



MEMORANDUM

TO: Honorable Mayor and Councilmembers
FROM: Bill Eisen, City Manager
SUBJECT: Adopted Budget for FY 2010-11
DATE: October 1, 2010

The Adopted Budget for the 2010-11 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.

Introduction

Two factors played major roles in the development of the adopted budget, the economy and the cost of operating new facilities that were completed late in the 2009-10 fiscal year and those that will be completed early in the 2010-11 fiscal year.

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 relatively low levels with issuance of 744 single family building permits projected to be issued in 2010-11. Commercial construction is also expected to continue along the current trend of relatively high numbers of permits, but lower average value per permit. This is due to most commercial permits being for finish-out of tenant space in existing structures rather than the larger building construction permits for shopping centers that were issued in 2008. Sales tax revenues are down approximately 4% compared to the 2008-09 fiscal year. However, from March through September we saw a more positive trend with sales for each of these months up over the comparable month of the prior year. As a result, the budget includes an increase of 2.5% in sales tax revenue over the estimate for fiscal year 2010. Revenue from property taxes is expected to be down slightly 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 almost entirely be offset by a decline in values of existing properties.

Operating costs for new facilities will also be a major factor in the City's General Fund budget for 2010-11. The budget provides funding for a full year of operating costs for both the Recreation Center and Public Safety Building (increase of \$1,091,965), Fire Station 5 and night staffing of two existing stations (+ \$992,769), takeover of TxDOT traffic signals (+ \$407,777), and contracted maintenance of new medians and major City facilities, Recreation Center/Natatorium, Public Safety Building, City Hall/Community Center, Library and FM 518 West/288 (+ \$173,605).

To offset these increased costs and limited revenues, the budget includes \$3.3 million in General Fund expenditure reductions, \$888,488 in revenue enhancements, delay of planned capital projects, and an increase of 1.25 cents in the ad valorem tax rate. The increase in the tax rate is related only to debt service, as the portion of the property tax rate that funds operations is to be reduced by a half a cent.

Council Goals

- Funding to staff Fire Station 5, beginning on January 1 and to provide 24-hour a day staffing at Stations 1 and 4 for the entire year is budgeted. The budget includes a combination of 24-hour shift full time, 12-hour shift full time (Oct. – Dec.), part-time, and paid-on-premise volunteers to provide 24-hour a day staffing at all three stations. In addition, we will continue to rely on assistance of on-call volunteers during major incidents.

The Budget also includes the addition of a Fire/EMS Training Officer as recommended in the McGrath report. This person will work a 40-hour week and will provide training coordination for all Fire and EMS personnel, as well as provide administrative support.

- Another goal of the City Council was to ensure that the equivalent of 139 police personnel be provided. In February of 2010, the Police Department implemented 12-hour shifts for the Patrol Division. The result of this was to increase the minimum number of officers on the street to 15 at all times, as compared to 12 on the day shift, 15 on the evening shift, and 11 on the night shift under the old shift structure. As a result, the budget includes a reduction of four police officer positions, one from each platoon. Because six of the authorized positions approved in prior years remain vacant, when all vacancies are filled, there will actually be an increase of two officers available to serve the public when compared to actual current staffing.
- The local cost of a Park-and-Ride facility has been finalized and the required funding has been included in the adopted budget.
- The PEDC budget includes funding in the current year for a workforce study to determine specific types of job training required by area industry. Continued funding for business retention services paid to the Pearland Area Chamber of Commerce is also included in the 2010-11 budget.
- The number of outstanding warrants is 14,597 with a value of \$4.4 million. The budget includes the addition of a Warrant Officer, in addition to the strategies already in place, to reduce outstanding warrants. Revenues from clearing warrants more than funds the cost of the officer.
- Interim Westside Library is funded pursuant to the agreement with Brazoria County.

Other Major Issues

The operating property tax rate will decrease by half a cent, from \$.2201 to \$.2151/\$100 valuation. The half cent is being reallocated to Debt Service to minimize the tax increase needed. Despite the impact of the economy on property values, sales tax revenue, issuance of building permits, and the addition of new facilities, this was made possible through the following:

- Budget reductions totaling \$3,333,594. A description of these reductions by department can be found beginning on page 58. These reductions were of various types, however, the following list represents some of the more significant ones:
 - Elimination of City lobbyist contract (\$50,000 from General Fund and \$50,000 from PEDC)
 - Deferring the annual computer replacement program (\$44,200)
 - Eliminate one full-time person in Finance and supplement with part-time (\$36,535)
 - Elimination of one Permit Clerk in Inspection Services and convert one full-time Building Inspector to part-time (\$69,435)
 - Reduce Pearland In Motion (City newsletter) from four to three editions per year (\$16,075)
 - Reduce full-time Court Clerk to part-time (\$23,299)
 - Eliminate Plat Administrator from Planning Department budget and reassign duties to other staff members (\$98,140)
 - Eliminate four vacant and never filled Police Officer positions (\$244,282)
 - Reduce overtime due to 12-hour shifts in Uniform Services (\$120,000) and other Police Department divisions (Total of \$214,000)
 - Delay replacement of five patrol vehicles (\$183,975)
 - Reduce Monday - Friday Recycling Center hours from 8-5 to 12-5 (\$10,000)
 - Produce Parks and Recreation brochure in-house (\$28,000)
 - Eliminate vacant Engineering Inspector position (\$49,526)
 - Eliminate vacant Electrician position (\$55,577)
 - Reduce street reconstruction through County due to limitations of County crew time, carryover of funds that will not be utilized in 2009-10, and utilize new equipment to do more reconstruction in-house. (\$620,000) The total amount of street reconstruction funding will still be \$600,000 with FY 2010 carryover
 - Reduce General Fund financing of sidewalk repairs (\$428,000), leaving \$250,000 in funding in the General Fund
- Increased revenues from new sources to the General Fund in the amount of \$888,488. A list of these increases can be found beginning on page 55. Some of the major increases include:
 - Utilize Engineering staff in place of more expensive outside consultants for construction management and inspection. Transfer from capital funds the cost of staff engineering time associated with these projects (\$205,000)

- Utilize CO's sold but not needed to fund some of street rehabilitation and sidewalk repair (\$408,388)
 - Offer a wider variety of recreation programs at the Community Center to make recreation activities at the Center self-supporting (\$26,350)
 - Increase fee from \$1 to \$2 for outdoor pool in Independence Park (\$18,000)
 - Add additional warrant officer (\$156,000)
 - Bill insurance companies for cost of Fire Department services for vehicle fires and accidents and for structure fires. Residents and/or property owners would not be billed (\$51,200)
- Other recurring expenditures deferred include all pay adjustments for City employees in all departments. The only exception is a set-aside of \$263,970 to fund any adjustments that may be required as a result of the classification study being completed at this time, police step pay adjustments, and potential merger or cross training of the Fire and EMS Departments.
 - Use of \$690,543 from General Fund reserves for non-recurring expenditures. Use of these funds will result in a fund balance that is still \$1.9 million above the amount required by policy. This strong fund balance is recommended due to uncertainty about the state of the economy in the 2011-12 fiscal year.

Increased personnel needs for the upcoming fiscal year reflect a net increase of 17.5 Full-time Equivalent (FTE) positions for new and expanded services. The General Fund net increase is 15 FTE's, primarily due to increased staffing in Fire Services. Personnel changes are as follows:

- Six full-time Fire personnel and eighteen part-time firefighters for 24-hour a day staffing of stations #1 and #4, and the opening of the new Station #5 beginning January 1.
- A Fire Training Officer is added as a result of the recommendation from the Fire/EMS Staffing and Resource Study.

Other positions added include: one Warrant Officer in Municipal Court (self funding), two Traffic Technicians in Public Works Traffic Operations & Maintenance, seven part-time Recreation Attendants and two Fitness Attendants in Parks-Recreation, one part-time Head Lifeguard and five part-time Lifeguards in Parks-Aquatics.

Nine full-time positions are not funded and include: one Plan and Plat Administrator in Planning, four Police Officers, one Permit Clerk in Inspection Services, one Electrician in Public Works, one Engineer Inspector II in Engineering, and one Accounting Associate in Parks-Administration.

Two part-time positions are not funded and include: One Shelter Attendant in Animal Control and one Administrative Clerk in Fire.

Four positions are converted from full-time to part-time and are as follows: one Deputy Court Clerk in Municipal Court, one Building Inspector in Inspection Services, one Accounts Payable Clerk in Finance, and one Fire Inspector/Investigator in Fire Marshal was converted to two part-time positions.

The Water & Sewer Fund net increase is 3.5 FTE's and includes: two Water Production Operators in Water Production, one Water & Sewer Maintenance Worker in Distribution & Collection, and one part-time Cashier in Utility Billing.

The PEDC's budget deletes the Development Coordinator due to economic conditions that have reduced economic activity, this position has never been filled and the existing staff has taken on these responsibilities.

More detailed information on staffing changes is found in the Appendix section beginning on page 597.

This budget contains various summaries and other types of information intended to make it easier for readers to understand the revenue and expenditure plan for the upcoming year.

- Overviews of each fund are provided at the beginning of each fund. In addition, an overview of Property Tax collections can be found on page 77.
- General Fund and Grant Fund highlights describing major new expenditures can be found beginning on page 49.
- As previously mentioned, General Fund revenue enhancements and budget reductions may be found in the Overview section beginning on page 55.
- Lists of funded supplemental and capital requests can be found in the Appendix section beginning on page 598, 605 and 608.
- A list of unfunded department supplemental and capital requests can be found in the Appendix beginning on page 601 and 607.

General Fund

Revenues

Based upon the most recent information provided by the three appraisal districts, total property taxable value for 2010-11 will be approximately \$40 million more in the current year. The projected property tax revenue to the City's General Fund compared to the current year amended budget will be as follows:

	<u>2009-10</u>	<u>2010-11</u>
General Fund	\$10,769,083	\$10,418,857
TIRZ Administrative Fee (G.F.)	<u>5,233,562</u>	<u>5,615,427</u>
	\$16,002,645	\$16,034,284

Revenue from property taxes reflects the reduction of half a cent of the operating tax rate. Revenue from the TIRZ Administrative Fee is based upon the total tax rate and reflects the 1.25¢ increase in the tax rate for a total which is essentially the same as the current year.

Sales tax revenue is projected to increase by 2.5% over the revised budget estimate for fiscal year 2010. However, it will still be approximately \$1.1 million less than the original 2009-10 budget.

Mixed Drink sales tax is projected to be \$55,000 lower than the fiscal year 2010 original budget. This is due to the State of Texas erroneously collecting this tax in MUD's outside the City and remitting the revenue to the City in the prior years that were used as the basis for the current year's adopted budget.

Licenses and Permits are expected to increase with the additional revenue resulting from small increases in a number of sources within the category.

Fines and Forfeiture revenue is projected to increase by approximately \$308,700 primarily due to addition of a warrant officer position. The warrant officer revenue increase (\$156,000) will be partially offset by \$106,185 in salary and start-up costs.

Services Charges are expected to be higher by \$1.5 million due primarily to increased TIRZ administration fees resulting from the adopted tax rate increase, additional revenue from a full year of operation of the Recreation Center/Natatorium, and the adopted Fire and Rescue Service Fee.

Expenditures

Total expenditures including transfers out are projected to be \$49,666,944 or \$2,654,398 less than the 2009-10 amended budget. This 5.1% reduction in expenditures is projected despite significant new expenditures for enhanced Fire Department service levels, a full year of operating costs for the Natatorium/Recreation Center and Public Safety Building, expected take-over of TxDOT traffic signals, and the addition of substantial additional maintenance responsibility for newly constructed road medians.

Additional expenditures for operation of new facilities or programs include:

- Addition of Fire Station 5 on January 1 and 24-hour a day staffing of Stations 1 and 4. (+ \$992,769) This proposal will add 6 full-time positions and 18 part-time personnel. The part-time employees will form a pool from which we will draw to maintain minimum staffing levels.
- Addition of a Training Officer to ensure improved training opportunities for Fire and EMS personnel (+ \$91,000)
- Full year of operating costs for the Recreation Center/Natatorium and Public Safety Building (+ \$1,091,965)

- Takeover of TxDOT traffic signals (+ \$407,777)
- Addition of contracted services for landscape maintenance of new medians and major City facilities that include the Recreation Center/Natatorium, Public Safety Building, City Hall/Community Center, Library and FM 518 West/288 (+ \$173,605).

Other approved funding requests for the coming year include:

- Funding for a citizen survey (+ \$13,000)
- New Warrant Officer (+ \$106,185, but will generate additional \$156,000 in new revenue)
- Replacement fire engine (+ \$550,000 to be purchased through lease/purchase)
- Replacement supervisor vehicle in EMS (+ \$43,500)
- Set aside for potential salary adjustments for EMS and Fire personnel resulting from possible merger or cross-training of Fire and EMS (+ \$150,000)
- Funding of police pay step adjustments (+ \$90,000)
- Six part-time lifeguards to provide adequate staffing for adopted hours of operation for Natatorium (+ \$58,342), partially offset by reimbursement from PISD, and eight Recreation/Fitness Attendants in the Recreation Center (+ \$81,603)
- Four replacement Police Patrol vehicles (+ \$155,915)
- Upgrade of existing Police Officer position to Sergeant for the Traffic Enforcement Division (+ \$2,154)
- Replacement vehicle for Animal Control (+ \$20,785)
- Consultant to develop Airport Zoning Ordinance (+ \$30,000)
- Asphalt Reclaimer to allow for in-house reconstruction of streets rather than rely exclusively on Brazoria County. Will also allow for partial reconstruction on streets with partial base failures (\$85,880 lease/purchase finance)
- Replace grappler truck for removal of tree limbs and large debris (\$133,970 lease/purchase)

The fund balance is projected to be \$1,915,754 over the amount required by City policy.

General Obligation Debt Service Fund

The budget includes a debt service tax rate of \$.4500 per \$100 of assessed value. This is an increase of \$.0175 in the current tax rate levied to service debt obligations. The total tax rate increase is \$.0125. The impact of this increase for property owners whose value remained the same in 2010-11 as it did in 2009-10 would be an increase of \$12.50 for each \$100,000 of property value. An increase in the tax rate is always a concern, but it is of special concern during an economic downturn. During the City Council budget deliberations one alternative was to not increase the tax rate and taking additional funds for 2010-11 debt service from reserves. However, taking this course of action would have resulted in an increase of \$0.0550 in the debt service tax rate in the 2011-12 fiscal year. In the end, City Council chose to move up the Max Road Sports complex and Phase I design from FY 2012 to FY 2011, move up all design costs on Hickory Slough Detention to FY 2011, and move back construction and design cost associated with County Road 403 from FY 2013 to FY 2015 based on project timing. The following shows the projected debt service tax rate increase through fiscal year 2015.

	With 1.75¢ Increase in <u>2010-11</u>	Projected <u>Increase</u>
2010-11	0.4500	0.0175
2011-12	0.4800	0.0300
2012-13	0.5125	0.0325
2013-14	0.5125	0.0000
2014-15	0.5125	0.0000

Revenues in the Debt Service fund also project \$1,036,165 to offset the full cost of debt service for the University of Houston – Clear Lake Pearland Campus. The tenants of this building, the University and the Pearland Economic Development Corporation, will pay all debt service costs associated with the square footage they occupy. Debt Service for the large meeting/conference room not occupied by either will be paid from the Hotel/Motel Tax because the location will be available for meetings and conferences.

The Debt Service Fund and forecast assumes delay of a number of major projects as follows. The G.O. bond sale in the coming year totals \$6.54 million for projects already underway and the design of Cullen/FM 518 Regional Detention. Certificates of Obligation anticipated to be sold total \$3.1 million for the traffic signal network and for Fire Station modifications.

<u>Deferred Project</u>	<u>Original 2009 CIP</u>	<u>Revised May 2010</u>	<u>Adopted 2010-11 Budget</u>
Hickory Slough	2010	2012	2011
Max Road	2010	2012	2011
SCR Park	2011	2012	2012
Centennial Park	2011	2012	2012

Independence Park	2011	2013	2013
Nature Center	2012	2012	2014
D.L. Smith Detention	2011	2011	2014
Bailey/Veterans	2009	2011	2012
Mykawa	2012	2012	2014
Old Alvin	2012	2012	2014
Pearland Parkway	2013	2013	2014

Water and Sewer Fund

Revenue

The adopted budget includes no change in water and sewer rates. The water and sewer rate model that was run last year projected a need for a 4% increase in rates in 2010-11. However, due to expenditure reductions, growth in the number of customers and use of cash to buy down issuance of debt, the rate increase will not be required. A description of the expenditure reductions begins on page 69. After reductions were made and expenditure increases for new personnel and new and replacement equipment were added, the expenditure budget increased by \$1,606,602 or 5.8% over the fiscal year 2010 amended budget. The single largest increase was for the purchase of surface water which increased by \$1.0 million, followed by an increase in pay-as-you go capital projects by \$900,000.

Personnel and capital items covered in the budget include the following:

- Addition of 2 Water Operators to assist with line flushing and other water system needs. (\$118,425) This flushing program is intended to reduce complaints regarding cloudy water, particularly in the east side of town. Funding for the third year of development of the unidirectional flushing program is also budgeted (\$65,000).
- Addition of one Maintenance Worker to respond to citizen calls for service. (\$54,620) This person will assist existing personnel assigned to investigate citizen requests and make minor system repairs.
- A part-time Customer Service Clerk who will be assigned to the drive-through window at City Hall (\$18,426), as well as assist where needed
- Replacement of an existing excavator (\$105,668)
- Replace five trucks (\$170,110)
- Purchase of an IVR (Interactive Voice Response) system for Utility Billing. This system will allow customers to check balances and make payments by phone. The system is to be implemented rather than add full-time staffing (\$98,140)
- Conversion of two lift stations from simplex to duplex pump stations (\$136,000)

- Rebuild centrifuges at Barry Rose and JHEC WWTP's (\$30,000)
- Rebuild blowers at the Far Northwest WWTP (\$15,000)

The budget includes the use of \$1,193,605 of reserves to make non-recurring expenditures. This draw down of reserves will still allow us to meet bond coverage requirements of 1.4 times average annual debt service and maintain cash reserves above our policy requirement of 25% of annual operating expenditures.

Pearland Economic Development Corporation

The revenue budget for the PEDC has been impacted by the drop in sales tax in the same manner as the General Fund. As is the case in the General Fund, sales tax revenue is projected to increase by 2.5% over estimated 2009-10 receipts. A new revenue source beginning in April 2009 is lease payments from CSI for their Kirby Road facility. Annual income from this source will be \$414,000.

Expenditures include \$1,601,000 set aside for new business incentives and \$136,272 for business retention services paid to the Pearland Area Chamber of Commerce. A Development Coordinator position budgeted in the current year is not funded. Due to the slowed pace of development, this position has never been filled and the responsibilities planned for this position have been assigned to other staff members.

Other Funds

Solid Waste

The contract with our waste collection firm provides for automatic adjustments to reflect changes in the CPI and in diesel fuel prices. The budget assumes a rate increase based upon an estimated increase in the CPI of 2.4%. No increase due to diesel fuel prices is anticipated.

Court Technology

Funding for two additional Automatic License Plate Recognition Systems is included. In addition, funding for a computer and radio for a new Warrant Officer are budgeted.

Hotel/Motel Occupancy Tax Fund

The new Candlewood Suites opened in August, 2010 and the new Holiday Inn Express off SH 288 is projected to open in the fall of 2010. The revenue budget projects income from both of these facilities. The expenditure budget includes a debt service payment for the conference facility in the UH – Clear Lake facility (\$159,404), \$268,100 for the annual contract with the Chamber of Commerce Destination Marketing Division, and a rebate of 71% of Hilton Garden Inn Hotel/Motel tax payments for City participation in the conference center. Also included are continued funding of the new Cultural Arts Grants Program (\$15,000) and \$15,000 for historic preservation.

Parks and Recreation Development Fund

Funding for development of parks in Cypress Village (\$110,000), Southgate (\$215,482), signage for park signs at Southdown Park and Pine Hollow Park (\$10,000), drinking fountains at Centennial Park (\$9,000), and development of the Max Road Sports Complex (\$130,294) is included.

Police State Seizure Fund

The budget includes funding for surveillance vehicle rental, a video taping system, 37 tasers, and criminal data base access.

Grant Fund

Grant revenues total \$681,048 and include \$67,500 for a Victim's Assistant Grant, \$42,243 for partial reimbursement of personnel costs for Emergency Management staff, and \$427,999 from the Assistance to Firefighter Grant for a Fire Pumper/Tanker, Rapid Intervention Team Training, and an electronic emergency firefighter locating system, to name a few. In total there is a \$128,000 match required from the City.

Conclusion

I would like to thank a number of people for their role in the development of this Adopted Operating Budget. All departments heads and their staff responded well to the need to make significant budget reductions in order to present a budget that required no tax rate increase for operations. It was due to their efforts that we were able to do so.

I would also like to thank the Director of Finance, the Budget Officer, and Budget Analysts of the Finance Department who worked long hours to compile a budget and produce a document with sufficient detail and explanation to make a complex financial plan understandable to the readers of this budget.

Respectfully Submitted,



Bill Eisen
City Manager