

**City of Pearland**

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MEMORANDUM

TO: Mayor and Council
FROM: Bill Eisen, City Manager
DATE: October 1, 2013
SUBJECT: Adopted 2013-14 Operating Budget

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The Adopted Operating Budget for the 2013-2014 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

Once again, two factors played major roles in the development of the budget, the improving Houston area economy and the City's increasing population.

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 permits.

Sales tax revenue for the current year is up by 9.1% over FY 2011-12 levels, as of the end of May. The Adopted Budget for 2013-14 includes a total increase in sales tax of 7.8% over the projected revenues from this year. This increase assumes an overall increase both in the volume and dollar value of sales.

Building Permit revenue is also projected to maintain the strong levels that have developed during the current fiscal year. The Adopted Budget for 2013-14 anticipates 1,000 single family permits.

Another economic factor that will impact revenues is an increase in property values, due to both new construction and the addition of property values from the MUD #4 area which was annexed into the City on December 31, 2012. 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 and the addition of MUD #4 will more than offset the slight decrease in existing home values for existing properties for 2014. The tax roll is projected to increase over the current year by \$504 million or 7.7%. Of the \$504 million increase, \$214 million results from the annexation of MUD #4.

Another significant factor that impacts the Adopted Budget is a 3% increase in population. This increase in population results in a need for increased services to meet the needs of new residents. This projected increase in population is the result of both newly constructed homes and multifamily dwellings.

The Adopted Budget includes no increase in either the property tax rate or water and sewer rates. 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 remains unchanged at 49 cents.

Council Goals

On March 2, 2013, the City Council held its annual Goal Setting Retreat. The following Goals that have budgetary implications have been addressed in the Adopted Operating and Capital budgets.

Goal II.B. – Continue to implement proactive ways to share (financial) information with citizens.

The budget proposes to eliminate the contract for videography and editing services and replace it with a full-time employee. This change will result in a net increased cost of \$9,387, but will greatly increase the resources that are available to provide information to the public regarding financial and other City affairs.

Goal III.A. – Continue to build relationships with all stakeholders and actively lobby elected officials/TxDOT to ensure Pearland's priority transportation interests/needs are met.

The City was awarded federal funding to pay 80 percent of the cost of the widening of Bailey Road from Veterans Drive to FM 1128. The City also was granted 80 percent funding for the extension of McHard Road from Mykawa to Cullen. Neither of these grants will impact the upcoming year budget but will have a long term positive impact on the debt service portion of the property tax rate.

Goal V.A. – Adopt and assist in implementation of PEDC Strategic Plan.

The City Council adopted the Plan and the budget includes \$350,000 to begin implementation.

Goal VI.A. – Continue to work towards implementation of Cullen/FM 518 Regional Detention Pond.

The Capital budget includes ongoing funding for land acquisition and construction of the facility.

Goal VI.B. – Coordinate with TxDOT and implement lower Kirby Regional Detention plan.

The Capital budget includes funding for TxDOT approvals and continuing design of the first phase of the project.

Goal VIII.C. – Explore possible partnerships with advocates for skatepark and BMX park.

The budget includes \$40,000 for design of a skatepark facility. When design is complete, funding partnerships with interested groups will be pursued.

Goal VIII.A. – Develop plan to reduce euthanasia rate at Animal Control shelter.

The budget includes funding (\$29,375) for an Animal Shelter Attendant to staff the shelter on weekends so that Animal Control Officers can attend more adoption events.

Other Major Issues

In April 2013, the City Council authorized the hiring of a consulting firm to conduct a classification and compensation study of all City positions. The purpose of the study was to determine if all persons were correctly classified based upon the functions performed by each employee. The study also included a salary survey of competing cities to determine if City of Pearland salary ranges were competitive in the market. The study concluded that a number of changes in salary ranges were needed so that the City could attract and retain quality employees. The following costs associated with adjustment of the salary ranges and associated changes in salaries of individual employees are budgeted:

General Fund	\$1,957,337
Water and Sewer Fund	236,015
PEDC	12,070
Other Funds	9,162
TOTAL	<u>\$2,214,584</u>

The above data includes the cost of salary related benefits and scheduled overtime for public safety personnel. Under the implementation plan all employees whose salaries are below the new minimum for their classification will receive an increase in compensation to bring them to the minimum of the new range. In addition, employees will receive a minimum of 3 percent pay adjustments based upon length of service in their current position. For this one year only, employees pay adjustments will not be based on performance evaluations.

Once again, this year the budget emphasizes public safety operations and provides funding for the following:

- 9 additional firefighting personnel to staff the newly reconstructed Fire Station 3. The station is projected to open in October, 2014, but personnel are budgeted to be hired on August 1 to allow time for training prior to the station opening. Some of these 9 personnel will not be needed if EMS/Fire Consolidation takes place and a three shift structure is adopted. The number of new personnel needed in that instance will depend upon the number of EMS personnel who opt to cross train.
- Addition of a 5th ambulance to operate 12 hours per day during peak call times. The purpose of the addition is to ensure adequate resources to handle simultaneous calls during these peak times. Funding for two EMT-Basic and two Paramedics at a total cost of \$171,394 is budgeted. The projected cost assumes a start date of December 1 to allow for the hiring process. A new ambulance for this unit is also included in the budget.
- Replacement of two ambulance units, each with more than 135,000 miles. One unit is a total replacement (\$134,525) and one is to be replaced with a remounted module on a new cab and chassis (\$94,325).
- Funding for the anticipated consolidation of the Fire and EMS departments is also included in the General Fund. Projected costs include training and its associated overtime costs (\$256,000), protective fire gear for EMS personnel who cross-train as

firefighters (\$108,000), and uniforms for personnel who cross-train (\$36,000). The projected schedule calls for consolidation to take place on October 1, 2014.

- Replacement of a 20-year old Fire Pumper that has exceeded its life expectancy (\$625,000).
- 3 additional Police Officers and associated equipment to begin on February 1 are included in the General Fund (\$316,666). The additional officers are budgeted to meet departmental needs associated with growth in population and number of calls for service.

During the current fiscal year the City completed an Information Technology Needs Assessment and Five Year Master Plan. The purpose of the Plan was to ensure that departments have adequate technology resources to maximize productivity of City personnel. The budget proposes expenditure of \$339,422 to include addition of a System Administrator, shortening the computer replacement period from six years to four, and replacement of Lotus Notes with Microsoft Outlook e-mail server and license, internet connectivity and redundancy, and a consultant to begin the process of replacing the current 18-year old enterprise application software (payroll, accounts payable, general ledger, permits, and utility billing).

In the most recent citizen survey, the number one concern of Pearland residents was traffic. The adopted budget funds the first year of a three-year program to install flashing yellow left turn arrows on traffic signals in the City. The first year program includes installation along FM 518, parts of Dixie Farm Road, and along Magnolia (\$138,186). A related project (\$192,000) will replace span wires, signal heads, and controller cabinets for FM 518 signals at the intersections with the West Wal-Mart, Cullen, Woody, and Woodcreek. Replacement of these signals is due to electronic and other problems that cause these signals to frequently go into flash mode, resulting in traffic delays.

The first of three major park projects is now under construction. The Max Road Sportsplex is projected to be completed in April, 2014. In order to allow time for the grass on the playing fields to become established, the fields will not open for play until the fall soccer season. However, it will be necessary to purchase various equipment for the location during the 2013-14 fiscal year. This equipment includes 22 picnic tables, two shade structures, 3 trash receptacles, and a scoreboard. In addition, supplies, tools, utilities and mowing/landscaping services will be required for the five month period from May – September (\$244,034).

This document contains a number of summary sections intended to make the budget easier to review and understand.

- Overviews of each fund are provided at the beginning of each Fund's budget.
- An overview of Property Tax Revenue begins on page 61.
- A Highlight section which describes major funded proposals begins on page 33.
- Lists of funded Supplemental and Capital Requests begin on page 438.
- A list of unfunded requests begins on page 446.

General Fund

Revenues

The adopted property tax rate is \$.7051/\$100 valuation, the same rate as the current year. The allocation of the tax rate remains \$.49 for debt service and \$.2151 for operations.

The tax roll is projected to increase \$504.9 million, or 7.72% over the current roll. The General Fund will see an increase in current tax revenue of \$812,023 and an increase in TIRZ Administration Fees of \$474,714 as a result of the expanded tax roll.

Sales Tax revenue continues to reflect the strong economy of the Houston area and is projected to increase by \$1,245,690 over the revised estimate for the current fiscal year. This reflects an increase of 7.8%. This projected increase is believed to be a reasonable one due to the projected 9.1% increase in the current fiscal year.

Revenue from Building and Trades Permits is projected to increase by \$202,898 due to continued strong residential construction. Activity next year is expected to remain high due to the strength of the local economy and the increasing inventory of lots.

Fines and Forfeiture Revenue is expected to increase by \$435,596. This is primarily a result of the increased number of police personnel added during the current and upcoming fiscal year and an increase in the volume of vehicle traffic on City streets.

While not a current source of revenue, the budget proposes to utilize \$2,835,322 in General Fund reserves to fund various non-recurring expenditures. Use of these funds will still leave \$13,053,848 in reserves, an amount that exceeds the City policy by \$3,409,967. Use of these funds reduces the need to issue short term debt for some larger capital items and it returns these funds to taxpayers in the form of enhanced service capability while also maintaining strong cash reserves. Examples of expenditures funded by these reserves include new vehicles, some computer replacements, training for Fire and EMS personnel needed to consolidate the two departments, skatepark design, initial equipment for the Max Road Sportsplex, left turn flashing arrow program, traffic signal upgrades, final phase of the Comprehensive Plan update, and road construction equipment. A detailed list can be found in the "General Fund Supplemental and Capital Requests Funded" section beginning on page 438.

Expenditures

Total General Fund expenditures are projected to be \$62,946,558, or an increase of \$753,666 over the 2012-13 budget. However, it should be noted that the current year expenditure included a number of large one-time costs including approximately \$2,000,000 in the Fire Department budget for purchase of a new public safety radio system, phone system replacement (\$470,060), and two fire trucks (\$1,350,000).

The General Fund budget proposes the addition of 24 new personnel including the previously mentioned public safety positions:

- 9 firefighting personnel for Station 3, to be hired on August 1. Some of these personnel will not be needed if the EMS/Fire Consolidation occurs and a three shift structure is adopted.
- 4 new personnel to staff a fifth ambulance that will operate 12 hours per day, during peak periods. These personnel are budgeted to start on December 1.
- 3 new police officers to start on February 1.

In addition, the following new positions are added:

- The Presiding Judge of the Municipal Court currently works part-time on an hourly basis. Due to the increased volume of activity in the Court, the budget proposes to make the

Presiding Judge a full-time employee. This will allow for additional arraignment dockets, property and motion hearings, and bond forfeiture hearings. The cost to convert the position from part-time to full-time is \$7,283. The additional available judge time will also require addition of contract prosecutor time and a part-time Court Clerk. The total cost of making the Presiding Judge full-time, adding a part-time Court Clerk, and contracting for additional prosecution time is \$41,188.

- The number of Information Technology staff has not increased for 7 years despite the continued expansion of the number of users and applications it supports. A needs assessment completed during the current year recommended the addition of a Systems Administrator to increase the support capability of the IT Department. The cost of the position is \$60,602.
- As the City organization and its departments have grown, the number of projects, equipment, and goods and services that must be bid and purchased has also grown. The increases in purchasing workload in a department of two people has resulted in reduced service levels to departments. The budget proposes the addition of a buyer position to assist with the additional workload (\$50,581 for 10 months).
- The City's Communications Department utilizes a contract Videographer/Editor to cover City Council meetings as well as cover community events. The budget proposes to replace the contractor with a full-time employee in order to make more hours of time available for projects and programs that enhance the City's ability to communicate with citizens. The cost of replacing the contractor with an employee is \$9,387.
- One of the City Council's goals is to reduce the euthanasia rate at the Animal Shelter. The budget proposes to add an Animal Shelter Attendant to free up Humane Officers to make more appearances at animal adoption events (\$29,375 for 11 months). A transport van, funded from donations, is also included.
- A prior year budget reduction eliminated a Project Coordinator position in the Engineering and Capital Projects Department. Since that time, the number and complexity of projects handled by the department has increased. The reinstatement of the Project Coordinator position is in the budget. The cost of the project, which will be funded entirely from Capital Projects Funds is \$51,454.
- The Fire Department has only two management level employees that work a 40-hour week and are available 5 consecutive days each week. This means much of the management of training programs, apparatus maintenance, uniforms and protective gear, and other support needs is done by Shift Commanders, taking away much of the time needed for management of day-to-day operations. The budget proposes the addition of a Fire Logistics Captain to take away some of these responsibilities from line officers. The cost for 11 months is \$77,967.
- The number of inmates in the jail has increased significantly over the past year. The addition of one jailer will allow the Police Department to expand its ability to oversee prisoners, maintain a customer service window, and monitor cameras and alarms in the jail. The cost of the position for 11 months is \$45,836 which will be partially offset by a \$3,317 reduction in overtime costs.
- Conversion of a part-time to a full-time position is budgeted for an Administrative Secretary in the Human Resources Department. Increased workload has necessitated additional staff hours being available. The cost of the upgrade is \$34,596.
- Due to the shift to contracting for custodial services, a Custodial Services Supervisor will be eliminated from the Custodial Services budget.

The General Fund budget also includes funding to continue replacement of damaged sidewalks that create trip hazards. The budget includes \$437,000 for this purpose. However, due to the number of sidewalks damaged due to the drought and age, it is anticipated that use

of current revenue to address the problem in the operating budget will not be adequate to provide timely completion of repairs and replacement. The Public Works Department is currently compiling a list of damaged sidewalks along with an estimated cost of repairs. When that is complete, the staff will recommend use of a combination of General Fund revenues and Certificates of Obligation to address the problem in a multi-year program.

\$600,000 is budgeted to rehabilitate and pave asphalt roads in partnership with Brazoria County. Under this partnership, the City furnishes materials and flag people while the County provides equipment and equipment operators. The net result is that the City is able to complete these projects at approximately 60 percent of the cost of having the work done by private contractors. Both the sidewalk and asphalt street improvements are paid for by refunds from TxDOT of city contributions to city-state projects that were completed under budget.

The budget also funds two large pieces of equipment to be utilized by the Street Department. A motor grader (\$124,543) and dual drum compactor (\$133,600) will be utilized for in-house road repair and paving projects. Purchase of these two pieces of equipment will reduce annual equipment rental costs by \$62,231.

Water and Sewer Fund

Revenues

Revenue from charges for water and sewer service is projected to increase by 4.4% or \$1,190,341. There are no changes in water and sewer rates for FY 2014. The projected increase is due to a 3% increase in the customer base and a full year of revenue from the MUD #4 area which was annexed December 31, 2012. The additional revenue from these two sources and the adopted expenditure program will result in projected ending cash of \$9,581,420 or 31% of annual operating expenses, significantly above the City policy of 25%. Projected bond coverage is 1.41. A coverage ratio over 1.4 will be necessary in order to sell needed bonds during the 2013-14 fiscal year.

Expenditures

The addition of five new personnel is included in the budget, including:

- An additional Operator in Training position to assist the lone operator who currently is responsible for daily checks and routine maintenance on the City's 85 wastewater lift stations. First year cost for the position and a vehicle is \$58,229.
- An additional Water Production Supervisor and two operators to provide expanded ability to flush dead end lines, carry out the Unidirectional Flushing program, and help maintain the City's 13 water wells and pump stations (\$222,353).
- One additional clerical position in the Utility Billing division. A billing clerk was last added in 2009. Since that time, the number of billings has increased by more than 34,000 per year. Automation has allowed the division to operate without additional personnel despite this growth, however, workloads now make the additional staffing necessary (\$38,732).

The budget also proposes installation of payment kiosks at both City Hall and the Public Safety Building. These kiosks will allow for drive-through, 24-hour payment of water bills. The kiosks will accept cash and coins, credit cards, and checks (\$100,638). Addition of this

equipment will give customers one additional way to pay bills when it is convenient for them to do so and will allow us to close the drive through windows at both locations so staff time assigned to the windows can be reallocated.

Also included are a number of major maintenance items required for continued reliable operation of the water and wastewater systems.

Debt Service Fund

The adopted debt service tax rate remains at \$.49 /\$100 assessed value. The budget calls for a previously planned draw down of fund balance in the amount of \$771,916. The 5-year forecast included a draw down in order to minimize or in this case, negate the need for a tax rate increase to meet debt obligations. The fund will complete the year with a balance of \$634,794 in excess of the City policy requirement of 10% of annual expenditures.

Pearland Economic Development Corporation

The PEDC budget allocates \$2,794,889 for incentives to businesses considering locating in the City. This amount includes amounts due under existing agreements and also sets aside \$870,000 for new opportunities that may arise during the coming year. The budget also includes funding to begin implementing of Pearland 20/20, the newly adopted PEDC Strategic Plan (\$350,000).

Other Funds

Hotel/Motel – CVB

Hotel/Motel Tax revenue is projected to increase by \$218,029 over fiscal year 2013 budget due primarily to two hotels located in former MUD #4 being in the City for the full fiscal year.

The budget proposes expanding the City's effort to attract meetings, events, and tourism to the City. The current budget contains funding for two staff people to perform this function. The adopted budget includes addition of a Sales and Events Manager to expand CVB efforts (\$46,634). The budget also includes lease payments for the office and visitor center in Pearland Town Center (\$37,500), support for the Pearland Crawfish Festival (\$31,000), funding for familiarization trips (\$15,000), and website redesign (\$15,000). The budget anticipates a year ending 2014 balance of \$2,518,063.

Solid Waste Fund

A Customer Service Clerk for the Utility Billing Department is budgeted (\$43,301). Due to increases in garbage-service related calls, additional staffing is required to assist garbage customers with questions and problems and act as liaison with the City's vendor to set up new commercial accounts.

Conclusion

I would like to express my appreciation to all members of the City staff who participated in the development of this document. I especially want to express my appreciation to Director of Finance, Claire Bogard, and Budget Officer, Bobby Pennington.

I look forward to discussing the budget with you during the upcoming workshops.