



**Fiscal Year
2021-2025**

LONG RANGE FINANCIAL FORECAST



CITY OF LEAGUE CITY

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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 FY2021-2025. The purpose of the forecast is to provide long-term context for annual decisions that will be made with the FY2021 Budget and FY2021-2025 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 that is similar or better than growth taking place in the Houston area at large. Accordingly, this forecast projects an increase in population and factors related thereto at approximately 2.35%. New home construction is the key indicator of growth in League City. This forecast assumes a steady, conservative growth rate of 820 homes per year over the forecast period.

As the City continues to grow, demand for basic services will also grow. This forecast projects that our population, currently estimated at 109,087 in January 2020, will be 121,600 in FY 2025. While the City will face increasing demand for service as a result of continued growth, we have projected limited increase in operating costs. 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 burden 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.



Basis for FY2021 Budget

The General Fund forecast started with the FY2020 year-end estimates due to the anticipated effects of COVID19 on this fund. FY2021 Forecast has been adjusted slightly to closely mirror the anticipated FY2021 Proposed Budget. FY2022-FY2025 forecast was based upon conservative assumptions and very limited expenditure growth. The forecast anticipates revenues slightly over total expenditures in the General Fund through the forecast period. Expenditures include additional funding each year to address the City's aging infrastructure and an additional seven positions annually from FY2020-2024. The forecast does not include funding for expanding existing programs or new programs.

The Utility Fund, while reducing balance in recent years, does continue to maintain fund balance in excess of policy requirements through the forecast period. The 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. Conversely, expenditures have been forecasted based upon conservative assumptions and very limited expenditure growth, which is not realistic long-term for a growing city. The forecast includes the effect of inflation, growth and mandates and commitments on expenditures, as well as the impact of debt scheduled in the FY2021-2025 CIP. The forecast also includes two additional positions annually 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 FY2021-2025 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 FY 2021 and into the future.

Sincerely,

Angie Steelman, CGFO
Director of Budget & Project Management

**CITY OF LEAGUE CITY
LONG RANGE FINANCIAL FORECAST
FY2021 - FY2025
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LONG RANGE FINANCIAL FORECAST ECONOMIC OUTLOOK

Economic Overview

League City, like the region, has been characterized by steady long-term growth. League City is considered a highly attractive location to families and businesses alike. In 2020, League City is continuing to see new construction of all types of property. The oil market continues to struggle with gasoline prices taking a rapid downturn. Houston oil and gas companies are seeing major losses, implementing layoffs and some are filing for bankruptcy. Locally, the accompanying impact on jobs in that sector have a slight impact on League City. The reconstruction on IH45 may continue to impact retail sales in the IH45 corridor. This is a situation that we will continue to monitor as the project progresses through fiscal year 2021.

In mid-March 2020, the Houston area began seeing cases of COVID19. The Governor responded with major changes in how businesses conducted themselves and the disruption affected local economy activity beginning in mid-March. Major retailers temporarily closed storefronts. The Governor's stay-at-home order limited restaurants to carry-out only, closed bars, hair/nail salons and limited all social gatherings to less than 10 people. Conversely, grocery stores and building material stores have seen an increase in activity as residents stock up on essentials. Beginning April 24th, Texas businesses were allowed to operate on a 'retail to go' basis, which allowed customers to place online or phone orders for pickup at the store. Governor Abbott allowed the stay-at-home order to expire May 1st as the first phase of reopening Texas.

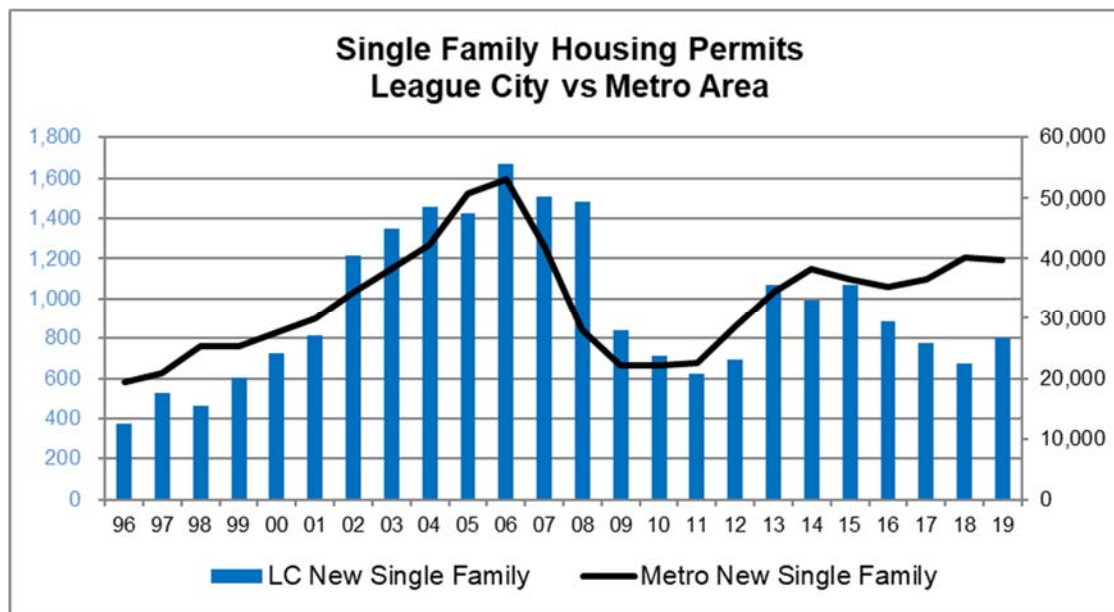
The Governor's phase 2 of re-open Texas allowed certain businesses to operate at 50% capacity, including restaurants and retail. Gym/exercise facilities reopened with reduced capacity. Cosmetology salons, barbershops, hair salons, nail salons, and tanning salons re-opened May 8th with restrictions. Beginning May 18th through the end of the month, the Governor opened childcare centers, tattoo studios, massage/personal care, and youth clubs followed by bars opening at 25% capacity.

As positive cases rise across the state and in the Houston area, the month of June ended with the Governor putting some restrictions back in place. Hospitals halted elective hospital procedures once again to make room for COVID19 patients, and the size of public gatherings has been restricted. As we begin the month of July 2020, the Governor implemented mandatory wearing of mask when out in public.

COVID19 business disruption affects League City's sales tax collections. Prior to COVID19, sales tax collections were \$508,980 over budget for the months of October 2019 thru February 2020. As COVID19 began to affect the Houston area, sales tax collections for the month of March 2020 were \$177,000 less than the monthly budget. Even as the first full month of business disruption, sales in the month of April 2020 rebounded and surprisingly collections were \$11,000 over the monthly budget. Currently, the FY2020 year-end estimate for General Fund sales tax is \$20,182,283 which is \$287,235 under the \$20,469,518 budget. This is a conservative estimate as it allows for the updated March and April sales receipts but continues to project May through August at reduced levels in anticipation of ongoing business disruption.

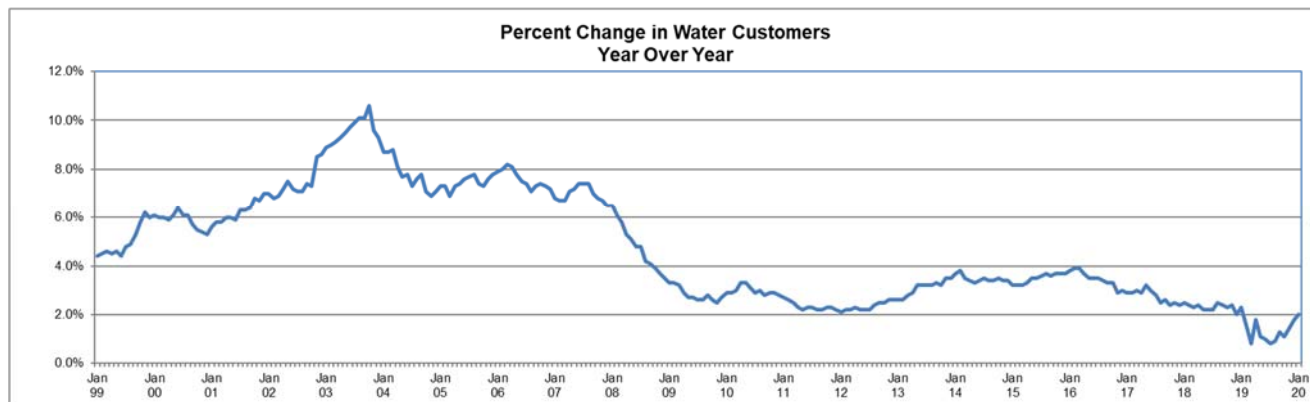
The League City Economy

League City's population grew from 45,400 in 2000 to 83,560 in 2010 according to the U.S Census and is currently estimated at 109,087 as of January 2020. This rapid growth is illustrated by the growth in single family housing units (see graph below). As a result of this residential growth, 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. UTMB is expanding its League City Campus on the east side of I-45, which will include a total of 800,000 square feet of medical facilities by 2020 and buildout of 3 million square feet of medical space. In order to serve the growth in League City and the surrounding area, UTMB purchased an additional 28 acres to expand the size of their campus from 65 to 93 acres. Last year, MD Anderson Cancer Center opened a new, 190,000-square foot facility in League City, which is its first clinical collaboration with UTMB. Pinnacle Park is a 100-acre mixed use development on I-45 and Big League Dreams Parkway, which includes Cabela's, a 110-room Marriott Fairfield Inn & Suites Hotel, and a 47,000-square foot Memorial Hermann Convenient Care Clinic. Pinnacle Park is developing 110,000 square feet of additional retail space, which currently includes Abuelo's Mexican Restaurant, Red Wing, Little Bella Mia Casual Italian Kitchen, Salata, and Kabuki Japanese Grill & Sushi Bar. Another commercial mixed-use development called Riverbend, which lies on the frontage of I-45 and Creek Creek, is proposed to include a marina, plus retail, office, restaurant, multi-family, and hotel development.

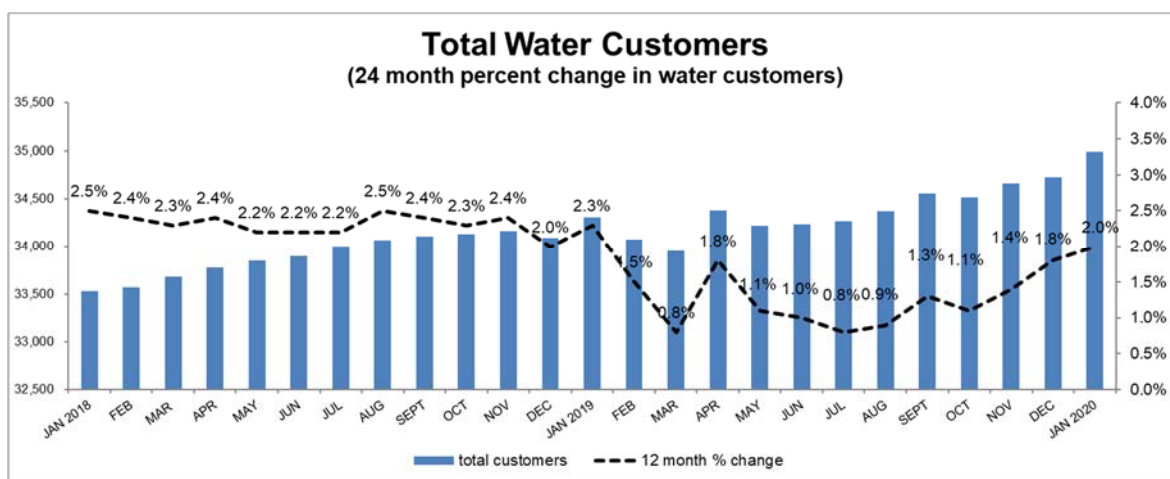


The number of new single-family homes has been a major indicator of growth in League City that underscores the population increase. In January 2020, League City's population is estimated at 109,087, supported by two key indicators: single family housing starts and new water customers. League City's new home construction has followed the Houston regional trend closely as demonstrated in the graph above. In 2019, 802 new single-family homes were permitted by the City.

The growth in water customers seen below paralleled League City's growth in housing units and population over the last two years. As of January 2020, League City has 2% more water customers than it did a year ago.



As of January 2020, the City had 34,985 water customers, 677 more than January 2019. The chart below again represents the steady growth that we have experienced over the last 24 months. The decline in March 2020 and offsetting increase in April 2020 is due to the utility billing software conversion and does not represent actual activity.



While the new anticipated developments along I45 including Victory Lakes, Pinnacle Park and River Bend at Clear Creek and I45 are expected to build out during the forecast period. While the combined effect on the taxable property rolls cannot be accurately gauged yet, the cumulative effect could be between 3% and as much as 10% of the current tax roll. This forecast assumes a modest 3% annual growth for FY2021-FY2025.

General Economic Outlook for FY2020 and Beyond

The economic outlook for the Forecast is based on good local and regional growth for the balance of 2020 with the decline in sales tax being managed thru decreased spending in FY2020. Sales tax is shown at a modest growth of 2.5% in FY2021 with 5% in FY2022 and 6% each year from FY2023-FY2025. Prior to COVID19, League City saw an average of 7% growth in sales tax year over year. 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.

BASELINE ECONOMIC ASSUMPTIONS

| Area/Indicator | FY 2021 Forecast | FY 2022 Forecast | FY 2023 Forecast | FY 2024 Forecast | FY 2025 Forecast |
|-----------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Metropolitan Area | | | | | |
| Employment Annual Growth Rate | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Inflation Rate | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Fuel Prices | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% |
| Health Care Inflation | 8.0% | 8.8% | 8.8% | 8.8% | 8.8% |
| Investment Pool Earnings Rate | 2.4% | 2.6% | 2.9% | 3.1% | 3.4% |
| League City | | | | | |
| Population Growth Rate | 2.5% | 2.4% | 2.4% | 2.3% | 2.2% |
| City Water Customers Growth Rate | 2.5% | 2.4% | 2.4% | 2.3% | 2.2% |
| Population | 111,600 | 114,100 | 116,600 | 119,100 | 121,600 |
| New Homes | 820 | 820 | 820 | 820 | 820 |
| New Construction (in millions) | \$230.7 | \$236.3 | \$242.0 | \$247.7 | \$253.4 |
| Tax Supported Bonds Interest Rate | 2.50% | 2.75% | 3.25% | 3.75% | 4.25% |

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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 2021 Forecast | FY 2022 Forecast | FY 2023 Forecast | FY 2024 Forecast | FY 2025 Forecast |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Property Tax | \$48,679 | \$49,670 | \$50,678 | \$51,701 | \$52,740 |
| Water & Wastewater Revenue | \$38,851 | \$40,953 | \$42,817 | \$46,045 | \$49,033 |
| Sales Tax (General Fund only) | \$20,981 | \$22,030 | \$23,352 | \$24,753 | \$26,238 |
| Sales Tax (Debt Service Fund only) | \$3,497 | \$3,672 | \$3,892 | \$4,126 | \$4,373 |
| Electricity Franchise | \$3,560 | \$3,646 | \$3,732 | \$3,817 | \$3,903 |
| Cable TV Franchise | \$1,454 | \$1,489 | \$1,524 | \$1,559 | \$1,594 |
| Other Franchise Taxes | \$829 | \$839 | \$850 | \$860 | \$871 |
| Charges for Service | \$9,863 | \$10,185 | \$10,513 | \$10,846 | \$11,185 |
| Fines and Forfeits | \$1,627 | \$1,666 | \$1,705 | \$1,744 | \$1,783 |
| Licenses and Permits | \$3,992 | \$4,054 | \$4,115 | \$4,177 | \$4,239 |
| Total | \$133,332 | \$138,204 | \$143,177 | \$149,628 | \$155,959 |

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.

PROPERTY TAX RATES, FY2010-FY2020 TOTAL LEVIED AT \$100 PER TAXABLE VALUE

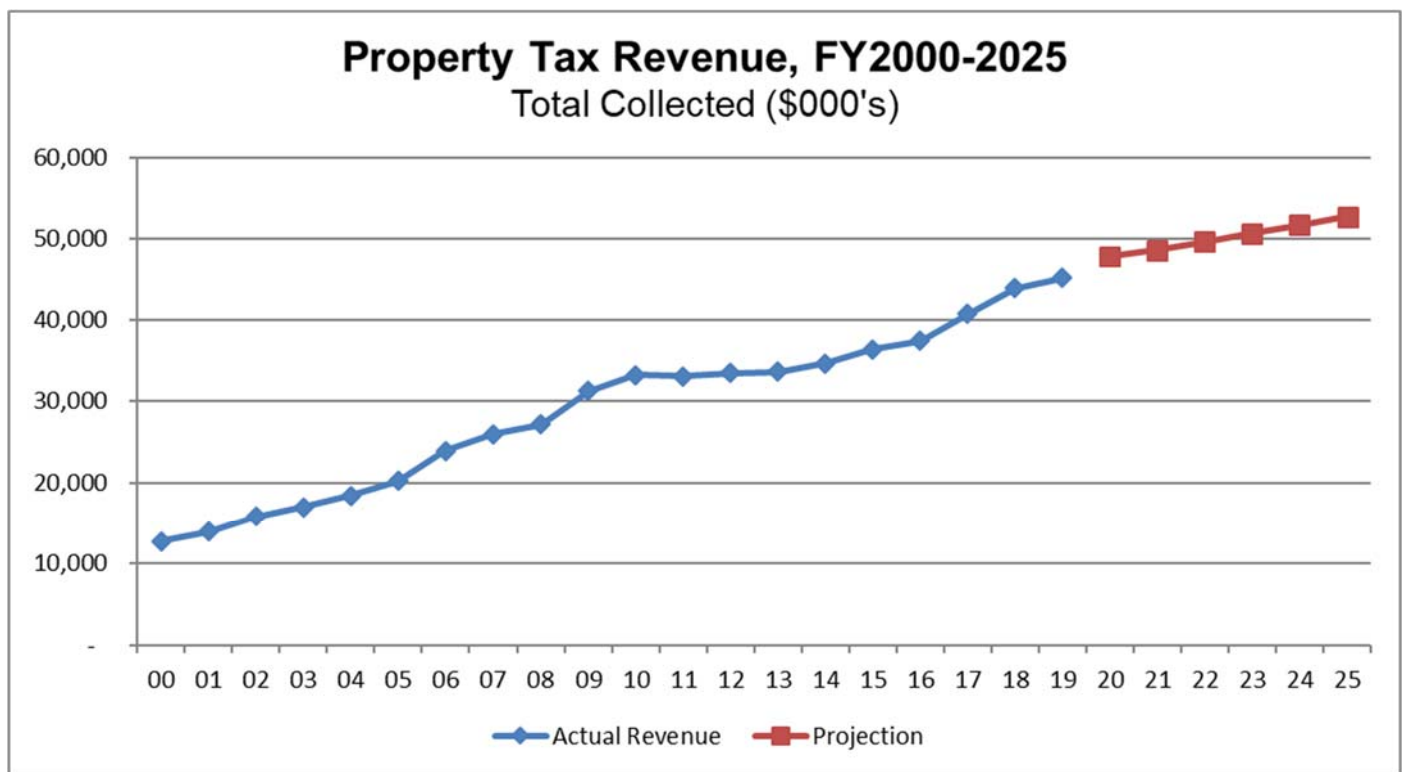
| | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
|-------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| General Fund (M&O) | \$0.408871 | \$0.396729 | \$0.385001 | \$0.375000 | \$0.380000 | \$0.400206 | \$0.400992 | \$0.410497 | \$0.413360 | \$0.413780 | \$0.404181 |
| Debt Service Fund (I&S) | \$0.221129 | \$0.219271 | \$0.224999 | \$0.222000 | \$0.217000 | \$0.196794 | \$0.172508 | \$0.159503 | \$0.151640 | \$0.150020 | \$0.144400 |
| Total Tax Rate | \$0.630000 | \$0.616000 | \$0.610000 | \$0.597000 | \$0.597000 | \$0.597000 | \$0.573500 | \$0.570000 | \$0.565000 | \$0.563800 | \$0.548581 |

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.

**PROPERTY TAX RATES, FY2020-FY2025
TOTAL LEVIED AT \$100 PER TAXABLE VALUE**

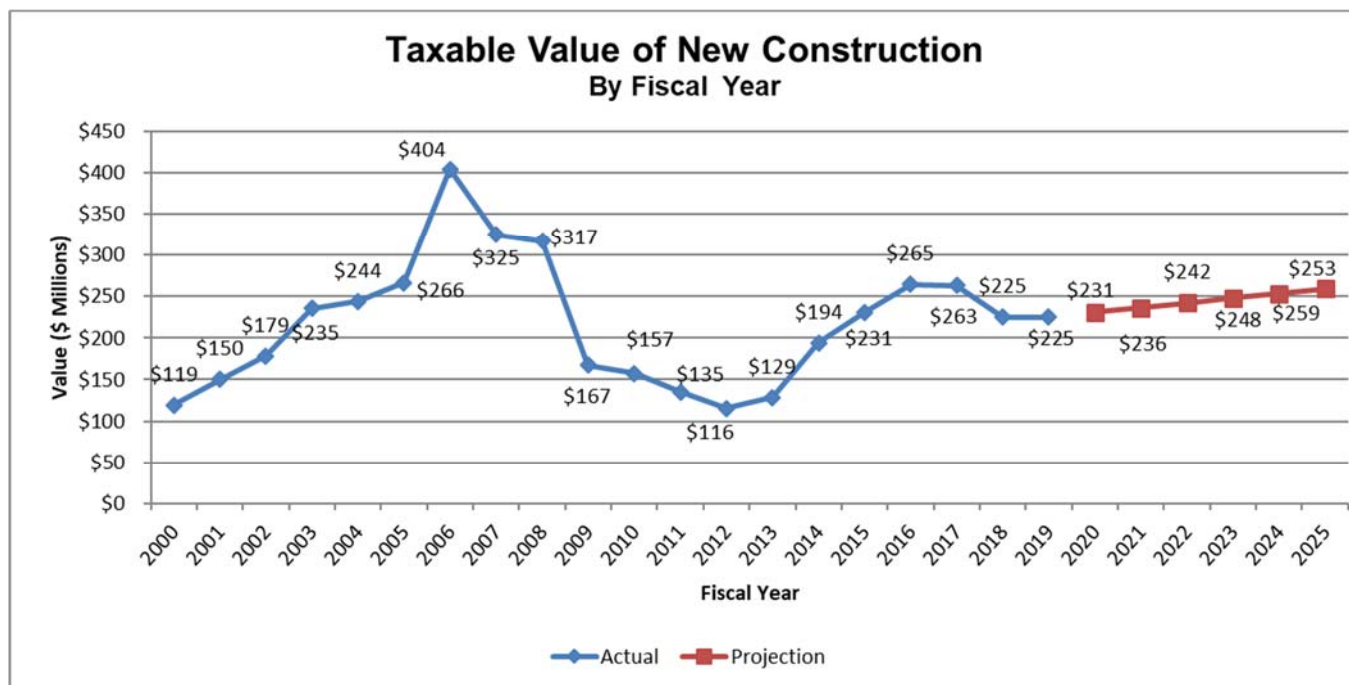
| | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 | FY2025 |
|-----------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Debt Service Tax Rate | \$ 0.1444 | \$ 0.1392 | \$ 0.1400 | \$ 0.1400 | \$ 0.1400 | \$ 0.1400 |
| General Fund Tax Rate | \$ 0.4042 | \$ 0.3958 | \$ 0.3900 | \$ 0.3850 | \$ 0.3800 | \$ 0.3750 |
| Total Tax Rate | \$ 0.5486 | \$ 0.5350 | \$ 0.5300 | \$ 0.5250 | \$ 0.5200 | \$ 0.5150 |

Based on the City Council's goal for the City Manager to present a proposed budget at the Effective Tax Rate, which has changed in FY2021 to the No New Revenue Tax Rate per Senate Bill 2, the forecast projects only growth for new properties. This forecast assumes a declining total tax rate from \$0.545851 in FY2021 to \$0.515 in FY2025 per \$100 of taxable value, and projects property tax revenue to grow by an average of 2% from FY2020-2025.



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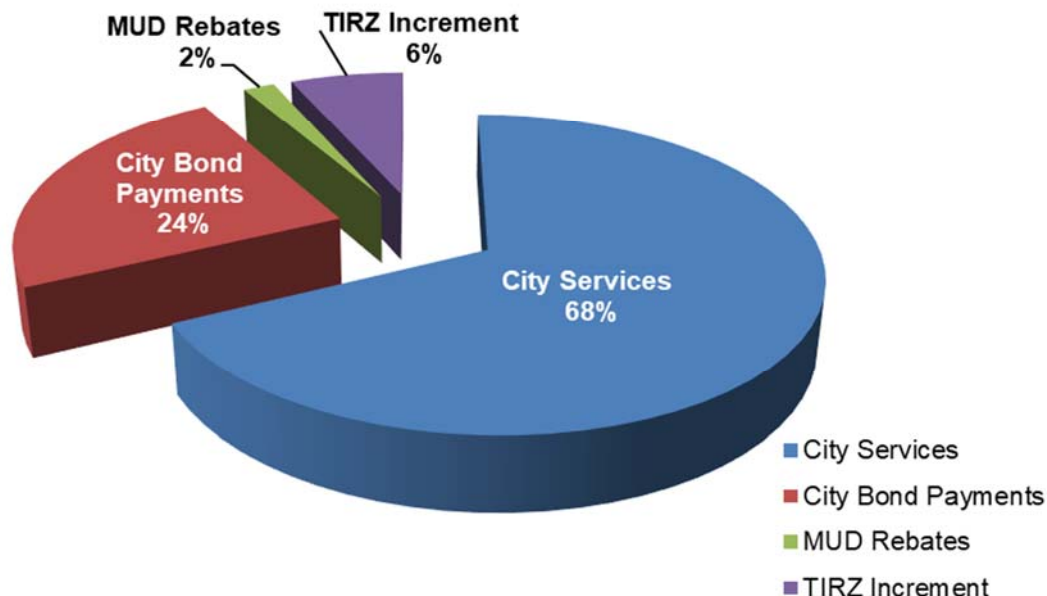
The estimates of new construction projected to be the revenue growth shown in the graph below are based on the number of new homes built each year and minimal amounts for new construction of multifamily and commercial properties.



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 pie chart below illustrates that 8% 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. Centerpointe TIRZ # 3 reached the end of their agreement in FY2020 and will be closed which will allow the property tax collected in the TIRZ #3 area to remain with the City beginning in FY2021. Saddle Creek (Victory Lakes) TIRZ #2 will be closing in FY2021 or FY2022 once all projects for the TIRZ area are complete. The last rebate payment to MUD 6 will be in FY2024.

FY 2020 Property Taxes Where do they go?

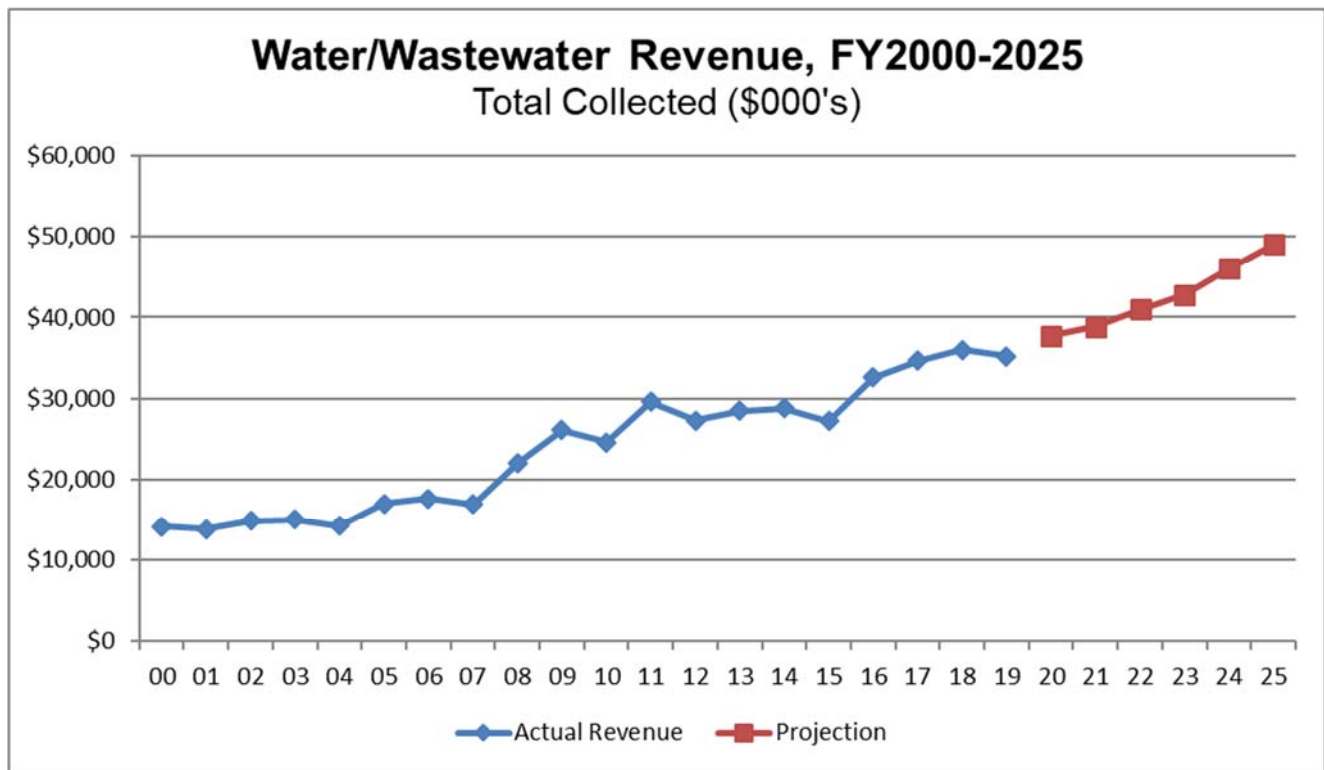


Water and Wastewater Revenue

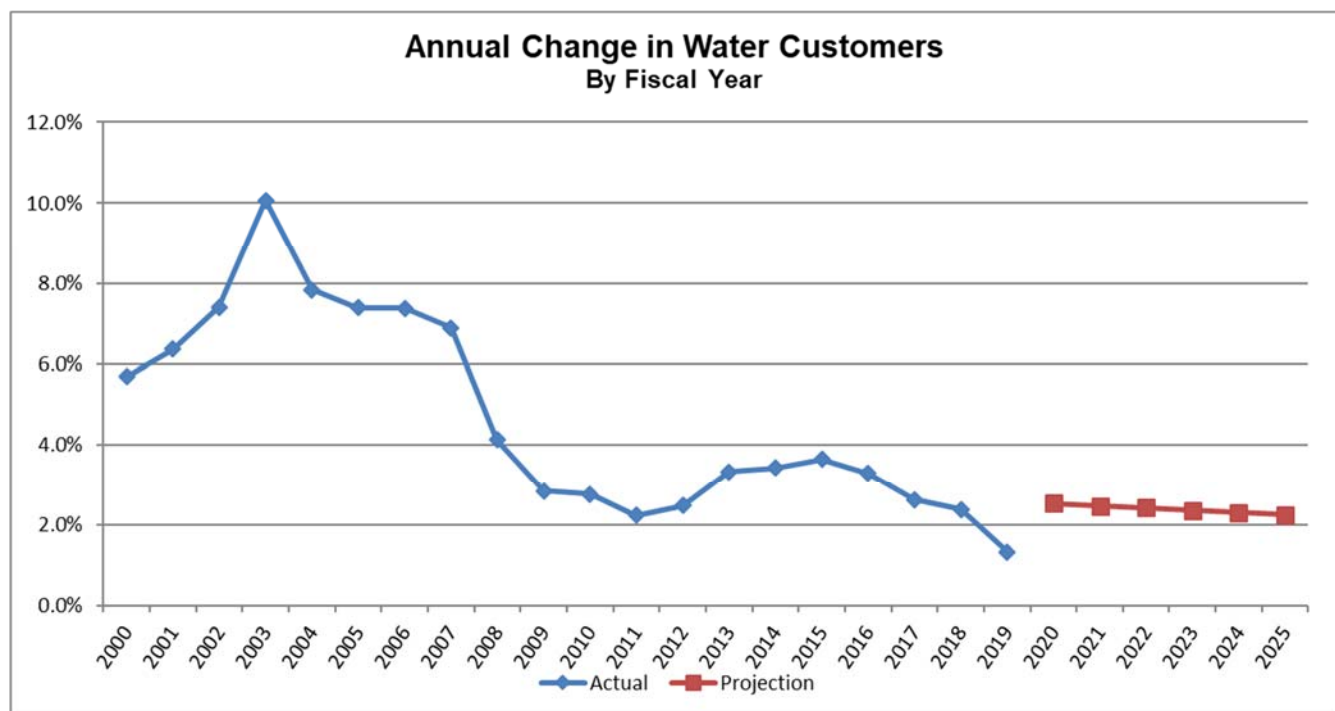
The City's second largest revenue source comes from monthly payments by the City's 35,427 water system customers. While the number of customers has grown at a steady pace during the last 10 years, FY2018 and FY2019 were relatively "wet" and inhibited revenue growth. Rainfall or the lack thereof and the impact this has on water consumption, particularly during hot, dry summer months makes this a more volatile revenue source.

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 FY2025 (average of 2.35% over forecast period), (3) is based on current water and sewer rates effective April 2020, and (4) additional rate increases over the forecast period as outlined in the 2019 Utility Rate Study.

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As detailed in the graph below, the rate of growth in water customers is expected to slow as we get closer to FY2025. (The decline in water customer count in FY2019 is skewed due to the utility billing software conversion.)



Sales Taxes

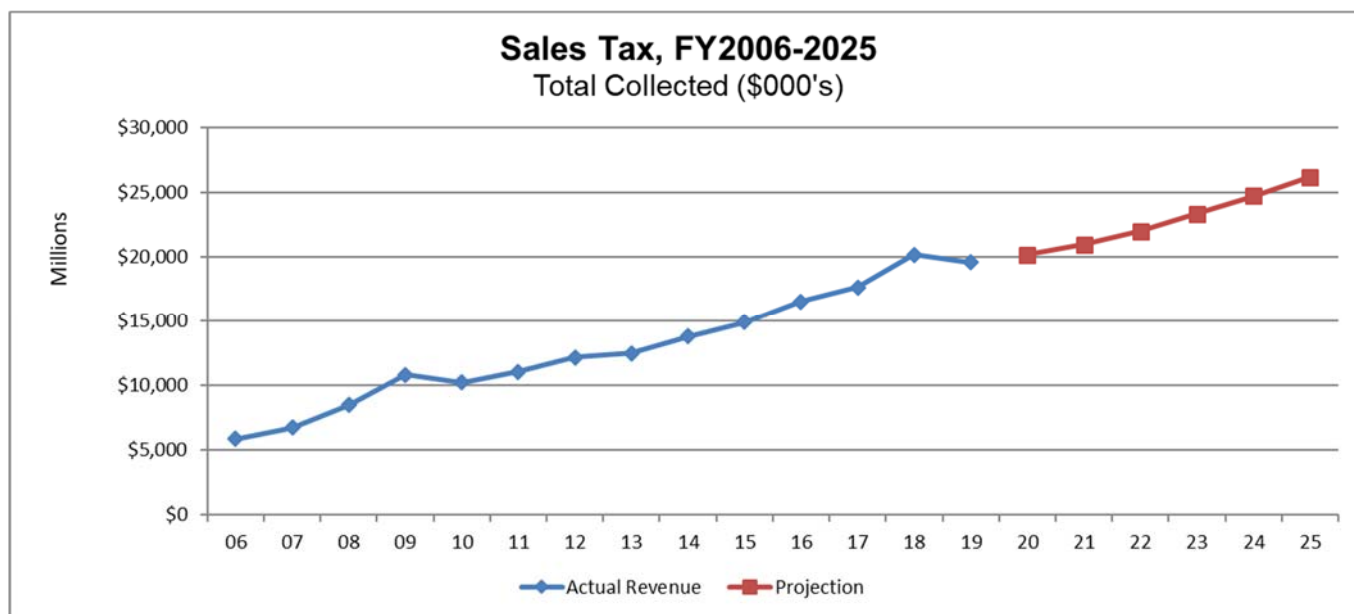
The City sales tax, which provides the City's third largest revenue source, is 2.00% on taxable items (1.75% until October 1, 2019). Of this amount, 0.25% goes to the City's 4B economic development corporation to promote and develop amateur athletics and 0.25% goes to the City's Street & Drainage sales 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 has been affected by COVID19 as discussed in the Economic Outlook section of this forecast. Prior to COVID19, sales tax collections were \$508,980 over budget for the months of October 2019 thru February 2020. As COVID19 began to affect the Houston area, sales tax collections for the month of March 2020 were \$177,000 less than the monthly budget. Even as the first full month of business disruption, sales in the month of April 2020 rebounded and surprisingly collections were \$11,000 over the monthly budget.

Currently, the FY2020 year-end estimate for General Fund sales tax is \$20,182,283 which is \$287,235 under the \$20,469,518 budget. This is a conservative estimate as it allows for the updated March and April sales receipts but continues to project May through August at reduced levels in anticipation of ongoing business disruption.

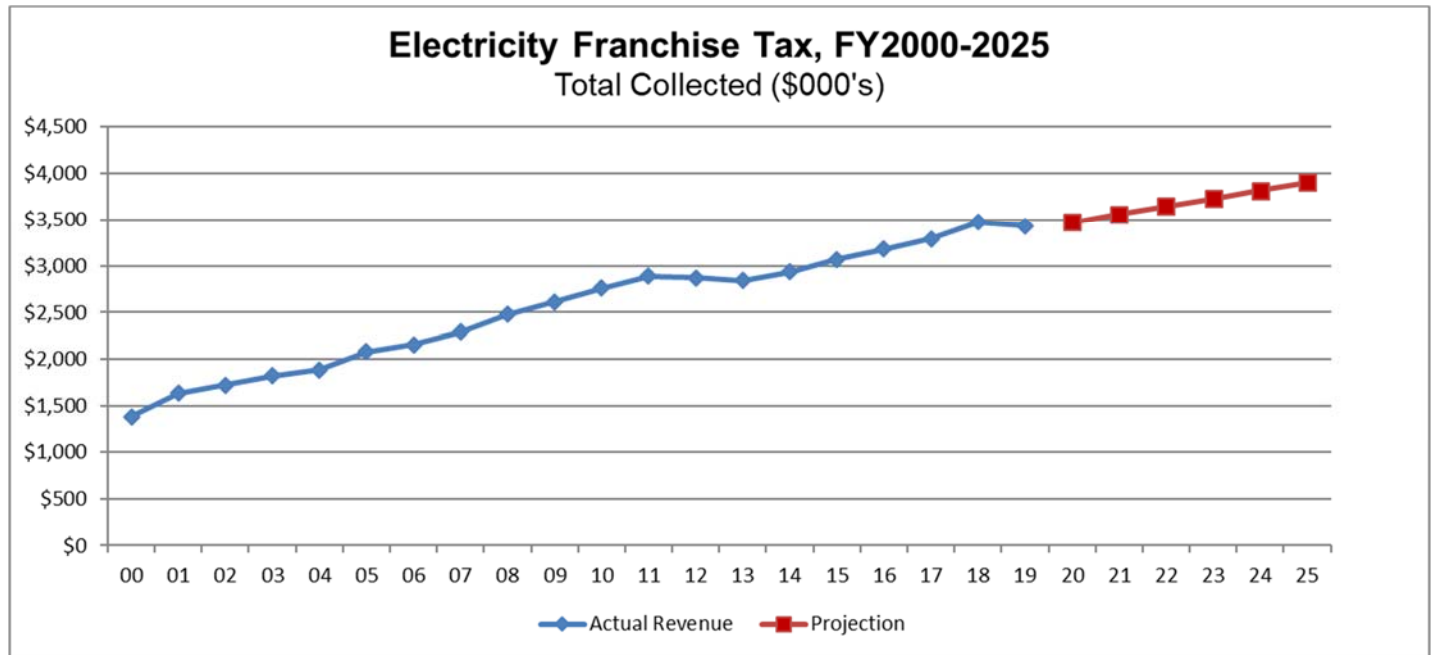
A conservative 2.5% increase over FY2020 Budget is forecasted in FY2021, 5% increase in FY2022, and 6% increase annually in FY2023 to FY2025.



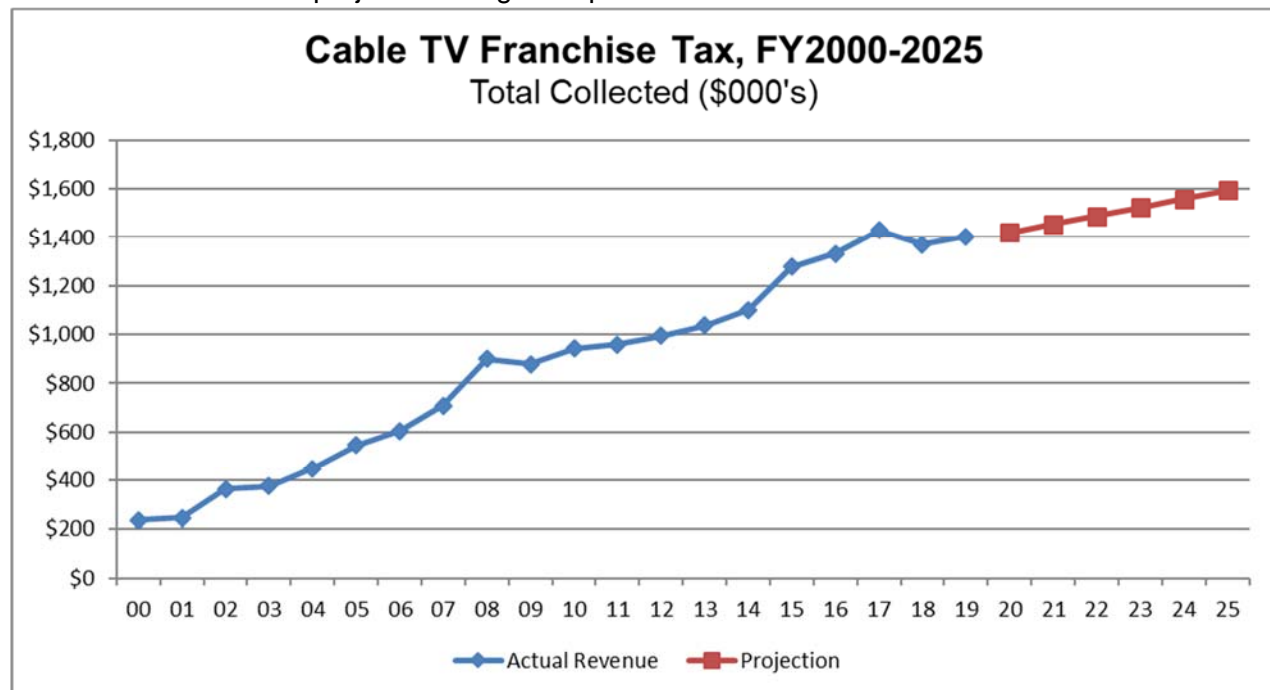
Franchise & Other Taxes

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 \$3.5 million in FY2020. The forecast assumes an average of 2.35% growth as based on anticipated new construction in FY2021-2025.



Cable TV franchise taxes, the second largest of this group of revenues at \$1.4 million estimated to be received in FY2020 is also projected using anticipated new construction in FY2021-2025.



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 69% 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 2.4% in FY2021 and slightly grow each year with 3.4% in FY2025.

Miscellaneous revenue is projected at FY2020 levels except for increase as noted in the contract with Big League Dreams.

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LONG RANGE FINANCIAL FORECAST EXPENDITURE OVERVIEW

Baseline Forecast Methodology

Expenditures are forecasted for the City's three major funds: General, Utility and Debt Service. The baseline 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 2021 FORECAST | FY 2022 FORECAST | FY 2023 FORECAST | FY 2024 FORECAST | FY 2025 FORECAST |
|--------------------------------|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Personnel Services | | | | | | |
| Salaries | Based on current year budget | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Step Increases - Civil Service | Based on 5 year trend analysis | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| 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 | 14.90% | 14.91% | 14.92% | 14.93% | 14.94% |
| Health and Life Insurance | COLC Analysis | 8.00% | 8.84% | 8.84% | 8.84% | 8.84% |
| Supplies | | | | | | |
| Energy Supplies | Energy CPI | 1.96% | 1.96% | 1.96% | 1.96% | 1.96% |
| General Supplies | Core CPI | 1.96% | 1.96% | 1.96% | 1.96% | 1.96% |
| Maintenance Supplies | Influenced by Core CPI and Energy CPI | 1.96% | 1.96% | 1.96% | 1.96% | 1.96% |
| Small Capital | Core CPI | 1.96% | 1.96% | 1.96% | 1.96% | 1.96% |
| Services | | | | | | |
| Maintenance Services | Core CPI | 1.96% | 1.96% | 1.96% | 1.96% | 1.96% |
| Vehicle Maintenance | Core CPI | 1.96% | 1.96% | 1.96% | 1.96% | 1.96% |
| Office Services | Core CPI | 1.96% | 1.96% | 1.96% | 1.96% | 1.96% |
| Other Services | Core CPI | 1.96% | 1.96% | 1.96% | 1.96% | 1.96% |
| Professional Services | Core CPI | 1.96% | 1.96% | 1.96% | 1.96% | 1.96% |
| Electric | Reflects electricity contract price for 2018; then energy CPI | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| Water Utilities | Population plus Rate study increase | 4.46% | 5.41% | 4.55% | 7.59% | 6.54% |
| Refuse pickup services | Population plus contract price increases in FY20 | 4.08% | 3.75% | 3.71% | 3.65% | 3.60% |
| Water Purchases | Population plus core CPI | 4.42% | 4.37% | 4.31% | 4.25% | 4.20% |
| Capital Outlay | | | | | | |
| Motor Pool Replacement | Core CPI | 1.96% | 1.96% | 1.96% | 1.96% | 1.96% |
| Vehicles and Equipment | Core CPI | 1.96% | 1.96% | 1.96% | 1.96% | 1.96% |
| Transfers | | | | | | |
| General Fund to Project Fund | Cash fund & Reinvestment | 8,625,000 | 9,000,000 | 8,958,000 | 9,000,000 | 7,850,000 |
| TIRZ Increment | TIRZ Assumptions | -6.80% | 1.10% | -71.20% | 3.00% | 0.00% |

The growth assumptions shown on the previous page are based on the core inflation rate from the consumer price index. Health care inflation is assumed to be 8 in FY2021 and 8.84% annually for FY2022-FY2025 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.

Baseline 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 FY2020 Budget amount for each department and line item into summary amounts for the nineteen categories by department;
3. Adjust the FY2020 Budget by category into the FY2021 "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.
 - c. The FY2021 Forecast, was adjusted to closely mirror the anticipated FY2021 Proposed 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

Due to the impact of COVID19 to the FY2020 General Fund year-end estimates, the General Fund summary forecast includes the FY2020 Budget, FY2020 Year-End Estimates along with the FY2021 – FY2025 Forecast. The FY2021 forecast includes the annualized cost of the FY2020 merit and has been adjusted to closely mirror the anticipated FY2021 proposed budget. The FY2022-FY2025 forecast has been grown based on the baseline assumptions which include annual pay raises based on 3% merit. Civil Service STEPS and 2% cost of living increases based on the approved pay plan. The General Fund forecast includes the addition of 7 FTE each year from FY2022 thru FY2025 and the Utility Fund forecast includes the addition of 2 FTE for the same time period. New programs and expanded service levels are not included, which in this rapidly growing City, is unrealistic.

Employee Salaries

In FY2020, funding for 2% merit increase and an addition 1% merit for superior employee performance at the discretion of the City Manager both for nine months (January 2020) was implemented. Based on this, an annual 3% pay raises for FY2022-FY2025 of the forecast has been included. FY2021 Forecast has been adjusted to closely mirror the anticipated FY2021 Proposed Budget and includes 2.5% merit increase.

CAPITAL PROJECTS FUNDING

Cash Funding

The forecast projects annual general fund capital improvement cash funding of \$1.5 million in FY2022 – FY2025. The general fund forecast is then amended to project the impact of additional cash funding for asset reinvestment needs annually as follows:

| | |
|-------------------------|--------|
| \$ 7.125 million | FY2021 |
| \$ 7.500 million | FY2022 |
| \$ 7.458 million | FY2023 |
| \$ 7.500 million | FY2024 |
| <u>\$ 6.350 million</u> | FY2025 |
| \$ 31.933 million | |

For utility projects, the forecast is based on \$5.2 million of funding for FY2021 with \$3.7 million each year from FY2022-2024 and \$4 million in FY2025.

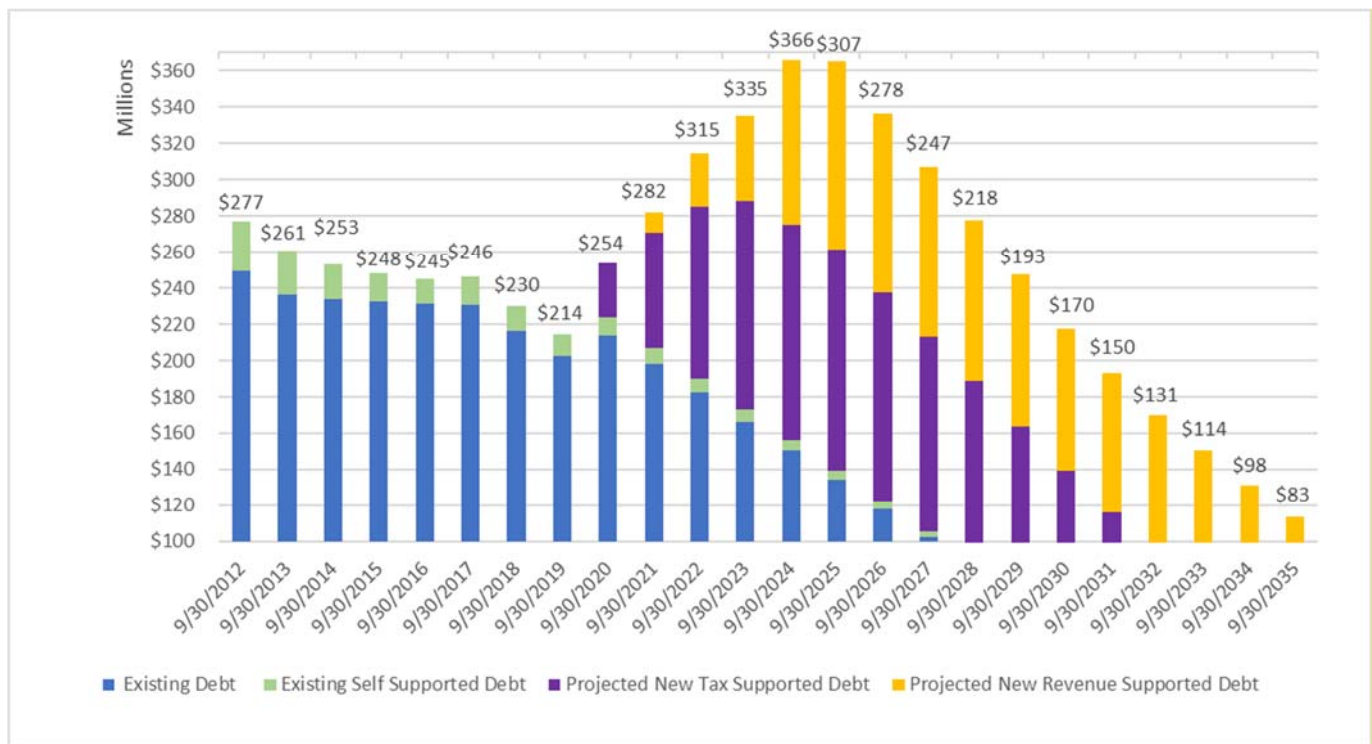
Debt Funding

The CIP is funded through various sources including operating revenue, grants, restricted revenue sources, developer contributions, and lastly through debt. Currently, based upon the FY2021-2025 Capital Improvement Plan (CIP), \$257 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. The FY2021-2025 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 FY2021-2025 CIP for a total of \$112 million in new debt anticipated. The largest funding need remains the water utility. 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) followed by the 36-inch transmission line from SH3 Booster Pump Station to SSH Booster Pump Station. 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 \$366 million in FY2024. This forecast, along with an update to programmed project timing in the FY2021-2025 CIP, will help identify how the City can proceed and fund this program.

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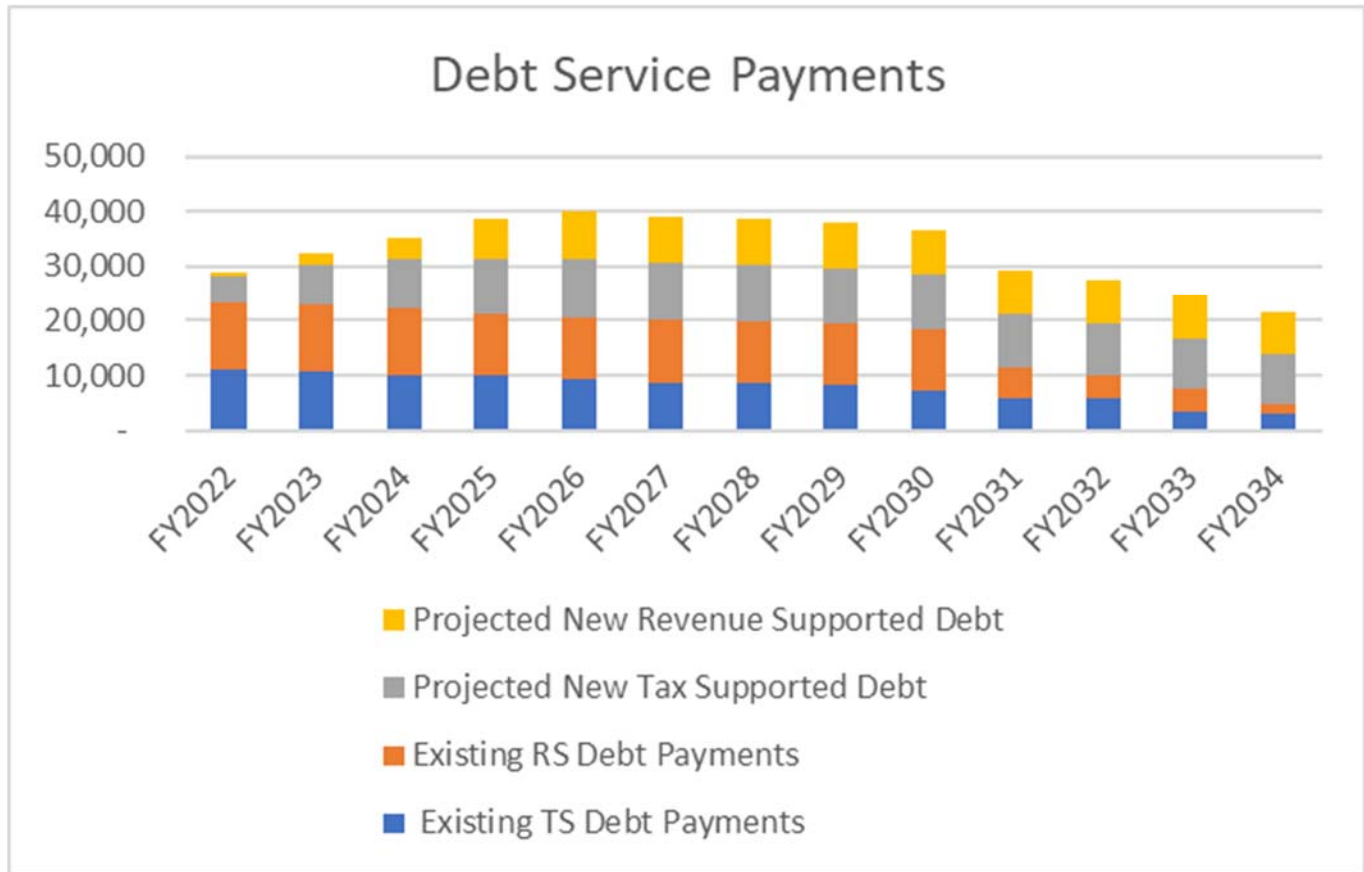
PROJECTED OUTSTANDING DEBT BY FISCAL YEAR



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Debt Service Costs

Based on the FY2021-2025 Capital Improvement Plan (CIP) with the addition of the authorized GO bond, debt requirements in addition to existing issues for tax supported projects of \$145 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 \$112 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 FY2021 Forecast to closely mirror the anticipated FY2021 proposed budget, (2) a 3% compensation increase along with 2% cost of living for civil service and civil service step increases, (3) the anticipated effect of inflation on costs, and (4) increased funding for capital reinvestment projects each year of the forecast. The "FY2022 Forecast" column includes the assumptions detailed above plus the addition of seven positions annually for each year of the forecast period (FY2022-2025).

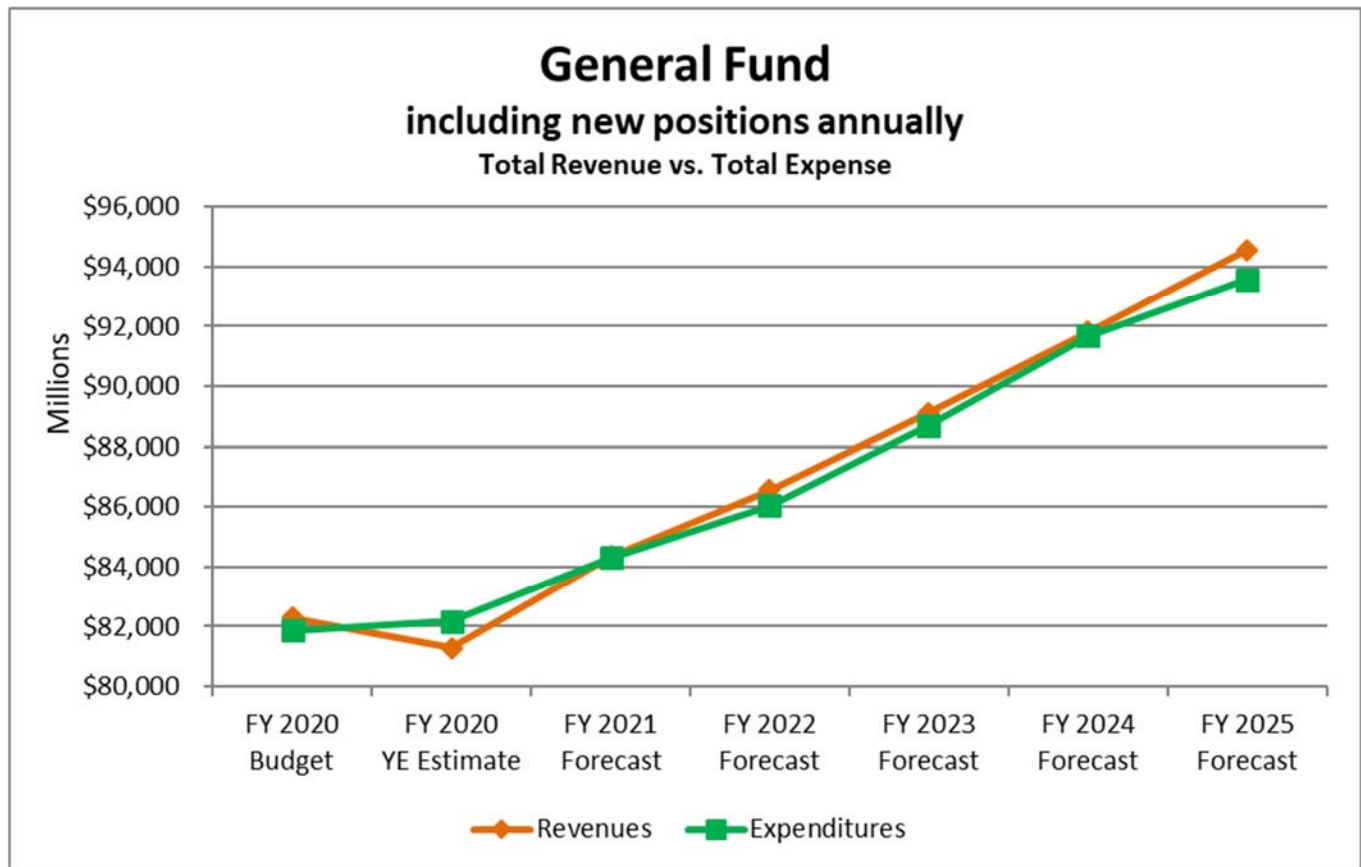
FORECAST SUMMARY GENERAL FUND PROJECTIONS INCLUSIVE OF ENHANCED CIP FUNDING (\$THOUSANDS)

| | FY 2020 Budget | FY 2020 YE Estimate | FY 2021 Forecast | FY 2022 Forecast | FY 2023 Forecast | FY 2024 Forecast | FY 2025 Forecast |
|---|-------------------|------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Beginning Balance | \$ 26,165 | \$ 26,165 | \$ 25,285 | \$ 25,339 | \$ 25,855 | \$ 26,274 | \$ 26,410 |
| Revenue | \$ 82,286 | \$ 81,282 | \$ 84,351 | \$ 86,558 | \$ 89,119 | \$ 91,805 | \$ 94,565 |
| Expenditures | \$ 70,891 | \$ 70,039 | \$ 73,934 | \$ 75,832 | \$ 77,923 | \$ 80,210 | \$ 82,599 |
| Revenue Over/(Under) Expenditures | \$ 11,396 | \$ 11,243 | \$ 10,417 | \$ 10,726 | \$ 11,196 | \$ 11,595 | \$ 11,966 |
| Subtotal | \$ 37,561 | \$ 37,408 | \$ 35,702 | \$ 36,065 | \$ 37,052 | \$ 37,869 | \$ 38,376 |
| 7 Additional Positions Annually* | | | | \$ 575 | \$ 1,174 | \$ 1,796 | \$ 2,442 |
| Transfer to Tax Increment | \$ 2,355 | \$ 2,531 | \$ 2,238 | \$ 635 | \$ 646 | \$ 663 | \$ 687 |
| Transfer to CIP-Cash Fd Project | \$ 1,500 | \$ 2,065 | \$ 800 | \$ 1,500 | \$ 1,500 | \$ 1,500 | \$ 1,500 |
| Transfer to CIP-Reinvestment | \$ 7,125 | \$ 7,125 | \$ 7,125 | \$ 7,500 | \$ 7,458 | \$ 7,500 | \$ 6,350 |
| Transfer to Technology Fund | \$ 279 | \$ 279 | \$ 200 | \$ - | \$ - | \$ - | \$ - |
| Transfer to Employee Benefit Fund | \$ 123 | \$ 123 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Revenue Over/(Under) Expenditures | \$ 14 | \$ (880) | \$ 54 | \$ 516 | \$ 418 | \$ 136 | \$ 987 |
| Ending Balance | \$ 26,179 | \$ 25,285 | \$ 25,339 | \$ 25,855 | \$ 26,274 | \$ 26,410 | \$ 27,397 |
| Policy Goal - 110 Days of Working Capital | \$ 21,364 | \$ 21,108 | \$ 22,282 | \$ 22,854 | \$ 23,484 | \$ 24,173 | \$ 24,893 |
| Forecast Over 110 Days | \$ 4,815 | \$ 4,177 | \$ 3,057 | \$ 3,001 | \$ 2,790 | \$ 2,237 | \$ 2,504 |
| Days Working Capital Over 110 | 25 | 22 | 15 | 14 | 13 | 10 | 11 |

*New positions included in FY2021 proposed budget are included in the expenditure total for FY2021 forecast column.

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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.



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GENERAL FUND FORECAST
FUND BALANCE, REVENUE, AND EXPENDITURES
FY2021 – FY2025
(\$THOUSANDS)

| | FY 2020 Budget | FY 2021 Forecast | FY 2022 Forecast | FY 2023 Forecast | FY 2024 Forecast | FY 2025 Forecast |
|---|-------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Beginning Balance | \$ 26,165 | \$ 25,285 | \$ 25,339 | \$ 25,855 | \$ 26,274 | \$ 26,410 |
| Revenue | | | | | | |
| Property Tax | \$ 35,566 | \$ 36,333 | \$ 36,870 | \$ 37,484 | \$ 38,102 | \$ 38,723 |
| Sales Tax | \$ 20,470 | \$ 20,981 | \$ 22,030 | \$ 23,352 | \$ 24,753 | \$ 26,238 |
| Franchise and Other Taxes | \$ 5,712 | \$ 5,843 | \$ 5,975 | \$ 6,106 | \$ 6,237 | \$ 6,368 |
| Licenses and Permits | \$ 3,930 | \$ 3,992 | \$ 4,054 | \$ 4,115 | \$ 4,177 | \$ 4,239 |
| Grant Proceeds | \$ 546 | \$ 546 | \$ 546 | \$ 546 | \$ 546 | \$ 546 |
| Charges for Services | \$ 9,002 | \$ 8,849 | \$ 9,147 | \$ 9,450 | \$ 9,759 | \$ 10,074 |
| Fines and Forfeitures | \$ 1,587 | \$ 1,627 | \$ 1,666 | \$ 1,705 | \$ 1,744 | \$ 1,783 |
| Investment Earnings | \$ 745 | \$ 763 | \$ 783 | \$ 806 | \$ 831 | \$ 859 |
| Miscellaneous/Grants | \$ 838 | \$ 839 | \$ 841 | \$ 836 | \$ 865 | \$ 870 |
| Interfund Transfers | \$ 3,485 | \$ 4,245 | \$ 4,307 | \$ 4,370 | \$ 4,434 | \$ 4,500 |
| Other Taxes | \$ 406 | \$ 333 | \$ 341 | \$ 349 | \$ 357 | \$ 365 |
| Total Revenue | \$ 82,286 | \$ 84,351 | \$ 86,558 | \$ 89,119 | \$ 91,805 | \$ 94,565 |
| Available Funds | \$ 108,451 | \$ 109,636 | \$ 111,898 | \$ 114,975 | \$ 118,079 | \$ 120,975 |
| Expenditures by Directorate | | | | | | |
| Police | \$ 21,723 | \$ 22,428 | \$ 23,029 | \$ 23,656 | \$ 24,312 | \$ 24,999 |
| Fire | \$ 8,107 | \$ 8,031 | \$ 8,232 | \$ 8,441 | \$ 8,658 | \$ 8,885 |
| Emergency Management | \$ 216 | \$ 218 | \$ 225 | \$ 233 | \$ 241 | \$ 249 |
| Communications | \$ 640 | \$ 673 | \$ 693 | \$ 713 | \$ 734 | \$ 756 |
| Public Works | \$ 14,412 | \$ 15,269 | \$ 15,559 | \$ 15,965 | \$ 16,487 | \$ 17,026 |
| Engineering | \$ 1,361 | \$ 1,398 | \$ 1,446 | \$ 1,495 | \$ 1,547 | \$ 1,601 |
| Parks and Cultural Services | \$ 5,581 | \$ 5,866 | \$ 6,049 | \$ 6,240 | \$ 6,440 | \$ 6,649 |
| Finance | \$ 3,196 | \$ 3,292 | \$ 3,390 | \$ 3,493 | \$ 3,600 | \$ 3,712 |
| Information Technology & Facilities | \$ 5,227 | \$ 5,341 | \$ 5,497 | \$ 5,659 | \$ 5,828 | \$ 6,005 |
| Budget & Project Management | \$ 1,722 | \$ 1,795 | \$ 1,860 | \$ 1,929 | \$ 2,001 | \$ 2,076 |
| Planning & Development | \$ 3,226 | \$ 3,388 | \$ 3,507 | \$ 3,631 | \$ 3,761 | \$ 3,897 |
| Human Resources | \$ 905 | \$ 890 | \$ 917 | \$ 945 | \$ 975 | \$ 1,006 |
| Administration | \$ 2,005 | \$ 2,056 | \$ 2,123 | \$ 2,193 | \$ 2,266 | \$ 2,341 |
| Non-Departmental | \$ 2,568 | \$ 3,289 | \$ 3,306 | \$ 3,330 | \$ 3,361 | \$ 3,399 |
| Total Expenditures | \$ 70,891 | \$ 73,934 | \$ 75,832 | \$ 77,923 | \$ 80,210 | \$ 82,599 |
| Revenue Over/(Under) Expenditures | \$ 11,396 | \$ 10,417 | \$ 10,726 | \$ 11,196 | \$ 11,595 | \$ 11,966 |
| Subtotal | \$ 37,561 | \$ 35,702 | \$ 36,065 | \$ 37,052 | \$ 37,869 | \$ 38,376 |
| 7 Additional Positions Annually | \$ - | \$ - | \$ 575 | \$ 1,174 | \$ 1,796 | \$ 2,442 |
| Transfer to Tax Increment | \$ 2,355 | \$ 2,238 | \$ 635 | \$ 646 | \$ 663 | \$ 687 |
| Transfer to CIP-Cash Fund Projects | \$ 1,500 | \$ 800 | \$ 1,500 | \$ 1,500 | \$ 1,500 | \$ 1,500 |
| Transfer to CIP-Reinvestment | \$ 7,125 | \$ 7,125 | \$ 7,500 | \$ 7,458 | \$ 7,500 | \$ 6,350 |
| Transfer to Employee Benefit Fund | \$ 123 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Transfer to Technology Fund | \$ - | \$ 200 | \$ - | \$ - | \$ - | \$ - |
| Ending Balance | \$ 26,458 | \$ 25,339 | \$ 25,855 | \$ 26,274 | \$ 26,410 | \$ 27,397 |
| Policy Goal - 110 Days of Working Capital | \$ 21,401 | \$ 22,282 | \$ 22,854 | \$ 23,484 | \$ 24,173 | \$ 24,893 |
| Excess/(Shortage) of Working Capital | \$ 5,057 | \$ 3,057 | \$ 3,001 | \$ 2,790 | \$ 2,237 | \$ 2,504 |
| Excess/(Shortage) of Working Capital in Days | 26 | 15 | 14 | 13 | 10 | 11 |

**GENERAL FUND FORECAST
EXPENDITURES BY DEPARTMENT
FY2021-2025 (\$THOUSANDS)**

| | FY 2020 Budget | FY 2021 Forecast | FY 2022 Forecast | FY 2023 Forecast | FY 2024 Forecast | FY 2025 Forecast |
|--|-------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Police | | | | | | |
| Police | \$ 20,715,228 | \$ 21,377,960 | \$ 21,947,342 | \$ 22,541,916 | \$ 23,163,354 | \$ 23,813,465 |
| Animal Control | \$ 1,008,214 | \$ 1,049,909 | \$ 1,081,512 | \$ 1,114,521 | \$ 1,149,023 | \$ 1,185,110 |
| Subtotal - Total Police | \$ 21,723,442 | \$ 22,427,868 | \$ 23,028,854 | \$ 23,656,437 | \$ 24,312,377 | \$ 24,998,575 |
| Fire | | | | | | |
| Fire Department | \$ 3,318,067 | \$ 2,996,143 | \$ 3,054,187 | \$ 3,113,671 | \$ 3,174,647 | \$ 3,237,171 |
| Fire Marshal | \$ 811,327 | \$ 865,493 | \$ 894,200 | \$ 924,223 | \$ 955,643 | \$ 988,548 |
| Emergency Medical Services | \$ 3,977,172 | \$ 4,169,465 | \$ 4,283,521 | \$ 4,402,907 | \$ 4,527,964 | \$ 4,659,060 |
| Subtotal - Fire | \$ 8,106,566 | \$ 8,031,101 | \$ 8,231,909 | \$ 8,440,801 | \$ 8,658,254 | \$ 8,884,779 |
| Emergency Management | | | | | | |
| Emergency Management | \$ 216,020 | \$ 217,914 | \$ 225,169 | \$ 232,738 | \$ 240,640 | \$ 248,895 |
| Subtotal - Emergency Management | \$ 216,020 | \$ 217,914 | \$ 225,169 | \$ 232,738 | \$ 240,640 | \$ 248,895 |
| Communications | | | | | | |
| Communications Office | \$ 640,100 | \$ 673,421 | \$ 692,796 | \$ 712,935 | \$ 733,880 | \$ 755,676 |
| Subtotal - Communications | \$ 640,100 | \$ 673,421 | \$ 692,796 | \$ 712,935 | \$ 733,880 | \$ 755,676 |
| Public Works | | | | | | |
| Public Works Administration | \$ 581,389 | \$ 587,293 | \$ 606,279 | \$ 626,024 | \$ 646,568 | \$ 667,953 |
| Streets and Traffic | \$ 7,403,459 | \$ 7,949,730 | \$ 7,967,649 | \$ 8,094,873 | \$ 8,331,952 | \$ 8,579,473 |
| Solid Waste | \$ 6,427,128 | \$ 6,732,249 | \$ 6,984,825 | \$ 7,243,878 | \$ 7,508,157 | \$ 7,778,295 |
| Subtotal - Public Works | \$ 14,411,976 | \$ 15,269,272 | \$ 15,558,753 | \$ 15,964,776 | \$ 16,486,677 | \$ 17,025,721 |
| Engineering | | | | | | |
| Engineering | \$ 1,361,185 | \$ 1,398,478 | \$ 1,445,719 | \$ 1,495,153 | \$ 1,546,915 | \$ 1,601,153 |
| Subtotal - Engineering | \$ 1,361,185 | \$ 1,398,478 | \$ 1,445,719 | \$ 1,495,153 | \$ 1,546,915 | \$ 1,601,153 |
| Parks and Cultural Services | | | | | | |
| Library | \$ 2,302,097 | \$ 2,456,555 | \$ 2,535,866 | \$ 2,618,673 | \$ 2,705,188 | \$ 2,795,637 |
| Parks Operations | \$ 2,319,248 | \$ 2,363,900 | \$ 2,438,720 | \$ 2,516,976 | \$ 2,598,884 | \$ 2,684,679 |
| Parks Recreation | \$ 959,773 | \$ 1,045,101 | \$ 1,074,265 | \$ 1,104,547 | \$ 1,136,007 | \$ 1,168,710 |
| Subtotal - Parks and Cultural Services | \$ 5,581,118 | \$ 5,865,556 | \$ 6,048,852 | \$ 6,240,197 | \$ 6,440,080 | \$ 6,649,026 |
| Planning and Development | | | | | | |
| Planning | \$ 1,154,929 | \$ 1,211,248 | \$ 1,254,286 | \$ 1,299,348 | \$ 1,346,562 | \$ 1,396,065 |
| Building | \$ 1,158,884 | \$ 1,212,104 | \$ 1,256,160 | \$ 1,302,392 | \$ 1,350,943 | \$ 1,401,965 |
| Neighborhood Services | \$ 520,768 | \$ 564,621 | \$ 584,071 | \$ 604,440 | \$ 625,788 | \$ 648,175 |
| Economic Development | \$ 391,395 | \$ 400,435 | \$ 412,216 | \$ 424,486 | \$ 437,272 | \$ 450,805 |
| Subtotal - Development Services | \$ 3,225,976 | \$ 3,388,407 | \$ 3,506,732 | \$ 3,630,666 | \$ 3,760,564 | \$ 3,896,810 |
| Finance | | | | | | |
| Accounting | \$ 1,870,503 | \$ 1,922,567 | \$ 1,977,874 | \$ 2,035,481 | \$ 2,095,525 | \$ 2,158,153 |
| Municipal Court | \$ 889,343 | \$ 898,162 | \$ 925,823 | \$ 954,794 | \$ 985,160 | \$ 1,017,015 |
| Purchasing | \$ 456,628 | \$ 470,978 | \$ 488,337 | \$ 502,337 | \$ 519,015 | \$ 536,410 |
| Subtotal - Finance | \$ 3,196,474 | \$ 3,291,707 | \$ 3,390,034 | \$ 3,492,612 | \$ 3,599,701 | \$ 3,711,578 |
| Budget & Project Management | | | | | | |
| Budget & Financial Planning | \$ 400,420 | \$ 416,797 | \$ 432,941 | \$ 449,907 | \$ 467,749 | \$ 486,526 |
| Project Management | \$ 1,321,445 | \$ 1,377,704 | \$ 1,427,192 | \$ 1,478,957 | \$ 1,533,135 | \$ 1,589,877 |
| Subtotal - Budget & Project Management | \$ 1,721,865 | \$ 1,794,501 | \$ 1,860,134 | \$ 1,928,864 | \$ 2,000,884 | \$ 2,076,403 |

**GENERAL FUND FORECAST
EXPENDITURES BY DEPARTMENT
FY2021-2025 (\$THOUSANDS)**

| | FY 2020 Adopted Budget | FY 2021 Forecast | FY 2022 Forecast | FY 2023 Forecast | FY 2024 Forecast | FY 2025 Forecast |
|---|------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Administration | | | | | | |
| City Council | \$ 151,650 | \$ 165,183 | \$ 168,729 | \$ 172,364 | \$ 176,090 | \$ 179,909 |
| City Manager | \$ 721,355 | \$ 733,594 | \$ 758,130 | \$ 783,686 | \$ 810,320 | \$ 838,090 |
| City Secretary | \$ 430,643 | \$ 442,340 | \$ 457,387 | \$ 473,109 | \$ 489,546 | \$ 506,742 |
| City Attorney | \$ 573,980 | \$ 595,230 | \$ 614,886 | \$ 635,375 | \$ 656,747 | \$ 679,051 |
| City Auditor | \$ 127,815 | \$ 120,128 | \$ 124,205 | \$ 128,452 | \$ 132,875 | \$ 137,486 |
| Subtotal - Administration | \$ 2,005,443 | \$ 2,056,475 | \$ 2,123,337 | \$ 2,192,986 | \$ 2,265,578 | \$ 2,341,279 |
| Human Resources | | | | | | |
| Human Resources | \$ 905,342 | \$ 889,756 | \$ 917,034 | \$ 945,472 | \$ 975,138 | \$ 1,006,107 |
| Subtotal - Human Resources | \$ 905,342 | \$ 889,756 | \$ 917,034 | \$ 945,472 | \$ 975,138 | \$ 1,006,107 |
| Information Technology & Facilities | | | | | | |
| Information Technology | \$ 2,924,825 | \$ 2,996,187 | \$ 3,076,450 | \$ 3,159,782 | \$ 3,246,342 | \$ 3,336,302 |
| Facilities Services | \$ 1,683,913 | \$ 1,708,856 | \$ 1,766,968 | \$ 1,827,715 | \$ 1,891,239 | \$ 1,957,693 |
| Civic Center Operations | \$ 618,309 | \$ 636,385 | \$ 653,739 | \$ 671,858 | \$ 690,791 | \$ 710,592 |
| Subtotal - Information Technology & Facilities | \$ 5,227,047 | \$ 5,341,427 | \$ 5,497,157 | \$ 5,659,354 | \$ 5,828,371 | \$ 6,004,587 |
| Non-Departmental | \$ 2,568,018 | \$ 3,288,540 | \$ 3,305,733 | \$ 3,330,033 | \$ 3,361,071 | \$ 3,398,534 |
| Transfers | \$ 11,381,682 | \$ 10,363,000 | \$ 9,635,000 | \$ 9,604,000 | \$ 9,663,000 | \$ 8,537,000 |
| 7 Additional Positions Annually | | | \$ 574,884 | \$ 1,173,924 | \$ 1,795,708 | \$ 2,441,713 |
| Total General Fund | \$ 82,272,254 | \$ 84,297,423 | \$ 86,042,097 | \$ 88,700,948 | \$ 91,668,838 | \$ 93,577,836 |

Note: The FY2021 Forecast has been adjusted to closely mirror the anticipated FY2021 proposed budget. FY2022 – FY2025 Forecast includes the effect of inflation, growth and mandates and commitments on expenditures, along with seven (7) additional staffing. 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:

- Growth in net taxable property value at 3% for FY2021 thru FY2025;
- Bond sales per the authorized GO Bond Election (May 2019) with the sale occurring summer of each year with level principal payments beginning the following fiscal year for late FY2020 thru FY2023. The initial sale of \$20 million occurred in late 2019 and is shown as part of the current debt on the forecast below. The forecast includes \$10 million in new debt projected in FY2024 and FY2025 for non-GO Bond tax supported projects.

| | |
|----------------------|-------------|
| \$ 30 million | FY2020 late |
| \$ 35 million | FY2021 |
| \$ 35 million | FY2022 |
| \$ 25 million | FY2023 |
| \$ 10 million | FY2024 |
| <u>\$ 10 million</u> | FY2025 |
| \$ 145 million | |

- Tax rate dedicated to debt service is adjusted annually to meet current year requirements and maintain appropriate balance.

GENERAL DEBT SERVICE FUND FORECAST ASSUMPTIONS FY2021 – FY2025

| | FY2020 | FY2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|------------|
| Taxable Value (\$millions) | \$8,723.0 | \$8,984.7 | \$9,254.2 | \$9,531.8 | \$9,817.8 | \$10,112.3 |
| Debt Service Tax Rate | \$0.144 | \$0.139 | \$0.140 | \$0.140 | \$0.140 | \$0.140 |
| Over 65 Tax Freeze Pct Loss | 0.216% | 0.218% | 0.220% | 0.222% | 0.224% | 0.226% |
| Property Tax Growth* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| TIRZ Increment Growth | -0.3% | -6.8% | 1.1% | -71.2% | 3.0% | 0.0% |
| Investment Pool Earnings Rate | 2.0% | 2.5% | 3.0% | 3.5% | 4.0% | 4.0% |
| Future Bond Issue (\$000's) | \$30,000 | \$35,000 | \$35,000 | \$25,000 | \$10,000 | \$10,000 |
| Overall Interest Rate | 2.25% | 2.50% | 2.75% | 3.25% | 3.25% | 3.25% |
| Population | 109,087 | 111,600 | 114,100 | 116,600 | 119,100 | 121,600 |
| Debt Per Capita | \$897 | \$821 | \$755 | \$689 | \$636 | \$520 |
| Debt per Taxable Value | 1.09% | 0.99% | 0.90% | 0.82% | 0.73% | 0.58% |

Tax Rate: Based upon the debt service schedule above and the other assumptions utilized in this forecast, the property tax rate dedicated to debt service is held stable over the forecast period as shown in the chart below:

| | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 | FY2025 |
|-----------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Debt Service Tax Rate | \$ 0.1444 | \$ 0.1392 | \$ 0.1400 | \$ 0.1400 | \$ 0.1400 | \$ 0.1400 |
| General Fund Tax Rate | \$ 0.4042 | \$ 0.3958 | \$ 0.3900 | \$ 0.3850 | \$ 0.3800 | \$ 0.3750 |
| Total Tax Rate | \$ 0.5486 | \$ 0.5350 | \$ 0.5300 | \$ 0.5250 | \$ 0.5200 | \$ 0.5150 |

Maintaining the debt rate 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.

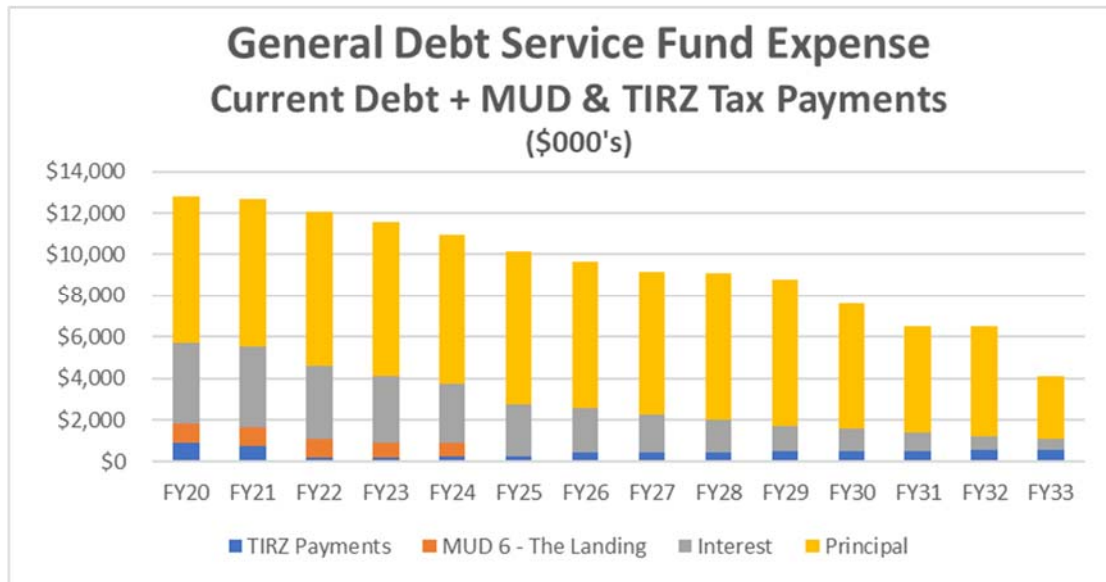
DEBT SERVICE FUND FORECAST SUMMARY, FY2021 – FY2025 (\$000'S)
ASSUMES PAYMENTS TO SERVICE \$145 MILLION IN NEW BONDS OVER PERIOD

| | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 | FY2025 |
|--------------------------------------|-----------------|-----------------|-----------------|------------------|------------------|-----------------|
| REVENUE | | | | | | |
| Property Taxes | \$12,612 | \$12,666 | \$13,121 | \$12,514 | \$12,320 | \$14,337 |
| Delinquent & Penalties | \$160 | \$160 | \$160 | \$160 | \$160 | \$160 |
| Sales Tax | \$0 | \$1,800 | \$3,906 | \$4,179 | \$4,507 | \$5,595 |
| Interest Income | \$97 | \$100 | \$150 | \$150 | \$150 | \$150 |
| TOTAL REVENUE | \$12,869 | \$14,726 | \$17,337 | \$17,003 | \$17,137 | \$20,242 |
| EXPENSE | | | | | | |
| Transfers | | | | | | |
| MUD Property Tax Rebates | \$887 | \$853 | \$842 | \$675 | \$668 | \$0 |
| TIRZ Property Tax Increment | \$905 | \$787 | \$228 | \$235 | \$244 | \$256 |
| Subtotal MUD's/TIRZ's | \$1,792 | \$1,640 | \$1,070 | \$910 | \$912 | \$256 |
| Current Debt Service | | | | | | |
| Interest | \$3,479 | \$3,854 | \$3,512 | \$3,159 | \$2,811 | \$2,460 |
| Principal | \$7,719 | \$7,220 | \$7,470 | \$7,520 | \$7,230 | \$7,450 |
| Paying Agent Fees | \$7 | \$7 | \$7 | \$7 | \$7 | \$7 |
| Subtotal Current Debt Service | \$11,205 | \$11,081 | \$10,989 | \$10,686 | \$10,048 | \$9,917 |
| Subtotal Current Expense | \$12,997 | \$12,721 | \$12,059 | \$11,596 | \$10,960 | \$10,173 |
| Projected Future Bonds | | | | | | |
| Interest | \$0 | \$760 | \$1,526 | \$2,408 | \$3,102 | \$3,315 |
| Principal | \$0 | \$1,501 | \$3,250 | \$5,000 | \$6,250 | \$6,750 |
| Subtotal Future Debt Service | \$0 | \$2,261 | \$4,776 | \$7,408 | \$9,352 | \$10,065 |
| TOTAL EXPENSE | \$12,997 | \$14,982 | \$16,835 | \$19,004 | \$20,312 | \$20,238 |
| Revenue Over/(Under) Expense | (\$129) | (\$256) | \$502 | (\$2,001) | (\$3,175) | \$4 |
| Beginning Fund Balance | \$5,061 | \$4,933 | \$4,677 | \$5,179 | \$3,178 | \$3 |
| Ending Fund Balance | \$4,933 | \$4,677 | \$5,179 | \$3,178 | \$3 | \$7 |

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 FY2020, 87% of current expense is debt service payments for city-issued and city-assumed bonds. The remainder, or 13%, 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.

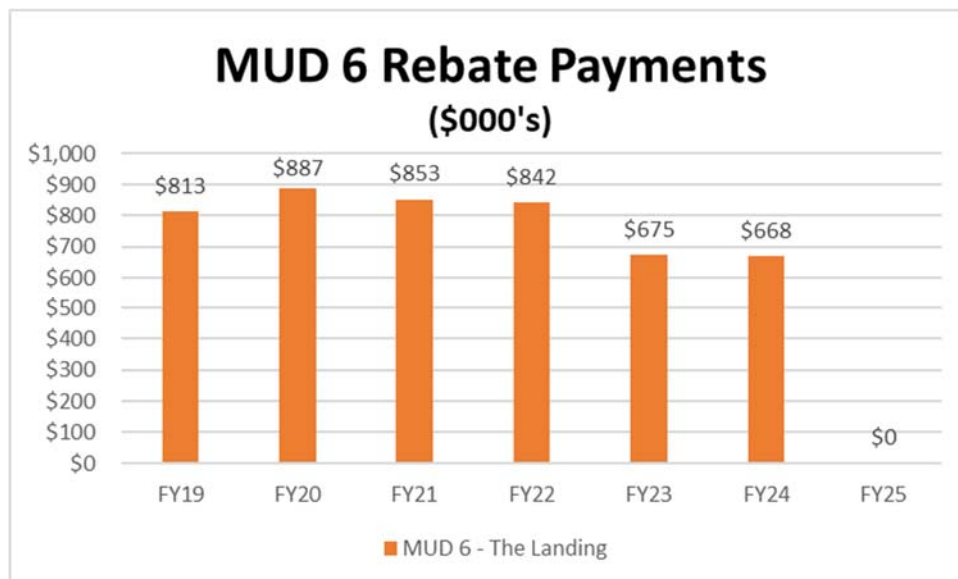


Note: The above chart is for current debt payments only through the anticipated sale of \$30 million in late 2020. This chart does not include the issue anticipated in FY2021 or future debt projected in the forecast on the previous page.

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 below:

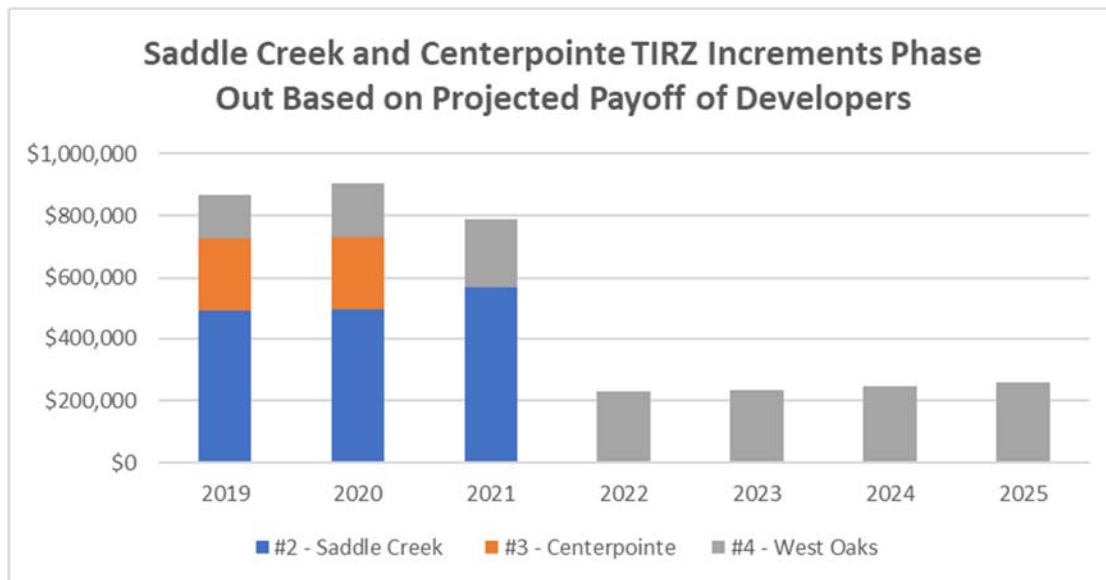


Tax Increment Reinvestment Zones

The City currently has three Tax Increment Reinvestment Zones (TIRZ's). 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. When a TIRZ ends, the TIRZ increment then becomes a part of the City's property tax revenue stream.

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 #3 for Centerpointe will be closed during FY2020 with Saddle Creek anticipated phasing out after FY2021.



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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 FY2021 Forecast to closely mirror the anticipated FY2021 proposed budget, (2) the impact of debt scheduled in the FY2021-2025 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 FY2022-2025 forecast includes the addition of two new staff members each year but no new programs.

FORECAST SUMMARY UTILITY FUND PROJECTIONS (\$THOUSANDS)

| | FY2020 Budget | FY2020 YE Estimate | FY2021 Forecast | FY2022 Forecast | FY2023 Forecast | FY2024 Forecast | FY2025 Forecast |
|---|------------------|-----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Beginning Balance | \$14,262 | \$14,262 | \$14,281 | \$14,395 | \$17,525 | \$20,903 | \$25,477 |
| Revenue | | | | | | | |
| Current Revenue | \$37,752 | \$38,923 | \$40,294 | \$42,619 | \$44,519 | \$47,780 | \$50,810 |
| Subtotal Revenues | \$37,752 | \$38,923 | \$40,294 | \$42,619 | \$44,519 | \$47,780 | \$50,810 |
| Expenditures | | | | | | | |
| Operating Expenditures | \$17,540 | \$17,719 | \$17,978 | \$17,941 | \$18,330 | \$18,730 | \$19,142 |
| Current Debt Service | \$12,700 | \$12,700 | \$11,902 | \$12,355 | \$12,113 | \$12,112 | \$11,435 |
| Future Debt Service | \$0 | \$0 | \$855 | \$855 | \$2,120 | \$3,540 | \$7,160 |
| Transfer to General Fund | \$3,485 | \$3,485 | \$4,245 | \$4,307 | \$4,370 | \$4,434 | \$4,500 |
| Transfer to CIP | \$5,000 | \$5,000 | \$5,200 | \$3,700 | \$3,700 | \$3,700 | \$4,000 |
| 2 Additional Positions Annually | | | | \$331 | \$507 | \$689 | \$879 |
| Subtotal Expenditures | \$38,725 | \$38,904 | \$40,180 | \$39,489 | \$41,140 | \$43,206 | \$47,115 |
| Revenue Over/(Under) Expenditures | (\$973) | \$19 | \$114 | \$3,130 | \$3,378 | \$4,574 | \$3,694 |
| Ending Balance | \$13,289 | \$14,281 | \$14,395 | \$17,525 | \$20,903 | \$25,477 | \$29,172 |
| Utility Fund Reserves | | | | | | | |
| 90 Days of Operating Expenditures as Working Capital | \$4,325 | \$4,369 | \$4,433 | \$4,424 | \$4,520 | \$4,618 | \$4,720 |
| Excess Working Capital | \$8,964 | \$9,912 | \$9,962 | \$13,101 | \$16,383 | \$20,859 | \$24,452 |
| Days Working Capital Over 90 Days | 187 | 204 | 202 | 267 | 326 | 407 | 466 |

Based on the assumptions outlined, the fund is projected to have ample funds to increase cash funding of capital projects in FY2022-2025.

Water and Wastewater Capital Improvement Plan

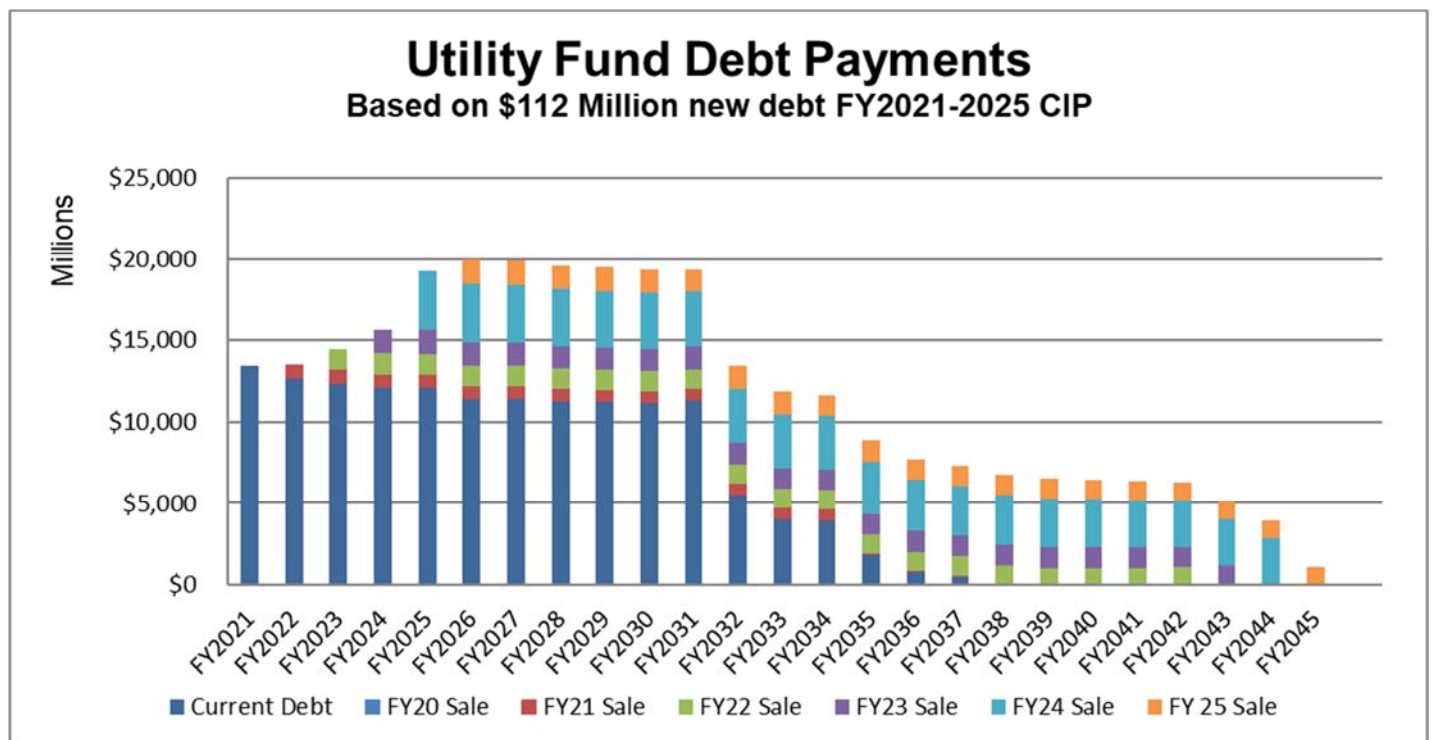
The FY2021-2025 Capital Improvement Plan included projects identified in the Water and Wastewater Master Plans, including projects to address water supply. The largest single project is budgeted at \$52.8 million to replace the 42" water supply line on SH 3 with a 60" line which will add approximately 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 FY2021-2025 CIP included \$112 million in new debt, of which \$11.32 million is anticipated to be issued in early 2021. The principal and interest payments related to a new \$11.32 million issue is shown as future debt service in the FY2021 forecast. The FY2022-2025 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

| | |
|----------|--------------------------|
| FY2021 – | \$ 11.32 million |
| FY2022 – | \$ 18.40 million |
| FY2023 – | \$ 19.19 million |
| FY2024 – | \$ 45.61 million |
| FY2025 – | \$ 17.49 million |
| Total | <u>\$ 112.01 million</u> |

Using level principal payments for each sale, the resulting debt structure is depicted in the chart below. The chart does **not** include debt issuances after FY2025 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. The increase to the Capital Recovery Fee structure is captured in the FY2021-2025 CIP. A utility rate study began in 2019 as well with Council adopting a rate increase effective April 2020. This increase as well as others projected in the study are included in the revenue projections in this forecast.



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