CITY OF LEAGUE CITY

Long Range Financial Forecast

FY 2016 — FY 2020

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www.leaguecity.com

CITY OF LEAGUE CITY, TEXAS
LONG RANGE FINANCIAL FORECAST
FY2016 TO FY2020

April 27, 2015

www.leaguecity.com

CITY OF LEAGUE CITY, TEXAS

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Tim Paulissen

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Position 2	**Tommy Cones**
Position 3	**Heidi Thiess**
Position 4	**Todd Kinsey**
Position 5 - Mayor ProTem	**Geri Bentley**
Position 6	**Keith Gross**
Position 7	**Nick Long**

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April 27, 2015

The Honorable Mayor Paulissen and City Council
City of League City, Texas

Honorable Mayor and Council:

This letter introduces the City's Long Range Financial Forecast for FY 2016-20. The purpose of the forecast is to provide long-term context for annual decisions that will be made with the FY 2016 Budget and FY2016-2020 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 to the growth taking place in the Houston area at large. Accordingly, this forecast projects an increase in population and factors related thereto at approximately 3%. New home construction is the key indicator of growth in League City. The growth the City experienced in new home construction in 2014 has continued into 2015; however, out of an abundance of caution, this forecast assumes a steady, conservative growth rate of 2.8% or 1,000 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 96,200 in FY 2015, will be 113,700 in FY 2020. 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 continue to work toward identifying and implementing operating efficiencies and maximizing the existing dollars available.

The Capital Improvement Program (CIP) is the driver of the debt and related debt service burden. 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

League City
TEXAS

to provide the most immediate impact on the community. Strategic economic development initiatives are planned with the long term goal in mind to fund more projects through annual revenues.

Basis for FY 2016 Budget

The FY 2015 General Fund budget appropriated $57.774 million in expenditures against annual revenue of $59.082 million; this resulted in an increase of fund balance by $1.31 million. As we formulate the FY2016 budget we plan to continue this trend in order to continue to increase fund balance available for capital projects, new initiatives, and reduce debt.

The Utility Fund continues to maintain fund balance in excess of policy requirements. In January of 2015 staff brought forward a new recommended rate structure for water and wastewater. This new structure will (1) establish an increasing (inclining) block rate structure for water, (2) reduce the number of gallons in the minimum sewer bill to 2,000 (from the current 3,000), (3) reduce the current cap of 11,000 gallons for wastewater consumption to 10,000 gallons for residential customers, and (4) establish multi-family customers as commercial customers, eliminating the 90% of units billing assumptions. This proposal will generate approximately $2 million in revenues annually. This additional funding will help secure the financial stability of the fund while providing funding toward the $137 million in capital projects outlined in the FY2015-2019 CIP.

We look forward to working with the Council to develop a sustainable financial plan for FY 2016 and into the future.

Sincerely,

Rebecca Underhill

Rebecca Underhill
Director of Finance

CITY OF LEAGUE CITY
LONG RANGE FINANCIAL FORECAST
FY 2016 to FY 2020
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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. In a region dominated by a resilient energy economy, reasonably priced housing market, great climate and geography League City is considered a highly attractive location to families and businesses alike. Between 2002 and 2008, League City experienced growth significantly above its historical trend that coincided with the national housing boom and regional energy boom. During the recession of 2008, growth in League City slowed but did not stop.

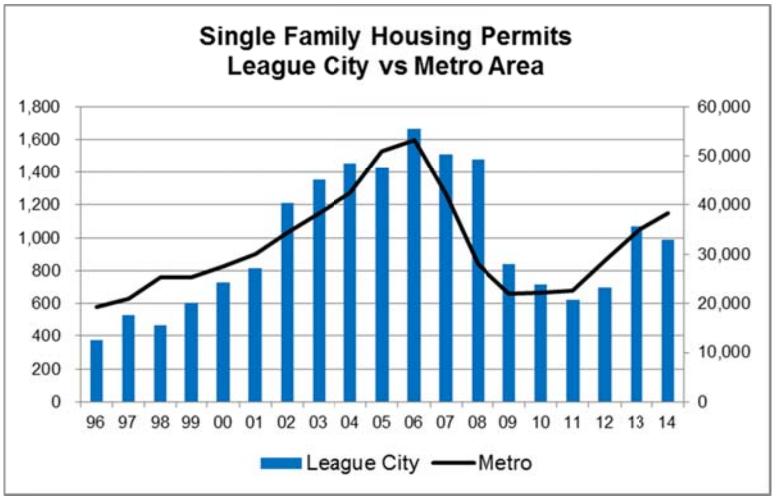
In 2015, League City is continuing to see new construction of all types of property. Despite the downturn in oil prices, current forecasts remain optimistic for the energy sector, and by extension our local economy. The Texas economy as a whole is poised to continue to outpace the national economy in jobs and growth through the remainder of 2015.

As reported in prior forecasts, Texas and the Houston metropolitan area have fared better in recent decades during recessions than the rest of the country. This is due to our strong, reasonably priced housing sector and vibrant energy economy. Because of our economic strengths, we enter recessions late, and recover more quickly than other parts of the country. Texas' employment is currently growing at a rate, 2.8%, well ahead of the U.S (1.7%). Consequently, Texas' unemployment rate (5.1%) trails the national rate (6.2%) as well.

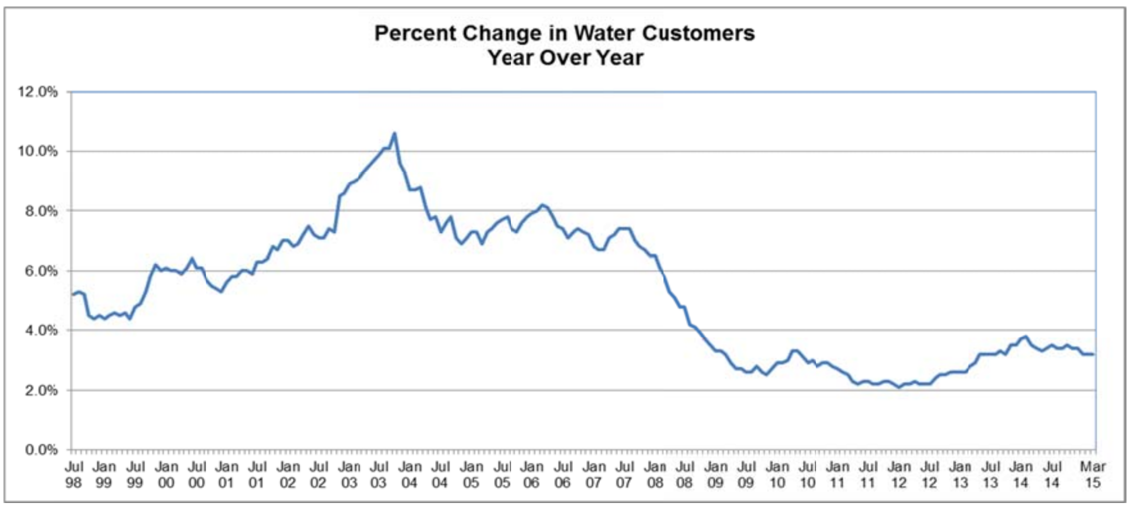
The League City Economy

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 to be 96,200 in 2015. This rapid growth is illustrated by the change in single family housing units in the middle of the previous decade (see graph on the next page). As a result of this rapid residential growth, local retail stores had major additions in the Interstate 45/SH 646 corridor adding jobs to our workforce and attracted commerce to the City from travelers on Interstate 45. The areas on either side of the freeway immediately next door to the I45/SH 646 intersection are beginning to develop with restaurants, offices and commercial development planned or underway, including a major expansion by UTMB of its facilities on the east side of I45. The Pinnacle Park project at I45 and Big League Dreams Parkway is under construction with Cabela's and additional retail development expected early next year.

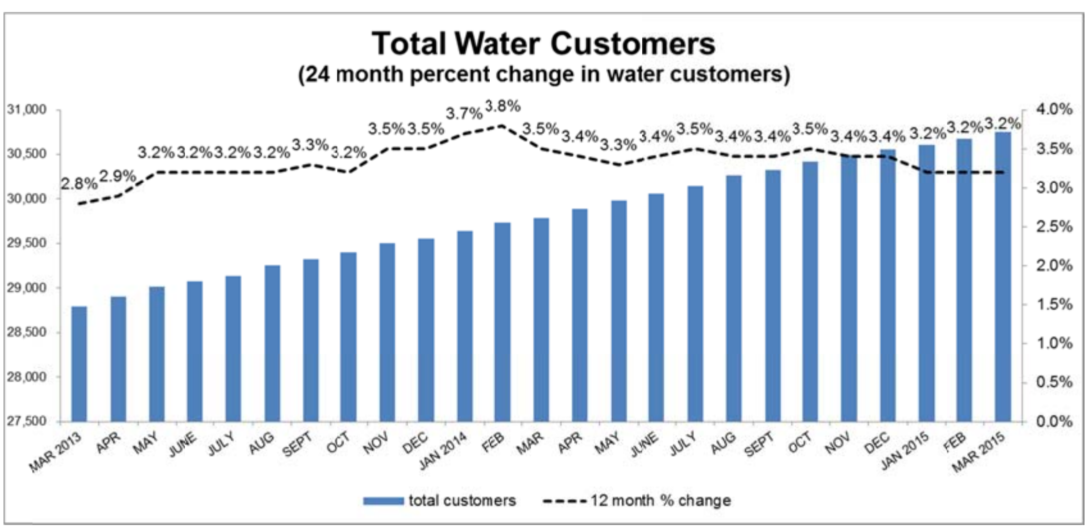
The number of new single family homes has been a major indicator of growth in League City that underscores the population increase between 2000 and 2010. By September 2015, League City's population is estimated at 96,200, supported by two key indicators: single family housing starts and new water customers. League City's new home construction has followed the Houston regional trend closely as demonstrated in the graph on the next page. In 2014, 990 new homes were permitted by the City. In the first three months of 2015, another 264 new homes have been permitted with the most active summer months remaining.



The growth in water customers seen below paralleled League City's growth in housing units and population over the last two years. As of March, 2015, League City has 3.2% more water customers than it did a year before.



As of March, 2015 the City had 29,787 water customers, 967 more than March 2014. The chart below again represents the steady growth that we have experienced over the last 24 months.



Major new developments in the entertainment district east of I45 along Walker, in the Pinnacle Park area, in the River Bend area at Clear Creek and I45, as well as on SH 96 east of SH 3 are expected to build out during the forecast period. The combined effect on the taxable property rolls cannot be gauged yet, but the cumulative effect could be between 3% and as much as 10% of the current tax roll.

General Economic Outlook for FY 2015 and Beyond

The economic outlook for the Forecast is based on strong local and regional growth for the balance of 2015 and consistent growth thereafter. 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 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast
Metropolitan Area					
Employment Annual Growth Rate	2.3%	2.3%	2.3%	2.3%	2.3%
Inflation Rate	2.3%	2.3%	2.3%	2.3%	2.3%
Fuel Prices	3.2%	3.2%	3.2%	3.2%	3.2%
Health Care Inflation	4.2%	4.2%	4.2%	4.2%	4.2%
Investment Pool Earnings Rate	0.50%	0.75%	1.00%	1.25%	1.50%
League City					
Population Growth Rate	2.9%	2.9%	2.8%	2.7%	2.7%
City Water Customers Growth Rate	2.9%	2.9%	2.8%	2.7%	2.7%
Population	102,100	105,000	107,900	110,800	113,700
New Homes	1,000	1,000	1,000	1,000	1,000
New Construction (in millions)	$216.0	$222.2	$228.5	$234.7	$240.9
Tax Supported Bonds Interest Rate	3.50%	4.00%	4.50%	5.00%	5.50%

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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 2015 Estimate	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast
Property Tax	$37,512.1	$39,745.8	$40,891.3	$42,037.0	$43,181.2	$44,912.9
Water & Wastewater Revenue	$29,485.8	$30,349.3	$31,230.0	$32,117.8	$33,025.5	$33,933.8
Water & Wastewater Revenue Study Increase *	$753.0	$2,117.0	$3,820.0	$4,928.0	$5,086.0	$6,515.0
Sales Tax	$14,834.3	$15,576.0	$16,354.8	$17,172.6	$18,031.2	$18,932.8
Electricity Franchise	$3,060.0	$3,151.0	$3,242.0	$3,332.0	$3,423.0	$3,514.0
Cable TV Franchise	$1,100.0	$1,133.2	$1,164.1	$1,195.0	$1,225.9	$1,256.8
Other Franchise Taxes	$835.0	$849.4	$863.8	$878.2	$892.6	$906.9
Charges for Service	$6,058.5	$6,225.8	$6,392.7	$6,559.8	$6,726.6	$6,893.5
Fines and Forfeits	$1,745.0	$1,796.8	$1,848.6	$1,900.3	$1,952.0	$2,003.8
Licenses and Permits	$2,821.2	$2,881.2	$2,941.1	$3,001.0	$3,060.8	$3,120.7
Total	**$98,204.9**	**$103,825.5**	**$108,748.4**	**$113,121.7**	**$116,604.7**	**$121,990.2**

* The amount for FY15 is for 6 months only; all other fiscal years are annual amounts.

Property Taxes

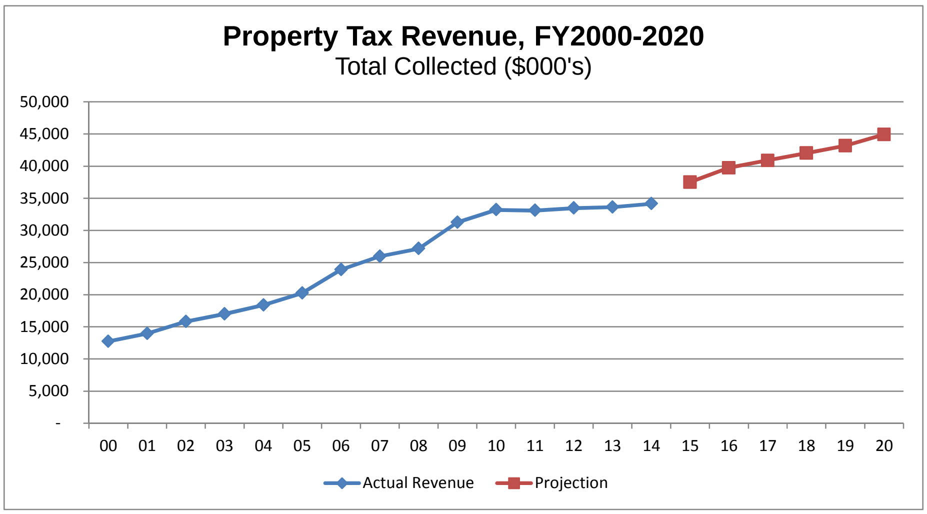
Property taxes, the City's largest revenue source, are based on the tax rate adopted annually by City Council as applied to the certified property rolls prepared by the Galveston and Harris County appraisal districts (GCAD and HCAD, respectively). The rate is composed of two parts; the first to support 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, FY09-FY15
TOTAL LEVIED AT $100 PER TAXABLE VALUE

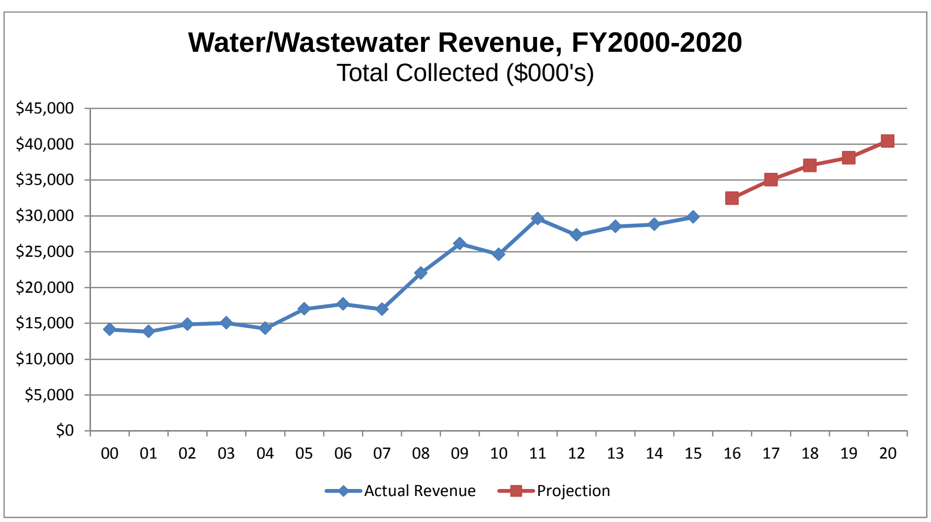
	FY09	FY10	FY11	FY12	FY13	FY14	FY15
General Fund (M&O)	$0.413932	$0.408871	$0.396729	$0.385001	$0.375000	$0.380000	$0.400206
Debt Service Fund (I&S)	$0.216068	$0.221129	$0.219271	$0.224999	$0.222000	$0.217000	$0.196794
Total Tax Rate	**$0.630000**	**$0.630000**	**$0.616000**	**$0.610000**	**$0.597000**	**$0.597000**	**$0.597000**

The timing of this revenue source is important to understand as well. For instance, property tax revenue in the next fiscal year, FY 2016 is based on property values as of January 1, 2015. This means that construction and real estate market forces during calendar year 2014 combined to provide the basis for the FY 2016 property tax roll. This lag between the time that real estate market activity takes place and the tax roll is budgeted and collected is important. The delay provides an opportunity for the City to collect and analyze information on new construction and real estate markets well before the appraisal districts provide the annual certified tax roll.

As shown in the graph below, while total property tax revenue grew rapidly from 2000-2009, this important revenue source has been relatively flat for five fiscal years, FY10-FY14. This is due to the combined effect of successive tax rate cuts in FY11, FY12 and FY13, and increased homestead exemptions in FY2014 and FY2015. Assuming a constant total tax rate of $0.597 per $100 of taxable value, this forecast projects property tax revenue to grow by 6% in FY16, 2.88% in FY17, and about 2.73% each year thereafter.

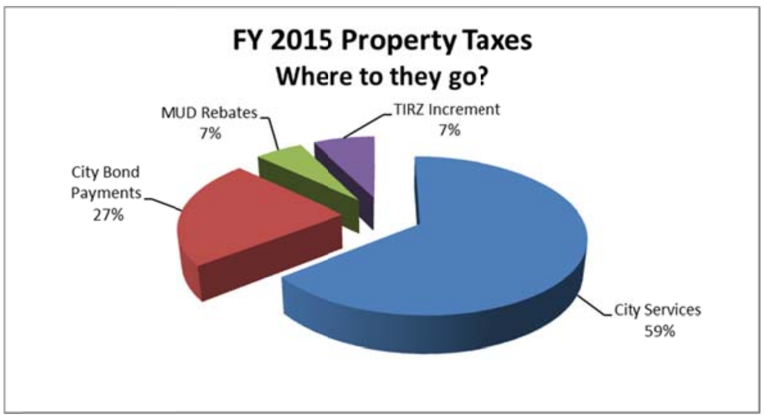


The estimates of new construction used to project the revenue growth shown in the graph below are based on the number of new homes built each year and minimal amounts for new construction of multifamily and commercial properties. Significant commercial and multifamily properties are projected to be built over the next several years that are **not** included in this forecast.



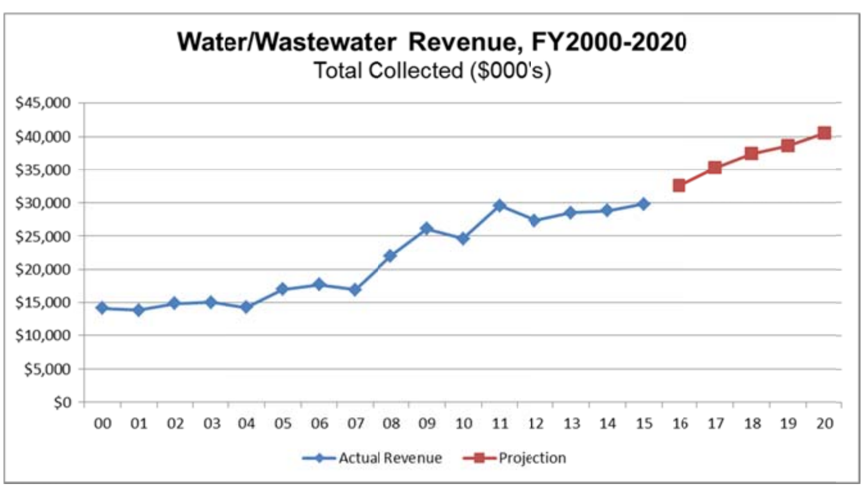
A major goal of the City is to achieve diversification of its taxable properties through selective use of economic development incentives and supportive policies that encourage businesses to locate and/or remain in League City. The collective effect of these policies, should additional commercial development occur, can be measured and/or anticipated annually in future forecasts. In this way, conservative long-term revenue estimates can remain the basis for projected financing of core services and additional growth can be viewed as the funding source for priorities of the City Council.

Property taxes collected by the City are not used strictly for City operations or City issued debt service. The pie chart below illustrates that 14% of total property tax revenue goes to in-city Municipal Utility Districts (MUDs) and Tax Increment Reinvestment Zones (TIRZs) combined. During the five-year forecast period, this percentage of property tax revenue going to MUDs and TIRZs is projected to drop to approximately 11%. This reduction in share of property tax revenue going to MUD's and TIRZ's is largely due to the dissolution of MUDs from FY 2016 to FY 2020.

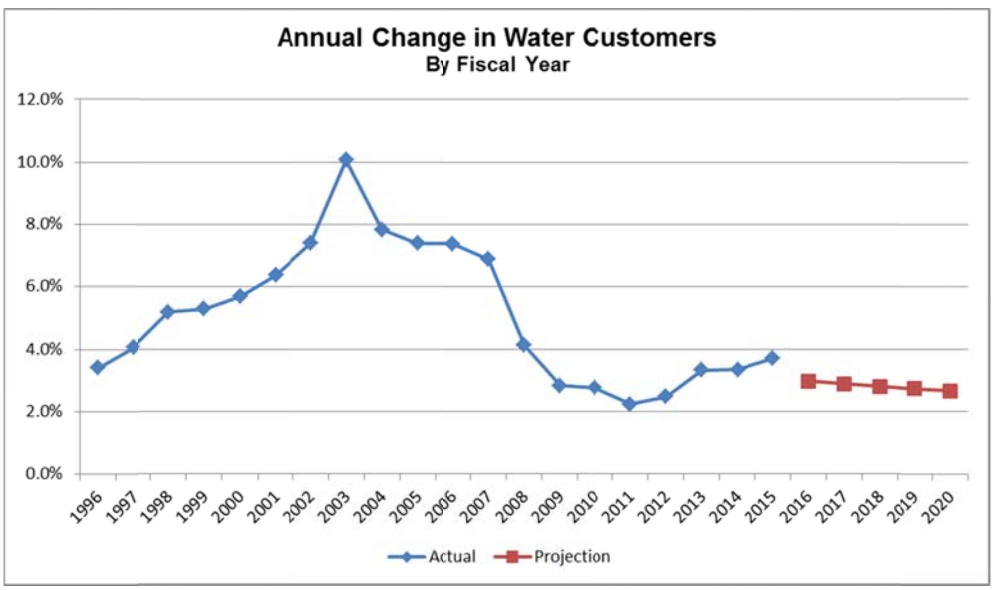


Water and Wastewater Revenue

The City's second largest revenue source comes from monthly payments by the City's approximately 31,000 water system customers. It has grown at a steady pace during the last 10 years. The graph on the next page shows actual revenue explained largely by two factors: the number of total water and wastewater customers as well as rates. A third major factor is rainfall or the lack thereof and the impact this has on water consumption, particularly during hot, dry summer months.



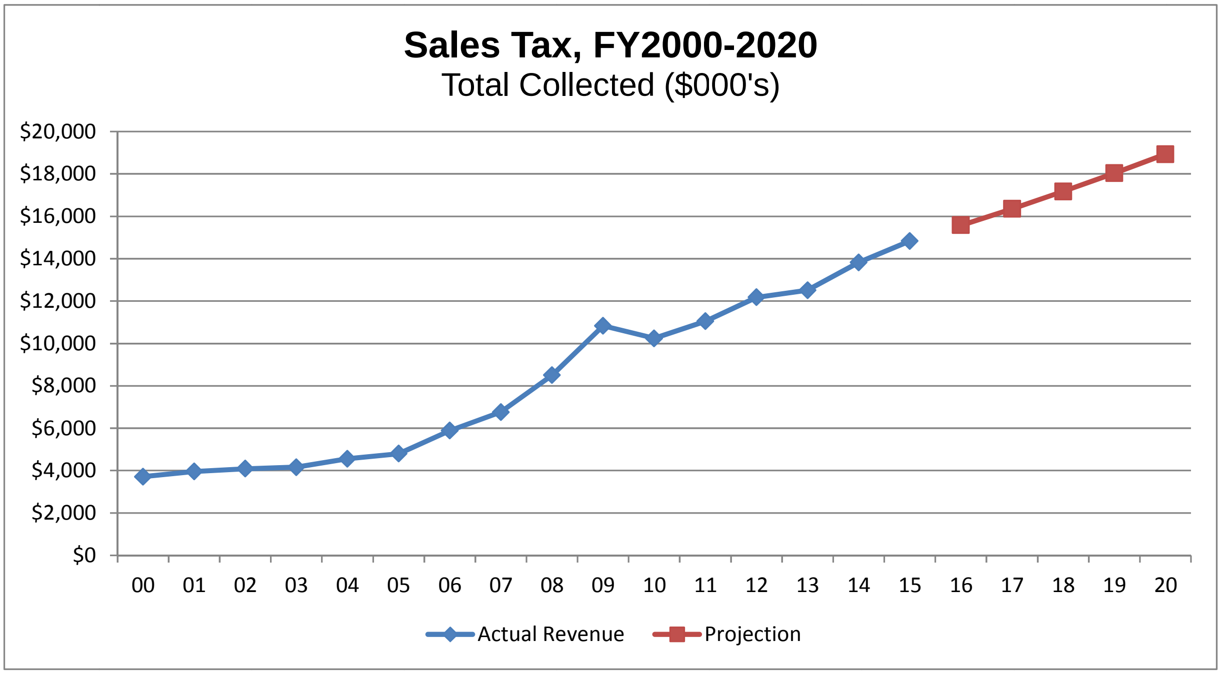
The water revenue projections presented in the above graph do not incorporate actual rainfall and temperature from prior years but assumes a “normal” weather type of projection, e.g. revenue that would be collected in an average or normal year. As you can see, this modeling approach adjusts for abnormally dry years such as FY 2009 and FY 2011. In such a year, water revenue (and related wastewater revenue) will almost assuredly be more than is predicted. Conversely, water revenue in a very wet or rainy year will be less than predicted. 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, and (2) assumes the total number of water customers will grow at the same rate as new homes through FY 2020. The projections include estimated changes based on recommendations from the Water and Wastewater multi-year financial plan and rate design study. The 2015 recommended rate structure will 1) establish an increasing (inclining) block rate structure for water, 2) reduce the number of gallons in the minimum sewer bill to 2,000 (from the current 3,000), 3) reduce the current cap of 11,000 gallons for wastewater consumption to 10,000 gallons for residential customers and 4) establish multi-family customers as commercial customers, thereby eliminating the 90% of unites billing assumptions. As detailed in the graph below, while total water customers are expected to grow each year, the rate of growth is expected to slow slightly as we get closer to FY2020.



Sales Taxes

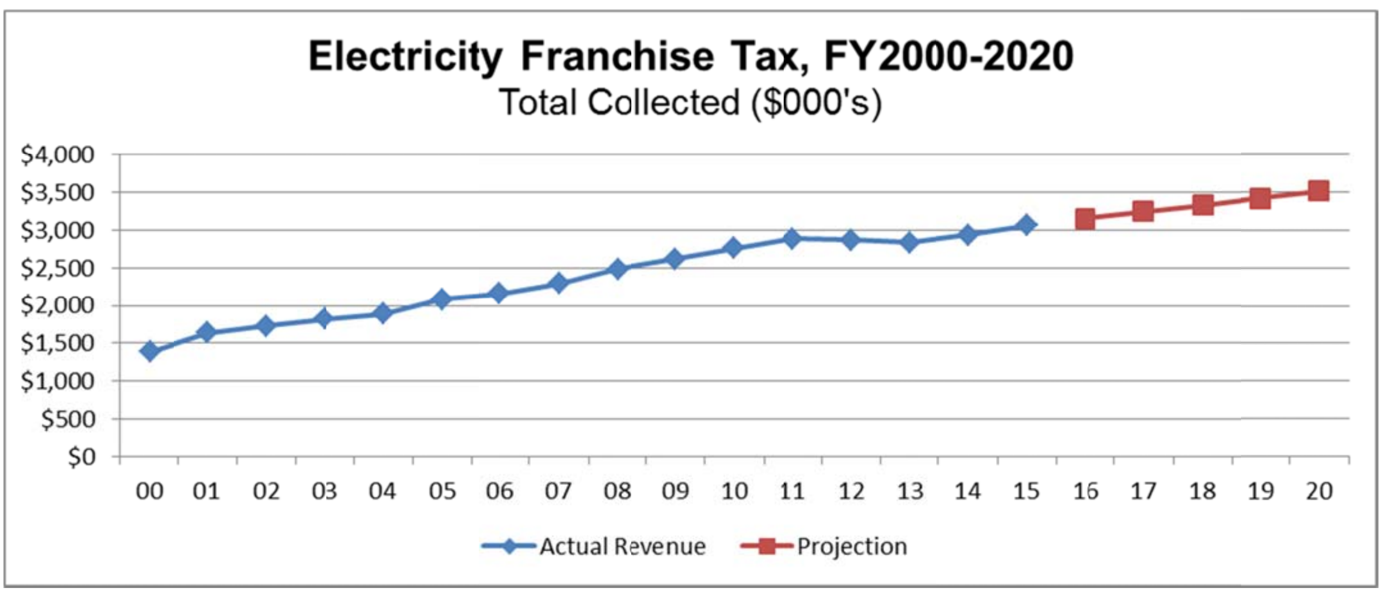
The City sales tax, which provides the City’s third largest revenue source, is 1.75% on taxable items. Of this amount, 0.25% goes to the City’s 4B economic development corporation to promote and develop amateur athletics. The remaining 1.5% goes into the City’s General Fund with 1% for general revenue and 0.5% provided for property tax relief. The local sales tax cap is 2.0%, leaving .25% available for voter authorization in accordance with state law.

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 28% from $10.8 million in FY2009 to $13.8 million in FY2014 and continues to grow on average 5% each year over the next 5 years. The sales tax projections in the Forecast are based on a 5% annual growth rate.

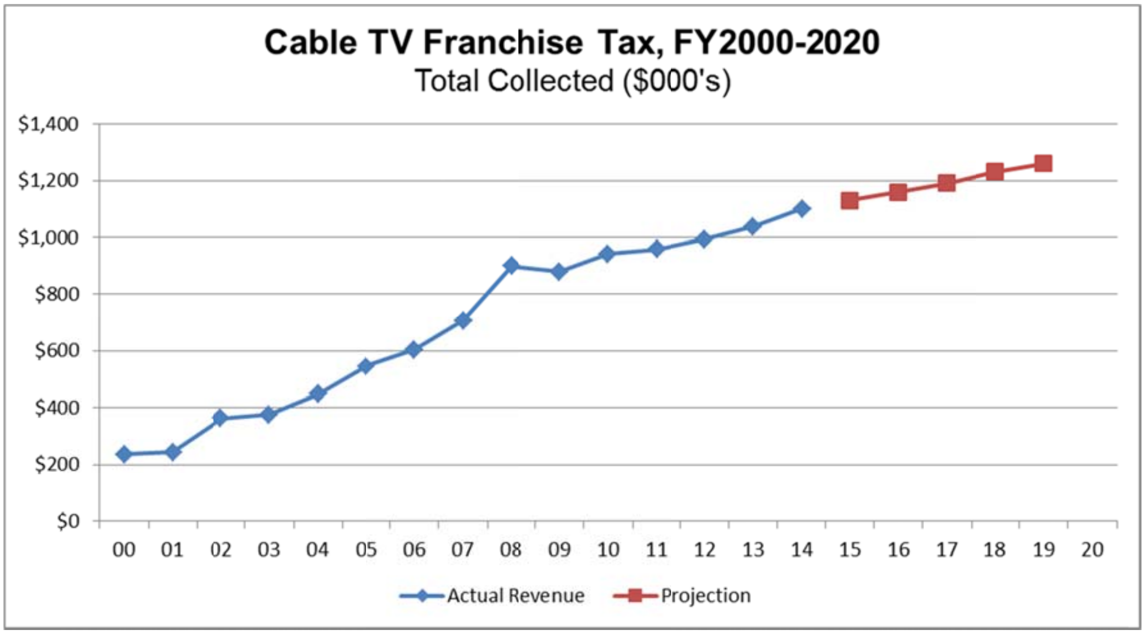


Franchise & Other Taxes
These revenue sources are accounted for as part of the General Fund and include electricity; natural gas, cable television, and telephone franchise taxes as well as mixed beverage taxes.

Electricity franchise taxes, the largest of this group of revenues is estimated to bring in $3.1 million in the current fiscal year, FY 2015. While this revenue source has been relatively flat the last four years, the forecast assumes a 2.8% growth as based on anticipated new construction in FY16-20.



Cable TV franchise taxes, the second largest of this group of revenues at $1.1 million estimated to be received in FY 2015, is also projected using anticipated new construction in FY16-20.



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 two-thirds of this category, and is tied to the dollar value of new construction projected for the forecast period. The remaining licenses and permits are projected to remain flat.
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 garbage fees and ambulance fees*.* Park fees are also in this category, but not including anticipated fees from Hometown Heroes Park recreation and athletics programs. The costs and fees associated with the Park are addressed in the Special Issues section of the Forecast.
Fines and Forfeits: General population growth rate.
Investment Earnings are expected to remain at the current level of 0.5% through FY 2015 and then increase gradually beginning in FY 2016 recovering to 1.5% in FY 2020.
Miscellaneous revenue is projected at FY 2014 levels.

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, as well as those mandated by the State of Texas or the federal government. 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 2016 FORECAST	FY 2017 FORECAST	FY 2018 FORECAST	FY 2019 FORECAST	FY 2020 FORECAS
Personnel Services						
Salaries	Based on 5 year trend analysis	2.00%	2.00%	2.00%	2.00%	2.00%
Step Increases - Civil Service	Based on 5 year trend analysis	1.00%	1.00%	1.00%	1.00%	1.00%
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	15.20%	15.31%	15.32%	15.33%	15.33%
Health and Life Insurance	Medical CPI	4.22%	4.22%	4.22%	4.22%	4.22%
Supplies						
Energy Supplies	Energy CPI	3.20%	3.20%	3.20%	3.20%	3.20%
General Supplies	Core CPI.	2.25%	2.25%	2.25%	2.25%	2.25%
Maintenance Supplies	Influenced by Core CPI and Energy CPI.	2.73%	2.73%	2.73%	2.73%	2.73%
Small Capital	Core CPI.	2.25%	2.25%	2.25%	2.25%	2.25%
Services						
Maintenance Services	Core CPI.	2.25%	2.25%	2.25%	2.25%	2.25%
Water purchases	Population plus core CPI	5.18%	5.13%	5.05%	4.97%	4.90%
Vehicle Maintenance	Core CPI	2.25%	2.25%	2.25%	2.25%	2.25%
Office Services	Core CPI.	2.25%	2.25%	2.25%	2.25%	2.25%
Other Services	Core CPI.	2.25%	2.25%	2.25%	2.25%	2.25%
Professional Services	Core CPI.	2.25%	2.25%	2.25%	2.25%	2.25%
Utilities	Reflects electricity contract price for next year; then energy CPI	3.63%	3.20%	3.20%	3.20%	3.20%
Utilities for w ater services	Population plus energy CPI	6.13%	6.08%	6.00%	5.92%	5.85%
Refuse pickup services	Population plus contract price increases in FY16	10.10%	2.88%	2.80%	2.72%	2.65%
Water Purchases	Population plus core CPI	5.18%	5.13%	5.05%	4.97%	4.90%
Capital Outlay						
Motor Pool Replacement	Core CPI.	2.25%	2.25%	2.25%	2.25%	2.25%
Vehicles and Equipment	Core CPI.	2.25%	2.25%	2.25%	2.25%	2.25%
Transfers						
General Fund to Project Fund		$1,000,000 per year based on current trends.				
TIRZ Increment		Based on property tax revenue projection and TIRZ increment assumptions.				

The growth assumptions shown on the previous page are based on a slightly lower core inflation rate in FY 2015 based on indications and analysis of the consumer price index along with proportionally lower rates for energy costs. Health care inflation is assumed to be 4.22% annually based on the benefit year (calendar year) through the forecast period. 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.

Based on information provided by TMRS, the City's total contribution rate will rise gradually from its current 15.20% level to reach 15.33% in FY 2020. The reason for this increase is to recognize changes in the actuarial basis for calculating future retirement benefits for city employees due to updated mortality tables. The statutory maximum is now capped at 15.5% by virtue of Council action taken on December 11, 2012.

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 FY 2015 Budget amount for each department and line item into summary amounts for the nineteen categories by department;
3. Adjust the FY 2015 Budget by category into the FY 2016 "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 Mayor and 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

While the baseline forecast does not presume to predict or propose a course of action in staffing growth it does assume a 2% increase in pay raises based on merit..

Employee Salaries

On January 1, 2013 a performance pay program was implemented using a funding pool equal to 2% of salaries of eligible employees. This program considered each eligible employee's performance and current salary relative to the maximum for the employee's pay grade. This practice continued this current year, with a 2% merit increase on January 1, 2015. Based upon this trend a 2% increase in salary cost is included in the forecast.

Health Benefits

The insurance industry standard is to attempt to hold claims below 85% of premiums; tables below demonstrate how the five-year trend brought the City to 87%. Accordingly, the increase in the cost per employee and per covered person, which includes dependents, increased dramatically as well.

ANNUAL PLAN STATISTICS SHOW RISING COSTS

Calendar Year	Average Covered Employees	Average Persons Covered (Including Dependants)	Total Premiums Paid by city and Employees	Medical Claims Paid	Prescription Drug Claims Paid	Total Claims Paid
2010	460.7	906.9	$4,495,550	$2,312,056	$628,469	$2,940,525
2011	473.3	943.8	$4,667,342	$2,832,070	$686,747	$3,518,817
2012	476.8	981.6	$4,570,032	$3,308,351	$836,136	$4,144,493
2013	489.7	1003.0	$4,696,551	$4,144,796	$902,117	$5,046,913
2014	482	1021.0	$5,575,692	$4,350,284	$1,109,448	$5,459,732

Calendar Year	Claims as a Percent of Premiums	Annual Claims per Employee	Annual Claims per Covered Person
2010	65.4%	$6,383	$3,242
2011	75.4%	$7,435	$3,728
2012	90.7%	$8,692	$4,222
2013	107.4%	$10,306	$5,032
2014	98.0%	$11,327	$5,347

In 2014, the City took additional steps to contain health benefit cost increases. The current benefit plan year was adjusted from a calendar year to a fiscal year basis and covers the nine month period from January 2015 through September 2015. This change will allow for a better projection of the impact health insurance costs will have during the annual budget process. Key plan changes included the implementation of a $25 per month tobacco surcharge which is assessed on employees and spouses that use tobacco products, and a two- tiered plan which provides employee choice through a base and a buy up plan. The buy-up plan allowed employees to keep the same deductibles and co-pays from the previous year for a contribution of $10 per month. The base plan was provided at no cost to employees but came with an increased deductible from $500 to $1,000 for individuals and from $1,000 to $2,000 for families. With these changes the estimated City cost for these programs for the 9 month term is 4.2% less than the previous plan. The City has also continued the sponsorship of the Care Here Clinic and formed a committee to create and implement an Employee Wellness Program.

Pension Contributions

League City is one of 850 members of the Texas Municipal Retirement System (TMRS), a retirement system created by state of Texas. The City contributes an average of 14.5% of employees' and employees contribute 7% of their salary. An employee is vested after five years of service and is eligible to receive pension payments if they are age 60 or after 20 years of service at any age. Each retiree's annuity is based on the retiree's highest 36 months of pay during employment with a TMRS member city. Retirees currently receive cost of living adjustments equal to 70% of the Consumer Price Index. These plan provisions are equivalent to those provided by the majority of cities participating in the Texas Municipal Retirement System, and our neighboring cities.

TEXAS MUNICIPAL RETIREMENT SYSTEM
PLAN DETAILS FOR LEAGUE CITY AND SURROUNDING CITIES

City	Employee Contribution	City Contribution	Updated Service Credit	Annual Cost of Living Increase for Retiree as Pct of CPI
League City	***7%***	***2:1***	***100%***	***70%***
Webster	7%	2:1	100%	70%
Friendswood	7%	2:1	100%	50%
Texas City	7%	2:1	100%	70%
Deer Park	7%	2:1	100%	50%
Pasadena	7%	2:1	100%	40%
La Porte	7%	2:1	100%	70%
Seabrook	7%	2:1	100%	70%
Kemah	7%	2:1	No USC	No COLA
Pearland	7%	2:1	100%	70%
Dickinson	7%	2:1	100%	No COLA

League City has a healthy retirement plan that is 75.58% funded (see page 70 of the 2014 CAFR), up from 66.8% in FY 2010. This funding ratio is on target for pension plans similar to ours, with the desired funding ratio being 75-85%.

LONG RANGE FINANCIAL FORECAST
GENERAL FUND OVERVIEW

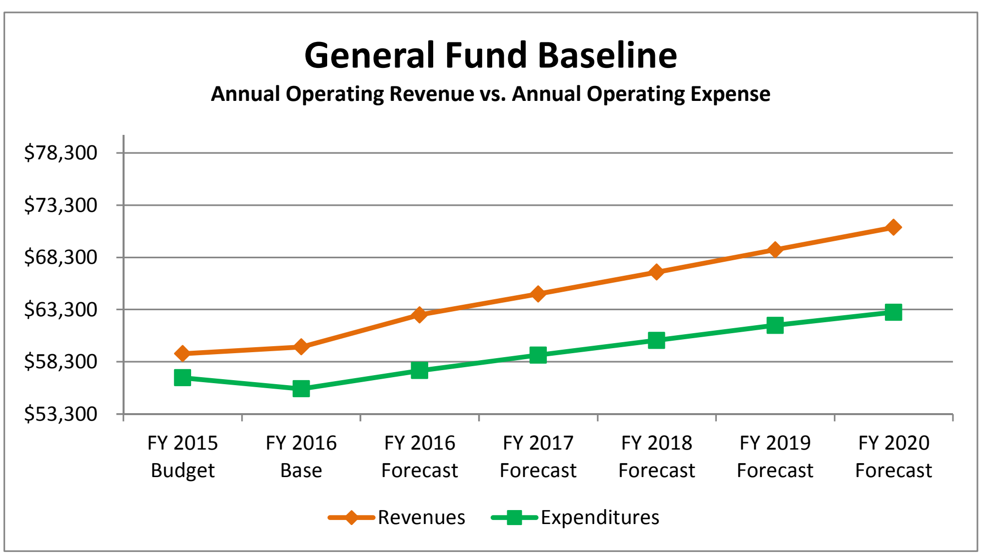
Baseline Forecast

The chart below summarizes the General Fund Forecast using Baseline Assumptions, including (1) adjustments to the FY 2015 Budget to arrive at a Base for the forecast shown below as "FY 2016 Base," (2) no new staff but a 2% compensation increase along with civil service step increases, (3) the anticipated effect of inflation on costs, and (4) increasing funding for capital projects each year to further reduce the City's reliance on debt. The General Fund begins the forecast period with an excess of revenue over expenditures of $3.995 million in FY2016, and ends with an excess of revenue over expenditures of $8.125 million in FY2020.

FORECAST SUMMARY
GENERAL FUND BASELINE PROJECTIONS
($THOUSANDS)

	FY 2015 Budget	FY 2016 Base	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast
Beginning Balance	$15,705	$ 15,705	$15,705	$19,037	$21,882	$24,411	$26,637
Revenue	$59,082	$59,723	$62,794	$64,789	$66,885	$69,021	$71,169
Expenditures	$56,774	$55,728	$57,462	$58,944	$60,356	$61,795	$63,044
Revenue Over/(Under) Expenditures	$2,308	$3,995	$5,332	$5,845	$6,529	$7,226	$8,125
Subtotal	$18,013	$19,699	$21,037	$24,882	$28,411	$31,637	$34,762
Transfer to One-Time Projects	$1,000	$1,000	$2,000	$3,000	$4,000	$5,000	$6,000
Ending Balance	$17,013	$18,699	$19,037	$21,882	$24,411	$26,637	$28,762
Policy Goal - 90 Days of Working Capital	$13,999	$13,741	$14,169	$14,534	$14,882	$15,237	$15,545
Forecast (Over)/Under 90 Days	$3,014	$4,958	$4,868	$7,348	$9,529	$11,400	$13,217
Days Working Capital (Over)/Under 90	19	32	31	45	58	67	77

As detailed in the graph below, annual operating revenue exceeds annual operating expense in every year of the forecast as a result of the continuing, slow growth rate and the exclusion of increasing staff costs from current expense. Note that the forecast predicts limited funding flexibility in the upcoming budget year and into FY 2016.



Building the Projections: FY2016 Base to FY2016 Forecast Expenditures

The chart below explains the basis for the projected changes in expenditures after the FY2016 Base is established. Between FY2016 and FY2020, baseline expenditures are projected to grow by a total of $4.0 million (see chart below).

The two largest categories of cost increases are projected to come from group insurance and refuse services. Group insurance is projected to increase $875,000 in FY2020 compared to the FY2016 base as a result of the expected five percent annual increases in the City's group health insurance costs. Refuse services are contracted at a rate increase of 7.17% increase in FY2016 and then rates remain flat; the increase is based on population growth and is offset by corresponding revenue and results in a $941,000 increase in FY2020 compared to the FY2016 base. Other service costs include a variety of contractual costs that are projected to be $907,000 higher than in FY 2015 due to inflation factors.

GENERAL FUND FORECAST
CUMULATIVE CHANGE IN BASELINE COST ($000'S)

	FY 2016 FORECAST	FY 2017 FORECAST	FY 2018 FORECAST	FY 2019 FORECAST	FY 2020 FORECAST
Inflation/Growth					
Group Insurance	$150	$319	$497	$682	$875
Supply costs	$73	$148	$230	$310	$391
Utilities	$31	$63	$95	$128	$162
Refuse Services	$417	$548	$679	$810	$941
Other services	$173	$349	$533	$718	$907
Vehicle costs	$46	$92	$140	$189	$239
TIRZ Payments	$85	$294	$420	$554	$472
Total Inflation/Growth	**$975**	**$1,813**	**$2,594**	**$3,391**	**$3,987**

GENERAL FUND BASELINE FORECAST
FUND BALANCE, REVENUE AND EXPENDITURES
FY 2016 - FY2020 ($THOUSANDS)

	FY 2015 Budget	FY 2016 Base	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast
Beginning Balance	**$ 15,705**	**$ 15,705**	**$ 15,705**	**$ 19,037**	**$ 21,882**	**$ 24,411**	**$ 26,637**
Revenue							
Property Tax	$24,470	$24,451	$25,918	$26,665	$27,411	$28,157	$28,903
Sales Tax	$14,175	$14,834	$15,576	$16,355	$17,173	$18,031	$18,933
Franchise and Other Taxes	$5,328	$5,328	$5,627	$5,779	$5,931	$6,082	$6,234
Licenses and Permits	$2,821	$2,821	$2,942	$3,004	$3,066	$3,127	$3,189
Charges for Services	$6,059	$6,059	$6,396	$6,568	$6,740	$6,912	$7,084
Fines and Forfeitures	$1,745	$1,745	$1,850	$1,903	$1,956	$2,009	$2,063
Investment Earnings	$31	$31	$31	$62	$155	$248	$310
Miscellaneous/Grants	$1,130	$1,130	$1,130	$1,130	$1,130	$1,130	$1,130
Interfund Transfers	$3,323	$3,323	$3,323	$3,323	$3,323	$3,323	$3,323
Total Revenue	**$59,082**	**$59,723**	**$62,794**	**$64,789**	**$66,885**	**$69,021**	**$71,169**
Available Funds	**$74,787**	**$75,427**	**$78,499**	**$83,826**	**$88,767**	**$93,432**	**$97,806**
Expenditures by Directorate							
Public Safety	$24,092	$23,877	$24,406	$24,932	$25,458	$25,994	$26,543
Public Works	$11,788	$11,686	$12,259	$12,576	$12,898	$13,221	$13,550
Parks and Cultural Services	$6,256	$6,156	$6,353	$6,502	$6,655	$6,808	$6,965
Finance	$2,624	$2,649	$2,721	$2,782	$2,844	$2,906	$2,969
Planning and Research	$2,834	$2,771	$2,833	$2,896	$2,959	$3,023	$3,089
Administration	$5,260	$5,283	$5,398	$5,520	$5,644	$5,769	$5,898
Non-Departmental	$3,921	$3,305	$3,491	$3,737	$3,900	$4,072	$4,030
Total Expenditures	**$56,774**	**$55,728**	**$57,462**	**$58,944**	**$60,356**	**$61,795**	**$63,044**
Revenue Over/(Under) Expenditures	**$2,308**	**$3,995**	**$5,332**	**$5,845**	**$6,529**	**$7,226**	**$8,125**
Subtotal	**$ 18,013**	**$ 19,699**	**$21,037**	**$24,882**	**$28,411**	**$31,637**	**$34,762**
Transfer to One-Time Projects	**$1,000**	**$1,000**	**$2,000**	**$3,000**	**$4,000**	**$5,000**	**$6,000**
Ending Balance	**$ 17,013**	**$ 18,699**	**$ 19,037**	**$ 21,882**	**$ 24,411**	**$ 26,637**	**$ 28,762**
Policy Goal - 90 Days of Working Capital	**$13,999**	**$13,741**	**$14,169**	**$14,534**	**$14,882**	**$15,237**	**$15,545**
Excess/(Shortage) of Working Capital	**$3,014**	**$4,958**	**$4,868**	**$7,348**	**$9,529**	**$11,400**	**$13,217**
Excess/(Shortage) of Working Capital in Days	**19**	**32**	**31**	**45**	**58**	**67**	**77**

Note: The Baseline Forecast includes the effect of inflation, growth and mandates and commitments on expenditures.

GENERAL FUND BASELINE FORECAST
EXPENDITURES BY DEPARTMENT
FY 2016-2020 ($THOUSANDS)

	FY 2015 Budget	FY 2016 Base	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast
Public Safety							
Police	$ 17,654,224	$ 17,538,544	$ 17,898,501	$ 18,286,229	$ 18,673,058	$ 19,068,316	$ 19,472,254
Animal Control	$ 747,810	$ 749,572	$ 765,584	$ 782,134	$ 798,780	$ 815,747	$ 833,106
Fire	$ 1,820,015	$ 1,796,945	$ 1,838,511	$ 1,880,327	$ 1,923,884	$ 1,967,523	$ 2,012,158
Fire Marshal	$ 596,037	$ 515,257	$ 532,344	$ 544,119	$ 555,860	$ 567,883	$ 580,174
EMS	$ 3,081,240	$ 3,079,295	$ 3,169,482	$ 3,232,387	$ 3,295,149	$ 3,359,368	$ 3,425,042
Emergency Management	$ 192,270	$ 197,560	$ 201,932	$ 206,407	$ 210,901	$ 215,478	$ 220,159
Subtotal - Public Safety	**$ 24,091,596**	**$ 23,877,173**	**$ 24,406,355**	**$ 24,931,604**	**$ 25,457,632**	**$ 25,994,314**	**$ 26,542,893**
Public Works							
Public Works Administration	$ 411,590	$ 411,510	$ 420,561	$ 429,988	$ 439,344	$ 448,914	$ 458,682
Engineering	$ 1,367,564	$ 1,352,084	$ 1,369,410	$ 1,399,907	$ 1,430,294	$ 1,461,374	$ 1,493,126
Streets and Stormw ater	$ 5,244,953	$ 5,139,663	$ 5,255,490	$ 5,386,890	$ 5,522,487	$ 5,659,292	$ 5,799,566
Traffic and Transportation	$ 632,386	$ 651,806	$ 664,890	$ 679,770	$ 695,030	$ 710,414	$ 726,149
Solid Waste Department	$ 4,131,300	$ 4,131,300	$ 4,548,561	$ 4,679,560	$ 4,810,588	$ 4,941,436	$ 5,072,384
Subtotal - Public Works	**$ 11,787,793**	**$ 11,686,363**	**$ 12,258,913**	**$ 12,576,114**	**$ 12,897,742**	**$ 13,221,430**	**$ 13,549,908**
Parks and Cultural Services							
Helen Hall Library	$ 2,025,495	$ 1,924,895	$ 2,009,479	$ 2,053,689	$ 2,098,360	$ 2,143,427	$ 2,189,437
Park Planning	$ 268,990	$ 271,110	$ 276,958	$ 283,068	$ 289,144	$ 295,359	$ 301,706
Facilities Maintenance	$ 1,244,470	$ 1,234,330	$ 1,251,078	$ 1,282,993	$ 1,316,900	$ 1,350,300	$ 1,384,566
Civic Center Operations	$ 426,060	$ 433,750	$ 449,116	$ 460,383	$ 472,041	$ 483,752	$ 495,766
Parks Operations	$ 1,202,840	$ 1,201,290	$ 1,228,413	$ 1,257,746	$ 1,287,637	$ 1,317,938	$ 1,348,976
Sportsplex Operations	$ 412,425	$ 415,085	$ 424,242	$ 434,160	$ 444,340	$ 454,564	$ 465,030
Parks Recreation	$ 559,667	$ 559,317	$ 594,974	$ 608,255	$ 621,665	$ 635,234	$ 649,091
Sportsplex Recreation	$ 115,823	$ 116,023	$ 118,942	$ 121,685	$ 124,586	$ 127,447	$ 130,376
Subtotal - Parks and Cultural Services	**$ 6,255,770**	**$ 6,155,800**	**$ 6,353,203**	**$ 6,501,979**	**$ 6,654,673**	**$ 6,808,022**	**$ 6,964,948**
Planning and Research							
Planning	$ 819,320	$ 794,430	$ 811,504	$ 829,360	$ 847,065	$ 865,190	$ 883,694
Building	$ 1,139,980	$ 1,062,430	$ 1,085,988	$ 1,110,127	$ 1,134,162	$ 1,158,781	$ 1,183,949
Code Compliance	$ 532,315	$ 578,735	$ 592,075	$ 605,478	$ 618,924	$ 632,668	$ 646,725
Economic Development	$ 342,700	$ 335,810	$ 343,274	$ 350,941	$ 358,738	$ 366,613	$ 374,655
Subtotal - Planning & Research	**$ 2,834,315**	**$ 2,771,405**	**$ 2,832,841**	**$ 2,895,906**	**$ 2,958,889**	**$ 3,023,251**	**$ 3,089,023**
Finance							
Accounting	$ 1,398,951	$ 1,408,171	$ 1,438,996	$ 1,471,044	$ 1,504,117	$ 1,537,015	$ 1,570,618
Budget Office	$ 277,180	$ 280,120	$ 286,258	$ 292,658	$ 299,017	$ 305,518	$ 312,151
Municipal Court	$ 648,518	$ 659,608	$ 688,149	$ 703,515	$ 718,801	$ 734,458	$ 750,463
Purchasing	$ 299,008	$ 300,928	$ 307,651	$ 314,609	$ 321,569	$ 328,685	$ 335,960
Subtotal - Finance	**$ 2,623,657**	**$ 2,648,827**	**$ 2,721,054**	**$ 2,781,826**	**$ 2,843,504**	**$ 2,905,675**	**$ 2,969,193**

GENERAL FUND BASELINE FORECAST
EXPENDITURES BY DEPARTMENT
FY 2016-2020 ($THOUSANDS)

	FY 2015 Budget	FY 2016 Base	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast
Administration							
Mayor and City Council	$ 168,570	$ 168,570	$ 180,687	$ 184,585	$ 188,516	$ 192,509	$ 196,580
City Manager	$ 449,840	$ 467,520	$ 477,839	$ 488,489	$ 499,078	$ 509,916	$ 520,982
City Secretary	$ 419,410	$ 421,030	$ 434,146	$ 443,987	$ 453,892	$ 463,990	$ 474,312
City Attorney	$ 643,000	$ 643,000	$ 657,468	$ 672,261	$ 687,386	$ 702,853	$ 718,667
City Auditor	$ 165,270	$ 165,170	$ 163,622	$ 167,043	$ 170,413	$ 173,856	$ 177,361
Information Technology	$ 2,130,785	$ 2,139,325	$ 2,177,470	$ 2,228,025	$ 2,280,138	$ 2,332,486	$ 2,386,047
Communications Office	$ 394,618	$ 391,958	$ 400,685	$ 409,581	$ 418,539	$ 427,672	$ 437,001
Human Resources	$ 807,165	$ 805,665	$ 823,155	$ 841,225	$ 859,272	$ 877,720	$ 896,550
Civil Service	$ 81,100	$ 81,100	$ 82,877	$ 84,688	$ 86,550	$ 88,442	$ 90,377
Subtotal - Administration	**$ 5,259,758**	**$ 5,283,338**	**$ 5,397,947**	**$ 5,519,883**	**$ 5,643,784**	**$ 5,769,445**	**$ 5,897,876**
Non-Departmental	$ 4,920,880	$ 4,305,170	$ 5,491,499	$ 6,736,858	$ 7,899,651	$ 9,072,374	$ 10,030,366
Total General Fund	**$ 57,773,769**	**$ 56,728,076**	**$ 59,461,811**	**$ 61,944,170**	**$ 64,355,876**	**$ 66,794,511**	**$ 69,044,207**

Note: The Baseline Forecast includes the effect of inflation, growth, mandates and current commitments on expenditures, with no new or expanded programs.

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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. In previous forecasts, long-term projections have been used primarily to support the issuance of new debt in support of the Capital Improvements Plan adopted annually by City Council. The projections of new debt have been dependent on keeping the City's tax rate for debt service constant and demonstrating how a fixed amount of debt could be issued annually without raising that portion of the tax rate.

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

- Growth in net taxable property value of 4.2% in FY16 (based upon preliminary values that have been received from the appraisal districts), 4% in FY17, and 3% each year thereafter. This assumption includes the effect of the strategy adopted by the City Council 2 years ago to gradually increase the homestead exemption from 10% to 20% over the 5 year period FY 2014-2018.
- A prolonged, gradual increase in borrowing rates from their current, historically low level;
- Bond sales per the current (2015-2019) Capital Improvement Program:

\$ 8.4 million	FY 2016
\$ 6.5 million	FY 2017
\$ 12.5 million	FY 2018
\$ 13.2 million	FY 2019
\$ 40.58 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
FY 2015 – FY 2020

	FY2016	FY2017	FY2018	FY2019	FY2020
Taxable Value ($millions)	$5,993.6	$6,233.3	$6,451.5	$6,677.3	$6,911.0
Debt Service Tax Rate	$0.185	$0.185	$0.188	$0.200	$0.210
Over 65 Tax Freeze Pct Loss	0.208%	0.210%	0.212%	0.214%	0.216%
Property Tax Growth	4.2%	4.0%	3.5%	3.5%	3.5%
TIRZ Increment Growth	-11.5%	8.5%	11.1%	6.0%	6.1%
Investment Pool Earnings Rate	0.5%	1.0%	1.5%	2.0%	2.5%
Future Bond Issue ($000's)	$9,252	$16,992	$8,695	$9,000	$9,000
Overall Interest Rate	3.50%	4.00%	4.50%	5.00%	5.50%
Interest Rate Diff with FY14 Rates	0.50%	1.00%	1.50%	2.00%	2.50%
Annual Property Tax Savings $000's)	$2,218	$2,306	$2,194	$1,469	$829
Population	98,300	100,900	103,500	106,100	108,800
Debt Per Capita	$890	$898	$886	$920	$952
Debt per Taxable Value	1.46%	1.45%	1.42%	1.46%	1.50%

Tax Rate: Based upon the current projects projected in the 2015-2019 CIP, and the other assumptions utilized in this forecast, the property tax rate dedicated to debt service can be adjusted down in the near term years; however, without higher than projected growth, and without reduction in debt issues, will be required to increase in the mid-term of this forecast. The effect of this approach on the debt service portion of the tax rate is:

	FY2016	FY2017	FY2018	FY2019	FY2020
Debt Service Tax Rate	$ 0.185	$ 0.185	$ 0.188	$ 0.200	$ 0.210
General Fund Tax Rate	0.412	0.412	0.409	0.397	0.387
Total Tax Rate	**$ 0.597**	**$ 0.597**	**$ 0.597**	**$ 0.597**	**$ 0.597**

The result of applying these assumptions to the City's Debt Service Fund, given current expense commitments and tax revenue levels will have the combined effect of reducing the City's taxable debt per capita and as a percent of taxable property value at the conclusion of the five year Forecast period and beyond.

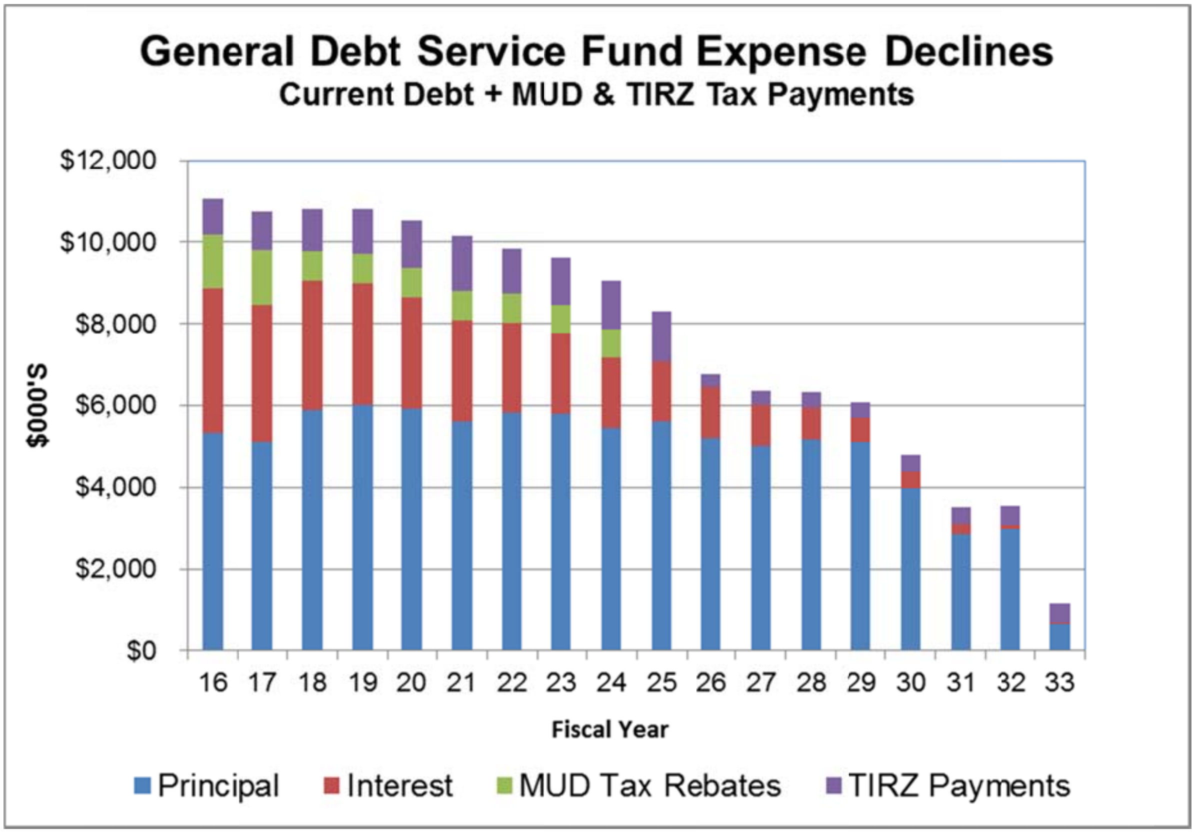
DEBT SERVICE FUND FORECAST SUMMARY, FY 2016 – FY 2020 ($000'S)
ASSUMES $40.58 MILLION TOTAL BONDS OVER PERIOD

	FY2016	FY2017	FY2018	FY2019	FY2020
REVENUE					
Property Taxes	$11,120	$11,565	$12,164	$13,393	$14,554
Interest Income	$7	$8	$10	$10	$97
TOTAL REVENUE	**$11,127**	**$11,573**	**$12,174**	**$13,403**	**$14,651**
EXPENSE					
Transfers					
MUD Property Tax Rebates	$1,316	$1,329	$704	$704	$704
TIRZ Property Tax Increment	$858	$931	$1,034	$1,096	$1,163
Subtotal MUD's/TIRZ's	**$2,174**	**$2,260**	**$1,738**	**$1,800**	**$1,867**
Current Debt Service					
Interest	$3,558	$3,369	$3,185	$2,976	$2,729
Principal	$5,316	$5,103	$5,877	$6,028	$5,925
Paying Agent Fees	$5	$5	$5	$5	$5
Subtotal Current Debt Service	**$8,879**	**$8,477**	**$9,067**	**$9,009**	**$8,659**
Subtotal Current Expense	**$11,053**	**$10,737**	**$10,805**	**$10,809**	**$10,526**
Projected Future Bonds Debt Service					
Interest	$0	$354	$661	$1,308	$2,037
Principal	$0	$365	$655	$1,209	$1,799
Subtotal Future Bonds Debt Service	**$0**	**$719**	**$1,316**	**$2,517**	**$3,836**
Subtotal Future Debt Service	**$0**	**$719**	**$1,316**	**$2,517**	**$3,836**
TOTAL EXPENSE	**$11,053**	**$11,456**	**$12,121**	**$13,326**	**$14,362**
Revenue Over/(Under) Expense	**$74**	**$117**	**$53**	**$77**	**$289**
Beginning Fund Balance	**$3,552**	**$3,626**	**$3,743**	**$3,796**	**$3,873**
Ending Fund Balance	**$3,626**	**$3,743**	**$3,796**	**$3,873**	**$4,162**

DEBT SERVICE FUND FORECAST ELEMENTS DESCRIPTION

Debt Service Fund Expense

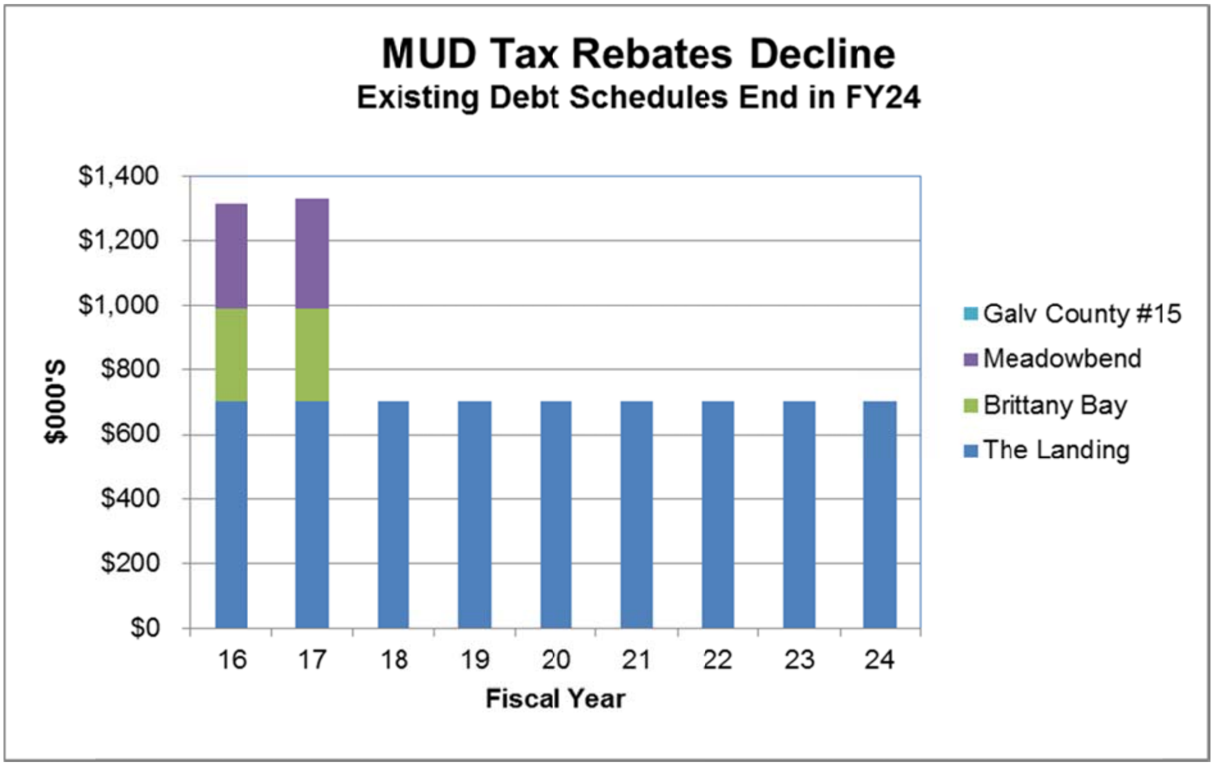
Debt Service Fund expense is largely but not totally comprised of principal and interest payments on tax-supported debt issued by the City. In FY 2015, 73% of current expense is debt service payments for city-issued and city-assumed bonds. The remainder, or 27%, goes to pay MUD property tax rebates and the debt portion of TIRZ property tax increments. As existing MUD rebate agreements expire and TIRZ obligations end, City-issued debt service payments will become a larger percentage of the total cash payment by the Debt Service Fund.



Municipal Utility Districts

The City currently provides property tax rebates to six water districts with agreements that date back to the 1970's and 1980's. In all but two cases, the rebate is provided by development contract to be paid until the individual MUD's debt is discharged. 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 payments in every case are less than the total debt service paid by the MUD because each MUD has its own property tax levy in addition to the City's tax rate. Also, the payments in every case are limited to the lesser of the formula payment or the actual debt service payment for the specific year in question. The City Council will be asked to dissolve South Shore MUD #6 and Galveston County MUD #3 before the end of this year because their actual debt service will be at or near completion.



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 and is a part of the annual statutory process to receive the certified tax roll and set a property tax rate. This occurred in FY 2011 when the Magnolia Creek TIRZ #1 had satisfied its obligations to developers and was dissolved by the City.

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 on several occasions issued debt backed by future TIRZ increments, which bonds are being retired now.

In January, 2010, $10 million in certificates of obligation were sold to reimburse the developers of TIRZ #2 at the all inclusive true interest cost of 3.575%. Also, in December 2011, the City sold $6.08 million in certificates of obligation to reimburse and fully pay the developer of TIRZ #3 at an all-inclusive true cost of 2.02%. These sales and the addition of county property tax rate increments, as well as the addition of property tax incremental funding from CCISD, will allow the TIRZs to be dissolved before the end of their legal lives. Centerpointe (TIRZ #3) will be closed out in FY 2018 instead of the original ending date, FY 2020. Likewise, it is expected that Saddle Creek (TIRZ #2) will be closed out in FY 2018 instead of FY 2024. The growth in this TIRZ provided funds for the early redemption of the certificates of obligation, series 2005A which was used to fund a portion of the developer reimbursement.

The West Oaks TIRZ had seen very little development since its creation in 2004. In 2014, the City Council authorized the Westwood Management District to serve as the underlying financing vehicle for its neighborhood infrastructure improvements, e.g. streets, storm sewers, water and wastewater lines. Last year the value in the TIRZ increased over 80%, and building continues in that area.

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LONG RANGE FINANCIAL FORECAST
UTILITY FUND OVERVIEW

Baseline Forecast

The chart below summarizes the Utility Fund Forecast using baseline assumptions, including (1) adjustments to the FY2015 Budget to arrive at a base for the forecast as "FY2016 Base," (2) the impact of debt scheduled in the FY2015-2019 CIP, (3) the anticipated effect of inflation on costs, (4) recommendations from the Water and Wastewater multi-year financial plan and rate design study, and (5) increasing funding for capital projects each to further reduce the reliance on debt.

FORECAST SUMMARY
UTILITY FUND PROJECTIONS ($THOUSANDS)

	FY2015 Budget	FY2016 Base	FY2016 Forecast	FY2017 Forecast	FY2018 Forecast	FY2019 Forecast	FY2020 Forecast
Beginning Balance	**$15,501**	**$16,261**	**$16,261**	**$16,643**	**$16,725**	**$16,011**	**$15,555**
Revenue							
Current Revenue	$31,202	$29,486	$30,349	$31,230	$32,118	$33,025	$33,934
Water & Wastewater Revenue Study Increase *	$753	$753	$2,117	$3,820	$4,928	$5,086	$6,515
Subtotal Revenues	**$31,954**	**$30,238**	**$32,466**	**$35,050**	**$37,046**	**$38,111**	**$40,449**
Expenditures							
Operating Expenditures	$17,780	$17,314	$17,698	$18,131	$18,585	$19,031	$19,486
Current Debt Service	$12,490	$12,386	$12,386	$13,188	$12,849	$12,830	$12,787
Future Debt Service	$0	$0	$0	$1,649	$4,326	$4,705	$6,995
Transfer to CIP	$925	$1,000	$2,000	$2,000	$2,000	$2,000	$2,000
Subtotal Expenditures	**$31,194**	**$30,700**	**$32,084**	**$34,968**	**$37,760**	**$38,566**	**$41,268**
Revenue Over/(Under) Expenditures	**$760**	**($461)**	**$382**	**$82**	**($714)**	**($455)**	**($819)**
Ending Balance	**$16,261**	**$15,800**	**$16,643**	**$16,725**	**$16,011**	**$15,555**	**$14,736**
Utility Fund Reserves							
Debt Service (Average Annual Revenue Bond Debt Service)	$5,309	$5,156	$5,156	$5,004	$4,862	$4,734	$4,611
90 Days of Operating Expenditures as Working Capital	$4,384	$4,269	$4,364	$4,471	$4,583	$4,693	$4,805
Total Reserve Required	**$9,693**	**$9,425**	**$9,520**	**$9,475**	**$9,445**	**$9,427**	**$9,416**
Excess Working Capital	**$6,568**	**$6,375**	**$7,123**	**$7,250**	**$6,566**	**$6,128**	**$5,320**
Days Working Capital Over/(Under) 90 Days	**135**	**134**	**147**	**146**	**129**	**118**	**100**

The financial future of the Utility Fund will be determined by two categories of policy decisions:

1. Capital improvement planning for water and wastewater projects, including water supply, and
2. Water and wastewater rates and charges, including incentives for water conservation.

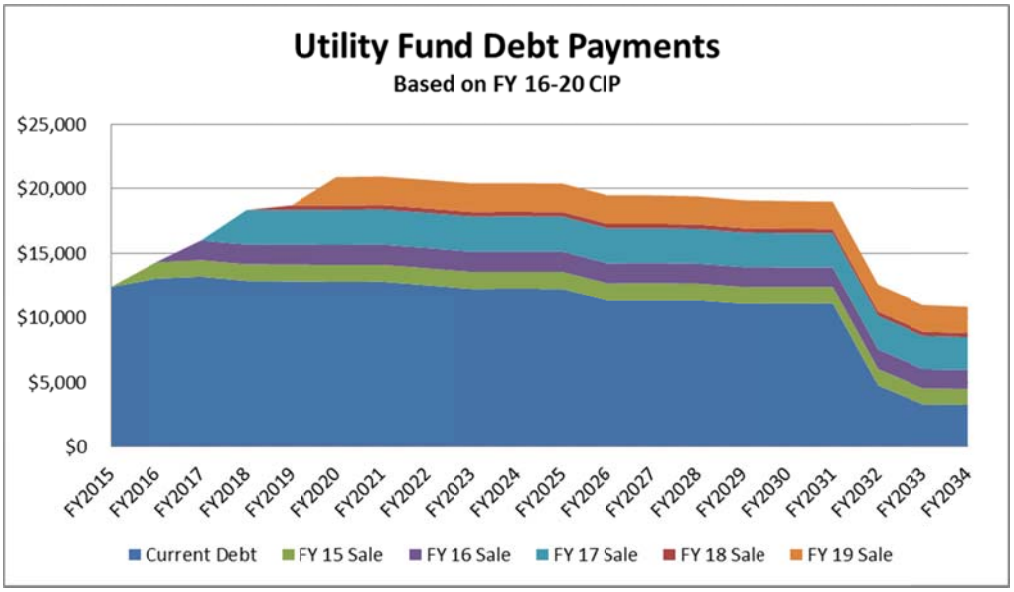
Water and Wastewater Capital Improvement Plan

The FY 2015-2019 Capital Improvement Plan included projects identified in the Water and Wastewater Master Plans, including projects to address water supply. The CIP included $43 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 receiving through the existing line.

The 2015-2019 CIP included $145 million in new debt, of which $21 million is expected in FY2015. In June 2015, the City expects to issue $17.9 million; $3.1 million less than projected. Based on the CIP, remaining debt is projected as follows:

Existing CIP Bond Sale Schedule	
FY 2016 –	$ 27.93 million
FY 2017 –	$ 41.19 million
FY 2018 –	$ 14.94 million
FY 2019 –	$ 38.59 million
Total	$ 122.65 million

Using simple level payments for each sale, the resulting debt structure is depicted in the chart below. This approach involves lower principal payments on the front end of each bond issue's repayment schedule, with higher payments each year for principal and lower payments for interest similar to a home mortgage.



The CIP will be under review and restructure in the coming months, and these projections will adjust accordingly.

Water and Wastewater Rates and Charges

On January 13, 2015 City staff brought forward a rate study, with the expectation that recommendations for rate adjustments will be complete by early 2015. This study produces a revised schedule of rates and charges including incentives to conserve water while providing disincentives for using higher quantities of water. This means that high use customers would pay more for each 1,000 gallons of water consumed beyond 10,000 gallons per month. While the results of this study have not been adopted by council, the following table reflects the impact of the study. The full impact of this effort and final approval will constitute a major policy decision for City Council.