



FISCAL YEAR
2017-2021

City of League City, Texas

Long Range Financial Forecast





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May 9, 2016

**City Manager and Members of City Council
City of League City, Texas**

This letter introduces the City's Long Range Financial Forecast for FY 2017-21. The purpose of the forecast is to provide long-term context for annual decisions that will be made with the FY 2017 Budget and FY2017-2021 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 3%. New home construction is the key indicator of growth in League City. Although strong, the growth the City experienced in new home construction in 2015 has slowed slightly in the first half of 2016. This forecast assumes a steady, conservative growth rate of 950 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 100,053 in FY 2016, will be 115,600 in FY 2021. 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 to provide the most immediate impact on the community. Based upon information presented to the City Council in February of this year, increased funding for reinvestment in infrastructure is included as well.



Basis for FY 2017 Budget

Based upon conservative assumptions, and very limited expenditure growth, the baseline forecast anticipates \$3.3 million in revenues over expenditures in the General Fund for FY2017. In order to address the City's ageing infrastructure, as much as \$24.6 million is needed on an annual basis for capital reinvestment. As we incorporate this cost into the General Fund projection, significant funding shortfalls are evident. This projection does reflect that over time the funding gap, while not attainable with current revenue resources, does narrow. Economic development is a leading priority of the City Council and along with new revenue sources under review could produce the additional revenue required to fill this funding gap over time.

The Utility Fund, while reducing balance in recent years, does continue to maintain fund balance in excess of policy requirements. The revenue projections are based upon the performance of rate adjustments implemented this fiscal year. The full impact of those adjustments will not be measured until this summer. Based on these assumptions, the forecast anticipates \$6 million in excess reserves in FY2017. This additional funding will help secure the financial stability of the fund while providing funding toward the \$161.42 million in capital projects outlined in the FY2016-2020 CIP.

We look forward to working with the Council to develop a sustainable financial plan for FY 2017 and into the future.

Sincerely,

A handwritten signature in black ink that reads "Rebecca Underhill". The signature is written in a cursive style.

Rebecca Underhill

Assistant City Manager/Director of Finance

**CITY OF LEAGUE CITY
LONG RANGE FINANCIAL FORECAST
FY2017-2021
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LONG RANGE FINANCIAL FORECAST ECONOMIC OUTLOOK

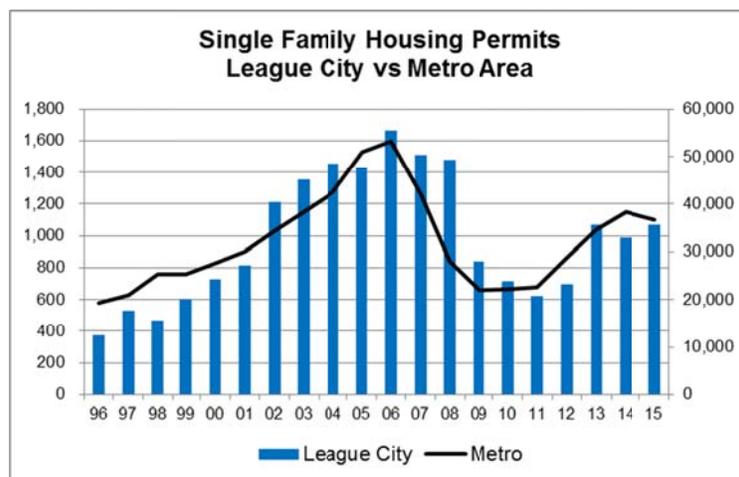
Economic Overview

League City, like the region, has been characterized by steady long-term growth. 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 the strong, reasonably priced housing sector and vibrant diverse economy that while dominated by energy is balanced with medical, technology, and aerospace industries. League City is considered a highly attractive location to families and businesses alike. In 2016, League City is continuing to see new construction of all types of property. Locally, the downturn in oil prices and the accompanying impact on jobs in that sector will likely have an impact on League City.

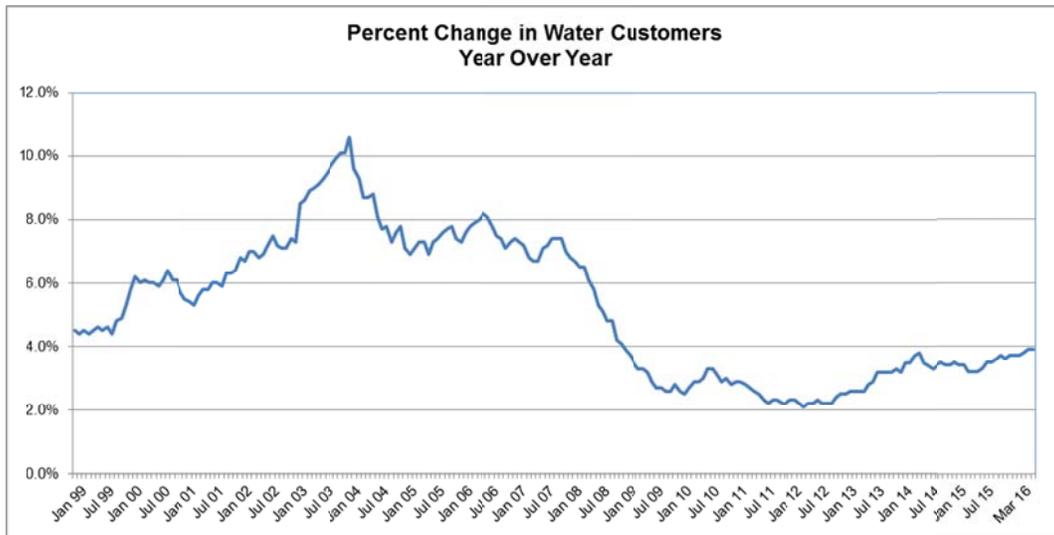
The League City Economy

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 100,053 in 2016. This rapid growth is illustrated by the rapid growth in single family housing units in the middle of the previous decade (see graph on the next page). As a result of this 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 to the I45/SH 646 intersection are continuing 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 underway including the grand opening of Cabela's with additional retail development expected to follow.

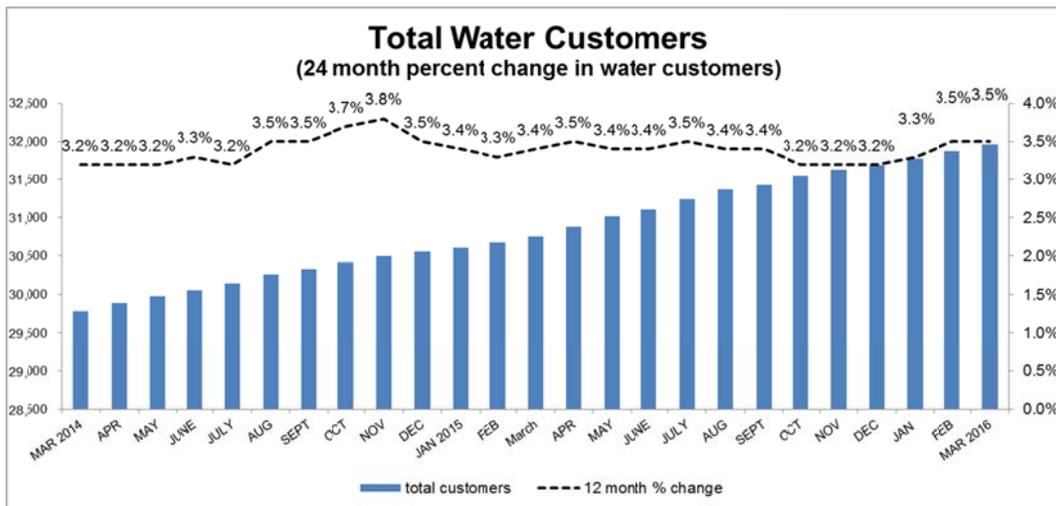
The number of new single family homes has been a major indicator of growth in League City that underscores the population increase between 2000 and 2010. In January 2016, League City's population is estimated at 100,053, supported by two key indicators: single family housing starts and new water customers. League City's new home construction has followed the Houston regional trend closely as demonstrated in the graph on the next page. In 2015, 1,068 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 March, 2016, League City has 3.9% more water customers than it did a year before.



As of March, 2016 the City had 31,965 water customers, 1,211 more than March 2015. 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. This forecast assumes a conservative, 3% annual growth rate.

General Economic Outlook for FY 2017 and Beyond

The economic outlook for the Forecast is based on strong local and regional growth for the balance of 2016 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 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 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	0.0%	2.0%	2.0%	2.0%	2.0%
Health Care Inflation	4.5%	4.5%	4.5%	4.5%	4.5%
Investment Pool Earnings Rate	0.50%	0.75%	1.00%	1.25%	1.50%
League City					
Population Growth Rate	3.1%	3.0%	2.9%	2.9%	2.8%
City Water Customers Growth Rate	3.1%	3.0%	2.9%	2.9%	2.8%
Population	103,200	106,300	109,400	112,500	115,600
New Homes	950	950	950	950	950
New Construction (in millions)	\$245.6	\$253.0	\$260.4	\$267.9	\$275.3
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 2016 Estimate	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast
Property Tax	\$37,277.50	\$39,085.50	\$40,981.10	\$42,968.70	\$45,052.70	\$47,237.70
Water & Wastewater Revenue	\$33,384.50	\$34,422.76	\$35,462.33	\$36,501.38	\$37,541.67	\$38,581.58
Sales Tax	\$15,990.00	\$17,237.22	\$18,581.72	\$20,031.09	\$21,593.52	\$23,277.81
Electricity Franchise	\$3,150.00	\$3,247.97	\$3,346.06	\$3,444.10	\$3,542.26	\$3,640.38
Cable TV Franchise	\$1,150.00	\$1,185.77	\$1,221.58	\$1,257.37	\$1,293.21	\$1,329.03
Other Franchise Taxes	\$899.00	\$915.14	\$931.31	\$947.46	\$963.64	\$979.81
Charges for Service	\$6,429.35	\$6,613.74	\$6,798.37	\$6,982.91	\$7,167.66	\$7,352.34
Fines and Forfeits	\$1,870.00	\$1,928.16	\$1,986.39	\$2,044.59	\$2,102.86	\$2,161.11
Licenses and Permits	\$3,106.20	\$3,176.33	\$3,246.55	\$3,316.73	\$3,387.00	\$3,457.24
Total	\$103,257	\$107,813	\$112,555	\$117,494	\$122,645	\$128,017

Property Taxes

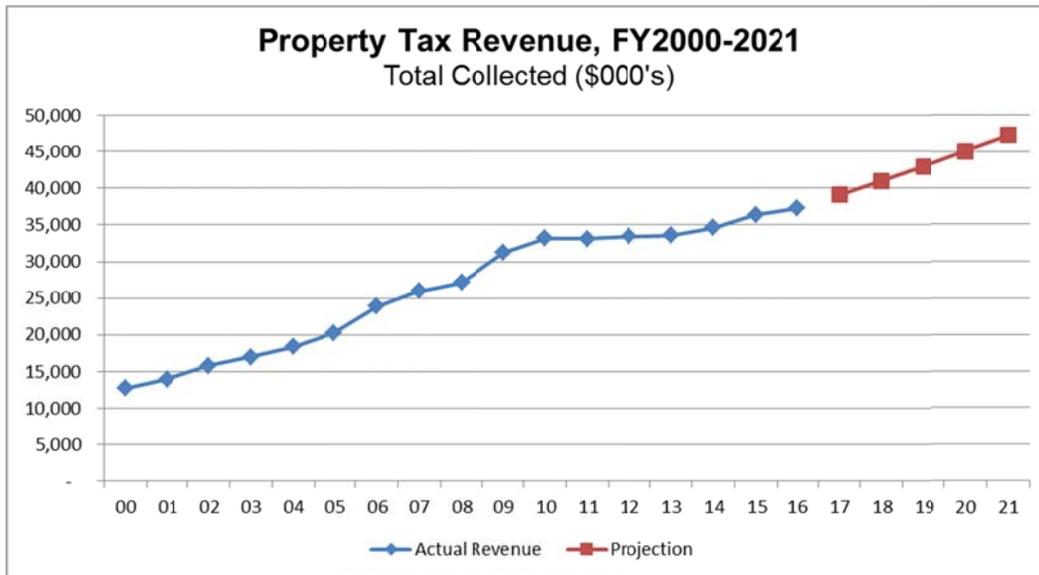
Property taxes, the City's largest revenue source, are based on the tax rate adopted annually by City Council as applied to the certified property rolls prepared by the Galveston and Harris County appraisal districts (GCAD and HCAD, respectively). The rate is composed of two parts; the first to support 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-FY16 TOTAL LEVIED AT \$100 PER TAXABLE VALUE

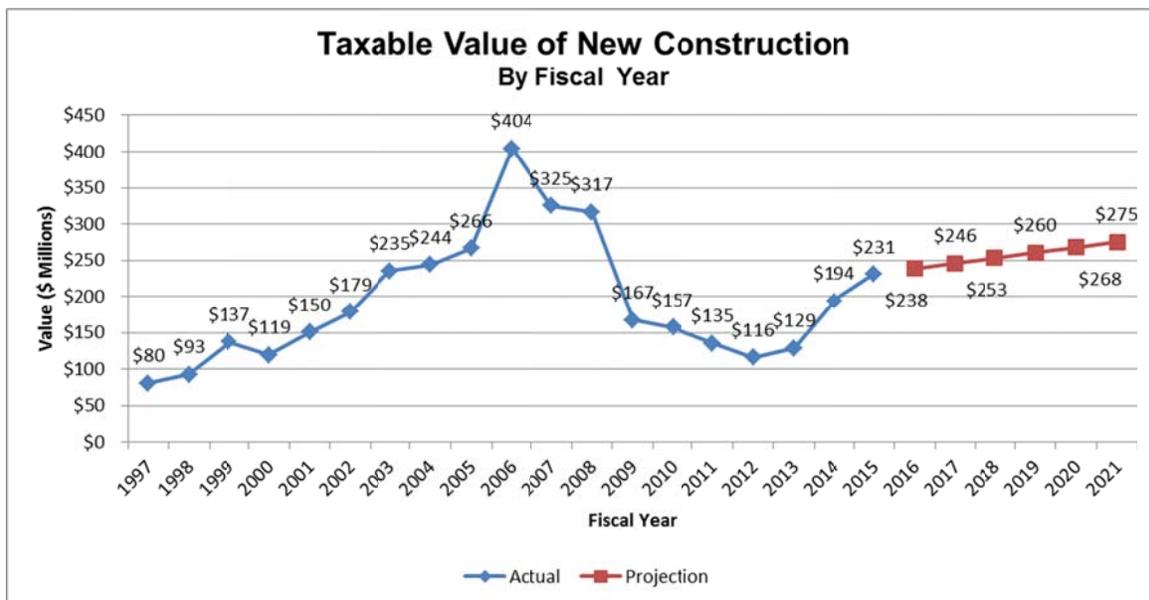
	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
General Fund (M&O)	\$0.413932	\$0.408871	\$0.396729	\$0.385001	\$0.375000	\$0.380000	\$0.400206	\$0.400992
Debt Service Fund (I&S)	\$0.216068	\$0.221129	\$0.219271	\$0.224999	\$0.222000	\$0.217000	\$0.196794	\$0.172508
Total Tax Rate	\$0.630000	\$0.630000	\$0.616000	\$0.610000	\$0.597000	\$0.597000	\$0.597000	\$0.573500

As shown in the graph on the following page, while total property tax revenue grew rapidly from 2000-2009, this important revenue source has been 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. Assuming a constant total tax rate of \$0.5735 per \$100 of taxable value, this forecast projects property tax revenue to grow by 4.85% each year from FY2017-2021.

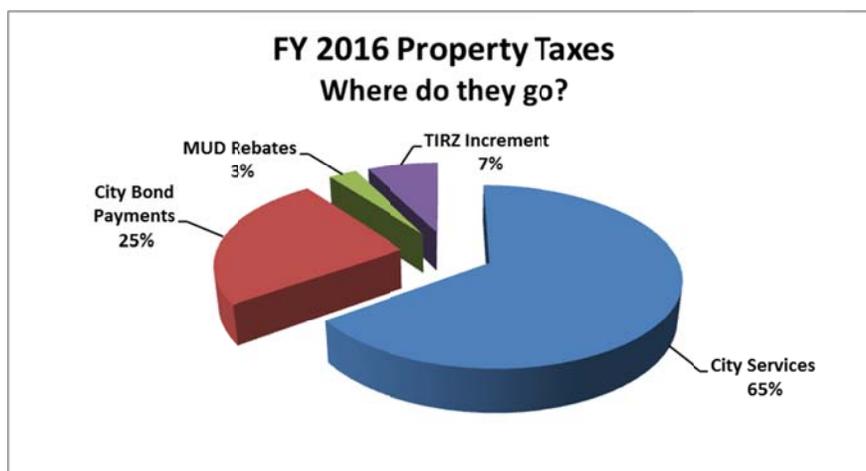


The estimates of new construction used to project the revenue growth shown in the graph below are based on the number of new homes built each year and minimal amounts for new construction of multifamily and commercial properties. Significant commercial and multifamily properties are projected to be built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



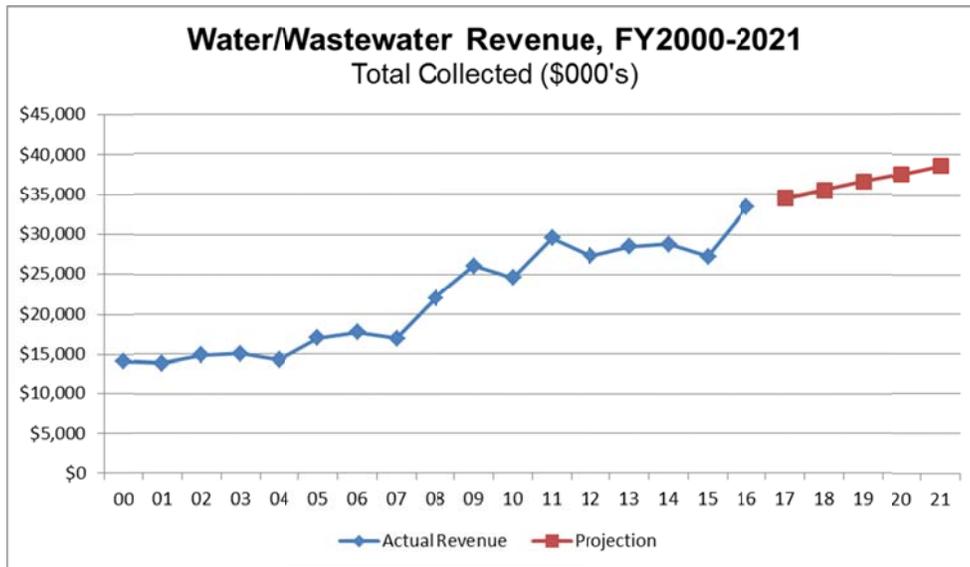
A major goal of the City is to achieve diversification of its taxable properties through selective use of economic development incentives and supportive policies that encourage businesses to locate and/or remain in League City. Conservative long-term revenue estimates can remain the basis for projected 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 10% 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 4%. This reduction in share of property tax revenue going to MUD's and TIRZ's is largely due to the dissolution of MUDs from FY2016 to FY2018.

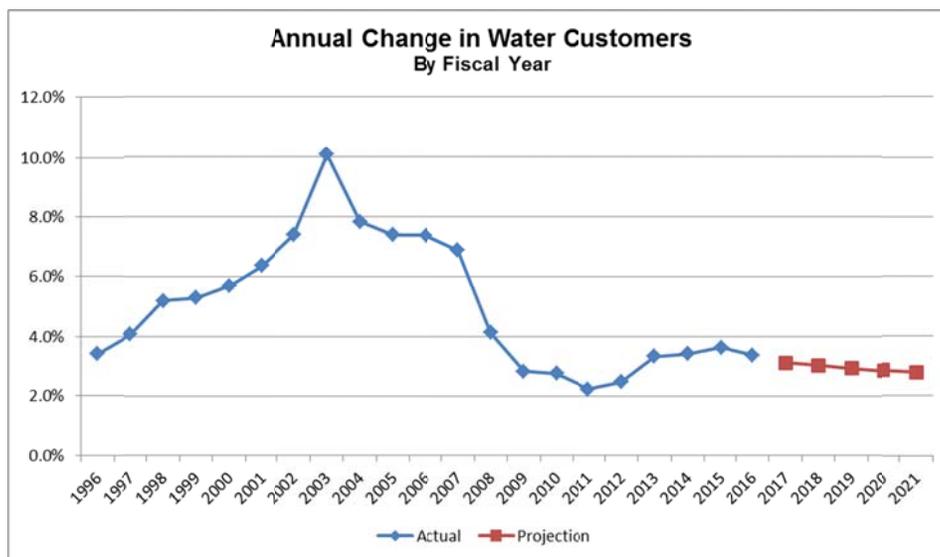


Water and Wastewater Revenue

The City's second largest revenue source comes from monthly payments by the City's 31,965 water system customers. While the number of customers has grown at a steady pace during the last 10 years, the last two years have been 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 the most 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 FY2021, and (3) includes impact of new water and sewer rate increase November 1, 2015. 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 FY2021.

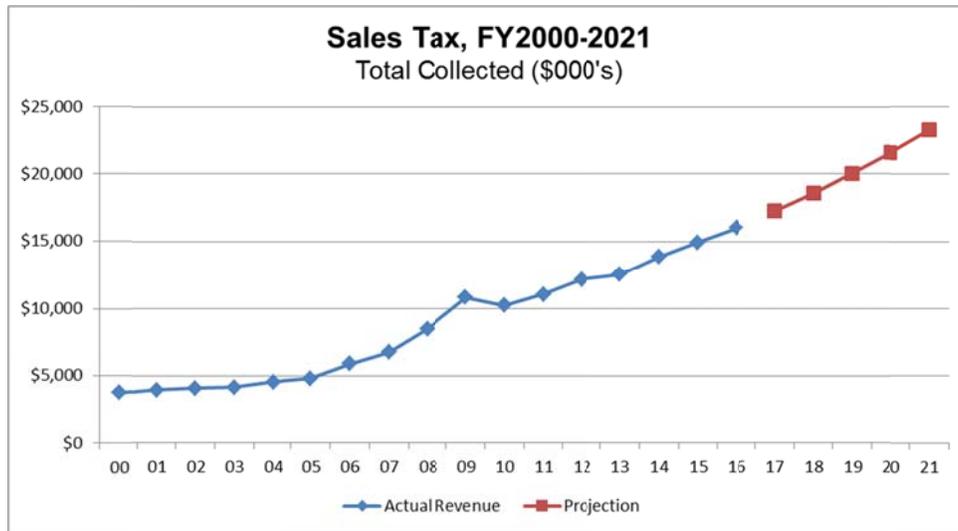


Sales Taxes

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. The local sales tax cap is 2.0%, leaving 0.25% 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

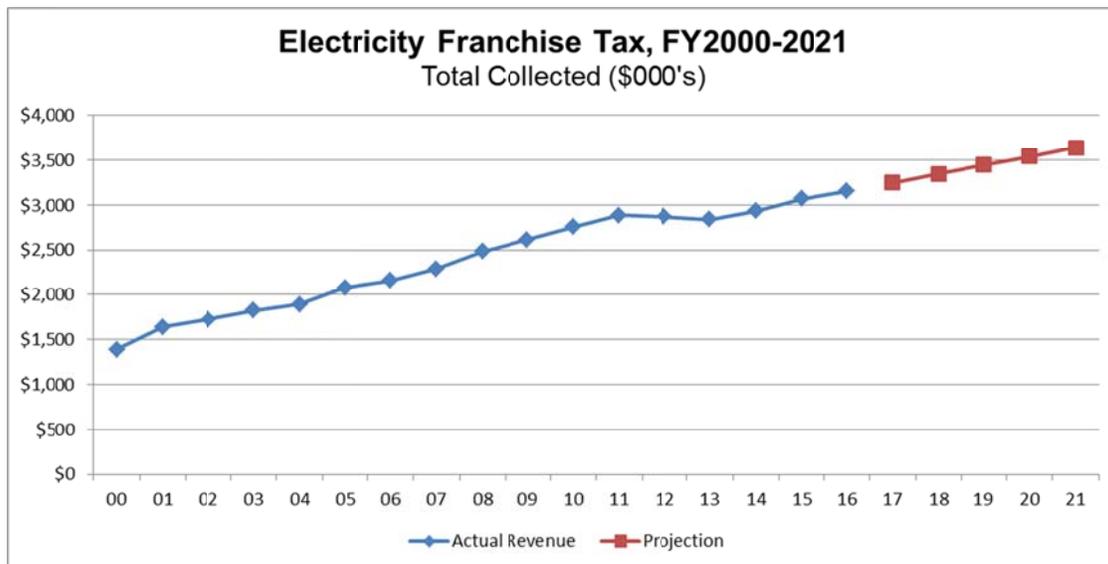
City's sales tax increased 46% from \$10.2 million in FY2010 to \$14.9 million in FY2015. The sales tax projections in the Forecast are based on a 7.8% annual growth rate, which is the average annual growth rate for FY2011 through FY2015 as of March. Year to date growth is 10.22%.



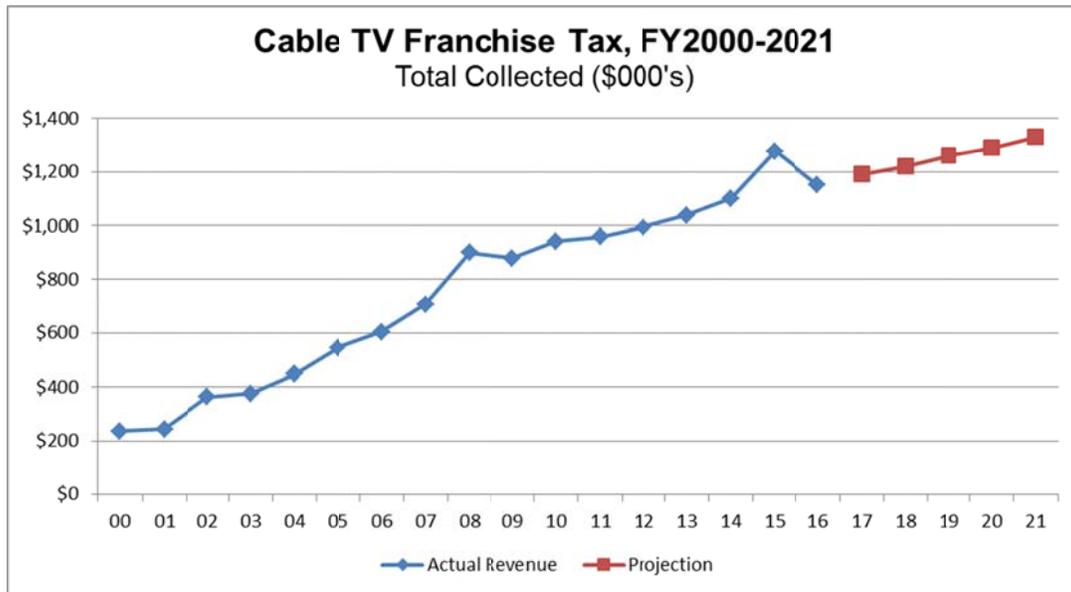
Franchise & Other Taxes

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 \$3.15 million in the current fiscal year, FY2016. The forecast assumes a 2.8% growth as based on anticipated new construction in FY2017-2021.



Cable TV franchise taxes, the second largest of this group of revenues at \$1.15 million estimated to be received in FY2016 is also projected using anticipated new construction in FY2017-2021.



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 73% 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, ambulance fees and park recreation fees.

Fines and Forfeits: General population growth rate.

Investment Earnings are expected to remain at the current level of 0.5% through FY2016 and then increase gradually beginning in FY2017 recovering to 1.5% in FY2021.

Miscellaneous revenue is projected at FY2016 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. 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 2017 FORECAST	FY 2018 FORECAST	FY 2019 FORECAST	FY 2020 FORECAST	FY 2021 FORECAST
Personnel Services						
Salaries	Based on 5 year trend analysis	2.20%	2.20%	2.20%	2.20%	2.20%
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	15.31%	15.32%	15.33%	15.33%	15.34%
Health and Life Insurance	Medical CPI	4.52%	4.52%	4.52%	4.52%	4.52%
Supplies						
Energy Supplies	Energy CPI	0.00%	1.95%	1.95%	1.95%	1.95%
General Supplies	Core CPI.	1.95%	1.95%	1.95%	1.95%	1.95%
Maintenance Supplies	Influenced by Core CPI and Energy CPI.	0.98%	1.95%	1.95%	1.95%	1.95%
Small Capital	Core CPI.	1.95%	1.95%	1.95%	1.95%	1.95%
Services						
Maintenance Services	Core CPI.	1.95%	1.95%	1.95%	1.95%	1.95%
Vehicle Maintenance	Core CPI	1.95%	1.95%	1.95%	1.95%	1.95%
Office Services	Core CPI.	1.95%	1.95%	1.95%	1.95%	1.95%
Other Services	Core CPI.	1.95%	1.95%	1.95%	1.95%	1.95%
Professional Services	Core CPI.	1.95%	1.95%	1.95%	1.95%	1.95%
Utilities	Reflects electricity contract price for 2017; then energy CPI	0.00%	-12.08%	0.00%	0.00%	0.00%
Utilities for water services	Population plus energy CPI	3.11%	4.97%	4.88%	4.80%	4.72%
Refuse pickup services	Population plus contract price increases in FY 17	3.11%	4.00%	4.88%	4.80%	4.72%
Water Purchases	Population plus core CPI	5.06%	4.97%	4.88%	4.80%	4.72%
Capital Outlay						
Motor Pool Replacement	Core CPI.	1.95%	1.95%	1.95%	1.95%	1.95%
Vehicles and Equipment	Core CPI.	1.95%	1.95%	1.95%	1.95%	1.95%
Transfers						
General Fund to Project Fund						
TIRZ Increment						

The growth assumptions shown on the previous page are based on the core inflation rate from the consumer price index. Energy supplies are flat for FY2017 based on the current decrease in gasoline prices with 1.95% core inflation rate for FY2018-2021. Health care inflation is assumed to be 4.52% annually based on a five year average increase in the City of League City's healthcare cost. 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 15.34% in FY2021. 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 FY2016 Budget amount for each department and line item into summary amounts for the nineteen categories by department;
3. Adjust the FY2016 Budget by category into the FY2017 "Base" for the forecast by:
 - a. Adjusting personnel budgets to reflect twelve months of cost for current budgeted positions, incumbents' salaries and benefit levels; and
 - b. Reducing budgets by the amount of one-time or non-recurring items included in this year's budget.
4. Identify individual programs for which expenditures and revenues will have to be budgeted in a future year as the result of a commitment by City Council and/or a State or federal mandate.
5. Apply inflation and growth assumptions as displayed in the chart on the previous page.

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

Beyond Baseline

While the baseline forecast does not presume to predict or propose a course of action in staffing growth it does assume a 2.2% increase in pay raises based on merit. No new programs or expanded service levels are included, which in this rapidly growing City, is unrealistic.

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 3% merit increase on January 1, 2016. Based upon the trend, a 2.2% increase in salary cost is included in the forecast.

Capital Projects Funding

The base forecast projects annual general fund capital improvement funding of \$2 million. The general fund forecast is then amended to project the impact of an additional \$24.6 million in annual funding for asset reinvestment needs as outlined with City Council in February. For utility projects, the forecast is based on \$3 million of funding each year.

Debt Service Costs

Based on the FY 2016-2020 CIP, debt requirements for tax supported projects of \$80.2 million over the five year period are used in determining the forecast. Debt requirements are projected for revenue supported projects of \$104.3 million over the five year period.

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**LONG RANGE FINANCIAL FORECAST
GENERAL FUND OVERVIEW**

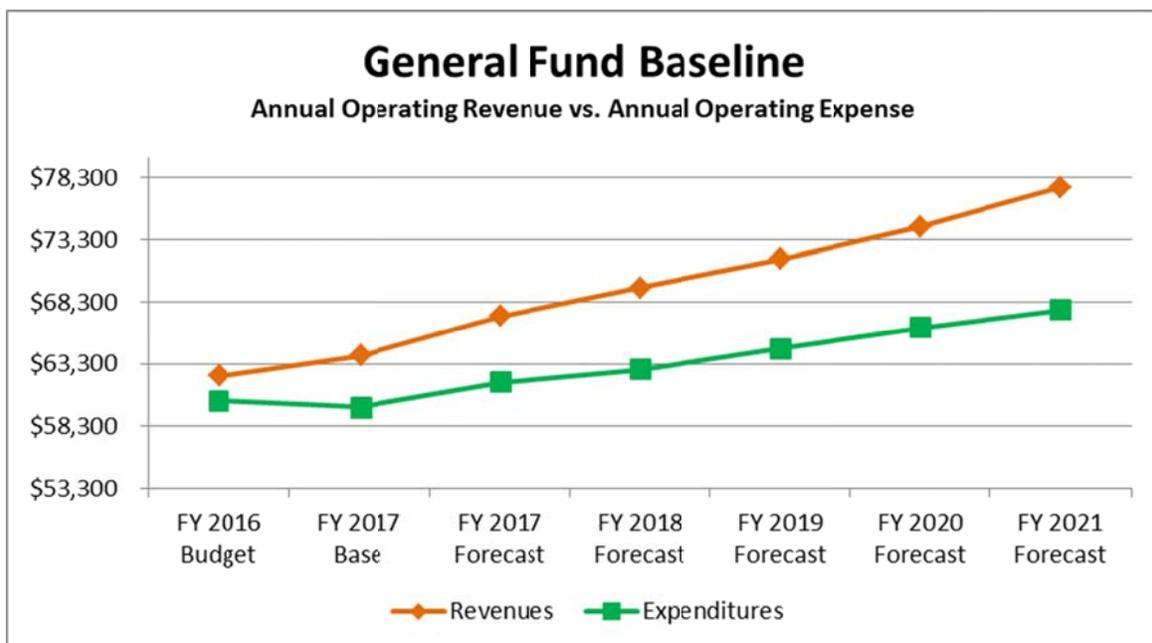
Baseline Forecast

The chart below summarizes the General Fund Forecast using Baseline Assumptions, including (1) adjustments to the FY2016 Budget to arrive at a Base for the forecast shown below as “FY 2017 Base,” (2) no new staff but a 2.2% compensation increase along with civil service step increases, (3) the anticipated effect of inflation on costs, and (4) no increased funding for capital projects. The General Fund begins the forecast period with an excess of revenue over expenditures of \$3.3 million in FY2017.

**FORECAST SUMMARY
GENERAL FUND BASELINE PROJECTIONS
(\$THOUSANDS)**

	FY 2016 Budget	FY 2017 Base	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast
Beginning Balance	\$ 22,440	\$ 22,519	\$ 22,519	\$ 25,833	\$ 30,414	\$ 35,668	\$ 41,848
Revenue	\$ 62,318	\$ 63,950	\$ 67,118	\$ 69,427	\$ 71,747	\$ 74,389	\$ 77,557
Expenditures	\$ 60,309	\$ 59,792	\$ 61,804	\$ 62,846	\$ 64,493	\$ 66,210	\$ 67,668
Revenue Over/(Under) Expenditures	\$ 2,009	\$ 4,157	\$ 5,314	\$ 6,580	\$ 7,254	\$ 8,180	\$ 9,889
Subtotal	\$ 24,449	\$ 26,676	\$ 27,833	\$ 32,414	\$ 37,668	\$ 43,848	\$ 51,737
Transfer to One-Time Projects	\$ 1,930	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
Revenue Over/(Under) Expenditures	\$ 79	\$ 2,157	\$ 3,314	\$ 4,580	\$ 5,254	\$ 6,180	\$ 7,889
Ending Balance	\$ 22,519	\$ 24,676	\$ 25,833	\$ 30,414	\$ 35,668	\$ 41,848	\$ 49,737
Policy Goal - 110 Days of Working Capital	\$ 18,175	\$ 18,020	\$ 18,626	\$ 18,940	\$ 19,436	\$ 19,954	\$ 20,393
Forecast Over 110 Days	\$ 4,344	\$ 6,656	\$ 7,207	\$ 11,474	\$ 16,232	\$ 21,894	\$ 29,344
Days Working Capital Over 110	26	41	43	67	92	121	158

As reflected in the graph below, annual operating revenue exceeds annual baseline operating expense in every year of the forecast as a result of the continuing, slow growth rate and the exclusion of increasing staff and programming from base expense.

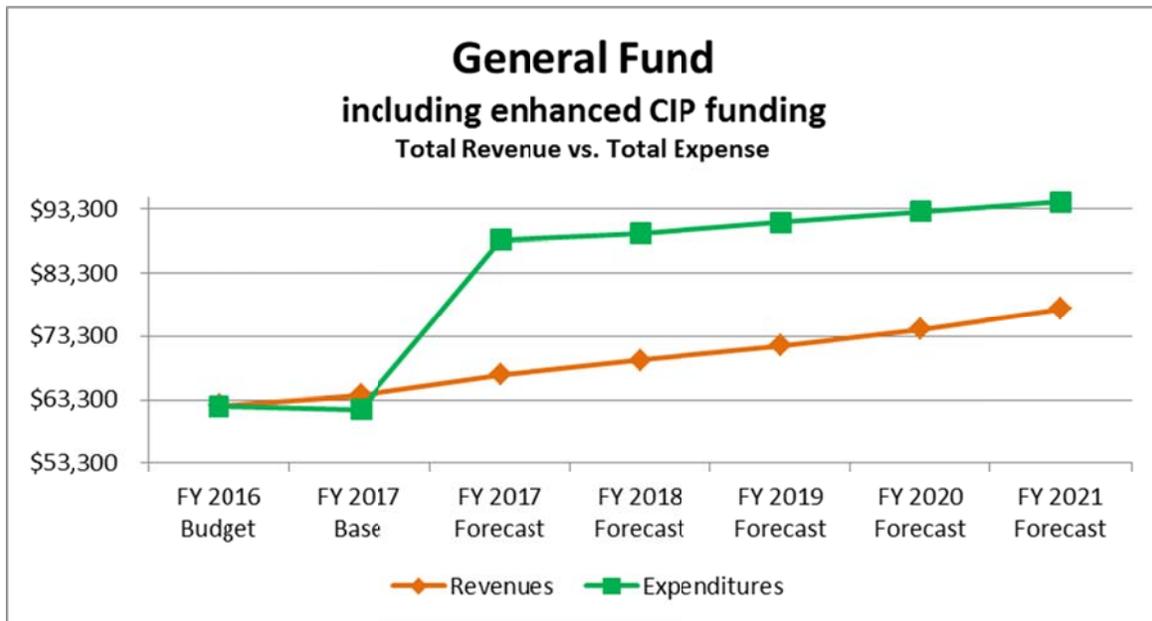


However, this baseline forecast does not address the needs of the capital improvement plan as outlined in the February 2016 presentation to City Council. *In order to address the City’s ageing infrastructure, as much as \$24.6 million is needed on an annual basis for capital reinvestment. The current spread between existing revenue and a conservative projection of expenditure growth does not fund this cost.*

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

	FY 2016 Budget	FY 2017 Base	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast
Beginning Balance	\$ 22,440	\$ 22,519	\$ 22,519	\$ 1,203	\$ (18,846)	\$ (38,222)	\$ (56,672)
Revenue	\$ 62,318	\$ 63,950	\$ 67,118	\$ 69,427	\$ 71,747	\$ 74,389	\$ 77,557
Expenditures	\$ 60,309	\$ 59,792	\$ 61,804	\$ 62,846	\$ 64,493	\$ 66,210	\$ 67,668
Revenue Over/(Under) Expenditures	\$ 2,009	\$ 4,157	\$ 5,314	\$ 6,580	\$ 7,254	\$ 8,180	\$ 9,889
Subtotal	\$ 24,449	\$ 26,676	\$ 27,833	\$ 7,784	\$ (11,592)	\$ (30,042)	\$ (46,783)
Transfer to One-Time Projects	\$ 1,930	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
CIP reinvestment	\$ -	\$ -	\$ 24,630	\$ 24,630	\$ 24,630	\$ 24,630	\$ 24,630
Revenue Over/(Under) Expenditures	\$ 79	\$ 2,157	\$ (21,316)	\$ (20,050)	\$ (19,376)	\$ (18,450)	\$ (16,741)
Ending Balance	\$ 22,519	\$ 24,676	\$ 1,203	\$ (18,846)	\$ (38,222)	\$ (56,672)	\$ (73,413)
Policy Goal - 110 Days of Working Capital	\$ 18,175	\$ 18,020	\$ 18,626	\$ 18,940	\$ 19,436	\$ 19,954	\$ 20,393
Forecast Over 110 Days	\$ 4,344	\$ 6,656	\$ (17,423)	\$ (37,786)	\$ (57,658)	\$ (76,626)	\$ (93,806)
Days Working Capital Over 110	26	41	(103)	(219)	(326)	(422)	(506)

This projection does reflect that over time the funding gap, while not attainable with current revenue resources, does narrow. With economic development a leading priority of the City Council and review of revenue generating alternatives through the revenue study initiative, additional funding resources coupled with judicious spending choices may be fill this funding gap over time.



**GENERAL FUND FORECAST INCLUDING ENHANCED CIP FUNDING
FUND BALANCE, REVENUE AND EXPENDITURES
FY 2017 - FY2021 (\$THOUSANDS)**

	FY 2016 Budget	FY 2017 Base	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast
Beginning Balance	\$ 22,440	\$ 22,519	\$ 22,519	\$ 1,203	\$ (18,846)	\$ (38,222)	\$ (56,672)
Revenue							
Property Tax	\$ 25,203	\$ 26,385	\$ 27,835	\$ 28,328	\$ 28,727	\$ 29,335	\$ 30,346
Sales Tax	\$ 15,540	\$ 15,990	\$ 17,237	\$ 18,582	\$ 20,031	\$ 21,594	\$ 23,278
Franchise and Other Taxes	\$ 5,460	\$ 5,460	\$ 5,618	\$ 5,776	\$ 5,934	\$ 6,093	\$ 6,251
Licenses and Permits	\$ 3,106	\$ 3,106	\$ 3,176	\$ 3,247	\$ 3,317	\$ 3,387	\$ 3,457
Charges for Services	\$ 6,429	\$ 6,429	\$ 6,614	\$ 6,798	\$ 6,983	\$ 7,168	\$ 7,352
Fines and Forfeitures	\$ 1,870	\$ 1,870	\$ 1,928	\$ 1,986	\$ 2,045	\$ 2,103	\$ 2,161
Investment Earnings	\$ 33	\$ 33	\$ 33	\$ 33	\$ 34	\$ 34	\$ 35
Miscellaneous/Grants	\$ 1,184	\$ 1,184	\$ 1,184	\$ 1,184	\$ 1,184	\$ 1,184	\$ 1,184
Interfund Transfers	\$ 3,492	\$ 3,492	\$ 3,492	\$ 3,492	\$ 3,492	\$ 3,492	\$ 3,492
Total Revenue	\$ 62,318	\$ 63,950	\$ 67,118	\$ 69,427	\$ 71,747	\$ 74,389	\$ 77,557
Available Funds	\$ 84,758	\$ 86,469	\$ 89,637	\$ 70,630	\$ 52,901	\$ 36,167	\$ 20,885
Expenditures by Directorate							
Public Safety	\$ 24,703	\$ 25,085	\$ 25,885	\$ 26,550	\$ 27,240	\$ 27,949	\$ 28,681
Public Works	\$ 14,205	\$ 14,126	\$ 14,443	\$ 14,639	\$ 15,068	\$ 15,509	\$ 15,962
Parks and Cultural Services	\$ 5,228	\$ 5,158	\$ 5,348	\$ 5,468	\$ 5,595	\$ 5,724	\$ 5,858
Finance	\$ 3,006	\$ 3,024	\$ 3,120	\$ 3,192	\$ 3,266	\$ 3,341	\$ 3,418
Planning and Research	\$ 2,959	\$ 2,878	\$ 2,956	\$ 3,026	\$ 3,099	\$ 3,173	\$ 3,249
Administration	\$ 5,570	\$ 5,377	\$ 5,512	\$ 5,574	\$ 5,690	\$ 5,809	\$ 5,931
Non-Departmental	\$ 4,639	\$ 4,145	\$ 4,539	\$ 4,397	\$ 4,537	\$ 4,706	\$ 4,569
Total Expenditures	\$ 60,309	\$ 59,792	\$ 61,804	\$ 62,846	\$ 64,493	\$ 66,210	\$ 67,668
Revenue Over/(Under) Expenditures	\$ 2,009	\$ 4,157	\$ 5,314	\$ 6,580	\$ 7,254	\$ 8,180	\$ 9,889
Subtotal	\$ 24,449	\$ 26,676	\$ 27,833	\$ 7,784	\$ (11,592)	\$ (30,042)	\$ (46,783)
Transfer to One-Time Projects	\$ 1,930	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
CIP reinvestment	\$ -	\$ -	\$ 24,630	\$ 24,630	\$ 24,630	\$ 24,630	\$ 24,630
Ending Balance	\$ 22,519	\$ 24,676	\$ 1,203	\$ (18,846)	\$ (38,222)	\$ (56,672)	\$ (73,413)
Policy Goal - 110 Days of Working Capital	\$ 18,175	\$ 18,020	\$ 18,626	\$ 18,940	\$ 19,436	\$ 19,954	\$ 20,393
Excess/(Shortage) of Working Capital	\$ 4,344	\$ 6,656	\$ (17,423)	\$ (37,786)	\$ (57,658)	\$ (76,626)	\$ (93,806)
Excess/(Shortage) of Working Capital in Days	26	41	(103)	(219)	(326)	(422)	(506)

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

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**GENERAL FUND FORECAST
EXPENDITURES BY DEPARTMENT
FY 2017-2021 (\$THOUSANDS)**

	FY 2016 Budget	FY 2017 Base	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast
Public Safety							
Police	\$ 18,248,529	\$ 18,037,556	\$ 18,580,695	\$ 19,106,494	\$ 19,649,932	\$ 20,209,470	\$ 20,788,231
Animal Control	\$ 829,311	\$ 821,416	\$ 840,385	\$ 858,378	\$ 877,410	\$ 896,909	\$ 916,979
Fire	\$ 1,837,519	\$ 1,999,181	\$ 2,054,122	\$ 2,093,034	\$ 2,134,585	\$ 2,176,953	\$ 2,220,210
Fire Marshal	\$ 509,424	\$ 608,499	\$ 625,190	\$ 640,725	\$ 656,701	\$ 673,090	\$ 689,990
EMS	\$ 3,083,358	\$ 3,418,619	\$ 3,579,872	\$ 3,642,374	\$ 3,706,708	\$ 3,772,491	\$ 3,840,237
Emergency Management	\$ 194,450	\$ 199,330	\$ 204,639	\$ 209,382	\$ 214,439	\$ 219,621	\$ 224,959
Subtotal - Public Safety	\$ 24,702,591	\$ 25,084,601	\$ 25,884,904	\$ 26,550,387	\$ 27,239,776	\$ 27,948,533	\$ 28,680,606
Public Works							
Public Works Administration	\$ 449,946	\$ 458,709	\$ 470,458	\$ 481,293	\$ 492,393	\$ 503,728	\$ 515,378
Engineering	\$ 1,582,842	\$ 1,629,027	\$ 1,671,138	\$ 1,710,437	\$ 1,750,777	\$ 1,792,074	\$ 1,834,590
Streets and Stormwater	\$ 5,672,178	\$ 5,538,981	\$ 5,635,386	\$ 5,642,444	\$ 5,753,572	\$ 5,867,353	\$ 5,984,224
Traffic and Transportation	\$ 651,449	\$ 654,448	\$ 665,503	\$ 671,736	\$ 684,784	\$ 698,116	\$ 711,771
Facilities Maintenance	\$ 1,340,008	\$ 1,336,331	\$ 1,352,459	\$ 1,298,583	\$ 1,315,856	\$ 1,333,531	\$ 1,351,680
Solid Waste Department	\$ 4,508,300	\$ 4,508,300	\$ 4,648,508	\$ 4,834,448	\$ 5,070,370	\$ 5,313,747	\$ 5,564,556
Subtotal - Public Works	\$ 14,204,723	\$ 14,125,796	\$ 14,443,451	\$ 14,638,941	\$ 15,067,752	\$ 15,508,550	\$ 15,962,200
Parks and Cultural Services							
Helen Hall Library	\$ 2,009,502	\$ 1,977,897	\$ 2,067,489	\$ 2,115,438	\$ 2,165,085	\$ 2,215,904	\$ 2,268,187
Civic Center Operations	\$ 481,780	\$ 500,576	\$ 514,032	\$ 525,786	\$ 537,990	\$ 550,500	\$ 563,366
Parks Operations	\$ 2,086,989	\$ 2,036,100	\$ 2,083,564	\$ 2,127,731	\$ 2,176,536	\$ 2,226,517	\$ 2,277,921
Parks Recreation	\$ 649,295	\$ 642,958	\$ 683,369	\$ 698,951	\$ 715,004	\$ 731,428	\$ 748,312
Subtotal - Parks and Cultural Services	\$ 5,227,566	\$ 5,157,531	\$ 5,348,454	\$ 5,467,906	\$ 5,594,615	\$ 5,724,348	\$ 5,857,785
Planning and Research							
Planning	\$ 1,096,812	\$ 1,062,297	\$ 1,090,845	\$ 1,117,628	\$ 1,145,142	\$ 1,173,331	\$ 1,202,373
Building	\$ 1,117,376	\$ 1,097,776	\$ 1,129,013	\$ 1,155,807	\$ 1,183,334	\$ 1,211,541	\$ 1,240,605
Neighborhood Services	\$ 744,965	\$ 718,152	\$ 736,285	\$ 753,015	\$ 770,176	\$ 787,744	\$ 805,801
Subtotal - Planning & Research	\$ 2,959,153	\$ 2,878,225	\$ 2,956,143	\$ 3,026,450	\$ 3,098,652	\$ 3,172,615	\$ 3,248,779
Finance							
Accounting & Financial Planning	\$ 1,995,637	\$ 2,031,781	\$ 2,085,469	\$ 2,133,119	\$ 2,181,960	\$ 2,231,913	\$ 2,283,235
Municipal Court	\$ 693,224	\$ 693,345	\$ 727,868	\$ 744,974	\$ 762,547	\$ 780,548	\$ 799,098
Purchasing	\$ 317,304	\$ 299,298	\$ 306,796	\$ 313,856	\$ 321,092	\$ 328,490	\$ 336,094
Subtotal - Finance	\$ 3,006,165	\$ 3,024,424	\$ 3,120,133	\$ 3,191,949	\$ 3,265,599	\$ 3,340,951	\$ 3,418,426

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**GENERAL FUND FORECAST
EXPENDITURES BY DEPARTMENT
FY 2017-2021 (\$THOUSANDS)**

	FY 2016 Budget	FY 2017 Base	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast	FY 2021 Forecast
Administration							
City Council	\$ 168,420	\$ 168,020	\$ 182,813	\$ 186,512	\$ 190,287	\$ 194,133	\$ 198,067
City Manager	\$ 479,687	\$ 465,786	\$ 477,770	\$ 488,882	\$ 500,274	\$ 511,923	\$ 523,901
City Secretary	\$ 357,842	\$ 366,950	\$ 376,113	\$ 384,794	\$ 393,699	\$ 402,812	\$ 412,184
City Attorney	\$ 594,640	\$ 587,221	\$ 605,021	\$ 618,309	\$ 631,905	\$ 645,786	\$ 660,022
City Auditor	\$ 114,820	\$ 114,190	\$ 117,173	\$ 119,889	\$ 122,671	\$ 125,514	\$ 128,438
Information Technology	\$ 2,245,875	\$ 2,119,666	\$ 2,159,116	\$ 2,145,890	\$ 2,184,887	\$ 2,224,768	\$ 2,265,689
Communications Office	\$ 408,835	\$ 420,137	\$ 430,274	\$ 439,815	\$ 449,588	\$ 459,577	\$ 469,830
Human Resources	\$ 815,097	\$ 786,769	\$ 806,552	\$ 824,911	\$ 843,726	\$ 862,964	\$ 882,729
Economic Development	\$ 384,911	\$ 348,141	\$ 356,683	\$ 364,779	\$ 373,074	\$ 381,555	\$ 390,264
Subtotal - Administration	\$ 5,570,127	\$ 5,376,880	\$ 5,511,515	\$ 5,573,780	\$ 5,690,112	\$ 5,809,033	\$ 5,931,123
Non-Departmental	\$ 6,568,868	\$ 6,144,680	\$ 6,539,198	\$ 6,396,909	\$ 6,536,625	\$ 6,705,518	\$ 6,568,922
Total General Fund	\$ 62,239,193	\$ 61,792,137	\$ 63,803,799	\$ 64,846,322	\$ 66,493,131	\$ 68,209,548	\$ 69,667,842

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.

Assumptions

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

- Growth in net taxable property value of 4.85% for all five years based on the FY2016 increase over FY2015.
- A gradual increase in borrowing rates from their current, historically low level;
- Bond sales per the current (FY2016-2020) Capital Improvement Program with the sale occurring summer of each year with level principal payments beginning the following fiscal year:

\$ 9.561 million	FY2016
\$ 15.784 million	FY2017
\$ 18.130 million	FY2018
\$ 16.471 million	FY2019
<u>\$ 20.230 million</u>	FY2020
\$ 80.176 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 2017 – FY 2021

	FY2017	FY2018	FY2019	FY2020	FY2021
Taxable Value (\$millions)	\$6,815.3	\$7,145.8	\$7,492.4	\$7,855.8	\$8,236.8
Debt Service Tax Rate	\$0.170	\$0.182	\$0.195	\$0.205	\$0.210
Over 65 Tax Freeze Pct Loss	0.210%	0.212%	0.214%	0.216%	0.218%
Property Tax Growth	4.85%	4.85%	4.85%	4.85%	4.85%
TIRZ Increment Growth	8.4%	13.0%	13.3%	8.4%	-17.6%
Investment Pool Earnings Rate	0.5%	1.0%	1.5%	2.0%	2.5%
Future Bond Issue (\$000's)	\$15,784	\$18,130	\$16,471	\$20,230	
Overall Interest Rate	3.50%	4.00%	4.50%	5.00%	5.50%
Interest Rate Diff with FY15 Rates	0.50%	1.00%	1.50%	2.00%	2.50%
Population	103,200	106,300	109,400	112,500	115,600
Debt Per Capita	\$860	\$875	\$947	\$1,033	\$1,099
Debt per Taxable Value	1.26%	1.26%	1.34%	1.44%	1.50%

Tax Rate: Based upon the current projects projected in the FY2016-2020 CIP, and the other assumptions utilized in this forecast, the property tax rate dedicated to debt service is similar to the current rate for FY2017; however, without higher than projected growth, and without reduction in debt issues, will be required to increase each year starting in FY2018. The effect of this approach on the debt service portion of the tax rate is:

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Debt Service Tax Rate	\$0.172508	\$0.170000	\$0.182000	\$0.195000	\$0.205000	\$0.210000
General Fund Tax Rate	\$0.400992	\$0.403500	\$0.391500	\$0.378500	\$0.368500	\$0.363500
Total Tax Rate	\$ 0.5735					

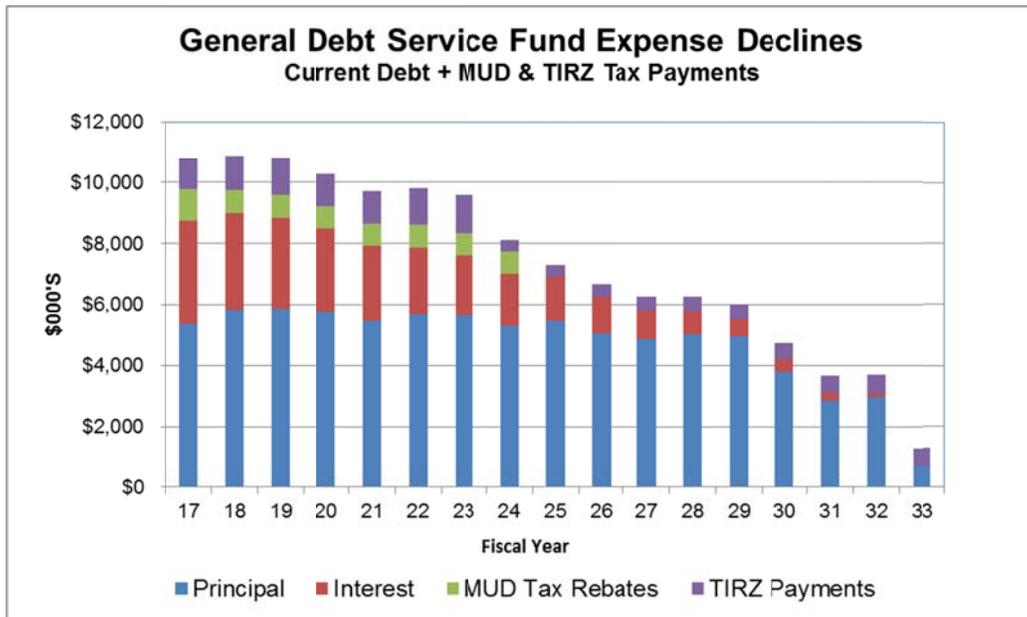
DEBT SERVICE FUND FORECAST SUMMARY, FY2017 – FY2021 (\$000'S)
ASSUMES \$80.176 MILLION TOTAL BONDS OVER PERIOD

	FY2017	FY2018	FY2019	FY2020	FY2021
REVENUE					
Property Taxes	\$11,619	\$13,043	\$14,652	\$16,150	\$17,346
Interest Income	\$7	\$8	\$8	\$9	\$9
TOTAL REVENUE	\$11,626	\$13,051	\$14,660	\$16,159	\$17,355
EXPENSE					
Transfers					
MUD Property Tax Rebates	\$1,037	\$738	\$738	\$738	\$738
TIRZ Property Tax Increment	\$874	\$988	\$1,119	\$1,213	\$999
Subtotal MUD's/TIRZ's	\$1,911	\$1,726	\$1,857	\$1,951	\$1,737
Current Debt Service					
Interest	\$3,376	\$3,177	\$2,967	\$2,719	\$2,460
Principal	\$5,358	\$5,814	\$5,871	\$5,768	\$5,462
Paying Agent Fees	\$5	\$5	\$5	\$5	\$5
Subtotal Current Debt Service	\$8,739	\$8,996	\$8,843	\$8,492	\$7,927
Subtotal Current Expense	\$10,650	\$10,722	\$10,700	\$10,443	\$9,664
Projected Future Bonds Debt Service					
Interest	\$348	\$1,001	\$1,837	\$2,630	\$3,668
Principal	\$478	\$1,267	\$2,174	\$2,998	\$4,010
Subtotal Future Bonds Debt Service	\$826	\$2,268	\$4,011	\$5,628	\$7,678
Subtotal Future Debt Service	\$826	\$2,268	\$4,011	\$5,628	\$7,678
TOTAL EXPENSE	\$11,476	\$12,990	\$14,711	\$16,071	\$17,342
Revenue Over/(Under) Expense	\$150	\$61	(\$51)	\$88	\$13
Beginning Fund Balance	\$4,360	\$4,510	\$4,571	\$4,520	\$4,608
Ending Fund Balance	\$4,510	\$4,571	\$4,520	\$4,608	\$4,621

DEBT SERVICE FUND FORECAST ELEMENTS DESCRIPTION

Debt Service Fund Expense

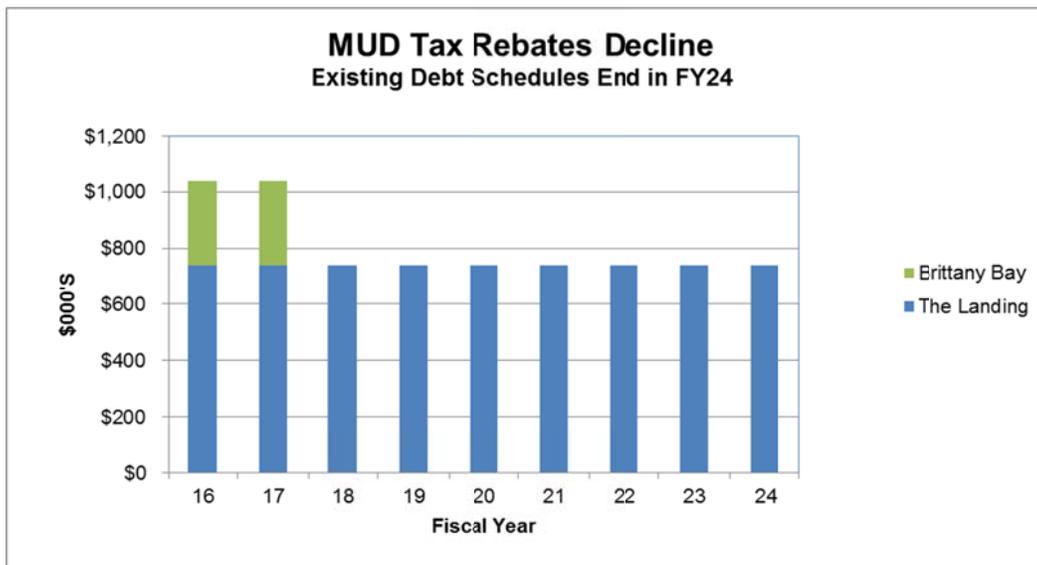
Debt Service Fund expense is largely but not totally comprised of principal and interest payments on tax-supported debt issued by the City. In FY2016, 83% of current expense is debt service payments for city-issued and city-assumed bonds. The remainder, or 17%, goes to pay MUD property tax rebates and 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 two utility districts by agreement. The rebate is provided by 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 rebate payments made by the City are in addition to the tax collection received by the MUD because each MUD has its own property tax levy. Also, the City rebates are limited to the lesser of 35 to 40 percent of the taxes collected or the actual debt service payment for the specific year in question. FY2017 will be the final year for MUD #13 (Brittany Bay) payments, which will leave only MUD #6 (The Landing) in years FY2018 through FY2021 of the forecast.



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.

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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 FY2016 Budget to arrive at a base for the forecast as "FY2017 Base," (2) the impact of debt scheduled in the FY2016-2020 CIP, (3) the anticipated effect of inflation on costs, and (4) increasing funding for capital projects to further reduce the reliance on debt.

FORECAST SUMMARY UTILITY FUND PROJECTIONS (\$THOUSANDS)

	FY2016 Budget	FY2017 Base	FY2017 Forecast	FY2018 Forecast	FY2019 Forecast	FY2020 Forecast	FY2021 Forecast
Beginning Balance	\$7,639	\$9,377	\$9,377	\$10,745	\$12,240	\$11,659	\$9,829
Revenue							
Current Revenue	\$34,843	\$34,843	\$35,927	\$37,011	\$38,095	\$39,181	\$40,266
Subtotal Revenues	\$34,843	\$34,843	\$35,927	\$37,011	\$38,095	\$39,181	\$40,266
Expenditures							
Operating Expenditures	\$19,315	\$18,018	\$18,323	\$18,421	\$18,714	\$19,012	\$19,319
Current Debt Service	\$12,866	\$12,898	\$12,898	\$12,562	\$12,296	\$12,292	\$12,325
Future Debt Service	\$0	\$337	\$337	\$1,533	\$4,667	\$6,706	\$10,075
Transfer to CIP	\$925	\$1,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Subtotal Expenditures	\$33,106	\$32,253	\$34,558	\$35,516	\$38,676	\$41,010	\$44,719
Revenue Over/(Under) Expenditures	\$1,737	\$2,590	\$1,368	\$1,495	(\$581)	(\$1,830)	(\$4,453)
Ending Balance	\$9,377	\$11,967	\$10,745	\$12,240	\$11,659	\$9,829	\$5,376
Utility Fund Reserves							
90 Days of Operating Expenditures as Working Capital	\$4,763	\$4,443	\$4,518	\$4,542	\$4,614	\$4,688	\$4,764
Excess Working Capital	\$4,614	\$7,524	\$6,227	\$7,698	\$7,045	\$5,141	\$612
Days Working Capital Over 90 Days	87	152	124	153	137	99	12

Water and Wastewater Capital Improvement Plan

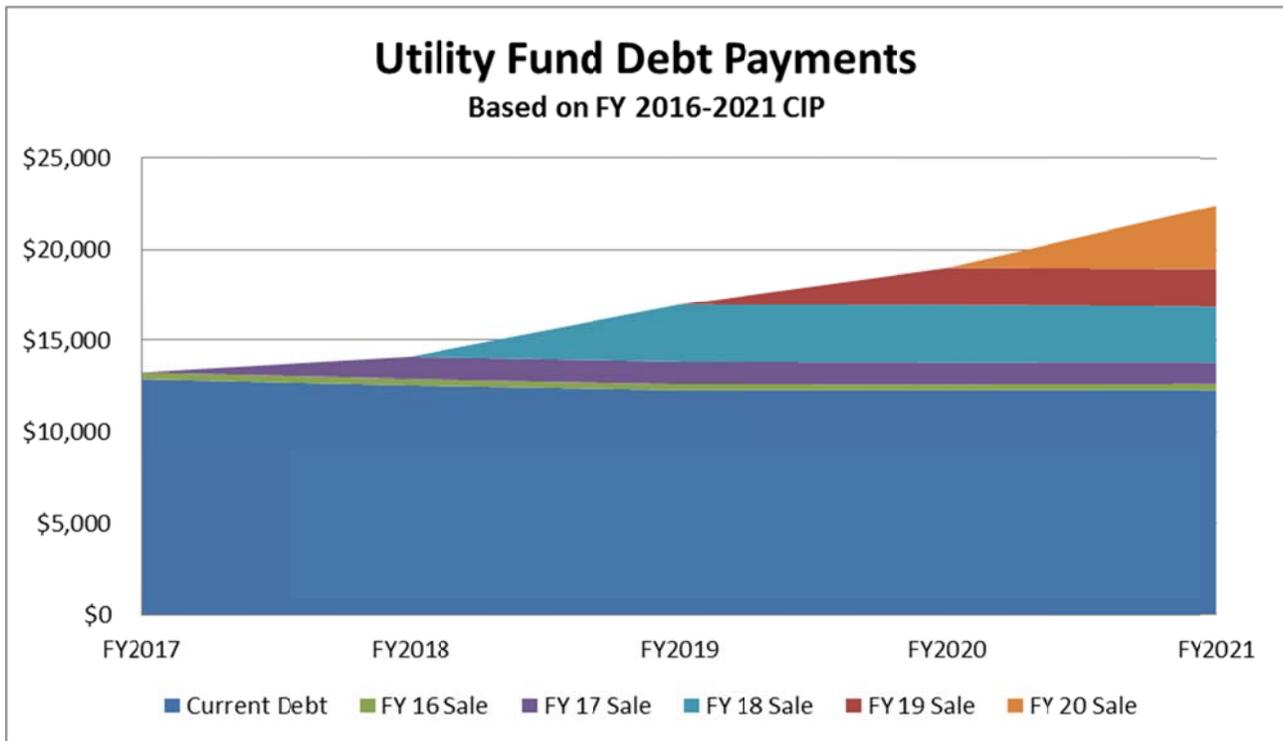
The FY2016-2020 Capital Improvement Plan included projects identified in the Water and Wastewater Master Plans, including projects to address water supply. The largest single project is budgeted at \$43 million to replace the 42" water supply line on SH 3 with a 60" line which will add approximately 20 million gallons per day (MGD) capacity to the 17.5 MGD the City is receiving through the existing line. This project is slated to begin in FY2018.

The FY2016-2020 CIP included \$104.3 million in new debt, of which \$3.9 million is expected in FY2016. The anticipated issuance of the FY2016 debt is the summer of 2016, with the first payment due in FY2017. Based on the CIP, remaining debt is projected as follows:

Existing CIP Bond Sale Schedule

FY 2016 –	\$ 3.894 million
FY 2017 –	\$ 13.105 million
FY 2018 –	\$ 32.556 million
FY 2019 –	\$ 20.440 million
FY2020 –	<u>\$ 34.282 million</u>
Total	<u>\$ 104.277 million</u>

Using level principal payments for each sale, the resulting debt structure is depicted in the chart below.



The forecast anticipates an annual cash transfer to fund CIP projects at \$3 million each year. For the first year of the forecast, the excess reserve amount is healthy, mainly due to the new water and sewer rates implemented in November 2015. As a policy decision, some of those funds could be used to cash fund capital improvement for water and wastewater projects, including water supply which would lower the amount of debt issued each year. Note that the 2021 forecast has reserves near policy limits, based on these assumptions.

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