

City Business
“Belt Tightening and Rate Increases”
by Michael Leamons

After last Thursday’s Budget Workshop, the proposed 2010/2011 Budget was filed with the City Secretary and, as required by Texas Local Gov’t Code, will be available for public review for a minimum of 15 days before a public hearing is conducted.

At the August 9th City Council Meeting, one citizen came to voice support for the proposed utility rate increase. At the August 26th Budget Workshop, 3 citizens came to express opposition to the increase. It was said the City should be tightening its belt instead of raising utility rates.

As a matter of fact, the City has been tightening its belt. A comparison of the current budget to the proposed budget, when stripped down to on-going operational costs, reveals over \$70,000 in belt tightening. Regrettably, belt tightening alone can’t bridge the gap, which has built up over the years, between revenues and operating and debt service costs. The cost of debt service is the villain in this drama.

In 2005, the City began making \$232,000 in annual payments on the debt incurred to build the water tower and the new wastewater treatment plant. These payments will continue until 2030. Steps have never been taken to adequately provide for that debt service. I haven’t researched previous years, but as revealed in an earlier column, the current budget was balanced by depleting the City’s cash reserves.

Yes, you’ve experienced rate increases since 2005, but let’s go through an exercise to see what percent increase would have been required to cover just the annual debt service (without considering operating cost increases due to the ever present inflation associated with the United States’ current fiat money system).

If the volume of water being used stays constant, every 1% increase in the water and wastewater rates should yield \$5,333/year. Let’s do the math: \$232,000 (annual debt payment) ÷ \$5,333 (1% utility rate increase) = 43.5% utility rate increase. Forty three and a half percent! Past Council’s have been advised substantial increases would be necessary for the City’s utility system to remain viable. It appears the current Council is ready to act on that past advice and do what needs to be done.

With belt tightening, a 16% increase in water and wastewater rates is necessary for the utility system to break even. After working through the numbers multiple times, there appear to be only two alternatives to the proposed rate increase: 1. Continue to deplete the reserves; or, 2. Further reduce staff and neglect maintenance.

The condition of the streets and the on-going breaks in our water mains are evidence of what happens when cost reductions are achieved by neglecting the infrastructure.

Following are examples of some of the City’s on-going belt tightening:

1. The second highest paid staff position, the Public Works Director, has been eliminated with a cost savings in salary and benefits, less the pay raises awarded those taking on some of the responsibilities of the position, of \$39,255 (without factoring in the savings resulting from removing 1 vehicle from the fleet).
2. The current budget included a total of \$10,000 for part time summer help.

That money wasn't spent, and it wasn't included in next year's budget.

3. A new street lighting policy has been adopted which is expected to result in annual savings of \$10,000.
4. \$10,000 of maintenance parts were just bid out resulting in about a \$2,500 savings over what would have been spent if the parts had been bought piece-meal through the City's traditional supplier. If this rate of savings can be achieved in the purchase of \$32,000 in parts budgeted for the coming year, the total savings will be \$6,000. I demonstrated to the Council how on one \$421 long body 6" Hymax coupling, the City saved 41.5% with our new purchasing practices.
5. The \$3,000/year contract with a landscaping service for maintenance of the Esplanade, Peppermint Park and Culbreath Park is being terminated and those tasks will be taken over by City employees.
6. The City's cleaning contract is being cut back from once a week to once every other week at an annual savings of \$2,340.
7. Annual credit card service fees of over \$2,000 have been eliminated.

As a fiscal conservative, I regret having to be an advocate of a substantial utility rate increase. But, as one who has both owned and managed successful electrical contracting businesses, I am resolved to work with the City Council to put the City's utility business finances in order. As I see it, both belt tightening and rate increases are required. The budget is available for your review, and I am available should you have any questions. Should you wish to weigh in on this matter, call your elected representatives and/or plan to attend the public hearing on the budget which will be scheduled just prior to the Regular September 13th City Council Meeting.

May God bless the City of Hico.