

Town of Lovettsville

March 22, 2012

Mayor and Town Council
Town of Lovettsville
6 East Pennsylvania Avenue
Lovettsville, Virginia 20180

Subject: Town Manager's Recommended Fiscal Year 2013 General and Utility Fund Operating and Capital Budgets

Dear Mayor and Town Council:

I am pleased to submit my recommended Fiscal Year 2013 General and Utility Fund Operating and Capital Budgets. This year's recommended Budget represents a continuation of many of the same principles and priorities that have been adopted over the past several years and a few new modifications aimed at making the Lovettsville Town Government stronger and more effective at providing community service.

The schedule for approval of the Operating and Capital Budgets, as well as the Capital Improvement Plan has been previously distributed and approved by Town Council, and this Budget, being the Town Manager's recommendation, shall become the basis for the Mayor and Town Council discussion over the course of the next several months. Final Budget and CIP adoption is scheduled at the Regular Town Council meeting of May 24 or June 14, 2012.

Revenue Trends

Based upon the most recent information provided by the County Assessor, Mr. Todd M. Kaufman, the total adjusted Real Estate Tax Base of the Town of Lovettsville as of January 1, 2012 is \$202,747,200 an increase of 4.69 percent over last year. As with last year's assessment data, this increase over last year's assessments is due to new construction, as nearly all real estate classifications saw minor decreases over last year's assessments.

Despite a very modest decrease of .49 percent in last year's equalized assessments of single family detached homes, the assessment for this year shows an increase in value of 3.45 percent due to new construction. The average assessment of single family detached homes in 2012 was \$284,051. Other residential property classifications remained relatively flat. The average equalized assessment of single family attached homes increased by 1.62 percent, to an average of \$166,659. Residential vacant land saw the largest equalized increase

at 7.65 percent. Commercial property tax assessments saw a decline of 2.23 percent over the previous year's assessments.

As has been done in the last several year's budgets, assumed real estate revenue from homes currently under construction has not been factored into revenue estimates. To reflect a more conservative position, the County Assessor suggested removing those additional revenue contributions from the Town's projections.

At the current Tax Rate of \$.21 per \$100 of assessed value, the Real Estate Tax Revenue to the Town is estimated at \$404,480. This budget estimate is approximately \$17,327 more than last year's approved FY 2012 Budget.

Other Revenue projections that appear in the General Fund are based upon FY 2012 figures along with economic and development assumptions for the coming year. For FY 2013, staff is projecting that Sales Tax will again significantly exceed all other revenues streams as the second highest source of income behind Real Estate Tax. Business Licenses revenue is also expected to stay strong with the continued construction in the Town Center and Heritage Highlands development.

Total General Fund Revenue is projected at \$701,830. This projection is 3 percent higher than the approved FY 2012 Budget. For the second year, I am recommending that all Meals and Cigarette Tax revenue be directly applied to the General Fund Capital Budget to be used for the East Broad Way Streetscape improvement project, rather than being transfer from the Operation Budget.

Total Utility Fund Revenue in the FY 2013 Budget is estimated at \$725,788. This represents a 2 percent increase over last year's approved Budget of \$708,506. This increase is a combination of the modest annual increase of the telecommunication leases on the elevated water tank, additional customers connecting to the Town's water and sewer system, and a proposed increase in utility rates. It is anticipated that 24 new units will be constructed over the next fiscal year. My recommended budget recommends a rate increase of 1 percent for water and sewer customers. As part of the budget deliberation process the Council and staff will discuss possible rate adjustment scenarios in light of operational demands and long term capital need. Representatives from the Virginia Rural Water Association recommend maintaining a long range plan for modest annual increases to avoid major one-time increases to users.

Fund Balance

As of December 31, 2011 the Town has the following balances in General and Utility Fund Reserves which are currently invested in a number of interests bearing accounts. These funds are intended primarily for capital related projects and debt service. These balances are as follows:

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| General Fund Reserve | \$1,871,245 |
| General Fund Checking | 13,780 |
| Sidewalk Fund Reserve (Gas Tax) | 136,476 |
| GF Savings Account | 20,371 |
| Sewer Fund Reserve | 2,711,943 |
| Sewer Fund Checking | 108,777 |
| Water Fund Reserve | 233,346 |
| Water Tower Reserve (incl. funds for w. & s. debt. service) | 154,141 |
| Developer Proffers | 50,105 |
| Contributions in Lieu of Street Improvements | 80,743 |
| Total Balance | \$5,585,262 |

The Town also has grant money in the form of VDOT Enhancement funds allocated for the Berlin Pike Bike and Pedestrian Path. The total balance as of December 31, 2011 was \$762,000.

The FY 2013 Recommended General Fund Operating and Utilities Budgets do not include interest earned on investments. These earnings are reflected in the Capital Budget. The recommended Budget shows a small amount of surplus revenue to transfer for capital expenses from both the General and Utility Operating Funds.

General Fund Operating Budget

The General Fund Budget is balanced at \$701,830. This amount assumes no change in the real estate tax rate or business license tax.

Staff is not suggesting any significant adjustment to fees that generate General Fund revenue. I am proposing that we continue to maintain the streamlined fee structure to include flat rate application and review fees. As with last year, I recommend that the Town approve an annual fee schedule to accompany the approved Budget and CIP.

Expenditures are based upon existing programs with some modifications in the magnitude and scope of work to be undertaken. Personnel expenditures are estimated at \$334,531. I am recommending a 2.5 percent cost of living increase for all permanent Town staff hired before 2012, along with a modest increase for the Town's part time maintenance employee.

Contractual Services are projected to be \$182,000. The 11 percent decrease in this category is attributable to several factors. The Town Attorney, an outside contractor for the Town, has not modified her rate for the coming year. Also, the previous Zoning Administrator, who also served the Town as a consultant, retired in December of 2011. The Zoning Administrator/Planner position was made a permanent, part-time position with the Town and those costs are not reflected in the personnel services category. Because of this change in employment status, I am now recommending that the Town modify its

reimbursement policy. While the Town had a Zoning Administrator as an outside contractor, the hourly charges for his work were billed back to the applicants, based on their particular project. This process of billing applicants is cumbersome and confusing to those looking to do business with the Town. I recommend that the Town adopt the more traditional style of assuming that a majority of the review costs are built into the application fees that are collected at the time a specific application is submitted. This will simplify the Town's bookkeeping, along with promoting a positive relationship with those looking to do business with the Town.

A significant change in Town personnel services is Lovettsville's participation with the Virginia Retirement System (VRS). In February, the Town Council voted to have Lovettsville participate in VRS. The Virginia Retirement System is a widely used retirement and benefits program utilized by governments and school systems throughout the Commonwealth. Participation in this system would replace the 401-a ICMA-RC retirement program compensation that the Town has funded over the past five years.

The Town is now in the fourth year of participation in the Virginia Government sponsored "Local Choice" health care coverage program. This program has proven to be not only a valuable benefit to the employees, but a significant cost saver for the Town when compared to the previous benefits program.

The Repair and Maintenance category has decreased 58 percent from last year's budget, due to last year's one-time cost of paving the Town Hall parking lot and purchasing the Town pickup truck.

For the first time, I am proposing this year that the Town isolate its Park maintenance costs, including, mowing, landscaping, water, and electricity. This will allow the Town to more clearly track the financial needs of these facilities. This modification in the budget has led to decreases in other line items including Utilities and Repair and Maintenance, now that Park costs are not lumped into the costs associated with the Museum and Town Hall.

The Activity Support category has remain unchanged from FY 12 funding levels. The Travel and Training categories have only increased slightly to account for additional training needs for the new Town Council and Planning Commission members. The Supplies and Advertising categories have remained nearly flat.

It is projected that approximately \$58,000 of surplus funds will be available for capital transfer. These funds will be used to help cover some of the annual debt service costs for the General Fund. The surplus, plus the revenue generated from the Meals and Cigarette Tax is not large enough to fund the \$148,479 debt service payment for the East Broad Way sidewalk project, not to mention the many other capital projects planned for FY 13. A more detailed discussion of the Capital projects and their projected costs can be found in the Capital Improvement Plan.

Utility Fund Operating Budget

The FY 2013 Utility Fund Budget is balanced at \$725,788. This amount assumes the construction of at least 24 new homes in the Town Center development.

The FY 2013 Utility Fund Budget is projected to be increased approximately \$17,282 or 2 percent over last year's approved budget. As with the General Fund, interest on investments as a revenue source is reflected in the Utility Capital Budget. The major factors leading to the increased revenue is attributed to the projected housing development and the new connections that have come online over the past year. It is projected that 24 new residential units will be constructed in FY 2013. As stated earlier, I am recommending a rate increase of 1 percent for water and sewer customers. The current charge is \$6.10/1,000gal of Water and \$9.15/1,000gal for Sewer. The minimum charge per connection is \$91.50 per quarter for up to 6,000 gallons. The proposed increase would add \$.06/1,000 gal of water and \$.09/1,000 gal for Sewer. The minimum quarterly bill would increase by less than a dollar.

For FY 13 I have moved costs associated with Service Contracts to the individual Water and Sewer categories to more accurately reflect the ongoing contractual needs, such as generator maintenance, probe and pump maintenance, and backflow inspections. I am again recommending funding the I&I maintenance category for \$30,000 to continue our inspection and remediation efforts.

Both the Water and Sewer Repair/Maintenance categories are noticeably higher this year due to the relocation of the service contracts along with a consolidation of repair and maintenance line items. Previously, costs for repairs, and the supplies and labor were accounted for in separate categories. This led to confusion as to what projects should be coded to specific line items. This new consolidated format should make for more efficient record keeping.

A surplus of approximately \$55,000 is projected in the Utility Operating fund that will be transferred to capital reserves. These dollars will be applied to the debt service payments, which total over half a million dollars for FY 13. Depending on the number of unplanned activities, such as pump failures or water leaks, the Town may have additional unspent funds that can be transferred for capital expenses.

Capital Budgets

Again this year, the Capital Budgets for both General and Utility Funds are included in this document rather than as an addendum to the CIP. The purpose is to provide a greater distinction between the CIP, which is strictly a planning document, from the actual budget that outlines appropriations for Fiscal Year 2013. While there is not a requirement to separate operational appropriations from capital project appropriations, it is staff's belief that keeping separate budgets for operational and capital expenses provides greater clarity in understanding the Town's finances.

The majority of the Town's new projects are included in the Capital Improvement Plan. The Recommended FY 2013-2017 CIP includes 16 projects, 12 of which are General Fund Capital Projects and 3 are Utility Fund Capital Projects. A detailed description of these projects can be found in the Town Manager's Recommended Capital Improvement Plan.

General Fund Capital Budget

There are 6 recommended projects for funding for the coming year. They include The Broad Way Streetscape Project: Phase 1, The Bicycle/Pedestrian Path along Berlin Pike, Planning for enlarging Town Hall and developing a parking lot on the adjacent Town-owned lot, Quarter Branch Park and Support Facility, Town Green Development, and Storm Ditch improvements just north of the Town Square. More details on the project and costs are included in the CIP. The total FY 13 costs for these proposed projects is \$1,031,000.

Revenue for these projects will come from a variety of sources include VDOT's TEA-21 Grant, surplus funds from the Operating Budget, Meals and Cigarette Tax that is specifically earmarked for the East Broad Way Project and General Fund Reserves that have been accumulated over the years from carryover funds from the Operational Budget. I am proposing to maintain the current rates for the Cigarette Tax (\$.40 per pack), and the Meals Tax (3% gross sales). Both taxes are entering their fourth year and it is project that collectively they will generate \$78,000 in revenue for FY 2013.

Utility Fund Capital Budget

There are 2 recommended projects for funding for the coming year. They include adding a mixer to the elevated Water Tank and upgrades to the Town's water SCADA system. These two projects will be funded by Water Tower and Water Fund Reserves. More details on these projects and their costs can be found in the CIP.

The most significant financial obligation in the Utility Capital Budget is the debt service payments for the four separate financing arrangements. Funds to cover these payments will come from Sewer tap sales, user fees and accumulated reserves in both the Sewer, Water and Water Tower reserve funds. Much of the Sewer reserve funds come from previously sold taps. The debt service payments for FY 13 total over \$523,000. The Town will need to draw on nearly \$153,000 of Sewer Fund Reserves to balance the Capital Budget.

Financial Issues

There are a number of financial issues that are addressed in this Budget which the Town Council will want to resolve through their Budget deliberations in the upcoming months prior to adopting a final Budget. Some such issues include:

- Tax Rate. The Tax Rate and all other general fund taxes and fees have been held constant in the Town Manager Recommended Budget. The Real Estate Tax Rate is held constant at \$.21 per \$100 of assessed value.
- Personnel Costs. The compliment of staff is to include the full time positions of Town Manager, Project Manager, Town Treasurer and Town Clerk along with the part time position of Zoning Administrator/Planner/Community Projects Manager. There are different arrangements for each of these employees. The Town Manager, although a permanent employee, has an Employment Agreement with the Town of Lovettsville. The terms and conditions of his employment is outlined in that Agreement. Other Town employees do not have such an Agreement and report directly to the Town Manager. Inclusion in the Budget are terms and conditions that affect Town Employees and is the only formal place where employee benefits, salaries, or hourly rates are posted. Approval of Budgetary parameters that affect Town employees should be seen as a commitment to implement personnel policies on behalf of the Town.
- Use of Consultants. Over the course of the past five years the Town has established a policy to utilize consultants in lieu of permanent staff for such matters as it relates to planning, zoning, engineering, etc. This year, the Zoning and Planning responsibilities will no longer be provided by outside consultants and the Town Council needs to discuss reimbursement policies moving forward.

This Budget is being presented to the Mayor and Town Council at their meeting on March 22, 2012. Additional Town Council Budget Work Sessions are scheduled for March 29, April 12, 26, and May 3 if needed. The Mayor and Town Council are scheduled to approve the advertisement of the Budget and CIP on April 26, 2012. A Public Hearing is tentatively scheduled for May 17, 2012 to be followed by a Town Council Work Session. The Operating Budgets and CIP can be adopted at the Town Council Meeting on May 24 or June 14, 2012.

Sincerely,



Keith Markel
Town Manager