

August 1, 2019

Honorable Mayor and City Council members:

What is Next?! That's a question I get asked- a lot.

In Pearland, high velocity change and growth has been the norm: roads widen, housing soars, businesses open, water lines extend, and our population grows. Looking back over just the last five years Pearland is a different place, and I would argue, that while it *is* different, it is *also* better -- We are a diverse community that is welcoming to all, and it shows in many ways throughout the community.

But what *is* next? **While we face challenges, we are well positioned to answer that question:** Pearland's robust and diverse economy offers services and amenities that will not only continue to keep us competitive and to retain people who call Pearland home – regardless of their stage of life or career. We have a safe community, continuously improving public recreational facilities, programs, and special events, a high-quality water and sewer system, solid public infrastructure, outstanding public school districts, and dedicated employees. All so that we collectively offer an exceptional quality of life for our residents every day.

For the City, what's next is to continue building momentum around the positive qualities that make Pearland special. From the voter-approved 2019 bond issue, we will add needed City facilities including, a fire training burn building, and a larger, modern animal shelter. We will continue to reduce the adverse effects of the rapid growth phase with additional road improvements, improved utility provision, and storm water drainage improvements to further boost our resiliency to intense weather.

Moreover, our diversified economy means Pearland is fairly well insulated from whatever economic downturn or realignments may come. Our sales tax revenue, for instance, is projected in this budget for only modest growth. With that pace, we are still able to further build the General Fund's fund balance while making needed public investments in services and structures.

We are getting better and better

Before we look ahead, we have a lot to be proud of:

- ✓ Over the last five years our population has grown 21% - Crime rates are down between 12%-30% and response times are down 20%.
- ✓ Serious Crimes (Part I in statistics) are down 25%.
- ✓ Burglaries are down 24% (211) from the 5 year avg. (276.7).
- ✓ Motor Vehicle Theft is down 12% (93) from the 5 year avg. (105.7).
- ✓ Robberies are down 20% (32) from the 5 year avg. (40.2).
- ✓ Fire growth and response – in the last five years we have added two new fire stations (with one more soon to open) and 90th percentile emergency response rates have declined 17% (13:23 to 11:03)
- ✓ Road improvements – The 2007 bond program invested \$84M in roads, which unlocked \$137.6M in Federal Funds to aid in the completion of major projects that improved the road network – including recent completion of the widening of Reid Boulevard and Old Alvin Road, the extension

of Pearland Parkway and Fite Road, with Hughes Ranch Road, Mykawa Road, and McHard Road in the pipeline.

- ✓ Sales tax revenue growth – Sales tax has increased from \$28M to \$32.9M over the last four years. The first 10 months of this year equates to what was collected for all of FY15.
- ✓ Jobs – from 2005 to 2016 jobs grew 105%.
- ✓ Citizen survey - from 2015 to 2017 there was a 12% increase in population and a 14% increase in Sense of Community sentiment.

What's next

Development of a new Economic Development Strategic Plan is driving our thinking about what's next. After successfully executing the original strategy in 2013 (updated in 2015), a new course is being set to guide our efforts and ensure we are purposeful about identifying and implementing priorities. Building the new strategy began with a Community Assessment study in July 2019. In addition to the quantifiable information and consultant's expertise, stakeholders from throughout Pearland were interviewed. The Community Assessment mentioned this for a commonality in perspective:

In short, a key theme from the public input process is that there is an emerging consensus that Pearland is on the cusp of a new era. The community's recent history has been typified by rapid growth. Stakeholders said they feel that the community is "catching up" to this growth in many ways and have much to be proud of in recent years. However, stakeholders contacted through the input process also said that Pearland's residents are beginning to have discussions about what comes next for the community. These discussions can be synthesized and distilled into a single key question: **How will Pearland ensure its sustainability and maintain or even improve its status as a highly desirable destination as its era of rapid growth draws to a close and the community begins to mature?**

Now is an opportune time to ask this question. Suburban communities around the United States are facing a new paradigm that will bring both challenges and opportunities. Sun Belt suburbs such as Pearland remain among the fastest growing communities in the country. However, trends such as e-commerce and peer-to-peer technologies could alter sectors such as retail and food service that are critical to the tax base of many localities, including Pearland. Additionally, shifts in generational preferences and financial hurdles faced by younger populations could have a variety of implications. Communities that address these issues will unquestionably chart a more sustainable course for their community and economic development.

Looking ahead to what's next is wise, maybe even being a little restless to a different type of change from the breakneck pace of growth to more of a moderate rate. Yet, there have been cities who succeed and thrive with growth closer to the median rates. We are building the City of Pearland into a High Performance Organization; one that's nimble and smart, full of leaders at all levels. Our talented and dedicated City staff team are gearing us up to build and connect. In the next decade, we will shift to more maintenance and less new construction of infrastructure. While new growth of valuation from development will not be as big a part of our planning, we will continue to protect the value in our existing neighborhoods and businesses, as we thrive in new maturing ways, building a sustainable Pearland well positioned for continued success.



The SH 288 Corridor with connections to Beltway 8 and Discovery Bay Drive/Hughes Ranch Road.

The big highway and its supporting road network

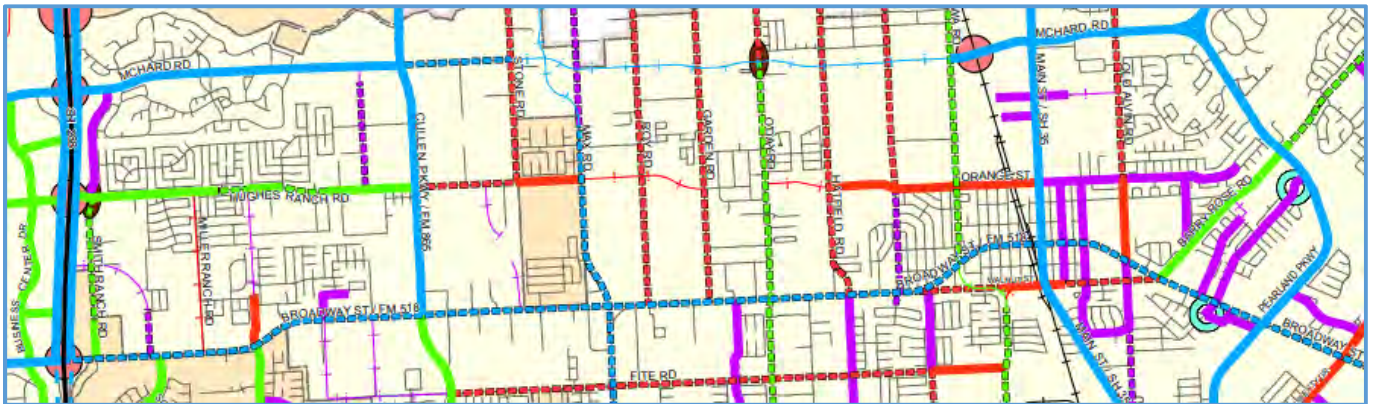
We've been executing a plan for linking together our road network. The work is coordinated and sequenced to the best of our ability. There are multiple agencies (the City, Brazoria County, TxDOT, Harris County Toll Road Authority) and other funding sources. Each bit of work requires multiple permitting levels, right-of-way acquisitions, design, and construction bidding, award, and work.

To guide all of this, we have a solid thoroughfare plan that outlines the major streets, and future connections. It gives us a planning tool to set out and designate future public rights-of-way through the planning and development process with private developments. That Thoroughfare Plan, along with other master plans, is an integral part of the City's Capital Improvements Program that provides a multi-year construction and budgeting plan to show what's next for the road system. The next Fiscal Year 2020 will be significant for seeing successful results of many years' planning and work.

The largest project in Pearland is part of an even more massive undertaking as the SH 288 toll managed lanes and associated work all the way from south of Pearland, through Beltway 8 and I-610 interchanges, to the Texas Medical Center.

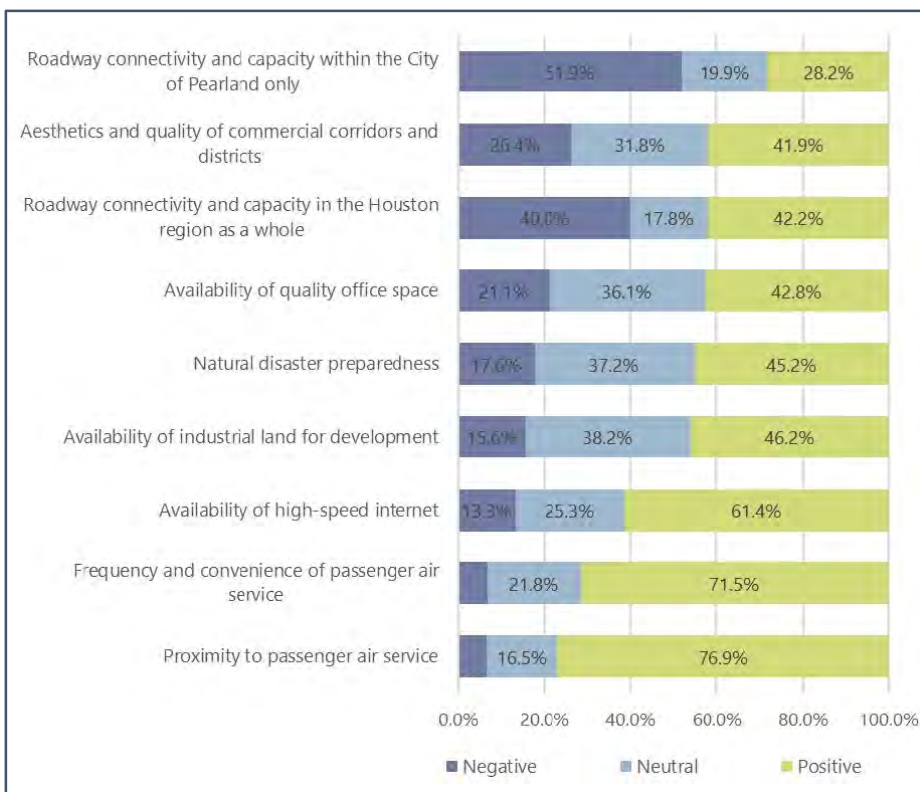
Within the City of Pearland, the widening of Hughes Ranch Road (CR 403) is has started and is set to complete in early 2021. That road provides larger capacity and better safety while tying into new T-Ramps for direct access to the SH 288 toll road. East-west travel in Pearland will improve even more with the start of the much-anticipated extension of McHard Road between Cullen Parkway and Mykawa Road. We awarded construction of the new water and sewer work for that corridor in June 2019. During the upcoming "winter" of 2019, we will be awarding construction of the road work itself.

None of these projects would be where they are without anticipation and coordination with the City Thoroughfare Plan, the Capital Improvement Program, and the financing and administration.



Thoroughfare Plan Excerpt -- McHard Road

We have numerous mobility projects underway or planned that will spur more economic development with investment and jobs.



Excerpt of stakeholder feedback from PEDC Assessment Study

Advantages gained by our mobility work

All the work to improve mobility, part of plans and budgets past and future, will address three of the biggest negatives identified in the new Pearland Economic Development Strategy Community Assessment:

- Roadway connectivity and capacity within the City of Pearland only
- Aesthetics and quality of commercial corridors and districts
- Roadway connectivity and capacity in the Houston region as whole

Together, working with partners successfully such as

Brazoria County, and the alphabet soup of TxDOT, HCTRA, and BCTRA, there is progress made, and connections, to be made.

The trial period of the privately-provided bus commuter service from the Shadow Creek Sportsplex is underway, broadening the service options.

We are also diversifying the less commuter-oriented connections. Pathways are making progress to be constructed with substantially long segments, primarily along the Clear Creek corridor. Thanks to major grants, work is starting on those and providing what will be a continuous recreational trail across Pearland.



Main Street State Highway 35 entry feature newly installed

Lower Kirby District & major corridors

In the Lower Kirby District, South Spectrum Boulevard will be open from Kirby Drive all the way over to the SH 288 southbound frontage road by October 2019. The entire Lower Kirby corridor has grown and diversified the City tax base by adding primary jobs, thanks to years of planning and investment by our Pearland Economic Development Corporation (PEDC) team.

Realizing the potential of our Main Street/ State Highway 35 Corridor is a similar economic development focus. As with Lower Kirby, PEDC is leading the effort by executing a plan for

enhancing the look and feel of the corridor, making it more attractive and giving confidence to investors. Just as the private sector developers of a new residential subdivision spend considerable money on the entryways to give a quality look and feel, or a hotel property has a lobby that gives a certain feel, our rights-of-way convey the message that Pearland is an inviting and prosperous community. The work underway now adds to the public spaces to help set that tone.

Down the road, what's next for our FM 518/Broadway Corridor is needed expansion and safety improvements. As a State road, some of which lies outside the City limits, TxDOT will be the lead. The State, through TxDOT, *has funded* the portion of FM 518 from SH 288 to Cullen. For FM 518 widening (SH 288 to FM 865/Cullen Pkwy), widening from four to six lanes, TxDOT has \$32.4 million for funding in 2023. The next segment of Broadway, from Cullen Pkwy easterly, is unfunded by TxDOT.

A third road corridor deserving mention is Pearland Parkway. We've witnessed and enjoyed growth and development of restaurants and retail along there, adding choices for shopping and dining. Now what's next from the City will be, thanks to the voter-approved May 2019 bond issue, redevelopment of the traffic rotary improvements. The work will make through traffic easier and safer. These updates will be planned to be completed in advance of the ensuing extension of McHard Road.

State of Texas Legislature oversight

Our State of Texas Legislature meets every other year for regular session. The cascade of bills introduced leads to a small number that are approved by both chambers and are signed by the Governor. In the last couple of sessions, to put it kindly, the new laws have significantly reduced local government flexibility and resources.

While admirably directing considerable attention to the critical State mandate of funding public education across the State, there was passage of a new property tax revenue cap for most cities and counties before special elections are required. For years, the maximum property tax revenue growth, in theory

excluding new growth from a complex formula, was 8%. **Starting with the budget year beyond the recommended one here, for our FY 21, the cap is 3.5% growth as the property tax revenue cap.**

There are several impacts we should anticipate for what's next:

- Our operations budget
- Impact on fleet replacements
- Annual maintenance of streets and sidewalks (already significantly underfunded will be further crimped)
- Ability to add even the portion of additional positions for police, fire, public works, parks, and support across the organization will be lessened

The City is committed to opening Fire Station #8 with a medic unit and one apparatus through continuous onboarding of additional staff in FY 20. We have ordered the large rolling stock trucks to be in the building when it opens in fall of 2020. However, the full complement of firefighters needed to staff the second apparatus is built into future budget projections that are uncertain with the new 3.5% property tax revenue cap.

Another factor with the revenue growth constriction is the impact on our General Fund's fund balance. Without the flexibility on revenue growth, we will be slowed in achieving the desired reserves for emergencies like we experienced with Hurricane Harvey to cash flow expenses and cover items that are *not* reimbursable expenses.

Another bill that went through the 2019 Legislative session that has since been signed into law reduced telephone franchise fees to cities for use of the public right-of-way for private commerce. The revenue estimate reflected in this recommended budget is a loss of \$100,000. The intent of the bill was explained that now telecom companies do not have to pay "twice" for using lines for phone & internet – now only required to pay the higher of the two. Our City of Pearland total Telephone Fees in FY19 was \$275,000 but now reduced to \$175,000, so limited exposure. We will monitor and update at mid-year if needed.

Finally, for State legislative "highlights", the special session in 2017 that brought new requirements for cities in Texas to grow into their respective extraterritorial jurisdiction boundaries, continues to impact our planning. Future water and wastewater modeling, for impact fees for instance, no longer assumes the same growth areas. We also completed in FY 19 a strategic goal of the City Council to no longer provide fire services into the ETJ without a dedicated funding commensurate to the City's cost of service. Two new emergency service districts, #4 and #5, were created and will levy the maximum 10 cent property tax which will substantially be paid to the City for service provided. **In upcoming FY 20, the recommended budget here has revenue of \$776,000, but that will go to \$940,000 after the ESDs have a chance to build their balances.** That revenue will cover much of the cost of service for the area.

FEMA monies and storm water management in Pearland

Hurricane Harvey in August 2017 impacted our community in many ways. While there was no loss of life and relatively small private property damage within the City of Pearland, the lingering effects, financial issues, and lessons remain here in 2019. We are better equipped with equipment. We are also making improvements to our Emergency Operations Center so that City will be able to support the community more comprehensively in the event of an emergency.

Now in July 2019, only a month away from the two-year anniversary of Hurricane Harvey, there is a heavy sense of urgency on our part to move from our desk the outstanding claims involving FEMA disaster

recovery program that reimburse the City for its outlay of costs for that event. The State, via Governor Abbott, has issued a number of correspondences to FEMA and the Texas Division of Emergency Management (TDEM), urging these outstanding outlays be resolved and obligated to reimburse the affected municipalities and other jurisdictions by late August 2019, and the applicable parties are working hard to do so.

Considering the two FEMA work categories the City has made substantial outlays to cover the costs of debris removal and emergency measures:

As a recap, **FEMA Category A** – Debris Removal costs have been reimbursed (100%), as the City has received payment in the form of \$1,347,687 in Federal funding, and \$149,743 from the State of Texas, for a total of \$1,497,430. The funds are dedicated to reimbursing the solid waste fund and not available for other purposes.

FEMA Category B is the section of disaster recovery public assistance reimbursement that involves the City's Emergency Protective Measures and is the one that has the most direct implication to the City's General Fund. At the end of the FEMA-defined period of initial emergency operations (1st 30 days following the event – 9/24/2017), the City began to calculate eligible costs for reimbursement for the use of force account labor, City equipment, materials and supplies and contract work towards emergency protective measures affiliated with Hurricane Harvey. Staff believes the reimbursement amount will be in line with the \$2,078,507 identified in a Validation Summary issued by FEMA on Monday, July 22, 2019. Per that amount, the allocation of that reimbursement would be distributed by Fund as follows, which is subject to change based on the final approved reimbursement amount:

1. **General Fund - \$1,785,518 in Force Account Labor, Equipment and Materials**
2. Enterprise Fund - \$283,557 in Force Account Labor, Equipment and Materials
3. Other Funds - \$9,432 in Force Account Labor

We have **not** included within FY 19 any of the FEMA reimbursement revenue that's coming and **not** budgeted any revenue or expense for FY 20. The amounts of reimbursement are well-documented and nearly certain. However, given the State and Federal agencies and uncertainty of timing, we are conservatively not assuming that in the budget. As soon as we have certainty, we will bring that to you to amend the budget for revenue. **We will also have at least these amounts recommended with the incoming \$1.8 million General Fund FEMA reimbursement for one-time or discretionary expenses:**

- \$500,000 Asset Management Software next phase beyond work order (GF Share)
- \$200,000 for Comprehensive Plan
- \$900,000 for streets, sidewalks, vehicles replacements
- \$185,518 or Remaining balance - Addition for General Fund's fund balance

Again, the timing of being able to recognize and receive the money is the significant detail and makes us recommend to not include, but make these expenditures contingent upon receipt, likely early in FY 20.

Beyond the Hurricane Harvey recovery money detailed above, there are other separate additional new FEMA Recovery dollars anticipated. The City Council conducted a public hearing on July 22 for new Community Development Block Grant (CDBG) recovery funds anticipated to be administered by the City. Based on damage assessments that demonstrate Hurricane Harvey damaged 1,784 homes in Pearland, the City has been allocated \$2,727,372 for buyouts of flood-affected homes impacted by Hurricane Harvey and \$2,657,147 for Infrastructure/Capital Improvements. We have a lot of paperwork and filings

to complete, but allocations for Pearland total \$5,384,519 and will be disbursed upon completion of our CDBG-DR Action Plan, similar to the annual Action Plan the City completes to determine how regular CDBG funds are used each year.

Storm water management and the fee option

Bigger picture, our storm water management and flood control work locally, in cooperation with partners including Brazoria Drainage District #4 and Harris County Flood Control District continues.

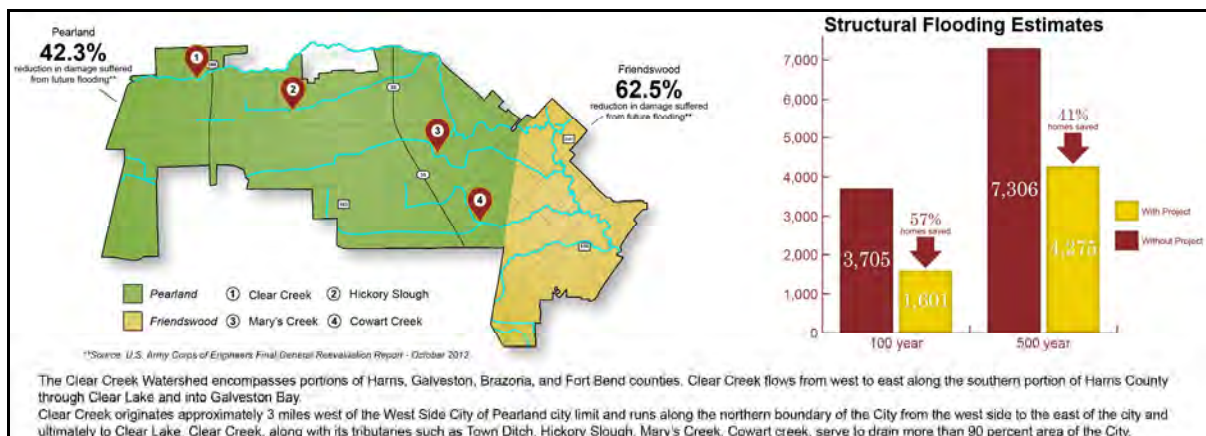
We have had introduction to the option and benefits of the Storm Water Utility Fee that’s been used successfully in many Texas cities as a dedicated, identifiable means to support this essential work. While it would be easier to continue with the large and visible drainage public projects, primarily funded with debt, our minimal ongoing maintenance and smaller projects that can help localized flooding will continue to be pushed towards the sidelines. Moreover, moving the City storm water work source of revenue from general funds to a dedicated fee would both give more money to that stormwater work and free up some General Fund dollars that could be reallocated to ongoing maintenance of streets and sidewalks.

Clear Creek improvements

What’s next for the creek that drains nearly all of Pearland? The long-awaited (decades!) Clear Creek flood reduction project is a partnership between the US Army Corps of Engineers (USACE) and Local Sponsors (Harris County Flood Control District [HCFCD], Galveston County and BDD4). The project will provide channel improvements and in-line detention along Clear Creek from SH288 to Dixie Farm, along with improvements to additional tributaries in the Clear Creek watershed.

After Hurricane Harvey the project was finally provided appropriation from the Federal Government for \$295 Million, with local sponsors reimbursing their cost share. In June 2019 a Project Partnership Agreement was approved, between USACE and HCFCD, to allow the HCFCD to carry out the project. The transfer of lead from the Feds allowed the responsibility of the project to be transferred to HCFCD to manage, design, and build the project. Additionally, with the transfer of project management and construction to HCFCD, the estimated cost share is apparently now a 50/50 partnership with local funding being required throughout the project development and construction. That translates to \$147.5 million from USACE and *the remaining balance being funded by the Local Sponsors*. The timing of the local funding is a new twist that has to be digested and agreed to with (hopefully) matching from local sponsors by work already completed or land acquired.

The project is underway with the development of scope for services and subsequent advertisement for design services. As of current project status, it is still scheduled for completion within the 5-year schedule.



Again, with all the tremendous growth and development, the newly constructed areas of Pearland were extremely resilient during Hurricane Harvey. The next storm may be different, perhaps more wind, perhaps more power outages, perhaps a combination of both. We will be ready for the response, but until then, we must continue to enforce and follow the design requirements for private development and build out more of the major construction projects. Just as important, I believe, is to commit and follow through with regular maintenance and smaller projects. After Hurricane Harvey, we identified 30 problem areas that can be addressed over time with a dedicated Storm Water Drainage fee source of revenue, while allowing flexibility to balance the other City responsibilities of streets and sidewalks.

The multi-billion dollar development program: TIRZ #2

We need to look ahead and understand the near-term benefits and effects of the success of Tax Increment Revitalization Zone (TIRZ) #2 that is Shadow Creek Ranch, a major master planned area in Pearland. The capture from the TIRZ expires in 2029, with a closeout year thereafter.

The intricacies of the TIRZ are diverse, but one is that the property tax collected for that entire area, a taxable value that as of now has reached an incredible \$2.6 billion, is “captured” and segregated. The City and other taxing bodies have deferred their normal operating tax rate to instead repay the obligations of the TIRZ. However, the City receives an “administrative fee” of 64% of what our total property tax rate would have otherwise derived. That 64% obligated in the original TIRZ agreement is actually more than would be generated from the Operations and Maintenance (O&M) portion of the City property tax rate. As we turn into a new decade and see the end of the TIRZ #2, at some point in a few years, projections and transition plans need to be made for the TIRZ ending and the property coming back as normal property onto the tax roll.

Another very positive event horizon to anticipate is the fact **the City is in line to receive \$8.5 million back from the TIRZ in 2022 as reimbursement for work the City advanced to extend and improve Broadway Street within the TIRZ.** Growth in the TIRZ has now changed projections such that not only will the City be reimbursed that substantial amount, but it is expected in 2022. The initial conversations and recommendation is the bulk of that one-time reimbursement be used to firmly establish the City’s internal service fleet fund and to fully bolster the General Fund’s fund balance.

Before that, the interim financing by the City for additional public improvements within the TIRZ area is before us and impacting the FY 20 and near-term City budgets. **In order to be reimbursed for additional improvements, the City is obligated to advance finance new City projects: \$14.4 million in Certificates of Obligation (COs) approved June 24th for interim financing to build SCR Park Phase II, new Fire Station #8 and equipment, a new Shadow Creek Ranch Public Library, and landscaping, street lighting and sidewalk design in SCR. The issued debt is relatively short term in nature, payable back with interest, in essence balloon payments from 2025 through 2029, totaling \$48.4 million in improvements, timed to match the TIRZ reimbursement.** That large investment within the TIRZ represents projects that would otherwise have been paid by the City from its own sole revenue or not accomplished at all.

Overall Expenditures Highlights

In our Comprehensive Annual Financial Report each of the last several years, which provides an unvarnished snapshot of City finances across dozens of funds at the September 30 close of each fiscal year, we have provided a table of spending and growth analysis. That table shows a long run of total City expenditures by various categories.

SPENDING AND GROWTH ANALYSIS					
<i>Amounts in (000's)</i>					
Expenditures	2009	2018	% CHG	Growth Rate	
General Gov't	\$ 8,423	\$ 11,300	34.2%	3.3%	
Public Safety	22,310	41,273	85.0%	7.1%	
Public Works	12,051	16,968	40.8%	3.9%	
Community Services	3,386	4,313	27.4%	2.7%	
Parks & recreation	5,789	5,959	2.9%	0.3%	
Economic Development	18,730	29,195	55.9%	5.1%	
Debt Service - principal	7,517	23,547	213.2%	13.5%	
Debt service - interest	15,704	15,814	0.7%	0.1%	
Capital outlay	75,490	43,474	-42.4%	-5.9%	
Intergovernmental	7,630	7,168	-6.1%	-0.7%	
Total	\$ 177,030	\$ 199,011	12.4%	1.3%	
Per Capita Expenditures Adjusted for CPI					Growth Rate
POPULATION	92,600	125,198		3.4%	
PER CAPITA	\$ 1,912	\$ 1,590		-2.0%	
CPI INDEX (NATIONAL)	214.54	252.44		1.8%	
PER CAPITA ADJ TO 2018	\$ 2,250	\$ 1,590		-3.8%	
PER CAPITA ADJ TO 2009	\$ 1,912	\$ 1,351		-3.8%	

The numbers are instructive as they show our primary investment and growth in **public safety**, 21% of the total across all funds for the fiscal year ending September 30, 2018. Also interesting is the analysis of per capita City government expenditures when adjusted for Consumer Price Index (CPI). That table reflects that when properly indexing to the CPI, per capita city expenditures are somewhat *less* than they were ten years ago.

General Fund Revenue Highlights

Our General Fund that provides the bulk of City day-to-day services is primarily funded by local property tax and local 1% sales tax revenue. There are not transfers from the State of Texas or others – to be direct, we thrive or struggle based on local resources and local decisions.

Annual Budget by Function Report								
Summary								
Fund: 100 General Fund	2017 Actual		2018 Actual		2019 Amended		2020 Proposed	
	Amt.	% of total	Amt.	% of total	Amt.	% of total	Amt.	% of total
Property Taxes	\$17,910,289	24%	\$20,383,959	26%	\$22,952,305	28%	\$25,704,801	30%
Sales & Use Taxes	\$20,457,029	28%	\$22,662,007	29%	\$22,438,980	27%	\$22,669,370	26%
Franchise Fees	\$6,975,738	9%	\$7,097,568	9%	\$7,272,488	9%	\$7,242,757	8%
Licenses & Permits	\$5,434,917	7%	\$4,145,496	5%	\$3,882,867	5%	\$3,887,350	4%
Fines & Forfeitures	\$2,510,849	3%	\$2,322,398	3%	\$2,452,750	3%	\$2,445,750	3%
Charges for Services	\$15,396,511	21%	\$16,051,689	21%	\$16,900,459	21%	\$18,291,338	21%
Investment Earnings	\$217,286	0%	\$323,550	0%	\$537,000	1%	\$622,000	1%
Intergovernmental	\$0	0%	\$0	0%	\$0	0%	\$0	0%
Miscellaneous	\$1,534,335	2%	\$1,302,233	2%	\$1,150,903	1%	\$1,121,854	1%
Other Financing Sources	\$0	0%	\$0	0%	\$0	0%	\$0	0%
Transfers In	\$3,791,394	5%	\$3,816,116	5%	\$4,674,460	6%	\$4,949,456	6%
Revenue Totals:	\$74,228,348		\$78,105,016		\$82,262,212		\$86,934,676	

Total revenue to the General Fund is ½ from local sales tax and property tax with another 21% from the TIRZ Administrative Fee, an indirect source of property tax contracted for the TIRZ.

Property Tax Base

Property tax is composed of two components, the base of value and the rate. For the base value, growth overall for values from the three counties we occupy totals +5.0%. Our own analysis of information from the Central Appraisal Districts is that 45% of homestead properties in Pearland had an increase in AV between 0% and 5%, with 25% experiencing a one-year change between 5% and 10% and 21% assessed between no change and a 5% decrease.

For 2019, value of *new* improvements and *new* personal property is \$246 million onto the rolls, included in the recap table of appraisal rolls. That amount of new taxable value is down 9.1% from what was added the prior year, evidence of the slowing pace of growth noted earlier.

The base values provided by county appraisal district is just the starting point. From that base, the taxable amount upon which we apply our rate gets whittled down. For one, the TIRZ #2 is removed. Then, the amount from tax ceilings per the State worksheet, is removed, leaving a smaller base

Property Tax Rate

The City sets its own rate, the valuation changes individually for thousands of properties. For the rate, local governments in Texas have had the option for local elected leaders to go up to a property tax revenue growth *theoretically* up 8%. Beyond that rollback rate, other requirements are activated for notice for the City to proceed. The current FY 20 Budget will be the last for a rollback rate with the current State-mandated worksheet formula. Under new State law, beginning with valuations as of January 1, 2020 applicable to our FY 21 Budget, the new maximum revenue growth from existing property is just 3.5%.

Significant in that worksheet is that \$1.1 billion in value is removed for homeowners age 65 or older, which particularly has again affected our calculations for the debt service rate.

The recommended budget is based upon the City adopting a rate at the calculated *rollback rate* for Operations and Maintenance of the City. If the City were to not adopt the rollback rate, then items such as streets and sidewalks, additional personnel etc. would need to be eliminated and the services and support would fall behind requests and expectations. Simply put, some challenging gaps we see would be worse. The Comparison of Potential Property Tax Rate and Revenue shows the impact. Without adopting the recommended rollback rate, and if we were to adopt the effective rate, we would need to remove \$2.7 million in expenditures from the General Fund.

Comparison of Potential Property Tax Rate and Revenue				
General Fund and Debt Service Property Tax Rates	FY2019 Actual Rates & Levy	Fiscal Year 2020*		
		(1) Current Tax Rate	(2) Effective Tax Rate (No New Revenue Rate)	(3) Proposed Tax Rate -- Rollback Rate (8% Revenue Cap)
O&M	0.279158	0.2708	0.2812	0.3068
Debt Service	0.430000	0.4344	0.4344	0.4344
Total	0.709158	0.7052	0.7157	0.7412
G.F. Property Tax Revenue + TIRZ Admin Fee (in millions)	\$22.6 + \$10.8 = \$33.4	\$22.4 + \$10.6 = \$33.1	\$23.3 + \$10.8 = \$34.1	\$25.5 + \$11.2 = \$36.8
*For Fiscal Year 2020, the proposed rate in green is used in the recommended budget revenue				

Built upon the calculated rollback rate in the State-mandated formula worksheet, the property tax levy represents a 3.0% tax increase with their math. Moreover, their calculation is that the FY 20 Operations and Maintenance (O&M) tax levy is \$25.5 million. That said, **we need a total Tax rate of 0.7412 at the rollback rate, of which 0.4344 is the debt rate and \$0.3068 is the O&M rate.** The difference from the adopted FY 19 rate is 0.032.

The other major General Fund revenue source is local sales tax. The sales tax revenue to the general fund is budgeted for only 1% growth over the rolling 12-month average, based upon performance in the last months. For every 1% growth, that would be an additional \$222,000, so if that improves from our conservative estimate, that will improve that position significantly.

Because of different valuation cases, individual property tax bills, just like gas mileage on a car, will have actual experiences varying.

Summary of Homestead Property Tax Bills Projected for 2019 Tax Year (for FY 2020 Budget Cycle)													
		Zero Growth		Homestead Example 1		Homestead Example 2		Homestead Example 3		Homestead Example 4		Homestead Example 5	
TY18 Actual COP Tax Bill		\$ 1,291		\$ 2,071		\$ 1,104		\$ 1,233		\$ 1,763		\$ 987	
TY18 Taxable Value		\$ 187,000		\$ 299,500		\$ 160,690		\$ 178,930		\$ 255,000		\$ 139,200	
% Increase (Decrease)		0.0%		-9.1%		-2.6%		-9.3%		2.7%		1.4%	
TY19 Taxable Value		\$ 187,000		\$ 272,210		\$ 156,490		\$ 162,250		\$ 262,000		\$ 141,200	
Scenario	City Rate	TY 2019 Amount	Change from Prior Year Actual	TY 2019 Amount	Change from Prior Year Actual	TY 2019 Amount	Change from Prior Year Actual	TY 2019 Amount	Change from Prior Year Actual	TY 2019 Amount	Change from Prior Year Actual	TY 2019 Amount	Change from Prior Year Actual
Proposed TR	0.7412	\$ 1,349	\$ 58	\$ 1,967	\$ (104)	\$ 1,123	\$ 19	\$ 1,166	\$ (68)	\$ 1,893	\$ 130	\$ 1,047	\$ 59

		Homestead Example 6		Homestead Example 7		Homestead Example 8		Homestead Example 9		Homestead Example 10		Senior Example	
TY18 Actual COP Tax Bill		\$ 1,454		\$ 2,110		\$ 3,161		\$ 1,839		\$ 2,187		\$ 206	
TY18 Taxable Value		\$ 210,020		\$ 305,124		\$ 454,080		\$ 266,000		\$ 316,310		\$ 155,070	
% Increase (Decrease)		1.9%		3.1%		-0.9%		3.6%		6.1%		12.1%	
TY19 Taxable Value		\$ 214,080		\$ 314,502		\$ 449,910		\$ 275,700		\$ 335,760		\$ 173,850	
Scenario	City Rate	TY 2019 Amount	Change from Prior Year Actual	TY 2019 Amount	Change from Prior Year Actual	TY 2019 Amount	Change from Prior Year Actual	TY 2019 Amount	Change from Prior Year Actual	TY 2019 Amount	Change from Prior Year Actual	TY 2019 Amount	Change from Prior Year Actual
Proposed TR	0.7412	\$ 1,547	\$ 93	\$ 2,273	\$ 163	\$ 3,273	\$ 112	\$ 1,992	\$ 153	\$ 2,426	\$ 239	\$ 206	\$ -

General Fund Expenditures Overview

General Fund expenditures include salary wages and benefits of our employees which amounts to about three-quarters of expenditures. The FY 20 amount includes a 2% flat adjustment which is what we can afford within the constraints of the budget. The City undertook a compensation study in FY 18 and funded in that year 100% of the recommended adjustments at midyear which were fully absorbed in FY 19. Given that the 2% is a modest increase, we've also included a new one-time supplemental budget to provide a December one-time pay of \$2/month of service, similar to the longevity pay paid annually before Thanksgiving (\$4/month of service).

Annual Budget by Account Classification Report									
Summary									
	2017 Actual		2018 Actual		2019 Amended		2020 Proposed		
Fund: 100 General Fund	Amt.	% of total	Amt.	% of total	Amt.	% of total	Amt.	% of total	
Expenditures									
Salaries & Wages	\$53,274,036	66%	\$53,952,026	69%	\$58,752,105	71%	\$61,804,255	72%	
Materials & Supplies	\$2,530,393	3%	\$2,264,965	3%	\$2,391,420	3%	\$2,634,036	3%	
Building & Grounds	\$3,128,950	4%	\$3,063,638	4%	\$2,790,948	3%	\$2,348,911	3%	
Repair & Maintenance	\$3,236,922	4%	\$3,117,319	4%	\$1,999,246	2%	\$2,886,741	3%	
Miscellaneous Services	\$10,562,010	13%	\$11,220,714	14%	\$10,995,750	13%	\$10,777,624	13%	
Other	\$18,677	0%	\$19,180	0%	\$106,569	0%	\$265,700	0%	
Inventory	\$522,502	1%	\$779,349	1%	\$474,294	1%	\$455,453	1%	
Capital Outlay	\$4,767,706	6%	\$2,334,476	3%	\$893,673	1%	\$794,306	1%	
Principal Payment	\$547,305	1%	\$556,677	1%	\$520,496	1%	\$367,691	0%	
Interest Expense	\$44,294	0%	\$34,922	0%	\$22,355	0%	\$11,925	0%	
Transfers Out	\$2,008,856	2%	\$1,009,451	1%	\$3,811,203	5%	\$3,864,869	4%	
Expenditure Totals	\$80,641,650		\$78,352,716		\$82,758,059		\$86,211,511		

Annual Budget by Function Report

Summary

	2017 Actual		2018 Actual		2019 Amended		2020 Proposed	
Fund: 100 General Expenditures								
General Government	\$12,853,683.68	16%	\$11,941,694.96	15%	\$12,972,705.00	16%	\$13,846,621.00	16%
Public Safety	\$44,244,560.46	55%	\$42,277,270.71	54%	\$46,014,771.00	56%	\$48,327,734.00	56%
Public Works	\$12,881,801.21	16%	\$13,992,608.14	18%	\$13,140,448.00	16%	\$13,028,881.00	15%
Community Services	\$4,085,692.07	5%	\$4,050,477.29	5%	\$4,147,697.00	5%	\$4,303,693.00	5%
Parks & Recreation	\$6,575,912.34	8%	\$6,090,665.62	8%	\$6,482,438.00	8%	\$6,704,582.00	8%
Expenditure Totals	<u>\$80,641,650</u>		<u>\$78,352,717</u>		<u>\$82,758,059</u>		<u>\$86,211,511</u>	

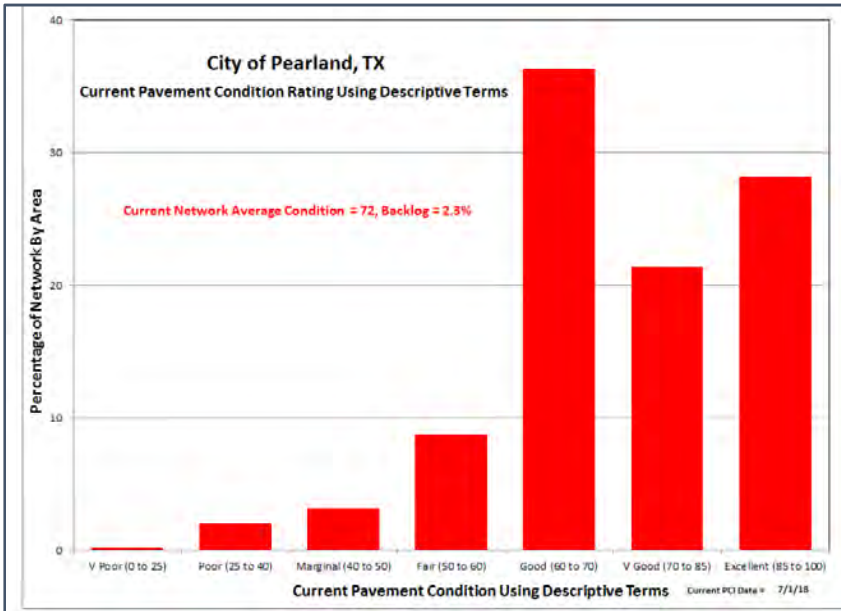
The City invests 56% of the General Fund expenditures for police and fire expenditures, these public safety functions are supported by the entire organization.

Public Safety – Police and Fire

Our work and support for public safety in Pearland remains our top priority. We've added people, equipment, and vehicles. After years of adding sworn officer positions, the recommendation for the top priority next is support for telecommunication (911 operators) and an additional two sworn positions that will allow for expanding the Criminal Investigation Division.

During our mid-year review and additions, we made a commitment and added \$450,000 to replace all but one of the vehicles that were removed from the FY18 Budget due to mid-year budget reductions following Hurricane Harvey. The light vehicles were all Police vehicles.

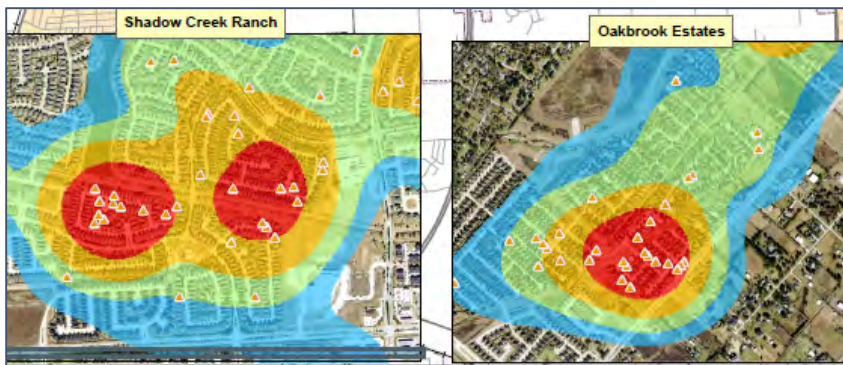
For new Fire Station #8 now under construction on Shadow Creek Parkway, 13 new positions are to be phased in over the first half of FY20 to allow the City to staff one apparatus and one medic unit. We have had an ongoing "Continuous Onboarding" program over the last several fiscal years. That program will continue as budget allows to get the last apparatus for Fire Station #8 staffed up towards its potential. Beyond Station #8, we have a replacement for Station #4 (built years ago as a volunteer station) on Freedom Drive and then building a complement of firefighters again toward opening Fire Station #7 on Bailey Road.



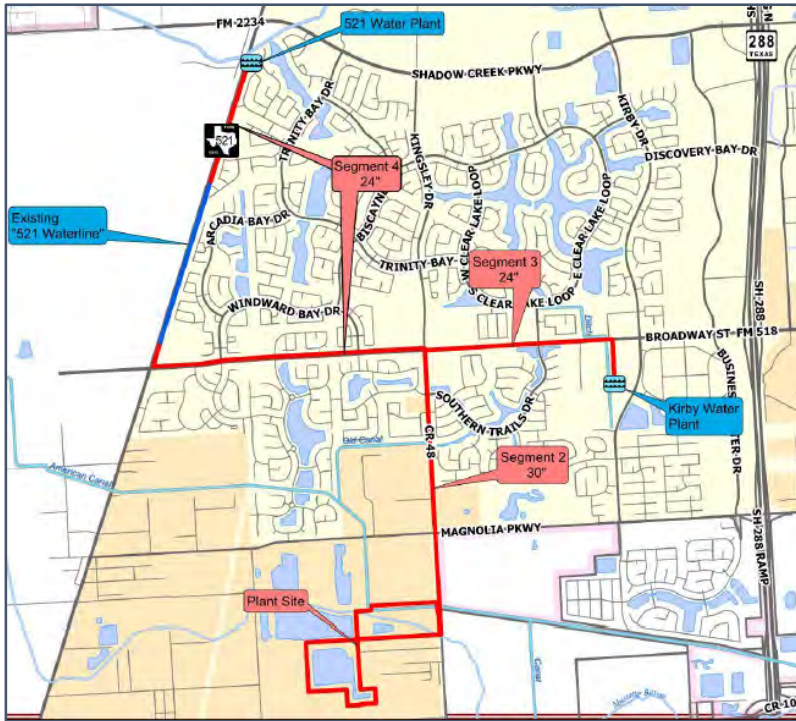
Neighborhood streets and sidewalks

The last full assessment was done in November 2014 with asphalt streets updated in November 2017 after Hurricane Harvey. **The ROW Assessment recommends a target of \$4.6 M annually for street maintenance, to maintain a Pavement Condition Index (PCI) of 72.** The distribution of pavement condition scores is shown in the bar graph.

The city streets network total was a PCI of 75 when the ROW Assessment was conducted in 2014. The ROW Assessment from 2017 now shows a street network PCI of 72. (A 3 point PCI decline due to funding levels below the recommended amount.) Asphalt streets are an average of PCI of 64, which is much lower, showing *the asphalt network requires more maintenance work.*



For sidewalks, there is a current backlog of 815 sidewalk repair work orders. The oldest work orders date back to 2009. Staff is working to address oldest work orders and target the areas of highest number of work orders on a city-wide basis. (Heat map of work orders shown for two neighborhoods).



New Surface Water Treatment Plant on the American Canal and segments of future main distribution.

Water and sewer

The Water and Sewer Enterprise Fund provides the operations of the critical daily supply of clean water throughout Pearland to the 37,000 customers, then takes used water away for processing and outflow.

Water revenues for FY 19 did not meet expectations with a series of very wet weeks dampening consumption. The Advanced Metering Infrastructure if being steadily implemented

For the fund, a few notable highlights include a 0% rate increase for FY 19. A moderate 5% increase is necessary for upcoming FY 20.

Other factors at work with the fund are moving Impact fee from development to the fund for offsetting expenditures as properly allocated. Moreover, the Fund

can accommodate moving \$1.5 million to pay for a portion of its share of reimbursement to in-City MUD rebate obligations.

The major capital projects is, of course, the new Surface Water Treatment Plant. The scale of that new investments is driving the debt financing.

With the water rate structure implemented three years ago, rates are based upon meter size. For using 10,000 gallons of water and 8,000 gallons of wastewater/month, the rate change in 2020 would be just over \$5/month, increasing for the first time since 2018.

Property	Meter Type	Meter Size	Average Consumption	2018			2019			2020			2020 over 2019	
				Base Rate	Volume Charge	Total	Base Rate	Volume Charge	Total	Base Rate	Volume Charge	Total	Monthly	Annually
Residential 1	Water	5/8	2,000	15.30	-	15.30	15.30	-	15.30	16.83	-	16.83	1.53	
Residential 1	Wastewater	5/8	2,000	22.74	-	22.74	22.74	-	22.74	22.74	-	22.74	-	
	Total			\$ 38.04	\$ -	\$ 38.04	\$ 38.04	\$ -	\$ 38.04	\$ 39.57	\$ -	\$ 39.57	\$ 1.53	\$ 18.36
Residential 2	Water	5/8	6,000	15.30	15.76	31.06	15.30	15.76	31.06	16.83	17.32	34.15	3.09	
Residential 2	Wastewater	5/8	6,000	22.74	20.00	42.74	22.74	20.00	42.74	22.74	20.00	42.74	-	
	Total			\$ 38.04	\$ 35.76	\$ 73.80	\$ 38.04	\$ 35.76	\$ 73.80	\$ 39.57	\$ 37.32	\$ 76.89	\$ 3.09	\$ 37.08
Residential 3	Water	5/8	10,000	15.30	35.48	50.78	15.30	35.48	50.78	16.83	39.00	55.83	5.05	
Residential 3	Wastewater	5/8	8,000	22.74	30.00	52.74	22.74	30.00	52.74	22.74	30.00	52.74	-	
	Total			\$ 38.04	\$ 65.48	\$ 103.52	\$ 38.04	\$ 65.48	\$ 103.52	\$ 39.57	\$ 69.00	\$ 108.57	\$ 5.05	\$ 60.60

Debt management

For the General Fund capital improvements in our plans, there's long-term debt financing, paid back over time by property taxes of those that benefit from the improvements. The credit agency reviews from our most recent issuances affirmed our very high credit rating (AA Fitch and Aa2 Moody's), based upon

strong structural and economic foundations. In that issuance was a new issuance for the TIRZ projects with interim financing as mentioned earlier. As illustrated in the chart below, strong growth in our Assessed Value has allowed the City to responsibly fund these new issuances.



in 2020 we will see issuance of the first round of funding for the voter-approved 2019 Bond projects. **For the discussion of the projects when the Council put those questions to the voters, we forecasted an estimated debt service tax rate with that issuance to be 0.4550 for FY 2020. Instead, we have in the FY 2020 Budget a Debt Service Fund tax rate of 0.4344.**

The Debt Service Fund includes financing for not only public improvements and paying back bonds, but also contracted payments for In-City MUD rebates. Through multiple discussions and analysis, a strategic goal set by the City Council was instituted whereby any new in-City MUD districts will not receive the rebate from the City to accelerate their repayments to developers. However, the existing obligations remain. For those existing in-City MUDs, the determination has been made the vast majority of the obligation should properly rest with the Water and Sewer Enterprise Fund. Therefore, \$1.5 million is to be transitioned to W&S Fund to cover MUD debt related to W&S functions. We will transition additional MUD rebates in future years as feasible within projected rate increase.

Conclusion

Those who came to Pearland before us made bold decisions, staking out a claim for what Pearland could be. We are poised to deliver on that claim - to be the cosmopolitan suburb of the fourth largest city, Houston, in the USA. With a dynamic economy and countless attributes, we offer what's needed to be successful, with a proudly diverse community and a thriving economy.

We are ready for what comes next, including executing this FY 20 City of Pearland budget.

Respectfully submitted,

Clay J. Pearson
City Manager