

A Message from the Mayor

STATE OF THE CITY OF HITCHCOCK, TEXAS

17 September 2018

Introduction

On November 27, 2017, I was appointed Mayor by the Hitchcock City Commission. This came after our longtime Mayor Matranga resigned due to health issues. I appreciated the confidence placed in me by the City Commission at that time. I had no intention of becoming a city official again, nor did I know how much work would be required of me following that appointment. But, I pledged to uphold the laws of the State of Texas and to the best of my ability do the work required in this capacity.

As difficult as it has been, I believe with all my heart that I have done what was and continues to be needed to ensure the well-being of this City, and to ensure Hitchcock is in a position of financial stability moving forward.

I take this opportunity to review what I learned about Hitchcock's financial situation upon my appointment, what I have done since then and where we are now.

Financial History

Shortly after my appointment I learned the City of Hitchcock was near bankruptcy. The City Commission had adopted a series of budgets that over stated the amount of revenue anticipated for the coming fiscal year. That caused the City to begin using its unrestricted cash reserves to actually balance the budget. That was compounded by some departments over spending their approved budgets. Again, using unrestricted cash reserves to balance the budget.

To put this more simply, you and I have a bank checking account that we use to pay our bills. When our expenditures exceed our revenues, if we have the option, we transfer money from our savings to our checking accounts. If we have no personal savings account, or when our savings account is depleted, we have to reduce spending to avoid bankruptcy. In this case, the City was using all of its savings, bringing the City dangerously close to not being able to pay its bills. We had to reduce spending and bring our budgeting expectations more in line with realistic revenues.

Can I prove this? Absolutely. I did an extensive review, and used our official City Auditor, our City Accountant and two consultants to verify our condition. They reviewed our past annual financial reports (commonly called audit reports) carefully. Those official audit reports showed the trends of over estimating our revenues and over spending our budgets over the past several years. Those audits are available on our website for anyone to review. In fact, even our most recent 2017 audit shows the General Fund Balance at the beginning of the fiscal year to be \$1,779,202. Alarmingly, the 2017 audit shows the General Fund had over-expended its revenues by \$1,672,383, bringing the General Fund Balance at the end of the fiscal year to be \$106,819.

To add further proof. The approved 2018 budget showed a transfer of over \$600,000 from the Fund Balance to balance the budget when the City actually only had \$106,819 in unrestricted fund balance. For a City with over a \$3 million annual operating budget, that trend was not only unacceptable, it could not continue if the financial solvency of the City were to be saved.

Plan of Action

Upon my direction, each department head was required to submit a revised budget that would eliminate or avoid expenses for the next fiscal year. Every department head provided their plan in writing. Those recommendations were used to prepare a proposed amended and balanced budget for the remainder of the year. A full report was prepared and presented to the City Commission along with a plan of action at February 26, 2018 City Commission meeting. That report was in the form of a Power Point presentation and is available as a matter of public record.

Although not a unanimous vote, on March 19, 2018, the City Commission approved the proposed amended budget that implemented those cuts. Cuts included reductions in personnel in garage, police and street departments. It eliminated any capital expenditures in streets (with the minor exception of immediate road repairs). It stopped any plans for capital improvements of any kind until we could get a better handle on our end of year cash balances.

In addition to the approved budget amendments, I continued my earlier implemented hiring freeze and I have watched every single expenditure since coming into office.

The Results

These past ten months, I worked very hard and have eliminated the immediate budget problem and started the city back to financial responsibility. I have begun the process of establishing a better work ethic in all of the city - not just one department. The current cash flow analysis includes the \$900K we found during early financial studies. Without that, our cash reserves would be similar to last year's even with the decrease in budget!

The 2017 audit clearly shows that if we had used all our cash in the bank without any cut back in budget, the city would literally be bankrupt. We would not have been able to make payroll, pay the light bill, keep fuel in vehicles, etc. We can never afford to repeat those trends that will surely put ourselves in this critical financial situation again.

The cash fund balance calculated is just that - cash balance at the end of the year. It is not incorporated into our proposed FY18-19 operating budget. I have estimated our revenues, estimated our expenditures, and we have near \$100,000 to spare for the year. Staying within our budget should protect the cash reserves we now have. We have a "Rainey day fund" of some sort, and perhaps can build on that as we get reimbursement for Harvey related expenses.

There is no other way to explain the situation the city was in just a year ago. Our consultants presented in power point the audited figures, our auditor presented the most recent audit - all that showing the trend to spend more than we have is not acceptable. I have taken every bit of the

professional assistance and recommendations very seriously and vowed to execute the budget and all the city finances accordingly, and that is what I have done.

The City of Hitchcock is not the federal government. We cannot print money, and we are required by state law not to spend ourselves into bankruptcy. Deficit spending is a phenomena that many believe is OK because it is what the federal government does. In addition, the City does not have an unlimited credit card we can just swipe to add more money into the bank account. We have to live within our means.

I can now report that our accountant has estimated we will end the fiscal year in September with enough cash to carry us through until the end of the calendar year. I can now report the 2019 budget, set to begin on October 1, 2018, is balanced – expenditures are budgeted to be within expected revenues for the year with about \$100,000 to spare. Your tax rate will be the same as last year. We are financially solvent.

Conclusion

These recommended actions toward financial solvency were painful, as we all know. There has been much discussion and speculation since then about whether the plan of action was the right one. But here is what I do know: We have avoided bankruptcy. We will have cash in the bank at the end of this fiscal year. We will have a budget this coming year that is within our means. We are set on a path to better financial health. We cannot rest here. We must continue to monitor our revenues and expenditures closely. Only when we are satisfied that our financial picture is better, can we begin to add back some of the cuts we made.

Many of you have been patient and for that I am grateful. Others of you have not. Regardless, I am satisfied that my work has been worth the pain to protect the solvency of our City and I will continue to do so to the best of my ability for as long as I remain in office.

As we continue our journey towards financial stability, many good things are happening in the City of Hitchcock that will bring badly needed tax and other revenues into our city coffers. To name a few:

- Hitchcock now has the only Industrial Park in Galveston County with a Foreign Trade Zone, thanks to Blimp Base Interests working with the City and Hitchcock EDC to make this happen.
- A number of new businesses have located and others are expanding within our city.
- We currently have developers working with the City that would bring significant numbers of new homes.
- A number of city streets will soon be upgraded or replaced using Galveston County Bond Issue proceeds.
- The City was one of two chosen by TX A&M University for their Texas Target Communities Program that will focus on Comprehensive Planning, Community Resilience, Stakeholder engagement, Economic Development, Emergency Management including plan implementation, and Vulnerability assessment including mappage.

- Although it's been a long time coming, the Harvey FEMA claims for reimbursement are about to be completed and the city will stand to realize some funds that will enhance our badly needed reserve (savings) account. The delay has been determining whether the City Hall damage warrants funding repairs or complete replacement. It has been flooded a number of times already and it must be ruled substantially damaged to qualify for replacement.

Remaining positive and working together towards remedies while utilizing current and new revenues in a balanced budget is my recommended best scenario for our brighter future.

Respectfully submitted,

Dorothy A. Childress

Mayor

City of Hitchcock