



AIR-22-401
AGENDA REQUEST
BUSINESS OF THE CITY COUNCIL
CITY OF PEARLAND, TEXAS

AGENDA OF: City Council Budget Discussion #1 Workshop - Aug 13 2022
DATE SUBMITTED: Aug 05 2022 **DEPT. OF ORIGIN:** Finance Department
PREPARED BY: Dara Eng

SUBJECT: **Staff Presentation – Overview and discussion regarding the Fiscal Year 2023 Proposed Budget.**

ATTACHMENTS: [CityManagersTransmittalLet](#)

FUNDING:

<input type="checkbox"/> Grant	<input type="checkbox"/> Developer/Other	<input type="checkbox"/> Cash
<input type="checkbox"/> G.O. Bonds To Be Sold	<input type="checkbox"/> G.O. Bonds - Sold	<input type="checkbox"/> Rev. Bonds to Be Sold
<input type="checkbox"/> Rev. Bonds - Sold	<input type="checkbox"/> C.O.'s To Be Sold	<input type="checkbox"/> C.O.'s - Sold

EXECUTIVE SUMMARY

BACKGROUND

The Fiscal Year 2023 (FY23) Proposed Budget presentation allows staff the opportunity to present the entire FY23 Budget for discussion by City Council. The Proposed Budget document can be found at [Fiscal Year 2023 Budget Development | City of Pearland, TX \(pearlandtx.gov\)](#). All updates and meeting materials will be posted to this website throughout the scheduled workshops, public hearings and ordinance readings. The FY23 budget has been prepared in an effort to clearly communicate to the citizens and staff of the City the overall policies and goals of the City Council and City Management and who we are and what we do, thereby enabling the reader to gain valuable information about the City without requiring detailed accounting or budgetary knowledge. The budget document includes descriptions of various activities and programs (departments) of the City and comparative performance indicators for each program or activity, where available.

SCOPE OF CONTRACT/AGREEMENT

BID AND AWARD

SCHEDULE

- August 13th @ 8:30 a.m. (Saturday) - Budget Discussion #1
- August 5th - Proposed Budget filed
- August 8th - Vote on Proposed Tax Rate
- August 13th - Budget Workshop #1
- August 17th - Advertisement of Proposed Tax Rate
- August 22nd - Budget Discussion #2
- August 29th - Public Hearing on Budget/Budget Discussion #3 and Tax Rate
- September 12th - First Reading on Budget/ First Reading of Tax Rate Ordinance
- September 26th - Second/Final Reading on Budget/ Budget Adoption/ Second Reading of Tax Rate Ordinance

POLICY/GOAL CONSIDERATION

CURRENT AND FUTURE CIP FUNDING/FINANCIAL IMPACTS/DEBT SERVICE

O&M IMPACT INFORMATION

Recommended Action



5 August 2022

Honorable Mayor Cole and City Council members:

It is the responsibility of the City Manager and team to put forth a recommended budget, one that is balanced *and* delivers the quality services that the Pearland community expects and deserves. What follows through this document describes the budgetary work plan, with enthusiasm and optimism as we build upon successes, learn from history, and advance forward with determination to positively shape the future of Pearland.

Background and Context

Providing public good to an outstanding community is not always an immediately gratifying endeavor. For long-term success, plans must be developed that take into consideration not only the varying perspectives of this diverse community, but also the future direction. A good process must check with partners and stakeholders, meet the procedural rules and schedules of our State and Federal agency partners, and then procure and budget before finally executing. For instance, the McHard Road extension which opens in late 2023 to the public as another major transportation upgrade appeared on a Thoroughfare Plan 20 years ago, was funded in the regional TIP in 2013, started design in August 2014, bid in January 2020, and started construction in September 2022.

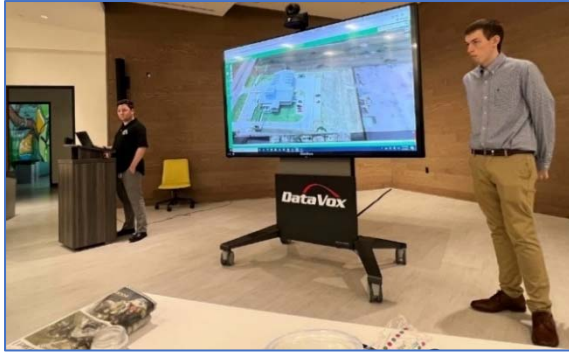


There are objectives with victories/setbacks on a smaller scale than the McHard Road extension. There are daily incremental steps and regular City Council meetings at which you move forward as we shape our Pearland community's future. Scenes such as above, when the Engineering and Public Works division leaders coordinate to support each other in meeting daily needs and moving forward the initiatives that you lay out, both big and small.

Meeting City Council Priorities

For FY23 ahead, with some perspective and humble experience, we believe that we have many pieces in place for new leaps forward. All put in place and organized around what you have strategized and prioritized last February in a Saturday session and then at early budget input in late June:





Regular dedicated drainage resources. The City Council adopted a resolution prioritizing drainage maintenance beyond our past state of “respond and cross fingers.” One of the benefits of the investment of time in our CIP quarterly updates has been to raise awareness of the need to have meaningful, substantive support for the maintenance of our capital assets. Rather than the past reality of bouncing insufficient resources between City streets and drainage responsibilities, doing neither to the level of service expected, the priority resolution was made, in the fallout of not advancing a separate drainage utility fee, to FY23 including enhanced drainage maintenance with recurring staffing resources. That commitment is included in the recommended budget as well as creating a separate, identifiable drainage special revenue fund to which the City Council and public can see over time our commitment to addressing the public safety issue of drainage.



There is a citizens’ drainage bond committee working diligently and now awaiting preliminary engineering reports to reconvene and form a recommendation for a May 2023 bond package for residents to vote upon. The initial scale of that package is anticipated to be around \$90 million in large capital projects for further drainage improvements. There’s already substantial work going on with existing neighborhoods due to the May 2019 bond package, including West Lea and Willowcrest, that includes retrofitting and upgrading drainage and associated public right-of-way assets. New drainage upgrade construction contracts are coming up in FY23 Budget for Brookland Acres, Garden Rd/O’Day Road, and Woody Road.



Employee support with sustainable and meaningful classification and compensation package. Last year we implemented a multi-pronged classification and compensation study that, in some cases, moved position salaries dramatically and got us substantially to 100% of the market pay as reflected in the study. But, even with the multi-million-dollar investment, we had a small number of positions, eight, that were partially moved ahead but with a commitment to finish the job in FY23. The adjustment is included in the recommended budget for the remaining positions. Now the work is to keep us as close to market as possible and remain competitive and attractive. This task becomes harder in the current inflationary environment, challenging our efforts to remain relevant in a very competitive labor market.

The budget presented here has \$72 million for personnel services in the General Fund which provides strong staff support with +5.6% increases for those in good standing, composed of both movement within the newly adopted step plans and moving up the plan itself. Uniformed police with the Civil Service steps would see +6.6% increases (again, step increase and the pay plan





move). Moreover, the recommended pay plans recognize that approximately 40% of sworn police employees are at the top of their scales and would generally not see the even larger increase. Given the continued high prices for energy, housing, and staples of life, and to retain experienced talent while still honoring the step pay system in place, we are recommending a 2% lump sum for all topped-out employees who have stayed in the same range and would generally not receive a step increase atop normal pay range adjustments. Importantly, this approach is consistent throughout the Police, Fire, and Professional staff step-plans.



Upgrading Facilities and Functions to Expand and Serve Modern Pearland

Groundbreakings and ribbon cuttings have become common, but still need to be appreciated and noted. In FY22, we opened Phase 2 of the Shadow Creek Sports Complex, the new replacement Fire Station #4, the one-of-a-kind West Pearland Library, the Orange Street Service Center, the Clear Creek Trail at Shadow Creek Ranch from the Sports Complex at Shadow Creek Ranch to Hwy 288, and we will be moving into the new Animal Shelter and Adoption Center within the final quarter of 2022. These physical building improvements reflect the same dedication, perseverance, and foresight as the McHard Road extension between Cullen Boulevard and Mykawa Road mentioned in the outset here.



In FY23, we will see substantial completion of the new Public Safety Training & Education Building, transformed from old Fire Station #4. The repurposed facility will host our newly launched Pearland Police Academy, which graduated its first class in April 2022. The initial five graduates will be finishing their field training experience and begin their full assignments with Pearland Police Department in the coming weeks. The next class of five to ten cadets begins in fall 2022. The new training facility will serve these and future students and all our existing personnel, professional and uniformed staff, by preparing them to better serve our residents.



[Milestones on the journey for design and construction are regularly updated](#) to you and the community to know and support that work. We added another level of communication over the last couple of years with the [CIP Workshop series](#). While an additional time commitment for





you to participate and our staff to prepare, those have proven to be very helpful for raising the awareness of the investments that you commit through the [Future with a Purpose](#) process for Pearland.

As the City Council knows well through the updates above and regular contract actions, we are managing a massive upgrade and catch-up to our water and wastewater public utility systems. Digesting development through our self-sustaining enterprise fund, supported solely by user fees, is a recognized strain upon all, but necessary to provide the essential support to daily life and commerce. Essentials start with daily production and distribution of fresh water to 40,000 homes and businesses. In summer 2023, the surface water treatment plan will complete licensing and certification and take water drawn from the adjacent American Canal, up to 10 million gallons per day. The budget herein completes the necessary people, contracts, and equipment to operate that plant.



Public Safety Foremost

This budget recognizes and supports the highest priority put forward by Police command with the addition of two of the six requested telecommunications operators. These personnel provide the vital link between the public who seek help and first responders who serve them. Our police department provided valuable assistance in the aftermath of the tragedy in Uvalde, Texas. The support offered by police officers and dispatchers highlighted critical areas to address in keeping our community safe. The ability to maintain interoperability in communications and effectiveness in police operations were primary takeaways from our involvement in Uvalde.



One police officer position with vehicle is being added for Patrol. In addition to the telecommunications operators and police officer, there is funding for equipment to enhance our response to an active attack, wherever it may occur.



Further commitment to our safe community is demonstrated in the equipment and fleet upgrades in the fire department. Most of our large fire apparatus are holdovers from volunteer department acquisition and are increasing in age and expense to maintain. The recommended budget includes a major 'catch-up' and modernization with the commitment of ARPA funds for the procurement of a fire engine and a ladder truck. Additional needs of another fire engine and a tanker remain a priority for acquisition in the near term.





Four additional firefighters enhancing fire operations will relieve the pressures of mandatory overtime on personnel and will reduce mandatory overtime expenditures. Four is an important number as it balances out the three shifts (one shift has been short through current staffing allocation) and adds one position for every shift. The addition will move Pearland FD further from a reactionary emphasis to instead get forward on improving operations with training, safety protocols and documentation, outreach, prevention, and loss reduction.

In the budget detail documentation is a memorandum with items that are not funded but priority for future consideration should the means arise in FY23 or in a next budget year. One of those to keep eye upon for improving public safety operations is the Fire Incident Techs. Through conversations with Fire leadership and line staff, the creation of Fire Incident Technicians (FIT) is a firefighter that would be alongside the Battalion Chiefs that have responsibility for the entire city fire protection and emergency medical services. Such FITs, when we can add them, will be force multipliers for maintaining accountability and safety on fire grounds while serving as an extension of those Battalion Chiefs who currently have to juggle equipment, communications, driving, and situation awareness.



Pearland Prosperity Ahead

FY22 up until its final months has been an expansive economic environment with double-digit growth month over month of retail sales tax revenue. The housing and real estate market have been supercharged and expansive. Unemployment in our region has remained at an extremely low 4%.

FY22 saw the foundations laid for quality economic development initiatives, just as we put down rebar and pour concrete preparing for new buildings and roads, essential underpinnings that allow for later great things.

Again, the earlier work to plan and strategize, in this case [the 2019 Pearland Prosperity Plan](#) goals are being worked upon with diligence.

The overarching two goals of Pearland Prosperity are supported by initiatives to bring economic growth and diversification and to be a community of choice in Greater Houston. Underpinning those are seven high-level focus areas. That is where we see progress and great things to come.



Two specific things bringing excitement are first, workforce and talent development and second, business formation and early-stage development. For the first, the work has started in earnest with a dedicated Pearland Economic Development Corporation (PEDC) professional to connect resources with each other and businesses with existing resource. For the second, PEDC went through a process and selected to partner with The Cannon and have a devoted 'navigator' at the Pearland Innovation Hub who can help entrepreneurs, start-ups, and early-stage businesses get through the business of running a business so that they can build the business.

The FY23 Budget here includes several other "regular" enhancements to the City side of business regulation and permitting. Specifically, new permitting software that expands and leverages upon





the existing CityWorks system bought for asset management and work orders, allowing us to better serve our business and development community. The other modernization is a review and rewrite of the City's 2006 Unified Development Code (UDC). The new verbiage and document will be straightforward and concise with graphics and electronic linkages to improve readability and accessibility. Modified 36 times in the last two decades, the rules will be updated and fit Pearland growth and development for the next 20 years.



Quality Places for Quality of Life as a Welcoming Community

FY22 marked remarkable milestones as the City hosted Grand Opening of the Sports Complex at Shadow Creek Ranch Phase II launching Pearland's first ever Miracle League, Cricket, and Rugby programs. The Miracle League Opening Day kicked off the first of 2 seasons offered each year Fall/Spring with 160 athletes, and off-season program opportunities with a variety of partners like Special Olympics and Wounded Warrior Project. For many families and athletes, this was the first experience on a field or part of a team, as many athletes have not had an opportunity to play in a barrier-free environment.



FY22 brought the addition of approximately 1.6 new miles of trail and a pedestrian bridge across clear creek between the Sports Complex at Shadow Creek Ranch and Hwy 288, trail safety enhancements including location markers, signage, and cameras.

Design work for approximately 2.5 miles of hike and bike trail along Clear Creek near Pearland Parkway will begin in FY 23 providing more opportunities for non-motorized transportation and connection to the University of Houston Clear Lake Pearland Campus, El Franco Lee Park, and commercial retail centers. The new trail will also provide access for diverse populations to meet and interact with neighbors, connect to natural areas, and enhance community pride.

Leveraging and Deploying External Federal and State Grants Effectively

Substantive increases in grant funding have assisted the City's ability to attract external support for a variety of local needs. Recurring opportunities for public safety, community development, parks and recreation, and other ongoing elements of our local operations have come to the City from several Federal and State funding sources. Block grant and competitive applications for public assistance provide the City with \$4,210,209 for fire staffing, police equipment, public facility improvements, social service programs, playground equipment, and housing rehabilitation activities.

The major infusion of grant dollars has come in the form of disaster recovery and response funding, including allocations for hazard mitigation improvements, which now total \$15,740,826. All funds together, the City has approximately \$19.9 million in use, 89% of which involves multi-





year programs and activities related to flood mitigation (buyouts and home elevations), community and economic development, and Coronavirus relief.

FY23 additions to the current funding include the planned uses of the 2nd tranche of American Rescue Plan Act coronavirus relief (\$5,944,486) from the \$11,888,971 million U.S. Treasury's State & Local Fiscal Recovery Fund allocation to the City, and \$499,760 in FEMA funds from the Texas Water Development Board (TWDB) for elevation of two (2) flood-prone residential structures. Overall, the total available new funding planned for use in FY23 amounts to an estimated \$6,923,100. Grant program reductions include the end of the current Staffing for Adequate Fire Emergency Response (SAFER) grant after the first quarter (\$133,256 remaining of \$1.8 million allocated in FY20 for 12 firefighters) and the proposed \$40,085 in Emergency Management Planning Grant (EMPG) grant funds that have been eliminated statewide by the Texas Division of Emergency Management.

Finally, ongoing management and oversight of the various FEMA disaster public assistance (Public Assistance Alternatives Project – PA) reimbursement processes involving the February 2021 Winter Storm and COVID-19 expenditures eligible for FEMA reimbursement continue to impact Grant Funds 353 and 355, respectively, until an obligation occurs that will offset incurred expenditures with the applicable share of federal reimbursements for those two declared disasters. Until then, Fund 355 and Fund 353 will need to operate with negative fund balances until those programs resolve unreimbursed cost issues. This is common with FEMA and has historically reconciled appropriately over the years (RE: Hurricane Harvey).

The income statements for Special Revenue Funds 350 – 356 are available in the FY23 Proposed Budget books and can be reviewed in discussion during the various budget process activities.

Property Tax Base and Rate

The property tax base for tax year 2022 that will fund our FY23 budget grew extraordinarily; existing properties appreciated, and turnover was brisk. The result is that tax base is now \$14.4 billion, up 28% from the prior tax year of \$11.3 billion. Those are inclusive of the TIRZ #2 value now \$3.4 billion which leaves \$11.1 billion taxable for Operations and Maintenance and Debt Service.

From decreasing revenue on individual homesteads the balance of the tax base provides growth that creates the balance of revenue. The valuations for non-residential and non-homestead properties is a function of the increased valuations and the balance put upon them through the State property tax structure. Property tax revenue is increased for our required debt service needs and operations which, including the TIRZ administrative fee which has a formula relationship to the property tax revenue, is up to \$49.9 million from FY22, a 16.5% rise. The higher amount is attributable to a \$3.1 billion increase in net taxable value. The amount is large and been re-verified by the Brazoria County Tax Office from reports on the three County Appraisal Districts.

Property Tax examples

We have shared and used the same set of ten sample property tax bills over the years to illustrate the interworking of homestead exemptions, valuation caps, and the combination of various taxing districts' rates. The overall tax system we work within is set by the State of Texas government – County Appraisal Districts, County Tax Office worksheet completion, and resulting rate restrictions. The combination results in the City's overall recommended property tax rate for FY23 to be decrease by over 10%, or 7.3 cents below the FY22 \$0.70 rate.





For homestead properties in our samples, **every one of the tax liabilities calculated will be down in absolute dollar terms for what goes to the City of Pearland** to help pay for City police, fire, roads, drainage, parks and recreation, municipal courts, drainage and more.

Sample Homestead Property Tax Bills Projected for 2022 Tax Year (for FY 2023 Budget Cycle)													
		Zero Growth		Homestead Example 1		Homestead Example 2		Homestead Example 3		Homestead Example 4		Homestead Example 5	
TY21 Actual City Tax Bill		\$ 2,069		\$ 1,766		\$ 1,293		\$ 1,206		\$ 1,806		\$ 1,176	
TY21 Taxable Value		\$ 300,000		\$ 258,200		\$ 189,353		\$ 176,900		\$ 264,080		\$ 172,691	
% Increase (Decrease)		0.0%		10.0%		10.0%		10.0%		10.0%		10.0%	
TY22 Taxable Value		\$ 300,000		\$ 284,020		\$ 208,288		\$ 194,590		\$ 290,488		\$ 189,960	
City Scenario	Proposed TY 2022 City Rate	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual
	0.6288	\$ 1,855	(214)	\$ 1,741	\$ (25)	\$ 1,277	\$ (16)	\$ 1,192	\$ (14)	\$ 1,781	\$ (25)	\$ 1,163	\$ (13)
Total Tax Bill		\$ 6,627		\$ 6,950		\$ 4,292		\$ 3,975		\$ 8,492		\$ 3,867	
City of Pearland % of Total		28%		25%		30%		30%		21%		30%	
Total Tax as % of Taxable Value		2.2%		2.4%		2.1%		2.0%		2.9%		2.0%	
		Homestead Example 6		Homestead Example 7		Homestead Example 8		Homestead Example 9		Homestead Example 10		Senior Example HS 11	
TY21 Actual City Tax Bill		\$ 1,473		\$ 2,213		\$ 3,166		\$ 2,133		\$ 2,144		\$ 206	
TY21 Taxable Value		\$ 215,370		\$ 323,525		\$ 463,000		\$ 311,880		\$ 313,480		\$ 176,500	
% Increase (Decrease)		10.0%		10.0%		10.0%		10.0%		10.0%		2.2%	
TY22 Taxable Value		\$ 236,907		\$ 355,877		\$ 509,300		\$ 343,068		\$ 344,828		\$ 180,330	
City Scenario	Proposed TY 2022 City Rate	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual	TY 2022 Amount	Change from Prior Year Actual
	0.6288	\$ 1,452	\$ (21)	\$ 2,182	\$ (31)	\$ 3,122	\$ (44)	\$ 2,103	\$ (30)	\$ 2,114	\$ (30)	\$ 206	\$ -
Total Tax Bill		\$ 4,955		\$ 11,507		\$ 14,430		\$ 8,235		\$ 7,451		\$ 896	
City of Pearland %		29%		19%		22%		26%		28%		23%	
Total Tax as % of Taxable Value		2.1%		3.2%		2.8%		2.4%		2.2%		0.5%	
NOTE: Property tax dollar amounts reflect the exemptions and applicable caps (not shown in summary) affecting the AV to which rate is applied.													





To take a deeper dive at the make-up of a property tax bill, please review and consider below, with the qualification that most every property has different characteristics and components and that we do not have final rates for all the jurisdictions for the samples.

Homestead Tax Bill Example 1								
Address: XXXX Seabrough				Subdivision: Shadow Creek Ranch				
Characteristics:								
Exceed Homestead Cap in 2022								
Within MUD boundaries (MUD 26)								
Taxable Value Summary								
	Tax Year 2021			Tax Year 2022			Annual \$ Change	
Appraised Value	258,200			315,420			57,220	
Homestead Cap Loss	-			31,400			31,400	
Taxable Value	\$ 258,200			\$ 284,020			25,820	
Proposed Tax Rate Comparison of Values								
Taxing Entity	Tax Year 2021			Tax Year 2022			Annual \$ Change	%
	Rate	Amount***	% of Total Amount	Rate**	Amount	% of Total Amount		
Alvin Independent School District	1.3977	3,259	47.8%	1.3777	3,362	48.4%	102	3.1%
City of Pearland	0.7014	1,766	25.9%	0.6288	1,741	25.1%	(25)	-1.4%
Brazoria County	0.3365	695	10.2%	0.2824	642	9.2%	(53)	-7.7%
Alvin Community College	0.1832	473	6.9%	0.1832	520	7.5%	47	10.0%
Brazoria County Drainage District #4	0.1520	314	4.6%	0.1520	345	5.0%	31	10.0%
BRAZORIA COUNTY MUD #26	0.1000	207	3.0%	0.1000	227	3.3%	21	10.0%
Road & Bridge Fund (Brazoria County)	0.0500	102	1.5%	0.0500	112	1.6%	10	10.1%
Total	2.9209	6,816		2.7741	6,950		134	
% of Appraised Value		2.6%			2.2%			
*Certified Tax Year numbers are not shared until October. These are based on preliminary numbers on Brazoria, Harris and Fort Bend County Tax Assessor's websites.								
** 2022 tax rates for other entities are not certified. Based either on advertised rates or 2021 rate.								
***Tax Amount is equal Taxable Value minus different deductions for different Tax Entities then multiply with Tax Rate								
Baseline Homestead Exemption								
10% cap on taxable value growth from previous year								
In addition to the 10% cap, this property qualifies for the following Homestead exemptions:								
City of Pearland: Deduction equal to the higher of \$5,000 or 2.5% of Taxable Value								
Brazoria County Drainage District #4: 20% deduction to Taxable Value								
Brazoria County: 20% deduction to Taxable Value								
Road & Bridge Fund (Brazoria County): 20% deduction to Taxable Value plus additional \$3,000 deduction to Taxable Value								
MUD #26: 20% deduction to Taxable Value								
Alvin ISD: reduce Taxable Value by \$25,000 in 2021 and \$40,000 in 2022								





For the City Council that has been reviewing our monthly actual to budget variance reports, also publicly posted, you will recall that property tax revenue for FY22 has fallen below calculations as the revenue from tax ceilings fell less than historical percentage. That percentage has been adjusted in the calculations from 85% to 72.5% and is reflected in the revenue below.

Comparison of Potential Property Tax Rate and Revenue					
General Fund and Debt Service Property Tax Rates	FY2022 Actual Rates & Amended Budget	Fiscal Year 2023*			Change Proposed FY 2023 to FY 2022 Actual Rates
		(1) No New Revenue Rate	(2) Proposed Tax Rate	(3) Voter Approval Rate (+ 3.5% additional revenue)	
General Fund (O&M)	0.309416	0.199279	0.285000	0.289846	-0.024416
Debt Service (including in-City MUD rebate obligation)	0.392000	0.343765	0.343765	0.343765	-0.048235
Total	0.701416	0.543044	0.628765	0.633611	-0.072651
G.F. Property Tax Revenue + TIRZ Admin Fee (in millions)	\$30.1 + \$12.7 = \$42.8	\$25.6 + \$10.2 = \$35.8	\$36.7 + \$13.2 = \$49.9	\$37.3 + \$13.3 = \$50.6	

* For Fiscal Year 2023, the proposed rate in green is used in the recommended budget revenue.

General Fund Revenue and Expenditure Overview

As described above, revenue remains primarily direct property taxes and the TIRZ #2 transfer in Charges for Services which is the property tax paid from the TIRZ #2 for operations and maintenance, per the original agreement. Sales tax revenue remains strong but growth has tapered in the last months.

Annual Budget by Account Classification Report

Fund: 100 General Fund	2020 Actual		2021 Actual		2022 Amended		2023 Proposed	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Property Taxes	\$26,919,733	29%	\$28,319,667	30%	\$30,442,547	29%	\$37,025,506	34%
Sales & Use Taxes	\$22,716,028	24%	\$26,138,991	28%	\$29,030,796	28%	\$30,119,451	28%
Franchise Fees	\$7,014,025	7%	\$6,719,483	7%	\$6,444,298	6%	\$6,737,279	6%
Licenses & Permits	\$4,423,758	5%	\$4,285,586	5%	\$4,666,429	4%	\$4,656,527	4%
Fines & Forfeitures	\$1,617,153	2%	\$1,754,718	2%	\$2,173,514	2%	\$1,977,043	2%
Charges for Services	\$18,220,404	19%	\$19,400,331	21%	\$22,043,290	21%	\$20,974,892	19%
Investment Earnings	\$420,200	0%	\$22,321	0%	\$48,000	0%	\$506,532	0%
Intergovernmental	\$5,122,830	5%	\$550,140	1%	\$0	0%	\$0	0%
Miscellaneous	\$2,178,715	2%	\$453,837	0%	\$535,940	1%	\$545,619	0%
Other Financing Sources	\$221,261	0%	\$177,135	0%	\$0	0%	\$0	0%
Transfers In	\$4,949,456	5%	\$6,261,713	7%	\$9,616,314	9%	\$6,947,699	6%
Revenue Totals:	\$93,803,562		\$94,083,921		\$105,001,128		\$109,490,548	
					Change		4.3%	





Sales Tax Revenue

Sales tax revenue for the upcoming FY23 is budgeted at \$30.1 million, up 3.75% from the FY22 year-end amended amount. That increase is an amount that will be monitored closely through the year for adjusting as necessary due to inflation and any potential economic impacts of the Federal Reserve increasing rates. The increase is atop the prior year increases that were fueled by enormous Federal stimulus into households.

Other Revenues

Total Licenses & Permits revenue is budgeted at \$4.6 million, about the same as the FY22 amended budget. Permit revenue remained strong during the year. Fines and Forfeitures are expected to remain approximately the same as FY22

Significantly, General Fund revenue includes large transfers in from Federal stimulus funds, reimbursing the City for force account labor and expenses made over the last year. While non-recurring, there remains in that Federal ARPA grant account another \$258,388 in unprogrammed funds available for deployment during FY23 as eligible needs and priorities emerge.

General Fund Expenditure Overview

General Fund expenditures are \$110.3 million. On a function basis, 59% of expenditures are in Police and Fire, up even more as a share from prior year. To better identify the work being done in Public Works and the transfers that support the Infrastructure Reinvestment Fund and the new Drainage Fund, the transfers have been reflected in the Public Works Function and General Government expenditures have correspondingly decreased. In FY23 the transfer total is \$3,741,758 to both funds.

Annual Budget by Function Report

Fund: 100 General Fund	2020 Actual		2021 Actual		2022 Amended		2023 Proposed	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Expenditures								
General Government (including transfers out)	\$14,040,367	17%	\$17,354,094	19%	\$20,530,264	19%	\$15,858,590	14%
Public Safety	\$46,847,908	57%	\$51,473,628	57%	\$59,731,313	56%	\$65,145,981	59%
Public Works	\$11,502,132	14%	\$11,369,557	13%	\$14,710,936	14%	\$15,472,967	14%
Community Services	\$3,798,941	5%	\$4,098,948	5%	\$4,625,896	4%	\$5,465,884	5%
Parks & Recreation	\$5,739,764	7%	\$6,274,103	7%	\$7,386,075	7%	\$8,312,126	8%
Expenditure Totals	\$81,929,112		\$90,570,329		\$106,984,484		\$110,255,548	
						Change	3.1%	

For General Fund expenditures on a classification basis, most of our expenditures to take care of business are devoted to our people, wages, and benefits. That percentage has been largely consistent but reflects the establishment of internal service funds for IT, Facilities, and Drainage





and the dedication of those funds separately and identifiable and supported by appropriate transfers out from departments in the General Fund.

Annual Budget by Account Classification Report

Fund: 100 General Fund	2020 Actual		2021 Actual		2022 Amended		2023 Proposed	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Expenditures								
Salaries & Wages	\$59,915,339	73%	\$64,836,474	72%	\$70,798,032	66%	\$72,031,751	65%
Materials & Supplies	\$2,130,739	3%	\$2,373,636	3%	\$3,664,224	3%	\$3,768,058	3%
Building & Grounds	\$1,208,162	1%	\$1,292,846	1%	\$2,062,335	2%	\$782,158	1%
Repair & Maintenance	\$2,738,228	3%	\$3,305,889	4%	\$4,794,047	4%	\$1,738,043	2%
Misc and Other	\$8,978,996	11%	\$9,526,586	11%	\$11,747,423	11%	\$11,128,430	10%
Inventory	\$422,888	1%	\$447,649	0%	\$629,123	1%	\$95,716	0%
Principal & Interest Pay't	\$453,369	1%	\$274,313	0%	\$125,337	0%		0%
Capital Outlay	\$610,735	1%	\$275,565	0%	\$1,236,173	1%	\$928,030	1%
Transfers Out	\$5,470,657	7%	\$8,237,371	9%	\$11,927,790	11%	\$19,783,362	18%
Expenditure Totals	\$81,929,112		\$90,570,329		\$106,984,484		\$110,255,548	
					Change		3.1%	

General Fund Unallocated Fund Balance

	FY 2021 Actual	FY 2022 Amended	FY 2023 Proposed
Beginning Fund Balance	\$ 29,076,297	\$ 32,524,401	\$ 30,541,045
Revenue	94,083,921	105,001,128	109,490,548
Expenditure	90,570,329	106,984,484	110,255,548
Net	\$ 3,513,593	\$ (1,983,356)	\$ (765,000)
Ending Balance	\$ 32,524,401	\$ 30,541,045	\$ 29,776,045
Policy Minimum Balance (90 Days)	\$ 22,332,410	\$ 26,379,736	\$ 27,186,300
Amount Over/(Under) 90 Day Target	\$ 10,191,991	\$ 4,161,309	\$ 2,589,745
Days of Reserves	131	104	99

The ending fund balance for the General Fund is anticipated to remain over the strong 90 days of expenditure target. If the City Council desires additional non-recurring one-time priorities during the fiscal year, this would be a source of funds to consider, but better to consider large allocations after December when property tax revenue starts to be received in earnest.

Enterprise Fund (Water and Wastewater) Overview

The capital improvement program for the City's water and wastewater system, providing the essentials of life, have been noted. To sustain that which sustains us, the necessary rate increases have come. While less prior multi-year projections, we need to increase revenue to

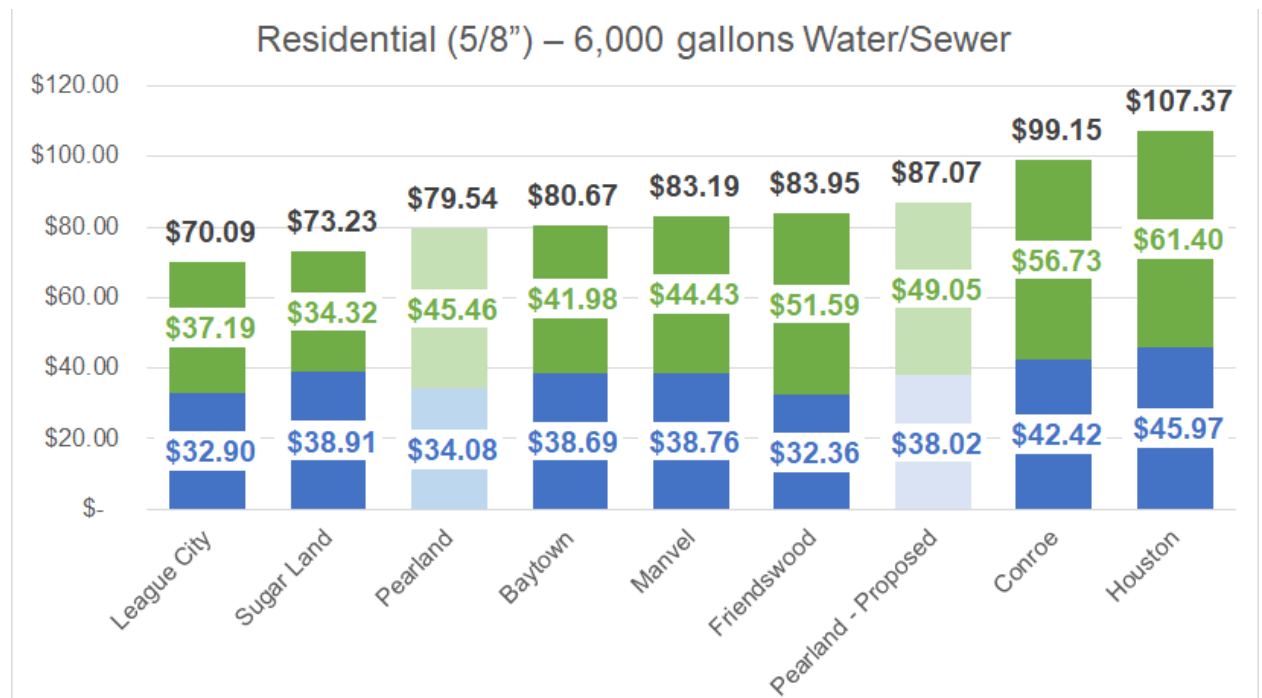




meet requirements for literally hundreds of millions of dollars in investments. The payback will be a durable and resilient system that meets demand.

Revenue requirements are such that an increase in rates for a sample 6,000-gallon usage customer will be about an additional \$7.53 per month, +9.5%. The rate structure moves so that the base customer with only that first tier base of 2,000 gallons pays \$5.30/month more.

Sample Bills with 13.1% Proposed Revenue Increase for FY 23												
Account Type	Usage	Meter Size	WATER Current Rate	WATER Proposed Rate	WATER Increase	SEWER Current Rate	SEWER Proposed Rate	SEWER Increase	Current TOTAL	Proposed TOTAL	INCREASE TOTAL	
Residential	2,000	5/8-inch	\$ 16.57	\$ 18.74	\$ 2.17	\$ 23.88	\$ 27.01	\$ 3.13	\$ 40.45	\$ 45.75	\$ 5.30	13.1%
Residential	3,000	5/8-inch	\$ 20.45	\$ 23.56	\$ 3.11	\$ 28.66	\$ 31.23	\$ 2.57	\$ 49.10	\$ 54.79	\$ 5.68	11.6%
Residential	6,000	5/8-inch	\$ 34.08	\$ 38.02	\$ 3.94	\$ 45.46	\$ 49.05	\$ 3.59	\$ 79.54	\$ 87.07	\$ 7.53	9.5%
Residential	12,000	5/8-inch	\$ 67.76	\$ 74.26	\$ 6.50	\$ 79.06	\$ 84.69	\$ 5.63	\$ 146.82	\$ 158.95	\$ 12.13	8.3%
Small Office	2,000	5/8-inch	\$ 16.57	\$ 18.74	\$ 2.17	\$ 23.88	\$ 27.01	\$ 3.13	\$ 40.45	\$ 45.75	\$ 5.30	13.1%
Commercial	38,000	2-inch	\$ 336.80	\$ 367.39	\$ 30.59	\$ 391.80	\$ 429.88	\$ 38.08	\$ 728.60	\$ 797.27	\$ 68.67	9.4%
Fast Food Restaurant	59,000	4-inch	\$ 738.16	\$ 812.88	\$ 74.72	\$ 915.01	\$1,013.37	\$ 98.36	\$1,653.16	\$ 1,826.25	\$ 173.09	10.5%
Sit Down Restaurant	262,000	4-inch	\$1,894.44	\$2,039.00	\$ 144.56	\$2,051.81	\$2,219.19	\$167.38	\$3,946.25	\$ 4,258.19	\$ 311.94	7.9%

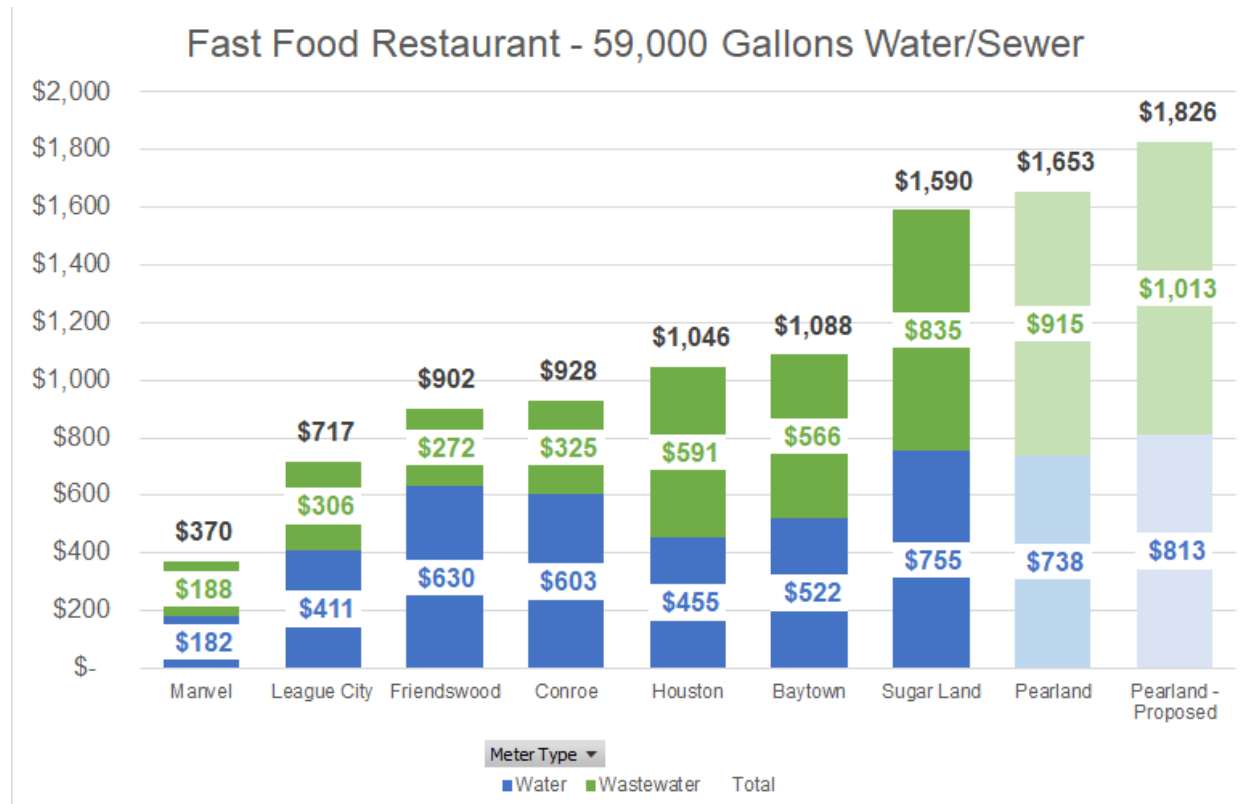


The adopted rate structure recognizes that larger users place larger demands upon the systems.





The larger commercial users in Pearland do pay more than comparable usage in surrounding cities. The change for 13% rate increase for example below is \$173 difference.





Unresolved and Open Issues

Every budget has items that could not or were not funded. Perhaps a reflection of the year's inflationary economy, hyper-political national politics, war in Europe, unsettled energy markets, and maybe even the current heat and drought, is that this City budget year has more items in flux and not resolved as we typically would strive to have open. To flag those as we go through the budget and then execution after October 1, 2022, please keep in mind these items (I am sure there are more)

- **Fire fleet gaps** – We have recognized and addressed to some degree that our fleet of heavy Fire apparatus that are relied upon every hour of every day. There is more that needs to be done in the years ahead with either grant funding, mid-year allocation, or lease-purchase approaches to maximize the reliability of this critical equipment.
- **Police personnel** – We have recognized the need to increase staffing resources to the Patrol Division, improving citizen interaction and reducing response times. While the addition of a police officer supports this objective, a single officer provides unbalanced coverage for one of four patrol squads. Ideally, two officers provide balanced deployment to two squads, either on dayshift or nightshift as the response data identifies the need. Identifying funding for an additional officer for patrol is a high priority for us.
- **Introduction of Parental Leave** – We have a good package of employee benefits to offer; that's been enhanced. One gap, something that has been appreciated and useful in other cities and companies in the private sector, is a parental leave benefit. Paid Parental Leave are for births, adoptions or placements of foster children. This benefit will enrich the organization by showing staff that we care about their health, well-being and quality of life. As we research the potential parameters of this benefit, program recommendations will be forthcoming for any future implementation.
- **Additional Certification pay** – There is need for a more robust certification pay system in our total compensation approach, particularly on the mind for emergency management. Certification pay reward staff for pursuing training which provides the City with a competitive advantage, boost efficiency, grows knowledge and skills while establishing credibility. It is an additional form of compensation without impacting base salaries.
- **Drainage Fund & PEDC Funds for Drainage** – We have established a Drainage Fund with \$2.0 million which includes prior year amounts budgeted with Public Works plus the additional \$662,000 per Resolution R2022.39. The purpose of the fund is to recognize and





set aside the funding necessary to operate and maintain our existing drainage infrastructure. This includes fully funding existing and additional operational personnel and equipment necessary to inspect, repair, and reinvest in both our underground drainage system and open ditch drainage system on a 10-year rotating basis. Per the intent of R2022-39, this *fulfills* already in FY23 the initial O&M needs identified in the pro-forma associated with the Drainage Fee discussion.

Future needs are to continue to invest in our personnel, equipment, and contracts required to maintain and manage our system based actual production after standing up the 10-year maintenance program, meeting new state requirements when our Stormwater Permit is renewed in 2024, adding funds for small maintenance projects identified in the next Stormwater Master Plan/Model, transfer funds from the PEDC to maintain the drainage infrastructure built by the PEDC, and to look at additional PEDC funding for future capital projects. One focus of future PEDC funds is to partially fund an update to our Drainage Master Plan where it will support economic development.

Conclusion

My thanks to the City staff with whom I have the honor of serving. Their work and dedication continue to show, and their commitment to this community is nothing short of inspirational. We talk about shaping the community, it is their hands doing the work and without them we would not be where we are. A special thanks to our budget development team – Eric Roche, Rachel Wynslow, Khoa Nguyen, Miesha Johnson, Dara Cook, Amy Johnson, Kristen Woolley, Trent Epperson, Ron Fraser, and Joel Hardy; plus Joshua Lee and many more in critical administrative support and specific area expertise such as CIP.

The pictures along the transmittal here are ones that I had the opportunity to capture at a wide variety of opportunities serving. The pictures represent a small cross section of the great number of people here working hard to make Pearland THE Community of Choice. There's much to do, obviously, but our accomplishments outpace the stumbles. The daily work towards great long-term growth and progress continues.

Respectfully submitted,

Clay J. Pearson
City Manager

