



City Manager's Office

October 1, 2008

Honorable Mayor and Members of City Council:

In accordance with Texas Statute and the City of Sugar Land Charter, Section 6.03, the annual budget for the fiscal year beginning October 1, 2008 and ending September 30, 2009 is hereby presented as approved by City Council. The fiscal year 2009 (FY09) budget is structurally balanced, addresses Council priorities, and follows the fundamentals of the City's Financial Management Policy Statements. The FY09 budget is designed to provide services for an estimated population of 79,732 as of January 2009.

Financial and Economic Outlook

In FY08, Sugar Land experienced strong growth in residential and commercial development. There were 559 single family homes permitted in the year and commercial development was buoyed by the development of the Minute Maid office building in Town Square. Although development activity remained strong throughout the fiscal year, sales tax revenues did not increase at anticipated levels. Base sales tax collections for FY08 grew at 5.8% over the prior year compared to an anticipated growth rate of 11.1%. With the adoption of sales tax for property tax reduction and one of the lowest property tax rates in the state, Sugar Land is highly dependent on sales tax revenues for funding the operations of the City. In an effort to insulate the City from the potential of further slowdown in the economy, departments were asked to reduce FY08 operating budgets by 3% and carry the reduction forward into the FY09 budget. It is not anticipated that the reductions will impact current service levels and a larger contingency fund has been budgeted to account for unexpected needs that may occur during the year.

Taxable value to the City increased 14.16% over the 2007 certified tax roll according to the 2008 certified tax roll provided by Fort Bend Central Appraisal District. The FY09 approved budget is based on the 2008 tax rate of \$0.30 per \$100 valuation and is consistent with the Financial Management Policy Statements objective of leaving the tax rate at \$0.30 and offsetting increases in residential property valuation by adjusting the homestead exemption. In accordance with the policy, Council approved an increase in the residential homestead exemption from 5% to 7% in June 2008. The impact of maintaining a level tax rate and increasing the homestead exemption on the average residential tax bill is an increase of 6.3% over the 2007 tax bill.

The City participates in the Texas Municipal Retirement System (TMRS) for employees. The actuarial method used by TMRS was revised to more accurately account for anticipated growth in employee salaries over time. In the past, cities made annual contributions to TMRS based on actual employee turnover and retirement rates. The new actuarial model requires cities to fund more of the contribution to future benefits up front, resulting in an increase in the contribution rate. TMRS provided cities with an

option to phase in the increase over an eight-year period or fully fund the increase in one year. Based on my recommendation and Council direction, the City has fully funded the increase to TMRS in the FY09 budget. This is particularly important for City employees as the City does not participate in the Social Security system.

To offset the TMRS increase, a one-time adjustment is being made to the merit program. Employees making less than \$85,000 per year will receive the first 2% of the merit increase to their base pay and the remaining portion (up to 3% based on performance) will be made as a one-time lump-sum payment. Employees earning more than \$85,000 per year are eligible to receive up to 3% in a one-time lump-sum payment based on performance. The annual savings generated by utilizing one-time payments will help offset the cost to fund the TMRS increase while still providing merit increases to employees to help cover increases in the cost of living.

Budget Priorities

At the spring planning retreat, Council discussed priorities for the FY09 budget. Departmental budgets were prepared using these priorities to guide them. The following paragraphs summarize the key areas of focus in preparing the budget.

Fund the Operating Budget: The FY09 budget seeks to preserve the City's core services while minimizing risk due to the City's dependence on sales tax revenues. The budget includes the full year impact of positions that were budgeted mid-year for the FY08 budget. The Drainage and Fire Station #6 Funds are being consolidated into the General Fund to improve efficiencies in administering these programs; there is no change in the services provided. The budget shifts \$0.00575 within the \$0.30 tax rate from debt service to maintenance and operations. This shift in the tax rate helps cover funding needs within the General Fund and helps to offset the slowing growth in sales tax revenues.

Fund the Capital Improvement Program: The 2009-2013 capital improvement program totals \$249.3 million, with \$37.0 million for appropriation in the FY09 budget. Projects funded in FY09 include: construction of drainage improvements at River Bend Country Club to benefit the Sugar Creek area; storm sewer laterals to Eldridge Road; the final segment of street reconstruction in Mayfield Park; emergency generators for City facilities; improvements to Sugar Land Memorial Park; and beautification of state routes such as State Highway 6 and US Highway 90A. Key traffic projects that are budgeted include technology upgrades to the traffic signal system, installation of ornamental traffic signal masts at key intersections, and expansion of system detectors that provide traffic volume information. Key projects that are in design phase in FY09 include: Fire Station #7; expansion of the Public Works facility; Brazos River Park phase II; Dulles Avenue upgrade; extension of University Blvd; additional hike & bike trails; expansion of the west wastewater treatment plant; and a surface water treatment plant to facilitate the mandated 30% reduction in groundwater usage by 2013.

Continued Implementation of the Strategic Plan: Growth within the City and the pending annexation of River Park has resulted in the need for a fifth police beat. The limited purpose annexation of River Park in March 2007 provided sales tax revenues to the City to assist in preparing for full annexation of the area in December 2009. Funds are included in the budget to establish a fifth beat that will address in-City growth

as well as ensure staffing is available to provide services to River Park when the area is fully annexed. The Police Department requires a total of fourteen positions for the new beat: twelve officers to provide a 24/7 patrol of two officers per shift; one crime prevention officer; and one lieutenant. The Police Department currently has resources to cover four positions within current staffing levels. Funds for the remaining ten positions are included in the FY09 budget. Funding for other City services in the River Park area will be included as part of the FY10 budget.

Strategic Partnership Agreements with New Territory and Greatwood were approved this year. One of the provisions of those agreements was the set-aside of out-of-city service charges and a portion of the sales tax revenues from River Park into Debt Reduction Funds to facilitate the annexation and dissolution of these districts in the future. FY09 marks the first contribution to the Debt Reduction Funds from sales taxes collected from the limited purpose annexation.

Fund New Services: Given the current economic condition, there are limited new services in the FY09 budget. The majority of funds appropriated for new services are related to completed capital projects. The anticipated completion of construction on US Highway 90A and US Highway 59 will result in the City taking on substantial maintenance costs for landscape maintenance and street lighting. The budget includes approximately \$500,000 to fund these expenditures. New services that are not related to capital projects include funding for celebrating the City’s 50th anniversary in 2009 and funds to enhance operations at the animal shelter.

Financial Summary

The budget is split into three segments: the City’s operating budget; the budgets for the development corporations; and the capital projects budget. The total budget for the City totals \$169.7 million, a 13% increase over the FY08 approved budget. The FY09 approved budget compares to last year as follows:

	FY08 Approved Budget	FY09 Approved Budget	Increase	Percent Increase
City Operating Budget	\$ 114,561,745	\$ 124,265,344	\$ 9,703,599	8.5%
Development Corporations	8,584,665	8,508,184	(76,481)	-0.9%
Capital Projects	27,038,500	36,967,102	9,928,602	36.7%
Total	\$ 150,184,910	\$ 169,740,630	\$ 19,555,720	13.0%

As identified in the Financial Management Policy Statements, a long-range forecast has been prepared for each of the major operating funds. The forecast shows that the budget is sustainable over a longer period and facilitates progress toward objectives identified in the Financial Management Policy Statements. The forecast shows that the City has some challenges ahead due to the debt service and operating impact of planned capital improvements. Some adjustments to utility rates will be necessary in the Enterprise Funds to maintain the self-sufficiency of the funds as new improvements are constructed, but the City remains financially sound throughout the forecast.

Personnel

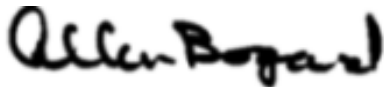
The FY09 budget includes a net total of seventeen and a half new full-time equivalent positions. Fifteen and a half new positions are budgeted in the General Fund: ten police officers; two traffic management positions; one fire position; one parks position; one support services position; and a part-time position in animal control. There are four new positions budgeted in the Airport Fund to maintain service levels and enhance safety at the Airport. Lastly, two vacant positions are being eliminated, resulting in the net increase of seventeen and a half positions to the FY09 budget.

Rate and Fee Adjustments

The budget anticipates rate increases for the Utility Fund effective in March 2009, the third step of increases based on recommendations from the rate study that was completed in February 2007. The budget also includes a consumer price index adjustment to user fees, which results in higher revenues. This adjustment is consistent with the User Fee Philosophy adopted by City Council.

I encourage you to read further into the approved annual budget. The budget summary that follows this transmittal letter provides a review of revenues and expenditures included in each of the City's operating funds, and a description of the capital improvements program and employee compensation. Within each fund summary are further descriptions of services for the departments that will support Sugar Land as it continues to grow and serve its residents. The five year capital improvement program is available under separate cover.

Respectfully,



Allen Bogard
City Manager