

July 31, 2017

Honorable Mayor Reid and City Council members,

## Our Driving Force: What is the purpose of our City of Pearland local government?

This summer all of our part-time staff and nearly 700 full-time employees were all invited to a series of Employee 'Road Shows' where we explored the **purpose** of the City of Pearland local government and provided updates on other topics. In a prior years' edition of the Road Show, we talked about Service, the Pearland Way. Another year, we shared information on public service and expectations on operating ethically. Those sessions helped build to the 2017 Road Show's discussion of purpose and working to build a Culture of Distinction in our big, diverse, complex City of Pearland organization. Our staff members submitted ideas on what our purpose means to them, below are some of their comments:

To ensure the protection of property and persons in the community, provide vital products & services for their life and health, and community amenities that enhance the quality of family life. In addition, the role of local government is to provide oversight in bringing attractive and desired commerce to the lucrative Pearland market. **In short, we help people build and live their lives.**

To **create an attractive and safe community** where citizens and businesses will realize value in establishing roots.

The purpose of the organization is to **build trust with the citizens of this City by providing consistent and effective services**, no matter the division, with an emphasis on enacting the City's core values of being responsive, results-oriented, trust-builders and accountable.



The purpose of the City of Pearland government is to **provide quality services to Pearland residents** utilizing tax collected funds and to develop the future of Pearland as a quality city to live, work and play.

**To serve the citizens of Pearland and create an environment in which people WANT to live, work and play.**

I believe that as a whole it is our responsibility to **provide the necessary services to the community that foster growth, stability, and safety.**

**To work as a team to provide a safe community, efficient city services and sustainable infrastructure while being good stewards of tax dollars.**

**Serve our citizens responsively, responsibly, and positively** by considering our strategic priorities and core values in all of our efforts and decisions.

Provide citizens and businesses alike, with growth management infrastructure, as well as public goods and services to **achieve and sustain “world class” municipality status as a premier suburban community.**

**These are the words and beliefs of our City employees.** They see their purpose as providing opportunity and betterment for others. The comments are *outward* looking and striking for the holistic ‘big picture’ that our team understands by making the connection between resources, safe community, value, sustainability, and service to build a place that people choose to live, work, invest, play, and visit. There have been many seeds of success planted. My colleagues are filled with a spirit of public service: the noble calling to work in local government.

We are steadily gaining momentum to better “provide citizens and businesses with the growth management infrastructure, public goods and services to achieve and sustain ‘world class’ municipality status as a premier suburban community.”

## People

It is often said and is very true: We are a people organization. Our purpose is only accomplished thanks to the talents and dedication of my colleagues. These are the people we trust with life and death decisions, with maintenance and operations of essential systems, with making Pearland a place we all want to live, work and play.

The budget numbers validate this. For the upcoming Fiscal Year, **70% of the General Fund expenditure budget is dedicated to employee wages and benefits.** The category is up from the 63% estimate for FY 17, even after a round of mid-year additions which included many capital outlay items. The increase reflects the added positions necessary to keep pace with service volume in our growing city. The resources to people as part of the whole General Fund is in line with places like McKinney (67%) and Plano (65%).

Expense Annual Budget by Account Classification Report												
Summary	2015 Actual		2016 Actual		2017 Amended		2018 Proposed					
<b>Fund: 100 General</b>												
<b>Expenditures</b>												
Salaries & Wages	\$	42,793,250	67%	\$	47,855,166	65%	\$	52,302,373	63%	\$	54,955,807	70%
Materials & Supplies	\$	1,801,034	3%	\$	2,410,214	3%	\$	2,809,863	3%	\$	2,495,582	3%
Building & Grounds	\$	1,514,047	2%	\$	2,372,391	3%	\$	4,481,697	5%	\$	2,814,437	4%
Repair & Maintenance	\$	2,388,120	4%	\$	3,215,367	4%	\$	3,263,910	4%	\$	3,009,006	4%
Miscellaneous	\$	9,808,491	15%	\$	10,957,624	15%	\$	11,642,831	14%	\$	10,172,410	13%
Other	\$	16,628	0%	\$	23,047	0%	\$	311,551	0%	\$	249,986	0%
Inventory	\$	331,716	1%	\$	714,908	1%	\$	708,443	1%	\$	492,370	1%
Capital Outlay	\$	3,852,064	6%	\$	3,103,621	4%	\$	5,917,022	7%	\$	2,635,939	3%
Principal Payment	\$	174,935	0%	\$	443,252	1%	\$	547,305	1%	\$	564,303	1%
Interest Expense	\$	27,022	0%	\$	36,931	0%	\$	44,294	0%	\$	34,922	0%
Transfers Out	\$	1,332,134	2%	\$	2,573,817	3%	\$	1,578,964	2%	\$	1,036,811	1%
<b>Expenditure Grand Totals:</b>	\$	64,039,442		\$	73,706,338		\$	83,608,253		\$	78,461,573	

Salaries are what our people obviously see every other week. For FY 18, the recommended budget includes a 2% across-the-board increase. The fact is that due to our large numbers of employees, that pay rate increase effective in October, translates to \$1.05 million for the year in all funds, with \$912,526 coming from the General Fund.

In working to keep up our competitiveness for the attraction and retention of talented employees, in FY 17 we commissioned an **organization-wide classification and compensation study**. Even after the proposed 2% increase to employee salaries in FY 18, there are gaps, in what we ideally target for comparable pay. That gap brings significant financial implications in bringing our pay scale closer to competitive market levels, as well as moving employees appropriately within those ranges, as shown in the presentation on July 24, 2017. The classification and compensation report affects large swaths of positions, including many fire department positions. While some departmental impacts are calculated to result in a less than 1% increase to payroll, the recommendations from the study resulted in approximately a 20% increase in the Fire department payroll. In addition to targeting new ranges there are also currently compression issues. In HR language, from a Society of Human Resource Management explanation, "pay compression occurs when less experienced people earn as much as or more than longer-term employees due to rising starting salaries." Pay compression can also occur when someone earns overtime and makes as much or more than their exempt supervisor. The majority of the cost implications (about 62%) are correlated to bringing existing personnel to new suggested minimums for their positions. The other 38% assists in moving longer term employees to appropriate places within the range.

Bringing pay up for long-serving staff as a retention tool is a key goal for us. A key to having a compensation structure that allows an organization to attract and retain high level employees in the market of relevant peer and competitor organizations is having sound compensation policy. Compensation policy is the expression of where the City will place its compensation structure in relation to the prevailing rates, expressed as a percentage of the external prevailing rates (i.e. 100%, 5% below/above). As our consultant shared, we can aspire to a percentage target as a target and work to move within a range for the compensation structure over time. **In this recommended budget, supported by available revenues of capping property tax revenue at the 8% rollback rate, is 95% of the study recommendations going into effect at mid-year, April 1, 2018. There are overall recurring costs of \$550,025 across all funds that will keep our pay scales moving towards the comparable entities that the study identified. The multi-year plan shows getting us up to the 100% in FY 19, the following budget year.**

For **employee health insurance** in the upcoming year, we have been collectively successful with our plan management. The City continues to offer, as part of our overall compensation package, a competitive and positive employment benefit. **For health care covering only the employee, under the standard Kelsey-Seybold managed plan, that cost is covered 100% by the City. That single plan is about 287 (49%) of our employees.** For the balance of employees, there are choices of another Kelsey-Seybold plan or a Health Care Savings Account. The managed care from Kelsey, a company headquartered in Pearland and our largest private sector employer, has been performing well. In fact, for 2017 we were able to transfer from our self-insurance fund back to the General Fund as we have hit our targeted minimum fund balance. Our plans are providing a benefit that is financially serving the City and its employees well -- Of 22 surveyed agencies, mainly within our region, we are one of only three reporting *no increase* while others are reporting, at a low, 2% increase and a high of as much as 36% increase. We already have budgeted for upcoming FY 18 medical rates that continue the City contribution to cover 100% Employee-only coverage and result in **a reduction of rates for other plans, in part thanks to a remaining fund balance from the prior year.** While there are no guarantees for health care costs beyond our current contracts, our track record does reflect well and offer tangible benefits for our people and their pay package.

## Budgeting process

We again conducted an informative and useful Saturday session in February to share our series of White papers that staff generated. Staff completed the Comprehensive Annual Financial Report for FY 16 and independent auditors again found our processes and reporting of the financials meets standards, with no negative findings. Our credit rating for debt issuances, described later, again from independent reviewers, confirmed our stable outlook and sound management and financial systems. Department leaders and their staff have continued to be diligent throughout the year in balancing many needs and demands. Department heads met independently as a group and reviewed all the supplemental requests, rank-ordering them based on overall City needs and priorities. That material is provided to the City Council as the index to the supplemental items. The recommended budget here is based upon certified property tax rolls from County officials (in past years we have proceeded earlier with the preliminary roll and made adjustments afterward during the budget review). Directors are asked to look at Council financial policies and consensus from the February early budget input meeting. They review commissioned plans and studies. We are committed to growing the regular operations and maintenance investment, recapitalization of asset bases as much as possible, and developing systems to make our work effective and efficient. We do have gaps continuing in our recapitalization. Most obvious is the City facility needs. While we are building new facilities, the existing buildings and their systems such as HVAC and roofs and other mechanicals are not as we desire.

Looking holistically at the budget, there are a few things worth noting. First and foremost is that this is a balanced budget, with revenues exceeding expenditures by \$78,509. In last year's budget and at mid-year, we planned drawdowns in fund balance to invest in mostly one-time opportunities. In this Budget, we were able to continue making those critical one-time investments, along with the essential recurring investments in our people. Taking a step back we can see these critical investments taking place across all funds, with \$284,346,736 in revenues across all funds with \$287,392,363 in expenditures for FY18.

We will have our first of three budget discussions on Saturday August 12<sup>th</sup>. At Budget Discussion #2 on August 21<sup>st</sup>, Council is required to take a record vote on the Maximum Operating Tax Rate and set the date for the Public Hearings.

## General Fund Revenue and Expenditures Overview

Supplemental items are included in the FY 18 expenditure plan. The recommended items are considered essential to the effective and efficient delivery of services providing Public Safety and Improved Mobility to our citizens, factors of high importance identified by our Citizen Survey. Highlights and rationale for the public safety side are described in the next section.

The requests and needs are obviously more than revenues will support. **During FY 17, we made significant additions during the mid-year with the City Council reviewing and approving a variety of General Fund supplemental items in May 2017.** By being able to move forward with those items through accumulated savings from prior years, we were able to get a jump start on acquiring additional take-home police cars, a shade structure at Shadow Creek Ranch park, technology to complete cameras on officers and in squad cars, duplicate personal protection equipment for firefighters and several other items totaling a net General Fund impact of \$2.95 million.

## Public safety

The largest percentage of our people and resources in the General Fund remain within public safety.

<b>Annual Budget by Function Report</b>												
Summary	2015 Actual Amount			2016 Actual Amount			2017 Amended Budget		2018 Proposed			
<b>Fund: 100 General Fund</b>												
<b>Expenditures</b>												
General Government	\$	10,160,692	16%	\$	13,219,950	18%	\$	13,696,292	16%	\$	12,442,917	16%
Public Safety	\$	33,692,252	53%	\$	38,516,992	52%	\$	44,161,256	53%	\$	42,251,770	54%
Public Works	\$	10,592,610	17%	\$	11,717,303	16%	\$	14,733,699	18%	\$	13,398,676	17%
Community Services	\$	3,886,966	6%	\$	3,869,499	5%	\$	4,154,889	5%	\$	4,252,928	5%
Parks & Recreation	\$	5,706,922	9%	\$	6,382,594	9%	\$	6,862,117	8%	\$	6,115,282	8%
<b>Expenditure Totals</b>	\$	<u>64,039,442</u>		\$	<u>73,706,338</u>		\$	<u>83,608,253</u>		\$	<u>78,461,573</u>	

Our Fire Department responds to over 27 incidents per day. At least 15 of these incidents are for emergency medical services and 12 of these incidents for reported fires or other emergency incidents. In FY 17 we completed the Citygate Standards of Cover and Staffing Utilization Study. The study used 3 years of incident data along with traffic congestion historical data and analysis of emergency response, training, prevention, education and code enforcement operations to make best practices recommendations. The study found that our Fire Department deployment is significantly under resourced (termed as “weight” in the study) and unable to reach emergency incidents timely (speed) for a city of our size, density and complexity. Improvements can be made over time with a plan and dedicating resources as available. The study recommended planning for the addition of two more fire stations, consistent with prior planning, several fire apparatus and accompanying personnel (70 to 80 FT) to cover within the city limits alone. With additional stations and personnel necessary as the city annexes developing portions of the ETJ.

The Fire Department response to the study is a recommended 5+ year program of adding personnel, fire stations and emergency vehicles to catch us up to where we need to be today. The Citygate planning includes the addition of 2 more fire stations in 5 years and a program of ideally continuous onboarding of personnel (3 new full-time added every 90 days for the next 5+ years). This FD plan and response to the study recognizes the need for steady, manageable growth with affordability. Since the City Council’s acceptance of the Citygate Study findings and recommendations along with FD response and continuous onboarding plan, an additional area of our ETJ has been annexed (Massey Oaks). This new area will eventually require an additional fire station and personnel (not mentioned above) before the subdivision for that area is built out. In addition, MUDs 21 and 22 have requested improved response to their area of our ETJ through an existing agreement. The City is in discussion with representatives of those MUDs to determine best plan and cost sharing to improve the response to their area.

For police, we completed an operations and management study with the Berkshire Advisor’s Group and are already realizing successes by the implementation of some of the plan’s recommendations.

In January of this year, the Police Department leadership made changes to its patrol districts and added beats, the first major change in districting in over 20 years. The purpose of this change was to spread out responding personnel based on travel times and space and followed an extensive evaluation of response times by location and time of day. The new districts/beats spread the officers out over a wider range of areas within the City. A new 10am-10pm shift was also created to help provide extra coverage during the busiest time of the day. The department has removed routine roll calls, they are now done in

ad hoc locations and only on an as needed basis. Officers with take-home cars are able to respond directly to their assigned beats, without a need to come to the station. The automatic vehicle location system ensures personnel are where they need to be at the start of their shift. In addition, the department evaluated priority classifications to ensure that there is consistency and accuracy in dispatching and record input. The primary driving force behind these changes was to bring down the response times to Priority 1 calls for service (calls where there is imminent threat to life, a robbery, an officer assist, or a call involving hazard or injury where timely response may mitigate injury).

Moreover, Police have worked with IT to provide remote video upload locations. The first successful upload location has been set up at the Pearland Parks & Recreation Natatorium and Recreation Center. The location has worked well and is serving as a blue print for additional locations. The officers' presence has also led to additional benefits to direct safety and welfare at this City facility. **Overall, our objective is to maximize police presence visibility throughout the community in the best possible locations. The combination of technology, pre-planning, dedication of line staff, and daily management is achieving that objective.** An analysis compared the first six months of response times from 2017 to the first six months of response times in 2016, prior to the changes in districts and shift times. The results have been initially impressive, especially given there were fewer patrol officers on the street this year than the same time period last year due to turn over. The 90th percentile response time for Priority 1 calls decreased nearly 20% from the prior year's six months, down to 6:34 minutes. The 90th percentile measure is more aggressive and complete than a mean or median.

Requests for FY 18 are focused on continuing to keep our resources mobile and active, in the right places with the best information, technology, and support. Recommendations follow the Berkshire report's emphasis and build upon successes and continuing strong safety results.

### Pride and care in our streets and sidewalks; mobility improvements

In FY17 we completed 6.9 lane miles of street paving, often in partnership with Brazoria County, located in the Sleepy Hollow subdivision, Old Town area, Hatfield and Jasper Rds. In FY18, another 6.0 miles of reinvestment is planned in and around existing neighborhoods. In FY 17, 4.3 miles of sidewalks were repaired in the Kensington and Southdown subdivisions.

Neighborhood street and sidewalk repair & maintenance	FY 17 Current Estimate	FY 18 Budget
<b>Streets</b>		
Dollars	\$1,906,009	\$1,100,000
Lane Miles	6.91	6.0
Estimated regular need	\$3,840,000	\$3,840,000
<b>Unmet</b> annual maintenance target funding need/unmet lane miles	\$1,933,991/5.8	\$2,740,000/8.2
<b>Sidewalks</b>		
Dollars	\$728,760	\$ 628,760
Sidewalk Miles /feet of work	4.3/ 22,874	3.5/ 18,650
Estimated regular need	\$1,704,828	\$1,704,828
<b>Unmet</b> annual maintenance target funding need/unmet need sidewalks	\$976,068/5.75	\$1,076,068/6.5

The investment for streets and sidewalks in this budget continues to allocate resources toward operations and maintenance of existing public assets as much as possible. We've also dedicated resources to technological improvements that help improve traffic flow through traffic maintenance systems. This helps to reduce site visits to signal locations for repairs by making adjustments remotely from our Traffic Operations Center at Hillhouse. More traditionally, the intersection improvements such as we completed at Pearland Parkway and Broadway for improved turning movements represent a high benefit, low-cost physical improvement. In the FY 18 Capital Improvement Plan, another intersection improvement at Dixie Farm Road and Broadway is set to be evaluated for improvements with dual left turn lanes in all directions. More generally, the turn signal improvements with permissive yellow arrow turns allowed are another example of improving mobility at intersections.

Our corridors are being improved along Main Street with design work thanks to the leadership and vision of the Pearland Economic Development Corporation Board and staff. Discussion about the year ahead would be incomplete without recognizing the major impact of the forthcoming SH288 work. The TxDOT improvements from Clear Creek north to the Texas Medical Center will provide additional toll-managed lanes while improving the existing freeway. The Brazoria County Toll Road Authority takes the work on to complete a major corridor that will continue improving our area's attractiveness, and future development. Just as significantly, there are substantial mobility improvements with the series of direct connects to Beltway 8 that the Harris County Toll Authority has steadily improved over the last two years. One of those direct connects improves access to our Lower Kirby District. Investment in the District from the private side is being facilitated by investments in public infrastructure through the management district, extending South Spectrum Drive, for instance.

## Debt Service

The City received positive ratings from Moody's Investor Services and Fitch Ratings, Inc. in July for its 2017 bond issuances. The Permanent Improvement and Refunding Bonds Series 2017 for \$54.9 million and the Certificates of Obligation Series 2017 for \$5.8 million were assigned a rating of "AA" by Fitch and 'Aa2' by Moody's. Separately, our enterprise fund Water and Sewer System Revenue and Refunding Bonds-Series 2017C for \$60.4 million were assigned 'AA-' by Fitch and 'Aa3' by Moody's. These ratings demonstrate strong creditworthiness relative to other U.S. municipal or tax-exempt issuers or issues.

<b>Fiscal Year Ending 9/30</b>	<b>Prior Year/ Estimated Taxable Valuation Net of TIRZ</b>	<b>Assessed Growth Valuation Rate (%)</b>	<b>Debt Service Tax Rate per \$100 of Assessed Value</b>	<b>Tax Collections 99.00%</b>	<b>Other Revenue Sources (a)</b>
<b>2017 Proj. (b)</b>	\$7,512,514,453	18.6%	<b>0.4400</b>	32,686,979	\$1,754,742
<b>2018 Budget</b>	8,104,683,070	7.9%	<b>0.4300</b>	34,501,636	1,733,407
<b>2019</b>	8,753,057,716	8.0%	<b>0.4300</b>	37,261,767	1,810,486
<b>2020</b>	9,278,241,179	6.0%	<b>0.4500</b>	41,334,564	1,812,112
<b>2021</b>	9,742,153,237	5.0%	<b>0.4800</b>	46,294,712	1,838,444
<b>2022</b>	10,131,839,367	4.0%	<b>0.4850</b>	48,648,027	1,868,429
<b>2023</b>	10,435,794,548	3.0%	<b>0.4850</b>	50,107,468	1,867,673
<b>(a) Includes estimated Delinquent Tax Collections, Penalties and Interest, University of Houston-Clear Lake Lease Payment, Interest Income, and Transfers for Fund 100 and 600.</b>					
<b>(b) FY17 Projected amounts are inclusive of the most recent information provided by the City's Financial Advisor.</b>					

**The City's growth allows debt service payments to be spread over a larger tax base, steadying the debt service rate while continuing moderate new debt issuances for capital investment projects.** The debt service rate small reduction is atop the reduction we had in 2017, to 0.4400 from .4828 in FY 2016. The significantly reduced debt service rate for two years is even as new projects are being financed (general obligation and certificates of obligation). The City has refinanced existing debt for long-term savings and has also dedicated fund balance from the debt service fund for reducing the rate in 2018 which is scheduled to increase as shown in the projection for 2019 and 2020, using conservative assumptions.

As discussed later, the debt service rate over a larger base allow for the City to consider continuing to balance its operating rate. A healthy operating rate allows for more pay-as-you go work, regular maintenance and investment, and continued regular service delivery. Comparison cities show clearly the Pearland challenge as we are in the early stages of our maturation as a city, remaining leveraged to build out the public roads, parks, drainage, and facilities for our residents and businesses:

	FY 16				FY '17				Operating Rate as % of total
	Operating Rate	Debt Service Rate	Total Tax Rate	Taxable Value	Operating Rate	Debt Service Rate	Total Tax Rate	Taxable Value	
Pearland	0.2225	0.4828	0.7053	\$ 8,464,775,289	0.2412	0.4400	0.6812	\$ 9,771,727,706	35%
McKinney	0.4100	0.1730	0.5830	\$ 15,327,566,890	0.4018	0.1712	0.5730	\$ 17,108,814,646	70%
Plano	0.3556	0.1230	0.4786	\$ 34,352,527,039	0.3500	0.1186	0.4686	\$ 39,066,059,755	75%
Frisco	0.2971	0.1629	0.4600	\$ 20,795,469,000	0.2941	0.1559	0.4500	\$ 24,283,000,000	65%
League City	0.4010	0.1725	0.5735	\$ 6,082,479,421	0.4105	0.1595	0.5700	\$ 7,015,000,000	72%

A \$7.3 million General Obligation bond financing has been scheduled for FY 18 to complete the southeast quadrant of Old Townsite Drainage, Mykawa Road widening match, Hughes Ranch Road match, and Smith Ranch Road match. The 2018 projects slated for funding through Certificates of Obligation include streets to complete Old Alvin Road widening, Max Road expansion, and intersection improvements. Also included is design for new Fire Station #8 and new Fire Station #7. CO funding for 2018 has been budgeted and anticipated for \$8.6 million.

### Nearing completion of the 2007 General Obligations bond issue projects

Pearland residents determined in May 2007 to set out to authorize with bond debt financing \$162 million in road, drainage, parks, and facility capital improvements. At this writing, all of the park projects have been completed or are at least in bidding. We enjoyed opening the Sports Complex at Shadow Creek, and the Centennial Park expansion is under construction with two lighted/irrigated softball fields, picnic pavilion and parking. Next up is the Independence Park Phase I, which will include a new Pearland Parkway entry, a stage with dressing areas and a new playground. Soon dirt will be moving for the new Delores Fenwick Nature Center at our John Hargrove Environmental Complex.

Although not as quickly delivered as all would like, the improvements have been delivered and have actually gone much further on the road mobility side than originally anticipated. Thanks to Pearland elected officials and staff preparation, the road projects have grown considerably thanks to funding through the HGAC Transportation Improvement Program being secured, providing 80% outside Federal money for City projects to match our 20%.

To round out bond projects, the expansion and renovation of the Tom Reid Library is now underway. The drainage projects identified to date are completed or headed towards construction award.

It should be noted too that we continue to issue Certificates of Obligation, another form of debt financing, for a variety of capital projects that arise. Certificates of Obligation have been issued primarily for facilities, drainage, and mobility projects. Such debt is also repaid as an obligation through the debt service property tax rate.



**The success of planning and coordinating local resources for a determined purpose are being shown now in the Old Alvin Road and East Orange St. areas.** From the 2007 Bond Issue, Old Alvin Rd. was scheduled to be widened. New projects on E. Orange St and Linwood paving and drainage and Town Ditch pedestrian path projects were designed, bid and will be constructed as a multi-phase project reducing the construction duration and achieving lower construction costs. With the coordination and additional funding, the expanded scope improves road, drainage, utilities, and pedestrian facilities in an established neighborhood, on a collector street, and adjacent to our public facilities.

As discussed at the early budget input session, a future bond issue consideration is anticipated now that the City is approaching \$9 billion in taxable valuation. The City Council has asked for an issue to be designed that is of scale to achieve the projects within a shorter time frame than what was advanced since 2007. The potential May 2019 question to voters includes \$70.8 million in projects, including continuation of park improvements and neighborhood street reconstruction programs. There is also envisioned a possible new Shadow Creek Ranch Library on land the City already owns. Additionally, a new animal services shelter facility is also envisioned.

## Water and Sewer Enterprise Fund

Our water and sanitary sewer utility systems are business enterprises that operate as a self-sustaining business, supported by the water and sanitary sewer rate payments of those who use, and have available, these critical resources all the time. We have been proactive with building out the system to meet our needs of today and tomorrow ensuring the continued reliability of the systems. Prior leadership has secured water supply from multiple sources – ground and surface of our own taking and through contracts with the City of Houston system. The last year has seen significant progress with awarding contracts to design a new surface water treatment plant that will take some of the water previously contracted with the Gulf Coast Water Authority from the American Canal. Financing for the work associated with the surface plant and the expansion/upgrades of the Reflection Bay Water Reclamation Facility have been secured through the Texas Water Development Board. That financing is advantageous to the City and its ratepayers with very low interest.

The water and sanitary sewer utilities are seeing substantial growth and additions. In addition to the ongoing routine and emergency repairs to both systems a more proactive approach to maintenance and cost effective measures to increase infrastructure's useful life are being implemented. It is significant to recognize that records show our water and sanitary sewer systems did not have rate increases for five consecutive years, from 2010 to 2014, despite inevitable increases in the cost of goods and services. In some ways, the system is catching up on those deferments. Moreover, the City has bond covenants that we are required to meet for bond coverage with cash (1.4 rate) and for cash reserves (25%). Those sound financial ratios are established by the bond covenants and the City's financial policy.

In 2016, the City was presented, and adopted, a new rate model. The rate model approach is commonly used in large systems like ours. The model being used by the City is a base rate for water and sanitary sewer services with escalating blocks being charged for those requiring a higher service level. For water accounts up to 2,000 gallons/month, for instance, the base rate in FY 17 is \$13.78/month for water and \$20.86/month for sanitary sewer, inclusive of availability charge and the first 2,000 gallons. **Based upon the rate model update, recognizing the additional costs for labor, and chemicals, in addition to the system upgrades, expansion, and maintenance, the total revenue increase necessary for FY 18 is 10.0%.** That revenue requirement is lower than anticipated during the FY 17 budget process, but still indicative of the system needs and growth (total revenue does not translate to exactly equivalent individual rate change). For FY 18, the same small residential 2,000 gallon user of water, will have a base rate of \$15.30 for water and \$22.74 for sewer; the change for FY 18 is \$3.40/month. For the residential user with a 5/8" meter, the vast majority of our accounts, the monthly bill inclusive of water and sewer goes from \$67.20/month to \$73.20/month, a change of \$6.60.

Through various infrastructure recapitalization programs, Public Works is working to extend the useful life of vital infrastructure, such as water storage tanks, water distribution, sanitary sewer collection system, and water reclamation facilities (wastewater treatment plants).

While all of these programs are important, the ones most visible to residents are the waterline replacement program and the sanitary sewer inflow and infiltration programs. These programs are both paramount in minimizing service interruptions for the residents resulting from emergency system failures.

While not as visible to residents, the production and reclamation facility programs have a much larger impact by minimizing unplanned outages which can result in an impact to a much larger group of residents. Our preventative work there includes routine inspection of equipment by various methods such as heat signatures, energy consumption and vibration testing. When these indicators start to change on a piece of equipment, that is typically a signal that something is deteriorating within a piece of equipment, thus allowing repair or replacement to be initiated prior to failure which could lead to a large scale service interruption.

Moving into the future, staff is also looking at opportunities to operate systems in the most efficient manner possible, by implementing technologies that will allow the optimization of the available equipment to be used at its upmost efficiency. Ongoing upgrades to the City's supervisory control and data acquisition (SCADA) system will allow for better integration of existing system infrastructure. Additionally, through the use of advanced analytics staff will be able to react to system changes in a more rapid manner. Example: the system detects a water pressure drop in an area resulting in staff being notified. This would allow staff to look for a waterline break prior to the public calling the break in to Public Works.

The implementation of advanced metering infrastructure (AMI) will also provide both financial and operational benefits to the City. From a revenue perspective this technology, which will be solid state (no moving parts), will allow for more accurate recording of consumption levels. The technology currently being used by the City, positive displacement type, records consumption to a 1/10 gallon per minute level. The solid state meters will record to a 1/100<sup>th</sup> level. The conversion to AMI will result in an increase in recorded consumption resulting in more revenue, accurately reflecting consumption. The amount of revenue from the improved accuracy will be over time and not predictable, so future rates should be moderated to a degree. The operational advantages of AMI will be a more flexible data set, meaning that since the data is constantly being acquired an analysis of consumption, patterns can be detected on an almost real time basis. We can evaluate water produced, leaving production facilities, versus water consumed by customers on a true month-over-month basis, midnight on the first day of the month to midnight on the first day of the next month. Accurate information will give an idea of a true water loss rate resulting from leaks, flushing, or theft; water loss is an issue for our system and will be improved through these efforts.

## The Legislative Cloud

In Austin, apart from the major strategic issues of future annexation, the talk has been of additional caps on property tax revenue, irrespective of a city's growth or unique challenges. The Special Session has also brought discussion of hard revenue caps. With the timing and uncertainty of the session, we can monitor and trust that changes would be for future budgets, not looking back on future plans. Although in flux, even the State Senate's Bill 1 is said to be effective in FY 19. If there are revenue reductions from current planning, then some items will have to be reviewed with eyes toward the usual unfortunate balancing of street and sidewalk repair/maintenance with staffing at future fire stations.

School districts serving Pearland have adopted their budgets and are applying a tax rate for their upcoming FY 18 equal to the prior year.

The range of bills called by the Governor to restrict and confine local governments from Austin are numerous. We continue to plan, while facing uncertainty, but realizing there is a possibility that some of the changes may result in potentially creating significant limitations to true home rule. We do not know if

there will be mandated changes to live within and what, if anything, will be included. We cannot be sure if, or when, something is imposed by our Legislators.

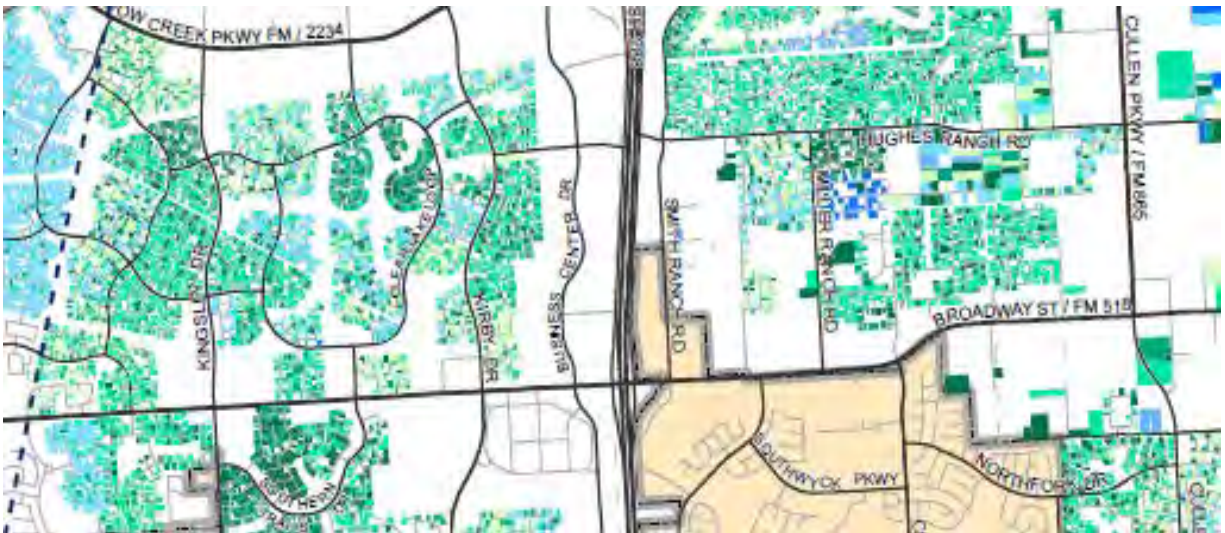
### The value of growth

**\$890 million.** According to the various county appraisal district officials, within our city limits, in 2016 there was added taxable value of \$890 million, *including* the Tax Increment Reinvestment Zone (TIRZ).

Added tax base provides 6.8% more value, getting us to \$8.2 billion *excluding* the TIRZ, on which we apply our property tax debt service and operations rates.

Where does that growth come from? The majority of value growth is from increases in valuation of *existing* properties. The changes in valuation as of January 1, 2017 from the County Appraisal Districts reflect continuing strong retention of value, albeit at a slower growth rate. In Brazoria County, for instance, 35.8% of the homestead parcels grew between 0.1% and 5%. Homeowners saw bigger jumps in the appraised values the year prior. Between 2016 and 2015, a significant 60% of parcels increased more than 10%. So, property owners will often see smaller value growth to which the various taxing entities such as the City apply their rates.

**Homestead Values: Change in Preliminary 2017 vs. 2016**



Homestead Values: Preliminary 2017 vs 2016	BCAD		HCAD		FBCAD	
	COUNT	PERCENT	COUNT	PERCENT	COUNT	PERCENT
Over 10.1% increase	3,396	15.3%	19	1.0%	8	0.7%
5.1% - 10% increase	3,583	16.1%	1,317	71.4%	38	3.4%
0.1% - 5% increase	7,947	35.8%	399	21.6%	73	6.5%
No increase/decrease	4,890	22.0%	92	5.0%	0	0.0%
0.1% - 5% decrease	2,122	9.5%	10	0.5%	992	87.9%
5.1% - 10% decrease	158	0.7%	7	0.4%	3	0.3%
Over 10.1% decrease	125	0.6%	0	0.0%	15	1.3%

## Growth and opportunity

The City's sales tax revenue is expected in this budget to continue strongly, providing \$20 million in FY 18 with 4% growth. Sales tax revenue actually provides substantially to General Fund operations in addition to being the funding source for our Pearland Economic Development Corporation for another \$10 million in FY 18. The combination of rooftops and retailers in Pearland helps the local economy with jobs and investment and obviously provides tremendous value to our local government operations.

With many homestead value growth moderating and this further reduction in the rate, coupled with our continuing needs for ramping up services and systems to support our people and the population they serve, the City Council can select from several positive options. The budget is built around a total City property tax rate that is slightly less than the year prior and below the allowable rollback rate of 8% revenue growth.

Comparison of Potential Property Tax Rate and Revenue					
General Fund and Debt Service Property Tax Rates	FY 2017 Actual Rates & Levy	FY 2018*			
		(1) No New Revenue Tax Rate (Effective)	(2) Proposed Tax Rate	(3) Current Tax Rate	(4) Rollback Rate (8% revenue cap)
O&M	0.2412	0.23706	0.2500	0.2412	0.25506
Debt service	0.4400	0.4300	0.4300	0.4400	0.4300
Total	0.6812	0.66706	0.6800	0.6812	0.68506
G.F. Property Tax Revenue + TIRZ Administrative Fee (in millions)	\$17.7 + \$9.4 = \$27.1	\$18.9 + \$10.1 = \$29.1	\$20.1 + \$10.5 = \$30.5	\$19.4 + \$10.5 = \$29.8	\$20.5 + \$10.6 = \$31.0
*For FY 2018, the proposed rate in green is used in the recommended budget revenue.					

Each one of these scenarios mean different things in terms of resources for the FY18 Budget. The table below is a short illustration of the expenditures the City will be able to support for Scenarios 1, 2 and 4 listed above. The "Proposed Tax Rate" column includes a list of the net impact of all funded Supplemental Requests and, recommended 2% Cost of Living Adjustment (COLA), and the 95% implementation of the Compensation & Classification Study at Mid-Year. In order for the City to move down to the "No New Tax Rate" none of the recommended Supplemental Requests could be funded and the COLA would need to be reduced to 1%. If the City were to move up to the "Rollback Rate" all recommended Supplemental Requests are funded including 100% implementation of the Compensation & Classification Study at Mid-Year.

### Comparison of Property Tax Rate Expense Scenarios

(1) No New Tax Rate (Effective)		(2) Proposed Tax Rate		(4) Rollback Rate (8% Revenue Cap)	
Expenses	Net Impact	Expenses	Net Impact	Expenses	Net Impact
1% COLA	456,263	2% COLA	912,526	2% COLA	912,526
		95% Comp & Class	464,000	100% Comp & Class	1,078,231
		Infrastructure Architect	49,997	Infrastructure Architect	49,997
		Senior Planner	46,455	Senior Planner	46,455
		Toro Mowers	42,351	Toro Mowers	42,351
		Installation of Benchmarks	102,000	Installation of Benchmarks	102,000
		Logistics Cargo Van	23,056	Logistics Cargo Van	23,056
		Power Load for Ambulance	24,540	Power Load for Ambulance	24,540
		Continuous Onboarding	400,000	Continuous Onboarding	400,000
		2 Dispatchers	63,777	2 Dispatchers	63,777
		Jailer	29,299	Jailer	29,299
		Officers	167,994	Officers	167,994
		PSB Chiller	165,691	PSB Chiller	165,691
		Mechanics at 9 Months	-	Mechanics at 9 Months	-
<b>TOTAL</b>	<b>456,263</b>	<b>TOTAL</b>	<b>2,491,686</b>	<b>TOTAL</b>	<b>3,105,917</b>
<b>Fund Balance Over Policy</b>	<b>229,550</b>	<b>Fund Balance Over Policy</b>	<b>290,700</b>	<b>Fund Balance Over Policy</b>	<b>113,784</b>

So, what do these options mean for a homestead property tax bill? Several sample bills are shown in the table below for the City portion of those tax bills. It should be noted that all of these examples accurately show a 10% growth in valuation, the maximum for a given year, even though not all property owners experience that maximum. Accumulated unrecognized value from prior years' that had higher growth can still be taxed when growth falls below 10%. The City remains about ¼ of the total property tax bill.

#### Summary of Homestead Property Tax Bills Projected for 2017 Tax Year (for FY 2018 Budget Cycle) Pearland, Texas

		Zero Growth		Homestead Example 1		Homestead Example 2		Homestead Example 3		Homestead Example 4		Homestead Example 5	
TY16 Actual COP Tax Bill	\$		1,240	\$	1,793	\$	986	\$	957	\$	1,654	\$	833
TY16 Taxable Value	\$		187,000	\$	270,000	\$	149,810	\$	145,530	\$	249,000	\$	127,244
% Increase (Decrease)			0.0%		10.0%		10.0%		10.0%		10.0%		10.0%
TY17 Taxable Value	\$		187,000	\$	297,000	\$	164,791	\$	160,083	\$	273,900	\$	139,968
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
No New Rev. TR (Effective)	0.6671	\$ 1,214	\$ (26)	\$ 1,932	\$ 139	\$ 1,066	\$ 80	\$ 1,035	\$ 78	\$ 1,782	\$ 128	\$ 900	\$ 67
<b>Proposed TR</b>	<b>0.6800</b>	<b>\$ 1,238</b>	<b>\$ (2)</b>	<b>\$ 1,969</b>	<b>\$ 176</b>	<b>\$ 1,087</b>	<b>\$ 101</b>	<b>\$ 1,055</b>	<b>\$ 98</b>	<b>\$ 1,816</b>	<b>\$ 162</b>	<b>\$ 918</b>	<b>\$ 85</b>
TY16 Total Rate	0.6812	\$ 1,240	\$ (0)	\$ 1,973	\$ 180	\$ 1,088	\$ 102	\$ 1,056	\$ 99	\$ 1,819	\$ 165	\$ 919	\$ 86
Rollback TR	0.6851	\$ 1,247	\$ 7	\$ 1,984	\$ 191	\$ 1,095	\$ 109	\$ 1,062	\$ 105	\$ 1,829	\$ 175	\$ 925	\$ 92
		Homestead Example 6		Homestead Example 7		Homestead Example 8		Homestead Example 9		Homestead Example 10		Senior Example	
TY16 Actual COP Tax Bill	\$		1,176	\$	1,894	\$	2,003	\$	1,667	\$	1,975	\$	206
TY16 Taxable Value	\$		177,595	\$	285,152	\$	301,630	\$	251,000	\$	297,341	\$	126,620
% Increase (Decrease)			10.0%		7.0%		10.0%		6.8%		8.3%		10.0%
TY17 Taxable Value	\$		195,355	\$	305,124	\$	331,790	\$	268,000	\$	322,080	\$	139,282
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
No New Rev (Effective)	0.6671	\$ 1,270	\$ 94	\$ 1,985	\$ 91	\$ 2,158	\$ 155	\$ 1,754	\$ 87	\$ 2,095	\$ 120	\$ 206	\$ -
<b>Proposed TR</b>	<b>0.6800</b>	<b>\$ 1,294</b>	<b>\$ 118</b>	<b>\$ 2,023</b>	<b>\$ 129</b>	<b>\$ 2,200</b>	<b>\$ 197</b>	<b>\$ 1,788</b>	<b>\$ 121</b>	<b>\$ 2,135</b>	<b>\$ 160</b>	<b>\$ 206</b>	<b>\$ -</b>
TY16 Total Rate	0.6812	\$ 1,297	\$ 121	\$ 2,027	\$ 133	\$ 2,204	\$ 201	\$ 1,792	\$ 124	\$ 2,139	\$ 164	\$ 206	\$ -
Rollback Rate	0.6851	\$ 1,304	\$ 128	\$ 2,038	\$ 144	\$ 2,216	\$ 213	\$ 1,802	\$ 135	\$ 2,151	\$ 176	\$ 206	\$ -

In Example 1, the City portion is \$1,969 for the year with a \$176 increase from the prior year, largely due to there still being the 10% accumulated value still being the basis.

<b>Homestead Tax Bill Example 7</b>							
Address: XXXX Pepper Landing				Subdivision: Preserve at Highland Glen			
Characteristics:							
Did not exceed Homestead Cap in 2016 and is not expected to exceed the Homestead Cap in 2017							
Within MUD boundaries (MUD 28)							
<b>Taxable Value Summary</b>							
	Tax Year 2016			Tax Year 2017			Annual \$ Change
Appraised Value	\$	285,152		\$	305,124		\$ 19,972
Homestead Cap Loss	\$	-		\$	-		\$ -
Taxable Value	\$	285,152		\$	305,124		\$ 19,972
<b>Year-to-Year Comparion at COP 8% Revenue Increase</b>							
Taxing Entity	Tax Year 2016			Tax Year 2017			Annual \$ Change
	Rate	Amount	% of Total Amount	Rate**	Amount	% of Total Amount	
Pasadena ISD	1.3500	3,127	33.6%	1.3500	3,370	33.7%	243
Mud 28	0.8200	2,338	25.1%	0.8200	2,502	25.0%	164
City of Pearland	0.6812	1,894	20.3%	0.6800	2,023	20.2%	129
Harris County	0.4166	950	10.2%	0.4166	1,017	10.2%	67
San Jacinto Community College	0.1824	511	5.5%	0.1824	547	5.5%	36
Harris County Hospital District	0.1718	392	4.2%	0.1718	419	4.2%	27
Harris County Flood Control	0.0283	65	0.7%	0.0283	69	0.7%	5
Port of Houston	0.0133	30	0.3%	0.0133	33	0.3%	2
Harris County Education Dept	0.0052	12	0.1%	0.0052	13	0.1%	1
<b>Total</b>	<b>3.6688</b>	<b>9,319</b>		<b>3.6676</b>	<b>9,993</b>		<b>673</b>
<b>% of Appraised Value</b>		<b>3.3%</b>			<b>3.3%</b>		
*Certified Tax Year numbers are not shared until October. These are based on preliminary numbers on Brazoria, Harris and Fort Bend County Tax Assessor's websites.							
** 2017 tax rates are not certified. Based either on advertised rates or 2016 rate.							

In addition to homestead exemptions, there are exemptions for over 65 and veterans/disabled that are significant. An example for one of those properties is below, which has a **City annual tax bill of only \$206, unchanged for 2017.**

<b>Homestead Senior Tax Bill Example</b>							
Address: XXXX Churchill				Subdivision: Sherwood			
<b>Taxable Value Summary</b>							
	Tax Year 2016			Tax Year 2017			Annual \$ Change
Appraised Value		126,620			149,870		23,250
Homestead Cap Loss		-			10,588		10,588
Taxable Value	\$	126,620		\$	139,282		12,662
<b>Year-to-Year Comparion at COP 8% Revenue Increase</b>							
Taxing Entity	Tax Year 2016			Tax Year 2017			Annual \$ Change
	Rate	Amount	% of Total Amount	Rate**	Amount	% of Total Amount	
Pearland Independent School District	1.4156	414	62.3%	1.4156	414	61.5%	-
City of Pearland	0.6812	206	31.1%	0.6800	206	30.7%	-
Brazoria County Drainage District #4	0.1460	38	5.8%	0.1460	40	6.0%	2
Brazoria County	0.3974	5	0.8%	0.3974	10	1.5%	5
Road & Bridge Fund (Brazoria County) <sup>2</sup>	0.0600	1	0.1%	0.0600	2	0.3%	1
<b>Total</b>	<b>2.7002</b>	<b>664</b>		<b>2.6990</b>	<b>672</b>		<b>8</b>
<b>% of Appraised Value</b>		<b>0.5%</b>			<b>0.4%</b>		
*Road & Bridge Fund is assessed by Brazoria County and included in their overall assessed tax rate of 0.4574 for TY16. TY17 not updated							
*Certified Tax Year numbers are not shared until October. These are based on preliminary numbers on Brazoria, Harris and Fort Bend County Tax Assessor's websites.							
** 2017 tax rates are not certified. Based either on advertised rates or 2016 rate.							

## Conclusion

I want to close with a few contributions on the meaning of the many staff comments about purpose from the Road Shows:

I think our purpose is to ensure that Pearland remains a dynamic, safe, prosperous and desirable community to live, work, and play. As I see it, the purpose is to deliver a beautiful, safe and affordable community to the residents.



Make the lives better for our citizens.

Community building, providing vital public services to all fairly and equitably.

Our purpose, our driving force, as expressed by my staff colleagues, is a strong draw that fuels us every day. We are committed to continuing to improve the environment for high quality of life in Pearland. The budget here is another work plan that supports that effort.

Respectfully submitted,



Clay J. Pearson  
City Manager