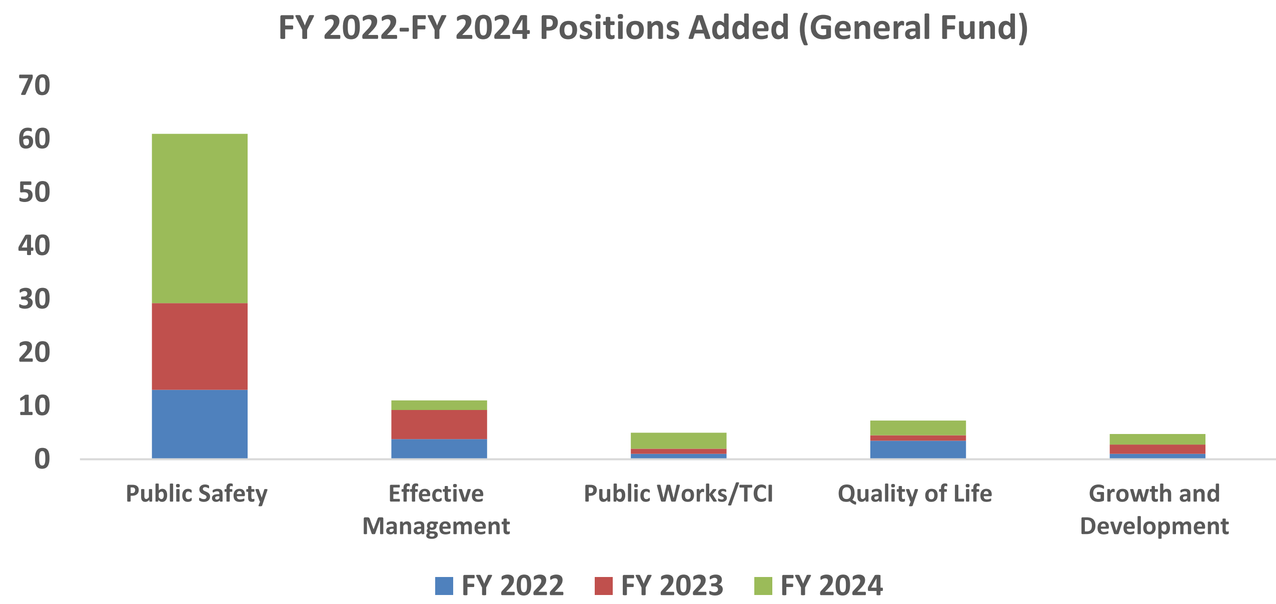


Policy Considerations

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

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

As the graph suggests, the organization has added positions consistently over the past several years. In fact, since FY 2022, an additional 84 full time equivalent positions have been added to General Fund departments



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

The strategic plan includes action items that are focused on generating additional General Fund capacity such as reducing the reliance on primary revenue sources (property taxes, sales taxes and franchise taxes) as well as conducting an annual fee evaluation to ensure that our charges for services are aligned to market and achieving the appropriate level of cost recovery.

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

Debt Service Fund Assumptions

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

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

- The Interest and Sinking (I&S) portion of the tax rate remains at the current debt rate in the amount of 20.89 cents per $100 of valuation.
- Property tax values grow at 6 percent in the first year of the forecast and 4 percent thereafter.
- Other funds' support of debt service (Solid Waste, Airport, Hotel/Motel Tax and New Braunfels Economic Development Corporation) remains at their current levels.
- No debt refundings/refinancing have been included in the forecast.
- Vehicle/Equipment Tax Notes are projected to be issued in accordance with the following schedule:
    - FY 2024 – currently no planned issuance
    - FY 2025 - $4,000,000
    - FY 2026 – no planned issuance
    - FY 2027 - $6,000,000
    - FY 2028 – no planned issuance
    - FY 2029 - $8,000,000

- 2023 General Obligation Bonds are projected to be issued in accordance with the following schedule:
    - FY 2024 – no planned issuance
    - FY 2025 – $40,000,000
    - FY 2026 – no planned issuance
    - FY 2027 – $40,000,000
    - FY 2028 - $25,000,000

Debt Service Fund Forecast - Baseline Expenditures

	FY 2025 Projection		FY 2026 Projection		FY 2027 Projection		FY 2028 Projection		FY 2029 Projection
Beginning Fund Balance	$	3,474,710	$	6,525,827	$	8,099,403	$	9,817,771	$	11,682,768
Revenue										
Taxes	$	29,057,945	$	30,220,263	$	31,429,074	$	32,686,237	$	33,993,686
Interest Income	$	125,000	$	100,000	$	100,000	$	100,000	$	100,000
Contributions	$	2,824,485	$	2,824,275	$	2,824,000	$	2,824,400	$	2,821,375
Interfund Transfers		1,239,919		1,238,788		641,097		642,460		568,725
Total Revenue	$	33,247,349	$	34,383,326	$	34,994,171	$	36,253,097	$	37,483,786
Expenditures										
Debt Service		30,196,232		32,809,751		33,275,802		34,388,100		34,819,184
Total Expenditures	**$**	**30,196,232**	**$**	**32,809,751**	**$**	**33,275,802**	**$**	**34,388,100**	**$**	**34,819,184**
Ending Fund Balance	**$**	**6,525,827**	**$**	**8,099,403**	**$**	**9,817,771**	**$**	**11,682,768**	**$**	**14,347,370**

Forecast Analysis

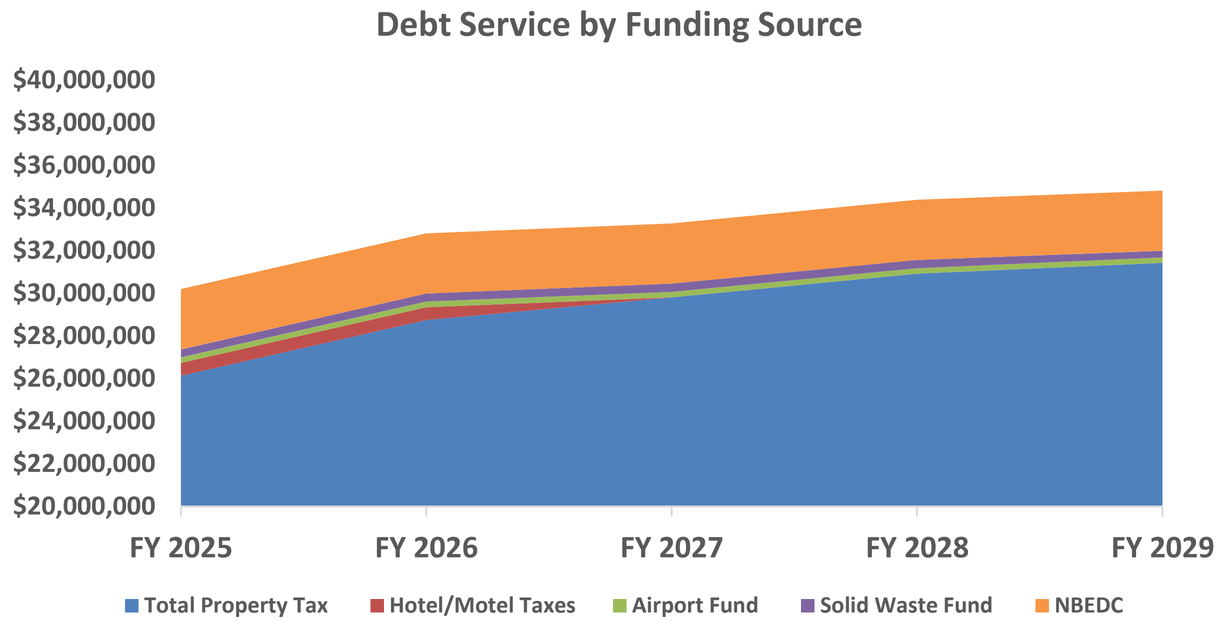
The forecast above incorporates the debt service commitments associated with the 2023 bond and rolling tax note equipment program. The following section provides additional detail on capacity as well as other policy considerations as it relates to capital financing strategies and goals.

Growth in Property Values

As mentioned earlier, the projection for growth in values in FY 2024 is 6%, which is higher than the projections incorporated into the 2023 bond program. Growth in preliminary values for FY 2025 are approximately 11%. It’s expected that a portion of that growth will be reduced through the protest process. The forecast assumes 4% growth annually from FY 2026-FY 2029. While this is conservative, it provides great flexibility to ensuring that the 2023 bonds and equipment tax notes are issued without an impact to the I&S portion of the tax rate. Higher levels of growth and potentially lower interest rates will increase capacity and provide more flexibility to structure the debt service for the issuances more strategically.

Projected Debt Service Commitments

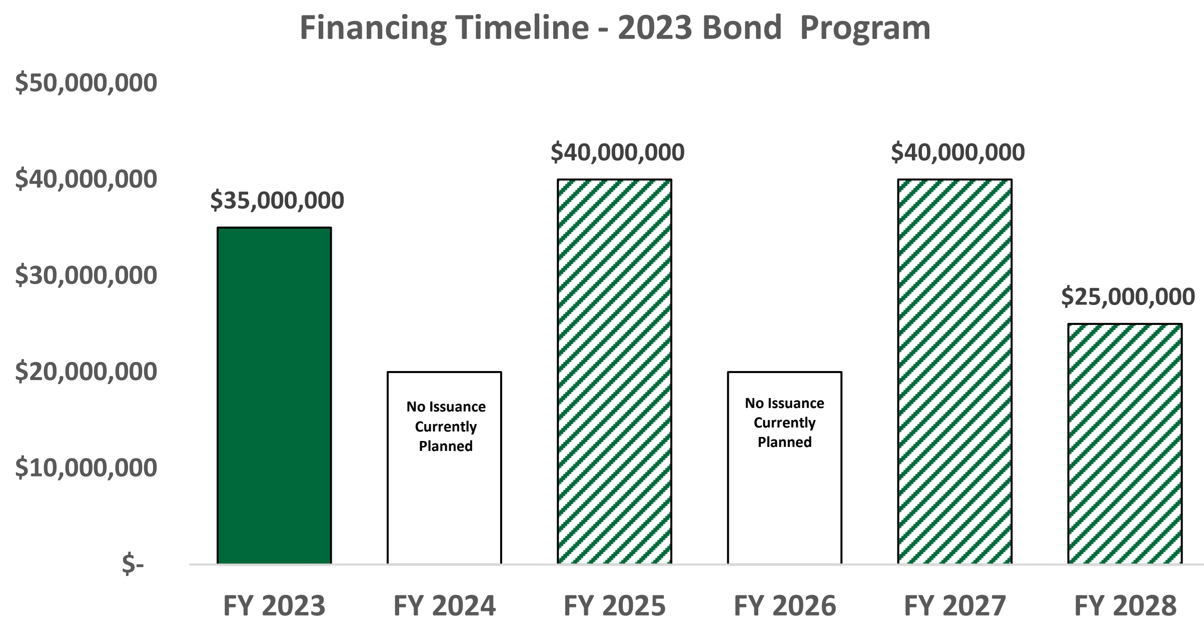
The majority of the annual debt service commitment is supported by property taxes. However, other sources have been committed to support debt service where statutorily allowable. The graph below illustrates the annual debt service commitment by funding source.



During the forecast period, approximately 90 percent of the annual debt service commitment is supported by property taxes. 8 percent is supported by the New Braunfels Economic Development Corporation (NBEDC), with the remaining 2 percent supported collectively by the Enterprise Funds and Hotel Occupancy Tax Fund.

2023 Bond Program

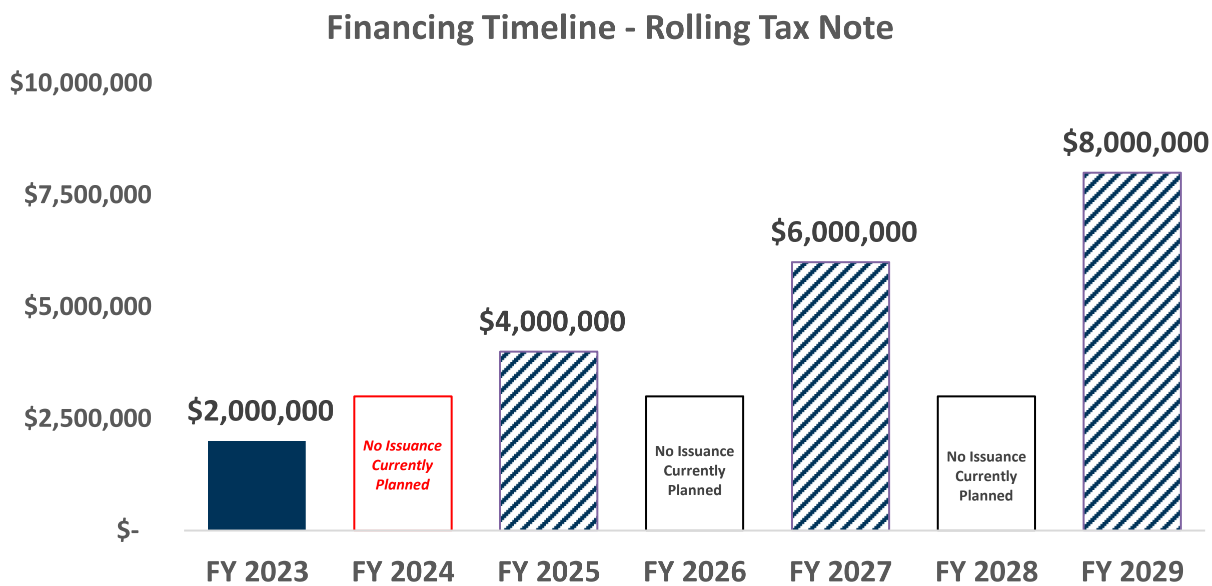
The graph below illustrates the issuance schedule associated with the 2023 bond program. As suggested earlier, this schedule will likely change based on actual growth in values, project funding needs, etc.



Rolling Tax Note Program

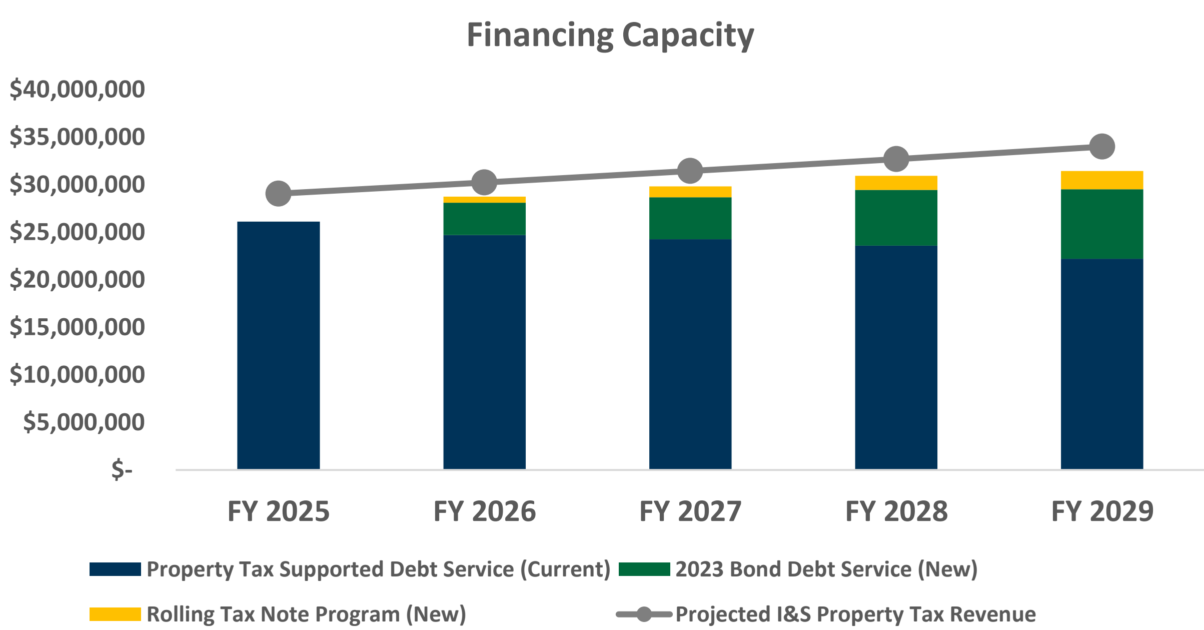
A long-term strategic issue had been securing a recurring funding source for light vehicle replacements as well as the Fire Department's SCBA equipment. The City once had a well-established vehicle replacement fund and program. However, annual contributions were suspended as a budget balancing strategy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

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



FY 2024 Financing Strategy

Based on the previous financing timeline(s) of both the 2023 bond program and new rolling tax note program, while evaluating the current revenue projections for the Debt Service Fund, there will be capacity available in FY 2025 at the current I&S rate.



As part of the annual budget process, vehicle replacement needs are evaluated. There are currently 26 vehicles that currently meet the requirement for replacement, which totals approximately $2 million. In addition, there are several other critical pieces of equipment that have been requested for replacement as well. To meet these needs, it is recommended that a tax note be issued this year to support those costs as well as ensure the I&S rate remains at the current level. A reduction to the I&S rate would impact the flexibility and capacity to issue the remaining 2023 bonds and tax notes with the previously referenced schedules/graphs.

Economic Benchmarks and Outlook

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

Since 2010, New Braunfels' population growth (92%) has more than tripled that of the San Antonio-New Braunfels MSA (24%) and nearly doubled that of the Austin MSA (41%):

Table 1: Population Growth (2010-2023)				
	2010	2023	Net Change	% Change
New Braunfels	57,740	110,958	53,218	92%
San Antonio MSA	2,142,508	2,655,342	512,834	24%
Austin MSA	1,716,289	2,421,115	704,826	41%
Texas	25,145,561	30,503,301	5,357,740	21%

Source: U.S. Census

Employment and Wages

San Antonio's unemployment rate declined to 3.6% from 4.0% from this time last year. San Antonio payrolls increased an annualized 2.3%. Other services, construction and mining industries drove most of the job growth. Year to date total nonfarm employment in San Antonio grew slower than Texas and the rest of the United States.

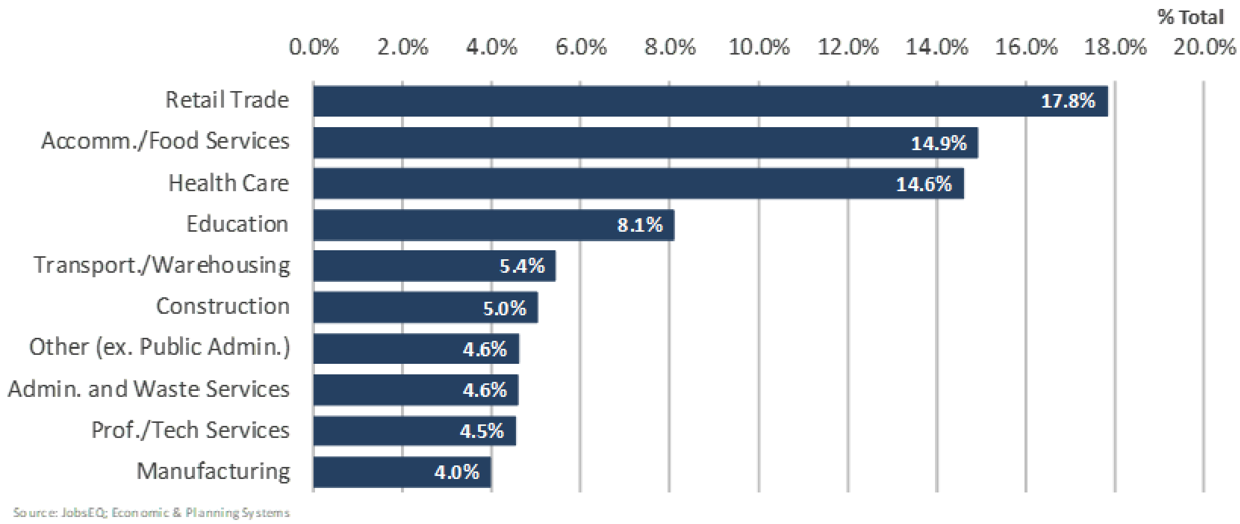
Table 2: San Antonio Employment and Wage Data

San Antonio economy dashboard (May 2024)			
Job growth (annualized) Feb.–May '24	Unemployment rate	Avg. hourly earnings	Avg. hourly earnings growth y/y
1.7%	3.6%	$29.00	4.0%

Wages in the region increased an annualized 4% in May to a three-month moving average hourly wage of $29.00. New Braunfels continues to see employment growth, with approximately 1,000 jobs being added between May 2023 and May 2024:

Table 3: New Braunfels Employment Figures- May 2020-2023				
Year	Employment	Civilian Labor Force	Unemployment	Unemployment Rate
2020	40,557	45,456	4,899	10.8
2021	45,439	47,429	1,990	4.2
2022	47,582	49,118	1,536	3.1
2023	48,898	50,652	1,754	3.5
2024	49,857	51,518	1,661	3.2

The largest industry was Retail Trade with 8,187 jobs (17.8% of total employment). The second largest industry was Accommodation and Food Services with 6,856 jobs (14.9 % of total employment



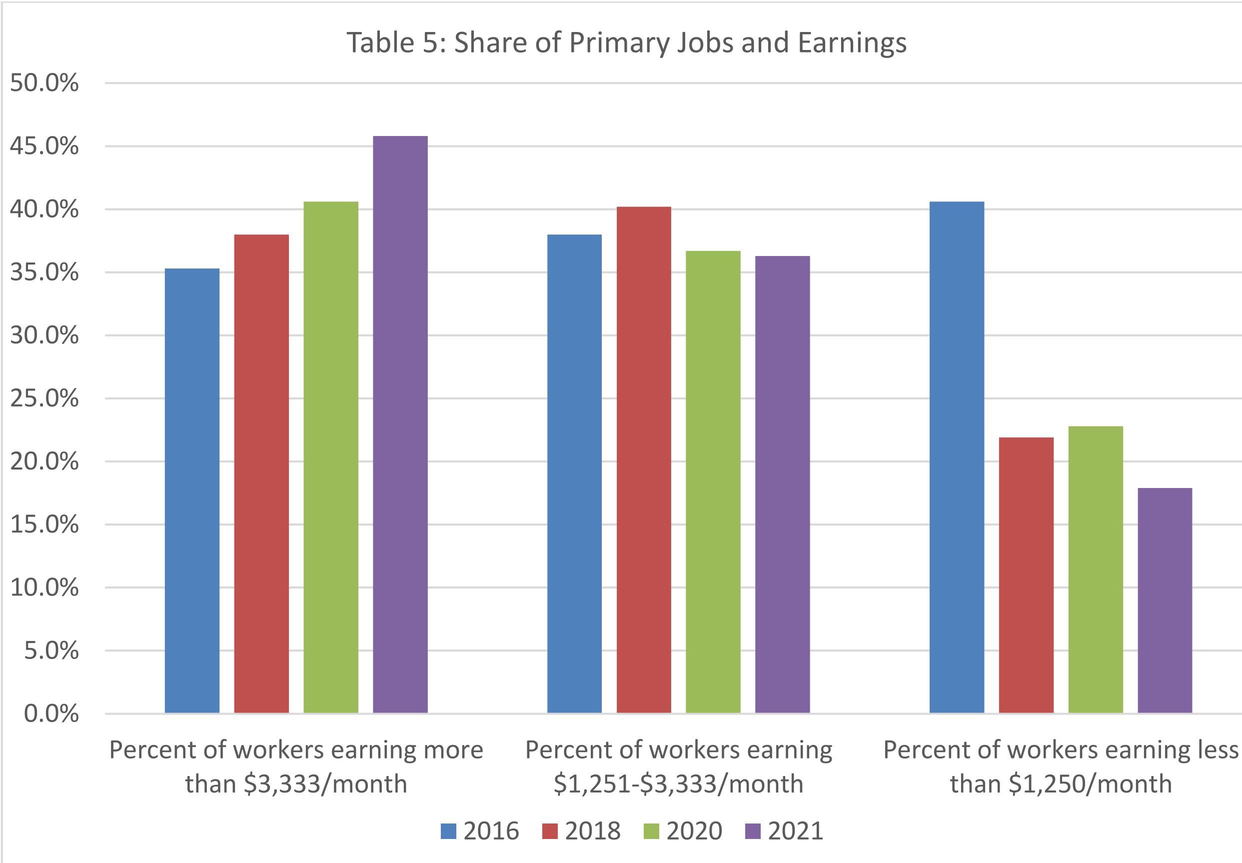
Payroll expansions in New Braunfels has continued to see an increase in measurements and projections of household income as shown below:

Table 4: New Braunfels Household Income

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

Source: ESRI Business Analyst

More specifically, New Braunfels has continued to see a larger share of its workforce earn higher wages, on average. In 2017, only 35.3% of workers earned more than $3,333 per month. By 2023, this figure had increased to more than 45% of workers.



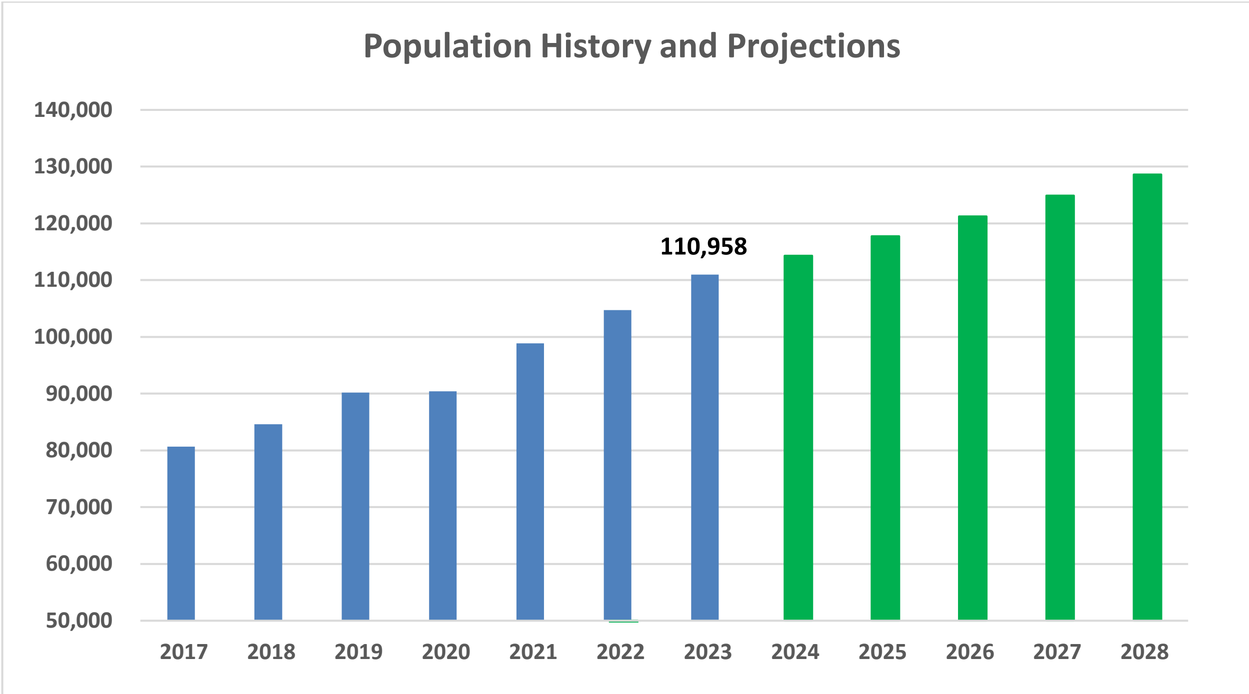
Source: US Census, OnTheMap

These data points reflect what other data points have shown in periodic economic benchmarking. The significant increase in the percentage of New Braunfels residents with a college degree or greater is reflected in the higher share of workers in primary industries earning more than $40,000 annually.

Population Projections

The latest official census information for New Braunfels provides a July 2023 population estimate of 110,958. This represents a compounded annual growth rate (CAGR) of 4.4% since the 2010 census estimate of 57,740. While applying the 4.4% CAGR projection through the forecast period would make intuitive sense, there is a practical limitation to the number of people that can locate within city limits in each period. This growth rate of 4.4% means that, on average, approximately 3,900 people have located to the city every year since 2010. In some years this number was higher and in other years it was lower. The availability of developable property and other variables such as the construction of new water and wastewater infrastructure suggest that the 3,900 figure likely represents the upper bounds of annual population growth. When a 4.4% CAGR is applied from the 2023 figures through the forecast period, this means that approximately 5,900 people are added annually for an estimated total population of approximately 130,000 by 2028:

Table 6: Population History and Projections

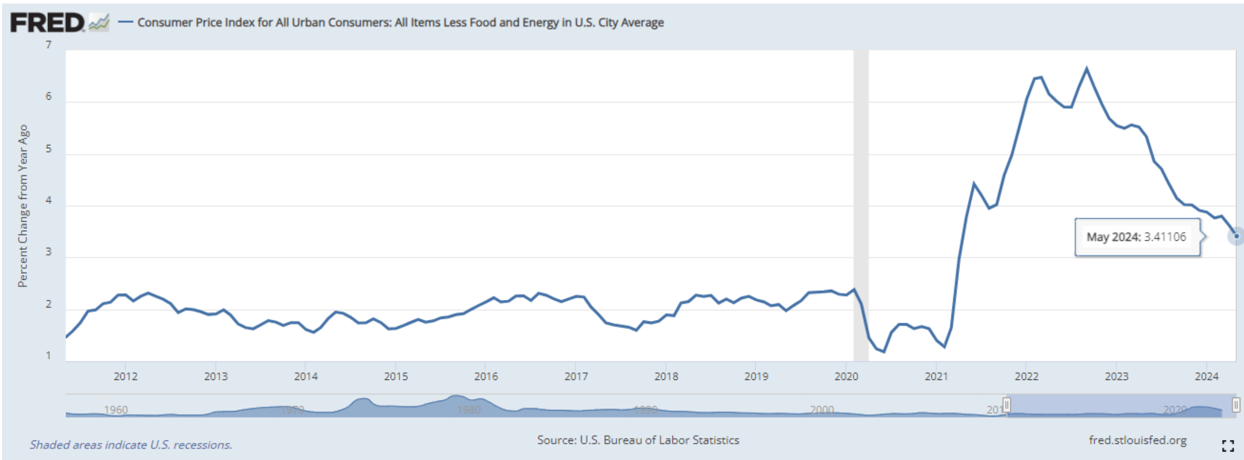


Source: US Census, projections assume a 3% annual population growth rate

Housing and Construction Activity

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

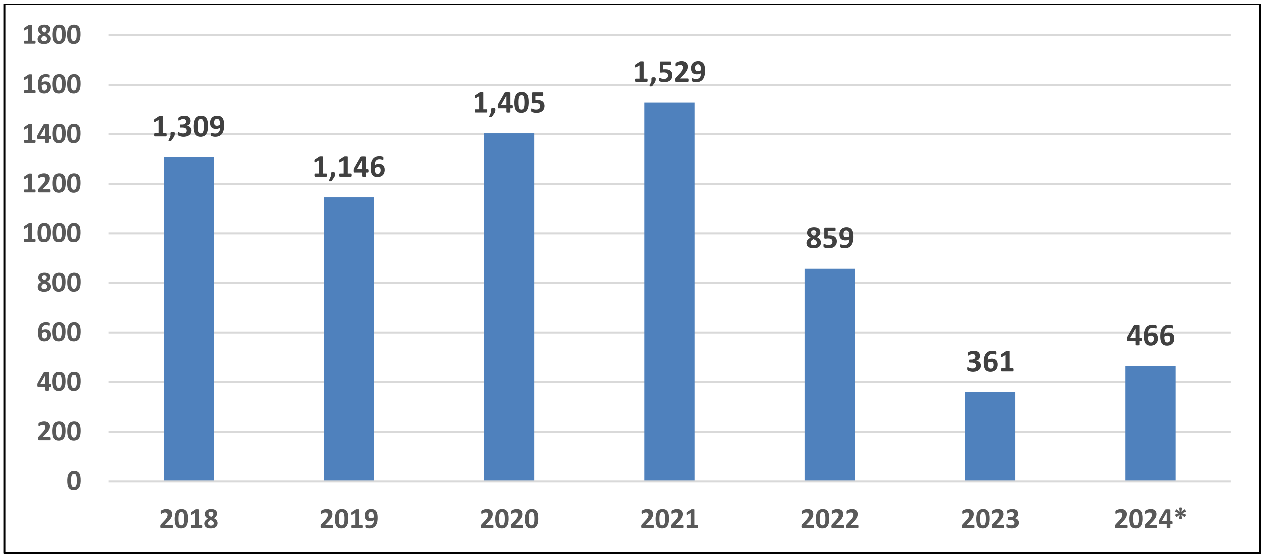
Table 7: Year over Year Percent Change in Inflation



Another year of unchanged interest rates appears to be having the effect intended, as the year over year change in inflation measures continue to decline. Interest rate increases make borrowing more expensive and have rippling effects through the economy for businesses and consumers. Higher interest rates for mortgages, vehicles, and small business lending tends to constrain economic activity. Cities such as New Braunfels can expect these increases to impact its local economy as well. In last year's forecast, staff anticipated that housing construction activity in New Braunfels would expect some headwinds from these monetary policy adjustments. Interest rates, coupled with the declining availability of developable property within city limits as discussed in previous forecasts appear likely to impact housing construction values and permit figures moving forward.

Housing is a significant part of the U.S. economy. With housing investment and construction and housing related services constituting approximately 15-18% of Gross Domestic Product, a dip in this key economic activity will impact national, regional and local economies. Higher interest rates in 2023 had the intended effect of slowing housing activity and this is evident in New Braunfels and the larger San Antonio Metropolitan Statistical Area (MSA). By May 2023, sales volume for single-unit residential housing had decreased 10.3% year over year in the New Braunfels market area and median prices were down approximately 4% from May 2022. With another year of data, sales volume has decreased another half percent, and median prices are down another 11.5% compared to May 2023. These reduced figures represent a significant departure from previous trends around single- and two-family permitting figures:

Table 8: New Braunfels Residential Single and Two Family Permits

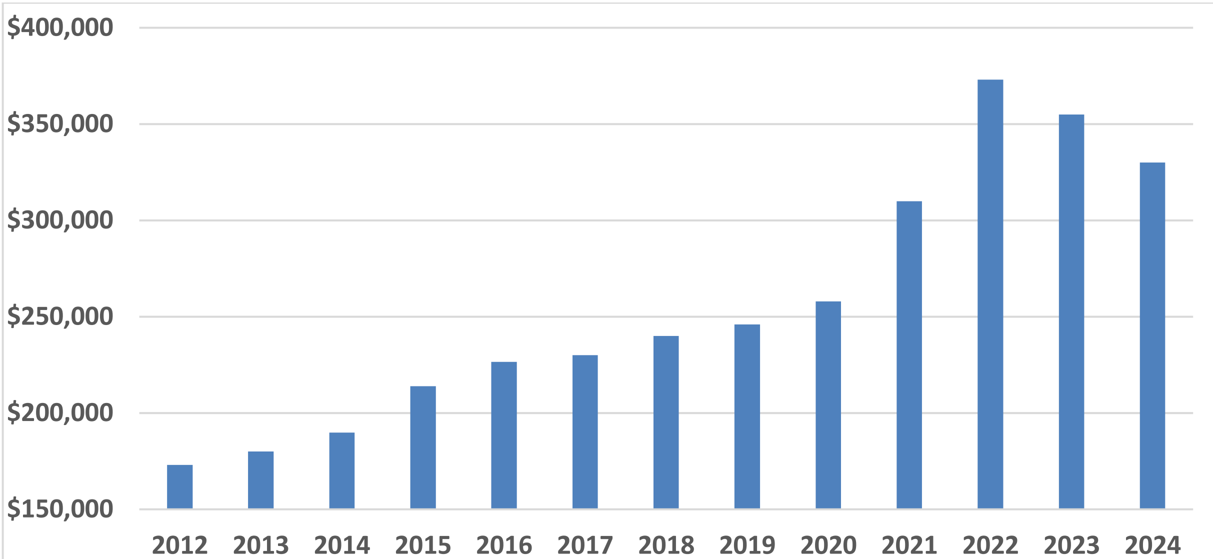


Source: City of New Braunfels Permitting data, *through May 2024

In previous forecasts, staff asserted the housing market had begun a slight correction in early 2022 and that interest rate increases by the Federal Reserve would have the effect of reducing the mortgages originated and depressing demand for housing. Since 2021-, single- and two-family permits issued have seen a marked decline. The reasons for this are primarily twofold: overall depressed demand for housing as well as a declining availability of developable property within the corporate limits of New Braunfels.

It was unclear at the time whether the decreased demand would slow appreciation in existing home prices and overall taxable values. The housing market may be adjusting to a new normal that is characterized by an average 30-year fixed mortgage rate above six percent (6%). Despite the persistence of higher mortgage interest rates, Texas' residential mortgage activity is steadily improving. However, with more data to analyze and a sustained campaign to increase interest rates, it is clearly having an effect to soften demand and reduce prices. While median housing prices saw decreases from their 2021 highs, there are indications that prices are stabilizing.

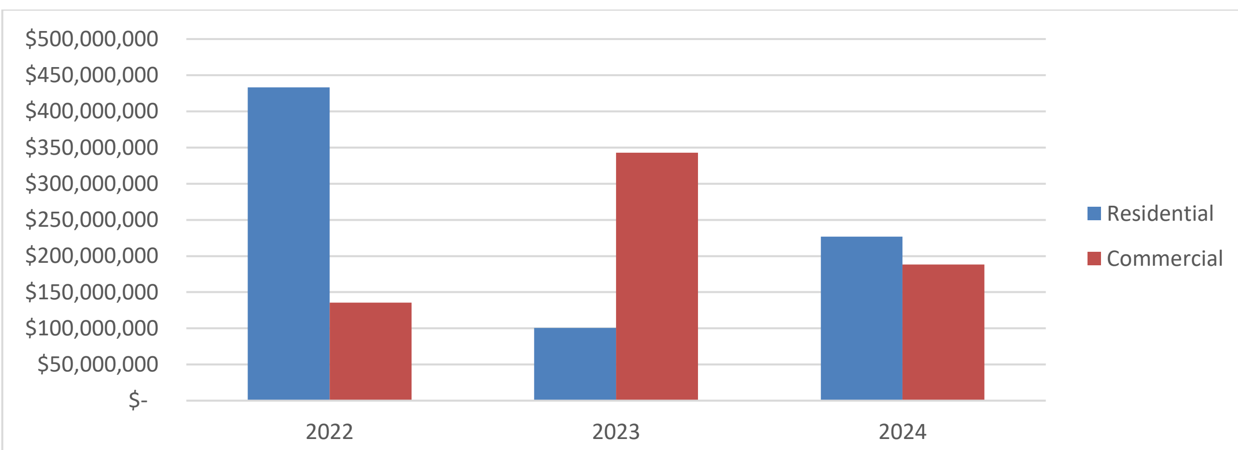
Table 10: New Braunfels Median Home Price



Source: Texas A&M Real Estate Center and Four Rivers Association of Realtors

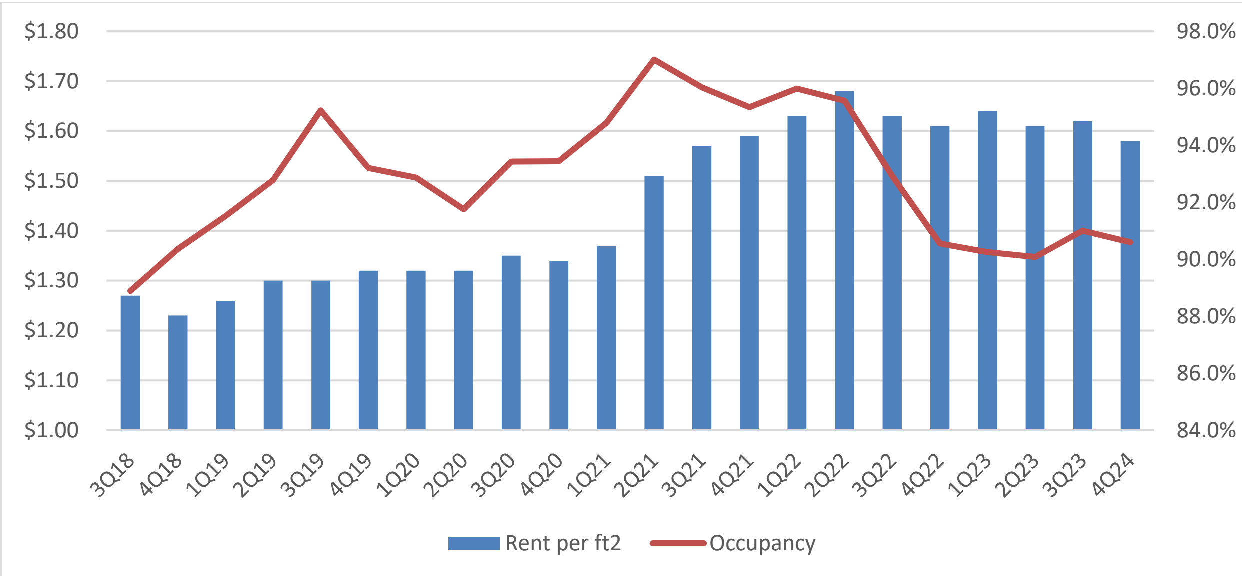
Higher rates effect permitting of residential and commercial uses. The period from June 2023 through May 2024 saw decreased values for commercial permits issued during that period as well:

Table 11: Valuation of Permitted Residential and Commercial Construction



Multifamily developments in New Braunfels saw increased vacancy rates through 2022 and part of 2023, although it appears vacancy rates have stabilized at around 9%. This led to some downward (or slowing upward pressure) on rent prices:

Table 12: New Braunfels Multifamily Rents Per Square Foot and Occupancy

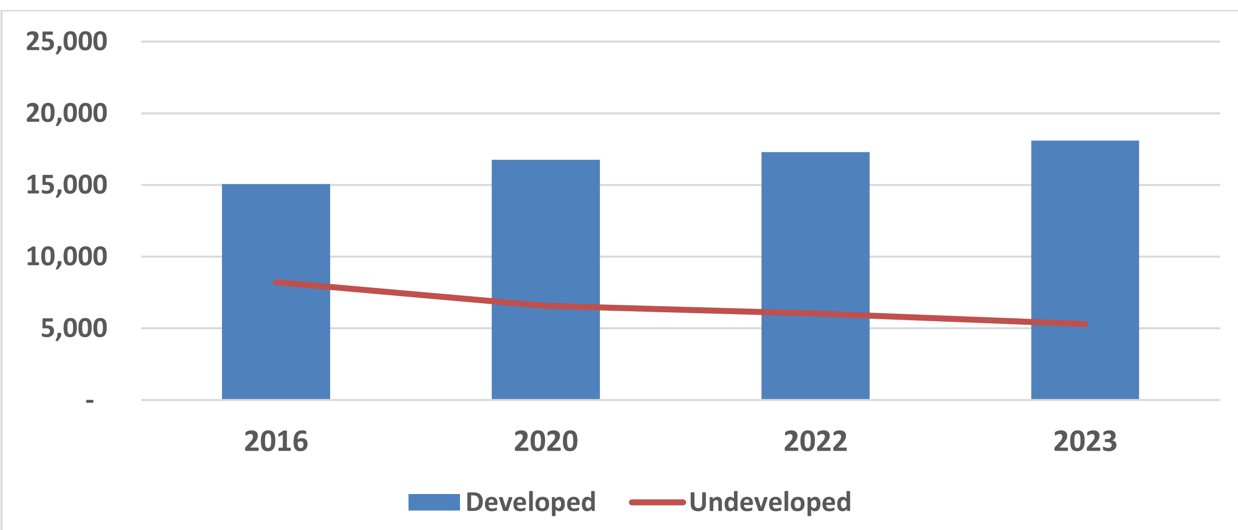


Apartment deliveries in 2023 were approximately 302, which is less than half of the 650 units in 2022. While several projects are under construction in the New Braunfels submarket, the city can expect a softening supply delivery with vacancies at current levels and slowing rent increases.

Developable Land Supply and Consumption

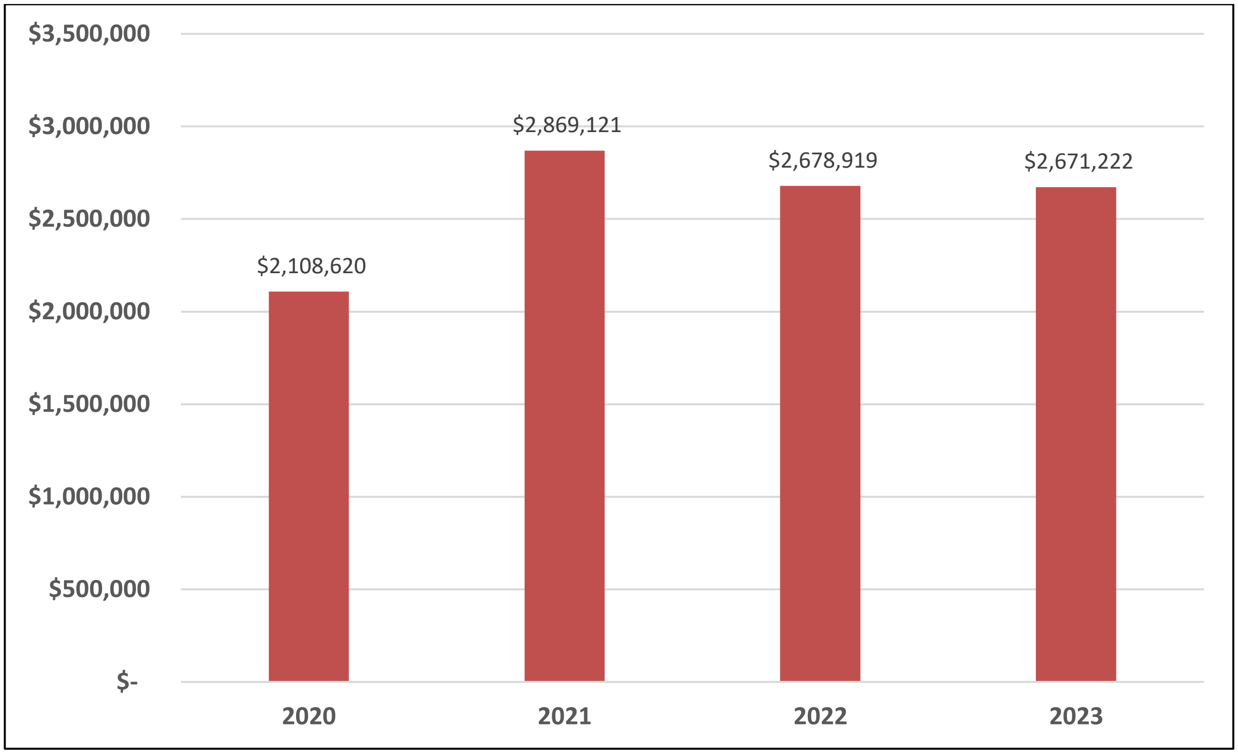
The reality of declining land availability is forcing residential and commercial construction activity into the City's extraterritorial jurisdiction where it (the city) does not receive permitting revenues or taxable value. In the three-year period between 2020 and 2023, the City saw another 1,274 acres of land be platted with the intent to construct a structure. This represents a decline of around 5% of total available land in the City or approximately 10% of the net developable acreage remaining.

Table 13: Developed Land and Remaining Undeveloped Property Estimates by Acre



Source: Comal and Guadalupe County Appraisal data, 2016-2023

Table 14: Building and Development Permit Revenue



Source: City of New Braunfels Permitting data

As the supply of land declines and development projects in the city become more focused on infill and redevelopment, the city can expect to see a stagnant or declining collection of revenue from building permits as shown in the above table that shows collections from 2020 through 2023.

Conclusions

New Braunfels' economic performance and overall growth is somewhat linked to the broader San Antonio region. While employment growth in the region is slower than the state, the region continues to see low unemployment and wage growth. New Braunfels' attraction to college educated adults is leading to higher shares of the population having completed a bachelor's degree or greater. This is likely to lead to continued household income growth overall. A recent market analysis of all major commercial real estate classes – office, retail, industrial, and hospitality- showed that New Braunfels occupancy rates and rent growth is among the strongest in the region. As such, the City can expect to see the private sector move to meet the demand for these uses in the area. The question of whether those potential projects can be accommodated within the City limits, however, is a question of the availability of a clear path towards redevelopment and infill of parcels.