



Fiscally Responsible

Local government officials are custodians of the public trust in ways that should maximize the benefit of taxpayer dollars to its residents and visitors, as well as the corporate and small business partners that make up the commercial entities that reside in our City. Operating a fiscally-responsible government entity involves operating by a general principles of accountability and transparency within our system of decision-making. The sense of “public trust” prevails over the individual interests of a system’s professionals, executives or elected officials. The amalgamation of checks, balances, and controls provides the expectations for public stewardship and reinforces the City’s commitment to continuous improvement.

The ultimate measure of success for Pearland should be how well we account for the use of public funds, and what returns on investment our citizens realize over time. Planting seeds for the future means creating “an environment of quality growth,” as stated in the transmittal documents used to submit the 2014 - 15 City of Pearland Budget for adoption by City Council. The theme of “planting seeds for the future” is a sound way to describe how our system of government must conduct business in order to achieve a perfect level of responsibility for our actions. “Building Momentum”, the theme for the 2015 – 2016 Budget, underlines the next step in the process; leveraging effective investments to move our organization and our community forward. It means investing our resources wisely, prioritizing our community and its citizens, making effective personnel management a priority, and making decisions from a “best practices” standpoint whenever possible. In Fiscal Year 2019, our budget theme was "Prepare for the Future", focusing on building a community that will provide value to our residents not just now but for generations to come.

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FY22 White Paper

To: Clay Pearson, City Manager

From: John McCarter, Interim Finance Director

Date: February 5, 2021

Re: Capital Project Investment Financing Overview



The purpose of this paper is to provide a discussion on the City's funding mechanisms for capital projects, including an overview of the City's existing and projected obligations and tax rate, proposed changes to capital financing processes in the upcoming year, definitions of each financing mechanism the City utilizes, and an outline of the procedures required to issue debt.

The City of Pearland leverages several financing mechanisms to fund the five-year Capital Improvement Plan (CIP). As a high-growth city, we have undertaken a necessarily aggressive CIP program across the City for a multitude of purposes.

Current General Debt Obligations

The City's Assessed Value (AV) is the best single measure for our capacity to issue general obligation (GO) property tax-supported debt because that value represents the City's ability to repay debt, which ultimately drives the property tax levy, which pays the annual GO debt obligation. The chart on the that follows shows the City's outstanding property tax-supported debt to AV ratio and the overall general obligation over the last eight years. The City's total GO debt fluctuates from year-to-year depending on how much debt is authorized to be issued and the structured annual payments.

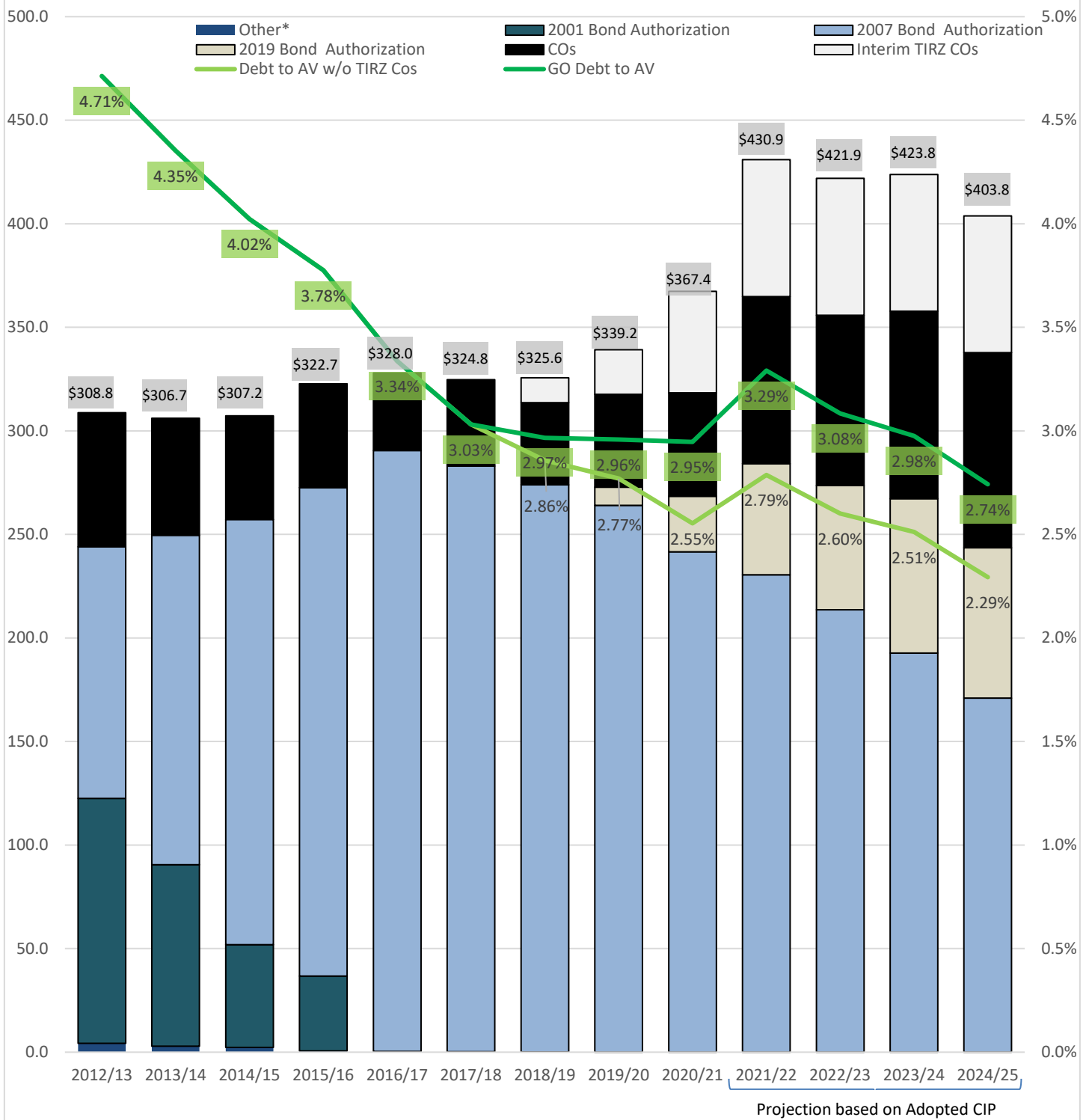
As illustrated in the chart on the following page, the City's *expanding AV* has provided the corresponding capacity to take on financing to accomplish necessary public investment projects. The GO net debt amount is projected to increase \$95 million (31%) from FY13 to FY25 but the overall AV available to repay that is on track to go up 125%, *more than double*, increasing from \$6.6 billion to \$14.7 billion over the same period.

The City also periodically takes advantage of refinancing opportunities. Most recently, the City refinanced \$30 million in General Obligation bonds in 2020 for a savings of over \$4 million. Staff works with the City's Financial Advisor to monitor market conditions for advantageous refinancing opportunities, which must be completed within 90 days of the call date on the debt to be reissued.

There have been two major changes to this GO debt projection in the last two years. First is the passage of the 2019 Bond Program, which includes \$79.9 million in projects that are now authorized by voters, all of which is planned to be issued by FY24. Second is the addition of the interim financing for TIRZ projects as CO issuances which are projected to be paid back in full (with interest) by the TIRZ by 2029 at the latest; the City will make interest-only payments between now and the reimbursement from the TIRZ by its close in 2029.

Note: Tax rate projections can be found in the Tax Rate Planning White Paper. This White Paper will only discuss the financing mechanisms themselves and the management of debt.

Debt to Assessed Value (AV) Compared to Outstanding Tax Supported Debt*



*Tax Supported Debt includes General Obligation Bonds and Certificates of Obligation and "Other" debt, which includes debt from annexed MUDs.

Note: Assumes 6% growth in AV in FY21, 5.5% in FY22, 5% in FY23 and 4.5% in FY24

Note: AV includes TIRZ Value

Proposed Changes for Upcoming Budget Cycles & Future Planning

Refined Guidelines for Use of Certificates of Obligation (COs)

Currently, when compiling the CIP, Staff utilized guidelines set forth in the City's Comprehensive Financial Management Policies to determine appropriate uses for Capital Financing Mechanisms. The Policies set forth the following standards for use of COs:

- a. The City may issue CO's when there is insufficient funding on a general obligation bond-financed capital improvement.
- b. The City may issue CO's when "emergency" (urgent, unanticipated) conditions require a capital improvement to be funded rapidly.
- c. The City may issue CO's for projects when the City can leverage dollars from others to reduce the City's capital cost for a community improvement.
- d. The City may issue CO's for projects when there is no other adequate funding source available (i.e., GO or developer funding), the project is determined to be in the best interest of the City, and where a determination is made that waiting for the next bond referendum or having a bond referendum for a small amount of money or a small number of projects is impractical and where public notice versus a voted bond referendum is deemed acceptable by the City Council.
- e. The City may issue CO's if it would be more economical to issue Certificates of Obligation rather than issuing revenue bonds; and
- f. The City may issue CO's for projects for which the City will be reimbursed by Developer (principal plus interest).

During the approval of the last Intent to Reimburse, Traffic Signal improvements were removed from the CO portion of the Intent to Reimburse, which is derived from the approved CIP, because Council at that time did not want use COs for the project. The project fits within current guidelines under section D of the policy above. Additional clarification on what types of projects should be funded by COs would be helpful to avoid a similar situation in the future.

Further clarifications could be added in the Financial Management policies or staff could highlight CO project specifically in the CIP presentation going forward to highlight their use.

Potential May 2024 Bond Referendum

The last bond referendum was approved by votes in May 2019, which included \$79 million in projects. The current CIP has these projects all being completed in the next five years. The desire of Council at the time of the May 2019 referendum was to have smaller more frequent bond programs showing quick results as opposed to the 2007 program that was much larger and took much longer to complete. Base on prior input and the progress on the 2019 program, May 2024 could be an ideal time for the Community to consider the next round of bond projects. A list of current unfunded projects is attached to this White Paper to provide some ideas of what could be on a future bond election.

If City Council is open to exploring a 2024 bond election, Staff will proceed with prioritizing a list of these unfunded projects for consideration and compiling a preliminary projection for impacts on the tax rate to help inform a decision about the size of the bond package(s).

Update on Prior Changes

Enterprise Debt Service Fund

In FY 2021, the City created the Water Sewer Debt Fund to separate debt service expenses from the Enterprise Fund operation and maintenance.

Separating these two funds, shows a clear distinction between operations and debt, which are distinct functions. In 2019, the City refunded \$27 million in Enterprise Fund debt. As a result, the year-end income statement showed an additional \$27 million in both revenue and expenditures that was not budgeted (refundings are never budgeted). Looking at that income statement, the additional revenue and expenditure for the refunding makes it impossible to determine the operational variance.

In this new structure, all revenue is received by the Enterprise Operations fund then the appropriate amount is transferred to the Enterprise Debt Fund. The current rate model used by staff to project rate increases for future years recognizes this new structure.

Structured Principal

Ahead of the last debt issuance, City Council, in consultation with Staff and the City's Financial Advisor, directed Staff to use a structure the principal portion of future debt payments to manage the tax rate going forward. In the past, the City had issued all debt on a level principal basis, meaning the City pays the same amount of principal every year.

All projections going forward include a structured principal for future issuances and refinancings.

APPENDIX I: Policies & Procedures

The City utilizes several financing mechanisms to support a very aggressive five-year CIP, each with unique restrictions and requirements on how they can be used (discussed later in this paper). Where possible and appropriate, non-debt financing like pay-as-you-go funding, Impact Fees and leveraged outside funds are utilized. The City successfully funds smaller-scale projects related to the Enterprise Fund with cash rather than debt. The use of debt financing remains an important tool in completing large projects vital to the City's continued growth for several reasons.

First, particularly on the General Fund side, cash is not always available to divert toward capital projects, which are usually at least \$100K+. In prior years, necessary reductions were made to critical functions like Streets & Sidewalks and the Vehicle Replacement program in order to balance the General Fund budget. Cash funding projects results in further reductions to operational functions.

Second, when considering the appropriate funding mechanism, it is important to consider equity over time. If a facility is projected to be in use for 30 years, structuring the financing to be paid over 30 years would provide resources to build the facility now while spreading payments over the useful life of the facility. In doing so, the City does not over-burden current residents with the full cost of an asset that will benefit residents for years to come.

The City's Comprehensive Financial Management Policies Statements, adopted by City Council in December 2018, dictate much of the structure and process Staff must follow when determining what means of financing to utilize in the CIP. Specifically, Section VI Capital Expenditures and Improvements, Section VII Debt and Section X Financial Consultants establish general operating guidelines for staff to follow.

The State of Texas has several statutes that dictate the process that need to be considered when issuing and managing capital funding mechanisms. Staff works with the City's Financial Advisors and Bond Counsel to ensure that the City is operating within regulations. The State does not have a formal limit on how much debt a City can issue, however Article XI, Section 5 of the Texas Constitution limits the overall tax rate to \$2.50 per \$100 valuation. For comparison, the City's current tax rate is \$0.7200 per \$100 valuation.

Overview of Funding Mechanisms

Attached to this memorandum is a summary of all funding sources for the 2021 – 2025 CIP, approved by City Council on July 27, 2020. When considering total investment in Capital Projects, it is important to bear in mind that funding sources come in many different forms, often each with restrictions on how they can be used and repaid. This section outlines each of the funding mechanism in the current five-year CIP.

Non-Debt Funded

Non-Debt Funded mechanisms include any funding source that does not require the issuance of debt.

General Revenue – Cash

General Revenue is defined as a transfer from General Fund (100) to a capital fund for a specific project. Historically, the City has been able to leverage General Fund cash to avoid issuing debt for smaller projects. In recent years, the General Fund has not had the capacity to be used as a reliable tool for funding capital projects.

Pearland Economic Development Corporation (PEDC) – Cash

PEDC Cash is defined as a transfer from PEDC Fund (900) to a capital fund for a specific project. In the 2019-2023 CIP, PEDC has cash funded \$750K of the SH 288 Frontage Road project and has contributed to City projects in the past.

In addition to the cash contributions to the City's CIP, PEDC continues to make significant capital investments in City infrastructure from the PEDC Fund (900) through projects on SH 35, SH 288, FM 518 and throughout the Lower Kirby District.

System Revenue – Cash

System Revenue is defined as a transfer from Enterprise Fund (600) to a capital fund for a specific project. The City has been able to leverage cash funding from the Enterprise fund to avoid issuing debt for programs like Transit Pipe Water Line Replacement, Piping Infrastructure at Water production facilities and smaller water line installation projects.

Impact Fees – Cash

Impact Fees are a charge or assessment imposed by a political subdivision (i.e. the City) against new development in order to generate revenue for partially (approx. 50%) funding or recouping costs of capital improvements or facility expansions to serve the new development. In essence, Impact Fees shift about 50% of the portion of the cost of providing capital facilities to serve new growth from the entire customer base to the new development generating the demand for the facilities.

City Staff calculates the amount of the Impact Fee in accordance with the City's Ordinance, which is received into the Impact fee Fund (550). That revenue can be used as cash fund or to contribute to debt payments for certain projects. Eligible projects are determined through the City's Impact Fee Study, which must be done every five years. The Impact Fee Study will dictate how much of each project can be paid for with Impact Fee revenue.

Other Funding Sources

Other Funding Sources is an all-encompassing term for any funding mechanism not described above that does not result in an additional debt issuance. This could include allocations from other funds or allocation of fund balance.

Leveraged Outside Funds

Leveraged Outside Funds are external funding mechanisms that the City uses to partially or fully fund projects.

HGAC Transportation Improvement Program (TIP)

HGAC TIP is a financial plan of transportation projects approved to receive federal and state funding over the next four-years. Projects selected for the TIP are priorities for the region in all surface transportation areas including transit, roadway and highways, bicycle and pedestrian, preventative maintenance, rehabilitation and transportation operations. In order to submit projects for funding, the following criteria must be met:

1. Eligible applicants include State and Local Governments, Public Transit Providers, and Public Ports. Other project sponsors must have a letter of support from the owner of the asset or general-purpose local government;

2. The proposed projects must be located within the H-GAC eight county non-attainment area; and
3. The funding requested must be at least \$500,000 for roadway projects and \$150,000 for active transportation and transit projects to be considered for the 2018 Call for Projects.

Project selection for the TIP is competitive and not all projects receive funds. The current CIP include \$55.8 million in TIP funding, requiring only \$46.5 million in funding from the City, for Mykawa Road Widening, Hughes Ranch Road Reconstruction, McHard Road Extension, Smith Ranch Road Extension and Safe Routes to School.

Tax Increment Reinvestment Zone (TIRZ) Reimbursable Debt

A TIRZ is an economic development tool that captures the projected increase in tax revenue that is created within a defined area and reinvests those funds into public improvements that benefit the zone.

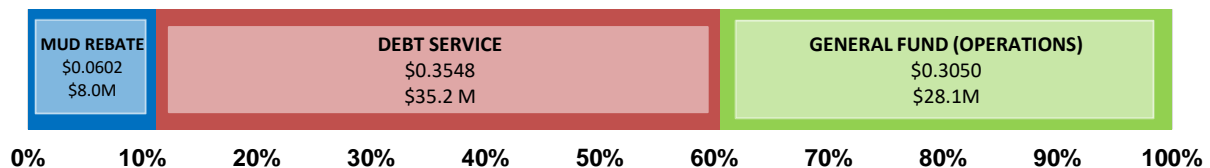
TIRZ #2 was created in 1999 and today contains 3,932 acres, mostly in Shadow Creek Ranch. The TIRZ consists of several Interlocal agreements with the City of Pearland, Brazoria County, Alvin ISD and Fort Bend County, all of whom pledge a portion of the tax revenue from parcel located in the TIRZ. Those funds are then used to reimburse expenses on eligible public improvements made in the TIRZ that are included in the Project Plan and Reinvestment Zone Financing Plan.

The City is already in line to receive an \$8.2 million reimbursement for improvement to Broadway Street within the TIRZ. On August 13, 2018 City Council approved an amendment to the Project Plan and Reinvestment Zone Financing Plan for TIRZ #2 to include seven additional projects, totaling \$57.7 million in investment. The City will be required to use some type of debt instrument to pay for the expenses up front but will use reimbursement funds to defease the debt upon receipt.

Property Tax Supported Debt

Property Tax Supported Debt is defined as any debt issuance secured by a pledge of city property taxes, essentially obligating the city to levy a property tax each year sufficient to pay off the bond. Principal and interest for these issuances is paid from the Debt Service Fund (200) biannually. In FY20, principal and interest payments for Tax Supported Debt accounted for \$0.3675 (50%) of the City’s total tax rate of \$0.741212 (illustrated below).

Breakout of Property Tax Rate



Certificates of Obligation (COs)

COs are Council-approved debt issuances that can be secured with property taxes or revenues from a utility or other lawfully available revenues of the City. The City of Pearland has not traditionally used utility-secured COs; those referenced here are secured by property taxes. Chapter 271 of the Texas Government Code states that COs may be issued to:

1. Pay for the construction of a public work;
2. Purchase materials, supplies, equipment, machinery, buildings, land, and right-of-way for authorized needs and purposes; and
3. Pay contractual obligations for professional services.

Unlike general obligation bonds, COs don't require up-front voter approval. Only if the city receives a petition protesting the issuance of the CO that is signed by five percent of the city's qualified voters must an election be held.

The City has used COs to finance vital public infrastructure projects that are necessary for the city to function. Examples of these projects are the Public Safety Building, Fire Stations #1, 2, 3 & #8, City Hall Renovation, 288 Northbound Frontage Road and the Safe Routes to School program.

General Obligation Bonds (GOs)

GOs are voter approved debt issuances backed by the property tax levy. Chapter 1331 of the Texas Government Code states that GOs may be issued to:

1. Construct or purchase permanent improvements inside the municipal boundaries, including public buildings, waterworks, or sewers;
2. Construct or improve the streets and bridges of the municipality; or
3. Construct or purchase building sites or buildings for the public schools and other institutions of learning inside the municipality, if the municipality has assumed exclusive control of those schools and institutions.

The City approved a \$79.9 million bond package in May 2019, consisting of five components; Drainage, Streets, Parks/Recreation, Animal Service Building and Fire Department Burn Building.

Water/Sewer Enterprise Supported Debt

Water/Sewer Supported Debt is defined as any debt issuance that are secured by a pledge of revenue from a utility, in this case our Enterprise Fund (600). The City technically can issue COs backed by Enterprise Fund revenue but has not historically done so.

Revenue Bonds

Revenue Bonds are Council-approved debt issuances that are backed by the City's Enterprise Fund revenue. The annual rate calculation considers the required principal and interest payments as well as the reserve fund requirements and the any minimum coverage ratios outlined in bond covenants.

Water & Sewer Sales are not the exclusive funding source for these debt payments. A portion of the City's revenue bonds are paid by Impact Fees, transferred from Fund 550 and 555. As discussed previously, Impact Fees can only be used to fund 50% of the impact fee eligible costs of projects outlined in the Impact Fee Study.

APPENDIX II: Ongoing Management of Debt

The City of Pearland Staff work hand-in-hand with our Financial Advisor (BOKFS) and Bond Counsel (Orrick, Herrington & Sutcliffe, LLP) to manage the City’s debt portfolio in a responsible manner. All forms of debt issuance are fully vetted through staff and appropriate consultants before ultimately being approved by City Council. **No debt issuance has been nor can be authorized without City Council approval.** Below is a high-level overview of the standard process that is undertaken before a debt issuance is authorized.

Capital Financing Process Overview

Policy & Planning	February 2021: Early Budget Input Session Recurring Capital Finance & Tax Rate Planning White Papers
	June 2021: CIP Presentation & Discussion
	July 2021: CIP Discussion & Adoption
Execution	August 2021: Budget Presentation & Discussion
	September 2021: Budget Adopted
	October 2021: Intent to Reimburse Approved Authorizes work to begin on projects funded planned issuance
Operational	May 2022: Annual Debt Issuance Approved
	June 2022: Notices Posted, Ratings/Due Diligence Calls
	July 2022: Sale of Debt
	Fiscal Year 2023: Payments for FY22 Debt Begin

Early Budget Policy Discussion (Staff Presentation, Council Consensus Required)

Every February, the Early Budget Input Session provides an opportunity for Staff and City Council to discuss long-term goals for the City. Notably, every year, there is a recurring White Paper on Capital Financing, which provides an opportunity to review the City’s current debt portfolio and other means of financing and make any necessary changes. The property tax rate projection is also discussed.

CIP Planning and Review (Council Action Required)

The development of the CIP begins shortly after the Budget is adopted with staff from Capital Projects working with departments across the City to refine the scope and cost of new and existing projects. Once the cost estimates are in place, Staff works with the City Manager’s Office to prioritize projects and phase projects, bearing in mind the City’s projected AV growth and capacity for new debt.

After the CIP has been reviewed internally, Staff presents the prioritized list of projects to the Planning & Zoning committee, pursuant to the Charter requirement. In past years, the CIP has been presented to City Council as a part of the Budget, however **in FY20 Staff is planning to present the CIP to Council separately ahead of the Budget**. This has two benefits. First, it will allow City Council an opportunity to discuss project prioritization separate from an already jam-packed budget discussion. Second, it will lock in a large portion of the budget ahead of time, allowing Staff and Council to focus exclusively on non-CIP related funds during discussions.

The CIP is adopted by resolution, meaning that it in and of itself does not directly authorize expenditures or issuance of debt, however it is a critical planning document that leverages project prioritization and budgets to outline current and future anticipated means of financing. The current year project budgets are used to establish the amount of the current year issuance and determine the amount to budget in the Budget Ordinance (discussed later in this document).

Voter Authorization (Council Action Required, If Applicable)

General Obligation Bonds require voter authorization. This requires City Council to formally call the election and voters to approve each initiative.

Adoption of Budget (Council Action Required)

The formal Budget adoption is an ordinance which appropriates expenditures, including capital projects financed by debt issuances. Those expenditures are included in the lump-sum fund allocations included in Exhibit A. Although this serves as the appropriation, expenditures are not authorized until the Intent to Reimburse is approved by City Council.

Intent to Reimburse (Council Action Required)

Some of the projects funded in the Annual Budget would have already begun or will begin prior to the actual sale of the bonds, which typically does not happen until winter/spring. In order to be reimbursed from future bond proceeds, the City Council must adopt a resolution declaring the City's intention to be reimbursed from future bond proceeds. This allows for the work to proceed prior to the sale of the bonds. The Intent to Reimburse resolution is an annual requirement.

Bond Sale (Council Action Required)

The bond sale itself is a very long and complicated process that involves a number of parties, both internal and external. Staff must work closely with the City's Financial Advisor and Bond Counsel to facilitate the ratings process, publish appropriate notices and take a number of other steps before the issuance is actually considered by Council and the sale is made.

Even though City Council approved the Intent to Reimburse on these budgeted amounts, the actual amount of the bonds sold is based on updated project schedules, revised scopes as applicable and actual bids. City Council will ultimately approve the bond sale for the projects and dollar amounts when the City is ready to sell the bonds. Staff brings forth an agenda request considering an ordinance to issue the debt.

Only after these steps have been taken can the City issue debt.

FY22 White Paper



To: Clay Pearson, City Manager
 From: John McCarter, Interim Finance Director
 Rhonda Daugherty, Assistant Finance Director
 Date: February 2, 2021
 RE: Property Tax Rate Planning

The purpose of this paper is to inform and prepare council and city staff for the Fiscal Year 2022 (Tax Year 2021) property tax rate adoption process and the future in the recently changed environment because of Senate Bill 2.

Property Tax Rate Projection

The City’s total property tax rate applied to our AV for FY21 is 0.7200; 0.4150 or 58% for Debt Service and 0.3050 cents or 42% of the total rate towards operations.

Please keep in mind that the TIRZ #2 expires in 2029 and the significant multi-billion-dollar value from that TIRZ returns to the “normal” base thereafter for application in the debt service rate. Therefore, as has been shared in longer-range projections from the City’s financial advisor, the debt service rate decreases significantly after the TIRZ dissolution. The debt tax rate is as follows, including the forecasted years.

Historical Tax Rate Summary

Fiscal Year	Amount	City AV*	AV Growth
2011	0.4500	\$5.07	1.9%
2012	0.4700	\$5.13	1.0%
2013	0.4900	\$5.23	2.0%
2014	0.4900	\$5.43	3.9%
2015	0.4900	\$5.93	9.1%
2016	0.4828	\$6.42	8.2%
2017	0.4400	\$7.62	18.8%
2018	0.4300	\$7.87	3.3%
2019	0.4300	\$8.13	3.3%
2020	0.4344	\$8.49	4.3%
2021	0.4150	\$9.48	11.8%
2022**	0.4325	\$9.95	5.0%
2023**	0.4450	\$10.40	4.5%
2024**	0.4450	\$10.82	4.0%
2025**	0.4425	\$11.20	3.5%

*Does not include TIRZ Value. Shown in billions.
 **Projected

Debt Service tax rates will vary based on property value and amount of debt outstanding. O&M rates will vary based on the level of services, results desired, existence of special districts providing services, and affordability. As evidenced on the chart below, the City of Pearland's taxable value has not yet fully grown into its debt, resulting in the higher debt service tax rate. However, in the last few years we have seen how growing valuation can begin to support the City's debt service needs more broadly. **Valuation is the critical number to which these rates are applied.**

While there has been progress made adding capacity for ongoing operations, Pearland remains an outlier compared to benchmark cities. As shown below, on average our benchmark cities have 30% / 70% debt / operations split, whereas Pearland has an inverse 58% / 42% debt / operations split. Also, Pearland's operations rate of \$0.3068/100 is the second lowest among peer cities. The only lower operations rates are Sugar Land and Frisco which are outliers due to their much larger sales tax and much larger taxable value.

Property Tax Rate Comparison with Benchmark Cities

City	Debt Service ^x		Operations		Total	Taxable Value*	Property Tax Supported Debt**	Pop.
	Amount	% of Total	Amount	% of Total				
Pearland	0.4150	58%	0.3050	42%	0.7200	12.4	436	129,600
League City	0.1249	24%	0.3901	76%	0.5150	9.7	265	103,310
Sugar Land	0.1345	40%	0.2021	60%	0.3365	16.6	248	118,709
McKinney	0.1539	30%	0.3547	70%	0.5086	24.5	266	182,055
Plano	0.1110	25%	0.3372	75%	0.4482	46.7	446	287,064
Frisco	0.1476	33%	0.2990	67%	0.4466	33.5	525	177,020

Average with Pearland	0.1811	35%	0.3147	65%	0.4958	23.90	364.5	166,293
Average without Pearland	0.1344	30%	0.3166	70%	0.4510	26.20	350.1	173,632

*Taxable Value for all cities includes any value from TIRZ's and PID's. For the City of Pearland, the TIRZ valuation totaled \$2.9 billion, none of which is included in the tax rate calculation. Instead, the City receives 64% of the total revenue back in the form of a Charge for Service in the General Fund.

**Shown in millions.

^x Inclusive of MUD Rebates, which account for \$8.0M in debt service or \$0.06 of the tax rate for the City of Pearland.

Potential Debt to O&M Ratio

A target 50/50 ratio of debt to O&M has been discussed by City Council in the past. Achieving this goal in the short term is not possible because of the debt rate is required by statute to cover existing debt obligations, thus cannot be lowered to the O&M Rate without corresponding growth in value. Conversely, the O&M rate can only increase in accordance with senate bill 2 (see next section for details).

When the TIRZ expires in 2029, that \$3+ billion valuation will be added to the City's tax rolls, which will result in a drop in the Debt Service tax rate. Conversely, the O&M rate will likely be driven up because the revenue from property taxes in this area will be less than the 64% of property taxes that is currently received through the TIRZ Administration Fee.

Implications of Senate Bill 2 on the City's future tax rate planning

Senate Bill 2 (S.B.2), also known as the Texas Property Tax Reform and Transparency Act of 2019, was passed by the Texas Legislature in 2019. S.B.2 is a major rewrite of laws governing not just property tax rate calculation, but also the tax rate setting process. At its most fundamental level, S.B. 2 reforms the system of property taxation in three primary ways:

- (1) lowering the tax rate, a taxing unit can adopt without voter approval and requiring a mandatory election to go above the lower rate, now called the voter approval rate;
- (2) making numerous changes to the procedure by which a city adopts a tax rate; and
- (3) making several changes to the property tax appraisal process.

Terminology Change

Prior to S.B. 2, the term "effective tax rate" referred to the benchmark tax rate needed to raise the same amount of maintenance and operations (M&O) property taxes on existing property as the previous year, after taking into account changes in appraised values. **S.B. 2 changed the terms "effective tax rate" and "effective M&O tax rate" to "no-new-revenue tax rate" and "no-new-revenue M&O tax rate,"** respectively. Additionally, **the term "rollback tax rate" was changed to "voter-approval tax rate."** More significant than the change in terminology is the modification to both the voter-approval rate formula and the requirement that cities hold automatic elections to approve tax rates exceeding the voter-approval tax rate.

Under pre-S.B. 2 law, a city's rollback rate was the rate necessary to raise precisely eight percent more M&O tax revenue as the year before after taking into account appraisal fluctuations. The debt service component of the tax rate is then added to the product of the effective M&O rate and 1.08. In addition to changing the terminology from "rollback rate" to "voter-approval rate," S.B. 2 **lowers the multiplier used in the rate calculation from 8 percent to 3.5 percent** for cities that aren't considered to be "special taxing units," which is nearly every Texas city, including Pearland.

Previously, any rate adopted that exceeded the 8 percent rollback rate triggered the ability of citizens to petition to hold an election to "rollback" the tax rate to the rollback rate. **S.B. 2 requires a city to hold an automatic election (i.e., the bill eliminates the petition requirement) on the**

November uniform election date if it adopts a rate exceeding the 3.5 percent voter-approval rate. (See TEX.TAX CODE§ 26.07).

Unused Increment Rate

Included within the voter-approval rate calculation in S.B. 2 is a new term called the “unused increment rate.” The unused increment rate can be used to increase the voter-approval rate, depending upon the tax rates adopted by the city in the previous three years. In essence, the “unused increment rate” is the 3-year rolling sum of the difference between the adopted tax rate and voter-approval rate. (This does not include any unused increment under the disaster rules as discussed in the Tax Rate Limitations During a Disaster section that follows.) In other words, the city has the ability to “bank” any unused amounts below the voter-approval rate to use for up to three years. The calculation of the unused increment each year also adjusts the voter approval rate by the prior year’s unused increment. The following table illustrates the use of the unused increment rate in Fiscal Year 2025.

City of Pearland Unused Increment Rate Example

Fiscal Year	Voter Approval Tax Rate (VATR)	Less: Prior Year Unused Increment	Adjusted Voter Approval Tax Rate	Less: Adopted Tax Rate	Unused Increment Rate (UIR)	Cumulative UIR (3-year rolling sum)
2021	0.732250	0.000000	0.732250	0.720000	0.012250	0.012250
2022	0.732110	0.012250	0.719860	0.719000	0.000860	0.013110
2023	0.732000	0.000860	0.731140	0.719000	0.012140	0.025250
2024	0.729560	0.012140	0.717420	0.710000	0.007420	0.020420
2025	0.710450					

Fiscal Year	VATR	3 Year UIR Lookback	FY2025 Adjusted VATR
2025	0.710450	0.020420	0.730870

Conversely, if the city adopts the voter-approval rate all years between 2020 and 2022, the unused increment rate would be zero. Under no circumstance can the unused increment rate be less than zero. (See TEX.TAX CODE§ 26.013.)

S.B. 2 provides that, for each tax year before the 2020 tax year, the difference between the taxing unit’s voter-approval tax rate and actual tax rate is considered to be zero. (Id.§ 26.013(c).) This means that any difference between the 2019 rollback rate and adopted rate cannot be used to increase the unused increment rate in the three subsequent tax years.

De Minimis Rate

The de minimis rate is a new tax rate calculation added by S.B. 2 that is designed to give smaller taxing units, including cities, some relief from the 3.5 percent voter-approval tax rate. The provisions of S.B. 2 relating to the de minimis rate apply only to a city with a population of less than 30,000. (See TEX.TAX CODE§§ 26.063 and 26.075.) A city with a population of less than 30,000 must calculate a de minimis rate. **Cities with populations of 30,000 or more do not calculate the de minimis rate or receive any of the fiscal flexibility associated with the de minimis rate. This section is not applicable to Pearland but added here to define the term.**

Tax Rate Limitations During a Disaster

A city council may direct the designated officer or employee to calculate **the voter-approval tax rate using an 8 percent versus 3.5 percent revenue growth if any part of the city is located in an area declared a disaster area during the current tax year** by the governor or by the president of the United States. (See TEX.TAX CODE§ 26.04(c-1).) The designated officer or employee shall continue calculating the voter-approval tax rate using 8 percent instead of 3.5 percent until the earlier of:

- 1) The second tax year in which the total taxable value of property in the city exceeds the total taxable value of property taxable by the city on January 1st of the tax year in which the disaster occurred; or
- 2) The third tax year after the tax year in which the disaster occurred.

Disaster Rate Example A – Category 5 Hurricane on August 1, 2020.

Budget Adoption Date	Tax Year	Total Property Tax Value	Allowed Rate Increase
9/22/2019	2019	\$1B	3.5%
8/1/2020 - Hurricane Disaster on. Disaster declared. Significant Destruction of Property. Total taxable value already set for FY2020 and will not change until FY2021 budget adoption.			
9/21/2020	2020	\$1.1B	8%
9/20/2021	2021	\$750M	8%
9/19/2022	2022	\$900M	3.5%

Disaster Rate Example B – Declared Disaster on March 3, 2020

Budget Adoption Date	Tax Year	Total Property Tax Value	Allowed Rate Increase
9/22/19	2019	\$1B	3.5%
3/1/2020 - Disaster declared, but no real reduction in total taxable value.			
9/21/2020	2020	\$1.1B	8%
9/20/2021	2021	\$1.2B	3.5%
9/19/2022	2022	\$1.3B	3.5%

The other S.B. 2 provision pertaining to disasters gives cities the ability to avoid an automatic tax rate approval election following certain disasters. When an increased expenditure of money by a city is necessary to respond to a disaster, including a tornado, hurricane, flood, wildfire, or other calamity, but not including a drought, that impacted the city and the governor has declared any part of the city as a disaster area, an election (petitioned or automatic) is not required to approve the tax rate adopted by the governing body for the year following the year in which the disaster occurs. (Id.§ 26.07(b).)

Tax Rate Adoption

While the Tax Code still requires a city to adopt its tax rate before the later of September 30th or the 60th day after the certified appraisal roll is received by the city, S.B. 2 moves up the date on which a city must adopt a tax rate that exceeds the voter-approval tax rate. (TEX.TAX CODE§ 26.05(a).) **If a city adopts a rate exceeding the voter-approval tax rate (3.5%), it must do so**

not later than the 71st day before the November uniform election date, which is the first Tuesday following the first Monday in November. Id.; See also TEX.ELEC. CODE§ 41.001(a)(3). Because S.B. 2 is designed to have cities' automatic tax rate approval elections held on the November uniform election date, the legislature deemed it necessary to require cities to adopt their tax rates earlier to provide ample time to order the election. Indeed, S.B.2 requires the city council to order the tax rate approval election not later than the 71st day before the date of the election. TEX.TAX CODE§ 26.07(c). The 71st day will change every year depending upon when the November election date occurs, but generally it will occur in mid-to-late August.

For 2021, November 2nd is the date of the uniform election. Ordering the tax rate approval election must occur before August 23rd. The adoption of a tax rate that is greater than or equal to the voter approval rate must be no later than August 22, 2021. Based on the timing of receipt of the appraisal rolls, this tax rate adoption would be challenging.

Using the 71st day before election day as the deadline to order the election in S.B. 2 appears to be a drafting mistake by the legislature. The Election Code provides that, for an election held on a uniform election date, the election shall be ordered not later than the 78th day before election day. TEX.ELEC. CODE§ 3.005(c). Further, the Election Code provides that the 78-day deadline supersedes any law outside the Election Code to the extent of any conflict. Id.§ 3.005(b). Because the 78th day deadline for ordering the election expressly prevails over the 71st day deadline in S.B. 2, a city must order its election by no later than the 78th day before the November uniform election date. **Even though the election must be ordered by the 78th day before the election**, theoretically a city could push off the adoption of a tax rate exceeding the voter-approval tax rate until the 71st day before the election as provided by S.B. 2. Staff has not sought clarification on this apparent drafting error because Council has not expressed interest exceeding the Voter Approved rate.

Interestingly, this expedited tax rate adoption calendar applies to a city under 30,000 that adopts a tax rate that exceeds the voter-approval rate, even if the city's adopted rate does not exceed the de minimis tax rate. See TEX.TAX CODE§ 26.05(a). If any city adopts a tax rate that exceeds the voter-approval rate, it must do so by the 71st day before the November uniform election date. Because state law provides that a city may levy taxes only in accordance with the budget, a city must adopt its budget before it adopts its tax rate, regardless of the deadline to do so. (See TEX.LOC.GOV'T CODE§ 102.009(a).) If a city adopts a tax rate in August that exceeds the voter-approval tax rate, it must adopt its budget before doing so.



White Paper

To: Clay Pearson, City Manager

From: Joel Hardy, Grants/Special Projects Administrator (IMT COVID-19 Recovery Operations Section Chief); Peter Martin, Emergency Management Coordinator; Eric Roche, Budget Officer

CC: Trent Epperson, Deputy City Manager; Ron Fraser, Assistant City Manager; John McDonald, Community Development Director; Matt Buchanan, PEDC President

Date: January 6, 2021

Re: COVID-19 Pandemic Operational Adjustments, Economic Impact and Ongoing Response

Purpose

This paper will review the effects on City of Pearland's local government operations and any financial impacts from the pandemic; specifically, the impacts upon the organization's operational and City financial implications, as well as the pandemic's bearing on the local economy. There were policy implications for a number of coronavirus response and relief activities, as well as lessons learned from the incident management experience that are also discussed herein.

In addition, there are important lessons learned that initial staff observations support, which should also be explored and validated in an official After-Action Review (AAR). This paper will also identify and discuss those as actions that could be incorporated into the City's emergency management plans and added to our normal readiness levels for future pandemic response/recovery.

Introduction and Background

COVID-19 has had a significant impact on how the city operates, as well as the national economy. The coronavirus disease of 2019 (COVID-19) was first identified in December of 2019 in Wuhan, the capitol of a Chinese province located in the Central China region. What began with confirmation of 556 cases on January 21, 2020 in that region spread rapidly over the next 6 (six) months to having affected 2.1 million by June 16, 2020, at which time there were also 116,140 COVID-19 deaths.¹ In the United States, confirmed cases reached 159,000 people by March 13, 2020, at which time the White House issued a nationwide emergency declaration.

Local Impact on Pearland - COVID-19 Pandemic

The epidemiology of coronavirus impacts on Pearland is consistent with other similar cities, in that spread through contact, quarantines, medical interventions and treatment, morbidity and mortality occurred throughout the pandemic. From the non-symptomatic to those that succumbed

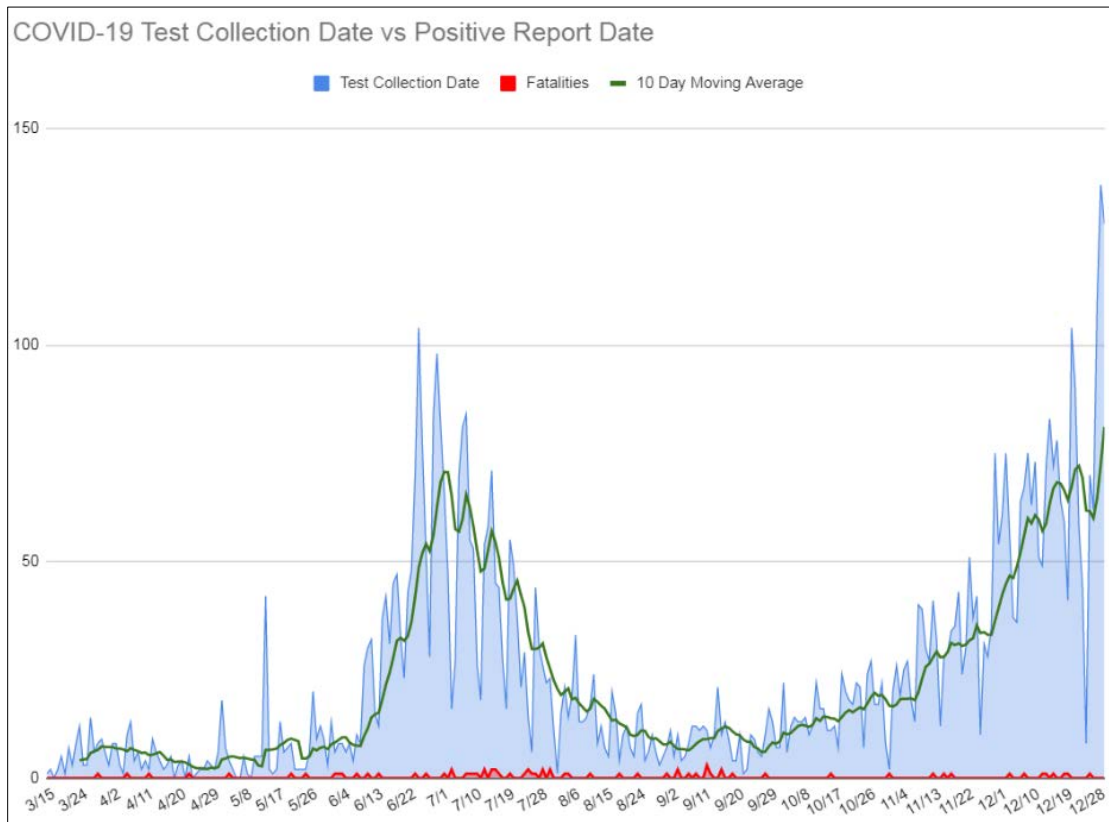
¹ Mapping the Novel Coronavirus Pandemic. ESRI StoryMaps Team.
(<https://storymaps.arcgis.com/stories/4fdc0d03d3a34aa485de1fb0d2650ee0>). April 26, 2020.

to the virus, our community has faced the full gamut of the ways COVID-19 can affect an individual. Case counts have been a large part of the overall monitoring of the pandemic impact on our City. From the onset of test result collection data, Pearland residents have contracted the coronavirus in the same waves found to occur throughout the country.

Public Health Impact and Epidemiology

Globally, the COVID-19 pandemic has directly affected more than 95.6 million people, with about 40.8 million active cases. The U.S. cases make up 25% of all cases around the world, increasing at a rate of about 1.7 million cases each week. Texas represents about 7.5% of all U.S. cases and approximately 6.3% of the State’s population has been diagnosed positive for Coronavirus.

Here in Pearland, current case counts represent about 6.5% of the epidemiological COVID-19 population of 155,600, which includes the 26,000 that live in the City’s extraterritorial jurisdiction (ETJ). This population is included because Brazoria County as the primary local public health authority is including that area’s cases in our local statistical reports of Coronavirus cases.



While the community is of major concern, staff believe the impact on employees is critical to that end, as a large part of the local emergency medical and public safety resources available to Pearland citizens comes from our personnel. Therefore, protecting our employees from COVID-19 has been an important part of the overall concern for the City, as continuity of operations has been a major COVID-19 response and recovery priority.

Right now, the impact on our workforce is a concern as far as base rates of COVID-19 cases are concerned, as the workforce per-capita impact of COVID-19 at 11.6% is higher than in the general

population at 6.2% city-wide/ETJ and 6.5% statewide in Texas. However, the statistical demography of our workforce population is incompatible with the general public, as more than half of our employees are involved in emergency essential duties on a daily basis, providing emergency medical care and police public safety throughout the pandemic.

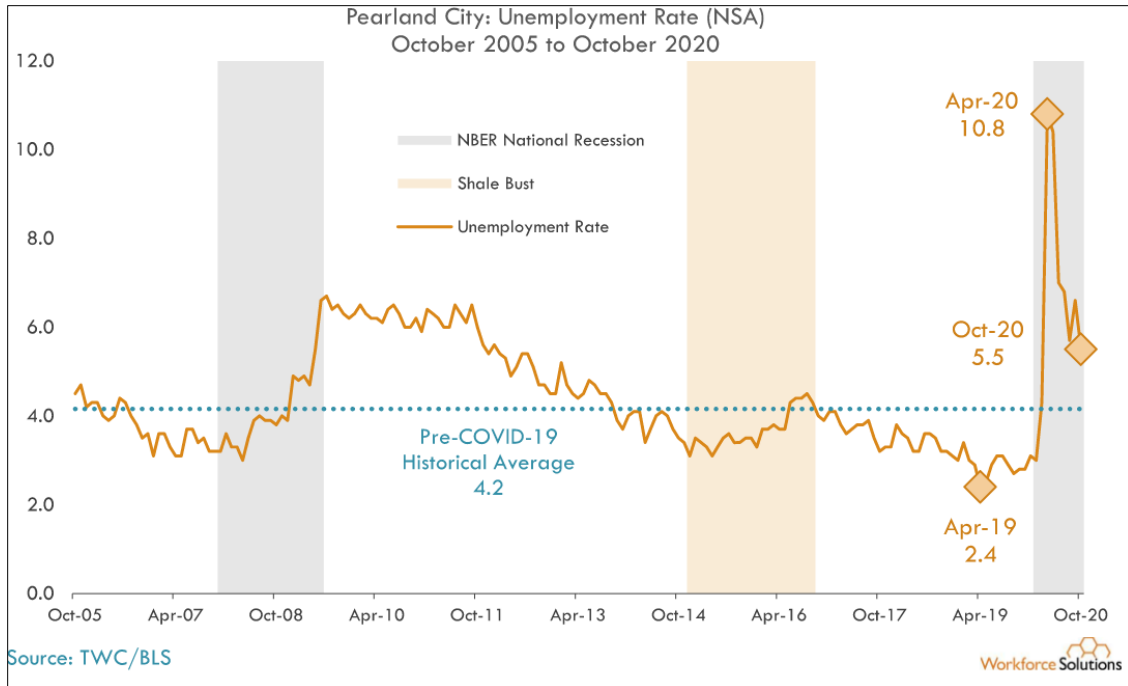
Moving forward, inoculation is one of the most important COVID-19 protective factors we have available and now that the vaccination doses are being administered, it is likely that the threat exposure once represented will decline. In addition to ongoing mask orders and a call for the public to voluntarily continue wearing protective face coverings, vaccination should begin to have an impact on case numbers over the next 4-to-6 months. The City's implementation of a Point-Of-Distribution (POD) for inoculation of those with key risk factors has been completed and ongoing operation of the POD will occur as doses become available to the community.

The future preparedness components for the City should include POD-readiness, ongoing Incident Management Team activation, and maintaining the registration and public information capabilities the City has already established. One major issue for Pearland involves the lack of successful coordination between the City and its perfunctory County (Brazoria), often in contrast to what occurs between the City and the other two counties Pearland is located. Vaccination distribution planning has been muddled in confusion and a myriad of limitations because of the disconnect between the City and Brazoria County. Leadership may need to prioritize efforts to solidify this relationship where public health ventures are concerned and also create a more robust local capacity for its own capabilities in public health epidemiology, planning and program implementation. It is very clear that the Pearland community is underserved through existing resources and taking some matters into our own hands must be a consideration in the future.

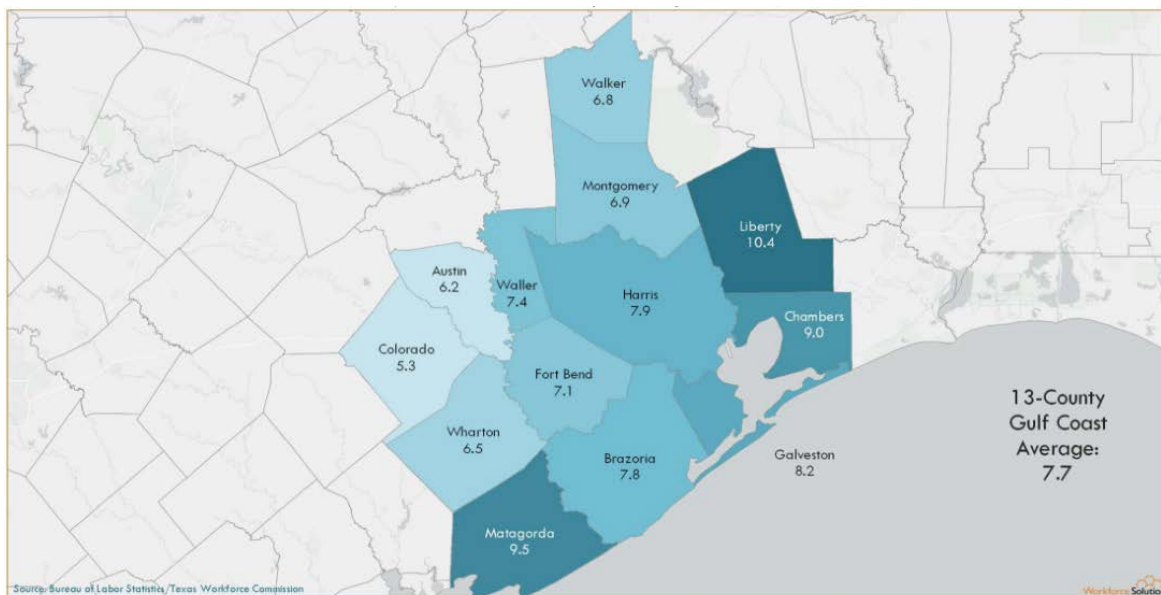
Economic Impact

Pearland has the second-lowest unemployment rate in the region at the time of this review (5.5%), with Friendswood at the lowest (5.4%) of the 17 Gulf Coast cities. The COVID-19 economic impact varies, and we realize that Pearland residents and businesses are fully integrated with the larger regional economy. For instance, many of our Pearland residents are working for employers that are part of the supply chain for the oil and gas sector around Baytown, with the highest COVID-19 unemployment rate of the Gulf Coast cities at 15%. Overall, most of the cities in the region remain to be around twice their normal unemployment rates, which is an indication that the Houston area is still a long way from any degree of full recovery from the coronavirus pandemic, despite the reopening of businesses and other positive attributes that stem from the region's pandemic response and recovery efforts.

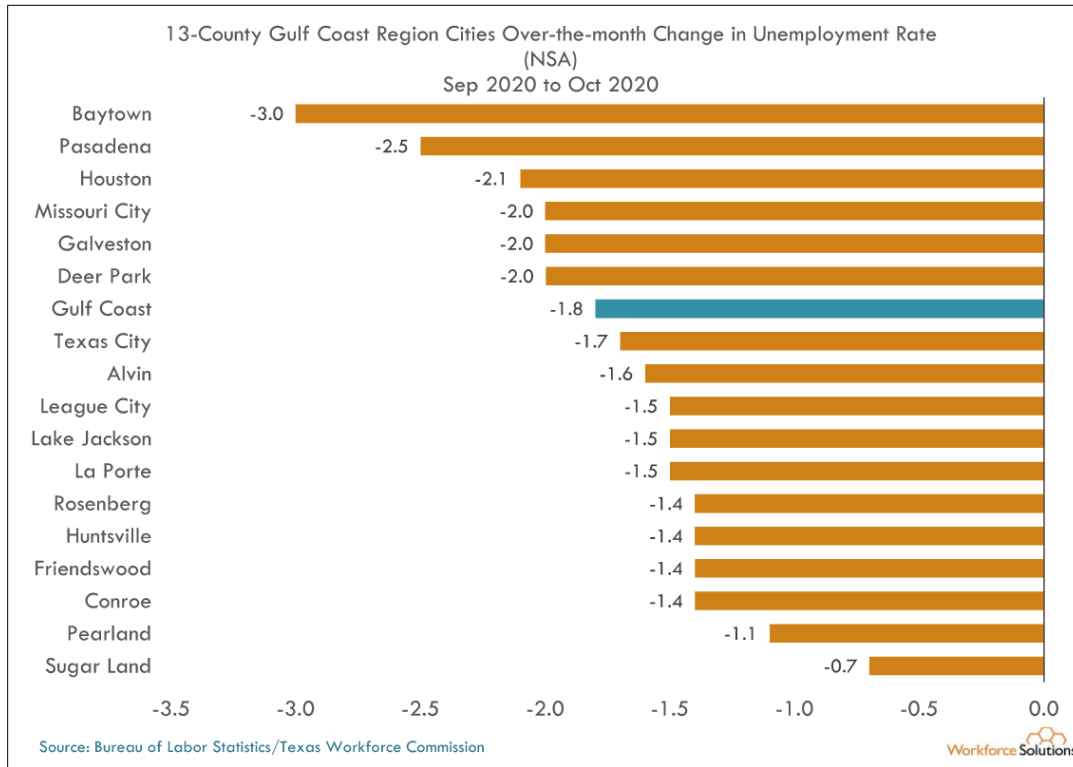
Historically, Pearland's average unemployment rate is approximately 4.2%. Its lowest having been 2.4% in April of 2019, exactly one year prior to the onset of the coronavirus pandemic economic downturn, Pearland is close to normalcy and right at the City's highest unemployment rate during the National Bureau of Economic Research (NBER) designation of 2008 as a National Recession (6.5% unemployment rate – Pearland, TX). The unemployment economic information provided is the most recently available at the time of this report. Staff will continue to update stakeholders and officials on this area of concern as future reports become available, as Texas Workforce Commission issues this information to the City on a recurring basis.



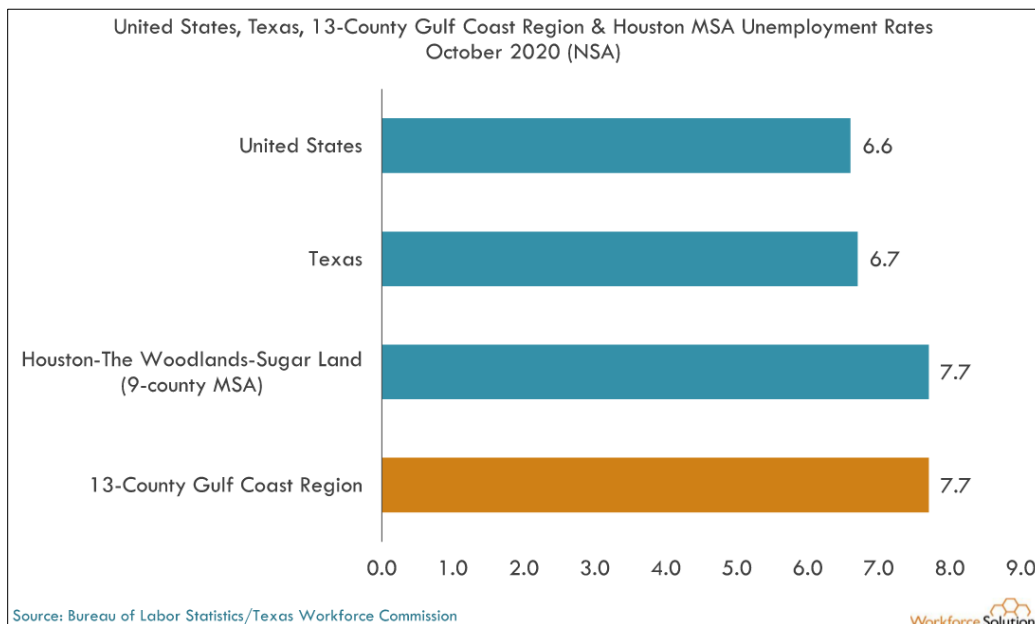
The balance of Brazoria County is not in the same favor as the City of Pearland, as the County's unemployment rate overall is 7.8% and over that of the Gulf Coast Region. Largely due to orders and edicts necessitating the temporary closure of non-essential businesses, and the limitations placed on others, job loss, reduction in labor schedules and pay, supply chain challenges, and other retail and commercial woes prevailed over a thriving economy in Pearland. While the overall summary of economic challenges in Pearland is yet to be written, the most readily available information suggests that our local unemployment numbers are recovering more steadily towards normal levels than other parts of the Gulf Coast Region.



The chart below is one depiction of the notion that Pearland has had to cover less ground in recovering economically than other surrounding cities. Cities like Baytown, Pasadena and Houston have larger percentages of changes in their unemployment rates.



Unfortunately, the Region's 7.7% average unemployment rate is currently higher than the balance of the State of Texas (6.7%), which is also higher than the national average (6.6%).



Summarily, it is clear that Pearland has a level of economic resiliency that has prevailed through the coronavirus pandemic in many respects. Some of this may be due to the fact that our local economy is partially comprised of healthcare and life-science entities, a segment of the global economy that has successfully weathered the storm due to its nexus to the global pandemic response and recovery. Of our major employers in Pearland, one-third include 7 life-science and healthcare entities:

- Altus Harbor
- Cardiovascular Systems, Inc.
- Kelsey-Seybold Clinic
- HCA Houston Healthcare Pearland
- Lonza
- Memorial Hermann
- Merit Medical Systems, Inc.

Four of these healthcare companies are also among Pearland's top ten employers (Kelsey-Seybold, HCA/Pearland Medical, Memorial Hermann and Merit Medical). This is all important information, as the nature and scope of the healthcare industry has made it one of the nation's most resilient economic sectors during the coronavirus pandemic, which has a relationship with our local economic resiliency. Furthermore, a large portion of Pearland's workforce are Texas Medical Center employees and work in professions that provide essential services to the community. Ultimately, economic resiliency in Pearland boils down to the fact that economic growth and quality development are critical aspects of our City's ability to serve citizens with the quality of life, mobility and access to services they require.

The Pearland economy is rebounding but is still in need of attention where marketplace recovery and stimulus are concerned. During the months of the national, State and local response and recovery efforts, all of which had some level of impact on our local economy, the CARES Act and other injections of economic stimulus played a notable role in bringing exorbitant levels of concern down to reasonable ones that additional efforts should mitigate.

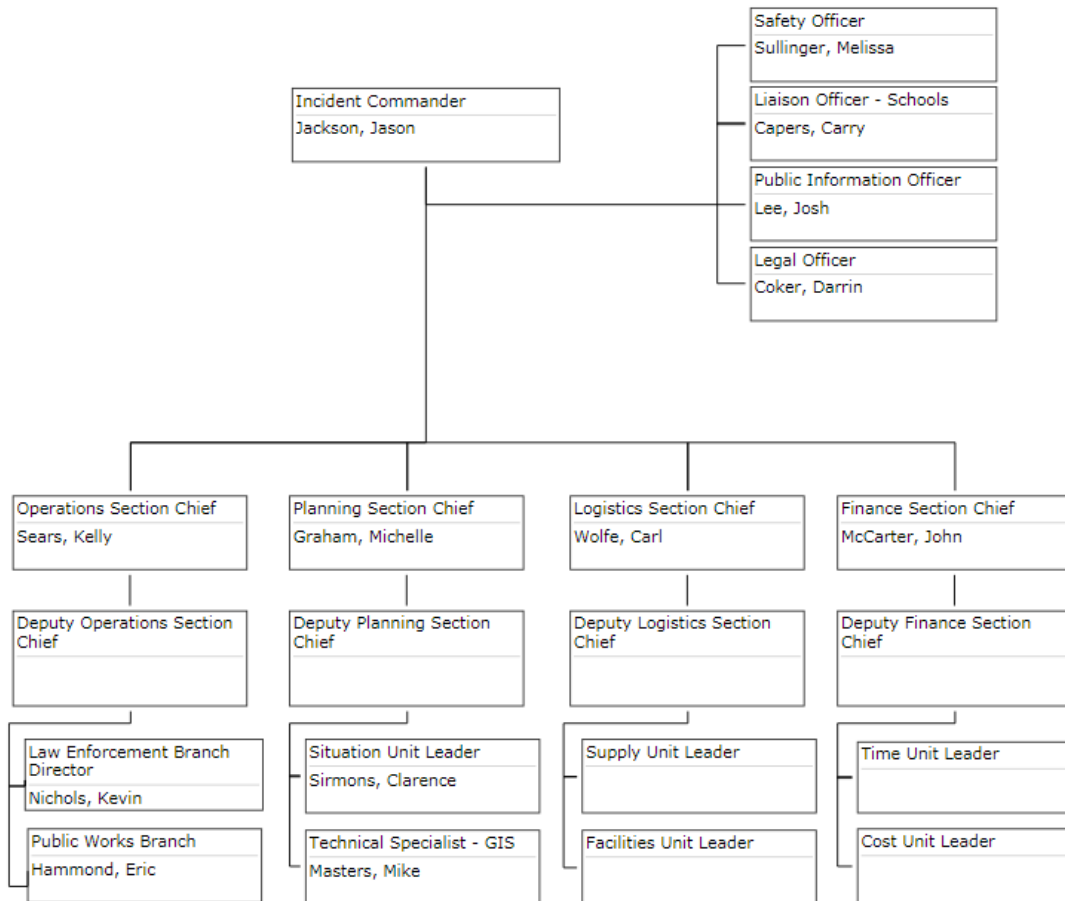
Payroll protection, other small business loans, unemployment assistance, and the local allocations of CARES Act funding provided opportunities for local businesses to combat the negative impact the coronavirus pandemic had on Pearland and other places. **Staff should begin to track open/vacant commercial and retail space effectively, work closely with PEDC and the Chamber of Commerce, paving the way for a collective thought process to unfold new and innovative options for getting things back to normal.** This is also an area that deserves support from the respective counties Pearland is located, as Harris, Fort Bend and Brazoria counties all receive sales tax revenue from businesses located and operating within the Pearland city limits.

Emergency Management - Response and Recovery

In response to the Coronavirus pandemic, the City established an Incident Command Structure (ICS) in the form of an Incident Management Team (IMT), focusing heavily on a defined set of response functions, in concert with traditional principles outlined in Emergency Management Incident Command Structures (ICS). Under the auspices of Emergency Management (Peter Martin), the City quickly established an Incident Command Structure (ICS) via Incident Management Team (IMT) to respond to the pandemic, largely focusing on the medical and public

health impacts of the coronavirus, with a plan to establish additional protocols for recovering economically and in other ways.

Assistant Fire Chief Jason W. Jackson was appointed Incident Commander, with a cadre of other public safety and emergency personnel operating in various functions typical for ICS work (planning, operations, finance, situational awareness, public information, policy, etc...). An org chart for the response phase of the ICS is provided below.



The initial Incident Objectives established included, but were not limited to:

- Impeding the spread of coronavirus (COVID-19) among City staff;
- Minimizing the impact of coronavirus (COVID-19) on the Pearland community;
- Minimizing the risk of coronavirus exposure and contamination of City staff by the public, with emphasis on first responders, personnel working in the field and highly exposed to the public, as well as highly trafficked City buildings;
- Keeping the Pearland community and stakeholders informed of efforts to ensure the continuity of essential City services and temporary suspension of non-essential services; and
- Promoting & Enforcing compliance with State, County and City social distancing strategies designed to stem the spread of COVID-19.

Response Phase Actions

Multiple weekly planning and implementation activities ensued, fostering a sustained effort to ensure all proper protocols and contingencies were in place to promote community-wide protective factors, with a heavy emphasis on preserving continuity of operations and the safety of critical personnel and the public. Thus, IMT heavily relied on guidance from the State, county public health officials and the Centers for Disease Control and Prevention in issuing local edicts and orders aimed at preventing the spread of coronavirus in the community.

Local Health and Safety

To-date, a total of 11 local orders (mask orders) have been issued, 8 via former Mayor (emeritus) Tom Reid (TR-1 – TR-8) and 3 by newly elected Mayor Kevin Cole (KC-1.1, 1.2 and 1.3), all of which address the importance of local safety measures in keeping Pearland as safe as possible and preventing the spread of COVID-19. Mayor Cole's health and safety orders have removed penalties which were a part of previous edicts, promoting the importance of the recommended best practices without the fines. Public parks and recreational facilities were closed from April through October of 2020, with reopening taking place on a limited basis. During that same time, restaurants were open only for delivery and/or curbside pickup, and non-essential businesses were closed via local, County and/or State orders for weeks following the onset of the pandemic in Pearland.

In addition to actions aimed at preventing the spread of coronavirus in the community, **organizational policies and procedures designed to foster continuity of operations have also been beneficial to the employee workforce and City operations.** These included:

- temporary suspension of certain parks, recreational and judicial facility operations, commensurate with the sense that large gatherings and heavily-populated buildings perpetuate the spread of the coronavirus;
- standards for the use of personal protective equipment (masks, gloves, shields) at all times;
- sanitizing facilities;
- personal hand sanitizing;
- social distancing via remote work capabilities and revisions to building/room capacities;
- enhanced public safety and emergency medical protocols; and
- other measures aimed at protecting the community from the risks of the pandemic.

Continuity of Operations

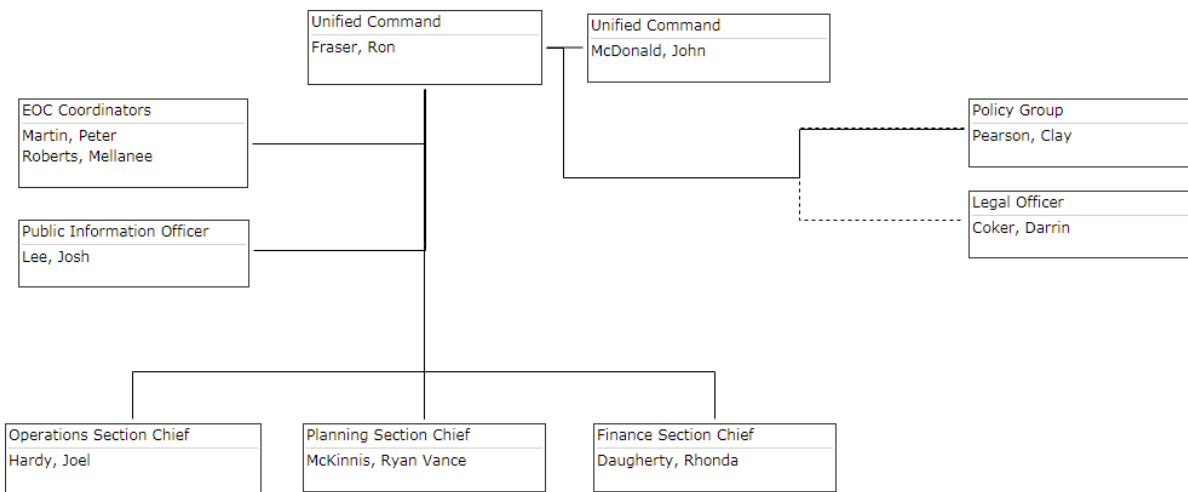
A critical element of the City's success in sustaining continuity of operations has been the strength of its remote work capabilities. The remote work policy and related agreements with employees has resulted in the ability to maximize social distancing, preventing the spread of the virus amongst non-emergency and public safety employees, keeping administrative and necessary community services functioning normally. Information Technology (IT) procurements of meeting room kits, laptop computers, software integration and interface enhancements such as Cisco WebEx and Microsoft Teams, and various firewall improvements and other technologies provided the backbone for continuity of operations, with sustainable impacts that can be relied on for future uses.

All of these are critical sustainability components for future pandemic concerns and the need for continuity of operations. **The workplace paradigm is changing, and remote/virtual capability should be a common element of our future outlook for daily operations, as there are a number of ancillary benefits on the public health, safety, environmental and workplace productivity fronts that should compel us to continue utilizing these technologies.**

Remote work capability expands our workplace considerations where space and facility impacts are concerned, reduce the impact on the local environment related to transportation and safety, add physical distancing capabilities that reduce other non-SARS seasonal health concerns (influenzas, etc...), and add more productivity to the workplace where the ability to meet, plan and collaborate outside the organization are concerned. The benefit of the pandemic on our workplace has been a heightened capability for expediting contacts and interactions, as there is less of a need for travel time and other pre- and post- activities required for many face-to-face meetings. These benefits and others should compel us to sustain remote capabilities and use them as often as possible.

COVID-19 Relief and Recovery

In June of 2020, the IMT began to focus efforts on community economic recovery with the issuance of \$6.7 million in CARES Act funding from the U.S. Treasury, mostly allocated by the State of Texas, with small amounts coming in from Harris and Fort Bend counties. An IMT, similar to the one established in response to the coronavirus pandemic, was established for the specific purpose of recovery, in the following organizational structure:



The IMT recovery phase focused heavily on local economic relief and the following objectives led the incident command structure in the direction to help businesses, social service agencies and households deal with certain outcomes from the pandemic. These objectives addressed priorities that included, but not limited to:

- sustaining the vitality of the Pearland community by identifying unmet needs in the business, social and government sector, including local school districts and social service agencies to the extent possible; matching available resources with identified needs;
- ensuring the continuity of essential City services and capabilities;
- ensuring the continuity of City government;

- monitoring Coronavirus resurgence, promote public health and mitigate impacts to the City and the Pearland community;
- keeping external stakeholders apprised of pandemic response and recovery objectives, strategies, priorities, constraints and resources; and
- keeping internal stakeholders apprised of response and recovery intentions, priorities, progress, challenges and impediments.

Fortunately, the Incident Action Plan (IAP) objectives for pandemic recovery were supported with funding through the CARES Act. The State provided some level of financial support for coronavirus pandemic relief, awarding CARES Act funds on a \$55 per-capita basis for a 2019 Census population estimate of 115,891 people residing in Brazoria County’s portion of the Pearland City limits, totaling \$6,374,005. Harris and Fort Bend counties provided funds on the basis of the same per-capita basis, resulting in \$288,035 from Harris County’s portion of U.S. Treasury CARES Act funds and \$56,155 from Fort Bend County for the portion of the City in that jurisdiction.

The State’s portion of expenditures were provided with conditions that 75% of CARES Act funding must be spent on medical, public health and/or payroll expenditures for personnel substantially-dedicated to coronavirus response. The funding from Harris and Fort Bend counties did not come with such stipulations. Staff presented Council and the public with a recovery plan aimed at accomplishing local priorities within the allowable goals and objectives set forth by the CARES Act and the State, resulting in the following actual recovery actions and expenditures:

Activity	Expenditure
COVID-19 Wastewater Testing	\$16,500
Personal Protective Equipment	\$46,628
Public Health Facility Improvements – City and Public-School Buildings	\$925,684
Facilitating Distance Learning – Public ISDs	\$1,209,245
Payroll for Public Health and Safety Employees (Pearland – Brazoria)	\$2,591,441
Payroll for Public Health and Safety Employees (Pearland – Harris)	\$288,035
Payroll for Public Health and Safety Employees (Pearland – Fort Bend)	\$56,155
Information Technology	\$125,267
Housing Support	\$602,240
Small Business Assistance	\$857,000
Total CRF Expenditures	\$6,718,195

Overall, these expenditures allowed the City to maintain its continuity of operations priorities, keeping essential staff and functions in place throughout the pandemic. Public works, health and safety, administration, community development and core capabilities were properly maintained, allowing the City to manage the temporary pause on other functions accordingly (Municipal Court, Parks and Recreation, etc....). Without assistance from federal and State funding sources, the City’s capabilities for recovery and response are limited to existing budgeted personnel and technology for remote work capabilities.

Rental assistance provided more than 150 residents with approximately \$357,000 in two months of housing support, 61 local businesses that applied for recovery grants ranging from \$5,000 to \$15,000 for a total of \$857,000 city-wide, and two Pearland-area public school districts were awarded a total of \$1.4 million to cover remote learning technology expenses and the costs of other protective measures.

City facilities have been equipped with protective equipment that ensures the air quality of certain public buildings is disinfected routinely, in addition to social distancing materials and supplies that further protect individuals that are coming into relative contact with one another on a daily basis. Key improvements also include the installation of glass partitions in public meeting spaces and at receptionist areas, as well as touchless fixtures in restrooms and at public entryways.

No federal assistance or help from the State would have left almost \$3.7 million in unmet needs for the City to contend with, mostly involving facility improvements, personal protective equipment, sanitizing and janitorial priorities, and assistance to community recovery efforts (businesses and housing) that are an important part of pandemic response. **Staff recommend preparedness for future pandemic recovery include the following to ensure some level of readiness is in place for the future:**

1. Immediate revision of the City's Hazard Mitigation Plan to incorporate substantial pandemic response and recovery components into the design;
2. Increased budgetary considerations for Emergency Management that allow for the procurement of PPE for all essential staff, with heavy emphasis on public safety and emergency medical personnel;
3. Use of CDBG funds for rental and utility assistance on an annual basis, prioritizing these types of allocations over other social services historically funded by HUD through the City;
4. **Continued assessment of facility improvements for existing public buildings and construction standards for NEW City buildings that incorporate pandemic and public health protective factors in the regular design characteristics;**
5. Improved internal and contractual readiness levels for janitorial services to accommodate the need for sanitizing to quickly be added to the standard practices if/when a pandemic occurs;
6. Completion of acquisition and installation of interfaces, software and hardware technology beneficial to the remote work and virtual meeting capabilities the City should sustain as part of normal operations moving forward, when desired and applicable; and
7. Increased cooperatives between the City, PEDC and Chamber of Commerce towards ongoing recovery and long-term resiliency for local businesses, particularly retailers that occupy commercial space in retail nodes throughout the City.

Summary and Next Steps

One of the TOP Pearland priorities for the immediate future should be to maximize effectiveness and efficiencies in delivering Pearland-led public health initiatives; specifically, the ongoing inoculation of citizens with the SARS/CoV2 vaccination. Allocations of doses to communities seems to be muddled in inordinate levels of confusion and challenges interjurisdictionally, and the City needs to ensure the resources are in place to protect and serve our citizens. Mayor Cole and the IMT are working closely with officials from surrounding areas and the medical community to overcome these challenges, but the staff recommendation for the future is to create a more robust public health capability for our City, internally and with partnerships that involve local hospitals and medical service providers. **An ad hoc committee or long-term activation of the public health element of our IMT are options for moving forward as after-action items to protect the City in future pandemics or other public health emergencies.** A SARS/CoV variant does exist and there is no telling how that particular version of the coronavirus will impact society as a whole, globally or otherwise.

Since the current epidemiology of the coronavirus suggests the pandemic will remain a critical concern for months to come, sustaining the ideology of the IMT as a viable planning and implementation module for incident response and recover should remain as a general priority as

the pandemic continues. While response and recovery efforts have evolved and many resources exhausted, there are still community development and housing funds available to disburse via HUD CDBG allocations.

Just because vaccines are available and potentially growing in accessibility does not mean case-counts will immediately begin to decline. **The City should continue promoting efforts to continue public health recommendations, such as the local health and safety messages, physical distancing and remote work schedules and other CDC-driven protocols.** A return to in-person public meetings has been established and are now in place, but we should continue watching cases and risk factors and make adjustments as needed.

Other next steps should involve:

- Supporting and co-coordinating future, ongoing SARS/CoV2 vaccination efforts;
- Planning and implementing the use of other non-Treasury COVID-19 funds
 - CDBG/CDBG-CV
 - Texas Department of Housing and Community Development (TDHCA)
 - Dept of Justice – Coronavirus Emergency Supplemental Funds (CESF)
 - Department of Health and Human Services Provider Relief Fund (PRF)
- **Monitoring the effectiveness of existing investments, internally and those we've made in the community, producing an actual After-Action Review (AAR) of the incident once the pandemic has subsided;** and
- Planning for demobilization of the City's IMT.

FY22 White Paper



To: Clay Pearson, City Manager

From: Eric Roche, Budget Officer

CC: Trent Epperson, Deputy City Manager
Ron Fraser, Assistant City Manager
John McCarter, Interim Finance Director

Date:
February 1, 2021

RE: FY 21 Mid-Year Allocation Options

The purpose of this White Paper is to provide a preliminary amount for the FY21 Mid-Year Allocation and seek guidance from City Council on what items should be brought forth for formal consideration with projections in June/July. **Please note: the amount shown in this memorandum for the Mid-Year Allocation will likely change based on further FY21 revenue and expenditure projections.**

Definition of Mid-year Allocation

A Mid-Year Allocation is defined as the allocation of available fund balance over-policy to one or more non-recurring items. In recent years, the City has used the Mid-Year Allocation to provide funding for streets, sidewalks, vehicle replacements and non-recurring special projects.

The advantage to using a Mid-Year Allocation is two-fold. First, it allows the City to get a jump on projects by moving ahead at mid-year instead of waiting for another budget cycle. Second, the Mid-Year Allocation plays a key role in maintaining the General Fund's structurally balanced budget by allocating additional resources through an amendment to the existing budget, rather than adopting a budget that includes expenditures that exceed revenue; known as a structural imbalance.

The Mid-Year Allocation occurs simultaneously with year-end projections, which include adjustments to recurring, operational revenues and expenditures. Although these two allocations happen at the same time, they should be considered separate allocations.

FY20 Year-end Standing

Based on year-end figures as of 1/11/2021, the General Fund finished FY20 \$3.28 million *over* budget in revenues and \$883K *under budget in* expenditures, after including the changes made with Budget Amendment #1.

The currently projected fund balance of \$24,989,916 million represents 103 days of cash on hand in the General Fund. *The target is to have 90 days of cash on hand.* It should be acknowledged that the 90-day target (25% of annual expenditures) was a goal set just in last two years and has already been met – Increasing from 66 days (18% of annual expenditures) at the beginning of FY19.

Recommended Contribution to Additional Fund Balance

Staff is recommending an allocation of \$1,325,000 from fund balance to be appropriated for the items listed at the end of this paper. As can be seen in the table below. An appropriation of this amount would decrease the cash on hand from current 103 days to 90 days. These fund balance numbers will be changing in the future as projections are made to FY21 revenues and expenditures. Additionally, the Budget Office is aware of additional CARES funding being available. However, at this time the amount is still being determined and is not available for allocation. It's important to draw fund balance down at this time in order to avoid future structurally imbalanced budgets – which can harm credit worthiness.

Updated General Fund Balance with Suggested Additional Mid-Year Allocation

	FY20 Actuals as of January 13 th 2021	FY21 Amended Budget (includes carryovers & additional appropriations)	FY21 Adopted Budget w/ Updated Fund Balance	FY21 Mid-Year Budget (no Additional Appropriations)	FY21 Mid-Year Budget (with Addition Appropriations)
Beginning Fund Balance	\$17,201,848	\$24,466,928	\$24,466,928	\$24,989,915	\$24,989,915
Ending Fund Balance	\$24,989,915	\$23,610,735	\$25,274,403	\$24,133,723	\$22,808,718
Expenses	\$81,706,822	\$91,134,873	89,471,205	\$91,134,873	\$92,459,873
Daily Expense Budget	\$223,854	\$249,684	\$245,126	\$249,684	\$253,315
2 Month Policy	\$13,617,804	\$15,189,139	\$14,911,868	\$15,189,139	\$15,409,979
Amount Over 2 Month Policy	\$11,372,111	\$ 8,421,595	\$ 10,362,535	\$8,944,584	\$7,398,739
Days of Cash on Hand	111	95	103	97	90

Given the nature of this source of funding, it is prudent to primarily dedicate the allocation to one-time, non-recurring items of capital outlay nature.

The recommendation from Staff is to allocate an additional \$1,320,927 for the items listed below.

Projected Days of Cash on Hand at End of FY21	Available for Allocation	Items Funded
95	\$325,000	
94	\$525,000	
93	\$725,000	
92	\$925,000	
91	\$1,125,000	
90	\$1,325,000	

Potential Options

1. *Quarterly Billing for EMS Dispatch-\$57,300*

Cypress Creek EMS is contracted for EMS dispatching services and was previously billed once per calendar year. The organization is now switching from annual billing to quarterly billing going forward. It was budgeted to make one annual payment in January 2021. Cypress Creek EMS is now estimating the annual payment due for 2020 services and three quarterly payments of \$53,850 in FY21. Fire-Operations has reviewed the FY21 budget for EMS dispatch services and estimate they will be short \$57,300.

2. *Additional Parks and Recreation Maintenance Worker-\$10,857*

In May of 2020 a vacant Parks Maintenance Worker position was removed from the budget and re-classed into another position. The intention was to review and potentially add the FTE back to the Parks department during the FY21 budget process. During internal budget review it was not added back and was not included in the FY21 budget as intended. The Parks department has requested the addition back of this FTE position to assist in maintaining current workload. The cost for a full year would be \$47,492. If hired in July 2021 the position would cost \$10,857 for the remaining FY.

3. *Video/Audio Equipment for both courtrooms - \$100,000*

Municipal Court technology requires updating in three key areas. First, the Municipal Court is a court of record and requires recording of all trials for the purpose of appeal to County or District Court. This status avoids the need for a new trial (*trial de novo*) for the court of appeal. Courtroom B does not currently have the recording equipment required to hold trials as a court of record. The equipment in Courtroom A should be updated to provide higher quality recordings. The recording equipment in both courtrooms will increase availability for jury trials. Currently there are 563 jury trials scheduled through January of 2023, with additional cases presented monthly. Prolonged delay of cases contributes to limited witness availability and effect of testimony. With capability in both courtrooms, jury trial dockets could be increased to three per week.

Second, the audio-visual equipment used to display documents and evidence at trial in Courtroom A is not working and requires replacement for the effective display of physical evidence and video evidence at trial. Currently, Courtroom B is not equipped for this capability necessary for the full utilization of this courtroom.

Finally, while the City of Pearland has continued business on a WebEx or Microsoft Teams platform, the courts have been mandated by the State to utilize a Zoom software platform for virtual trials and arraignments. This platform has unique technology requirements to effectively and securely conduct trials virtually during the course of the COVID pandemic. This equipment should be procured for courts to continue the business of the court through the pandemic, and allow the continuation, where applicable, beyond the pandemic with continued virtual arraignments, pre-trial conferences, show-cause hearings, etc.

4. *Historically Underutilized Businesses (HUB) Tracking Assistance – \$44,500*

This contract would bring in outside assistance in analyzing the City's procurement policies and procedures, reviewing current delivery methods utilized and establish a selection criterion for each, measuring the level of historical HUB bidding and pursuit, and evaluating the City's current efforts to utilize local area HUBs and Small Businesses as well as exploring new and proactive procedures that maybe appropriately incorporated. The results of this agreement would be a set of proposed changes to purchasing policy allowing HUB status in the evaluation of certain bids with the purpose of increasing the use of HUBs in City projects and purchases.

5. *Fire Station #2 repairs - \$495,000*

Project will consist of repairs to the concrete approach slabs and walkways. Remove interior plumbing fixtures to address soil movement, repairs to plumbing fixtures, and to address air condition condensation issues in the attic.

6. *Fire Station #3 repairs - \$462,000*

Provide air-conditioned air to the attic to address humidity and condensation in the air conditioning system.

7. *Stryker Power Loaders for ambulances: \$103,989*

Request to purchase and install three Stryker Power Load systems for ambulances and convert existing stretchers so they will work with the power load system. This equipment prevents Fire personnel from manually lifting a stretcher and cuts down on injury to staff.

8. *Additional Funding for Pavement Marking - \$47,281*

FY22 White Paper



To: Clay Pearson, City Manager
From: Eric Roche, Budget Officer
CC: Trent Epperson, Deputy City Manager
Date: February 1, 2021
Re: Internal Service Funds Update

BACKGROUND

Over the last two fiscal years, the City has engaged in discussions to create additional internal service funds for Fleet, Information Technology (IT) and Facilities. The work is for building long-term capacity and recognition of the City's substantial long-term assets that require planning and reinvestment to be sustained. **The purpose of an Internal Service Fund is to provide a mechanism to anticipate the full cost and/or finance the goods or services supporting the organization and the community over the long run.**

The principle behind internal service funds is simple. Rather than making periodic large-dollar investments, the City makes annual contributions to the internal service fund. In turn, the City uses those proceeds to pay for regular maintenance and large-dollar investments. Internal service funds have less of a varying financial impact on the operating budget and allow for a more systemic approach to the acquisition and maintenance of high dollar equipment because the revenue is transferred from operating budgets on an annual basis according to a consistent formula to support operations/maintenance and capital replacements.

Because of Pearland's continued rapid expansion, the purchase, maintenance, and replacement of the City's computers and buildings should be handled on a more deliberate and structured basis. Underinvestment now will lead to *serious* funding challenges in the future. **The City's current total fixed asset valuation as of September 30, 2019 is approximately \$1.59 billion, with the vast majority (\$1.16 billion) being General Government Fixed Assets.** Fixed assets include land, infrastructure, building and improvements, machinery, equipment, and vehicles; as well as the furniture, fixtures and equipment in our facilities. That number is growing as the City's service population grows, and as we acquire and maintain more physical space and technology in order to serve our citizens and businesses.

At present, the City has three internal service funds: Medical Insurance Fund, Motor Pool Fund, and Risk Management Fund. Through the FY 21 Budget, the City's facilities needs are budgeted within a Division of Public Works' operating budget and technology needs are budgeted within the IT department's operating budget on an annual basis with no planned funding for future equipment replacement.

Funds are able to grow from a simple budgetary tool for repair and replacement to full-fledged measures that support the cost-effectiveness of the utilization of internal services funds.

With implementation of the **Motor Pool Fund** in FY19, it is the Finance Department's recommendation that we continue to move forward with establishing additional internal service funds for the City's facilities and technology requirements.

FINANCIAL IMPACT

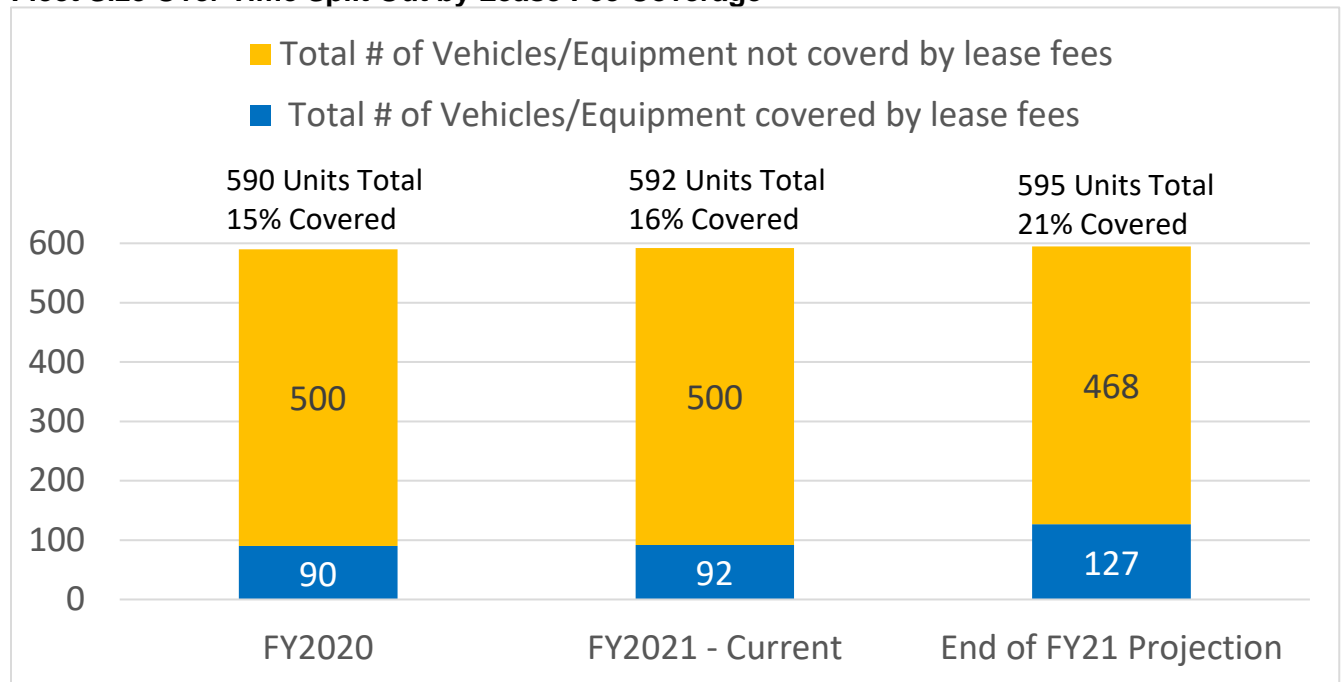
In order to achieve the benefits outlined on the last page, the City must commit to making continued financial investments in the existing Motor Pool Fund and into the IT and Facilities funds when they come to fruition. The City Council has repeatedly expressed awareness of the need to think in terms of multiple budget years over a long term, to afford the City we are and are becoming. Although not something that will be visible in any given budget year or be touted in an annual calendar report or social media post, recognizing the value of assets and recapitalization in internal service funds is one way to meet the expressed goal.

Motor Pool Fund

The City of Pearland is in the early stages of overhauling the way it finances fleet operations. **In 2019, the City transitioned to a Motor Pool Fund in which new vehicles that are purchased pay lease fees into the fund.** The transfer lease "revenue" builds the fund balance for future replacement vehicles. However, since this effort is still relatively new, it will be several years, even with the anticipated infusion from TIRZ #2 reimbursement, before the fund is fully capitalized.

Until the fund is fully capitalized it is important to limit the increases in fleet size until the city "catches up" on building lease fee payments via the replacement of outdated vehicles and equipment. **The motor pool will not be fully funded until every vehicle and piece of equipment has been replaced at least once.** The chart below shows how the fleet has changed since the beginning of FY20.

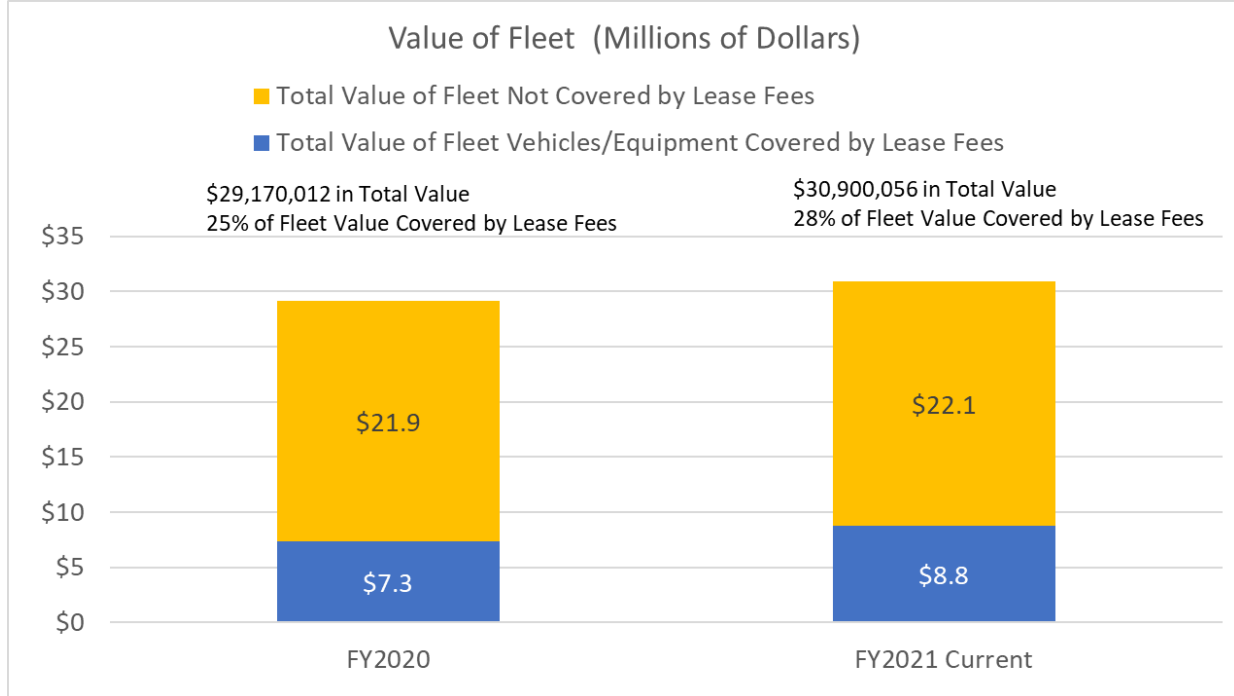
Fleet Size Over Time Split Out by Lease Fee Coverage



As can be seen in the chart above, the Motor Pool is expected to contain 595 total units (vehicles + equipment) by the time all of the FY21 budgeted purchases have been ordered and received. This would result in 21% of the Motor Pool units being covered by lease fees – up 6% since FY20.

Another way to look at progress within this fund is to calculate coverage not as a percent of total units but based on the total value of the fleet - because a fire truck and a pickup truck have considerably different costs. The chart below shows the value of the fleet over time (in millions of dollars). It does not include an FY21 projection because lease fees are not built into the budget until the next year, so they would not be calculated until the FY22 budget.

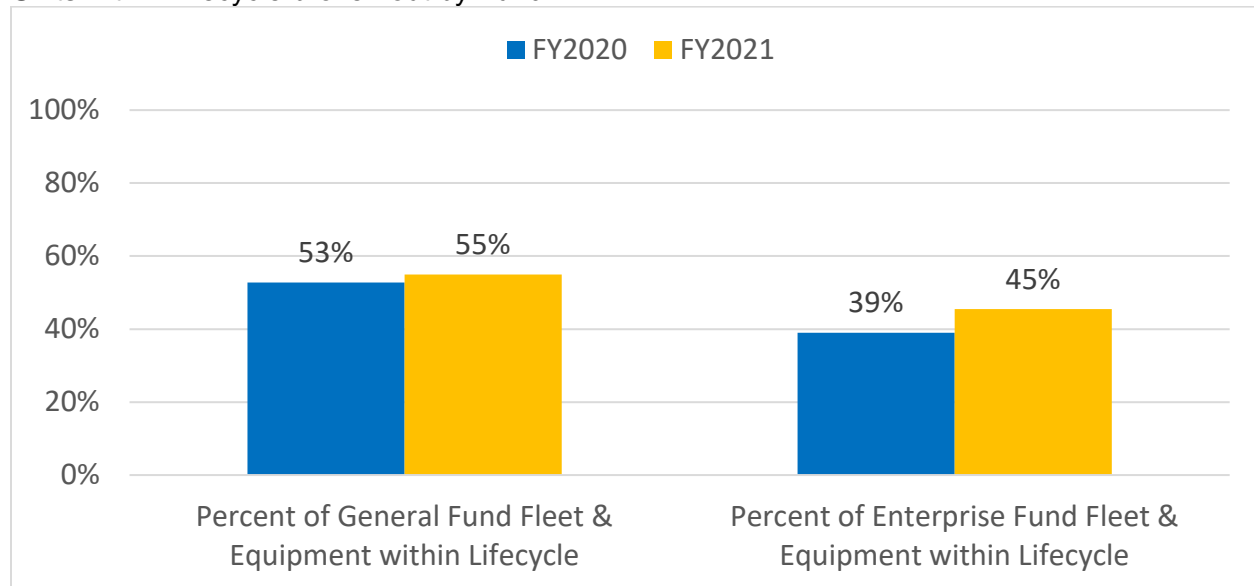
Value of Pearland’s Fleet (in Millions of Dollars) broken out by Lease Fee Coverage Status



As of January 2021, \$8.8M worth of fleet vehicles and equipment have been covered by lease fees. This represents an increase of 1.5M in value, or about 21% over FY20. By value, 28% of the fleet is covered by lease fees. This number will increase with the purchases being made in FY21 that have not yet been received and assigned lease fees.

The motor pool has two distinct funding streams. First, the Enterprise Fund pays for vehicles used by water, stormwater, and wastewater (sewer) staff to maintain those utilities. No taxpayer dollars can be used to purchase vehicles for these operations. Instead, funding comes from user fees. Second, nearly every other vehicle and piece of equipment in the City is paid for by the General Fund with tax revenues. The chart below shows the percent of units within lifecycle for each fund as of January 2021. It does not include vehicles ordered or budgeted for in FY21, but not yet received.

Units within Lifecycle broken out by Fund



Currently, the General Fund has 55% units within lifecycle. The Enterprise Fund has 45% of its units within lifecycle. These numbers will continue to change as vehicles age out of their expected useful service lifespan and are replaced.

In order to fully capitalize the Motor Pool Fund significant funding will continue to be required from the General Fund for several years – even as TIRZ revenue continues to pay for vehicles. Within the next three years (FY22-FY24), 371 existing units will need to be replaced at a cost of \$15.1M in the General Fund and \$2.9M in the Enterprise Fund. Looking further out, over the next five years, 447 units will have to be replaced at a cost of \$16.2M in the General Fund and \$3.3M in the Enterprise Fund.

These figures do not include any units that will be covered by lease fees due to the newness of that funding mechanism; it is unlikely that funding will be available from the Motor Pool fund itself.

The TIRZ #2 reimbursement will be providing approximately \$8.5M. Of this \$1.6M has already been received and allocated to the Motor Pool in FY21. Assuming 100% of the remaining \$6.9M in TIRZ revenue is used to capitalize the Motor Pool in the General Fund, about \$8.2M (\$15.1M in need - \$6.9M in TIRZ revenue) remains over the next three years that will have to be funded from the General Fund Budget. This would require an annual budget of approximately \$2.7M in FY22, FY23, and FY24. The additional budget allocation of \$1.6M made in FY21's Budget Amendment #1 has already been factored into these numbers.

In FY21, the City budgeted \$1.0M for General Fund vehicle and equipment replacements, before TIRZ funding. To reach the necessary \$3.67M in FY22 the General Fund would have to increase its contribution by \$2.7M, or 270%. Fully funding the motor pool is a high priority for staff. Once it is fully funded, the annual contribution from the general fund will drop significantly as only new vehicles will need to be funded from the General Fund. A budget allocation of at least a \$2M transfer from the General Fund is recommended in FY22. If funding allows, the full \$2.7M transfer will be presented to council.

Future – Facilities Fund

The Facilities Fund would support the maintenance and repair of all City facilities, as well as the replacement of 'big-ticket' items such as HVAC systems, roofs, electrical and plumbing systems. The Facilities Management division currently manages 38 buildings totaling 365,475 of square footage. Nine (9) new facilities are projected to be completed within the next five years, totaling 140,000 additional square feet of conditioned space. All buildings are owned by the City except the Westside Library and Convention and Visitors Bureau which are a leased space. Facilities Management provides services through outside contractors and in-house staff. Services provided by outside contractors include HVAC, electrical, plumbing, fire suppression systems, overhead doors and emergency generator preventative maintenance and repairs. In addition to managing all the service contracts, services provided by in-house staff include minor repairs on HVAC, electrical, plumbing, fire suppression systems, generators, painting, ceiling and tile replacements, and minor projects such as furniture moves.

Below are some of annual maintenance and service contracts managed by Facilities:

- HVAC and Ice machine preventative maintenance and repairs: \$530K
- Plumbing repairs: \$100K
- Generator preventative maintenance and repairs: \$90K
- Custodial cleaning services except Public Safety Building: \$360K
- Electrical for Facilities only: \$60K

Examples of activities that would be funded by Facilities not under warranty include, but are not limited to:

1. Roof replacements
2. Chiller replacements
3. HVAC replacements
4. Plumbing replacements
5. Electrical replacements
6. Boiler replacements
7. Generator repair and replacements

In essence, a Facilities Internal Service Fund provides planned funding to properly maintain and reinvest in the City's significant building infrastructure without large and varying impacts on the General Fund budget. In order to properly assess the condition of the City's facilities, the City should undergo a Facilities Condition Assessment on all City buildings. This assessment is beneficial for the proper setup of this fund as the results will guide the City's replacement list and fee structure.

Without an internal services fund, when major cost items fail prematurely, the Public Works general fund budgets are impacted when funds are transferred to the Facilities Management division for repairs to a building that houses other departments. These general fund operations include Streets, Drainage, and Right-of-way divisions.

Future – Technology Fund

The Technology Fund would cover the routine maintenance and replacement of IT software and hardware as well as larger dollar, wholesale replacement of existing systems. To ensure departments can continue to provide necessary services to our customers, the City annually dedicates a considerable amount of funds for maintaining and replacing aging technology. Historically, these costs have been funded by IT.

Each year, the Information Technology department allocates a significant amount of funds for technology that has reached its useful life. These items include desktops, laptops, vehicle docking stations and rugged laptops, iPads, cameras, servers, storage, network equipment, and other required technology. Currently, the City is on a four-year replacement cycle for desktop computers and peripherals which equates to an annual cost of \$67,000 for the General Fund and \$43,000 for the Water and Sewer Fund. Moving to an Internal Service Fund would allow the City to increase its level of transparency, make strategic decisions related to the acquisition and use of technology, accurately account for technology costs, formulate a long-term plan, and provide a funding mechanism for maintaining the City's technology.

Information Technology's major responsibilities include the planning and maintaining of networks, servers, personal computers and laptops, as well as the City's telephone system. Information Technology provides telecommunication, network, and hardware support. Information Technology manages over 500 personal computers and laptops; 109 tablets; 350 virtual desktop interfaces; 823 phone lines; 209 iPhones; 170 servers and 92 business applications. Examples of activities that would be funded by Technology include, but are not limited to:

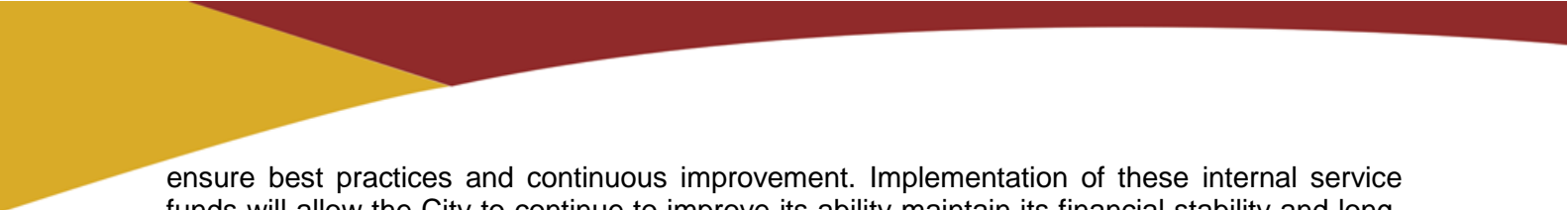
1. Microsoft Office Platform upgrades
2. Updating or conversions of ERP systems
3. Replacement of Servers
4. PC Replacements/Upgrades

The City's goal is to be able to take advantage of the technology when available and pre-planning for the replacements and upgrades will place the City in the best possible position for operational success. Establishing Technology as an internal service fund will minimize budgetary concerns which allows the City to proactively focus on services, solutions, and process improvements.

KEY STAFF & NEXT STEPS

The effective implementation of the Facilities Management and Technology Funds will require the collaborative effort of various staff across the organization. Some of the required key staff needed for the formulation and implementation of Internal Service Funds include staff from Finance, IT and Public Works, with support from stakeholder departments and management. Finance is prepared to convene the necessary personnel resources to design, set-up and implement these two internal service funds in a similar manner as the Motor Pool Fund.

In the same manner that staff made a collaborative effort to implement the Motor Pool Fund and related operating manual, staff will do the same for the facilities and technology internal services funds. As we move forward toward implementation of the additional internal service funds, the operating policies, procedures, and methodology of these funds will be reviewed annually to



ensure best practices and continuous improvement. Implementation of these internal service funds will allow the City to continue to improve its ability maintain its financial stability and long-term success.

Attached for your review is a generalized version of the Internal Service Fund Operating Manual. Although this manual is very general, it will serve as a universal guide for each of the City's specific Internal Service Fund manuals. As always, regular performance evaluation will allow us to adapt as demand and utilization change, and more importantly, these tools will allow us to improve our ability to keep our overall goal in sight and ensure the long-term success of our operations.

FY22 White Paper

To: Clay Pearson, City Manager
From: LaRae James, Assistant Director of Human Resources

CC: Michelle Graham, Human Resources Director

Date: January 6, 2021

Re: Employee Total Rewards in FY22 and Beyond: Competitiveness and Sustainability



BACKGROUND

The City of Pearland has made great strides in the last couple of years with the goal of making the City of Pearland (City) an employer of choice for the talent upon which we all rely -- a place that incumbents and job seekers want to be -- not only in this region, but in the state of Texas and beyond. People and Culture are the foundation of the organization that enhances employee experience via engagement programs, initiatives and total rewards. In FY20 the City of Pearland achieved the Top Workplaces Award in the Houston Metro Region according to the Houston Chronicle. Our goal is to achieve this accolade for FY22 and future years. In FY 21, the improvements to the City's Total Rewards, include sustained insurance costs, attractive retirement/retention plans approved in FY20, enhanced City-wide wellness and training programs, and teams focused on improving employee engagement, and creating a higher-performing organization.

While we conducted and implemented a compensation and classification study as one piece of our value proposition, we must continue to focus on employee total compensation in FY22 and beyond to retain and attract talent. A focus on the sustainability of our compensation system is a key to recruiting and retaining the best employees. It is recommended that we conduct a salary/market review every three to four years to assess market conditions and ensure a competitive posture in talent acquisition and retention.

To achieve this, the City commissioned an updated compensation and classification study in FY21. The most recent study's recommendations were provided to us in mid-2017 and effective on April 1, 2018 at which time City implemented the recommendations to 100% of the market from the study. We've moved forward with the new study in November 2020 (FY21) as per last year's budget request.

We have moved forward with the new compensation and classification study as of November 2020 per last year's budget request. Currently, we are using 3-4-year-old salary data which puts the City at risk of losing talent in terms of recruitment and retention and only adds to a future "catch-up". Partnering with the vendor to complete the salary survey will help the City of Pearland to remain competitive in the market. It benefits the City by (1) providing a better predictor of salary budget than managing several salary adjustments throughout the year (2) increasing employee morale and engagement and (3) improving the selection process to acquire the "right" talent.

To remain competitive within the market and with neighboring cities, the City of Pearland offers a total rewards program which includes a cafeteria of benefits including retirement. A key component of Total Rewards package is pay. For Pearland to continue to attract and maintain quality employees, it is necessary to stay current with our pay and benefits; warranting the FY21 compensation and classification study.

The Human Resource Business Partners (HRBPs) have been meeting with the business unit leaders and the most common concern is the compensation structure and career progression with the City of Pearland. A few departments prefer competitive market data for both public and private sectors for highly specialized or niche roles in this region. (i.e. Project Managers, Project Engineers, IT positions)

We would like to be competitive with our total compensation package by (1) offering city-wide certification pay for qualified staff and (2) implementing a pay-for-performance merit program for high performers in FY23.

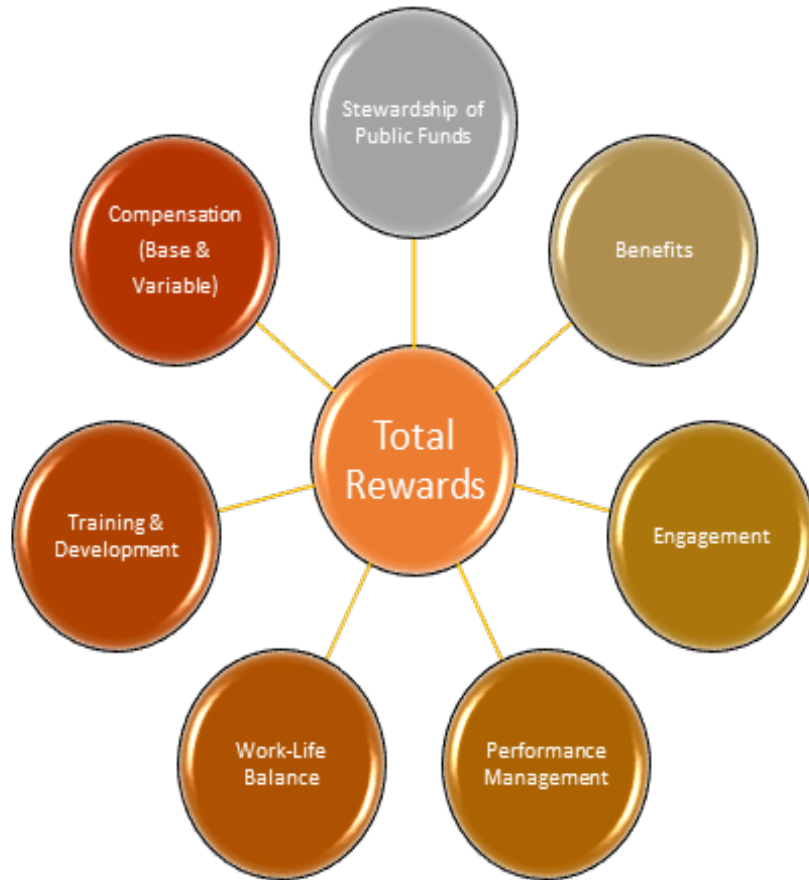
Employee Benefits

The City continues to offer a competitive benefits package including medical, dental, and life insurance coverages, in addition to offering comparable retirement benefits.

The Wellness Program has expanded its program which has an emphasis on employees' mental, physical, social and financial well-being.

Employee participation has increased year over year with creative approaches to engage employees. FY 20 leading in to FY21 has been a challenge for employees and their families due to the pandemic. As a result, we upgraded the Motivate Me platform to assist with Lifestyle Management Programs and were able send employees COVID-19 packages through our CIGNA partnership. Despite the difficult year, we were able engage staff by conducting a city-wide walking challenge to promote wellness through friendly yet socially distant competition. We will continue to educate, inform and engage employees about health and wellness programs.

As evidenced by the annual and regular reporting from our benefits consultant, HUB, our medical and retirement benefits continue to generally be on par with, or exceed those of, other Texas cities. These benefits are a tremendous addition to an employee's total compensation package.



Recommendations for FY22

In order for the City to remain competitive and stay in line with other cities for FY22 and beyond, the following is recommended for consideration as the budgeting process unfolds:

1. Strive for minimum 3% COLA with further salary adjustments based on the market data from the compensation and classification study (pending). The market increase(s) would be a consideration for roles which are significantly below market rate and/or demand.
2. Strive for minimum 3% increase to Police Pay Plan contingent upon the Comp & Class Study. In addition, classified employees would receive a step increase during year if not at top step of range. Although we continue to draw large pools of new candidates, including from other agencies, the 3% would make us even more competitive in our recruitment efforts.
3. Finalize the compensation philosophy which provides a common understanding and provides a consensus regarding the underlying tenets of a compensation system. See attached draft. Research the idea and impact of expanding our certification/license/degree pay list to encourage employee development with an incentive just like comparable cities. A valuation of the certifications/licenses must be quantified to determine the financial impact on the City. Our goal is to be a high performing organization and additional knowledge gained through certification/license/degree will better serve the City.
4. Explore the option of a “sick buy-back program” which is an opportunity to enhance an employee’s Total Compensation while reducing the compensated absence liability for the City. Any plan brought forward would be carefully designed to make sure employees remain home when sick, rather than coming to work when they are ill so that sick days can be cashed in.

Cost to Implement a market competitive pay adjustment - Effective October 2021 (FY22)

The chart below outlines the preliminary estimated impact for three different potential scenarios. The 2022 base represents the projected cost of all existing positions budgeted for 12 months, including benefits, overtime and additional pays. This is an estimate based on the current employees as of January 2021 and will likely change slightly by the time the FY22 Budget is presented.

As outlined below, the cost for the 3% COLA increase to both civil service and non-civil service will cost \$1.9 million city-wide over our projected salary base, with \$1.6 million coming from the General Fund.

Fund	FY21 Adopted	FY22 Base	Increase from		Increase from	
			2022 2% COLA	2022 Base	2022 3% COLA	2022 Base
100	64,448,813	65,480,030	66,590,917	1,110,887	67,155,807	1,675,777
305	291,778	312,068	317,062	4,994	319,843	7,775
310	24,657	25,011	25,494	483	25,735	724
350	932,823	521,035	529,915	8,880	534,381	13,346
351	94,842	13,945	14,107	162	14,227	282
352	30,878	19,172	19,397	225	19,561	389
354	30,879	19,178	19,399	221	19,565	387
365	62,760	63,351	64,379	1,028	64,894	1,543
600	10,150,379	10,284,069	10,441,097	157,028	10,528,583	244,514
700	60,110	60,073	60,913	840	61,451	1,378
703	612,896	636,046	642,977	6,931	648,332	12,286
900	889,273	891,685	904,894	13,209	912,529	20,844
Total	\$ 77,630,088	\$ 78,325,663	\$ 79,630,551	\$ 1,304,888	\$ 80,304,908	\$ 1,979,245
Increase Over 2021 Adopted		\$ 695,575	\$ 2,000,463		\$ 2,674,820	

Notes:

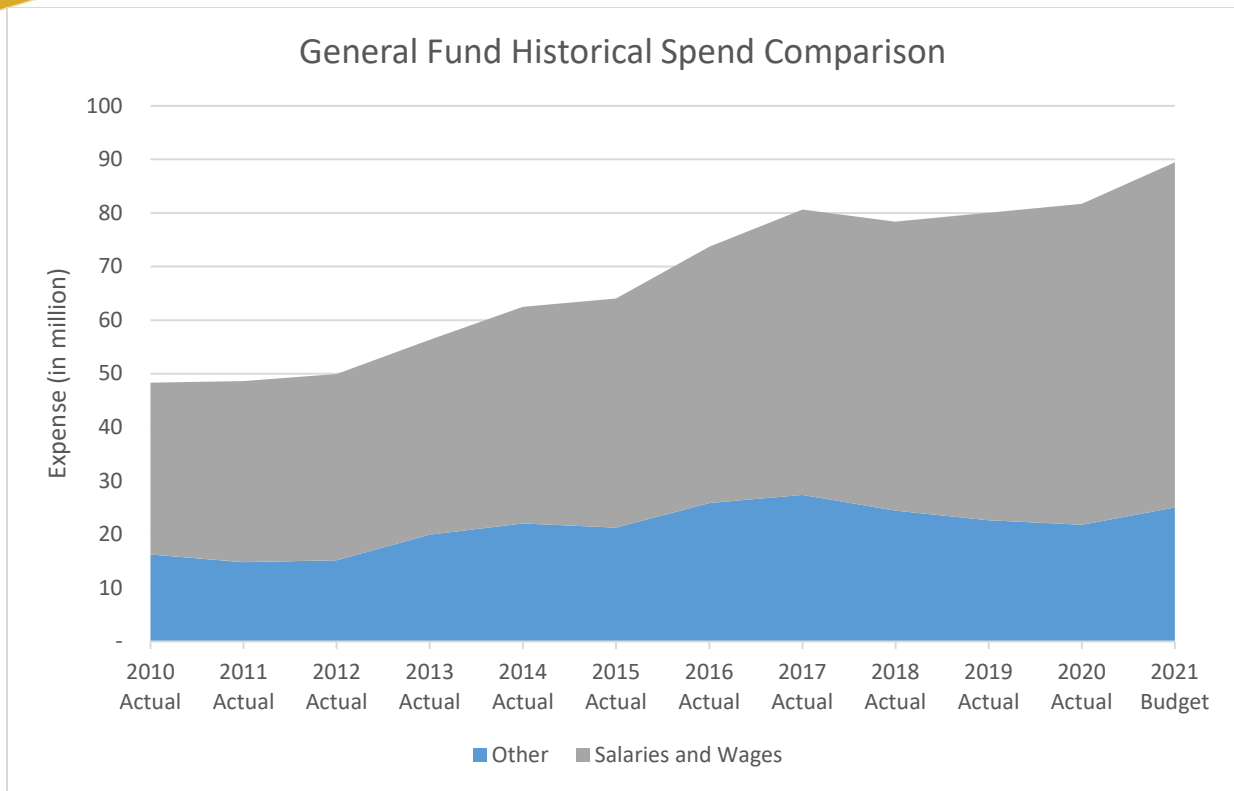
1. Does not include step up pay for Civil Service
2. Does not include salary savings for FY22 estimates.
3. Estimated salaries and benefits for fully or partially funded grant employees distributed between grant funds and other funds.

Structural changes to the non-civil service pay plan itself will not have an impact on the budget, as individual employee salaries are not impacted by shifts in the ranges unless they are at the very top or bottom of the range.

Cost to Implement - Beyond FY22

The cost of any given plan in future years will vary widely depending on the future budget decisions made regarding COLA and other compensation changes. However, trends over the last ten years can provide some insight into patterns that will continue in the future.

The chart below shows the General Fund expenditures since 2010 split between Salary & Wages and all other expenditures. The share of the General Fund budget allocated to Salary costs has increased substantially; in 2010 non-Salary costs represented 34% of total expenditures but by 2021 they represent just 28% with salaries and wages consisting of the bulk at 72%.



While there are many reasons for this pattern, the biggest driver is new staff, primarily in public safety, that are required to catch up and to serve a population of 130,000+ and growing. Since 2010, the organization has added 244 full time equivalents (FTEs) across all funds (a 40.6% increase). Of those 244 FTE's, 143.5 FTE's have been added for Public Safety. The City has also consistently offered a 2% COLA.

While the increases in Salaries & Wages from new FTEs and COLAs have been necessary to continue to provide exceptional services, they have resulted in a pinch to non-Salary & Wage costs. For example, in FY20 in the General Fund, the City funded a 2% COLA (\$1.1M) and 14 new FTEs (\$1.1M, all in Fire and Police). Salary & Wages have risen in cost every year for the last ten years, while other costs have increased only six of the last ten years.

It is important when considering recommendations for the COLA, new staff, additional pays or any other type of city-wide salary adjustments to consider that salaries, while far and away the largest expense in operating funds, are just a portion of the needs of our City. Expenditures like vehicle replacements and pavement rehabilitation are easily scalable from year-to-year, making these easier to cut than a COLA or new staff. However, deferring maintenance and replacement often leads to higher costs in the future, compounding the need for additional funding. Adding significant numbers of staff today will reduce the City's financial flexibility to address streets and sidewalk maintenance, along with motor pool replacements in the near future.

While competitive compensation gives the City the ability to recruit and retain the talent needed to keep our organization operating at a high level, one must bear in mind that decisions regarding compensation have lasting impacts on the City's operational funds that are difficult to reverse, often to the detriment of non-Salary costs and programs.

Things to Consider - Beyond FY22

- Regular updates to compensation and classification study to remain competitive in the market.
- Establishment of a merit pay program for increases in FY23 and beyond. Increases should be 3% budget, with individual employee increases ranging from 0-5%. (Or offer as an “add on” to COLA to reward the most productive and the highest-performing workers, which in turn incentivizes others to do better.)
- Review and revisions to the existing variable pay programs for certification/license/degree (ex. bi-lingual pay).
- An intentional investment in regularly programmed organization specific training & development led by subject matter expert whether it is an incremental headcount or external vendor.
- Investigating optional other work life programs/policies that could appeal to our current and future workforce such as community volunteer time off, work from home options, etc.
- As a subset of training & development, create a structured succession plan with career ladders for certain roles by creating a Leadership Academy. Succession Planning and creating career ladders are essential for identifying our next leaders where possible.
- Adding a HR Business Partner to the department to better serve the 800+ employees at the City of Pearland with various initiatives and programs.
- Establishing a Diversity & Inclusion Program for the City of Pearland to reflect the diversity of our citizens.
- Implementing a “sick buy-back program” for employees with significant amount sick hours which are often forfeited upon their separation from the City.

SUMMARY

Our goal is to remain an employer of choice by uniquely positioning ourselves as a progressive city in the state of Texas. We are aiming to provide the benefits, culture and environment that earn us a Top Workplaces award in the near future.

The economy has fluctuated quite a bit as a result of COVID. In recent months, the overall economy has bounced back and remained steady which means more people are returning to work and fewer people are out of work. The unemployment rate is below 4%. This is great news, of course, but it presents a special challenge for employers as we compete to attract highly qualified candidates — either the few who are out of work or those who are already employed at other entities. Workers have a lot of options especially with the new normal of working from home; the only way to win the best talent is to lean on our values while positioning the City of Pearland as a great place to work. If we do not keep current with our compensation and pay plans over the next couple of years, it will become difficult to fill vacant positions with well qualified, desirable applicants.

FY22 White Paper

To: Clay Pearson, City Manager

From: John McDonald, Director of Community Development

Date: February 5, 2021

RE: Community Development Fees Structure Review In Process



The purpose of this paper is to discuss the current status of a staff-led study of the fee system in place for development related fees. Last year, staff sought funding to hire an independent consulting and certified public accounting firm to conduct a study of the fee structure included in the current Development Fee Schedule. Such development fees are designed to recoup actual costs associated with the provision of a service so that the user of that service is paying for the service provided. The goal is to reduce the fiscal impact on the community as a whole and the need for the General Fund to subsidize the service provision. The process addresses the goal of a Fiscally Responsible Government.

While the current fee structure has been adjusted over the years, the reviews have been *incremental* based upon old assumptions and structure. Though the base formula was amended in September 2019 based on the requirements of H.B. 852, changing from a valuation-based method to a price per square foot calculation, the underlying value behind the cost was only given a cursory review. It has been numerous years, if at all, since an in-depth study of the costs associated with the provision of development related services has been conducted. Efforts in the past focused on a comparison of the City of Pearland fees against a range of neighboring and regional cities. A comprehensive study based on establishing the full cost of services provided by staff has not been previously completed.

After consideration of this request during last year's budget workshop, the consensus of City Council was not to bring in an outside consultant, but to have staff perform the review in-house as they are able, with available time and expertise. In fall 2020, Community Development launched a review of development fees which is still ongoing. Staff is in the process of reviewing the following:

- Reviewing select projects to determine average staff time for reviews and inspections;
- Coordinating with other departments to ensure that all work is included properly;
- Researching and analyzing overhead costs; and
- Working on improvements to TRAKiT to assist in monitoring project and staff times.

Community Development hopes to conclude the review this spring. If the study shows that an update to the Development Fee Schedule is warranted, an amendment will be brought forward for consideration.