

**City Business  
Budget Woes**  
by Michael Leamons

Last week, I began working on the 2010/2011 Budget. I took the current budget, set up on an Excel spreadsheet, and went to work stripping out all the costs and revenues not associated with the City's standard operations. I expected to find a net surplus at the bottom of the budget which could then be assigned to special projects, starting with those of the highest priority and working down the list until the funds were depleted. Didn't happen. Instead of a surplus, I found a deficit.

At first, I thought a formula in the spreadsheet must be off, so I tallied the numbers on my adding machine. No change! Then, I wondered how the current budget had been made to work. It didn't take long to track the source of the budget woes down to three entries in the list of revenues: Texas Water Development Board (TWDB) Escrow transfer, \$173,000; TWDB Interest Transfer \$178,682; and TexPool Transfer \$90,000.

The TWDB monies represent the balance of funds remaining from a \$3 million loan for the new Wastewater Treatment Plant and Water Tower. About \$190,000 of the TWDB funds went toward a phosphorus removal system for the Wastewater Treatment Plant, the remainder went toward several smaller projects and toward general operations.

The TexPool Transfer was simply a withdrawal from one of the City's bank accounts. Under the current budget, cash reserves and the interest on the TWDB loan were used to fund debt service and daily operations. The problem in developing next year's budget is that all of the TWDB money is now gone, and one can only deplete operational cash reserves so long before getting into serious trouble.

Unfortunately, the City is not taking in enough revenue to fund the debt service and daily operations. I've been told one of the former Public Works Directors reached this same conclusion.

As anyone who has ever managed a household or business budget knows, when expenditures exceed income there are only three options: reduce expenditures, increase income or go broke. There will be different opinions about how best to address the City's budget woes, but surely most would agree, going broke is not an option. Consequently, we need to focus on reducing expenditures and increasing income.

If you will recall, my initial tally of expenses didn't include any special expenditures, so there's not a lot of room for cost cutting. Earlier this summer as a cost saving measure, I decided not to fill the Public Works Director position. Those duties have been divided between Public Works Supervisor Jim Pitchford, Code Enforcement Officer (who also serves as a Special Projects Manager) Bryan DuBose and myself. This change represents a 9% reduction in the workforce. Several other cost cutting measures have been implemented, but the burden of the annual \$232,000 in TWDB loan payments can't be relieved by cost cutting alone.

So, how can additional revenues be raised? There's property tax, but at 70¢ per \$100 valuation, it already seems high. Every other city around Hico collects tax on electric, natural gas and telephone retail sales. Hico does not (the State's portion is collected, but the City's 1.5% isn't). Should the City Council decide to begin collecting that tax, it would bring about \$25,000 annually into the General Fund. Another few

thousand dollars in annual revenues could be generated by tweaking the building inspection fees. These increases would help, but they simply aren't enough.

The real shortfall exists in the water and wastewater operations. To cover the costs of debt service and daily operations, an increase in water and wastewater rates needs to be given serious consideration. Kerbow and Associates, the City's grant management firm, has already indicated by raising water rates the City could better position itself to secure the 2010/2011 Community Development Block Grant. Additionally, water and wastewater rates are a factor in determining the grant/loan ratios for the Department of Agriculture Rural Development funding now under consideration.

Deliberations regarding next year's budget will be on the agenda for the Monday August 9<sup>th</sup> Regular Council Meeting. Be part of the process---talk to your elected officials and plan to attend the meeting.

May God bless the City of Hico.