



**CITY OF
PORT LAVACA**

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August 8, 2022

Honorable Mayor and City Council Members
City of Port Lavaca
202 N. Virginia Street
Port Lavaca, TX 77979

Honorable Mayor and City Council Members,

The City staff is pleased to present for your review and consideration, the Proposed Annual Operating Budget for fiscal year beginning October 1, 2022 and ending September 30, 2023. The budget has been prepared in accordance with Texas Statutes and the City of Port Lavaca Charter Article 7.

We would like to thank the City Council for its leadership and support. Staff has put in a great deal of time and effort into bringing forward numerous projects that align with the City's Strategic Plan and Comprehensive Plan priorities and focus of future growth of the City.

BUDGET PREPARATION AND PRIORITIES

With recovery from Hurricane Harvey well in our rearview mirror and the COVID pandemic waning, the City's department heads, division superintendents and various consultants began switching gears back towards future planning, the City's Comprehensive Plan priorities and Strategic Plan, Master Sidewalk Plan and the future Downtown Waterfront Master Plan. During this year's budget kick-off, emphasis was placed on the necessity to maintain our existing assets and infrastructure.

Departments were asked again to focus on the maintenance of completed projects as well as increase other maintenance projects which may have suffered while re-construction efforts were prioritized over the last five years. Furthermore, a focus was placed upon the Information Technology infrastructure creating a proactive plan, rather than a reactive approach.

MAJOR CHALLENGES AND ACCOMPLISHMENTS

The COVID pandemic has been a major challenge with supply chain disruptions and labor pool deficiencies. While the City has seen minimal impact we also were fiscally sound to withstand the economic impacts brought by the pandemic, while still maintaining a healthy reserve to weather future storms.

Our accomplishments, however far exceed our challenges as we progressed through Phase I of our CDBG-DR grant for street and drainage improvements, which ultimately required a sizable inflow of funds due to the

current economic climate in order to award the project, and barreled through to Phase 2, which again found the need for additional funds due to escalated costs. Luckily, the City was able to utilize excess fund balance reserves to keep the project moving forward. Additionally, the City received a CDBG-MIT grant to construct a living shoreline, received it's long awaited new fire apparatus, completed construction of the long talked about Skatepark, broke ground on and has almost completed the security upgrades at the police department, and finished the grant funded Bayfront Park and biking trails.

The City has been extremely fortunate to have received multiple grants that will leverage the taxpayer's investment in sustaining the community for years to come. The City has received funding for critical projects which will be taking place over the next few years. Through the General Land Office (GLO) we have received \$5.1 million for street and drainage improvements, and another \$13.6 million for the living shoreline grant to reduce storm surge and protect the City's delicate shoreline ecosystem, for a total of \$18.7 million. Additionally, as part of the American Rescue Plan Act (ARPA), the City was awarded \$2.9 million as a non-entitlement entity, which is to be distributed via the State in two tranches. The City received it's first tranche of \$1.46 million and will receive the second tranche in fiscal year 2023. These funds will be used to address water and wastewater infrastructure projects that are necessary to meet TCEQ requirements and strengthen the City's water distribution and wastewater treatment processes.

Furthermore, we are set to kick-off the mass water meter swap around mid-October, now that most of the supply chain issues causing a delay have been worked out. We should see a major recovery in lost water revenue due to failing water meters. We would like to thank the efforts of numerous staff members who have put many hours of effort into this project.

ECONOMIC OUTLOOK

The City continues to utilize Hotel Occupancy Tax (HOT) dollars to promote tourism to our beautiful coastal community. The new Hampton Inn is almost complete and will increase the City's hotel/motel count to 18. Additionally, the City is working to ensure HOT taxes are collected from the numerous short-term rental properties in and round the City's extraterritorial jurisdiction (ETJ).

We are excited to partner with the Victoria Economic Development Council in order to leverage our presence in the market throughout Calhoun County. Additionally, the expansion of the Port of Calhoun, which will widen the Matagorda ship channel, the City sees the potential to capitalize on the increase of fishing and cargo vessel traffic throughout the area by offering safe harbors and easy access to local accommodations and unique restaurants.

EMPLOYEE COMPENSATION AND BENEFITS

City Council recently re-affirmed its commitment to a sound health insurance package to their most valuable asset, its employees, by absorbing a 7.64% increase in rate while maintaining the employee premiums. By doing so, the City continues to utilize strong benefits to maintain and recruit highly skilled employees to serve the community.

Compensation Plan update and keeping pace with inflation, the proposed budget also provides provide a funding mechanism for to update the compensation plan and for merit increases for highly performing employees. We have earmarked 4% of total salary expense to be allocated for the merit increases based upon job performance with a minimum of 2% increase.

Another compensation tool is the city's retirement plan through the Texas Municipal Retirement System (TMRS). This year's matching contribution decreased to 5.85% from 6.11%. The City's funded ratio is an extremely healthy 96%. The TMRS system is a stable system and differs from other larger municipal-managed systems.

USER FEES

This budget includes adjustments to the raw water storage (GBRA) rates which are necessary to provide safe drinking water to our customers. Additionally, the budget reflects the previously approved adjustments to the bulk waste collection fees for the increase in pick-up which are also reflected in the budget.

FINANCIAL SUMMARY

Total ad valorem values, have seen healthy growth with an average increase of approximately 7% over the last several years, while we continue to see our exempt properties slightly increase from 31% to an estimated 32% for FY2023. Total taxable values are expected to increase by \$16,568,727, or 3%, when comparing values at certification from last year to this year. New improvement values added to the tax roll for FY 2023 amounted to \$5,274,051, and average home values increased from \$126,836 in FY2022 to \$136,148 for FY2023, which is a 7% increase from last year.

The City's sales tax revenue rebound from the pandemic has waned and has settled at pre-pandemic levels and projections indicate we will see the trend remain relatively stagnant for FY2023, even though we have new commercial businesses opening in the future as the national economy enters a technical recession.

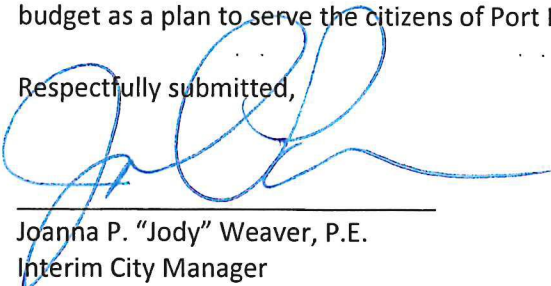
Unemployment for our Metropolitan Statistical Area is 6.1% which is 1% greater in comparison to the 5.1% unemployment rate in the Victoria-Port Lavaca Combined Statistical Area.

The combined expenditures of the General, Debt Service, Enterprise and Hotel/Motel Tax funds amount to \$22,9923,157, which represents an increase of 2%, or \$534,715 from the FY 2021-22 adjusted budget. This increase is primarily due to an increase in salaries and benefits as well as transfers from the public utility fund. As always, we strive to operate the City in a conservative manner, while continuing to deliver an excellent level of service to our citizens.

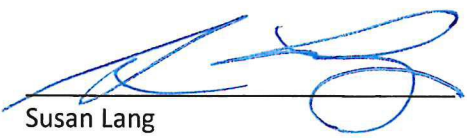
We believe the efforts of all involved have resulted in a sound financial plan that aligns the ever-increasing demands with the City's limited financial resources. This budget also provides flexibility should economic or natural disasters occur. One-time purchases of larger items such as vehicles can always be stalled, which provides flexibility should conditions warrant changes to our current budget plan. The cooperation and commitment of the City Council and employees is greatly appreciated in preparing this financial plan.

This budget was prepared in conjunction with the Comprehensive Plan priorities, Strategic Plan, Sidewalk Master Plan and guidance as set forth by the City Council. We thank you for the opportunity to provide this budget as a plan to serve the citizens of Port Lavaca.

Respectfully submitted,

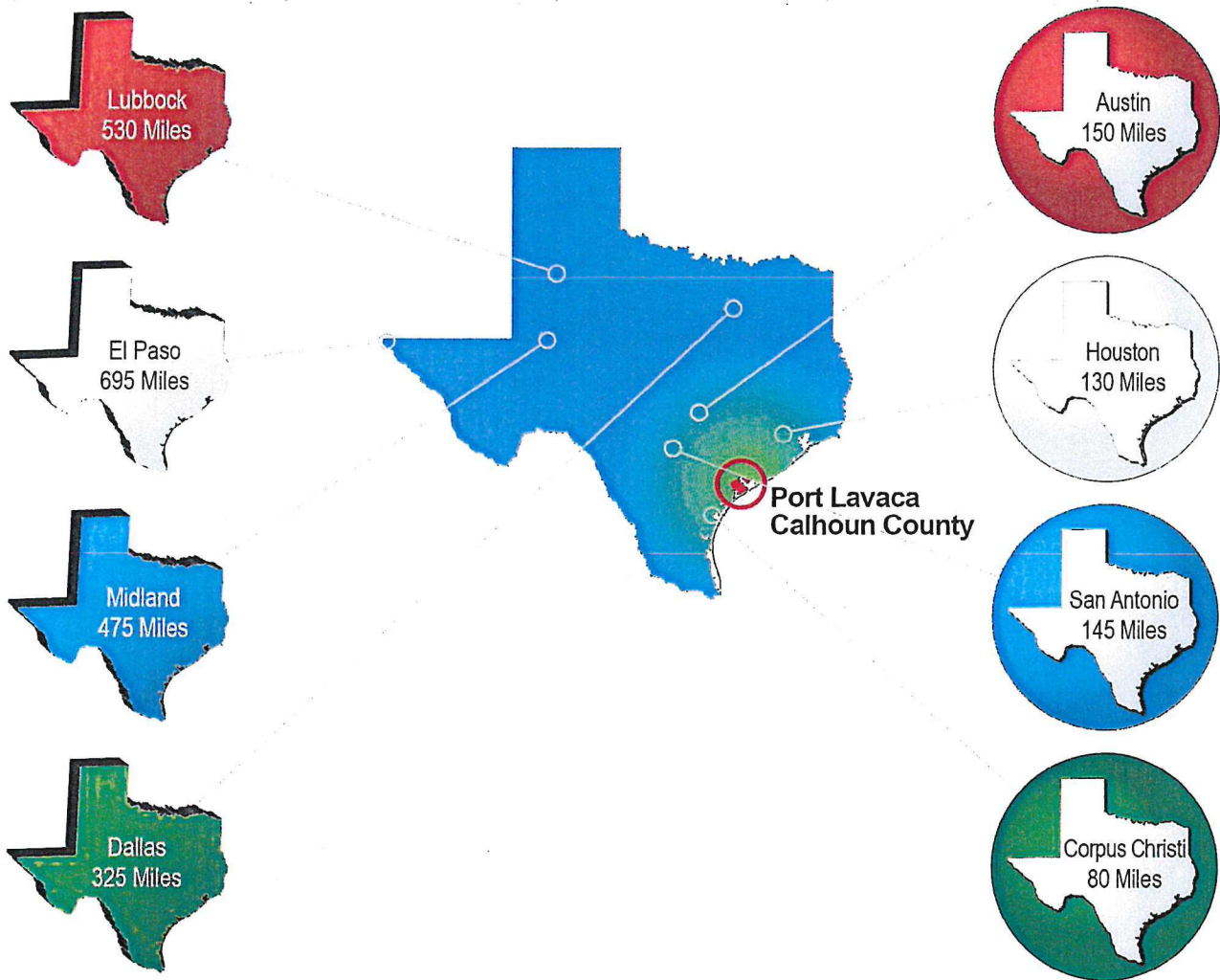


Joanna P. "Jody" Weaver, P.E.
Interim City Manager



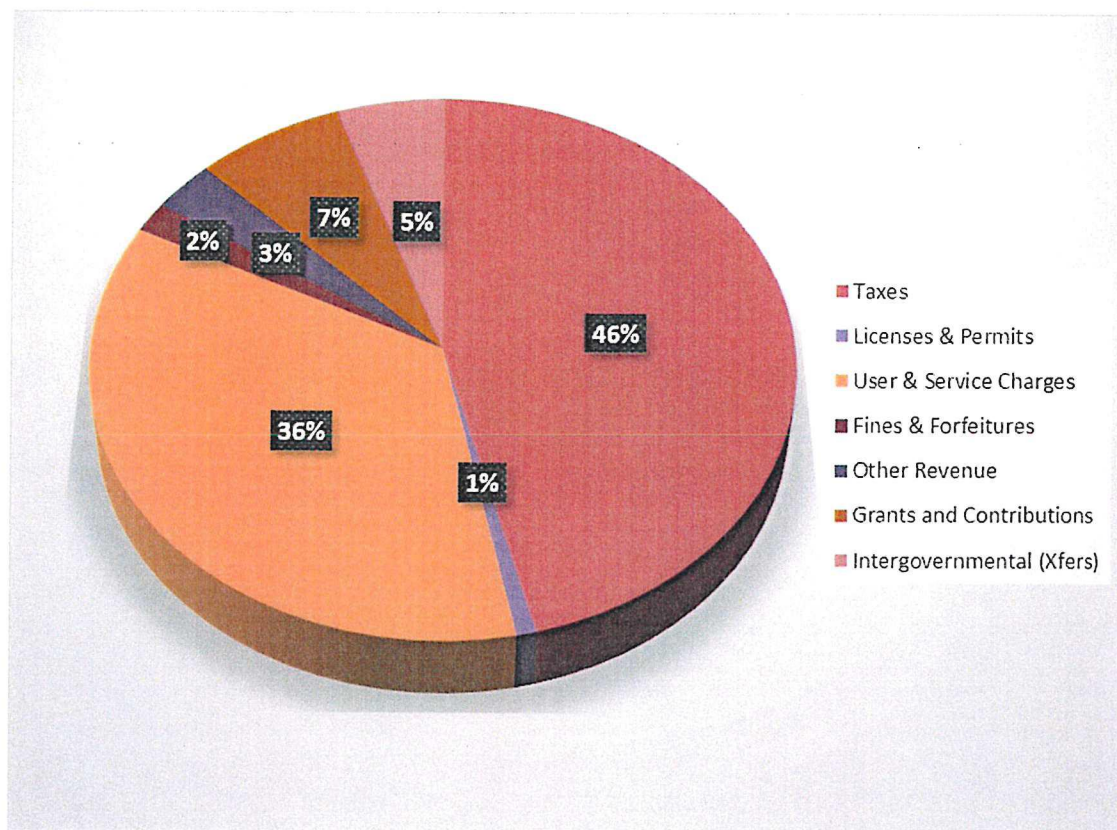
Susan Lang
Finance Director

FINANCIAL SUMMARY SECTION



Executive Summary

Revenue sources for the City total \$20,854,531 and can be represented into seven (7) different categories: Taxes, Licenses & Permits, User & Service Charges, Fines & Forfeitures, Other Revenue, Grants and Contributions, and Intergovernmental.

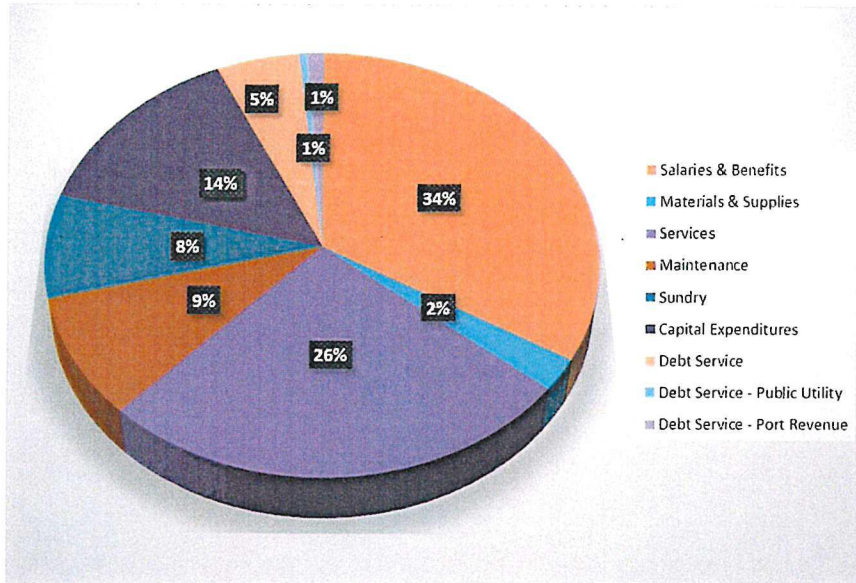


Taxes

Property Tax: Of the combined total tax category, almost half of the 46% are revenues from ad valorem or property taxes, which represent 21% of the overall combined budgeted revenue at \$4,441,232. Property tax collection is authorized by the State of Texas up to \$2.50 per \$100 of assessed valuation for maintenance and operations and debt service. The budget assumes an annual collection rate of 96%.

Sales Tax: Another major component of the combined total tax category are revenues derived from sales tax, which make up 33% of the Taxes category and amount to \$3,134,772. The total sales tax rate within Port Lavaca is 8.25%, of that total, 6.25% is collected and retained by the Texas Comptroller's office, 0.5% is remitted to Calhoun County and the remaining 1.5% is remitted to the City.

The combined expenditures of the General, Debt Service, Enterprise and Hotel/Motel Tax funds amount to \$22,923,157, which represents an increase of 2%, or \$534,715 from the FY 2021-22 adjusted budget. This increase is primarily due to an increase in salaries and benefits as well as a resumption of transfers from the public utility fund.. As always, we strive to operate the City in a conservative manner, while continuing to deliver an excellent level of service to our citizens.



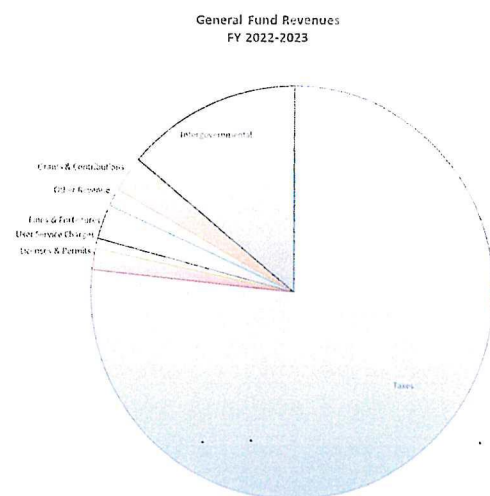
GENERAL FUND

The General Fund revenue of \$10,373,653 can be categorized into seven (7) major sources of revenue as follows:

Taxes	\$7,957,878
Licenses & Permits	\$174,010
User Service Charges	\$82,500
Fines & Forfeitures	\$279,000
Other Revenue	\$140,950
Grants & Contributions	\$296,845
Intergovernmental	\$1,442,470

This year's revenue represents an increase over last year's budget of 9.93%, or \$937,460. This is primarily due to a projected growth in interest income, and User & Service Charges.

At certification, taxable ad valorem values for FY 2022-2023 are \$569,249,359. This includes \$21,943,899 still under ARB review as of certification. The values represent a 4% increase from FY 2021-22 as of the latest supplemental adjustment. Some of this can be attributed to \$5,274,051 in new improvements. Other factors to the increase are a result of re-valuations of existing property.



The tax rate for FY 2022-23 is proposed to remain the same at \$0.7944 per \$100 valuation. The proposed tax rate is greater than the No-New-Revenue tax rate of \$0.7767, but less than the Voter-Approval tax rate of \$0.8141. The tax rate, if approved by the City Council, will be divided so that \$0.7307 will be utilized in the General Fund for maintenance and operations (M&O) and the remaining \$0.0637 will be reserved for debt service (I & S). General Fund Ad Valorem tax collections are estimated to be \$4,085,106 (including penalties and delinquent taxes) or 39% of total general fund revenues.

Sales tax revenue is estimated to be \$3,134,772 which is a slight decrease of ½ % from estimated collections for FY2021-22 due to conservative budgeting. It is estimated that the City will slightly exceed the FY2021-22 budget projection for sales tax. The estimate for fiscal year 2022-23 will remain extremely conservative based upon current trends and economic forecasts of inflation and talks of a “technical” recession..

The total FY 2021-22 General Fund expenditures are planned to be \$10,342,316, a decrease of 0.57% from the FY 2021-22 budget and primarily due to a decrease in capital expenditures. Revenues in the General Fund are projected to exceed operating expenditures by \$31,338, with one-time capital expenditures utilizing existing unassigned reserves of \$1,368,150. The City Charter and Budgetary & Financial Management Policies allow for unassigned resources to be appropriated for one-time expenditures, such as capital purchases, and not for ongoing operating expenditures. It is anticipated that the General Fund will begin the fiscal year with fund balance (cash on hand) of \$8,111,963, a part of which is available to fund excess capital and one-time expenditures. A 180-day fund balance reserve, or \$5,100,320 is classified as “assigned.” The fund balance is expected to decrease by \$1,336,812 from the budgeted ending fund balance for FY2021-22. The projected ending fund balance for FY2021-22 is anticipated to be \$6,775,150 or total reserves for 239 days of operations.

GENERAL FUND – PROPOSED REQUESTS:

In addition to the capital expenditures funded by the General Fund, a total of \$555,304 in one-time projects, equipment and technology expenditures are being proposed. Reoccurring expenses, which are supported by the operating revenue of the General Fund, amount to \$1,542,389. An additional \$189,842 in re-occurring expenditures is reserved for merit increases based upon performance evaluations of existing personnel. An additional 27,425 has also been budgeted for compensation plan up dates for all pay grades.

Highlights of enhancements include software upgrades to a combined platform operating with Calhoun County which will integrate the operations of 911, exterior renovations to City Hall, new equipment for public safety, and major improvements to the animal control shelter.

PUBLIC UTILITY FUND

The Public Utility Fund provides for the overall public health needs by providing clean drinking water, collection and treatment of wastewater and sanitary solid waste collection services to the citizens and businesses in Port Lavaca. The public utility fund continues to struggle due to failing water meters and large unexpected repairs due to the extreme draught and other system failures. Supply chain issues have delayed the complete meter replacement project, however we still anticipate revenues to come in where projected. This year, revenues are anticipated to be \$6,617,751, which reflects a complete meter replacement at the beginning of the fiscal year. This is a 9% increase over FY 2021-22 budgeted revenues, and only a 5% increase then the actual anticipated revenue for FY22.

The City is participated in a utility rate study, but data was unreliable and it is anticipated that another, more in-depth study will take place once we have a complete years' worth of data history.

Expenditures in the Public Utility Fund are proposed at \$7,260,515, which will leave a surplus of \$819,656, or 46 working days. The available fund balance is presented in a working capital basis, which nets the current assets against current liabilities. The fund balance is expected to decrease by 65% from the fiscal year 2021-22 budget, which represents an decrease of 1,567,098 in fund balance reserves.

PUBLIC UTILITY FUND – PROPOSED REQUESTS:

In addition to the capital expenditures funded by the Public Utility fund, a total of \$126,999 in one-time expenditures are being proposed. Reoccurring expenses, which are supported by the operating revenue of the Public Utility fund, amount to \$78,388. An additional \$4,158 in re-occurring expenditures is reserved for merit increases based upon performance evaluations of existing personnel.