

# **Economic Outlook: Trends, Demographics, & Budget Insights**

**City Council Retreat 2026**



# Economic Outlook (Agenda)

Economic indices and trend information are included for the following areas:

**ECONOMIC  
INDICATORS**

**DEMOGRAPHICS**

**BUDGETARY &  
FINANCE**

These indices provide economic context leading into the annual budget process.

# Economic Indicators



# Economic Indicators

- Economic Uncertainty
  - Ongoing volatility driven by federal policy changes, interest rate shifts, and geopolitical factors
  - Increased risk of forecast variability for revenues and expenditures
  - Importance of conservative assumptions and scenario planning
- Inflation & Cost Pressures
  - Inflation has moderated but remains elevated for construction materials and labor, and contracted services
  - Long-term operating cost growth continues to put pressure on the budget
  - Capital project cost escalation remains high
- Interest Rates & Debt Affordability
  - Interest rates expected to decline gradually
  - Timing and prioritization of capital projects
  - Strong bond ratings remain critical to minimizing borrowing costs

# Economic Indicators

- Revenue Stability & Diversification
  - Slowing growth in traditionally strong revenue sources (e.g., sales tax)
  - Increased sensitivity of revenues to economic slowdowns
  - Importance of diversification of major revenues, and a regular review of fees and charges for cost recovery
- Property Value Growth & Tax Base Trends
  - Continued growth in assessed values, but at a more modest pace
  - Residential values remain strong; commercial and business personal property growth more uneven
    - Commercial and BPP growth tends to fluctuate more because they're driven by business activity and income expectations, Residential growth relies on comps
  - Tax rate decisions dictated by state statute limit the City's ability to address service demands

# Economic Indicators

- Labor Market & Workforce Costs
  - Competitive labor market continues to pressure wages and benefits
  - Recruitment and retention have improved overall, while challenges persist in labor/trades positions
- Capital Needs & Infrastructure Investment
  - Aging infrastructure and growth-related demands require sustained investment
  - Voter-approved bond programs support long-term funding needs
  - Need to align capital spending with available debt capacity
- Financial Resilience & Long-Term Sustainability
  - Maintaining healthy reserves is essential to weather economic downturns
  - Strong financial policies support credit ratings
  - Preserving financial flexibility for future economic and community needs (level of service)

# Multi-Family Rental Rate Trends

- The vacancy rate for 2025 on average was **8.5%**, which is lower than the average vacancy rate of **9.2%** for 2024
- Throughout the first half of 2025, the daily asking rent held steady at **\$1.78** per SF before declining to **\$1.72** by year-end. This slight decrease is largely attributable to the high volume of new units delivered to the market, with rent levels remaining consistent with 2024 overall.

# Office Space Trends

- Lewisville currently has **4.4M** square feet of inventory for office space, with **18%** of inventory classified as Class A.
- In 2025, more than **228,000** square feet of office space was under construction, which was a slight increase from 2024.
- In 2025, the average occupancy rate was **77.33%**. Over the coming years, the trend shows that occupancy will increase and remain steady at approximately **81%**.
  - 75-85% is considered an average performance market. 85-90% is considered a healthy market.
- Rents overall have increased by about **1.5%** from last year in Lewisville, compared to an increase of **1.8%** across the metroplex.

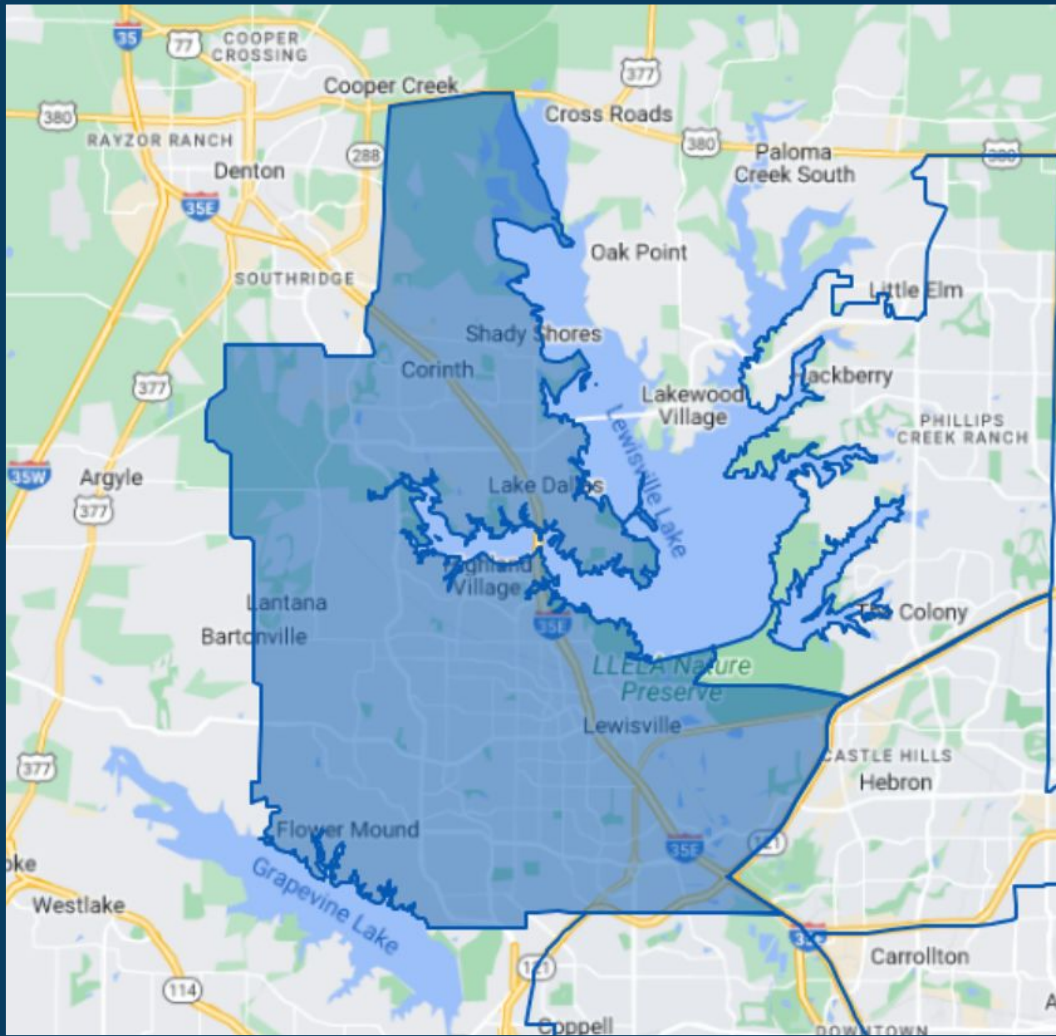
# Industrial Space Trends

- Lewisville has an inventory of 20.2M square feet, with 2.6M under construction.
- The vacancy rate remained relatively stable at 6.5% for 2024. The vacancy rate increased slightly to 8.5% for 2025.
- The occupancy rate in 2025 remained between 93% and 95%. The trend for 2026 shows that occupancy rates are anticipated to dip to 90% before slightly trending upwards in the coming years.

| City          | Total Sq. Ft. of Industrial | Percentage of Total Land Area Used for Industrial |
|---------------|-----------------------------|---|
| Frisco        | 5M                          | 0.3%  |
| Allen         | 3M                          | 0.4%  |
| Plano         | 12.3M                       | 0.6%  |
| Denton        | 21.2M                       | 0.8%  |
| McKinney      | 17.6M                       | 0.9%  |
| Flower Mound  | 10.7M                       | 0.9%  |
| Richardson    | 8.8M                        | 1.1%  |
| Grapevine     | 13.6M                       | 1.4%  |
| Lewisville    | 20.2M                       | 1.6%  |
| Mesquite      | 23.6M                       | 1.7%  |
| Fort Worth    | 185M                        | 1.8%  |
| Dallas        | 199M                        | 1.9%  |
| Garland       | 31.6M                       | 2.0%  |
| Arlington     | 48.7M                       | 1.8%  |
| Irving        | 41.9M                       | 2.2%  |
| Grand Prairie | 67.7M                       | 3.0%  |
| Carrollton    | 37.3M                       | 3.7%  |
| Coppell       | 29.8M                       | 7.3%  |

\*Cities not built out are naturally lower

# Retail Trends

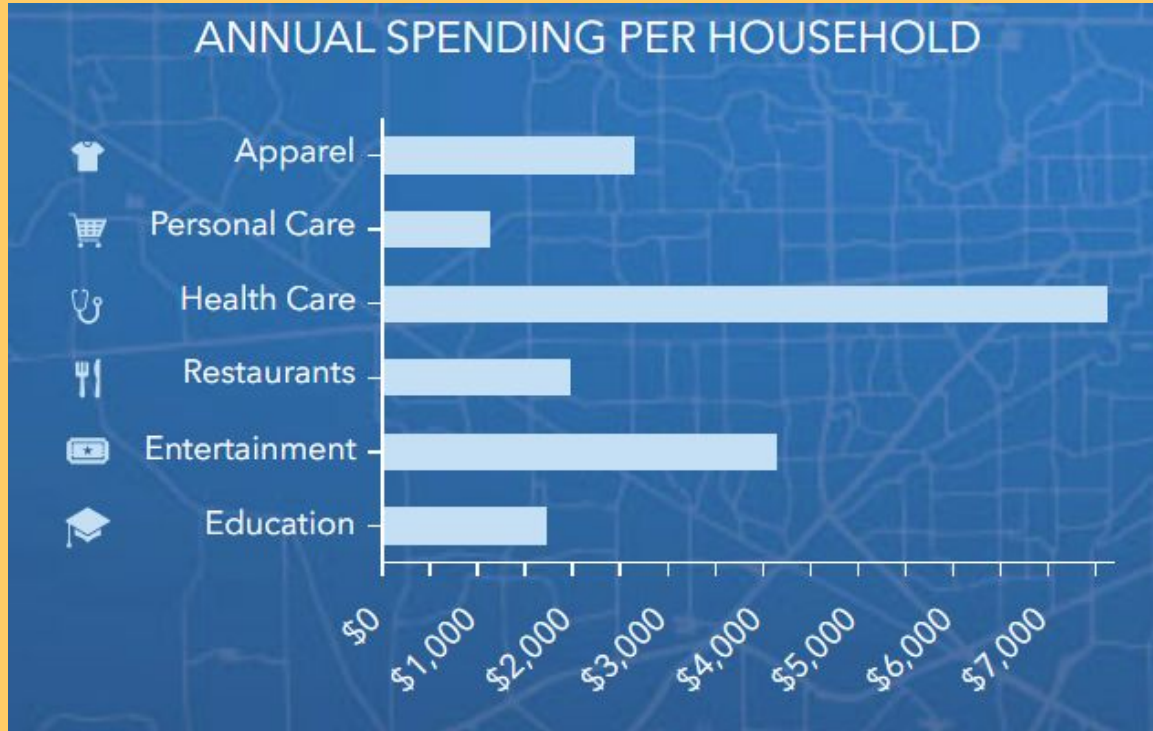
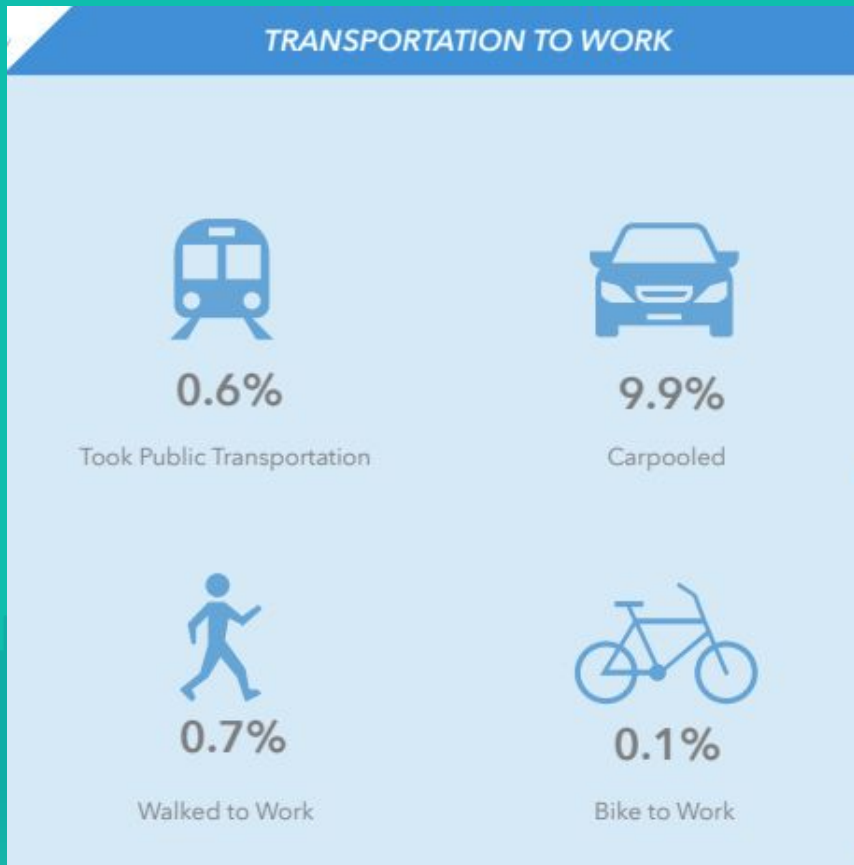


Lewisville, Highland Village, Corinth, Lake Dallas, Flower Mound, Lantana, Bartonville, Copper Canyon

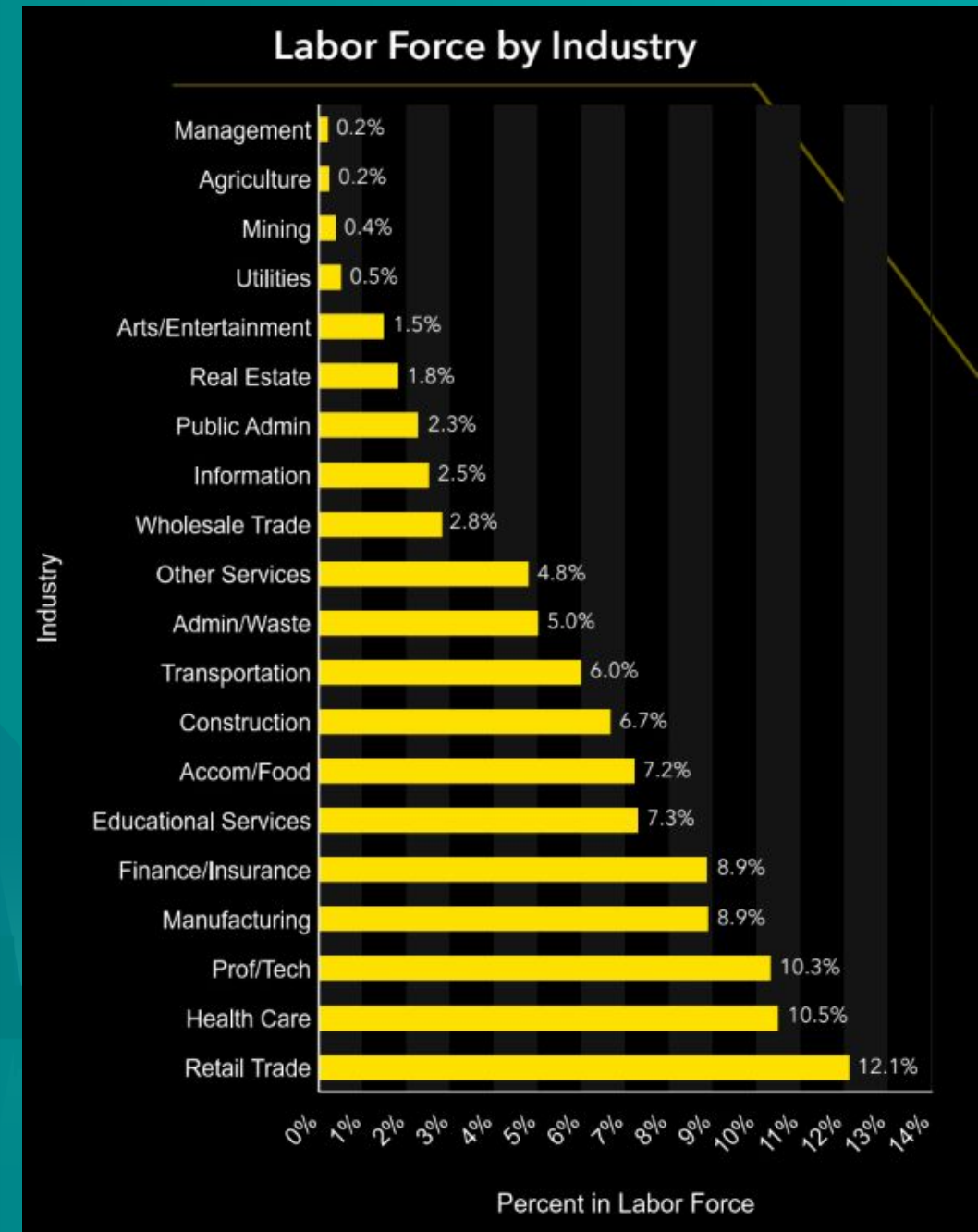
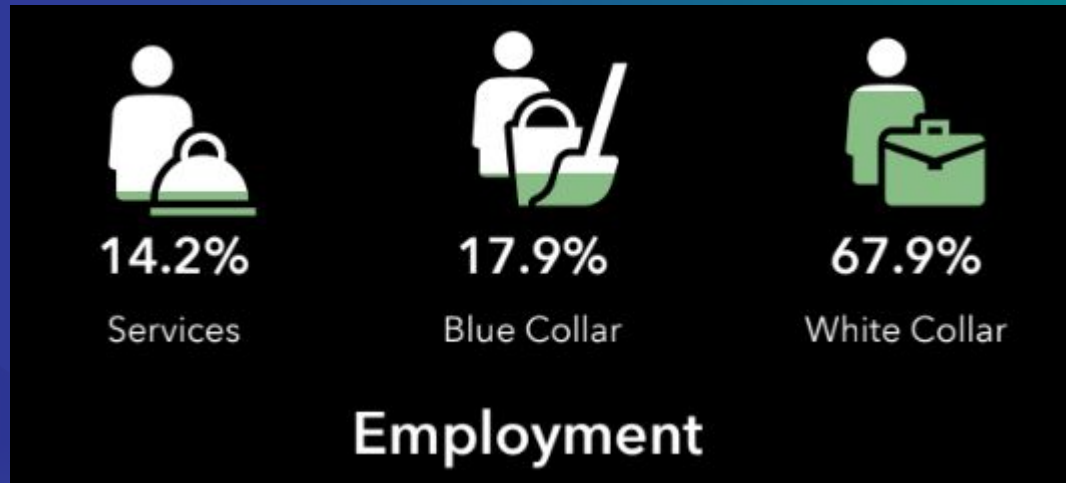
- In Q1 of 2025, Lewisville occupancy rates started at **93%** before decreasing and maintaining a rate of **92%**. The forecast shows that occupancy will remain relatively flat at between **91%** and **92%** over the coming years.
- Lewisville has an inventory of **11.6M** square feet, with **41,600** square feet under construction.
- With **19.0** million SF of space, Lewisville remains the single largest retail submarket across all of North Texas.

# Demographics





# Labor Force in Lewisville

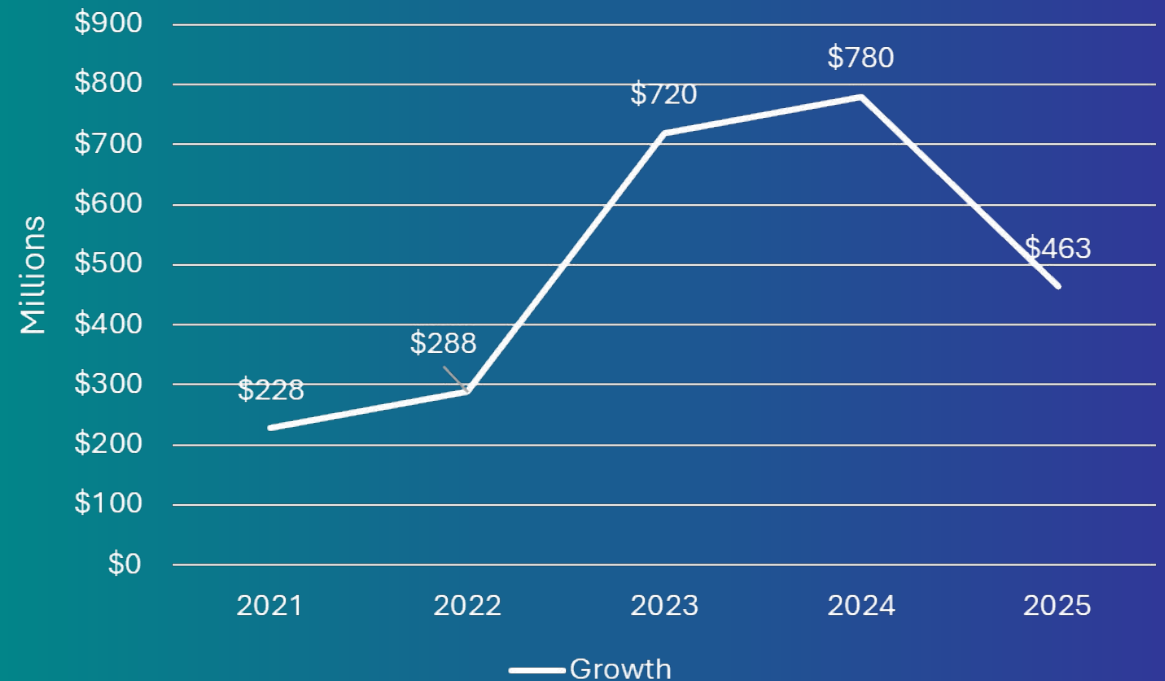


# Assessed Value Growth

| Tax Year    | Fiscal Year | TAV                   | % Growth     |
|-------------|-------------|-----------------------|--------------|
| 2021        | 2022        | 12,153,639,782        | 3.43%        |
| 2022        | 2023        | 16,991,471,159        | 39.81%       |
| 2023        | 2024        | 18,956,387,907        | 11.56%       |
| 2024        | 2025        | 19,443,205,141        | 2.57%        |
| <b>2025</b> | <b>2026</b> | <b>20,309,131,196</b> | <b>7.14%</b> |

- The pace of growth had slowed prior to annexation
- Factors impacting tax values after annexation
  - Absorption of District parcels into City rolls and increased property values (TY 2022)
  - Increased property values (TY 2023)
  - Increased residential and multi-family property values offset by smaller gains in commercial and BPP (TY 2024)
  - Higher increases to the multi-family and BPP values with modest growth in the residential and commercial sectors (TY 2025)

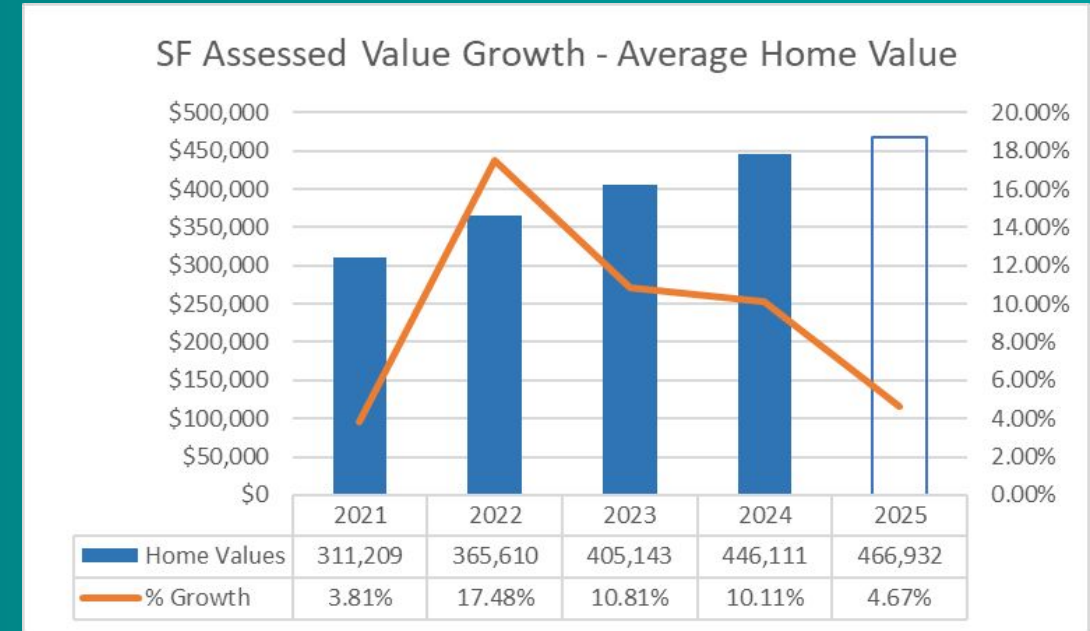
Trend in New Value (by Tax Year)



# Single-Family Assessed Value Growth

- Near-term projection for home value growth
  - Modest escalation in home values
  - Some slowdown in the housing market
- Long-term increases of 4% - 6% projected
- Tracking average and median home values

| Tax Year    | Fiscal Year | Home Values    |              |                |              |
|-------------|-------------|----------------|--------------|----------------|--------------|
|             |             | Average        | % Growth     | Median         | % Growth     |
| 2021        | 2022        | 311,209        | 3.81%        |                |              |
| 2022        | 2023        | 365,610        | 17.48%       |                |              |
| 2023        | 2024        | 405,143        | 10.81%       | 351,567        |              |
| 2024        | 2025        | 446,111        | 10.11%       | 371,349        | 5.63%        |
| <b>2025</b> | <b>2026</b> | <b>466,932</b> | <b>4.67%</b> | <b>383,444</b> | <b>3.26%</b> |



# Bond Rating Considerations

- The most recent ratings were conducted in Spring/Fall of 2025
  - The city requested ratings from both S&P and Fitch bond rating agencies
  - Revenue Bonds are rated AAA by both S&P and Fitch, while General Obligation (GO) bonds are rated AAA by S&P and AA+ by Fitch
- Key rating drivers noted by S&P:
  - Solid finances and **maintenance of solid reserves**
  - Very strong management with a **comprehensive approach to financial management**
- Fitch narrative:
  - Financial resilience showing high level of **revenue and expenditure control** and **ample budgetary flexibility**
  - Strong **population trend** and an **economy of sufficient size and diversification**
- These ratings play a key role in determining borrowing costs and reflect the credit risk of the issue
  - The final interest rates for the Series 2025 GO and Utility Revenue bonds were 3.59% and 3.93%, respectively

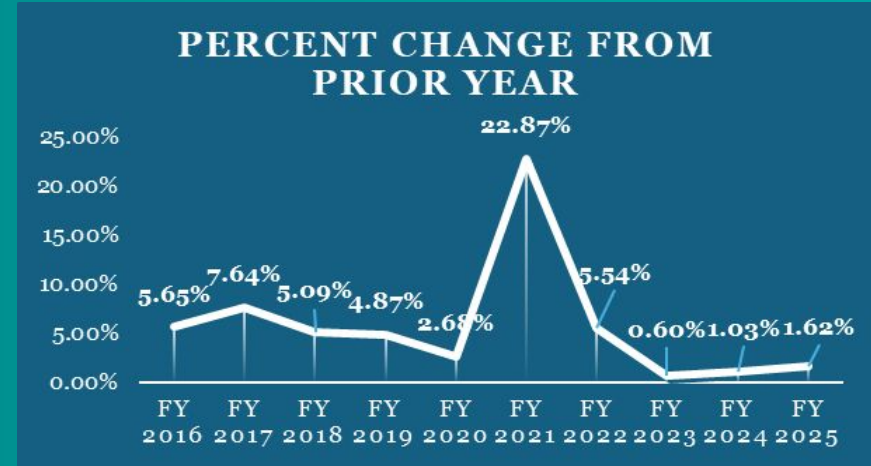
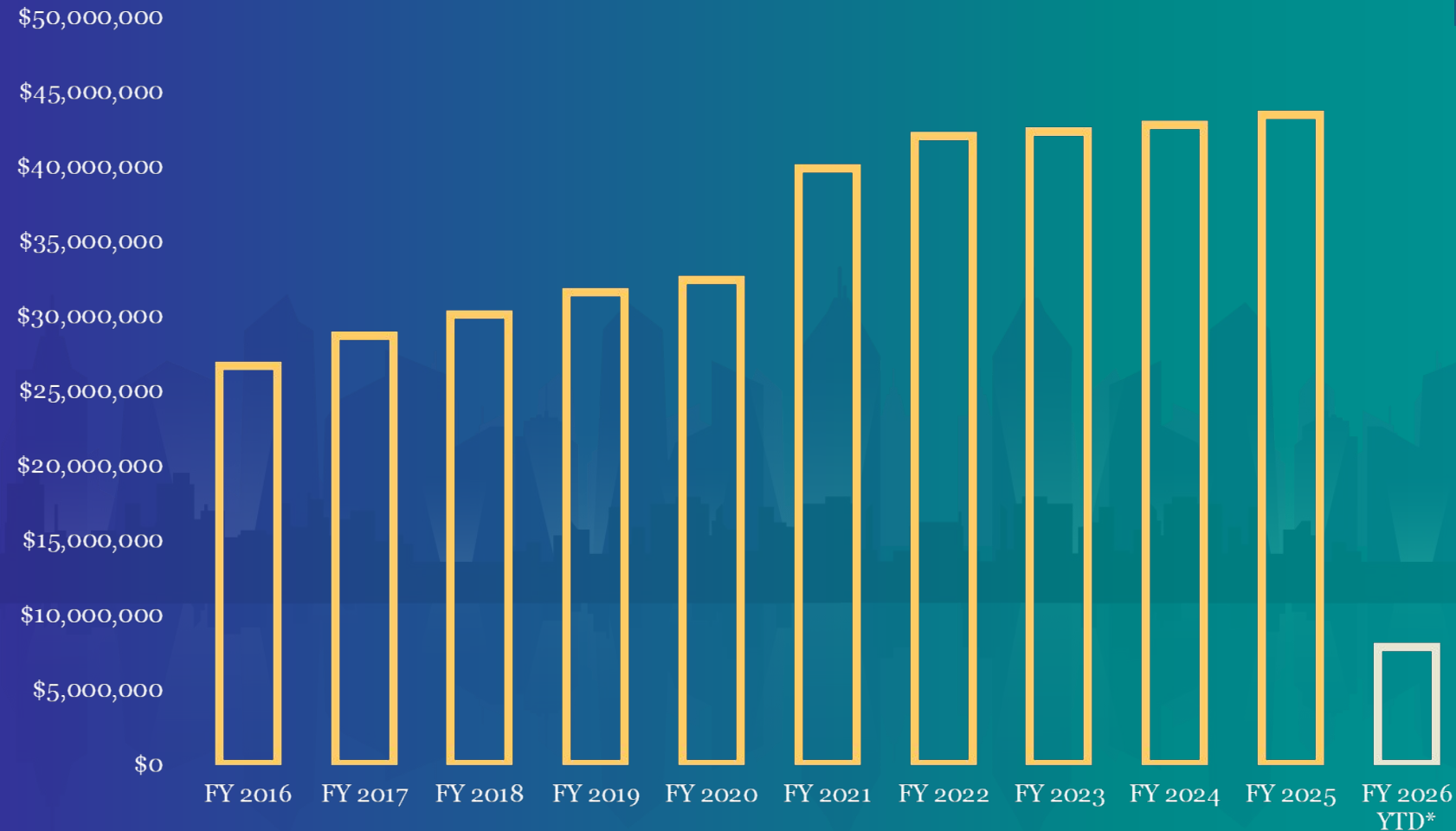
# Budget & Finance Insights



# Sales Tax

Economic indicator: sales tax reflects consumer spending and local business activity.  
Data lags by two months.

## Actuals - General Fund



FY 2025 actuals increased by \$690k or just over 1.6% when compared to the prior year.

In recent years, we continue to see increased sales tax revenue but at a slower pace, indicating a flattening of this revenue source.

Staff continues to work with our sales tax audit firm to identify any potential audits that may produce additional revenue.

# Property Tax Legislation

- HB 9/HJR 1
  - Took effect January 1, 2026, after voter approval in November
  - Allows businesses to exempt up to \$125,000 of income-producing tangible personal property from property taxes
    - Previous exemption was \$2,500
  - What it means for Lewisville:
    - This change will trigger a one-time increase in the No-New-Revenue Tax Rate and the Voter-Approval Rate in the first year of implementation (FY 2027), as these rates are recalculated to account for the reduced base.
    - **For FY 2027 only**, those higher calculated rates will actually allow the City to generate more revenue, provided Council chooses to adopt a rate near the VAR.
    - Maintaining the current tax rate (\$0.419009) will likely not be viable under the new framework, as doing so will reduce revenue due to the lower tax base.
    - City Council will need to evaluate whether to adopt a higher rate (potentially up to the VAR) to preserve funding levels for City services.

# HB9 Impacts

The legislation will produce a one-time revenue increase in FY 2027, followed by ongoing revenue pressure in future years due to reduced taxable value. The estimate below reflects the impact using 2024 tax year values, had the legislation been in effect.

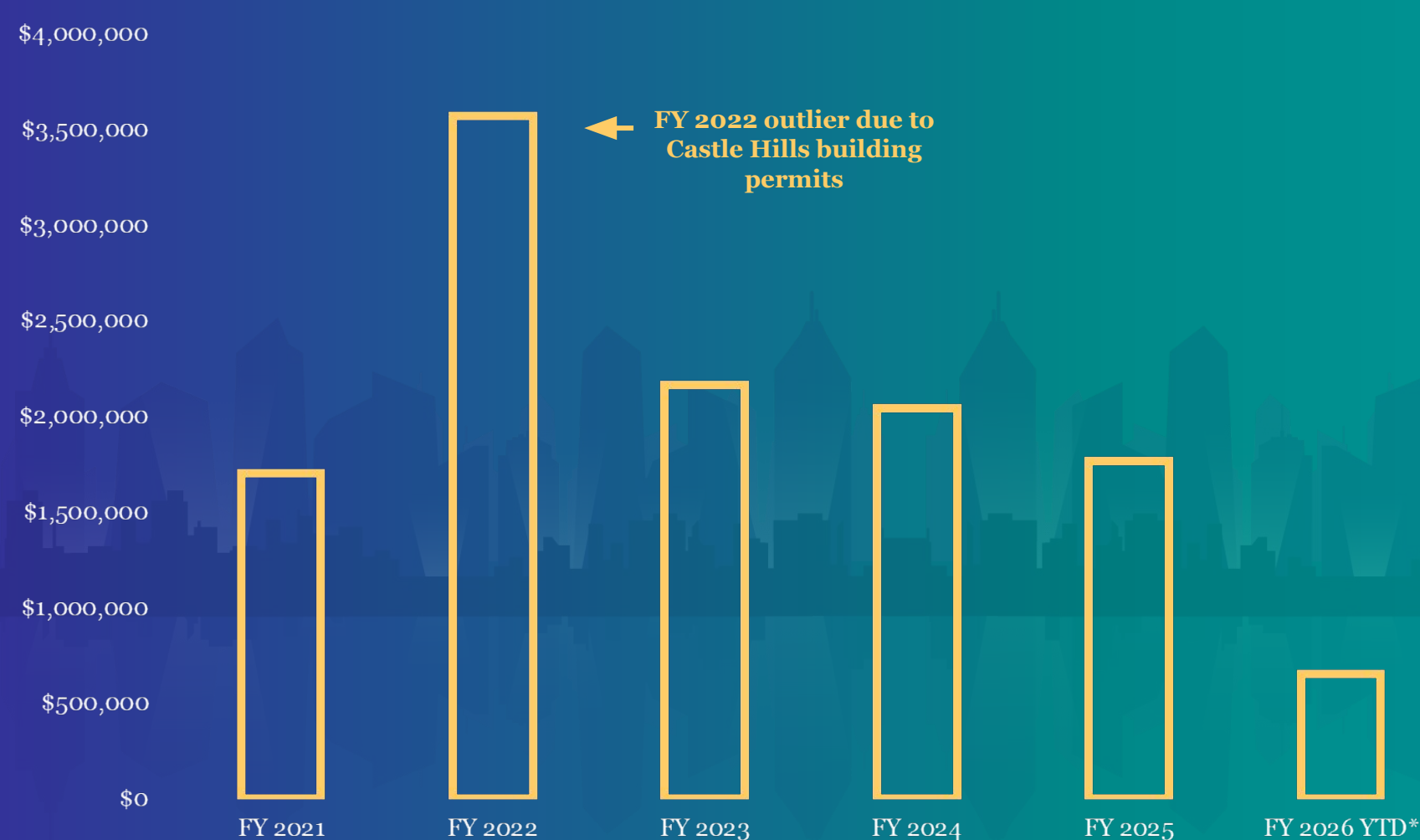
|                           | <b>Original 2024 Tax Rates</b> | <b>Revised 2024 Tax Rates</b> |
|---------------------------|--------------------------------|-------------------------------|
| No-New-Revenue (NNR)      | 0.408408                       | 0.412974                      |
| Voter-Approval (VAR)      | 0.419603                       | 0.422926                      |
| VAR plus Unused Increment | 0.422435                       | 0.425758                      |
|                           |                                |                               |
| General Fund Revenue      | \$58,399,993                   | \$59,291,762                  |
| Change                    | -                              | \$891,769                     |

- This requirement now shifts the property tax burden towards residential property owners, since the exemption removes a greater share of business personal property from the tax rolls
- The new exemption will reduce the overall taxable value of business personal property, effectively shrinking the tax base available for ad valorem taxation by the City and other local jurisdictions.
- Tax year 2024 reduction in TAV is \$209.9M

# Building Permits

Economic indicator: building permits are a forward-looking indicator that reflects new construction, investment, and development momentum

## Actuals – General Fund



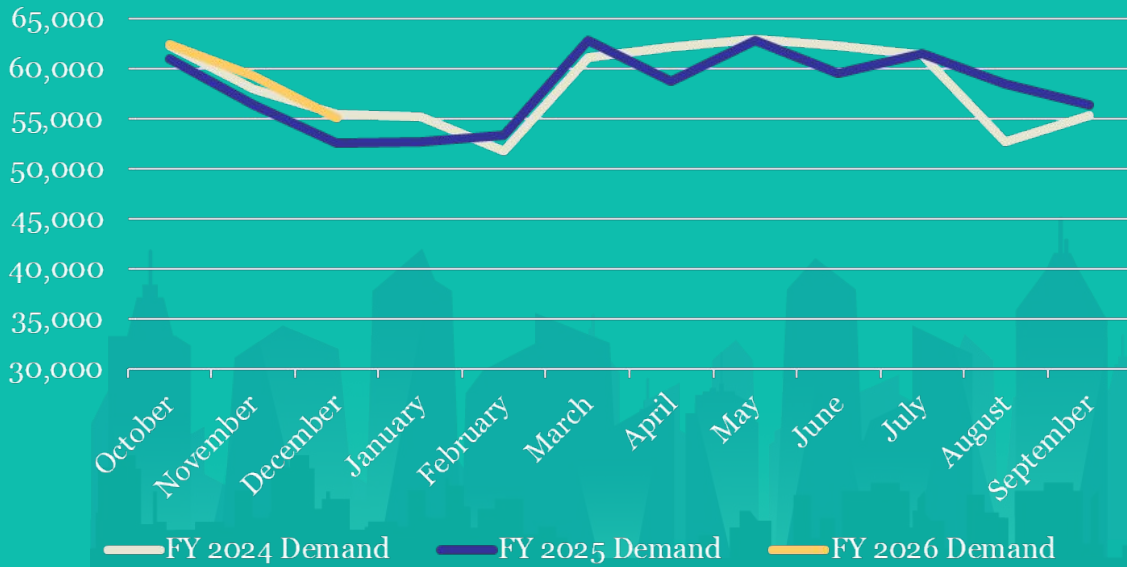
Building permit revenue is based on actual projects the City is aware of. Smaller permit sources are typically not budgeted but add a small revenue boost each year.

FY 2025 actuals ended the year \$279k less than the prior year, but \$692k more than the FY 2025 adopted budget.

Projects scheduled to occur in FY 2026 include Lakeside Crossing and a multifamily project in the Castle Hills area.

As of February, FY 2026 actuals are already at \$650k.

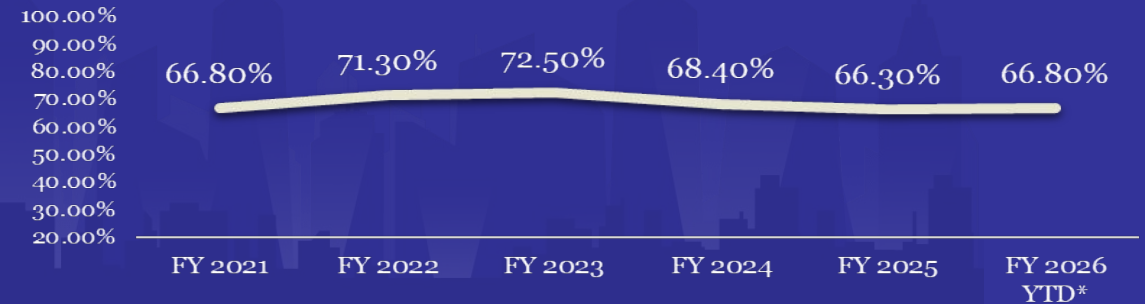
## Demand for Hotel Rooms



# Hotel Occupancy Tax

Economic indicator: hotel occupancy taxes signal the health of Lewisville's visitor economy by tracking demand.

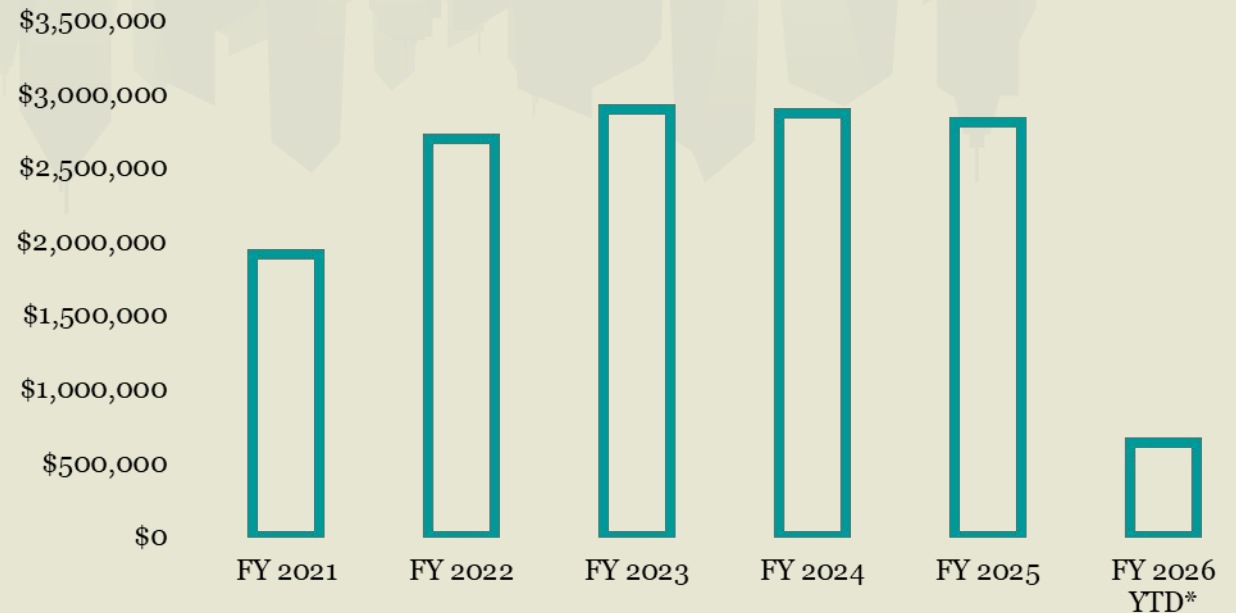
## Occupancy Rate



FY 2025 actuals came in \$63k lower than the prior year due to a slight drop in demand. Demand has since returned to FY 2024 levels.

The City began collecting hotel occupancy taxes from short-term rentals in August 2024. STRs accounted for about 5.3% of this in revenue in FY 2025.

## Actuals – Hotel/Motel Fund



# Utility Fund Revenue

## Actuals – All Utility Fund Revenues

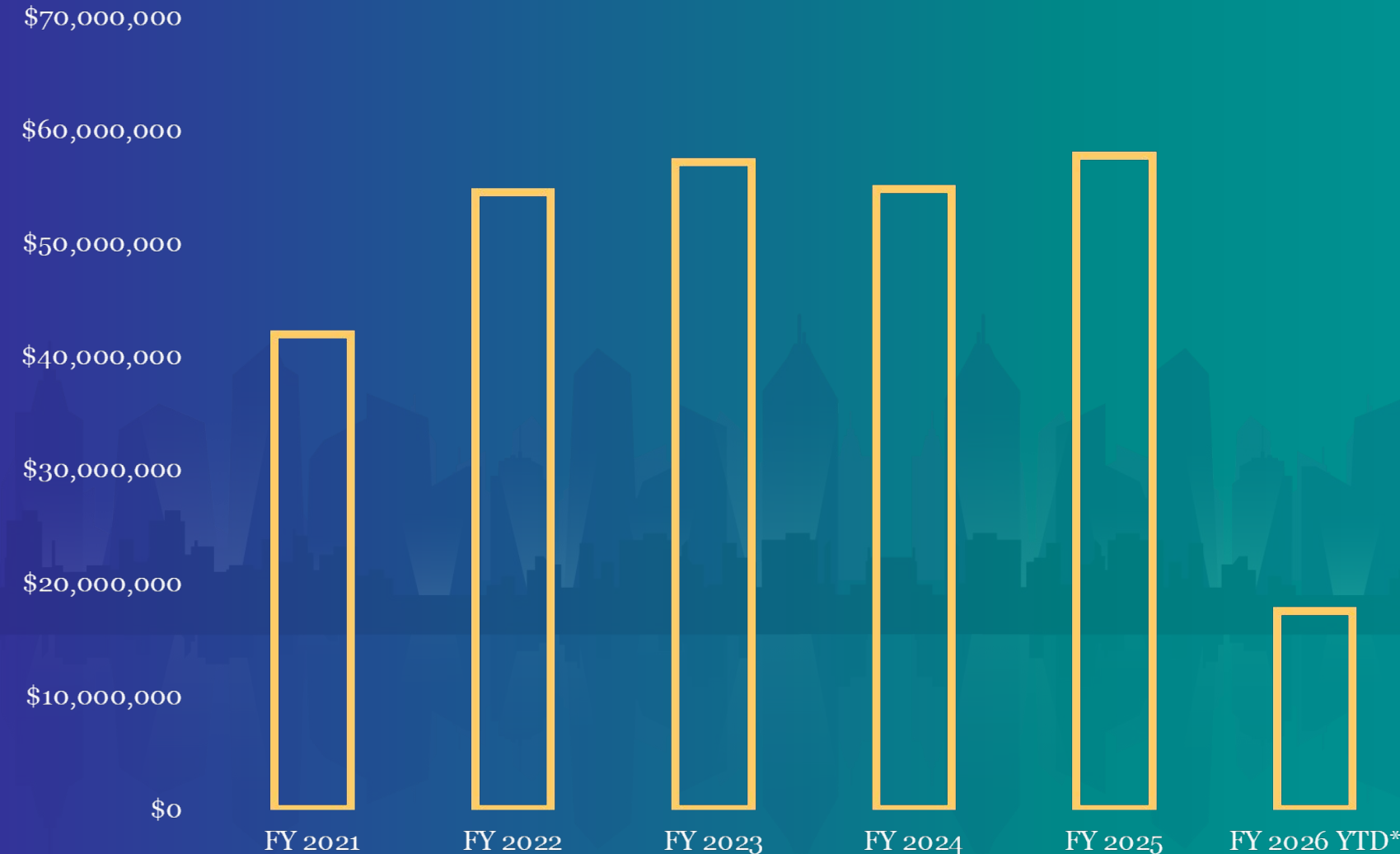
Utility Fund revenues include:

- Water sales
- Sewer service
- Water & sewer capital recovery fees (impact fees)
- Other smaller charges, like industrial waste surcharges and water reconnect charges

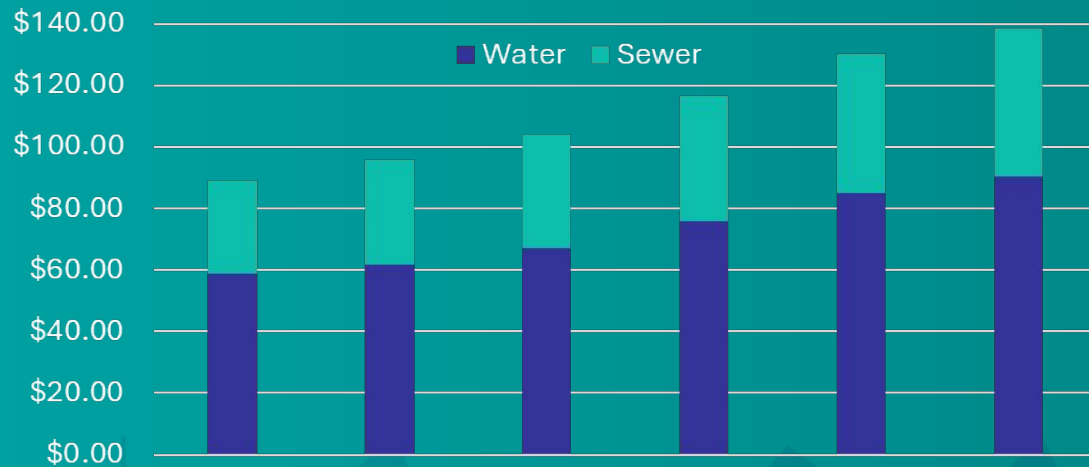
FY 2025 Utility Fund revenues ended the year at \$57.7M, which is \$2.5M more than FY 2024. Notably, FY 2024 was a rainier year than usual.

Last year at this same time, Utility Fund revenues were at about \$10M compared to \$17M now, partially due to a utility billing sewer service entry for unbilled accounts receivable.

A robust long-range Water & Sewer Capital Improvement Plan is continuously updated to provide insight into future utility rate increases that will be necessary.



# Residential Customer Rate Plan – FY26-FY30



The City performs an annual rate study to ensure adequate revenue support for operations and an expanded capital program.

Utility rate setting goals include:

- Ensure sufficient cost recovery (Revenue Generation)
- Plan for future capital investment with a goal of maintaining and potentially increasing cash funding (Capital Reinvestment)
- Maintain and enhance financial metrics (Reserves, Debt Service Coverage)
- Continue to monitor affordability of service to customers

*The City makes every effort to smooth rate increases to minimize customer impacts. However, significant cost pressures from the Wastewater Treatment Plant expansion, along with other growth- and age-driven capital needs occurring at the same time as routine distribution and smaller capital projects, will continue to place upward pressure on rates.*

# Stormwater Rate Study – FY26

The City implemented an annual stormwater fee increases from FY 2023 through FY 2025, raising the cost of stormwater service by \$3.00, from \$4.00 to \$7.00

- For FY26, approximately \$6.0M in new revenue is available to support additional stormwater projects
- These revenues are in addition to funds currently set aside in the Stormwater Capital Project

Continued reinvestment in the stormwater system is needed, which will require the City to continue its evaluation and assessment of the funding needed for stormwater service

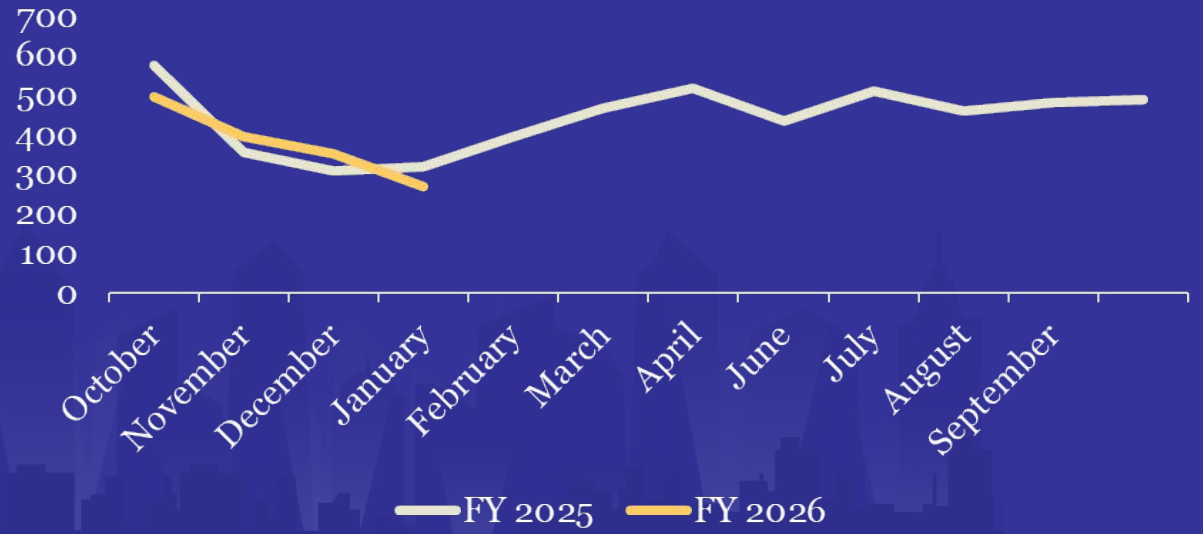
- There are approximately \$110M in outstanding stormwater projects
- The listing of projects will be updated during the stormwater rate study

City staff is currently conducting a Stormwater Rate Study to update the current financial plan and assess funding needs going forward

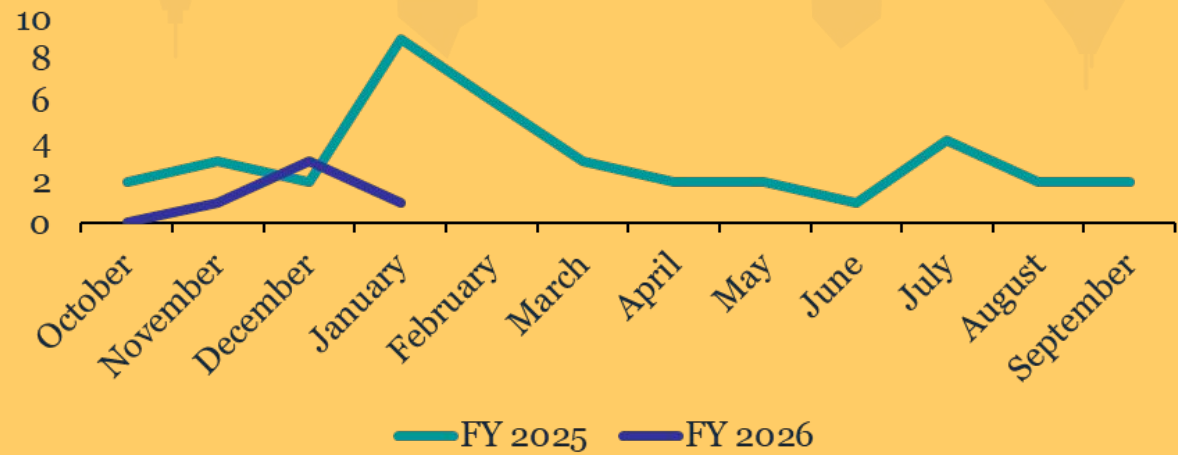
Results of the study will be presented to Council during the budget workshop in August

# Other City Metrics Providing Lewisville-Specific Economic Insight: Last Year vs. This Year

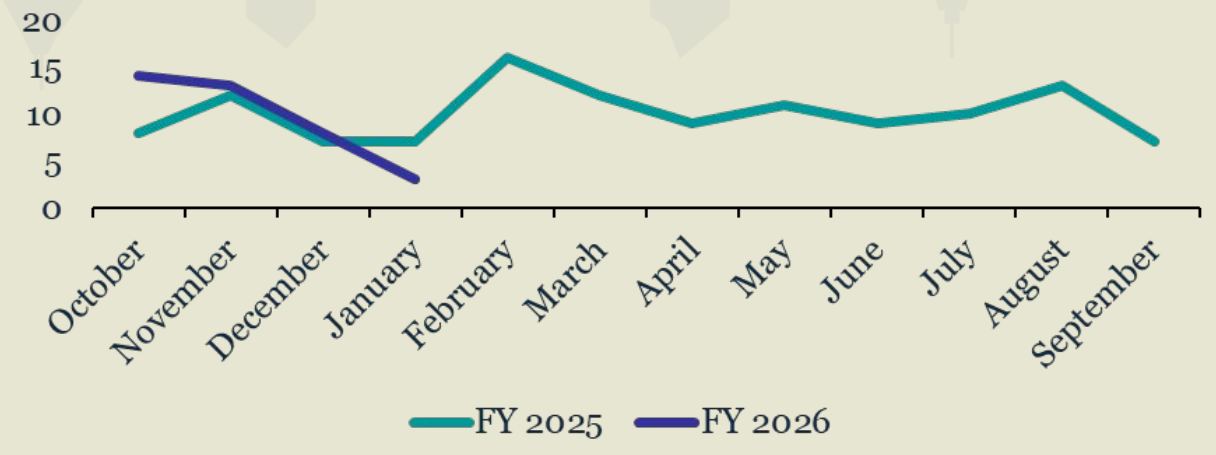
## All Permits Issued (NIS)



## Number of Engineering Site Plans (Engineering)



## Number of Pre-Development Mtgs Scheduled (Planning)



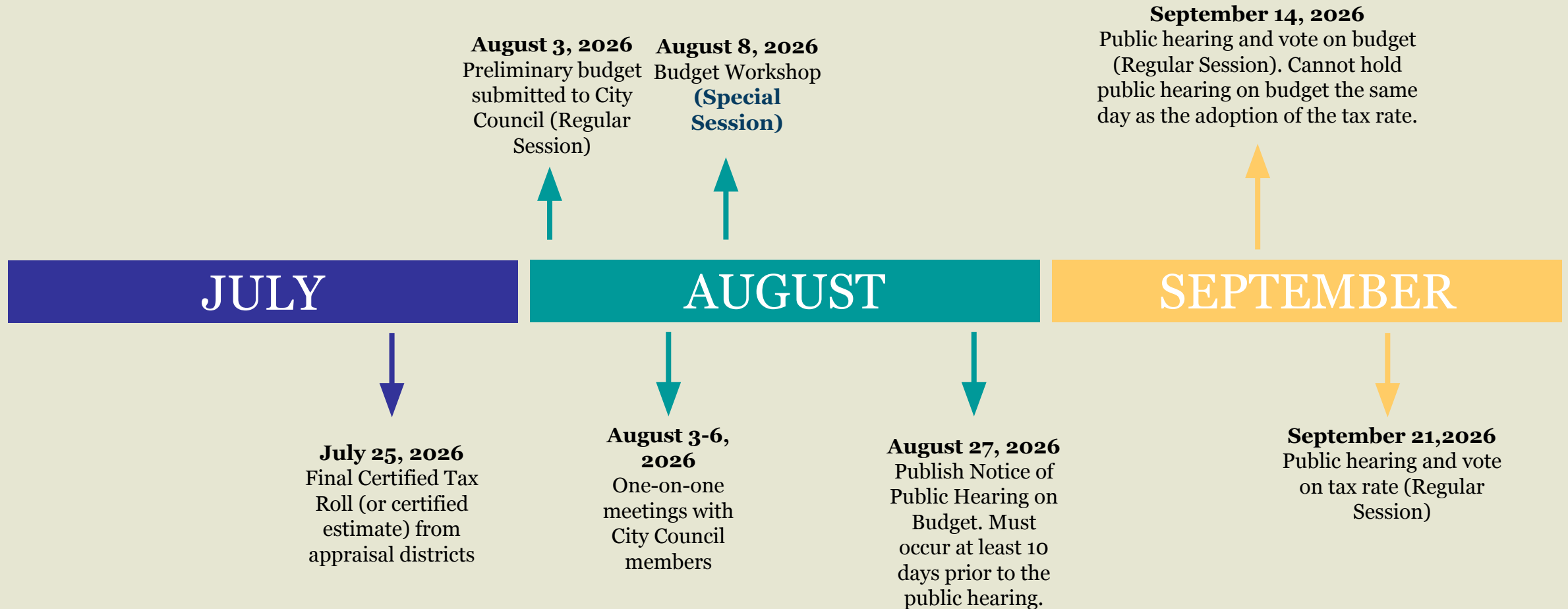
# Retiree Health Insurance Update (2025 Council Retreat Item)

- Why a Change was Recommended
  - Under prior program, direct subsidy only for longer tenured employees (>20 years)
  - Cost prohibitive to remain on the City health plan
  - Resulted in fewer participants with higher cost experiences
- Council Approved Program Modifications – Starting in May 2025
  - Move to a subsidy/surcharge system
  - Adopted a blended rate for active and retiree premiums
  - Designed to encourage participation and stabilize long-term costs
- OPEB Funding Outlook
  - Anticipated an Actuarial Determined Contribution (ADC) of \$928,678 and a funded level of 90.5%
  - ADC for FYE2026 is \$837,680, funded level of 105%
  - First-year budget savings of \$90,998

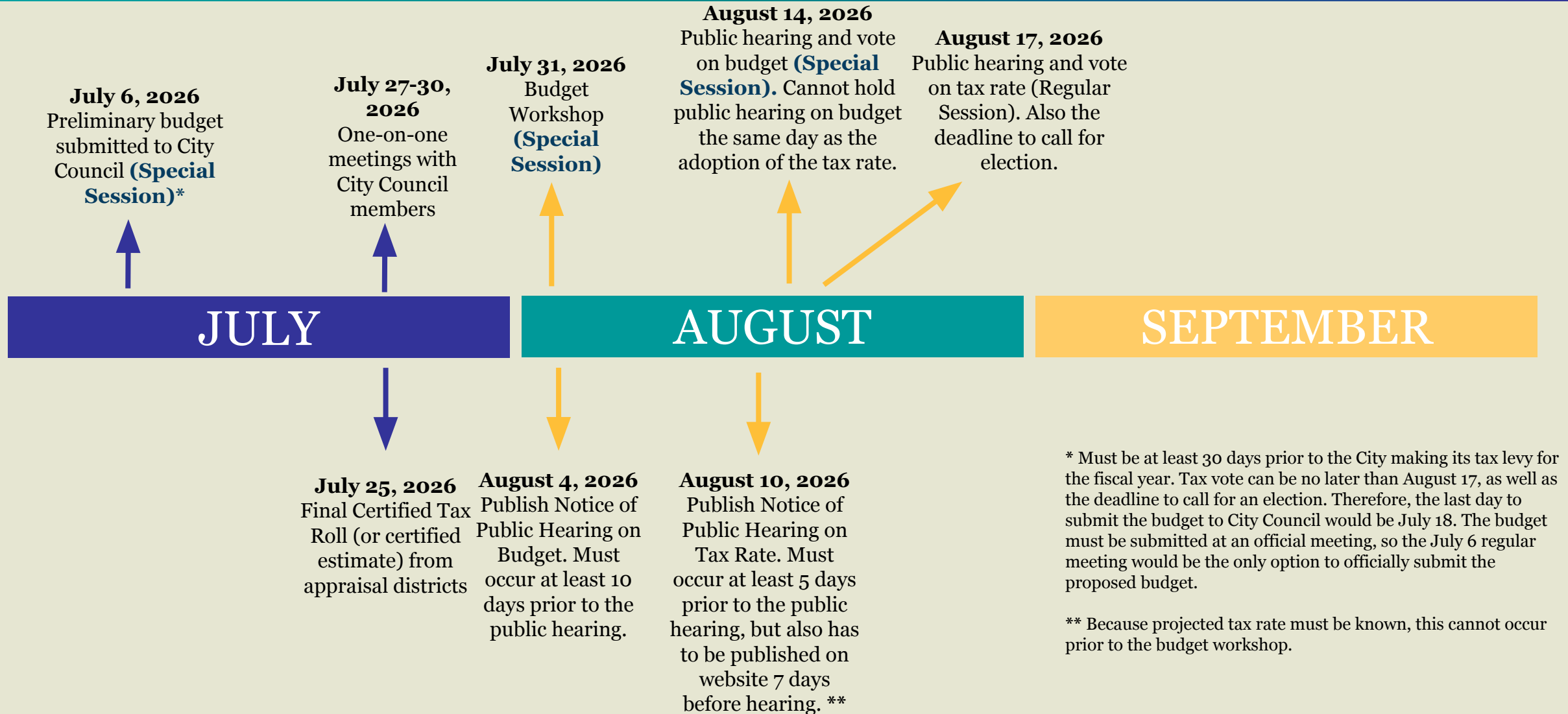
# Budget Calendar Discussion

- Staff brings the budget calendar to City Council each year during retreat to determine if the calendar should include an option for an election.
- The budget calendar is based on state law and regularly-scheduled City Council meetings. State law requires different deadlines depending on whether an election will be called to increase the property tax rate more than 3.5%.
  - This cap is known as the voter-approval rate.

# Budget Calendar – No Election



# Budget Calendar – Election



# Staff Recommendation

- Expecting property tax revenue increase in general, plus one-time FY 2027 revenue bump due to legislation
- Other major revenue sources continue to trend upward, albeit it at a slower pace than in the past for sales tax
- Incorporate recommendations from the updated Water/Sewer and Stormwater rate studies into the FY2026-27 budget
- Staff will continue to:
  - Monitor inflation and interest rates
  - Track trends in sales tax revenue, building permits, occupancy rates, and federal initiatives
  - Review revenue sources annually, including fees and charges for services, to ensure the City is appropriately recovering costs associated with providing these services and will modify fees when warranted
- **Based on these economic trends and operational priorities, staff's recommendation is to proceed without the option of an election for FY 2027**