

July 29, 2016

Honorable Mayor Reid and City Council members,

The value that Pearland brings

Matt Buchanan, President of the Pearland Economic Development Corporation (PEDC) and Executive Manager of Development Services for the City was one of our presenters during our second year of organization-wide 'Road Shows.' Road Shows are employee-presented information sessions to fellow City of Pearland colleagues. Matt shared the importance of economic development to a community along with the strategic priorities and recent accomplishments of the PEDC. All of which were related back to a simple formula that is so important to the vitality of our Community:

$$v * tr = r$$

The property and sales value (v) of the community multiplied by the tax rate (tr) brings financial resources (r).

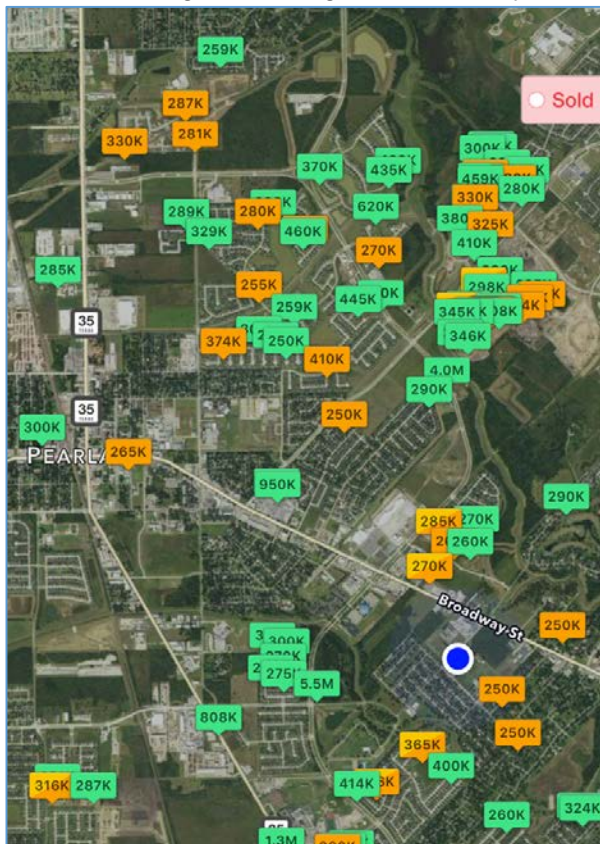
The proposition is that, as far as financial resources to the City are concerned, our tax rates will not change much (more on that later). What we can affect through our efforts every day increases the **value**. Communities that are strategically focused on increasing value create a place where demand for quality real estate and services drives up values. Year-over-year those communities are successful in generating the financial resources to provide essential public services. This is a simple concept but one that powers the City of Pearland and local governmental entities' ability to provide quality services to our residents.

There are many things outside of the direct control of City government that drive value in our community. The overall regional and global economy -- the price of oil, health care costs, and interest rates are a few

that come to mind -- move value trends up or down. Closer to home, quality public education is likely the single-most important factor in the home buying decisions. Long term, the quality of our schools will be a major determining factor of value that will sustain our City. Other factors are an available workforce that's flexible and trained, and a superior quality of life along with access to markets/customers.

So, what can be done by the City of Pearland to enhance sustainable growing value? We do have options within City responsibilities for decision-making to enhance value. Mobility and infrastructure improvements are most often recognized. We have an aggressive and successful capital improvements plan for roads such as McHard and are building a surface water treatment plant, both of which are among the \$545 million in projects within the 2017 - 2021 Capital Improvements Program. Additionally, investment in corridor development and entryway enhancement make Pearland more attractive to both new businesses and new residents.

The City of Pearland tax base remains dominated by residential uses, nearly $\frac{3}{4}$ of the total. The screen shot at left from a Houston Association of Realtors

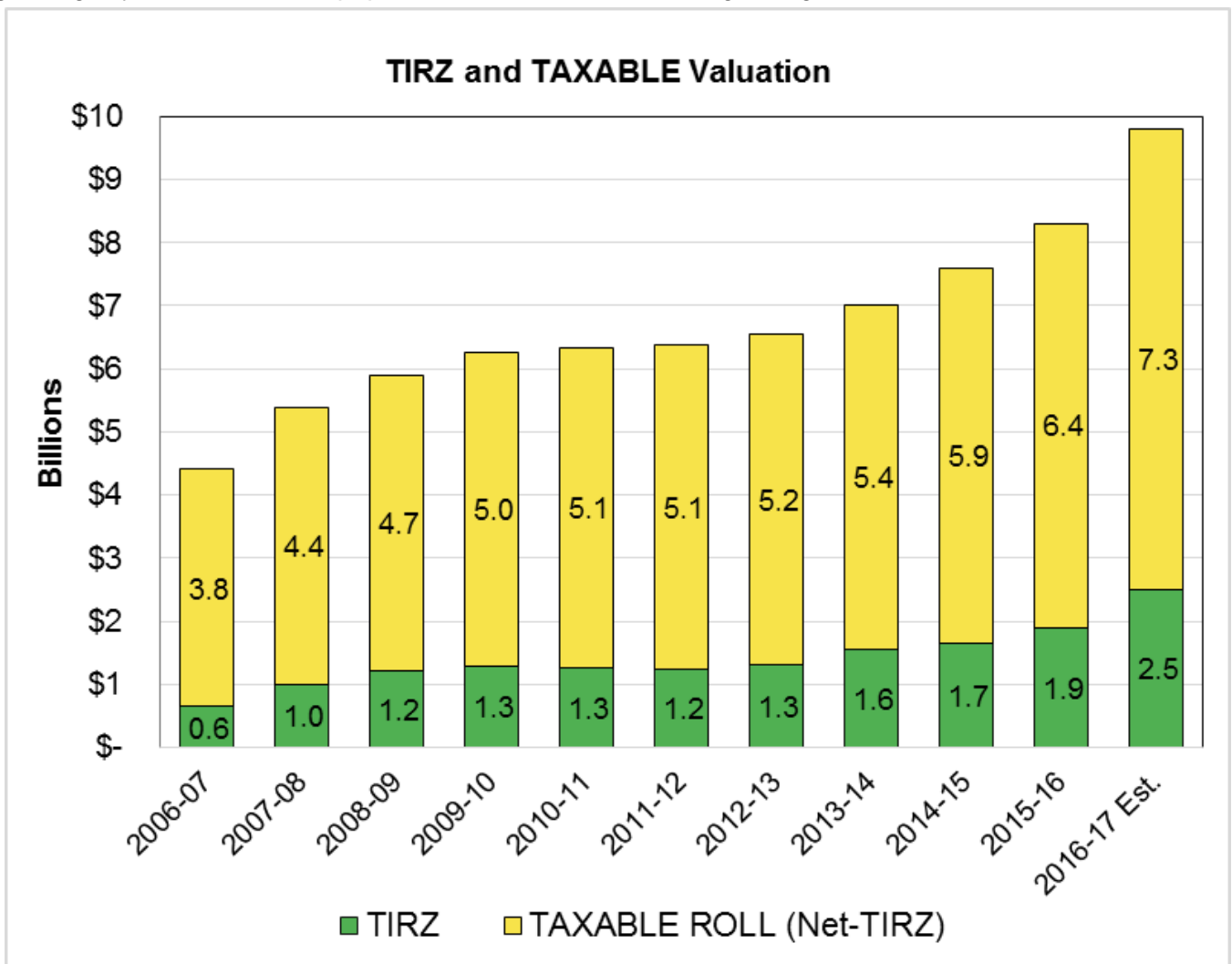


application shows areas of new construction and houses for sale. The snapshot in time also shows established residential neighborhoods that are stable and continue to invite newcomers, move-ups and downsizers.

Values do not always rise. After the national financial crisis, from 2010 through 2013, the values remained relatively flat for three years. However, the extraordinary jump from revaluations in a quality community and new growth have brought the taxable roll (excluding the Shadow Creek Ranch TIRZ) to \$7.32 billion, a 13.9% jump from the prior year. There is definitely positive momentum. There is past precedent for high velocity growth, excluding value from annexation, for the three years from 2005 through 2008 of compounding 20% growth, but the last year's community attainment is notable.

Of course, cities in Texas are mandated to have a process for operating revenue growth to be capped at 8% (excluding new valuation) before an additional process is required for the adopted rate. The implications and opportunity from this are described later in this document.

As we navigate through the inevitable development cycle every city experiences, our paradigm will continue to shift away from relying on new development and move toward cultivating value in our existing assets. This can be a difficult transition for cities to make but one that can and should be planned for by making sound financial decisions and strategic investments in our community. Commitments made today in infrastructure, mobility, public safety, technology, exceptional services and sustainable, high quality development will pay dividends in the future as Pearland continues to be a growing city; less in terms of population and more in terms of growing value.



Big picture

When our budget team met over the last several months to review department requests and rationale and make funding decisions, the chart template below through many iterations drove much of the subsequent discussions.

General Fund Overview (dollars in millions)	FY 2014/15 Actual	FY 2015/16 Amended Budget	FY 2016/17	
			At Rollback Property Tax Rate	w/ Two cents Additional to O&M
Beginning Fund Balance	\$19.5	\$21.4	\$14.4	\$ 14.4
Revenue	\$65.9	\$71.3	\$72.2	\$ 74.2
Expenditures (including transfers)	\$64.0	\$78.2	\$74.9	\$ 76.7
Operating Net	\$1.9	\$(6.9)	\$(2.7)	\$(2.5)
Ending Fund Balance	\$21.4	\$14.4	\$11.7	11.9
Targeted minimum fund balance (2 months of recurring operating expenditures)		\$11.2	\$11.5	\$11.9
Totals may not add due to rounding. Amended FY 2015/16 Budget through July 2016 amendments. Two cents additional to O&M shown in green reflects \$2 million additional revenue from property tax and spending \$1.2 million; targeted fund balance of 16.7% estimated on new expenditure total.				

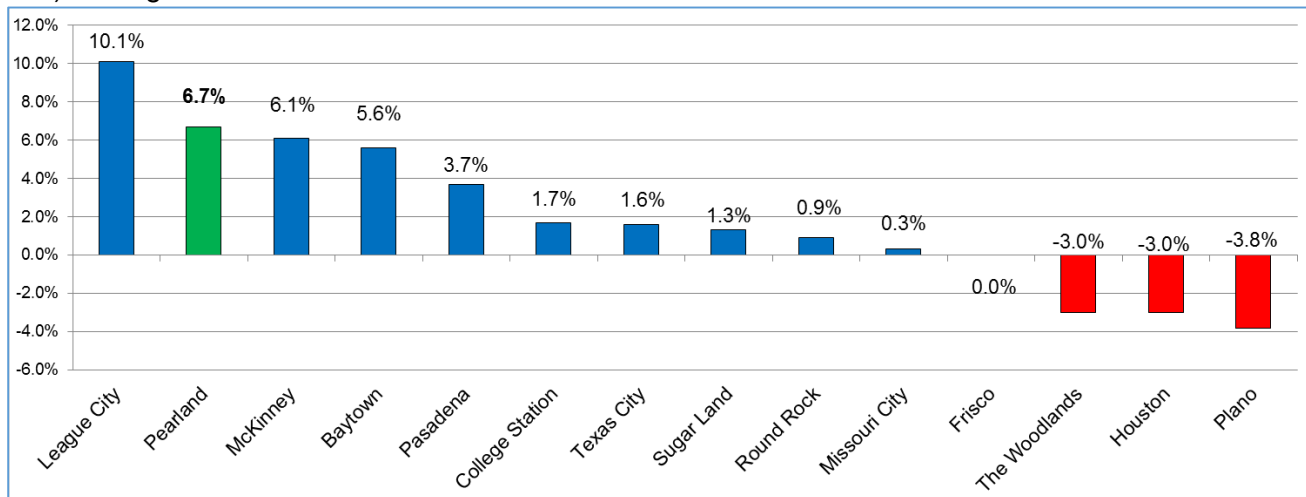
As presented, net revenues are less than expenditures for FY 2016/17 by \$2.7 million. Though some of that is attributable to the recommended supplemental requests for non-recurring items, **most of that negative net for the upcoming fiscal year results from ongoing expenditures exceeding revenues.** The operating deficit remains a manageable concern for the next fiscal year ending September 30, 2017. However, without continued substantial value and sales tax revenue growth, it will continue to hamper our ability to serve community needs.

A significant portion of this imbalance is driven by the increases seen in last year's budget. The City undertook major service expansions with Police and Fire (two new stations opening with associated 24-hour operations and eight additional police officers, in fiscal year 2016) that are being absorbed financially. Continued growth and revenue expansion are planned to provide us with structural balance in future years. The notation for the big picture above is that with property tax at the rollback rate, the ending fund balance at end of FY 2016/17 is only at the targeted minimum fund balance. Moreover, to get the expenditures down to a level to even achieve that minimum balance, the streets and sidewalks maintenance expenditures had to be cut below the last two years' amount.

Revenue -- Sales Tax

While property tax is the sole resource for debt service, **the largest operating revenue to the General Fund is sales and use tax**, which is based upon the value of goods and services sold within the community. The Pearland Economic Development Corporation (PEDC), an extension of the City with specific outcomes, relies almost entirely on sales tax revenue.

City operations have benefitted from the symbiotic growth in the number of retail establishments and rooftops. With energy, a big driver of the metro economy, having a cooling effect on the economies of many Texas cities, Pearland's sales growth remains robust as shown in a rolling last 12-month (from May 2016) average for Pearland and selected other Texas cities:



Keeping in mind the uncertainty surrounding the price of oil and the relative volatility of sales tax, this budget is presented with a projected 4% sales tax growth for FY2016/17 in the General Fund. **Sales tax revenues are budgeted for \$20.5 million in FY 2016/17, 28% of the total revenue.** The Pearland Economic Development Corporation is budgeted for another \$10.2 million. We believe this to be an appropriate estimate with our current retail and population growth.

Revenue – Property Tax: Our Two Cent, or more, opportunity

Values of the City's tax base have grown such that **the City's required tax rate for debt service requirement will decline for FY 2016/17 by 4 ¼ cents, from \$0.4828 to \$0.4400 per \$100 valuation.** The growth in taxable value is complemented by interest rate savings through the City's successful refinancing of existing debt, using the same debt structure.

When we made future estimates during budget preparation in 2015, the projection showed the anticipated 2017 General Fund Levy at \$0.2394 and Debt Service at \$0.4900 for a \$0.7294 total, increasing to \$0.7494 total projected out to FY 2017/18 at the time. The adopted rates came down slightly less through the budget process for 2016 than initially shown during the budget presentation. Regardless, looking at the available information from last year to now, the rates are about seven cents less – the power of momentum on the tax base value has significant effects.

The value power is also felt for the school districts, which have twice the total rate as the City's rate. For instance, Alvin ISD had a total rate going up just *three* pennies following a large voter-approved capital bond program. Projections from the new bond issue for additional school buildings in that growing district were described to voters as an *eight* penny increase when it went to the voters. In essence, AISD will fund their bond program next year using less than half of the planned tax rate increase. Likewise, Brazoria County Drainage District #4 is planning a flat 15.5/\$100 rate; Pearland ISD is planning a rate no higher than current (although they have a bond issue likely to come for voter consideration in the next year).

For the upcoming FY 2016/17 annual budget, the lowered debt service rate presents O&M rate options for the City. The effective tax rate brings in the same operating revenue as last year, excluding new properties. A tax rate at the State rollback rate decreases the overall rate by four cents due to the reduction in the debt service component of the tax rate. Two additional options are shown below. If the overall rate is kept constant, the General Fund operations would be able to move up to 0.2655. However, **the opportunity is that given the increase in valuations, the ongoing needs of current operations and the need to put more resources into preventative maintenance and pay-as-you-go work, the**

City adopt a property tax rate of at least 0.6812. That would mean a 2.4 cent reduction from the FY 2015/16 rate, while simultaneously increasing operating revenue.

General Fund and Debt Service property Tax Rates	FY 2015/16 Actual Rates	FY 2016/17*			
		Effective Tax Rate	Rollback Rate (8% revenue cap)	Reduce Total Rate 2 cents and Improve O&M rate with two cents	Keep Total Rate Constant
O&M	0.2225	0.2048	0.2212	0.2412	0.2655
Debt service	0.4828	0.4440	0.4400	0.4400	0.4400
Total	0.7053	0.6448	0.6612	0.6812	0.7053
G.F. Property Tax Revenue + TIRZ Administrative Fee (in millions)	\$13.8 + \$9.2 = \$23.1	\$14.6 + \$9.7 = \$24.3	\$15.7 + 10.0 = \$25.7	\$17.2 + \$10.5 = \$27.8	\$19.0 + \$11.1 = \$30.1

*For FY 2016/17, the rollback rate in purple is used in the recommended budget revenue. The additional revenue by reducing the current total City property tax levy by two cents, yet still add two cents to operations and maintenance is shown in green.
 FY 2016/17 rates are estimates and rely upon best information before getting final numbers from County Assessor offices in August.

Apart from the positive revenue implications, **providing a new total of at least 24 cents per 100 valuation to City operations begins to better balance the operating tax rate versus debt service.** The ratio has been discussed at early input sessions on the budget as Pearland works to become long-term sustainable for the city we are becoming. In FY 2015/16, 68% of the total tax rate was allocated to debt service and 32% allocated to operations. The debt service is fixed, but by using an additional two cents to fund operations as opposed to a total four-cent cut, the percentage would be 65% and 35% respectively, a slight move to a better long-term ratio as we mature. Comparisons are difficult based on varying values, tax bases, and sales taxes; taking that into mind, the comparison city demographics table in this document show operations tax rates of 0.4100, 0.1703, and 0.4010, 0.4500, for McKinney, Sugar Land, League City, and Baytown respectively.

From a City property tax revenue perspective, using an additional two cents for operations annually is very significant. With our tax base, **the resulting \$2 million to City operations, we would recommend looking among a combination of areas:**

1. Additional streets and sidewalk maintenance and replacement.
2. Additional fund balance in excess of minimum for emergencies and economic contingency; narrow the operating net deficit.
3. Future capital improvements and capital outlay pay-as-you-go as opposed to debt issuance or other financing.
4. Accelerate fleet upgrades

Please note that there is nothing magical about the whole numbers of two cents; 2.5 or some other agreed numbers accomplishes much. More detail is shown below for additional two cents operating revenue to the General Fund from the rollback rate:

Outline of Potential Additional Items						
Item	Description	Item Amount	Running Total	(.2212) Rollback Rate		
1	Contribution to Police Fleet Replacement Fund	Allocating additional funding to the Police Department Fleet Replacement Program will allow for needed additional replacement vehicles in future years as there are large numbers being bought simultaneously this year.	\$ 225,000	\$ 225,000		
2	Additional Public ROW maintenance	Amount will cover the additional ROW maintenance in public Right of Ways, including within standards outlined at the June 11, 2016 Regular City Council Meeting.	\$ 200,000	\$ 425,000		
3	Maintain Streets & Sidewalks Funding	In order to remain within policy for required minimum fund balance, funding for Streets & Sidewalks was reduced in the recommended budget. This amount would re-establish funding level from last year and allocate an additional \$50,000 to the Streets & Sidewalks programs.	\$ 550,000	\$ 975,000		
4	Planner	The City continues to be among the fastest growing in the country. Funding would be used to hire an additional Planner to facilitate that continued development, somebody who can help with the annexation plans that have been identified in the Comprehensive Plan and for reducing reliance/cost on outside contractors. The Planner will help alleviate workload of existing staff and provide a more expedient experience for applicants.	\$ 77,000	\$ 1,052,000		
5	City Fleet Upgrades	This additional funding would be allocated to enhance existing vehicles and replace those vehicles that are past their replacement schedule date.	\$ 148,000	\$ 1,200,000		
6	Fund Balance	Additional funding would bring the General Fund up over minimum fund balance. With the energy economy and general uncertainty, it will be important to maintain an adequate amount of fund balance in case revenue is impacted.	\$ 600,000	\$ 1,800,000	(.2412) Additional 2¢ to O&M	
7	Additional Street & Sidewalks	This funding would be split between the Streets and Sidewalks Recapitalization programs. This funding, in addition to the funding outlined above in item #3, would bring the total combined budget for the Streets and Sidewalks Recapitalization programs to \$1,652,000.	\$ 200,000	\$ 2,000,000		
8	Sidewalk Gap Program	The Sidewalk Gap program provides funding to connect existing segments of sidewalks. This funding would allow the program to expand in FY17.	\$ 300,000	\$ 2,300,000		
9	Pay-as-you-go Future Equipment/ Recapitalization of City Facilities	Expansion of facility maintenance funding would allow the Facilities Division to extend the life of existing City facilities by increasing regular investment in the short term.	\$ 400,000	\$ 2,700,000	(.2512) Additional 3¢ to O&M	
10	Fund Balance	Additional funding, along with item #6, would bring the General Fund over minimum fund balance to \$2.8 million over minimum fund balance and improve net operating position. With the price of oil remaining low, it will be important to maintain an adequate amount of fund balance in case revenue is impacted.	\$ 1,500,000	\$ 4,200,000	(.2655) Current Rate Additional 4¢ to O&M	

In Texas budget law, the property tax revenue can simply be raised up to 8% from the prior year, excluding revenue from new construction. Beyond the 8% threshold, City Council can raise that rate based on the local situation and local decision, but there are provisions for citizens to petition for a vote on the additional revenue. According to information from the Texas Municipal League, that happens each year with about 10% of cities, some smaller places, but others higher growth (Frisco, Plano, North Richland Hills, Rowlett) similar to Pearland working to meet public service needs that the straight math of a revenue limit does not address. In 2014, according to TML, there were 67 of 704 cities adopting a rate bringing in revenue over 8%.

The budget that's formally presented does not include the additional revenue or expenditures associated with the two, three and four cents outlined above. All of the above scenarios exceed the estimated rollback tax rate; all but the last provides a lower overall City property tax rate from the adopted FY 2015/16 amount.

Should if the policy decision is to exceed the rollback rate, then qualified voters, by petition, may require an election to be held to reduce the adopted tax rate to the rollback rate. The petition must be signed by 7% of the number of registered voters based on the most official list and must be submitted by or before the 90th day after the date on which the tax rate is adopted. For the June 18, Runoff Election we had 64,896 registered voters and 7% is 4,543. If the election passes, the adopted tax rate is reduced to the rollback rate and correct tax bills are mailed. If the election fails, the adopted property tax rate stands.

Given the option for an election, additional expenses associated with the amount over the roll back rate would need to be clearly identified so they could be removed if reduced by the voters.

For future years beyond the FY 2016/17 Budget, the multi-year budget estimate with available information is that future debt service requirements can be held at \$0.4400 for at least one additional year, shown in the multi-year forecast. Those projections make estimates of future taxable value, which continue to perform strongly through calendar year 2016, but cannot be projected with certainty for out years.

A City taxable value of \$187,785 in tax year 2015, payable in 2016 is a fair average. **If the overall City tax rate goes down by 2.4 cents (still giving two more cents to operations), and the value of that same house goes up 10%, to \$205,700, the City tax bill goes up \$40 from that two cent rate difference, \$1,327 to \$1,367.**

Expenditures for investment and services

The proposed FY 2016/17 budget has total General Fund expenditures of \$75 million. That's a 3% decrease from the estimated current FY 2015/16 expenditures which includes the roll-overs and amendments recognized during the fiscal year. The \$75 million for FY 2016/17 is 2.1% more than the \$73.3 million in the original FY 2015/2016 adopted budget.

General Fund Expenditures (in millions)	FY 2014/15 Actual	FY 2015/16	FY 2016/17
Salaries and Wages	\$ 42.8	\$ 47.8	\$ 51.0
Materials and Supplies	1.8	2.7	2.4
Building and Grounds	1.5	3.1	2.0
Repair and Maintenance	2.4	3.2	2.8
Misc. Service	10.0	13.9	11.5
Inventory items	.3	.5	.4
Capital Outlay	3.9	4.5	3.4
Transfers out	1.3	2.6	1.4
Total	\$ 64.0	\$ 78.2	\$ 74.9

Totals may not equal due to rounding.
 FY 2016/17 in purple uses base expenditures, without addition available from additional property tax rate to O&M beyond rollback rate.

The table illustrates clearly that City government is a people business, so far as the General Fund resources are committed. **A full 68% of total General Fund expenditures are dedicated to staff wages and benefits.**

For FY 2016/17, our projected employee health care plan (assuming 611 full-time employees on the plan) with the City-funding 68% of dependent coverage and 100% of the Kelsey Care 80/20 employee-only, totals \$7.4 million. The City contribution is \$6.1 million of that total, or 83% while employees contribute in aggregate \$1.3 million, the remaining 17%.

For half of our staff team this year, those in the employee-only coverages, there is zero cost for their health care, as long as they are in the base Kelsey 80/20 program and have completed a wellness visit in FY 2015/16. For the other half, the City still bears the vast majority of costs at 83%. While employees' contributions for FY 2016/17 rose moderately, the increase is far less than prior years. That reigning-in of costs has been jointly achieved with plan changes, reduced major claims, and keeping current with the health care industry generally in regularly amending the program.

Public safety investment

Around our country, there have been too many instances of loss in law enforcement. Nearby Dallas lives were senselessly ripped forever. Now Baton Rouge. The ceremonies that followed were close to home

as just weeks before, the City of Pearland lost one of our own. **Police Officer Endy Ekpanya** was killed in a car crash on duty, Endy's life of service and family continues to be recognized, his accomplishments and commitments now known for what he quietly achieved. Our Chief Chris Doyle summarized things well, noting **Endy as a 'man of value' and challenging us all to emulate that characteristic**. Not an economic value as this budget is necessarily focused, but **value in public service, the kind of value that all of our City staff should strive to exemplify**.

The City of Pearland public safety efforts are headlined by our organization's Police and Fire departments, supported by the entire City organization and our community's residents, businesses and other governmental agencies. In Pearland, we have grown the staff resources, training, and technology to be even more modern and professional, a long-standing Pearland commitment.

Expenditures for Police and Fire in FY 2016/17 represent 54% of our \$74.9 million in General Fund expenditures at \$40.3 million, about equal to the FY 2015/16 estimate. However, **the \$40 million level for police and fire is \$6.5 million, 20%, more than the FY 2014/15 actual amount**. The additional personnel for improving service levels with additional police and fire represent a continuing commitment to this highest priority.

The table illustrates the number of employees for the last several years in a snapshot of each year, showing the success from Human Resources, Police and Fire administrations and the Communications Department with their marketing efforts - in recruiting quality candidates to join us.

Not willing to rest on our laurels, recognizing the realities of a large geography, and a complex community

City of Pearland – sworn police officers and non-civilian fire/ems Actual number on payroll for June of each year				
	June 2013	June 2014	June 2015	July 2016*
Police Peace Officers	141	144	155	161
Fire (reflects Fire and EMS)	42	53	73	81
Total and Change from prior year	183	197 +14	228 +31	242 +14
July is shown for 2016 and includes the three new officers sworn in the TCOLE certification, plus also includes eight officers coming out of police academy in August. As of July 2016, there are 163 positions used in budgeting and awaiting two slots to fill.				

of residents and business, a Police staffing and utilization study was budgeted for FY 2015/16. That study was awarded to the Berkshire group in January 2016 with results expected in August 2016.

In this budget, we have included funds, \$100,000, to begin implementation of the Berkshire study. There is also funding for four additional officers and additional vehicles.

This budget includes fleet replacements in police with 22 replacement police vehicles and three motorcycles. There is a replacement ambulance (\$160,000) and two replacement vehicles in the Fire Department.

The Fire Department continues to grow and evolve rapidly as an all-hazards organization and is making great strides at catching up with City growth. Recent reorganization created a Community Risk Reduction Division with strong emphasis on community risk reduction to prevent illness, injury, property damage and use of code enforcement to improve value as mentioned in the economic formula above. Problem property abatement work is beginning to see more success. A full-time emergency manager will provide someone dedicated to developing the contingency plans and resources, partnerships, and paperwork that's necessary before, during, and after an emergency.

Adding two Fire Stations and attending personnel to the Operations Division for incidents that occur beyond prevention is improving response times. A Training Division has been created to maintain and improve proficiency of all personnel across all Divisions and Administration. Groundbreaking for a new relocated Fire Station 1 at McHard and Old Alvin will occur in FY 2016/17. There will not be additional personnel necessary for this station move, nor are there additional firefighter positions over what we have added recently, but we do look forward to improved fire station facilities and better response times with Station 1 located on those arterial roads.

PFD continues its reputation of bringing nationally-renowned public safety speakers to our facilities for regional participation. Our citywide commitment to quality training and development builds and builds.

The results of a Standards of Cover and Staffing Utilization Study, awarded to Citygate Associates, should be available by February of 2017 in time to prepare for the FY2018 budget, if not before. The budget herein includes \$200,000 additional revenue from contribution by Brazoria County towards City-provided Fire services into the unincorporated portion of Brazoria County that is our ETJ. Discussions are ongoing with the County and could be more fruitful than that estimate; the City provides an estimated additional \$1 million in service outside our City limits.

Parks, recreation and events

Parks improve the local tax base and increase property values. It is proven that private property values increase closer to parks. (National Recreation Parks Association, 2015). Likewise, a Texas A&M review of 25 studies, investigating whether parks and open space contributed positively to the property values of surrounding properties, found in 20 of the 25 studies that property values were higher. "The real estate market consistently demonstrates that many people are willing to pay a larger amount for property located close to parks and open space areas than for a home that does not offer this amenity," (Crompton, 2010). The increase in private property value due to the proximity to parks increases property tax revenues and improves local economies. You can see real estate advertisements touting adjacency or proximity to any number of parks, playgrounds, pathways or open waters.

With a current 5-year Capital Improvement Program of \$23.7 million, our Parks & Recreation Department is gaining status and appropriate momentum as a premiere agency among peer communities. This program includes the addition or enhancement of 13 Park or Recreation amenities ranging from additional phases to completed projects, increased mileage to a multi-modal trail system, a systematic recapitalization and the addition of our City's new Delores Fenwick Nature Center. These projects will close out the remaining Parks & Recreation components of the 2007 Bond Referendum and pave the way to identifying the new opportunities to serve our residents through this departmental vehicle.

Our Recreation Center & Natatorium is entering the sixth year of operation with a membership constituency that exceeds the retention curve typically considered of similar facilities. With a current membership base that has varied less than 3%, the facility continues to operate in a dynamic fashion meeting the changing needs of a growing community.

Special Events are positioned with a unique perspective to provide an outlet for leisure as well as a revenue stream to municipalities. This coming year our citizens, along with the nation, will celebrate Super Bowl XLI, as collaboration with Pearland Convention and Visitors Bureau provides expansive opportunities to participate in Super Bowl XLI, hosted in Houston. **Pearland has become synonymous with several hallmark events;** Winterfest and the Celebration of Freedom on July 4th, to name a couple. Most recently, with a new ability to track off-site viewing, we were able to quantify over 40,000 individuals enjoying events over the course of the year presented by our City. With celebrated special events and continually increasing attendance, it is important to recognize the community impact of these events. Staff is broadening in this budget to capitalize on the value of the Super Bowl XLI in Houston at the NRG Stadium, just five miles north of the Pearland city limits.

Even more important than the February 2017 Super Bowl for us are those Pearland community events and the 40,000 that our Parks and Recreation Department brings together. We are determined to make our events and gathering opportunities to be even more inviting for our diverse and vibrant community.

Parks are a tangible reflection of the quality of life in a community. They provide identity for citizens and are a major factor in the perception of quality of life in a given community. Parks and recreation services are often cited as one of the most important factors in surveys of how livable communities are. Trails and pathways have been improved in FY 2015/16 with completion of the 1.3 mile loop around the detention area and environmental center. The City transitioned and enhanced our partnership with Keep Pearland Beautiful that now operates the recycling center on Magnolia Road, giving them office space and a ready-made platform for their programs while relieving City direct day-to-day stewardship. The John Hargrove Environmental Center is set to finally see progress in 2017 on the construction of a new Delores Fenwick Nature Center on the City property for additional City and partner classes such as schools and KPB.

Valuing our staff talent

In a recent column advocating that Chief Human Resource Officers need to lead private businesses talent agenda, Korn-Ferry's CEO Alan Guarino wrote that, "Building a high-functioning leadership team is a people business. It will make or break successful execution of the business strategy."

Over the last two years, we have made a concerted effort to bring together, inform, support, and professionalize our large talent bank of City employees. With the implementation of an online learning management system, improving the use of technology in process and procedures and engaging employees through surveys and participation opportunities, we are making strides to show the employees of the city they, and their time, are of value to the organization. At the end of the day, these employees will be the ones who move ahead our Strategic Priorities and embody our Core Values.



In this budget, we have built in 3% wage increases for full- and part-time employees, a \$1.1 million expense. Moreover, we have initiated a city-wide classification and compensation study that will look at complete compensation definitively and independently. That report, once received, will give us a framework for current and future decisions; we have \$200,000 in this budget for phase I of implementation, to begin addressing any positions that are most out of sync with the market.

The Human Resources Department continues to be the leader in strategically developing, implementing and supporting programs and process that add value to the organization related to recruitment, retention and risk management. In FY 2016/17 the emphasis will be on the development of a fully functioning safety and risk program, the beginning implementation of the compensation and classification study as well as altering the service delivery model of the department to better improve the environment for our employees.

Capital improvements

As mentioned, our Capital Improvements Plan has \$545 million of projects within the next Five-Years. The vast majority, \$311 million, is for needed water and wastewater improvements. Those needs are

repaid by users of the systems, from the City's Enterprise Fund that operates as a business, charging rates to ensure the fund is self-supporting. We are being as cost-conscious as possible, including on the financing of these multi-million dollar investments. The Texas Water Development Board has been a great resource in providing financing extremely low interest. As has been written in some national publications, **now is a great time to be completing infrastructure work from a financing perspective. Pearland is doing that.**



For the remaining \$234 million, \$169 million is for new street widening or extensions across Pearland.

The capital improvement that will have the most impact is the SH288 Toll Lanes project that starts in earnest in fall 2016; the agreement between the concessionaire and TxDOT, in their public-private partnership (P3), allows 1,000 days for the completion of the toll lanes. That P3 work provides a new tollway alongside the free lanes from Pearland to/from the world-famous life-saving, research and teaching intensive, huge economic engine that is the Texas Medical Center. The TMC-Pearland express project also involves maintaining and improving the adjoining free lanes, including

reconstructing the SH288/IH610 interchange and providing direct connects from SH288 Toll Lanes to the Sam Houston Tollway.

Regarding the streets, facilities, drainage, and parks (all outside of utility enterprise funds) the good news for City residents and coffers is that \$112 million of the \$234 million is identified as "other funding sources," primarily other entities' money. City officials from Pearland have been active with the Houston-Galveston Area Council, our regional metropolitan planning organization, to recognize Pearland projects in the long-range Regional Transportation Plan (RTP) and ultimately the Transportation Improvement Plan (TIP), which allocates transportation funds across the region. Projects funded through the TIP gains Pearland access to State and Federal funds for up to 80% of the project cost.

Infrastructure Asset Recapitalization efforts

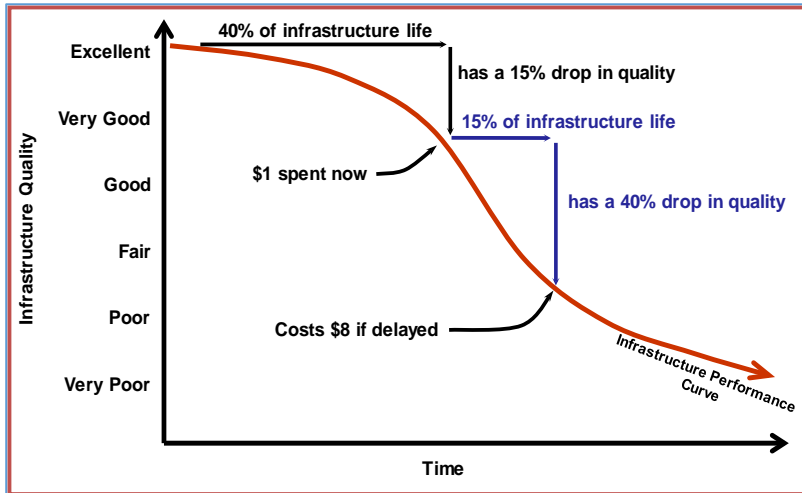
While initial capital construction costs can be shared with other entities, the maintenance for those completed works remain substantially on us locally. Continued investment in recapitalization is critical to maintaining value in future years.

We traditionally work with Brazoria County to perform City road overlay. For FY 2015/16, the work totals 4.9 miles of overlay and is scheduled to begin in mid-August, 2016. Public Works Crews have been performing sub base repairs in these areas since June in anticipation of this work.

To balance the FY 2016/17 budget, the amount for paving rehabilitation stands at \$515,000, below prior years and far below the targeted recapitalization range targeted. The FY 2016/17 paving program as cited in the March 2016 Five-Year Pavement Rehabilitation Plan includes two subdivisions as well as a few additional streets. The total length of paving in the two subdivisions totals approximately 8 miles. It can be expected that the County will agree to pave less than that, most likely in the 5 mile range as is scheduled to be done in FY 2015/16. However, staff will submit the entire FY 2016/17 list of streets to the County for consideration. Staff has prepared a document for FY 2016/17 locations that includes the Sleepy Hollow Subdivision, Zapalac Street, Regal Oaks plus several streets in the Old Townsite area.

As of this writing, the FY 2015/16 budget has approximately \$200,000 remaining for sidewalk repair. The FY 17 budget includes approximately \$328,000 for sidewalk work, below what's needed for substantive progress on open work order back order, let alone the targeted recapitalization amount.

Maintaining quality infrastructure requires constant reinvestment in (or recapitalization of) that infrastructure. Quality infrastructure, whether it be newly paved roads, great drainage systems, or reliable water and sewer capacity, contributes to the economic value of our City by enhancing property values and providing a place new and existing business want to invest.



In 2014 Public Works initiated a right of way (ROW) assessment. That assessment showed that overall the City's ROW was in good shape with a Pavement Condition Index (PCI) of 76. The City owns and maintains in excess of 430 centerline miles of roadway consisting of asphalt and concrete, with approximately 100 miles being asphalt and 330 miles being concrete. This is in large part due to the relative youth of the infrastructure within the ROW. Approximately 70% of the Pearland's infrastructure is less than thirty years of age, with the other 30% being in general

greater than forty years of age. The assessment concluded that in order to maintain the current PCI level the City should spend about \$3.7 million dollars (2014 dollars) in maintenance/recapitalization on streets alone. In challenging budgetary conditions it is difficult to raise the funding levels to this amount, but moving forward continued diligence must be shown in increasing the expenditures to this level.

Sidewalks are another integral part of the City's overall infrastructure wellness. Over recent years the City has shown a higher level of effort in restoring the sidewalks to a better overall condition. The current inventory of sidewalks is at approximately 547 miles. To date the City has repaired approximately seven miles of sidewalks. As work continues throughout the City, residents realize that progress is being made so an increased level of awareness has morphed into a higher number of service requests. Thus, making it appear that only small, incremental progress is being made in this effort. The ROW assessment of the sidewalks recommended an annual expenditure of \$1.5 million dollars per year (2014 dollars) to bring the sidewalks to the same level of service as the roadways.

Continuing to provide a better level of service for the residents, the Public Works team has also embarked on some programs in the areas of water distribution and sanitary sewer collections. During the drought of 2011 there were over 750 distribution system breaks. Of those, greater than 90% took place on a piping material known as Transite - this piping was popular from the 1950s through the mid to late 1970s. The City currently has 62 miles of Transite waterline, which is 12% of the potable water distribution system. As this replacement continues, the City's required expenditures for maintenance of these waterlines will continue to decrease. The Public Works team has also begun a sanitary sewer inspection program which will result in early phase of an Inflow and Infiltration (I&I) mitigation program. The culmination of this program will result in a reduction of wet weather flows at the various water reclamation facilities. In turn, this will result in a better Clean Water Act compliance rate and reduced operating costs for the reclamation facilities.

Right of way Enhancements

As the Right of way Division of Public Works approaches its second anniversary, the work in progress is very noticeable. It started primarily as the oversight of maintenance contracts (mulch, irrigation, fertilizer, trimming, mowing, pruning, trash pickup etc.) of the public ROW.

The responsibilities have grown and evolved with the team now developing a more advanced and comprehensive ROW Landscaping and Maintenance program, including the development of ROW policies, standards, GIS resources and programmatic recommendations that could impact our governing Ordinances. Further, the ROW divisions have partnered with the PEDC to manage the construction and maintenance of the new entry features at Cullen Boulevard, Pearland Parkway and Dixie Farm Road. The ROW Division works closely with the other, nonpublic, utilities that are located within the City's ROW and easements, assisting residents with any issues or concerns they are having within the ROW. This division is a the major driver in the recent aesthetic improvements to our public space within the rights-of-ways adding to the overall value of the community, which in turn attracts residents, businesses, and visitors further enhancing our taxable value.

Conclusion

The budget material here is my responsibility and recommendation as your city manager. The product here reflects the work of many great dedicated people in our organization. Pearland is transitioning and beginning to reap more and more of the benefits of the seeds planted by elected leaders and staff over the years. We are dedicated and working diligently to bring value by implementing the City Council's adopted strategic priorities, plans, and aspirations. The FY 2016/17 Budget represents a set of priorities to do just that.

We emphasize in communications that Pearland is not growing simply for the sake of growing. We grow because we are vibrant, diverse, and attractive.



The US Census Bureau released the fastest growing and shrinking cities across the United States. Pearland is among the fastest. That growth is stretching, challenging, and invigorating us in Pearland, Texas USA. We are building the systems and teams of people to welcome all these new residents who have chosen Pearland as their home along with us.

Our work is fixated on ensuring that Pearland remains a competitive and attractive city with increasing value so that we do not become one of the shrinking cities that were once "the" place, but now are on a downward turn of value. Pearland stays strong with all our great valuable people and places.

Respectfully submitted,

Clay J. Pearson
City Manager