

Town of Lovettsville

March 24, 2011

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

Subject: Town Manager's Recommended Fiscal Year 2012 General and Utility Fund Operating and Capital Budgets

Dear Mayor and Town Council:

I am pleased to submit my recommended Fiscal Year 2012 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 projects 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 June 9, 2011.

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, 2011 is \$194,061,400.00, an increase of 4.74% over last year. This increase over last year's assessments is unique in that all classifications of real estate decreased over last year, however new construction provided enough added value that revenue will actually increase for FY 12.

Despite a slight increase in last year's assessments of single family detached homes, the assessment for this year shows an equalized percentage rate decrease of .77 percent. The average assessment of single family detached homes in 2011 was \$284,051. Other residential property types also saw similar decreases. The average assessment of single family attached homes decreased by 1.75% to an average of \$161,710. Commercial property tax assessments saw the largest decline, with a decrease of 3.56% 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 \$387,153. This budget estimate is approximately \$17,659 more than last year's approved FY 2011 Budget.

Other Revenue projections that appear in the General Fund are based upon FY 2011 figures along with economic and development assumptions for the coming year. For FY 2012, 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 development.

Total General Fund Revenue is projected at \$678,753, only slightly higher than the approved FY 2011 Budget. It should be noted that this number reflects a significant accounting change that staff is suggesting. Unlike in past years, the FY 12 Budget shows all Meals and Cigarette Tax being directly applied to the General Fund Capital Budget, rather than being transfer from the Operation Budget. This switch accounts for a decrease of \$74,000 in the Operational budget, yet even with this change staff is projecting increase operational revenue over last year's budget.

Total Utility Fund Revenue in the FY 2012 Budget is estimated at \$700,437. This represents a 6% increase over last year's approved Budget of \$658,280. This increase is a combination of increased development resulting in more water and sewer connection and user fees. It is anticipated that 30 new units will be constructed over the next fiscal year. My recommended budget does not include a rate increase for water and sewer customers; however I strongly encourage Council to discuss this issue during budget deliberations. It may be appropriate to follow the recommendation of the Virginia Rural Water Association and maintain a long range plan for modest annual increases to avoid major one-time increases to uses.

Fund Balance

As of December 31, 2010 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:

General Fund Reserve	\$1,353,053
General Fund Checking	436,675
Sidewalk Fund Reserve (Gas Tax)	271,476

GF Savings Account	110,255
Sewer Fund Reserve	2,845,371
Sewer Fund Checking	310,603
Water Fund Reserve	286,904
Water Tower Reserve (incl. funds for w. & s. debt. service)	153,910
Developer Proffers	50,030
Contributions in Lieu of Street Improvements	79,697
Streetscape Capital (Meals and Cigarette Tax)	38,953
Total Balance	\$6,158,874

The Town also has grant money in the form of VDOT Enhancement funds for the Berlin Pike Trail project. The balance as of December 31, 2010 was 221,947.

The FY 2012 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 \$678,753. 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 \$203,110. I am recommending a 2.5% cost of living increase for all permanent Town staff, along with a modest increase for the Town's part time maintenance employee.

Contractual Services are projected to be \$215,700. The 13% increase in this category is attributable to several factors. The Zoning Administrator and Town Attorney, both independent contractors for the Town have stated that their contract rate will be increasing for FY 2012. The Zoning Administrator has requested an increase of 5% to his hourly rate of \$50. If agreed to by Council, this will mark the first increase in compensation in over four years of service to the Town. Because the Zoning Administrator was hired by the Town Council, the Mayor and Town Council should review his contract over the next several months and meet with him to provide feedback on his service to the Town. With the adoption of the Comprehensive Plan, it is expected that the Zoning Administrator's non-

reimbursable hours will decrease for FY 2012. The Town Attorney's rate will increase from \$150 to \$250 for the coming year. Another adjustment I am making to the Contractual Services category is increasing the line item for trash and recycling collection. The continued influx of new residents continues to add to the cost of collection.

A recommendation that I am making as part of this budget that marks a significant change to employee benefits is to participate in the Virginia Retirement System (VRS). The Virginia Retirement System is a widely used retirement and benefits program utilized by governments and school systems throughout the Commonwealth. Currently, Lovettsville is the only Town with employees in Loudoun County that is not part of this organization. Participation in this system would replace the ICMA-RC retirement program compensation that the Town currently funds for all full time employees that would opt into the program. Both the Town Manager and Project Manager are vested members in the system from previous employment. Being a participant in VRS will also serve as a strong recruitment tool for the Town when it looks to hire future employees.

The Town's participation in the ICMA-RC retirement program is now in its fourth year and retirement benefits for permanent employees, including the, Town Treasurer and Town Clerk have again been included in this Budget. The recommended Town contribution is again set at the equivalent of 5% of the permanent employee's annual pay.

The Town is now in the third 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.

I have also increased funds within the Repair and Maintenance category to allow for several projects. I have created a new line item in the budget for museum expenses. This will allow for a specific accounting of repairs and improvements associated with the museum building. I have budgeted \$30,000 for the museum in FY 12 to fund the basic structural improvements including sill replacement and foundation repairs.

I have budgeted additional funds in the Building Maintenance line item to allow the Town to pave the parking lot at Town Hall. As witnessed this winter, the gravel parking lot is not able to be fully plowed without significant damage to the gravel base. During wet and freezing weather the parking lot can become dangerous for citizens and poses a liability risk for the Town. Proper paving and drainage can correct this problem.

This year I am recommending that the Town purchase a pickup truck, with the cost to be shared between the General and Utility Operating Funds. Currently the Town relies solely on personal vehicles to conduct Town related business. Using personal vehicles for official business places the employee at significant

liability risk. The Town's part time meter reader and maintenance employee had a Town resident back into his personal vehicle while conducting a utility repair. The Town's insurance cannot cover this repair cost, only liability. Having a Town owned vehicle will not only provide greater protection for Town staff, but will present a professional image to residents. Town workers could be easily identified when working in the community, thus avoiding phone calls from concerned citizens when they see staff working in front of their homes.

The Activity Support category has also been modified for FY 12. I am recommending that the Town break down the Donations line item into three distinct donation categories. One would be for donations to the Fire and Rescue Company, the second would be to the Community Center Advisory Board, and the third would be a miscellaneous donations category for smaller contributions.

I have again left money set aside for the Signage Improvement Grant. With the recent adoption of the modified Zoning Ordinance sign regulations, I am again recommending an allocation of \$3,000 to be put towards a locally administered Signage Improvement Grant. This program would serve as encouragement for local businesses to update and improve their signage, while also bringing their signs into conformance to the new ordinance. It is my hope that a small committee of Planning Commissioners and Council Members could be formed to develop guidelines and review grant requests for this project. This same amount was appropriated last year, however it was not spend because the new regulations were not approved until just recently.

Utility Fund Operating Budget

The FY 2012 Utility Fund Budget is balanced at \$700,437. This amount assumes the construction of at least 30 new homes.

The FY 2012 Utility Fund Budget is projected to be increased approximately \$42,157 or 6% 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 30 new residential units will be constructed in FY 2012. As stated earlier I am not formally recommending a rate change at this time. 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.

For FY 12 I have increased the Sewer Repair and Maintenance Category to account for ongoing Inflow and Infiltration repair work that will be needed. Annual spending on this issue will help the Town avoid having to conduct a major repair project that requires debt financing, as was the case two years ago.

As discussed earlier in the General Operating Fund, the Utility Fund will also absorb half of the proposed cost of the Town pickup truck within the Vehicle and Miscellaneous Category.

Both the Water and Sewer Supplies and Equipment Categories have also been increased to account for new operational costs and more preventative maintenance for the Town's utility facilities.

Capital Budgets

A format modification for this year's budget is 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 2012. 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 Improvements Plan. The Recommended FY 2012-2016 CIP will include 16 projects, eleven of which are General Fund Capital Projects and five 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 recommend projects for funding for the coming year. They include The Broad Way Streetscape Project: Phase 1, The Bicycle Path along Berlin Pike, The plan for the New Town Meadows Donated Parcel, Town Square Development, Town Park Development, and The Town Support and Storage Facility. More details on the project and costs are included in the CIP. The total FY 12 costs for these proposed projects is \$549,500.

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 third year and it is project that collectively they will generate \$74,000 in revenue for FY 2012.

With the borrowing of \$2,000,000 in December of 2010 to fund the East Broad Way Streetscape improvements, the Town will now need to make annual debt service payments of approximately \$150,000 for the next 20 years.

Utility Fund Capital Budget

There are 2 recommended projects for funding for the coming year. They include the Water Tower Repair work and the Water Facility Improvements. These two ambitious projects will be funded by Water Tower and Water Fund Reserves along with contributed funds from the collocated communications companies on the elevated water tank. 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.

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 a Town Manager, Project Manager, Town Treasurer and Town Clerk. 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 four 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. The financial implications of this practice are incorporated in the Budget, and should be followed. The costs associated with consultant services for work performed for homeowners, builders, and developers, is reimbursable to the Town. In FY 2012, much of the expenditures of consultant services are assumed to be reimbursable.

This Budget is being presented to the Mayor and Town Council at their meeting on March 24, 2011. Additional Town Council Budget Work Sessions are scheduled for March 31, April 14, 28, and May 5 if needed. The Mayor and Town Council are scheduled to approve the advertisement of the Budget and CIP on April 28, 2011. A Public Hearing is tentatively scheduled for May 19, 2011 to be followed by a Town Council Work Session. The Operating Budgets and CIP can be adopted at the Town Council Meeting on June 9, 2011.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith Markel". The signature is written in a cursive style with a large initial "K" and "M".

Keith Markel
Town Manager