



30 July 2020

Mayor Reid and Honorable City Council members:

It is the responsibility of the City Manager to put forth a recommended budget, one that is balanced but also has the capability of delivering the quality essential services that are required of the City of Pearland.

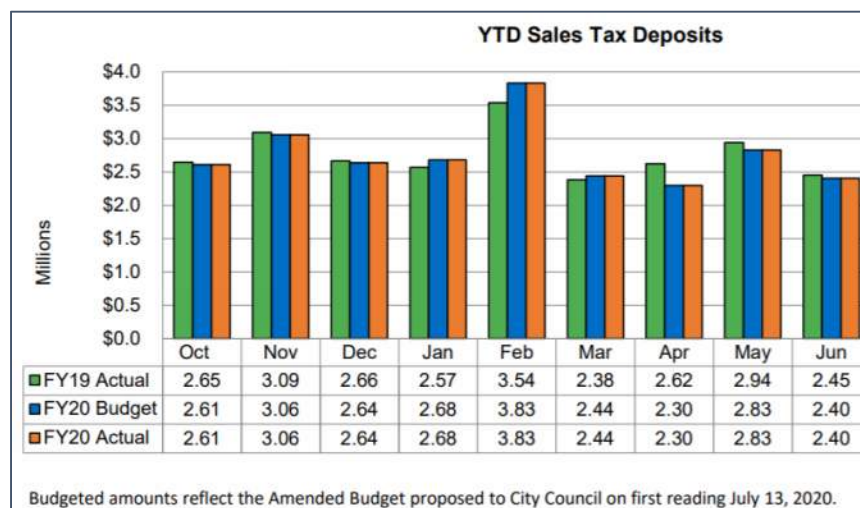
Background and Context

COVID-19 & an Oil Glut equals what Bloomberg news called a “[double black swan](#)” event for Texas. That reality **sets the stage for everything that comes after, whether we like it or not.** The contrast in our reality is that we have a still-growing city with ambitions and needs in a competitive environment. A resiliency exists and is critical to not only persevere through the swan events, but to emerge a stronger, better community when the clouds clear and community gatherings resume.

We at the City of Pearland build up our systems and our people to be resilient. In the current 2020 pandemic era, we have built in contingencies and are operating from a position requiring deferring expenditures for maximum flexibility. Opportunities to balance the immediate needs and keep investing in long-term benefit projects remain all around us. The context in which we are getting things done, though, remains decidedly different. An Economist article (April 30, 2020) described the pandemic-era ‘90% economy’ whereby activity is not only smaller, but differently “weird” and less predictable. It is with that reality that the City’s recommended budget for fiscal year beginning October 1, 2020 is presented.

We know that many families and businesses have been strained and set back dramatically. However, as a multi-faceted local government, the City of Pearland’s impact, as monitored and reported continuously, has *not* shown dire impact from effects of this pandemic. **The combination of early action, conservative budgeting, and continuous monitoring have kept City finances in good standing.**

Indeed, the elastic revenues of building permits and sales tax were reported in the Third Quarter financial report to be thus far only slightly off the prior year total. The sales tax receipts represent





not just our revenue but also act as a proxy for the impact of the economy and the cursed double-black swan upon Pearland:

- Ironically, there are newly appreciated strengths, from a financial basis for this pandemic, that are not always evident: Sales tax base big boxes in Pearland are **business to consumer transactions**. Large traditional general retailers as shown in the table above constitute near a quarter of the retail sales tax revenue for a month. Other cities have a larger business-to-business or tourism/travel component that hurt their revenues more.
- As properties are assessed by County appraisal districts for their value at one moment in time, on the first of the year, changes in market conditions through the year do not impact local governments except as measured at January 1 value of each year. Pearland's property tax base is supported by **stable residential uses** (fully 2/3 of the total with commercial uses the remaining 1/3). Current historically low interest rates seem at present to offset typical declines in values found in constricted economic conditions. Pearland housing indicators appear strong and would look to stay robust so long as recovery brings some normalization of the surrounding and supporting job market.

Top 10 Taxpayers			
Rank	Company	FYTD Collections	% Total
1	WAL-MART STORES TEXAS LLC		
2	HOME DEPOT U.S.A. INC.		
3	H-E-B LP		
4	COSTCO WHOLESALE CORPORATION		
5	LOWE'S HOME CENTERS LLC		
6	SAM'S EAST INC.		
7	TARGET CORPORATION		
8	ACADEMY LTD.		
9	BEST BUY STORES L.P.		
10	NEW CINGULAR WIRELESS PCS LLC		
Top 10 Companies		\$ 6,702,971	23.9%
11233	Other Large Companies	\$ 21,081,091	75.0%
	Small Companies/Other	\$ 299,386	1.1%
	Single Local Tax Rate (SLT)	\$ 18,878	0.1%
Total		\$ 28,102,325	100.0%

The City of Pearland through FY20 did not experience drastic revenue reductions. We acted to increase cash reserves which will give us flexibility in the form of additional fund balance. Throughout FY20, we maintained a mantra of working to maximize flexibility and reserves to deal with unknown change.

Even though there are local governments that do not have the financial stability we enjoy, we are still not presuming rapid growth in revenue streams. Therefore, we are **producing a budget here that meets the minimums, or just over, for most operations. The problem is that this is not a status quo community:**

- There are increased service level demands *and* volumes of service requests generally (plus population, plus business quantity, plus complexity of context in which we serve).
- There are large infrastructure and equipment needs of the City's responsibility that need reinvestment.

Given the uncertainties, there can be a year of increased deferred maintenance investment for our responsibilities, but we know it will require more when better certainty and conditions return.





Race, Equity and Justice

The spring and summer of 2020 was already stressed and jumbled across the world. Then, the Minneapolis in-custody death of George Floyd heightened and shifted attentions. Pearland was on a world stage for a brief afternoon as the processional for Mr. Floyd’s entombment came down our Cullen Boulevard. Both then and the days leading up to the entombment, the Pearland community experienced similar dismay at our country’s unaddressed and unresolved inequities and injustices. While Pearland, through long-standing partnership and listening with our community as a bedrock stood strong, we want to be a part of something better. The Pearland example for communication and professionalism from local law enforcement must become the norm.

Our community is proudly diverse. The biennial CDS benchmarking survey showed most recently how Pearland among even diverse peers maintains a mix of ethnicities, a measure of diversity, that has no single background in a majority. In fact, there is an even distribution.

Policing, law enforcement generally, and the justice system are at the forefront of the social justice discussions. Our Pearland Police Department training, leadership, and practices work to reflect the community and earn

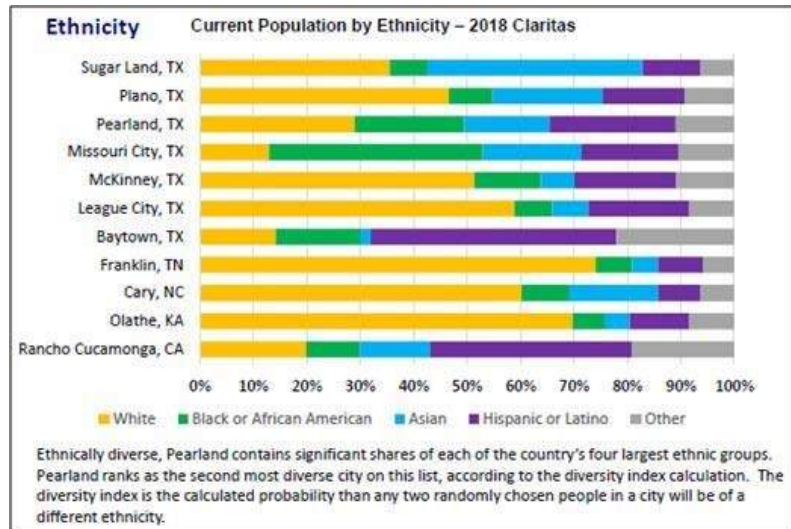
the support and confidence of those we serve. The dialogues and examinations continue. We [shared a 'Foundational Elements' communication hub](#) to explain and document rules and training requirements. Our use of force doctrine is reviewed regularly with a new section forthcoming in August. Officers are trained and will follow those rules.

Internally, we have a Diversity, Equity and Inclusion Taskforce built to ensure employees from across the City feel heard and included, and that they are part of a community that incorporates our team members of different backgrounds, lifestyles and perspectives.

Our investments in the budget and use of staff time to build community and opportunities for coming together are important. We can also lead by example by being a workplace that’s welcoming to people of all backgrounds and support that with time and budget. The following is the Diversity Statement and Tagline for the Diversity, Equity, and Inclusion Task Force that guides their work:

Diversity Statement:

At Pearland Parks & Recreation, we are building a vibrant and connected community. That goal can only be achieved when everyone is allowed to shine. Through programming, recruitment, events, partnerships, recreation, community spaces, and more, we are dedicated to creating an environment that celebrates and welcomes all. Everyone has a safe place here. Play, engage, and celebrate. You are Pearland Parks and Recreation.





COVID-19 virus – Ongoing Response and Recovery

Response

We teach and emphasize “all hazards” readiness. While weather is our usual hazard, the high-water rescue vehicles aren’t a useful tool for a global pandemic.

Proactive actions taken administratively started formally when we promptly activated our now longest serving Incident Management Team. Early steps that seem so long ago were strong work from our IT-GIS team members to lead developing a rhythm for a dashboard that’s been publicly facing and updated daily ever since origination in March 2020. At this writing, we are within our Incident Action Plan #24 and have issued Situation Report #36. No event in my career or within our team has had such extended operational periods.

As the saying goes, “the best time to repair the roof is when the sun is shining.” The commitment and planning of the staff team for emergency management has served us well. Over the last year there have been significant technology investments in the Emergency Operations Center. One example is the WebEx meeting software which has facilitated communication from the Emergency Operations Center disseminating information to the Incident Command Staff related to the COVID-19 pandemic, the George Floyd entombment, and inevitable tropical storm developments. Our staff team shifted us to take advantage of the city’s existing technology by leveraging a teleconferencing room kit in the EOC that seamlessly integrated into the current phone system.

From emergency preparedness generally, there’s increased focus, with budget to support, upon training for the rainy day, with position-specific training (topics of public information and planning). To heighten awareness, the budget reflects a reporting move of Emergency Management (two existing staff) from Fire Department into the City Manager’s Office. That makes sense as emergency management is a city-wide priority.

We were preparing for the acknowledged weather risks most visibly by acquiring high water rescue vehicles and training, the all-hazards mindset of emergency management gave us the ability to successfully manage three separate incidents commands *simultaneously* for a time in June – the ongoing COVID-19 pandemic, the George Floyd entombment, and the potential threat of Tropical Storm Cristobal.

City operations have continued to function at near-normal capacity, provided the workforce in some ways has shifted workloads and accelerated technology adoption to account for the new operational normalcy. Daily work activities leveraged the City’s advancement in technology by moving to a digital workplace, all of which were results of prior budget investments. The IT infrastructure supported the workforce transition instantly and provided the flexibility departments needed to allow continuity of services across the organization.

Benefits of the recent IT infrastructure enhancements have allowed the organization and staff to continue to work seamlessly from any device; anywhere. Specifically, the fiber network investments provide the communication backbone necessary to accomplish the work. This investment allows the staff flexibility to communicate and collaborate across the organization from any location while facilitating the “personal connection” needed in the workforce. Building on the infrastructure, Office 365 provided access to the Teams application which consolidated and organized the operational collaboration aspects into one holistic system removing the physical boundaries.

The WebEx acquisition for teleconferencing allowed public meetings (City Council, Planning and Zoning, etc.) to continue without impacting City business. This technology offers a platform to conduct virtual meetings anytime, anywhere and provides transparency for the public. The





teleconferencing was coupled with enhancements in the City Public Access Channel to deliver high quality meetings on several technology platforms, Channel 99 for U-Verse, Channel 16 for Comcast, and the City's YouTube Channel; all supported by the Public Education and Government Cable (PEG) Fund. None of these advancements were available to us a year ago.

For staff, the best opportunity for staying healthy sometimes meant staying safe at home. Remote work policies, leave banks, and

accommodations, helped ensure that city employees could remain safe while performing their duties and meeting the service needs of our residents. We, of course, maintain most City-provided essential public services – public works, park maintenance, police, and fire in the real world, not virtually. We have continued to respond to emergencies when called upon, but emergency volumes were generally down. Critically, employees who have need for direct contact with the public are trained and equipped with personal protective equipment (PPE). Training and policies have evolved and adapted as the weeks wore on, and knowledge and guidance changed. The result of proactive measures and management is that we have had low infection rates; most infection exposures are attributed to contacts *outside* of work.

Closures in higher risk areas including the Knapp Senior Activity Center and our recreation program offerings, were necessary. Periodic closings of our Recreation Center and Natatorium, City Hall, Public Safety Building, and Animal Shelter to the public were also required. At the Knapp Activity Center, the staff there has had the ability to sustain meal service (pickup and delivery) of over 15,000 meals and engage our aging population via technology to host virtual book clubs, coffee talk, and several art courses. These services were [recognized by the National Recreation and Parks Association](#) as an exemplary response to the pandemic for older adults.

Within services provided to the community, there is a common-sense approach that is operating with an awareness of waning discretionary dollars. At the Recreation Center & Natatorium, membership charges have been suspended and will resume as Phase II of the published plan is implemented. For citizens choosing to continue using home gyms, etc. an option to continue suspended charges (and use) is available for an undetermined time frame that will evolve with the pandemic recession.

Recovery

There are now the seeds of recovery even as the virus continues its community spread. Hurricane Harvey and “traditional” incidents are relatively ‘quick’ with an immediate impact followed by recovery & rebuilding physical infrastructure. With the ongoing pandemic, we are still in the thick of things, continuing to provide public services in this ‘new normal’ that will continue for the foreseeable future, but major uncertainties remain for safety and economy. Indicators contrary to each other abound -- sales tax, home values, private investment, jobs.

The incident Management Team closely monitors the evolution of COVID-19, specifically in Pearland, as a function of Public Health, as well as the successive implications of that relating to the sociological future, and those firmly rooted in a sound economic horizon.





To appropriately pursue, and receive, the types of funding to best serve the needs of the organization and community, in response to the current pandemic, the City has been allocated \$6,374,005 directly from the State of Texas for recovery efforts in the Brazoria County portion of the City, with an additional \$288,035 expected from Harris County for that portion of the City limits, and another \$56,155 from Fort Bend. Including the \$251,873 the City will receive from HUD for Coronavirus stimulus spending, \$40,503 from the U.S. Department of Justice, and another \$44,767 from the U.S. Department of Health and Human Services for Fire Department COVID-19 EMS transports, **the City has been awarded a total of \$7,055,338 in Coronavirus pandemic relief for disbursement to local unmet needs in Pearland.**

Success Factor: Practice, Training, and Attention (not luck)

Continued City of Pearland success rests upon maintaining our resiliency as an organization. This starts with financial resiliency resulting to, and affected by, this recommended budget. Our Moody's outlook was returned to 'stable' during the worst economy we've seen in our lifetime. The decisions made in the last two years to add more to fund balance beyond minimums for several years precipitated the change. The recommended FY21 balanced budget continues that trend while keeping variables in mind:

- Local sales tax continues to outperform state and nation.
- Smart decision and planning at the Capital Improvement Plan (CIP) presentation & Early Budget have given us tools to manage tax rate in the future while supporting critical improvements.
 - The multi-year nature of the CIP and necessity to plan and prepare largely independent of single quarter or even individual year changes.
 - Taking advantage of the City's benefit of investment and securing competitive pricing in many cases.
- Aggressive action by Staff to pursue external funding secure \$6+ million in CARES act funding.

Operational resiliency

Our City services continue, and the City is "Open", but in different ways since March and for the foreseeable future. The diligence and dedication of the City staff should not be underestimated nor go unrecognized. On top of the Incident Management Team and the associated response to the COVID-19 pandemic, much work was done to keep the Pearland community working, especially from our Parks and Recreation Department staff who have:

- Introduced rotational schedules and remote working options.; flexible leave time and other provisions where provided when possible
- Offered online programming and adapted on-site options
 - Nearly 100,000 attendees to virtual programs offered by the Delores Fenwick Nature Center
- Developed Group Fitness as a live stream
- Launched Community Scavenger Hunts via App
- Orchestrated Web-based 'Camp at Home' that has been attended by over 20,000 residents





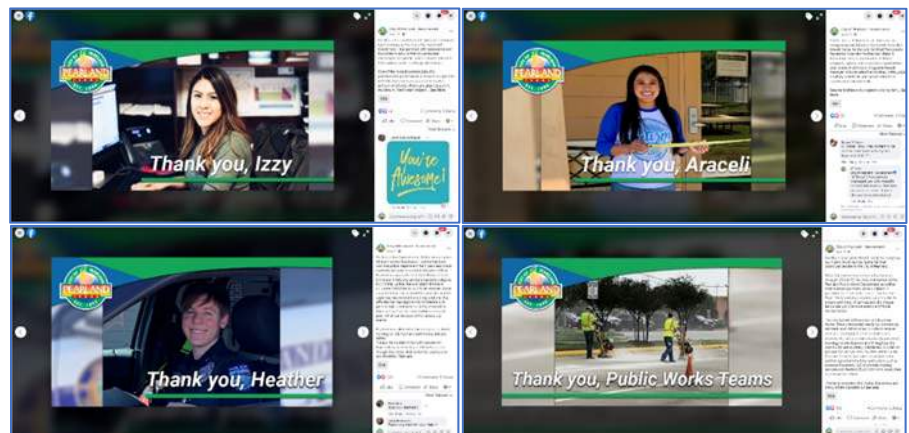
- Running Virtual Adaptive Programs for those living with Physical or Cognitive impairment to nearly 5,000 participants
- Launched a drive-in movie series: 'Sunset Cinema' observing social distancing requirements
- Produced Water Safety Videos, and Tips for Swimming safely at home
- On a dynamic reservation system, the Recreation Center and Natatorium, is opening (and closing) guided by the waiting period within Opening America plan, and has served over 1,000.
- Continued Senior Center meal delivery services through partnership with ActionS of Brazoria County.

Another example of operational resilience comes from our Community Development colleagues. To continue to assist development in moving forward in Pearland during these times, the Community Development Department assigned additional staff to assisting builders, contractors, and residents with filing all permit applications online. Additionally, an appointment system was created to allow those that need in-person assistance to sign up for a time to come in the office and visit with permitting staff. Pre-Development meetings, a useful tool which provides an applicant with the ability to meet with a wide variety of development review staff in the early stages of a project, moved online to ensure the provision of this important service.

The parallels between High Performance Organization (HPO) culture and Emergency Management actions are plentiful. Running three Incident Management Teams simultaneously with precision and success does not happen by accident. Experience, planning (HPO and IC training), putting the right people in the right place, after action/lessons learned, financial ability to keep the city services moving without a break in service and/or laying people off when finances show signs of strain. We prioritize keeping our people safe for their own good and their families as well as being able to continue service.

Thank you City of Pearland staff – Our Excellent Public employee servant leaders at all levels

We understand the value of acknowledging the hard work our dedicated staff commit to everyday, partly because of the work of HPO. We empower our people to be leaders at all levels, trust their judgement, and stand by them as they serve this great community. The outcome is a stronger workforce that operates at a higher level and provides more comprehensive professional satisfaction.





Continued Growth and Development

Sustained and managed growth and development of the City helps ensure the resiliency of Pearland itself. With the investment of private dollars through continued development of commercial parcels and residential subdivisions, Pearland ensures a steady and strengthened community that supports the property and sales tax bases essential to the provision of services. Though the effects of COVID-19 have impaired development this year, higher than expected permit valuations and fees received, the health of the existing housing market, and the continued interest shown in our city by the development community, highlight Pearland as a desirable city for the future.

FY20 Investments

State Highway 288 Toll Road Completion and Master Improvements

As the 288 managed lane project nears completion (toll lanes estimated to be open to traffic in late 2020), the City and Pearland Economic Development Corporation (PEDC), along with the Pearland Municipal Management District No. 2 (PMMD2) continue to work to complete the final phases of the SH 288 Master Improvements Plan. This project is a strategic investment to preserve and enhance the economic value that has been created in the 288 corridor. This investment speaks directly to the two community goals in our Pearland Prosperity Strategic Plan for economic growth and diversification through a holistic approach to economic development and to ensure we are providing quality features so that we continue to be a community of choice in Greater Houston.

These improvements will ensure a memorable corridor that will increase our community's competitiveness for talent, jobs and investment. The 288 corridor in the last 25 years has transformed from a rural area, to the commercial heart of our community, with millions of square feet of retail, office, two major hospitals, surrounded by high quality residential communities. The economic impact to our community of the 288 corridor cannot be overstated. The long-term sustainability and growth of these developments are vitally important to our sales and property tax base that the City depends on to generate the revenue to provide services to our residents.

The improvements include landscaping, irrigation, lighting, large water fountains, pear sculptures, and gateway signage, from Beltway 8 to Magnolia Parkway. The improvements are expected to be complete in 2022. Funding for Corridor maintenance and long-term improvements will be the primary responsibility of PMMD No. 2 via its taxing authority.





Economic Development

At the center of the Pearland Prosperity framework are two Community Goals that broadly identify the desired outcomes of Pearland’s holistic economic development effort.

These goals are:

1. Economic growth and diversification: Provide opportunities for residents to prosper and enhance Pearland’s fiscal sustainability through a holistic approach to economic development.
2. A community of choice in Greater Houston: Ensure Pearland’s quality of life and quality of place continue to attract and retain diverse individuals and families.



The two overarching goals can be pursued through strategic initiatives grouped into seven high-level focus areas:

Business Development

1. Business Development
2. Business Formation and Early Stage Growth
3. Site Development
4. Corridors
5. Infrastructure and Mobility
6. Quality of Life and Quality of Place
7. Workforce and Talent

Business Formation and Early Stage Growth

A major point to come out of the strategic plan was that Pearland must enhance its entrepreneurial ecosystem of individuals, organizations, institutions, and programs that encourage and support the formation and growth of new businesses. In 2020-21, PEDC will work with the city to create an “entrepreneurial ecosystem,” by engaging in a multi-step process to develop the Pearland program, consisting of research, public and partner input and program design. Once the analysis is complete, we can create a development plan that will have the desired programming, a physical hub and other needed resources to create an on-going effective program.

Corridors: State Highway 35 Redevelopment

With the SH 35 Entryway and Corridor Enhancements completed in 2020, the City and PEDC will continue efforts to optimize the development potential of State Highway 35, one of Pearland’s principal corridors. One of the five catalyst concepts in the SH 35 Redevelopment Strategy is Business Park North. The City and PEDC will continue to implement this strategy to better position the properties in the area for investment by completing the remaining improvements for the Rice Drier/Halik area. The second phase of these improvements – the reconstruction of Rice Drier – are currently underway. The third and final phase, which includes improvements to Halik Road, are beginning final engineering design and we expect to begin construction in late 2021.





Overall Expenditures Highlights

Historical

In our Comprehensive Annual Financial Report (CAFR), an unvarnished snapshot of City of Pearland's finances across dozens of funds as of the September 30 close of each fiscal year, we provide a table of spending and growth analysis. The table shows a long run of total City expenditures by category.

The numbers are helpful to reflect the priority for our primary operating investment and growth in **public safety**, fully 21% of the total across all funds for the fiscal year ending September 30, 2019.

An interesting reality check is the long-run analysis of per capita City government expenditures when properly indexing to the Consumer Price Index: Per capita expenditures are *less* in absolute terms, even less when adjusted for CPI for ten years ago.

CITY OF PEARLAND, TEXAS				
SPENDING AND GROWTH ANALYSIS				
<i>Amounts in (000's)</i>				
<i>(Modified Accrual Basis of Accounting)</i>				
Amounts in (000's)			Ten	Average
Expenditures	2010	2019	Year	Compounded
			% CHG	Growth Rate
General Gov't	\$ 19,561	\$ 11,300	-42%	-6%
Public Safety	23,784	41,273	74%	6.3%
Public Works	7,108	16,968	139%	10.2%
Community Services	3,839	4,313	12%	1.3%
Parks & Recreation	6,305	5,959	-5%	-0.6%
Economic Development	15,426	29,195	89%	7.3%
Subtotal: Operating	\$ 76,023	\$ 109,008	43%	4.1%
Debt Service - principal	8,525	23,547	176%	12.0%
Debt service - interest	17,096	15,814	-7%	-0.9%
Capital outlay	64,563	43,474	-33%	-4.3%
Intergovernmental	4,234	7,168	69%	6.0%
Subtotal: Long-term/non-recurring	\$ 94,418	\$ 90,003	-5%	-0.5%
Total	\$ 170,441	\$ 199,011	17%	2%
Distribution of Spending				
General Gov't	11%	6%		
Public Safety	14%	21%		
Public Works	4%	9%		
Community Services	2%	2%		
Parks & recreation	4%	3%		
Economic Development	9%	15%		
Debt Service - principal	5%	12%		
Debt service - interest	10%	8%		
Capital outlay	38%	22%		
Intergovernmental	2%	4%		
Total	100%	100%		
Per Capita Expenditures Adjusted for CPI				Average
				Compounded
				Growth Rate
POPULATION	94,100	127,500	35%	3.4%
PER CAPITA	\$ 1,811	\$ 1,561	-14%	-1.6%
CPI INDEX (NATIONAL)	218.06	256.76	18%	1.8%
PER CAPITA ADJ TO 2019	\$ 2,133	\$ 1,561	-27%	-3.4%
PER CAPITA ADJ TO 2010	\$ 1,811	\$ 1,326	-27%	-3.4%





The FY21 Budget

Fiscal responsibility

The budget is presented below the current rate and below what the State formula calls no new revenue (aka Effective Tax Rate) That challenge, to be at the effective rate, was given us by the City Council at the February early budget input meeting, so that has been met. However, the Pearland community is not a *status quo* place, so there is also shared herein an option for the City Council to adopt to a different rate *and/or* to either preserve cash resources or allocate some of the General Fund unencumbered cash balance to City Council's additional priorities.

In a structurally balanced budget, revenues equal expenditures for recurring General Fund operations. In this budget that feat is not automatic and does not come without considerable work, scrutiny, and reductions - there are deferred expenditures and what we would like to put into the budget for employee wages is deficient. However, the constraints and uncertainties described many times exist for upcoming FY21 to make the budget reality here.

Water & Sewer (W&S) rates are recommended flat, even as labor, commodities and cost of production will rise slightly and significant capital improvements continue. There is a scenario option for minor decrease, but that would likely just expand the next years' rate increases. Actual performance of revenues and expenditures in the enterprise fund is not totally in our control – that's important. The fund performance results additional sales or not and lower than anticipated expenditures in FY20 and reductions to supplemental requests.

A "fix" of one problem two years ago, inconsistent billing cycles, led to a different problem last year - the gap between water meter reads and billing. That resulting gap grew to be extreme in 2019. That resulted then in a complex matter that we are working towards resolving and in many ways, will continue to shape our near-term way forward. We are rolling out the 32/30 plan right now with the first bills going out to customers in August. We've been able to partner with Raffelis to review our rate model and update FY20 projections and to review the revenue projections for the updated tier structure for the 32/30 plan. Strategic staff additions have bolstered the team going forward. We've seen tangible improvements in customer service and billing just over the last few months. This FY21 budget takes the critical next step of adding two more Billing Specialists to that strong team.

Compensation

Uncertain times ahead impact operations. As the situation evolves, so too will this budget and plan. **We have two months from presentation to adopt a budget** and changes can be made along the way, if needed. As described herein, we are going into the process with a significant unallocated General Fund's fund balance to provide flexibility and resources to deal with additional twists and turns. We will also amend the budget at least twice next year, but here are a few items to expect in the base budget:

- The standard Civil Service (Police) step pay increases and longevity are built into the base.
- A classification and compensation study is being solicited now for professional services.
- Zero increase to health care premiums for employees. This is a direct result of sound management of our Health Claims Fund, as we were able to utilize fund balance to offset the increase to employees, while remaining above policy minimum.





- Provision is included for the + 2.0% COLA across-the-board for employee salaries in October.

Capital Improvements

A significant portion of the Pearland story is investing in drainage, parks, facilities, streets, water and wastewater systems for the city we have now and are developing for the future. As stated on several occasions, Pearland has not had the luxury of growing gradually into its cosmopolitan suburban state. Maturation happened with a growth spurt over two decades – from 37,740 in 2000 to an estimated 130,000 in 2020. That's + 245% or 12%/year annualized. Put another way, the Pearland population addition over 20 years is almost equivalent to the population add of modern-day Missouri City and Alvin combined. So, it is no wonder there are a considerable number of projects to serve Pearland in 2020 and beyond.

The result is that building and serving that population has come in large capital improvement programs, facilitated first by the 2001 Bond issue that built many of the major stormwater detention basins and also Magnolia Parkway as a road improvement, then followed by the 2007 Bond issue items and then the 2019 Bond issue, plus many leveraged outside funding sources and certificates of obligation between.

The result is now an adopted 2021-2025 Capital Improvement Program with a half billion dollars of public improvement investments under our stewardship.

Highlights of the improvements around us, thanks to our excellent Engineering staff, include on the traffic and road network, the most obvious constriction and sometimes aggravation for residents and business:

- McHard Road extension from Mykawa Road to Cullen Parkway
- Mykawa Road Expansion from beltway 8 south to Broadway/FM 518
- Smith Ranch Road Expansion from Hughes Ranch Road to Broadway
- Pearland Parkway Traffic Circle
- Broadway Expansion from SH 288 to SH 35
- SH 288 northbound frontage road from CR 59 to FM 518/Broadway

Storm resiliency is on the top of our minds as we mark time before the pandemic in framing of which hurricane or tropical storm inundated the area. We are fortunate to have a strong ongoing partner with the Brazoria Drainage District No. 4. That's complemented now with the Harris County Flood Control District that is leading the Clear Creek drainage project, 50+ years in the making. Through Harvey and prior weather events, structures in the City of Pearland, particularly the new areas held to modern standards, have weathered well. The City has known the importance and invested for decades. Currently, projects include Willowcrest and West Lea subdivisions. There is a huge potential project for Hickory Slough drainage improvements that we are seeking a grant to fund with the State of Texas' Government Land Office.

Water is the essence of life. Providing fresh water and taking away and treating wastewater is one of our daily functions, but there are capital projects that require many years to plan, procure, build, and begin operation. Such capital projects for upgrades and modernization on the utility side include:

- Surface Water Treatment Plant to move towards our own supply of up to 10 million gallons per day





- Improvements to the Bailey well water plant
- Replacement of water pipe in the south Corrigan and Green Tee neighborhoods
- Expansion to the Barry Rose water reclamation facility
- Expansion and upgrades to the John Hargove Environmental Center water reclamation plant
- Replacement of sanitary sewer in the Old Town area
- Decommissioning the Longwood Water Reclamation Facility that's in a recurring flood hazard location

Parks are the energy of a city, appreciated now more than ever as people get out and distance in wide open spaces whenever able. Parks improvements include the new Green Tee Terrace section of the Clear Creek Trail, funded substantially by HGAC through a grant. Also, the Shadow Creek Trail along the Clear Creek Relief drainage area that will tie into our new public library area. City facilities to do the work we value are necessary. Near term construction projects include:

City facilities to do the work we value are necessary. Near term construction projects include:

- Animal shelter and adoption center to replace obsolete and undersized space
- State-of-the-art public library on Shadow Creek Parkway, to be operated by the Brazoria County Library System
- Public works service center on Orange Street that will withstand winds and rains while those staff operate in all emergencies
- Fire Station No. 4 on Freedom Drive, east of Cullen Parkway next to the Public Safety Building

Not in this budget

The supplemental requests from departments are listed here and the few able to be funded are highlighted. Most items from staff, which we encourage them to continue bringing forward for awareness and decision making, remain for another day.

Items include the fleet replacements, streets and sidewalks, and the numerous departmental supplemental requests. More mundane but important requests not included in the budget include upgrades to City Secretary document software, staffing in City Secretary as well as Engineering, Finance, Fire Information Technology, Parks, Court security, and Police.





General Fund Revenue Overview

Our City's General Fund provides the bulk of day-to-day services. Our work is primarily funded by the local 1% sales tax and our local property tax. The TIRZ #2 Administrative fee, the City's portion of what the TIRZ captures and sends back to the City for services, is accounted for in Charges for Services

Annual Budget by Account Classification Report

Fund: 100 General Fund	2018 Actual		2019 Actual		2020 Amended		2021 Proposed	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Property Taxes	\$20,383,959	26%	\$23,098,213	28%	\$26,801,576	31%	\$28,420,428	32%
Sales & Use Taxes	\$22,662,007	29%	\$22,427,733	27%	\$21,505,963	25%	\$22,334,033	25%
Franchise Fees	\$7,097,568	9%	\$7,244,496	9%	\$7,139,532	8%	\$7,022,658	8%
Licenses & Permits	\$4,145,496	5%	\$4,198,563	5%	\$3,661,452	4%	\$3,902,640	4%
Fines & Forfeitures	\$2,322,398	3%	\$2,528,927	3%	\$1,603,446	2%	\$2,392,706	3%
Charges for Services	\$16,051,689	21%	\$17,150,321	21%	\$16,906,119	20%	\$19,423,383	22%
Investment Earnings	\$193,334	0%	\$750,827	1%	\$453,898	1%	\$456,568	1%
Intergovernmental	\$0	0%	\$0	0%	\$700,037	1%	\$190,000	0%
Miscellaneous	\$1,302,233	2%	\$1,167,935	1%	\$2,491,873	3%	\$564,433	1%
Transfers In	\$3,816,116	5%	\$4,674,460	6%	\$4,949,456	6%	\$5,226,770	6%
Revenue Totals:	\$77,974,800		\$83,241,475		\$86,213,352		\$89,933,619	

Property Tax Base

After exemptions for non-taxable, homestead exemptions, and the like, local property tax is composed of two components, the value and the rate. For the base value, growth overall for values from the three counties, our analysis of information from the three Central Appraisal Districts is that 30% of homestead properties had an increase in AV between 0% and 5%, with another 63% realizing a one-year change 5% or more. Finally, 7% assessed with no change or a decrease.

For tax year 2020 driving FY21, value of new improvements and new personal property is \$250 million onto the three rolls, compared to \$247 million in Tax Year 2019 for FY20.

The base values provided by CADs are the starting point in the City's calculations. From that base, the taxable amount upon which we apply our rate gets whittled down. For one, TIRZ #2 is removed for both operating and debt service. Then, the amount from tax ceilings per the State worksheet is removed, leaving a smaller base.





Property Tax Rate

While individual valuations change from the CADs for each of the thousands of parcels of property, the City sets its own single rate applied to each valuation. The rate has two components, Operations/Maintenance and Debt Service. The debt service is a required amount, whatever is necessary to legally repay the next year's obligations for public investment projects. The operations portion funds public services of police, fire, public works, parks, community development, and all the associated support.

The City of Pearland's strong credit rating is reaffirmed each time we go to the long-term credit market is bolstered by our ability to repay, strong management, and track record of performance.

- The ability to repay ratio of outstanding obligations to assess valuation has *improved*, decreasing on that ratio of 4.71 % in FY13 to currently 2.85% for upcoming FY22.
- The debt service rate of the City was as high as .4900 for three consecutive fiscal years starting in FY13 through FY15. It is recommended to be *down* to .0.4150 for FY21.
- Debt as a portion of the total was as high as 69.5% in FY13 and FY14. It is recommended to be *down* to 57.6% for FY21.

The recommended FY21 budget is based upon the City adopting a rate that is *below* the State of Texas benchmark Calculation for 'No New Revenue'.

There is room to go up 1.2 cents for operations to still be below the "No New Revenue" rate and below the current rate. For reference only, that would provide \$1.2 million more in revenue resources to shore up operations and invest more. The "Voter-Approval Rate" is actually below the "No New Revenue Rate" due to the State of Texas math formula.

The rate for the City Council's consideration is lower than the prior year in absolute terms, is a tax revenue *reduction* according to the State calculations (see below explanation of 'No New Revenue'), significantly below conservative estimates for the debt service side when voters approved the May 2019 bond election, and significantly below conservative estimates in prior multi-year budgeting.

The calculation for 'No New Revenue' is designed from Senate Bill 2 that was passed, [according to the State Comptroller Office](#), "enables the public to evaluate the relationship between taxes for the prior year and for the current year, based on a tax rate that would produce the same amount of taxes if applied to the same properties taxed in both years." The *former* language for this type of calculation was the 'Effective Tax Rate'.

There is a new maximum rate that exceeding would require voter approval (formally would have required a petition), now called the "Voter-Approval Rate", formally akin to the Rollback Rate. In addition to the new terminology, the new "Voter-Approval Rate" is designed to give a benchmark of + 3.5% more than the No New Revenue Rate plus debt service rate. The former Rollback Rate allowed + 8% in revenue growth.





To add even more complexity and confusion, the new formulas introduce factors of past years' collection rates. The formula now too factors in attorney fees and other costs in collection, which the City does not even receive.

Comparison of Potential Property Tax Rate and Revenue				
General Fund and Debt Service Property Tax Rates	FY2020 Actual Rates & Amended Budget	Fiscal Year 2021*		
		(1) Proposed Tax Rate	(2) No New Revenue Rate (formerly Effective Tax Rate)	(3) Voter Approval Rate (formerly Rollback Tax Rate)
O&M	0.306778	0.3050	0.32264	0.317275
Debt Service	0.434434	0.4150	0.415000	0.415000
Total	0.741212	0.7200	0.73764	0.732275
G.F. Property Tax Revenue + TIRZ Admin Fee (in millions)	\$26.3 + \$11.1 = \$37.4	\$28.1 + \$12.5 = \$40.6	\$29.8 + \$12.5 = \$42.3	\$29.3 + \$12.5 = \$41.8

*For Fiscal Year 2021, the proposed rate in **green** is used in the recommended budget revenue.

The TIRZ Admin Fee is being reviewed. There will be adjustment, perhaps a material amount, to the \$12.5 million projected.

Property Tax examples

Because of different valuation cases, individual property tax bills will have varying actual experiences. We have used the same sample set of properties each year unless there has been





an ownership transfer affecting the homestead exemption. Even with generally appreciating values, the actual tax bills are modest increases or decreases for the City portion of the bill.

Summary of Homestead Property Tax Bills Projected for 2020 Tax Year (for FY 2021 Budget Cycle)													
		Zero Growth		Homestead Example 1		Homestead Example 2		Homestead Example 3		Homestead Example 4		Homestead Example 5	
TY19 Actual COP Tax Bill		\$ 1,349		\$ 1,967		\$ 1,123		\$ 1,191		\$ 1,893		\$ 1,021	
TY19 Taxable Value		\$ 187,000		\$ 272,210		\$ 156,490		\$ 165,640		\$ 262,000		\$ 142,720	
% Increase		0.0%		-1.3%		16.1%		14.1%		1.1%		27.6%	
TY20 Taxable Value		\$ 187,000		\$ 268,800		\$ 181,640		\$ 188,950		\$ 265,000		\$ 182,060	
Scenario	City Rate	TY 2020 Amount	Change from Prior Year Actual	TY 2020 Amount	Change from Prior Year Actual	TY 2020 Amount	Change from Prior Year Actual	TY 2020 Amount	Change from Prior Year Actual	TY 2020 Amount	Change from Prior Year Actual	TY 2020 Amount	Change from Prior Year Actual
Proposed TR	0.7200	\$ 1,310	\$ (39)	\$ 1,887	\$ (80)	\$ 1,203	\$ 81	\$ 1,276	\$ 85	\$ 1,860	\$ (33)	\$ 1,094	\$ 74
Monthly Change		\$ (3)		\$ (7)		\$ 7		\$ 7		\$ (3)		\$ 6	

		Homestead Example 6		Homestead Example 7		Homestead Example 8		Homestead Example 9		Homestead Example 10		Senior Example	
TY19 Actual COP Tax Bill		\$ 1,547		\$ 2,273		\$ 3,251		\$ 1,556		\$ 2,426		\$ 206	
TY19 Taxable Value		\$ 214,080		\$ 314,502		\$ 449,910		\$ 275,700		\$ 335,760		\$ 173,850	
% Increase (Decrease)		4.1%		1.0%		5.0%		6.3%		1.6%		3.7%	
TY20 Taxable Value		\$ 222,910		\$ 317,595		\$ 472,490		\$ 293,000		\$ 341,070		\$ 180,260	
Scenario	City Rate	TY 2020 Amount	Change from Prior Year Actual	TY 2020 Amount	Change from Prior Year Actual	TY 2020 Amount	Change from Prior Year Actual	TY 2020 Amount	Change from Prior Year Actual	TY 2020 Amount	Change from Prior Year Actual	TY 2020 Amount	Change from Prior Year Actual
Proposed TR	0.7200	\$ 1,565	\$ 18	\$ 2,230	\$ (43)	\$ 3,317	\$ 65	\$ 1,556	\$ -	\$ 2,394	\$ (32)	\$ 206	\$ -
Monthly Change		\$ 1		\$ (4)		\$ 5		\$ -		\$ (3)		\$ -	

Other Revenues

The other major General Fund revenue source supporting operations is the 1% local sales tax. While the Pearland experience for retail sales tax activity has been relatively solid, as noted at the outset of this letter, the uncertainty remains for FY21. Sales tax revenue is budgeted conservatively for FY21 at \$22.0 million, basically equal to the FY19 actual and close to the FY20 Projection of \$21.3 million.

Another category, fines and forfeitures, have a larger variation when compared to last year, but that was running below budget for the entire year, before COVID-19 hit.

General Fund Expenditure Overview

General Fund expenditures include salary wages and benefits, most expenditure at nearly three-quarters of the total. We have included a + 2.0% COLA for implementing in October.

The budget highlights section elsewhere in this document provides items we have included, such as two additional police officers, the additional firefighter positions for completing Fire Station No. 8 staffing, streets and sidewalks replacement/reconstruction, and modest fleet replacements (currently essentially funded from the 'home' department until the Fleet internal service fund is fully established).





The FY21 expenditures for our growing city, still building up our full-time Fire Department, two new police officers, and adding other associated professionals upon which our city relies, are budgeted up +3.8% over the amended FY20 amount.

Annual Budget by Account Classification Report

Fund: 100 General Fund	2018 Actual		2019 Actual		2020 Amended		2021 Proposed	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Expenditures								
Salaries & Wages	\$53,952,551	69%	\$57,385,939	72%	\$59,975,094	71%	\$64,639,179	72%
Materials & Supplies	\$2,264,965	3%	\$2,122,257	3%	\$2,525,575	3%	\$2,670,056	3%
Building & Grounds	\$3,063,638	4%	\$2,284,962	3%	\$1,512,729	2%	\$1,457,188	2%
Repair & Maintenance	\$3,117,319	4%	\$1,975,550	2%	\$2,936,762	3%	\$3,003,981	3%
Miscellaneous Services	\$11,220,714	14%	\$10,430,403	13%	\$10,611,438	13%	\$10,891,838	12%
Other	\$19,180	0%	\$20,471	0%	\$93,286	0%	\$222,700	0%
Inventory	\$779,349	1%	\$516,478	1%	\$314,721	0%	\$646,180	1%
Capital Outlay	\$2,334,476	3%	\$753,529	1%	\$433,936	1%	\$223,590	0%
Principal Payment	\$556,677	1%	\$528,212	1%	\$367,691	0%	\$206,760	0%
Interest Expense	\$34,922	0%	\$14,638	0%	\$11,925	0%	\$6,047	0%
Transfers Out	\$1,009,451	1%	\$3,994,725	5%	\$5,470,657	6%	\$5,615,272	6%
Expenditure Totals	\$78,353,242		\$80,027,164		\$84,253,814		\$89,582,791	

The work of the City of Pearland government is focused upon our community's health and safety, as reflected in prioritization of resources to public safety (police and fire). Public safety category expenditures are up +4.7% for FY21 over the amended FY20 amount.

Annual Budget by Function Report

Fund: 100 General Fund	2018 Actual		2019 Actual		2020 Amended		2021 Proposed	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Expenditures								
General Government	\$11,936,500	15%	\$12,241,075	15%	\$13,936,290	17%	\$15,685,098	18%
Public Safety	\$42,277,271	54%	\$44,823,444	56%	\$47,760,111	57%	\$50,550,727	56%
Public Works	\$13,997,803	18%	\$12,826,943	16%	\$12,572,668	15%	\$12,461,168	14%
Community Services	\$4,050,477	5%	\$3,915,720	5%	\$3,983,589	5%	\$4,205,312	5%
Parks & Recreation	\$6,091,191	8%	\$6,219,982	8%	\$6,001,156	7%	\$6,680,486	7%
Expenditure Totals	\$78,353,241		\$80,027,164		\$84,253,814		\$89,582,791	





General Fund Unallocated Fund Balance

With the pullback of expenditures in FY20 including keeping budgeted positions open (firefighters pending the SAFER grant and others) plus the fact that other expenditures expected were not available or took less priority in FY20, we enter FY21 with a strong cash balance. That is recommended to be further enhanced even more with the budget here to preserve cash and maximize flexibility to meet needs.

At the same time, the environment and data has changed much in the last hours of preparing this recommended budget. Much of it has improved and benefited from the work started months ago when there was even more uncertainty and we had to be very conservative in the required early work of building a complex budget. If the City Council desires to provide resources for additional priorities to start in the FY21 budget, that flexibility is here. There is also a goal to move up the minimum unencumbered cash balance over time.

	FY20 Amended	FY 21 Proposed Budget
Beginning Fund Balance	17,201,848	19,161,386
Revenue	86,213,352	89,933,619
Expenditures	84,253,814	89,582,791
Net	\$ 1,959,538	\$ 350,828
Ending Balance	\$ 19,161,386	\$ 19,512,214
Policy Minimum (16.6%)	\$ 14,042,302	\$ 14,930,465
Over (Under) Policy	\$ 5,119,084	\$ 4,581,749

Enterprise Fund (Water and Wastewater) Overview

The City's self-sustaining enterprise fund, a business unit of the city, for water and wastewater production and delivery every day, is an essential service. We are encouraged to wash our hands. There must be steady clean supply of water upon demand -- Which we provide.

Despite the growth and upgrades underway, **the water and wastewater operation is able to provide no change, 0% increase, in rates for the upcoming FY21.** The fund is balanced and meeting its obligations for maintenance and operations, plus significant capital expenditures and repayment of long-term capital project investments.





The water and wastewater system is managed and administered daily by professionals that are too often not fully appreciated. Our Public Works Department umbrella consists of the drainage, roads, facilities, and fleet and the highly regulated and complex system for drawing from the ground or from the City of Houston raw water, treating that, and distributing that through hundreds of miles of pipes to homes every day.

Our billing system for all of that has been scrutinized as it has been expanded and upgraded with new meters and the technology to read them upon demand.

Apart from the hard infrastructure improvements, there is process and management work ongoing. Consulting services for a complete Utility Billing process and system review will begin in September of this year and carry on with the first quarter of FY21. Again, as part of our necessity to upgrade and modernize, there's been work internally to change practices that have been in place for years, if not decades. Practices currently under review include:

- Proration of base rates when requests are made to voluntarily close accounts
- Easier transfers of existing accounts within the city
- Winter Quarter Average calculation adjustments to provide the lesser of usage or the fixed amount
- New customers realizing for winter quarter average the less of actual usage versus a fixed applied amount

Supplements included in this budget, expanded upon in the highlights section, include:

- Utility inspector to serve developer/builder requests for utility locates to avoid hits to our infrastructure which results in outages
- Public works administrative assistant for payroll, public information requests, procurement, and customer service.
- CCTV line inspection system replacement
- Utility billing team staffing

Window that will open

I am asked on occasion whether the City of Pearland will ever be in a state where we are maintaining and supporting the existing as much as we are catching-up and building the new? The answer is yes. The hard work and commitment of past and current staff and elected leaders lays the foundation for a resilient, competitive, excellent place.

In real world terms, there are several large positive items that may seem far off, but really not in terms of timeframe of a city:





- TIRZ #2 valuation back to general usage as opposed to being excluded from calculations and support for debt service and directly for operations. Thereby, in 2029 as we've shown in annual debt sales presentations, assisted too by the City Council's policy decision to allow level structured principal for future issues, could see general obligation debt rates go as low as 27 cents in tax year 2030
- TIRZ Reimbursement for debt service is anticipated and continues to perform to projections. Continued strong growth in TIRZ #2 (Shadow Creek Ranch planned development) could mean calling those bonds early and removing that debt from the interim financing requirement we now have
- TIRZ Reimbursement for Broadway Avenue improvements already completed are now projected for FY22. Just a few years ago, there was no expectation of being reimbursed at all. That will bring \$8 million back to the city which is recommended to primarily capitalize the City internal service fund for fleet and put our ongoing future investments of fleet on a firm platform

Conclusion

Resiliency means recovering and growing out of adversity. That term for the City of Pearland speaks aptly to the budget and our finances which remain solid, but more importantly, for now remain flexible. Our foundations rest not depending upon a spot price of a barrel of oil, but a mix of uses and sectors. Resiliency also comes to the cultural and social shifts as we navigate towards a better, more equitable society that is closer to the ideals we hold.

We have taken a huge punch from COVID-19 virus and many other smaller ones. While the grind is ongoing through uncertainty, Pearland remains standing strong as a great place to live, work, and play.

Respectfully submitted,

Clay J. Pearson
City Manager

