



July 26, 2011

To the Chairman, Board of Directors, and Citizens of The Woodlands Township:

It is my pleasure to submit The Woodlands Township's proposed FY 2012 budget for the period January 1 – December 31, 2012. The annual budget guides the Township's plan for providing services, facilities, and amenities to its citizens and visitors. This budget document is intended to give the reader a comprehensive view of funding for the Township's day-to-day operations, capital improvements, and principal and interest payments on outstanding debt. Expenditures are organized into operating departments and programs of service to give the public a clear understanding of how resources are allocated.

The Township views its planning and operational activities in a strategic manner. Accordingly, the 2012 Budget was prepared with the goal of achieving certain key objectives as defined in the *Vision 2034 Strategic Plan* adopted by the Board of Directors in 2009. Those objectives include:

- Develop a budget and financial plan that meets the short-term and long-term needs of the Township
- Continue to provide high quality, cost effective services and amenities
- Provide enhancements to services as needed and appropriate
- Maintain and replace capital assets and facilities as necessary
- Create financial flexibility for change conditions and opportunities

FINANCIAL ASSESSMENT

The Township's ongoing resilience during the national economic downturn can be attributed to prudent financial decisions made by the Board and staff over the previous few years. Through sound fiscal management, the Township has positioned itself well to cope with growth, create a positive atmosphere for economic development, and provide greater flexibility on budgetary issues. The Township continues to balance revenues and expenditures, maintain or enhance services,

have an excellent bond rating and low debt per capita ratio, and maintain appropriate levels of operating, capital replacement, economic development, and debt service reserves. Additionally, unlike many municipalities, the Township is not burdened with unfunded pension or retiree health insurance costs or large vacation/sick leave balances due to the types of benefit plans that have been implemented.

2010 and 2011 ACCOMPLISHMENTS

Before we consider the 2012 Budget, it is important to review the past two budget years and the successful financial initiatives that have been achieved by the Board of Directors.

- Merged two of the community's major service providers (Town Center Improvement District and Community Associations of The Woodlands) into The Woodlands Township, resulting in substantial savings to taxpayers
- Refinanced existing debt, significantly lowering principal and interest requirements
- Funded new capital improvement projects at historically low interest rates
- Achieved an "A+" bond rating from Standard & Poors and an "A2" rating from Moody's
- Provided for a level property tax rate
- Weathered an economic downturn without a decrease in service levels
- Established reserve criteria for operations, capital replacement, and economic development
- Provided a strong fiscal foundation for the Township's governmental operation

2012 BUDGET DEVELOPMENT PROCESS

The Township has an important responsibility to its citizens and taxpayers to carefully account for public funds, to manage the Township's finances wisely, and to plan for the adequate funding of services desired by the public. To facilitate this responsibility, the Township engages in a comprehensive budget development process. The proposed budget represents the culmination of months of preparation, discussion, and analysis regarding the most effective and efficient ways to provide services at the greatest value. Citizens have made important contributions to the discussion, and the Board of Directors has provided valuable leadership by setting priorities and expectations. The result is a proposed 2012 budget plan that adheres to financial policies and preserves the Township's strong financial position while providing high quality services to the community. Key elements include:

- Provides funding for existing services and maintenance of facilities and amenities
- Continues to evaluate and address public safety needs
- Funds staffing, facility and equipment expenditures for new Fire Stations 7 and 8
- Accommodates residential and commercial growth in the community
- Promotes economic development
- Develops plan to address results of Park Needs Assessment completed in July 2011
- Provides a competitive compensation package for the purpose of recruiting and retaining a professional workforce
- Maintains appropriate levels of operating, capital and debt service reserves
- Provides opportunity to decrease the property tax rate while maintaining or improving service levels

The Township utilizes a conservative strategy when projecting revenues and expenditures. Revenue and expenditure patterns are closely monitored so that adjustments to spending levels can be timely implemented if necessary.

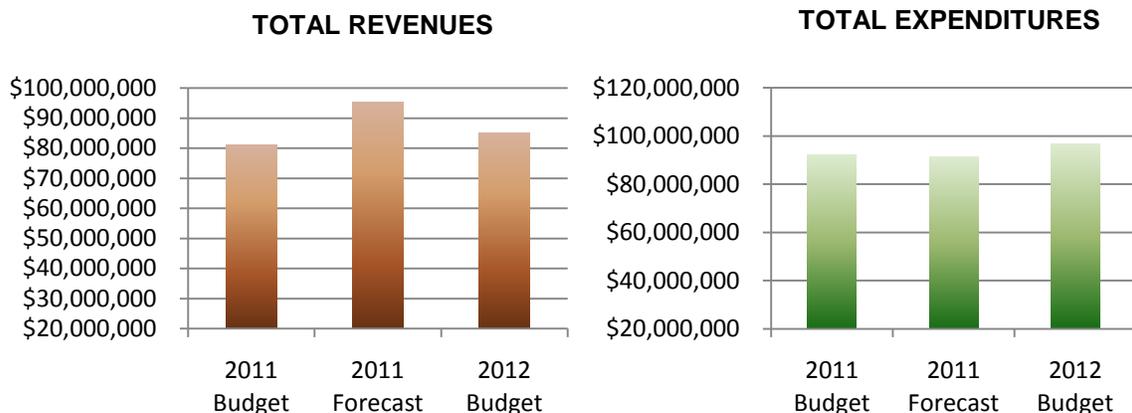
2012 BUDGET HIGHLIGHTS

- The proposed 2011 property tax rate is 32.5 cents per \$100 of taxable value, a 0.24 cent decrease from the 2010 property tax rate of 32.74 cents
- Operating revenues total \$85.0 million, a 4.9% increase from the 2011 Budget
- Operating expenditures total \$68.4 million, a 3.2 % increase from the 2011 Budget
- Capital expenditures total \$17.2 million, of which \$13.3 million is funded from bond proceeds
- Significant capital projects include reconstruction of Central Fire Station, two fire department ladder trucks, and new development park and pathway projects
- \$1.5 million has been included in the capital plan as a placeholder to address projects identified in the Park Needs Assessment
- Enhanced law enforcement services include the addition of three personnel in Montgomery County and two personnel in Harris County

- Enhanced fire protection services include staffing and operational costs for two new fire stations
- Improve Town Center operations by creating a separate division within the Parks and Recreation department to address maintenance, public safety, customer service, and event support
- The cost of solid waste/recycling services has been reduced by \$850,000 while increasing the service level
- Funding is provided to continue the analysis of governance options and implement a communications plan for citizens
- Operating reserve balance is \$17.0 million at 12/31/2012, which represents 20% of 2012 operating revenue and is in accordance with Board policy

2012 CONSOLIDATED BUDGET

The consolidated operating budget includes the combined operating revenues and expenditures of the Township's General Fund, The Woodlands Convention & Visitors Bureau, the Capital Projects Fund, the Debt Service Fund, the Debt Service Reserve Fund, and the Special Revenue Fund.



Revenues

Total revenue projections for 2012 equal \$85.0 million, which is a 4.9% increase from 2011 budgeted revenues of \$81.0 million. The increase is primarily the result of higher revenues generated from property taxes, sales and use taxes, hotel occupancy taxes, and program fees.

Property tax revenues are based on a property tax rate of \$0.3250 applied to a taxable property value base of \$12.5 billion, an increase of \$400 million from last year's tax base of \$12.1 billion. Tax revenue generated by \$0.01 is approximately \$1.2 million. Total property tax revenues are projected to be \$40.5 million, representing an increase of \$850,000 or 2.1% from 2011, and will be used to fund

operating, debt service, and capital requirements not funded from other sources. Revenues from property tax comprise 48% of total revenues. Following is a summary of the 2011 Property Tax Rate.

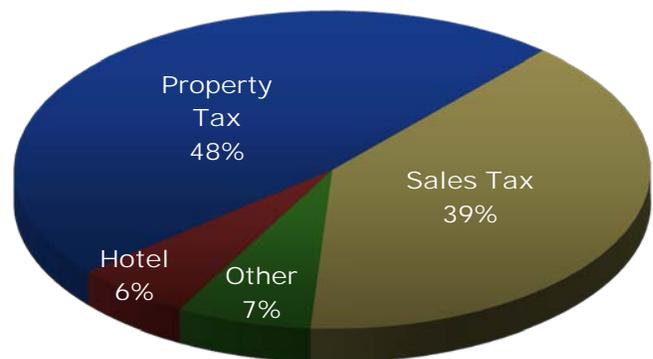
	<u>Amount</u>	<u>Rate</u>
Operating expenditures	\$32.4 million	25.99 cents
Capital outlay	3.4 million	2.74 cents
Debt service	3.0 million	2.41 cents
Contributions to reserves	<u>1.7 million</u>	<u>1.36 cents</u>
Total	\$40.5 million	32.50 cents

Sales tax revenues for 2012 are projected to be \$33.6 million, which is a 3.6% increase over the 2011 forecasted amount of \$32.5 million. Sales tax is generated by a 1% base sales tax and an incremental 1% sales tax collected in the Economic Development Zone overlaying Township’s boundaries. In accordance with the Township’s Series 2009 and 2010 bond covenants, ½ of 1% of the base sales tax collections have been pledged for debt service on these obligations. The incremental sales tax is designated to fund operations for The Woodlands Fire Department as well as other previously approved improvement projects.

Sales tax revenues are very important to the Township in that they reduce the need for property taxes and make up 39% of general revenue sources. Sales tax is subject to economic cycles and discretionary buying characteristics of consumers, and accordingly must be monitored and projected carefully.

Revenues from a 15% **hotel occupancy tax**, of which 9% is payable to the Township, are anticipated to generate \$5.0 million in revenue, a 13.6% increase from the 2011 forecast of \$4.4 million. A portion of this increase is attributable to a supplemental 1% room tax that will be implemented on January 1, 2012. Combined with a supplemental 1% room tax that became effective January 1, 2011, the 2% supplemental tax is anticipated to generate \$1.1 million in revenue in 2012. These funds will be transferred to The Woodlands Convention & Visitors Bureau (CVB) to pay for operating expenses and offset General Fund transfers that would otherwise be necessary to fund the CVB’s cash requirements.

2012 BUDGET % of TOTAL REVENUE



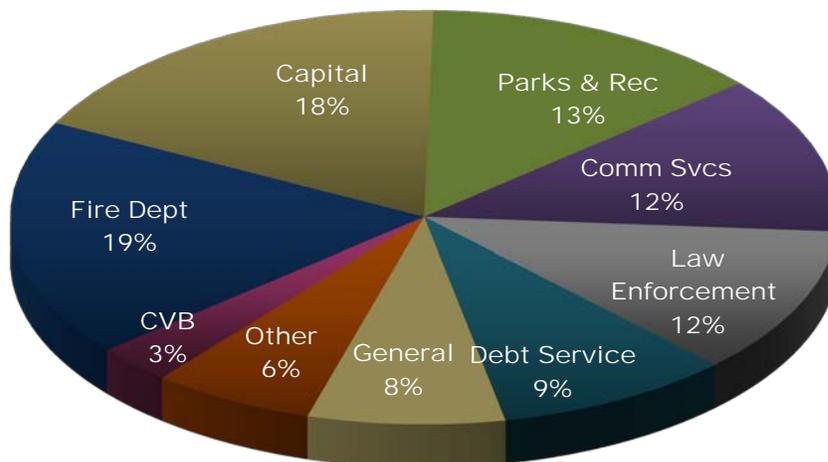
The remaining hotel occupancy tax revenues of \$3.9 million are dedicated to funding debt service obligations on the Township's Convention Center and regional participation long-term debt.

Revenues also consist of program fees generated by recreation programs, pool operations, and Convention & Visitors Bureau sponsorship, event, and waterway cruiser income. Program revenues for 2012 are projected to be \$3.8 million, an increase of approximately \$375,000 from 2011. Other revenues included in the consolidated operating budget include interest income (\$720,000), events admission tax (\$50,000), grant funds for the Ironman Triathlon (\$32,000), various administrative fees (\$347,100), income earned through Fire Department contracts (\$448,500), the sale of property (\$250,000), and miscellaneous revenues (\$221,953).

Expenditures

Total expenditures of \$96.5 million represent a \$4.1 million, or 4.5% increase over 2011 budgeted expenses of \$92.4 million. The increase is primarily related to expenditures for salaries and benefits for fire department staffing, which are \$2.5 million higher than the 2011 budget. The fire department's budget includes the addition of 17 personnel, 15 for the opening of fire station 7 and two for dispatch. The cost for the additional dispatchers will be offset by an increase in contract revenue related to dispatch duties. Also, debt service has increased \$1.1 million due to the issuance of bonds for the new office building, and capital expenses have increased \$1.0 million due to the inclusion of \$1.5 million in funding for recreation amenities development in response to residents' requests and the Park Needs Assessment.

**2012 BUDGET
% of TOTAL EXPENDITURES**



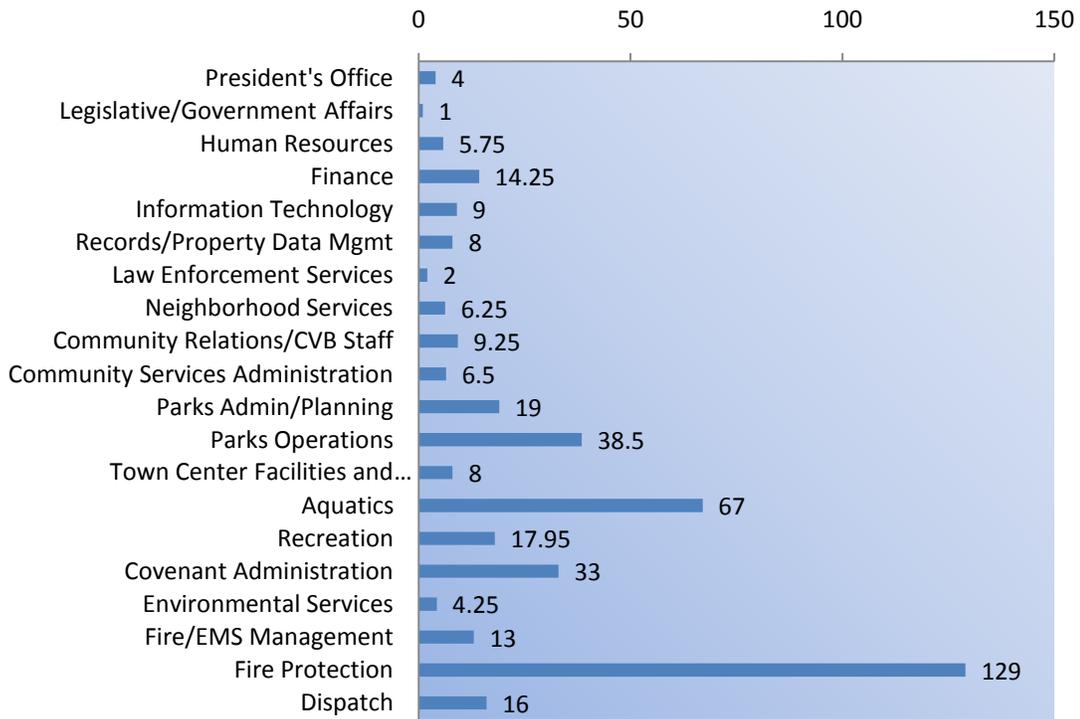
Continued expansion of the community policing program has also been factored into the 2012 budget, including three additional personnel for the Montgomery County Sheriff's Office and two additional personnel for the Harris County Constables Office. The 2012 budget for law enforcement services totals \$10.62 million, while the 2011 total was \$10.68 million. The slight decrease of \$63,000 is due primarily to a reduction in expensed capital equipment for the Sheriff's Office.

Partially offsetting the overall increase in operating expenditures are decreases totaling \$3.0 million in the General Fund. The budget reflects reductions in line items such as solid waste services, lease expenses, expensed law enforcement equipment, consulting fees, park and pathway maintenance, audit fees, recreation programs, maintenance and song programming at Waterway Square, facility repairs, and staff uniforms, among others. The most significant reductions are for the solid waste contract due to the implementation of a new contract in February 2012 (\$850,000) and for lease expense due to the consolidation of office space (\$680,000). The decrease in lease expense is offset by an increase in debt service for the new office building as noted above.

PERSONNEL

Staffing levels for 2012 are proposed at 253.7 full time equivalent employees for the Township and 158 for the Fire Department as indicated in the following chart:

Department Staffing - 2012



A total of 13.75 full time equivalent positions are requested in the 2012 budget for Township operations. This includes an additional 17 FTE for the fire department and a net reduction of 3.25 FTE in all other departments. The increase in the fire department is for 15 firefighters to open fire station 7 and two dispatchers, whose cost will be offset by contract revenue. Staff for a new department called Town Center Facilities and Operations will be supplied by transfers and reclassifications of existing positions. A summary of changes in departments' staffing levels follows:

Department	FTE's
Finance	(1.75)
Law Enforcement	(7.75)
Neighborhood Services	(1.50)
Community Services Administration	0.50
Park Operations	(1.00)
Town Center Facilities and Operations	8.00
Covenant Administration	0.25
Fire Department	17.00
Total FTE's (net)	13.75

The *Personnel* section contains additional information on current staffing levels and new positions proposed for 2012.

Total compensation expenses for the approximate 412 full time equivalent employees total \$29.7 million for 2012, an 11.4% increase from 2011. The increase is due to several primary factors including:

- new positions as outlined above, partially offset by the elimination or reclassification of some existing positions
- 2.7% wage increase for bargaining unit employees per terms of labor contract
- 3.5% wage increase for dispatch employees per terms of labor contract
- 3.0% merit increase for non bargaining unit employees
- 10.3% increase in health insurance premiums

To minimize escalating health insurance costs in the 2011 budget, a fully insured health plan was replaced by a self-insured plan. Self-insurance consists of fixed administrative costs paid to a third party administrator and reinsurance premiums based on individual members and aggregate claims per calendar year. Self-insurance allows employers to better control annual rate increases, remove the insurer's profits, lower retention and risk charges, and hold and invest reserves. While the projected increase for 2012 is over 10%, the costs incurred by a fully insured plan would be significantly higher.

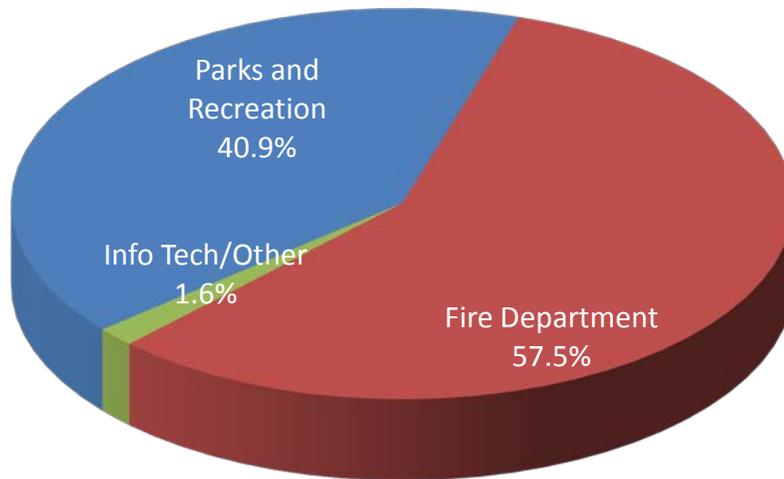
CAPITAL PROJECTS PLAN

The 2012 Budget and Five-Year Plan include funding for capital projects and assets required by the Fire Department, Parks and Recreation, and Information Technology to maintain current services and amenities, to address community growth, to replace existing assets that have reached the end of their useful lives, and to stay abreast of technological advances.

Capital expenditures for 2012 total \$17.2 million. Of this amount, \$13.3 million will be funded from bond proceeds.

- \$7.1 million Construction of Central Fire Station
- \$2.7 million Park and pathway projects in Creekside Park
- \$2.1 million Fire Department Ladder Trucks
- \$1.5 million Recreational Amenities Development
- \$1.4 million Pedestrian projects in Town Center
- \$1.4 million Parks and pathways improvements
- \$700,000 Fire Department equipment
- \$300,000 Technology improvements/other

Please reference the *Capital Projects Fund* section of this document for a detailed listing of 2012 capital items. Following is a chart depicting capital expenditures by department:



BOND RATINGS

The Township's bond ratings provide evidence of its financial strength. In November 2011, the Township received a rating of "A+" from Standard & Poors and a rating of "A2" from Moody's, indicating our bonds are considered excellent investment quality. The rating agencies commented on the Township's strong tax base growth, prudent fiscal management, and substantial reserve balances in their analysis of financial condition.

OPERATING, CAPITAL, AND ECONOMIC DEVELOPMENT RESERVES

Operating Reserve

Another measure of a governing unit's financial strength is the level of its fund balance, or operating reserves. Operating reserves are maintained by organizations to ensure services can be delivered during economic downturns, to address unforeseen expenditures in the case of an emergency or other event, and to take advantage of opportunities that may materialize outside of the budget process. As 45% of Township's revenue sources are generated by sales and hotel occupancy taxes which can vary significantly in different economic climates, it is important to maintain operating cash reserves so that service delivery will not be negatively impacted.

In 2009, the Township Board established a policy guideline of maintaining an operating cash reserve balance in the General Fund equal to a minimum of 20% of consolidated revenues. Twenty percent represents approximately 2.4 months of operations. The projected operating reserve for year end 2012 is \$17.0 million, which is 20% of 2012 revenues.

Capital Reserve

Capital reserves are maintained to help fund replacement of capital assets as they age or deteriorate. By spreading out the funding for the anticipated replacements over the useful lives of the assets, those enjoying the amenities are participating in their replacement cost and property tax rates can be prevented from fluctuating on an annual basis to address funding for capital repairs and replacements.

The December 31, 2012 capital reserve balance is projected to be \$11.8 million, although approximately one-half of this total will be utilized within the five-year plan to pay for capital expenditures. The high current balance is due primarily to the receipt of bond proceeds in April 2010 to finance certain capital projects, thereby eliminating the need to pay for the projects with General Fund revenues. Additionally, the refinancing of debt in 2010 at historically low interest rates generated excess funds that were transferred to the capital reserve account.

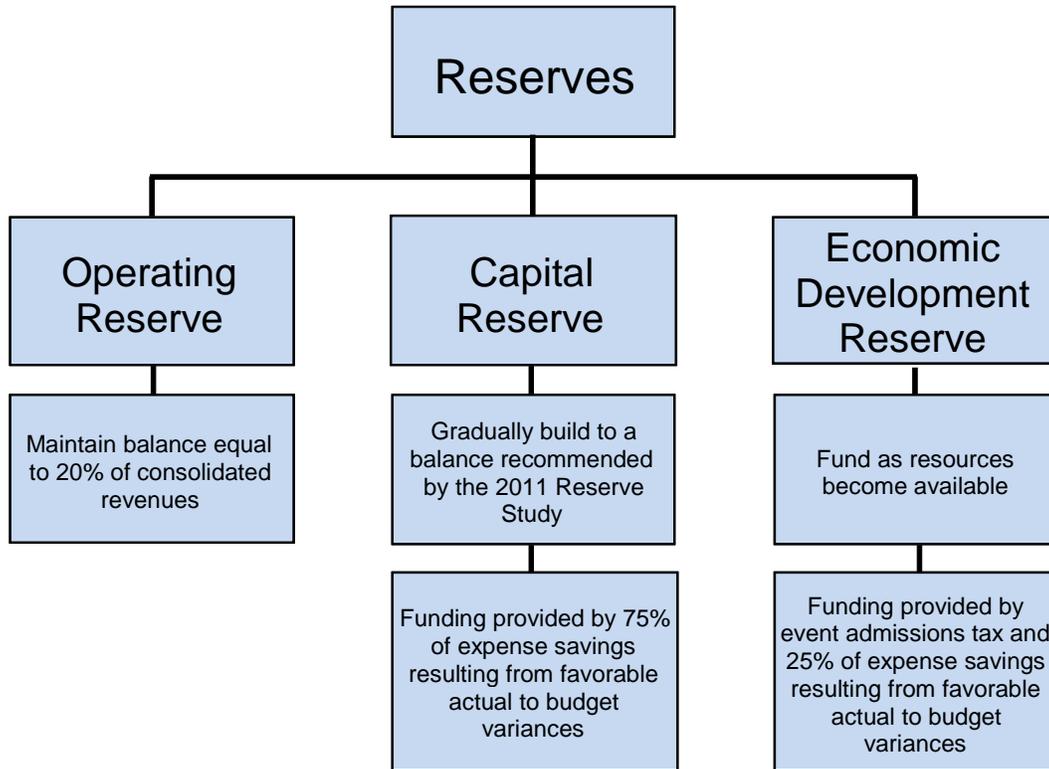
For 2012, the budget proposes contributions to the capital reserve totaling \$970,000. Also, Board policy dictates that 75% of any funds generated by annual actual-to-budget favorable expense variances be directed to the capital reserve.

Preliminary estimates from a reserve study currently underway indicate a capital reserve balance of \$14.3 million for the Township, based on current book values and replacement values of depreciable assets. Although the five-year plan does not anticipate funding a reserve balance at this level, progress is being made towards this goal. The capital reserve balance is estimated to be \$5.0 million at the end of the current five-year plan, which is higher than the \$2.9 million estimated at the end of last year's plan.

Economic Development Reserve

An economic development reserve has been established to help fund future economic development projects identified by the Board of Directors. Reserve contributions are made from proceeds generated by an events admission tax implemented in 2011, estimated to generate \$50,000 annually. Additionally, the Board has agreed that 25% of any funds generated by annual actual-to-budget favorable expense variances be directed to this reserve. The December 31, 2012 reserve balance is projected to be \$3.1 million and grow to \$3.3 million at the end of the five-year plan.

A summary of funding sources for the reserves discussed above is shown on the next page:



FIVE-YEAR BUSINESS PLAN

As the annual budget is developed, it is important to provide high quality services that are sustainable. We must look beyond the current budget year in order to properly plan for future operations and to analyze the impact current decisions will have on long-term financial objectives. In this regard, staff has prepared a five-year business plan in conjunction with the 2012 Budget.

The plan assumes conservative revenue growth and the continuance of the proposed 2011 property tax rate of \$0.3250. The plan also provides for growth in expenditures due to inflation, new development in the community, an expansion of the community policing program, the assumption of responsibilities from the developer as the community is built out, and costs for preparing, analyzing and communicating governance options. Additionally, a five-year staffing plan and capital projects plan were developed to specifically account for these significant expenditures.

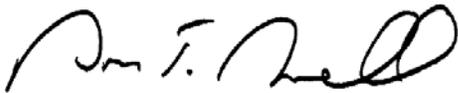
Given the assumptions outlined above, the Township’s five-year business plan reflects sufficient revenues to fund projected operating expenditures and debt service requirements. Beginning in 2013, a portion of the capital reserve balance (as described in the previous section) must be utilized to fund some asset purchases. A minimum operating reserve balance equal to 20% of consolidated revenues is maintained throughout the long-term plan, as is a self-insurance health

reserve of \$800,000. Additionally, the debt service fund and debt service reserve fund retain balances of \$2.8 million and \$3.2 million, respectively. Please reference the *Five-Year Plan* section of this document for detailed information.

CONCLUSION

During the preparation of the 2012 Budget and related Five-Year Plan, our primary goals were focused on the provision of high quality, cost effective services and amenities that aligned with the Township's strategic objectives. I believe the proposed budget is a prudent and sound financial plan that achieves these goals and maintains the fiscal strength of the Township now and into the future. I look forward to working with the Board of Directors over the next month as we complete the budget process.

Respectfully,

A handwritten signature in black ink, appearing to read "Don T. Norrell". The signature is fluid and cursive, with a large initial "D" and "N".

Don T. Norrell
President/General Manager, The Woodlands Township