



MEMORANDUM

TO: Honorable Mayor and Councilmembers
FROM: Bill Eisen, City Manager
SUBJECT: Adopted Budget for FY 2011-12
DATE: October 1, 2011

The Adopted Budget for the 2011-12 fiscal year accompanies this memorandum. The budget addresses goals set by the City Council as well as other challenges that will be faced in the upcoming year, including serving a growing population while limiting the financial impact of the budget on the public.

Introduction

Two factors played major roles in the development of the adopted budget, the economy and the continued growth in population served by the City.

Negative economic conditions in the nation and the Houston region will continue to directly impact the City's revenues. New home starts are expected to remain at the relatively low levels experienced during the current year. A total of 744 single family building permits are projected to be issued in 2011-12. Commercial construction permit assumptions are based on a continuation of current year activity. Sales tax revenues in 2010-11 have been inconsistent when compared to the prior year. However, area economists project an improvement in the economy in the upcoming year. As a result, the budget projects an increase of 3.0% in sales tax revenue over the estimate for fiscal year 2011. Operating revenue from property taxes is expected to remain essentially unchanged from 2010-11. Based upon preliminary information received from the appraisal districts, we anticipate that the positive impact of new construction during the current year will be offset by decline in values of existing properties.

The Adopted Budget will not be impacted by the addition of multiple new City-owned and operated facilities as it was in 2010-11. However, an increase in General Fund costs will result from a full year of operating costs for Fire Station 5, rather than the nine months of cost incurred during 2010-11. There will also be some modest increases in costs due to the opening of Fire Station 6. This cost will be minimal due to the station being staffed by volunteers and due to MUD's 21 and 22 paying for most operating costs of the facility.

Even though the City will not be significantly impacted by new facilities, we will see the effects of serving an increased population, even though revenues will remain limited. In order to address these increased costs, departments were asked to identify possible budget reductions. This process resulted in reduced expenditures of \$811,103 in the General Fund, and \$56,206 in the Water and Sewer Fund.

The budget also incorporates an increase of 2.0 cents in the ad valorem tax rate. The entire increase is related to debt service, while the operating tax rate will remain at its current level.

Council Goals

In March the City Council conducted its annual goal setting meeting for the year. Seven of the goals set on that date have implications for the budget process and are addressed in this document.

The Street Crimes Unit will continue to be staffed, in part because of the addition of two police officer positions on April 1, 2012.

Two pre-budget workshops were held. One provided options and sought Council guidance regarding scheduling of capital projects. The second included an economic analysis and forecast offered by an economist from the Greater Houston Partnership.

The City's 5-Year Financial Forecast has been updated to reflect area economic conditions and is included in this budget document.

A source of funding for preliminary engineering of the extension of McHard Road from Cullen Parkway to Mykawa Road has been identified and is included in the Capital Improvement Program. A workshop will be conducted with Council in the near future to discuss this issue in more detail.

City and County officials are discussing the potential to open a Westside Library storefront in the 2012-13 fiscal year. Opening the facility early in that fiscal year will require capital expenditure during 2011-12. However, those expenditures will be funded through issuance of Certificates of Obligation in 2012-13 via a notice of intent to issue future debt that will have the first payment due in 2013-14.

Continued consideration of annexation was also identified as a Council goal. Annexation of "Area 5" is still under consideration by the Council, but the staff is working with a large industrial landowner in the area to enter into an Industrial Agreement (IA). The IA would result in the area not being annexed, but the industrial user would pay 65% of the property taxes to the City that would have been paid if the annexation were to occur. The budget assumes receipt of payment of \$105,000 from this industrial user.

The continued seeking of economic development opportunities is also included in the budget. Continuation of staffing of the Pearland Economic Development Corporation and of incentives for new and/or expansion of existing businesses are included in the budget. Merit Medical Systems and Kelsey-Seybold Health Systems headquarters will be constructed during the 2011-12 budget year.

Other Major Issues

The City staff has continued its efforts to cut costs. Total General Fund net reductions of \$811,103 were identified and incorporated into this budget document. The following are some of the major reductions identified:

- Close the outdoor swimming pool in Independence Park. Funding for chemicals and pump operation are still budgeted so the pool could be reopened in a future year. (Net savings - \$111,626)
- Eliminate Engineering Technician position in Engineering due to reduced development activity. (\$39,248)
- Eliminate a vacant Project Coordinator position in the Projects Department due to the reduced number of capital projects underway. (\$62,722)
- Reduce asphalt overlay and street rehabilitation funded from the General Fund. \$550,000 still remains in the budget for this purpose. (\$100,000)
- Reduce General Fund expenditures for sidewalks, and utilize funds from capital project saving for this purpose. (\$100,000)
- Reduce overtime in Police Department from current year actual expenditures due to fewer projected vacant positions.
- Eliminate use of Bailey Road Campus for the year-round after school program, and operate the program only in the summer. (\$12,600)
- Discontinue overseeding of Pearland Parkway in winter months. (\$10,500)
- Utilize in-house expertise for training in the Fire Department, rather than pay outside sources. (\$18,000)
- Replace Connect CTY with a less expensive mass phone call system. (\$20,000)
- Eliminate a part-time clerk position in Municipal Court. (\$13,842)

A detailed description of cost reduction measures may be found beginning on pages 43-48. The General Fund budget includes use of \$454,724 in reserve funds for nonrecurring expenditures. Use of these funds will leave a fund balance that is \$2,936,157 over the amount required by City policy.

The Water and Sewer Fund budget includes the use of \$2,777,541 in reserve funds for capital expenditures. The use of these funds results in a fund balance of 27% of operating costs, which exceeds the City's policy of 25%.

No general pay adjustments were provided for City personnel, with the exception of civil service step raises for eligible sworn police personnel.

Increased personnel needs for the upcoming year are reflected in both the General Fund and Water and Sewer Fund budgets. New personnel in the General Fund include 11.25 full-time positions and 8 part-time positions including:

- Six (6) Full-time firefighters will be added to the Fire Department, with cost to be reimbursed from SAFER grant funds.
- Four Part-Time Lifeguards will be added to the Natatorium staff. These persons' primary assignment will be to secure the Natatorium entrance to prevent unauthorized entry by non-members. The lack of security at the Natatorium entry has resulted in significant revenue loss, and the addition of these personnel is projected to pay for itself through increased revenue.
- Two Part-Time Water Safety Instructors to conduct swim lessons will be added at the Natatorium. Participants in the lessons pay a fee and the positions are projected to be self-supporting.
- Restoring a Part-Time Recycling Center Attendant. The new contract with Waste Management will result in a reduction of \$80,000 in household hazardous waste disposal costs. A portion of the savings is utilized to restore this position which was deleted in the current year. This will allow us to reopen the facility on week day mornings.
- A Part-Time Ball Field Attendant is budgeted at no increased cost, with the transfer of funds from contracted services.
- Building Maintenance Helper. The City currently uses a contract maintenance service for preventive maintenance on HVAC systems. We have determined that we can perform this service in-house and convert to reusable filters at a price that will, in the long term, be more favorable to the City. Due to first year cost of \$17,000 for reusable filters, the first year cost of the program will increase by \$3,595. In subsequent years, the annual cost will be reduced by \$13,405.
- Two Patrol Officers in the Police Department are budgeted to be added in April. It appears that all current vacancies will be filled early in the fiscal year, and funding of these positions should result in increased police capability.
- A Crime Victim Specialist position is budgeted, to assist the existing Crime Victim Liaison, most of the cost to be reimbursed by grant funds.
- One Jailer is budgeted to be added. The position is projected to result in overtime savings that will offset the cost of the new position.
- An Administrative Clerk in Public Works is proposed to be added with 25% of the cost from the General Fund and 75% from the Water and Sewer Fund. This will be the first clerical position added in Public Works since 2004.

The Water and Sewer Fund includes 3.75 new positions. Two of the positions will be added to Water Production and will add to our capabilities in flushing lines, taking samples, and responding to water quality complaints. A portion of the Administrative Clerk referenced above is budgeted in Water and Sewer. Finally, an additional Field Service Technician is budgeted in Utility Billing to assist with meter repair and replacement.

A summary of "New Positions" and "Authorized Personnel by Department" which shows staffing changes from the current year may be found on pages 415-416.

This document includes various summaries and other types of information intended to make it easier for readers to understand. These include:

- Overviews of each fund that are provided at the beginning of the individual budgets for each fund.
- An overview of Property Tax Collections may be found on page 59.
- General Fund and Grant Highlights describing major changes in expenditures begin on page 39.

- Lists of funded supplemental and capital requests may be found beginning on page 421.
- Lists of unfunded departmental supplemental and capital requests can be found beginning on page 425.
- General fund expenditure reductions are summarized in a chart beginning on page 43. Water and Sewer reductions are itemized on page 48.

General Fund

Revenues

Total General Fund Revenues are budgeted to be \$51,071,229 or a 3.4% increase over the 2010-11 Amended Budget. The largest increase in revenues is in the Charges for Service category. The increase is the result of higher TIRZ administration fees and in Parks and Recreation fees, more specifically, membership fees at the Natatorium/Recreation Center. The TIRZ administration fee is projected to increase due to higher assessed value in the TIRZ and an increase in the Debt Service Component of the tax rate.

Sales tax is budgeted to increase by 3%, or \$392,965, over the current year. While sales tax revenues compared to the comparable month in the prior year have been somewhat inconsistent, information from area forecasts suggests continued improvement in the Houston economy in the upcoming year.

Fines and forfeitures are budgeted to increase by \$161,790 over the current year projections, primarily due to expected filling of a second Warrant Officer position.

The General Fund Property Tax revenue will increase by \$430,793. The General Fund receives revenue directly from property taxes as direct property tax payments for parcels outside TIRZ #2. It also receives a payment from TIRZ #2 in the form of an Administrative Fee, which is based upon 64% of property taxes paid by TIRZ properties. A comparison of the current and the 2012 property tax revenue to the General Fund is as follows based on a 98% collection rate:

	<u>2011 Levy/Admin Fee</u>	<u>Projected 2012 Levy/Admin Fee</u>	<u>Difference</u>
General Fund	\$10,414,223	\$10,480,519	\$ 66,296
TIRZ	<u>\$ 5,568,702</u>	<u>\$ 5,933,199</u>	<u>\$ 364,497</u>
	\$15,982,925	\$16,413,718	\$ 430,793

Expenditures

Despite the downturn in the economy, the City's population continues to grow, albeit at a slower pace than in the prior decade. The estimated increase in population from the 2010 Census to 2011 is 1,548 or 1.7%. The \$454,457, or 0.9%, increase in General Fund expenditures is lower than that percentage increase in population.

The General Fund Budget includes an addition of twelve full-time positions, seven of which will be funded by grants, and two by either a reduction in overtime costs or elimination of a contract with an outside firm. The costs of one position, the Public Works Administrative Clerk, will be funded only partially (25%) from the General Fund, with the balance of the cost budgeted in the Water and Sewer Fund.

Of the 8 part-time positions to be added, six will be funded by additional revenues directly associated with the positions, one will be funded by use of funds previously used for contract labor, and one will be added with funds resulting from the garbage contractor taking over responsibility, therefore the cost, for disposal of household hazardous waste.

During the current year, no merit raises were funded due to financial restrictions. Economic conditions remain difficult so there is no merit increase for employees in fiscal year 2012. Funds are budgeted for step increases for eligible civil service employees' step increases.

The area of largest increase in the General Fund is Public Safety. There is a 6.2% increase in this category. The primary reasons for this increase are six new Firefighters, to be reimbursed by a SAFER grant, four additional personnel in Police, replacement of 12 vehicles in Police, replacement of a Fire Department pumper and an additional vehicle in Fire, and replacement of one ambulance and remounting of one ambulance in EMS. All of the vehicle replacements will be funded through issuance of short term debt.

Continued emphasis on street and sidewalk repair is incorporated into the budget. Savings from recent TxDOT sponsored projects is budgeted to be transferred to the General Fund to be utilized for street rehabilitation (\$550,000) and sidewalk repair and replacement (\$331,072).

Use of \$454,724 in General Fund reserves is budgeted. These funds will be utilized for such non-recurring purchases as the fire station alerting system (\$56,738) and a bi-directional antenna for improved radio and cell phone service in the Public Safety Building (\$82,779).

Water and Sewer Fund

Revenue

The Adopted Budget results in no change in Water and Sewer rates for 2011-12. Current rates are projected to be adequate to fund operations, capital needs, and coverage requirements for debt payments. A combination of drought conditions during 2010-11 and cash generated by bond coverage requirements has put the fund in a very good position to fund a number of capital acquisitions and expenditures with cash on hand rather than by sale of bonds.

Expenses

Expenses include a number of capital items and major maintenance projects that will be paid for through cash on hand. These and other new expenditure items are listed on page 275-276.

Although the City is implementing a unidirectional flushing program (UFD), the City still receives an unacceptable level of complaints regarding water quality. The budget addresses this issue in two ways. In prior years the City has implemented one phase of the UDF per fiscal year. The budget includes funding to complete one phase in 2011-12, but also to initiate and complete to the approximate 50% level an additional phase of the program. In addition, two new personnel in the Water Production Division are budgeted. These new personnel will concentrate on water sampling and flushing dead-end lines where the vast majority of water quality complaints are generated.

The Water and Sewer Fund will share, along with the General Fund, in the cost of an additional Administrative Clerk position. Despite the growth in overall staffing and number of work orders handled by Public Works, no clerical positions have been added to the budget since 2004.

An additional Service Technician in Utility Billing to assist with meter repair and replacement is included in the adopted budget.

General Obligation Debt Service

The Debt Service Tax Rate is budgeted to increase by \$.02, to a total debt service tax rate of \$.4700. In addition to property tax revenues, this budget also includes utilizing funding from the following sources to make debt payments during 2011-12:

- Payments from the University of Houston – Clear Lake, PEDC, and the General Fund to pay debt service costs associated with the U of H building.
- Remaining bond funds from the Pearland Parkway Construction project will be utilized to pay debt service on the bonds sold to construct the project.
- The budget also includes a planned drawdown of fund balance in the amount of \$914,498. This planned drawdown will still result in a fund balance that is over the City policy by \$1,391,300.

The budget is based on delaying a number of projects and the sale of bonds to finance those projects. As such, the budget includes the sale of \$4 million in General Obligation bonds for four projects – Hickory Slough Detention, Max Road Soccer Complex, Shadow Creek Ranch Sports Complex design, and intersection improvement and a traffic signal at CR403 and CR94. One project, a Westside Library Storefront, will be funded from future bond sales in 2012-2013 via a Notice of Intent to Reimburse from future bonds.

Pearland Economic Development Corporation

The primary source of revenue for this fund is the ½ cent sales tax levied to support the Corporation. The budget assumes the same 3% increase as the General Fund in this revenue source.

Expenditures include projected incentives of \$3,142,500 which includes payments to CSI and Merit Medical Systems and a contingency for opportunities that may arise during the year.

Other Funds

Hotel/Motel Tax Fund

The budget funds the continuation of the contract with the Destination Marketing Division of the Chamber of Commerce. It also includes a rebate of 71% of Hilton Garden Inn's taxes for the hotel's conference center.

Police State Seizure Fund

The budget includes purchase of 10 laptops for police functions, and various other items of equipment used to support police efforts.

Conclusion

I would like to thank the department heads and their staff for development of the budget proposals that they submitted as part of the annual budget process. In addition, I would like to express my appreciation to Assistant City Managers Branson and Hodge for their assistance in the review of department submittals.

I especially want to recognize the efforts of Director of Finance Claire Bogard, Budget Officer June Ellis, and Budget Analysts for their efforts throughout the budget process and for the production of this document.

Respectfully Submitted,



Bill Eisen

City Manager