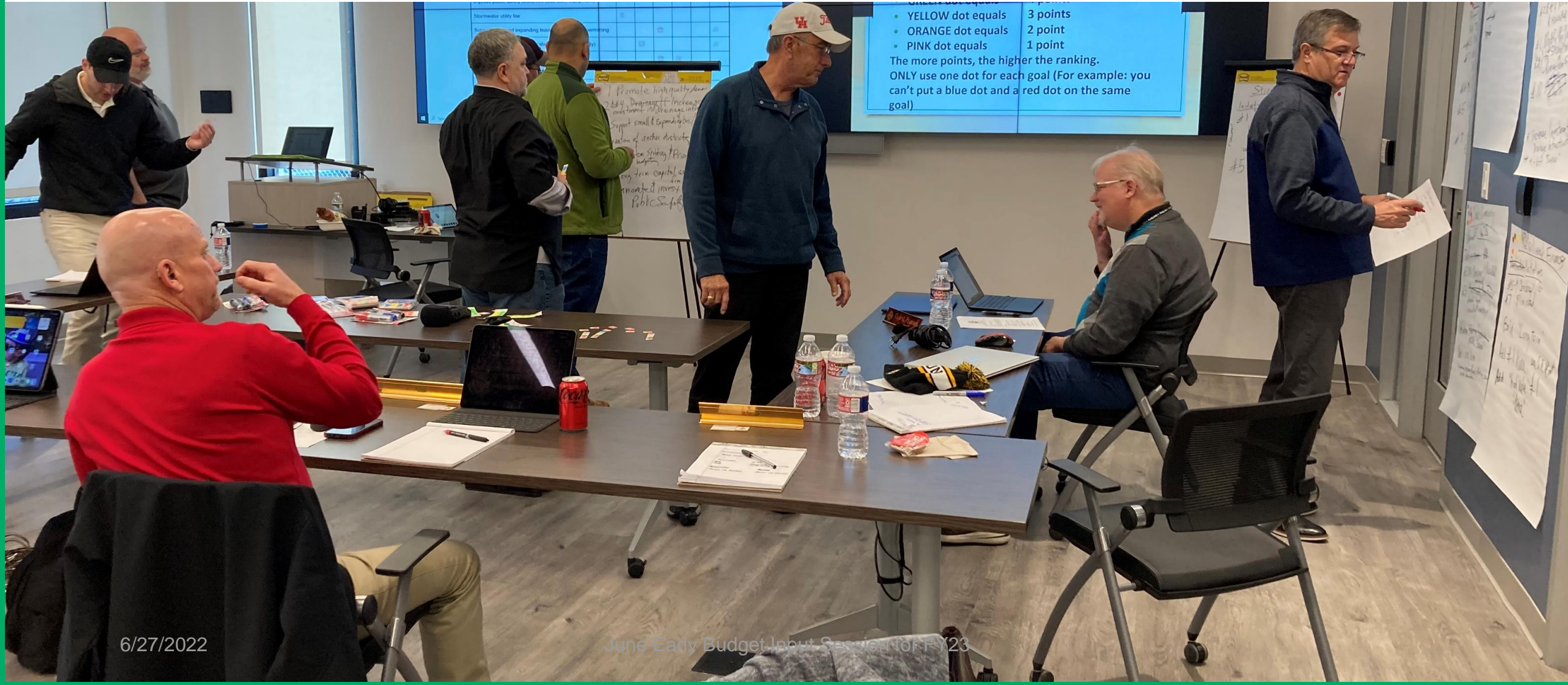


Early Budget Input Session

6/27/22



Council in Action



• YELLOW dot equals 3 points
• ORANGE dot equals 2 point
• PINK dot equals 1 point
The more points, the higher the ranking.
ONLY use one dot for each goal (For example: you can't put a blue dot and a red dot on the same goal)

Strategic Priorities Ranked + Initiatives

- 1. Trusted Government** - Delivering transparent, high-quality, and accessible city services by developing cutting edge solutions, engaging with the community, and continuously improving our capabilities.
 - 2. Strong Economy** - Developing and investing in an attractive community that allows talent, entrepreneurs, and businesses to thrive for generations to come by supporting stable, steady growth, and unending opportunities.
 - 3. Safe Community** - Making Pearland a welcoming place by ensuring a safe environment and providing efficient and effective Public Safety services for residents, businesses, and visitors.
 - 4. Sustainable Infrastructure** - Building quality of life on a well-planned and maintained foundation of essential water, transportation, and flooding infrastructure, appealing amenities, and long-term value.
 - 5. Resilient Finances** - Providing long-term community value through trusted stewardship and responsible financial management.
 - 6. Welcoming Community** - Fostering a diverse and unified community with events, amenities, and public and private spaces that bring people together.
1. Innovating and investing in public safety resources (adding staff and equipment)
 2. Support small and expanding businesses; simplify the permitting process
 3. Increase investment in drainage infrastructure
 4. Promote high quality, high value, dense development with all city resources & infrastructure in mind
 5. Focus on priority/program-based budgeting reviews
 6. Creation of anchor districts, catalyst (regional amenity) reviews
 7. Long term capital asset financial planning

Council Strategic Retreat Outcomes



The City Council of Pearland held a Strategic Visioning Retreat on Saturday, February 19, 2022, for the purpose of refreshing the strategic vision for the future. Strategic Government Resources (SGR) was enlisted to facilitate the retreat. Six (6) of the seven (7) Council Members and the Mayor were in attendance as well as the City Manager and Senior Staff. Dr. Scott Willingham, Senior Vice President for SGR, facilitated the strategic visioning refresh process. This report is a summary of the key points discussed and the Strategic Pillars that the Council identified for their vision.

Initiatives

The Council was asked to refresh and rank the supporting strategic initiatives. The shaded blue areas reflect what initiatives support Council's strategic priorities.

Strategic Priorities

Each priority along with the priority's definition and the supporting initiatives were displayed and discussed. Working with one another, the Council collaborated to affirm each priority as currently relevant. In addition, each priority's definition was refreshed. For each priority, the supporting initiatives were evaluated, reworded and realigned. The priorities were ranked by council in order of importance.

Trusted Government

Definition: Delivering **transparent**, high-quality, and accessible city services by developing cutting edge solutions, engaging with the community, and continuously improving our capabilities.

Strong Economy

Definition: Developing and investing in an attractive community that allows talent, entrepreneurs, and businesses to thrive for generations to come by supporting stable, steady growth, and unending opportunities.

Safe Community

Definition: Making Pearland a welcoming place by ensuring a safe environment and providing efficient and effective Public Safety services for residents, businesses, and visitors.

Sustainable Infrastructure

Definition: Building quality of life on a well-planned and maintained foundation of **essential** water, transportation, and flooding infrastructure, appealing amenities, and **long-term value**.

Resilient Finances

Definition: Providing **long-term** community value through trusted stewardship and responsible financial management.

Welcoming Community

Definition: Fostering a diverse and **unified** community with **events**, amenities, and public and private spaces that bring people together

Innovating and investing in public safety resources	Support small and expanding businesses/Simplify permitting	Increase investment in drainage infrastructure	Promote high quality, high value, dense development with all city resources & infrastructure in mind	Focus on Priority/Program-based budgeting reviews	Creation of anchor districts, catalyst (regional amenity) reviews	Long term capital asset financial plan
	Shaded			Shaded		Shaded
	Shaded		Shaded		Shaded	Shaded
Shaded		Shaded				
		Shaded	Shaded			Shaded
			Shaded	Shaded		Shaded
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White Papers for FY23 Budget



New Guidelines This Year

- More standardized format
- Limited length to 5 pages to improve readability
- Limited number of papers for impact
- Staffing Papers provided earlier this year at Council Strategic Retreat
- Papers officially requested after Council Strategic Retreat



FY23 White Paper List

1. Policy Options – Development
2. Water Reuse
3. Expanding Event Hosting
4. Small Business & Permitting
5. Financial Metrics Report
6. Motor Pool Update
7. New Internal Service Funds
8. Economic & Budget Outlook
9. Drones as First Responders



White Paper #1

Policy Options – Development

Council Priority: Building quality of life on a well-planned and maintained foundation of essential water, transportation, and flooding infrastructure, appealing amenities, and long-term value.

Initiative: Promote high-quality, dense development that adds the highest possible value – consider suite of options (residential and commercial)

Executive Summary:

- The rapid growth experienced by the city has leveled off
- Pearland is now an established first-ring suburb
- Pearland must focus on maximizing the remaining finite parcels in a new effort to build attractive and economically healthy places
- This paper examines the potential for changes to the Unified Development Code (UDC) for adding high-quality, dense residential development, adding residential in-fill choices, prioritizing quality amenities, and adding value to the community.



White Paper #2

Water Reuse

Council Priority: Sustainable Infrastructure Initiative: Adopt Reuse Water Plan

Initiative: Long term capital asset financial plan (asset management tracking, plan to create internal service funds, financing)

Executive Summary:

- As the City is continuing to grow through commercial and residential development, the City of Pearland will be facing water resource challenges
- One way to mitigate need for additional water purchases or production is reuse.
- Reuse of water has a positive benefit as it utilizes an existing resource that the City has purchased and treated (potable water) and then has paid for treatment (wastewater) before discharge.
- Utilizing reuse water for specific needs that are currently utilizing potable water will assist in the reduction for the need of locating and procuring future potable water needs.



White Paper #3

Expanding Event Hosting

Council Priority: Welcoming Community - Fostering a diverse and unified community with events, amenities, and public spaces that bring people together.

Executive Summary:

- One of the ways to achieve this council priority is by hosting a signature event celebrating our diverse community, creating an identity and style that people can rally around, and attracting people from across the region, state, and beyond, to experience the unique flavor and culture Pearland has to offer.
- While our special events team has the ability to coordinate a signature event, *a full-service event management, production and consulting company can provide a high degree of event expertise.* Specifically, with regard to the planning, production, strategic brand building, marketing and logistical elements.
- Staff have engaged two event management companies to provide an overview of the event-related services they can provide to the City of Pearland.



White Paper #4

Small Business & Permitting

Council Priority: Trusted Government - Delivering Transparent, high-quality, and accessible city services by developing cutting edge solutions, engaging with the community, and continuously improving our capabilities.

Initiative: Support small, local, and expanding businesses & Simplify permitting

Executive Summary:

- With the launch of OpenCounter in the summer of 2021, a strengthened connection with the Pearland Chamber of Commerce, and the move to creating a more user-friendly website, Pearland continues to improve our support for those wishing to start or grow their business.
- The key efforts to meet this initiative rely on delivering a positive customer experience, providing information in a consistent, understandable format, and utilizing technology.
- The full implementation of this program will keep Pearland well situated to continue to serve as an invested cohort with the business community.



White Paper #5

Financial Metrics Report

Council Priority: Resilient Finances: Providing **long-term** community value through trusted stewardship and responsible financial management

Initiative: Focus on Priority/Program-based budgeting reviews

Executive Summary:

- The selected financial metrics focus on the General Fund and Enterprise Funds.
- The General Fund consists of assets and liabilities used to finance the daily and core governmental functions of the City of Pearland. The Enterprise Funds contain the City's Water and Sewer operations and are run as a business.
- Applying the metrics to both the General Governmental Funds and Enterprise Funds' metrics showed positive results.



Council Priority: Resilient Finances: Trusted Government and Resilient Finances

Initiative: Long term capital asset financial plan (asset management tracking, plan to create internal service funds, financing)

Executive Summary:

- The Motor Pool owns 616 pieces of vehicles and equipment, which is an 86% increase since 2019 (388 pieces).
- This increase is not due to newly added vehicles and equipment to the City's inventory, however the increase has been to fully transition all vehicle and equipment to the Motor Pool.
- General Fund has 50% of its fleet within lifecycle
- Enterprise Fund has 46% of its fleet within lifecycle
- In FY21 22% of all vehicles and equipment were covered by lease fees. By the end of FY22 it is projected to increase to 31%.

White Paper #6

Motor Pool Update



White Paper #7

New Internal Service Funds

Council Priority: Resilient Finances - Providing longer-term community value through trusted stewardship and responsible financial management.

Initiative: Long term capital asset financial plan (asset management tracking, plan to create internal service funds, financing)

Executive Summary:

- Pearland is developing internal service funds in order to streamline internal resource allocations, enhance fund sustainability, and better predict upcoming expenses.
- The Facilities Fund and Information Technology Fund are both internal services funds created based on the same structure as the City's Motor Pool fund policy and feedback from Staff.
- The purpose of an internal service fund is to provide a long-term mechanism to properly account costs to departments, anticipate the full cost of replacements, and fund the service's annual operating budget.



White Paper #8

Economic & Budget Outlook

Council Priority: Resilient Finances - Providing longer-term community value through trusted stewardship and responsible financial management.

Initiative: Focus on Priority/Program-based budgeting reviews

Executive Summary:

- We are in a period characterized by unpredictability
- Inflation will continue to be a problem
- Labor markets are extremely tight and is increasing the cost of labor
- Supply chain disruptions are expected to continue



White Paper #9

Drones as First Responder

Council Priority: Safe Community – Making Pearland a welcoming place by ensuring a safe environment and providing efficient and effective Public Safety services for residents, businesses, and visitors.

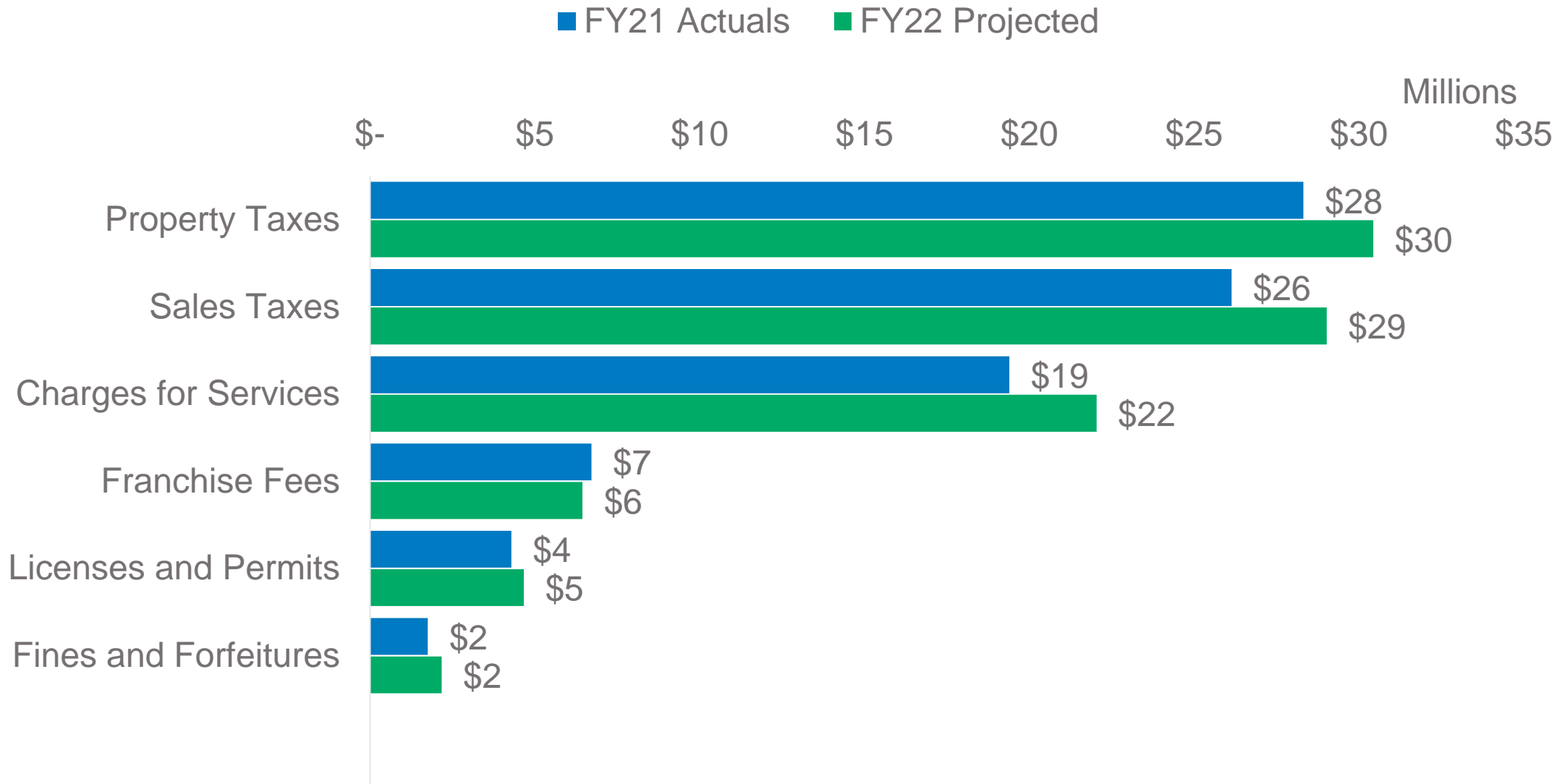
Initiative: Innovating and investing in public safety resources.

Executive Summary:

- A Drone as First Responder (DFR) program uses drones to respond to police, fire, and EMS incidents.
- The program is designed to increase safety for first responders, improve situational awareness, and provide a quick response for many types of calls.
- The Pearland Police Department is launching a pilot DFR program mid-2022 utilizing staff and equipment already approved by City Council.



Major General Fund Revenue Streams (in Millions of Dollars)



Property Tax – No New Revenue vs Voter Approved Rate

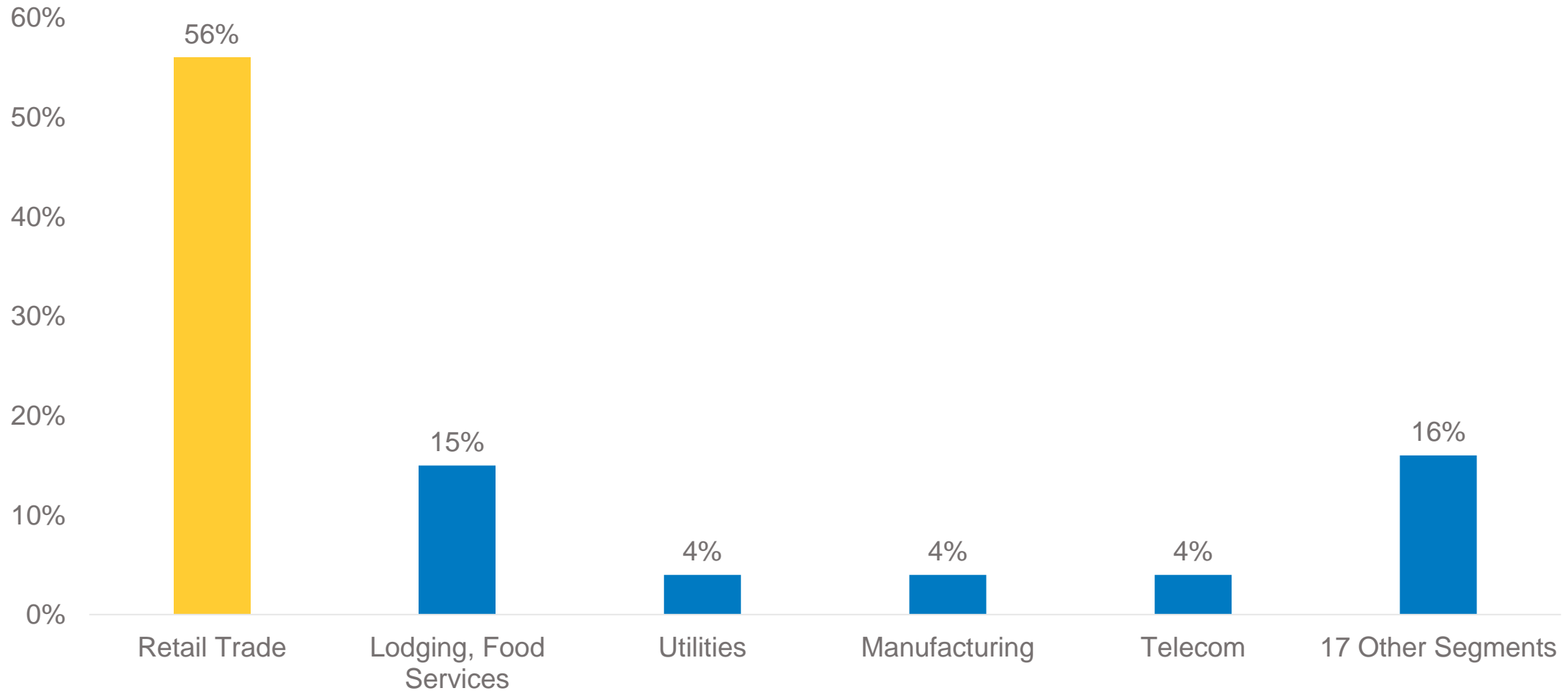
- Each year in late July Brazoria County provides Pearland with two figures – The No New Revenue Rate and the Voter Approved Rate
- These figures are determined via a complicated state formula outlined in SB2
- Per the State Controller:
 - “The **no-new-revenue tax rate** enables the public to evaluate the relationship between taxes for the prior year and for the current year, based on **a tax rate that would produce the same amount of taxes if applied to the same properties taxed in both years.**”
 - “The **voter-approval tax rate** is a calculated maximum rate allowed by law without voter approval.
 - The calculation splits the voter-approval tax rate into two separate components - a no-new-revenue M&O rate and a debt service rate. M&O includes such things as salaries, utilities and day-to-day operations. Debt service covers the interest and principal on bonds and other debt secured by property tax revenues. The voter-approval tax rate is the sum of no-new-revenue M&O and debt service rates, plus the unused increment rate, if applicable.”
 - **The M&O rate cannot grow by more than 3.5% without voter approval**



Property Tax Rate Unused Since FY20

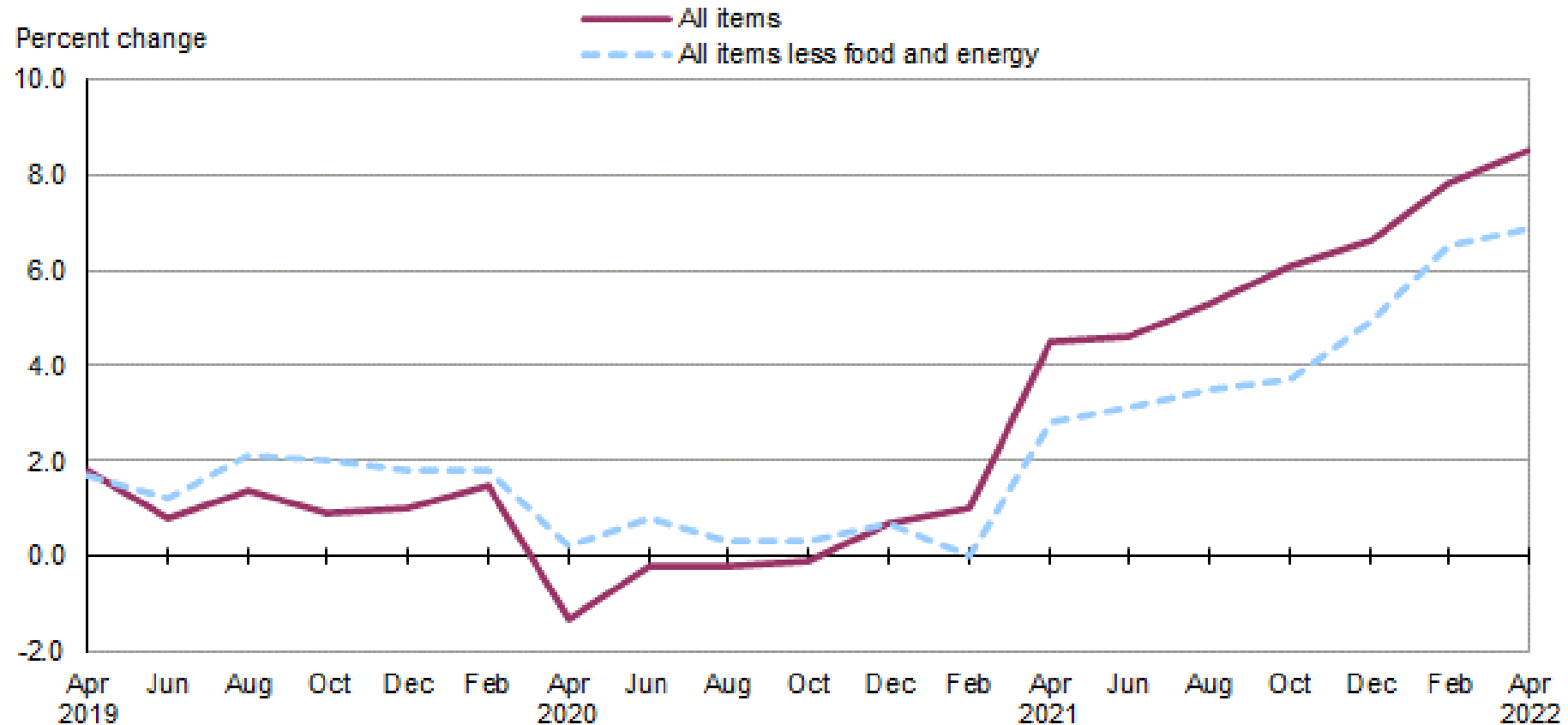
Year	No-New-Revenue Tax Rate	City Adopted Rate	Difference between No-New-Revenue Rate and City Rate
FY21	0.737640	0.720000	0.018
FY22	0.735485	0.701416	0.034
		Total Tax Rate Unused	0.052

Sales Taxes – Industry Segment Components



Consumer Price Index for All Urban Consumers

Chart 1. Over-the-year percent change in CPI-U, Houston-The Woodlands-Sugar Land, TX, April 2019–April 2022



Source: U.S. Bureau of Labor Statistics.

Source: https://www.bls.gov/regions/southwest/news-release/consumerpriceindex_houston.htm



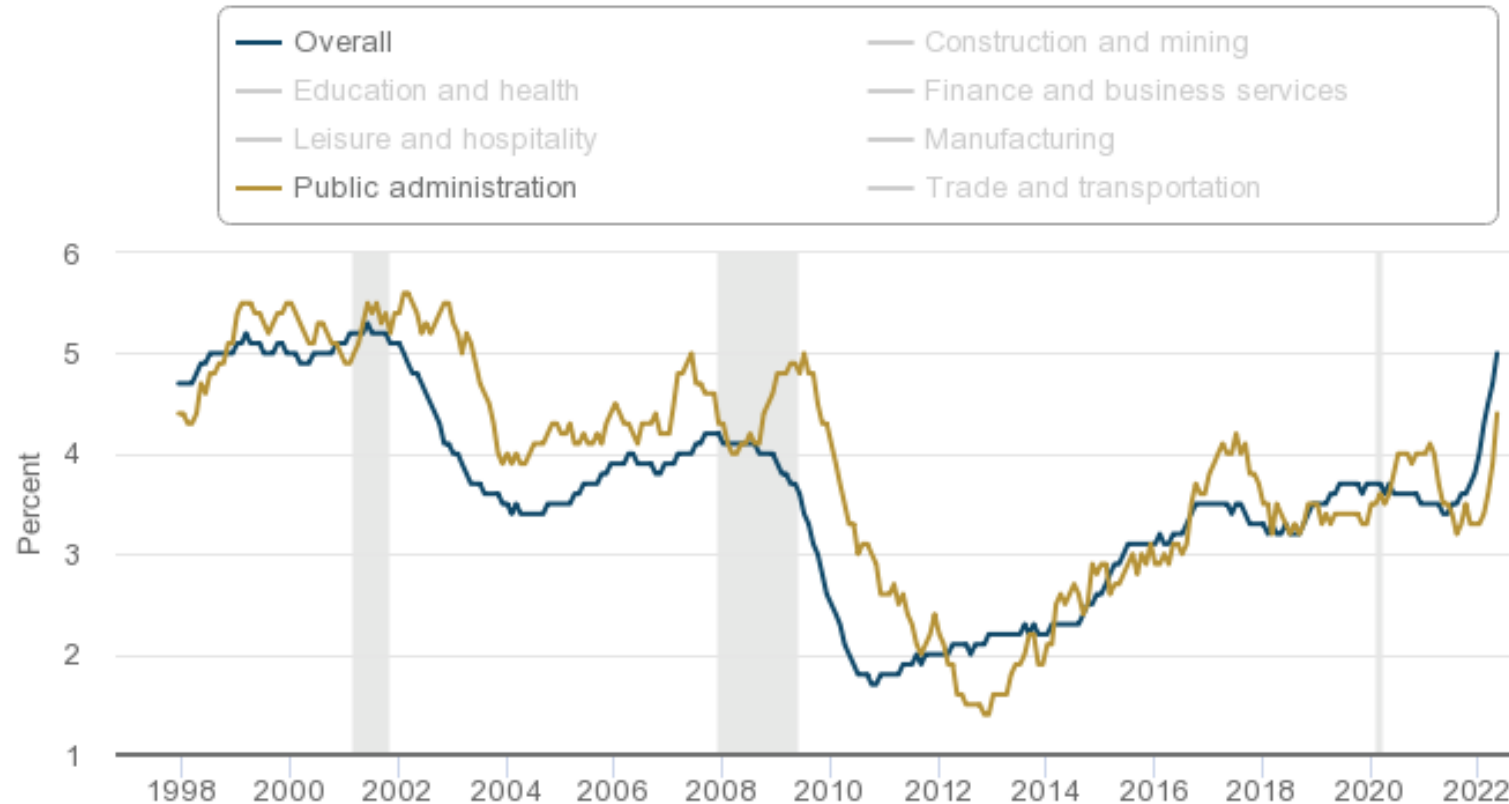
City Items that Inflation Will Affect the Most

- Petroleum Fuels (Gas is up 45% since April 2021)
- Vehicle Prices – if you can find one -- (New Vehicles up 9.2%)
- Commodities - less food (up 15.3%)
 - Capital Projects
 - pipes, concrete, etc.
- Labor (<https://www.atlantafed.org/chcs/wage-growth-tracker>)
 - Approximately 71.4% of the General Fund is spent on Salaries and Wages, primarily in Public Safety
 - Outsourced operations will also see price increases due to wage growth

Wage Growth in the US

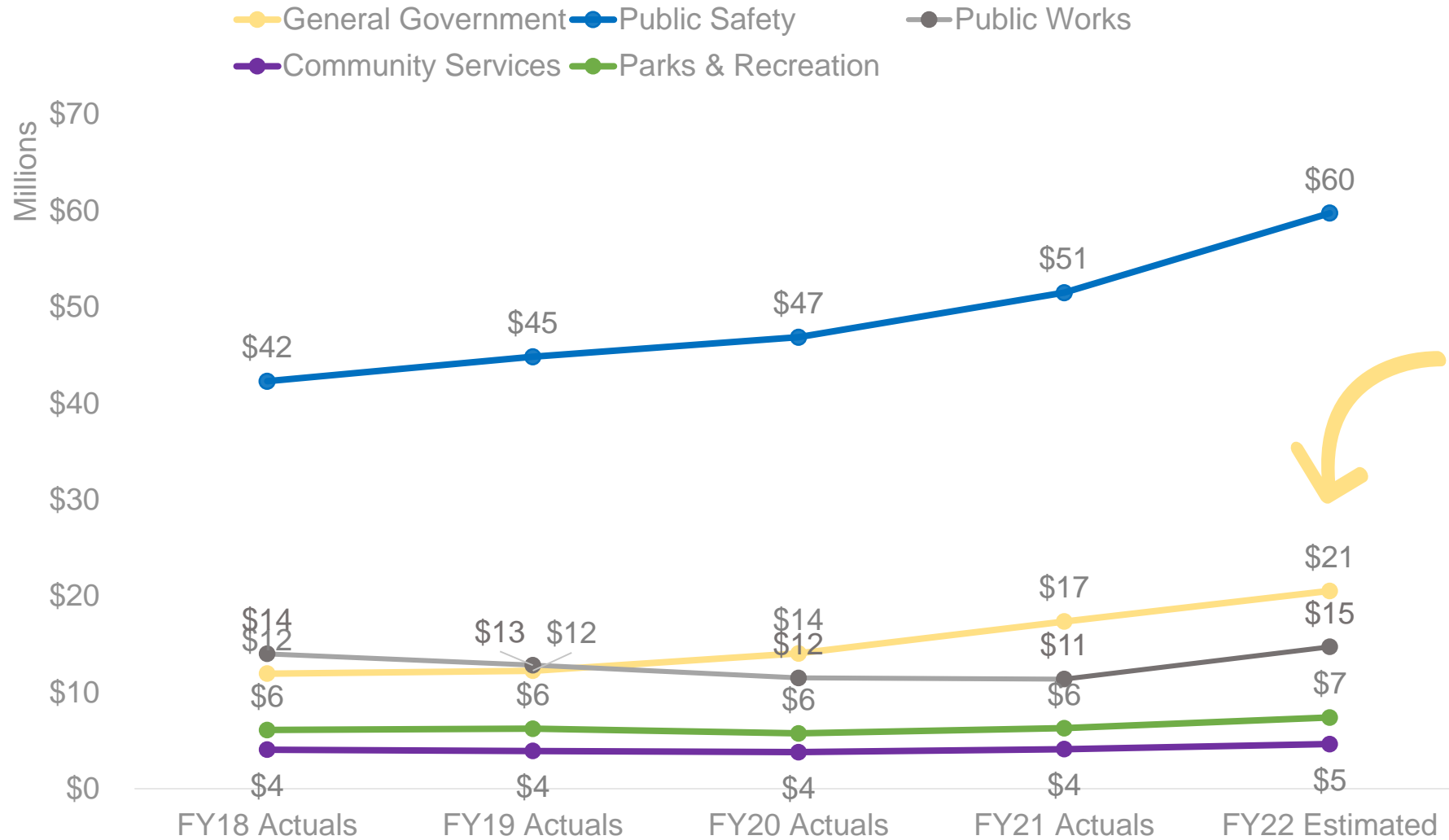
Wage Growth Tracker by Industry

12-month moving averages of median wage growth, hourly data



Sources: Current Population Survey, Bureau of Labor Statistics and author's calculations

Long Term General Fund Expenditure Trends (Millions of Dollars)



General Government includes large transfers to other Funds.

For example, In FY22:

- \$2.4M for Streets/Infrastructure Reinvestment Fund
- \$2M for Cash Funded CIP Projects
- \$1.7M for Property Insurance
- \$250K for Community Safety Grants

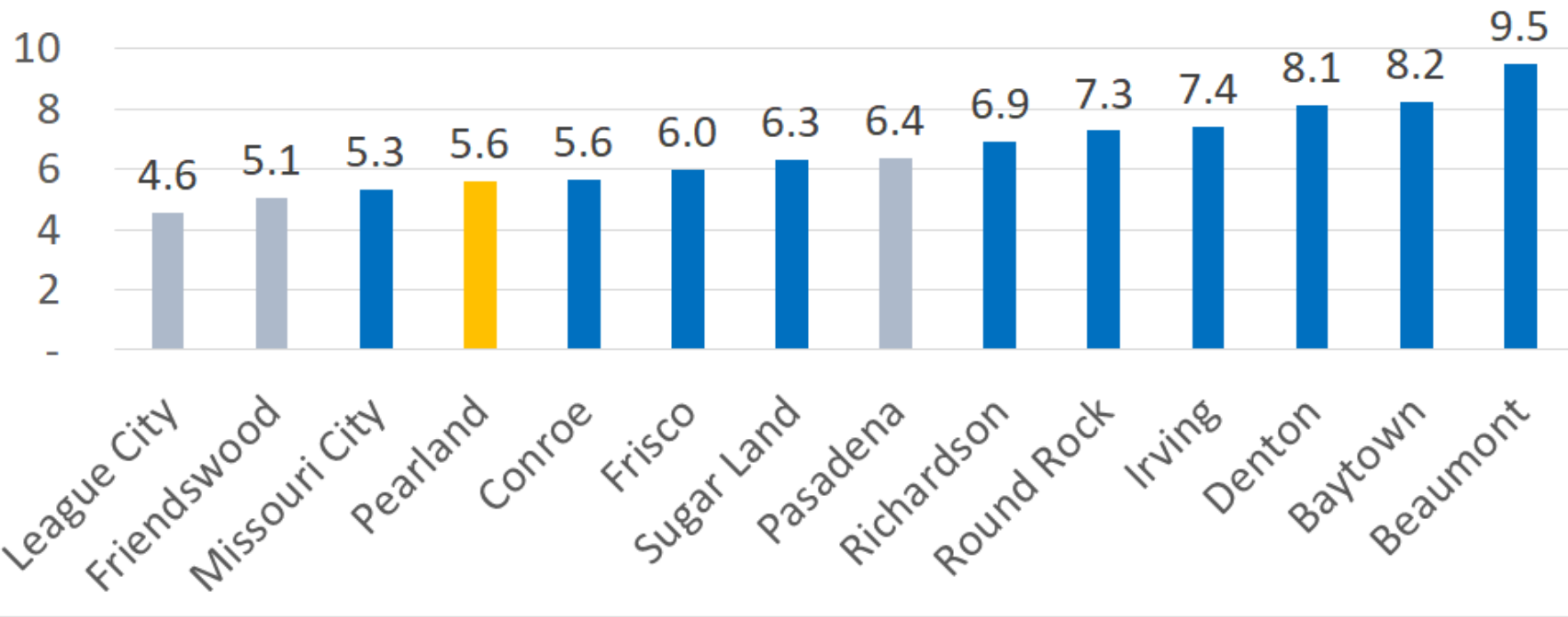


How does Pearland's General Fund FTE Count compare to Other Cities?

Important Note: FTEs per capita is only, but not necessarily a great, way to make comparisons. The per capita is usually straightforward to calculate and to grasp, but it is superficial. The per capita calculation fails to recognize different service levels, structures, and responsibilities (professional vs volunteer fire departments) or a community's situation, context, or level of outsourcing.

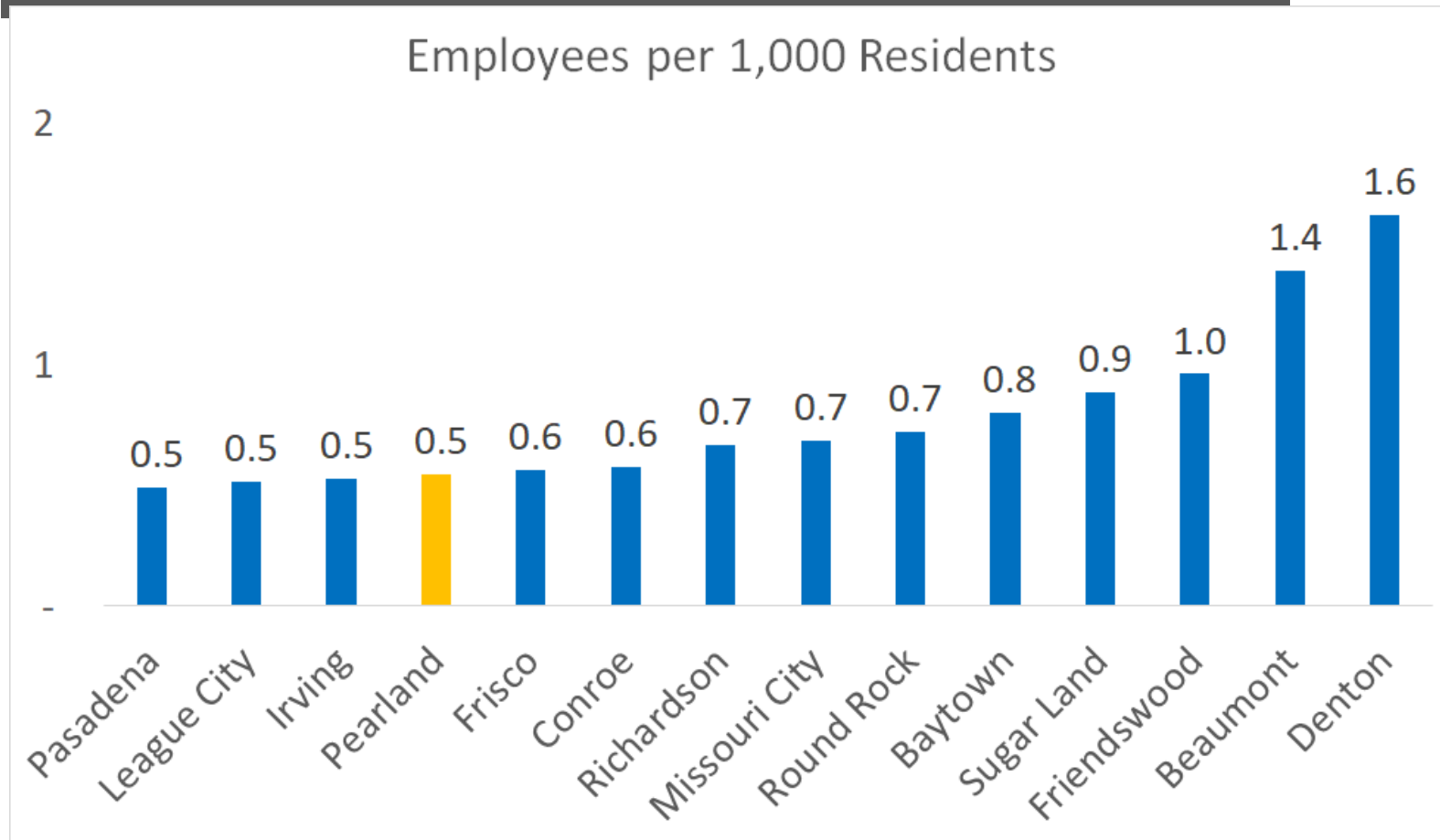
Pearland has fewer General Fund employees per capita than many other cities.

General Fund Employees Per 1,000 Residents



- Friendswood, League City, and Pasadena have volunteer fire departments.
- Not all cities have data at a detailed enough level to break their FTE counts into Service Areas or Departments. Key areas are broken down in following slides.

General Government Comparison

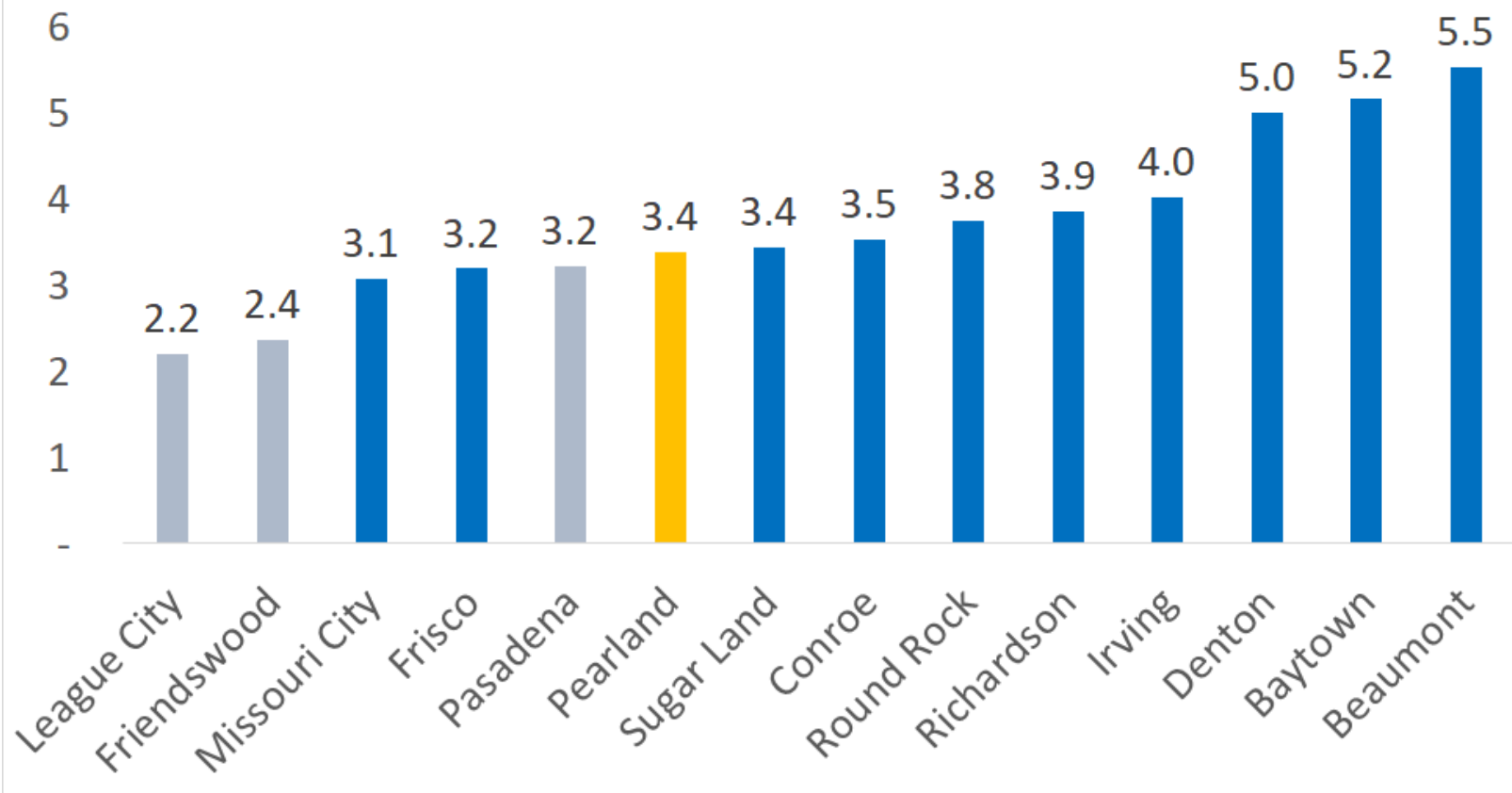


Departments Included in “General Government”.

- City Manager’s Office
- Mayor’s Office
- City Secretary’s Office
- Finance
- Human Resources
- IT
- Legal

Public Safety Comparison

Employees per 1,000 Residents



Pearland has approximately the same number of Public Safety FTE's as Sugar Land.

Departments included in "Public Safety".

- Fire
- Emergency Management
- Police
- Friendswood, League City, and Pasadena have *volunteer* fire departments. Pasadena has 58 Fire Department FTE's.
- EMS (Separate department in other cities)
- We can further breakdown Police and Fire

CIP Update

- CIP presented to Council on [3/21/22](#).
- The FY23 CIP has incorporated Council Feedback and will be brought forward for adoption in July.
- Any changes to the CIP will *not* affect the FY23 budget as it pertains to debt service, as debt for projects taking place in FY23 has been sold and debt service payments will begin next year



Major CIP Implications for FY23 Operating Budgets

General Fund

- McHard Road Extension (TR1405) - \$225K

Enterprise Fund

- Surface Water Treatment Plant (WA1605) - \$1M



Adopted Council Direction for FY23 Budget

- Implement the remainder of the Classification and Compensation plan (estimated nine employees, \$43,287)
- Drainage Resolution (R2022-39) to enhance City's drainage ongoing operations (\$662,000 authorized for FY23)
 - 3 FTEs for enclosed pipe cleaning crew
 - 2 FTEs for CCTV crew

Both of these items will be built into the *base* budget that will be presented to Council in August



Enterprise Fund Update



Impact and Importance of Reserves

- Reserves in the Enterprise Fund provide a cushion for rainy days.
- Reserves can be used to make up for operating shortfalls if required.
- Fund reserves have been drawn down towards minimums as substantial required capital improvements are being obligated (debt service). While there is still some operational flexibility, the ability of reserves to act as a pressure-relief valve will soon end.
- Reserves in the Enterprise Operating Fund are set to decrease from 67% in FY22 to 42% in FY23 and then 15% in FY24.
- The Enterprise System needs to be self-sustaining.
 - In FY22 the Fund is projected to have an annual deficit of \$6.3M. With the suggested rate increase of 13.5% this would decrease to \$5.1M in FY23.

Switch to Structured Debt & Effect on Utility Rates

- Issuing COs with structured debt payments allows the City to develop debt service schedules that allocates varying annual payment amounts to manage utility rates more effectively.
- This change allows the City to structure debt in the Enterprise Fund in the same way we do for the General Fund.

What is the required Rate Change to keep up with infrastructure and operation?

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
Required Revenue Rate Change	0%	5.0%	13.0%	9.00%	28.00%	13.00%	8.50%
Total Revenue	52,989,550	51,372,957	58,000,456	63,473,646	81,744,160	92,814,647	101,344,826
Operating Expenses - Fund 600	23,736,027	29,027,508	33,693,925	37,106,260	38,336,272	40,806,297	42,315,107
Non-operating Expenses - Fund 600	18,843,730	8,717,704	6,018,648	8,147,711	8,931,766	10,058,320	10,593,905
Debt Service Expenses Net of Impact fee - Fund 601	19,094,100	19,932,720	23,356,932	28,388,422	33,984,349	41,613,525	48,766,340
Total Expenses	61,673,857	57,677,932	63,069,505	73,642,392	81,252,386	92,478,142	101,675,352
Net Annual Revenue Over Expenditures	(8,684,307)	(6,304,975)	(5,069,049)	(10,168,747)	491,774	336,505	(330,526)
Beginning Cash Equivalents Net of Restricted for Debt Service	28,732,998	20,956,644	21,243,286	16,174,238	6,409,243	7,290,178	8,042,021
Add Unrestricted Debt Service - Fund 601	-	6,591,617	-	403,753	389,161	415,338	452,488
Ending Cash Equivalents Net of Restricted for Debt Service (see calculation on next page) ¹	20,956,644	21,243,286	16,174,238	6,409,243	7,290,178	8,042,021	8,163,984
Additional Debt Issuance as of June 2022	85,370,000	49,203,515	63,946,500	95,296,176	149,018,750	117,612,500	62,836,000
Surface Water Treatment Plant (1 & 2)		20,980,000	5,245,000			7,022,000	50,920,000
Sewer System Expansion	75,000,000	12,541,265	34,852,000	40,920,750	107,811,750	63,742,500	-
Other Projects	10,370,000	15,682,250	23,849,500	54,375,426	41,207,000	46,848,000	11,916,000
Debt Service Coverage							
W/S Revenue + Impact Fee	58,211,587	57,676,525	64,795,419	70,558,579	88,829,104	99,906,844	108,413,609
Less Operating Expenses	23,736,027	29,027,508	33,693,925	37,106,260	38,336,272	40,806,297	42,315,107
Net Revenue Available for Debt Services	34,475,559	28,649,017	31,101,494	33,452,319	50,492,833	59,100,547	66,098,503
Current Year W/S Annual Debt Service	22,801,819	25,783,037	27,071,642	25,870,156	25,772,433	25,870,526	25,697,370
Bond Ordinance Bond Coverage - 1.15 required to issue COs	1.31	1.11	1.15	1.29	1.96	2.28	2.57
Restricted for Debt Service	13,087,664	15,766,567	15,766,567	15,362,814	14,973,653	14,558,316	14,105,827
Financial Policy Water/Sewer Unreserved Working Capital 25% - Ending Cash / (Operating Expense + CO's Debt Serv.) ^{2 & 3 *}	80%	67%	42%	15%	15%	15%	15%
Combine Reserved Fund 600 + 601 ⁴	130%	117%	82%	50%	47%	42%	42%



Footnotes from Rate Model

1) Due to year-end closing entry, Actual Ending Cash Balance can be slightly different from Beginning Cash plus Revenue minus expenditure

2) Ending Cash Balance of FY 21 to FY 23 are \$21M, \$21M, and \$16M, bringing the Water/Sewer Unreserved Working Capital Ratio in Water and Sewer Operating Fund (Fund 600) to more than 25% of the sum of Operating Expenses and any Debt Services Payment for CO's.

3) In FY 24, in order to minimize the rate increase, Water/Sewer Unreserved Working Capital is reduced to the Enterprise Operating Fund minimum of 15%.

4) In FY 24, in addition to the \$6.4M Ending Cash Balance in Water/Sewer Operating Fund (Fund 600), there will be \$15.3M Cash Restricted for Debt Service in Water/Sewer Debt Service Fund (Fund 601). The combine total reserve in both Fund 600 and 601 is 50% of Operating Expenses.

*As of new financial policies adopted on 6/23/22. Not the only reserve



Current Enterprise Fund Rate Model Notes and Assumptions

- A 4% growth rate in Salary (Step + Market Adjustment)
- IT internal service fund is not ready. Currently using FY22 * 5%. A better estimate is expected to be done next week
- Pretreatment Division merge with Backflow Compliance
- \$1.25M for supplements and vehicle replacement. Another \$1M+ for Surface Water Treatment Plant Personnel (2 existing, 9 new) and 2 new vehicles.
- **The Enterprise Operating Fund will continue to operate at a loss from FY21 to FY24.** By FY24 the cash reserve is reduced to the 15% fund policy. Per the model, **significant rate increase will be required for FY23-FY27 to fund the capital program and meet reserve requirements.**



FY23 Budget Open City Council Comments and Requests



FY23 Budget Next Steps for City Council near term

- June - FY22 Projections go to Council
 - Last budget amendment of the year Second Reading
 - Adjusts budget to expected year-end revenues and expenditures
- June & July – Staff develop budget and prepare it for presentation to Council
- August 5th – Budget submitted to City Council

