

Appendix VIII – A

Description of the Problem Comparisons Recommendation

TO: Mayor and City Council
FROM: City Manager
Subject: City Finances

I am presently working on the City Budget and thus far, without utilizing inter-fund transfers or fund balances, the deficit is approximately \$300,000. This is a large amount of money needed to balance the budget, but accommodations can be made through the use of fund balances in inter-fund transfers. Such practices can create problems for the City by not leaving any margin for error in the budget.

The deficit situation is caused by the following factors:

1. As Table I illustrates (See Attachment;), City revenues for user services have tended to lag substantially behind costs over the past 18 years, principally because of inflation and local priorities. For example, expenditures have increased more than revenues at the Airport, Fire Department, Gas Department, Golf Course, Museum, Sanitation Department, Sewer Department, Swimming Pool, and Water Department.
2. Table II shows that the users of services in the 1980's paid more of the actual cost of the service than today's users. For example, the county paid 8% of the Fire Department budget in the 1980's and only 2% today, gas customers paid 114% of the expenditures in the 1980's, and 98% today, 90% in the Golf Department in the 1980'S and 42% today.
3. This revenue lag and increased expenditures have been caused in some part by increased federal and state regulations at the Sewer Farm, Landfill, Water Department, and Gas Department.

I am advising you that the City user fees are too low. According to the Texas Advisory Commission on Inter-Governmental Relations, the average current charge intensity for cities over 50,000 population is 42%, which means that 24% of these cities' General Fund revenues is derived from service charges. For the city, this percentage is only 6.13%, which certainly indicates that a thorough review of the existing user fees is needed, and the imposition of charges on certain services should be considered.

If the city's service charge ration equaled 24%, this would mean that an extra \$240,000 would be available for balancing the budget and capital improvements.

How has the City survived this long, and why change anything? I believe the City has managed the last few years because of the following reasons:

1. The Water Department has carried the lead through transfers to other departments at the expense of improving water services facilities.
2. The City had depended upon the Revenue Sharing Fund for a majority of its capital expenditures (which has been a common practice of most Texas cities).

3. The City has had less than strict compliance at the sewer farm and the sanitary landfill as required by State and Federal laws. Compliance costs more money.
4. There was previously more Federal assistance available for capital items, especially the HUD community development block grants.
5. The use of transfers from the Utility Fund to the General Fund and the use of year-end balances has assisted the City. This assistance is not necessarily poor financial management, but care should be taken to reserve a margin of funds for the unexpected.

I do not have any specific recommendations for you at this time, but I do think that consideration should be given to the following:

1. Increasing selected user fees according to the City Council's priorities.
2. Carefully screening and reviewing all requests for non-departmental funds – particularly during the middle of the fiscal year.
3. Require non-departmental users of fund to document the expenditures and justify their requests.
4. Increasing the property tax in order to establish a Capital Improvements Fund, which will pay for capital improvements on a pay as you go basis.
5. Conduct a gas rate study to determine rating problems in the Gas Department, especially the cost of gas adjustments.
6. Discuss with the County the various services shared or provided by both the City and the County and determine methods for improving sharing the costs of these services.
7. Before accepting additional service responsibilities, determine the long term operating and maintenance cost impact on the City.

Table 1.
Changes in Revenues and Expenditures for
Various User Services 1978 – 1998

<u>Department/Function</u>	<u>Source of Revenues</u>	Percentage of Change 1978 - 1998	
		<u>Revenues</u>	<u>Expenditures</u>
Airport	Hanger fees, fuel flowage	295 (%)	369 (%)
Cemetery	Space purchases	116	NA
Civic Center	Rentals	751	302
Dispatcher/Teletype	County	-16	NA
Fire	County	0	408
Gas	Customers	496	533
Golf Course	Green fees Golf Association	123	368
Museum	Contributions	8	205
Parking Meters	Customers	34	NA
Permits	Bldg., Elec., Plumbing	319	NA
Sanitation	Collection Customers, County	731	1,399
Sewer	Customers	855	861
Swimming Pool	Customers	34	58
Water	Customers	178	186
Non-Departmental	General Fund	NA	8,199

Table 2
Changes in Amount Users Pay as a
Percentage of Expenditures for Service
(Expenditures do not include Revenue Sharing)

Department	Revenues as a Percentage of Expenditures	
	1980's (%)	1998 (%)
Airport	107	85
Civic Center	35	73
Fire	8	2
Gas	114	98
Golf	90	42
Museum	(1984-89) 23	10
Sanitation	134	96
Sewer	91	112
Swimming Pool	(1980-83) 22	16
Water	150	160