

A Report on The Woodlands Township Incorporation Financial Model

This report was commissioned by the Howard Hughes Corporation for the purpose of determining if the Maximum Annual Tax Rate proposed by The Woodlands Township Board of Directors is sufficient to cover additional expenses imposed by new service requirements of an incorporated city that are not currently being provided as a township.

Based on a review of the Original Financial Model presented by The Novak Consulting Group (“Novak”) in February 2018, the Updated Model, as more fully described below, reviews of Consolidated Annual Financial Reports (CAFRs) and annual operating budgets of the five designated “peer cities” as well as three other comparable cities (Conroe, Pearland and League City), review of videos of selected Special and Regular The Woodlands Township Board Meetings and other various reports and information posted to The Woodlands Incorporation Study web-site, the total funds needed for incorporation is understated by \$26.8 million:

- Understatement of annual operating expenses - \$9.4 million.
- Overstatement of Franchise Fee revenue by as much as \$1.2 million. There is serious uncertainty the full \$7.6 million of the estimated Franchise Fee revenue can be collected as well as a failure to recognize those fees will be paid by the taxpayers (the equivalent of a tax rate increase of 3.62 cents per \$100 valuation.)
- Understatement of one-time Capital and Startup Costs for the Full-Service Police Model - \$3.0 million.
- Understatement of one-time capital costs for rehabilitation of asphalt streets - \$2.5 million.
- Over-subscription of the Incorporation Reserve in the Updated Model - \$10.7 million.

The Original Incorporation Financial Model

The Woodlands Township Board presented its final report on a Maximum Tax Rate, to be used if the voters approve incorporation, during the August 13, 2021 Special Meeting. The Maximum Tax Rate was determined by starting with the traditional Five-Year Baseline Financial Plan contained in the normal annual operating budget for the Township. (This Five-Year Plan has historically included conservative estimates of revenues and expenses for the next operating year and for the following four years.) The Township’s Five-Year Plan was then adjusted for the revenues and expenses of new operations and services required of an incorporated city. A resulting operating deficit would require an increase in the property tax rate to cover the additional expenses associated with incorporation.

The original Financial Model (the “Original Model”) was presented by The Novak Consulting Group in February 2020. That report concluded that the net increase in incorporation expenses would exceed additional incorporation revenues by \$9.2 million, resulting in an increase of \$0.0438 (4.38 cents per \$100 valuation) in the property tax rate.

The Original Model document can be found [here](#). Schedule 1 is the summary of the impacts of the Original Model.

In addition to the recommendation in the above referenced report, Novak, in a [Memorandum](#) addressed to the Township dated February 14, 2020, recommended an additional property tax increase of \$0.0183 (1.83 cents) to cover a general operating deficit (not as a result of incorporation) of \$3.9 million in the Township's Five-Year Baseline Financial Plan. See Schedule 2 for a summary of this recommendation. The total tax rate increase recommended by Novak was \$0.0622 (6.22 cents) in total, the equivalent of \$13.1 million.

In March 2020 the Board decided, due to COVID-19, to defer any further work on the model until further notice. In July 2021 the Board reviewed the assumptions used in the Original Model and announced that Novak would recommend changes to the assumptions based on current conditions.

An Update to the Incorporation Financial Model

On August 13, 2021 the Board approved an updated model ("the "Updated Model") which contained changes in assumptions from the Original Model. It is unclear whether Novak prepared the Updated Model or if the Township staff prepared it. The Updated Model produces a balanced budget after incorporation, leading the **Board to conclude that no additional property taxes** will be needed to pay for additional expenses related to incorporation.

The changes in assumptions in the Updated Model were a *distinct departure* from previous conservative estimates of revenue projection that had been used since the incorporation study began in 2018. Changes were made in the assumptions, including:

- INCREASING the projected annual growth rate in Annual Property Tax increases due to *revaluations* (excludes new properties) from 1% per year to 2% per year. This change has been reflected in the model as increasing projected property tax revenues (not as a result of incorporation) by \$1.6 million.
 - A review of annual budgets for The Woodlands from 2018 to 2021 shows that property tax *revaluations* have increased by an average of 0.59% per year (\$119.4 million).
 - The 0.59% growth would produce an increase in taxable value due to revaluations of only \$1.1 million in additional property tax revenue, \$500,000 less than projected.
- INCREASING the projected annual growth rate in Sales Tax Revenue from the historically conservative estimate of 1% per year to 2.75%. This change produces additional annual sales tax revenues of \$6.2 million.
- INCREASING the financing term of the Police / Municipal Court facility from 20 years to 30 years, which produces a lower annual debt service.
- A decision to fund \$16 million of the \$30 million cost of the Police / Municipal Court facility from the Incorporation Reserve, which reduces the annual debt service. This results in a total decrease in projected annual debt service of \$1.3 million.

Summary of changes:

- a. New/additional revenues / reductions of expenses
 - i. \$1.6 million – additional property tax revenues from revaluations
 - ii. \$6.2 million – additional annual sales tax revenues
 - iii. \$1.3 million – reduction in annual debt service

\$9.1 million – total annual net new revenues and new reductions in expenses.

- b. \$9.2 million – Novak estimate of ***net new incorporation*** expenses/revenues

Resulting Net Deficit \$-0-

No new property taxes necessary for incorporation.

Analysis of the Net New Operating and One-Time Expense Estimates

The presentation of the Updated Model focused primarily on potential major increases in future revenue projections and potential expense reductions, but failed to include a deeper look into two major expense categories that comprise the \$9.2 million in net new incorporation expenses:

- I. The Original and the Updated Models use the Hybrid Model for projecting Law Enforcement Expenses. The Hybrid Model would create a police department while continuing the use of existing Harris and Montgomery County officers on a outsourced / contract basis.
 - A. This is inconsistent with the definite ***expectation*** that the new city will have a **Full-Service** police force. According to Novak, the annual expense of a Full-Service Model is \$4.7 million greater than the Hybrid Model.
 - a. Page 7 of the August 2021 *The Woodlands Community Magazine* contains a statement about City of The Woodlands Law Enforcement that clearly describes the Full-Service Model for Law Enforcement.
 - b. The Hybrid Model, which includes outsourcing services to the two county governments currently providing services, is described only as “an option.”
 - c. Board Director Bruce Rieser made clear in his remarks at the February 20, 2020 board meeting “...***the funding that we did for the Hybrid Model also assumed a “fully loaded cost in Year-5 for our own department.”*** (at 25:40 of the video)
 - d. This leaves no doubt that the Full-Service Model should be used in the financial models for incorporation.

- e. Because of this inconsistency, there is a significant understatement of Law Enforcement expenses in the Financial Model for the expected level of complete police services.
 - 1. According to Novak, the net new expenses in Year-4 for the Hybrid Model are \$9.5 million.
 - 2. Net new expenses for Year-4 of the preferred Full-Service Model are \$14.2 million, potentially higher in Year-5.
 - 3. The understated operating expenses are at least \$4.7 million in Year-4.
- B. The Original Model failed to include estimates for the Law Enforcement Capital and Startup Costs for the 4-Year transition period. (See Schedule 5) The Updated Model covers this expense only for the Hybrid Model, which is \$3.0 million less than Novak's estimate of \$8.3 million for the Full-Service Law Enforcement Model.
 - a. In the Original Model, Law Enforcement Capital and Startup Costs were to be covered by excess property taxes collected from the additional 4.38 cent increase in the property tax rate and were to be absorbed over 4 years.
 - b. Since there is no new tax, the Updated Model covers these costs using the Incorporation Reserve.
 - c. Under the Full-Service Model, Capital and Startup Costs are estimated by Novak to be \$8.3 million.
 - d. Page 34 of the presentation slides indicate there are already \$5.3 million of Police Start-Up Costs in the Updated Model absorbed by the Incorporation Reserve.
 - e. This leaves \$3.0 million of estimated Capital and Startup Costs under the Full-Service Model that are not covered either by a tax increase or by the Incorporation Reserve.

II. Net New Public Works annual operating expense projections, compared to peer cities, are understated by \$4.7 million. Additionally, the Board of Directors' consultant, HR Green recommended a 5-year annual rehabilitation budget of \$500,000 for asphalt streets (See Schedule 6) which was not included in either the Original Model or the Updated Model. Total understatement of annual expenses - \$5.2 million.

- A. The estimated new annual operating expenses for Public Works could be understated by as much as \$4.7 million per year based on an accurate comparison to peer cities' public works budgets.
 - a. Novak's Public Works cost estimate of \$4.6 million in Year-2 of incorporation is based on a two-part formula of estimated personnel expenses plus an operating cost component.
 - b. The peer cities budgets used by Novak do not include large amounts of expense categories closely associated with street repairs and maintenance, such as the Administration Expenses, Traffic Control Operations, Signal & Street Lighting Operations and Right-of-Way Inspections/Maintenance expenses.

- c. Novak also did not include Round Rock in its peer city analysis.
 - d. Schedule 7 contains a more comprehensive analysis of public works expenses based on lane miles and budgets for all 5 of the selected peer cities.
 - e. The difference in net additional costs to incorporate for public works is \$4.7 million.
- B. Novak failed to pick up \$500,000 for annual required rehabilitation costs for the first 5 years of incorporation to bring asphalt streets into compliance with same standards for street conditions as other streets in the Township.

Franchise Fees and Taxes

Although the Board has acknowledged that it cannot determine with any reasonable accuracy the amount of franchise fees it intends to impose on the various utilities in The Woodlands, it does include \$7.6 million of annual Franchise Fee revenues in the Updated Model. Using the same formula that Novak uses, the amount should be \$6.4 million, \$1.7 a year less than the Board's estimate.

- A. In the Original Model Franchise Fee collections were determined by Novak using
 - a. The Year 2017 actual *per household* franchise fee revenue for Frisco, the peer city with the **lowest “per household”** franchise fee,
 - i. \$9.4 million annual fees
 - ii. 50,882 households in Frisco
 - iii. \$184.12 average
 - b. 42,553 households in The Woodlands
 - c. Total Franchise Fees – \$7.8 million
- B. The \$7.8 million was to be reduced by 8% per year (\$624,000) because of the effects of State legislation limiting cities from charging cable companies for both telephone and cable TV services covered by the same subscription.
- C. \$7.8 million less \$0.624 million = \$7.2 million net Franchise Fees, according to Novak's formula in the Original Model.
- D. In the Updated Model, the Board increases the Franchise Fee revenue estimate to \$7.6 million to account for 2% inflation, the equivalent of a property tax increase of 3.62 cents per \$100 valuation.
- E. Applying Novak's computation formula (using the lowest average per-household franchise fee payment of the five peer cities) with updated actual 2020 budgets and 2020 US Census data for the peer cities, the estimated gross annual Franchise Fee for The Woodlands should drop by \$1.2 million from \$7.6 million to \$6.4 million.
 - a. The average annual Franchise Fee revenue for the peer cities drops by 6.4%.
 - b. The lowest average per household fee drops from \$184.12 per household in Frisco to \$154.05 in Sugar Land.

- c. Using the 2020 US Census American Community Survey (“ACS”) number of households for The Woodlands of 41,292 produces an annual estimate of \$6.4 million.
- d. Likewise, using the per capita Franchise Fee average for all five peer cities produces and estimated annual gross Franchise Fee of \$6.4 million.
- e. This revised net Franchise Fee estimate is \$1.2 million less than the projection in the Updated Model.
- f. Approximately \$1 million in annual franchise fees are already being charged to residents of The Woodlands and are due to expire in 2023.
- g. A net increase in franchise fees of \$5.4 million, if collected, is the equivalent of a 2.57 cent property tax increase.

The Liberal Use of Reserves Collected Before Incorporation Vote to Fund Incorporation Expenses

The Updated Model presentation included slides showing that the Board intends to use reserves built up over the past 4 years to cover a significant portion of the new capital costs of incorporation. Schedule 8 of this report shows the changes in reserve funds, that have been “designated” by the Board but are not otherwise legally binding.

- A. The Incorporation Reserve
 - a. Has grown from a modest \$2.5 million in 2017
 - b. Now stands at \$20.8 million
 - c. Is shown on slide 34 of the August 13 presentation as increasing to \$25 million.
 - d. No explanation as to where the additional \$4.2 million is coming from
- B. The use of the Incorporation Reserve is over-drawn even before applying the understated Hybrid costs.
 - a. Slide 34 - \$10.2 million – Public Works facility
 - b. Slide 34 - \$5.3 million – Police Start-Up Capital (for Hybrid model)
 - c. Slide 35 - \$16 million - Police / Municipal Court Facility, reduction in financing requirement
 - d. \$31.5 million – Total to be allocated to the Incorporation Reserve by the Board.
 - e. \$10.7 million – Total Overdraft of Incorporation Reserve by the Board

Summary of understatement of Net New Annual Expenses / Overstatement of revenues from Incorporation:

1. \$4.7 million – understatement of expenses for Full-Service Law Enforcement Model.
2. \$4.7 million – understatement of net new Public Works operating expenses.

Total annual understatement in annual operating expenses after incorporation

\$9.4 million

\$1.2 million – overstatement of Franchise Fee revenues.

Understatement of one-time capital expenses:

1. \$3.0 million – understatement of Capital and Startup Costs for Law Enforcement Full-Service Model
2. \$10.7 million – overdraft of Incorporation Reserve.
3. \$2.5 million understatement of asphalt street rehabilitation budget (\$500,000 annual for five years.)

\$16.2 million – Total understatement of one-time capital expenses necessary for incorporation.

\$26.8 Million – Total understatement of funds needed for incorporation.

Schedule 1

Summary of Original Model Incorporation Impacts

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Incorporation Study Consolidated Report

Table 4: Total Incorporation Impacts

| Incorporation Initiatives | Year 1 | Year 2 | Year 3 | Year 4 |
|---|----------------------|----------------------|-----------------------|-----------------------|
| Revenue | | | | |
| Rev-100-Mixed Beverage Tax | \$960,000 | \$960,000 | \$960,000 | \$960,000 |
| Mix-100-Building Plan Review Function | \$150,000 | \$150,000 | \$150,000 | \$150,000 |
| Rev-100-Franchise Fee Revenue | \$1,950,000 | \$7,800,000 | \$7,800,000 | \$7,800,000 |
| Rev-100-Franchise Fee Adj | (\$156,000) | (\$624,000) | (\$624,000) | (\$624,000) |
| Rev-100-Municipal Court | \$877,411 | \$877,411 | \$877,411 | \$877,411 |
| Rev-100-Senior Property Tax Freeze | \$0 | (\$69,327) | (\$143,549) | (\$223,010) |
| Revenue Total | \$3,781,411 | \$9,094,084 | \$9,019,862 | \$8,940,401 |
| Expenses | | | | |
| Exp-100-City Secretary | (\$162,000) | (\$165,240) | (\$168,545) | (\$171,916) |
| Exp-100-Risk Manager | (\$118,000) | (\$120,360) | (\$122,767) | (\$125,223) |
| Exp-100-Paralegal | (\$91,000) | (\$92,820) | (\$94,676) | (\$96,570) |
| Mix-100-Building Plan Review Function | (\$150,000) | (\$150,000) | (\$150,000) | (\$150,000) |
| Exp-100-LE Hybrid | (\$284,808) | (\$3,319,178) | (\$6,353,548) | (\$9,479,868) |
| Exp-100-LE Full Service Facility | \$0 | \$0 | \$0 | (\$1,820,019) |
| Exp-100-Public Works Department Operating | \$0 | (\$4,600,000) | (\$4,692,000) | (\$4,785,840) |
| Exp-100-Pavement Management | (\$1,250,000) | (\$1,250,000) | (\$1,250,000) | (\$1,250,000) |
| Exp-100-Bridge Deck Maintenance | (\$50,000) | (\$51,000) | (\$52,020) | (\$53,060) |
| Exp-100-Shoulder Maintenance | (\$200,000) | (\$204,000) | (\$208,080) | (\$212,242) |
| Expenses Total | (\$2,305,808) | (\$9,952,598) | (\$13,091,636) | (\$18,144,738) |
| Total Incorporation Initiative Impacts | \$1,475,603 | (\$858,514) | (\$4,071,774) | (\$9,204,337) |

According to the policy decisions adopted by the Board and the estimated financial impacts of incorporation projected by The Novak Consulting Group, incorporation will result in a need for approximately \$9.2 million in additional funding to support service delivery in the new city. The bulk of this funding reflects additional expenses associated with law enforcement and public works services.

At the time of this writing, each cent of property tax assessed generates approximately \$2.1 million in revenue for The Woodlands. Dividing \$9,204,337 in needed revenues by \$2,100,000 results in an estimated tax levy of 4.38 cents required to bridge the gap between current services provided by The Woodlands and service requirements following incorporation. The Board adopted this provisional maximum tax rate for incorporation initiatives at its regular meeting on February 26, 2020.

Schedule 2

Excerpt from February 14, 2020 Memorandum

Should The Woodlands choose to incorporate, creating a structurally balanced budget in FY2024 will require approximately \$13.1 million in additional property tax revenue. Because each cent of property tax levied generates approximately \$2.1 million in revenues, approximately \$0.0622 (6.22 cents) per \$100 valuation will be required to fund incorporation needs, as illustrated in the following table.

Table 2: General Fund – Estimated Additional Property Tax

| General Fund Year 4 | Revenues | Transfers | Expenses | Net | Estimated Additional Property Tax (per \$100 valuation) |
|------------------------------|---------------------|---------------------|------------------------|-----------------------|---|
| Five-Year Plan Baseline | \$86,489,946 | \$16,591,012 | (\$106,932,422) | (\$3,851,465) | \$0.0183 |
| Incorporation Initiatives | \$8,790,401 | \$0 | (\$17,994,738) | (\$9,204,337) | \$0.0438 |
| Total | \$95,430,347 | \$16,591,012 | (\$124,927,160) | (\$13,055,802) | \$0.0622 |

Schedule 3

| Estimated Franchise Fees Using Consultant's Estimation Method | | | | | | |
|---|---|------------------------|----------------------------|----------------------------|--|----------------------------|
| Peer City | Franchise Fee Revenues - Consultant | Actual 2021 Budgets | Households per 2017 ACS | Households per 2020 ACS | Per Housing Unit Estimate - Consultant | Actual Per Housing Unit |
| Allen | \$ 7,350,060 | \$ 7,047,870 | 31,028 | 33,531 | \$ 236.88 | \$ 210.19 |
| Frisco | 9,368,510 | 9,877,538 | 50,882 | 60,123 | 184.12 | 164.29 |
| Round Rock | 7,579,548 | 6,622,749 | 38,645 | 39,243 | 196.13 | 168.76 |
| Southlake | 2,907,537 | 2,891,360 | 9,400 | 9,398 | 309.31 | 307.66 |
| Sugar Land | 7,513,818 | 6,053,780 | 29,540 | 39,298 | 254.36 | 154.05 |
| Average | \$ 6,943,895 | \$ 6,498,659 | 31,899 | 36,319 | | |
| Estimate for The Woodlands | | | | | | |
| | | Estimate | | Households | | Per Household |
| The Woodlands | | \$ 6,360,952 | | 41,292 | | \$ 154.05 |

Schedule 4

| Estimated Franchise Fees Using Average Per Capita Fees of Peer Cities | | | |
|--|--------------|------------|------------|
| Franchise Fees 2021 | | | |
| Peer City | Budget | Population | Per capita |
| Allen | \$ 7,047,870 | 105,623 | \$ 66.73 |
| Frisco | 9,877,538 | 200,490 | 49.27 |
| Round Rock | 6,622,749 | 133,372 | 49.66 |
| Southlake | 2,891,360 | 32,376 | 89.31 |
| Sugar Land | 6,053,780 | 118,488 | 51.09 |
| Total | \$32,493,297 | 590,349 | \$ 55.04 |
| | | | |
| The Woodlands | \$ 6,400,037 | 116,278 | \$ 55.04 |

Schedule 5

Table 2: Comparison of Estimated Capital and Startup Costs for Law Enforcement Service Delivery Models

| Full-Service | Expenditure Category | Year 1 | Year 2 | Year 3 | Year 4 |
|--------------|--------------------------------|----------|-------------|-------------|-------------|
| Debt Service | Facility Construction | \$0 | \$0 | \$0 | \$1,820,019 |
| Startup | Equipment Acquisition | \$12,900 | \$671,767 | \$671,767 | \$671,767 |
| | Capital Projects and Purchases | \$51,821 | \$2,057,990 | \$2,057,990 | \$2,057,990 |
| Total | | \$64,721 | \$2,729,757 | \$2,729,757 | \$4,549,776 |
| Hybrid | Expenditure Category | Year 1 | Year 2 | Year 3 | Year 4 |
| Debt Service | Facility Construction | \$0 | \$0 | \$0 | \$1,167,817 |
| Startup | Equipment Acquisition | \$12,900 | \$531,267 | \$531,267 | \$531,267 |
| | Capital Projects and Purchases | \$51,821 | \$1,209,115 | \$1,209,115 | \$1,209,115 |
| Total | | \$64,721 | \$1,740,382 | \$1,740,382 | \$2,908,199 |
| Contract | Expenditure Category | Year 1 | Year 2 | Year 3 | Year 4 |
| Debt Service | Facility Construction | \$0 | \$0 | \$0 | \$0 |
| Startup | Equipment Acquisition | \$12,900 | \$0 | \$0 | \$0 |
| | Capital Projects and Purchases | \$51,821 | \$0 | \$0 | \$0 |
| Total | | \$64,721 | \$0 | \$0 | \$0 |

Schedule 6

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Maintenance and Rehabilitation Budget Analyses

Utilizing the PAVER™ Planning module a budget analyses was performed on the Township's concrete and asphalt pavements to determine an estimated total fiscal liability and a required annual budget over the next 5 years as necessary to eliminate the Major M&R backlog to bring all streets up to a Very Good level.

Results for Concrete Pavements

Concrete pavements evaluated include a total of 6051 pavement sections. The concrete pavements overall are in Very Good condition. A small portion of those evaluated need Major M&R to bring their condition to Very Good which is on par with the majority of concrete roads in The Woodlands.

It is estimated that approximately \$6,250,000 is needed to rehabilitate the Township's existing concrete pavements to this higher condition. Reconstruction can be completed as incremental projects as part of a five-year Capital Improvement Program (CIP). This would result in an annual Major M&R budget for Concrete Pavements of \$1,250,000 per year.

Preventative maintenance throughout the entire network concrete pavements is estimated to be \$550,000 per year.

The fiscal liability over the next 5-year period for concrete pavements including annual preventative maintenance and Major M&R to reestablish all concrete streets to Very Good condition is estimated to be \$9,000,000. A recommended annual budget in a 5-year Capital Improvement Program would be \$1,800,000.

Results for Asphalt Pavement

The fiscal liability over the next 5-year period for asphalt pavements for Major M&R to reestablish all asphalt streets to Good condition (PCI above 80) is estimated to be \$2,500,000. As major rehabilitation and/or reconstruction is required no annual preventative maintenance budget is considered for these streets. A recommended annual budget in a 5-year Capital Improvement Program would be \$500,000.

Schedule 7

An analysis of Public Works of Peer Cities

| Computation of Public Works Budget and Net Increase for The Woodlands | | | | | | | |
|---|--|------------|---------------------------------|--|------------------------------------|----------------|-------------------------------|
| | FY2018 Street Maintenance Expenses | Lane Miles | Street Expense per Lane Mile | | Total Public Works 2021 Budgets | Lane Miles | Public Works per Lane Mile |
| Allen | 2,144,492 | 334 | 6,421 | | 6,678,564 | 334 | 19,996 |
| Frisco | 5,655,208 | 2,014 | 2,808 | | 12,112,285 | 2,014 | 6,014 |
| Southlake | 1,663,459 | 209 | 7,959 | | 2,949,480 | 209 | 14,112 |
| Sugar Land | 3,591,148 | 1,022 | 3,514 | | 12,907,599 | 1,022 | 12,630 |
| Round Rock | N/A | | | | 13,249,164 | 1,450 | 9,137 |
| Peer Average | 3,263,577 | 894 | 5,176 | | 9,579,418 | 1,006 | 12,378 |
| | | | | | | | |
| The Woodlands Lane Miles | | | 894 | | | | 922 |
| | | | | | | | |
| Estimated Overall Public Works Department Budget | | | 4,627,693 | | | | \$ 11,412,366 |
| | | | | | Less: Current PW Costs | | |
| | | | | | | Environmental | 662,003 |
| | | | | | | Streetlighting | 1,155,000 |
| Net inflated to 2021 @ 2% annual inflation | | | \$ 4,910,945 | | Net Additional Costs | | \$ 9,595,363 |
| | | | | | | | |
| Computation of Lane Miles | | | | | | | |
| Square Yards of Streets per HR Green Report: | | | 6,487,983 | | | | |
| Standard lane width per ARC = 12 feet (4 yards) | | | 4 | | | | |
| Lane yards in The Woodlands | | | 1,621,996 | | | | |
| Lane miles | | | 922 | | | | |

Schedule 8

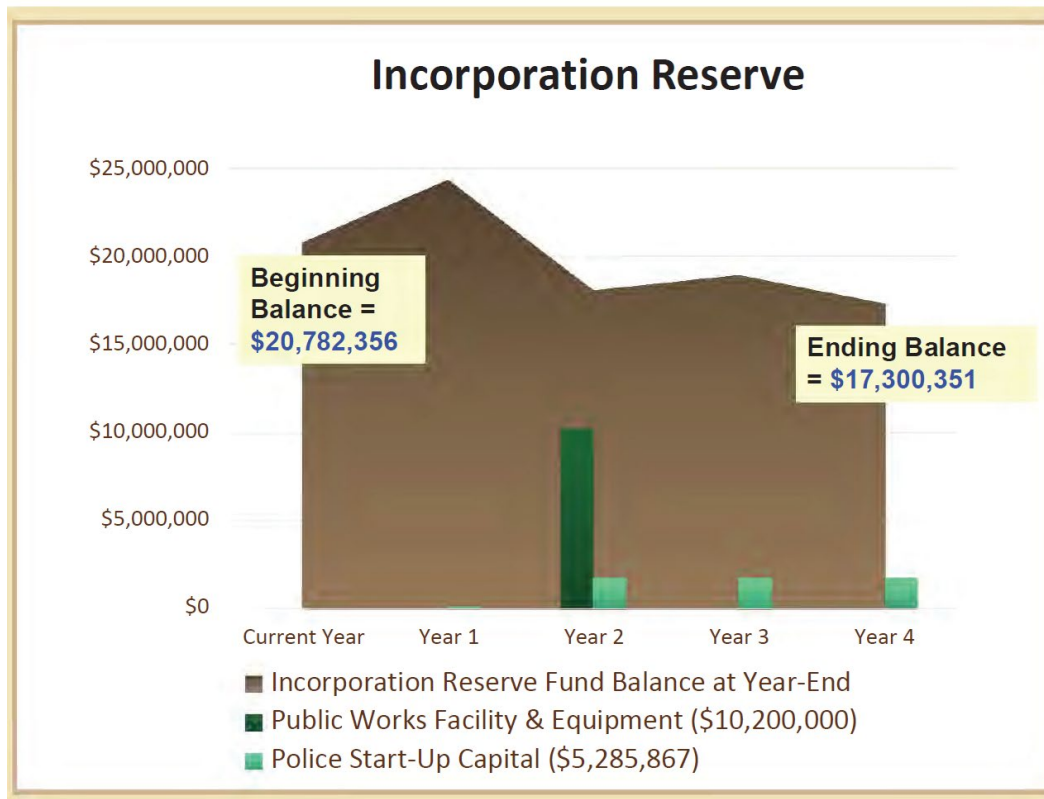
Reserve Balances 2017 - 2022

| The Woodlands Township Reserve Balances 2017 to 2021 (and budget for 2022) | | | | | | | |
|--|----------|-----------|-----------|-----------|-----------|----------------|------------------------|
| Estimated Ending Fund Balances per Annual Budget Reports* | | | | | | | Increase (Decrease) |
| (Per annual budget reports) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 Budget | Since 2017 |
| Operating Reserve | \$ 17.21 | \$ 17.96 | \$ 20.70 | \$ 21.04 | \$ 25.00 | \$ 30.12 | \$ 12.90 |
| Capital Projects Fund (details below) | 28.81 | 29.25 | 35.10 | 45.78 | 47.53 | 41.11 | 12.29 |
| Capital Projects Carryover | - | 0.84 | 0.15 | 2.75 | 1.68 | - | - |
| Capital Contingency | 7.89 | 10.98 | 5.83 | - | 2.19 | 2.19 | (5.70) |
| Economic Development Reserve | 2.78 | 3.09 | 3.51 | - | - | - | (2.78) |
| Incorporation Reserve | 2.50 | 5.63 | 15.90 | 15.41 | 20.78 | 20.78 | 18.28 |
| Debt Service Fund | 4.37 | 4.31 | 4.31 | 3.11 | 3.24 | 3.24 | (1.13) |
| Debt Service Reserve | 2.26 | 2.23 | 1.69 | - | - | - | (2.26) |
| Bond Redemption Reserve | - | 5.89 | - | 1.86 | - | - | - |
| Bond Reserve for Performing Arts | - | - | 0.49 | 1.59 | 1.24 | 3.07 | 3.07 |
| Self Funded Health Ins | 0.81 | 0.81 | 0.83 | 0.85 | 0.85 | 0.85 | 0.04 |
| Convention & Visitors Bureau Fund | 1.55 | 1.41 | 1.40 | 1.33 | 1.37 | 1.37 | (0.18) |
| Transportation Fund | (1.09) | (1.58) | (0.63) | (0.63) | 0.93 | 1.08 | 2.17 |
| Undesignated HOT | 1.14 | 3.82 | - | - | - | - | (1.14) |
| Undesignated | - | - | - | 1.17 | - | 3.33 | 3.33 |
| Total Reserves per Budget | \$ 68.23 | \$ 84.65 | \$ 89.28 | \$ 94.24 | \$ 104.82 | \$ 107.14 | \$ 38.91 |
| Reserves per CAFR (excludes non-spendable and restricted reserves)* | | | | | | | |
| | 2017 | 2018 | 2019 | 2020 | | | |
| Operating Reserve | \$ 16.08 | \$ 17.16 | \$ 20.24 | \$ 20.10 | | | |
| Capital Reserves | 46.32 | 53.20 | 56.41 | 54.10 | | | |
| Capital Projects | 10.87 | 6.09 | 11.98 | 6.83 | | | |
| Debt Service | 8.83 | 16.70 | 4.49 | 5.84 | | | |
| Economic Development | 2.74 | 3.16 | 3.59 | - | | | |
| Incorporation | - | - | - | 15.59 | | | |
| General Fund - Unassigned | 10.34 | 9.96 | 12.78 | 6.39 | | | |
| Special Revenue Fund - Unassigned | (5.77) | (5.60) | (5.45) | - | | | |
| | \$ 89.42 | \$ 100.67 | \$ 104.05 | \$ 108.84 | | | |
| Capital Projects Fund | | | | | | | |
| Capital Replacement Fund | 21.24 | 23.15 | 26.69 | 32.06 | 40.15 | 38.95 | 17.71 |
| Parks Project Reserve | 0.95 | - | - | - | - | - | (0.95) |
| Road and Bridge Reserve | 1.90 | - | - | - | - | - | (1.90) |
| Cultural Education | 0.56 | 0.64 | 0.79 | 0.85 | - | 1.00 | 0.44 |
| CCSA Projects Reserve | - | - | - | 3.00 | 2.00 | 1.00 | 1.00 |
| Sales Tax Reserve | - | - | - | 2.50 | 4.36 | - | - |
| Flood/Drainage | 0.10 | 0.13 | 0.17 | 0.12 | 0.15 | 0.15 | 0.05 |
| Transportation - Bus Purch. Rec. | 1.74 | 2.28 | 2.06 | 2.05 | 0.87 | - | (1.74) |
| Grogan's Mill | 2.32 | 3.06 | 5.39 | 5.20 | - | - | (2.32) |
| | 28.81 | 29.25 | 35.10 | 45.78 | 47.53 | 41.11 | 12.29 |
| *- Details of ending reserve balances are not published in the Comprehensive Annual Financial Report. Estimates of ending reserve balances above are included in the Annual Budget. | | | | | | | |

Schedule 9

Incorporation Reserve Graph

From Presentation at August 13, 2021 Special Board Meeting



This slide from the August 13th 2021 Special Board Meeting shows the beginning balance in the Incorporation Reserve of \$20.8 million. There are \$15.5 million of funds allocated to the Reserve over a 4-year period. The balance at the end of 4 years would be \$5.3 million without additional tax revenues to provide new reserves (projected property tax revenues expected to cover additional costs of incorporation without a tax rate increase.)

Schedule 10

Additional Allocation to the Incorporation Reserve

From Presentation at August 13, 2021 Special Board Meeting

Police/Municipal Court Facility Financing

| Model | Station Cost | Term | Interest Rate | Annual Debt Service | Debt Tax Rate |
|----------|--------------|----------|---------------|---------------------|---------------|
| Original | \$30 million | 20 Years | 1.92% | \$1,820,019 | \$0.0087 |
| Updated | \$30 million | 30 Years | 1.25% | \$1,205,356 | \$0.0055 |

| | Station Cost | Term | Interest Rate | Annual Debt Service | Debt Tax Rate |
|----------|-----------------------|-------------------------------|---------------|---------------------|---------------|
| Original | \$30 million | | | | |
| | <u>(\$16 million)</u> | Utilize Incorporation Reserve | | | |
| Updated | \$14 million | 30 Years | 1.25% | \$562,500 | \$0.0026 |

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This slide shows a reduction in the debt to finance the new Police / Municipal Court Building from \$30 million to \$14 million. This is accomplished by funding \$16 million of the cost from the Incorporation Reserve, which has only \$5.3 million remaining after allocations shown in Schedule 9, resulting in an overdraft of the Incorporation Reserves of \$10.7 million.