CITY OF
LEAGUE CITY
TEXAS

LONG RANGE
FINANCIAL FORECAST
FISCAL YEAR 2023

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60TH LEAGUECITY

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Mayor and Members of City Council, City Manager, Finance Committee
City of League City, Texas

This letter introduces the City's Long Range Financial Forecast for FY2023-2027. The purpose of the forecast is to provide long-term context for annual decisions that will be made with the FY2023 Budget and FY2023-2027 Capital Improvement Plan. With this forecast, we hope to advise City Council of prevailing economic conditions, the effect of our economic and operating environments on revenues and expenses, and options available for allocating funds in accordance with City Council goals and priorities.

Conditions and Considerations

League City continues to experience growth, while slowed in 2021 and 2022, is showing signs of returning to 2019 levels. Accordingly, this forecast projects an increase in population and factors related thereto at an average of 1.98%. New home construction is the key indicator of growth in League City, and FY2021 at 388 new single-family homes permitted by the City, which is the lowest number this century. Currently, the City is trending to permit 400 new single-family homes by the end of 2022 but a rebound is expected as the current housing market is reflecting high demand. This forecast assumes a tempered, but steady, conservative growth rate of 600 homes in FY2023, with 800 homes in FY2023, 900 new homes in FY2024-FY2025, and 1,000 in FY2027 if the ever-changing market does not temper sales.

As the City continues to grow, demand for basic services will also grow. This forecast projects that our population, currently estimated at 116,834 in January 2022, will be 130,174 in FY 2027. While not accounting for additional programs, the forecast includes inflation at the rate of 8% in FY2023, 6% in FY2024, 3% in FY2025, 2% in FY2026, and 1.5% in FY2027. Staff will carefully identify the service and capital demands and plan for measured growth in programs annually as necessary.

The Capital Improvement Program (CIP) is the driver of the debt and related debt service requirements as shown in the May 2019 GO Bond approval. While the growth of the community increases the demand for infrastructure, staff continues to review the CIP in an effort to maximize our efforts and focus available funding to provide the most immediate impact on the community. As established in FY2017, continued funding for reinvestment in infrastructure is included as well, but at a decreased amount to address operational needs and maintain fund balances per policy.

Basis for FY2023 Budget

The General Fund forecast started with the FY2022 amended budget with one-time items removed. The FY2023-FY2027 forecast includes property tax revenue maintaining the no-new-revenue rate each year of the forecast as set forth as an annual goal by City Council, a 2% cost of living and 2% merit increase along with 2% cost of living for civil service and civil service step increases, the anticipated effect of inflation on costs, reduction in funding for capital reinvestment projects each year of the forecast, funding for implementation of the FY2022 compensation study at 3% of non-civil service salaries, and the addition of five positions annually for each year of the forecast . The forecast anticipates revenues slightly over total expenditures in the General Fund through the forecast period except for FY2027 by reducing the annual cash funding for CIP reinvestment projects. FY2026 anticipates a decrease of nearly $2 million in property tax revenue due to maintaining the no-new-revenue tax rate along with closure of Saddle Creek TIRZ #2 (Victory Lakes). Details of the decreased funding are list in the Revenue and General Fund sections. Expenditures include funding to implement the FY2022 compensation study and an additional five positions annually for the five-year period. The forecast does not include funding for expanding existing programs or new programs.

The Utility Fund is projected to maintain a healthy balance due to the forecast including revenue projections based on annual rate increases detailed in the 2019 utility rate study. The forecast includes the effect of inflation, growth and mandates and commitments on expenditures, funding for implementation of the 2022 compensation study, as well as the impact of debt scheduled in the FY2022-2026 CIP. The forecast also includes two additional positions annually beginning in FY2024 but does not include the expansion of existing programs or new programs. Projected excess revenue offers the opportunity to cash fund capital projects instead of issuing debt as outlined in the FY2022-2026 CIP. These decisions will be addressed annually as the CIP is updated and debt issuance amounts are determined.

We look forward to working with the Council to develop a sustainable financial plan for fiscal year 2023 and into the future.

Respectfully,

Angie Steelman

CITY OF LEAGUE CITY
LONG RANGE FINANCIAL FORECAST
FY2023 - FY2027
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LONG RANGE FINANCIAL FORECAST
ECONOMIC OUTLOOK

Economic Overview

The economic condition and outlook for League City is positive, based upon strong local and regional growth. Given the attractiveness of the region, the opportunities for new development in nearly one-half of the City, and the responsible approach to growth adopted by City leadership, the prospect of additional, steady, and healthy growth is highly likely. The 2010 Census placed League City's population at 83,560, which is an 84% increase over the population of 45,444 in 2000. The 2020 Census population was a 37% increase over 2010 at 114,392. Average, annual population growth has slowed since the 2020 Census was taken, with the League City's population estimated at 116,834 in January 2022. As a result of the growth of the last decade, League City continues to be the largest city in Galveston County, and it has transformed from a small town into a bustling suburban community.

Due to its proximity to the petrochemical plants in surrounding communities, League City has been positively impacted, both directly and indirectly, by both declining and steady oil and gas prices. In 2021, League City continued to see new construction of all types, and the community continues to be a highly attractive location for families and businesses alike. Between 2016-2021, an average of 649 new home construction permits were granted with 820 in 2016, 767 in 2017, 671 in 2018, 802 in 2019, 484 in 2020, and 388 in 2021. However, new home starts in League City, Texas have merely been temporarily delayed, as a result of the COVID-19 Pandemic. New home starts are anticipated at 400 in 2022.

As the world dealt with the repercussions of the COVID-19 Pandemic in 2020, the City Council established the League City Emergency Turnaround Task Force (Task Force) to share resources and plan for the recovery of the local economy. As a result of the pandemic, the City experienced an increase in the community's unemployment rate from an average of 6.8% in 2020 and 5.65% in 2021, as compared with 7.7% and 6.19%, respectively, across the State of Texas in 2020 and 2021. Representatives of the Task Force met on a weekly basis to address the fallout of the pandemic, collaborate with community business and health care partners, encourage local businesses to adapt and continue operations within the limits allowed by law and healthcare professionals, aggressively promote "shopping local", and provide resources to support the ability of local businesses to thrive.

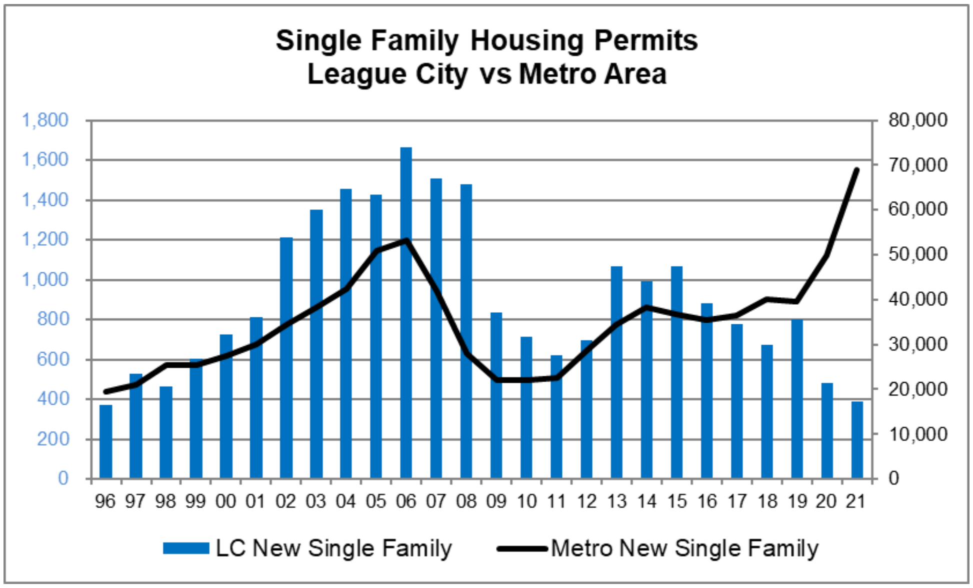
In spite of COVID-19, sales tax collections have remained strong. FY2022 anticipates ending the year at $1.6 million over budget for a total of $25.5 million. For the FY2023-2027 forecast, while taken into consideration, revenues nor expenses were tempered due to potential impacts of COVID-19.

The League City Economy

League City's population grew from 45,400 in 2000 to 83,560 in 2010 and is currently estimated at 116,834 as of January 2022. As mentioned previously, new housing starts slowed during 2020 and 2021 (see graph on following page). Local retail stores have expanded in the Interstate 45/FM 646 corridor, adding jobs to our workforce and attracting commerce to the City. The areas on either side of the I-45/FM 646 intersection continue to develop with more restaurants, offices, and commercial development.

In conjunction with corporate offices and destination retailers, much of League City's primary job footprint and daytime population has been primarily associated with the medical sector.

The University of Texas Medical Branch (UTMB) opened its 64-acre, League City Campus with a $90 million project in early 2016, and it has been expanded since to 92 acres. Long-term plans include full time employment of 2,200 medical personnel, 800,000 square feet of medical facilities, up to 350 additional hospital rooms, and an ultimate buildout of 3.5 million square feet of medical space by 2040.



M.D. Anderson opened its 190,000-square foot, $134 million outpatient cancer treatment facility in 2018 in partnership with UTMB. The facility is located on UTMB's League City Campus and will offer radiation and surgical oncology, infusion therapy, pain management, nutrition, and other support services.

Memorial Hermann opened its 47,000-square foot Convenient Care Center, which is the largest of its kind in the Memorial Hermann Health Care System, in Pinnacle Park in 2018. The Convenient Care Center features a freestanding 24-hour emergency department that offers on-site imaging and lab services, a breast care center, physical therapy, and a multi-specialty care clinic.

Houston Methodist leased 20,000 square feet of space in League City in 2018, and it's now in the process of constructing a new, 10,000 square foot emergency care center in League City!

Pinnacle Park is a 100-acre mixed use development on I-45 and Big League Dreams Parkway, which includes Cabela's, a 112-room Marriott Fairfield Inn & Suites Hotel, and Memorial Hermann's largest Convenient Care Center. Pinnacle Park is developing 112,000 square feet of additional retail space, which currently includes Abuelo's Mexican Restaurant, Red Wing Shoes, Coco Crepes, Corks & Casks, Salata, Black Bear Diner, The Toasted Yolk Café, and Kabuki Japanese Grill & Sushi Bar. City Council approved a re-zoning application to facilitate the development of a new, 339-unit, Class A multi-family project. In the next few years, Pinnacle Park will include office space and an additional 80,000 square feet of retail space.

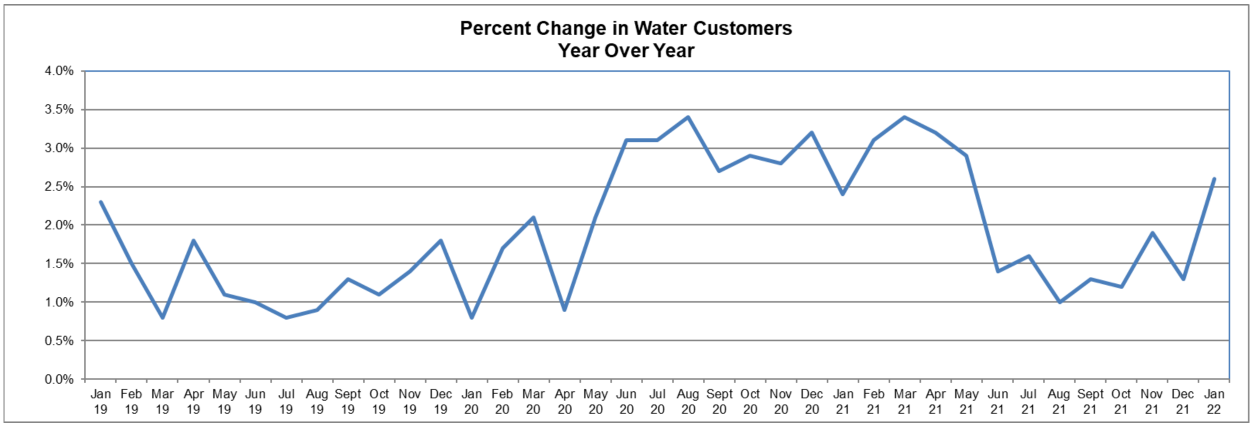
Another commercial mixed-use development called The Riverview at Clear Creek, which lies on the southeast frontage of I-45 and Clear Creek, is proposed to include a marina, public space, plus space for retail, office, restaurant, multi-family, and hotel development for an estimated construction value of at least $115 million.

New retail and restaurant businesses that are planning to open include Fuji Ramen & Bar and Hoppe's Sports Grill. Alamo Drafthouse will feature 10 screens, a 60-foot, 100% reserved seating in oversized luxury recliners, 4K projection, in-theater food & beverage service, and a standalone lobby bar offering a selection of over 40 local and regional craft beers. Alamo Drafthouse submitted plans before the COVID-19 Pandemic, and it is considering various options moving forward into 2022 and 2023.

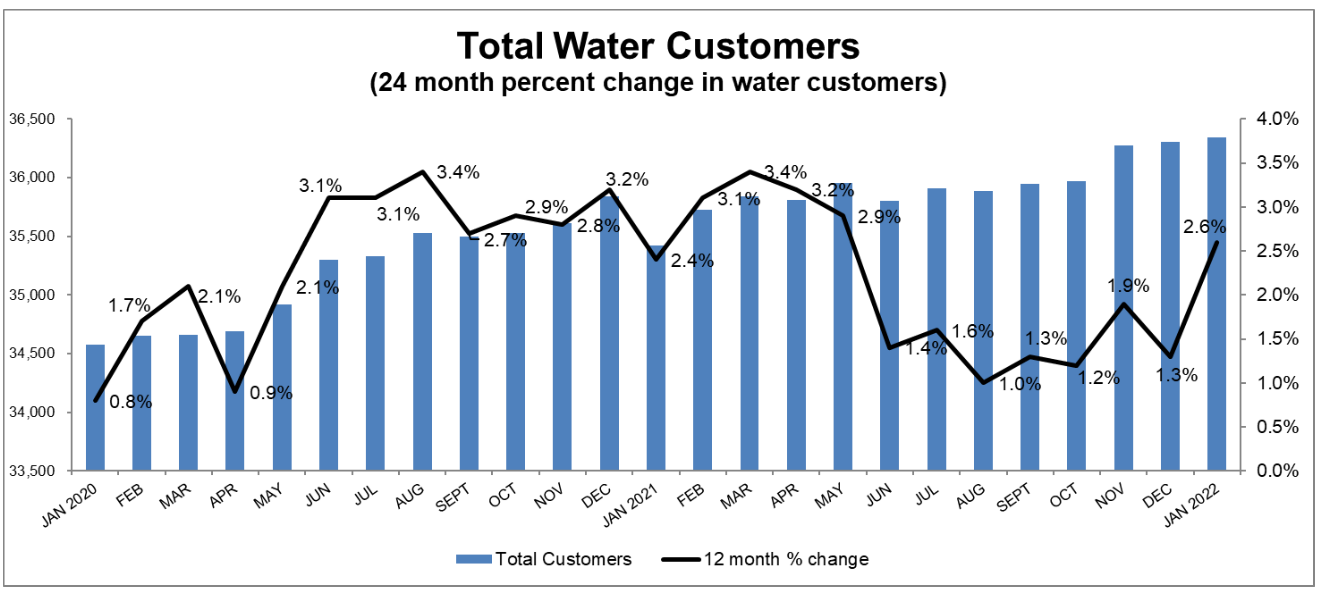
Two new multi-family projects – Highbridge at Egret Bay (est. $28.5 million in taxable value) and Aura at Beacon Island (est. $30 million in taxable value) – are under various phases of development. College of the Mainland opened a 27,570 square foot satellite facility in League City to offer an 18-month accelerated Associate of Arts Program, plus dual credit, and general education classes.

The number of new single-family homes has been a major indicator of growth in League City that underscores the population increase. In January 2022, League City's population is estimated at 116,834, supported by three key indicators: 2010 US Census numbers, single family housing starts, and new water customers. League City's new home construction has followed the Houston regional trend closely until 2018 as demonstrated in the graph above. In 2019, 802 new single-family homes were permitted by the City. A decline was seen in 2020 with only 484 new single-family homes permitted by the City followed by 388 in 2021. Currently, the City is trending to permit 400 new single-family homes by the end of 2022 but a rebound is expected as the current housing market is reflecting a high demand.

The growth in water customers seen below paralleled League City's growth in housing units over the last two years. As of January 2022, League City has 2.6% more water customers than it did a year ago.



As of January 2022, the City had 36,339 water customers, 920 more than January 2021. The chart below again represents the slowed growth that we have experienced over the last 24 months.



This forecast assumes just under an average, modest 2% annual growth for FY2023-FY2027.

General Economic Outlook for FY2023 and Beyond

The economic outlook for the Forecast is based on good local and regional growth for the balance of 2022. Although COVID-19 remains part of the current landscape, local businesses have managed to continue serving the community as indicated by the growth in sales tax. While the average growth annually for sales tax from FY2016-FY2020 is 7.8%, the forecast includes growth for not only population, but also inflation as shown below:

SALES TAX REVENUE

FY 2023 Forecast	FY 2024 Forecast	FY 2025 Forecast	FY 2026 Forecast	FY 2027 Forecast
9.5%	7.9%	5.1%	4.1%	3.8%

Property tax, the City's largest revenue source, has been tempered in the forecast due to the current Council's commitment to maintaining as close to the no-new-revenue tax rate as possible. This forecast is based on keeping total property tax revenue flat, which represents the meaning of the no-new-revenue tax rate. A city receives the same amount of revenue from property taxes from the year before plus new property added to the tax roll. As the debt service payments increase due to the selling of the 2019 GO Bonds approved by election, general fund property tax revenue will decrease by the same amount. Also accounted for in the forecast is the effect of the TIRZ 2 Saddle Creek Ranch (Victory Lakes) in 2026 and continuing in 2027.

ESTIMATED PROPERTY TAX REVENUE

	FY2023	FY2024	FY2025	FY2026	FY2027
Prior Year Property Tax (NNR)	$ 48,935	$ 49,620	$ 50,487	$ 51,514	$ 50,542
New Growth	685	866	1,028	1,027	972
TIRZ #2 closure	-	-	-	(2,000)	-
Total Property Tax Revenue	**$ 49,620**	**$ 50,487**	**$ 51,514**	**$ 50,542**	**$ 51,513**
General Fund portion	$ 37,862	$ 38,135	$ 38,356	$ 36,844	$ 36,603
Debt Service portion	11,758	12,352	13,158	13,698	14,910
Total Property Tax Revenue	**$ 49,620**	**$ 50,487**	**$ 51,514**	**$ 50,542**	**$ 51,513**

Utility revenue is reflected in the forecast with rate increases as outlined in the 2019 Utility Rate Study and estimated population growth. For other revenues, a steady growth rate has been applied based on historical population growth. This assumption is applied to population, water customers, and new home construction. The major new real estate developments mentioned in the previous sections are **not** a part of the forecast assumptions because of the uncertainty associated with the timing of construction schedules.

Revenues are discussed in detail in the Revenue Summary section of this document.

BASELINE ECONOMIC ASSUMPTIONS

Area/Indicator	FY 2023 Forecast	FY 2024 Forecast	FY 2025 Forecast	FY 2026 Forecast	FY 2027 Forecast
Metropolitan Area					
Employment Annual Growth Rate	8.0%	6.0%	3.0%	2.0%	1.5%
Inflation Rate	8.0%	6.0%	3.0%	2.0%	1.5%
Fuel Prices	45.0%	-10.0%	-10.0%	0.0%	0.0%
Health Care Inflation	10.0%	7.8%	7.8%	7.8%	7.8%
Investment Pool Earnings Rate	1.5%	2.0%	2.0%	1.5%	1.0%
League City					
Population Growth Rate	1.47%	1.94%	2.14%	2.09%	2.28%
City Water Customers Growth Rate	1.65%	2.17%	2.38%	2.33%	2.53%
Population	119,734	122,054	124,664	127,274	130,174
New Homes	600	800	900	900	1,000
New Construction (in millions)	$162.3	$334.4	$442.4	$501.6	$511.9
Tax Supported Bonds Interest Rate	4.25%	4.50%	4.75%	4.50%	4.00%

LONG RANGE FINANCIAL FORECAST
REVENUE SUMMARY

Revenue Overview

The City's major revenue sources include property taxes, water and wastewater revenue, and sales taxes. Each of these revenue sources are driven by the growth of the local economy and the City's population. This is also true of a number of the City's other revenue sources including fees and charges for service, franchise taxes, and licenses and permits. The revenue projections presented in the forecast use summary categories of City revenue. These projections are based on an analysis of at least 10 years of historical trends for each revenue category, as well as the effects of current economic conditions and projected economic activity. The chart below details the City's major revenues which are expected to grow as driven by the expected growth in the local economy and populations.

MAJOR REVENUE PROJECTIONS
($THOUSANDS)

Revenue Source	FY 2023 Forecast	FY 2024 Forecast	FY 2025 Forecast	FY 2026 Forecast	FY 2027 Forecast
Property Tax	$49,620	$50,487	$51,513	$50,542	$51,513
Water & Wastewater Revenue	$42,116	$45,262	$48,286	$50,618	$53,164
Sales Tax (General Fund only)	$27,697	$29,896	$31,432	$32,718	$33,955
Sales Tax (Debt Service Fund only)	$5,897	$7,795	$7,078	$6,324	$6,000
Electricity Franchise	$3,502	$3,578	$3,663	$3,748	$3,843
Cable TV Franchise	$1,426	$1,457	$1,492	$1,526	$1,565
Other Franchise Taxes	$638	$648	$658	$669	$681
Charges for Service	$9,870	$10,462	$10,983	$11,411	$11,574
Fines and Forfeits	$1,010	$1,032	$1,057	$1,082	$1,109
Licenses and Permits	$4,180	$4,235	$4,298	$4,360	$4,430
Total	**$145,957**	**$154,852**	**$160,459**	**$162,998**	**$167,834**

Property Taxes

Property taxes, the City's largest revenue source, are based on the tax rate adopted annually by City Council as applied to the certified property rolls prepared by the Galveston and Harris County appraisal districts (GCAD and HCAD, respectively). The rate is composed of two parts; the first to support general city operations through the General Fund and the second part to pay principal and interest on tax supported bonds through the Debt Service Fund. Revenue is deposited accordingly.

As shown in the graph on the following page, while total property tax revenue grew rapidly from 2000-2009, this important revenue source was relatively flat for five fiscal years, FY2010-2014. This is due to the combined effect of successive tax rate cuts in FY2011, FY2012 and FY2013, and increased homestead exemptions in FY2014, FY2015 and FY2016.

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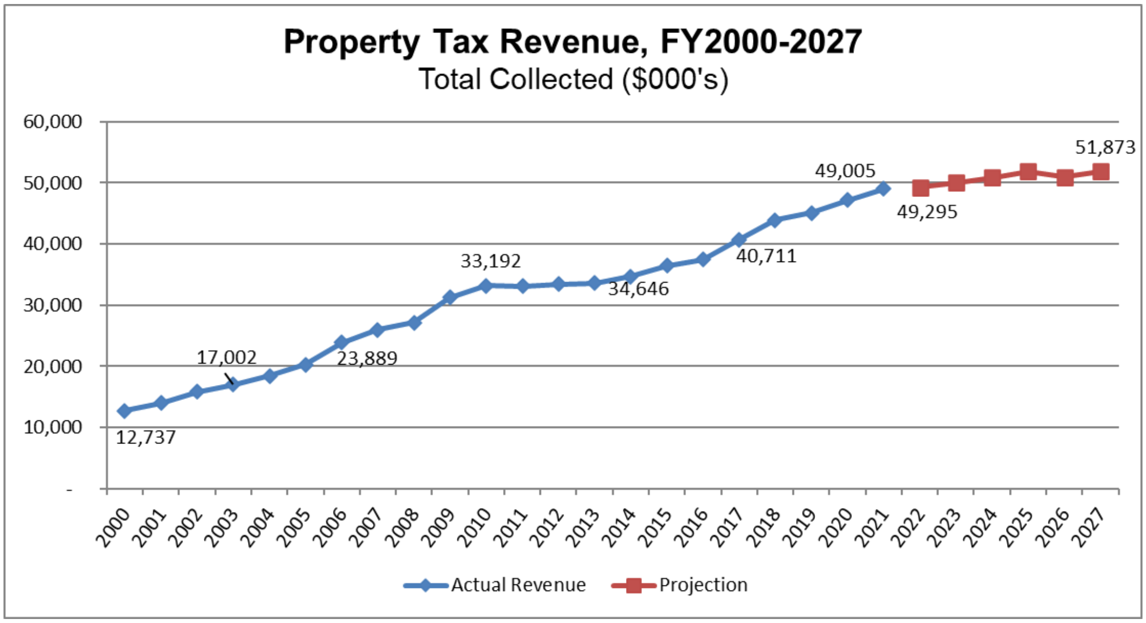

Based on the City Council's goal for the City Manager to present a proposed budget at the No-New-Revenue Tax Rate, the forecast projects only growth for new properties.

As part of the strategic planning process, City Council established a goal for the annual Proposed Budget to be presented with property tax revenues at the no-new-revenue tax rate. The "no-new-revenue tax rate" was created as part of Senate Bill 2 and replaced the "effective tax rate." Generally speaking, the "no-new-revenue tax rate" produces the same amount of revenue from the same properties taxed in the previous year. Based on the current City Council goal, this forecast assumes the **only** new property tax revenue each year will be from new construction added to the City's tax roll.

A commitment to maintain the no-new-revenue tax rate may have unintended consequences. The debt portion of the tax rate is not in addition to the no-new-revenue rate but must fit within the rate. And as the 2019 GO Bonds of $145 million are sold, the debt service for principal and interest for those issues may increase the amount of the no-new-revenue rate that is required to service the debt. Fortunately, the new 0.25% sales tax for CIP will assist in buffering the increase required from debt service but the potential issue is worth mentioning for situational awareness. Refer to the charts below and on the following page for estimated revenue between the funds by year.

ESTIMATED REVENUE FROM NNR RATE

	FY2023	FY2024	FY2025	FY2026	FY2027
Prior Year Property Tax (NNR)	$ 48,935	$ 49,620	$ 50,487	$ 51,514	$ 50,542
New Growth	685	866	1,028	1,027	972
TIRZ #2 closure	-	-	-	(2,000)	-
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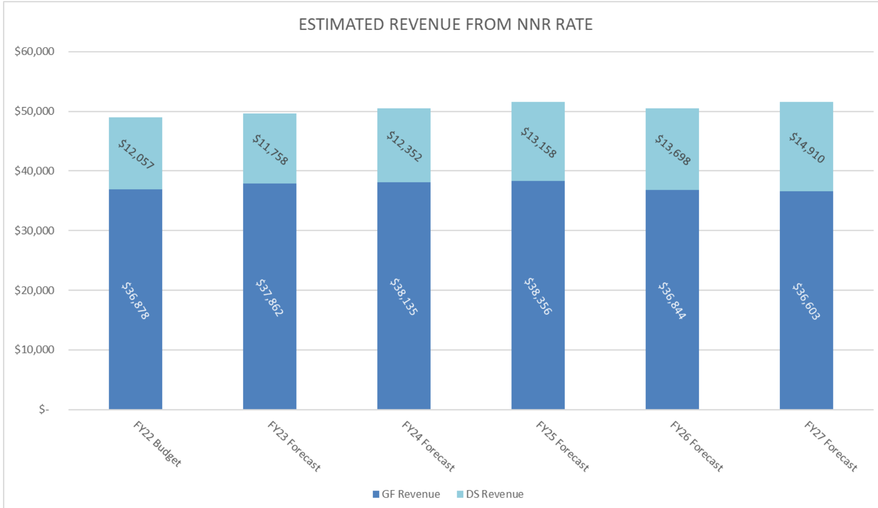
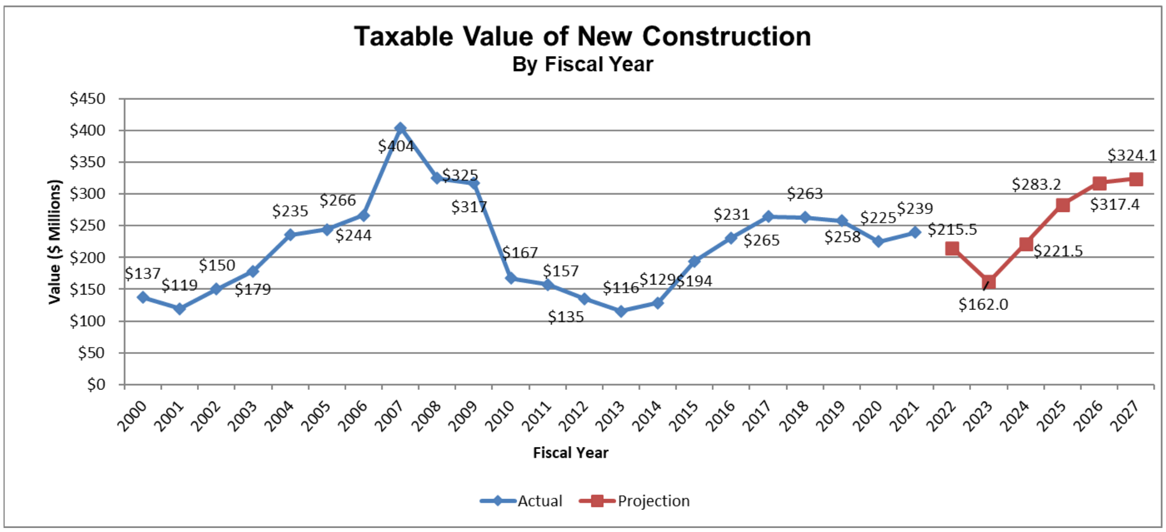
Projected NNR Split between Funds

Fund	FY2023	FY2024	FY2025	FY2026	FY2027
Estimated Debt Tax Rate	24%	24%	26%	27%	29%
Estimated M&O Tax Rate	76%	76%	74%	73%	71%



The chart below shows the historical new construction growth from FY2000-2027.



Based on the preliminary appraised values, $162 million in new construction value at an estimated no-new-revenue tax rate nets approximately $676,000 in property tax revenue in FY2023. This is the lowest amount since FY2014.

As the City continues to grow and demand for housing keeps taxable values of homes rising each year, the no-new-revenue tax rate will decrease parallel to the increase in those values. As the no-new-revenue tax rate declines each year, new construction will be taxed at the declining rates, thus producing less property tax revenue when comparing values.

Projected Taxable Valuation

Type	FY2023	FY2024	FY2025	FY2026	FY2027
Residential	107,952,935	166,247,520	226,650,785	259,515,149	264,705,452
Multifamily	22,594,170	23,084,463	23,633,874	24,184,543	24,796,412
Commercial	31,485,640	32,168,878	32,934,498	33,701,871	34,554,529
TOTAL	**162,032,745**	**221,500,862**	**283,219,157**	**317,401,564**	**324,056,393**
% increase over previous year	-24.81%	36.70%	27.86%	12.07%	2.10%
Total Estimated Property Tax	$ 685,269	$ 866,489	$ 1,027,689	$ 1,027,270	$ 971,780

The second concern regarding the goal to budget at the no-new-revenue tax rate each year regards the expiration and closing of the TIRZ districts. TIRZ #2 Saddle Creek (Victory Lakes) agreement expires in FY2024 with the last year of rebates in FY2025. When a TIRZ ends, the TIRZ increment then becomes a part of the City's property tax revenue stream. Although the rebate expense will no longer be included in the budget, the revenue in essence is no longer included as well. As part of the no-new-revenue tax rate calculation, when a TIRZ closes, the value of the property in the TIRZ is treated the same as existing properties and the no-new-revenue rate will decrease parallel to the taxable value in the TIRZ. If the City adopts the no-new-revenue tax rate, the rate decrease will net any of the prior revenue that was rebated to the TIRZ and the City will see a reduction in property tax rate and revenue. The closure of TIRZ #2 is reflected in the chart below in FY2026 with a decrease of $2 million in property taxes.

ESTIMATED REVENUE FROM NNR RATE

	FY2023	FY2024	FY2025	FY2026	FY2027
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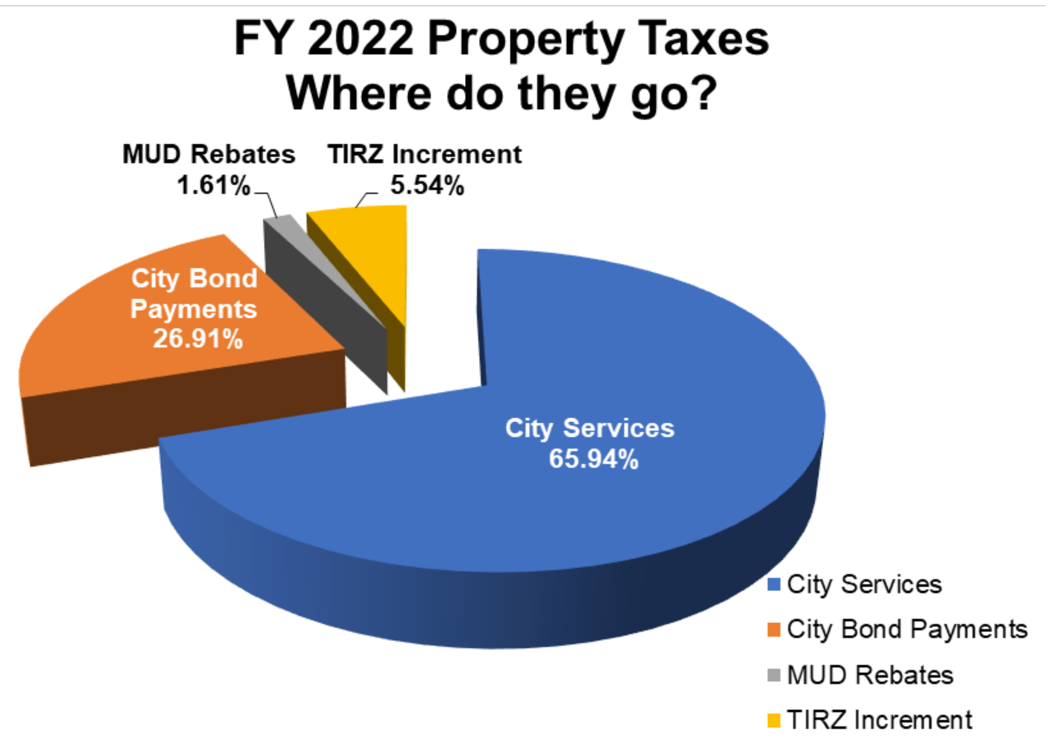
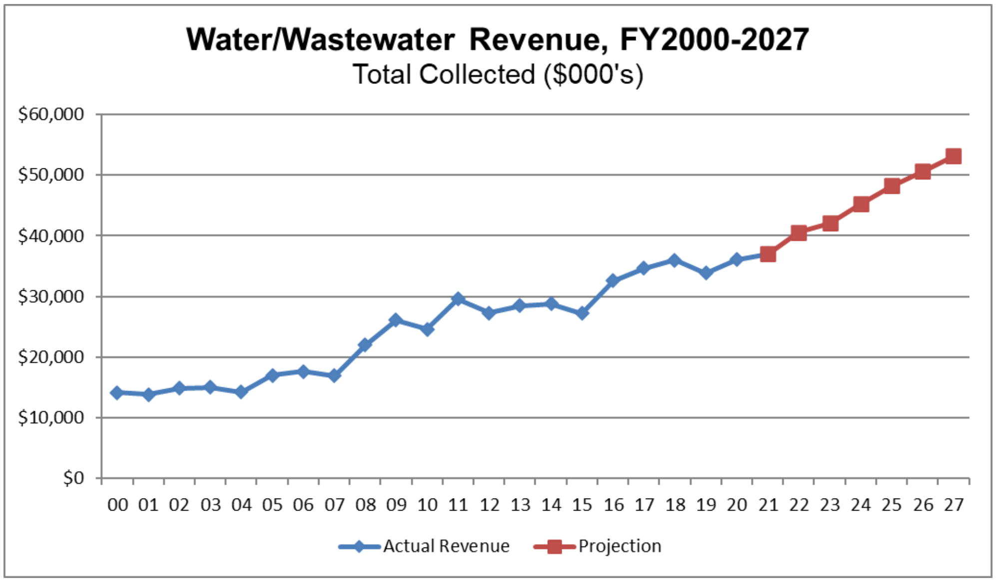
A major goal of the City is to achieve diversification of its taxable properties through selective use of economic development incentives and supportive policies that encourage businesses to locate and/or remain in League City. Conservative long-term revenue estimates can remain the basis for projected financing of core services. Additional growth can be viewed as the funding source for enhanced services and capital improvement funding.



Property taxes collected by the City are not used strictly for City operations or City issued debt service. The previous pie chart illustrates that 7% of total property tax revenue goes to in-city Municipal Utility Districts (MUDs) and Tax Increment Reinvestment Zones (TIRZs) combined. The percentage of tax revenue rebated will decline over the forecast period and the projection is included in the forecast. The last rebate payment to MUD 6 will be in FY2024.

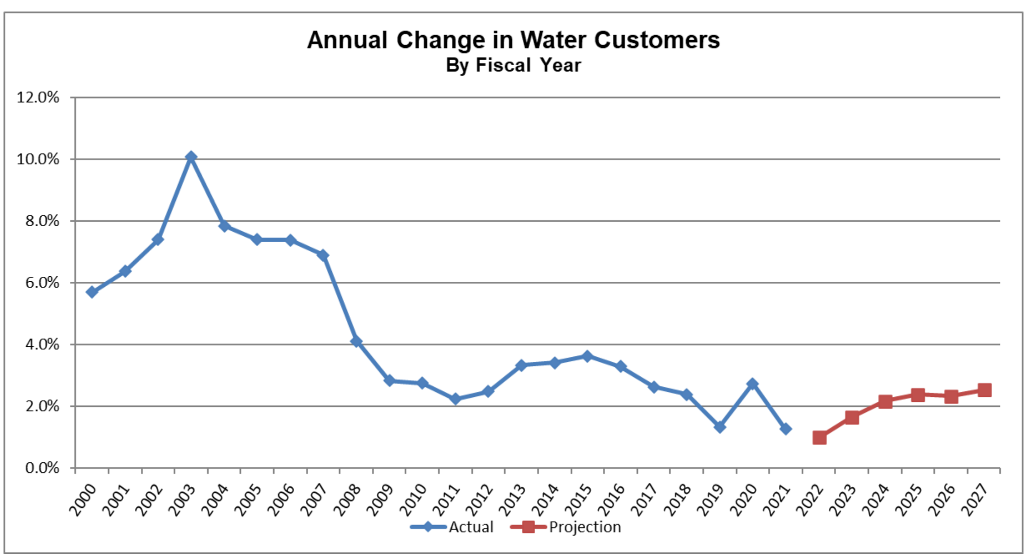
Water and Wastewater Revenue

The City's second largest revenue source comes from monthly payments by the City's 36,339 water system customers. While the number of customers has grown at a steady pace during the last 10 years, FY2018 and FY2019 were relatively "wet" and inhibited revenue growth. Rainfall or the lack thereof and the impact this has on water consumption, particularly during hot, dry summer months makes this a more volatile revenue source. FY2022 revenue to-date is trailing behind normal trends based on lower usage throughout the winter.



The water revenue projection in this forecast: (1) is based on a "normal' or average climatic year in every year of the five-year forecast, (2) assumes the total number of water customers will grow at the same rate as new homes through FY2027 (average of 2.2% over forecast period), and (3) includes additional rate increases over the forecast period as outlined in the 2019 Utility Rate Study.

As detailed in the graph below, the rate of growth in water customers is expected to average 2.2% over the forecast period which is slow and steady with increases in revenue shown on the chart above driven by the rate increased outlined in the 2019 Utility Rate Study.



Sales Taxes

The City sales tax, which provides the City's third largest revenue source, is 2.00% on taxable items. Of this amount, 0.25% goes to the City's 4B economic development corporation to promote and develop amateur athletics and 0.25% goes to the City's Street & Drainage sales tax fund to pay debt service on the May 2019 GO Bond projects. The remaining 1.5% goes into the City's General Fund.

Sales taxes can be extremely volatile even in stable economic times, making it especially difficult to project revenue from this large, important source. Even with the volatility of this revenue source, League City's sales tax increased 41% from $12.5 million in FY2013 to $17.7 million in FY2017. FY2018 saw 14% growth over FY2017 which was mainly attributed to purchases related to Hurricane Harvey. FY2019 ended the year at almost 3% decrease when compared to FY2018 due to construction at I-45 interchange at FM646 and the overpass being removed for several months.

FY2020 became known as the year affected by COVID-19 and much to everyone's surprise, a slight decrease in sales tax receipts occurred during the spring of 2020 but the year finished strong at $1.00 million over budget for a total of $21.55 million.

FY2021 General Fund sales tax ended the year at $23.99 million which is $3 million over the $20.98 million budget. Sales tax continued to over perform expectations even with the uncertainty of COVID-19 business interruptions. The FY2021 budget was prepared during the summer of 2020 with only two months of receipts received for the March and April 2020 months when COVID-19 business disruption first began. As we completed the 2020 calendar year, it was apparent that the FY2021 sales tax budget was more conservative than the effects of COVID-19 were in reality.

Based on sales through March 2022, FY2022 General Fund sales tax are trending to end the year at $25.3 million which is $1.4 million over the $23.9 million budget. The projected overage is due mainly to receipts from October through December 2021 as the receipts for January through March 2022 sales are averaging 3% over the monthly budgets.

The forecast includes a fairly aggressive projection consisting of population growth and estimated inflation as shown in the chart to the right.

SALES TAX REVENUE

FY 2023 Forecast	FY 2024 Forecast	FY 2025 Forecast	FY 2026 Forecast	FY 2027 Forecast
9.5%	7.9%	5.1%	4.1%	3.8%

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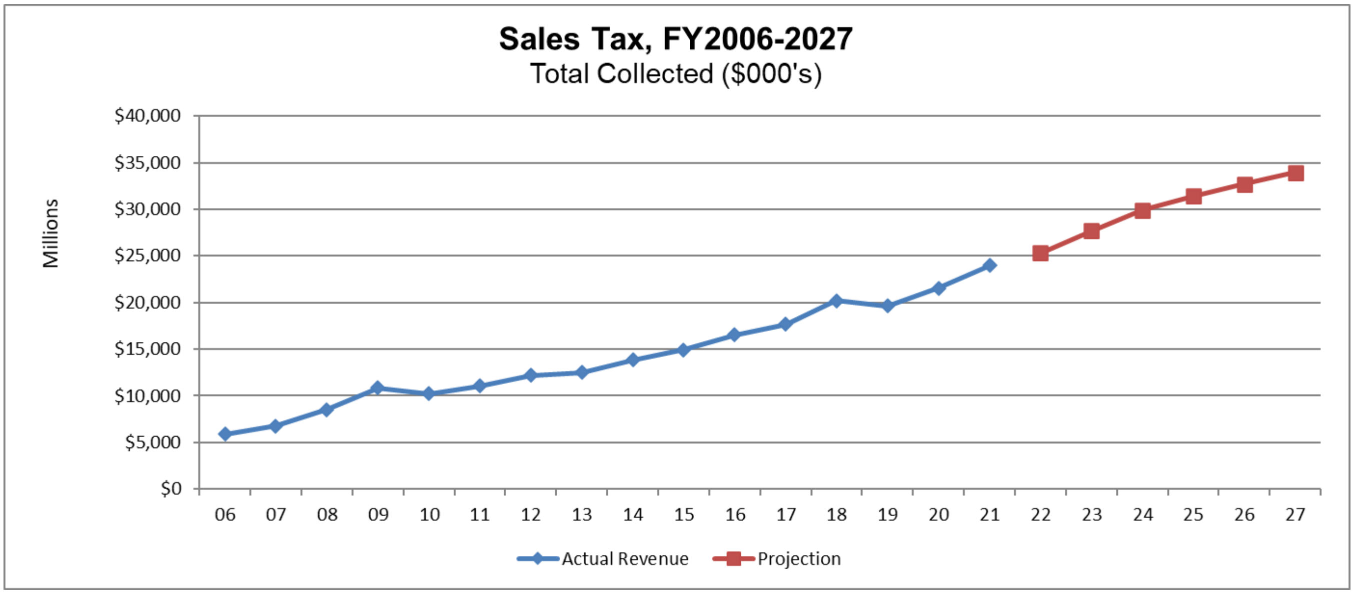
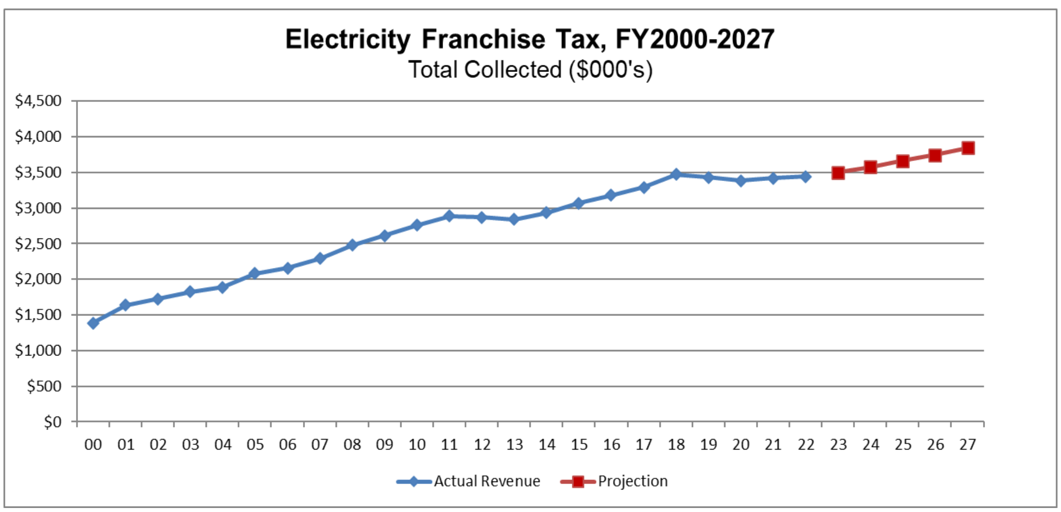


Franchise & Other Taxes

These revenue sources are accounted for as part of the General Fund and include electricity, natural gas, cable television, and telephone franchise taxes as well as mixed beverage taxes.



Electricity franchise taxes, the largest of this group of revenues are estimated at $3.45 million in FY2023. The forecast assumes the growth rate based on population growth rates at an average of 2.2% annually based on anticipated new construction in FY2023-2027.

Cable TV franchise taxes, the second largest of this group of revenues at $1.40 million estimated to be received in FY2022 is also projected using anticipated new construction in FY2023-2027.

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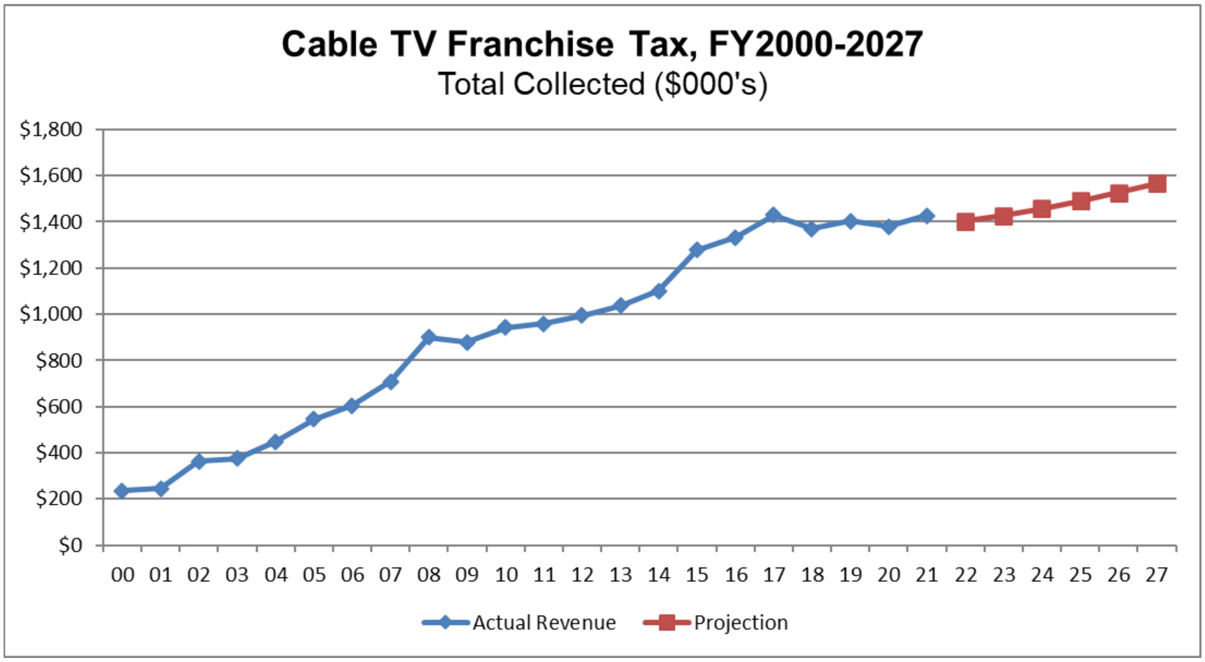

Telephone franchise taxes are held constant through the forecast period because of the increasing reliance on cellular technology in lieu of land lines, and the assumption that this trend will be offset by the City's growth.

Natural Gas franchise taxes and mixed beverage taxes are projected at the general rate of growth projected for League City.

Remaining Revenue Categories are projected in the forecast as follows:
Licenses and Permits: Construction permit revenue comprises 81% of this category and is forecasted based on the dollar value of new construction projected for the forecast period. The remaining licenses and permits are projected at the general rate of growth projected for League City.
Grant revenue and expenditures are held flat. Individual grants would be incorporated into budgeted operations as they are received.
Charges for Service: General population growth rate. This category includes ambulance fees, park recreation fees, and garbage fees. Garbage fees were increased for general population growth plus 75% of CPI per the contract.
Fines and Forfeits: General population growth rate.
Investment Earnings are projected at 1.5% in FY2023, 2% for FY2024 and FY2025, 1.5% in FY2026 and 1% in FY2027.
Miscellaneous revenue is projected at FY2022 levels except for Big League Dreams, which is based on the management contract.
Utility Fund Overhead Payment revenue is projected at an average of 3.75% growth over the forecast period to account for general growth and inflation.

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LONG RANGE FINANCIAL FORECAST
EXPENDITURE OVERVIEW

Forecast Methodology

Expenditures are forecasted for the City's three major funds: General, Utility and Debt Service. The forecast presented herein includes expenditures already approved by and/or committed to by the City Council. Rising costs due to inflation, population growth and/or interest rates are also anticipated and included in this forecast through growth factors applied to each forecast category.

EXPENDITURE GROWTH ASSUMPTIONS

EXPENDITURE CATEGORY	EXPLANATION	FY 2023 FORECAST	FY 2024 FORECAST	FY 2025 FORECAST	FY 2026 FORECAST	FY 2027 FORECAST
Personnel Services						
Salaries	Based on current year budget	4.00%	4.00%	4.00%	4.00%	4.00%
Comp Study Implementation	Based on current year budget	3.00%	3.00%	0.00%	0.00%	0.00%
COLA & Step Increases - Civil Service	Based on 5 year trend analysis	4.00%	4.00%	4.00%	4.00%	4.00%
Social Security	Fixed by federal law (FICA)	7.65%	7.65%	7.65%	7.65%	7.65%
Pension Contribution Rates	Fixed by state law and local ordinance including phase-in rate	14.57%	14.57%	14.57%	14.57%	14.57%
Health and Life Insurance	COLC Analysis	10.00%	7.83%	7.83%	7.83%	7.83%
Supplies						
Energy Supplies	Core CPI + Inflation	8.00%	6.00%	3.00%	2.00%	1.54%
General Supplies	Core CPI + Inflation	8.00%	6.00%	3.00%	2.00%	1.54%
Maintenance Supplies	Core CPI + Inflation	8.00%	6.00%	3.00%	2.00%	1.54%
Small Capital	Core CPI + Inflation	8.00%	6.00%	3.00%	2.00%	1.54%
Services						
Maintenance Services	Core CPI + Inflation	8.00%	6.00%	3.00%	2.00%	1.54%
Vehicle Maintenance	Core CPI + Inflation	8.00%	6.00%	3.00%	2.00%	1.54%
Office Services	Core CPI + Inflation	8.00%	6.00%	3.00%	2.00%	1.54%
Other Services	Core CPI + Inflation	8.00%	6.00%	3.00%	2.00%	1.54%
Professional Services	Core CPI + Inflation	8.00%	6.00%	3.00%	2.00%	1.54%
Electric	Reflects electricity contract price	5.00%	5.00%	5.00%	5.00%	6.00%
Water Utilities	Population plus Rate study increase	3.67%	7.24%	6.44%	4.59%	4.78%
Refuse pickup services	Population plus contract price increases in FY20	7.98%	7.08%	5.93%	4.27%	3.89%
Water Purchases	Population plus core CPI	9.47%	7.94%	5.14%	4.09%	3.82%
Capital Outlay						
Motor Pool Replacement	Core CPI	1.65%	2.17%	2.38%	2.33%	2.53%
Vehicles and Equipment	Core CPI + Inflation	8.00%	6.00%	3.00%	2.00%	1.54%
Transfers						
General Fund to Project Fund	Cash fund & Reinvestment	5,000,000	3,500,000	2,500,000	2,500,000	2,500,000
TIRZ Increment	TIRZ Assumptions	-1.70%	3.60%	0.00%	-65.30%	11.80%

The growth assumptions shown on the previous page are based on the core inflation rate from the consumer price index and include an inflation factor. Health care inflation is based on a five-year average increase in the City of League City's healthcare cost. Electricity is increased based on average growth in usage. Vehicle maintenance and motor pool replacement costs charged to the General and Utility Funds are based on estimated increases in Motor Pool Fund expenditures using core inflation.

Expenditures are forecast over the five years through the following process:

1. Combine line items into forecast categories (shown on the previous page) summarizing similar line items into a single category;
2. Convert the FY2022 Budget amount for each department and line item into summary amounts for the nineteen categories by department;
3. Adjust the FY2022 Budget by category into the FY2023 "Base" for the forecast by:
   a. Adjusting personnel budgets to reflect twelve months of cost for current budgeted positions, incumbents' salaries and benefit levels; and
   b. Reducing budgets by the amount of one-time or non-recurring items included in this year's budget.
4. Identify individual programs for which expenditures and revenues will have to be budgeted in a future year as the result of a commitment by City Council and/or a State or federal mandate.
5. Apply inflation and growth assumptions as displayed in the chart on the previous page.

The outcome of these projections and adjustments is discussed in each fund's narrative section of this Forecast.

Beyond Baseline

The FY2023 forecast includes the annualized cost of the FY2022 merit. The FY2023-FY2027 forecast has been grown based on the baseline assumptions which include annual pay raises based on 2% cost of living and 2% merit. Civil Service STEPS and 2% cost of living increases based on the approved pay plan. The General Fund forecast includes the addition of 5 FTE each year from FY2023 thru FY2027 and the Utility Fund forecast includes the addition of 2 FTE each year beginning in FY2024. Funding is included in the first two years of the forecast to implement the FY2022 compensation study. New programs and expanded service levels are not included, which in this rapidly growing City, is unrealistic.

Employee Salaries

In FY2022, funding for 2% merit increase and an addition 2% cost-of-living raise both for nine months (effective January) was implemented. Based on this, an annual 4% pay raises for FY2023-FY2027 of the forecast has been included. As mentioned above, funding is included in FY2023 and FY2024 of the forecast to implement the FY2022 compensation study.

CAPITAL PROJECTS FUNDING

Cash Funding

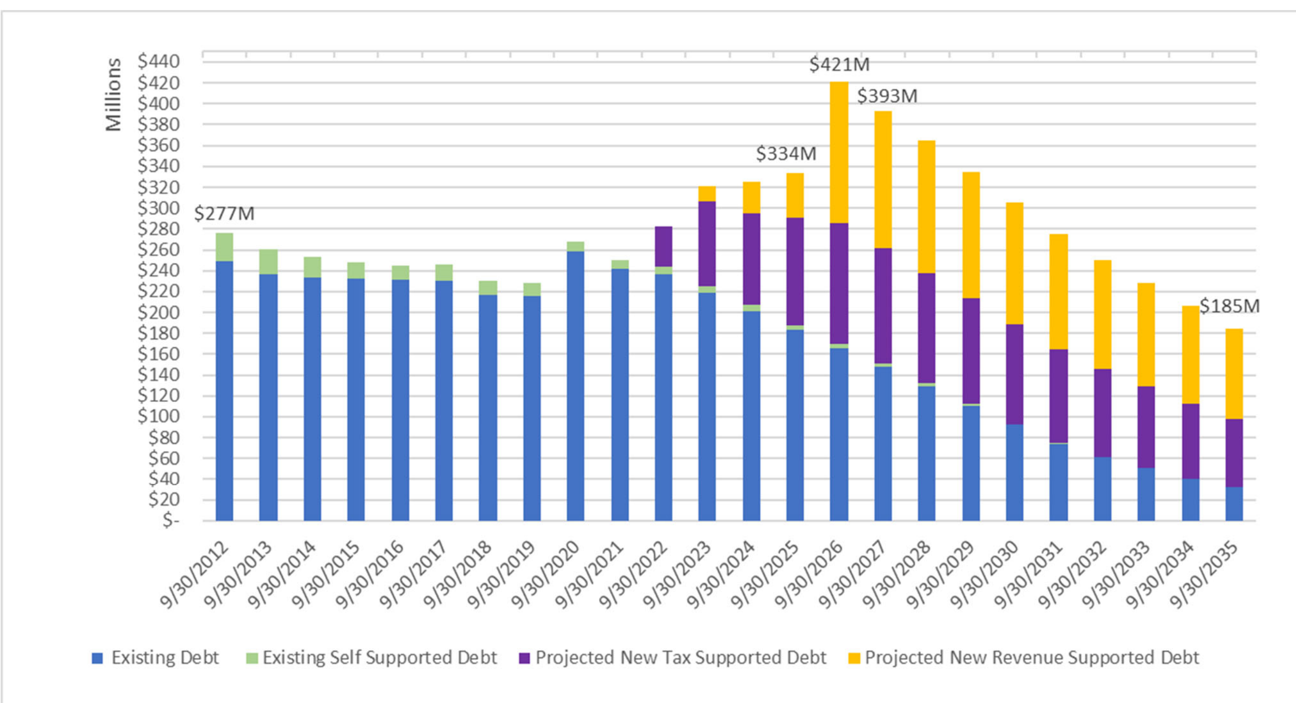
The forecast projects annual general fund capital improvement cash funding of $1.5 million in FY2023 – FY2027. Cash funding for reinvestment projects from the general fund have been reduced in the forecast from previous years in order to maintain the estimated no-new-revenue property tax rate. The first year of the forecast includes $3.5 million cash funding for reinvestment CIP projects, with $2.0 million in FY2024 and $1.0 million in the remaining years.

For utility projects, the forecast is based on $6.2 million of funding for FY2023-2027 for each of the last two years of the forecast.

Debt Funding
The CIP is funded through various sources including operating revenue, grants, restricted revenue sources, developer contributions, and lastly through debt. Currently, based upon the FY2022-2026 Capital Improvement Plan (CIP), $266.17 million in new debt is projected to fund the program. This number is refined annually as projected change and other sources of funding are located. The GO Bond election passed in May 2019, redefining the tax supported CIP debt at $145 million with the addition of post-Harvey drainage projects totaling $73 million and maintaining the Street and Traffic projects at $72 million in new debt, including $24.0 million to construction the North Landing extension with a bridge over Clear Creek. The FY2022-2026 CIP includes the GO Bond projects based on accelerated funding requirements along with other tax supported projects that are anticipated to be funded with new debt. Utility debt is projected based on the FY2022-2026 CIP for a total of $138.72 million in new debt anticipated. The largest funding need remains the water utility at $111.70 million. Providing water supply to a fast-growing city is an expensive proposition. The largest project is the SH3 line ($52.8 million budget with $42.5 million debt) which is shown in the program as the annual debt payment owed to GCWA followed by the 20 MGD Expansion of the SEWPP water treatment plant. Other transmission lines, including providing increased availability in the west side of town, are also driving the projected debt.

The result of these projected borrowing, including the $145 million from the authorized GO Bond, could drive total debt outstanding to $421 million in FY2026. This forecast, along with an update to programmed project timing in the FY2023-2027 CIP, will help identify how the City can proceed and fund this program.

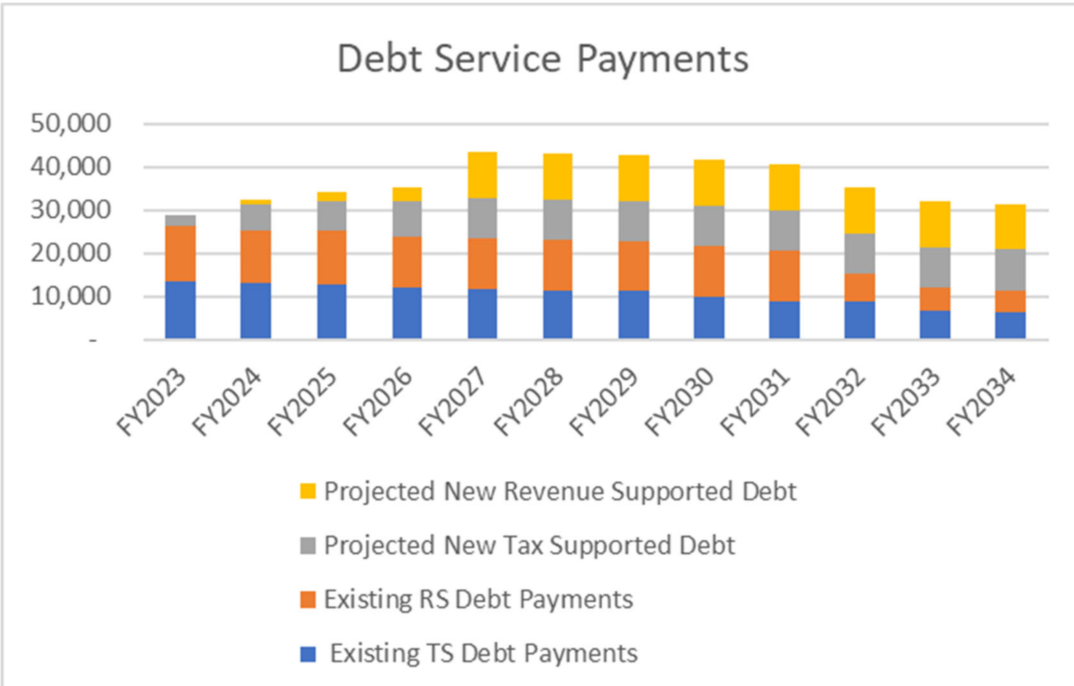
PROJECTED OUTSTANDING DEBT BY FISCAL YEAR



Debt Service Costs

Based on the FY2022-2026 Capital Improvement Plan (CIP) with the addition of the authorized GO bond, debt requirements in addition to existing issues for tax supported projects of $127.45 million over the five-year period are used in determining the forecast. In addition to existing issues, debt requirements are projected for revenue supported projects of $138.72 million over the five-year period.

PROJECTED DEBT SERVICE COST BY FISCAL YEAR



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LONG RANGE FINANCIAL FORECAST
GENERAL FUND OVERVIEW

Forecast Summary

The chart below summarizes the General Fund Forecast using **Baseline Assumptions**, including (1) adjustments to the FY2022 budget to remove one-time items and account for the annualized cost of the January 2022 merit and cost-of-living increases, (2) Property Tax maintaining the No-New-Revenue Rate each year of the forecast as set forth as an annual goal by City Council, (3) a 2% cost of living and 2% merit increase along with 2% cost of living for civil service and civil service step increases, (4) the anticipated effect of inflation on costs, (5) reduction in funding for capital reinvestment projects each year of the forecast, (6) funding for implementation of the FY2022 compensation study at 3% of non-civil service salaries, and (7) the addition of five positions annually for each year of the forecast period.

As shown in the forecast below, cash funding of the CIP reinvestment program declines through the forecast period and revenues do not cover expenses beginning in FY2027. Although the forecast includes many assumptions which may be different in the future, with property tax at 40% of total general fund revenues, City Council's goal of maintaining the No-New-Revenue tax rate requires reduction in cash funding of CIP reinvestment projects for the entire forecast period. The cause is due to current inflation and an increase in the debt service portion of property tax revenue from debt issued as part of the 2019 GO Bond election beginning in FY2025. Refer to the revenue summary section for details.

FORECAST SUMMARY
GENERAL FUND PROJECTIONS
($THOUSANDS)

	FY 2023 Forecast	FY 2024 Forecast	FY 2025 Forecast	FY 2026 Forecast	FY 2027 Forecast
Beginning Balance	$ 24,969	$ 25,842	$ 27,190	$ 28,226	$ 29,666
Revenue	$ 92,879	$ 96,388	$ 99,130	$ 99,775	$ 101,648
Expenditures	$ 82,423	$ 86,432	$ 89,997	$ 93,391	$ 96,844
Revenue Over/(Under) Expenditures	$ 10,455	$ 9,956	$ 9,133	$ 6,384	$ 4,804
Subtotal	$ 35,424	$ 35,798	$ 36,323	$ 34,610	$ 34,470
Compensation Study Implementation	$ 1,010	$ 1,050	$ -	$ -	$ -
5 Additional Positions Annually	$ 412	$ 841	$ 1,293	$ 1,767	$ 2,264
Transfer to Tax Increment	$ 2,161	$ 2,217	$ 2,304	$ 677	$ 709
Transfer to CIP-Cash Fd Project	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500
Transfer to CIP-Reinvestment	$ 4,500	$ 3,000	$ 3,000	$ 1,000	$ 1,000
Revenue Over/(Under) Expenditures	$ 873	$ 1,348	$ 1,036	$ 1,440	$ (669)
Ending Balance	$ 25,842	$ 27,190	$ 28,226	$ 29,666	$ 28,997
Policy Goal - 110 Days of Working Capital	$ 25,268	$ 26,618	$ 27,512	$ 28,678	$ 29,868
Forecast Over 110 Days	$ 574	$ 572	$ 714	$ 988	$ (871)
Days Working Capital Over 110	2	2	3	4	(3)

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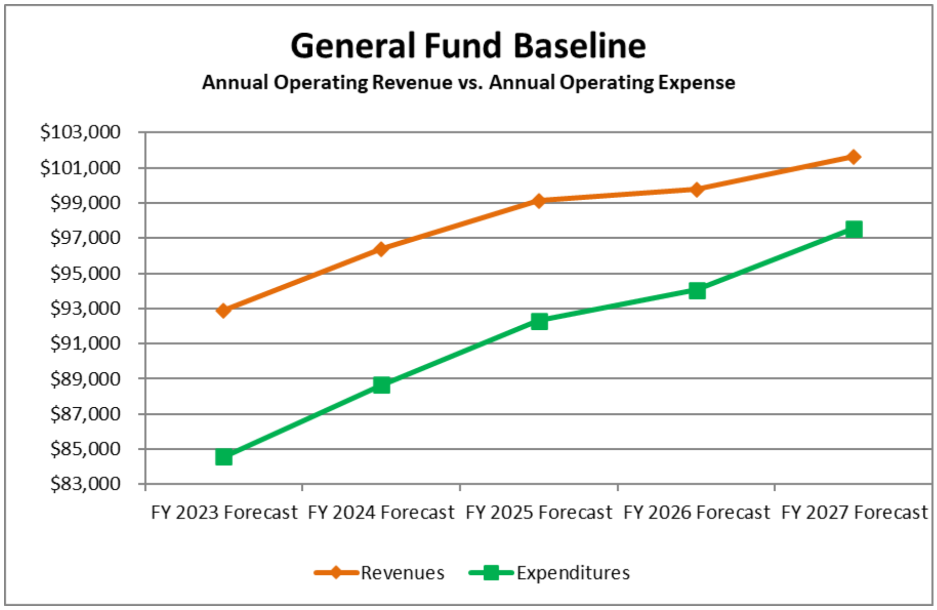
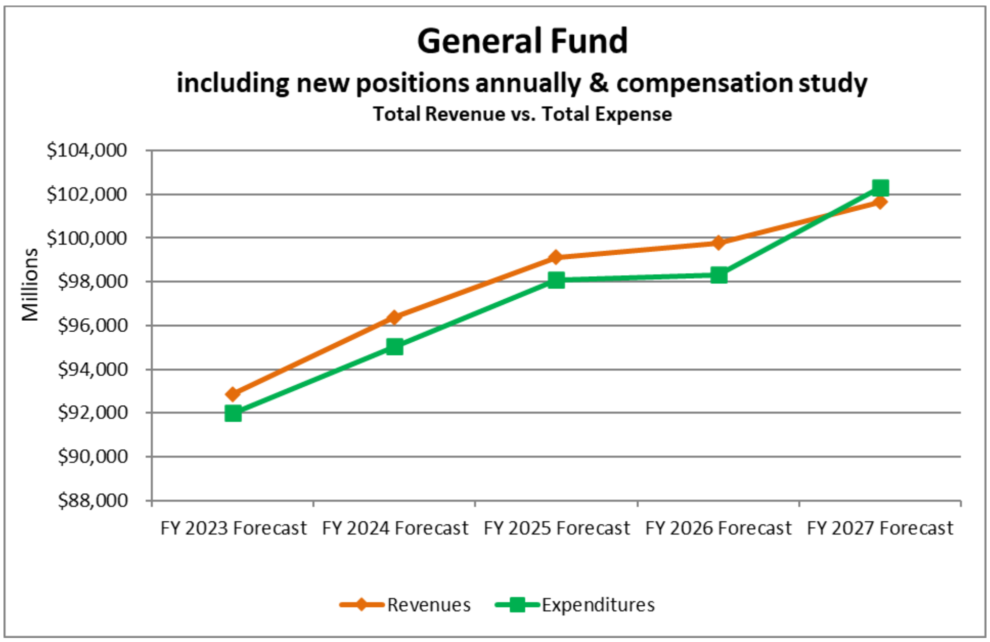
This projection reflects annual operating revenue exceeds annual operating expense in every year of the forecast as a result of the continuing, slow growth rate. The gap between revenue and expenses are highlighted in the graph below. **Operating expenses do not include cash transfers to CIP or other funds.**





This projection reflects annual total revenue exceeds expense through FY2026 of the forecast. Beginning in FY2027, expenses are projected to outpace revenues. This is a result of TIRZ #2 expiring and anticipates the City continuing to adopt the no-new-revenue tax rate annually. The forecast includes a factor for inflation and a conservative rate of new home growth.

TIRZ #2 Saddle Creek (Victory Lakes) agreement expires in FY2024 with the last year of rebates in FY2025. When a TIRZ ends, the TIRZ increment then becomes a part of the City's property tax revenue stream. Although the rebate expense will no longer be included in the budget, the revenue in essence is no longer included as well. As part of the no-new-revenue tax rate calculation, when a TIRZ closes, the value of the property in the TIRZ is treated the same as existing properties and the no-new-revenue rate will decrease parallel to the taxable value in the TIRZ. If the City adopts the no-new-revenue tax rate, the rate decrease will net any of the prior revenue that was rebated to the TIRZ and the City will not see an increase in property tax revenue. Refer to the Revenue Summary section of this document for more details.

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GENERAL FUND FORECAST
FUND BALANCE, REVENUE, AND EXPENDITURES
FY2023 – FY2027
($THOUSANDS)

	FY 2023 Forecast	FY 2024 Forecast	FY 2025 Forecast	FY 2026 Forecast	FY 2027 Forecast
Beginning Balance	**$ 24,969**	**$ 25,842**	**$ 27,190**	**$ 28,226**	**$ 29,666**
Revenue					
Property Tax	$ 38,104	$ 38,374	$ 38,593	$ 37,086	$ 36,842
Sales Tax	$ 27,697	$ 29,896	$ 31,432	$ 32,718	$ 33,955
Franchise and Other Taxes	$ 5,566	$ 5,683	$ 5,813	$ 5,944	$ 6,089
Licenses and Permits	$ 4,180	$ 4,235	$ 4,298	$ 4,360	$ 4,430
Grant Proceeds	$ 252	$ 252	$ 252	$ 252	$ 252
Charges for Services	$ 9,831	$ 10,403	$ 10,925	$ 11,332	$ 11,727
Fines and Forfeitures	$ 1,010	$ 1,032	$ 1,057	$ 1,082	$ 1,109
Investment Earnings	$ 426	$ 435	$ 444	$ 450	$ 455
Miscellaneous/Grants	$ 1,065	$ 1,129	$ 1,195	$ 1,262	$ 1,330
Interfund Transfers	$ 4,454	$ 4,649	$ 4,815	$ 4,974	$ 5,138
Other Taxes	$ 294	$ 300	$ 307	$ 314	$ 322
Total Revenue	**$ 92,879**	**$ 96,388**	**$ 99,130**	**$ 99,775**	**$ 101,648**
Available Funds	**$ 117,848**	**$ 122,230**	**$ 126,320**	**$ 128,001**	**$ 131,314**
Expenditures by Directorate					
Police	$ 24,307	$ 25,355	$ 26,377	$ 27,419	$ 28,500
Fire	$ 9,277	$ 9,674	$ 9,998	$ 10,302	$ 10,605
Emergency Management	$ 263	$ 276	$ 288	$ 300	$ 313
Communications	$ 1,021	$ 1,071	$ 1,114	$ 1,157	$ 1,199
Public Works	$ 16,442	$ 17,418	$ 18,255	$ 18,957	$ 19,651
Engineering	$ 1,899	$ 1,983	$ 2,064	$ 2,147	$ 2,233
Parks and Cultural Services	$ 6,311	$ 6,611	$ 6,879	$ 7,143	$ 7,413
Finance	$ 3,537	$ 3,711	$ 3,856	$ 3,995	$ 4,133
Information Technology & Facilities	$ 6,032	$ 6,346	$ 6,595	$ 6,826	$ 7,069
Budget & Project Management	$ 2,526	$ 2,642	$ 2,757	$ 2,873	$ 2,994
Planning & Development	$ 3,787	$ 3,962	$ 4,130	$ 4,302	$ 4,479
Human Resources	$ 1,014	$ 1,064	$ 1,105	$ 1,144	$ 1,183
Administration	$ 2,200	$ 2,298	$ 2,393	$ 2,490	$ 2,591
Non-Departmental	$ 3,807	$ 4,023	$ 4,186	$ 4,334	$ 4,478
Total Expenditures	**$ 82,423**	**$ 86,432**	**$ 89,997**	**$ 93,391**	**$ 96,844**
Revenue Over/(Under) Expenditures	**$ 10,455**	**$ 9,956**	**$ 9,133**	**$ 6,384**	**$ 4,804**
Subtotal	**$ 35,424**	**$ 35,798**	**$ 36,323**	**$ 34,610**	**$ 34,470**
Compensation Study Implementation	**$ 1,010**	**$ 1,050**	**$ -**	**$ -**	**$ -**
5 Additional Positions Annually	**$ 412**	**$ 841**	**$ 1,293**	**$ 1,767**	**$ 2,264**
Transfer to Tax Increment	**$ 2,161**	**$ 2,217**	**$ 2,304**	**$ 677**	**$ 709**
Transfer to CIP-Cash Fund Projects	**$ 1,500**	**$ 1,500**	**$ 1,500**	**$ 1,500**	**$ 1,500**
Transfer to CIP-Reinvestment	**$ 4,500**	**$ 3,000**	**$ 3,000**	**$ 1,000**	**$ 1,000**
Ending Balance	**$ 25,842**	**$ 27,190**	**$ 28,226**	**$ 29,666**	**$ 28,997**
Policy Goal - 110 Days of Working Capital	**$ 25,268**	**$ 26,618**	**$ 27,512**	**$ 28,678**	**$ 29,868**
Excess/(Shortage) of Working Capital	**$ 574**	**$ 572**	**$ 714**	**$ 988**	**$ (871)**
Excess/(Shortage) of Working Capital in Days	**2**	**2**	**3**	**4**	**(3)**

Note: The Forecast includes the effect of inflation, growth and mandates and commitments on expenditures, along with five (5) additional staffing each year and funding in FY2023 and FY2024 to implement the compensation study. New or expanded programs are not included in the forecast.

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LONG RANGE FINANCIAL FORECAST
DEBT SERVICE FUND

Overview
The Debt Service Fund is used to budget property tax revenue and pay for property-tax supported debt obligations of the City.

Assumptions
The assumptions used in the Debt Service Fund Forecast (shown in the chart below) include:

- Property Tax maintaining the No-New-Revenue Rate each year of the forecast as set forth as an annual goal by City Council.
- Bond sales per the authorized GO Bond Election (May 2019) with the sale occurring summer of each year with level payments beginning the following fiscal year for late FY2022 thru FY2024. The 2019, 2020, and 2021 GO Bond issues totaled $75.8 million and payments are shown as part of the current debt on the forecast below. The forecast includes new CO debt projected in FY2023 through FY2026 per the FY2022-2026 CIP.

$ 39.06 million	late 2022 (GO Debt)
$ 43.36 million	FY2023 (GO & CO Debt)
$ 10.22 million	FY2024 (GO & CO Debt)
$ 17.46 million	FY2025 (CO Debt)
$ 17.35 million	FY2026 (CO Debt)
$ 127.45 million	

- While the goal is a stable portion of property tax for debt service each year, the forecast does adjust the percentage for debt service in FY2025, FY2026, and FY2027 to meet current year requirements.

GENERAL DEBT SERVICE FUND FORECAST ASSUMPTIONS
FY2023 – FY2027

	FY2023	FY2024	FY2025	FY2026	FY2027
Taxable Value ($millions)	$11,733.0	$12,906.0	$14,196.0	$15,616.0	$17,178.0
Debt Service Tax Rate	$0.100	$0.096	$0.093	$0.088	$0.087
Over 65 Tax Freeze Pct Loss	0.222%	0.224%	0.226%	0.228%	0.230%
Property Tax Growth*	8.21%	10.00%	10.00%	10.00%	10.00%
TIRZ Increment Growth	-1.7%	3.6%	0.0%	-65.3%	11.8%
Investment Pool Earnings Rate	1.5%	2.0%	2.0%	1.5%	1.0%
Future Bond Issue ($000's)	$43,360	$10,220	$17,458	$17,352	$0
Overall Interest Rate	4.25%	4.50%	4.75%	4.50%	4.00%
Population	119,734	122,054	124,664	127,274	130,400
Debt Per Capita	$1,066	$984	$896	$811	$730
Debt per Taxable Value	0.99%	0.85%	0.72%	0.60%	0.53%

Property Tax Revenue: Based upon the debt service schedule above and the other assumptions utilized in this forecast, the estimated percentage of property tax dedicated to debt service is shown in the chart below:

Projected NNR Split between Funds					
Fund	**FY2023**	**FY2024**	**FY2025**	**FY2026**	**FY2027**
Estimated Debt Tax Rate	24%	24%	26%	27%	29%
Estimated M&O Tax Rate	76%	76%	74%	73%	71%

Maintaining the debt portion of property tax is conservative and can be tempered based on actual sales tax revenues to be used to pay the annual debt service on the GO Bond projects and taxable value growth. It should also be noted that the General Fund (M&O) portion of the tax rate was reduced beginning in FY2026 and FY2027 in anticipation of City Council goal of the no-new-revenue tax rate continuing. The focus of the forecast is the estimated revenue that would be produced by the no-new-revenue-rate only comes from new construction, based on the declining no-new-revenue rate parallel with the annual increase in taxable values. More details are provided in the Revenue Summary section of this document.

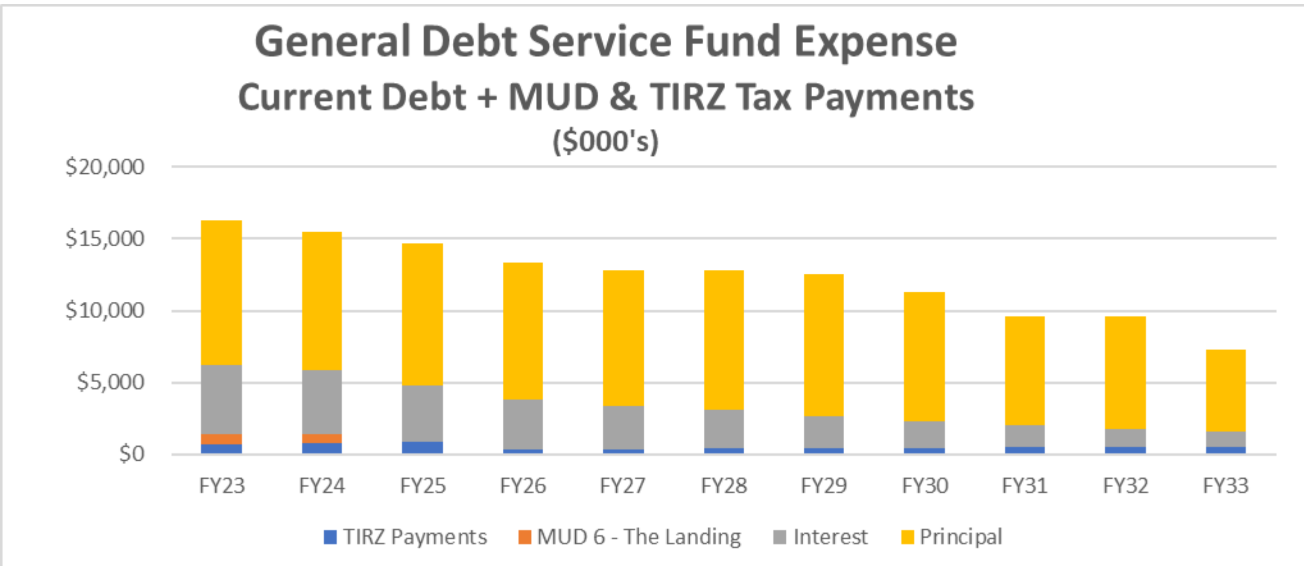
DEBT SERVICE FUND FORECAST SUMMARY, FY2023 – FY2027 ($000'S)
ASSUMES PAYMENTS TO SERVICE $127.45 MILLION IN NEW BONDS OVER PERIOD

	FY2023	FY2024	FY2025	FY2026	FY2027
REVENUE					
Property Taxes	$11,789	$12,386	$13,196	$13,732	$14,951
Delinguent & Penalties	$160	$160	$160	$160	$150
Sales Tax	$5,897	$7,795	$7,078	$6,324	$6,000
Interest Income	$150	$250	$250	$250	$250
TOTAL REVENUE	**$17,996**	**$20,591**	**$20,684**	**$20,466**	**$21,351**
EXPENSE					
Transfers					
MUD Property Tax Rebates	$675	$668	$0	$0	$0
TIRZ Property Tax Increment	$709	$751	$833	$289	$323
Subtotal MUD's/TIRZ's	**$1,384**	**$1,419**	**$833**	**$289**	**$323**
Current Debt Service					
Interest	$4,526	$4,133	$3,723	$3,305	$2,910
Principal	$9,049	$8,805	$9,087	$8,745	$8,655
Paying Agent Fees	$7	$7	$7	$7	$7
Subtotal Current Debt Service	**$13,582**	**$12,945**	**$12,817**	**$12,057**	**$11,572**
Subtotal Current Expense	**$14,966**	**$14,364**	**$13,650**	**$12,346**	**$11,895**
Projected Future Bonds					
Interest	$1,172	$2,971	$3,325	$4,031	$4,658
Principal	$1,453	$2,916	$3,348	$4,013	$4,720
Subtotal Future Debt Service	**$2,625**	**$5,887**	**$6,673**	**$8,044**	**$9,378**
TOTAL EXPENSE	**$17,591**	**$20,251**	**$20,323**	**$20,390**	**$21,273**
Revenue Over/(Under) Expense	**$405**	**$340**	**$361**	**$76**	**$78**
Beginning Fund Balance	**$3,307**	**$3,712**	**$4,052**	**$4,413**	**$4,489**
Ending Fund Balance	**$3,712**	**$4,052**	**$4,413**	**$4,489**	**$4,567**

DEBT SERVICE FUND FORECAST ELEMENTS DESCRIPTION

Debt Service Fund Expense

Debt Service Fund expense is largely but not totally comprised of principal and interest payments on tax-supported debt issued by the City. In FY2022, 90% of current expense is debt service payments for city-issued and city-assumed bonds. The remainder, or 10%, goes to pay MUD property tax rebates and the debt portion of TIRZ property tax increments. As the one remaining existing MUD rebate agreement expires after FY2024 and TIRZ obligations end, City-issued debt service payments will become a larger percentage of the total cash payment by the Debt Service Fund.

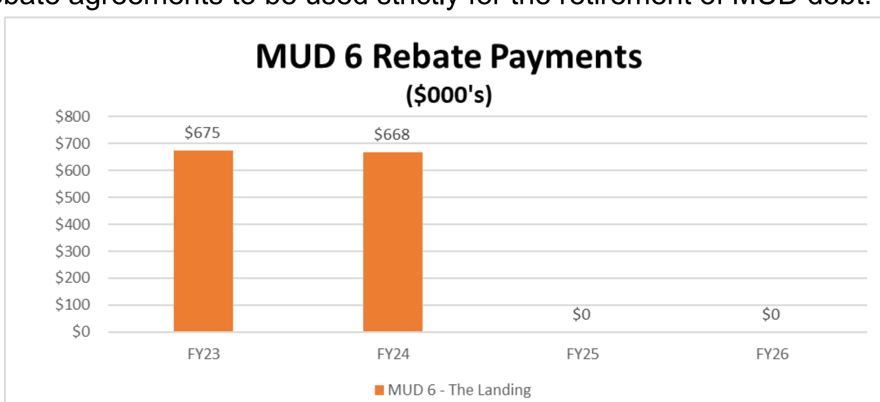


Note: The above chart is for current debt payments only and does not include the issue anticipated in FY2022 or future debt projected in the forecast on the previous page.

Municipal Utility Districts

The City currently provides property tax rebates to one utility district by agreement. The rebate is provided by contract to be paid through FY2024. These rebates are paid through the Debt Service Fund because they are required by the rebate agreements to be used strictly for the retirement of MUD debt.

The rebate payments made by the City are in addition to the tax collection received by the MUD based on the MUD's own property tax levy. MUD #6 (The Landing) is the only remaining MUD and is shown for the forecast period on the following page.

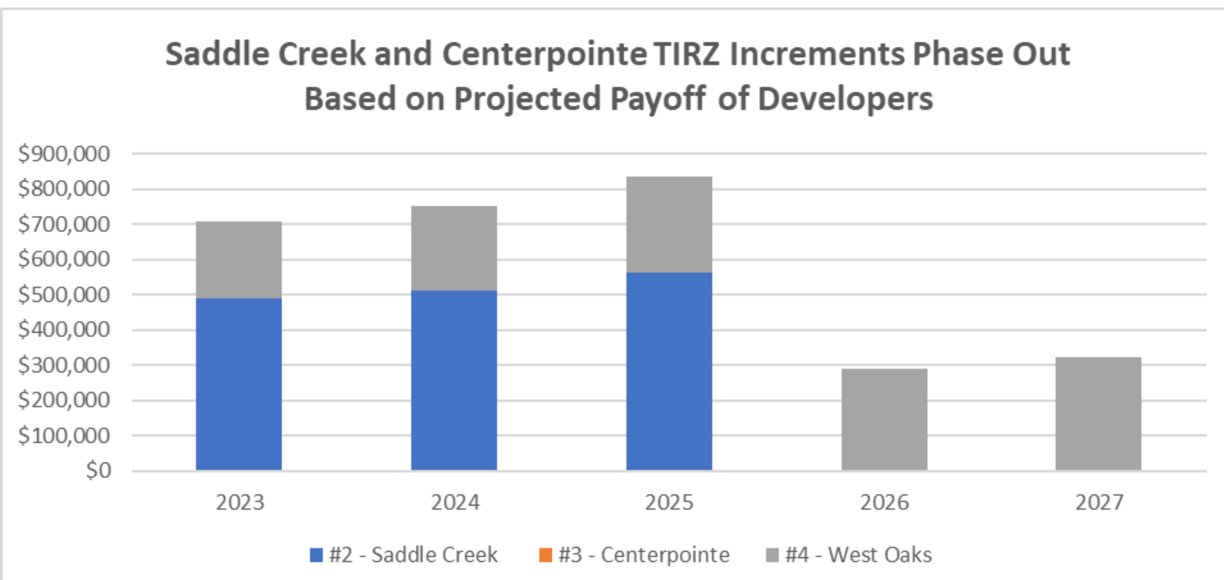


Tax Increment Reinvestment Zones

The City currently has two Tax Increment Reinvestment Zones (TIRZ's) that require property tax rebates. Each of these zones was established by the City to encourage development and building the taxable value of which could be used to generate incremental growth in property tax revenues. These incremental revenues were then used to finance the construction of infrastructure – streets, sewers, water lines, and amenities – inside the boundaries of the respective TIRZ. This is accomplished by using the annual property tax increment (1) to reimburse developers for completed construction and/or (2) to pay for bonds issued to reimburse the developer.

TIRZ development agreements typically provide for developers to be reimbursed using simple interest at a rate higher than the rate paid by the City on its own bond issues. In order to achieve interest savings, the City has issued debt backed by future TIRZ increments, which bonds are being retired now through TIRZ funds.

TIRZ #2 Saddle Creek (Victory Lakes) agreement expires in FY2024 with the last year of rebates in FY2025. When a TIRZ ends, the TIRZ increment then becomes a part of the City's property tax revenue stream. Although the rebate expense will no longer be included in the budget, the revenue in essence is no longer included as well. As part of the no-new-revenue tax rate calculation, when a TIRZ closes, the value of the property in the TIRZ is treated the same as existing properties and the no-new-revenue rate will decrease parallel to the taxable value in the TIRZ. If the City adopts the no-new-revenue tax rate, the rate decrease will net any of the prior revenue that was rebated to the TIRZ and the City will not see an increase in property tax revenue.



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LONG RANGE FINANCIAL FORECAST
UTILITY FUND OVERVIEW

Forecast Summary

The chart below summarizes the Utility Fund Forecast using **baseline assumptions**, including (1) adjustments to the FY2022 budget to remove one-time items and account for the annualized cost of the January 2022 merit and cost-of-living increases, (2) the impact of debt scheduled in the FY2022-2026 Capital Improvement Plan, (3) the anticipated effect of inflation on costs, (4) continued cash funding for capital projects each year, and (5) utility rate increases as outlined in the 2019 utility rate study over the term of the forecast. The FY2024-2027 forecast includes the addition of two new staff members each year but no new programs.

FORECAST SUMMARY
UTILITY FUND PROJECTIONS ($THOUSANDS)

	FY2023 Forecast	FY2024 Forecast	FY2025 Forecast	FY2026 Forecast	FY2027 Forecast
Beginning Balance	**$6,417**	**$6,323**	**$7,242**	**$9,017**	**$11,504**
Revenue					
Current Revenue	$43,571	$46,817	$49,869	$52,154	$54,632
Subtotal Revenues	**$43,571**	**$46,817**	**$49,869**	**$52,154**	**$54,632**
Expenditures					
Operating Expenditures	$20,801	$21,712	$22,486	$23,230	$23,993
Current Debt Service	$12,180	$11,940	$11,936	$11,328	$11,326
Future Debt Service	$0	$1,100	$2,325	$3,428	$10,663
Transfer to General Fund	$4,453	$4,648	$4,814	$4,973	$5,137
Transfer to CIP	$6,100	$6,200	$6,200	$6,200	$6,200
Compensation Study Implementation	$130	$135	$0	$0	$0
2 Additional Positions Annually		$164	$332	$508	$690
Subtotal Expenditures	**$43,665**	**$45,899**	**$48,094**	**$49,668**	**$58,009**
Revenue Over/(Under) Expenditures	**($94)**	**$918**	**$1,775**	**$2,486**	**($3,377)**
Ending Balance	**$6,323**	**$7,242**	**$9,017**	**$11,504**	**$8,126**
Utility Fund Reserves					
90 Days of Operating Expenditures as Working Capital	$6,259	$6,573	$6,814	$7,080	$7,353
Excess Working Capital	**$64**	**$669**	**$2,203**	**$4,424**	**$773**
Days Working Capital Over 90 Days	**1**	**9**	**29**	**56**	**9**

Based on the assumptions outlined, the fund is projected to have funds to increase cash funding of capital projects in FY2025 and FY2026.

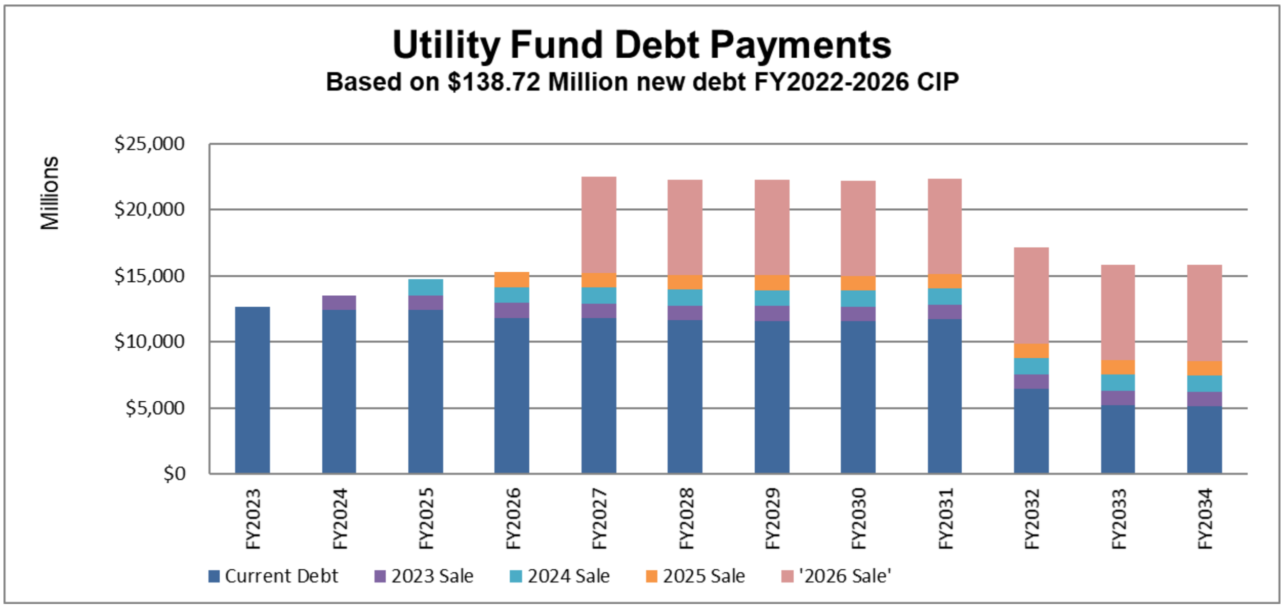
Water and Wastewater Capital Improvement Plan

The FY2022-2026 Capital Improvement Plan included projects identified in the Water and Wastewater Master Plans, including projects to address water supply. The largest single project is budgeted at $52.8 million to replace the 42” water supply line on SH 3 with a 60” line which will add approximately 20 million gallons per day (MGD) capacity to the 17.5 MGD the City is currently receiving through the existing line. This project began preliminary design in FY2017.

The FY2022-2026 CIP included $138.72 million in new debt. The FY2023-2026 issues as listed below are anticipated to be sold mid-year with the first principal and interest payments due the following fiscal year. The debt schedule by year has been updated below based on these assumptions:

CIP Bond Sale Schedule	
FY2023 –	$ 14.63 million
FY2024 –	$ 15.94 million
FY2025 –	$ 14.04 million
FY2026 –	$ 94.11 million
Total	$ 138.72 million

Using level payments for each sale, the resulting debt structure is depicted in the chart below. The chart does **not** include debt issuances after FY2026 as projected in the 2019 Utility Rate Study.



Going Forward

The Water and Wastewater Master Plans were updated in FY2019 along with the Capital Recovery Fee structure and are slated for the next update in FY2023. The increase to the Capital Recovery Fee structure is captured in the current CIP plan. A utility rate study began in 2019 as well with Council adopting a rate increases effective April 2020 and April 2021. This increase as well as others projected in the study are included in the revenue projections in this forecast.