



6 August 2021

Honorable Mayor Cole and 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 the Pearland community expects and deserves. What follows describes the work, with enthusiasm and optimism, to meet that obligation while adapting to the changes before us.

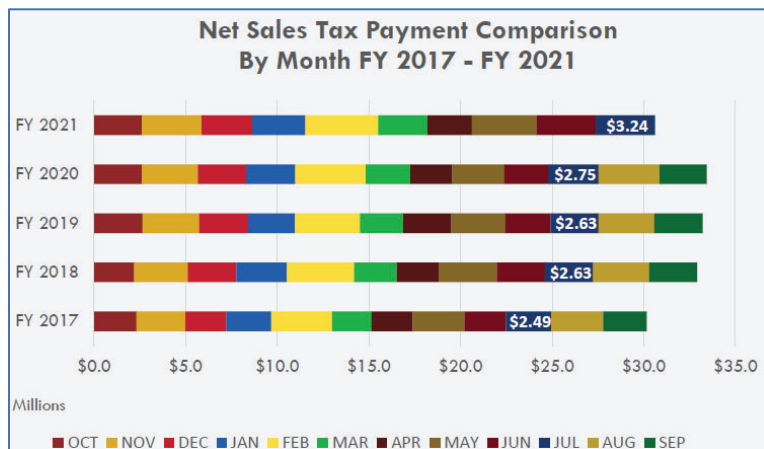
Background and Context

As we move through another budget planning cycle, we recall where we were this time last year: Hospitalizations and positive test results due to COVID-19 were declining from the latest peak, but there was still no vaccine for the virus. Sales tax numbers and property values were showing resilience, but that was early in the economic cycle after shutdowns; only educated guesswork was available about what was going to happen next. What we did know was that the City of Pearland’s services remained critical and needed by the community. The City and its staff met these challenges by being flexible, rapidly adopting technology, and working hybrid or remote schedules where possible to minimize impacts on the provision of our services.

Any employee’s illness is a blow which we want to avoid. The record since early 2020 illustrates that the protective measures followed have worked to avoid large-scale infections allowing sustained continuity of City operations. We should not overlook the contributions of many within our organization who took the advice of experts and applied their recommendations to our work and wide-ranging situations. A shining moment for the City organization was when the vaccine did become available; we partnered with Kelsey-Seybold as a local medical provider to secure the lifesaving two-dose remedy. Staff initiated and ran the reservation system, providing 24,065 doses over many weeks at our Recreation Center and Natatorium. The logistical effort was a deviation from everyday operations, and an immense undertaking, that went incredibly smoothly. We can be rightfully proud of the effort invested in that stage of the pandemic. Emergency management and municipal officials from other parts of the state visited our vaccination Point of Dispensing (POD) to observe, and learn from, our people and successful program in action.

Now, as we approach the season of back to school, hurricanes, and budgeting, the COVID Delta variant threatens our return to “normal”. The numbers for community spread here are less than a

year ago and the effectiveness of the life-saving vaccinations are on display. The economic picture too is fortified from a year ago with many prognoses being made for a continued boom lifting most sectors.



Employment levels in Pearland overall maintain a positive outlook. A Workforce Solutions report shows that in the Houston region there were a crushing 276,000 new claims for unemployment benefit in July 2020. There were 38,761 such





claims in June 2021. Now, that same report shows a Houston regional unemployment rate of 7.4% but Pearland specifically is the *lowest of any* reported cities at 5.7%.

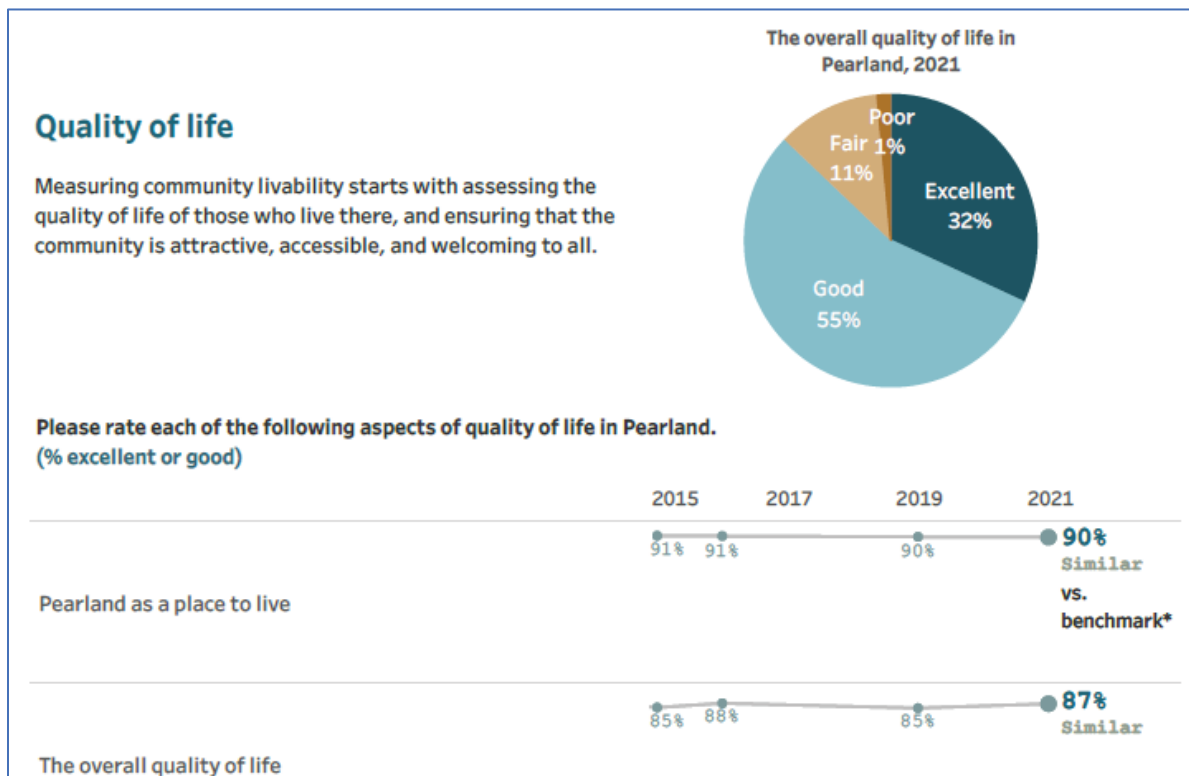
As retail sales tax revenue is the measure for consumer activity, and assuming sales activity is a proxy for much of the larger economy, the retail health overall remains strong. Through July 2021 (reflecting activity through May) the numbers show strength, not only outpacing the COVID year, but also prior years. In fact, with two months remaining in FY 21, there's been as much sales tax collected as all of FY 17.

Examining employment and retail numbers for the larger region and Pearland, we know that the recovery and continuing stresses are uneven. Businesses have closed and many people remain unemployed or underemployed. Parts of the City-directed unique work over the last year was aimed at bridging those gaps and assisting businesses and families. This was helped by sharing information and through direct aid programs with business stimulus and rental assistance. We directed \$2.5 million for local economic/business recovery into our community from the CARES Act on a very short timeline and with little federal guidance in FY 20.

Residential values across the country have likewise seen tremendous strength, particularly for well-positioned quality communities such as Pearland. There is a lag with the valuations and the complexities of Texas property tax with exemptions, caps, ceilings, and opaque worksheet formulas making it difficult for local governments to project valuations and the resulting revenue. However, the Taxable Value which this budget is based upon, with all three counties in which we have some jurisdiction, totals up to a net \$8.4 billion, mostly existing residential value. The addition of new value onto the rolls was approximately \$250 million, the same as the prior year's addition.

Community Perceptions – Reflecting a Positive View

As we await the release of the official 2020 Census population numbers, we can be proud of the high regard held by +/- 130,000 residents. The latest version of our community perception survey,





a statistically significant survey of resident satisfaction, reflects nearly nine of ten residents declaring Pearland as “*The Community of Choice*” by ranking their hometown as a good or excellent place to live and same for overall quality of life.



The Survey results provide a data point towards directing resources and priorities. Understanding that not everything can be ranked as important when prioritizing, the high importance areas of economy and safety received perceptions of high quality. What did not receive equally high results are areas in which we are working upon, most visibly the mobility arena. There, as the City Council is aware, years of planning and investment are coming to fruition with major modernizations and widenings. Moreover, perception could be driven by the snarls of construction such as SH 288 and the surrounding area that have now opened.

On the Utilities front, we can make an educated assumption that our gap in the water/sewer usage to billing affects that scoring for now. The yearlong implementation of 32/30 to unwind what took more than a year to create, and the establishment of the *ad hoc* advisory committee have shown positive improvement. Moreover, the long-awaited implementation of Advanced Metering Infrastructure (AMI) and the on-demand information at the customer’s disposal will further regain that confidence and trust.

Continuous Emergency Management

A reality of the last year which impacts the years ahead has been the near constant emergency management activation status of our City organization. It started with the COVID-19 pandemic in March of 2020 which was certainly record-breaking for longevity and uniqueness. Without substantive public health experience, our City team members dove into studying virus spread and preventative measures, but that was not the only emergency operation we would face.

During the pandemic emergency operations period, the international community watched as George Floyd was entombed in Pearland during the summer of 2020. Our attention quickly turned to Hurricane Laura in August and Tropical Storm Beta in September, reminding us of the need for persistent vigilance along the Texas Gulf Coast. The most recent event, as “novel” as the pandemic, was Winter Storm Uri in February 2021. That winter storm is fresh in our minds as there were overlapping aspects with a hurricane season (all-hands for City staff, training and cooperation imperative, critical power supply needs, partnerships and communications will help us persevere). On the power aspect, we suffered what was advertised as a “rolling blackout” but quickly turned into a sustained widespread outage. What followed with Uri was a cascade of other challenges including loss of water supply and then water system pressure. The After-Action Report staff created laid out steps to shore up our capabilities for the next such emergency as it pertains to hardening the back-up power systems.

Larger picture, the forthcoming major addition of our Surface Water Treatment Plant, well underway and set to provide treated water to Pearland in 2023, gets us much closer towards self-reliance. We want and need back-up and redundancies and supplies, exemplified by the resource our own Surface Water Plant promises to provide.





TIRZ Plan Amendment Summary

<u>Project</u>	<u>Cost Est.</u>
Library	\$24,050,284
Full Service Fire Station #8	\$10,705,472
Fire Equipment for FS#8	\$ 3,120,000
SCR Park Phase II	\$ 9,720,000
SC Trail – Park to Kirby	\$ 790,910
SC Trail Phase II	\$ 1,470,000
SC Pkwy Lighting, Landscape & Sidewalks	\$ 7,140,000
Intersection Improvements	\$ 7,957,160
SCR Sidewalk Extensions	\$ 1,137,701
<u>FM521 Widening</u>	<u>\$ 2,479,000</u>
Total	\$68,570,527

TIRZ #2 Benefits and Flows

The City itself received its first reimbursement for prior public infrastructure work within the TIRZ #2 geography in FY 21. The foresight to invest in and approve TIRZ #2 (the Shadow Creek master planned community) with its financing tools is reaping city-wide benefits now and will continue to do so through its expiration in 2029. The specific City reimbursement that started in FY 21 is for the City's extension of Broadway west of State Highway 288. Complete reimbursement, with interest, will come in FY 22 once the Development Authority of Pearland reviews and approves the paperwork this fall. That will bring \$6.8 million to capitalize the City's Motor Pool internal service fund. The one-time revenue is

appropriate to set the fund on a positive path, shoring up the City's long-term resiliency in fleet dependent services.

We have been doggedly pursuing an additional opportunity of the TIRZ #2 to leverage another extraordinary \$68 million in additional capital improvements within the TIRZ boundary before it expires. That list of projects, shown in the table from a February 2021 presentation, is significant, representing work that either would not have been done at all or would have to be added as a City-funded project for 20-year payback from property taxes.





Federal Stimulus and Reimbursement Support

One of the positive factors influencing this budget and the years around it is the unprecedented Federal disaster relief, stimulus, and COVID-19 relief funding. Much of the funding is reimbursement for eligible expenses, but there has also been substantial discretionary funding to date and more on the horizon. For instance, the City Council prioritized support for Pearland businesses and renters with an allocation from the CARES Act funding. Money was also allocated to Pearland ISD and to Alvin ISD, as well for assisting their continuing, but repackaged, public education work. The limited scope of the CARES Act funding is dwarfed by the American Rescue Plan Act (ARPA) funding intended to recover lost revenues from the economic downturn related to the pandemic. All of this takes continued monitoring and documentation; our thanks to the City staff in our office and in Finance who make all that record keeping possible.

The large amounts in varied grant programs condensed into a short time have been a welcome challenge. Normally, the City administers Federal CDBG on scale of about \$450,000 in Federal Community Development Block Grant allocation. We've been successful with a short-term Federal SAFER grant to pay for some of our additional firefighters which was a nice win, but all that has been eclipsed in scale of the last year or so with more than \$32 million in Federal funds going through the City over the course of FY 21 and FY 22 as shown in the table below. The Federal money, much of it with new local discretion, presents unique opportunity to buttress City finances during an otherwise uncertain environment, plus make certain investments.

All Grant Funds FY 2021 & FY 2022	Regular Grant Funding		Disaster Recovery Funding			COVID-19 Recovery and Economic Stimulus		Summary
	Fund 350 (Various Grants)	Fund 351 (CDBG)	Fund 352 (CDBG-DR)	Fund 354 (Flood Mitigation)	Hurricane Harvey PA	CARES Act - Fund 355*	ARPA - Fund 356	
	FY 2021 Projected	FY 2021 Projected	FY 2021 Projected	FY 2021 Projected	FY 2021 Projected	FY 2021 Projected	FY 2021 (Projected)	FY 2021
Total Awards	\$ 1,130,397	\$ 2,358,963	\$ 5,345,637	\$ 3,285,181	\$ 421,278	\$ 5,443,394	\$ 5,944,485	\$ 23,929,335
Actual Received/Booked		\$ 339,305	\$ -	\$ -	\$ -	\$ 5,421,967	\$ 5,944,485	\$ 11,705,757
Other Expenses/Allocations	\$ 113,262	\$ 1,957,378	\$ 5,314,759	\$ 3,254,302	\$ -	\$ 1,827,767		\$ 12,467,468
Actual to General Fund	\$ 1,075,424	\$ 62,280	\$ 30,878	\$ 30,879	\$ 421,278	\$ 3,594,200	\$ 1,000,000	\$ 6,214,939
Remaining Balance				\$ -	\$ -		\$ 4,944,485	\$ 4,944,485
	FY 2022 (Proposed)	FY 2022 (Proposed)	FY 2022 (Proposed)	FY 2022 (Proposed)	FY 2022 Proposed	FY 2022 Proposed	FY 2022 (Proposed)	FY 2022
Cash on Hand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,944,485	
Total Awards	\$ 873,048	\$ 455,947	\$ -	\$ 1,073,790	\$ -		\$ 5,944,486	\$ 8,347,271
Proposed Receivables	\$ 871,728	\$ 455,947	\$ -	\$ 1,073,790	\$ -		\$ 5,944,486	\$ 8,345,951
Proposed Expenses	\$ 873,048	\$ 392,421	\$ -	\$ -	\$ -		\$ 1,400,971	\$ 2,666,440
Proposed to General Fund	\$ 860,728	\$ 63,526	\$ -	\$ -	\$ -		\$ 4,549,515	\$ 5,473,769
Available for Future Years	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,938,485	\$ 4,938,485

NOTES:

- Hurricane Laura (FY 20) Preparedness, February FY 21 Winter Storm and FY 21 COVID-19 Vaccine POD activities include FEMA reimbursement of eligible costs that are currently pending obligation by federal/state disaster recovery programs.
- Management costs for TDEM buyout program activities totals \$246,323 that may also become available to the General Fund upon completion of buyouts.

Pearland Prosperity ahead

In February 2020, the Pearland Prosperity Strategic Plan was approved by the PEDC Board and City Council. The plan details a strategic focus of resources on economic growth, infrastructure, mobility improvements, and quality-of-life benefits for all residents. **The Plan culminates in two overarching goals: economic growth and diversification as well as ensuring that Pearland is a community of choice in greater Houston.** These goals can be pursued through a number of strategic initiatives grouped into seven, high-level focus areas: Business Development,





Business Formation and Early-Stage Growth, Site Development, Corridors, Infrastructure and Mobility, Quality of Life and Quality of Place, Workforce and Talent.

A year later, the plan's implementation is moving forward, led by PEDC and City staff, supported by partners such as the Chamber of Commerce, and guided by a broad-based implementation committee.

Business Formation and Early-Stage Growth

This focus area includes expanding resources for small businesses in Pearland. PEDC has added a dedicated small business resource page on its website and partnered with Community Development to create the OpenCounter online portal for zoning and permitting.



In addition, PEDC worked with a consultant over the past year to determine the feasibility of developing a Hub for entrepreneurship and small business assistance in Pearland and is now moving forward with the creation of the Entrepreneurship Hub. The Hub will enhance Pearland's innovation entrepreneurship culture by creating events, programs, and activities for entrepreneurs and small business owners to inspire ideation, innovation, and entrepreneurship. The Hub will connect the City to local and regional entrepreneurship assistance programs, service providers and funding sources to ensure local entrepreneurs and small businesses in Pearland connect with these resources to maximize their growth potential and overall success. Offerings of the Hub will include business plan competitions, proactive coaching, networking events and student programs to encourage entrepreneurship. PEDC is currently searching for a Hub Navigator and developing operational policies for the Hub.

Site Development

This focus area involves ensuring that Pearland has a competitive, highly visible supply of shovel-ready development sites. To accommodate many competitive business locations and expansions, communities must have suitable sites available for acquisition and development on a tight timeframe. The Plan recommends that not only do we need to effectively market prime districts and ensure that sites are well-served by needed infrastructure and desirable amenities, but also recommends the community take a more proactive approach to increasing the supply of development-ready sites to ensure the community's competitiveness and "unlock" sites that may not be activated in the near term through market forces alone. The focus is on the Lower Kirby area and along SH 35 that have multiple sites with barriers to development such as fractured ownership that would make them challenging to assemble/prepare for prospective end-users on a tight timeline. The Plan recommends that PEDC acquire and prepare prime shovel-ready sites. PEDC will be further evaluating potential sites in 2021 that could potentially have budget impacts for PEDC depending on what the consensus is to move forward.

Corridors

The bulk of the community's available development and redevelopment sites suitable for commercial and/or industrial development are concentrated around three primary corridors: SH 288, FM 518/Broadway, and SH 35. Additionally, many of Pearland's existing jobs are already





clustered along these corridors. We must ensure the corridors with that density of investment are efficient, aesthetically pleasing, and well maintained to remain attractive destinations for jobs and investment. In the 288 Corridor, PEDC continues to coordinate with the City, Brazoria County and other partners to finalize improvements in the corridor that will culminate over ten years of work. Plant procurement is ongoing as the plants continue to grow until delivery in Phase IV. Phase III Median Improvements were completed in June. PEDC is finalizing the construction plans and will be advertising for construction later this year for the Phase IV improvements. Along the SH 35 corridor, PEDC continues to actively work and participate financially on multiple projects in Catalyst #2 Business Park North and is planning for development in Catalyst #5 Business Park South. Rice Drier Road reconstruction is nearly complete, and Halik Street is in design for reconstruction next year. PEDC completed the Broadway Corridor Development Plan in May and is working with TxDOT to provide input into their design process for the reconstruction of Broadway/FM 518 from Main to SH 288 in line with the plan's recommendation. The City will be required to pay for any aesthetic upgrades along with a portion of the right of way acquisition and for relocation of the City water and sewer facilities that are currently in the right of way

Workforce and Talent

Pearland is a highly educated community that boasts excellent PK-12 public schools and proximity to numerous higher education institutions and training providers. However, there are several opportunities to further leverage Pearland's advantages with respect to talent development and address outstanding workforce and training needs. Public, private, and non-profit partners in Pearland must work together to further enhance the community's workforce and, by extension, its competitiveness for jobs and investment. One of the recommendations is the addition of a staff person within a local organization to build connections between the local talent pipeline and business community. PEDC is currently working with Thomas P. Miller and Associates (TPMA) to create a workforce development strategy that will analyze Pearland's workforce skills gaps, career planning and work-based learning opportunities, to develop an asset inventory and labor market analysis for the community.

FY21 Investments

Capital improvements

Maintaining Pearland as a welcoming and vibrant community requires revitalization and reinvestment. Our public rights-of-way, entry features, and City facilities all add to the package of features that supplement the great neighborhoods and varied commercial areas. The Pearland Economic Development Corporation has a major item upcoming to complete the State Highway 288 beautification to accompany the roadwork that now allows Pearland easy access to and from Houston, specifically the Texas Medical Center. That SH 288 roadwork is another quality-of-life addition and we have more with City investments that follow established City Council-adopted plans with the CIP and Thoroughfare Plan.

The most substantial work underway is the extension of McHard Road between Cullen and Mykawa, a \$46.6 million project that's largely (\$32.6 million) funded through external funds administered by the Houston Galveston Area Council (H-GAC). By this time next year, the opening of the McHard Road extension will provide the City's fourth east-west linkage all the way from Pearland Parkway to the city limits at FM 521 and then beyond.

Near-term is the completion of Hughes Ranch Road (Cullen to Smith Rand Road). A \$21.5 million project, again largely funded (\$14.5 million) through H-GAC, following the Transportation Improvement Plan that Pearland has successfully navigated. This project widens Hughes Ranch





Road from Dawson High School west to Country Place Drive and the direct feeder ramp to the SH 288 toll road.

This being Pearland, there are multiple street projects in the works, including the Pearland Parkway roundabout and associated intersections. Under construction now, this project is expected to be completed in the summer of 2022.

You will recall that our residential properties, from single-family houses up to multi-family complexes, form the backbone of the tax base. Ensuring their continued attractiveness and competitiveness is a priority and is aided by projects such as our new West Pearland public library. Scheduled to open around December 2021, this new facility on Shadow Creek Parkway will be operated by the Brazoria County Library System. This beautiful, modern building, designed to support continuous learning for all ages and provide community meeting spaces, is enhanced by its connection to our trail system. The Pearland's trails and pathway network is increasing in popularity; with interest in this amenity only heightened during the pandemic. With a vision supported by the Multi-modal Master Plan, this expanding network of paths, trails, and sidewalks with connections to a multitude of destinations (neighborhoods, parks, shopping, public facilities) continues to grow.

Water and Wastewater



We recognize that as our community has rapidly grown in area and population, that the pressure for our infrastructure systems to meet the increased demand has risen even more quickly.

There has been no steady, incremental organic growth but rather a series of giant leaps as 100,000 people (the equivalent of Missouri City's and Alvin's population combined.) have become Pearlanders in the last 20 years. Working through our adopted plans, the road network is quickly becoming up to the task and addressing one of

our community's primary concerns. The water and sewer systems are next.

The new Surface Water Treatment Plant, a \$165 million project, is well underway and will bring safe drinking water into the system and to our homes by 2023. It should not be surprising that the wastewater treatment system has comparable needs. Expansions of Barry Rose and the John Hargrove Environmental Center for treatment are in the adopted CIP. Each of those take associated pumps, transmission, and collector pipes. Controlling those systems and monitoring them for compliance and efficiency is also underway with modern and proven technologies.

The capital improvements are immense. Our staff Projects team continues to deliver excellent results. The complexities and coordination required on these projects are numerous. Hopefully, we have not become complacent with recognizing and appreciating this fact as the work continues. The icing is the record-low financing rates available now which, coupled with our excellent credit rating, is saving millions in interest costs for Pearland customers now and future.

The budget includes positions to support and operate that plant plus provide the support and redundancy we know is so essential to ensure our utility systems continue to operate in all conditions.



Drainage

As with much of our infrastructure, the City has led and partnered to expend countless hours and significant funds to address those portions of the drainage system for which we are responsible within the City. Much has been accomplished, but there is still much to do.

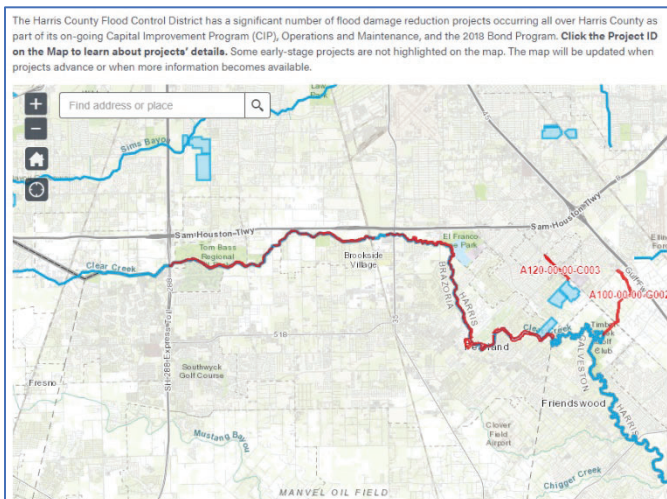
Harris County Flood Control District (HCFCD) continues to make *slow* but steady progress towards starting the federally funded major improvements to Clear Creek between SH288 and Dixie Farm Road that provides additional capacity for all our watersheds. The project is now expected to start the Design/Build process in 2022 and be completed by 2028. An illustration of the project from HCFCD is found below along with a picture of Clear Creek at Kirby Drive.

While HCFCD has been working through the federal approval process, locally we have advanced many drainage initiatives to address localized flooding. The 2019 Bond Program included \$28.5M to address many local flooding issues not included fixed with previous regional projects. The Mimosa Acres project was completed in FY 21, with Piper Road now under construction. Willowcrest and West Lea are expected to start construction in 2021, with the Hickory Slough Detention Pond Phase II scheduled to start design in FY 23.

Additionally, grant funds from the General Land Office (GLO) were secured to advance local drainage improvements in Brookland Acres, Garden Rd/Oday Rd area, and Woody Road. All are scheduled to be under construction by the end of 2021.

As part of our overall strategy to address drainage, we continue to partner with Brazoria Drainage District No. 4 on small, localized issues, bond program projects, and future projects to address the needs identified in our joint Drainage Master Plan.

In the May 2022 election, the City will present to our voters the opportunity to create a Stormwater Utility Fee. If approved, this fee will provide funding to ensure our existing drainage infrastructure is properly maintained, operates effectively, and will provide funds to continually improve and maintain our drainage system in accordance with the Master Plan. Additionally, the fee will permit the City to address new issues as they arise.





Overall Expenditures Highlights

Historical

CITY OF PEARLAND, TEXAS SPENDING AND GROWTH ANALYSIS Amounts in (000's) (Modified Accrual Basis of Accounting)			
Amounts in (000's)	2011	2020	Average Compounded Growth Rate
Expenditures			
General Gov't	\$ 10,866	\$ 12,513	2%
Public Safety	23,926	47,218	8%
Public Works	6,505	11,693	7%
Community Services	3,376	4,452	3%
Parks & recreation	7,539	5,483	-3%
Economic Development	17,391	25,843	4%
Debt Service (P+I)	28,001	43,735	5%
Capital outlay	25,768	38,359	5%
Intergovernmental	4,127	7,769	7%
Total	\$ 127,499	\$ 197,065	5%
Per Capita Expenditures Adjusted for CPI			Average Compounded Growth Rate
POPULATION	97,200	131,448	3.4%
PER CAPITA	\$ 1,312	\$ 1,499	1.5%
CPI INDEX (NATIONAL)	224.94	260.28	1.6%
PER CAPITA ADJ TO 2020	\$ 1,518	\$ 1,499	-0.1%
PER CAPITA ADJ TO 2011	\$ 1,312	\$ 1,296	-0.1%

In our upcoming FY 22 budget, as is standard, most of our expenses are dedicated to public safety. That comes in the form of real first-response measures from our police and fire departments. Both departments are first-class professional and progressive components integrated into our overall City service delivery.

Our commitment to public safety as a priority has long been reflected in our financial commitment, where public safety is the largest expenditure group, among all our funds, not just General Fund.

We know from experience that public safety is a responsibility that belongs to all of us. In an

emergency, we need all facets of the City organization, plus our partners and the community at large, aligned and focused upon the response and recovery. Finally, any discussion of public safety here speaks to the whole organization and the imperative to be prepared prior to any hazard or incident arising. Everything from our code enforcement work with existing properties, ongoing safety inspections of existing businesses, to the inspection and plan review for new construction constitutes a mindset of safety and prevention.

The FY21 Budget

Building the FY 21 Budget was challenging given the extraordinary events and context of FY 20. For instance, when looking at comparisons between years, FY 20 has many anomalies given the required extraordinary expenses for emergency responses, pandemic work, vaccine distribution, etc. The Police, Fire, and Parks and Recreation departments had extraordinary expenses dealing with these emergencies. Moreover, Federal rules for CARES Act funds allowed us to distribute approximately \$570,000 in position emergency response pay in FY 21.

Before the first half of FY 21 was finished, the City and in fact most of the nation, was hit by a major winter ice storm, placing a burden on the City's finances. The Public Works Department's experience handling the challenges of Winter Storm Uri in February 2021 included unprecedented demand on their employees, equipment, and facilities. Likewise, Police and Fire were on emergency pay for much of that week-long emergency event.

Looking ahead, our commitment to budget for continuing community success includes providing the training, tools, and technology. For training, a Police Training Center will emerge from the shell of the existing Fire Station 4 to house the recently licensed Pearland Police Academy. The





Police Department Training Program has elevated our police services and created a training hub which has drawn law enforcement professionals from across the state and the nation. The Fire Department recently completed the Burn Building training facility, will provide training in high-risk-low-frequency scenarios, giving our firefighters valuable experience in development of life saving proficiency.

The Police Department is further developing its use of small Unmanned Aircraft Systems (sUAS), commonly referred to as drones. Our program was the first in the nation to obtain a Tactical Line of Sight Waiver from the FAA, and the program further provides technical and certification training to agencies throughout the State. The UAS Team has had over 400 deployments in support of public safety, not only for Pearland but for the entire Gulf Coast region. This important tool is being utilized for public safety with an eye toward other applications, making inspections and mapping safer and more efficient.

Compensation

Our City employees constitute the workforce which makes everything happen from the City perspective. Remaining competitive and attracting the workforce, we want and need to review our overall compensation package internally and against the market. We know too that fiscal responsibility is the framework to look at all these things. As such, there was a substantial effort in early 2021 to complete a classification and compensation study with the help of Evergreen Solutions, a management consulting firm. The General Fund impact of Comp & Class implementation is included at \$3.2 million. The amount is up from the \$2 million of last year's minimal adjustment and catches up the existing wages based upon the Evergreen study. The amounts are in the salary adjustment line for each division. It is inclusive of the recommended salary change from Evergreen and an associated calculation for benefits. It is not inclusive of any overtime impact.

Our employee health care programs continue to be managed effectively to the benefit of all. Our cost structure remains essentially flat and provides multiple choices to employees and their families. That program was put out for proposals this last summer and will serve well going forward.

A new feature included for FY 22 is a managed program allowing employees to convert a small part of their unused sick bank into cash while they are still employed. The limited program provides an incentive for employees who do not use their sick bank allocation to convert that (up to 40 hours recommended) once a year, providing they have tenure and specific sick leave available.

The City is addressing our responsibility to communicate effectively with our increasingly diverse community. The enactment of a Bilingual Pay program provides support and compensation for the language skills brought by our staff. With this new benefit, we hope to attract a wide range of talented candidates to critical positions with the City.

Property Tax Base and Rate

The property tax base from which revenue is derived is primarily existing residential across three counties in which Pearland is incorporated. Values grew for existing residential properties, 44%





had no change or up to +5% growth. A full 42% reflected growth between 5% and 10%. Actual implication of AV is affected with caps and exemptions.

Parcel Count Change				
Percentage Change	BCAD	FBCAD	HCAD	TOTAL
Over 10.1% decrease	74	3		77
5.1% to 10% decrease	199	8		207
0.1% to 5% decrease	2,242	200		2,442
No change	1,673	2		1,675
0.1% to 5% increase	8,132	1,366	1,256	10,754
5.1% to 10% increase	11,128	70	620	11,818
Over 10.1% increase	355	4	616	975
Total	23,803	1,653	2,492	27,948

Change in Homestead Assessed Valuation Changes 2021 from 2020

The City portion of the property tax rate is budgeted to be **\$.70825**, a *reduction* of just under 1.2 cents from the prior year. The recommended rate is again *below* the State-calculated worksheet’s No New Revenue Rate and *below* the voter-approval rate, per the State-mandated worksheet.

Comparison of Potential Property Tax Rate and Revenue				
General Fund and Debt Service Property Tax Rates	FY2021 Actual Rates & Amended Budget	Fiscal Year 2022*		
		(1) Proposed Tax Rate	(2) No New Revenue Rate (formerly Effective Tax Rate)	(3) Voter Approval Rate (formerly Rollback Tax Rate)
General Fund (O&M)	0.305000	0.316250	0.343485	0.345016
Debt Service (including in-City MUD rebate obligation)	0.415000	0.392000	0.392000	0.392000
Total	0.720000	0.708250	0.735485	0.737016
G.F. Property Tax Revenue + TIRZ Admin Fee (in millions)	\$28.1 + \$12.5 = \$40.6	\$31.3 + \$13.1 = \$44.4	\$34.1 + \$13.6 = \$47.7	\$34.2 + \$13.7 = \$47.9

*For Fiscal Year 2022, the proposed rate in green is used in the recommended budget revenue.

The recommended rate is the lowest since 2018 and directly addresses the City Council’s objective to decrease the ratio committed to debt service over operations and maintenance. The debt rate is the lowest since at least 2009, despite all the major capital investments that have been made.

Property Tax examples

The largest portion of a total property tax bill goes to public schools. The City is a minority portion of the total, between ¼ and 1/3 of the total. Without valuation change (zero growth below), the City rate reduction would drop the City portion of the bill by \$21 for a \$187,000 property.

About 3,000 Pearland properties should be receiving a substantial property tax rate *reduction* thanks to the maturation of MUD 26 (a large section of the original Shadow Creek planned





development east of Kingsley and north of Broadway). MUD 26 (a property from there is Example 1 below) will be moving into a maintenance mode from having to pay back developer costs from the initial work. Therefore, the MUD 26 rate is expected to drop from \$0.53 to somewhere around \$0.15, nearly a \$0.40 cent reduction.

MUD 26 reached a point in FY 21 that the City subsidy requirements were no longer met, so the City did not have to pay out more than \$1 million to the MUD. However, the balance of the in-City MUDs to which we are obligated have contractual requirements which are significant for City-wide property tax, about \$7.5 million which shows in our debt service requirement.

Total property tax obligation is consistent for each property between 2% and 3% of the assessed value.

Sample Homestead Property Tax Bills Projected for 2021 Tax Year (for FY 2022 Budget Cycle)

	Zero Growth		Homestead Example 1		Homestead Example 2		Homestead Example 3		Homestead Example 4		Homestead Example 5		
TY20 Actual City Tax Bill	\$	1,310	\$	1,755	\$	1,203	\$	1,276	\$	1,548	\$	1,094	
TY20 Taxable Value	\$	187,000	\$	250,000	\$	172,139	\$	182,204	\$	265,000	\$	156,992	
% Increase (Decrease)		0.0%		9.8%		10.0%		7.6%		7.3%		10.0%	
TY21 Taxable Value	\$	187,000	\$	274,550	\$	189,353	\$	196,130	\$	284,380	\$	172,691	
City Scenario	Proposed TY 2021 City Rate	TY 2021 Amount	Change from Prior Year Actual	TY 2021 Amount	Change from Prior Year Actual	TY 2021 Amount	Change from Prior Year Actual	TY 2021 Amount	Change from Prior Year Actual	TY 2021 Amount	Change from Prior Year Actual	TY 2021 Amount	Change from Prior Year Actual
	0.7083	\$ 1,289	\$ (21)	\$ 1,896	\$ 141	\$ 1,306	\$ 102	\$ 1,354	\$ 78	\$ 1,661	\$ 113	\$ 1,188	\$ 93
Total Tax Bill		\$	4,497	\$	7,397	\$	4,281	\$	4,448	\$	8,994	\$	3,872
City of Pearland %		29%		26%		30%		30%		18%		31%	

	Homestead Example 6		Homestead Example 7		Homestead Example 8		Senior Example HS 9		Homestead Example 10		Senior Example		
TY20 Actual City Tax Bill	\$	1,565	\$	2,230	\$	3,205	\$	1,556	\$	2,394	\$	206	
TY20 Taxable Value	\$	222,910	\$	317,595	\$	472,490	\$	293,000	\$	341,070	\$	180,260	
% Increase (Decrease)		4.5%		1.9%		-2.0%		-0.2%		1.3%		-2.1%	
TY21 Taxable Value	\$	232,990	\$	323,525	\$	463,000	\$	292,400	\$	345,580	\$	176,500	
City Scenario	Proposed TY 2021 City Rate	TY 2021 Amount	Change from Prior Year Actual	TY 2021 Amount	Change from Prior Year Actual	TY 2021 Amount	Change from Prior Year Actual	TY 2021 Amount	Change from Prior Year Actual	TY 2021 Amount	Change from Prior Year Actual	TY 2021 Amount	Change from Prior Year Actual
	0.7083	\$ 1,609	\$ 44	\$ 2,234	\$ 5	\$ 3,141	\$ (64)	\$ 1,556	\$ -	\$ 2,386	\$ (8)	\$ 206	\$ -
Total Tax Bill		\$	5,346	\$	10,697	\$	13,449	\$	5,916	\$	8,090	\$	878
City of Pearland %		30%		21%		23%		26%		29%		23%	

NOTE: Property tax liability dollar amounts reflect the exemptions and applicable caps (not shown in summary) affecting the AV to which rate is applied.

General Fund Revenue and Expenditure Overview



General Fund Revenue is derived predominantly from local property taxes and from sales tax. The next category in the classification is Charges for Services, which is a transfer back to the General Fund for a portion (64%) of the City property taxes dedicated to the TIRZ #2.

The two major revenue sources have remained strong and steady through the pandemic and are projected to remain strong. Through calendar year 2021, approaching the new valuation date of January 1, 2022, which drives the FY 23 budget, property values





have remained competitive as have retail sales.

Annual Budget by Account Classification Report

Fund: 100 General Fund	2019 Actual		2020 Actual		2021 Amended		2022 Proposed	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Property Taxes	\$23,098,213	28%	\$26,919,733	29%	\$28,457,983	31%	\$31,787,421	32%
Sales & Use Taxes	\$22,427,733	27%	\$22,716,028	24%	\$24,268,440	27%	\$24,867,810	25%
Franchise Fees	\$7,244,496	9%	\$7,014,025	7%	\$6,709,754	7%	\$6,375,698	6%
Licenses & Permits	\$4,198,563	5%	\$4,423,758	5%	\$4,305,336	5%	\$4,398,520	4%
Fines & Forfeitures	\$2,528,927	3%	\$1,617,153	2%	\$1,866,192	2%	\$2,461,382	2%
Charges for Services	\$17,150,321	21%	\$18,220,404	19%	\$18,961,315	21%	\$20,263,982	20%
Investment Earnings	\$750,827	1%	\$420,200	0%	\$48,000	0%	\$48,000	0%
Intergovernmental	\$0	0%	\$5,122,830	5%	\$0	0%	\$0	0%
Miscellaneous	\$1,167,935	1%	\$2,178,715	2%	\$697,933	1%	\$709,601	1%
Other Financing Sources	\$0	0%	\$221,261	0%	\$0	0%	\$0	0%
Transfers In	\$4,674,460	6%	\$4,949,456	5%	\$6,226,770	7%	\$9,441,314	9%
Revenue Totals:	\$83,241,475		\$93,803,562		\$91,541,723		\$100,353,728	

Sales Tax Revenue

Sales tax revenue for the upcoming FY 22 is budgeted at \$24.6 million, up 2.5% from the FY 21 year-end amended amount. That increase is an amount that will be monitored closely through the year for adjusting as necessary. The increase is atop the prior year that was mixed with pandemic impact but then fueled by enormous Federal stimulus into households.

Other Revenues

Total Licenses & Permits revenue is budgeted at \$4.4 million, a slight increase over the prior year's updated amount and about equal to the FY 20 actual total. Permit revenue remained strong during the year. Fines and Forfeitures is expected to rebound and increase from a slower FY 21 which was, again, affected by the pandemic.

Significantly, General Fund revenue includes large transfers in from Federal stimulus funds, reimbursing the City for force account labor and expenses made over the last year. While non-recurring, there remains in that Federal ARPA grant account another \$4 million for discretionary deployment during FY 22 or FY 23 as needs and priorities emerge.





General Fund Expenditure Overview

General Fund expenditures are \$99.6 million. On a function basis, 56% of expenditures are in Police and Fire.

Annual Budget by Function Report

Fund: 100 General Fund	2019 Actual		2020 Actual		2021 Amended		2022 Proposed	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Expenditures								
General Government (including transfers out)	\$12,241,075	15%	\$14,040,367	17%	\$17,592,265	19%	\$17,901,326	18%
Public Safety	\$44,823,444	56%	\$46,847,908	57%	\$53,033,098	57%	\$55,734,956	56%
Public Works	\$12,826,943	16%	\$11,502,132	14%	\$12,209,422	13%	\$13,991,505	14%
Community Services	\$3,915,720	5%	\$3,798,941	5%	\$4,550,238	5%	\$4,517,172	5%
Parks & Recreation	\$6,219,982	8%	\$5,739,764	7%	\$6,442,897	7%	\$7,479,093	8%
Expenditure Totals	\$80,027,164		\$81,929,112		\$93,827,920		\$99,624,052	

For General Fund expenditures on a classification basis, most of our expenditures to take care of business are devoted to our people, wages, and benefits. That percentage has been consistent and remains so even after implementing the recommended classification and compensation study for FY 22.

Annual Budget by Account Classification Report

Fund: 100 General Fund	2019 Actual		2020 Actual		2021 Amended		2022 Proposed	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Expenditures								
Salaries & Wages	\$57,385,939	72%	\$59,915,339	73%	\$66,382,364	71%	\$69,704,756	70%
Materials & Supplies	\$2,122,257	3%	\$2,130,739	3%	\$2,798,176	3%	\$3,105,803	3%
Building & Grounds	\$2,284,962	3%	\$1,208,162	1%	\$1,561,103	2%	\$1,765,597	2%
Repair & Maintenance	\$1,975,550	2%	\$2,738,228	3%	\$3,393,570	4%	\$3,468,429	3%
Misc and Other	\$10,450,874	13%	\$8,978,996	11%	\$10,819,656	12%	\$10,985,259	11%
Inventory	\$516,478	1%	\$422,888	1%	\$544,023	1%	\$538,094	1%
Principal & Interest Payments	\$542,850	1%	\$453,369	1%	\$212,807	0%	\$125,337	0%
Capital Outlay	\$753,529	1%	\$610,735	1%	\$261,791	0%	\$682,719	1%
Transfers Out	\$3,994,725	5%	\$5,470,657	7%	\$7,854,430	8%	\$9,248,058	9%
Expenditure Totals	\$80,027,164		\$81,929,112		\$93,827,920		\$99,624,052	





General Fund Unallocated Fund Balance

	FY21 Amended	FY22 Proposed Budget
Beginning Fund Balance	29,076,301	26,790,104
Revenue	91,541,723	100,353,728
Expenditure	93,827,920	99,624,052
Net	\$ (2,286,197)	\$ 729,676
Ending Balance	\$ 26,790,104	\$ 27,519,780
Policy Minimum (16.6%)	\$ 15,637,987	\$ 16,604,009
FY22 Policy Minimum (25%)		\$ 24,906,013
Over 25% Policy		\$ 2,613,767

The General Fund is adding net revenue to fund balance. It should be noted, as described throughout this transmittal, that the revenues and expenditures, especially comparisons, are affected by the various emergency responses past and Federal stimulus and recovery funds current and future.

That said, the higher unencumbered cash balance policy was achieved earlier than expected and is being maintained.

Enterprise Fund (Water and Wastewater) Overview

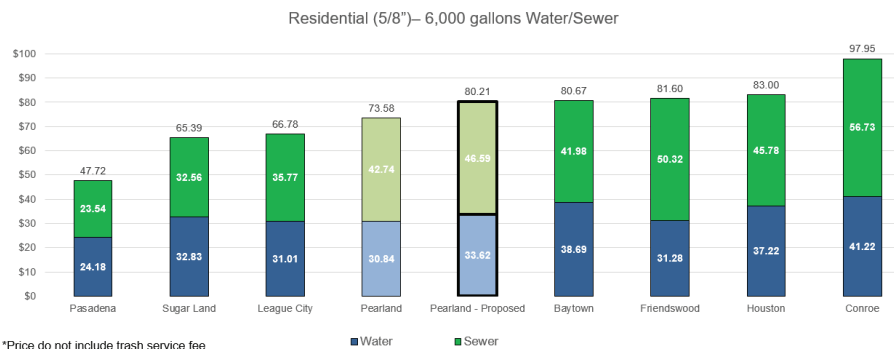
The capital improvement program for the City's water and wastewater system, providing the essentials of life, have been noted and are well known. To sustain that which sustains us, the anticipated necessary rate increases have come. Smaller than anticipated in prior multi-year projections, we do need to increase revenue to meet requirements for literally hundreds of millions of dollars in investments. The payback will be a durable and resilient system that meets demand.

Revenue requirements are such that an increase in rates for a sample 6,000 gallon usage customer will be about an additional \$6.63 per month and for twice that, with 12,000 gallons in usage, \$12/month, or \$144/year or 39 cents/day for the daily usage and availability.

Sample Bills with 9% Proposed Increase for FY 22											
Account Type	Usage	Meter Size	WATER Current Rate	WATER Proposed Rate	WATER Increase	SEWER Current Rate	SEWER Proposed Rate	SEWER Increase	Current TOTAL	Proposed TOTAL	INCREASE TOTAL
Residential	6,000	5/8-inch	\$ 30.84	\$ 33.62	\$ 2.78	\$ 42.74	\$ 46.59	\$ 3.85	\$ 73.58	\$ 80.21	\$ 6.63
Residential	12,000	5/8-inch	\$ 60.50	\$ 65.94	\$ 5.44	\$ 72.74	\$ 79.29	\$ 6.55	\$ 133.24	\$ 145.23	\$ 11.99
Small Office	358	5/8-inch	\$ 15.78	\$ 17.20	\$ 1.42	\$ 22.74	\$ 24.79	\$ 2.05	\$ 38.52	\$ 41.99	\$ 3.47
Commercial	38,267	2-inch	\$ 309.39	\$ 337.31	\$ 27.92	\$ 361.81	\$ 394.37	\$ 32.56	\$ 671.20	\$ 731.68	\$ 60.48
Fast Food Restaurant	59,350	4-inch	\$ 685.03	\$ 746.79	\$ 61.76	\$ 853.80	\$ 930.64	\$ 76.84	\$ 1,538.83	\$ 1,677.43	\$ 138.60
Sit Down Restaurant	262,117	4-inch	\$ 1,717.11	\$ 1,872.14	\$ 155.03	\$ 1,867.64	\$ 2,035.72	\$ 168.08	\$ 3,584.75	\$ 3,907.86	\$ 323.11

*Does not include 2x refuse and recycling pickups, and disposal.
**Does not include MUD and other fees. (i.e. Containment Traps/Interceptor Fees)

Water & Sewer Rate Comparison Local Cities



The system needs are not limited to capital additions. The demands and requirements for an entire wide water and wastewater system, to produce, distributed to the system, and the operational and maintenance costs necessary to sustain new and existing





infrastructure. Even with the changes, again after zero increase last year, the Pearland Water utility rate is in line with surrounding and larger cities for residential uses. For commercial uses with larger meters, the Pearland examples both before and after the necessary upcoming rate change.

Conclusion

My thanks to the City staff with whom I have the honor of serving. Their work and dedication continue to show, and their commitment to this community is inspirational. A special thanks to our budget development team – Eric Roche, Rachel Wynslow, Khoa Nguyen, Kasie Christman, Amy Johnson, Kristen Woolley, Trent Epperson, and Ron Fraser.

We often say in our staff and planning meetings that finding topics from the City of Pearland to share is never a problem. This letter about the work over the last year and the year ahead of us could go on forever with more about parks, trails, small service enhancements, late night water and wind responses, emergency calls, and general staff courage. Time and attention are limited, however, so we attempt to prioritize in our communications as best possible.

As the City Council is aware, none of this work is possible without the support of the elected body and the direction you provide. We will look forward to your feedback and constructive conversation about the upcoming fiscal year.

Respectfully submitted,

Clay J. Pearson
City Manager

