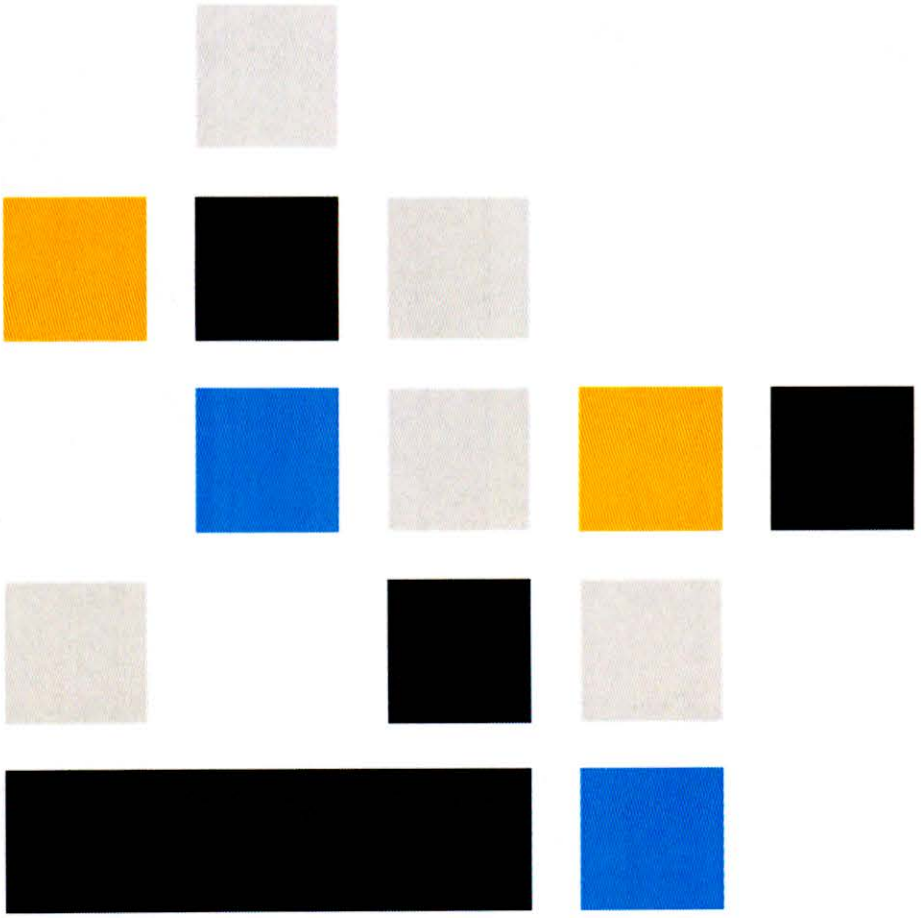
Five Year Financial Recovery Plan FY 2023-2024 through FY 2027-28

By The Mayor's Office



December 15, 2023
City Odem Texas
By Mayor
David B. Maldonaldo

January 15, 2025

To The Citizens of Our Community:

Let me start by saying that I am grateful for the support, patience and involvement of our citizens over the last year and a half. For those citizens who have attended and those who continue to attend council meeting or follow along online. For those that have voiced their feelings and concerns on the financial status of our city and other important matters, I believe that our citizens are the backbone of the community, and your involvement is critical to our success. Over the last year and a half many things have come to light, upon being elected to office in May of 2023, the city was struggling with a $1.2 million dollar deficit, city audits were eight years behind, $3 million we cashed out of reserves, and they were depleted from $3.7 million to $750 thousand. There was minimal cash flow, and we had a crumbling infrastructure. Expenses were approximately $400 thousand monthly, and revenue was about $250 thousand. From 2017 to 2023 the city was spending beyond their means and accumulated too much debt and was struggling to repay it. If the council refused to take steps to cut the budget by at least $500 thousand dollars, I was considering bankruptcy. I was ready to seek legal relief and get a fresh financial start and to protect the few assets the city had. After sitting with council during our first budget workshop I realized that it was going to take at least five years and a commitment from the council members to fully recover. Budget cuts were going to be essential to the financial success of the city and I along with the financial consultant made recommendations to help the city start to recover financially. Many of my recommendations were greeted with resistance, but the alternative was to raise taxes on the citizens, and I didn't feel they should bear the burden by increased taxes to pay for the mismanagement of the past. Additionally, a rise in taxes above the voter approved rate was going to have to be put up for an election and it was not going to be approved.

After the fiscal 2023 budget was approved, I began to think of what needed to happen to turn things around. In December I began to put together my five-year financial recovery plan, I wanted to share my vision of the future and put a plan in place that the community could read and have access to.

As you read through this plan, I ask that you remember this was written in December 2023 and many things have changed since then. While my mind tells me to make changes to the plan to reflect what's going on now, I feel the community needs to know what I was thinking then.

I want to assure the community that while I am mayor, I will continue to take steps to ensure the financial security of our city by increasing the city's reserves and managing expenses. I will work on repairing the city's deteriorating infrastructure, bring in new development and establishing policies and ordinances to ensure that the city is never put into this situation again.

Sincerely,

David Bargas Maldonado, Mayor
City of Odem, Texas

KEY ASSUMPTIONS

Key assumptions affecting the FY 2023-24 through FY 2027-28 projections:

General Fund tax revenue is expected to grow year-over-year but slower than previously projected. Total General Fund taxes are projected to grow each year, this tepid revenue growth is partly related to changes in the local economy. Ongoing patterns of high interest rates are expected to lead to declining commercial and residential real estate and the City's business tax revenue. In addition, the plan for IH69 bypass will also be impacting sales tax.

FY 2023-24 mid-year General Fund savings: In July 2023, I issued instructions to City departments to propose budget reductions in the current fiscal year due to the city's significant deficit. I reviewed proposals to pause uninitiated programs, freeze hiring to all vacant positions, and begin scaling back certain programs. Based on these changes, this forecast assumes an increase in current year ending balance of approximately $5 thousand.

No major changes to service levels and number of employees: The projection assumes no major changes to policies, service levels, or the number of employees from previously adopted. The services provided to our community by the San Patricio County Sherriff's Office and Texas Department of Public Safety are ongoing with the understanding that if a 24/7 City Police Department becomes a viable alternative, the City Council will take the necessary steps to move towards the re-establishment of that department.

Pension investment this report assumes that there will not be any significant changes to the employer contributions of the city employee retirement fund. As of the most recent actuary analysis from the Texas Municipal Retirement System, the City's plan is partially funded.

Health insurance cost increases: This projection assumes that the employer share of health insurance costs for active employees will increase each of the following years, at least an average of 5 to 7 percent annually over the projection period.

Inflationary increase on non-personnel operating costs: This projection assumes that the cost of materials and supplies, professional services, and other non-personnel operating costs will increase starting at a rate of 4 percent in FY 2024-25 and each fiscal year thereafter. The projection does not reflect the adopted FY 2023-24 and FY 2024-25 budget.

Ten-Year Capital Improvement Plan, Five-Year Information and Communications Technology (ICT) Plan, and inflationary increases on equipment: The projection does not include the adopted FY 2023-24 funding level for capital, equipment, and information technology (IT). For capital projects, this report assumes that council will budget for Capital Plans 2024-25, and in the remaining years the report assumes funding will catch up FY 2025-34 Ten-Year Capital Improvement Plan, which will be released in 2025-26. The plan does not include funding of the City's Information and Communications Technology (ICT) Plan in FY 2024-25 through FY 2027-28. For equipment, this plan assumes the budgeted level of funding in FY 2024-25, and growth of CIP in the subsequent three fiscal years.

- The meter replacement program $760,000 funded over 8 years
- Heavy Equipment Replacement (backhoe, skid steer, excavator)
- Waste Water Plant Improvements and repairs

- Clay sewer line replacement
- Sewer jet
- Turnout gear for volunteer fire fighters @ $15,000/each (State Grants available)

Deposits and withdrawals from reserves: The forecast assumes no reserve withdrawals beyond those previously withdrawn between 2017 and 2023. The projection assumes deposits to the General Reserve in each fiscal year, consistent with the financial policies adopted by the council. As the City's economy recovers, the city's reserves value will increase from 14 percent of fund revenues in the current year to 25 percent by FY 2027-28.

Additionally, the projection assumes deposits of $54 thousand to the Council Contingency Reserve and $77 thousand to the Expense Reserve in FY 2023-24

RISKS TO THE FORECAST

As with all projections, uncertainties exist regarding key factors that could affect the City's financial condition. These include:

Elevated interest rates dampening investment and growth. High interest rates, suppress sales and values of commercial and residential real estate. The forecast cannot properly guess the impact of the market as it adjusts in the coming decade.

Natural Disaster Risk. While the budget deficit is very large, the underlying revenue forecast does not assume a natural disaster risk recession. Overall growth rates of General Fund taxes are projected each year, however, should other factors cause revenue stream levels to falter, or there is some other external economic shock, General Fund tax revenue would likely be significantly impacted. Over the 5-year plan period, a natural disaster could worsen the deficit, even accounting for the use of the City's stabilization reserves, reductions to General Reserve deposits, and baseline transfers.

Wage increases: This projection assumes approved wage increases for frontline employees through the end of FY 2023-24 and 2024-2025 and a cost-of-living increase throughout the five-year period.

PROPERTY TAX

General Fund property tax revenues are expected to remain nearly flat. Additional current and prior year corrections are anticipated as assessment appeals and additional information are reviewed by the Assessor's Office for 2023 and the Assessment Appeals Board (AAB) renders decisions, that could trigger refunds of property taxes paid.

SALES TAX

General Fund sales tax revenue is expected to remain flat with little or no increase during the five-year plan period. Sales Tax revenue follow economic conditions in the City as well motor traffic, and neither is expected to change during this time.

Gross receipts sales tax revenue is determined in part by the proportion of businesses within the city limits, as well as employees that physically work within the city. When businesses relocate outside the city the workers who previously worked in the city are now outside and, sales tax revenue falls.

While the IH 69 Interstate project will fall outside of the five-year plan period, we must assume that when completed motor traffic will decline and businesses that depend on motor traffic will look to relocate. This will inevitably contribute to the decline in gross receipts sales tax revenue that could reach upwards of 30 percent.

CITYWIDE OPERATING BUDGET COST

Over the next five years, the City will also incur increasing non-salary operating costs. Citywide non- salary operating costs are projected to increase by as much as 12%, as described below.

Capital, Equipment & Technology

Changes in funding for capital projects, equipment, and technology will result in increased costs of $15,000 2023-24, $25,000 2024-25, $50,000 2025-26.

In FY 2023-24, the General Fund capital budget well be approximately $15 thousand. This projection assumes an increase funding of the City's General Fund capital program of $10 thousand in FY 2024-25 based on the approved budget. In FY 2025-26, costs increase by $25 thousand to align with the city's Capital Plan, and another $50 thousand the following year. The total cumulative General Fund capital program cost over the five-year projection period is $200 thousand. With this proposed level of funding, the City's General Fund maintenance backlog, which resulted from the reduced capital funding due to the City's financial shortfall, is projected to start decreasing in FY 2028-29. With this funding the maintenance department will have the funding needed to repair or replace needed equipment.

Additionally, the city will continue to strategically furnish and equip new and upgraded City facilities. These costs are expected to increase during the five-year plan period. As there are plans to move all city administration offices to the emergency services building at 1100 Voss Ave in fiscal year 2024-25.

I will ask that the annual citywide equipment allocation is budgeted at $150 thousand in FY 2024-25 and is projected to decrease FY 2025-26, and then may increase in the remaining years through FY 2027-28, to meet the maintenance needs of the community. Equipment is defined as an item costing $5,000 or more with an excepted life span of three years or more. This projection assumes that no equipment purchases will be funded using lease or bonds in any of the five years. By using cash instead of debt financing, the city saves on financing costs, reducing the long-term overall cost of equipment purchases.

The General Fund budget for citywide technology projects in FY 2023-24 is $5 thousand – this encompasses

annual project allocations only. Funding for major projects that span multiple years will require additional funding and that cost cannot be assumed at this time.

The citywide costs for major information technology projects, which are multi-year projects that span many departments, are forecast to decrease FY 2025-26.

CITY POLICE DEPARTMENT

The city has struggled over the past years to financially maintain a police department. Even with assistance from grants, citations, and impound fees the police department was still putting a strain on the city budget. During the first fiscal year 2023–24 I recommend that the police budget be decreased to $150,000 to allow for $100,000 for the employment of the police chief and $50,000 for operating costs. This will in theory dissolve the police department and allow the city to manage its finances.

During fiscal year 2024–25 I recommend that the $150,000 allocated to the police department In 2023–24 be reallocated to other more necessary projects including the Odem Volunteer Fire Department, maintenance and improvements to equipment, technology updates at city hall, and pay increases to city employees.

In fiscal year 2027–28 I would recommend that the city revisit the need for law enforcement at which time if the city's financial situation is in order and the city has at a minimum one year of working funds or approximately $5 million dollars in reserves the city can look at funding a three-man Police department that would include a Chief of Police and two duty officers which would require an allocated budget of approximately $400,000 annually.

Until the city has reached these two milestones we should continue to work with the Sheriff's Department and the Texas Department of Public Safety to provide law enforcement services to our city.

CITYWIDE INFLATION ON NON-PERSONNEL COST

This projection assumes that the cost of material and supplies, professional service and other non-personnel operating cost will increase by the rate of 3 percent FY 2025-26. Non-personnel cost for 2023-24 will not see any change to expenditures based on previously approved budget. Expected cost of $250 thousand FY 2025-26, 2026-27, and $500 thousand FY 2027-28. These assumptions are provided for planning purposes only, actual cost is to be determined during the budget process and are subject to appropriation in FY 2024-25 and FY 2025-26 budget.

DEBT SERVICE & REAL ESTATE

In FY 2023-24, the General Fund budget for debt service included a city street sweeper, three police Vehicles, and a skid steer the cost which was approximately $200,000. The projection assumes that those cost will carry over year to year until fully paid.

WATER RATES

This report assumes increased cost for water expenses, which includes a yearly pass-through increase to customers. These costs are modeled using previous projected water rate increases from the San Patricio Water District and usage volumes. Water rates are projected to increase by 5% year over year for the five-year plan period.

The current fiscal year budgets of $1,558,963 of General Fund expenditures on sewer, and water. In addition to rate changes, increased power costs are driven by rising gas prices and other factors

beyond the control of this council, including overall economic recovery. Similarly, the increased costs of water are driven by escalating utility rates from the San Patricio County Water District and consumption increases.

Additionally, mechanical issues at the sewer impacts the General Fund as a result, the projection assumes an annual cost increase of $50 thousand in FY 2024-25, $25 thousand in FY 2025-26, $15 thousand in FY 2026-27, and $10 thousand in FY 2027-28.

GARBAGE RATES

This report assumes increased cost for garbage expenses of 6 percent annually. The city can save $15,000 annually by cutting from monthly bulk pick up to quarterly. Current fiscal year budget of these cost is based off information provided by Republic Services.

The current fiscal year budget is $552,000 of General Fund expenditures on garbage, to address the increase, there will be a yearly pass-through increase to customers which will include an additional 2% for city administrative cost.

WORKERS COMPENSATION CLAIMS

In FY 2023-24, the General Fund budget for supporting worker's compensation is $14,458 thousand. This report assumes that Worker's Compensation costs will not increase over the projected 5-year period.

CITYWIDE TECHNOLOGY OPERATING COSTS

This report assumes that City Technology cost for services that include, Wi-Fi, City website, printer & scanner, desk top computers, and web-based storage. Rates, which will cost $5 thousand FY 2023-24, will increase by $15 thousand in FY 2024-25, $10 thousand in FY 2025-26, $5 thousand in FY 2026-27, and $5 thousand in FY 2027-28. The projected cost increases are attributed to an increase in enterprise software agreements and telephone contracts. The increase in cost can also be attributed to inflationary rates being applied to infrastructure costs (including maintaining the City's IT networks, cyber security, cloud services, and replacement of technology at the end of its life cycle) for interdepartmental services and the use of web-based meetings for City related events.

OTHER CITYWIDE COST

This category includes increases in other costs across citywide services, including fleet maintenance, contract monitoring etc. These items together result in an increased General Fund cost of $100 thousand in FY 2024-25, $50 thousand in FY 2025-26, $50 thousand FY 2026-27, and $50 thousand in FY 2027-28.

USES – DEPARTMENTAL COSTS

This section provides an overview of significant departmental costs over the next five years. Departmental costs are expected to increase in FY 2024-25. Costs are then expected to increase yearly FY 2025-26, FY 2026-27, and FY 2027-28, due to ongoing public operating costs for water and wastewater facilities.

In October 2023, I issued instructions to City departments to propose budget reductions for the current fiscal year in anticipation of a significant deficit. I instituted a hiring freeze for all open positions, paused all discretionary spending and instituted a purchase order policy. Savings from positions that are currently vacant, as well as holding additional positions vacant provide $25 thousand in savings from salary and fringe benefits. Identifying excessive expenditures including fuel and vehicle maintenance, provided $8 thousand in savings. Scaling back discretionary spending and overtime cost, the value of these savings is approximately $10 thousand.

FY 2023-24, 2024-25 City water improvement project (ARPA Funds)

In FY 2023-24, and 2024-25 the American Rescue Plan Fund budget for the city's water improvement project is $500 thousand. This report assumes that funds will be available to complete the project between FY 2023-24 and 2024-25. The projected cost is based on currently scheduled project and assume that no construction changes will be required throughout the project.

FY 2024-25 Above ground water tank (water tower) improvement (COG Funds)

FY 2024-25 the Community of Governments fund budget for the city's above ground water tank improvement project is approximately $2 million. The budget includes engineering and environmental cost as well as project cost. The funds will be managed by San Patricio County through the duration of the project and the city will manage the project on site.

FY 2027-28 Wastewater Plant Expansion

The city uses over 400 thousand gallons of water daily, and the city's wastewater plant is licensed to process approximately 400 thousand gallons daily. At the time of this report the wastewater plant is processing approximately 250 thousand gallons daily which indicates the plant has reached 63 percent of processing capacity. At the time of this report, mechanically the plant was running at about 30%, the areas that were not currently working include the following. However, some repairs have been completed and have been identified below.

3 Lift Station pumps
1 Debris air system
2 Grit pumps
1 Grit system
1 Aerator motor (repaired)
2 Razz pumps (repaired)
1 Clarifier motor (repaired)
1 UV disinfection system (repaired)

During the five-year plan period I expect residential growth of approximately 250 new homes, that will require an expansion to the city's wastewater system. Plans for expansion should begin in FY 2025-26, but first the city needs to invest in getting the plant running at 100% which will require additional funding in 2024-25 and 2025-26. During this time the expansion project should be in process to ensure $1 million in funding is available in 2027-28.

Other Departmental Costs

This section includes other departmental costs, over the five-year period that are not addressed above. City Audits $25 thousand per year, Road Maintenance & Improvements Project $500 thousand, water system standby generator $40 thousand, Lift Station Improvements $35 thousand, financial consultant $20 thousand, Park Improvements $30 thousand, vehicle maintenance and repairs $15 thousand, clay sewer pipe replacement $100 thousand.

In total, these items result in General Fund cost of approximately $800 thousand.