



MEMORANDUM

TO: MAYOR REID AND MEMBERS OF THE CITY COUNCIL
FROM: BILL EISEN, CITY MANAGER
DATE: OCTOBER 1, 2012
SUBJECT: ADOPTED OPERATING BUDGET FOR FY 2012-13

The Adopted Operating Budget for the 2012-13 fiscal year accompanies this memorandum. The budget addresses goals set by the City Council and seeks to respond to challenges that the City will face in the coming year.

Introduction

Two factors played major roles in the development of the budget, the improving Houston area economy and the City's increasing population, which will include the annexation of Brazoria MUD No. 4 on December 31, 2012.

The improving regional economy will result in substantially improved revenues in the coming fiscal year. Improved economic conditions will be most noticeable in two major revenue sources - sales tax and building permit revenue.

Sales tax revenue for the current year is up by 10.4% over FY 2010-11 levels, as of the end of August. The Adopted Budget for 2012-13 includes a total increase in sales tax of 5.4% over the projected revenues from this year. This increase assumes an overall increase in the dollar value of sales and also incorporates additional revenue from two major new sales tax producers, Sam's Club and Kelsey-Seybold.

Building Permit revenue is also projected to maintain the strong levels that have developed during the current fiscal year. The 2011-12 Adopted Budget was based on an estimated 744 single-family permits. Due to the strengthening regional economy during the current year, housing starts are expected to slightly exceed 1,000. The Adopted Budget for 2012-13 anticipates 1,142 single family permits.

Another economic factor that will impact revenues is an increase in property values, due to new construction. Values of existing residential properties have declined slightly over the past few years and indications are that this trend will continue for the upcoming year. The

impact of increased residential and commercial construction will more than offset home values for existing properties for 2013.

Another significant factor that impacts the Adopted Budget is a 7.1% increase in population. This increase in population results in increased services to meet the needs of the new residents. This projected increase in population is a combination of two factors – newly constructed homes and multifamily dwellings and the annexation of Brazoria MUD No. 4 on December 31, 2012.

The budget incorporates an increase of 2 cents in the property tax rate. The entire increase is related to debt service. Of the total adopted tax rate of 70.51 cents per hundred dollars valuation, the operating tax rate remains at 21.51 cents per hundred dollars and the debt service tax rate is 49 cents. With this increase, the overall tax rate will have increased by 5.25 cents since the 2007 bond election. Prior to the election, voters were informed that approval of the bond propositions could result in a tax increase of 13 cents per hundred dollars of value.

Water and sewer rates are to remain at current rates for the fourth consecutive year. Charges for various services and permits were reviewed as part of the budget process to determine their competitiveness relative to other area cities. As a result, increases in several charges and fees are included in this document.

Council Goals

In February of this year, the City Council conducted its annual goal-setting meeting for the upcoming year. Several of those goals have budgetary implications and are addressed in this document.

- Maintaining appropriate Street Crimes Unit staffing in the Police Department will be made possible by the addition of six Police Officer positions (4 in October and 2 in April.) These new personnel will also assist in addressing increased calls for service due in part to the increase in population.
- During development of the budget, a Council workshop was held to update the Council on area economic conditions and projections for the coming year. An economist for the Greater Houston Partnership provided a briefing on these issues in April. The Five (5) Year Forecast for all major operating funds and the Debt Service fund have been updated to provide the best possible information on financial trends.
- Nine (9) projects (seven road segments and two trails) have been submitted to H-GAC for possible state and or federal funding. If any, or all, of these projects are funded by grants, city costs could be dramatically reduced over the next few years.
- Funding for the Westside Library with an anticipated opening in January 2013 is included.
- Funding for staff and for incentives to recruit new business to the City continues to be provided in the Pearland Economic Development Corporation's budget. Three businesses that were recruited and provided incentives by PEDC will open during the 2012-13 fiscal year. Kelsey Seybold, Merit Medical Systems, and Ref-Chem will add approximately 1,000 new jobs to the City employment base when all three facilities are opened.

Adopted Budget Reductions and Revenue Increases

The staff has continued to evaluate the budget to determine ways to reduce current expenditures. Over the past 3 years, a total of \$4.4 million in General Fund budget reductions have been implemented. The Adopted Budget includes another \$330,227 in reductions. Major reductions include eliminating the audio services (\$3,276) used to make audio recordings available on the web site. This system has been replaced with the video recording system. Other reductions include:

- Change in funding formula for the Westside Library that results in the County paying all personnel costs (\$32,678).
- Change EMS Billing Contractor. A bid process has been conducted, and a savings of \$141,967 is projected.
- Existing fees for services and programs have been reviewed and a number of changes to fee structures are anticipated to recover more of the costs of the services and to more closely reflect the fees charged by neighboring communities. These fee increases include the following:
 - Increase building permit fees to more closely reflect those in surrounding communities (\$188,501).
 - Increase permit fees for health permits charged to food service establishments (\$68,575) to help recover costs for two additional health code inspectors.
 - Increase fees for zoning applications for tracts other than small residential properties (\$20,000).
 - Institute fees for third and fourth call-backs for fire inspections (\$32,500).
 - Increase or institute various fees at the Recreation Center/Natatorium for Learn-To-Swim Classes, score-board sponsorships, initiation fee for memberships, and the addition of new fee-based programs. Total revenue from the new and increased fees and programs is projected to be \$71,970.
 - Increase in outdoor pool admissions, rentals, pool passes, Learn-To-Swim Classes, concession fees, and rentals (\$35,385).

Other Major Issues

The budget includes the addition of 12 new personnel, ten in the General Fund and two in the Water and Sewer Fund. These Include:

- Six new Police Officers (four in October and two in April) due to the increase in population and in call volume (\$518,177, including vehicle cost).
- Addition of a new jailer position in the Police Department due to increased number of inmates and the need to provide a safe environment for both prisoner and jail personnel. The addition of this position will allow for a reduction in overtime cost for existing personnel (net cost of \$33,326).

- Addition of a Records Clerk in the Police Department to accommodate an increase in the number of cases, incoming phone calls, and alarm notices handled by this unit. (\$37,974).
- Addition of two Code Enforcement/Health Officers: The City has approximately 400 business establishments that have some form of food service. Currently, there is only one person doing inspections of these facilities. Due to an increase in the number of establishments, one person cannot complete the two inspections per year required by the City Ordinance. The cost of these new positions and vehicles (\$144,504) will be partially offset by an increase in permit fees charged to food establishments.
- In addition, the General Fund Budget includes conversion of a part-time position in Community Development to a full-time position. (\$24,734) The additional position is added due to increased activity in the department. Also, one part-time position in Municipal Court is added due to increases in both the number of charges filed and the number of trials requested (\$12,747).

The Water and Sewer Fund Budget includes funding for two new positions:

- The Water and Sewer Maintenance Division includes a new Maintenance Worker position, which will allow for greater capabilities for Vactor operation and for the unit that televises sewer liners (\$39,246).
- A GPS Field Technician is also added. This position will allow increased ability to gather data points for maintenance of GIS layers (\$64,323, including new vehicle).

The budget also includes a 3% increase in the Police Pay Plan and an average 3% pay for performance increase for all civilian personnel. Police Civil Service employees will automatically receive the 3% increase on October 1. In addition, Civil Service employees who have not reached the top of their pay range will also receive a 3% step increase on their anniversary dates. Civilian personnel will receive an increase on October 1. The percent increase for each civilian employee will vary based upon performance evaluations.

This document includes a number of summaries intended to make it easier for readers to understand. These include:

- Overviews of each Fund are provided at the beginning of each fund's budget.
- An overview of Property Tax Collection begins on page 67.
- A Highlight section which describes major changes in expenditures, revenues, and staffing in the largest funds begin on page 37.
- Lists of funded supplemental and capital requests begin on page 434.
- A list of unfunded requests begins on page 440.

General Fund

Revenues

Total General Fund Revenues are projected to be \$56,387,521, an increase of 10.2% over the 2011-12 Amended Budget. The increase in revenue is attributable to a number of factors including improving economic conditions and increase in population and resulting expanded economic activity. Changes in major categories of revenues from the 2011-12 Amended Budget include:

- An increase to the General Fund in current Property taxes of \$231,138. Although the operating tax rate will remain the same, a relatively small increase to the General Fund is anticipated due to new construction.
- An increase in Sales Tax Revenue of \$1,501,123. This increase is due to several factors; increases in the number of sales due to the improving economy, additional sales outlets (such as Sam's Club), and, although it was relatively low for the past year, an increase in the price of goods subject to the sales tax.
- An increase in Franchise Fees of \$654,996 due primarily to the increase in population and housing units and new business in the City.
- An increase in the Licenses and Permits category which is primarily made up of building permit related fees of \$828,690. This revenue increase is due to substantially higher single-family construction activity that began to materialize during the current fiscal year.
- An increase in Ambulance Fees revenue of \$338,000 resulting from an increase in the number of calls for service.
- An increase in TIRZ Administration Fees of \$489,703 due to an increase in total tax levy in TIRZ No. 2 (Shadow Creek Ranch).

Expenditures

Operating Expenditures of \$56,829,532 are an increase of 10.8% over the 2011-12 Amended Budget. A number of factors contribute to this increase. A detailed description can be found immediately following the General Fund Summary page. Some of the major factors include an emphasis on Public Safety, pay adjustments to reward performance and retain employees, new personnel previously discussed, increased cost for medical insurance, the opening of the Westside Library, and the annexation of MUD No. 4.

The emphasis on public safety includes funding for new personnel in the Police Department, replacement of major equipment for Fire and EMS, and expanded emergency dispatch capability for the three departments.

The eight new personnel in Police will provide additional patrol capability, addition of a motorcycle officer to respond to neighborhood traffic concerns, the ability to serve a newly annexed area, and expanded staffing of the Jail and Records Divisions.

The Police Budget also includes funding for shift differential pay for those employees who work the night shift. It is becoming more common for employers to provide additional

compensation to the persons who work these shifts. The Budget proposes an additional one dollar per hour for persons in Patrol, Jail, Records and Communications (Dispatch) Divisions that work this shift. The total cost of this shift differential pay for the year is \$173,016.

As call volumes increase in Police, Fire, and EMS, the need for additional dispatch personnel has also arisen. The Chiefs of the three public safety departments have evaluated options to increase dispatch capabilities and have concluded that the most cost beneficial method is to contract for dispatch services for Fire and EMS. This will eliminate the need to add new personnel and will provide an opportunity for the Fire and EMS Departments to contract with an entity that specializes in Fire and EMS calls. The Police Department dispatchers will then be able to specialize in Police calls.

The Fire Department Budget will replace two major pieces of apparatus due to age and reduced reliability of the existing equipment. The apparatus to be replaced includes a ladder truck that is over 10 years old and that has reliability problems (\$790,000) and a 20-year old pumper (\$560,000.) Both of these units will be financed through a lease purchase program.

The Fire Budget also includes creation of a Driver/Operator classification with one person, per shift, per station, holding the new title. This classification is very common in Fire Departments and acknowledges the additional responsibility and knowledge of persons who perform this function. Existing positions will be reclassified to this new job title. No new positions will be created (\$69,054).

The EMS Budget includes replacement of one ambulance and the remounting of a second unit. Both units being replaced have in excess of 120,000 miles and will not be reliable for another full year of operations (\$220,664).

The Health Insurance Fund experienced an increase in large claims during the current year. As a result reserves for claims were depleted, making it necessary to increase health insurance premiums by 11% and transfer money from the General Fund, Water and Sewer Fund, and PEDC to replenish reserves. The General Fund share of health insurance premium increases is \$446,384.

The budget includes funding for the Westside Library with a projected opening date in January 2013. Operating costs for the partial year are estimated to be \$117,288.

Over the past two years, the acreage maintained by the Parks Maintenance division has increased by 38%. The budget includes \$116,000 for contract maintenance of Pearland Parkway and Dixie Farm Road. Contracting out the maintenance of these areas will allow for the transfer of two existing personnel to the Parks Maintenance crew so that we can more proactively maintain parks. The budget also includes \$81,577 in the General Fund and \$187,923 in the Parks Development fund to repair and replace equipment and facilities in various parks.

Another significant project included in the budget is the first year of a two-year program to update the Comprehensive Plan. The current plan was adopted in 1999, with minor amendments in 2004 and 2009. In 2010, minor updates were made to the Land Use Map. The budget includes \$100,000 for the first year of the two-year process. Updating the plan has been identified as a major priority by the Planning and Zoning Commission.

The budget also includes \$470,060 to replace data and phone systems in City Hall, the Service Center, Parks Maintenance, and Fire Marshal buildings. The existing system is 13 years old and has been discontinued by the manufacturer. As a result, parts are no longer produced for the system and a system failure could result in an extended system outage (\$470,060 to be funded through lease purchase).

Continuation of the repair program for both sidewalks and streets is included in the budget. Sidewalk replacement and point repairs are funded in the amount of \$437,000. The asphalt street resurfacing program, which is done in partnership with Brazoria County, is funded for \$600,000. A list of streets to be accomplished during the year can be found in the General Fund Highlights section of this budget document.

Due to the strengthening of the economy during the current fiscal year and the strong fund balance carried into the current fiscal year, General Fund balance at the end of the current fiscal year, is projected to exceed the amount required by City Policy by \$6.3 million. The budget proposes to utilize \$2.19 million of this fund balance for non-recurring capital expenditures. Use of these funds will still leave a fund balance at the end of the fiscal year 2012-13 that is \$3.4 million in excess of the amount required to meet policy.

Water and Sewer Fund

Revenues

Revenue from Water and Sewer usage fees is projected to increase by 5.6% over the current year. The projected increase is due to an increase in number of customers. The number of customers will increase due to new construction and the December 31 annexation of MUD No. 4 with its 1,403 connections.

No change in water and sewer rates will be required to meet either bond converge requirements or cash reserve policy levels.

Expenses

The budget includes funding of \$113,236 for 3% average merit salary increases, and also includes the two new personnel previously mentioned in this memorandum.

The budget includes the continued use of cash on hand to make capital improvements and capital purchases. The system's cash position is the result of the bond covenant requirement to generate net revenues equal to 1.4 times the average annual debt service of the Water and Sewer Fund. Cash on hand will be utilized for a number of purchases including the following:

- Replacement of sand filters at the Northwest Wastewater Treatment Plant (\$150,000).
- Sandblasting and painting of ten water plants (\$67,200).
- Purchases of auto flushers to be installed on dead-end water lines. These units periodically flush these lines to ensure improve water quality for customers served by the lines (\$68,350).
- An articulating loader for use by the Water and Sewer Construction crew (\$114,553).

- Purchase of a jetting unit for use by the Distribution and Collection Crew (\$42,700).
- Replacement of vehicles that have reached the end of their useful, cost effective lives.

The budget will result in a projected bond coverage factor of 1.57, well in excess of the required 1.4. Cash reserves of 30% of operating revenues are projected, which exceeds the policy level of 25%.

General Obligation Debt Service Fund

Revenues

A two-cent increase in the debt service tax rate (and the total tax rate) is included. This increase, along with a planned use of reserve funds, will be required to meet debt service requirements. Use of reserves will still leave the funds with reserves in excess of the amount required by policy.

Expenditures

Expenditures in this fund include payment of debt obligations, rebates to in-City MUD's and lease purchase payments. A General Obligation Bond sale in the amount of \$10.5 million is anticipated during the 2012-2013 fiscal year.

Pearland Economic Development Corporation

Increased revenue from sales tax will match the percentage increase reflected in the General Fund. Expenditures include \$2,152,000 for incentives to business to locate in the City. This incentive amount reflects obligations that already exist as well as funding for new business opportunities that may come to light during the fiscal year.

Conclusion

I would like to express my appreciation to all members of the City staff who contributed to the development of the budget and this document. I especially wish to thank Finance Director Claire Bogard, Budget Officer Bobby Pennington, and all members of the budget staff for their efforts.

Respectfully submitted,



Bill Eisen
City Manager