



City of Pearland FY22 Proposed Budget “Adapting to Change”



Budget Schedule

~~2/7/21 – Early Budget Input Session~~

~~8/6/21 – Budget Delivered to City Council and Mayor~~

~~8/14/21 – Budget Discussion #1~~

~~8/23/21 – Budget Discussion #2~~

~~8/30/21 – Public Hearing & Budget Discussion #3~~

~~9/13/21 – Budget Reading #1 & 1st vote on tax rate and fee ordinances,
pay plans~~

9/27/21 – Budget Reading #2 & 2nd vote on tax rate and fee ordinances,
pay plans, and updated Financial Policies



Big Picture

- Balanced Budget; annual operating revenue is even with operating costs
- General Fund Balance is above the new higher policy minimum of 25%
- Investment in existing people, who deliver our services daily, costs driving much of the increased expenditures
- 5% rate increase for Water/Sewer fees to balance revenue with expenditures driven forward with major capital improvement requirements



General Fund



Changes Since First Reading

General Fund *Expenditures* Reduced by \$750,000
(commensurate with removal of Emergency Storage Facility from
the General Fund Budget which had been a cash-funded capital
improvement)

Comp & Class options



Included in FY 22 Budget



100% Market with 10% Cap on Tenure Transition

- This plan is what was built into the Proposed Budget
- The 10% cap is a recognition that a lot of changes are being made, and not all strategic changes can be made in the same year.
- Fire Department employees moving to step 1 on the plan would receive additional increases in future years, beginning in FY23, to move them to their market rate.
 - This was done to smooth the cost of the increase out over a few fiscal years, rather than absorb it all in one budget.
- 103 employees are affected by the cap by the tenure adjustment cap moving into a new step plan.

100% Market with 25% Cap on Tenure Transition

- Council asked staff to prepare a plan with an additional \$800K-\$1M for comp and class implementation.
- Requires cuts previously listed to implement.
- 33 employees are affected by the tenure adjustment cap moving into a new non-exempt step plan.

100% Market – No Cap for Tenure Transition

- On 8/23/21 Council gave staff direction to return with a plan to fully fund the Tenure Parity plan without the 10% cap over time.
- The removal of the 10% cap is more expensive with recurring costs but directly addresses the concerns we heard from employees and adjusts every employee to market rate according a 3rd party, unbiased, and data-driven study.
- The update will place employees in the step based on experience



Additional Comp & Class updates

- **Civil Service Police Pay Plan** – with City Council's recommendation to apply additional funds towards salaries, the FY 22 Civil Service pay plan for sworn police officers increased further, from 4.5% to 5%. The increase of 5% places PPD ahead of the market average for sworn positions.
- **Sick Leave Buy Back** – new incentive for FY 22 allowing eligible active employees to sell back 40 hours annually if requirements met for tenure, etc.
- **Bilingual Position Certification Pay** – is a new program and incentive for positions in the City with a higher likelihood of interfacing with the public who may be bi-lingual. The program available in January 2022.

The City has made a significant effort to remain competitive with the market by conducting the Comp & Class study, implementing a Sick Buy Back Program and introducing Bilingual Position Certification Pay. We are aiming to be "Top Workplace" in the state of Texas.



Property Tax Decreases Since FY20

| Year | No-New-Revenue Tax Rate | City Adopted / Proposed Rate | Difference between No-New-Revenue Rate and City Rate |
|------|-------------------------|------------------------------|--|
| FY21 | 0.737640 | 0.720000 (adopted) | 0.017640 |
| FY22 | 0.735485 | 0.708250 (proposed Budget) | 0.027235 |
| | | Difference | 0.044875 |



General Fund Income Statement

Note: The Texas Ambulance Supplemental Payment will bring in an additional \$1,743,723 in revenue in FY22. The information was received too late to be incorporated into the budget, but will be brought back to Council for appropriation in early FY22.

Previous presentations used 3 months instead of 90 days as the new reserve policy. This income statement uses 90 days, matching the new financial policy.

| | FY 2020 ACTUAL | FY 2021 ORIGINAL BUDGET | FY 2021 YEAR END AMENDED | FY 2022 PROPOSED BUDGET |
|--|----------------------|-------------------------------|--------------------------------|-------------------------------|
| REVENUES | | | | |
| Property Taxes | \$ 26,919,733 | \$ 28,420,428 | \$ 28,457,983 | \$ 31,787,421 |
| Sales & Use Taxes | 22,716,028 | 22,452,153 | 24,268,440 | 24,867,810 |
| Franchise Fees | 7,014,025 | 6,922,658 | 6,709,754 | 6,375,698 |
| Licenses & Permits | 4,423,758 | 4,150,000 | 4,305,336 | 4,398,520 |
| Fines & Forfeitures | 1,617,153 | 2,392,706 | 1,866,192 | 2,461,382 |
| Charges For Service | 18,220,404 | 19,502,964 | 18,961,315 | 20,263,982 |
| Miscellaneous | 7,721,744 | 1,211,001 | 745,933 | 757,601 |
| Other Financing Sources | 221,261 | | | |
| Transfers In | 4,949,456 | 5,226,770 | 6,226,770 | 9,441,314 |
| TOTAL REVENUES | 93,803,562 | 90,278,680 | 91,541,723 | 100,353,728 |
| EXPENDITURES | | | | |
| General Government | 11,101,405 | 11,722,148 | 12,828,497 | 14,622,619 |
| Public Safety | 46,847,907 | 51,297,294 | 53,033,098 | 55,546,327 |
| Community Services | 3,798,941 | 4,254,227 | 4,550,238 | 4,507,149 |
| Public Works | 11,502,131 | 12,555,837 | 12,209,422 | 13,648,806 |
| Parks & Recreation | 5,739,764 | 6,757,468 | 6,442,897 | 7,459,093 |
| SUBTOTAL EXPENDITURES | 78,990,149 | 86,586,974 | 89,064,152 | 95,783,994 |
| Transfers Out | 2,938,961 | 2,887,081 | 4,763,768 | 3,788,070 |
| TOTAL EXPENDITURES | 81,929,110 | 89,474,055 | 93,827,920 | 99,572,064 |
| REV OVER/(UNDER) EXP | 11,874,452 | 804,625 | (2,286,197) | 781,664 |
| BEGINNING FUND BALANCE | 17,201,848 | 19,161,386 | 29,076,301 | 26,790,104 |
| ENDING FUND BALANCE | \$ 29,076,301 | \$ 19,966,011 | \$ 26,790,104 | \$ 27,571,768 |
| Policy - 2 months Recurring Oper. Fund Balance Over Two-Month Policy | 13,654,852 | 14,912,343 | | |
| | 15,421,449 | 5,053,668 | | |
| New FY22 Policy - 90 Days Recurring Oper. Fund Balance Over - 90 Day Policy | | | | 24,552,016 |
| | | | | 3,019,753 |

Expenditure totals already reflect the \$750,000 Emergency Storage Facility Project having been removed from the Budget.

Total revenues and Net Revenue Over Expenditures do not yet reflect any decreases to property tax or TIRZ admin revenue that Council may make.



Council Final Discussion: Lowering the Property Tax Rate and Revenue

- A further property tax rate reduction is not recommended by staff given the additional expenditures for existing staff being implemented and maintaining more cautious stance with flexibility for future years.
- If Council wishes to lower the revenue from property taxes via a property tax rate reduction the following amendment must be made:
 - “proposing an amendment to reduce General Fund Revenue from a total of \$100,353,728 to \$99,602,092” – a reduction of \$751,636.
 - This will reduce property tax revenue by \$678,266 and TIRZ Administration revenue by \$73,370 – a total of \$751,636.
 - The corresponding property tax rate reduction would be a decrease from the proposed rate of 0.708250 to 0.701416 – a property tax rate reduction of 0.006834.



Debt Service Fund

Debt Service Fund Summary



Note:

- The FY22 Proposed Budget assumes the commitment of fund balance to lowering the rate based on State worksheet formula, which does not count frozen values.
- MUD Rebates have been budgeted to increased by \$475,544
- Transfers from other Funds come from Water and Sewer to partially pay for MUD Rebates and some debt service.

DEBT SERVICE FUND SUMMARY

| | FY 2020 ACTUAL | FY 2021 ORIGINAL BUDGET | FY 2021 YEAR END AMENDED | FY 2022 PROPOSED BUDGET |
|-------------------------------|---------------------|-------------------------------|--------------------------------|-------------------------------|
| REVENUES | | | | |
| Property Taxes | \$ 37,924,975 | \$ 38,592,242 | \$ 38,720,616 | \$ 39,350,712 |
| Miscellaneous | 927,333 | 907,155 | 767,155 | 747,205 |
| Transfers | 2,066,739 | 2,530,075 | 2,530,075 | 3,074,369 |
| Bond Proceeds (Refunding) | | | 32,437,427 | |
| TOTAL REVENUES | 40,919,047 | 42,029,472 | 74,455,273 | 43,172,286 |
| EXPENDITURES | | | | |
| MUD Rebates | 7,768,816 | 7,964,741 | 7,116,216 | 7,591,760 |
| Bond Payment | 32,414,251 | 35,184,944 | 67,300,812 | 36,834,004 |
| TOTAL EXPENDITURES | 40,183,067 | 43,149,685 | 74,417,028 | 44,425,764 |
| REV OVER/(UNDER) EXP | 735,980 | (1,120,213) | 38,245 | (1,253,478) |
| BEGINNING FUND BALANCE | 5,426,609 | 6,053,650 | 6,162,589 | 6,200,834 |
| ENDING FUND BALANCE | \$ 6,162,589 | \$ 4,933,437 | \$ 6,200,834 | \$ 4,947,356 |
| Reserve 10% | \$ 4,018,307 | \$ 4,314,969 | | \$ 4,442,576 |
| Over Policy | \$ 2,144,282 | \$ 618,469 | | \$ 504,780 |
| Funds Committed * | \$ 4,300,000 | \$ 8,395,925 | | 5,444,092 |

*Funds Committed represents the use of the prior fund balance plus non-tax rate generated revenue from other sources and is reflected in the tax revenue generated by the current debt rate.



Enterprise Fund



Enterprise Operations Fund Income Statement

Note:

1. These figures are presented on a **Budget Basis** for Water & Sewer Operations.
2. Debt payment expenses are contained within a separate Enterprise Debt Fund.
3. Other Requirements includes \$24M transfer to Enterprise Debt Fund, MUD Rebate, Cash Funded CIP, etc.

| | FY 2020 ACTUAL | FY 2021 ORIGINAL BUDGET | FY 2021 YEAR END AMENDED | FY 2022 PROPOSED BUDGET |
|--|---------------------|-------------------------------|--------------------------------|-------------------------------|
| REVENUES | | | | |
| SALE OF WATER | \$25,232,854 | \$25,728,066 | \$26,865,280 | \$28,063,627 |
| SEWER REVENUES | 22,716,673 | 22,414,905 | 22,807,281 | 24,361,195 |
| OTHER SERVICE CHARGES | 1,190,040 | 1,375,000 | 1,573,900 | 1,575,000 |
| INVESTMENT EARNINGS | 254,094 | 108,000 | 16,000 | 25,000 |
| OTHER MISCELLANEOUS INCOME | 238,267 | 8,500 | 19,050 | 12,500 |
| TRANSFERS IN | 7,993,956 | 250,000 | 250,000 | 400,000 |
| OTHER FINANCING SOURCES | 1,455,767 | | | |
| REVENUE | 59,081,652 | 49,884,471 | 51,531,511 | 54,437,322 |
| EXPENSES | | | | |
| UTILITY CUSTOMER SERVICES | 1,871,404 | 2,041,057 | 2,165,242 | 2,030,662 |
| INFORMATION TECHNOLOGY | 1,588,056 | 1,743,193 | 1,834,013 | 2,065,029 |
| OTHER REQUIREMENTS | 29,947,264 | 37,500,356 | 37,506,151 | 35,226,353 |
| PUBLIC WORKS ADMINISTRATION | 774,651 | 924,464 | 1,333,975 | 1,222,393 |
| WATER/SEWER GROUNDS | 577,573 | 746,700 | 712,571 | 746,591 |
| LIFT STATIONS | 1,281,326 | 1,242,403 | 1,381,719 | 1,304,959 |
| WASTEWATER | 4,161,000 | 4,184,491 | 4,283,483 | 4,994,532 |
| BACKFLOW COMPLIANCE | 356,848 | 342,239 | 343,351 | 376,669 |
| WATER PRODUCTION | 10,358,141 | 10,287,996 | 10,098,032 | 10,086,678 |
| DISTRIBUTION & COLLECTION | 2,943,309 | 2,968,556 | 3,138,170 | 4,142,947 |
| CONSTRUCTION | 1,307,482 | 1,440,590 | 1,433,026 | |
| WATER METER SERVICES | 544,184 | 736,887 | 779,128 | 807,396 |
| PRETREATMENT FOG | 222,964 | 240,987 | 225,551 | 259,358 |
| SURFACE WATER TREATMENT | | | | 791,963 |
| EXPENSES | 55,934,202 | 64,399,919 | 65,234,412 | 64,055,530 |
| REVENUES OVER/(UNDER) EXPENSES | 3,147,449 | (14,515,448) | (13,702,901) | (9,618,208) |
| Beginning Cash Equivalents | 32,924,530 | 34,097,609 | 38,313,362 | 24,610,461 |
| Reserve for Debt Service* | 8,751,450 | | | |
| Ending Cash Equivalents | \$38,313,362 | \$19,582,161 | \$24,610,461 | \$14,992,253 |
| Bond Coverage - 1.4 minimum required** | | | | 1.41 |
| Cash Reserve Ratio - 25%** | | | | 45% |

*Reflected in Water Sewer Debt Service Fund starting FY 21.

**These metrics are calculated using combined Enterprise Fund and Enterprise Debt Fund totals.



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<https://www.pearlandtx.gov/departments/finance/budget/fiscal-year-2022-budget-development>