

Town of Lovettsville

March 2, 2018

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

Subject: Town Manager's Recommended Fiscal Year 2019 General and Utility Fund Operating Budgets

Dear Mayor and Town Council:

I am pleased to submit for your review my Recommended Fiscal Year 2019 General and Utility Fund Operating Budgets, as well as the Five-Year Capital Improvement Plan (FY19-FY23) and FY19 Capital Budget.

Introduction

Most experts agree that the national and regional economies are strong and that the Town of Lovettsville has enjoyed some of the benefits of this strength in terms of increasing property values and growth in the number of businesses which have recently opened their doors and demonstrated an interest in locating in Lovettsville. In addition, there has been an increase in housing construction with more units in the pipeline.

To continue this trend, the Town must continue to provide quality services at a reasonable cost to tax-payers and rate-payers, make critical investments in infrastructure, promote economic development, and budget and manage public funds accordingly. Establishing priorities and seeking alternatives for funding those priorities are worthy goals; sound financial planning and management are essential to accomplishing such goals.

In preparing the FY19 Operating Budgets and Five-Year Capital Improvement Plan, I as your Town Manager, along with staff, began a process which includes several components. This process started with a focus on improvements to the accounting procedures and financial reporting systems currently in place, with the goal of providing more reliable financial data and making modifications to those procedures and systems using help from a professional accounting firm.

During my brief tenure as Town Manager, I have reviewed and made modifications to the approved Fiscal Policy, emphasized the importance of continuing the funding of reserves and capital projects, and made necessary repairs and replacements to aging

infrastructure. Furthermore, I have reorganized and reassigned staff responsibilities, made internal modifications to the approved FY18 Budget (without changing the bottom line), and created savings to fund needed modifications to age-old practices and procedures. I outsourced some of the more complex functions, not necessarily to create savings, but rather to create greater efficiencies in the administration of the Town government. In addition, changes were made to create transparency in the Budget and Capital Improvements Planning processes by identifying much needed infrastructure improvements and earmarking potential sources of additional funding for that purpose. Relations with Loudoun County have been greatly improved and there is now an expectation that the County will be more willing to provide funding for future Town projects than in the past.

In addition, the goal of any Town Manager's Recommended Budget is to implement the priorities and principles established by the Mayor and Town Council as expressed and approved at the Annual Retreat. The resources necessary to implement those priorities are recommended in the Town Manager's FY19 Recommended Budget, subject to approval by the Mayor and Town Council. The next phase is to implement those priorities. The FY19 Town Manager's Recommended Budget reflects and accounts for the resources that are needed to implement programs and provide efficient and professional delivery of services to the residents and businesses of the Town of Lovettsville.

When reviewing the FY19 Town Manager's Recommended Budget, please note that funds from the General Fund and Utility Fund Operating Budgets have been set aside and specifically earmarked for transfer into various Reserve accounts for Capital, Debt Service and 3RM project expenditures.

Budget Highlights

There are a number of differences with respect to the FY19 Town Manager's Recommended Budget compared to prior year budgets. These are explained in the bulleted lists below. Please remember that this proposal represents the Town Manager's Recommended Budget. The Mayor and Town Council will make the final decision on the budgets, including setting the Tax Rate and Fee Schedule for the Fiscal Year ending June 30, 2019.

General Fund

- The Town Manager is recommending a decrease in the ad valorem tax rate from \$.21/\$100 assessed value of real properties to \$.20/\$100. This reduction is equivalent to \$28,528 in General Fund Revenues and will save each household approximately \$36 on their Real Estate tax bill. If approved, this would be the first time that the ad valorem tax rate has been reduced since 2005.
- In FY18, the Mayor and Town Council approved a Trash Fee that was billed to each resident in the amount of \$4.95 per quarter. This amounted to a revenue increase of approximately \$15,000 in the General Fund. The Town Manager has

been renegotiating the trash service contract lowering the cost from approximately \$150,000 per year to approximately \$140,000 per year, and has further negotiated with the trash company to not charge for the recycling containers or the replacement of such containers. Therefore, I am pleased to recommend that the trash fee that was adopted in FY18 be eliminated in FY19.

- Based upon the most recent information provided by the Commissioner of the Revenue's Office, the Total Adjusted Real Estate Tax Base of the Town of Lovettsville as of January 1, 2018 is \$303,519,780, an increase of 9.37 percent over the prior year. The Assessed Value of residential properties was \$285,279,680 or an increase of 9.33 percent. The Assessed Value of non-residential properties is \$18,240,100 or an increase 10.09 percent. These values do not include assessed value of vacant land nor properties in the Town that are exempt from taxation.
- The average assessment of Single Family detached homes in 2018 is \$ 360,456.
- The equalized Assessed Value increase in residential properties in all residential categories was 5.05 percent. The equalized Percent Change considers the assessed value of those properties that exist in the Town at the time of assessment and does not include the value of growth and new construction. The reduction in the tax rate from \$.21 to \$.20 represents a reduction about equal to the equalized assessed value of 5.05 percent. For example, the tax on a \$360,456 home at \$.21 per \$100 is approximately \$757 per annum. At \$.20 per \$100, the tax on the same home would be \$721. The difference of \$36 represents a 4.76 percent reduction.
- These increases in the Assessed Value of Total Real Estate in the Town resulted in increases in revenue in the General Fund. Based on the current ad valorem tax rate of \$.21 per \$100, the residential tax revenue in FY19 would have increased to \$599,087 and commercial/industrial revenue would have increased to \$38,304. However, at \$.20 per \$100, residential real estate tax revenue is \$570,559 and commercial/industrial revenue is \$36,480, an increase of 5.35 and 7.04 percent respectively.
- Assessed Value of commercial/industrial properties as a percentage of Total Assessed Value of all properties in the Town is 6.01 percent, up from 5.97 percent previously. While this represents a slight increase, it is still below the goal of 10 percent that was discussed during the recent Comprehensive Plan Update. Economic Development initiatives appear to be working in that the non-residential tax base is absorbing more of the tax burden than in previous years. However, further steps must be taken to encourage more business and to generate more tax revenue from commercial/industrially planned and zoned properties.

- In addition, there is a direct relationship between the increase in the assessed value of commercial/industrially developed property and the Total Revenue these properties generate. For example, in the FY19 General Fund Budget, real estate tax revenue from commercial/industrial properties is estimated at \$36,480. Real estate tax revenue from all properties is \$607,039. Real estate tax revenues from commercial/industrial properties represent 6.2 percent of the total.
- Total Revenue from commercial/industrial properties including real estate tax revenue, bank franchise fees, business licenses, communications revenue, meals tax and cigarette tax is \$280,980. For every \$1 of real estate tax revenue generated by commercial/industrial property, \$7 in additional revenue is generated from those properties.
- Total General Fund Revenue in FY19, before transfers from Reserves, is projected at \$1,378,199 or slightly less than FY18 Budget of \$1,384,487. Total FY19 General Fund Expenses are projected at \$1,248,199, before transfer to Reserves.
- Total FY19 General Fund Revenue after transfers is \$1,478,199. Total FY19 General Fund Expenses after transfers is \$1,478,199. Total FY19 General Fund Revenue is equal to Total FY19 General Fund Expenses, therefore the FY19 General Fund Budget, as presented, is balanced.

Fiscal Policy/ Contribution to Reserves

- The Town adopted a Fiscal Policy on October 22, 2015 and amendments to that Policy in July 2018. That policy identifies a series of Reserve Funds into which contributions shall be made to fund those funds according to a fixed schedule from transfers from operating fund that are set aside specifically for that purpose. The balances of the General Fund and Utility Fund Reserves as of December 31, 2018 are \$ 1,218,396 and \$ 1,795,229 respectively. The individual funds and their balances at December 31, 2017 are as follows:

General Fund

General Operating Cash Reserve Fund	\$ 50,000
General 3RM Reserve Fund	7,206
New Capital Reserve Fund	244,641
Clock Tower Donations Escrow Account	3,152
Loudoun Street (Developer Proffers)	82,078
Debt Retirement Reserve Fund	564,419
Rainy Day Reserve Fund	110,796
30 Day Cash Reserve Fund	105,752
Human Resources Fund	<u>50,348</u>
<i>Total all Funds and Escrow Accounts</i>	<i>\$1,218,396</i>

Utility Fund

UF Operating Cash Reserve Fund	\$ 50,000
Water/Sewer Deposits	83,895
Utilities 3RM Fund	183,389
New Capital Reserve Fund	196,712
Debt Retirement Reserve Fund	1,019,593
Frye Court Special Tax District	605
Rainy Day Reserve Fund	75,523
30 Day Cash Reserve Fund	141,220
Human Resources Reserve Fund	<u>44,298</u>
<i>Total all Funds and Escrow Accounts</i>	<i>\$1,795,229</i>

Note: All Funds are identified in the Approved Fiscal Policy with an explanation of the purpose of the Fund and the required contributions to reach full funding.

- GF New Capital Reserve is used for funding new capital projects in the CIP or as matching funds for projects that are financed or grant funded. UF Reserves come primarily from Availability Fees and are set aside in this fund to fund future Utility related capacity driven projects such as plant expansion or additional water storage facilities.
- 3RM Reserves come from contributions from operating revenue sources and in the Utility Fund primarily from user fees. This fund is used to refurbish, repair or replace existing infrastructure facilities.
- The five-year CIP identifies several much-needed capital improvement or infrastructure projects that will be funded in part or in their entirety from funds set aside in New Capital and 3RM reserve accounts. There is a limit to the amount of borrowing (debt capacity), that any jurisdiction can undertake based upon revenue collections. And, there is a limit on the availability of grant funds from County, State and Federal sources. Given the need to keep up with the demand for services in the Town, continued planning and funding of 3RM and New Capital type projects are essential. Adhering to the Town's Fiscal Policy is one way to assure that future Town needs can be met.

General Operating Fund Expenses

There are several categories where there are projected changes from FY18 to FY19. Those categories of expenditures which are significant are highlighted below:

- In FY19, Administrative Salaries are \$446,500, or 4.68 percent over FY18 budget of \$426,537. Staffing will remain the same as in FY18. The increase reflects salary adjustments, a recommended COLA of 2.0 percent and a budgeted amount not to exceed 2.0 percent for performance pay increases. Staff bonuses

have been eliminated in this budget; a new performance-based pay system is recommended to take the place of staff bonuses, and a new salary range for positions is proposed to be incorporated into the Town's Employee Manual based upon a Compensation Study presented to Town Council.

- Group Health Insurance Costs have risen significantly in the GF from \$61,070 to \$66,277, representing a 8.53 percent increase. This is partly due to the increase in actual health care costs, the addition of one new full-time employee since early FY18, and the cost sharing between the Town and the employees for existing health care benefits.
- Refuse expenses will be decreased significantly in FY19 by negotiating a new contract with new terms and conditions, legal expenses have been cut back and reallocated in the budget for specific purposes, and additional money has been added for Town Council approved financial, payroll, accounting and auditing services offsetting the need to hire any additional staff. In addition, money has been added to the FY19 budget to hire outside IT consulting services, transition into a modified accounting system, and for website and email hosting services.
- The Town Council at its 2018 Annual Retreat asked that additional funds be added to the FY19 Budget to begin a new marketing and public relations program to promote events, attractions, and activities in the Town. Economic Development, being one of the Town Council's top priorities needs an expanded effort to promote, encourage and retain new businesses in and to the Town, and generate much need additional commercial revenue. In addition, sufficient money has been added to the General Fund Operating Budget to complete a Transportation Planning Study and fund expenses associated with County billing and collection of taxes and fees.
- On the Revenue side, which has a profound effect on the availability of funds to fund expenditures, the Town continues to bill Utilities for a portion of Town Overhead expenses in the amount of \$159,950, less than one percent more than FY18. And, the leasing of antennae on the elevated water tank, which generates significant additional revenue in the amount of \$85,540, has been moved back into the Utility Fund as a source of Revenue. In FY18 this revenue was accounted for in the General Fund.
- Overall GF Expenses are down from \$1,661,003 in FY 18 to \$1,478,199 in FY19, a decrease of 11.01 percent.

Utility Fund Operating Budget

- Actual Utility Fund Revenue, before transfers, is up from \$1,536,956 in FY18 to \$2,020,930 in FY19. This is attributable primarily to an increase in connection fee revenue from both water and sewer (\$78,000 in FY19 versus \$36,000 in FY18, or an increase of \$42,000).

- User fee Revenue increased from \$1,006,332 to \$1,079,250, or 7.24 percent.
- Actual Utility Fund Expenses, before transfers, are down from \$1,665,253 in FY18 to \$1,586,930 in FY19, or a reduction of 4.70 percent.
- Because of the increases in revenue projections, additional dollars are proposed to be transferred into appropriate reserve accounts to fund new water and sewer capital as well as 3RM improvements. \$108,000 to New Capital AV Sewer Reserve, \$150,000 to New Capital AV Water Reserve, \$151,000 to 3RM, \$200,000 to Operating Cash Fund and \$25,000 to a Utility Rainy Day Fund. Each of these contributions or transfers is in accordance with the Town's approved Fiscal Policy.
- Utility Fund salaries have increased by only four percent from \$249,021 to \$258,981. As in the General Fund, the largest increase in expenditures related to compensation is in health care benefits for utility workers increasing 17.49 percent from \$52,198 to \$61,327. This is partly due to the 8.5 percent increase in actual health care costs and the cost sharing between the Town and the employees for existing health care benefits. No additional staff is planned to be added to the existing complement of Utility staff on hand in FY18.

Housing, Population and Rate Study

- Staff projects that 36 new homes and three commercial units will be constructed in FY19. Of these, 26 new residential units and three commercial units will pay availability fees to tie into the Town's utility system and will begin paying quarterly user fees. Based on the U.S Census Bureau estimates, the Town's population as of July 1, 2017 was 2,039, the estimated average household size was 3.14 persons, and the estimated total number of households was 649.
- Town staff has reevaluated the accuracy of this data by adding the total number of housing units each year for which the Town has issued Occupancy Permits to the total number of households recorded in 2010. By multiplying the estimated average household size of 3.14 persons to this figure, one obtains a significantly higher estimated total population of 2,311 (as of December 31, 2017). The number of dwelling units in Town is approximately 835.
- Back in FY15, the Town contracted with Municipal Financial Services Group (MFSG) to conduct a complete rate analysis of the Town's water and sewer user fees. Their work considered operational costs, depreciation of assets, expanded preventative maintenance, and debt retirement. The Utility Fund, being an enterprise fund, must generate sufficient revenue to pay for those expenses necessary to operate Town facilities.

- The Rate Study at the time recommended increases in rates of 8, 6, 6, 6, and 5 percent over the five-year period FY16 to FY20. The Town Council, based on a recommendation from the Town Manager, revised those rate increases to 16, 12, 3, 3, and 1.5 percent. The scheduled rate increase for FY18 was 3 percent and was planned to be adjusted again in FY19 by 3 percent in accordance with the Town Council decision.
- In FY18, the Town Council authorized a review of that rate study to be undertaken by MFSG to confirm or amend their recommendations. Their review received in February 2018 confirmed that the user and availability rates being charged are adequate and accurately reflect the costs associated with the water and sewer systems owned and maintained by the Town. Therefore, in FY19 the approved rates identified in the Rate Study will be adjusted accordingly.

Schedule

This Budget is being presented to the Mayor and Town Council at their meeting on March 8, 2018. Additional Town Council Budget Work Sessions are scheduled for March 22, April 5, and April 12, 2018. A Public Hearing is scheduled for May 31, 2018. The Operating Budgets and CIP can be adopted at the Town Council Meeting on June 14, 2018.

Sincerely,

Samuel A. Finz
Town Manager