Memo

To: City Manager's Office

From: Budget Office

CC:

Date: September 3, 2021

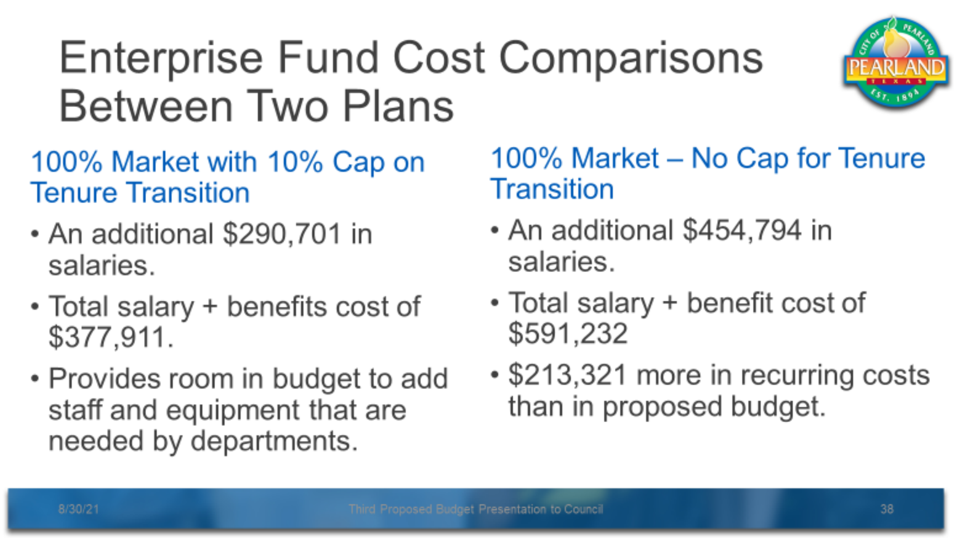
Re: FY22 Budget Follow-Up Memo #4 – General Fund

Section 1: Enterprise Operating Fund Directive

On August 30th, 2021 the City Council directed staff to adjust the FY22 Proposed Enterprise Fund Budget so that the rate increase would not exceed 5% - a decrease from the staff proposed 9% rate increase. At the same time, staff were asked to implement the Compensation and Classification plan in the Enterprise Fund using the same methods as the City Council outlined for the General Fund.

Section 2: Classification and Compensation Implementation

Below is a summary slide from the presentation given at the Monday, August 30th, 2021 City Council meeting. It is provided here as a reference on the difference between the two compensation and classification plans.



While Human Resources is in the process of calculating the exact dollar-figure needed to maintain an equitable implementation of Comp and Class between the General Fund and Enterprise Fund, the Budget Office estimates that approximately $120,000 in additional salary and benefit increases will be needed. This estimate is included in the new expense line of the 5% rate calculation below.

Section 3: 5% Rate Target

Moving from a 9% rate increase to a 5% increase is a significant reduction in revenue – and thus requires major expenditure cuts and delays. All of the following items are required to be cut to meet a 5% rate increase, instead of the 9% that was built into the proposed budget. The reduction and delaying of these positions, as well as other expenditure cuts, were chosen because they will have the least impact on operations, while still cutting enough to achieve the 5% rate target.

Item	Budget Reduction from FY22 Proposed Budget Book
Reduce vehicle replacements by a total of 3 vehicles.	$145,000
Delay the hiring of a new Treatment Plant Operator I to 4/1/22 (halfway through the fiscal year). This is a new position proposed in the FY22 Budget.	$28,499
Delay the hiring of a new GIS Technician to halfway through the fiscal year. This is a new position proposed in the FY22 Budget.	$16,786
Delay the hiring of a new GIS Analyst to halfway through the fiscal year. This is a new position proposed in the FY22 Budget.	$23,098
Remove the new Utility Billing Specialist I that was included in the proposed FY22 Budget.	$51,141
Reduce Public Works Message Boards by one sign. The proposed budget had included funding for two signs.	$20,024
Reduce credit card charges to more accurately reflect FY21 estimates.	$25,000
Cancel Forecast5 Software subscription	$3,250
Total Reductions	**$312,798**

Section 4: Barry Rose

The majority of the borrowing ($18,000,000) for the Barry Rose Waste Water Treatment Plant can be delayed until FY23. The debt service for debt sold in FY22 will not begin until FY23, delaying the project reduces the level of debt service that will be needed in FY23. While the expenditure cuts mentioned in Section 3 effect the “Operating Expenses” portion of the Bond Coverage Ratio (below), moving the majority of borrowing for this project to a later date effects the denominator (reducing it).

$$Bond\ Coverage\ Ratio = \frac{(Revenue\ - Operating\ Expenses)}{Current\ Debt\ Service + Proposed\ Next\ Year's\ (FY22)\ Bond\ Sale\ Debt\ Service}$$

This, in turn allows the City to not have to raise enough revenue to meet the bond coverage ratio requirement of 1.40 – which gives council the option to proceed with a rate increase of 5%.

Under the 9% rate increase scenario the Bond Coverage Ratio is as follows:

$$Bond\ Coverage\ Ratio\ (1.45) = \frac{(\$62,752,397\ - \$33,369,302)}{\$20,240,646}$$

A 5% rate increase would generate $60,740,891 in revenue. Operating expenses have been reduced by $192,798 ($312,798 in cuts – $120,000 in increases from class and comp). Finally, the denominator has been reduced by $712,383 to $19,528,263. This achieves a Bond Coverage Ratio of 1.41%.

In the 9% scenario, a household using 6,000 gallons of water a month would see their bills increase by approximately $6.65 per month compared to their FY21 bills.

Under the 5% rate increase scenario the Bond Coverage Ratio is as follows:

$$Bond\ Coverage\ Ratio\ (1.41) = \frac{\$60{,}740{,}891 - \$33{,}176{,}504}{\$19{,}528{,}263}$$

In the 5% scenario, a household using 6,000 gallons of water a month would see their bills increase by approximately $3.67 per month compared to their FY21 bills.

Section 5: Conclusion

If approved by a consensus among councilmembers, the adjustments in Sections 3 & 4 will allow the City of Pearland to proceed with a 5% rate increase in place of the original 9% recommendation. Looking forward to next year, it is *highly* likely that another rate increase will be required. Revenue increases compound over time, meaning that minimizing the increase this year negatively effects revenue growth in future years. Temporarily reducing needed expenditures to later in the fiscal year or the following year will lead to future rate increases that are larger in size. Staff recommend a rate increase over 5% in order to help offset the need for larger future rate increases.

In the August-June timeframe, the average Pearland household used 6,978 gallons of water per month. This timeframe is when households typically consume the most water. The average of 6,979 gallons is very similar to the 6,000 gallons per month scenarios shown above, in blue. The difference between a rate increase of 9% and 5% are important – but in real dollars the difference between the two rates will be about $3 per month.