



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 FY23 Budget Presentation to Council - Presentation #1		
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.

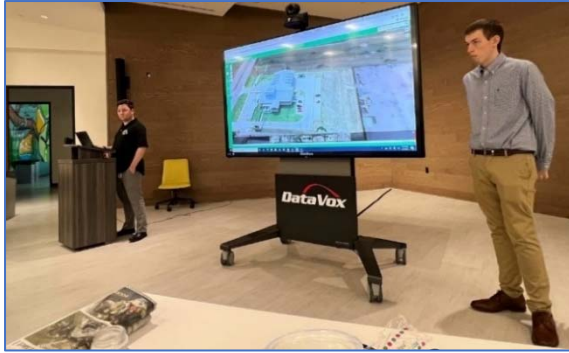


There are objectives with victories/setbacks on a smaller scale than the McHard Road extension. There are daily incremental steps and regular City Council meetings at which you move forward as we shape our Pearland community's future. Scenes such as above, when the Engineering and Public Works division 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

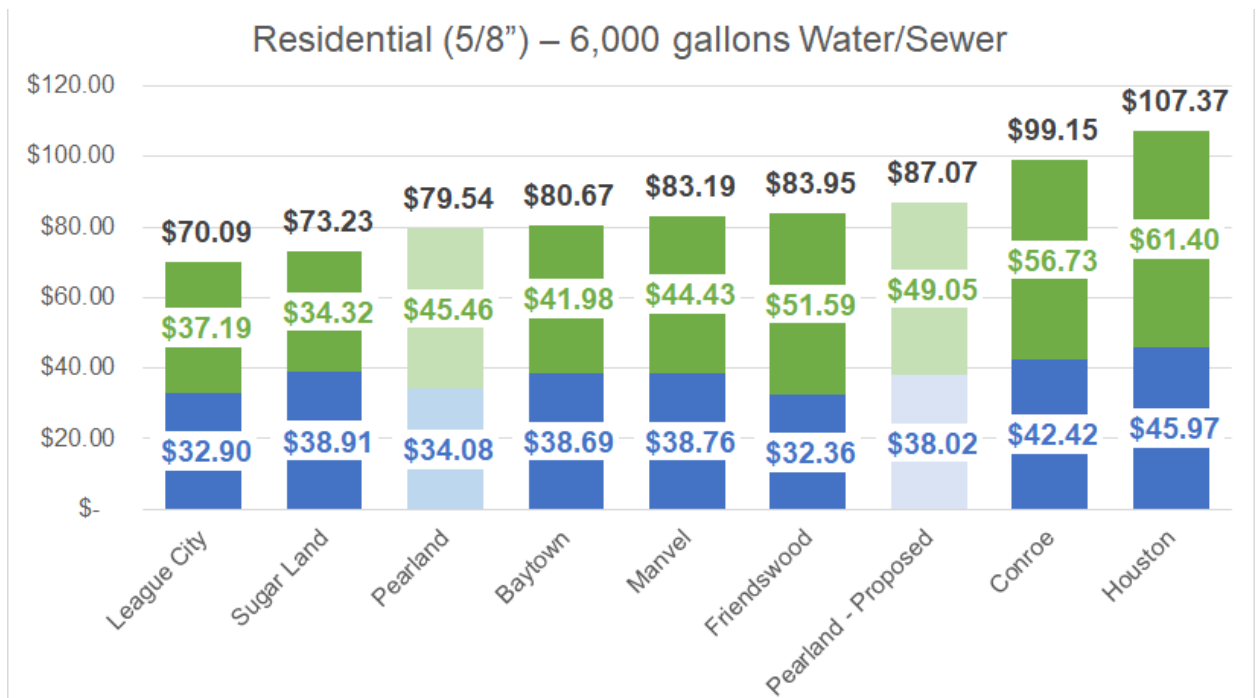




meet requirements for literally hundreds of millions of dollars in investments. The payback will be a durable and resilient system that meets demand.

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%

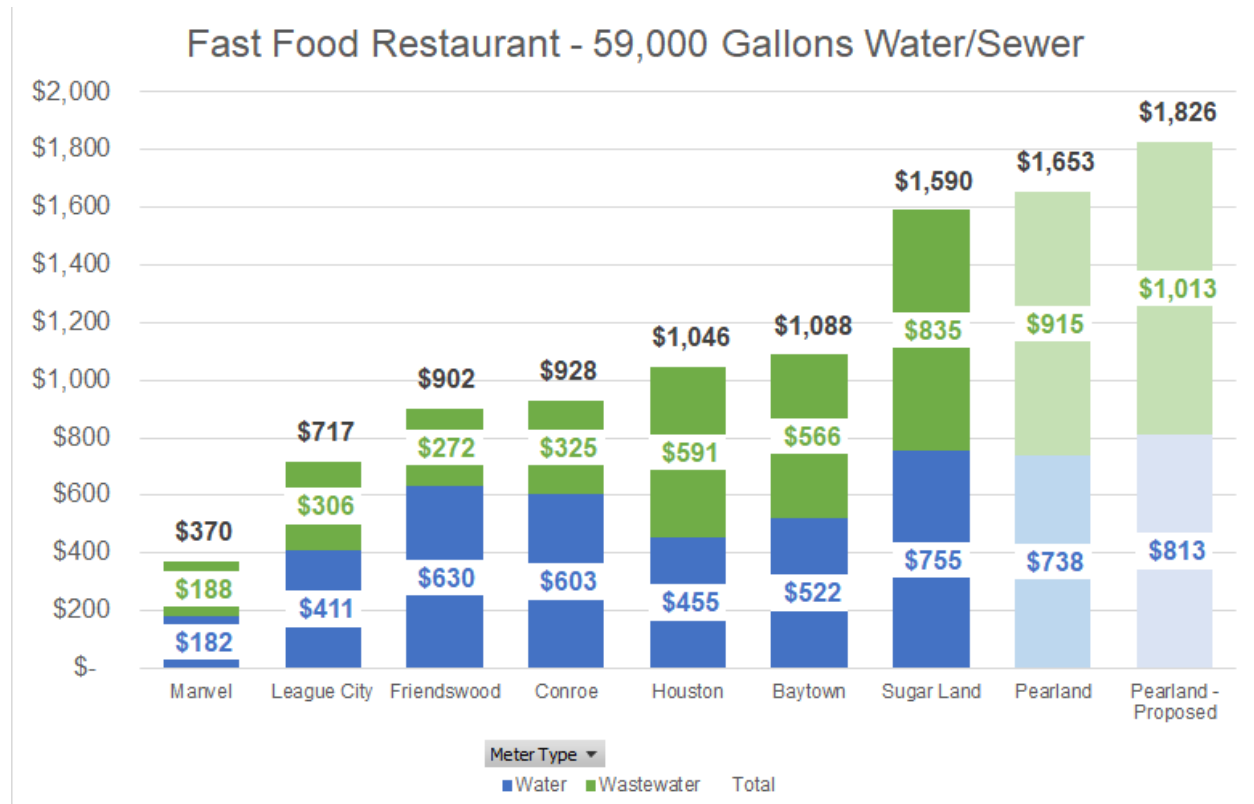


The adopted rate structure recognizes that larger users place larger demands upon the systems.





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



City of Pearland FY23 Proposed Budget

Shaping the Future



Shaping the Future

A City committed to Public Safety, Employees, and the Future.

Staff and leadership are energized and passionate to meet the priorities set by Council. The FY23 budget boosts invests in high-priority areas while taking care of those who serve.



The Big Picture General Fund

Balanced Budget: Annual revenues (including transfers) exceed annual operating costs.

General Fund's Fund Balance is above the 25% policy minimum.

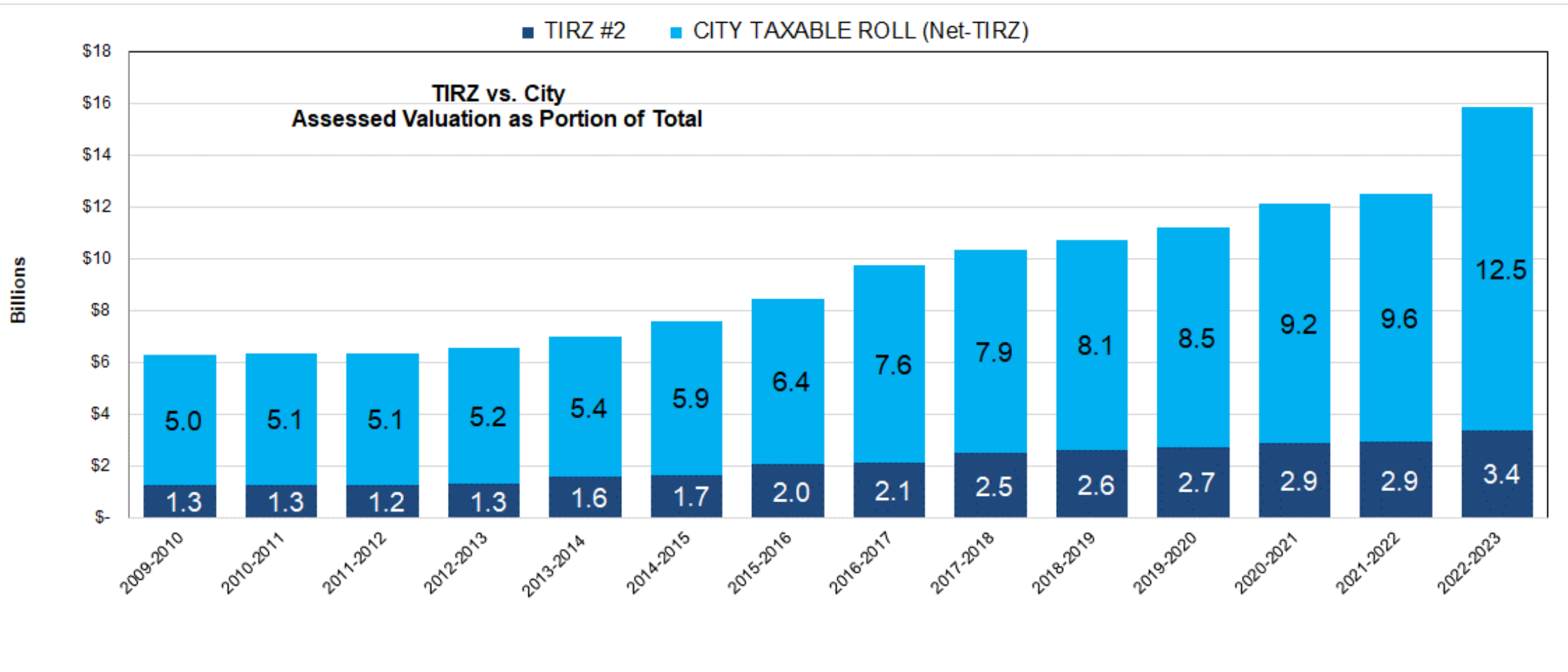
- FY23's ending fund balance is projected to be 27.0%, or 99 days.

	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

FY23 Major General Fund Revenue Streams

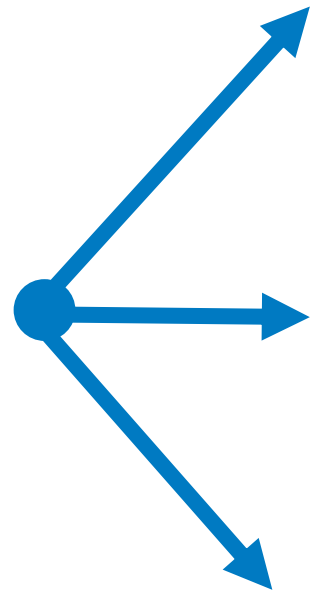


FY23 is the Largest Taxable Value increase in Recent History



No-New Revenue Rate vs Voter-Approval Rate

Brazoria County Tax Assessor/Collector calculates the City's Voter-Approval Rate and No-New-Revenue Rate in accordance with State laws.



Voter-Approval Rate
- Allows City to increase its M&O tax revenue up to 3.5% more than last year.



This is similar to the old “rollback rate”, but with a lower trigger for election (8% vs 3.5%)

FY23's Rate is below the Voter Approval Rate and above the No New Revenue rate



This rate results in a tax decrease for all homestead property examples surveyed

No-New-Revenue Rate
• Would bring in \$7M less than the FY22 rate.



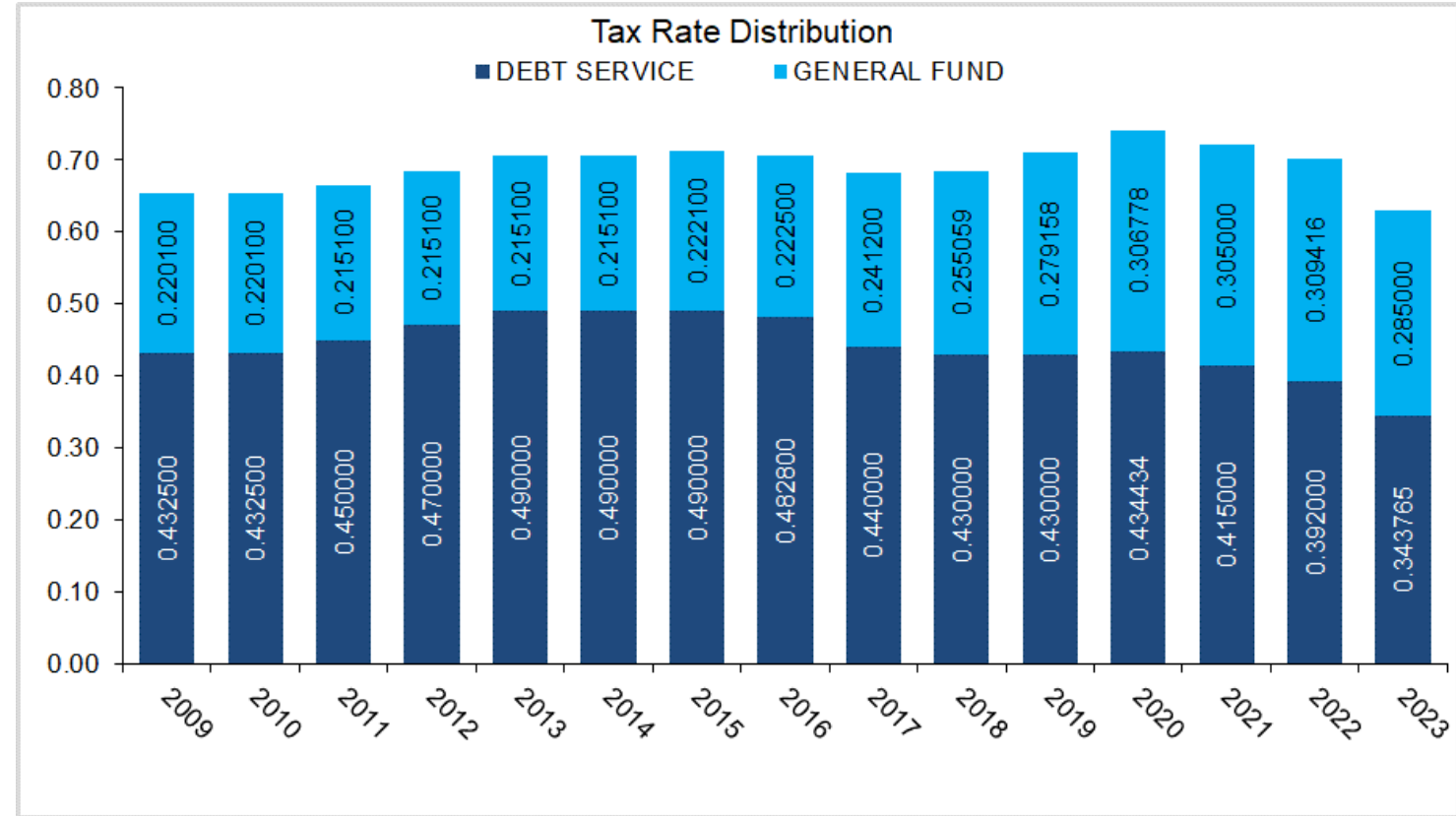
Any rate the City adopts below the No-New-Revenue rate is a property tax cut.



Property Tax Revenue

- Two prior fiscal years were adopted below the No-New-Revenue rate.
- FY23's rate is proposed below the Voter-Approval-Rate and uses portion of prior year "banked rates" that are a part of Voter-Approved calc.
- Strong growth in assessed values necessitated going above the No-New-Revenue rate which would have actually provided **less** money to O&M.
- \$37M in current collections to the General Fund; \$44M to Debt Service Fund.
- As recently as FY13 and FY14 the debt rate was 71% of the levy, leaving only 30.5% available for operations. FY23 makes 45.3% available for operations.

FY23 is a **7.2651¢ decrease in total rate from FY22**



Property Tax Revenue

- State of Texas Tax worksheets from County Tax Assessor/ Collector included in pocket of binder.
- General Fund O&M rate decreased from .309¢ in FY22 to .285¢ in FY23.
- Debt Service Tax Rate decreased from .392 cents in FY22 to .343 cents in FY23.
- State calculation for NNR brings in less revenue than FY22 because State calculation includes debt service. Meaning that generally when you sell debt, less money will be available for operations with NNR.

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.

Proposed Property Tax Rate for FY23

$$0.28500 + 0.343765 = 0.628765$$

Maintenance & Operations
Rate

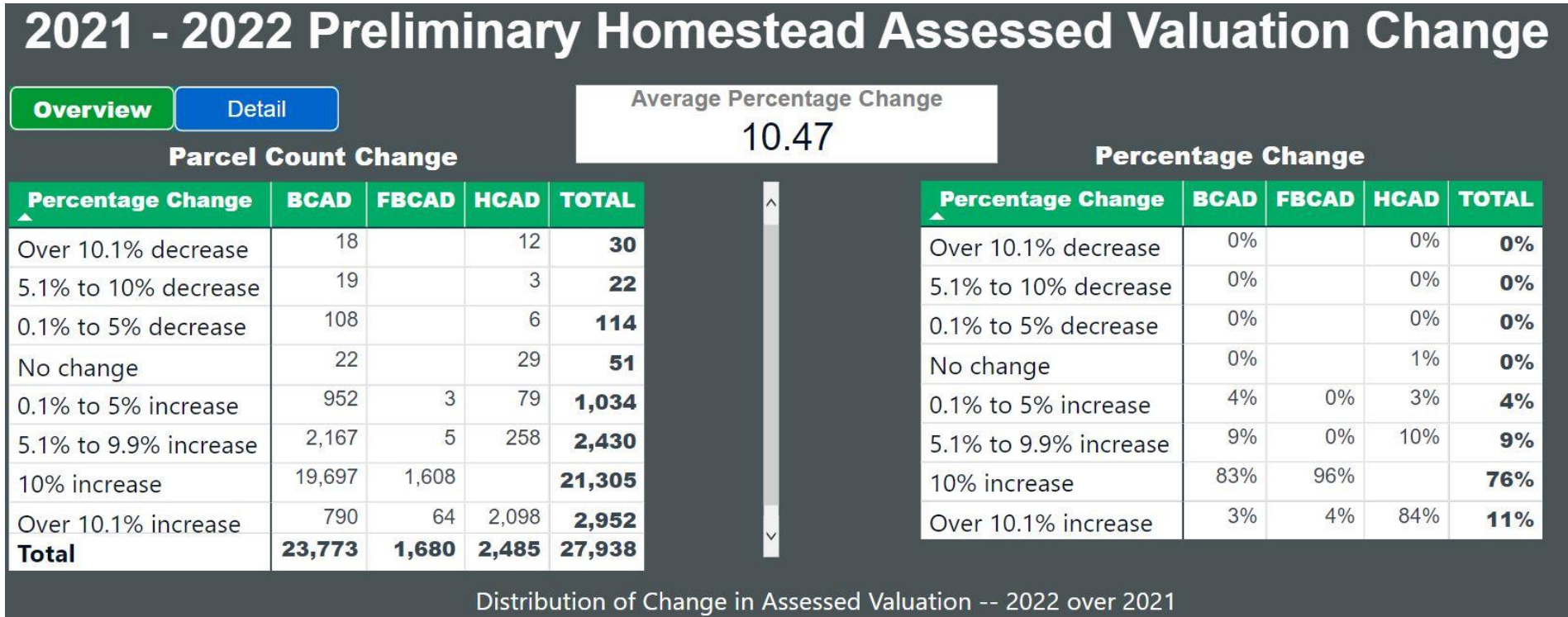
Debt Rate

Total Proposed Property
Tax Rate



Homestead Properties

- Represents 28,000 properties
- For AV determined by County appraisal districts on value as of January 1, 2022, majority (76%) are capped at 10% growth in taxable AV



Homestead Property Tax Examples

Looking at estimated individual tax bills, a zero-growth property with a value of \$300,000 would see a **\$214 annual (\$17.83 per month) decrease** in the City of Pearland portion of their tax bill.

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 Property Tax Examples

Looking at Homestead Example 8, a home with a value of \$509,300 that sees a 10% increase in Taxable Value would see a **\$44 annual (\$3.66 per month) decrease** in the City of Pearland portion of their tax bill .

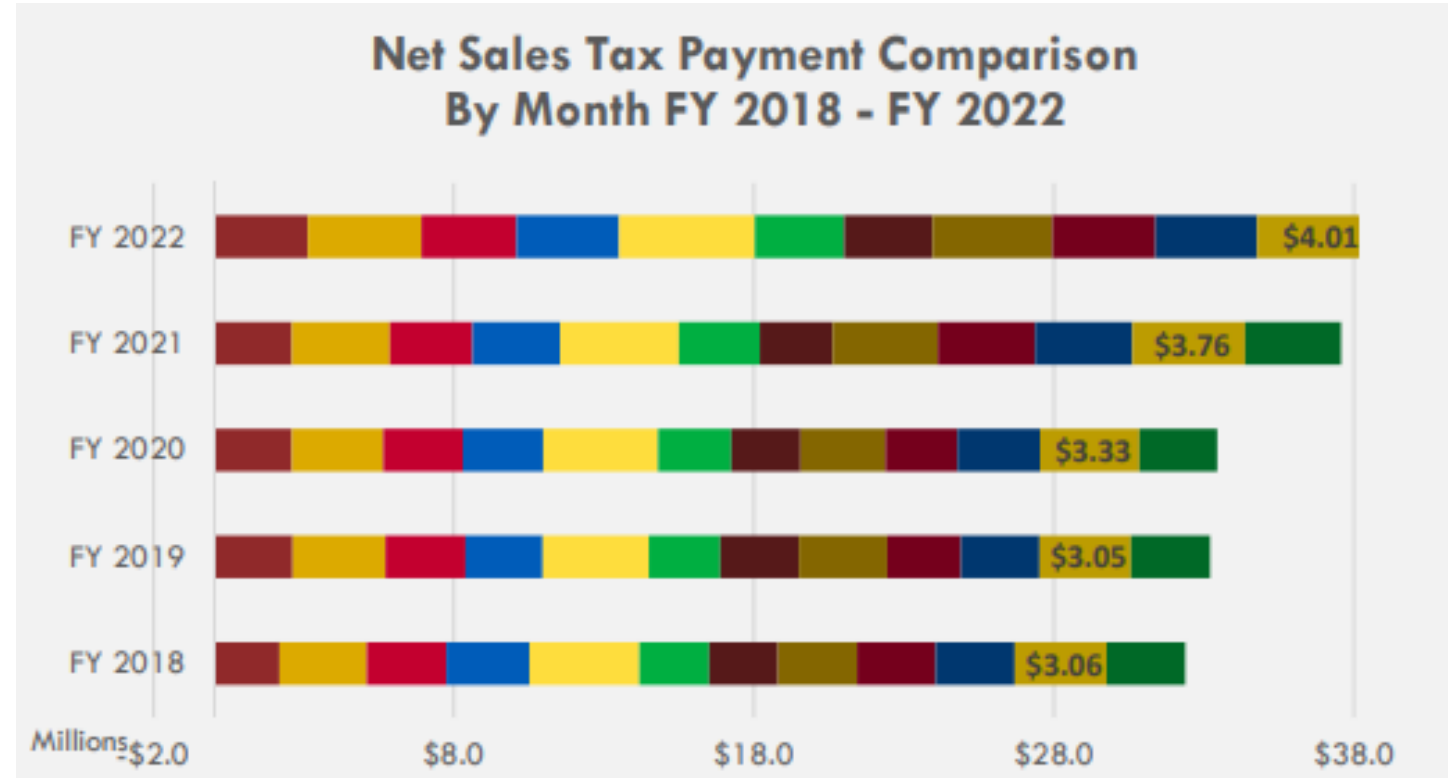
No increase to Senior exemption properties, regardless of rate change – Remains *substantially* below non-exempt properties

		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%	

Sales Tax Revenue

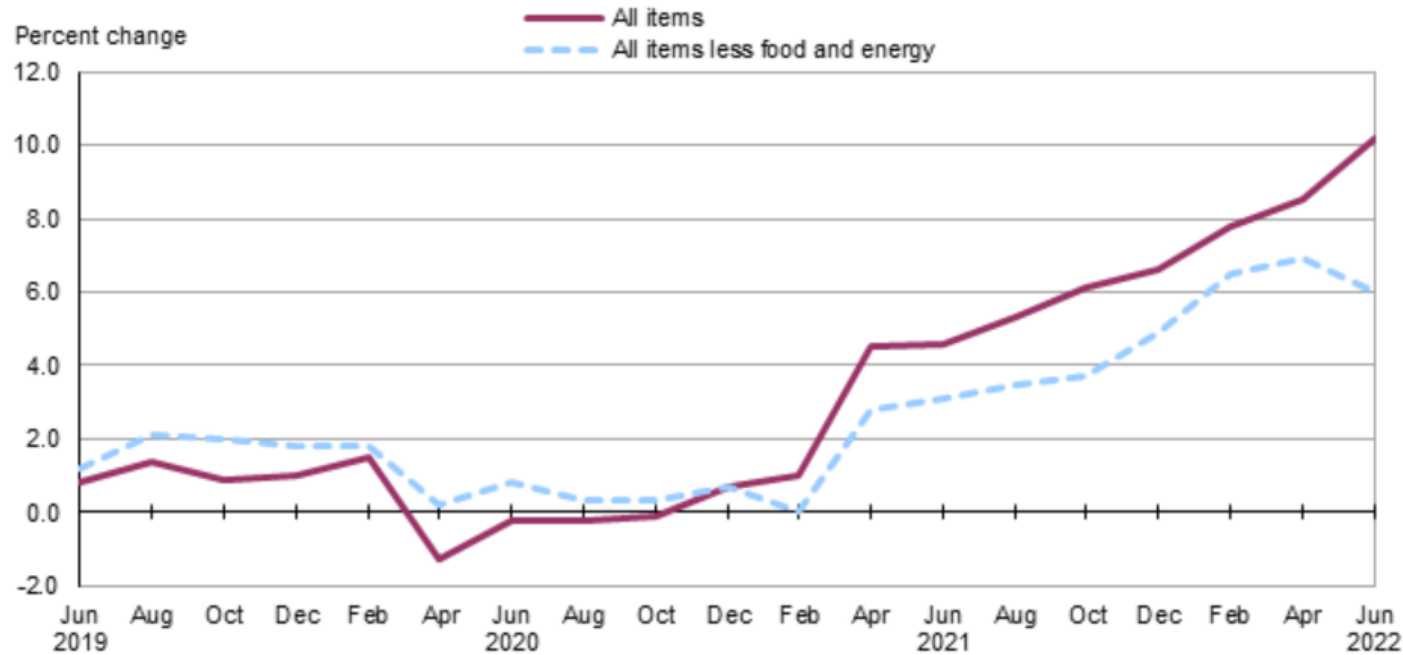
- The FY23 proposed budget is presented with a projected 3.75% sales tax growth over the FY22 amended budget in the General Fund.
- As always, will monitor sales tax performance each month and adjust via budget amendment as needed.
- Sales tax revenues are budgeted for \$30.1M in FY23; 27.5% of total General Fund Revenue.
- The Pearland Economic Development Corporation is budgeted for another \$13.9M in dedicated funds for those separate uses as defined by State law.

FY22 saw significant sales tax growth



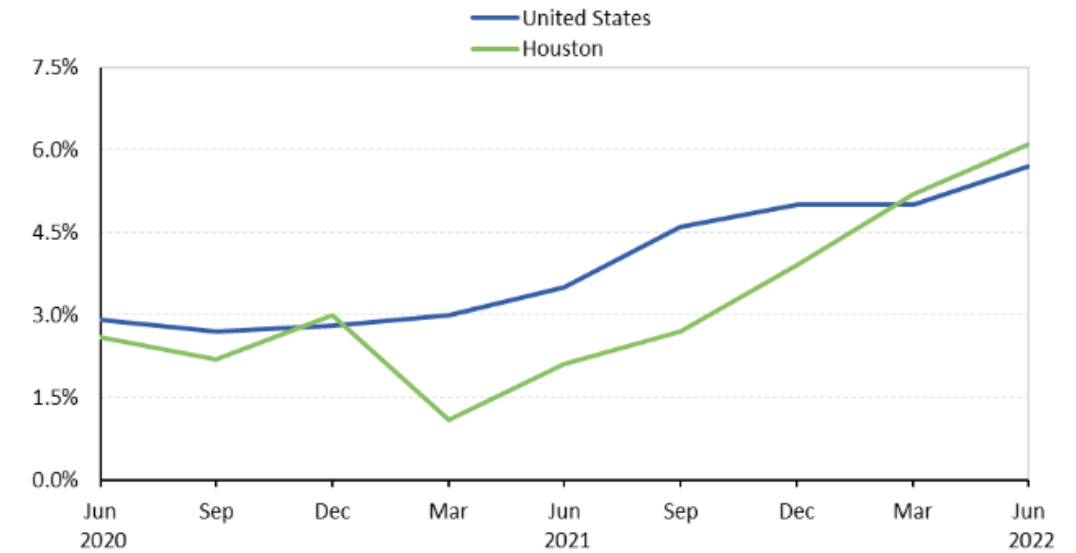
Inflation

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



Source: U.S. Bureau of Labor Statistics.

Chart 2. Twelve-month percent changes in wages and salaries for private industry workers in the United States and Houston, not seasonally adjusted



Source: U.S. Bureau of Labor Statistics.



Valuing Our Staff

- The Compensation and Classification study was a significant investment in FY22 and has been completed with FY23 proposed budget.
- For upcoming FY 23, employees eligible to receive a 5.5% effective raise.
 - 3.5% market adjustment and 2% step for eligible employees
 - 6.5% for Uniformed Public Safety unless at max step
 - If at max step, employees in step plans will receive a market adjustment and one-time payment on anniversary to effectively give them 5.5% this year. The lump sum is equivalent to 2% of the new base salary regardless of designation.
- Additional Certification pay has been budgeted for in the Enterprise Fund.
- Staff are working to propose a paid parental leave program during FY23 and will be bringing proposals forward for consideration.



General Fund Expenditures

- A people organization, General Fund expenditures are primarily salaries and wages.
- Public Safety is one of Council's top goals, and is FTE intensive - therefore, our major source of expenditures.
- General Government dropped due to improved categorization of transfers to other funds (such as IT, Facilities, Drainage, and Infrastructure Reinvestment Fund).

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%

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.

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

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.

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

Investments in Trusted Government

- New City Permitting Software will help improve transparency and deliver better, more accessible permitting services and will dramatically improve the permitting experience. Funded with ARPA grant.
- As technology facilitates more of our services, we must keep up with internal staffing to support those services and the employees delivering them. The FY23 budget adds a Technology Support Specialist.



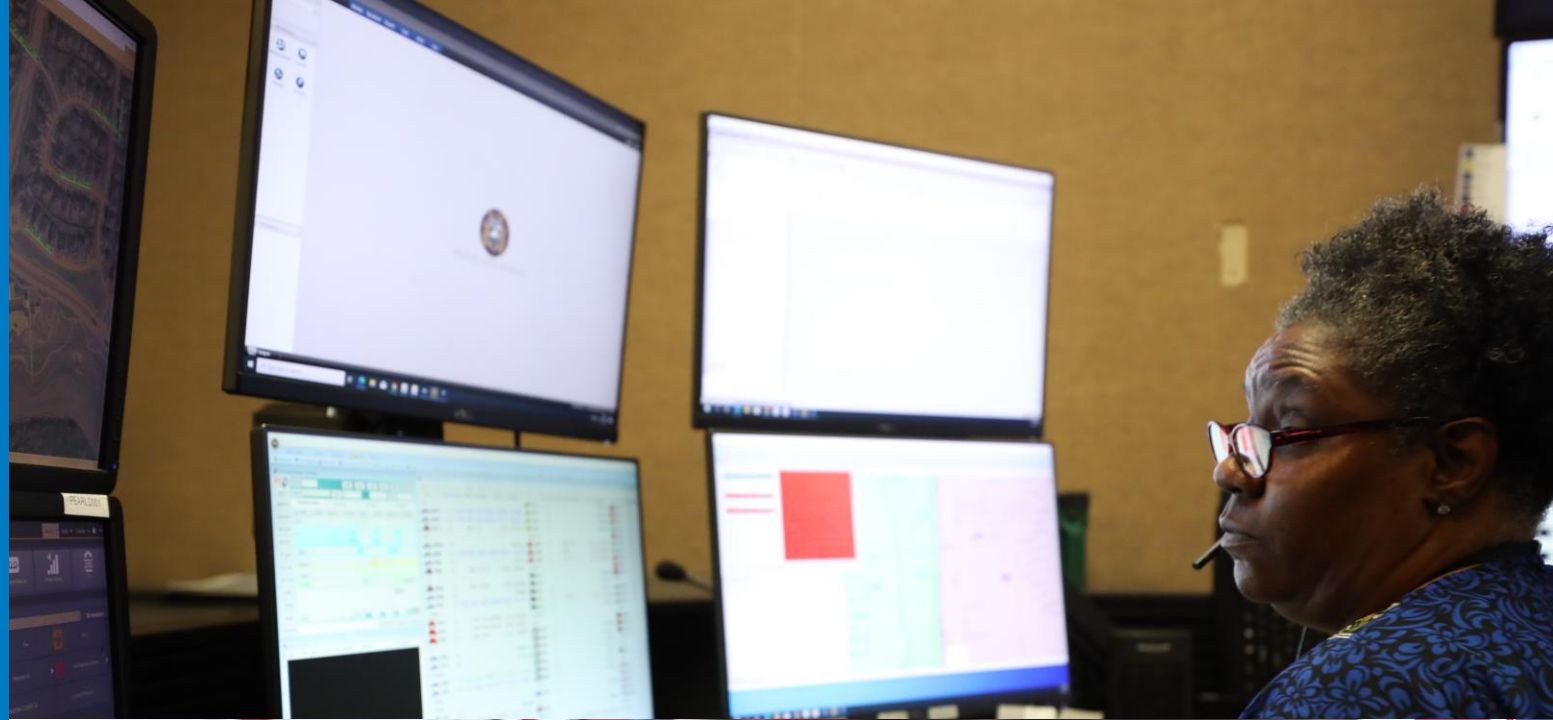
Investments in Strong Economy

- General Fund balance has funded the improvement of the Unified Development Code, which will result in clear and understandable policies with a refreshed approach to serve the developer community.
- A significant increase in funding for drainage will also contribute to this priority by reducing the risk of flooding for businesses and residents.
- Easier permitting, enabled by new city permitting software, will make it easier to start and grow your business in Pearland.



Investments in Safe Community

- Expenses in Police and Fire represent 62.7% (\$65.1M) of the \$116M in General Fund expenses.
- The Police Department's General Fund budget includes three new police positions, including one Officer with vehicle, and two Telecommunications Operators.
- The Fire Department's General Fund budget includes four new firefighting positions. Will assist with reducing mandatory overtime.
- FY23 Budget also contains \$2.7M in ARPA allocations for Fire Vehicles, & LMTV Lifts.



Investments in Sustainable Infrastructure

- The FY23 Budget creates the \$2.0M Drainage Maintenance Fund and provides for a new drainage crew to improve storm water system maintenance and reduce risk.
- A new Engineering and Public Works project manager has been added to the budget and will be 100% reimbursed from projects
- The Surface Water Treatment Plant will come online in FY23 and this budget identifies funds necessary for start-up equipment and staff in the Enterprise Operating Fund.
- A Water Quality Compliance Team has been added in the Enterprise Operating Fund – Meeting an increased level of state-required testing and improving service levels.

8/13/22



Investments in Resilient Finances

- Thanks to investments made last year there were no supplemental funding requests for this category in FY23.
- Professional Development, Certification, and Training will continue to be a key investment in this critical staff operations that is a nexus for all other city activities.



Investments in Welcoming Community

- The FY23 budget streamlines payments to contract recreation instructors, improving the process for staff, customers, and contractors – with a net zero budget impact.
- A part-time senior office assistant has been converted into a full-time position to help manage increased demand for rental opportunities – improving staff responsiveness to customers and having a potentially positive revenue impact.



Major Changes from Printed Proposed Budget Book to Today

- General Fund – No Changes
- Special Revenue Funds – No Changes
- Internal Service Funds – No Changes
- Enterprise Funds – A typo caused the FY2022 Original Budget Revenues to appear ~\$8M higher than it was adopted at. This typo was made as the Enterprise Fund Summary Income Statement was being put together in Excel and does **not** affect the rate model, the City's financial system (New World), *or* the FY23 budget in any way.
 - The online version of the book has been corrected
 - An updated handout has been given to Council for their budget binders
 - Book 1 – Enterprise Fund Tab – Page 1
 - This presentation uses the updated, accurate income statement



What is a Budget?

1. A policy document
2. A financial plan
3. An operations guide
4. A communications device



FY23 General Fund Highlights

Trusted Government

Technology Support Specialist	IT	\$68,886
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Strong Economy

Unified Development Code Update	Community Development	\$300,000
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Safe Community

Four Firefighting Positions	Fire Department	\$436,520
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Fire Office Assistants Part Time to Full Time Conversion	Fire Department	\$15,000
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Police Equipment	Police Department	\$200,000
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Police Officer	Police Department	\$185,865
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Two Telecommunication Operators	Police Department	\$151,216
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Sustainable Infrastructure

Drainage Crew (GF transfer to Drainage Fund)	Engineering & Public Works	\$662,000
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Project Manager (100% Charged to Projects, net zero)	Engineering & Public Works	\$140,000
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Welcoming Community

Program Contract Instructor Pay	Parks & Recreation	\$32,960
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Senior Office Assistant Part Time to Full Time Conversation	Parks & Recreation	\$33,000
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FY23 General Fund Staffing Highlights

Department-Division	Position Title	FY23 FTEs	Budget
Fire - Operations	Firefighters	4	\$436,520
Fire - Operations	Convert 2 Part Time Office Assistant to Full Time	-	\$15,000
Police - Patrol	Police Officer	1	\$185,000
Police – Communications/Record Keeping	2 Telecommunications Operators	2	\$151,216
EPW - Capital Projects	Project Manager	1	\$140,000*
Parks & Rec – Recreation Operations	Convert 1 Part Time Office Assistant to Full Time	0.5	\$33,000
Total		8.5	\$960,736

*Project Manager will be 100% Reimbursed by CIP projects

What is *not* in the FY23 Budget?

- Additional \$2.6 Million in Street and Sidewalk Funding needed to maintain the transportation infrastructure
- 159 vehicles/equipment eligible General Fund replacement vehicles
- \$4.3 million in supplemental staffing requests in the General Fund
 - \$1.8 million department requests in Public Safety Staff
 - \$859,000 in Engineering and Public Works Staff
 - \$712,000 in Parks & Recreation Staff
 - \$130,000 in Internal Service Department Staff
- \$3.3M in non-personnel requests – such as Facility Condition Assessment recommended repairs

General Fund Revenues



Comparing FY22 to FY23 Revenues

Revenue Category	FY22 Revenue Amended	FY23 Proposed Revenue Budget
Property Taxes	\$30.4M	\$37.0M
Sales & Use Taxes	\$29.0M	\$30.1M
Charges for Service	\$19.4M	\$20.9M
Franchise Fees	\$6.4M	\$6.7M
Licenses & Permits	\$4.6M	\$4.6M
Miscellaneous	\$583K	\$1.0M
Transfers In	\$9.6M	\$6.9M
Total	\$105.0M	\$109.5M



Proposed Property Tax Rate

	FY 2020	FY 2021	FY22	FY23 Proposed	Change from Last Year	Change from FY20 to FY23
O & M Rate	0.31	0.305	0.32	0.285	-0.024	-0.0220
Debt Rate	0.43	0.415	0.39	0.344	-0.048	-0.0910
Total Rate	0.74	0.72	0.71	0.629	-0.727	-.1120
O&M %	41.4%	42.4%	44.7%	45.3%		
DS %	58.6%	57.6%	55.4%	54.7%		

11.2¢ decrease in four years



Proposed Property Tax Revenue

Revenue = assessed value * tax rate

BUDGET ALLOCATION:	FY2022 Certified	FY2022 Adjusted	FY2023 Certified
General Fund from Levy at Collection Rate (104.39%)	26,663,975	26,692,983	32,940,518
Anticipated Revenue from Tax Ceilings**	4,045,180	3,401,989	3,741,293
General Fund Allocation	\$ 30,709,155	\$ 30,094,972	\$ 36,681,811
Debt Service Fund from Levy at Collection Rate (104.39%)	33,780,665	33,817,415	39,732,622
Anticipated Revenues from Tax Ceilings**	5,124,850	4,309,990	4,512,721
Debt Service Fund Allocation	\$ 38,905,515	\$ 38,127,405	\$ 44,245,343
TOTAL CITY BUDGET ALLOCATION	\$ 69,614,670	\$ 68,222,377	\$ 80,927,153

Budget Book Location: Book 1 – Property Tax Tab – Page 2

General Property Tax Bill Comparison

Taxable Value Summary

	Tax Year 2021	Tax Year 2022	Annual \$ Change
Appraised Value	313,480	357,740	\$44,260
Homestead Cap Loss	-	12,912	\$12,912
Taxable Value	\$313,480	\$344,828	\$31,348

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	
Pearland Independent School District	1.3155	3,795	52.1%	1.3131	4,003	54.0%	209
City of Pearland	0.7014	2,144	29.4%	0.6288	2,114	28.5%	(30)
Brazoria County	0.3365	844	11.6%	0.2824	779	10.5%	(65)
Brazoria County Drainage District #4	0.1520	381	5.2%	0.1390	383	5.2%	2
Road & Bridge Fund (Brazoria County)	0.0500	124	1.7%	0.0500	136	1.8%	13
Total	2.5554	7,288		2.4263	7,416		129
% of Appraised Value		2.3%			2.1%		

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

Pearland ISD: \$40,000 deduction to Taxable Value

*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

What does 1¢ in Property Taxes Mean?

**What does a ¢
reduction in O&M
Property Taxes
Equal?**

**General Fund
Revenue
Increase/Decrease
for FY23**

**Reduction in a Homestead
Homeowner's property tax bill
(average homestead taxable value
of \$299,794)**

1¢

\$1.6M

\$29.48 per year. \$2.45 per month.

2¢

\$3.2M

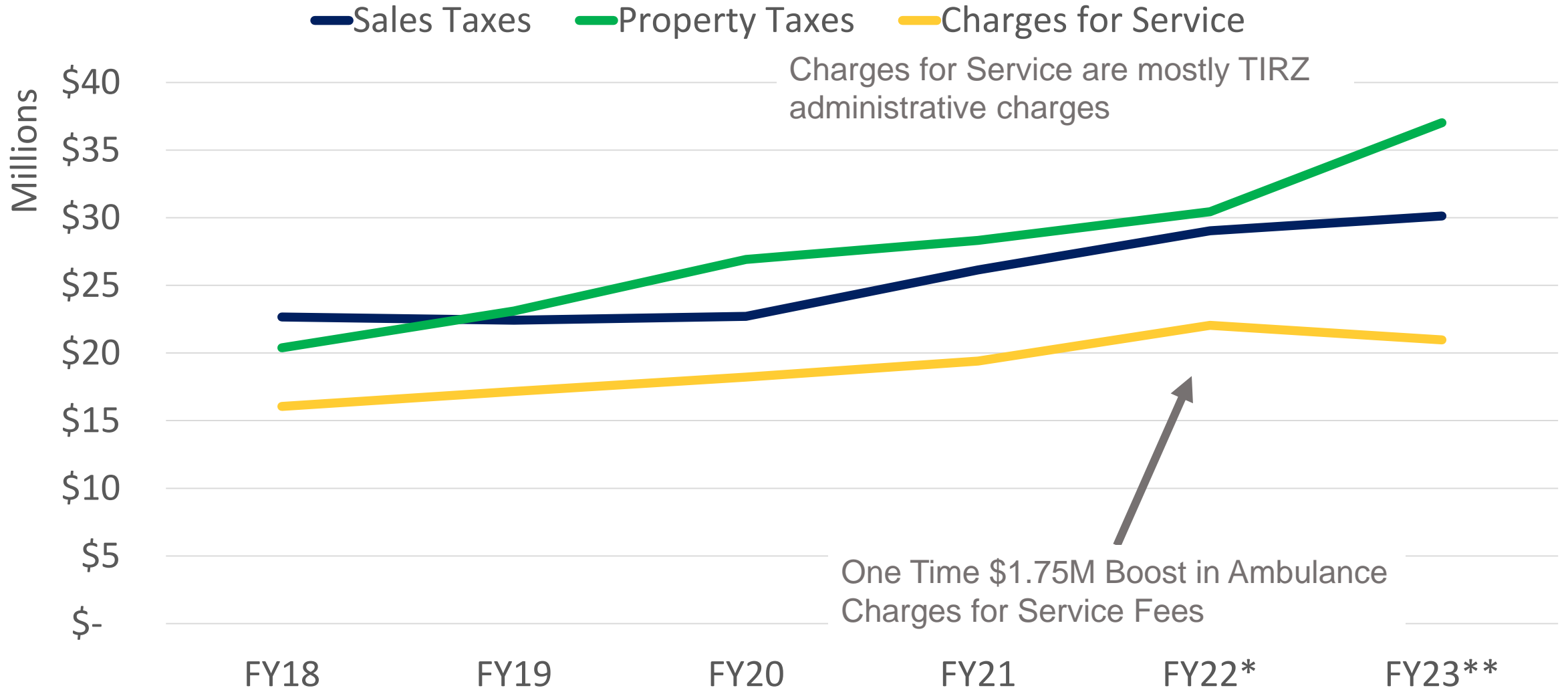
\$58.96 per year. \$4.91 per month.

3¢

\$4.8M

\$88.44 per year. \$7.37 per month.

80% of General Fund Revenues Come from three Main Revenue Streams



General Fund Expenditures



Comparing FY22 to FY23 Expenditures

Revenue Category	FY22 Expense Amended	FY23 Proposed Expense Budget
Public Safety	\$59.7M	\$65.1M
Public Works	\$14.7M	\$15.5M
General Government	\$14.2M	\$9.3M
Parks & Recreation	\$7.4M	\$8.3M
Community Services	\$4.6M	\$5.5M
Transfer Out	\$6.3M	\$6.5M
Total	\$106.9M	\$110.3M



Comparing FY22 to FY23 Expenditures

Revenue Category	FY22 Expense Amended	FY23 Proposed Expense Budget
Public Safety	\$59.7M	\$65.1M
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Community Services	\$4.6M	\$5.5M
Transfer Out	\$9.6M	\$6.5M
Total	\$106.9M	\$110.3M



Why did General Government Decrease?

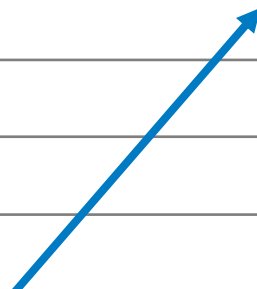
Expense Category	FY22 Expense Amended	FY23 Proposed Expense Budget
Public Safety	\$59.7M	\$65.1M
Public Works	\$14.7M	\$15.5M
General Government	\$14.2M	\$9.3M
Parks & Recreation	\$7.4M	\$8.3M
Community Services	\$4.6M	\$5.5M
Transfer Out	\$9.6M	\$6.5M
Total	\$106.9M	\$110.3M

New Funds in FY23

- IT Fund
- Facility Fund

Changes to Transfers Out of the General Fund

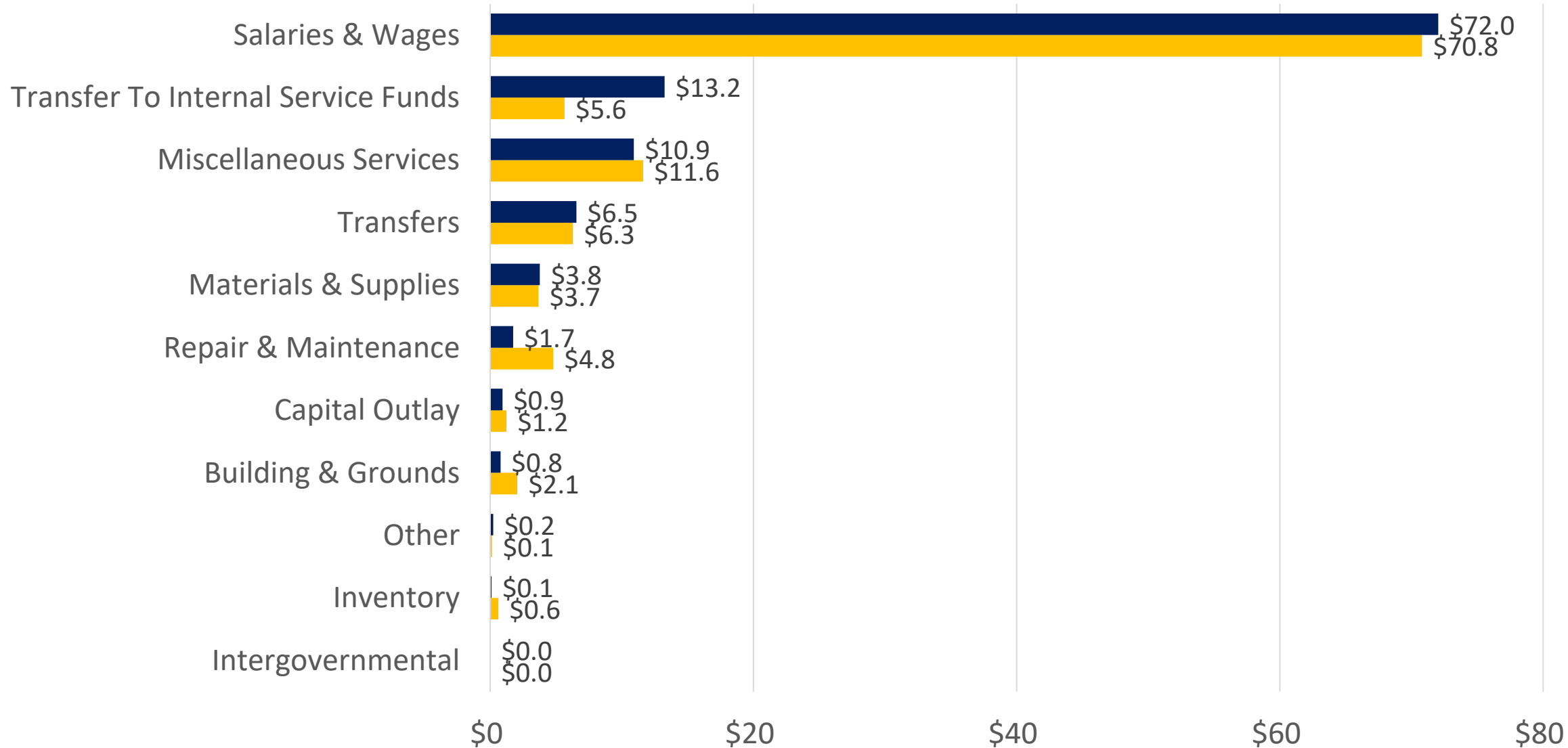
Expense Category	FY22 Expense Amended	FY23 Proposed Expense Budget
Public Safety	\$59.7M	\$65.1M
Public Works	\$14.7M	\$15.5M
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Parks & Recreation	\$7.4M	\$8.3M
Community Services	\$4.6M	\$5.5M
Transfer Out	\$6.2M	\$6.5M
Total	\$106.9M	\$110.3M



- ## Better Transfer Accounting
- Correctly Attributes General Fund transfer to Streets and Infrastructure Fund as Public Works.

FY23 Proposed Budget Expenditures by Category

FY23 Proposed FY22 Amended



General Fund Summary

	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

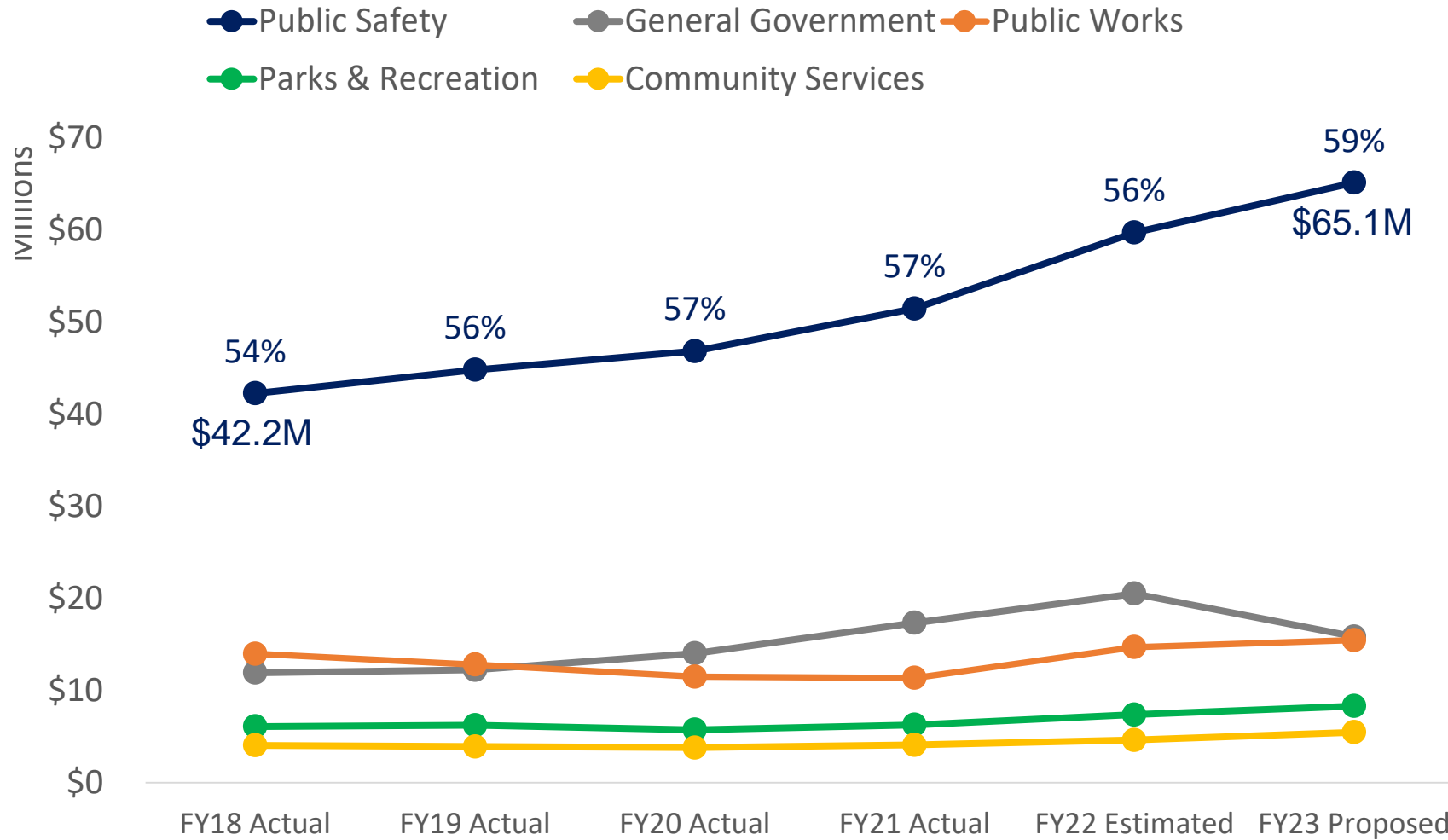
- ✓ **Exceeds Policy Minimum**
Projected ending balance of 99 days exceeds minimum of 90 days by 9 days
- ✓ **Maintains Core Services**

- ✓ **Excellent Aa2 Moody's and AA Fitch Credit Rating**
 - ✓ Moody's; confirmed stable
 - ✓ Reaffirmed July 2022
- ✓ **Structurally Balanced**



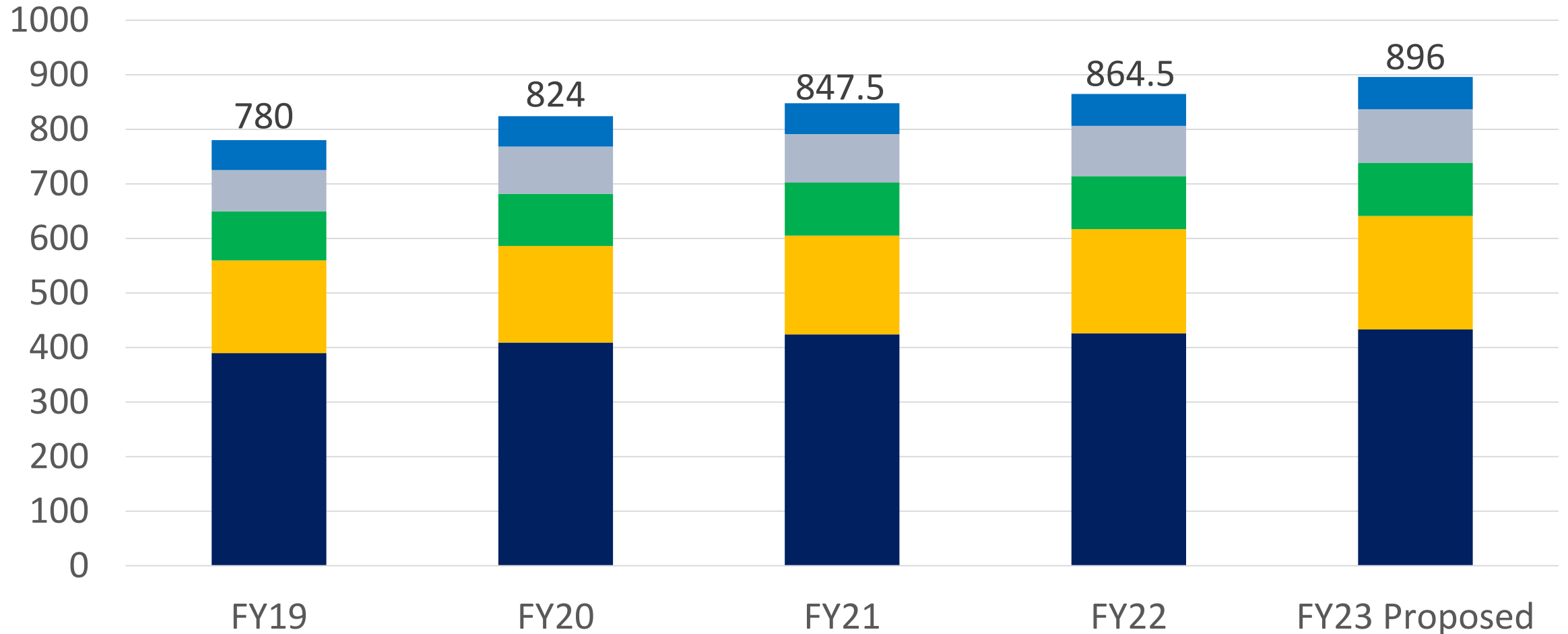
Long Term Trends

Pearland's Budget Expenditures by Category



Citywide Staffing Trends - FTEs per 1,000 Residents

- Public Safety
- Public Works
- Parks and Rec
- General Government
- All Other Departments



General Fund Council Input and Discussion

- Information requests for session #2
- Updates to the proposed budget are made by consensus



Tax-Backed Debt Fund



Debt Service Fund

- This Fund is where the City budgets the revenue and expenditures for all tax-backed debt.
- Expenditures in this fund pay for Non-Enterprise System (Water/Sewer) Debt and MUD Rebates.
- The tax rate has two components O&M and Debt Service
 - This is where the revenue generated from the debt service property tax rate goes.
- Tax-backed debt is paid for by property taxes.
- The primary driver of tax-backed debt payments are CIP projects.

Debt Service Rate

FY23 Proposed Debt Service Rate: 0.343765

- Estimated levy of \$44.2M
- \$0 committed from fund balance
 - New State worksheet formula removes that need/possibility

FY22 Adopted Debt Service Rate: 0.392000

- Estimated Levy of \$38.2M
- \$5.4M committed from fund balance



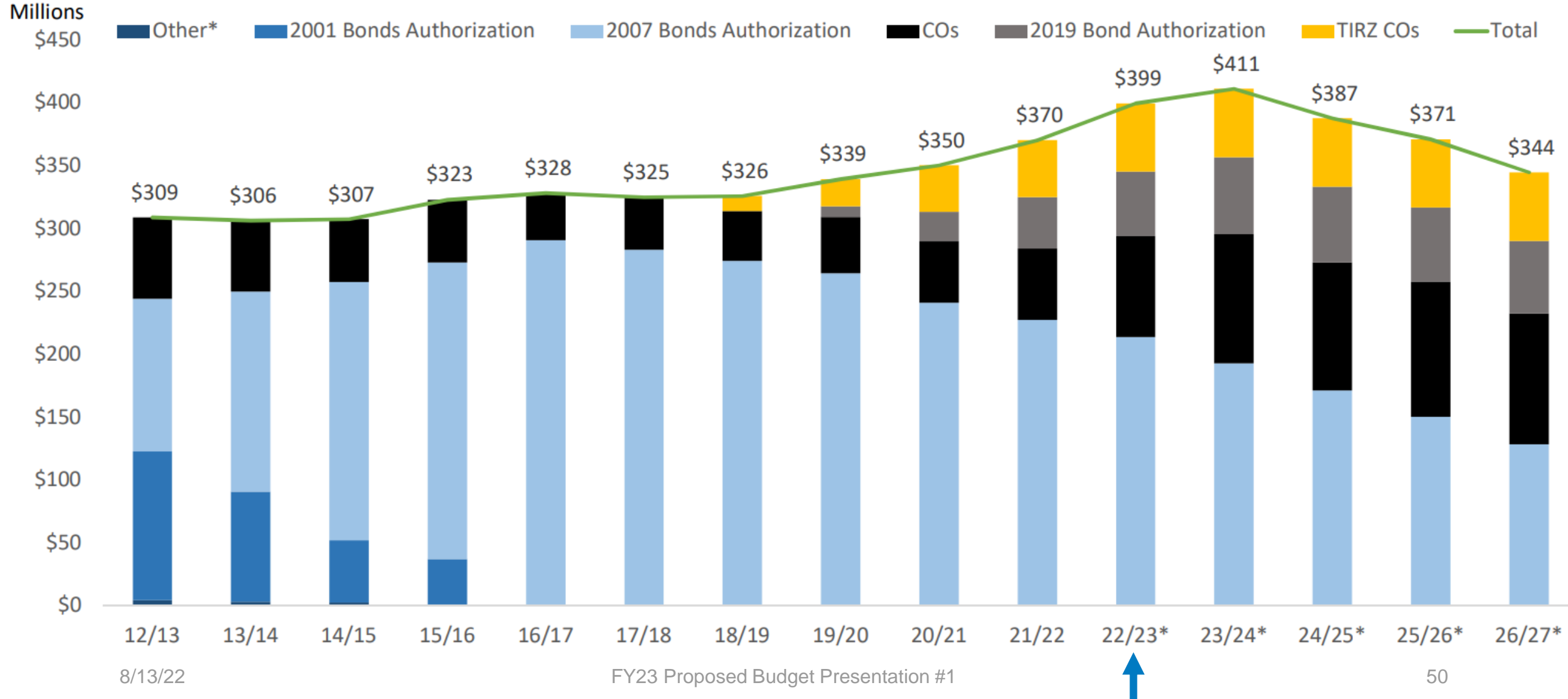
Debt Service Fund Summary

	FY 2021 ACTUAL	FY 2022 ORIGINAL BUDGET	FY 2022 YEAR END AMENDED	FY 2023 PROPOSED BUDGET
REVENUES				
Property Taxes	\$ 38,374,500	\$ 39,350,712	\$ 38,476,392	\$ 44,775,343
Miscellaneous	763,893	747,205	750,449	702,979
Transfers	2,530,075	3,074,369	3,074,369	3,302,442
Bond Proceeds (Refunding)	32,622,641			
TOTAL REVENUES	74,291,110	43,172,286	42,301,210	48,780,764
EXPENDITURES				
MUD Rebates	7,116,217	7,591,760	7,289,085	7,763,930
Bond Payment	67,450,250	36,834,004	36,834,004	38,863,045
TOTAL EXPENDITURES	74,566,467	44,425,764	44,123,089	46,626,975
REV OVER/(UNDER) EXP	(275,357)	(1,253,478)	(1,821,879)	2,153,789
BEGINNING FUND BALANCE	6,162,589	6,200,953	5,887,231	4,065,352
ENDING FUND BALANCE	\$ 5,887,231	\$ 4,947,475	\$ 4,065,352	\$ 6,219,140
Reserve 10%	\$ 7,456,647	\$ 4,442,576	\$ 4,412,309	\$ 4,662,698
Over Policy	\$ (1,569,416)	\$ 504,899	\$ (346,957)	\$ 1,556,443
Funds Committed *	\$ 8,395,925	5,444,092		



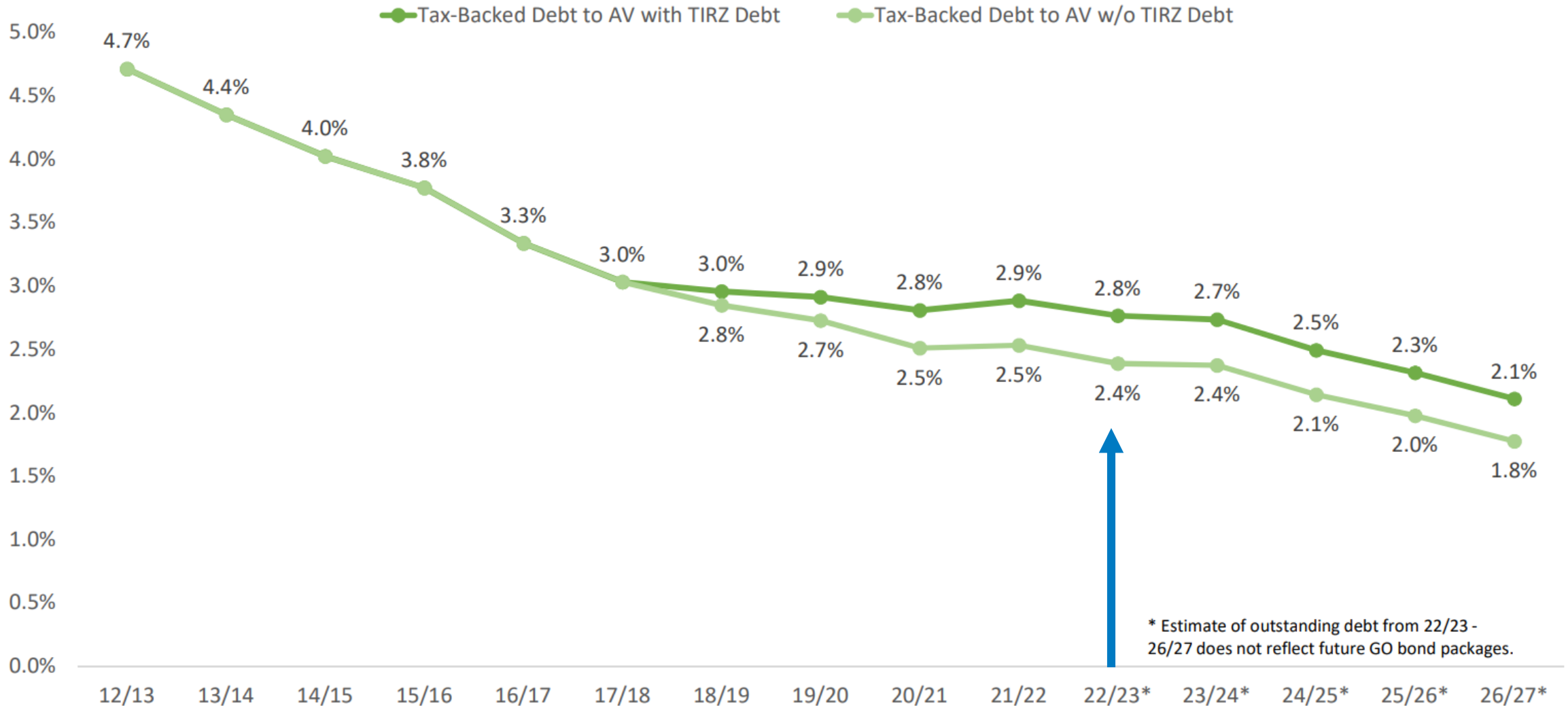
Total Tax-Backed Debt Over Time

General Obligation Debt



Total Tax-Backed Debt Over Time

Tax-Backed Debt to Assessed Value (AV)



* Estimate of outstanding debt from 22/23 - 26/27 does not reflect future GO bond packages.

Debt Fund Council Input and Discussion

- Information requests for session #2
- Updates to the proposed budget are made by consensus.



Internal Service Funds



Internal Service Funds - Purpose

Purpose

- Ensure operating costs as well as long term liabilities (replacement costs) are accounted for internal services especially our Fleet, IT, and Facilities.
- Provides source of funds for required and planned replacement of assets.
- Helps account for the true cost of owning, operating, and replacing assets.
- Creates clarity on the true cost of delivering a program by allocating costs to specific departments and divisions where possible.
- Predictability - Eliminate year to year swings in needs from the GF.
- Decouples replacement needs from what may/may not be available any given year in the General Fund.



Internal Service Funds – Past Success and Next

Successes

- Motor Pool implemented in 2019.
- From 0% of vehicles covered by lease fees in 2019 to ~37% at the end of FY23.

New this year

- IT Fund
- Facilities Fund



Risk Management Fund

	FY 2021 ACTUAL	FY 2022 ORIGINAL BUDGET	FY 2022 YEAR END AMENDED	FY 2023 PROPOSED BUDGET
REVENUES				
Transfers	\$ 1,664,003	\$ 1,828,191	\$ 1,828,191	\$ 1,804,000
Workers' Compensation	472,472	490,000	474,000	474,000
Insurance Reimbursements	338,222	175,000	600,000	350,000
Interest	145	3,500	580	725
Intergovernmental	-	-	-	-
TOTAL REVENUES	2,474,842	2,496,691	2,902,771	2,628,725
EXPENSES				
Salaries & Benefits	59,585	61,302	46,185	67,814
Materials & Supplies	40	600	600	800
Repair & Maintenance	22	100	100	100
Insurance Premiums	1,507,797	1,766,899	1,796,333	2,199,771
Claims	174,968	433,750	308,136	400,000
Miscellaneous Services	170,828	216,150	226,367	271,833
Other	-	-	-	100,000
Capital Outlay	-	-	-	35,802
Transfer Out	110	-	-	909
TOTAL EXPENDITURES	1,913,349	2,478,801	2,377,721	3,077,029
REV OVER/(UNDER) EXP	561,493	17,890	525,050	(448,304)
BEGINNING NET ASSETS	380,804	381,728	924,052	1,449,102
ENDING NET ASSETS	\$ 924,052	\$ 399,618	\$ 1,449,102	\$ 1,000,798

- Real Personal Property building value for FY23 is \$349M
- Premiums total \$2,199,771
- The fund is projected to end FY23 at \$1,007,798 – above the fund's minimum reserve target of \$1M.

Budget Book Location: Book
1 Internal Service Fund Tab
– Page 2

Medical Self Insurance Fund

	FY 2021 ACTUAL	FY 2022 ORIGINAL BUDGET	FY 2022 YEAR END AMENDED	FY 2023 PROPOSED BUDGET
REVENUES				
Interest Income	\$ 1,103	\$ 1,105	\$ 1,059	\$ 1,082
Contributions - Employee	1,478,981	1,542,236	1,540,192	1,607,343
Contributions - City	7,334,777	7,766,287	7,551,564	8,154,739
Retiree And Cobra Contributions	65,370	30,000	57,640	58,887
Miscellaneous	401,769	436,004	510,114	562,848
TOTAL REVENUES	9,282,000	9,775,633	9,660,569	10,384,899
EXPENSES				
Administrative Fees	1,306,370	1,395,051	1,409,582	1,652,661
Claims	8,007,351	8,324,519	8,261,395	8,674,962
Miscellaneous	73,943	56,063	56,063	57,276
TOTAL EXPENDITURES	9,387,664	9,775,633	9,727,040	10,384,899
REV OVER/(UNDER) EXP	(105,665)		(66,471)	
BEGINNING NET ASSETS	3,136,567	3,470,494	3,030,902	2,964,431
ENDING NET ASSETS	\$ 3,030,902	\$ 3,470,494	\$ 2,964,431	\$ 2,964,431
NET ASSETS AS % OF EXPENSES (Target ≥ 25%)	32%	36%	30%	29%

- Medical Self-Insurance claims total \$8.6M and administration fees total \$1.7M.
- Ending balance exceeds the target fund balance of 25% of revenues by 4%.

Budget Book Location: Book 1 Internal Service Fund Tab – Page 3

Motor Pool Fund

	FY 2021 ACTUAL	FY 2022 ORIGINAL BUDGET	FY 2022 YEAR END AMENDED	FY 2023 PROPOSED BUDGET
REVENUES				
Investment Earnings	\$ 392	\$ 500	\$ 10,000	\$ 30,000
TIRZ Reimbursement and Sale Of Property	2,025,596	6,850,000	6,899,902	50,000
Transfer In	5,134,026	5,952,469	7,403,469	9,189,221
TOTAL REVENUES	7,160,014	12,802,969	14,313,371	9,269,221
EXPENDITURES				
Salaries & Wages	652,508	662,065	616,256	663,986
Materials & Supplies	24,276	12,950	13,981	19,670
Buildings & Grounds	25,643	4,000	1,000	
Repair & Maintenance	983,355	1,104,000	1,130,971	1,353,770
Miscellaneous Services	21,004	36,489	76,453	71,300
Capital Outlay	3,373,259	2,732,220	7,326,033	4,856,191
Transfer Out	249,025	10,354	10,354	167,024
TOTAL EXPENDITURES	5,329,069	4,562,078	9,175,048	7,131,941
REV OVER/(UNDER) EXP	1,830,946	8,240,891	5,138,323	2,137,280
NET POSITION	5,511,650	5,388,913	9,795,217	14,933,540
TOTAL NET POSITION	\$ 9,795,217	\$ 13,629,804	\$ 14,933,540	\$ 17,070,820

- The purpose of the Motor Pool fund is to provide for the maintenance and replacement of the city's vehicles and rolling stock with an approximated value of \$33.8M.
- The City is taking a phased approach to fully funding the Motor Pool Fund, starting with vehicle maintenance and annual replacements in FY19. Lease fees for any vehicle replaced in FY23 begin in FY24.
- If the proposed budget is approved the City will end FY23 with ~37% of vehicles covered by Lease Fees.

Budget Book Location: Book 1 Internal Service Fund Tab – Page 4

General Fund

FY23 Vehicle Replacements-\$980,000

Department/Division	Unit Number	Type	Replacement Cost-Vehicle Plus Equipment
Police-Patrol	U163	2013 Chevrolet Tahoe	\$70,000
Police-Patrol	U169	2014 Chevrolet Tahoe	\$70,000
Police-Patrol	U160	2013 Chevrolet Tahoe	\$70,000
Fire-Marshal	P266	2008 Ford Ranger 1/4	\$50,000
Police-Patrol	U171	2014 Chevrolet Tahoe	\$70,000
Police-Patrol	U170	2014 Chevrolet Tahoe	\$70,000
Police-Patrol	U185	2014 Chevrolet Tahoe	\$70,000
EPW-Engineering	P321	2011 Ford F150 1/2	\$40,000
Police-Patrol	U187	2015 Chevrolet Tahoe	\$70,000
Parks-Parks	P312	2011 Ford F250 3/4	\$50,000

General Fund Replacement Vehicles

Continued

Department/Division	Unit Number	Type	Replacement Cost
Police-SRO	U177	2014 Chevrolet Tahoe	\$50,000
Police-Patrol	U190	2015 Chevrolet Tahoe	\$70,000
EPW-Facilities	P354	2014 Ford F150 1/2	\$40,000
Parks-Parks	P296	2008 Ford F250 3/4	\$50,000
Fire-Code Enforcement	P280	2008 Ford Ranger 1/4	\$50,000
Fire-Marshal	P337	2013 Ford F150 1/2	\$50,000
EPW-Streets & Drainage	P286	2008 Ford F150 1/2	\$40,000

Enterprise Fund Replacement Vehicles

FY23 Vehicle Replacements-\$245,000

Department/Division	Unit Number	Type	Replacement Cost
EPW-Distribution & Collections	TL154	2011 Ford F450 1.5	\$90,000
EPW-Meter Services	P330	2012 Ford F150 1/2	\$60,000
EPW-Right of Way/Grounds Maintenance	P317	2011 Ford F150 1/2	\$40,000
EPW-Water Production	P357	2014 Ford F150 1/2	\$40,000
EPW-Distribution & Collections	R134	Utility Trailer	\$15,000

New in FY23 – IT Fund

	FY 2021 ACTUAL	FY 2022 ORIGINAL BUDGET	FY 2022 YEAR END AMENDED	FY 2023 PROPOSED BUDGET
REVENUES				
Transfer In				8,488,643
TOTAL REVENUES				8,488,643
EXPENDITURES				
Salaries & Wages				2,262,615
Materials & Supplies				87,905
Repair & Maintenance				4,490,775
Miscellaneous Services				444,419
Inventory				607,000
Transfer Out				195,282
TOTAL EXPENDITURES				8,087,996
REV OVER/(UNDER) EXP				400,647
NET POSITION				
TOTAL NET POSITION		\$ -	\$ -	\$ 400,647

- The purpose of the IT fund is to provide for the maintenance and replacement of the city’s current and future technology needs.
- 21 Full Time Employees (FTEs) are budgeted in this fund.
- It is modeled after the successfully implemented Motor Pool Fund.
- Cost are allocated to departments based on actual use. Eg; Parks specific software is now “charged” to the Parks Department Budget instead of the “IT Budget”.
- The IT Fund is a substantial improvement in transparency and helps Council and the Public see the full cost of programs.

Budget Book Location: Book 1 Internal Service Fund Tab – Page 8

New in FY23 – Facilities Fund

	FY 2021 ACTUAL	FY 2022 ORIGINAL BUDGET	FY 2022 YEAR END AMENDED	FY 2023 PROPOSED BUDGET
REVENUES				
Transfer In				3,305,095
TOTAL REVENUES				3,305,095
EXPENDITURES				
Salaries & Wages				766,664
Materials & Supplies				43,981
Buildings & Grounds				1,242,752
Repair & Maintenance				117,270
Miscellaneous Services				789,518
Transfer Out				84,940
TOTAL EXPENDITURES				3,045,125
REV OVER/(UNDER) EXP				259,970
NET POSITION				
TOTAL NET POSITION		\$ -	\$ -	\$ 259,970

- The purpose of the Facilities Fund is to provide for building-related repair and maintenance, equipment maintenance capital replacement or asset recapitalization, and janitorial services.
- It is modeled after the successfully implemented Motor Pool Fund.
- Goal is to be funded on a building/department cost basis. However, that will be a multi-year data creation process. For FY23 it is simply paid for by one transfer from the General Fund and one transfer from the Enterprise Fund.
- The Facilities Fund is a major improvement in transparency and helps Council and the Public see the full cost of programs.

Budget Book Location: Book 1 Internal Service Fund Tab – Page 7

Internal Service Fund Council Input and Discussion

- Information requests for session #2
- Updates to the proposed budget are made by consensus.



Special Revenue Funds



Special Revenue Funds Summary

FUND		FY2023 PROPOSED BEG BALANCE	FY2023 PROPOSED REVENUES	FY2023 PROPOSED EXPENDITURES	FY2023 PROPOSED END BALANCE
305	Hotel/Motel Occupancy Tax	\$ 5,999,540	\$ 967,900	\$ 1,092,342	\$ 5,875,098
310	Court Building Security	48,653	48,004	34,625	62,032
315	Citywide Donation		65,900	177,680	50,769
320	Court Technology	(11,207)	45,100	32,943	950
325	Street Assessment*				
330	Park Donations	16,812	105,200	105,550	16,462
331	Tree Trust		2,100	457,500	700,965
332	Parks Financial Assistance Donations		5,050	5,000	50
335	Police State Seizure	109,443	108	52,200	57,351
336	Federal Police	69,725	100	15,000	54,825
340	Park Development	415,390	98,000	84,721	428,669
345	Sidewalk	64,072	5,100		69,172
346	Drainage Maintenance Fund		1,972,958	1,827,449	145,509
350	Grant Fund	(58,500)	478,077	419,577	
351	Community Development Block Grant	21,161	478,854	478,854	21,161
352	CDBG Disaster Recovery	(197,280)	5,308,153	5,110,873	
353	Disaster Recovery Fund*	(456,452)			(456,452)
354	Hazard Mitigation	(4,000)	503,760	499,760	
355	Coronavrius Relief Fund		1,827,767		(1,431,340)
356	American Rescue Plan Act (ARPA)		5,944,486	4,694,098	250,388
360	Traffic Improvement		100	214,920	115,208
365	Truancy Prevention & Diversion	(3,343)	52,600	45,583	3,674
366	Municipal Jury	1,552	1,025	1,000	1,577
370	Municipal Channel	257,862	236,500	101,500	392,862
380	Regional Detention*	194,764			194,764
510	Lower Kirby*				
514	Infrastructure Reinvestment	476	1,768,800	1,768,800	476
TOTAL		\$ 3,858,503	\$ 19,915,642	\$ 17,219,975	\$ 6,554,170

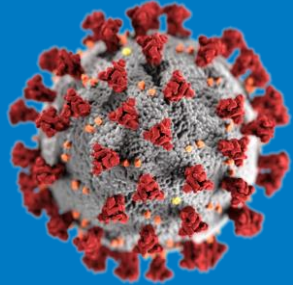
* These Funds have no budaoeted activtv for FY 2023

Budget Book
Location: Book
1 – Financial
Summaries Tab
– Page 1



ARPA Fund

(American Rescue Plan Act)



State & Local Fiscal Recovery Fund

Authorized by the U.S.
Treasury for Coronavirus
Pandemic Economic Recovery

Eligible Costs from March 3,
2021 – December 24, 2024

- The COVID-19 pandemic and its impact on the economy have resulted in several stimulus packages. ARPA was the last major package of direct assistance approved by Congress in 2021.
- Pearland's ARPA allocation totals \$11,888,971, received in two equal tranches of \$5.9M in FY21 and FY 22.
- Funds can be used for municipal economic recovery in the form of revenue loss recovery, public safety and public health emergency response, for local water/sewer improvements, and expansion of local broadband infrastructure.
- The first tranche of ARPA funds has been spent in FY 2022 and the second and final tranche of ARPA funds is being allocated in the FY23 Proposed Budget.



ARPA Fund

FY23 Allocation



- \$2,455,659 for the replacement of Fire Engine #22 and Ladder Truck #1.
 - *Eligible per 31 CFR 35.6(b)(1)(i)*
- \$425,000 for new permitting software in Community Development.
 - *Eligible per 31 CFR 35.6(b)(3)(ii)(E)(3)*
- \$1,687,319 for public safety force account labor expenses (Transfer to General Fund).
 - *Eligible per 31 CFR 35.6(b)(3)(ii)(E)(1)*
- \$250,388 fund balance available for future ARPA-eligible activities.

Drainage Maintenance Fund

Budget Book Location: Book 1 – Special Revenue Funds Tab – Page 16



Drainage in FY23

The development of the Drainage Utility Fund was a result of the process the City went through to evaluate a drainage utility fee to fill the gap in service.

The drainage utility fee revenue in the pro forma throughout discussions was proposed to be spent on three categories:

- 1) Maintenance (Staff and Equipment),
- 2) Small Capital Projects (under \$500k)
- 3) Large Capital Projects

The vast majority of funds in the pro forma was for capital projects



Drainage in FY23

Maintenance (Staff and Equipment)

- The creation of a Drainage Utility Fund will now begin the process of addressing the first two drainage categories (Maintenance and Small Capital Projects)
- The Drainage Maintenance Fund begins a new maintenance phase by dedicating staff, equipment and funding to begin conducting maintenance activities in a program driven approach and in a pro-active versus reactive manner.
- Council supported the drainage maintenance budget through the approval of Resolution R2022-39. This resolution dedicated to drainage maintenance in the FY23 budget.



Drainage in FY23

- Created the “Drainage Maintenance Fund” for clear and distinct reporting on this major priority.
- Split from Streets and Drainage Division in Engineering and Public Works.
 - Streets remained in General Fund.
 - Drainage staff and program costs went to Drainage Fund.
- Includes appropriation of \$662K as outlined in R2022-39.
 - Funded new Drainage Maintenance and Operations Crew.

Drainage Maintenance Fund Revenue

Revenue Category	Note	FY23 Proposed Revenue Budget
Transfer-In	Previous Existing Drainage Funding	\$1,310,958
Transfer-In	Drainage Resolution	\$662,000
PEDC	Transfer from PEDC for Drainage*	\$23,000
Total		\$1,995,958

*PEDC identified contribution for on-going maintenance from previous PEDC capital projects.

**Master Drainage Plan Update - PEDC and City EPW staff are proposing a possible partnership between PEDC, the City and Brazoria County Drainage District #4, to each contribute a one-third share of an estimated \$1.3M MDP update to identify subregional and local projects.



Drainage in FY23

- Created the “Drainage Maintenance Fund” for clear and distinct reporting on this major priority.
- Split from Streets and Drainage Division in Engineering and Public Works.
 - Streets remained in General Fund.
 - Drainage staff and program costs went to Drainage Fund.
- Includes appropriation of \$662K as outlined in R2022-39.
 - Funded new Drainage Maintenance and Operations Crew.

Drainage Maintenance Fund Expenses

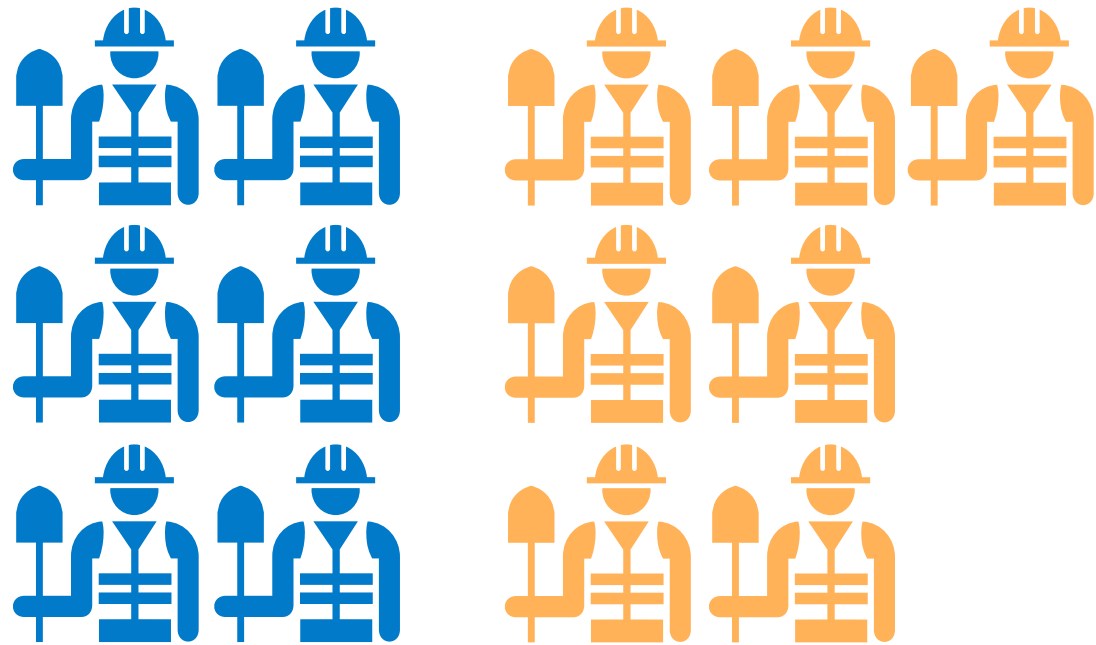
Expense Category	Note	FY23 Proposed Revenue Budget
Salaries & Wages		\$750,309
Materials & Supplies		\$31,151
Repair & Maintenance		\$23,182
Miscellaneous Services		\$469,292
Inventory		\$1,369
Transfer Out Repair & Maintenance		\$57,660
Transfer Out Lease Payments		\$494,459
Total		\$1,827,449



Drainage in FY23

- Created the “Drainage Maintenance Fund” for clear and distinct reporting on this major priority.
- Split from Streets and Drainage Division in Engineering and Public Works.
 - Streets remained in General Fund.
 - Drainage staff and program costs went to Drainage Fund.
- Includes appropriation of \$662K as outlined in R2022-39.
 - Funded new Drainage Maintenance and Operations Crew.

Drainage Maintenance Fund Staffing in FY 23



- 6 Existing Staff Positions put into "home base" of new drainage fund
- 7 New Staff Budgeted in FY23

Drainage in FY23

- Created the “Drainage Maintenance Fund” for clear and distinct reporting on this major priority.
- Split from Streets and Drainage Division in Engineering and Public Works.
 - Streets remained in General Fund.
 - Drainage staff and program costs went to Drainage Fund.
- Includes appropriation of \$662K as outlined in R2022-39.
 - Funded new Drainage Maintenance and Operations Crew.

Outcomes of Increased Staffing

Both the enclosed pipe and open ditch drainage systems will be inspected, cleaned, and restored to original capacity on a 10-year cycle

- **3X** increase in ditch cleaning – Previously a 30-year cycle
- Prior to FY 23, enclosed pipes have **never** been proactively inspected and cleaned – Only reacted to when there is an active drainage issue.

Drainage in FY23

Master Drainage Plan

- Staff recommend that PEDC, BDD4, and the City partner together to fund the update (1/3rd each)

- In 2019 the City and BDD4 completed a partnership to develop a shared agency Master Drainage Plan (MDP) that would be utilized to guide future drainage infrastructure needs
- The current plan is a static model and is developed around the needs for regional infrastructure and under past rainfall criteria and has limitations
- It's time to update the Master Drainage Plan with new data from HCFCD,(Clear Creek Model), FIRM maps, and Atlas 14 (rainfall data).
- The MDP update will focus on producing a dynamic model that will be able to model various rainfall over time and identify areas of concern
- The MDP will assist in identifying projects from a regional, sub-regional and local level. These projects can then be prioritized for funding opportunities through the CIP.
- Identified projects that can benefit City business and commercial areas could be funded through PEDC



Drainage in FY23

Small Capital Projects

- The vision is that the Drainage Operations Fund will cash-fund small capital projects as needed.
- Previously an unmet need - Funding for these sorts of projects was not typically available in previous years.
- Over multiple fiscal years, the goal is to budget an annual amount for small capital projects per a new Drainage Plan.
- The fund has a small reserve (\$145K) in FY23 that could be used for small capital projects which would not have previously been done.

With increased maintenance activities proposed by staff being dedicated to the investigation, cleaning and evaluating the drainage system, the development of Small Capital Projects will occur.

Projects that are a result of the cleaning/investigation and would be requested to be funded similar to the Infrastructure Investment Fund for Street Maintenance.

Projects could include:

- Replacement of smaller lengths of broken pipe (40'-200')
- Manhole and inlet restoration
- On-call repair services
- Funding of the Master Drainage Plan update (proposed shared cost with PEDC, BDD4)
- Property Buy-outs for areas of detention



Drainage in FY23

Large Capital Projects

Council created a committee to evaluate a future 2023 Voter Bond Referendum of drainage projects identified by staff and utilizing various reports:

- Master Drainage Plan
- Hurricane Harvey After-Action Drainage Report
- City Staff known historical areas



Drainage in FY23

Citizens Drainage Bond Advisory Committee

- Appointed by the City Council: 19 members
- Evaluate the City's drainage system and drainage improvement projects
- Prioritize potential future projects
- Identify partnership opportunities
- Evaluate the upcoming May 2023 referendum size and duration
- Evaluate property tax impact related to referendum size
- Provide formal recommendation to the City Council
- Sunset: December 1, 2022



Projects Being Evaluated by Bond Committee

Project Name			
1	Wagon Trail Road (south of Fite to Mary's Creek) (roadside ditch and culverts)	10	E. Plumb (Old Alvin to Barry Rose Road)
2	Pine Hollow Drainage Improvements	11	Fite Road (Harkey to McLean)
3	Veterans Drainage Improvements (Walnut to Mary's Creek)	12	Southwest Quadrant of Old Town (McLean to SH35 south of Broadway)
4	Isla, N. Galveston, Cheryl Drive	13	East & West Circle/Shady Crest
5	Tranquility Lakes Detention Pump Station Rehabilitation and Generator	14	SCR - Ocean Point Ct 100 yr overflow at cul-de-sac
6	Hickory Slough Pump Station Generator	15	Hickory Creek Place - Subdivision
7	Hatfield Road (FM518 to Hickory Slough)	16	Garden Acres - Subdivision
8	Harkey Road Drainage (Josephine to Mary's Creek)	17	Herridge Miller Subdivision - roadside and detention Brookland Acres detention
9	Longwood Estates (roadside ditch and culverts)	18	Fite Road (Harkey to Cullen)

Special Revenue Fund Council Input and Discussion

- Information requests for session #2
- Updates to the proposed budget are made by consensus.



Component Units

Budget Book Location: Book 1 – PEDC Tab



PEDC Fund

Income Statement

- Misc. Revenue in FY 21 and 22 include \$9.5M for sale of property in Lower Kirby
- Transfers out to the City include \$13.3M for SH288 Corridor master improvements, \$275,000 for Rice Drier Redevelopment and \$1.6M for Lower Kirby drainage and utilities infrastructure for business areas
- Direct Business Incentives of \$1.2M
- Capital Outlay includes \$4.8M for Old Town SE Quadrant Infrastructure Improvements and \$475,000 for Smith Ranch Road reconstruction project for additional business area road and drainage infrastructure

Budget Book Location: Book 1 – PEDC
Tab – Page 3

	FY 2021 Actual	FY 2022 Original Budget	FY 2022 Year End Amended	FY 2023 Proposed Budget
OPERATING REVENUES				
Sales Tax	\$ 12,877,864	\$ 11,799,344	\$ 13,451,252	\$ 13,989,302
Interest Income	35,326	100,000	100,000	18,554
Intergovernmental	12,000	12,000	1,912,000	1,312,000
Miscellaneous	7,609,327	6,000	2,228,509	6,000
TOTAL	20,534,518	11,917,344	17,691,761	15,325,856
OPERATING EXPENDITURES				
Operating	2,317,826	3,390,972	3,337,825	3,742,987
Bond Payments	285,400	279,500	279,500	273,600
Inventory		5,000	5,000	5,000
Capital Outlay	460,999	3,471,000	871,000	6,261,000
TOTAL	3,064,224	7,146,472	4,493,325	10,282,587
REVENUES OVER/(UNDER) EXPENDITURES	17,470,293	4,770,872	13,198,436	5,043,269
OTHER FINANCING SOURCES (USES):				
Transfers Out	(1,105,080)	(17,670,209)	(11,317,209)	(15,345,353)
Incentives	(1,562,825)	(1,529,890)	(979,361)	(1,256,379)
Bond Proceeds				
TOTAL	(2,667,905)	(19,200,099)	(12,296,570)	(16,601,732)
NET CHANGE IN FUND BALANCE	14,802,389	(14,429,227)	901,866	(11,558,463)
BEGINNING FUND BALANCE	22,474,393	34,805,573	37,276,781	38,178,646
ENDING FUND BALANCE	\$ 37,276,781	\$ 20,376,346	\$ 38,178,646	\$ 26,620,183



Component Unit Funds Input and Discussion

- Information requests for session #2
- Updates to the proposed budget are made by consensus.



Enterprise Funds

Water and Sewer Operations



Two Main Funds: Operating and Debt

The Enterprise **Operating** Fund pays for the operation of:

- Water/Sewer Grounds
- Lift Stations
- Clean water treatment and distribution
- Purchase of bulk water
- Wastewater collection and treatment
- Pretreatment Fats, Oils, Greases (FOG)
- Water wells and Water towers
- Water Meter Services
- Utility Billing & Customer Services
- All Water/Sewer maintenance activities
- Electricity and other treatment costs
- All utility personnel
- Overhead (IT, Admin, Finance, Legal, etc.)

Operations are required to meet regulatory requirements for safety and health.

The Enterprise **Debt** Fund pays for:

- Interest and principal per approved schedule related to the construction of necessary capital improvement projects.

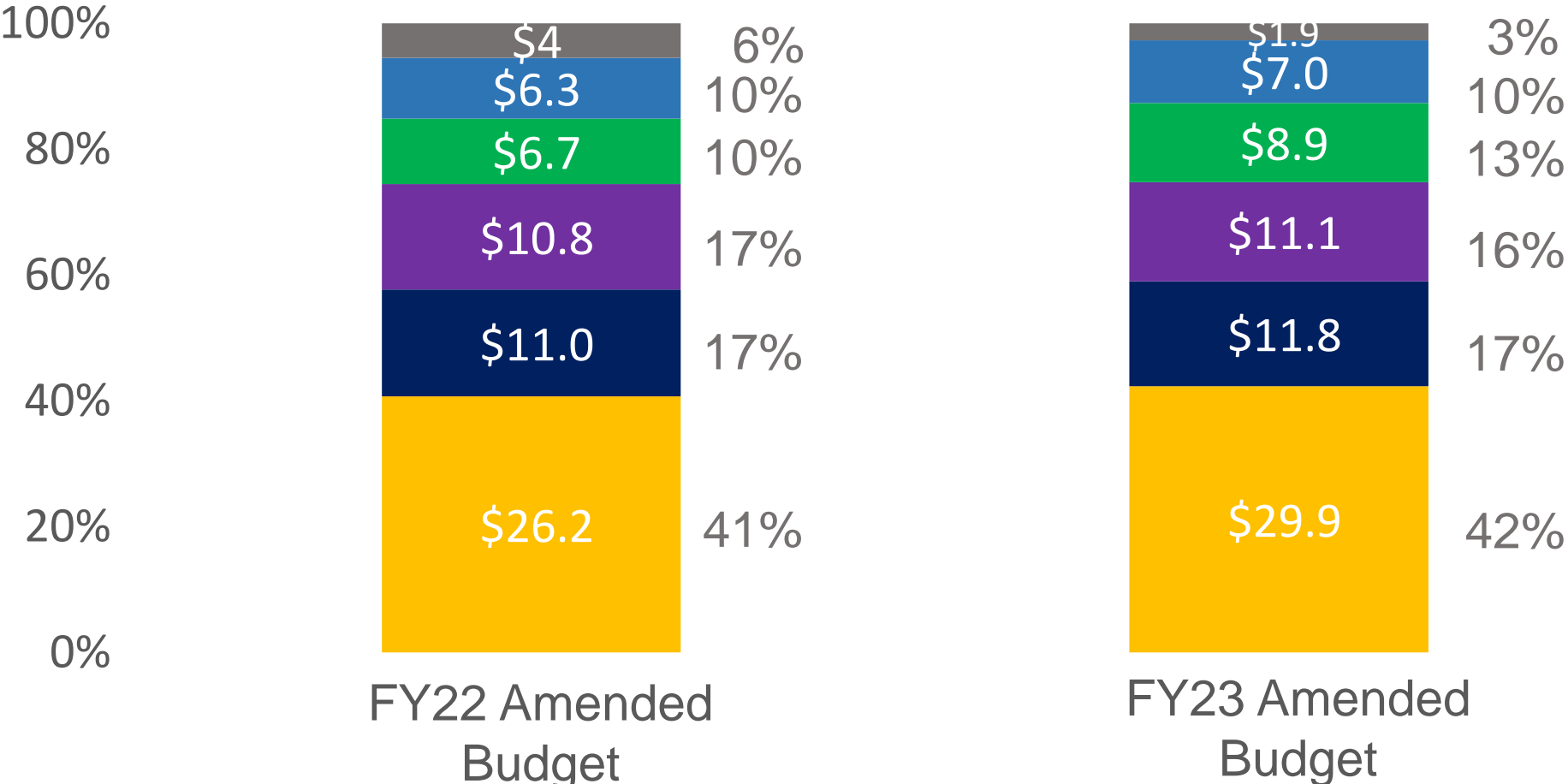
Debt payments are not flexible nor optional

Water and Sewer System Expenditures

(Both Funds Combined)

- Principle and Interest
- Salaries & Wages
- Transfers Out
- Material & Supply
- Misc Services
- Other Categories

For comparison, in FY18 Enterprise Principle and Interest expenditures totaled \$17.3M



What is driving Enterprise Debt Fund Expenditures growth in the system?



Surface Water Treatment Plant Operational in FY23 \$175.5M



JHEC Water Reclamation Facility Expansion \$80.6M



Bailey Water Plant Improvements \$14.4M



8/13/22

FY23 Proposed Budget Presentation #1

Barry Rose Water Reclamation Facility Replacement & Expansion \$228.4M



Longwood Water Reclamation Facility Decommissioning \$36.2M



Critical CIP projects Being Built

These project costs are all:

- **Not a surprise** – they have been in the CIP for years
- **Approved by Council** – All projects are approved multiple times (CIP adoption, Intent to Reimburse authorization, and Debt Issuance)
- **Built into the rate model** – The rate increases are not reactionary and were always going to be needed to pay for these projects
- **As shown in the CIP and Multi-Year Projections** - When projects are completed, they often have an Operations and Maintenance component, in the case of the Surface Water Treatment Plant this means hiring new staff to run the plant and purchasing startup equipment.

Surface Water Treatment Plant Milestones* & Hiring** Timeline

Department-Division	Position Title	Start Date
Plant Milestone: FY23 October – Plant begins pretreatment & raw water intake to pumps		
EPW – Surface Water Plant	Plant Mechanic	10/1/2022
EPW – Surface Water Plant	Plant Electrician	10/1/2022
Plant Milestone: FY23 December – Plant begins membrane testing of clean water. Process takes three months to complete		
EPW – Surface Water Plant	Plant Mechanic	1/1/2023
EPW – Surface Water Plant	SWTP Operator II	1/1/2023
EPW – Surface Water Plant	SWTP Operator I	1/1/2023
EPW – Surface Water Plant	SWTP Operator I	1/1/2023
EPW – Surface Water Plant	Laboratory Technician	1/1/2023
Plant Milestone: FY23 – February – Plant begins using raw water to run membranes, disinfections systems, and high service pumps – which send water out of the plant.		
Plant Milestone: FY23 – April – Plant begins full systems testing with TCEQ. Process takes 3 months to complete		
EPW – Surface Water Plant	SWTP Operator I	4/1/2023
EPW – Surface Water Plant	SWTP Operator II	4/1/2023
Plant Milestone: FY23 – June – Plant begins sending water into system		

*Subject to market and logistics delays

**FY23 Staff Costs is \$396,658 + one time startup costs

Water Quality Compliance Team

Team will be responsible for compliance sampling, monitoring of disinfection residuals, and flushing of the water distribution system.

- The City is required to collect water quality sampling (30 TAC Part 1 Subchapter D, 290.46).
 - The sampling will increase by 20% in FY23 - from 100 samples per month to 120 samples per month due to population growth over 130,000 as tracked by TCEQ.
 - The water system contains over 1,000 flushing points per month and the number increases with new development.
- Crew will also assist in maintaining the current workload and is critical to providing the current service level
- Water quality compliance team will be responsible for these operations and are critical to responding to customer water quality service requests in a timely manner.
 - Current Responses Time - Typically an hour.
 - Response to calls for water quality. Staff runs tests, flushes lines, works with resident, and closes out service request.
 - Response to low flow reports – (currently 1 hour response time) staff run tests and work with residents to determine cause.
- Cost of this program is \$262,404 and contains 4 new FTEs

FY2023 Revenue Changes

- The City must bring in enough money to pay for debt and operations.
- Increased consumption helps to some extent.
- Rate increases are the main way for cities to bring in the necessary Enterprise Fund revenue.
- When we sell debt we agree to have a Bond Coverage Ratio ≥ 1.15 .
- Enterprise Operating Fund balance must remain above 15%.

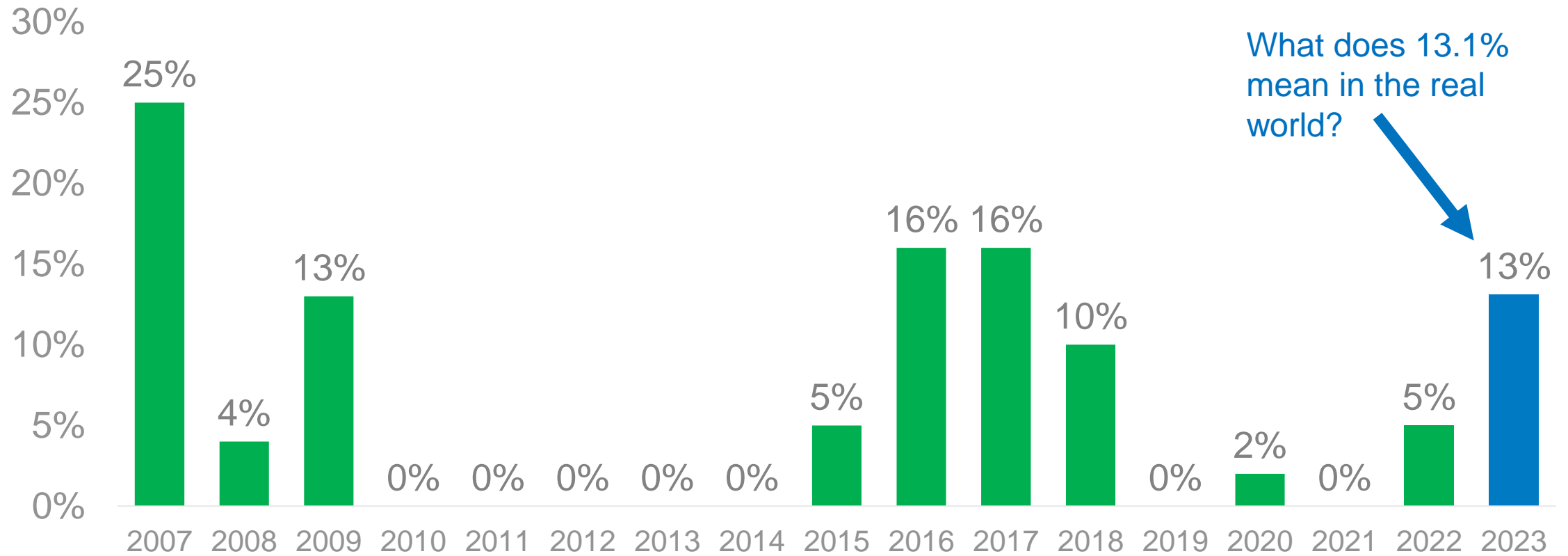
An average household in Pearland uses approximately 6,000 gallons of water per month. They will pay ~\$7.50 more a month.

- A 13.1% rate increase is proposed for FY23
- At the same time, customers are moving from having 32 days on a bill to a bill of 30/31 days.
- Due to the tiers and days billed, most customers' bills will not increase by 13.1% if they use similar amounts of water next year as they do this year.

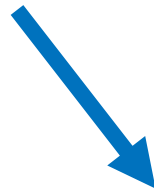


History of Rate Increases in Pearland

Historical Pearland Utility Rate Increases



What does 13.1% mean in the real world?



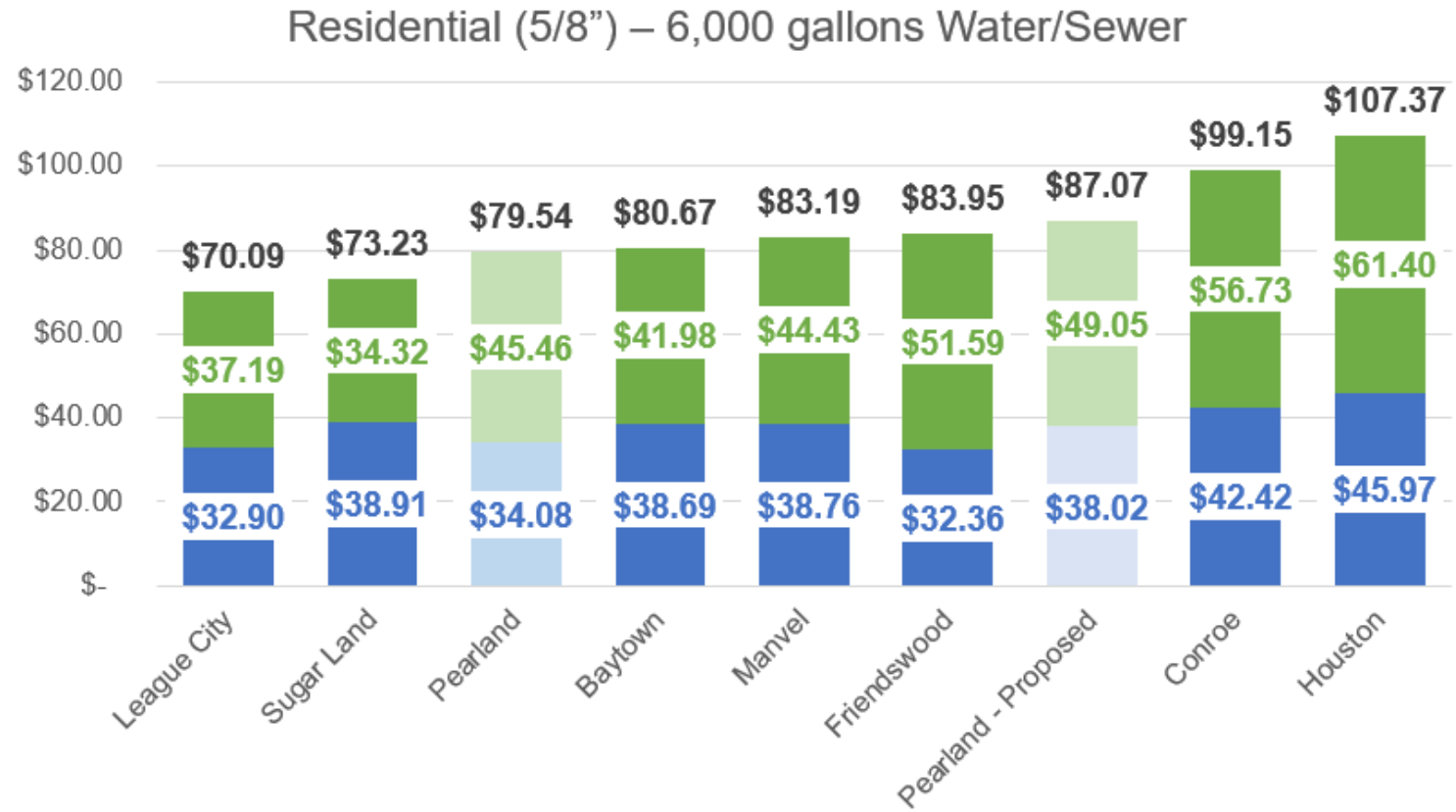
Sample Bills with 13.1% Proposed Revenue Increase for FY 23

The average resident will see a bill increase of ~\$7.53

Account Type	Meter 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										\$1,826.25		
Restaurant	59,000	4-inch	\$738.16	\$812.88	\$74.72	\$915.01	\$1,013.37	\$98.36	\$1,653.16		\$173.09	10.5%
Sit Down			\$1,894.4	\$2,039.0	\$144.56	\$2,051.8				\$4,258.19		
Restaurant	262,000	4-inch	4	0		1	\$2,219.19	\$167.38	\$3,946.25		\$311.94	7.9%

Comparison Bill

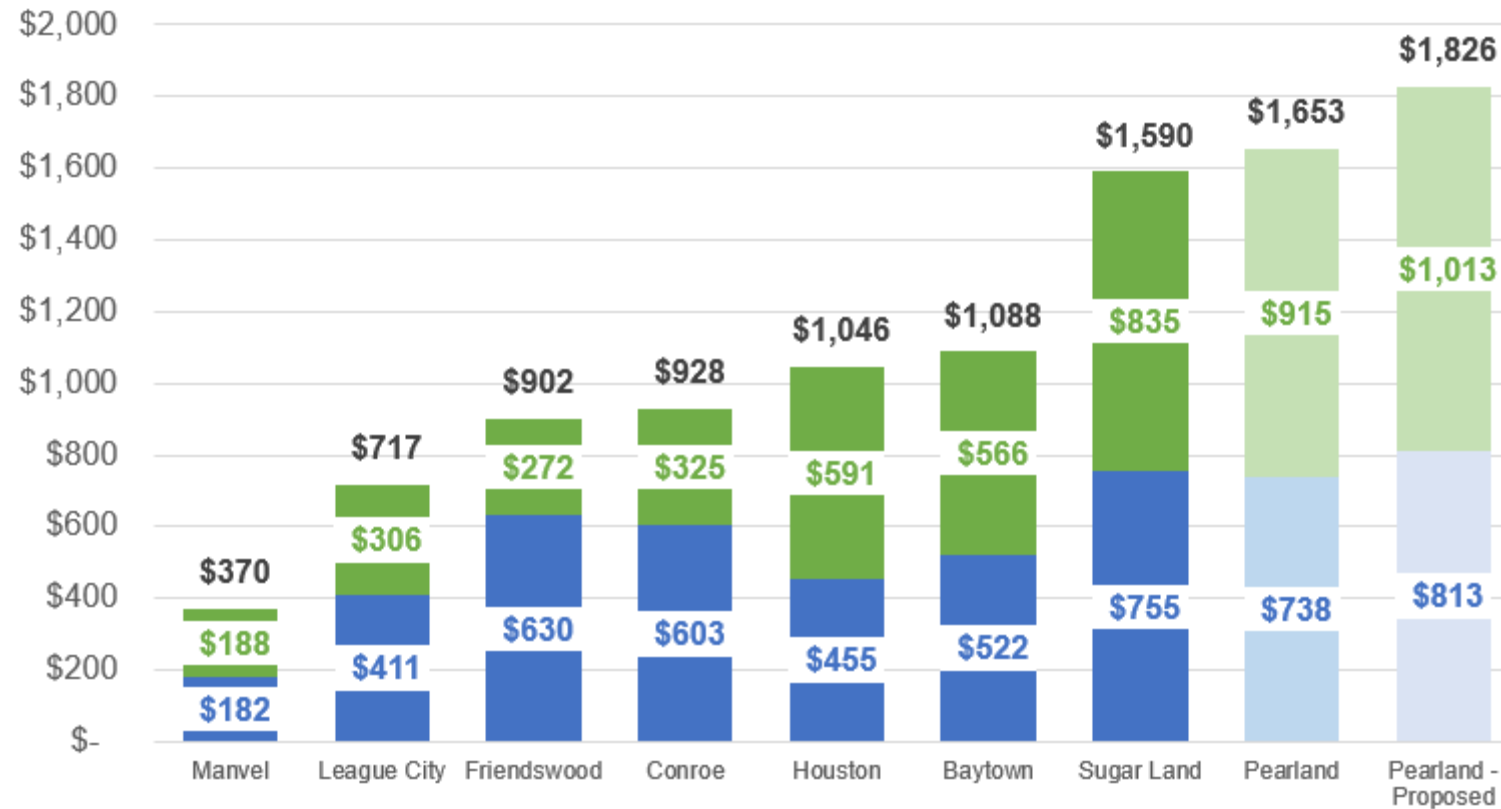
What does a typical residential Water & Sewer bill look like in nearby cities?



Comparison Bill

What does a typical Fast Food Restaurant bill look like in nearby cities?

Fast Food Restaurant - 59,000 Gallons Water/Sewer



What is driving rate increases?

Enterprise Operating Fund

- The FY23 proposed budget for the Enterprise Operating Fund is \$63.8M. FY23's Enterprise Operating Fund Budget is a \$170K decrease from the FY22 adopted budget of \$64.0M.
 - Primarily accomplished by reducing the transfer-out to the Enterprise Debt Fund. Switching to COs lowered reserve requirements, hence a smaller transfer.



Debt Fund

- Expenditures in this Fund are paid for via a transfer from the Enterprise Operating Fund (Transfer-In).
- FY23's Enterprise Fund Operations Budget is a \$3.7M increase from the FY22 adopted budget of \$26.3M.

Projects require debt to pay for construction. Pearland has issued the debt and now it's time to pay the mortgage.

- The capital projects being built are necessary and required to:
 - Expand the supply of water to meet current and future demands.
 - Expand and renew our wastewater treatment capacity to meet State capacity requirements for current and future flows.
 - Maintain the existing system to supply of water and treat wastewater for our Residents and Businesses.
 - Keep our water supply safe and high quality.
 - Ensure that State/Federal regulations are followed.
- These projects are some of the largest in City history
 - They set the City up for long-term success.
 - Decrease reliance on Houston for water by providing Pearland control of its own water production.
- Large investments are required to meet Council's strategic priority of sustainable, well-planned infrastructure that provides long-term community value in a growing City.



Actions Taken to Reduce Pressure on Utility Rates

Options Previously Enacted

- Staggered hiring of FTEs in FY22
- Careful and continual oversight of FY22 Budget
- Switching from Water/Sewer Revenue Bonds to Certificates of Obligation (lowers bond coverage ratio requirement)
- Moved to structured debt
- Council approved right-sizing of reserve requirements in the Enterprise Operating Fund and Enterprise Debt Fund
- Clearer communication to Council regarding FY23 CIP and its impact on rates
- Reworked FY23 CIP to lower rate pressure in FY24-FY27
- Updated revenue and expenditure projections 1st week of August to capture recent drought-driven usage trends.
- Staggered hiring of FTEs in FY23

Ongoing Actions

- Continuing discussion on utility rates
- Council suggested staff work with an outside firm on 7/25/22 to validate the model. Staff are finalizing the contract this week.
- Build community trust through transparency

What does Pearland need to do to meet its Bond Coverage Ratio?

The city is required to maintain a bond coverage at or above 1.15. This is calculated with the following formula:

$$\text{Bond Coverage Ratio} = \frac{(\text{Revenue} - \text{Operating Expenses})}{\text{Current Debt Obligations}}$$

FY23 Bond Coverage Ratio is set to be 1.15 – the minimum required.

$$1.15 = \frac{66,350,967 - 35,300,654}{27,071,642}$$



What does Pearland need to do to meet its Enterprise Operating Fund Reserve Requirement of 15%?

- The Enterprise Operating Fund must maintain a reserve of 15% of total expenses.
- Reserves are projected to decrease to 34% by the end of FY23. Any revenue increase lower than 13.1% will increase the amount of reserves used.
- In FY24 the ending fund balance is projected to be 16%.
- In FY25 reserves will decrease to the recommended fund balance of 15%.
- Once reserves hit 15% no additional withdrawals will be made and the Enterprise Fund revenue stream will need to be sufficient to pay for operations and debt service.



	FY 2021 ACTUAL	FY 2022 ORIGINAL BUDGET	FY 2022 YEAR END AMENDED	FY 2023 PROPOSED BUDGET
REVENUES				
SALE OF WATER	\$24,726,803	\$28,063,627	\$26,530,887	\$31,821,496
SEWER REVENUES	21,869,109	24,361,195	23,291,919	26,177,108
OTHER SERVICE CHARGES	1,361,062	1,515,000	1,090,000	1,078,700
INVESTMENT EARNINGS	10,572	25,000	4,000	12,000
OTHER MISCELLANEOUS INCOME	(60,867)	12,500	56,151	16,700
TRANSFERS IN	4,076,363	400,000	400,000	450,000
OTHER FINANCING SOURCES	1,006,508			
REVENUE	52,989,550	54,377,322	51,372,957	59,556,004
EXPENSES				
UTILITY CUSTOMER SERVICES	2,147,954	2,030,662	2,173,083	3,172,377
INFORMATION TECHNOLOGY ¹	1,781,866	2,065,029	2,104,038	
OTHER REQUIREMENTS	37,407,452	35,226,353	29,723,130	30,141,580
PUBLIC WORKS ADMINISTRATION	1,053,577	1,222,393	1,383,699	3,911,505
WATER/SEWER GROUNDS	695,394	746,591	760,605	798,130
LIFT STATIONS	1,245,329	1,304,959	1,427,740	1,343,509
WASTEWATER	4,173,498	4,994,532	5,292,545	5,879,747
ENVIRONMENTAL SERVICES ²	349,157	376,669	345,342	734,903
WATER PRODUCTION	7,545,625	10,086,678	8,658,964	9,774,318
DISTRIBUTION & COLLECTION	3,022,379	4,142,947	4,094,253	4,334,636
CONSTRUCTION	1,371,096			
WATER METER SERVICES	637,811	807,396	764,133	993,851
PRETREATMENT FOG	243,720	259,358	263,507	
SURFACE WATER TREATMENT		791,963	686,893	2,800,039
EXPENSES	61,674,857	64,055,530	57,677,932	63,884,595
REVENUES OVER/(UNDER) EXPENSES	(8,685,307)	(9,678,208)	(6,304,975)	(4,328,591)
Beginning Cash Equivalents	28,732,998	24,610,461	20,956,644	14,651,669
Add Unrestricted Fund Balance in EF Debt Fund				2,763,775
Ending Cash Equivalents	\$20,956,644	\$14,932,253	\$14,651,669	\$13,086,853

Enterprise Operating Fund Income Statement

Budget Book Location: Book 1 – Enterprise
Fund Tab – Page 1

Bond Coverage - 1.15 minimum required ³	1.38	1.17	1.11	1.15
Water/Sewer Unreserved Working Capital - 25% ⁴	15,418,714	16,013,883		
Water/Sewer Unreserved Working Capital - 15% ⁴			\$14,419,483	9,582,689
Operating Reserve Over Policy	\$5,537,930	(\$1,081,630)	\$232,186	\$3,504,164

1) Information and technology becomes and Internal Service Fund Starting 2022, IT Expenses are transfer out from Individual Department / Division

2) Beginning FY23, Backflow Compliance and Pretreatment FOG is combined into Environmental Services Division

3) Calculation for Bond Coverage Requirement as shown in Enterprise Debt Fund.

4) Water/Sewer Unreserved Working Capital was reduced to 15% in Enterprise Operating Fund in FY22

Enterprise Debt Fund

Income Statement

	FY 2021 ACTUAL	FY 2022 ORIGINAL BUDGET	FY 2022 YEAR END AMENDED	FY 2023 PROPOSED BUDGET
REVENUES				
INVESTMENT EARNINGS	5,535	5,500	13,000	120,000
OTHER FINANCING SOURCES				
TRANSFERS IN	42,219,564	30,671,491	25,783,038	29,934,670
TOTAL	42,225,099	30,676,991	25,796,038	30,054,670
EXPENSES				
PRINCIPAL PAYMENT	16,305,000	18,365,000	18,365,000	20,030,000
INTEREST EXPENSE	7,366,607	7,871,290	7,871,290	9,904,671
BOND ISSUANCE COSTS		150,000	15,000	
OTHER DEBT SERVICE	23,150	30,000	30,000	30,000
TOTAL	23,694,757	26,416,290	26,281,290	29,964,671
REVENUES OVER/(UNDER) EXPENSES	18,530,342	4,260,701	(485,252)	89,999
Beginning Cash Equivalents	0	8,894,987	18,530,342	18,045,090
Ending Cash Equivalents	\$18,530,342	\$13,155,688	\$18,045,090	\$18,135,089
Reserve for Debt Service*	13,087,664	15,776,567	15,776,567	15,776,567
Balance Over the Reserve	5,442,678	(2,620,879)	2,268,523	2,358,522
Bond Coverage Requirement Calculation*				
Operating Revenue & Impact ¹	52,757,883	60,742,890	57,676,525	66,350,967
Less Operating Expense ¹	25,549,939	30,699,859	29,027,508	35,300,654
Net Revenue Available for Debt Services	27,207,944	30,043,031	28,649,017	31,050,313
W/S Revenue Bond Debt Service	19,663,339	25,783,037	25,783,037	27,071,642
Bond Coverage - 1.15 minimum required ²	1.38	1.17	1.11	1.15



Budget Book Location: Book 1 – Enterprise
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Enterprise Funds Council Input and Discussion

- Information requests for session #2
- Updates to the proposed budget are made by consensus

