



# City of Elgin Office of the City Manager

City Hall · 310 North Main Street · P.O. Box 591  
Elgin, Texas 78621

August 14, 2017

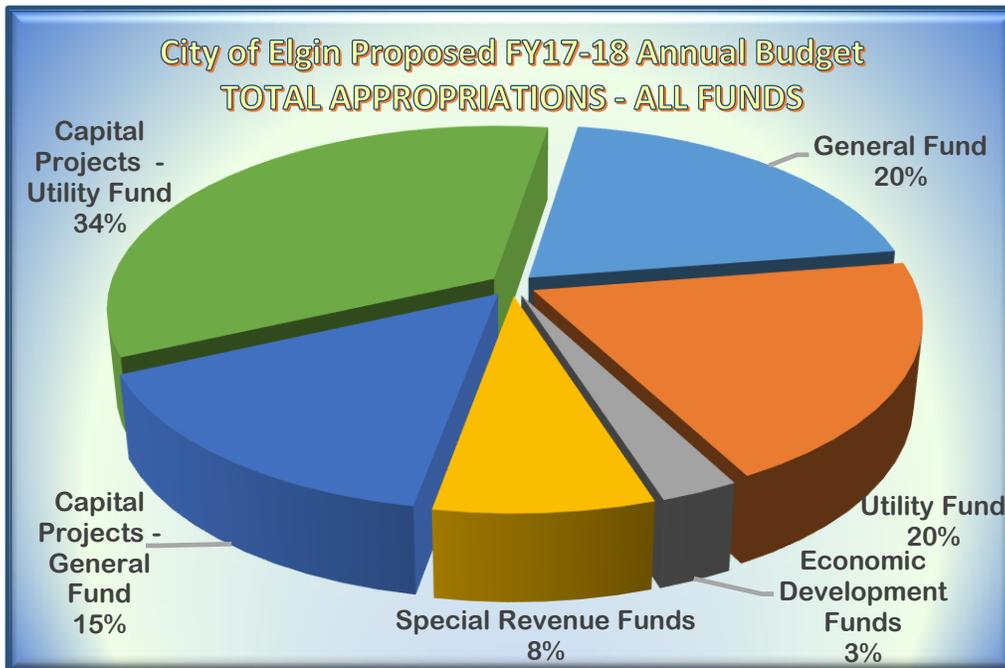
Mayor and City Council  
City of Elgin  
310 North Main Street  
Elgin, Texas 78621

## Re: FY2017-18 Proposed Annual Budget Message

Dear Mayor Cannon and City Councilmembers,

In accordance with the provisions of Article VII, Section 2 of the Elgin City Charter, the proposed *Annual Operating Budget* for the City of Elgin for the Fiscal Year of October 1, 2017 through September 30, 2018, is hereby presented for your consideration.

The grand total of all appropriations for all departments, operations, and functions proposed for the *FY2017-18 Annual Budget* is **\$31,894,705**; to be generally distributed as described below:



The proposed *FY17-18 Annual Budget* is a zero-based, balanced, and appropriately conservative financial plan wherein all operating expenditures are primarily supported by revenue generated during the fiscal year; and was developed through a comprehensive review of financing for all existing programs, operations, and services.

While the primary goal of the proposed budget is to maintain existing service levels, the staff remains focused on enhancing service levels wherever possible. The proposed budget does not include deficit spending and/or utilization of fund balance for operating expenses.

The *FY17-18 Annual Budget* as proposed is delineated into six (6) basic funding categories:

- **General Fund (\$6.46M)** - revenues and expenditures related to the provision of primary or traditional city services whose main financial support comes from tax dollars.
- **Utility Fund (\$6.2M)** - an enterprise fund monitoring all financial transactions relating to the provision of potable water and sanitary sewer services through the city's systems.
- **Economic Development Funds (\$.89M)** - revenues and expenditures specifically earmarked for activities and programs to support business development and retention
- **Special Revenue Funds (\$2.5M)** revenues and expenditures related to various projects and programs that are supported by a dedicated revenue stream, including grant funds
- **General Fund-Capital Projects (\$4.9M)** all financial transactions related to General Fund capital improvements projects supported primarily by debt proceeds
- **Utility Fund-Capital Projects (\$10.9M)** all financial transactions related to General Fund capital improvements projects supported primarily by debt proceeds

#### **FY2017-18 ANNUAL BUDGET - Budget Highlights and Issues**

While the Elgin community has experienced general prosperity in recent years that is anticipated to continue into the future, the City of Elgin (based on internal financial reports and information provided by the Finance Department) faces significant budgetary challenges as it enters the next fiscal year. While the City obviously continues to experience growth and development that has generally increased revenues (particularly from growing property and sales tax receipts), budgetary and/or spending practices in recent years has the City now facing major financial shortfalls in the development of the *FY17-18 Annual Budget*.

#### **Annual Operating Deficits**

The most significant issue to be addressed is reversing practices of recent years of deficit spending, the use of fund balance or cash reserves to fund operating expenditures, and the addition of new annual expenditures without a corresponding revenue increase. The following six items alone represent **\$4.2M** in new net costs that must be addressed in the *FY17-18 Annual Budget*:

- ✓ ***FY16-17 Budget Deficit*** – The most significant issue facing the FY17-18 Annual Budget is overcoming the deficit spending plan that was included as part of the current-year budget. In both the General Fund (\$1.5M) and the Utility Fund (\$1.0M), major deficit spending for operations were included in those plans that must be addressed for the City to move forward financially sustainable manner. Although the use of one-time funds is not illegal or extremely unusual, it is counterintuitive to a concept whereby spending should be maintained at a level consistent with revenues taken in. Given this situation, this year's budget development begins with a **\$2.5M or 20%** combined shortfall in the General and Utility Funds, just to maintain existing service levels.
- ✓ ***New Utility Fund Annual Debt Service*** – Late in the 2016 calendar year, the City approved the issuance of \$10M in bonds to provide funding for a variety of much-needed capital improvements, including initial funding for the upcoming expansion of the wastewater treatment plant. This issuance of new debt was approved without a plan for enhancing the revenue stream to provide for annual debt payments. As such, the *FY17-18 Budget* must also address **\$671,000** in new annual costs.

- ✓ ***Annual Street Maintenance Programs*** – As part of the current-year budget, the street resurfacing program - the annual maintenance program to resurfacing and repair public streets and alleys throughout the City – was funded through a one-time expenditure from eligible bond proceeds. While not an inappropriate use of such funds, this program is for annual, routine maintenance that must be performed on a yearly basis as part of normal maintenance operations – not as a one-time capital improvement costs. This situation serves to create another funding gap for the FY17-18 Budget in the amount of **\$400,000** - if the City to maintain a consistent street maintenance effort.
- ✓ ***Utility Fund Utilities and IT Expenses*** – In the recent past, the City has maintained a practice of isolating all building/operational costs related to Utilities (electricity, natural gas, telephones, etc.) and IT (information technology/computers) costs into a separate fund; and then making a transfer from the General Fund to pay for same. The proposed budget includes a restructuring that will now track all such expenditures to the appropriate departments – thereby providing a more accurate picture of the true costs for such services. While the majority of the reallocation has a budget-neutral effect, this practice resulted in Utility Fund costs being paid for with General Fund dollars. So, the reallocation and appropriate assignment costs will result in an additional increase in costs for increase of more than **\$400,000** in the Utility Fund.
- ✓ ***New Recreation Center*** – The currently under construction City of Elgin Recreation Center remains on schedule to open in the first quarter of 2018. While this is an exciting project for the community, its operation will also bring new additional annual costs, currently estimated to be **\$200,000** in FY17-18.
- ✓ ***Funding Support for the Elgin Emergency Services District*** - The Elgin Emergency Services District (EESD) has again requested a waiver of the previously-assessed payment for emergency dispatching services provided to the EESD by the Elgin Police Department. In prior years, the EESD paid **\$34,500** annually to the City, however, consistent with last year’s Council discussion and the EESD request, that revenue has been removed from the proposed budget.

### **Staffing**

The proposed budget includes full-year funding in FY17-18 for up to **one hundred twenty-one (121) total city employees**: eighty-six (86) full-time and thirty-five (35) part-time positions.

### **Employee Compensation**

In order to provide the highest possible level of service for city residents, the City must strive to provide appropriate and market-competitive compensation for all city employees. This is especially during a year we will be asking all employees to maintain existing service levels with less resources. Accordingly, the proposed *FY17-18 Annual Budget* includes a Cost of Living Adjustment (COLA) of **2.0%** in base salaries for all full-time city employees – plus a potential **2.0%** Merit Pay increase for all non-salaried employees.

### **Ad Valorem Estate Taxes**

Although the City’s budget continues to be enhanced by Sales Tax revenue from our growing business community, Real Estate and/or Property (Ad Valorem) Taxes still provide the basic foundation for revenue in support of the General Fund. This stable source of income provides assured funding each year for essential city services- public safety, basic services, mobility, asset maintenance, etc.

**The proposed *FY17-18 Annual Budget* is predicated maintaining the current property tax rate of \$6569/\$100 valuation.**

### Utility Rates

Despite our best efforts to reduce costs, the overall funding situation within the Utility Fund cannot be addressed through costs reductions alone without greatly impacting existing service levels in a negative way. As stated previously, the operating deficit, new debt service, and utility costs alone require nearly \$2M in new annual operating costs for the Utility Fund. As such, the proposed *FY17-18 Annual Budget* includes a significant increase for all water and sewer customers. Details of the rate increase are included in a memorandum from the Director of Finance found elsewhere in the budget document. **The proposed increase is projected to increase the average monthly utility customer bill by approximately \$20.00 (from the current average of \$72.72 per month to \$92.72).**

### Cost-Cutting Measures

For reasons stated above, cost reductions have also been included in the proposed FY17-18 Annual Budget. The proposed budget was prepared with a goal of maintaining all existing staff, services, and programs; and to achieve a financially conservative operation in FY17-18 without a noticeable impact on city services. It is with that goal in mind that the proposed budget utilizes increased revenues gained from the Utility Rate increase. In addition, however, following is a partial list of cost cutting measures that were also utilized to achieve a balanced operating budget for FY17-18:

- The Annual Street Resurfacing and Cracksealing Programs have been eliminated for next year, creating a budgetary saving of over \$400,000. While certainly not preferred, this step will provide a major impact against the deficit situation; and recent efforts toward street maintenance should allow the City to “skip a year” without an extremely adverse impact on our commitment to maintaining a quality roadway system.
- No new positions or employees are included in the proposed budget for existing operations or programs (the new Recreation Center will obviously require new positions).
- Two (2) existing but vacant Patrol positions in the Police-Operations budget will be held open until later in the year.
- The “Payment in Lieu of Taxes” transfer from the Utility Fund to the General Fund has been eliminated for next year, reducing Utility fund cost by \$600,000.
- The pay increase proposed for existing full-time staff would be delayed until the second quarter.
- There are no expenditures for Operating Capital Outlay (furniture, fixtures, vehicles, equipment, etc.) included in the proposed budget.
- There are two one-time expenditures proposed from fund balance (Community Support funds and Lost Pines Groundwater fee), temporarily reducing impacts on operating revenue by over \$100,000.
- Nearly all “Temporary Labor” has also been eliminated, saving over \$100,000 next year.

In spite of the budgetary challenges, next year should be a very exciting and rewarding one for all city operations, employees, and residents. It will be a “building year” for the City, with the opening of the new Recreation Center, construction of the long-awaited Lee Dildy Boulevard, new homes in Saratoga Farms, and a variety of new commercial projects. Safety, livability, and economic development will continue to be the primary focus of city operations. On behalf of the city staff, we thank the Mayor and City Council for the opportunity to serve the citizens of Elgin.

Sincerely,



Thomas L. Mattis  
City Manager