



City of Pearland

3519 Liberty Drive
Pearland, Texas 77581
Tel: 281.652.1600
pearlandtx.gov

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To: Mayor Reid and City Council members

Once something has started, good or bad, there is momentum to continue. A body in motion tends to stay in motion, *until another external force is applied*. So says one of Newton's physical laws of motion. In government organizations, corporate life, homes, and schools, we are all subject to momentum. We 'get on a roll' and keep going (even accelerating) for as long as we can. We can be a force to continue the things headed in good directions or push a different way against unfavorable trends.

At the City of Pearland, we have a lot of energy gathering for more forward motion. We watch the trend lines stoke upwards on sales tax revenue and property valuation. Strategically, we have people in the right places within our City organization. Our crack staff is gathering momentum for the next wave of opportunities facing the community and leveraging momentum into forward progress in the right direction. Especially after the July 2014 City departmental reorganization, we have more opportunities for collaborations and focus. The Public Works, Projects and Engineering groups are uniting to think about long-term asset management after the projects are built. Economic development is approached by acknowledging the attraction and interest from firms is ultimately successful when we conduct the planning and permitting process with a sense of urgency and focus on high quality development, the stay in touch for retention and expansion.

The City of Pearland's FY 2015/16 and multi-year financial plan here represents continuing the energy of quality growth and development within our organization and throughout our community. Our seeds for the future (referenced in last year's budget transmittal) are being planted with new roads, pipes and parks. Our staff is collaborating with community partners including schools and other government agencies to move Pearland forward. With the growth, there is also cost concerns building that we point out and are working to manage over the near term.

Part of the phrase on the law of motion was italicized above. We can influence momentum with our efforts. We can take advantage of a trend with good policy and program execution. We can help encourage Pearland to be the place of choice around Houston with our own assets and mobility network, perfectly positioned between NASA, downtown Houston, the Port of Houston, Hobby International Airport, the Texas Medical Center, and The Port of Freeport.

The March 25th early budget input meeting of the City Council was pivotal in terms of identifying the Strategic Priorities, *what* we want to accomplish and make better. Background materials for March were a book of white papers prepared by our in-house expert professionals, who know both their line of work and know Pearland. We also provided results from an updated, comprehensive citizen survey. Such surveys are sound private sector

`market research' to know perspectives from our community members who we may not come across in our regular circles of influence. The 2015 Citizen Survey (prepared by the National Research Center) shared the broad cross-section of Pearland resident perceptions.

We charged a cross-section of Pearland City staff to take the Citizen Survey results and make recommendations for action. The members took on the challenge to `move the needle' so when we do the next formal citizen survey in 2017, we will see noticeable differences. The philosophy of creating and using good information, bringing on top-flight City staff, and supporting them with tools, training, and technology is going to give Pearland the best chance for remaining foremost-city in a competitive urban environment. We have consistently involved and asked the engagement of our City staff members from all parts of the organization. For instance, immediately after the City Council's early budget input, we held a Staff Budget Workshop, `Opportunities and Gaps', to share the road ahead. The recommended budget you hold here is the work of many minds who know cities and municipal operations and are fine-tuning it to have a nimble City organization that can keep us safe, engage with the community, build a broad economy of quality investments, support sustainable infrastructure, and feature a variety of parks and recreation which attracts people here versus somewhere else. Especially in Texas where we are dependent upon our own resources without the State most-often devolving responsibilities, all is dependent upon maintaining our fiscally responsible local government.



In March, we discussed a number of topics, including trends for employee health care, property valuation for bonding capacity needs, squeezed property tax rate for operations, unmet needs for infrastructure recapitalization, and the long-term look at best deploying our public safety resources for the best results. These topics, among others, will be covered here in summary as they are in the actual budget.

Economic Development

Commercial and residential development continue at a strong pace in all areas of our community. Our retail continues to grow with the additional phases being added to the Center at Pearland Parkway and the 288 corridor will be home to 160,000 square foot Costco in fall 2015. Residential development is already over 1,000 permits through three quarters of FY2014/15 which will make this the strongest housing year

since 2008.

Another area where we have tremendous forward inertia is the implementation of our Pearland 20/20 Community Strategic Plan, spearheaded by our Pearland Economic Development Corporation. Since the launch of implementation in 2013, Pearland 20/20 has resulted in a number of successful outcomes that demonstrates the community's commitment to implementing the strategy.

Two major beautification strategy efforts from 20/20 have been completed: the 288 Master Plan and Gateway features. PEDC, KPB and the City continue working on plans to implement an entry feature and landscaping on

Cullen. In addition, PEDC and the City have begun design and engineering of entry gateways at both Pearland Parkway and Dixie Farm Road. Work also continues on the SH 288 Master Plan implementation to be done in coordination with the toll lanes which will be a mobility boon *and* enhance the corridor into a first-class entry to our community for our residence and visitors.

Our economic development marketing efforts are resulting in multiple announcements that are demonstrating our community's attractiveness as a place to invest and create jobs. Recent project announcements include Keystone Engineering's new facility on North Main, which is expected to bring \$6M in investment and 70 new jobs to the community. Shale-Inland will construct a \$14M new facility on South Main of 210,000 SF and employ 80. In the Lower Kirby District, Tool-Flo Manufacturing will invest \$36M for an 80,000 SF headquarters and manufacturing facility that will have 188 employees and Mitsubishi Heavy Industries (MHI) Compressor International opened their new Pearland Works facility that is another 180,000 square feet of office and manufacturing space. MHI has already begun expanding the facility to include an additional 85,000 SF of warehouse space.

The Lower Kirby District continues to be an area of focus resulting in significant investments in FY2015-16. Regional detention in the Lower Kirby area was one of the major recommendations of the infrastructure build-out plan that includes utilizing the existing TxDOT drainage ditch and the City's existing pond for detention east of Kirby. After many years of planning, construction began in May, 2015 upon the first phase of the regional detention system. The City, PEDC and District are working on the reconstruction of Hooper Road with construction to begin in the fall of 2015. The extension of underground electricity on Kirby Drive is currently under construction with additional extensions budgeted for by PEDC in FY 2015-16. Planning for South Spectrum Drive is also included in this year's budget.

Optimizing the development potential of our major commercial corridors was a focus of the 20/20 plan. In addition to the enhancements planned on SH 288, PEDC is also in the process of completing a development strategy for Main Street and will look to begin a plan for Broadway Street in FY 2015/16.

Revenues and Expenditures Trends

This recommended budget represents a continuation of the progress started by Pearland's founders and successive elected leaders, staffs, and community partners. It can be difficult to communicate the connection between line items in governmental funds and long-term priorities. We began discussing those connections at the March retreat. We continue that discussion throughout the budget process, equipped with data, forecasts and research.

Lewis McLain is a data and finance expert on Texas municipalities and a resource we often look to on large scale trends in the region, many of which will have an impact on our momentum for years to come. A former finance director, he suggests looking at “channels” between which trends move, historically. Another tip is a long-term look, but being honest about the numbers and adjusting for real dollar terms using the Consumer Price Index (CPI). Pearland’s actual expenditures for the last eight years shows the expected growth as reflected below:

CITY OF PEARLAND, TEXAS

SPENDING AND GROWTH ANALYSIS

Last Eight Fiscal Years

(Modified Accrual Basis of Accounting)

Amounts in (000's)

Expenditures	Actual								% CHG	Average Compounded Growth Rate
	2007	2008	2009	2010	2011	2012	2013	2014		
General Gov't	\$ 6,363	\$ 7,406	\$ 8,423	\$ 19,561	\$ 10,877	\$ 7,797	\$ 7,958	\$ 8,027	26%	3%
Public Safety	14,598	19,604	22,310	23,784	23,926	25,372	26,204	29,171	100%	10%
Public Works	6,278	7,536	12,051	7,108	6,505	5,533	7,812	8,121	29%	4%
Community Services	3,102	3,426	3,386	3,839	3,376	4,246	3,523	3,960	28%	4%
Parks & Recreation	4,908	6,605	5,789	6,305	7,539	7,499	7,244	7,816	59%	7%
Operations subtotal	\$ 35,249	\$ 44,577	\$ 51,959	\$ 60,597	\$ 52,223	\$ 50,447	\$ 52,741	\$ 57,095	62%	7%
Economic Development	14,391	16,899	18,730	15,426	17,391	20,397	17,414	25,248	75%	8%
Debt Service - principal	5,183	4,265	7,517	8,525	10,847	12,893	15,637	15,815	205%	17%
Debt Service - interest	13,483	15,688	15,704	17,096	17,154	15,534	15,859	16,373	21%	3%
Capital Outlay	28,530	27,777	75,490	64,563	25,768	9,201	22,101	15,536	-46%	-8%
Intergovernmental	14,699	3,434	7,630	4,234	4,127	4,158	4,058	4,307	-71%	-16%
Other subtotal	\$ 76,286	\$ 68,063	\$ 125,071	\$ 109,844	\$ 75,287	\$ 62,183	\$ 75,069	\$ 77,279	1%	0%
Total	\$ 111,535	\$ 112,640	\$ 177,030	\$ 170,441	\$ 127,510	\$ 112,630	\$ 127,810	\$ 134,374	20%	3%

Economic Development includes PEDC, Development Authority of Pearland, and TIRZ #2.

The information is portrayed again below, but in terms of the percentage of the total budget for each category. Public Safety expenditures has drawn about 1/2 of the City’s operational expenditures, the largest single operational category. Debt Service including principal and interest is another large portion the of actuals. It is interesting within debt service how principal payments are caught-up, so that we are paying off the financing on

SPENDING % of TOTAL by CATEGORY

Distribution of Spending	Actual							
	2007	2008	2009	2010	2011	2012	2013	2014
Category as % of Operations								
General Gov't	18%	17%	16%	32%	21%	15%	15%	14%
Public Safety	41%	44%	43%	39%	46%	50%	50%	51%
Public Works	18%	17%	23%	12%	12%	11%	15%	14%
Community Services	9%	8%	7%	6%	6%	8%	7%	7%
Parks & Recreation	14%	15%	11%	10%	14%	15%	14%	14%
Operations as % of Total	32%	40%	29%	36%	41%	45%	41%	42%
Category as % of Other								
Economic Development	19%	25%	15%	14%	23%	33%	23%	33%
Debt Service - principal	7%	6%	6%	8%	14%	21%	21%	20%
Debt Service - interest	18%	23%	13%	16%	23%	25%	21%	21%
Capital Outlay	37%	41%	60%	59%	34%	15%	29%	20%
Intergovernmental	19%	5%	6%	4%	5%	7%	5%	6%
Other as % of Total	68%	60%	71%	64%	59%	55%	59%	58%

par with interest costs. We would expect public safety to grow with FY 2015 and in FY 2016 as additions in personnel are made, new fire stations opened, etc. The same can be said of economic development services (PEDC) to our ever-growing business community, but that category also includes the Shadow Creek Ranch TIRZ. The chart below graphically illustrates the City-wide historical *distribution* of funds on a percentage basis:

The table above is for available actual expenditures, reflecting the trends and changes. Going forward, as mentioned, we would expect growth in the percentage of dollars dedicated to public safety, given increased staffing and associated costs for personnel's wages, benefits, and equipment.

The table below builds on what we show above for the trends on where motion is *headed*. The per capita and real dollar term adjustments are the part that Lewis McLain encourages that is a bit unique. When you combine CPI for real dollars and adjust expenditures to per capita, the City of Pearland track record has actually been a slight *decrease* over time:

Per Capita Expenditures Adjusted for CPI									Average Compounded Growth Rate
	2007	2008	2009	2010	2011	2012	2013	2014	
POPULATION	84,500	89,000	92,600	94,100	97,200	99,800	104,100	106,900	3%
PER CAPITA	\$ 1,320	\$ 1,266	\$ 1,912	\$ 1,811	\$ 1,312	\$ 1,129	\$ 1,228	\$ 1,257	-1%
CPI INDEX (NATIONAL)	207	215	215	218	225	230	233	235	2%
PER CAPITA ADJ TO 2014	\$ 1,494	\$ 1,380	\$ 2,092	\$ 1,950	\$ 1,369	\$ 1,154	\$ 1,237	\$ 1,257	-2%
PER CAPITA ADJ TO 2007	\$ 1,320	\$ 1,219	\$ 1,848	\$ 1,722	\$ 1,209	\$ 1,019	\$ 1,093	\$ 1,110	-2%

So, the trend of overall, big picture investment of public dollars is that the City of Pearland continues to keep investing in long-term capital projects substantially funded by debt service, and making public safety and community growth/development a priority. We also balance expenditures programmatically with quality of life operations (i.e., parks and recreation, libraries) that draw people to choose Pearland for homes and investment. And, we are keeping local government expenditures steady.

Budget approach and highlights

In our approach to building this FY 2015/16 Budget, we started out with a bit of a change in instructions for departments. Rather than building upon the current year's budget as a base, we directed the prior FY 2013/14 actual expenditures be our base. We allowed including known increases such as the opening of Fire Station#2 and Shadow Creek Ranch Park. The purpose was to be more conservative and tighter on budgeting. The tradition here has been that staff managers are diligent and good stewards by keeping below budgeted expenditures whenever possible. In our changing dynamic environment here, there are more unknowns and assumptions than you would find in a built-out staid city, by comparison.

There is other growth in this budget. For instance, parks operations increased \$383,000 in this budget from prior, resulting from increases in the cost of business and large-scale investments like \$369,000 for Shadow Creek Ranch Park, \$259,000 for the Hickory Slough Sportsplex, and \$82,000 for Centennial Park. Those are all recurring cost centers that have expanded our recreation capacity offered to citizens. They will provide valuable opportunities for our residents and their families to enjoy City facilities right in their own neighborhood.

In this budget document, you will find a list of funding highlights that reflect a still-impressive inventory of things that we are recommending in furtherance of City Council priorities. Those highlights include beautification and enhancements of public property, reflecting expectations and standards being set by the private sector on their properties. We have added herein for four more sworn police officers and an additional \$1.1 million for street maintenance. There's also recognition of moving the operations of the Recycling Center to be under Keep Pearland Beautiful for their stewardship and removing that responsibility and upkeep from the City. Finally, there's continuation of the City's move of the base critical software systems for finance, purchasing, budgeting, permitting, and utility billing. The ERP software upgrade is a huge undertaking that was diligently vetted, prepared and is well underway thanks to much staff effort. The first module to 'go live' is the finance portion on January 1, 2016.

I mentioned beautification above and the work for improving the City's entryways with landscaping and general conditions that show visitors and investors, as well as residents, that we are a community of quality. There's also the emphasis on code enforcement for basic minimum property maintenance standards and life/safety issues. Our code enforcement group has thrived in the Fire Department since those seeds were planted last year with the reorganization. The staff is diligently sharing positive options with the help of the HERO work and grants for those in our community that are most at risk and meet strict rules for eligibility. We also have an obligation to ensure that property owners can expect their investments are not unduly degraded with poor property maintenance down the block at somebody else's house that may have zoning or other issues. We have a small amount for the abatement option of the worst cases to demolition, but are most often focused on working with property owners, so long as they are moving toward compliance. That effort takes a concerted team approach of Code Enforcement, Legal, Police, Building, and Public Works officials. Our City SNAP team is making progress in ensuring that no matter where you own property in Pearland we can maintain some standards for property maintenance.

Employee health care

The City's payment towards employee and dependent health care coverage is one of our largest expense areas (contracts for purchasing water and for solid waste/recycling are the only two larger). The City Council reviewed projections for FY 2015/16 totaling \$7.8 million in total cost, an 18% increase over the prior year projections. Part of the increase in expense is the growing number of employees, but also the cost of the benefit grows each year. Plans are reviewed each year for plan design, but there are not major ways to reduce City cost without substantively altering the employee payment share which would be in context of minimal cost of living increases, 2% for each of the last two years.

Property valuation for bonding capacity needs

After sales tax revenue, the largest source of revenue to General Fund operations is property taxes. Moreover, property taxes provide 100% of the money for debt service on bond financing. So, property taxes are the overall largest revenue source. The City rate is applied to the net taxable value. Frankly, the City rate may change slightly year-to-year, but the valuation changes drive the City of Pearland government's ability to invest and serve.

There are a lot of components of the table below. The first is about 2/3 of the total property valuation is taxable, supporting the operations and debt service. About 1/3 is exempt for homestead exemptions, over 65, and non-taxable exempt organization properties. Another component is the mix of residential and commercial. Residential remains the bulk of property tax valuations while **commercial pays 30%**, plus, of course the associated jobs and sales tax opportunities. The other positive fact is that valuation growth in Pearland is very strong after the 2008 financial crisis and its subsequent slow momentum coming out. The City needs quality growth reflected into its valuation to expand the tax base, and growth has been the recent story here with new housing and businesses accounting for \$353 million in the growth in valuation.

COMPARISON OF ADJUSTED TAX ROLLS VALUATION BY PROPERTY CATEGORY						
	Tax Year 2012 TOTAL FY 2013	(March 2014) TOTAL FY2014	(Dec 2014) TOTAL FY2015	Tax Year 2015 PROJECTED FY2016	'15 from '14 Percent Change	'16 from '15 Percent Change
Residential						
Land Homesite	\$ 827,212,274	\$ 913,489,825	\$ 940,964,793	\$ 971,323,974	3.0%	3.2%
Improvements	\$ 4,068,456,552	\$ 4,450,665,345	\$ 4,881,506,062	\$ 5,449,829,351	9.7%	11.6%
Exemptions (primarily Homestead and Over 65)	(316,665,698)	(387,961,685)	(427,494,934)	(513,878,906)	10.2%	20.2%
Net Residential	\$ 4,579,003,128	\$ 4,976,193,485	\$ 5,394,975,921	\$ 5,907,274,419	8.4%	9.5%
Commercial						
Land Non Homesite	\$ 683,647,492	\$ 704,042,903	\$ 723,660,136	\$ 771,522,746	2.8%	6.6%
Ag Market	\$ 67,355,452	\$ 66,940,961	\$ 60,259,595	\$ 65,406,844	-10.0%	8.5%
Improvements	\$ 1,204,491,853	\$ 1,358,521,201	\$ 1,482,073,000	\$ 1,848,204,766	9.1%	24.7%
Personal Property Exempt Properties (primarily exempt organizations)	\$ 530,775,973	\$ 650,453,238	\$ 728,842,336	\$ 714,441,627	12.1%	-2.0%
	(696,667,426)	(753,636,239)	(792,475,940)	(840,614,713)	5.2%	6.1%
Net Commercial	\$ 1,789,603,344	\$ 2,026,322,064	\$ 2,202,359,127	\$ 2,558,961,270	8.7%	16.2%
Gross Taxable Value	\$ 9,171,542,940	\$ 10,170,435,537	\$ 11,019,665,049	\$ 12,379,690,578	8.3%	12.3%
Net Taxable Value	\$ 6,368,606,472	\$ 7,002,515,549	\$ 7,597,335,048	\$ 8,466,235,689	8.5%	11.4%
Residential Taxable Value	\$ 4,579,003,128	\$ 4,976,193,485	\$ 5,394,975,921	\$ 5,907,274,419	8.4%	9.5%
Commercial Taxable Value	\$ 1,789,603,344	\$ 2,026,322,064	\$ 2,202,359,127	\$ 2,558,961,270	8.7%	16.2%
% Residential	72%	71%	71%	70%		
% Commercial	28%	29%	29%	30%		

2013 -2015 Based on Supplemental Roll prior to Final Roll Reported in CAFR
2016 Based on Preliminary Numbers Used in FY2016 Proposed Budget

The City has additional capital improvement needs to serve more residents and higher expectations. In this budget, we suggest a different approach on the next round of capital funding for the CIP projects. Rather than picking a year certain to ask voters to approve a new round of capital improvements, we could propose to wait until we hit a specific higher taxable value *and then* present a package to the voters. The logic, outlined in the CIP in more detail, is to time a future bond referendum when the City's property valuation can fund the new debt service with no (or very little) further increase in the debt service tax rate, growing into our needed capital improvements needs as our value grows.

Property valuation, net of TIRZ valuation, *would need to be approximately \$8.26 billion*, now estimated in 2020, to support additional debt of \$70 million with no debt service tax rate increase. The City's estimated valuation for FY2015/16 net of TIRZ valuation is \$6.387 billion. The March discussion of the City Council following our white paper discussion was to have a smaller bond program that could be reasonably completed in a three to five-year time frame. The alternative is to plan on a 2018 bond referendum. Based on a five-year window, an

additional 2.5 cents would be needed in 2019. The alternatives are not overwhelming rate change, but something Council will want to consider.

Squeezed property tax rate for operations

The tax rate is essentially divided into two parts; debt service and operations. The debt service portion of the tax rate is dedicated to meeting the City's obligations for debt issuances made for critical long-term improvements that will give our community the foundation it needs to keep moving forward. The operations fuels progress on a day-to-day basis, giving our staff the tools they need to maintain the high service level our residents expect and deserve.

We are providing excellent value for the operations and sound investments for the capital projects financed with debt service.

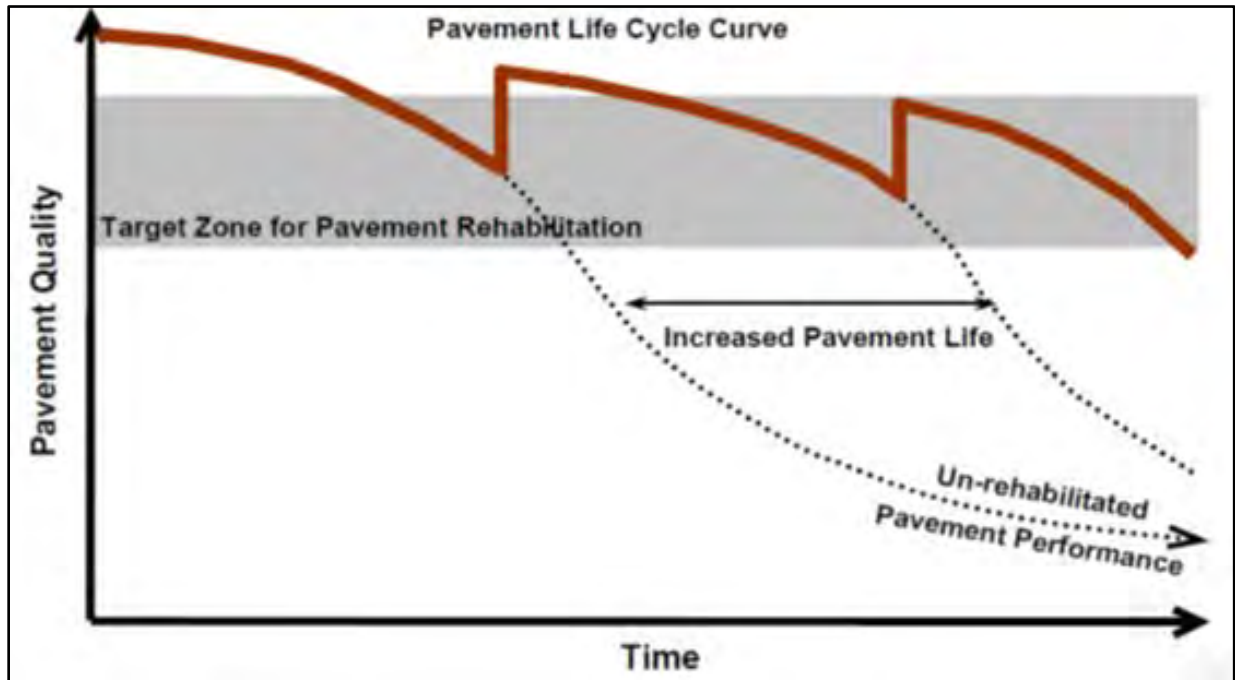
The debt service component, as shown by many measures and well-known and accepted as a part of Pearland's current point in its maturation, has been discussed and options provided. There is a scenario provided in the budget detail for the operations rate to increase. Although not recommended, Scenario 2 is an option to provide about \$1.1 million in additional recurring General Fund Revenue by adding \$01.5 to the operations tax rate, over the roll-back rate. Such an increase could sustain another \$650,000 towards street and sidewalk maintenance and the \$220,000 required for an additional 0.5% increase to City employee salaries, amongst other smaller inclusions.

Even with the amount required for capital project debt service, and keeping within the rollback rate, the General Fund's tax rate is helping fund an array of investments in this budget. The growth in value and the small increase in the operating rate, staying just below the roll-back rate, provides \$14.6 million in revenue. We are funding a solid list of departmental needs that directors and their teams have prioritized. But until the tax base grows even further, our ability to grow and support further services will be constrained.

Unmet needs for infrastructure recapitalization

Mobility was identified as one of the most important focus areas for the community in the City's 2015 Citizen Survey. Overall ease of travel rated 56%, travel by car 43% and traffic flow 24%; all lower when compared to national benchmarks. Nothing gets in the way of forward progress like a bump in the road. Roads, bridges, sidewalks, and pipes all have capital deterioration curves. Without maintenance, over time, the physical things we build, that we rely upon, deteriorate. Usage and weather wear down our public buildings, streets, and drains. The life cycle curve for pavement is another one of those physical laws.

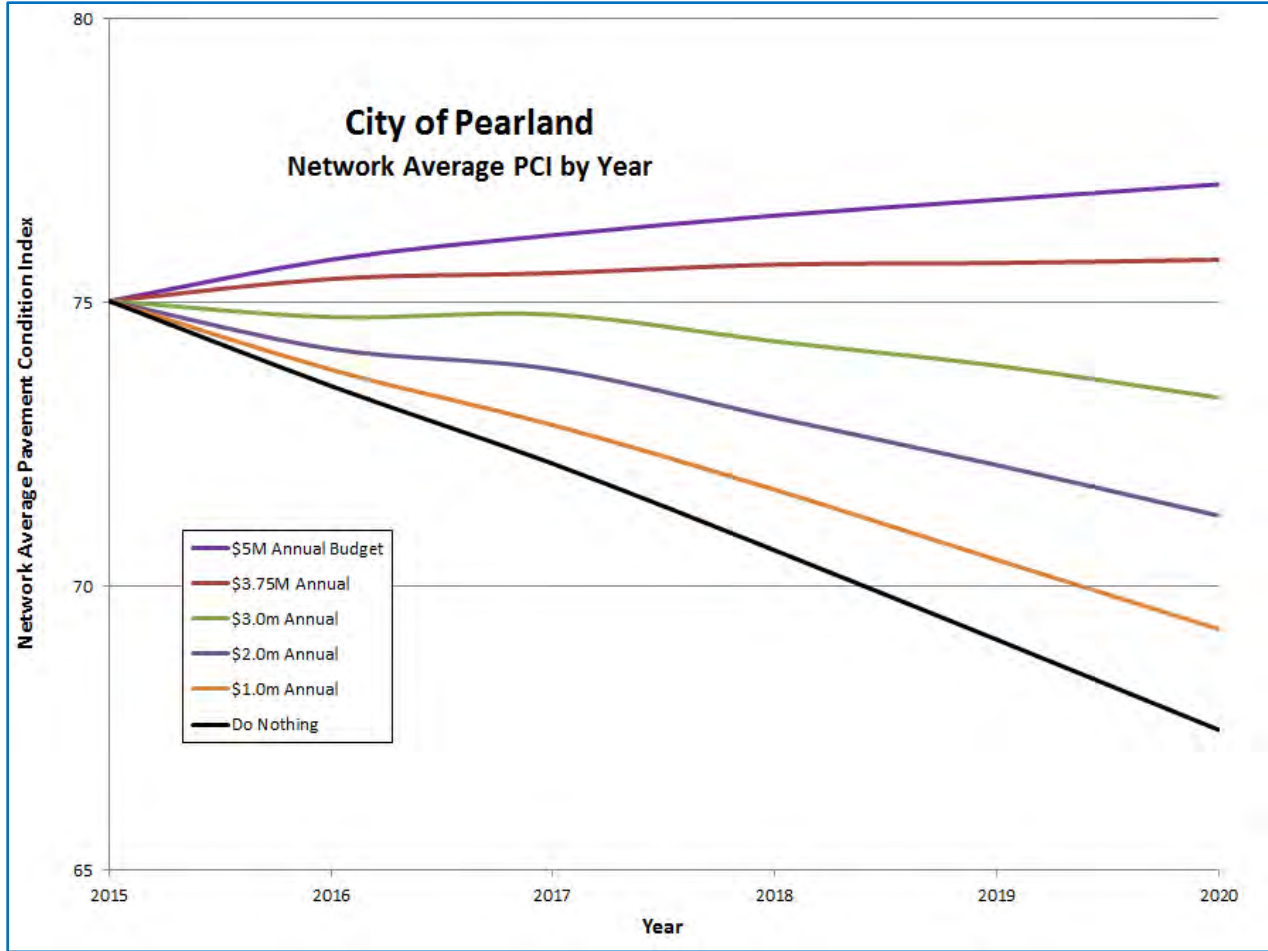
The graph below illustrates the natural progression of the pavement life cycle versus the life cycle of properly maintained pavement. With funding and regular inspections and maintenance, the orange curve can be achieved, and increase pavement life. Without the appropriate investment, the natural momentum of pavement, and every other piece of infrastructure, follows a downward curve, illustrated by the dotted line.



At the City Council's early budget input in March 2015, the white paper on infrastructure recapitalization quantified the City's depreciable fixed infrastructure (roads, pipes, walks, and land) and building assets at a combined net value of \$697 million. That's right. The City Council is Board of Directors for a complex municipal corporation *with just under three quarters of a billion dollars in value*. On the roads, thanks to a June 2014 right-of-way assessment, we know we have a fairly new inventory with overall conditions well above average. As we presented in April, if we were to reinvest a modest 1% of value into our roadways we would need to spend \$3.7 million annually. Additionally, within the ROW, are sidewalks, signage, and markings. Findings from the assessment recommend we should allocate between \$0.75 million and \$1.25 million annually for those improvements as well.

The higher level of investment is required to maintain our current condition rating index score, which is 76 on a scale of 0 to 100 (100 is pristine new). To be clear, most of the higher investment amounts do not *improve* the rating, it merely keeps the condition at its current level. Ideally investments should be made in paving and sidewalk infrastructure before these assets have reached the end of their usable life to maximize their longevity.

It is far less expensive to strategically maintain a segment of road or sidewalk than it is to reconstruct it. For every dollar spent on maintenance one can expect to spend eight on reconstruction down the line. The curves below show different annual investment levels and the corresponding pavement network's condition average that is forecast.



With the momentum headed forward in this recommended budget, we have begun to make improvements toward backing up words with dollar investments, but we still have a long way to go. The investments here represent pay-as-you-go maintenance, putting off the major reconstruction that’s more expensive and requires more bonding. Staff is always perfecting our delivery mix of fixes with staff, contracts, and working with partners like Brazoria County. We are ready to make these improvements in neighborhood and City-owned major roads that Pearland residents use for their mobility to get to the major trunk lines of 288, I-45 and Beltway 8.

	2014 Adopted	2014 Actual	2015 Adopted	2015 Amended	2016 Proposed
Streets	600,000	547,636	432,139	1,232,139	1,532,139
Sidewalks	437,000	568,195	337,114	687,114	537,114
	\$ 1,037,000	\$ 1,115,831	\$ 769,253	\$1,919,253	\$2,069,253

To move towards increasing the budget for streets to \$3.4 million, a significant long-term positive, we have included the following amounts in the forecast:

	2016	2017	2018	2019	2020
Streets	537,114	537,000	537,000	800,000	800,000
Sidewalks	1,532,139	1,532,000	2,432,000	2,932,000	3,432,000
	\$2,069,253	\$2,069,000	\$2,969,000	\$3,732,000	\$4,232,000

Long-term look at best deploying our public safety resources for the best results

Pearland maintains its status as a safe community and was another important focus areas for the community per the City's most completed Citizen Survey in 2015. With the collective efforts of police, fire, public works, constables, Brazoria County Sherriff, Texas Department of Public Safety, and citizens, there are resources for prevention, planning, and reaction. This is supported by the City's 2015 Citizen Survey results with overall positive service ratings of 88% and 93% for Police and Fire Service, respectively. Overall feeling of safety in the community also rated favorably with 87%. With continued investment and growth in public safety providing our organization with the momentum to move forward, it has become increasingly critical to direct that momentum in an efficient and effective way.

In June 2015, there was a bit of a modern milestone achieved within the City. We were at 100% staffing for sworn police officers and firefighters. Thanks to a great deal of concentrated effort and wisdom from staff across the City team, there has been successful recruitment rounds with ambitious numbers and impressive results. Interviews with the new additions show eager recruits who want to be a part of a dynamic City with opportunities for growth. The people we are bringing in to the City of Pearland, who are committed to public service, see the positive momentum of Pearland.

The achievement is great with the numbers that are actually in service. A count of personnel **actually on the payroll**, not just budgeted or planned, was taken from the second payroll of June in each of the last three years. The numbers here reflect actual numbers of public safety employees, not including the many non-sworn:

City of Pearland – sworn police officers and non-civilian fire/ems Actual number on payroll for June of each year			
	June 2013	June 2014	June 2015
Police Peace Officers	141	144	155
Fire (reflects Fire and EMS)	42	53	73
Total and Change from prior year	183	196 +16	228 +32

When thinking about the next year in our public safety operations, five priorities come to mind:

1. Conduct staffing and utilization study. The Pearland community and its Police, Fire departments are very different from what they were ten or even five years ago. The departments and the City we serve are bigger and more complex, technology is different and ubiquitous. A look with fresh outside professional eyes to work with our staff and prepare a staffing and utilization study, with our Police Department in FY 2015/16 and then Fire in FY 2016/17 is anticipated. That study will provide a tool that police leadership can adjust and prioritize staffing levels and plan for future budget years.
2. Integrate additional fire stations and associated additional people, equipment to prevention and response. Within calendar year 2015, two new fire stations are being constructed and occupied. The numbers of actual firefighters, now predominantly cross-trained as paramedics, reflects a dramatic upgrade in coverage capability. Moreover, Pearland will have two hospitals up and running within its corporate limits, providing more nearby public health resources. Integrating the people, new stations and their equipment into the City hazard prevention and response network will take dedicated effort over the next year.

3. Formalize and work with data analysis and accountability philosophy. The City hired a civilian crime analyst who is dedicated to reviewing, compiling, and sharing timely and accurate information. Nationally, the Data-Driven Approaches to Crime and Traffic Safety (DDACTS) is an established approach. The National Highway Traffic Safety Administration describes in operational guidelines DDACTS as “Implementation of the DDACTS model is a starting point for achieving long-term change, where law enforcement professionals take a more evidence-based approach to the deployment of personnel and resources.”
4. Continue city-wide preparation and hazard identification/mitigation. Within the City, a cross-departmental team known as SNAP (Safe Neighborhoods Around Pearland) has been meeting over the course of the last year. That group is indicative of the needs for teams, such as our traffic committee, all our emergency preparedness work, etc. to identify, plan, and abate neighborhood detractors and hazard situations.
5. Reduction in False Alarms. False alarms are the largest call type reported to our emergency dispatch center. Of course, we do not know that they are false until it is confirmed. The required responses too often detract from personnel, equipment, and financial resources that could be better put to other work. There will be an element of alarms that are a part of our response, but by making rule and administrative changes over the next year, to educate the public and reduce false alarms will provide more time for other duties and more safety for our staff and the public.

The short-run trend for police calls is as follows:

Pearland Police Calls for Service			
	2013	2014	% Change
Self-initiated	67,657	55,270	-22.4%
Citizen	29,599	30,012	+ 1.4%
Total	97,256	85,282	-12.3%
False alarm calls are the largest category of calls for service			

The City remains in outstanding position for its public safety provision and will continue to get better and adjust for the movement of our citizenry.

Multi-year financial planning

A highly effective tool in budgeting is multi-year financial planning. When policymakers have systems and attitudes to look at estimations of bottom lines three or so years out, you can make small adjustments now to address impacts of trends. When you take a regular multi-year view, a time horizon such as three to five years is reasonable for making good estimates, you can look ahead to avoid the accumulation of issues that “suddenly” become a crisis. Employee benefit costs such as pensions, are examples.

The City of Pearland has long been using such prognosis. The budget document shows in the multi-year financial plan section herein FY 16 plus two more years and is based on a set of well-reasoned assumptions, including operating costs of completed CIP, staffing, replacement of equipment, and other known costs. We have a separate CIP that is longer, and reflects operating, not just construction costs. The utility funds in particular, are important for their large quantity and scale of capital and operating revenues/costs.

The multi-year plan continues the momentum with growth and development in property valuations, completion of the 2007 voted bond authorization and plans for a future bond referendum as well as provides for mission

critical capital in the water/sewer fund all for the force (growth) that drives the City forward to keep it moving in the right direction. This momentum will drive the rate of change in the tax rate and in the water/sewer rates.

Structural Imbalance and fund balances

Maintaining a conservative approach, our General Fund's fund balance is something to maintain vigilance. The highest single revenue for operations is sales tax. Sales tax is volatile, subject to the economy. Taking the 2010 drop in sales tax, there was a 4.5% reduction from 2009 and an 8.5% reduction from budget.

Based on taking our 2015 year-end projections and 2016 base for the General Fund, if a similar drop as 2010 happened in 2015, the General Fund would see a drop in sales tax between \$1.7 million to \$2.1 million, excluding the increase for Costco. Thus, our \$778,000 fund balance over the two-month recurring expenditures minimum is *just* around a sound amount. There are many factors, of course, with growth and new taxpayers, and rooftops. But caution is the watchword on growing recurring costs, particularly with employee wages and benefits.

Moreover, the City in this General Fund budget has an FY 2015/16 recurring expenditures *in excess* of recurring revenue by \$321,000. That amount has been shaved from the prior year's estimate for FY 2015/16. Businesses or governments can handle planned expenditures in excess of revenue when times or resources require, as they do. As with the fund balance and sales tax reliance, the recurring operating net budget is something we have identified and discussed. We are working to bring the net General Fund amount to a regular near-balance.

Utility Enterprise Funds

The momentum of the City of Pearland's growth is perhaps most evident in the Utility Enterprise Funds. With growth comes the need for expanded capacity for water production and distribution and sanitary sewer collection and treatment. The accelerating growth of the past three years prompted the need for a temporary package plant at the Reflection Bay Water Reclamation Facility to handle the growth while the permanent 4.0 million gallons per day (MGD) permanent plant expansion is built over the next two years. Growth has also re-prioritized the expansion of the JHEC plant over the Barry Rose plant. Both projects are being developed to ensure the permanent expansions are completed when needed. On the horizon in 2017, is the first phase (10 MGD) of our first Surface Water Treatment Plant, which will be the largest single capital project in the City's history.

At the March retreat, after review of the recapitalization needs of the streets and sidewalks, the City Council asked what was needed for the water and sewer recapitalization. As with streets and sidewalks, the City's recapitalization efforts that maximize infrastructure life cycle costs in water and sewer are gaining momentum towards additional funding on a pay-as-you go basis. Analysis of water line failure data, has led to significant progress being made replacing older transite pipe. In addition, a comprehensive line cleaning program has been implemented to address water quality issues. The other areas where the seeds have been planted and momentum is gathering is developing a comprehensive inflow and infiltration (I&I) sanitary sewer program. With older systems, line breaks, open manholes and cleanouts, etc. contribute significant flows that must be processed at the plant, which increases operation and maintenance costs and drives the overall plant size. The recently purchased new vacuum truck was the first step in developing a program to examine the collection system to provide needed information that will lead to repairs, rehabilitation and replacement of these lines. With a comprehensive I&I program, the collection and treatments system will continue to capably serve the citizens of Pearland. The FY2016 budget continues and expands upon these programs.

The new projects coupled with the rehabilitation projects equates to a 2015-2019 CIP with \$261.6 million of projects in the enterprise fund. These large capital expenditures are coupled with significant inflation in the construction industry, which has exceeded cost projections. As these projects are necessary capital costs associated with new development, consideration should be given to a new Impact Fee study and evaluation sooner than our normal five year cycle, which would be in 2018.

Revenues for FY2015 have been less than budgeted due to the end of drought conditions for our area. This has been taken into account for the future revenue projections. Therefore, to operate the system, provide for debt service, cash reserves, meet bond coverage requirements, and achieve sustainable infrastructure while dealing with the revenue constraints, the Utility Enterprise Fund budget includes a 16% revenue increase, generating \$4.7 million in additional revenues. The user fee revenue increase for FY2016 exceeds last year's forecast of a 5.5% increase due to the aforementioned cost increases and reduced revenues. The water/sewer rate model also show additional annual revenue increases needed for the next four years of the model. However, the increases are necessary to carry forth the momentum that has been built with the new growth and to sustain our existing system to provide quality service and water to our customers.

A final piece of our utilities is storm water management. Based on the storms of this past spring and early summer, we have seen the fruits of our seeds planted over the past decade with very little structural flooding throughout the community, as compared to the past. We expect to build on that momentum with the Master Drainage Plan that is being planned for completion in FY2016. The plan will provide the City a guide for future storm water projects and provide us the data to reap the benefits of past investment by potentially lowering the flood plain elevations on the Flood Insurance Rate Maps (FIRMs). This continues the direction established at the early budget input meeting to update our master plans to keep them living, breathing, and useful document to guide the City's growth.

Conclusion

In a budget with overall expenditures of \$304 million, there are always going to be priorities of some included and not of others. Not to belabor the point of Pearland's positives, or in *any* way become complacent (that will not happen), the list of issues here are more along the lines of prioritizing opportunities. There are not major threatening trends or momentum-halting local crises. City staff here every day are great stewards of the public dollars and balancing different needs and wants in advancing the positive momentum of Pearland.

We look forward to the team of elected and appointed staff partnering with the broad Pearland community and getting after continuing our progress, to make the most our being on a positive roll.

Respectfully submitted,



Clay J. Pearson

City Manager

Postscript: The annual City budget is my responsibility as City Manager to recommend to you. You know too that the budget plan is a work of professionals across the City of Pearland government who know and care about the community. The last 19 months in Pearland for us have been a professional and personal positive opportunity appreciated. I thank **Claire Bogard, Paulette Englund, Neelie Walker, Joel Hardy**, and all in our office on this budget and all who I work alongside -- the administrative, professional, and technical experts, who are the front smiling faces and the behind-the-scenes public servants that make this great place move forward The Pearland Way.