



MEMORANDUM

TO: Honorable Mayor and Councilmembers
FROM: Bill Eisen, City Manager *BE*
DATE: October 1, 2009
SUBJECT: Adopted Budget for Fiscal Year 2009-10

The Adopted Annual Budget for Fiscal Year 2009-10 accompanies this memorandum. The budget addresses both goals set by the City Council and other challenges that will be faced by the City in the upcoming year.

Introduction

One of the primary factors considered during the development of the budget is the projected condition of the City's economy. Economic conditions have a direct impact on the City's revenue streams and on projected service demand. New homes starts for 2009-10 are expected to remain at the relatively low level experienced during the current year. The national recession is expected to continue well into the upcoming year and as a result, the budget assumes only 744 new home starts. Commercial construction is also anticipated to remain at the lower levels being experienced during the coming year. No major projects such as Pearland Town Center or Shadow Creek Town Center are anticipated. As a result, the budget assumes a continuation of permit requests for smaller commercial buildings and tenant finish-outs in existing shopping centers. Sales tax revenues are expected to increase at a very modest level of 2.5%, well below the current year in which a 15.8% increase was projected. This slight increase is anticipated due to a number of factors, including the national recession, the lack of major new outlet openings, and relatively low inflation in the cost of goods and services subject to the tax. On the other hand, a small increase in population is expected to boost sales.

The City's population is projected to increase by approximately 2,500 persons during the upcoming year. This increase is the result of the projected construction of 744 single family units and a large apartment complex in Shadow Creek Ranch. This increase of 2.7% is significantly less than those seen in recent years and will result in a mitigating effect on expansion of City services. On the other hand, several bond-financed projects that are underway will be completed and opened during the 2009-10 fiscal year. As a result, operating costs for the new Public Safety Building, Recreation Center/Natatorium, and University of Houston facility, and various road projects have been included in this document.

Council Goals

In April, the City Council met to develop goals and priorities for the upcoming 12-month period. Many of these goals have budget implications and required funding for implementation is included in the proposed budget.

- Adequate funding for salaries and overtime needed to fund 135 full-time equivalent sworn positions in the Police Department are budgeted. In addition, funding to equip 4 officers and one sergeant is included.
- Funding needed to complete the Spectrum area planning effort being done by Gateway Planning Group is provided in the PEDC budget.
- The PEDC budget also includes continued funding for the North Brazoria County Education Alliance in keeping with the Council goal to continue to build workforce skills as an economic development tool.
- Funding for the local cost of a Park and Ride facility has been provided.
- A new position is added in the Finance Department to seek and apply for new grant funds and to oversee grant reporting. The position will be paid for with administration funds from various grants.
- Specific funding for a west side library is not included because details of funding are still unknown. However, the General Fund Contingency of \$205,000 may be used for this purpose if the City and County are able to agree on the financial arrangements for the facility.

Other Major Issues

Increases in both the property tax rate and water and sewer rates were expected when the budget process began. However, due to a number of circumstances and actions, no changes in any of these rates are seen in the adopted budget.

The tax rate remains at \$.6526/\$100. This is possible for the following reasons:

- The amount of debt issued in 2009 is \$13 million less than projected. This reduction in debt issued is the result of lower than anticipated construction bids and changes in the timing of projects.
- Economic conditions have resulted in lower activity levels in both building inspection and infrastructure inspections. As a result, the budget provides for a reduction of five positions in Inspection Services and one position in Engineering. Because these positions are funded through fees, if activity picks up in these areas during the upcoming year, some of the positions can be added back in mid-year without impacting the remaining budget in other areas.
- In the two most recent years, the budget has included funding for an average 4% raise for all non-civil service employees. The actual amount of an individual's pay adjustment is based on his/her performance. The budget for 2009-10 includes funding for an average raise of only 2% for non-civil service personnel. This results in a total cost of \$436,718, a reduction in cost of \$740,722 from current year increases. This reduced amount is intended to reflect economic conditions of the City and the general trend of wage and salary increases in the area. Police civil service personnel who have not reached the top of their pay range will receive automatic 3% step raises on their anniversary dates. In addition, the pay range and all steps will be increased by 1.5% on October 1. The 1.5% raise is significantly less than the 4% in the current year.
- In two prior years, 90% of sales tax generated by Bass Pro Shops has been transferred to a holding account for eventual transfer to Pearland Management District #1. This transfer is not required by the development agreement with Poag and McEwen, but has been made in order to "buy-down" any future bond sale required to make economic development incentive payments to the company. Due to status of the project, the budget does not include this transfer of \$209,363.

- The budget uses \$636,138 of General Fund revenues to make certain capital expenditures. Use of these revenues will still leave reserves \$1.9 million over the policy requirement. This strong reserve position is believed to be critical due to the financially difficult year we expect to face in 2010-11.
- The budget, as always, has been carefully reviewed to control ongoing expenditures. The General Fund budget, including transfers, is less than one percent, or .67%, higher than the adopted budget for 2008-09. If expenditures associated with the new Public Safety Building and Natatorium/Recreation Center are taken into account, the General Fund would decrease from 2008-09 by \$529,382, or 1%.
- Programs for street overlays and sidewalk repair and replacement have been reduced from the 7-year plans. The original seven year plans for these programs anticipated expenditures of \$1 million each year for street overlays and \$750,000 per year for the seven year sidewalk repair plan in 2009-10. The budget funds \$720,000 for street overlays and \$678,000 for sidewalks. These are still substantial investments and the Five Year Financial Forecast indicates that we can increase funding for these programs after the 2010-11 fiscal year.

In spite of these reductions, the growth of the City, even at a slower pace, and new facilities have made it necessary to increase funding and staffing in several key areas.

Perhaps the most significant impact on the adopted budget is the addition of new facilities funded previously by sale of bonds approved by voters in 2007. The new facilities include the Public Safety Building, University of Houston Campus, Natatorium/Recreation Center, and medians on newly constructed roads. In the case of the three new buildings, the budget will only be impacted for a portion of the year. The Public Safety Building is projected to open in February, the University of Houston in August, and the Recreation Center/Natorium in June. The following chart illustrates the impact of these new facilities in 2009-10 and the projected impact of a full year of operation in 2010-11.

<u>Public Safety Building</u>	<u>FY 2010</u>	<u>FY 2011</u>
Personnel		
One Park Maintenance Worker*	\$ 22,967	\$ 23,416
Two Custodial Workers		\$ 50,058
Operating Costs		
Supplies/Equipment	\$ 20,435	\$ 12,469
Services	\$ 2,610	\$ 2,637
Utilities	<u>\$210,000</u>	<u>\$280,000</u>
TOTALS	\$256,002	\$368,580

* Position to be shared with Recreation Center/Natorium

<u>University of Houston, Pearland Campus **</u>	<u>FY 2010</u>	<u>FY 2011</u>
Personnel		
One Custodial Worker	\$ 5,256	\$ 33,428
Operating Costs		
Supplies/Equipment	\$18,011	\$ 60,451
Services	\$ 2,940	\$ 17,640
Utilities	<u>\$14,150</u>	<u>\$ 84,900</u>
TOTALS	\$40,357	\$196,419

** Per the agreement with UH, the University and PEDC will share operating costs based upon the percentage of the building each occupies. The City will pay a portion of the operating and debt cost until the University takes over the space that will initially be occupied by a public meeting area.

<u>Recreation Center/Natatorium</u>	<u>FY 2010</u>	<u>FY 2011</u>
Personnel (1)		
One Assistant Recreation Center Manager	\$ 23,354	\$ 57,907
One Recreational Specialist – Programs	\$ 21,382	\$ 52,460
One Recreational Specialist – Fitness	\$ 21,382	\$ 52,460
Six Part-Time Recreation Attendants	\$ 22,428	\$ 54,925
Four Part-Time Fitness Attendants	\$ 14,952	\$ 36,616
One Part-Time Head Lifeguard	\$ 2,424	\$ 12,228
Nine Part-Time Lifeguards	\$ 19,476	\$ 79,613
Seven Part-Time Water Safety Instructors	\$ 18,333	\$ 75,056
One Marketing Manager (3)	\$ 44,184	\$ 61,690
One Administrative Services Supervisor (upgrade) (3)	\$ 2,673	\$ 7,436
One Administrative Secretary (3)	\$ 19,511	\$ 47,589
One Accounting Associate (3)	\$ 20,580	\$ 50,563
One Membership Sales Associate (3)		\$ 39,850
One Building/Aquatic Maintenance Technician	\$ 26,745	\$ 54,529
One Parks Maintenance Worker (2)	\$ 11,478	\$ 11,708
One Custodial Crew Leader (upgrade)	\$ 8,695	\$ 10,025
Two Custodial Workers	\$17,510	\$ 66,856
Overtime for New Personnel	<u>\$ 3,000</u>	<u>\$ 10,608</u>
Sub-Total Personnel	\$298,107	\$782,119
Full-Time Personnel	10	11
Part-Time Personnel	27	27
New Programs		
Contract Instructor Fees	\$ 41,500	\$ 125,745
Other		
Equipment and Supplies	\$ 74,297	\$ 152,006
Services	\$ 3,350	\$ 6,716
Vehicle	\$ 15,045	
Utilities	<u>\$170,000</u>	<u>\$ 515,100</u>
TOTAL	\$602,299	\$1,581,686 (4)
TOTAL NEW BUILDINGS	\$898,658	\$2,146,685

(1) Personnel costs include salary and benefits only.

(2) One position shared – PSB and Recreation Center/Natatorium

(3) These five employees' primary responsibility will be at the Recreation Center/Natatorium, but they will assist all Parks and Recreation Programs.

(4) Conservative projected revenues to offset expenditures is \$600,000.

In addition to the 12 full-time and 27 part-time personnel associated with these new buildings, new personnel are also added for the following new programs:

- Traffic Manager for the take-over of traffic signals on TxDOT roadways. We will be required to take over this function in 2011. This position is proposed to be filled in January 2010 in order to begin planning the take-over and overall implementation of the new program.
- Addition of a Grants Manager to pursue new grants and oversee reporting of existing ones. The position will be funded by administration charges to various grants received. The budget also includes the revenues and expenditures associated with recent grants the City has submitted including the E. Byrne Memorial Justice and EECBG totaling \$1.1 million.
- Two additional personnel in ROW Maintenance Workers are added to maintain additional landscaped medians on Broadway, both east and west of SH 288 and on Magnolia. These medians are part of the Capital Improvement Program.

The budget also includes a net gain of five full-time positions to expand existing programs. These include:

- Four police officers, two funded for six months and two for twelve month, with two vehicles. The cost of the officers and vehicles, along with equipment and other operating supplies is \$320,928.
- The new Public Safety Building will have a jail facility substantially larger than the existing one. One additional jailer position is funded for nine months and is funded as part of a proposed two year plan to add two personnel in order to adequately supervise a larger inmate population. (\$38,350)
- Police and other emergency call volume continue to increase as the City grows. Two additional dispatch personnel are funded for nine months with the expectation of two more personnel in a later year. (\$76,794)
- One additional police sergeant, funded for six months, and a vehicle are budgeted to expand supervision on the evening shift. As the number of officers on the street increases, it is essential to have adequate supervision of these personnel. (\$100,107)
- Two new full-time EMT's are funded in order to convert two units that operate less than 24 hours into one that will operate 24 hours/7 days a week. These additional 2,160 hours of staff time will be more than offset by eliminating 8,760 hours of budgeted part-time employees. The net result is a reduction in cost of \$43,129.
- A new development coordinator is added in the PEDC budget. This position was recommended in the Tech Solve study and will serve as an "ombudsman" for persons going through the development approval process of the City. This position is funded for 10 months and will only be filled with an increase in development activity. (\$65,673)
- The addition of these new personnel is partially offset by the reduction of five personnel in Inspection Services and one in Engineering.

With the exception of the Development Coordinator, all of the positions described above are budgeted in the General Fund. No new personnel are budgeted in the Water and Sewer Fund.

The Budget Document

This document includes information that the staff hopes will be of benefit to you as you evaluate the analysis that has been conducted in development of the expenditure plan.

Summaries of new programs are provided beginning on page 49.

A list of all funded and unfunded budget requests is provided beginning on page 567.

Overviews of each of the major funds can be found at the beginning of each fund section.

GENERAL FUND

Revenues

Assessed value is projected to increase by 7.6% or \$444 million over the adjusted tax roll. This increase results in an increase of \$2,272,845 over the budgeted 2008 levy. The following chart shows the allocation of the funds to the TIRZ, Debt Service Fund, and General Fund.

	<u>2008-09</u>	<u>2009-10</u>	<u>Difference</u>
TIRZ	\$ 7,465,716	\$ 8,889,446	\$1,423,730
Debt Service	\$20,084,024	\$20,657,891	\$573,867
General Fund	<u>\$10,237,060</u>	<u>\$10,512,308</u>	<u>\$275,248</u>
Total	\$37,786,800	\$40,059,645	\$2,272,845

No change in either the total property tax rate, the allocation between debt service and operation, and the percentage of property tax revenues generated in the TIRZ that remain in the zone is proposed. This is the first year in three years that the General Fund tax rate has not declined so that a higher ratio of taxes collected can be allocated to debt service.

Sales tax revenue is projected to increase by 2.5% over the current year's estimate (\$347,357). This increase is significantly lower than in previous years and reflects economic conditions and the absence of new retail projects projected for the coming year.

Modest increases are projected in franchise fees as a result of slowing growth and in the case of sanitation, higher rates.

Construction related permits are expected to decline due to the ongoing national recession and slow down in both residential and commercial construction activity. The budget assumes that 744 residential permits will be issued.

Revenue from fines and forfeitures is projected to increase by \$367,400. The largest factors in this projected increase is due to an increase in citations, as well as the addition of a warrant program (\$182,400).

Ambulance fee revenue is projected to increase by \$161,420 due to the projected continued increase in the number of EMS calls.

Projected revenue from the Recreation Center/Natatorium is estimated at \$103,000 for the 4 months of the fiscal year that the new facility will be open and includes \$23,000 for new or expanded programs.

TIRZ Administration Fees are estimated to increase by \$783,296 as a result of increased assessed value in the zone. The fee paid to the General Fund is 64% of the amount of the

valorem taxes collected from properties in the zone, with the remainder used to pay bonded indebtedness to repay the developer for eligible improvements within the zone.

Interest income is expected to decline due to dramatic reductions in interest rates on City investments. Current rates are not projected to increase through the upcoming year.

Expenditures

General Fund expenditures are \$49,752,119. This is substantially less than the current year's expenditures of \$55,437,455. However, the current year includes significant costs associated with Hurricane Ike. A more accurate comparison of ongoing expenditures is to compare the 2009-2010 budget to the 2008-09 budget that was developed prior to Ike. The adopted budget for the current year was \$49,423,200. The 2009-2010 budget is an increase of \$328,919 over the 2008-09 budget, or .67%. If the operating costs of the new Public Safety Building and Recreation Center/Natatorium are taken into account (\$858,301) the 2009-2010 Adopted Budget is less than the 2008-09 Adopted Budget by \$529,382.

Significant expenditures, in addition to personnel costs previously described include:

- An employee wellness program intended to help control future health care costs (\$21,500).
- Annual purchase of computers as part of the overall replacement program (\$83,700).
- Voice data switches as the first step in upgrading and replacing the aging telephone system at City Hall and Service Center (\$113,465 funded by lease/purchase).
- Upgrading a part-time to full-time accountant (\$37,279).
- Volunteer firefighter stipends for staffing of a second station at night (\$32,818) in order to improve night response times.
- Replacement of a fire pumper (\$585,145) to be funded by lease/purchase.
- Consultant fee to assist with evaluation of merging Fire and EMS and evaluating types of shift structures (\$50,000).
- Funding to pay for fire academy training for EMS personnel if the Fire/EMS merger is implemented (\$100,000).
- New and replacement mowing equipment for right-of-way maintenance (\$71,750).
- Upgrade of restrooms at Independence Park (\$20,000).
- After school program (\$30,050) that will generate revenue estimated at \$99,000.
- Purchase of additional tasers to provide a unit for each police officer position (\$48,772).
- Purchase of 16 replacement (\$622,060) and 1 new home fleet police vehicles (\$47,670).
- Special badges and patches to commemorate the 50th anniversary of the Police Department (\$15,826).
- Addition of a Motorcycle to the traffic unit and additional equipment (\$45,617).
- Voice permit system to allow builders to request inspections and check status of permit applications (\$32,250).
- Additional part-time Animal Shelter attendant to allow Humane Officers more time to respond to calls and do preventive patrols (\$11,363).
- Regional Detention Pond study requested by the City Council. The study will begin during the current year and continue into 2009-10. The cost budgeted is for the portion of work that will take place in 2009-10 (\$200,000).
- Emergency generators for pumps at major detention facilities at South Corrigan and West Mary's Creek (\$142,518 funded by lease/purchase).

- Replacement of aging Gradall for Street Department (\$259,048 funded by lease/purchase).

WATER AND SEWER FUND

Revenues

The budget includes no changes in water and sewer rates. Revenue is projected to increase \$820,123, or 3% over the current year's projection. Current rates are anticipated to be adequate to meet coverage requirements of 1.4 times average annual debt service. In addition, cash reserves are projected to be 28% of operating costs, in excess of the 25% required by policy. The projected increase in revenue is based on the new growth projections used in the General Fund as well as increased transfers from impact fee funds to assist in paying debt service for impact fee projects.

Expenditures

The budget anticipates continued emphasis on the use of well water from the new Kirby plant in order to reduce the cost of water purchased from the City of Houston. This action will result in a projected savings of \$521,832 in the current year and a similar savings is anticipated in 2009-10. Another major impact on the budget is continuation of the contract for electricity purchase that produced a savings of \$746,813 in the current year.

The budget includes four generators for the water and sewer system to be used during extended power outages such as the one that occurred after Hurricane Ike. The budget also includes installation of transfer stations at 58 locations so portable generators can be hooked up quickly in emergency situations. The quick connections will be grant funded.

Also included are:

- Expansion of the unidirectional flushing program for the water system (\$65,000).
- Well pump motors for the FM 518, Cullen, and Magnolia sites (\$38,192).
- Replacement impellers for the Far Northwest Sewer Plant (Shadow Creek Ranch) (\$139,954).
- Booster pumps at the Southeast, Cullen, and Garden Road water wells (\$147,078).
- One new and two replacement trucks for the Distribution and Collection Division (\$92,596).
- Purchase of meters for a newly proposed water meter replacement system. The program will routinely replace meters after they have been in service for one million gallons, or 10 years. This program will reduce lost revenue from aging, inaccurate meters (\$203,551). Another aspect of this program is annual testing of all large meters to ensure their accuracy (\$52,784).

DEBT SERVICE FUND

General Obligation Debt Service will require a tax rate of \$.4325/\$100 for the second consecutive year. This is the first year in some time that an increase in this component of the tax rate has not increased. This stability is the result of favorable bids in major capital projects awarded in this current year, growth in the property tax base, and use of fund reserves. Reserves have been accumulated in this fund over the past few years to mitigate the impact of anticipated spikes in the debt service tax rate. Proposed use of \$2,184,013 of reserves still

leaves the fund balance \$2.6 million over the policy reserve of 10% of expenditures. This reserve will be available to mitigate the impact of expected increases in debt service over the next three years.

PEARLAND ECONOMIC DEVELOPMENT CORPORATION

The 2009-10 budget includes \$2,445,000 for incentives for the projects either underway or that are anticipated to come to fruition during the fiscal year. This sum also includes \$500,000 in contingency for opportunities that may arise.

OTHER FUNDS

Hotel-Motel Occupancy Tax Fund

The budget assumes continuation of the contract with the Pearland Chamber of Commerce for promotion of tourism. Funding for the arts and historic preservation is also continued.

Management District #1

The budget does not include the transfer of funds from sales tax generated by Bass Pro Shops to the fund set aside for this District. Even though set aside is not required by the development agreement, the transfer for the current fiscal year will not take place, and the transfer for the 2007-08 fiscal year was credited back to the General Fund. The intent of the transfer has been to have funds on hand to "buy-down" a future bond issue, if ever required. Based upon the status of development in MD#1, it does not appear that a bond sale will occur in the foreseeable future. The budget does not make the transfer from the General Fund in the current year or in 2009-10. As a result, these funds will be available for General Fund purposes.

CONCLUSION

I would like to thank all members of the City staff who have participated in the preparation of the budget. Particularly, I would like to express thanks to Director of Finance Claire Bogard, Budget Officer June Ellis, Budget Analyst Paulette Englund and Budget Analyst Carmel Derosena. They have done an excellent job in making this document transparent and user friendly.