

City of Pearland FY23 Proposed Budget

Budget Adoption First Reading
Monday, September 12, 2022



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

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 investment in high-priority areas while taking care of those who serve.



Summary of 8.29.22 Discussion and Public Hearing

Consensus

- **Increase sick-leave buyback by 20 hours for FY23 for eligible employees. (\$211,779)**
 - The number of hours can and will be revisited each budget year based on resources and priorities.
- **Reduce the debt service rate by the full .005. (See Property Tax Slides.)**
 - Reduced the transfer from the General Fund to Streets and Sidewalks to offset to equalize TIRZ #2 revenue.
- **Maintain the transfers to internal service funds as planned.**
 - Additional questions on the functioning and strategy for the plan were posed and are answered in separate memo.
- **Fund supplemental items listed**
 - Including pay raises equating to 5.5% non-uniform and 6.5% for uniformed staff.

No Consensus

- Substantive changes that would move the 13.1% water rate increase required to maintain bond ratio coverage.

Acknowledgement

- Scaled back package of Fire Department cost recovery fees.
 - will include in the fee ordinance limited only for FY23 to three one-time fees.
- PEDC Board revision of FY23 Budget to include \$435,000 (1/3 of the new updated Master Drainage Plan).
 - Ongoing maintenance costs of PEDC funded capital projects was deferred until PEDC Board/Council October meeting.

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	\$22.0M	\$20.8M
Franchise Fees	\$6.4M	\$6.7M
Licenses & Permits	\$4.7M	\$4.7M
Fines & Forfeitures	\$2.2M	\$2.0M
Miscellaneous	\$584K	\$1.1M
Transfers In	\$9.6M	\$6.9M
Total	\$105.0M	\$109.3M



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 majority place of expenditures.
- General Government dropped due to improved categorization of transfers to other funds (such as IT, Facilities, Drainage, and Infrastructure Reinvestment Fund).
- General Fund expenditures total up +3.5% over amended FY 22 Budget.

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%	\$16,311,381	15%
Public Safety	\$46,847,908	57%	\$51,473,628	57%	\$59,731,313	56%	\$65,327,281	59%
Public Works	\$11,502,132	14%	\$11,369,557	13%	\$14,710,936	14%	\$15,298,084	14%
Community Services	\$3,798,941	5%	\$4,098,948	5%	\$4,625,896	4%	\$5,461,283	5%
Parks & Recreation	\$5,739,764	7%	\$6,274,103	7%	\$7,386,075	7%	\$8,313,849	8%
Expenditure Totals	\$81,929,112		\$90,570,329		\$106,984,484		\$110,711,878	
							Change	3.5%

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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Major Accomplishments built into the FY23 Budget

- Implements new Drainage Regular Maintenance Crew - \$662,000 (more than 2x times existing)
 - In addition, major capital addressed (PERs underway and May 2023 bond consideration and update to Master Drainage Plan being assembled)
- Adds four new firefighters to balance shifts and add one slot per the three shifts - \$436,520
- Invests in updating the Unified Development Code - \$300,000
- Funded two telecommunications operators and one police officer in Police - \$337,081
- Finances the purchase of police equipment for emergency event preparedness and response - \$200,000 and subject to expansion and/or additional grant offsets
- Delivers pay raises of effectively +5.5% (6.5% for Police and Fire Uniformed Employees) for a total cost of ~ \$3M in the General Fund and \$3.8M City-wide
- Increase sick leave buyback from 40 hours to 60 hours - \$211,779

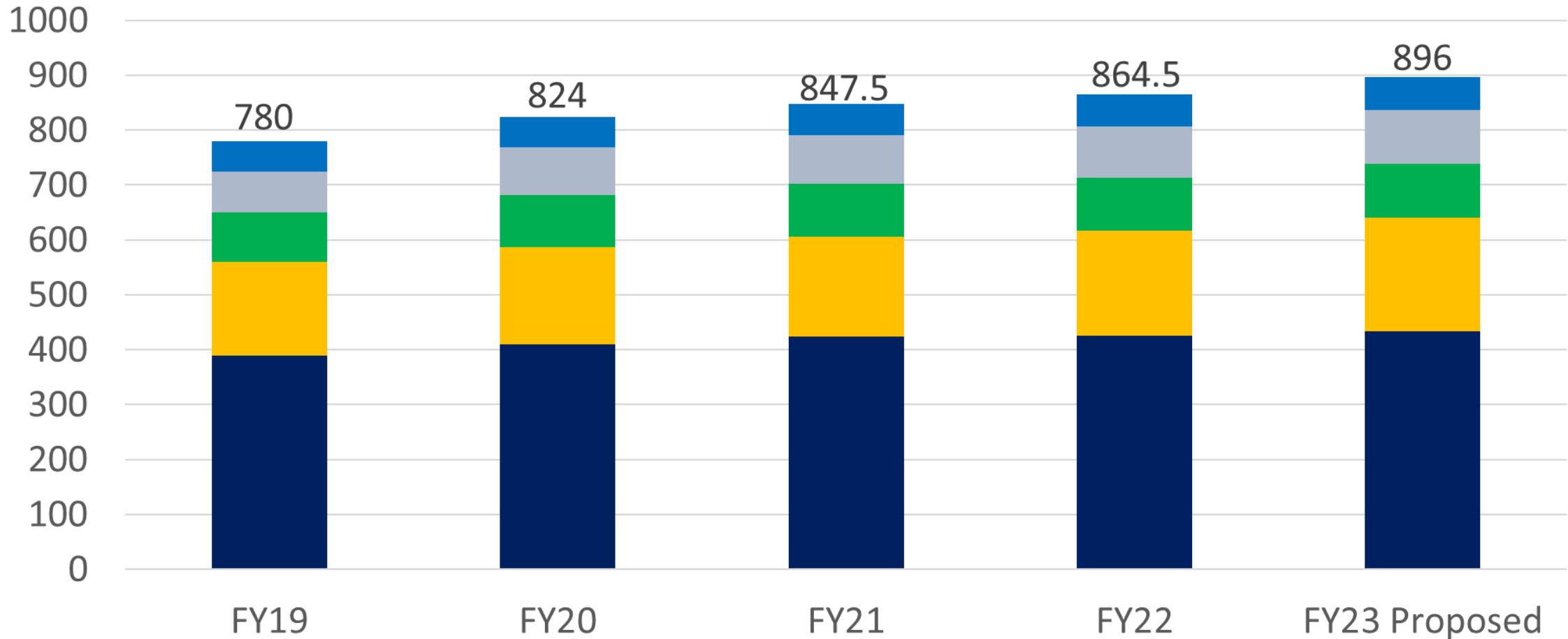
Total of these highlights on City Council stated priorities = \$5.1 million

Major Accomplishments built into the FY23 Budget

Items	One-time	Recurring
Drainage Regular Maintenance Crew	331,796 (vehicles & ipad)	\$330,204 this year \$662,000 Future years per resolution
4 Firefighters	No vehicle	\$436,520
Updating the Unified Development Code	\$300,000	
2 telecommunications operators	No vehicle	\$337,081
1 Police Officer	Vehicle? Equipment?	
Purchase of Police Equipment	\$200,000	
Pay Raise +5.5% (6.5% for Police and Fire Uniformed Employees)		\$3.8M
Increase Sick buyback	\$211,779	

City-wide Staffing Trend - FTEs

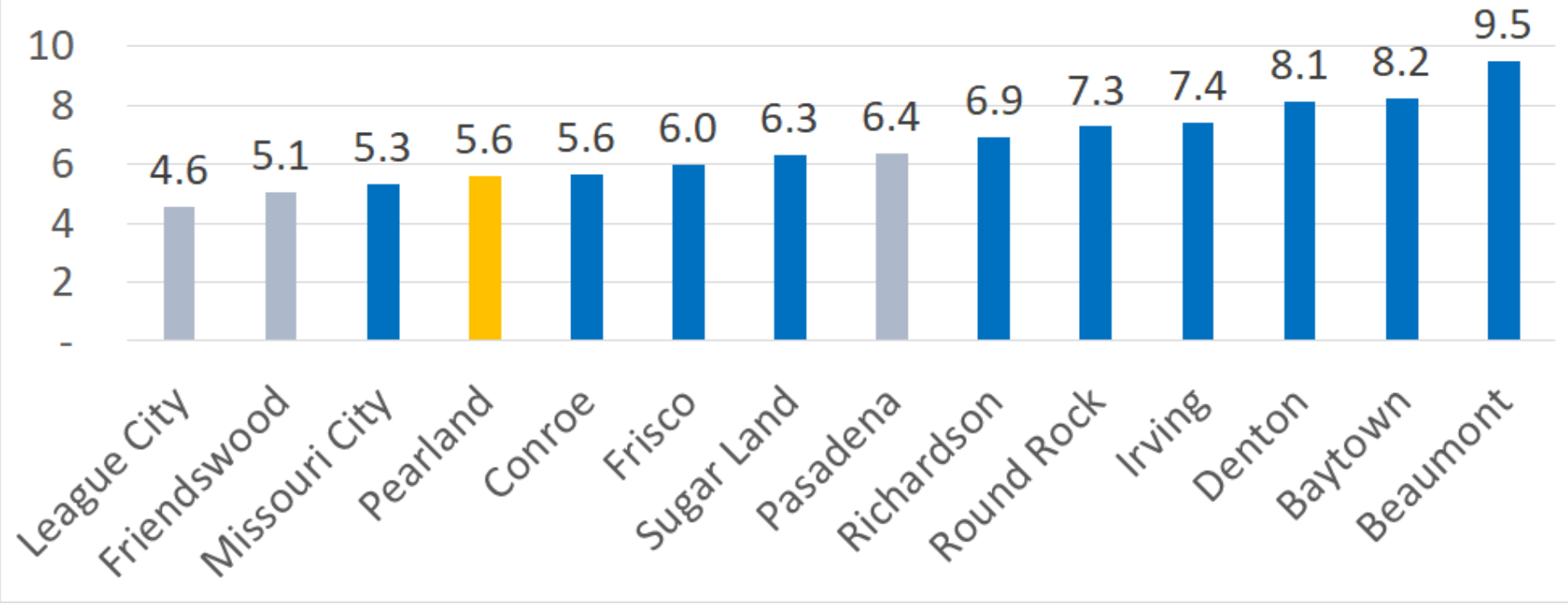
- Public Safety
- Public Works
- Parks and Rec
- General Government
- All Other Departments



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

- Friendswood, League City, and Pasadena have volunteer fire departments.
 - Cities with grey bars do not have a professional fire department.
- Not all cities have data at a detailed enough level to break their FTE counts into service areas or departments. Key areas are broken down in following slides.
- **Pearland would need to decrease by 128 FTE to be as lean as League City. League City does not have a Professional Fire Department.**
- **Pearland would need to add 493 GF employees to be at the same rate as Beaumont**

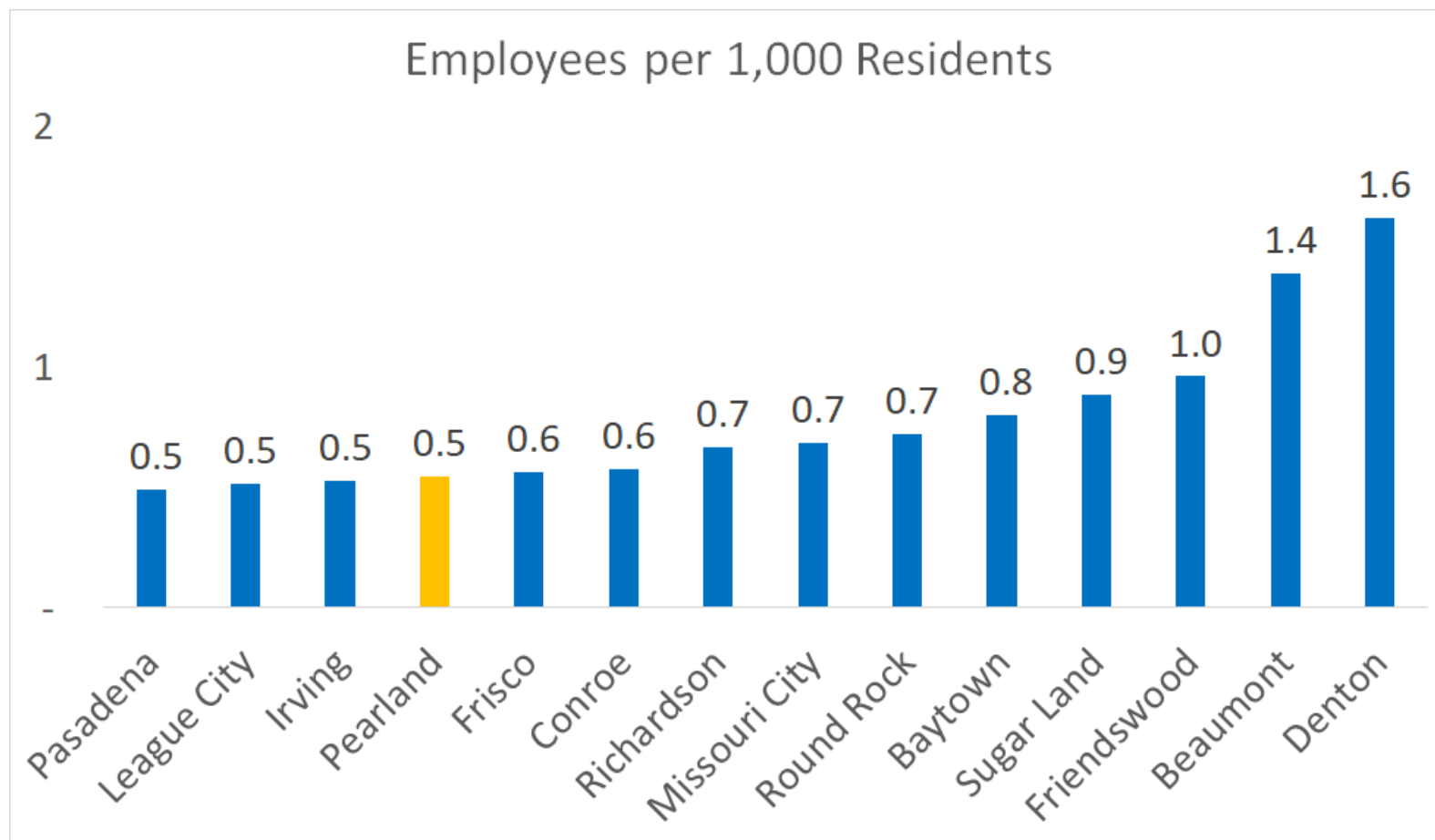
General Fund Employees Per 1,000 Residents



Data collected in FY22 – little relative movement between years.

City	League City	Friendswood	Missouri City	Pearland	Conroe	Frisco	Sugar Land	Pasadena	Richardson	Round Rock	Irving	Denton	Baytown	Beaumont
City Population	114,392	41,213	74,259	125,828	89,956	200,509	111,023	144,379	119,469	119,468	256,684	110,093	83,471	115,008
Total GF FTEs	522	209	395	702	508	1,197	703	918	826	869	1,904	893	686	1,093

General Government Comparison

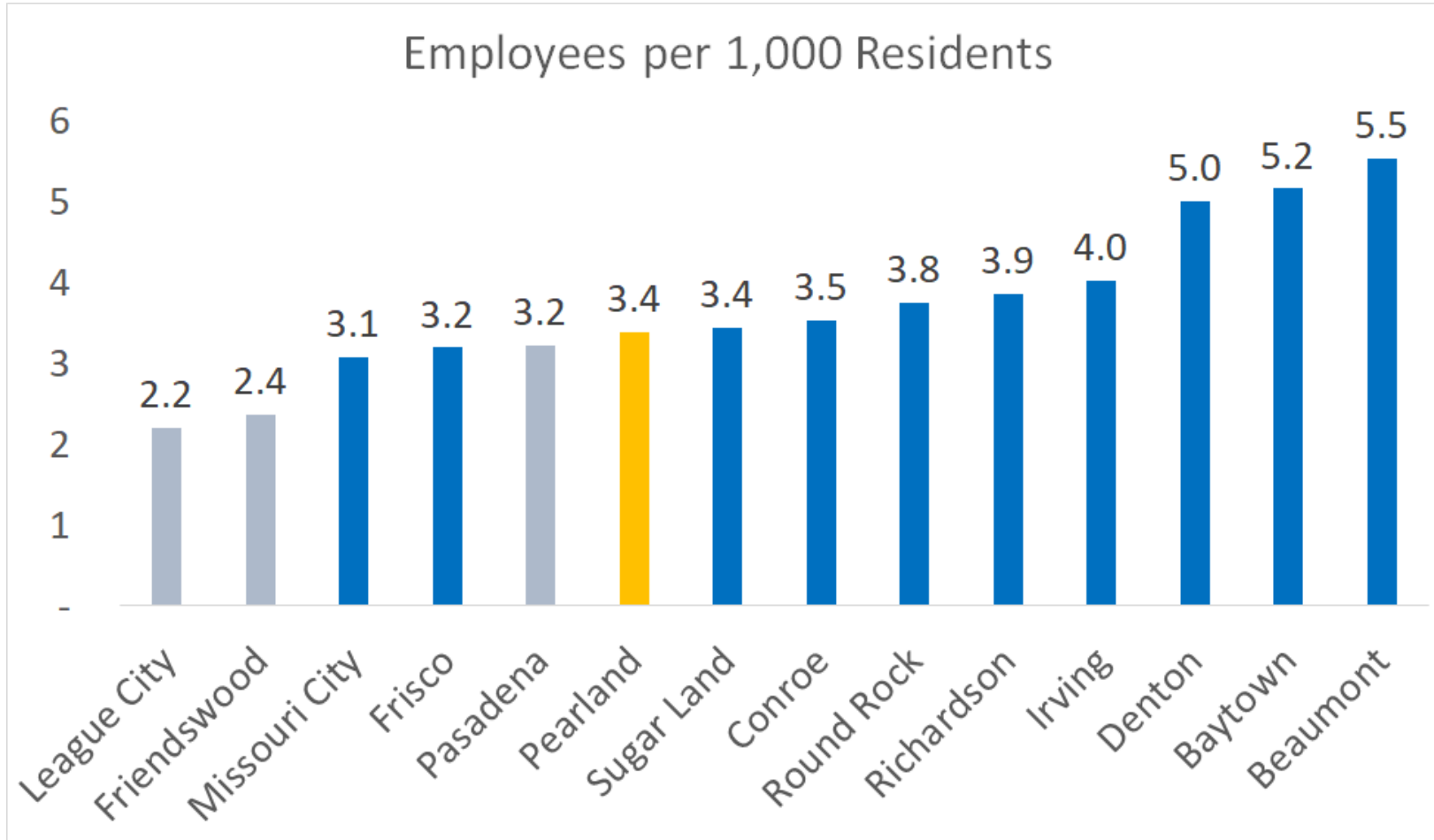


Departments Included in “General Government”.

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

Data is from FY22

Public Safety Comparison



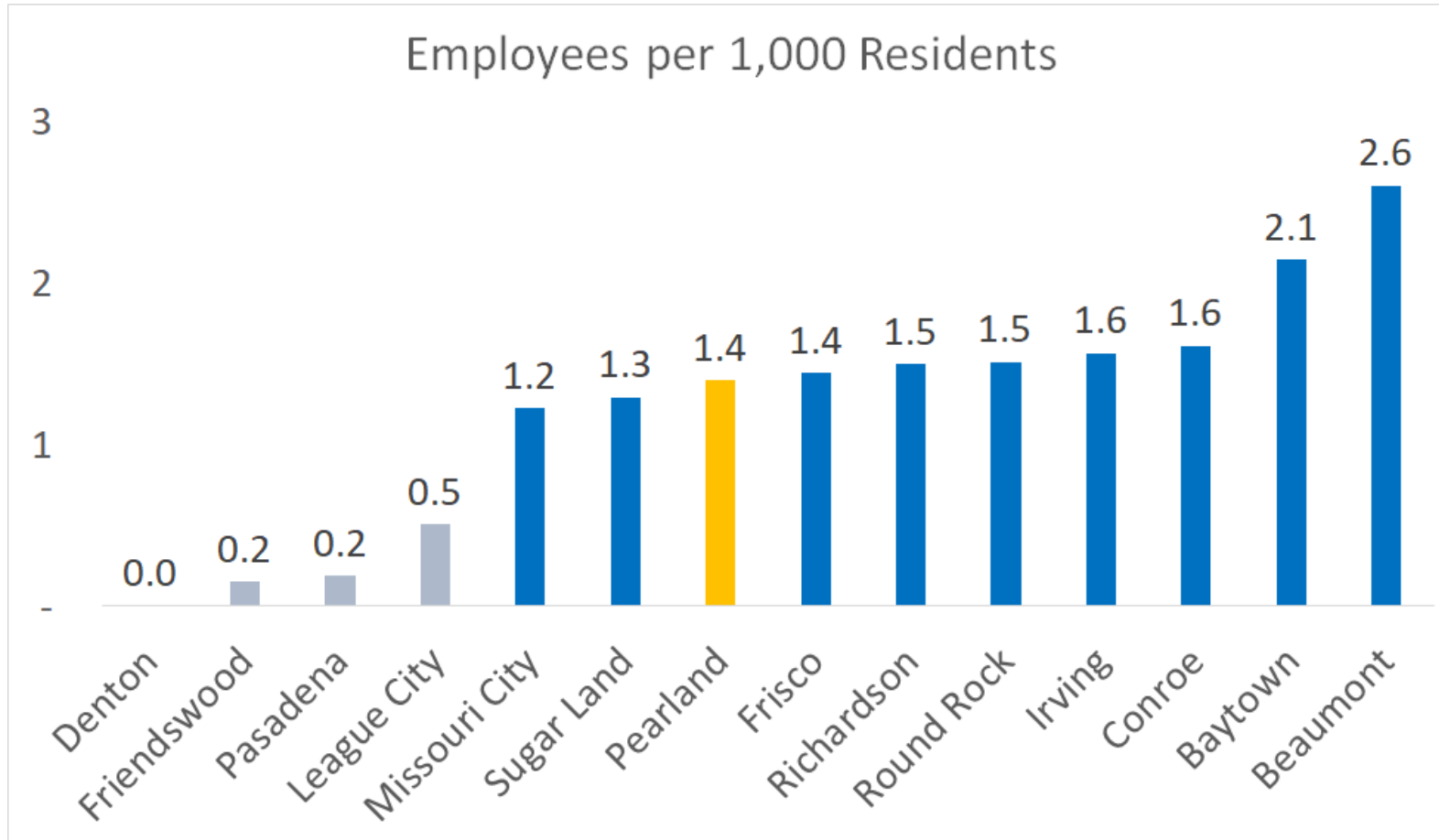
Pearland has approximately the same number of Public Safety FTE's as Sugar Land.

Departments included in "Public Safety".

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

Data is from FY22

Fire Department Comparison



Data is from FY22

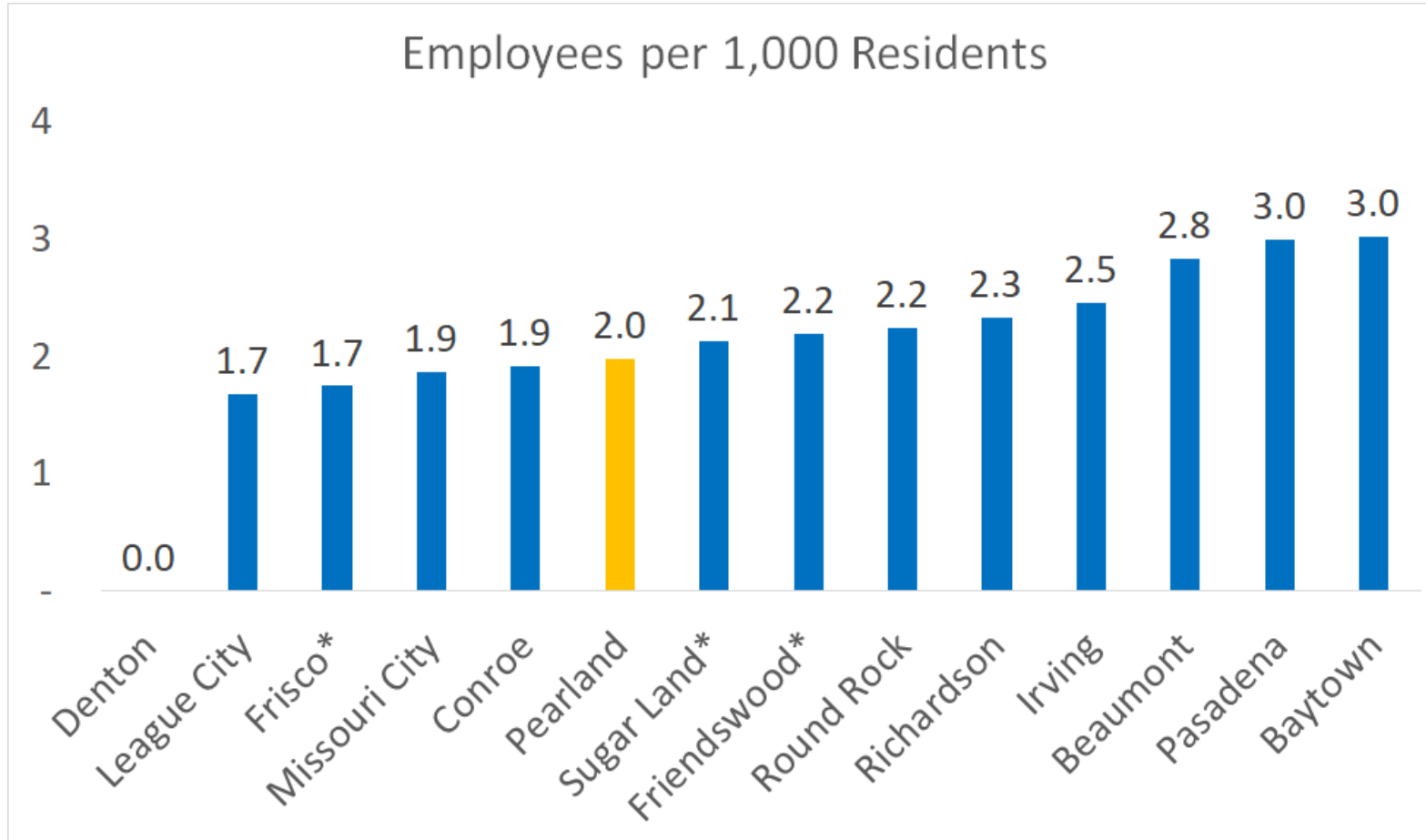
Pearland has approximately the same number of Fire FTE's per 1,000 residents as Frisco.

Friendswood, League City, and Pasadena have volunteer fire departments. Pasadena has 58 Fire Department FTE's. Large industrial complexes along the Houston Ship Channel have their own fire brigades.

Numbers includes all Fire Department personnel.

Denton did not provide a breakdown of Public Safety personnel between Police and Fire

Police Department Comparison



Pearland has approximately the same number of FTE's per 1,000 residents as Conroe and Sugar Land.

- Numbers includes all Police Department personnel, both sworn and professional.
- Some cities do not have jails, school resource officers, animal services, or dispatch staff.
- Denton did not provide a breakdown of Public Safety personnel between Police and Fire

* = Non-Civil Service Police Depts.

Changes to General Fund-Sick Buyback

The *total* budgeted cost of Sick Buyback at 60 hours for FY 23 is \$699,365 across all funds.

- There are 145 employees *eligible* to receive the new proposed maximum of 60 hours or 84 hours for Uniformed Fire Employees.
- Increased expenditures to adjust from 40 hours to 60 hours (84 hours Fire) across all funds.
 - The increase expenditures in the General Fund is \$196,416.
 - The increase expenditures in the Enterprise Fund for FY23 is \$11,150.

Changes to General Fund- Master Drainage Plan Update

- \$435,000 for the City's portion of the Master Drainage Plan has been funded out of General Fund fund balance in the FY23 proposed budget. This money will be combined with PEDCs approved \$435,000 and a proposed \$435,000 from Brazoria County Drainage District #4 to pay for the updated plan.
- Transfer out to Fund 500 (a capital fund) has been updated with a \$435,000 increase for project DR2303 Master Drainage Plan Update. This is one time cash funding and was taken from fund balance.
- The PEDC Fund has been updated to reflect their \$435,000 contribution to the Master Drainage Plan update.

Changes to General Fund-Debt Service Rate Reduction

On 8/29/22 Council requested staff to reduce the debt service tax rate by 0.005 and to reduce Street and Sidewalk spending to make up for the lost TIRZ Administrative Charge revenue.

- Debt Service Fund
 - The proposed debt service property tax rate has been reduced by 0.005 – for a total debt service rate of 0.338765
 - Debt Service Fund Revenue has been decreased by \$643,500.
- General Fund
 - TIRZ Administrative Charges for Services revenue account reduced by \$175,000.
 - The transfer out from the General Fund to the Infrastructure Reinvestment Fund has been reduced by \$175,000.

New: Changes to the Police Federal Seizure Fund

The Police department has decided to bring Polygraph services in-house beginning in FY23. An additional \$20,000 for the 10-week Basic Polygraph Examiner training course been added to the Federal Seizure Fund for FY23. This includes all travel expenses associated with the course.

Internal Service Funds



Investing and Planning in the Future with Internal Service Funds

Purpose of the Internal Service Funds

- 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 the volatility of year-to-year swings to address needs from the GF.
- Continues to steadily provide necessary equipment and resources for service delivery regardless of the General Fund's volatility from year to year

Resilient Finances

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



Property Tax Revenue

To General Fund and Debt Service



Proposed Property Tax Rate for FY23

$$0.28500 + 0.338765 = 0.623765$$

Maintenance & Operations
Rate

Debt Rate

Total Proposed Property Tax
Rate – A reduction of 7.3 cents
(11.1% City rate reduction) from
prior year adopted



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.

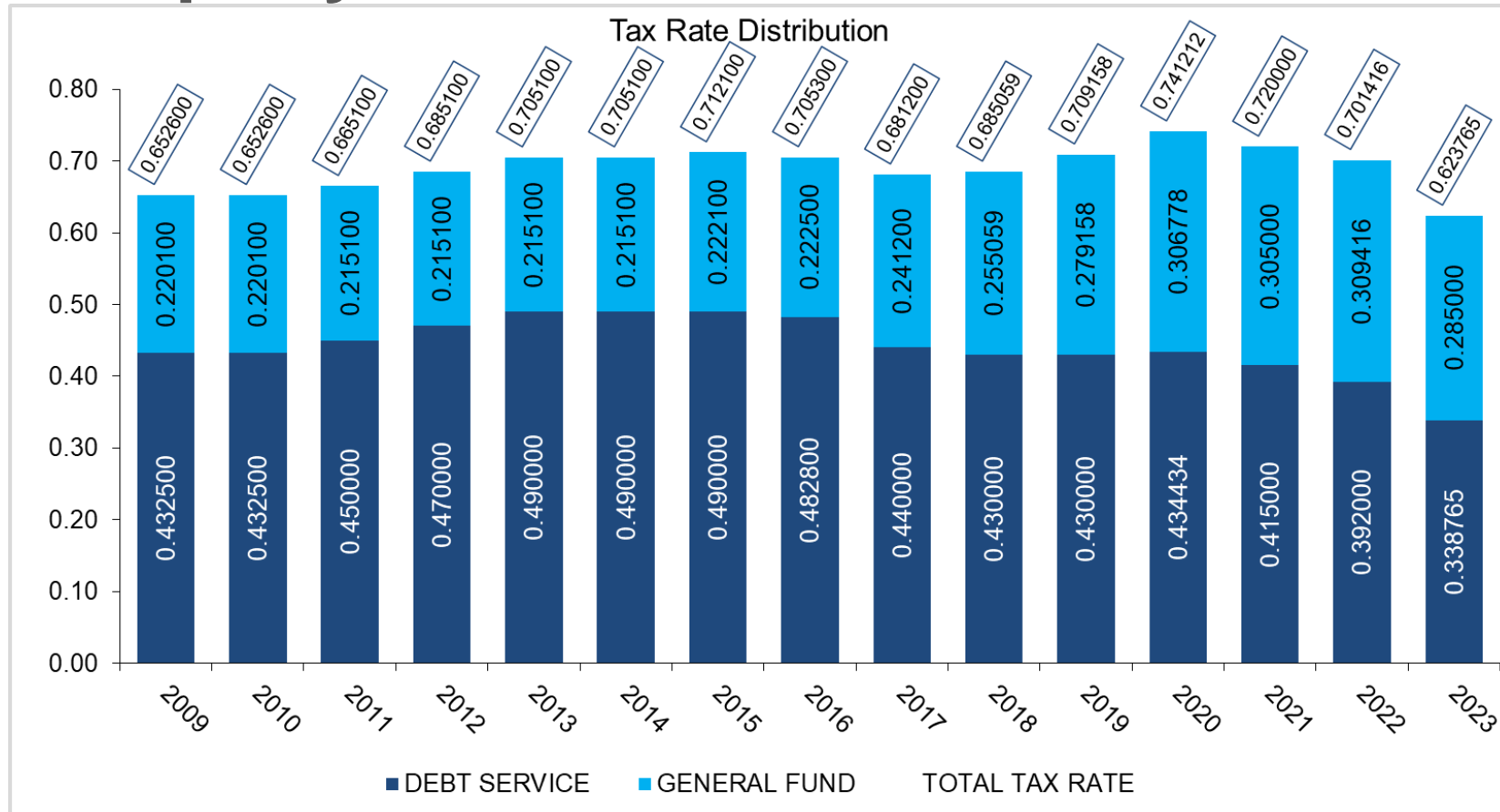
Debt Service Rate

- The proposed debt service rate is 0.338765.
- A half cent reduction from 0.343765 to 0.338765 in the debt service rate reduced property tax revenue by \$643,541 in the debt service fund.
- It also reduced TIRZ administrative charge revenue in the General Fund – decreasing revenue there to the GF by \$175,086.
 - \$175,086 was reduced on the expenditure side in the General Fund by decreasing the transfer to the Infrastructure Maintenance Fund (Streets and Sidewalks).

	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	\$ 43,951,802
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	47,957,223
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)	1,330,248
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	\$ 5,395,599
Reserve 10% Over Policy	\$ 7,456,647 \$ (1,569,416)	\$ 4,442,576 \$ 504,899	\$ 4,412,309 \$ (346,957)	\$ 4,662,698 \$ 732,902

Scenario	Total Tax Rate	O&M Rate	Debt Service Rate
Proposed Rate	0.628765	0.285000	0.343765
Debt Service Rate Reduced by 0.005	0.625765	0.285000	0.338765
Difference	- 0.005	0	-0.005

Proposed Property Tax Rate: 0.623765



- FY23 Proposed Tax Rate of **0.623765** is a **7.77** cent reduction from FY22 Adopted Tax rate of **0.701416**
- Since all Homestead Exempt Residents have their taxable value capped at a 10% increase, all non-Senior examples will have the City Tax Bill dollar amount decrease because the City tax rate reduced by $(0.623765 - 0.701416) / 0.701416 = -11.07\%$.
- Lowest City rate in at least 15 years.

Proposed Property Tax Rate: 0.623765

Property Tax & TIRZ Revenue Scenarios for FY23

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) Updated Proposed Tax Rate	(3) Original Proposed Tax Rate	(4) Voter Approval Rate (+ 3.5% additional revenue)	
General Fund (O&M)	0.309416	0.199279	0.285000	0.285000	0.289846	-0.024416
Debt Service (including in-City MUD rebate obligation)	0.392000	0.343765	0.338765	0.343765	0.343765	-0.053235
Total	0.701416	0.543044	0.623765	0.628765	0.633611	-0.077651
G.F. Property Tax Revenue + TIRZ Admin Fee (in millions)	\$30.1 + \$12.7 = \$42.8	\$25.6 + \$10.2 = \$35.8	\$36.7 + \$13.0 = \$49.7	\$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 O&M rate *decreased* from .3094¢ in FY22 to .2850¢ in FY23.
- Debt Service Tax Rate *decreased* from .3920 cents in FY22 to .3388 cents in FY23, including the .05 reduction made by council on 8/29/22.
- State calculation for NNR brings in *less* revenue to the General Fund than FY22, partially because State calculation includes debt service (including voter-approved). Meaning that generally when you sell debt, less money will be available for operations with NNR.
- Additional General Fund revenue of \$6.6 million with the lower rate provides additional drainage maintenance (2x existing), four additional firefighter slots, three positions in Police, and + 5.5% (+6.5 for uniformed police and fire) pay increases for retention and attraction of talent.

Proposed Property Tax Rate: 0.623765

Current Scenario for FY23

Revenue Category	FY22 Adopted Budget	FY23 Proposed Budget	Change from prior year	Notes
General Fund O&M Property Tax revenue. Current Taxes Account Only (no late fees, penalties, etc.)	\$30,709,155	\$36,681,811	\$5,972,656	Part of funding for supplements including additional firefighters, city-wide salary increases, additional drainage maintenance crew, Police staffing and equipment, etc.
Debt Service Fund Property Tax revenue. Current Taxes Account Only (no late fees, penalties, etc.)	\$38,905,515	\$43,601,802	\$4,696,287	Debt rates driven by Council approved and adopted CIP including the most-recent voter approved bond issue. FY22 Debt Fund Budget was adopted with a purposeful net loss of \$1,253,478 to lower fund balance towards adopted reserve policy – which lowered the amount of property tax revenue needed to be collected in FY22.
Property Tax – Current Tax Account Total Revenue GF and Debt Service Fund	\$69,614,670	\$80,283,613	\$10,668,943	
TIRZ Admin Charge Revenue in GF	\$13,097,255	\$12,996,354	(\$100,901)	
Total Current Taxes with TIRZ	\$82,711,925	\$93,279,967	\$10,568,042	

Homestead Property Tax Examples

Looking at estimated individual tax bills, for base reference, a zero-growth property with a Taxable value after City Exemption of \$292,500 would see a \$229 annual (\$19.08 per month) decrease in the City of Pearland portion of their tax bill.

		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 Pearland Taxable Value		\$ 292,500		\$ 251,745		\$ 184,353		\$ 171,900		\$ 257,478		\$ 167,691	
% Increase (Decrease)		0.0%		10.0%		10.2%		10.3%		10.0%		10.3%	
TY22 Pearland Taxable Value		\$ 292,500		\$ 276,920		\$ 203,081		\$ 189,590		\$ 283,226		\$ 184,960	
Adopted TY 2021 City Rate	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
0.7014	0.6238	\$ 1,840	(229)	\$ 1,727	\$ (38)	\$ 1,267	\$ (26)	\$ 1,183	\$ (23)	\$ 1,767	\$ (39)	\$ 1,154	\$ (22)
Total Tax Bill		\$ 6,581		\$ 6,852		\$ 4,261		\$ 3,945		\$ 8,391		\$ 3,838	
City of Pearland % of Total		28%		25%		30%		30%		21%		30%	
Total Tax as % of Taxable Value before City Exemption		2.2%		2.4%		2.0%		2.0%		2.9%		2.0%	

Homestead Property Tax Examples

More realistically, looking at Homestead Example 8, a home with a value of \$509,300 that sees a 10% increase in Taxable Value would see a **\$69 annual (\$5.75 per month) decrease** in the City of Pearland portion of their tax bill.

As shown in the Senior Example HS 11, if you qualify your home for an age 65 or older or disabled person homestead exemption for taxes, the taxes on that home cannot increase while you own and live in that home. The City's tax \$ amount for this resident has not seen any increase since 2010.

		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 Pearland Taxable Value		\$ 209,986		\$ 315,437		\$ 451,425		\$ 304,083		\$ 305,643		\$ 170,045	
% Increase (Decrease)		10.0%		10.0%		10.0%		10.0%		10.0%		3.1%	
TY22 Pearland Taxable Value		\$ 230,984		\$ 346,980		\$ 496,568		\$ 334,491		\$ 336,207		\$ 175,330	
Adopted TY 2021 City Rate	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
0.7014	0.6238	\$ 1,441	\$ (32)	\$ 2,164	\$ (48)	\$ 3,097	\$ (69)	\$ 2,086	\$ (46)	\$ 2,097	\$ (47)	\$ 206	\$ -
Total Tax Bill		\$ 4,918		\$ 11,490		\$ 14,523		\$ 8,116		\$ 7,399		\$ 896	
City of Pearland %		29%		19%		21%		26%		28%		23%	
Total Tax as % of Taxable Value before City Exemption		2.1%		3.2%		2.9%		2.4%		2.1%		0.5%	

General Fund Income Statement

	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	109,315,462
Expenditure	90,570,329	106,984,484	110,711,878
Net	\$ 3,513,592	\$ (1,983,356)	\$ (1,396,416)
Ending Balance	\$ 32,589,889	\$ 30,541,045	\$ 29,144,629
Policy Minimum Balance (90 Days)	\$ 22,332,410	\$ 26,379,736	\$ 27,296,353
Amount Over/(Under) 90 Day Target	\$ 10,191,991	\$ 4,161,309	\$ 1,858,277
Days of Reserves	131	104	96

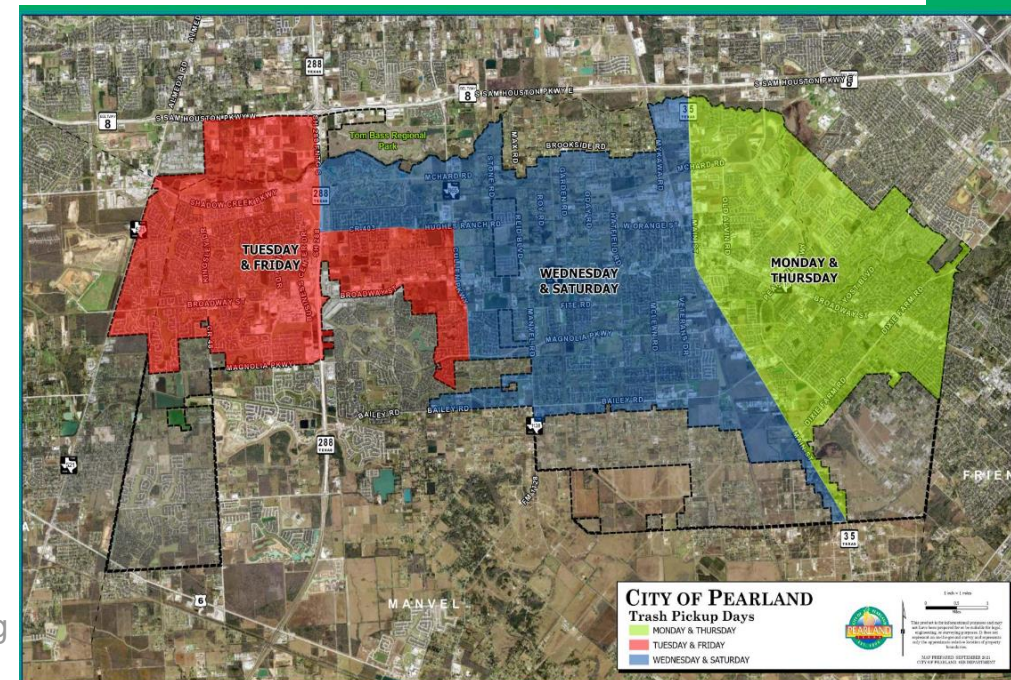
Solid Waste Fund



Solid Waste Fund

- For FY23 Frontier's proposed rate starting October 1, 2022 will be a 5.4% increase as illustrated below.
- The solid waste contract with Frontier Waste allows for service rates to adjust annually to the reported CPI: **Urban Consumer - Garbage and trash collection Index**
 - The Houston MSA beginning October 2022 CPI increase for FY23 is **5.4%** (lower than overall inflation)
 - Frontier initially requested a rate that was higher than the CPI Garbage and Trash Collection Rate; per our contract we can only increase based off the CPI rate, which was 5.4% at the time of their request.
- The solid waste fund was budgeted correctly based on the 5.4% increase.
 - The fee schedule will be updated to reflect the increase.
 - Commercial Fees are billed directly between customers and Frontier.

Fee	FY22	FY23 Proposed
Residential Garbage	\$18.26 / Month	\$19.25 / Month



Enterprise Fund



Enterprise Funds

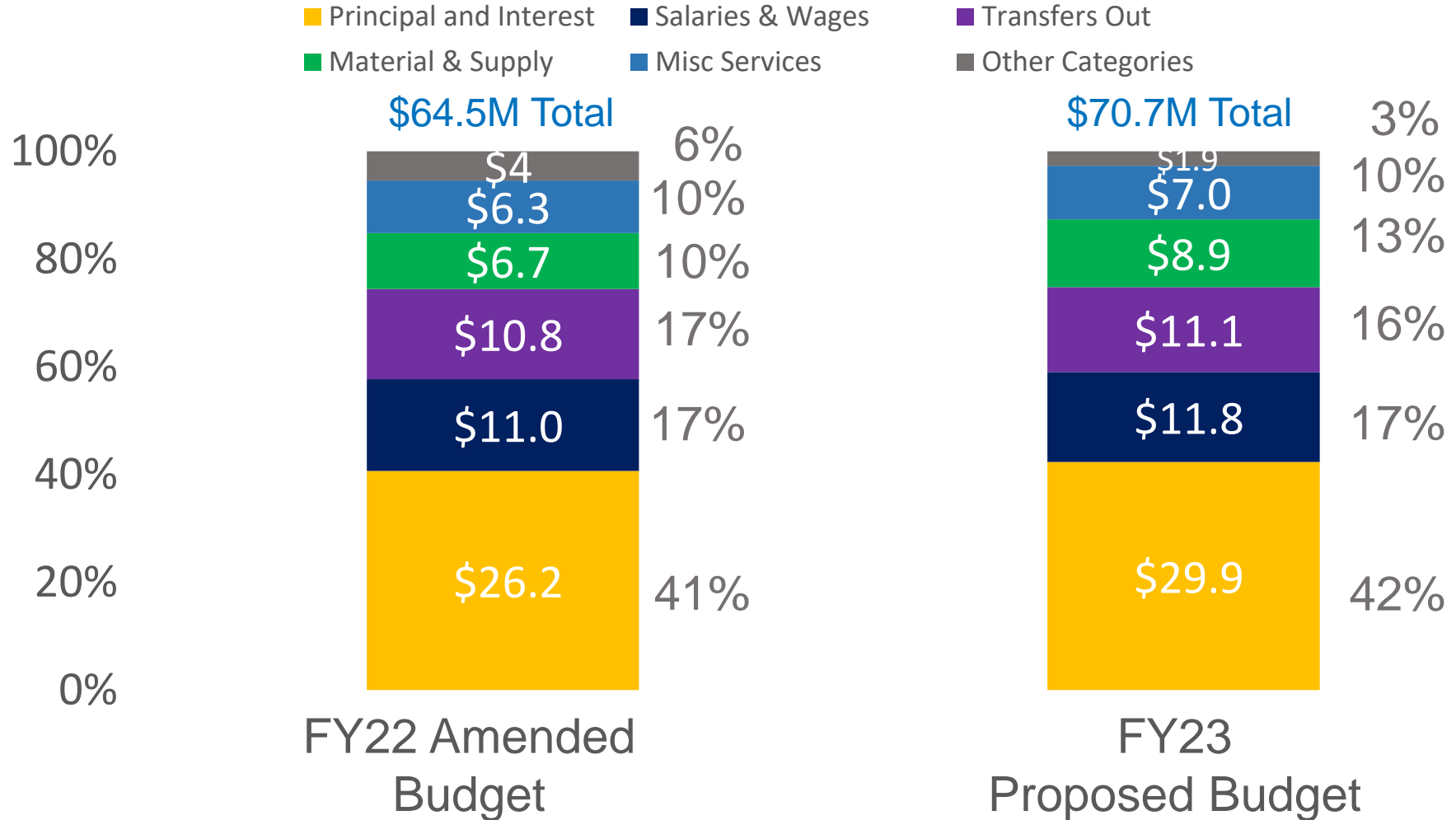
Water and Sewer Operations



Water and Sewer System Expenditures

(Both W/S Operating and Debt Funds Combined)

- For comparison, in FY18 Enterprise Principal and Interest expenditures totaled \$17.3M
- FY 23 change over FY 22 is driven by principal and interest (\$3.7 million) and materials and supply (\$2.2 million)



What is driving Enterprise Debt Fund Expenditures growth in the system? - \$535.1M in Projects to Grow, Upgrade, and Modernize the Systems



Surface Water Treatment Plant Operational in FY23 \$175.5M - Construction in Process at 75%



JHEC Water Reclamation Facility Expansion \$80.6M - Construction in Process at 65%



Bailey Water Plant Improvements \$14.4M - Construction in Process at 20%



Barry Rose Water Reclamation Facility Replacement & Expansion \$228.4M- Met 75% capacity and required to be in design

All major capital projects are already underway or committed and/or are required for meeting capacity and quality compliance requirements.



Longwood Water Reclamation Facility Decommissioning \$36.2M- Met 90% capacity, required to construct expansion, exemption provided as service area is built-out

Water / Sewer Rate Model (Purpose and Assumptions)

1. The Water / Sewer Rate Model is built meeting the minimum rate increase that still meets:
 - i. 1.15 Bond Coverage Requirement as stated in Bond Ordinances (Ordinance No. [1600](#))
 - ii. 15% Operating Reserve as stated in the latest [Financial Policy](#)
2. The proposed Rate Model assume:
 - i. 5.5% Salary Increase
 - ii. Certification Pay
 - iii. 60-hour Sick Leave buyback
 - iv. \$687K for SWTP – 9 FTEs with staggered hiring dates
 - v. \$398K for Water Quality Compliance Team – 4FTEs
 - vi. \$245K for Vehicle Replacement
 - vii. \$2.4M increase in Water Sales and Sewer Charges Revenue for FY22 compares to the latest Budget Amendment to account for the summer drought
 - viii. \$1M increase in Water Production cost for FY22 compares to the latest Budget Amendment to account for the summer drought

Water / Sewer Rate Model – Implications of failing to meet obligations

The Water / Sewer Rate Model is built with the intention to proposed the minimum rate increase that still meets:

- 1.15 Bond Coverage Requirement as stated in Bond Ordinances (Ordinance No. [1600](#))
 - **Section 5.7** of the Ordinance: The City is required to increase the rates and charges of the System, should there be a deficiency in required funds. If System revenues are lower than expected and, as a result, the net revenues available for debt service drop below the 1.15x coverage requirement, the City shall increase the rates and charges of the System to meet (or exceed) the coverage requirement.
 - **Section 7.10:** If the City does not maintain the 1.15x coverage requirement and net revenues available for debt service decrease to a point that it is unable to make the required principal and interest payments, Bond Owners may bring legal action to require the City to increase rates and charges of the System to satisfy the requirements of the Ordinance.
 - Also, there are other consequences for failure to adhere to requirements detailed in the Ordinance. The rating companies will downgrade the rating on WSS Bonds and depending on the severity of the deficiency, they could withdraw their rating entirely. As a result of a rating downgrade or withdraw, the City could also be subject to “headline” risk or negative press coverage, which could potentially scare bond investors away from buying the City’s other debt obligation (i.e. Certificates of Obligation, Permanent Improvement Bonds, etc.).

Water / Sewer Rate Model – Implications of failing to meet obligations (Cont.)

The Water / Sewer Rate Model is built with the intention to proposed the minimum rate increase that still meets:

- 15% Operating Reserve as stated in the latest [Financial Policy](#)
 - Failure to comply with Financial Policy puts us at risk in the event of emergencies or unforeseen revenue reductions. In addition, it could negatively impact credit ratings, thereby increasing costs to ratepayers for years to come. Lastly, it may result in audit findings.
 - Furthermore, the rating companies will downgrade the rating on WSS Bonds and depending on the severity of the deficiency, they could withdraw their rating entirely. As a result of a rating downgrade or withdraw, the City could also be subject to “headline” risk or negative press coverage, which could potentially scare bond investors away from buying the City’s other debt obligation (i.e. Certificates of Obligation, Permanent Improvement Bonds, etc.).

Water / Sewer Rate Model

The **highlighted yellow** reflects the calculation from the +13.1% revenue increase which is the minimum to meet the 1.15 required bond coverage.

As **highlighted in green** from FY24 to FY27, Unreserved Working Capital of 15% is the driver for the future years as the Enterprise Operating ran out of cash due to operating at a net loss for 4 consecutive years from FY21 to FY24.

The water and sewer enterprise has many fixed elements such as debt service and staffing, but revenue is an estimate of usage (weather, consumption).

The rate model is built upon assumptions clearly laid out herein and the best available information. Open to questions and challenges to those assumptions.

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Adopted / Proposed Water and Sewer Rate Change	0.0%	5.0%	13.1%	16.0%	19.0%	15.0%	8.0%
Total Revenue	52,989,550	53,751,299	59,556,004	69,539,163	84,500,901	96,818,377	105,467,401
Operating Expenses - Fund 600	25,549,939	30,027,508	35,311,804	40,829,047	42,272,213	45,116,465	46,584,001
Non-operating Expenses - Fund 600	17,030,818	8,717,704	5,444,234	7,581,398	8,321,255	9,401,201	9,887,651
Debt Service Expenses Net of Impact fee - Fund 601	19,094,100	19,932,720	23,139,707	28,154,422	33,760,322	41,388,962	48,546,698
Total Expenses	61,674,857	58,677,932	63,895,745	76,564,868	84,353,790	95,906,628	105,018,350
Net Annual Revenue Over Expenditures	(8,685,307)	(4,926,633)	(4,339,741)	(7,025,704)	147,111	911,749	449,051
Beginning Cash Equivalents Net of Restricted for Debt Service	28,732,998	20,956,644	16,030,012	14,454,046	7,832,094	8,368,366	9,695,453
Add Unrestricted Cash in Debt Service Fund - 60110	-	-	2,763,775	403,753	389,161	415,338	452,488
Ending Cash Equivalents Net of Restricted for Debt Service (see calculation on Multi-year Forecast) ¹	20,956,644	16,030,012	14,454,046	7,832,094	8,368,366	9,695,453	10,596,992
Additional Debt Issuance as of June 2022	85,370,000	49,203,515	63,946,500	95,296,176	149,018,750	117,612,500	62,836,000
Surface Water Treatment Plant (Phase 1 & 2)		20,980,000	5,245,000			7,022,000	50,920,000
Sewer System Expansion	75,000,000	12,541,265	34,852,000	40,920,750	107,811,750	63,742,500	-
Other Projects	10,370,000	15,682,250	23,849,500	54,375,426	41,207,000	46,848,000	11,916,000
Debt Service Coverage							
W/S Revenue + Impact Fee	52,757,883	60,054,867	66,350,967	76,624,097	91,585,845	103,910,574	112,536,185
Less Operating Expenses	25,549,939	30,027,508	35,311,804	40,829,047	42,272,213	45,116,465	46,584,001
Net Revenue Available for Debt Services	27,207,944	30,027,359	31,039,163	35,795,050	49,313,632	58,794,109	65,952,184
Current Year W/S Annual Debt Service	19,663,339	25,783,037	27,071,642	25,870,156	25,772,433	25,870,526	25,697,370
Bond Ordinance							
Bond Coverage - 1.15 required to issue COs*	1.38	1.16	1.15	1.38	1.91	2.27	2.57
Restricted for Debt Service	13,087,664	15,766,567	15,766,567	15,362,814	14,973,653	14,558,316	14,105,827
Financial Policy							
Water/Sewer Unreserved Working Capital 15% - Ending Cash / (Operating Expense + CO's Debt Serv.)	75%	49%	34%	16%	15%	16%	17%
Combine Reserved Fund 600 + 601 = Ending Cash/ (Operating Expenses + Debt Service Payment)	121%	98%	50%	33%	30%	27%	25%

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

* FY23 Coverage Ratio = (FY23 Revenue - FY23 Operating Expense)/ (FY23 W/S Revenue Bond Debt Service)

Income Statement

FY 23 and Prior History

	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	1,575,000	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	54,437,322	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)	(9,618,208)	(6,304,975)	(4,328,591)
Beginning Cash Equivalents*	28,732,998	24,610,461	20,956,644	16,030,012
Add Unrestricted Fund Balance in EF Debt Fund				2,763,775
Ending Cash Equivalents	\$20,956,644	\$14,992,253	\$14,651,669	\$14,465,196
Bond Coverage - 1.15 minimum required ³	1.38	1.17	1.11	1.15
Water/Sewer Unreserved Working Capital - 25% ⁴	7,524,980	8,995,051		
Water/Sewer Unreserved Working Capital - 15% ⁴			\$5,266,208	6,404,552
Operating Reserve Over Policy	\$13,431,664	\$5,997,203	\$9,385,461	\$8,060,644

* Beginning Cash Balance for FY23 reflects an increase in Water and Sewer Revenue and Water Purchase Expenses due to the unforeseen drought condition following the Adopted of FY22 Amended Budget

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 Enviromental 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

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.

$$1.15 = \frac{66,350,967 - 35,311,804}{27,071,642}$$

Description	Amount
Expenses in Enterprise Operating Fund 600	<u>63,895,745</u>
Minus	
A portion of Transfer Out for: Debt Service, Non-Operating Transfer for MUD Rebates, and General Fund Reimbursement	28,466,941
New Vehicle for SWTP: a portion of 600-305-395.5900	<u>117,000</u>
Total Operating Expenses	35,311,804
Debt Service for W/S Revenue Bond Only	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.



Surface Water Treatment Plant Operations

- As prescribed by 30 TAC §290.46 (e)(6)(B), TCEQ requires water systems such as ours with more than 1,000 connections to staff Class B and Class C operators. The City's Operator II's will be required to hold a Class B and serve as shift supervisors for Operator I's who will be required to hold a Class C. The obvious need for redundancy in both positions is to assure adequate coverage for compliance
 - **Included in FY 23 is hiring two Operator II positions and three Operator I positions to provide the correct license and redundancy to operate the SWTP.**
- The hiring of staff is staggered and coordinated with start-up of the plant
- Not having operators for the startup and operations of the new SWTP will result in non-compliance and potential violations from TCEQ. The SWTP will need to be staffed for start-up and operations

Surface Water Treatment Plant Milestones

September 2022

- CMAR installs temporary piping and valving for startup loops. Plant is broken into several loops to test the individual areas
- Begin filling Ground Storage Tank (GST) with Well water for clean water testing
 - Chlorinate GST water
- Complete electrical to plant water and fire pumps for use in moving clean water around plant loop
- Complete the installation (GCWA) of canal gates and open forebay
- Training on Generators & Sludge Collection treatment and disposal
- **Begin the advertisement for Plant Mechanic, Plant Electrician**

October 2022

- Loop 1 – Pre-Treatment
 - Complete testing of all temporary piping and connections to treatment units
 - Move clean water to Raw Water Lift Station and adjust control valves to match flow to Pre-Treatment
 - Begin testing of vertical screens and SCADA reporting equipment
 - Startup raw water pumps and begin pumping to Pre-Treatment, recirculating water back to Raw Water Lift Station
 - Run Pre-Treatment until flow balanced and chem requirements are adjusted
 - **Advertise for Lab Tech, Plant Mechanic, 2-Op 1 and 1-Op 2s**
 - **Begin Training Flow meters & Membrane systems**

Surface Water Treatment Plant Milestones

October 2022

- Loop 2 – Solids Removal
 - Begin Sludge removal/ solids handling processes
 - Need polymers here at thickener and Belt presses
 - Bring Belt presses on-line
 - Haul roll-offs contract needs to be in place by this point
 - With Pre-Treatment now running provide chemicals for Solids handling
 - Complete Testing of Pre-Treatment, meet a reading of 2 Nephelometric Turbidity Unit (Ntu) or less - **TCEQ Requirement**
 - Testing provided by lab until Lab Tech is hired

November 2022

- Loop 3 – Membrane System (clean water)
 - Complete check out of all piping and valves for clean water pumping to Membrane
 - Clean Water circulation through strainers, membranes and Granular Activated Carbon (GAC) vessels & back to the GST
 - Require flow check of each Rack individually up to one week, calibrating chemical feed pumps with water
 - Calibrating control valves and pump flow rates
 - Will need Clean-in-Place and membrane cleaning Chemicals at this point
 - Calibrating SCADA
 - **Operator Training at this stage include:**
 - **Chlorine Dioxide generation, Elect Switch Gear, High Service pumps, Chlorine gas system/ scrubber**

Surface Water Treatment Plant Milestones

January 2023

- Loop 4 – Pre-treatment testing (raw water)
 - Open Raw Water Lift Station (RWLS) to Canal and begin pumping dirty water through RWLS into Pre-Treat and back to canal
 - Begin monitoring flow for chemical injections for meeting 2 Nephelometric Turbidity Unit (Ntu) or less - **TCEQ Requirements**
 - Chlorine, and Chlorine Dioxide as well as coagulant use will be erratic and high
 - **Lab Tech on site and performing these tests and reporting to TCEQ**
 - Adjust to meet 2 Ntu
 - Begin Membrane demonstration testing still clean water this will require several weeks prior to opening to dirty water
 - **Operator Training on Chlorine System and Scrubber**

February 2023

- Loop 5 - Membrane Testing (raw water)
 - Once Vendor is satisfied with membrane performance on Clean Water & Turbidity from Pre-Treatment open system to canal water
 - Need full operational chemicals at this point
 - Need completed Sludge Haul contract
 - Plant flows back to GST
 - Fully integrate Supervisory Control and Data Acquisition SCADA and tie into receiving plants
 - Once water meeting drinking water quality it can be stored for flushing of transmission lines.
 - Chlorinate and test Transmission lines until approved
 - **Advertise for 1 – Operator II and 1 – Operator 1**

Surface Water Treatment Plant Milestones

February – April 2023

- **Plant to run as if in production to record water quality**
 - Continue to adjust the plant for operations
 - Continue test & flush of transmission lines
 - Run performance tests of membrane system, max capacity

April 2023

- Stable operation with full plant staff operations meeting TCEQ requirements
- Apply for TCEQ approvals. Can take up to 90 days after submittal to received approval.

July 2023

- Commence water production and send water to the distribution system

Surface Water Treatment Plant Hiring Timeline

Position Title	Responsibilities	Start Date
SWTP – Plant Mechanic	Maintain plant equipment, conduct PMs per the equipment manufacturer, repair equipment	10/1/2022
SWTP– Electrician	Maintain the electrical equipment and wiring, conduct electrical troubleshooting and repairs, conduct electrical PMs	10/1/2022
SWTP – Plant Mechanic	Maintain plant equipment, conduct PMs per the equipment manufacturer, repair equipment	1/1/2023
SWTP – Operator II	Duties include backwashing filters, monitoring pump station activities, adjusting chemical feed systems, flow adjustments, and determining proper corrective procedures regarding water quality	1/1/2023
SWTP – Operator I (2)	Duties include daily inspection of all treatment process areas and performance of technical tasks relative to assigned area of responsibility	1/1/2023
SWTP – Laboratory Technician	Will routinely perform a variety of chemical, physical, and biological analyses on surface water; perform compliance duties such as, calibration of process instruments, routine sampling, conduct treatment optimization studies, and compile test data reporting in accordance with regulatory agencies	1/1/2023
SWTP – Operator II	See above responsibilities	4/1/2023
SWTP – Operator I	See above responsibilities	4/1/2023

Water Quality Compliance Team

Team will be responsible for compliance sampling, monitoring of disinfection residuals, water quality service calls, low pressure service calls, and flushing of the water distribution system.

The City is required to collect water quality sampling and flush dead end lines(30 TAC Part 1 Subchapter D, 290.46 and 290.110).

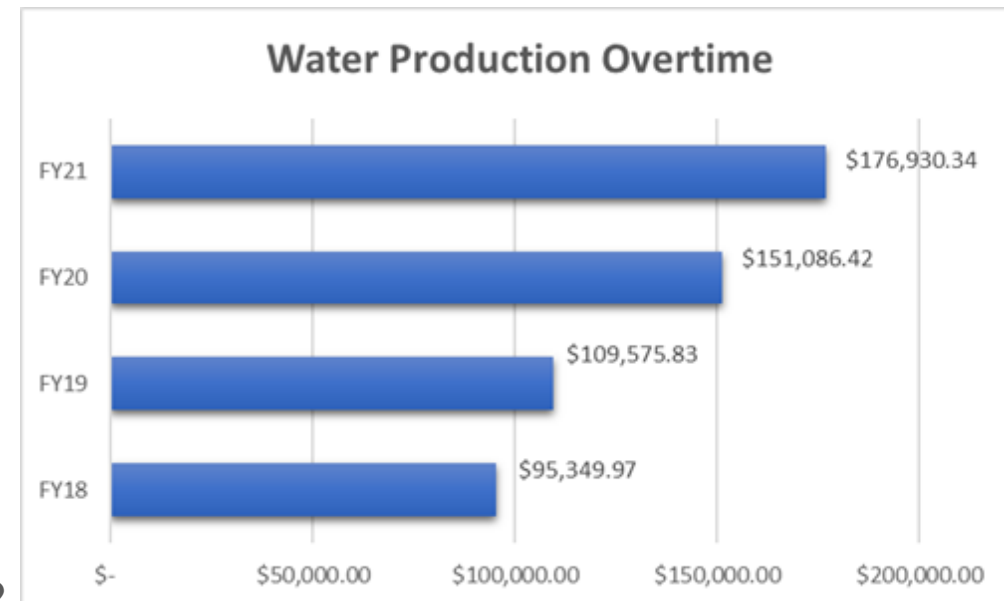
- The water system contains over 1,000 flushing points required to be flushed each month. In 2012 there were 466 flushing points. By 2018 it had increased to 953 (2x increase). Since 2018 an average of 12 additional flushing points are added each year. No additional staff has been added with the increase in flushing points. The process of flushing takes an average of 0.5 hours per location to drive, set up, flush, shut down and pack up to go to the next location. The process equates to approximately 6,000 staff hours annually.
- The system 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 average time to drive, set up, test for residual, flush, disinfect the location, collect sample, document and pack up is 0.5 hours. The additional 20 samples will add an additional 2.5 hours of work per week. The requirement equates to approximately 720 staff hours annually to collect the 120 samples and does not include any time for resampling from lab results.

Water Quality Compliance Team

Team will be responsible for compliance sampling, monitoring of disinfection residuals, water quality service calls, low pressure service calls, and flushing of the water distribution system.

- Current Responses Time – Approximately an hour.
 - Response to calls for water quality. Staff runs tests, flushes lines, works with residents, and closes out service request. Average is 19 requests per month.
 - Response to low flow reports – Staff run tests and works with residents to determine cause. This team will assist Water Production and Distribution & Collection to provide the appropriate response. Average is 2 requests per month.
- 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.
- The need for this team is identified by the increase in overtime that has occurred as additional flushing points are added to the system, testing requirements and water quality calls.
- The implementation of the team will reduce overtime, provide for staff redundancy, maintaining the current workload and is critical to providing the current service level
- The new team will allow water production staff to concentrate on plant operations instead of water quality calls

Cost for this team is \$262,404 in salaries for 4 FTEs and an additional \$116,318 in non-salary costs for a total cost of \$378,722.



FY2023 Revenue Changes

- The City must bring in enough money to pay for debt and operations.
- Increased consumption helps to some extent.
- Costs increase for labor, utilities, chemicals, etc.
- When we sell debt, we agree to have a Bond Coverage Ratio ≥ 1.15 .
- Enterprise Operating Fund balance must remain above 15%.

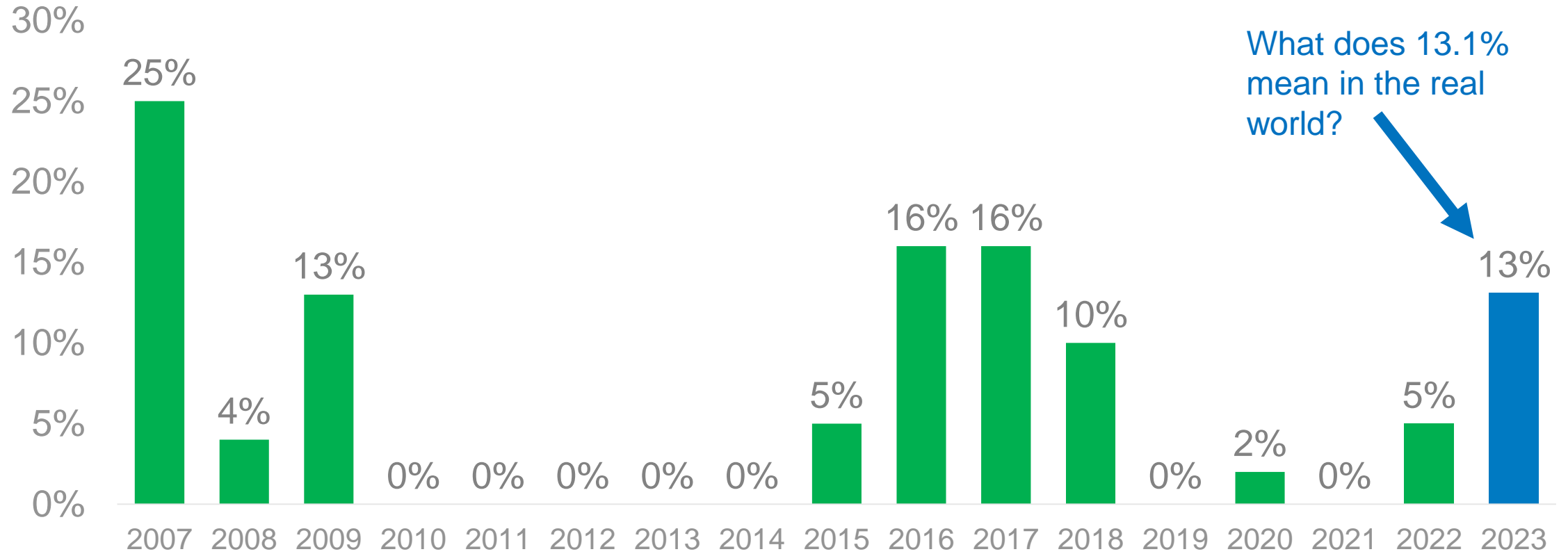
An average household in Pearland uses approximately 6,000 gallons of water per month. They will pay ~\$7.50 more a month (+9.5%).

- An increase of +13.1% to the rate structure is required 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.

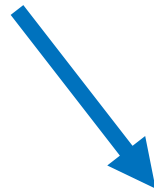


History of Rate Increases in Pearland

Historical Pearland Utility Rate Increases



What does 13.1%
mean in the real
world?



What does 1% in Rate Increase/Decrease mean?

- On the customer side, a reduction from a 13.1% rate increase to a 12.0% rate increase will lower the price paid on a Residential 6,000-gallon bill by \$0.86/month and Residential 12,000-gallon bill by \$1.58/month.

W/S Rate Increase	Total Revenue Reduction to City from proposed rate	Price reduction on residential 6,000-gallon bill	Price reduction on residential 12,000-Gallon bill
13.10% (required per existing Rate Model)	NA	NA	NA
13%	\$79,844	\$0.13	\$0.25
12%	\$570,600	\$0.86	\$1.58
11%	\$1,071,249	\$1.62	\$2.94
10%	\$1,587,502	\$2.36	\$4.34
9%	\$2,117,187	\$3.20	\$5.84

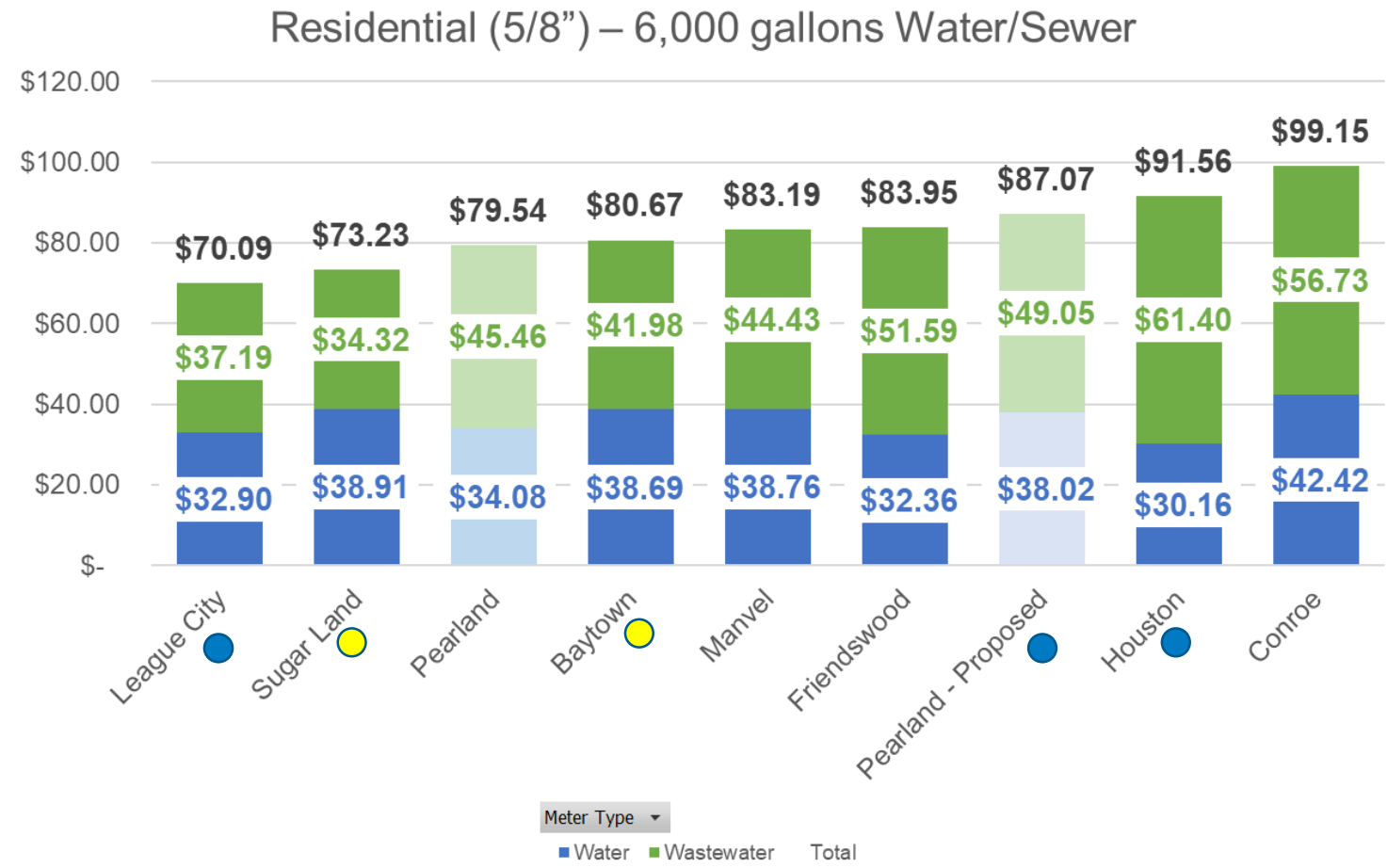
Sample Bills with 13.1% Proposed Revenue Increase for FY 23

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

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%

Comparison Bill

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

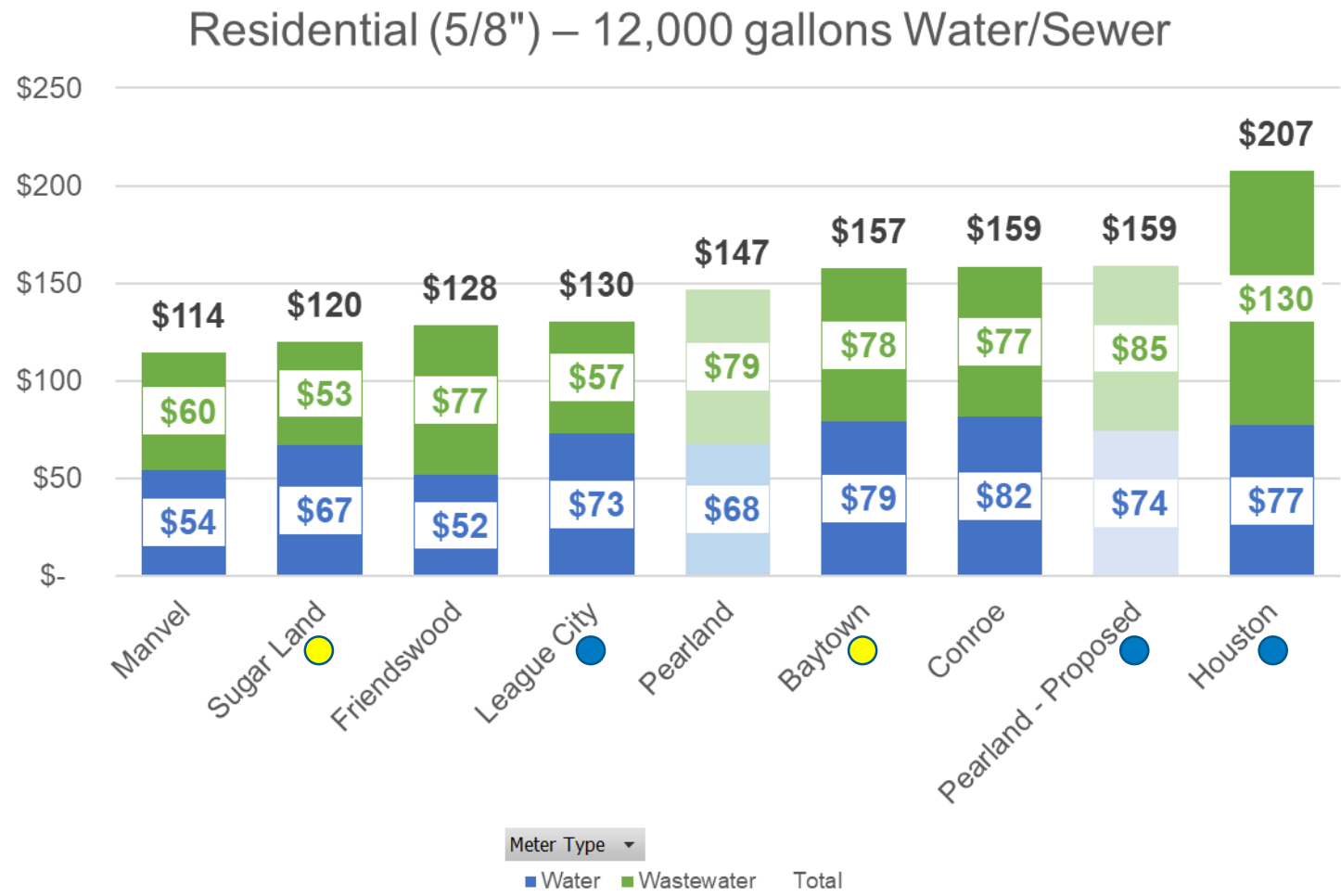


- Proposed rate increase included in presented figure.
- City with plan to increase water and sewer rates in FY2023 but information is not incorporated in this chart due to insufficient Detail



Comparison Bill

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



- City with plan to increase water and sewer rates in FY2023. Proposed rate increase is included in the presented figure.

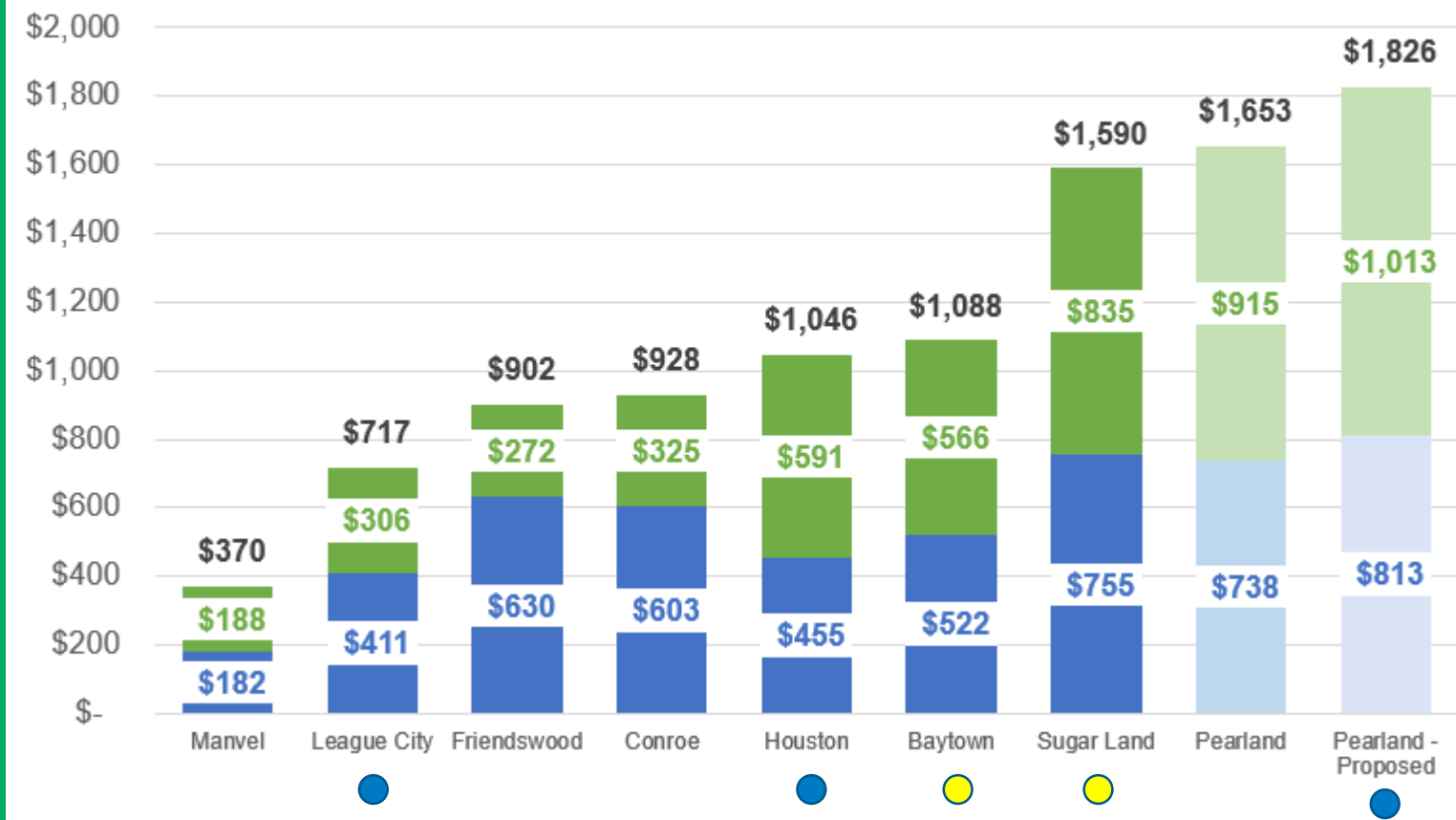
- City with plan to increase water and sewer rates in FY2023 but information is not incorporated in this chart due to insufficient Detail



Comparison Bill

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

Fast Food Restaurant - 59,000 Gallons Water/Sewer



- City with plan to increase water and sewer rates in FY2023. Proposed rate increase included in presented figure.

- City with plan to increase water and sewer rates in FY2023 but information is not incorporated in this chart due to insufficient Detail



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 Debt Fund Budget of \$29.9M is a \$3.5M increase from the FY22 adopted budget of \$26.4M.

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
- Increased communication to Council regarding FY23 CIP and 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
- Continued discussions with Council regarding the 5-Year CIP priorities

Budget Schedule

Previous Meetings & Events

- ~~3/21/22~~ — Comprehensive CIP Budget Workshop
- ~~6/27/22~~ — Early Budget Input Session
- ~~7/25/22~~ — CIP Adoption
- ~~8/5/22~~ — Proposed Budget delivered to Council
- ~~8/8/22~~ — Maximum Tax Rate Adopted
- ~~8/13/22~~ — Budget Discussion #1
- ~~8/22/22~~ — Budget Discussion #2
- ~~8/29/22~~ — Public Hearing on Budget & Tax Rate/Budget Discussion #3
- 9/12/22 – 1st reading of Budget, Fee Schedule Ordinances

Future Meetings & Events

- 9/26/22 – Public Hearing on Property Tax Rate; 2nd and Final Reading of Budget, adoption of Property Tax Rates, and Fee Schedule Ordinances
- 10/1/22 – Fiscal Year FY23 Begins

