

August 1, 2018

Honorable Mayor and City Council members,

During our employee `road show' sharing events over the last month, I found myself sharing an observation that there is powerful, demonstrable progress throughout the Pearland community. Roads, facilities, and utilities are appearing alongside the private sector investments and new homes. We are described as an up-and-coming `cosmopolitan suburb' adjacent to the thriving fourth-largest city in the United States. Growth and diversity are the fuel that drives our progress. At these road shows, I have shared with the City organization that we seem to be at the cusp of the next level of operational and service excellence produced by the City. To that end, there has been significant investment and additions to staffing, technology, training, equipment, and support for the City. Now within reach, we are primed to continue forward and deliver.



Work pictures, like the one above, have become a favorite -- Lots of great, talented, dedicated people. These are public servants from City of Pearland Fire and Police whom we know, respect, and appreciate. The picture above in particular is a group of City employees who posed after an inter-departmental training exercise. The communication and skills learned working together, planning and preparing, means we are increasingly ready to serve. These professionals are backed up and supported with additional City resources from Fleet, IT, Communications, Dispatch, Records, and others that make the whole system work. Moreover, there are partners from Brazoria Drainage District 4, Pearland ISD, Alvin ISD Police, neighboring municipal fire and police specialized units, and many more that are available for natural disasters or man-made threats to public safety.

As we look ahead to FY 19 and beyond, standing ready, at the apex of an even greater Pearland, examples of the readying and/or delivery are:

- Enterprise-level software has taken root across the entire organization to provide new technology for daily use for financial, human resources, payroll, utility billing, permitting, and inspections applications. By connecting our systems we enhance our ability to realize efficiencies, both internal and

external, and provide our staff with analytic tools to solve problems. In FY18, we funded the Water & Sewer portion of our asset management system, the first of two phases in our asset management system. Phase Two will provide more for the General Fund to support Public Works is ahead.

➤ We are upgrading to an Advanced Metering Infrastructure (AMI) system to reduce water loss and put information in the hands of consumers, similar to what is experienced with modern electrical smart meters. The technology advancement over the existing drive-by automated meter reading (AMR) system. The upgrade is part of an investment in infrastructure and the future, precisely measuring the water used through more than 37,000 meters. The new AMI system will improve the long-term accuracy and information available related to water service. AMI comes with an added benefit of customer-facing data which will improve transparency and empower residents to optimize their own water usage by having information related to water usage at their fingertips.

➤ For emergency preparedness, we have pursued training, communications, vehicles, and technology. The epic rainstorm/hurricane Harvey experience remains on our minds. City reactions before, during, and after that specific storm have been lauded. Our staff did great work to help people in need. Their local government was there with the necessary support. Helpful and essential State and Federal resources arrived in the weeks following, but it was the City of Pearland locally, arm-in-arm with community partners, that answered the call. From that experience, we have been working continuously on improving resiliency, hardening systems with the goal of bouncing back from any emergency. We've taken lessons learned and completed some visible and other work behind-the-scenes to be ready, just in case. We used an allocation of FY 18 contingency to jump start our emergency management training program for staff in leadership positions. The upcoming FY 19 budget includes \$10,000 to continue that program.



Mobility

There's much to be proud of in our preparations and readying related to providing the network of mobility options that move commerce and traffic through Pearland and the Houston metropolitan area. After years of work to leverage outside funds, plan, develop, and design many significant mobility projects, FY19 will see many of these projects completed, underway, or primed to start construction. The most significant being the SH288 Toll Lanes project, dramatically improving capacity and safety on SH 288, providing toll express options from Pearland to the Texas Medical Center which is known for having the most employees in the region commuting to and from Pearland. We see now the direct connections taking shape to Beltway 8 and ramps right from Reflection Bay and Hughes Ranch Road. Moreover, we will see the expansion of the FM 518 interchange and the northbound Frontage Road between Magnolia Parkway and FM 518. These projects will transform mobility around Pearland's retail



nexus and for our commuters traveling daily to and from the Texas Medical Center and downtown Houston.

The new park-and-ride from our Shadow Creek Ranch Sportsplex to and from Houston's Texas Medical Center starts operations in September 2018. The service represents an exciting new public/private partnership. While the City will provide the parking, this program, provided at no cost to the City, will, for the first time provide an alternative transit option for our residents commuting to/from Houston. Shadow Creek represents the perfect location for the park and ride, given the short distance to Beltway 8 and the high density of residents who make that commute daily.

To complement the mobility improvements in the SH 288 corridor, Pearland Municipal Management District 2 and the Pearland Economic Development Corporation are making major aesthetic improvements to further distinguish and brand the City of Pearland. All of these projects require City partnership with Brazoria County, Brazoria Drainage District #4, Texas Department of Transportation (TxDOT), and other agencies to be successful.

The City is leading two projects that will provide additional capacity to alleviate traffic on FM 518 and provide direct access to the SH 288 Toll Lanes via the t-ramp access point at Hughes Ranch Road/Discovery Bay Drive. Hughes Ranch Road will be under construction this fall to widen the corridor to four lanes between Cullen Parkway and Smith Ranch Road. Smith Ranch Road will also be expanded to four lanes between Hughes Ranch Road and the existing four lane segment to the south. Both projects received approximately 80% federal matching funds through the Houston-Galveston Area Council (H-GAC) Transportation Improvement Program (TIP), amounting to about \$30.5 million total Federal Funds for Hughes Ranch (\$26.5 million) and Smith Ranch (\$3.9 million) in external funding leveraged by our staff for critical transit projects here in Pearland.

A final project of note, moving towards a reality, is the completion of the McHard Road corridor by constructing the remainder of the four lane boulevard between Cullen Parkway and Mykawa Road. This long awaited project, that is approximately 80% federally funded, will provide a much needed alternate east-west route to FM 518. The project is in the land acquisition stage and is currently scheduled to start construction near the end of calendar year 2019.

All of these projects add an economic development asset, in addition to the obvious transportation network expansion, while responding to one of our most consistently high-rated citizen concerns in our Citizen Survey. Moreover, the work comes with modern drainage enhancements to help us all weather the next storm more effectively. At the same time, we recognize that in this budget, we have minimal capital outlay for maintenance of our *existing* mobility infrastructure. The operating budgets just do not provide for the levels we desire, thus having to defer that again for another year.

With prosperity and growth, comes traffic congestion. To prepare for the future and continue our prosperity, we must provide the mobility projects to alleviate congestion for better access to jobs, our quality residential developments, and our booming retail centers. The current and upcoming mobility projects, plus future projects being prepared to pursue TIP funds and bond funds, will ensure our prosperity will endure.

[Economic development](#)

Pearland has long been a community focused on sustained economic growth and the previous year was no exception. In April, we celebrated the grand opening of Lonza's manufacturing facility in the Lower Kirby District. At 300,000 square feet, it's the largest dedicated cell-and-gene-therapy manufacturing facility in the world and is scheduled to employ 200 people by the end of this year. Also, in the Lower

Kirby District, Tool-Flo is nearing completion on the construction of its headquarters, training, and manufacturing facility. The 80,000 square-foot facility will be home to 150 employees when it opens later this year.

To ensure this growth continues in the Lower Kirby District, and as one of the key initiatives in our Pearland 20/20 community strategic plan, PEDC and the City have invested in many infrastructure projects within the District. We have partnered with the Management Districts to continue to develop regional detention, recently completed the reconstruction of Hooper Road, and will soon begin construction for the extension of South Spectrum.

Infrastructure work continues on the Ivy District, an urban mixed-use development with multi-family, town homes, condominiums, retail, potential office spaces, and additional infrastructure improvements including a public park in the Lower Kirby District. Through development agreements between the City and the Ivy District developer, American Modern Green, amenity space around the Lower Kirby District's regional detention pond will be developed as a public park that will include a playground, a covered pavilion, a 6-foot wide trail through the park and around the pond, irrigation and landscaping, and a pedestrian bridge across Clear Creek. The City's portion of the improvements will come from PEDC funds.

Another Pearland 20/20 strategic plan key initiative and catalyst for economic development in our community is the State Highway 35 Entryway and Corridor Enhancements. This beautification project will elevate the corridor's visual appearance and help implement the State Highway 35 Redevelopment Strategy's vision of a high quality and consistently-designed employment and business environment. The project, which will streetscape the corridor from Beltway 8 to FM 518, includes two gateway signs at Clear Creek near Beltway 8, as well as surrounding entryway features, tree plantings in the medians, roadside landscape improvements and aesthetic improvements at major intersections. Construction will begin by the end of September 2018 and will take approximately one year to complete, weather permitting.

Revenue

Total annual FY 19 revenue for the City budget across all funds is \$329.8 million. For the General Fund, the total is \$80.6 million, approximately \$1.8 million higher than the prior year adopted budget.

Highlights for our General Fund revenue below are:

- Even controlling for the post-Harvey spike generating rebuild efforts, we have seen strong sales tax revenue growth, sparked by continued existing retail activity and corresponding growth in rooftops in Pearland and the surrounding area's consumers driving that activity. Our sales tax growth forecast for FY 19 is conservative at 3.8% over the amended budget.
- Projected building permit revenues are expected to stay flat with FY18 projection, recognizing open land and continued planned developments in the works. The original FY 18 budget had been built upon explosive growth in FY 16 and FY 17 in both commercial and residential development. The FY 19 permit revenue does not reflect a community at full build-out, but instead a steady, continued growth pattern, moderated relative to the prior two years.
- There is not additional revenue in FY 19 budgeted for Federal reimbursement of Harvey disaster expenses. As was discussed prior to and presented at FY18 mid-year projections, we are anticipating reimbursement from the Federal Emergency Management Agency (FEMA) for much of the costs incurred during and after the storm. Staff has taken the necessary measures to account for those reimbursements prudently. The recognized FY 18 amount of \$1.6 million is discounted for Federal hold-

back and potential challenge of City claims. The process to receive the cash for that reimbursement and close out the expenditures is expected to take years.

Annual General Fund Revenue Budget by Function Report									
	2016 Actual		2017 Actual		2018 Amended		2019 Proposed		Notes
Fund: 100 General									
Property Taxes	\$14,607,848	20%	\$17,910,289	24%	\$20,453,523	26%	\$21,273,352	26%	
Sales & Use Taxes	\$20,013,626	27%	\$20,457,029	28%	\$21,957,016	28%	\$22,800,184	28%	+ 3.8% over FY 2018 Amended
Franchise Fees	\$6,919,238	9%	\$6,975,738	9%	\$7,154,583	9%	\$7,296,694	9%	
Licenses & Permits	\$5,677,531	8%	\$5,434,917	7%	\$3,783,035	5%	\$3,785,535	5%	Held constant with projection; \$1.8 million under FY18 Adopted
Fines & Forfeitures	\$2,802,424	4%	\$2,510,849	3%	\$2,313,750	3%	\$2,110,750	3%	
Charges for Services	\$14,853,315	20%	\$15,396,511	21%	\$16,203,603	21%	\$17,618,566	22%	
Investment Earnings	\$248,098	0%	\$71,512	0%	\$250,000	0%	\$250,000	0%	
Intergovernmental	\$1,372,143	2%	\$0	0%	\$0	0%	\$0	0%	
Miscellaneous	\$747,985	1%	\$1,534,335	2%	\$2,914,027	4%	\$983,806	1%	No FEMA reimbursement additional for FY 2019; recognized as receivable in FY 2018
Other Financing Sources	\$1,917,854	3%	\$0	0%	\$0	0%	\$0	0%	
Transfers In	\$4,111,522	6%	\$3,791,394	5%	\$3,816,116	5%	\$4,529,210	6%	
Revenue Totals:	\$73,271,582		\$74,082,574		\$78,845,653		\$80,648,097		

Expenditures

Total expenditures for the City budget across all funds is \$354.4 million. For the General Fund, the total is \$80.3 million, less than the 2017 actual expenditures (which includes carry-overs) and less than prior FY 18 amended budget (also including carry-overs). Prior year totals were expanded by draw downs in fund balance over policy minimums and Hurricane Harvey expenditures. Below is a table that reflects the distribution of General Fund by category and how that has changed.

The trajectory of salaries and wages points upwards towards the expansion of salaries and benefits to an even larger portion of the FY 19 Proposed Budget. The numbers reflect additions of people, particularly in public safety, to be shown in the next table, the increased costs associated with supporting those people and compensating our dedicated staff with competitive wages. After conducting an organization-wide Compensation & Classification Study, the City implemented 100% of the recommended increases effective mid-year FY 18, which will be realized for a full 12 months for the first time in FY 19. Salaries, particularly in our Fire Department, rose significantly; roughly \$2.3 million organization-wide over 12 months. Salaries and wages, already the majority expenditure category in the General Fund as one would expect in our people-centric organization, is growing even larger for FY 19. **If the percentage for FY 19 was at the FY 17 proportion of 66% of total expenditure, then personnel would be \$53.0 million instead of the \$58.7 million we foresee.**

The FY 19 Budget reflects across-the-board 2% salary increases and wage-related benefits (+ \$1.1 million to the General Fund; + \$1.3 million overall) and step increase (+ \$124,000). The adjustments are important to keep us on pace with the 100% classification and compensation study implemented mid-2018, ensuring that we continue to recruit and retain the talent we want and need, as has been the case. The implemented study began in late 2016, with data collection for comparative salaries occurring through early 2017, implementation approved in September 2017 for April 2018 increases. Recommendations are that we conduct a detailed comparison to the external market and to immediate competitors using a comprehensive methodology such as the one used in 2016/2017 every 3-4 years. With the most recent results coming from 2017 data, we should be budgeting and preparing for another

comprehensive look occurring in October 2020 or at the latest 2021. In the time between studies the department takes opportunities to participate in other organization surveys being done so we can receive that external information. We review such information regularly to see trends we should be aware of, adjustments we need to make. As always, we review individual positions as needed and requested to ensure employees are working in their appropriate classification.

An effect of the growth in employee expenditures is that the General Fund annual capital outlay for vehicles and other replacements is significantly cut. Nearly all fleet reinvestment is being deferred, which will need to be made up in future years and will increase near-term operating costs and outages for repairs. Also worth noting is the necessary 59% reduction to our street and sidewalk rehabilitation program. Even prior to FY 19, we had already fallen short of necessary targeted amount to maintain our current, stellar pavement rating.

Annual Budget by Account Classification Report													
	2016 Actual		2017 Actual		2018 Amended		2019 Proposed		Notes				
Fund: 100 General Fund													
Fund Expenditures													
Salaries & Wages	\$	47,855,166	65%	\$	53,274,036	66%	\$	55,315,153	68%	\$	58,688,875	73%	
Materials & Supplies	\$	2,410,214	3%	\$	2,530,393	3%	\$	2,382,034	3%	\$	2,333,753	3%	
Building & Grounds	\$	2,372,391	3%	\$	3,128,950	4%	\$	3,919,879	5%	\$	2,158,391	3%	
Repair & Maintenance	\$	3,215,367	4%	\$	3,236,922	4%	\$	3,339,843	4%	\$	1,936,461	2%	Prior years had fleet expenses from here
Misc Services and Other	\$	10,980,671	15%	\$	10,580,687	13%	\$	11,168,670	14%	\$	10,566,071	13%	
Inventory	\$	714,908	1%	\$	522,502	1%	\$	744,065	1%	\$	442,965	1%	
Capital Outlay	\$	3,103,621	4%	\$	4,767,706	6%	\$	2,717,810	3%	\$	425,638	1%	Minimal GF capital outlay for fleet replacement
GF Principal and Interest	\$	480,182	1%	\$	591,599	1%	\$	591,599	1%	\$	542,851	1%	
Transfers Out	\$	2,573,817	3%	\$	2,008,856	2%	\$	1,141,000	1%	\$	3,254,107	4%	Predominantly out to motor pool
Expenditure Totals	\$	73,706,338		\$	80,641,650		\$	81,320,053		\$	80,349,112		

Another way to look at the General Fund expenditures is by the function of our annual investments. Public Safety, police and fire, represent the majority of expenditures for FY 19, as has historically been the case.

Annual Budget by Function Report												
	2016 Actual		2017 Actual		2018 Amended		2019 Proposed					
Fund: 100 General Fund												
Fund Expenditures												
General Government	\$	13,219,950	18%	\$	12,853,684	16%	\$	11,802,081	15%	\$	11,864,795	15%
Public Safety		38,516,992	52%		44,244,560	55%		43,809,708	54%		45,258,605	56%
Public Works		11,717,303	16%		12,881,801	16%		14,934,853	18%		12,582,288	16%
Community Services		3,869,499	5%		4,085,692	5%		4,266,439	5%		4,307,687	5%
Parks & Recreation		6,382,594	9%		6,575,912	8%		6,506,972	8%		6,335,737	8%
Expenditure Totals	\$	73,706,338		\$	80,641,650		\$	81,320,053		\$	80,349,112	

For FY 19, we have four additional police officers programmed, two targeted for starting in January and two more in July. With those, the objective described by Berkshire Group in their analysis with our staff was 87 for patrol, with the output result being 90% of priority calls responded within six minutes. With

the four further officer additions allocated set for FY 19, we get to 86 available directly for patrol operations under current planning by Police command. Police command responsible for staffing assignments move people to where needs and effect are greatest. The current assignments provide a second directed patrol area (DDACTS #2). The allocation of resources is in-line with Berkshire's recommendation to provide more proactive measures. DDACT Zone 1 is responsible for 11.4% of our crashes city wide, and Zone 2 is responsible for 9% of our crashes city wide. As the Zone 2 enforcement effort started in July, we have not begun to realize an impact on these crash totals for this area. DDACTS officers provide citations for offenses that are directly involved or contribute to crashes in the areas when a determining factor is clear. An additional benefit should be realized with response times, as officers are also concentrated in areas with more calls. DDACTS has contributed to increased self-directed time for Patrol officers, from 38% in FY 16 to 41% in FY 17. This factor should have a positive impact on Patrol response times. The entire effort puts people where the positive effect will be greatest and most likely.

The proposed budget provides staffing adequate to open new Fire Station #8 with one ambulance in place at the opening in October 2019. Additional fire apparatus at Fire Station #8 will be staffed as funds become available in FY 19. We plan to continue onboarding new firefighters and phase in additional services in FY 20. Apparatuses (\$3.1 million) will be debt financed, but reimbursable from the TIRZ #2. We are also opening the replacement relocated Fire Station #1 this Fiscal year. Furniture fixtures and equipment has an allocation of \$20,000 to make that start-up smooth. We need to be also aware that Fire Station #7 in the SH 35/Bailey Road area is on the horizon, with another 12 staff anticipated for that station, along with the equipment and vehicles.

Park facilities, Independence Park and the Nature Center, are reopening and opening respectively during FY 19. A Park Naturalist is funded in this budget necessary to operate the Nature Center.

Apart from the General Fund, we have made use of special revenue funds to keep moving ahead, despite a tight General Fund budget. For instance:

- Train Depot renovation designs are funded through the Hotel/Motel Tax Fund overseen by our Convention and Visitors Bureau, endorsed by the advisory board there.
- The Tree Trust Fund is rolling out a tree grant program.
- Park Development Fund is leveraging money in all three park zones to address park needs across the city.
- We are rolling out the Motor Pool Fund for maintenance and the vehicles we are buying, which will provide a long-term way to allocate and budget support of the City's essential rolling stock. We will move the Fleet Division of Public Works into that fund, including maintenance and purchase of all stock.

Property Taxes

Property taxes along with sales tax revenue are what supports critical City services from the General Fund. Behind that property tax base total are numbers from three counties, one (Harris County) completely estimated in this Proposed Budget because it is not made available until late August, and a large growing component from the Tax Increment Reinvestment Zone #2 (TIRZ) that is much of Shadow Creek. Property taxes are the source of revenue for debt service on general obligation and certificate of obligation long-term debt financing for capital projects.

Our property tax base used for upcoming FY 19 is complex. The total number used for starting budget calculations in the budget is \$9.79 billion. However, the Shadow Creek TIRZ #2 deducts \$2.59 billion, as that is dedicated for City participation in the TIRZ. The effective tax and rollback tax rate calculation worksheets, mandated by the Texas Tax Code, Chapter 26, then removes properties that have tax

ceilings, offset by properties under protest and not certified, and new construction. Bottom line, the calculations reflect a more moderately growing tax value base and an effective tax rate of **\$0.709158/\$100** of value.

The table below reflects the distribution of homestead residential properties and their individual change, from prior year of 2017, excluding new construction. Each of the three county appraisal districts – Brazoria, Harris, and Fort Bend – are shown along with the aggregate total within the City of Pearland. The story reflects overall existing residential values reported by the appraisal districts.

Homestead Assessed Values Preliminary 2018 vs 2017	BCAD		HCAD		FBCAD		COP	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Over 10.1 % Increase	819	3.5%	38	1.7%	33	2.0%	890	3.2%
5.1 % - 10 % Increase	5,503	23.5%	1	0.0%	129	7.7%	5,633	20.5%
0.1 % - 5 % Increase	6,793	29.0%	281	12.2%	394	23.4%	7,468	27.2%
No Increase/Decrease	2,392	10.2%	1,275	55.6%	0	0.0%	3,667	13.4%
0.1 % - 5 % Decrease	6,327	27.0%	373	16.3%	1,020	60.5%	7,720	28.2%
5.1 % - 10 % Decrease	689	2.9%	249	10.9%	108	6.4%	1,046	3.8%
Over 10.1 % Decrease	915	3.9%	77	3.4%	2	0.1%	994	3.6%
Total	23,438	100.0%	2,294	100.0%	1,686	100.0%	27,418	100.0%
Homestead Median Assessed Values	BCAD		HCAD		FBCAD		COP	
2017 Median Household Value	\$	222,800	\$	265,633	\$	294,760	\$	261,064
2018 Median Household Value	\$	226,470	\$	265,599	\$	295,615	\$	262,561
Percent Change		2%		0%		0%		1%

The *rate* which is applied upon those values, plus the commercial and new construction, for FY 19 are constant from the prior year for **debt service at 0.4300**. That number is achieved through having a large fund reserve and committing that fund reserve for debt service in the upcoming year, if necessary.

The calculation for debt service is also mandated from the State of Texas Legislature and uses what one would expect in terms of the City’s principal and interest payments for FY 19 that are general obligation and the available tax base. However, the calculation also does something unexpected. The worksheet sets aside capped values and protested values which the City will be levying property taxes to some level. To keep our debt service rate at what we expect is actually needed, we are again committing a portion of fund balance to not over-inflate the debt service rate. That amount will have to be re-evaluated during FY 19 and decided whether there are dollars coming into the debt service fund that need to be used for current debt service, whether there is fund balance that should be held for future, or whether there is money that should be deployed for refunding or other debt reduction.

For FY 19, the proposed budget is built upon using an operating and maintenance rate of 0.279158, which is the calculated effective tax rate. The effective tax rate is the State of Texas’ mandated calculation of what is the rate for bringing in the same amount of revenue as the prior year, exclusive of new construction. For us, this means that this effective tax rate is projected to bring just \$45,792 more from existing properties than last year in the General Fund; adding in new constructions nets the Fund an additional \$795,437. The prescribed calculation involves a complex set of variables in a worksheet completed by Brazoria County Tax Office (relying upon the Fort Bend County Appraisal District numbers provided, and an estimate of the Harris County Appraisal District numbers expected in late August). The calculation factors in the values for frozen homestead homeowners over

age 65 (\$1.05 billion) and values under protest or otherwise not certified (\$1.16 billion). The complication for our city on these worksheets is a combination of the large and growing TIRZ #2 district that's excluded from the base calculations, compounded with the State formula for capped properties. For the ten single-family homestead sample properties in the summary table below, factoring in valuation changes, the increased payment to the City is about \$124/year, about \$10/month.

We could go to the rollback rate, or beyond, of \$0.715697 which is what we have done for several of the last budgets, and would be reasonable given the City's growth and needs. Going to the rollback rate would only trigger some additional advertising requirements and would bring in approximately \$600,000 in additional revenue. That amount could go towards adding fire department staff to open Fire Station #8 in October 2019 and/or replacement vehicles. The rollback rate also provides a larger base for future years, especially important given the State of Texas legislative cloud and the continuing constrictions by Austin officials upon local public services. The flip side is that the higher rate would cost local property taxpayers slightly more on individual bills and the rate is higher than in FY 18, mitigated by fact that half of the homestead properties in Pearland are have experienced decreased or no change in assessment value.

For individual property taxpayers, the recommended rate for the City portion of the tax bills remains about 25% to 30% of the total property tax bill with the remainder going to public schools, county, and MUD districts.

Summary of Homestead Property Tax Bills Projected for 2018 Tax Year (for FY 2019 Budget Cycle)													
Pearland, Texas													
		Zero Growth		Homestead Example 1		Homestead Example 2		Homestead Example 3		Homestead Example 4		Homestead Example 5	
TY17 Actual COP Tax Bill		\$	1,247	\$	1,904	\$	1,095	\$	1,062	\$	1,623	\$	959
TY17 Taxable Value		\$	187,000	\$	285,000	\$	166,260	\$	160,083	\$	242,960	\$	139,968
% Increase (Decrease)			0.0%		8.4%		-3.4%		11.8%		10.0%		-0.5%
TY18 Taxable Value		\$	187,000	\$	308,880	\$	160,690	\$	178,930	\$	267,180	\$	139,200
Scenario	City Rate	TY 2017 Amount	Change from Prior Year Actual	TY 2017 Amount	Change from Prior Year Actual	TY 2017 Amount	Change from Prior Year Actual	TY 2017 Amount	Change from Prior Year Actual	TY 2017 Amount	Change from Prior Year Actual	TY 2017 Amount	Change from Prior Year Actual
Current TR	0.7092	\$ 1,291	\$ 44	\$ 2,136	\$ 232	\$ 1,104	\$ 9	\$ 1,233	\$ 171	\$ 1,847	\$ 225	\$ 987	\$ 28
		Homestead Example 6		Homestead Example 7		Homestead Example 8		Homestead Example 9		Homestead Example 10		Senior Example	
TY17 Actual COP Tax Bill		\$	1,304	\$	1,674	\$	3,144	\$	1,790	\$	2,151	\$	206
TY17 Taxable Value		\$	195,355	\$	252,000	\$	467,260	\$	268,000	\$	322,080	\$	149,870
% Increase (Decrease)			7.5%		7.0%		-2.8%		7.0%		-1.8%		2.2%
TY18 Taxable Value		\$	210,020	\$	269,581	\$	454,080	\$	286,710	\$	316,310	\$	153,210
Scenario	City Rate	TY 2017 Amount	Change from Prior Year Actual	TY 2017 Amount	Change from Prior Year Actual	TY 2017 Amount	Change from Prior Year Actual	TY 2017 Amount	Change from Prior Year Actual	TY 2017 Amount	Change from Prior Year Actual	TY 2017 Amount	Change from Prior Year Actual
Current TR	0.7092	\$ 1,454	\$ 150	\$ 1,858	\$ 184	\$ 3,161	\$ 17	\$ 1,982	\$ 192	\$ 2,187	\$ 36	\$ 206	\$ -

General Fund Property Tax and TIRZ Revenue Scenarios

For the upcoming fiscal year, property tax revenue scenarios are developed with the effective tax rate. We are showing below the Rollback Rate as usual from the State of Texas formula. In past years, when the rollback rate was recommended, we also showed a low rate scenario. However, given the moderation in property tax value growth at still strong 5.8% overall, the State of Texas formula results, and value of the TIRZ growth, a lower rate for operations is largely impractical. Without much room for discretionary expenditures under the existing recommended budget, the General Fund expenditure cuts below the effective rate would be to existing staff, existing staff salaries, reductions in service or other negative scenarios.

We can go into FY 19 with the effective tax rate calculation, but the exercise also shows the negative impact to the Pearland community and the public servants who provide services if the State Legislature were to impose strict revenue caps across Texas.

Comparison of Potential Property Tax Rate and Revenue				
General Fund and Debt Service Property Tax Rates	FY2018 Actual Rates & Levy	Fiscal Year 2019*		
		(1) Current Tax Rate	(2) Proposed Tax Rate -- Effective Tax Rate (No New Revenue Rate)	(3) Rollback Rate (8% Revenue Cap)
O&M	0.2551	0.2551	0.2792	0.2857
Debt Service	0.4300	0.4300	0.4300	0.4300
Total	0.6851	0.6851	0.7092	0.7157
G.F. Property Tax Revenue + TIRZ Admin Fee (in millions)	\$20.2 + \$10.4 = \$30.6	\$19.1 + \$11.3 = \$30.4	\$20.9 + \$11.7 = \$32.6	\$21.4 + \$11.7 = \$33.2

*For Fiscal Year 2018, the proposed rate in green is used in the recommended budget revenue

General Fund's Fund Balance

It must be recognized that the unencumbered cash balance of our General Fund for the upcoming year, is at the minimum for fund balance. The combination of factors from revenue and expenditure leaves *little* operating margin or cushion for unexpected emergencies.

	2019 at Effective -- (State's 0% Tax Increase)
Beginning Fund Balance	\$ 11,886,007
Revenue Totals	\$ 80,648,097
Expenditure Totals:	\$ 80,349,112
Net	\$ 298,985
Ending Fund Balance	\$ 12,184,992
Policy Minimum	\$ 12,170,480
Over (Under) Policy	\$ 14,512

Water and Sewer Enterprise Fund

The Water and Sewer enterprise fund provides high quality water daily, on demand, to over 37,000 customers. Building and sustaining that system is a challenge in normal years, especially in a community like Pearland that is growing and has multiple variables of water sources. Major projects underway are substantial:

- A new Reflection Bay Wastewater Treatment Plant that is running ahead of schedule with an additional four million gallons/day (MGD) capacity coming online in November 2018, plus a modernized process for existing two MGD capacity back in service by early 2019.
- We are beginning pilot testing, design, and construction of a 10 MGD Surface Water Treatment Plant on CR 48 which will treat raw water from the adjacent Gulf Coast Water Authority (GCWA) canal for distribution throughout the City's water system. Preliminary Engineering and pilot testing has begun, to be followed by final design and construction. The project is scheduled to be completed over a five

year period with new capacity available by 2022/2023. A future phase will include an additional 10 MGD of capacity.

➤ New advanced meters infrastructure (AMI) are going into all 37,000 plus accounts over the next 18 months. The technology infrastructure to read and report, provide consumers with current information on demand is a large undertaking. The AMI system will increase precision of the usage reads with advanced technology that is superior to older technology that wears down over time leading to underreporting water usage.

All of those capital projects, and several others, cost money, plus the regular ongoing operating costs for labor, electricity, chemicals and such in this \$50 million revenue/year operating unit. The water and sewer enterprise system is a business unit of the City that is financially self-supporting. Revenues, highly dependent on the vagaries of the weather from week to week, are the exclusive source to cover all system costs, including operating, debt, and cash coverage requirements for the debt.

The water and sewer operation had years of zero rate increase from 2010-2014, despite increasing costs for the basics of operating the system and the need for plant expansions on the horizon. For comparison, systems in other cities have added a surcharge for years leading up to a major addition, like the surface water treatment plant, to mitigate future rate increases. Also, the volumetric rate model, standard in the water industry, was adopted in beginning October 2016. To that end, customers have absorbed the applied rate increases over the last three years to keep the system financially healthy and prepare for those capital costs.

The dry weather and growth and additional connections allowed us to increase revenue estimates for FY 18. Moreover, the new metering system will provide precise reads, replacing meters that may be years old and have slowed down to *under-report* of actual usage.

Given the fund balance, projections, capital needs, and the reality of transitioning our meters, **we are recommending no increase for FY 19 to the water and sewer rates**. Garbage refuse and recycling services are within the same billing system but have a contract that mandates slight increases. The recommendation recognizes that we will have increasing costs, but projections are that the existing rates will give us a year to implement meters and have one less variable for our customers as we make the system changeover.

Despite the 0% rate increase this year, this budget has much-needed investments in our water and sewer system. We have \$1.1 million in equipment replacement and the addition of five new staff, aimed at improving water quality systems city-wide. Two additional staff are funded in the utility billing side which is critical as we roll out new meters and continue to grow our customer service support.

[Anticipations and Challenges on the horizon beyond](#)

The upcoming FY 19 budget is challenging for operations, as we have described, being very tight and locked in with essentially $\frac{3}{4}$ of General Fund expenditures allocated for wages and benefits. However, we remain fixed on the horizon to see our young and growing city hit its stride.

➤ For capital improvements, we are continuing an aggressive plan to keep up with community needs, leveraging \$60 million in future reimbursements to fund improvements within the TIRZ. The TIRZ #2 from Shadow Creek has been a major transformative success story for Pearland. Shadow Creek, when the planned development was formed, had about \$7 million in total value for its original boundary. Today, with areas expanded by amendment, the value is \$2 billion. In the last decade of the TIRZ, the captured value, without property owners paying any more, is positioned to leverage substantive improvements for Pearland. With a TIRZ Budget Amendment for the City Council's August

2018 consideration, there will be available future increment to dedicate for Fire Station #8, a new public library building, park improvements, and street/sidewalk improvements.

- *Outside* the TIRZ as a part of our CIP, included with a comprehensive investment package, we are laying the groundwork for a 2019 bond referendum consideration with preliminary engineering work for those projects. Additional staff added in FY 17 and FY 18, construction managers and senior project managers, have given us the resources to implement the program effectively and efficiently.
- *Inside* the TIRZ, we are lined up for a reimbursement from TIRZ #2 for prior City expenditure of Broadway Street improvements within two to four budget years. That is \$8 million one-time source can plug operating holes and catch us up on vehicles and other investments.
- If the Federal government expedites reimbursements from Hurricane Harvey from past practices, and gives us certainty about the reimbursement, we can free additional moneys to invest at mid-year FY 19, catching us up with critical operational vehicle replacement and streets/sidewalks rehabilitation needs not included in this budget.
- The Clear Creek project, finally funded by the US Army Corps of Engineers, is an obvious win for the region as Clear Creek is the watershed for nearly all of Pearland and all adjoining Brookside Village. The Brazoria County areas adjacent to Clear Creek suffered some of the worst structure flooding from Harvey. There can be little question that the Corp project, hopefully to be led and managed by the Harris County Flood Control District, will benefit the entire watershed by holding and moderating the worst of floodwaters.
- There will be some change in our structure for high quality fire services into much of our ETJ. Either there will be agreements for mandatory sufficient payment to the City, or we will be able to pull back and focus our fire resources to the city limits and areas that do pay.
- The FY 19 budget reduces our reinvestment in streets from \$1.1M to \$454,000. The updated streets assessment conducted in FY18 shows that our lack of adequate reinvestment over the past four years has resulted in a decreased Pavement Condition Index (PCI) from 76 to 73. The updated numbers indicate a required investment of \$4.5M annually to keep the PCI at the current 73, to increase it to 2014 PCI level will take an additional \$7.8M annually for the next three years (one point increase per year). Additional years of deferred recapitalization will result in similar PCI reductions and higher costs to improve the PCI. The FY 19 plan for street recapitalization is to diversify our portfolio of maintenance tools to include crack and joint sealing, mill and overlays, street raising, and concrete panel replacements to extend the existing infrastructure's life instead of allowing it to more rapidly deteriorate to the point of requiring a complete reconstruction. The use of these additional tools will be scaled back based on available funding.
- The sidewalk program is being reduced from \$628,000 to \$260,000 while our backlog of work orders stands at approximately 700. Similar to the street program, additional tools will be implemented on the sidewalk program to stretch the available funds. With the limited funds, we will concentrate on maintenance measures such as mudjacking to level surfaces and trip hazard shaving instead of full panel replacement with the expectation that our backlog of work orders will continue to climb.
- Both streets and sidewalks have been reduced to well beyond the bare minimums needed to sustain our infrastructure. It is of prime importance as we look to the future to reach the minimum levels necessary to properly reinvest in our largest assets to keep them at their current condition. Recommended annual funding levels in 2018 dollars are \$4.5M annually for streets and \$1.0M for sidewalks. Significant additional investment beyond the above amounts is required to make any improvement in the overall condition of these assets.

Here is one final work picture summarizing our dedication to the City of Pearland. It is of our spectacular Public Works crew when they came to City Hall during National Public Works week. We fondly refer to

this team as “pre-responders” because they are most often there before our first responders. Without their dedication, we would not have clean water, drivable streets, or sidewalks to walk on.



Conclusion

We opened the expanded Centennial Park and are soon to see the first phase of Independence Park open. There’s a fire station relocation set to open in the next twelve months and the new Shadow Creek large fire station readying for October 2019. We are adding more police officers and command is deploying those valuable resources for the best results on a daily basis, in addition to staffing the variety of specialized police units and support civilians that are critical to field operations. The upcoming budget year is operationally very tight. However, we are in a strong overall position for serving this dynamic and diverse community, and we will continue to invest to provide our residents the brightest future possible.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Clay J. Pearson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Clay J. Pearson
City Manager