



City of Elgin Office of the City Manager

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

August 4, 2020

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

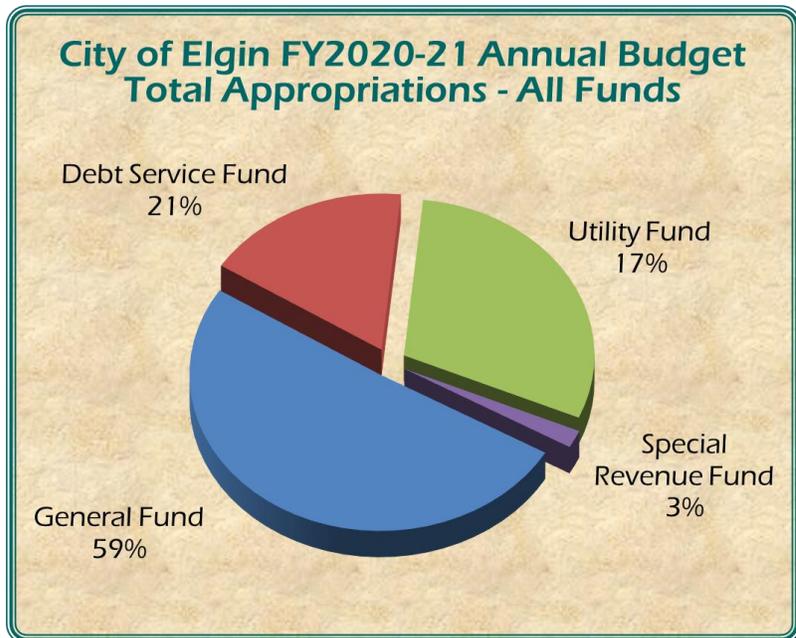
Re: City Manager's FY2020-21 Annual Budget Message

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, 2020 through September 30, 2021, is hereby presented for your consideration.

The grand total of all appropriations for all departments, operations, and functions proposed for the *FY2020-21 Annual Budget* is **\$18,799,672** to be generally distributed as described below.

The proposed *FY2020-21 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, & 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 *FY2020-21 Annual Budget* as proposed is delineated into four (4) basic funding categories:

- **General Fund (\$9.54M)** - revenues and expenditures related to the provision of primary or traditional city services whose main financial support comes from tax dollars.
- **Utility Fund (\$5.62M)** - 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 (\$3.30M)** – all proceeds and expenditures related to servicing, annual payments, and/or management of various debt obligations
- **Special Revenue Funds (\$.341M)** revenues and expenditures related to various projects and programs that are supported by a dedicated revenue stream, including grant funds

FY2020-21 ANNUAL BUDGET - Budget Highlights and Issues

The City of Elgin finds itself in unique and unprecedented times as we prepare to enter the new fiscal year. Anticipated growth and the associated evolution of Elgin from a small rural town to a full-service city are becoming a reality.

Four new residential developments are now actively engaged in construction; and at least three more should begin construction in the next 6-12 months. Those seven projects alone will result in over 3,800 new homes at total build-out, which would more than double the population of Elgin in the next 3-5 years. Commercial development will obviously accompany this residential growth (*See Appendix B - "Residential Development Update" report for further details on anticipated growth*).

Over the past four years, the City has faced various challenges in the financial planning process including operating deficits in both the General Fund and Development Services, in addition to a substandard unencumbered fund balance. Due to budgetary decisions made by Council in recent years, however, these issues have been addressed and - assuming the City of Elgin Economic Development Corporation (EDC) returns the \$2M loaned to them in 2017 – city operations are now on sound financial ground. Furthermore, we anticipate the current fiscal year to end with an operating surplus in both the General and Utility Funds. (*For further details on the many advancements achieved over the past four years see Appendix A – "City Growth and Progress 2016-20" report*)

Coronavirus (COVID-19) Impacts

Although these would typically be times of great optimism regarding the growth and positive development anticipated for the City, the Coronavirus (COVID-19) pandemic has created an environment of uncertainty that must be recognized in all future planning.

The pandemic has clearly impacted the personal lives of Elgin residents, as it has created financial, health, and safety challenges for us all. As a community, we have also struggled to effectively combat the spread of the virus locally.

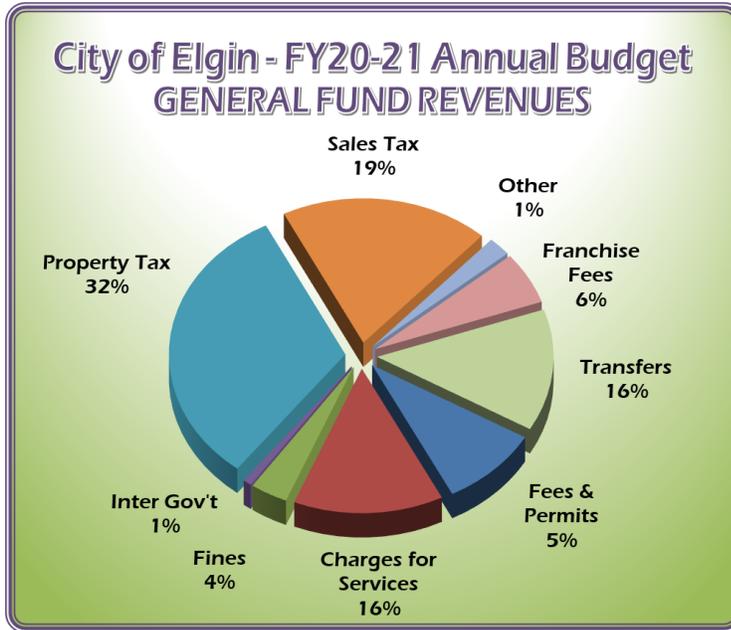
COVID has also certainly impacted the City's ability to deliver services and has challenged us to maintain a safe working environment for our employees. The City Council and staff were confronted in an unprecedented way at the onset of the pandemic to "keep the City open" and address public concerns regarding a situation no one had ever experienced before. Based on the response from our citizenry and employees, however, we have generally met their expectations.

We are hopeful that the City and city operations will evolve to a "new normal" soon, but staff will also continue a comprehensive monitoring of the situation as we move forward.

Ironically, at this point in time, the pandemic has not adversely impacted city finances. In fact, the City actually seems to have derived some financial benefit from COVID impacts in recent months (that are discussed later in the message).

GENERAL FUND REVENUE

- **Property Taxes** – Basic city operations and funding continue to grow and evolve in a manner that is responsive to increasing community demands. Property (Ad Valorem) Taxes provide the foundation of financial support for essential city services provided through the General Fund.



The proposed *FY20-21 Budget* is predicated on maintaining the current property tax rate of **\$.6569/\$100 valuation** (the same rate as the last five years).

Property Tax revenue projected for FY20-21 assumes moderate growth in the city’s taxable valuation, as increased home construction is anticipated as various residential development projects come on-line by the end of the fiscal year.

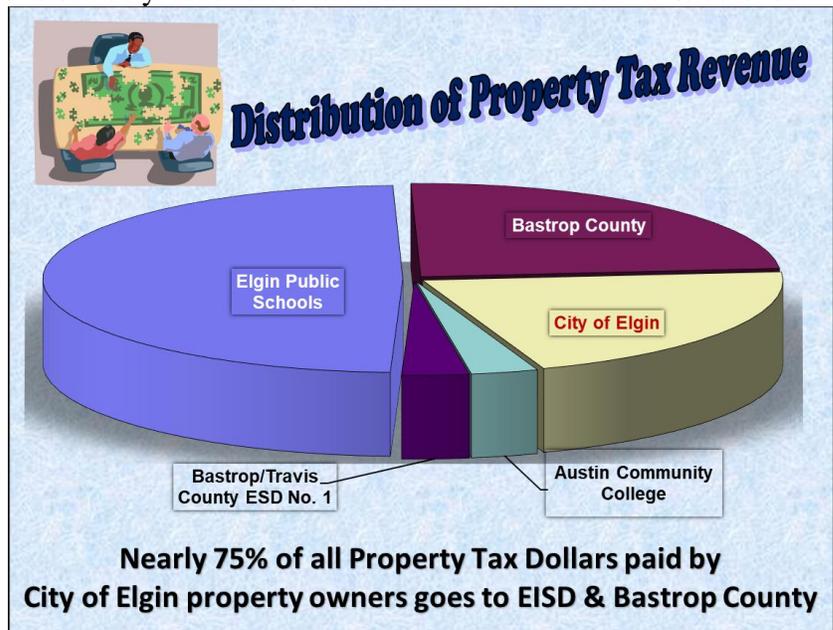
However, while the City needs to develop increased resources to respond to the service demands of a fast-growing community, the *Texas Property Tax Reform and*

Transparency Act of 2019 has compromised our ability to do so.

The City is now required to obtain voter approval to increase property tax revenues – as described by state law - more than 8% above the previous year. Prior to the *Act of 2019*, Texas cities like Elgin were trusted to make their own decisions regarding property taxes for their community. Now, though, the City may be forced to arbitrarily reduce its tax rate at a time when it should be benefitting from growth and securing increased funding that will be required to meet new service demands.

As final property appraisal numbers are still being determined at this time, however, it remains unclear as to whether maintaining the existing rate will represent what is referred to as an increase in excess of 8%.

And, whenever considering the City’s financial resources and taxes, it is always important to remember that for all the services it provides, the City receives only \$.21 out of every property tax dollar – and that every *City of Elgin property owner continues to pay more in property taxes each year to Bastrop County than it does the City of Elgin.*



- **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% and the City of Elgin Economic Development Corporation (EDC) receives 0.5%. **So, of the 8.25% sales and use tax all consumers pay in Elgin, the City receives just 1.0% in support of operations and services.**

While over the last decade the City has experienced a moderate but steady increase in sales tax revenue, the current year has resulted in a significant change in that pattern.

In what appears to be primarily a direct result of the impacts of COVID-related stay-at-home and restricted travel orders, retail sales – and corresponding sales tax revenues - have increased significantly during the current fiscal year. The City has already reached a number of milestones in FY19-20 as it relates to overall Sales Tax Revenue:

- Total Sales Tax Revenue (including the City EDC portion) is currently projected to exceed **\$2.5M** by FY19-20 year-end – by far the City’s highest annual total ever.
- Total revenue for the month of March was \$301,448 – the highest one-month amount in the City’s history (*and the first time a single month’s revenue had exceeded \$300,000*)
- Prior to this past year, the City only had a total of four (4) different months in its history where total combined Sales Tax Revenue exceeded \$200,000. In the first ten months of FY19-20 alone, the City had **seven (7) months that exceeded \$200,000** and two (2) other months that exceeded \$194,000.

This situation brings a new meaning to our “Shop at Home” campaigns. While those efforts are typically seen as promoting local small businesses, these numbers demonstrate a clear and tangible financial impact from residents shopping at home. Obviously, Wal-Mart and HEB are currently Elgin’s top Sales Tax producers. Accordingly, it seems safe to assume that during the pandemic restrictions, residents who shop these big retailers have been doing more so at home instead of other locations outside of the City.

If this pattern could continue, it would have a significantly positive impact on city finances. It would be premature at this time, however, to assume that such revenue growth will continue at this same rate throughout the next fiscal year, when the world will presumably be “returning to normal” from the COVID pandemic. As such, overall Sales & Use Tax Revenue included in the proposed *FY20-21 Budget* is projected at a sizable *decrease* over the current-year (-6%), even though this will be during a time that the City is anticipated to continue to experience overall economic growth.

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. 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.

INTERNAL SERVICES DEPARTMENT

New to the budget, the *Internal Services Department* will be a centralized office designed to more effectively distribute existing operational resources related to information technology (IT), fleet, and facilities management.

The City maintains a substantial on-going investment in IT, vehicles, equipment, and facilities that are a mandatory component to the effective delivery of all city services. Currently the City owns and maintains 55 vehicles, 37 pieces of motorized equipment, and 12 buildings or facilities. To date, however, all IT, fleet, and facilities management has been done on a departmental basis.

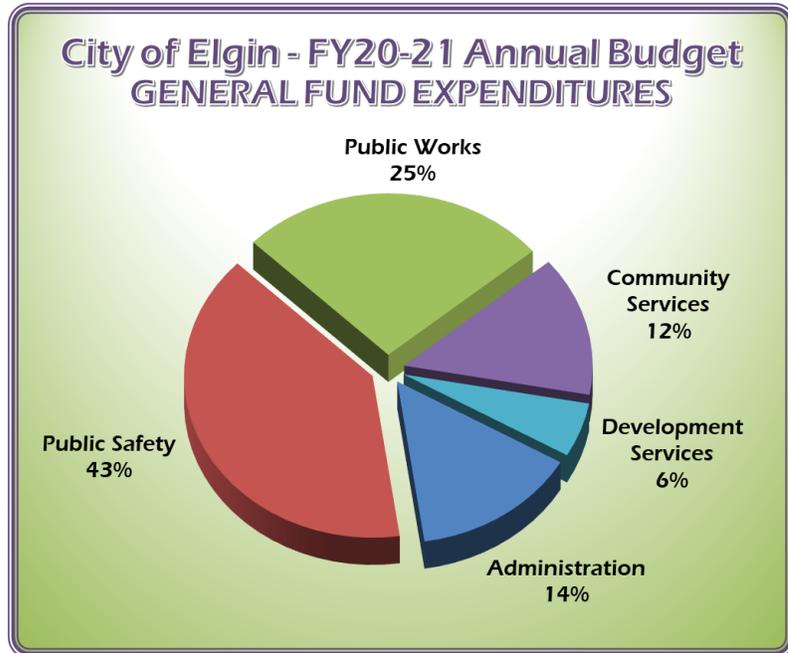
Moving forward, the *Internal Services Department* will embrace a much broader view of these functions on an operations-wide basis. Managing these assets in this manner will create a much more comprehensive, consistent, and cost-effective approach to all maintenance and acquisition activities – which will also include “charge-backs” to the applicable departments for such services, providing a much clearer picture of departmental costs related to same.

A new full-time Administrative Assistant position has been included in the proposed budget to help manage this new department; but there will be no other net cost impacts, as all other department expenditures are a re-assignment of existing costs associated with other city operations.

STAFFING

The proposed budget includes full-year funding for up to **one hundred thirty-four (134) total city employees**: ninety-eight (98) full-time, sixteen (16) part-time positions, and twenty (20) seasonal positions. New positions included in the proposed *FY20-21 Budget* are:

- One (1) new Personnel Assistant position in the Human Resources Department
- One (1) new Building Official position in the Development Services Department
- One (1) new Main Street Manager position in the Community Development Department
- Two (2) new Patrol Officers positions in the Police Department (*starting in January*)
- One (1) new Administrative Assistant for new Internal Services Department



EMPLOYEE COMPENSATION

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

A comprehensive analysis of current compensation for all employees has been completed and a revised classification/compensation plan for all employees is anticipated for inclusion in the budget. All resulting pay adjustments are planned for an effective date of October 1, 2020.

Funding of this program is included as a yet-to-be-departmentally-budgeted set-aside of approximately \$200,000. The compensation study and corresponding pay adjustments (which include an increase for the vast majority of all full-time employees of at least 2.0%) are proposed in lieu of any Cost of Living Adjustment for FY20-21.

This analysis/plan will not include Police Department employees (except for the Chief and administrative staff), as the Council committed to a three-year funding plan to address their compensation issues two years ago. Accordingly, the proposed FY20-21 Budget includes a 2.0% pay increase for EPD Uniformed Officers and Telecommunications employees.

Analysis is on-going, but it is currently anticipated that **Employee Health Insurance** costs – for both the City and employees – will not increase for FY20-21.

UTILITY RATES

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 and sewer rates.

Waste Management, the City's contractor service provider for curbside collection of household trash and recyclables, has notified the City that they intend to exercise their option under their contract to increase rates by 2.85%, which will be passed on to our utility customers.

CAPITAL PROJECTS/DEBT PLANNING

The coming year is anticipated to also include major upgrades to certain public infrastructure. Although final financing decisions have not been made - and related impacts are not included in the proposed budget, the wastewater treatment plant expansion, wastewater system expansion on FM1704, and Phase 1 of the County Line Road are major projects that are anticipated to move forward in the coming months through debt issuance – which will further impact the budget.

The coming twelve months will likely prove to be historic for the City of Elgin in many ways. Safety and livability will continue to be our primary focus, but there is also great excitement associated with our growing community. The uncertainty of the COVID pandemic, however, and its future impacts on Elgin and the nation as whole will also require deliberate planning and effective execution. We look forward to the challenge.

On behalf of the city staff, I 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