



# City of Elgin Office of the City Manager

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

August 6, 2019

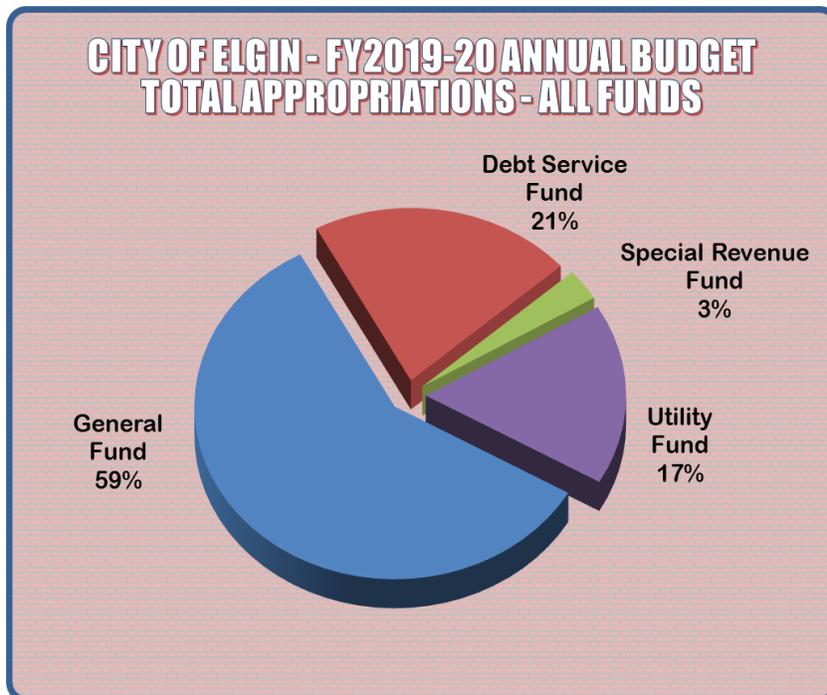
Mayor and City Council  
City of Elgin  
310 North Main Street  
Elgin, Texas 78621

## Re: City Manager's FY2019-20 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, 2019 through September 30, 2020, is hereby presented for your consideration.

The grand total of all appropriations for all departments, operations, and functions proposed for the *FY2019-20 Annual Budget* is **\$14,731,615** to be generally distributed as described below:



The proposed *FY2019-20 Annual Budget* is a zero-based, balanced, and appropriately conservative financial plan wherein all operating expenditures are 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 *FY2019-20 Annual Budget* as proposed is delineated into four (4) basic funding categories:

- **General Fund (\$8.67M)** - revenues and expenditures related to the provision of primary or traditional city services whose main financial support comes from tax dollars.
- **Utility Fund (\$2.49M)** - an enterprise fund monitoring all financial transactions relating to the provision of potable water and sanitary sewer services through the city's systems.
- **Debt Management Fund (\$3.14M)** – all proceeds and expenditures related to servicing, annual payments, and/or management of various debt obligations
- **Special Revenue Funds (\$433M)** revenues and expenditures related to various projects and programs that are supported by a dedicated revenue stream, including grant funds

### **FY2019-20 ANNUAL BUDGET - Budget Highlights and Issues**

As we prepare to enter the new fiscal year, there is great optimism about City of Elgin's general growth and development – and the prosperity that should accompany it. Current plans anticipate the initial construction of a variety of new residential developments that could ultimately result in the addition of over 6,000 new homes to the Elgin community and city service areas.

Typical of a city in this situation, however, the City of Elgin will experience a wide range of challenges and demands for service next year and beyond. It is with this in mind that we present the *FY19-20 Budget* in its current form.

Overall, the proposed *FY19-20 Budget* is predicated on continued economic stability and assumes a continuation of economic growth through the next fiscal year. And, with no proposed increase in either the property tax rate or basic utility rates, we have again been able to employ a somewhat conservative approach as it relates to revenue projections; with a somewhat liberal view of proposed expenditures.

### ***Budget Variables and Dynamics for FY19-20***

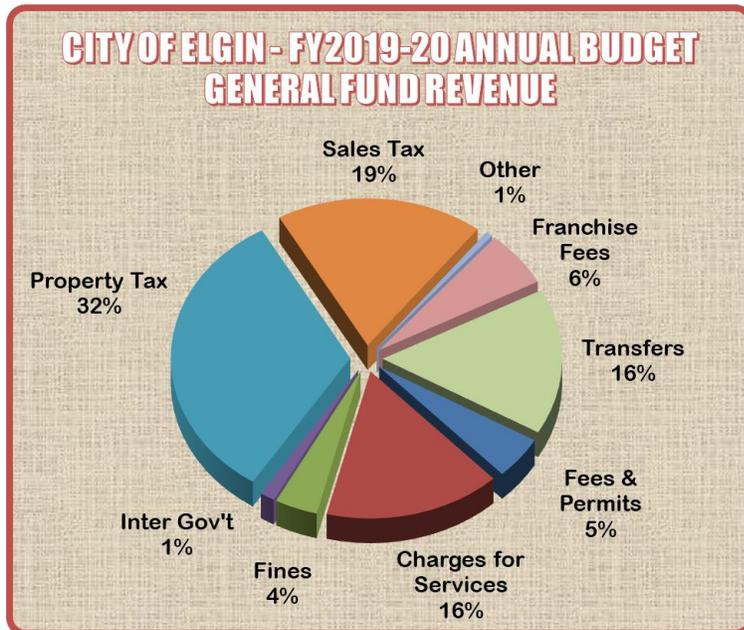
The City of Elgin, like all Texas cities, enters the coming fiscal year challenged with preparing for the adverse financial impacts of the recent actions by the Texas Legislature. Although this past year's legislative session only continued the recent pattern of direct attacks on local government, cities like Elgin are now faced with the task of developing new resources to fund city services as the state legislature has arbitrarily undermined our citizens' ability to decide such matters for themselves.

While the annual budget development for any city is somewhat of a dynamic process every year involving anticipated predictions as to financial impacts in the coming twelve months, the proposed *FY19-20 City of Elgin Annual Budget* includes some rather significant variables whose costs/impacts cannot be fully and effectively assessed at this time.

As such, this budget is predicated upon an even more conservative approach than usual, with anticipated adjustments being essentially planned for by Council during the fiscal year as more definitive information becomes available. Specifically, those particular areas include (1) Property Taxes, (2) Employee Compensation Analysis, (3) Employee Health Insurance, (4) Development Fees, and (5) Community Non-Profit Support.

**General Fund Revenue**

• **Property Taxes & the Texas Property Tax Reform and Transparency Act of 2019** – Basic city operations and funding continue to grow and evolve in a manner that is responsive to increasing community demands.



Property (Ad Valorem) Taxes continue to provide the basic foundation of financial support for essential city services provided through the General Fund. **The proposed FY19-20 Budget is predicated on maintaining the current property tax rate of \$.6569/\$100 valuation (the same rate as the last four years).**

Projected Property Tax revenues assume moderate growth in the city’s taxable valuation, as a number of residential projects are scheduled to start construction by the end of the current calendar year.

As we continue financial planning for the future, however, the **Texas Property Tax Reform and Transparency Act of 2019**, which was signed into law earlier this year, presents a very onerous challenge for the City of Elgin. The new law, among other things, requires certain local government units to obtain voter approval to increase property tax revenues more than 3.5% above the previous year. Previously, Texas cities were trusted to make their own decisions regarding property taxes, allowing an annual increase of up to 8% before city voters could decide to “rollback” or request an election on said rate increase.

The law does provide some relief for smaller cities like Elgin, in that the 3.5% increase limitation applies only those cities whose combined annual property and sales tax revenue exceeds \$15M. So, while Elgin will still be able increase up to 8% in the near future without facing a “rollback, exceeding the 8% limit - as has occurred in the past – will now *require* an election, rather than simply being *subject to* an election petition.

While our state legislators feel comfortable pointing their collective fingers at cities as being wasteful with tax dollars and believe this new law will provide taxpayers some relief, its ramifications could be particularly harmful to a fast-growing city like Elgin as it attempts to meet the associated demands for expanded and enhanced public services.

As the City of Elgin grows due to anticipated residential and commercial projects – and it experiences a corresponding growth in its tax base – the City will be forced to arbitrarily reduce its property tax rate at a time when it should be benefitting from growth and, more importantly, securing increased funding that will be required to meet the needs of a growing community. For this reason, the City is now forced to consider and/or develop new revenue sources to stabilize its General Fund – as discussed later herein.

(And, it is always important to also remember that for all the services it provides, the City of Elgin receives **only \$.22 out of every property tax dollar** paid by Elgin property owners.)

- **Sales Tax** - The State of Texas imposes a 6.25% sales and use tax on all retail sales, leases and rentals of most goods, as well as taxable services. The City of Elgin, like nearly all Texas cities, imposes an additional 2.0% sales and use tax for a maximum combined rate of 8.25%. Of that total, Bastrop county receives 0.5%, the City of Elgin Economic Development corporation (EDC) receives 0.5% and the City directly receives just 1.0%.



Overall Sales and Use Tax Revenue included in the proposed *FY19-20 Budget* represents a projected overall increase of 7% over current-year receipts. The City has experienced an average annual increase of 7.02% per year over the past 6 years.

**Employee Compensation**

As part of its on-going focus to provide the highest possible level in city services, the City must also strive to provide appropriate and market-competitive compensation for all city employees.

A comprehensive analysis of existing compensation for all employees will be undertaken during the first half of the new fiscal year in conjunction with new City Personnel Policies and Job Descriptions. The expectation is that a revised classification and compensation plan for all employees will be presented to Council for consideration in the first quarter of CL2020; and all resulting pay adjustments will be implemented with an effective date of April 1, 2020.

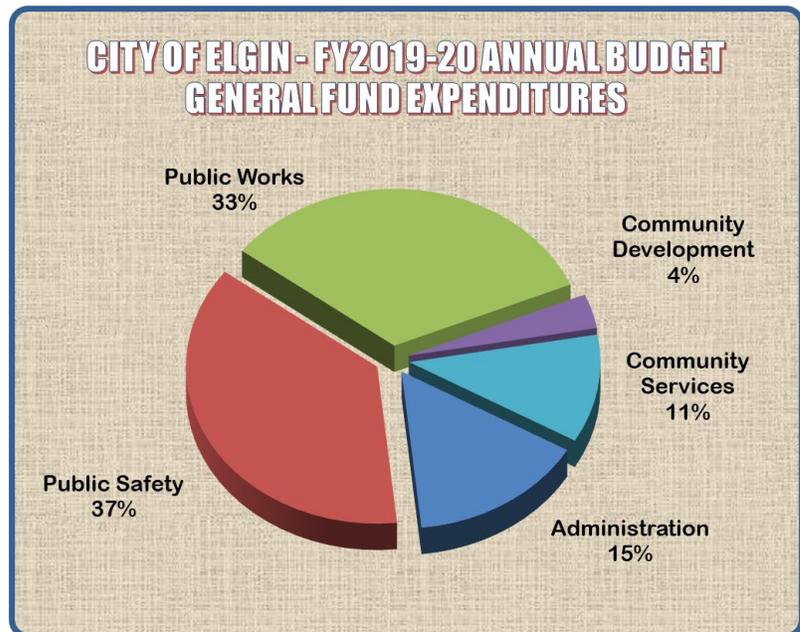
Funding of this program included in the proposed *FY19-20 Budget* is a yet-to-be-departmentally-budgeted set-aside of approximately \$140,000. The compensation study and corresponding pay adjustments (which are anticipated to include every full-time employee at some level) are proposed in lieu of any Cost of Living Adjustment (COLA) for FY19-20.

This analysis/plan will not include the Police Department (except for the Chief and administrative staff), as the Council committed to a three-year funding plan to address their compensation issues last year. Accordingly, the proposed *FY19-20 Budget* includes a 2.0% COLA for EPD Uniformed Officers and Telecommunications employees.

- **Employee Benefits (Health Insurance)** - The City experienced a challenging time over the past year as it relates to group health insurance. Due to unfortunate health situations with a few employees, the City's current health insurance provider has proposed a **63% increase** in our monthly rates, which is neither affordable nor sustainable. As such, the City has begun the process to consider bids from potential new employee health insurance providers. While our goal will be to maintain existing costs, the proposed *FY19-20 Budget* as proposed allows for only a 15% increase. Any additional costs will impact all operating budgets and associated funds.

### *General Fund Expenditures*

The General Fund is the primary operating fund of the City of Elgin and is utilized to account for all costs traditionally associated with city government that are not required by law or by management practice to be accounted for in another fund. It is similar to a private entity's general ledger account, providing resources to pay for all administrative and operating expenses. Within City of Elgin operations, General Fund Expenditures are those costs associated with the provision of essential city services including, but not limited to public safety, parks, recreation, library, public works, mobility, and asset maintenance. The primary sources of income supporting the General Fund are Property and Sales Taxes.



### *Staff Reorganization*

The *FY19-20 Budget* as proposed has also been structured in a way so as to reflect certain organizational changes that will be implemented in the coming year. Through these changes, city operations will be better positioned to plan for anticipated growth and the many challenges that will come with it. The reorganization will also be focused on improving communications and fiscal management; while appropriately structuring current staff and operations in a manner that is reflective of their job duties and responsibilities.

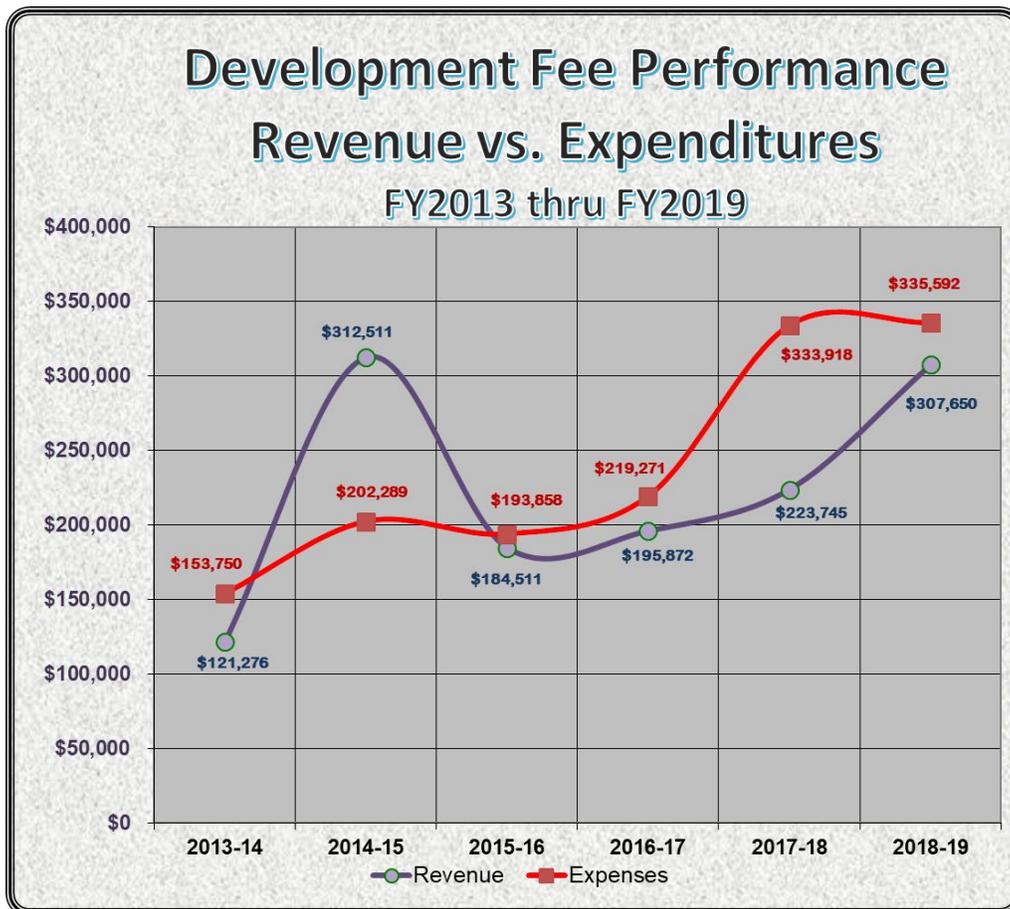
Primarily, the reorganization will include:

- Converting the Director of Finance position to Assistant City Manager/Chief Financial Officer
- Expanding the Finance Department to include Human Resources
- Creating a traditional *Public Works Department* that will include Engineering, Parks & Grounds, Sanitation, Streets, Utilities, and Building/Equipment Services
- Creating a *Community Services Department* that will include the Library, Main Street Program, Events Coordination, and Recreation Programming

It is important to note that this reorganization will not cause any current employee to lose their job or be demoted; nor will it cause any reduction in pay for any employee.

- Development Fees** - A primary source for new funding for all Texas cities due to the adverse impacts of the new state law attempting to limit property taxes will be new fees and/or the reassessment of existing fees. Like many small cities, the City of Elgin has for years absorbed cost for many services within its General Fund – without assessing fees that are typical of many cities. Moving forward, however, the City must now give full consideration for charging reasonable fees if it is to maintain the overall revenue flow required to provide the desired level of city services.

One of the most obvious opportunities for revenue enhancement in this regard has arisen from a general analysis of the City’s current policies for assessing Development Fees. The City incurs various direct costs associated with the review and consideration of development projects, including but not limited to engineering, building inspection, plan review, etc. In the past, the City has absorbed many of these costs within the General Fund, presumably to generally support new development. Doing so, however, has created a significant annual operational deficit.



Over the past three years, the City has experienced an operating deficit of over \$160,000 in this particular service area – one which should clearly be financially self-supporting and not supplemented by city taxpayers. *It is in the City’s best interests to support new development*, but new state law compromises the City’s ability to generated much-needed tax revenue, which has now forced us to consider alternative sources.

The *FY19-20 Budget* as proposed includes the creation of new Development Fees and significant increase in a number of existing related fees to make this service area appropriately self-sustaining. For reasons stated above, all city fees will be recommended for similar adjustments as warranted.

### *Staffing*

The proposed budget includes full-year funding in FY19-20 for up to **one hundred twenty-nine (129) total city employees**: ninety-three (93) full-time, sixteen (16) part-time positions, and twenty (20) seasonal positions. New positions included in the proposed *FY19-20 Budget* are:

- One (1) new Information Technology position in the Finance Department
- One (1) new Administrative Assistant position in the Recreation Department
- One (1) new Detective position in the Police Department
- One (1) new Administrative Assistant position in the Planning Department
- One (1) new Plant Operator position in the Utilities Department (*Utility Fund*)
- One (1) new Administrative Assistant position in the Utilities Department (*Utility Fund*)

### *Utility Rates*

Through an aggressive approach, the City has successfully stabilized its Utility Fund over the last two years by addressing issues related to operating deficits and additional debt service. As part of that effort, the Council adopted a policy of including a small, annual inflationary adjustment to basic water, sewer and trash collection rates to avoid having to make huge rate adjustments in any one year (as we have been forced to do in the recent past).

### *Capital Projects/Debt Planning*

The coming fiscal year is anticipated to include the development of residential and commercial projects which will, in turn, necessitate enhancements to public facilities and infrastructure. While much planning is already underway, the City will be involved in furthering these efforts in the coming years. Although no final decisions have been made nor are any related financial impacts included in the proposed *FY19-20 Budget*, decisions regarding the following items will likely be made in the next fiscal year – any and all of which will have a definite impact on the budget:

- Issuance and amount of new debt and the associated timing of construction of the wastewater treatment plant expansion and the potential new plant in western part of City's ETJ.
- Planning for infrastructure improvements and financing of same within the City Tax Increment Reinvestment Zone (TIRZ ) to support existing and future economic development projects.
- Planning for reconstruction of County Line Road including an upgrade to five (5) traffic lanes

While safety, livability, and economic development will continue to be our primary focus, the coming year should be both challenging and exciting for all City of Elgin operations, employees, and residents. As we embrace all aspects of our growing community, the accompanying overall prosperity can be of great benefit to both residents and businesses - but the City must also prepare and evolve in a way that is responsive to the associated challenges.

On behalf of the city staff, we thank the Mayor and City Council for the opportunity to serve the citizens of Elgin during this exciting time.

Sincerely,



Thomas L. Mattis  
City Manager